SISTEMA JSFC
AND SUBSIDIARIES

Unaudited Condensed Consolidated
Financial Statements
As of June 30, 2013 and December 31, 2012
and for the Six Months Ended
June 30, 2013 and 2012

SISTEMA JSFC AND SUBSIDIARIES

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' 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, 2013, and the related condensed consolidated statements of operations and comprehensive income and cash flows for the six months ended June 30, 2013 and 2012 (the "interim financial information").

Management's Responsibility for the Interim Financial Information

The Group's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with the applicable financial reporting framework.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to 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 information. Accordingly, we do not express such an opinion.

Conclusion

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

Report on Condensed Consolidated Statement of Financial Position as of December 31, 2012

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, 2012, and the related consolidated statements of operations and comprehensive income, cash flows and changes in shareholders' equity for the year then ended prior to retrospective adjustments to the provisional amounts recognized business combinations described in Note 3 and reclassifications for the discontinued operations described in Note 5; and we expressed an unmodified opinion on those consolidated financial statements in our report dated April 19, 2013 (not presented herein). We also audited the adjustments described in Notes 3 and 5 that were applied to retrospectively adjust the December 31, 2012 consolidated statement of financial position of the Group (not presented herein). In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated statement of financial position in deriving the accompanying retrospectively adjusted condensed consolidated statement of financial position as of December 31, 2012.

Deloitte & Touche

Moscow, Russia
August 28, 2013

SISTEMA JSFC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND DECEMBER 31, 2012
(Amounts in thousands of US dollars, except share and per share amounts)

	Notes	June 30, 2013	December 31, 2012
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		$ 2,056,725	$ 1,859,217
Short-term investments		1,540,742	1,214,869
Assets from banking activities, current portion (including cash and cash equivalents of $1,809,224 and $769,411)		4,794,047	4,342,984
Accounts receivable, net		2,459,774	2,261,159
VAT receivable		551,089	610,975
Inventories and spare parts		1,893,062	1,812,776
Deferred tax assets		357,408	348,773
Assets related to discontinued operations	5	82,598	476,681
Other current assets		1,900,033	1,673,010
Total current assets		15,635,478	14,600,444
NON-CURRENT ASSETS:			
Property, plant and equipment, net	6	19,118,680	20,843,125
Advance payments for non-current assets		210,447	230,773
Goodwill	7	1,602,044	1,753,233
Other intangible assets, net	8	2,404,267	2,149,983
Investments in affiliates		1,845,902	1,482,721
Assets from banking activities, net of current portion		2,297,127	2,255,709
Debt issuance costs, net		95,534	155,895
Deferred tax assets		342,028	314,210
Long-term investments		250,339	269,180
Other non-current assets		606,307	599,135
Total non-current assets		28,772,675	30,053,964
TOTAL ASSETS		$ 44,408,153	$ 44,654,408

See notes to the condensed consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2013 AND DECEMBER 31, 2012 (CONTINUED)

(Amounts in thousands of US dollars, except share and per share amounts)

	Notes	June 30, 2013	December 31, 2012
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 2,592,986	$ 2,470,565
Liabilities from banking activities, current portion		4,568,725	4,131,390
Taxes payable		749,310	763,301
Deferred tax liabilities		226,661	139,842
Subscriber prepayments, current portion		508,366	606,856
Accrued expenses and other current liabilities		3,214,452	2,633,032
Short-term loans payable	9	319,438	292,260
Current portion of long-term debt	10	2,686,969	2,862,264
Liabilities related to discontinued operations	5	59,678	444,487
Total current liabilities		14,926,585	14,343,997
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	10	11,931,733	12,447,374
Subscriber prepayments, net of current portion		100,357	112,805
Liabilities from banking activities, net of current portion		613,752	1,057,072
Deferred tax liabilities		1,981,173	2,005,990
Asset retirement obligation		226,543	228,627
Postretirement benefits obligation		80,649	89,038
Property, plant and equipment contributions		77,267	88,380
Other long-term liabilities		621,443	250,599
Total long-term liabilities		15,632,917	16,279,885
TOTAL LIABILITIES		30,559,502	30,623,882
Commitments and contingencies	14	-	-
Redeemable noncontrolling interests		747,661	731,661
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000,000 shares issued; 9,234,619,148 and 9,209,574,962 shares outstanding with par value of 0.09 Russian Rubles, respectively)		30,057	30,057
Treasury stock (415,380,852 and 440,425,038 shares with par value of 0.09 Russian Rubles, respectively)		(472,525)	(501,109)
Additional paid-in capital		2,783,461	2,882,819
Retained earnings		7,651,375	7,111,088
Accumulated other comprehensive loss		(1,018,185)	(325,571)
Total Sistema JSFC shareholders' equity		8,974,183	9,197,284
Non-redeemable noncontrolling interests		4,126,807	4,101,581
TOTAL EQUITY		13,100,990	13,298,865
TOTAL LIABILITIES AND EQUITY		$ 44,408,153	$ 44,654,408

See notes to the condensed consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012

(Amounts in thousands of US dollars, except share and per share amounts)

