SISTEMA JSFC AND SUBSIDIARIES

Unaudited Condensed Consolidated Financial Statements
As of June 30, 2012 and December 31, 2011
and for the Six Months Ended
June 30, 2012 and 2011

SISTEMA JSFC AND SUBSIDIARIES

TABLE OF CONTENTS

Deloitte.

ZAO "Deloitte & Touche CIS"
5 Lesnaya Street
Moscow, 125047
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
www.deloitte.ru

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying condensed consolidated statement of financial position of Sistema Joint Stock Financial Corporation and subsidiaries (the "Group") as of June 30, 2012, and the related condensed consolidated statements of operations and comprehensive income and cash flows for the six months ended June 30, 2012 and 2011. These condensed consolidated financial statements are the responsibility of the Group's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants for reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial position of the Group as of December 31, 2011, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated April 20, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2011, is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

Deloitte & Touche

Moscow, Russia
September 7, 2012

SISTEMA JSFC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2012 AND DECEMBER 31, 2011
(Amounts in thousands of US dollars, except share amounts)

	Notes	June 30, 2012	December 31, 2011
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		$ 1,318,108	$ 2,921,672
Short-term investments		2,794,508	763,631
Assets from banking activities, current portion (including cash and cash equivalents of $885,218 and $1,315,075)		4,132,475	4,204,961
Accounts receivable, net		1,820,116	1,756,200
VAT receivable		573,824	709,099
Inventories and spare parts		1,709,875	1,659,565
Deferred tax assets, current portion		341,615	311,891
Disposal group held for sale	4	1,489,404	1,466,071
Other current assets		1,660,902	1,722,844
Total current assets		15,840,827	15,515,934
NON-CURRENT ASSETS:			
Property, plant and equipment, net	7	18,408,578	18,360,826
Advance payments for non-current assets		240,620	264,709
Goodwill	8	1,438,790	1,546,808
Other intangible assets, net	9	1,859,340	2,251,160
Investments in affiliates		1,326,304	1,553,651
Assets from banking activities, net of current portion		2,427,701	2,303,120
Debt issuance costs, net		161,091	171,951
Deferred tax assets, net of current portion		378,201	348,491
Long-term investments		1,002,875	1,123,687
Other non-current assets		557,911	461,684
Total non-current assets		27,801,411	28,386,087
TOTAL ASSETS		$ 43,642,238	$ 43,902,021

See notes to unaudited condensed consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2012 AND DECEMBER 31, 2011 (CONTINUED)
(Amounts in thousands of US dollars, except share amounts)

	Notes	June 30, 2012	December 31, 2011
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 2,010,713	$ 2,188,448
Liabilities from banking activities, current portion		4,239,195	3,152,989
Taxes payable		866,301	794,117
Deferred tax liabilities, current portion		91,884	168,545
Subscriber prepayments, current portion		520,373	605,545
Accrued expenses and other current liabilities		3,064,915	2,282,875
Short-term loans payable	10	316,088	290,927
Provision for tax and antimonopoly claims in Uzbekistan	6	500,000	-
Current portion of long-term debt	11	3,885,660	4,097,076
Disposal group held for sale	4	298,607	266,691
Total current liabilities		15,793,736	13,847,213
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	11	11,460,956	12,006,322
Subscriber prepayments, net of current portion		103,586	106,586
Liabilities from banking activities, net of current portion		1,089,482	1,644,478
Deferred tax liabilities, net of current portion		1,627,211	1,412,174
Asset retirement obligation		224,767	214,121
Postretirement benefits obligation		59,002	77,591
Property, plant and equipment contributions		83,418	86,081
Other long-term liabilities		226,187	77,673
Total long-term liabilities		14,874,609	15,625,026
TOTAL LIABILITIES		30,668,345	29,472,239
Commitments and contingencies	15	-	-
Redeemable noncontrolling interests		739,819	723,819
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000,000 shares issued; 9,319,733,782 and 9,267,985,025 shares outstanding with par value of 0.09 Russian Rubles, respectively)		30,057	30,057
Treasury stock (330,266,218 and 382,014,975 shares with par value of 0.09 Russian Rubles, respectively)		(391,260)	(467,198)
Additional paid-in capital		2,483,270	2,575,601
Retained earnings		6,486,389	6,418,649
Accumulated other comprehensive loss		(677,741)	(518,354)
Total Sistema JSFC shareholders' equity		7,930,715	8,038,755
Non-redeemable noncontrolling interests		4,303,359	5,667,208
TOTAL EQUITY		12,234,074	13,705,963
TOTAL LIABILITIES AND EQUITY		$ 43,642,238	$ 43,902,021

See notes to unaudited condensed consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(Amounts in thousands of US dollars, except share and per share amounts)

	Notes	Six months ended June 30, 2012	Six months ended June 30, 2011
Sales		$ 15,702,505	$ 15,613,187
Revenue from banking activities		311,837	266,090
TOTAL REVENUES		16,014,342	15,879,277
Cost of sales, exclusive of depreciation, depletion and amortization shown separately below		(6,153,670)	(6,278,046)
Cost related to banking activities, exclusive of depreciation and amortization shown separately below		(169,421)	(166,148)
Selling, general and administrative expenses		(1,807,547)	(1,964,719)
Depreciation, depletion and amortization		(1,628,467)	(1,662,637)
Transportation costs		(387,077)	(369,774)
Provision for doubtful accounts		(66,121)	(67,734)
Loss from impairment and provisions of other assets	6	(604,925)	(40,939)
Provision for tax and antimonopoly claims in Uzbekistan	6	(500,000)	-
Taxes other than income tax		(3,286,469)	(2,969,462)
Other operating expenses, net		(26,466)	(187,991)
Equity in results of affiliates		(38,234)	79,190
Loss on disposal of interests in subsidiaries and affiliates		(3,512)	-
OPERATING INCOME		1,342,433	2,251,017
Interest income		149,553	85,840
Change in fair value of derivative instruments	12	(1,218)	(1,107)
Interest expense		(707,471)	(883,113)
Foreign currency transactions losses		(11,870)	(8,651)
Income from continuing operations before income tax		771,427	1,443,986
Income tax expense		(482,175)	(533,576)
Income from continuing operations		$ 289,252	$ 910,410
Income from discontinued operations, net of income tax effect of $1,350 and $18,891	4	18,593	91,759
NET INCOME		$ 307,845	$ 1,002,169
Noncontrolling interest		(88,799)	(572,936)
NET INCOME ATTRIBUTABLE TO SISTEMA JSFC		$ 219,046	$ 429,233
Amounts attributable to Sistema JSFC:			
Income from continuing operations		$ 212,538	$ 396,553
Income from discontinued operations		6,508	32,680
Total other comprehensive (loss)/income, net of taxes		(542,253)	1,242,099
Total comprehensive (loss)/income, net of taxes		(234,408)	2,244,268
Weighted average number of common shares outstanding – basic and diluted		9,346,259,595	9,281,827,594
Income per share, basic and diluted, U.S. cent			
Income from continuing operations		2.27	4.27
Income from discontinued operations		0.07	0.35
Net income attributable to Sistema JSFC shareholders		2.34	4.62