	Notes	Six months ended June 30, 2013	Six months ended June 30, 2012
Sales		$ 16,426,551	$ 15,426,582
Revenue from banking activities		391,682	311,837
TOTAL REVENUES		16,818,233	15,738,419
Cost of sales, exclusive of depreciation, depletion and amortization shown separately below		(6,323,239)	(5,966,040)
Cost related to banking activities, exclusive of depreciation and amortization shown separately below		(264,201)	(169,421)
Selling, general and administrative expenses		(2,121,022)	(1,891,831)
Depreciation, depletion and amortization		(1,618,463)	(1,539,590)
Transportation costs		(461,393)	(387,077)
Impairment of long-lived assets other than goodwill and provisions for other assets	6	(53,767)	(88,836)
Taxes other than income tax		(3,448,711)	(3,262,399)
Other operating expenses, net		(86,062)	(13,449)
Equity in results of affiliates		41,057	(38,234)
Gain on Bitel resolution		346,100	-
OPERATING INCOME		2,828,532	2,381,542
Interest income		122,975	149,057
Change in fair value of derivative instruments	11	(1,315)	(1,218)
Interest expense		(643,255)	(703,493)
Foreign currency transactions losses		(205,076)	(1,132)
Income from continuing operations before income tax		2,101,861	1,824,756
Income tax expense		(545,334)	(519,906)
Income from continuing operations		$ 1,556,527	$ 1,304,850
Loss from discontinued operations, net of tax effect of $nil and $41,030	5	(8,588)	(999,191)
NET INCOME		$ 1,547,939	$ 305,659
Noncontrolling interest		(670,262)	(86,959)
NET INCOME ATTRIBUTABLE TO SISTEMA JSFC		$ 877,677	$ 218,700
Including:			
Income from continuing operations		$ 882,057	$ 1,206,700
Loss from discontinued operations		(4,380)	(988,000)
OTHER COMPREHENSIVE LOSS, NET OF TAXES		(955,021)	(542,253)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)		$ 592,918	$ (236,594)
Weighted average number of common shares outstanding – basic and diluted		9,216,877,429	9,346,259,595
Earnings per share, basic and diluted, U.S. cent			
Earnings per share from continuing operations		9.57	12.91
Loss per share from discontinued operations		(0.05)	(10.57)
Total earnings per share attributable to Sistema JSFC shareholders		9.52	2.34

See notes to the condensed consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012
(Amounts in thousands of U.S. dollars)

	Six months ended June 30, 2013	Six months ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,547,939	$ 305,659
Loss from discontinued operations	8,588	999,191
Income from continuing operations	1,556,527	1,304,850
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation, depletion and amortization	1,618,463	1,539,590
Equity in results of affiliates	(41,057)	38,234
Deferred income tax expense/(benefit)	235,027	(40,762)
Foreign currency transactions losses	205,076	1,132
Gain on Bitel resolution, net of cash received of $125,000	(221,100)	-
Impairment of long-lived assets other than goodwill and provisions for other assets	53,767	88,836
Loss on disposal of property, plant and equipment	6,669	13,115
Amortization of connection fees	(15,438)	(14,565)
Allowance for loan losses	133,426	30,689
Dividends received from affiliates	29,884	24,972
Non-cash compensation to employees	11,014	-
Other non-cash items	64,314	31,829
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(182,261)	11,088
Accounts receivable	(472,218)	(399,576)
VAT receivable	37,402	141,827
Inventories and spare parts	(329,121)	54,314
Other current assets	(233,167)	(170,257)
Accounts payable	74,300	68,125
Subscriber prepayments	(49,935)	(74,498)
Taxes payable	46,699	88,551
Accrued expenses and other liabilities	54,717	(9,844)
Net cash provided by operating activities of continuing operations	2,582,988	2,727,650
Net cash (used in) / provided by operating activities of discontinued operations	(17,288)	205,870
Net cash provided by operating activities	$ 2,565,700	$ 2,933,520

SISTEMA JSFC AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (CONTINUED)

(Amounts in thousands of U.S. dollars)

	Six months ended June 30, 2013	Six months ended June 30, 2012
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	$ (1,283,727)	$ (1,618,046)
Payments for purchases of intangible assets	(202,447)	(158,542)
Proceeds from/(payments for) purchases of businesses, including/(net of) cash acquired	42,188	(60,541)
Purchase of investments in affiliated companies	(304,388)	-
Payments for purchases of long-term investments	(27,011)	(397,274)
Payments for purchases of short-term investments	(839,090)	(1,997,819)
Payments for purchases of other non-current assets	(7,568)	(162,396)
(Increase) /decrease in restricted cash	(15,049)	37,863
Cash disposed on loss of control of the subsidiary less consideration received	-	(49,238)
Proceeds from sale of subsidiaries, net of cash disposed	389,011	-
Proceeds from sale of property, plant and equipment	46,874	24,889
Proceeds from sale of long-term investments	-	192,223
Proceeds from sale of other non-current assets	1,863	18,919
Proceeds from sale of short-term investments	676,507	235,341
Net decrease/(increase) in loans to customers and banks	54,740	(629,628)
Net cash used in investing activities	(1,468,097)	(4,564,249)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings, net	25,205	54,664
Net increase in deposits from customers of the banking division	371,897	531,211
Proceeds from sale of treasury stock	-	73,083
Proceeds from long-term borrowings	2,326,315	1,748,403
Debt issuance costs	(4,690)	(10,860)
Principal payments on long-term borrowings	(2,482,583)	(2,154,881)
Acquisition of non-controlling interests in existing subsidiaries	(27,073)	(627,108)
Proceeds from capital transactions with shares of existing subsidiaries	8,623	73,987
Purchases of treasury shares	-	(33,352)
Net cash provided by / (used in) financing activities	217,694	(344,853)
Effect of foreign currency translation on cash and cash equivalents	(77,294)	(54,953)
Net increase/(decrease) in cash and cash equivalents	1,238,003	(2,030,535)
Cash and cash equivalents at the beginning of the period (including cash of discontinued operations)	2,629,544	4,320,423
Cash and cash equivalents at the end of the period (including cash of discontinued operations)	3,867,547	2,289,888
Cash and cash equivalents of discontinued operations at the end of the period	(1,598)	(271,379)
Cash and cash equivalents of continuing operations at end of the period *	$ 3,865,949	$ 2,018,509
CASH PAID DURING THE PERIOD FOR:		
Interest paid, net of amounts capitalized	$ (650,300)	$ (700,043)
Income taxes paid	(286,146)	(562,554)
** Cash and cash equivalents at the end of the period comprised the following:*		
Non-banking activities	*$ 2,056,725*	*$ 1,133,291*
Banking activities	*1,809,224*	*885,218*
	$ 3,865,949	*$ 2,018,509*

See notes to the condensed 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 main focus of the Group's activities is service-based industries. The Company and the majority of the Company's consolidated subsidiaries are incorporated in the Russian Federation ("RF").

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

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

			Beneficial ownership as of	
Significant entities	**Short name**	**Principal activity**	**June 30, 2013**	**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)
Bashkirian Power Grid Company	BESK	Energy transmission	79%(2)	79%(2)
RTI	RTI	Technology	85%	85%
MTS Bank (Note 4)	MTS Bank	Banking	88%(3)	99%
Sistema Shyam TeleServices Limited	SSTL	Telecommunications	57%	57%
Sistema Mass-media	SMM	Mass media	75%	75%
Detsky Mir-Center	Detsky Mir	Retail trading	75%	75%
Intourist	Intourist	Travel services	66%	66%
Medsi	Medsi	Healthcare services	75%	75%
Binnopharm	Binnopharm	Pharmaceuticals	74%	100%
SG-trans (Note 3)	SG-trans	Transportation	affiliate	100%
NIS	NIS	Technology	60%	70%

(1) Voting interests – 89%.
(2) Voting interests – 92%.
(3) Voting interests – 99%.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying condensed 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, 2012 and 2011.

Principles of consolidation – The condensed 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 condensed consolidated statements of financial position. The condensed 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.

Recent accounting pronouncements to be adopted in future periods

In March 2013, the FASB issued the authoritative guidance on parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or 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 is not expected to have a material impact on the Group's consolidated financial statements.

In July 2013, the FASB issued the authoritative guidance on presentation of unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists.The update provides that a liability related to an unrecognized tax benefit should be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In that case, the liability associated with the unrecognized tax benefit is presented in the financial statements as a reduction to the related deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. In situations in which a net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the tax law of the jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This amendment is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The adoption of this guidance is not expected to have a material impact on the Group's consolidated financial statements.

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

3. ACQUISITIONS

During the six months ended June 30, 2013 the Group had no acquisitions which are considered to be individually material.

SG-trans – During the six months ended June 30, 2013 the Group obtained new information about facts and circumstances that existed as of the acquisition date and recognized adjustments to the provisional amounts. The condensed consolidated statement of financial position was retroactively adjusted as if the purchase price allocation had been adjusted at the acquisition date. The adjustment to the valuation of individual assets and liabilities of the company resulted in the following adjustments:

	Amounts recognized as of acquisition date	Measurement period adjustments	Amounts recognized as of acquisition date (as adjusted)
Current assets	$ 103,993	$ -	$ 103,993
Property plant and equipment	884,583	(152,499)	732,084
Goodwill	-	64,355	64,355
Other non-current assets	3,496	21,346	24,842
Current liabilities	(49,048)	8,907	(40,141)
Non-current liabilities	(210,122)	57,891	(152,231)
Consideration paid	**$ 732,902**	**$ -**	**$ 732,902**

In April 2013, the Group completed a stage in a reorganisation of its transportation assets. As a result of the reorganization SG-trading was separated from SG-trans into a standalone entity, which is 100% owned by the Company and comprises non-transportation assets. The Company then sold 70% of SG-trans to Finance Alliance, a Group's affiliate, for a cash consideration of RUB 12 billion ($380.2 million at the sale date). As a result of the transaction the Group recognized a gain in the amount of $5.3 million in its condensed consolidated statement of operations and comprehensive income. Direct beneficial interest and total effective beneficial interest in SG-trans at June 30, 2013 equaled 30% and 65% respectively.

Medicinskii center – During the six months ended June 30, 2013 the Group obtained new information about facts and circumstances that existed as of the acquisition date and recognized adjustments to the provisional amounts. The condensed consolidated statement of financial position was retroactively adjusted as if the purchase price allocation had been adjusted at the acquisition date. The adjustment to the valuation of individual assets and liabilities of the company resulted in the following adjustments:

	Amounts recognized as of acquisition date	Measurement period adjustments	Amounts recognized as of acquisition date (as adjusted)
Non-current assets	$ 192,988	$ 26,984	$ 219,972
Goodwill	35,056	(29,511)	5,545
Non-current liabilities	(38,598)	(5,396)	(43,994)
Consideration paid	**$ 189,446**	**$ (7,923)**	**$ 181,523**

The purchase price allocations of SG-trans and Medicinskii center were not finalized as of the date of these condensed consolidated financial statements as the Group had not completed the valuation of individual assets and liabilities of SG-trans and Medicinskii center. The Group's condensed consolidated financial statements reflect the allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed.

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

NVision – During the six months ended June 30, 2013 the Group finalized the purchase price allocation of NVision. The condensed consolidated statement of financial position was retroactively adjusted as if the purchase price allocation had been finalized at the acquisition date. The completion of the valuation of individual assets and liabilities of the company resulted in the following adjustments:

	Amounts recognized as of acquisition date	Measurement period adjustments	Amounts recognized as of acquisition date (as adjusted)
Current assets	$ 719,361	$ -	$ 719,361
Property, plant and equipment	38,717	-	38,717
Goodwill	254,701	13,730	268,431
Customer base	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 interest	(230,683)	10,439	(220,244)
Consideration paid	**$** 179,582	**$** -	**$** 179,582

4. CAPITAL TRANSACTIONS OF SUBSIDIARIES

MTS Bank – In April 2013, MTS acquired a 25.0945% stake in MTS Bank through the purchase of MTS Bank's additional share issuance for RUB 5 billion ($123 million at the transaction date). Upon completion of the transaction the Group's effective ownership in MTS Bank decreased from 99% to 88%. The transaction was accounted for directly in equity and resulted in increase of noncontrolling interest and a decrease of additional paid-in capital by $105 million.