See notes to unaudited condensed consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(Amounts in thousands of US dollars)

	Six months ended June 30, 2012	Six months ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 307,845	$ 1,002,169
Income from discontinued operations	(18,593)	(91,759)
Income from continuing operations	289,252	910,410
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation, depletion and amortization	1,628,467	1,662,637
Equity in results of affiliates	38,234	(79,190)
Deferred income tax benefit	(40,762)	(69,774)
Foreign currency transactions losses	11,870	8,651
Loss from impairment and provisions of other assets	604,925	40,939
Provision for tax and antimonopoly claims in Uzbekistan	500,000	-
Loss on disposal of property, plant and equipment	13,115	8,348
Amortization of connection fees	(14,565)	(16,602)
Provision for doubtful accounts	66,121	67,734
Allowance for loan losses	30,689	14,321
Dividends received from affiliates	24,972	14,308
Other non-cash items	31,828	37,278
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	11,088	(105,637)
Accounts receivable	(399,576)	(633,232)
VAT receivable	141,827	(71,899)
Inventories and spare parts	(170,257)	(364,045)
Other current assets	54,314	(130,456)
Accounts payable	68,125	136,250
Subscriber prepayments	(74,498)	(22,872)
Taxes payable	88,551	233,982
Accrued expenses and other liabilities	(11,820)	(236,850)
Postretirement benefits obligation	-	15,517
Net cash provided by operating activities of continuing operations	2,891,900	1,419,818
Net cash provided by operating activities of discontinued operations	41,620	98,897
Net cash provided by operating activities	$ 2,933,520	$ 1,518,715

SISTEMA JSFC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (CONTINUED)
(Amounts in thousands of US dollars)

	Six months ended June 30, 2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(1,618,046)	(1,252,410)
Payments for purchases of intangible assets	(158,542)	(165,401)
Payments for purchases of businesses, net of cash acquired	(60,541)	(144,101)
Payments for purchases of long-term investments	(397,274)	(369,862)
Payments for purchases of short-term investments	(1,997,819)	(182,260)
Payments for purchases of other non-current assets	(162,396)	(60,202)
Decrease/(increase) in restricted cash	37,863	(43,759)
Cash disposed on loss of controll less consideration received	(49,238)	-
Proceeds from sale of property, plant and equipment	24,889	75,795
Proceeds from sale of long-term investments	192,223	28,341
Proceeds from sale of other non-current assets	18,919	234
Proceeds from sale of short-term investments	235,341	340,554
Net (decrease)/increase in loans to customers and banks	(629,628)	548,432
Net cash used in investing activities	$ (4,564,249)	$ (1,224,639)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings, net	54,664	118,904
Net increase/(decrease) in deposits from customers of the banking division	531,211	(1,381,691)
Proceeds from sale of treasury stock	73,083	-
Proceeds from long-term borrowings, net of debt issuance costs	1,748,403	1,419,580
Debt issuance costs	(10,860)	(12,261)
Principal payments on long-term borrowings	(2,154,881)	(1,557,733)
Acquisition of noncontrolling interests in existing subsidiaries	(627,108)	(201,198)
Payments to shareholders of subsidiaries	-	(103,103)
Proceeds from capital transactions with shares of existing subsidiaries	73,987	153,710
Purchases of treasury stock	(33,352)	-
Net cash used in financing activities	$ (344,853)	$ (1,563,792)
Effect of foreign currency translation on cash and cash equivalents	$ (54,953)	$ 231,918
Net decrease in cash and cash equivalents	$ (2,030,535)	$ (1,037,798)
Cash and cash equivalents at the beginning of the period (including cash of discontinued operations)	4,320,423	4,573,557
Cash and cash equivalents at the end of the period (including cash of discontinued operations)	2,289,888	3,535,759
Cash and cash equivalents of discontinued operations at the end of the period	(86,562)	(21,736)
Cash and cash equivalents of continuing operations at end of the period *	$ 2,203,326	$ 3,514,023
CASH PAID DURING THE PERIOD FOR:		
Interest paid, net of amounts capitalized	$ (700,043)	$ (898,943)
Income taxes paid	(562,554)	(538,836)
* Cash and cash equivalents at the end of the period comprised of the following:		
Non-banking activities	*$ 1,318,108*	*$ 1,892,163*
Banking activity	*885,218*	*1,621,860*
	$ 2,203,326	*$ 3,514,023*

See notes to unaudited condensed consolidated financial statements.

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

1. DESCRIPTION OF THE BUSINESS AND OPERATING ENVIRONMENT

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

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

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

			Beneficial ownership as of	
Significant entities	**Short name**	**Principal activity**	**June 30, 2012**	**December 31, 2011**
Sistema Joint Stock Financial Corporation	Sistema	Investing and financing		
Core Assets:				
Mobile TeleSystems and subsidiaries	MTS	Telecommunications	53%	53%
Bashneft and subsidiaries	Bashneft	Oil and gas production	72%(1)	69%(1)
Bashkirenergo (Note 4)	Bashkirenergo	Energy production	41%(2)	39%(2)
Developing Assets:				
RTI and subsidiaries	RTI	Technology	85%	85%
MTS Bank and subsidiaries	MTS Bank	Banking	99%	99%
Sistema Shyam TeleServices Limited	SSTL	Telecommunications	57%	57%
Sistema Mass-media and subsidiaries	SMM	Mass media	75%	75%
Detsky Mir-Center and subsidiaries	Detsky Mir	Retail trading	75%	75%
Intourist and subsidiaries	Intourist	Travel services	66%	66%
Medsi and subsidiaries	Medsi	Healthcare services	100%	100%
Binnopharm and subsidiaries	Binnopharm	Pharmaceuticals	100%	100%
NIS	NIS	Technology	70%	51%

(1) Voting interests are 87% and 86% as of June 30, 2012 and December 31, 2011, accordingly.
(2) Voting interests as of June 30, 2012 and December 31, 2011– 50%.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In the opinion of the Group's management, these condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods. The financial results of operations for interim periods shown are not necessarily indicative of the results for the entire fiscal year.

These interim condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements as of and for the years ended December 31, 2011 and 2010.

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

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

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

Recent accounting pronouncements to be adopted in future periods

In June 2011, the Financial Accounting Standards Board ("FASB") amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one continuous statement or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option under the current guidance that permits the presentation of components of other comprehensive income as part of the statement of changes in stockholders' equity has been eliminated. The amendment becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As a result of adoption of amendments to the guidance the Group presented components of other comprehensive income as part of the single continuous statement of operations and comprehensive income.

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 is not expected to have a significant impact on the Group's consolidated financial statements.

3. ACQUISITIONS

During the year ended December 31, 2011, the Group had no acquisitions which are considered to be individually material. The following table summarizes the preliminary purchase price allocation of the companies acquired during the six months ended June 30, 2012:

Acquiree	**Tascom**	**First Cavalry Army Stud Farm**	**Ural Oil**	**Total**
Month of acquisition	May	February	April	
Ownership interest acquired	100%	100%	100%	
Principal activity				
Acquiring segment	MTS	Other	Bashneft	
Current assets	$ 31,191	$ 5,823	$ -	$ 37,014
Non-current assets	24,058	8,599	19,393	52,050
Goodwill	40,302	-	-	40,302
Current liabilities	(31,577)	(4,310)	-	(35,887)
Non-current liabilities	(13,702)	-	(1,510)	(15,212)
Fair value of contingent consideration	(5,007)	-	-	(5,007)
Consideration paid	**$ 45,265**	**$ 10,112**	**$ 17,883**	**$ 73,260**

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

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

4. DISPOSALS AND DISCONTINUED OPERATIONS

Discontinued operations

Bashkirenergo – In May 2012, Sistema and INTER RAO UES, a Russian energy holding, signed an agreement regarding the terms of the reorganisation Bashkirenergo. The results of operations of the generation business of Bashkirenergo are reported in discontinued operations in the consolidated statements of operations and comprehensive income for all periods presented, and the assets and related liabilities are included in the consolidated statement of financial position as disposal group held for sale as of June 30, 2012 and December 31, 2011. Such assets and liabilities consisted of the following:

	June 30, 2012	December 31, 2011
Current assets	$ 340,691	$ 299,807
Property, plant and equipment, net	1,022,473	1,040,627
Other non-current assets	68,780	68,630
Total assets of disposal group held for sale	**1,431,944**	**1,409,064**
Current liabilities	146,937	117,122
Non-current liabilities	140,892	131,195
Total liabilities of disposal group held for sale	**$ 287,829**	**$ 248,317**

The results of discontinued operations of Bashkirenergo for the six months ended June 30, 2012 and 2011 were as follows:

	Six months ended	
	June 30, 2012	June 30, 2011
Total revenue	$ 696,763	$ 826,326
Total expense	(674,694)	(729,654)
Income from discontinued operations before income tax	**22,069**	**96,672**
Income tax expense	1,350	(16,193)
Income from discontinued operations, net of income tax effect	**$ 23,419**	**$ 80,479**

Sales of continuing operations to the generation business of Bashkirenergo for the six months ended June 30, 2012 and June 30, 2011 amounted to $11.2 million and $11.7 million, accordingly. Purchases of continuing operations from the generation business of Bashkirenergo for the six months ended June 30, 2012 and June 30, 2011 amounted to $44.2 million and $35.0 million, accordingly.

5. CAPITAL TRANSACTIONS OF SUBSIDIARIES

In June 2012, Bashneft completed the buyout of own treasury shares and noncontrolling interests in Ufimsky Refinery, Ufaorgsintez, Ufaneftekhim, Novoil and Bashkirnefteproduct, subsidiaries of the Group. As a result of purchases of noncontrolling interests for a total cash consideration of $579.8 million the Group's ownership in Bashneft and subsidiaries increased by 3.16%, 4.40%, 2.46%, 9.91%, 7.45% and 11.22%, respectively. These transactions were accounted for directly in equity and resulted in the decrease in noncontrolling interests by $451.3 million.

In June 2012, pursuant to the terms of the voluntary tender offer, originally announced in March 2012, RTI completed and fully paid for the acquisition of Sitronics' ordinary shares, including shares underlying the Sitronics' Depositary Receipts for a total consideration of $40.7 million. As a result of purchases of noncontrolling interests the Group's ownership in Sitronics increased by 29.7%. This transaction was accounted for directly in equity and resulted in the decrease in noncontrolling interests by $50.5 million.

In April 2012, Sitronics completed the sale of a 3% stake in Intracom Telecom to Rydra Trading Company. As a result of this deal, the share of Sitronics in Intracom will decreased from 51% to 48% and Sitronics has accounted the retained investment under the equity method.The Group has accounted loss recognized on deconsolidation of $5.4 million.

6. OPERATIONS IN UZBEKISTAN

During June 2012 the authorities of the Republic of Uzbekistan began audits of the financial and operating activities of MTS' wholly-owned subsidiary, Uzdunrobita, and detained its several managers. The Group submitted official complaints to certain top government officials of Uzbekistan identifying gross violations of criminal process law and other regulations in connection with the on-going government investigations of the financial and operating activities of Uzdunrobita and the activities of Uzdunrobita's management.

On July 17, 2012, the Group suspended its services in Uzbekistan upon receipt of an order from the State Agency for Communications and Information of Uzbekistan ("SACI") informing the Group of the temporary suspension of the operating license of Uzdunrobita for a period of 10 business days.

On July 30, 2012, the Tashkent Economic Court granted a petition of the SACI to extend for a period of three months the suspension of the operating license of Uzdunrobita, notwithstanding the fact that Uzdunrobita had fulfilled all of the requirements set forth in the SACI's suspension order of July 17, 2012.