5. DISCONTINUED OPERATIONS

Uzdunrobita – On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita, MTS' wholly-owned subsidiary, bankrupt and initiated liquidation procedures. In accordance with the terms of local liquidation procedures, Uzdunrobita's CEO was relieved from 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.

Between July 1 and July 31, 2013 two rounds of auctions were set and held in relation to the sale of assets of the company and all of its branches. All auctions were recognized as having failed due to the absence of any applications by any interested bidders.

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

MTS has filed a claim against the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes (ICSID), part of the World Bank Group, in Washington, D.C. The claim was registered on November 15, 2012, and the case is currently pending.

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

The results of operations of Uzdunrobita are reported in discontinued operations in the condensed consolidated statement of operations and comprehensive income for all periods presented. The results of discontinued operations of Uzdunrobita for the six months ended June 30, 2013 and 2012 were as follows:

	Six months ended June 30, 2013	Six months ended June 30, 2012
Total revenues	$ 65	$ 248,499
Income/(loss) before income tax	36,253	(1,057,769)
Income tax (loss)/benefit	(36,253)	38,160
Loss from discontinued operations, net of taxes	-	(1,019,609)

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	346,495
Total assets	**316,460**	**371,353**
Current liabilities	316,460	371,353
Total liabilities	**$ 316,460**	**$ 371,353**

M2M Telematica LLC – In December 2012, the Group's Board of Directors approved the sale of the Group's 51% interest in M2M Telematica LLC (hereinafter, "M2M"), a subsidiary of NIS. The results of operations of M2M are reported in discontinued operations in the condensed consolidated statements of operations and comprehensive income for all periods presented, and the assets and related liabilities are included in the condensed consolidated statement of financial position as a disposal group held for sale as of June 30, 2013 and December 31, 2012.

6. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation and depletion, as of June 30, 2013 and December 31, 2012 consisted of the following:

	June 30, 2013	December 31, 2012
Switches, transmission devices, network and base station equipment	$ 12,931,607	$ 13,212,459
Refining, marketing, distribution and chemicals	4,888,447	5,141,055
Exploration and production assets	4,734,385	4,932,684
Other plant, machinery and equipment	2,351,007	2,867,607
Buildings and leasehold improvements	1,932,655	2,014,094
Power and utilities	704,493	738,973
Construction in-progress and equipment for installation	3,041,655	2,951,733
Land	164,019	168,383
	30,748,268	**32,026,988**
Less: accumulated depreciation and depletion	(11,629,588)	(11,183,863)
Total	**$ 19,118,680**	**$ 20,843,125**

Depreciation and depletion expenses for the six months ended June 30, 2013 and 2012 amounted to $1,362.7 million and $1,305.4 million, respectively.

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

7. GOODWILL

The changes in 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	40,302	-	-	-	-	40,302
Currency translation adjustment	(35,318)	-	(27,184)	(124)	(30)	(62,656)
Balance as of June 30, 2012						
Gross amount of goodwill	1,329,269	348,679	94,745	63,922	582	1,837,197
Accumulated impairment loss	(44,668)	(348,679)	-	(63,534)	(30)	(456,911)
	$ 1,284,601	**-**	**94,745**	**388**	**552**	**1,380,286**
Balance as of January 1, 2013						
Gross amount of goodwill	$ 1,441,836	339,059	278,449	67,919	81,209	2,208,472
Accumulated impairment loss	(48,261)	(339,059)	-	(67,919)	-	(455,239)
	1,393,575	**-**	**278,449**	**-**	**81,209**	**1,753,233**
Disposal of subsidiaries	-	-	-	-	(36,350)	(36,350)
Currency translation adjustment	(94,571)	-	(16,170)	-	(4,098)	(114,839)
Balance as of June 30, 2013						
Gross amount of goodwill	1,343,823	311,104	262,279	63,068	40,761	2,021,035
Accumulated impairment loss	(44,819)	(311,104)	-	(63,068)	-	(418,991)
	$ 1,299,004	**-**	**262,279**	**-**	**40,761**	**1,602,044**

8. OTHER INTANGIBLE ASSETS, NET

Intangible assets other than goodwill as of June 30, 2013 and December 31, 2012 consisted of the following:

	June 30, 2013			December 31, 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	$ 908,424	(499,116)	409,308	$ 1,023,373	(572,837)	450,536
Acquired customer base and customer relationship	591,645	(272,796)	318,849	639,337	(258,656)	380,681
Radio frequencies	283,705	(136,166)	147,539	314,845	(126,467)	188,378
Operating licenses	812,211	(115,992)	696,219	472,099	(183,031)	289,068
Software and other	946,525	(398,105)	548,420	825,353	(316,312)	509,041
	3,542,510	(1,422,175)	2,120,335	3,275,007	(1,457,303)	1,817,704
Unamortized intangible assets:						
Trademarks	279,457	-	279,457	323,116	-	323,116
Numbering capacity with indefinite contractual life	4,475	-	4,475	9,163	-	9,163
Total intangible assets	**$ 3,826,442**	**(1,422,175)**	**2,404,267**	**$ 3,607,286**	**(1,457,303)**	**2,149,983**

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

Amortization expense recorded on other intangible assets for the six months ended June 30, 2013 and 2012 amounted to $255.8 million and $234.2 million, respectively. The estimated amortization expense for each of the five following years and thereafter is as follows:

Six months ended December 31, 2013	$	353,651
Year ended December 31, 2014		550,124
Year ended December 31, 2015		416,522
Year ended December 31, 2016		286,064
Year ended December 31, 2017		150,891
Thereafter		363,083
	$	**2,120,335**

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.