On August 6 and August 7, 16 Regional Antimonopoly departments of the Republic of Uzbekistan simultaneously held hearings and declared that Uzdunrobita violated antimonopoly laws, consumer protection laws and laws governing advertisements. In total, the claims of the antimonopoly regulator against Uzdunrobita amounted to approximately $80.0 million which amount was further reduced by antimonopoly regulator to $13.0 million in aggregate.

On August 13, 2012, the Tashkent Economic Court granted the petition of the SACI to withdraw all operating licenses of Uzdunrobita. 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, Uzdunrobita has also received the findings of subsequent additional tax audits resulting in a total amount of claims of approximately $900.0 million which was further reduced to $669.0 million.

Later in August, 2012 the Judicial Department of Tashkent, in accordance with a decree of the General Prosecutor's Office of the Republic of Uzbekistan, has initiated enforcement proceedings to arrest all of the assets of Uzdunrobita.

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

While the Group strongly denies any wrongdoing alleged by the various Uzbekistan authorities and has challenged, and intends to continue to challenge, the legality of their actions, the Group has fully complied with the relevant court decisions described above and has suspended all of its operations in Uzbekistan.

Management believes that the actions of the Uzbek authorities, commencing in the second quarter, reflect an unwarranted attack on the business and follows similar patterns used by the authorities to expropriate businesses of international investors in the past. Accordingly, management views all developments subsequent to June 30, 2012 as recognized subsequent events.

A liability of $500.0 million relating to the tax and antimonopoly claims was recorded with an associated charge to the consolidated statement of operations and comprehensive income as the minimum of a range of probable losses according to management's estimations. It is reasonably possible that the estimate of the claims will change in the near term due to future events impacting the amount and probability of the exposure.

Considering the adverse impact of such circumstances on the Group's ability to conduct operations in Uzbekistan, the Group tested its long-lived assets for recoverability and goodwill attributable to Uzbekistan for impairment. As a result, an impairment loss of the following long-lived assets was recorded in the consolidated statement of operations and comprehensive income for the six months ended June 30, 2012 and was assigned to "MTS" segment:

		Impairment loss
Property, plant and equipment	$	256,355
Operating licenses		73,908
Radio frequencies		76,641
Numbering capacity		36,145
Other intangible assets		50,240
Goodwill		85,664
Total impairment loss	**$**	**578,953**

Goodwill impairment loss recognized by the Group for the six months ended June 30, 2012 is an estimated amount, which is subject to revision during the second half of 2012 as more information becomes available.

There is a reasonable uncertainty on the ability of the Group to continue its operations in Uzbekistan that may significantly affect the fair value of long-lived assets and related impairment. The Group used a probability-weighted valuation technique to determine the fair value of the long lived assets. The fair value of long-lived assets was determined based on unobservable inputs ("Level 3" of the hierarchy established by the U.S. GAAP guidance). In calculation of future cash flows for the assessment of the fair value of long-lived assets the Group used forecasts of Uzbekistan telecommunication market and Uzdunrobita's position on this market. The forecasts were based on all available internal and external information, including growth projections and industry experts' estimates.

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation and depletion, as of June 30, 2012 and December 31, 2011 consisted of the following:

	June 30, 2012	December 31, 2011
Switches, transmission devices, network and base station equipment	$ 12,080,661	$ 12,161,261
Refining, marketing, distribution and chemicals	4,808,497	4,900,081
Exploration and production assets	4,514,308	3,767,298
Other plant, machinery and equipment	2,022,078	2,160,619
Buildings and leasehold improvements	1,691,491	1,658,871
Power and utilities	634,531	664,100
Construction in-progress and equipment for installation	2,492,507	2,415,512
Land	35,902	42,014
	28,279,975	27,769,756
Less: accumulated depreciation and depletion	(9,871,397)	(9,408,930)
Total	**$ 18,408,578**	**$ 18,360,826**

Depreciation and depletion expenses for the six months ended June 30, 2012 and 2011 amounted to $1,358.0 million and $1,316.0 million, respectively.

8. 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, 2011						
Gross amount of goodwill	$ 1,354,081	441,393	121,769	64,072	2,861	1,984,176
Accumulated impairment loss	(48,096)	-	-	(63,560)	-	(111,656)
	1,305,985	**441,393**	**121,769**	**512**	**2,861**	**1,872,520**
Purchase price allocations	33,710	-	-	-	-	33,710
Currency translation adjustment	90,756	-	983	-	-	91,739
Balance as of June 30, 2011						
Gross amount of goodwill	1,482,261	441,393	122,752	64,072	2,861	2,113,339
Accumulated impairment loss	(51,810)			(63,560)	-	(115,370)
	$ 1,430,451	**441,393**	**122,752**	**512**	**2,861**	**1,997,969**
Balance as of January 1, 2012						
Gross amount of goodwill	$ 1,469,313	348,679	121,929	64,072	582	2,004,575
Accumulated impairment loss	(45,528)	(348,679)	-	(63,560)	-	(457,767)
	1,423,785	**-**	**121,929**	**512**	**582**	**1,546,808**
Adjustments to preliminary allocations	-	-	-	-	-	-
Purchase price allocations	40,302	-	-	-	-	40,302
Impairment	(85,664)	-	-	-	-	(85,664)
Currency translation adjustment	(35,318)	-	(27,184)	(124)	(30)	(62,656)
Balance as of June 30, 2012						
Gross amount of goodwill	1,473,437	348,679	94,745	63,922	582	1,981,365
Accumulated impairment loss	(130,332)	(348,679)	-	(63,534)	(30)	(542,575)
	$ 1,343,105	**-**	**94,745**	**388**	**552**	**1,438,790**

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

9. OTHER INTANGIBLE ASSETS, NET

Intangible assets other than goodwill as of June 30, 2012 and December 31, 2011 consisted of the following:

	June 30, 2012			December 31, 2011		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Amortized intangible assets:						
Billing and telecommunication software	$ 1,250,513	(894,832)	355,681	$ 1,356,470	(864,545)	491,925
Acquired customer base	528,734	(256,722)	272,012	544,911	(215,267)	329,644
Radio frequencies	261,911	(113,943)	147,968	353,776	(138,546)	215,230
Operating licenses	605,384	(306,508)	298,876	702,311	(285,955)	416,356
Other	646,061	(111,694)	534,367	720,898	(209,769)	511,129
	3,292,603	(1,683,699)	1,608,904	3,678,366	(1,714,082)	1,964,284
Unamortized intangible assets:						
Trademarks	199,716	-	199,716	203,952	-	203,952
Numbering capacity with indefinite contractual life	50,720	-	50,720	82,924	-	82,924
Total intangible assets	**$ 3,543,039**	**(1,683,699)**	**1,859,340**	**$ 3,965,242**	**(1,714,082)**	**2,251,160**

Amortization expense recorded on other intangible assets for the six months ended June 30, 2012 and 2011 amounted to $270.5 million and $312.5 million, respectively. The estimated amortization expense for each of the five following years and thereafter is as follows:

Six months ended December 31, 2012	$ 350,892
Year ended December 31, 2013	428,723
Year ended December 31, 2014	263,963
Year ended December 31, 2015	167,504
Year ended December 31, 2016	100,936
Thereafter	296,886
	$ 1,608,904

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.

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

10. SHORT-TERM LOANS PAYABLE

Short-term loans payable as of June 30, 2012 and December 31, 2011 consisted of the following:

	Interest rate (Actual at June 30, 2012)	June 30, 2012	December 31, 2011
USD-denominated:			
HSBC	LIBOR +8.5% (8.7%)	$ 14,000	$ 14,000
Other	Various	10,298	4,274
		24,298	18,274
RUB-denominated:			
Bank of Moscow	MOSPRIME+4.05%-6.0% (11.27%-13.22%); 11.85%; 13.5%	70,347	26,394
Unicredit	MOSPRIME+3% (9.9%); 10.1%	21,513	-
Zenit	10.25%-10.50%	11,535	28,912
Other	Various	63,083	52,111
		166,478	107,417
Other currencies:			
ING Bank	13%	123,938	128,225
Other	Various	1,374	37,011
Total		**$ 316,088**	**$ 290,927**

11. LONG-TERM DEBT

Long-term debt as of June 30, 2012 and December 31, 2011 consisted of the following:

	June 30, 2012	December 31, 2011
Loans from banks and financial Institutions	$ 9,093,208	$ 10,319,323
Notes and corporate bonds	5,856,157	5,356,583
Capital leases	216,522	227,647
Vendor financing	119,570	133,705
Loans from related parties	53,929	54,931
Other borrowings	7,230	11,209
	15,346,616	16,103,398
Less: amounts maturing within one year	(3,885,660)	(4,097,076)
Total	**$ 11,460,956**	**$ 12,006,322**

The schedule of repayments of long-term debt over the five-year period and thereafter beginning on June 30, 2012 is as follows:

Year ended June 30,	
2013	$ 3,885,660
2014	2,319,858
2015	936,684
2016	2,123,598
2017	2,649,318
Thereafter	3,431,498
Total	**$ 15,346,616**

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

Loans from banks and financial institutions – Loans from banks and financial institutions as of June 30, 2012 and December 31, 2011 consisted of the following:

	Maturity	Interest rate (Actual at June 30, 2012)	June 30, 2012	December 31, 2011
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2012-2020	LIBOR +1.15% (1.88%)	$ 555,825	$ 580,742
Deutsche Bank	2012-2014	LIBOR + 1.55% (1.80%)	300,000	300,000
China Development Bank	2012-2017	LIBOR+1.5% (2.23%)	251,983	249,616
Gazprombank	2012-2014	LIBOR + 4.9% (5.36%)	231,483	229,309
Skandinavska Enskilda Banken AB	2012-2017	LIBOR+ 0.23%-1.8% (0.96%-2.53%)	185,753	204,507
Bank of China	2012-2017	LIBOR+1.5%-1.95% (2.23%-2.68%)	141,130	139,805
Bank of Moscow	2014-2018	LIBOR + 6.75% (7.21%)	115,000	117,450
EBRD	2012-2014	LIBOR+1.51%-3.1% (2.24%-3.83%)	66,667	83,333
HSBC Bank plc and ING BHF Bank AG	2012-2014	LIBOR+0.3% (1.03%)	41,633	51,503
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	2012-2015	LIBOR+0.3% (1.03%)	34,656	42,961
Citibank International plc and ING Bank N.V.	2012-2013	LIBOR+0.43% (1.16%)	29,788	40,688
Commerzbank AG, ING Bank AG and HSBC Bank plc	2012-2014	LIBOR+0.3% (1.03%)	29,099	36,495
Golden Gates (Bank of Moscow)	2012	9.75%	20,000	20,000
Societe Generale	2012-2016	LIBOR+1.25% (1.98%)	17,134	18,860
ABN AMRO Bank N.V.	2012-2013	LIBOR+0.35% (1.08%)	9,431	12,574
Other	Various	Various	9,243	6,324
			2,038,825	2,134,167
EUR-denominated:				
Bank of China	2012-2016	EURIBOR+1.95% (2.88%)	102,280	116,812
Credit Agricole Corporate Bank and BNP Paribas	2012-2018	EURIBOR+1.65% (2.58%)	57,937	64,033
LBWW	2012-2017	EURIBOR+0.75% (1.68%)	32,297	36,215
ABN AMRO Bank N.V.	2012-2013	EURIBOR+0.35% (1.28%)	6,537	8,958
Syndicated Loan to Intracom Telecom	-	-	-	116,487
EBRD	-	-	-	77,658
Other	Various	Various	13,740	16,282
			212,791	436,445
RUB-denominated:				
Sberbank	2013-2017	7.75%-8.90%	4,633,898	4,388,106
Gazprombank	2015-2018	8.9%-10.0%	1,366,523	1,830,699
Bank of Moscow	2013-2018	Mosprime+6.5%-7.25% (13.72%-14.47%); 8.25%-10.5%	326,469	590,309
Unicredit	2012-2016	Mosprime+4.5%-6.5% (11.37%-13.37%)	66,555	69,271
Raiffeisenbank	2014	Mosprime+3% (9.87%-10.22%)	62,468	83,861
ING Bank	2012-2013	Mosprime+6.5% (13.72%)	36,567	32,613
			6,492,480	6,994,859
Other currencies:				
State Bank of India	-	-	-	396,095
Other	Various	Various	349,112	357,757
			349,112	753,852
Total			**$ 9,093,208**	**$ 10,319,323**

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

Certain loans from banks and financial institutions are subject to restrictive covenants, including, but not limited to compliance with certain financial ratios, limitations on dispositions of assets and transactions within the Group, retention of telecom licenses.