9. SHORT-TERM LOANS PAYABLE

Short-term loans payable as of June 30, 2013 and December 31, 2012 consisted of the following:

	Interest rate (Actual at June 30, 2013)		**June 30, 2013**		**December 31, 2012**
USD-denominated:					
Deutsche Bank AG	LIBOR+0.3% (0.57%)	$	50,000	$	-
Other	Various		5,475		4,000
			55,475		4,000
RUB-denominated:					
Bank of Moscow	MosPrime+4.05%-4.50% (11.10%-11.55%), 8.9%		69,537		66,030
VTB	9.25%		62,042		-
Alpha Bank	10.20%		28,463		-
Zenit	9.25%-11.0%		26,488		-
Sberbank	9.25%-9.75%		21,401		22,030
Nomos bank	9.5-11.0%		15,441		19,755
Gazprombank	9.0%-9.5%		4,227		23,016
TransCreditBank	-		-		62,556
Bank Saint Petersburg	-		-		27,986
Other	Various		31,541		52,880
			259,140		274,253
Other currencies:					
Other	Various		4,728		13,218
Loans from related parties	Various		95		789
Total		**$**	**319,438**	**$**	**292,260**

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

10. LONG-TERM DEBT

Long-term debt as of June 30, 2013 and December 31, 2012 consisted of the following:

	June 30, 2013	December 31, 2012
Loans from banks and financial institutions	$ 7,363,689	$ 9,489,402
Notes and corporate bonds	6,756,335	5,461,217
Capital leases	389,462	218,502
Loans from related parties	80,875	95,610
Vendor financing	28,341	44,439
Other borrowings	-	468
	14,618,702	**15,309,638**
Less: amounts maturing within one year	(2,686,969)	(2,862,264)
Total	**$ 11,931,733**	**$ 12,447,374**

The schedule of repayments of long-term debt over the five-year period and thereafter beginning on June 30, 2013 is as follows:

Year ended June 30,	
2014	$ 2,686,969
2015	1,644,687
2016	1,844,810
2017	2,764,621
2018	2,488,803
Thereafter	3,188,812
Total	**$ 14,618,702**

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

Loans from banks and financial institutions – Loans from banks and financial institutions as of June 30, 2013 and December 31, 2012 consisted of the following:

	Maturity	Interest rate (Actual at June 30, 2013)	June 30, 2013	December 31, 2012
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2013-2020	LIBOR+1.15% (1.56%)	$ 860,811	$ 923,182
China Development Bank	2013-2018	LIBOR+1.5% (1.91%)	207,559	230,437
Deutsche Bank	2013-2014	LIBOR+1.55% (1.74%)	175,000	250,000
Bank of China	2013-2020	LIBOR+1.5%-3.5% (1.91%-3.91%)	162,167	177,116
Skandinavska Enskilda Banken AB	2013-2017	LIBOR+0.23%-1.8% (0.64%-2.21%)	148,247	167,000
Sberbank	2013-2017	8.97%	100,000	100,000
Bank of Moscow	2013	LIBOR+6.75% (7.02%)	82,552	82,552
HSBC Bank plc and ING BHF Bank AG	2013-2014	LIBOR+0.3% (0.71%)	21,892	31,762
Golden Gates (Bank of Moscow)	2013	9.75%	10,000	10,000
ABN AMRO Bank N.V.	2013	LIBOR+0.35% (0.76%)	3,144	6,287
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
Other	Various	Various	17,672	22,856
			1,789,044	2,068,136
EUR-denominated:				
Bank of China	2013-2016	EURIBOR+1.95% (2.29%)	82,508	95,630
Credit Agricole Corporate Bank and BNP Paribas	2013-2018	EURIBOR+1.65% (1.99%)	49,741	55,032
Landesbank Baden-Wuerttemberg	2013-2017	EURIBOR+0.75% (1.09%)	27,407	30,884
ABN AMRO Bank N.V.	2013	EURIBOR+0.35% (0.69%)	2,260	4,584
Other	Various	Various	14,267	14,436
			176,183	200,566
RUB-denominated:				
Sberbank	2013-2017	8.5%-10.95%	3,936,985	4,766,880
Gazprombank	2014-2018	8.9%-10.0%	921,991	1,490,630
Bank of Moscow	2013-2018	CBR+3.25% (11.5%); MosPrime+4.5%-7.25%; (11.55%-14.30%); 10.25%	188,277	334,701
Raiffeisenbank	2014-2016	MosPrime+3%-5.25% (10.05%-12.3%)	89,146	51,940
Unicredit	2013-2016	MosPrime+4.5%-6.5% (11.29%-13.29%)	71,433	83,945
VTB Bank	2014	9.75%	60,328	-
Credit bank of Moscow	2014	13.5%	26,659	20,248
TransCreditBank	2014	9.75%	-	64,969
ING Bank	-	-	-	29,632
Other	Various	Various	22,115	21,852
			5,316,934	6,864,797
Other currencies:				
Other	Various	Various	81,528	355,903
			81,528	355,903
Total			**$ 7,363,689**	**$ 9,489,402**

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

Equipment with a carrying value of $85.3 million has been pledged to collateralize certain of the Group's loan facilities.