Equipment with carrying value of $195.4 million has been pledged to collateralize some of the other loan facilities provided to the Group.

Notes and corporate bonds – Notes and corporate bonds as of June 30, 2012 and December 31, 2011 consisted of the following:

	Currency	Interest rate (June 30, 2012)	Fair value as of June 30, 2012	Carrying value as of June 30, 2012	Carrying value as of December 31, 2011
MTS International Notes due 2020	USD	8.6%	$ 859,500	$ 750,000	$ 750,000
Sistema JSFC Bonds due 2019	USD	7.0%	495,650	500,000	-
MTS OJSC Notes due 2016	RUB	14.3%	459,367	457,082	465,895
MTS OJSC Notes due 2020	RUB	8.2%	440,586	452,347	457,928
MTS OJSC Notes due 2014	RUB	7.6%	406,480	414,987	422,988
Bashneft Bonds due 2016	RUB	12.5%	358,254	350,542	357,301
Sistema JSFC Bonds due 2014	RUB	14.8%	346,949	343,718	352,641
Sistema JSFC Bonds due 2016	RUB	7.7%	337,290	341,733	349,940
Bashneft Bonds due 2014	RUB	9.4%	308,804	304,721	310,597
MTS OJSC Notes due 2017	RUB	8.7%	295,579	304,721	310,597
MTS OJSC Notes due 2018	RUB	8.0%	292,852	292,852	298,499
Bashneft Bonds due 2022	RUB	9.0%	248,830	248,830	-
Sistema JSFC Bonds due 2016	RUB	12.5%	245,671	241,043	247,333
SSTL Bonds due 2019	INR	15.8%	229,267	229,267	-
MTS OJSC Notes due 2015	RUB	7.8%	227,371	229,668	234,706
Sistema JSFC Bonds due 2013	RUB	9.8%	153,838	151,864	154,829
SITRONICS Bonds due 2013	RUB	10.8%	91,398	91,416	93,179
MTS OJSC Notes due 2013	RUB	7.0%	84,036	74,140	13,318
SITRONICS Bonds due 2013	RUB	11.8%	38,443	38,424	39,011
DM-Center Bonds due 2015	RUB	8.5%	33,641	35,043	35,719
Intourist Bonds due 2013	RUB	10.0%	3,711	3,759	62,119
MTS Finance Notes due 2012	USD	-	-	-	400,000
			5,957,517	5,856,157	5,356,600
Less: unamortized discount			-	-	(17)
Total			**$ 5,957,517**	**$ 5,856,157**	**$ 5,356,583**

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. These notes therefore can be defined as callable obligations under the FASB authoritative guidance on debt, as the holders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons. The FASB authoritative guidance on debt requires callable obligations to be disclosed as maturing in the reporting period, when the demand for repurchase could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The Group discloses such notes in the aggregated maturities schedule as these are the reporting periods when the noteholders will have the unilateral right to demand repurchase.

Loans, notes and corporate bonds are subject to certain financial and non-financial restrictive covenants, including, but not limited to, limitations on dispositions of assets, limitations on transactions with affiliates, compliance with certain financial ratios. Management believes that the Group is in compliance with all restrictive financial covenants relating to the loans, notes and corporate bonds as of June 30, 2012.

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

12. FAIR VALUE MEASUREMENTS

The following fair value hierarchy table presents information regarding Group's assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011:

	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**
June 30, 2012				
Assets at fair value:				
Trading securities	497,547 $	- $	- $	497,547
Available-for-sale securities	76,814	64,998	-	141,812
Interest rate swaps	-	4,217	-	4,217
Currency option agreements	-	27,696	-	27,696
Total assets	**574,361**	**96,911**	**-**	**671,272**
Liabilities at fair value:				
Interest rate swaps	-	(11,890)	-	(11,890)
Put options	-	-	(26,176)	(26,176)
Redeemable noncontrolling interests	-	-	(99,819)	(99,819)
Total liabilities	**-**	**(11,890)**	**(125,995)**	**(137,885)**
December 31, 2011				
Assets at fair value:				
Trading securities	774,659 $	- $	- $	774,659
Available-for-sale securities	97,625	111,464	-	209,089
Interest rate swaps	-	2,341	-	2,341
Currency option agreements	-	894	-	894
Total assets	**872,284**	**114,699**	**-**	**986,983**
Liabilities at fair value:				
Interest rate swaps	-	(15,959)	-	(15,959)
Put options	-	-	(24,958)	(24,958)
Redeemable noncontrolling interests	-	-	(99,819)	(99,819)
Total liabilities	**- $**	**(15,959)$**	**(124,777)$**	**(140,736)**

13. SEGMENT INFORMATION

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

The Group's management evaluates the performance of the segments based on operating income. Intercompany eliminations presented below consist primarily of the following items: intercompany sales transactions, elimination of gross margin in inventory and other intercompany transactions conducted under the normal course of operations.

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

Financial information by reportable segment is presented below:

For the six months ended June 30, 2012	MTS	Bashneft	SSTL	MTS Bank	RTI	Other	Corporate	Total
Net sales to external customers[(a)]	6,132,717	7,998,686	158,131	311,775	601,645	792,560	18,828	16,014,342
Intersegment sales	3,266	5,666	-	15,418	241,273	15,427	15,906	296,956
Equity in results of affiliates	9,729	(42,225)	-	-	(2,751)	(5,076)	-	(40,323)
Net interest expense [(b)]	-	-	-	(3,656)	-	-	-	(3,656)
Depreciation, depletion and amortization	1,157,793	306,250	36,008	9,562	43,534	69,820	5,500	1,628,467
Operating income/(loss)	388,828	1,233,148	(191,851)	(4,243)	(15,552)	11,172	(66,694)	1,354,808
Interest income	58,170	90,710	4,224	-	4,254	60,925	64,451	282,734
Interest expense	312,080	176,185	88,073	-	35,000	55,454	78,449	745,241
Income tax expense/(benefit)	246,351	277,646	-	559	4,794	10,030	(57,205)	482,175
Segment assets	15,098,554	14,321,568	866,396	7,028,732	2,062,221	4,383,152	4,338,747	48,099,370
Indebtedness [(c)]	7,340,424	3,881,451	1,402,713	-	1,046,447	351,674	1,639,995	15,662,704
Capital expenditures [(d)]	1,124,127	440,122	29,790	14,980	58,847	97,071	11,651	1,776,588

For the six months ended June 30, 2011	MTS	Bashneft	SSTL	MTS Bank	RTI	Other	Corporate	Total
Net sales to external customers[(a)]	6,058,582	7,991,004	114,334	266,091	523,027	907,721	18,518	15,879,277
Intersegment sales	3,660	17,026	-	11,804	320,675	14,249	7,119	374,533
Equity in results of affiliates	31,812	47,236	-	-	-	142	45,384	124,574
Net interest revenue [(b)]	-	-	-	(8,590)	-	-	-	(8,590)
Depreciation, depletion and amortization	1,176,322	315,273	46,983	8,056	48,809	62,594	4,600	1,662,637
Operating income/(loss)	1,268,569	1,395,386	(239,302)	(18,797)	(4,178)	(11,213)	(32,293)	2,358,172
Interest income	26,978	37,179	20,906	-	6,558	38,467	50,151	180,239
Interest expense	331,890	253,772	76,601	-	40,689	56,485	187,155	946,592
Income tax expense/(benefit)	311,597	245,821	-	(1,987)	4,051	(5,220)	(20,686)	533,576
Segment assets	16,217,772	15,528,372	2,151,919	7,088,597	2,852,724	4,718,599	3,826,504	52,384,487
Indebtedness[(c)]	7,431,550	4,234,635	1,283,254	-	1,082,916	368,814	1,753,998	16,155,167
Capital expenditures [(d)]	806,177	326,991	56,977	9,163	59,325	159,177	-	1,417,810

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

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

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

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

The following table summarizes dividends declared to Corporate division during the six months ended June 30, 2012 and 2011:

	Six months ended June 30, 2012	Six months ended June 30, 2011
Bashneft, including		
OJSC Bashneft	$ 318,384	$ 495,938
OJSC Sistema-Invest	58,564	145,634
MTS, including		
OJSC MTS	465,675	543,863
OJSC MGTS	-	157,216

(Amounts in thousands of US dollars, except share and per share amounts or if 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:

	Six months ended June 30, 2012	Six months ended June 30, 2011
Total segment operating income	$ 1,354,808	$ 2,358,172
Intersegment eliminations	(12,375)	(107,155)
Operating income	**1,342,433**	**2,251,017**
Interest income	149,553	85,840
Change in fair value of derivative financial instruments	(1,218)	(1,107)
Interest expense	(707,471)	(883,113)
Foreign currency transactions losses	(11,870)	(8,651)
Income from continuing operations before income tax	**$ 771,427**	**$ 1,443,986**

	June 30, 2012	June 30, 2011
Total segment assets	$ 48,099,370	$ 52,384,487
Intersegment eliminations	(4,457,132)	(5,810,855)
Total assets	$ **43,642,238**	$ **46,573,632**

14. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from related parties. During the six months ended June 30, 2012 and 2011, the Group entered into transactions with related parties as follows:

	Six months ended June 30, 2012	Six months ended June 30, 2011
Sales of goods and services	$ 85,883	$ 635,785
Revenue from banking activities	8,124	6,541
Cost of sales	(149,041)	(77,003)
Selling, general and administrative expenses	(3,140)	(980)

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

As of June 30, 2012 and December 31, 2011, the related party balances were as follows:

	June 30, 2012	December 31, 2011
Assets:	$	
Cash and cash equivalents	1,147	1,038
Short-term investments	1,600	3,323
Accounts receivable, net	10,328	136,201
Other current assets	13,699	7,166
Long-term investments	19,292	17,043
Liabilities:		
Accounts payable	(26,825)	(46,225)
Accrued expenses and other current liabilities	(49,378)	(53,898)
Liabilities from banking activities	(272,188)	(240,064)

(Amounts in thousands of US dollars, except share and per share amounts or if otherwise stated)

15. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of June 30, 2012, the Group had executed purchase agreements of approximately $919.2 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Agreement with Apple – In August 2008, the Group entered into an unconditional purchase agreement with Apple Sales International to buy 1.5 million iPhone handsets at list prices at the dates of respective purchases over a three year period. Pursuant to the agreement the Group was also required to incur certain iPhone promotion costs. As of June 30, 2012 the Group made 37.1% of its total purchase installment contemplated by the agreement. The total amount paid for handsets purchased under the agreement for the years ended December 31, 2011 and 2010 amounted to $140.8 million and $79.4 million, respectively. For the six months ended June 30, 2012 the total amount paid for handsets purchased under the agreement amounted to $51.5 million.

Operating leases – The Group leases land, buildings and office space mainly from municipal organizations through contracts which expire in various years through 2060. Rental expenses under the operating leases amounted to $416.0 million and $271.7 million for the six months period ended June 30, 2012 and 2011, respectively and are included in operating expenses. Rental expenses under the operating leases of $114.4 million and $108.0 million for the 6 months period ended June 30, 2012 and 2011, respectively, are included in cost of sales in the accompanying condensed consolidated statements of operations and comprehensive income. Future minimum lease payments due under these leases at June 30, 2012 are as follows:

Payments due in the years ended June 30,		
2013	$	335,607
2014		307,170
2015		211,377
2016		208,339
2017		209,580
Thereafter		722,081
Total	**$**	**1,994,154**

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

Management believes that it has adequately provided for tax and customs liabilities in the accompanying consolidated financial statements. As of June 30, 2012 the provision accrued amounted to $20.8 million. In addition, the accrual for unrecognized income tax benefits, potential penalties and interest recorded in accordance with the authoritative guidance on income taxes totaled $24.2 million as of June 30, 2012. However, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

With regard to matters where practice concerning payment of taxes is unclear, management estimated possible tax exposure to be approximately $558 million and $550 million as of June 30, 2012 and December 31, 2011, respectively.

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. As of June 30, 2012, no provision was recorded in the condensed consolidated financial statements in respect of such additional 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 might be subject to transfer pricing rules. The Group's management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. As of June 30, 2012, no provision was recorded in the condensed consolidated financial statements in respect of such additional claims.