Notes and corporate bonds – Notes and corporate bonds as of June 30, 2013 and December 31, 2012 consisted of the following:

	Currency	Interest rate (June 30, 2013)	Fair value as of June 30, 2013	Carrying value as of June 30, 2013	Carrying value as of December 31, 2012
MTS International due 2020	USD	8.625%	$ 840,000	$ 750,000	$ 747,473
MTS International due 2023	USD	5.00%	483,550	500,000	-
Sistema International Funding S.A Bonds due 2019	USD	6.95%	510,223	487,846	493,365
MTS OJSC due 2020 (series 08)	RUB	8.15%	459,873	458,589	489,375
MTS OJSC due 2014 (series 04)	RUB	7.60%	416,980	416,355	452,995
Sistema JSFC due 2016 (series 04)	RUB	7.65%	405,873	406,890	440,465
Sistema JSFC due 2016 (series 03)	RUB	8.75%	345,139	340,643	46,467
Bashneft due 2014 (series BO-01)	RUB	9.35%	309,395	305,726	329,243
Bashneft due 2023 (series 06)	RUB	8.65%	307,255	305,726	-
MTS OJSC due 2023 (series BO-01)	RUB	8.25%	302,822	305,726	-
Sistema JSFC due 2014 (series 02)	RUB	8.35%	310,466	304,378	343,456
Bashneft due 2023 (series 07)	RUB	8.85%	300,846	301,147	-
Bashneft due 2022 (series 04)	RUB	9.00%	305,035	297,595	296,731
MTS OJSC due 2017 (series 07)	RUB	8.70%	296,534	294,473	329,243
MTS OJSC due 2018 (series 03)	RUB	7.00%	236,461	236,461	322,146
MTS OJSC due 2015 (series 02)	RUB	7.75%	230,420	230,789	315,671
SSTL due 2019	INR	15.75%	214,407	214,407	233,673
Bashneft due 2023 (series 08)	RUB	8.65%	153,475	152,863	-
Bashneft due 2023 (series 09)	RUB	8.85%	149,796	149,796	-
Bashneft due 2016 (series 01)	RUB	8.35%	61,277	61,344	66,063
MTS OJSC due 2016 (series 05)	RUB	8.75%	55,207	54,660	58,865
Bashneft due 2016 (series 03)	RUB	8.35%	52,806	52,543	56,418
Bashneft due 2016 (series 02)	RUB	8.35%	47,863	47,625	51,289
DM-Center due 2015 (series 01)	RUB	8.50%	34,283	35,159	37,863
SITRONICS due 2013 (series BO-02)	RUB	12.00%	32,655	32,482	65,916
MTS OJSC due 2013 (series 01)	RUB	7.00%	13,116	13,112	81,122
Sistema JSFC due 2013 (series 01)	RUB	-	-	-	164,127
SITRONICS due 2013 (series BO-01)	RUB	-	-	-	33,375
Intourist due 2013 (series 02)	RUB	-	-	-	5,877
			6,875,757	**6,756,335**	**5,461,218**
Less: unamortized discount			-	-	(1)
Total			**$ 6,875,757**	**$ 6,756,335**	**$ 5,461,217**

All Group's RUB-denominated notes and corporate bonds are traded on the Moscow exchange. MTS International Notes due 2020 and 2023 and Sistema JSFC Bonds due 2019 (all 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 June 30, 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 due 2018 (series 03)	December 2013
Bashneft due 2014 (series BO-01)	December 2013
Bashneft due 2022 (series 04)	February 2015
MTS OJSC due 2020 (series 08)	November 2015
MTS OJSC due 2023 (series BO-01)	March 2018
Bashneft due 2023 (series 07)	February 2020
Bashneft due 2023 (series 09)	February 2020

Available credit facilities – As of June 30, 2013, the Group's total available unused credit facilities amounted to $1,637.9 million and related to the following credit lines:

	Maturity	Interest rate	Available till	Available amount
Sberbank	2013-2014	8.50%	October 2013-August 2014	$ 666,638
Rosbank	2014	MosPrime+1.25%; 8.50%	February 2014-July 2014	282,751
ING Bank Eurasia	2013	MosPrime/ LIBOR/ EURIBOR+1.50%	July 2013	221,606
Sberbank	Open-ended	determined at request	-	82,546
Gazprombank	Prolongation each year	determined at request	-	97,116
VTB	Prolongation each year	determined at request	-	125,467
Russian Agricultural Bank	Prolongation each year	determined at request	-	95,000
Other	Various	Various	Various	66,740
Total				**$ 1,637,864**

Covenants – Loans from banks and financial institutions and notes and corporate bonds 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. Management believes that the Group is in compliance with all restrictive financial covenants relating to loans from banks and financial institutions, notes and corporate bonds as of June 30, 2013.

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

11. 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 June 30, 2013 and December 31, 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**
June 30, 2013				
Assets at fair value:				
Trading securities	$ 768,011	$ -	$ -	$ 768,011
Available-for-sale securities	410,485	83,602	6,072	500,159
Interest rate swaps	-	2,066	-	2,066
Total assets	**$ 1,178,496**	**$ 85,668**	**$ 6,072**	**$ 1,270,236**
Liabilities at fair value:				
Interest rate swaps	$ -	$ (478)	$ (126)	$ (604)
Redeemable noncontrolling interests	-	-	(75,724)	(75,724)
Put options	-	-	(28,794)	(28,794)
Total liabilities	**$ -**	**$ (478)**	**$ (104,644)**	**$ (105,122)**
December 31, 2012				
Assets at fair value:				
Trading securities	$ 806,487	$ -	$ -	$ 806,487
Available-for-sale securities	424,434	96,879	1,151	522,464
Interest rate swaps	-	3,261	-	3,261
Currency option agreements	-	1,196	-	1,196
Total assets	**$ 1,230,921**	**$ 101,336**	**$ 1,151**	**$ 1,333,408**
Liabilities at fair value:				
Interest rate swaps	$ -	$ (13,257)	$ -	$ (13,257)
Redeemable noncontrolling interests	-	-	(75,661)	(75,661)
Put options	-	-	(27,454)	(27,454)
Total liabilities	**$ -**	**$ (13,257)**	**$ (103,115)**	**$ (116,372)**

12. SEGMENT INFORMATION

As a diversified holding company, the Company invests in a range of companies which meet its investment and return criteria. The Company's Chief Operating Decision Maker is the 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 therefore MTS, Bashneft, SSTL, MTS Bank, RTI and Corporate. The Other category includes the following operating segments: BESK, Sistema Mass Media, Detsky Mir, Intourist, Medsi, Binnopharm, SG-trans, NIS, 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. Inter-segment sales are charged at prevailing market prices.

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

Financial information by reportable segment is presented below:

For the six months ended June 30, 2013	**MTS**	**Bashneft**	**SSTL**	**MTS Bank**	**RTI**	**Corporate**	**Total reportable segments**	**Other**	**Total**
Net sales to external customers[a]	$ 6,125,868	8,394,627	116,868	391,682	750,035	22,037	15,801,117	1,017,116	16,818,233
Intersegment sales	9,638	3,483	-	17,908	235,189	19,040	285,258	73,659	358,917
Equity in net loss/(net income) of affiliates	22,495	4,602	-	-	(4,406)	-	22,691	9,640	32,331
Net interest expense [b]	-	-	-	(29,551)	-	-	(29,551)	-	(29,551)
Depreciation, depletion and amortization	1,152,150	289,045	33,600	9,676	49,421	7,907	1,541,799	76,664	1,618,463
Operating income/(loss)	1,898,972	1,144,162	(111,866)	(40,444)	(29,214)	(71,774)	2,789,836	58,144	2,847,980
Interest income	48,228	82,685	5,022	-	16,993	43,393	196,321	7,047	203,368
Interest expense	273,370	156,786	68,246	-	68,374	80,046	646,822	56,958	703,780
Income tax expense/(benefit)	323,787	239,367	-	(8,224)	(16,327)	2,114	540,717	4,617	545,334
Segment assets	16,012,426	14,756,183	917,573	7,520,115	3,569,388	3,203,095	45,978,780	3,986,727	49,965,507
Indebtedness[c]	7,531,759	3,223,608	692,743	-	1,441,156	1,746,834	14,636,100	302,040	14,938,140
Capital expenditures [d]	841,282	460,413	9,575	11,991	46,219	68,224	1,437,704	48,470	1,486,174

For the six months ended June 30, 2012	**MTS**	**Bashneft**	**SSTL**	**MTS Bank**	**RTI**	**Corporate**	**Total reportable segments**	**Other**	**Total**
Net sales to external customers[a]	$ 5,884,218	7,998,686	158,131	311,837	601,645	18,828	14,973,345	765,074	15,738,419
Intersegment sales	3,266	5,666	-	15,356	241,273	15,906	281,467	15,489	296,956
Equity in net loss/(net income) of affiliates	9,729	(42,225)	-	-	(2,751)	-	(35,247)	(5,076)	(40,323)
Net interest expense [b]	-	-	-	(3,656)	-	-	(3,656)	-	(3,656)
Depreciation, depletion and amortization	1,069,122	306,250	36,008	9,562	43,534	5,500	1,469,976	69,614	1,539,590
Operating income/(loss)	1,433,558	1,233,148	(191,851)	(4,243)	(15,552)	(66,694)	2,388,366	3,564	2,391,930
Interest income	58,655	90,710	4,224	-	4,254	64,451	222,294	60,936	283,230
Interest expense	309,299	176,185	88,073	-	35,000	78,449	687,006	54,257	741,263
Income tax expense/(benefit)	230,784	277,646	-	559	4,794	(3,478)	510,305	9,601	519,906
Segment assets	15,098,554	14,321,568	866,396	7,028,732	2,062,221	4,338,747	43,716,218	4,383,152	48,099,370
Indebtedness[c]	7,292,959	3,881,451	1,402,713	-	1,046,447	1,639,995	15,263,565	327,643	15,591,208
Capital expenditures [d]	1,124,127	440,122	29,790	14,980	58,847	11,651	1,679,517	97,071	1,776,588

(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 condensed 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 segment during the six months ended June 30, 2013 and 2012:

	Six months ended June 30,	
	2013	**2012**
Bashneft, including		
OJSC Bashneft	$ 83,277	$ 318,384
OJSC Sistema-Invest	18,782	58,564
MTS	465,887	465,675
RTI	10,305	-
Detsky Mir-Center	10,338	-

(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:

	Six months ended June 30, 2013	Six months ended June 30, 2012
Reportable segments operating income	$ 2,789,836	$ 2,388,366
Other	58,144	3,564
	2,847,980	2,391,930
Less: intersegment eliminations	(19,448)	(10,388)
Operating income	**$ 2,828,532**	**$ 2,381,542**
Interest income	122,975	149,057
Change in fair value of derivative financial instruments	(1,315)	(1,218)
Interest expense	(643,255)	(703,493)
Foreign currency transaction (losses)/gains	(205,076)	(1,132)
Income from continuing operations before income tax	**$ 2,101,861**	**$ 1,824,756**

	Six months ended June 30, 2013	Six months ended June 30, 2012
Reportable segments assets	$ 45,978,780	$ 43,716,218
Other	3,986,727	4,383,152
	49,965,507	48,099,370
Less: intersegment eliminations	(5,557,354)	(4,425,025)
Total assets	**$ 44,408,153**	**$ 43,674,345**