3G license – In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MTS a license to provide 3G services in the Russian Federation. The 3G license was granted subject to certain capital and other commitments. The major conditions are that the Group will have to build a certain number of base stations that support 3G standards, will have to start providing services in the Russian Federation by a certain date, and will have to build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting the license. Management believes that as of June 30, 2012 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 "Option Shares," representing the remaining 49.0% interest in Tarino shares and a proportional interest in Bitel shares. The call option was exercisable by MTS Finance from November 22, 2005 to November 17, 2006, and the put option was exercisable by Nomihold from November 18, 2006 to December 8, 2006. The call and put option price was $170.0 million.

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

In January 2007, the Prosecutor General of Kyrgyzstan informed the Group that there were no grounds for involvement by the Prosecutor General's office in the dispute and that no legal basis existed for the Group to appeal the decision of the Kyrgyz Supreme Court. Consequently, the Group decided to write off the costs relating to the purchase of the 51.0% 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 in order to compel MTS Finance to purchase the Option Shares. Nomihold sought specific performance of the put option, unspecified monetary damages, interest, and costs. In January 2011 the London Court of International Arbitration made an award in favor of Nomihold satisfying Nomihold's specific performance request and ordered MTS Finance to pay to Nomihold $170.0 million for the Option Shares, $5.9 million in damages and $34.9 million in interest and other costs – all representing in total approximately $210.8 million ("Award"). An amount of the Award is bearing an interest until Award is satisfied. In addition to the $170.0 million liability related to this case and accrued in the year ended December 31, 2006, the Group recorded an additional loss in amount of $40.8 million and $3.2 million in the consolidated financial statements for the year ended December 31, 2010 and 2011, respectively, representing interest accrued on the awarded sums.

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

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

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

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

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

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

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

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

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

Trebs and Titov license

On May 18, 2012 the Federal Subsoil Resources Management Agency has announced that the order to transfer the development license for a subsoil area including the Trebs and Titov oilfields to Bashneft-Polyus LLC had been cancelled and the order issued to transfer the license back to JSOC Bashneft. As a result of this transaction, the Group recorded the license at its original cost of $563 million and related deferred tax liability of $113 million. The transfer of license resulted in the net assets at Bashneft-Polyus becoming negative and recognition of obligation to LUKOIL for its initial investment in Bashneft-Polyus of $145 mln as of June 30, 2012. As a result of these transactions the Group recognized gain of $16 million.

Suspension of operating licenses in SSTL

On February 2, 2012, the Indian Supreme Court delivered its judgment on a public interest petition seeking cancellation of 122 cellular phone licences granted by the Government of India in 2008, including licenses granted to SSTL in 21 telecom circles (out of 22 existing 2G licenses). In its judgment the Court quashed all 122 licences issued on and after January 10, 2008, including those granted to SSTL.

The Court's directions should have come into force after four months from February 2, 2012. Further, the Court directed the Telecom Regulatory Authority of India to make fresh recommendations for the grant of licences and the allocation of spectrum in the 2G band by auction, as was done for the allocation of spectrum in the 3G band. In August 2012 the Supreme Court of India made extensions on auction time-limits till January 11, 2013 and permitted the operation of mobile services till January 18, 2013 under current licenses.

Management of the Group has the intent and the ability to continue its operations in India, and has performed an analysis of the recoverability of the carrying amounts of other long-lived assets as of June 30, 2012. This analysis supported the carrying value of the long-lived assets as of June 30, 2012 of $643.0 million and indicated that no impairment is required, based on the assumption of continuous use. Management also considered recent market transactions and current prices of the long-lived assets, and concluded that no impairment of other long-lived assets of SSTL has occurred.

Guarantees – As of June 30, 2012 MTS-Bank guaranteed loans for several companies, including related parties, which totaled $304.0 million. These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of June 30, 2012, no event of default has occurred under any of the guarantees issued by the Group.

16. SUBSEQUENT EVENTS

For the purpose of the accompanying consolidated financial statements, subsequent events have been evaluated through September 7, 2012.

In July 2012, MTS announced that it is resuming its operations in Turkmenistan, having received the licences it requires to operate in the country and satisfied legal and technical conditions. In August 2012, MTS Turkmenistan re-launched commercial services in the country.

In July 2012, MTS repurchased the series 05 rouble-denominated bond in the amount of approximately RUB 13.2 billion. The RUB 15 billion series 05 rouble-denominated bond with maturity on July 19, 2016 and a three-year put option was issued in July, 2009. The coupon was to be paid annually at the rate of 14.25%. MTS also changed the coupon rate to 8.75%.

In July 2012, the Federal Service for Supervision in the Sphere of Communications, Information Technologies and Mass Media allocated MTS the necessary licence and frequencies to provide LTE telecommunication services in Russia.

In July 2012, the EGM of Bashkirenergo's shareholders approved the decision on the company's reorganisation in the form of a spin-off resulting in the establishment of two companies: generating company OJSC Bashenergoactiv, and power grid company JSC Bashkirian Power Grid Company.

In July 2012, RTI and NVision Group Managing Company LLC signed legally binding documents that relate to a transaction, resulting in the strategic integration of RTI's and CJSC NVision Group's information and communication technologies assets. In accordance with the signed documents, following the completion of the transaction, RTI will own a 50%+0.5 share stake in CJSC NVision Group. NVision Group's shareholders will retain a 50%-0.5 share stake in the company. RTI will pay a total cash consideration of RUB 3 billion, and contribute certain assets, which are now part of SITRONICS Information Technologies and SITRONICS Telecommunication Solutions.

In July 2012, Detskiy Mir Group has acquired the British chain of children's early learning goods Early Learning Centre (ELC) franchise in Russia. The purchase price amounts to RUB 500 million. FAS allowed Detsky mir to acquire 100% of the voting shares of Sparthema Limited owning Kub Market LLC developing the Early Learning Centre (ELC) store chain in Russia.

In August 2012, MTS acquired a 100% stake in LLC Elf and a 100% stake in LLC Efcom operating under "Elf" brand from a private investor. The purchase price amounts to RUB 220 million. Elf offers fixed broadband and pay-TV services in Belgorod and the Belgorod region.

In August 2012, MTS acquired a 100% stake in LLC "Intercom", a leader in the cable TV and fixed broadband market in the Republic of Mari El, for RUB 90 million.