13. 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's affiliates, on normal commercial terms. During the six months ended June 30, 2013 and 2012, the Group entered into transactions with related parties as follows:

	Six months ended June 30, 2013	Six months ended June 30, 2012
Sales	$ 61,193	$ 85,883
Revenue from banking activities	12,182	8,124
Cost of sales, exclusive of depreciation, depletion and amortization	(25,385)	(149,041)
Selling, general and administrative expenses	(1,664)	(3,140)

As of June 30, 2013 and December 31, 2012, the related party balances were as follows:

	June 30, 2013	December 31, 2012
Assets:		
Short-term investments	$ 5,272	$ 77
Accounts receivable, net	25,710	18,588
Other current assets	67,187	46,870
Long-term investments	17,233	15,981
Other non-current assets	-	39,519
Liabilities:		
Accounts payable	(302,977)	(49,489)
Accrued expenses and other current liabilities	(46,637)	(48,160)
Liabilities from banking activities	(302,400)	(305,622)

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

14. COMMITMENTS AND CONTINGENCIES

Operating leases – The Group leases land, buildings and office space through contracts which expire in various years through 2063.

Rental expense under operating leases amounting to $372.2 million and $416.0 million for the six months period ended June 30, 2013 and 2012, respectively, and is included in selling, general and administrative expenses and operating expenses, and $121.7 million and $114.4 million for the six months ended June 30, 2013 and 2012 respectively, are included in cost of sales.

Future minimum rental payments under operating leases in effect as of June 30, 2013, are as follows:

Payments due		
during 6 months ended December 31, 2013	$	291,096
in the year 2014		254,171
in the year 2015		225,314
in the year 2016		222,405
in the year 2017		227,278
Thereafter		644,634
Total	**$**	**1,864,898**

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 December 31, 2012, the Group had acquired 40.6% of its total purchase installment contemplated by the agreement. The cash paid for handsets purchased under the agreement for the years ended December 31, 2012, 2011 and 2010 amounted to $81.8 million, $140.8 million and $79.4 million, respectively. The purchase agreement expired on September 30, 2012. The amount of claims arising in connection to this agreement cannot be reasonably estimated.

Capital commitments – As of June 30, 2013, the Group had executed purchase agreements of approximately $1,375.8 million to acquire property, plant and equipment and intangible assets.

Guarantees – As of June 30, 2013, MTS Bank and its subsidiaries guaranteed loans for several companies, including related parties, which totaled $251.3 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, 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 June 30, 2013, MTS Bank and its subsidiaries had $274.4 million of commitments on loans and unused credit lines available to its customers.

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

Generally, according to Russian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of June 30, 2013, tax declarations of the Company and other subsidiaries in Russia for the preceding three fiscal years were open for further review.

In December 2010, the Russian tax authorities completed the tax audit of the number of the Group's subsidiaries. Based on the results of this audit, the Russian tax authorities assessed $10.8 million in additional taxes, penalties and fines payable by the Group. The resolution did not come into force as the Group prepared and filed a petition with the Federal Tax Service to declare the tax authorities' resolution to be invalid. In September 2011, the Federal Tax Service partially satisfied the Group's petition, decreasing the amount of additional taxes, penalties and fines payable by the Group by $5.3 million. The Group filed an appeal for $2.6 million of the remaining $5.5 million with the Moscow Arbitrate Court, which has partially satisfied appeal of the Group on August 19, 2013.

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, 2013 and December 31, 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 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 June 30, 2013 and December 31, 2012, no provision was recorded in the condensed consolidated financial statements in respect of such additional claims.

Management believes that it has adequately provided for tax and customs liabilities in the accompanying condensed consolidated financial statements. As of June 30, 2013 and December 31, 2012, the provision accrued amounted to $32.3 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 $17.4 million and $14.4 million as of June 30, 2013 and December 31, 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.

Bitel – In December 2005, MTS Finance acquired a 51% 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% 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 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% 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% stake in Bitel in its consolidated financial statements for the year ended December 31, 2006.

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. As a result, in addition to the impairment of its investment in 51% stake in Tarino, the Group recorded a liability of $170.0 million in its consolidated financial statements for the year ended December 31, 2006.

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 the award ("Award") including $170.0 million for the Option Shares and $5.9 million in damages, 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 $7.2 million, $3.2 million and $40.8 million in the consolidated financial statements for the year ended December 31, 2012, 2011, and 2010 respectively, representing damages, other costs and interest accrued on the awarded sums. Total liability accrued amounted to $221 million as of June 22, 2013.

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 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 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 London Court of International 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 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 would have 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 the London Court of International Arbitration.

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 the 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 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 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 has been reached between Altimo, Altimo Holdings, MTS OJSC, MTS Finance, Nomihold and other associated parties to settle all disputes that have arisen from investment 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. Pursuant to the agreement all proceedings between the parties, and their associated parties, have been discontinued and waived, and MTS OJSC shall receive a total payment up to $150 million ("Settlement Payment"), including an amount of $125 million which has been received by MTS OJSC. All parties agreed to make the necessary submissions to the respective courts and tribunals to document the settlement, which, among other actions, would fully discharge any and all outstanding obligations under the Award rendered by the LCIA against MTS Finance in January 2011, as well as settle 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 its provision of $221 million (comprising of $170 million set by the 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 Group's consolidated statement of operations and comprehensive income for the six months ended June 30, 2013.

Also, the Group recognized a gain of $125 million with respect to the Settlement Payment in the condensed consolidated statement of operations and comprehensive income for the six months ended June 30, 2013.

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, 2013 the Group is in compliance with these conditions.

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 RUB 15 billion ($458.6 million using June 30, 2013 exchange rate) annually toward the LTE roll-out until the network is fully deployed.

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.

15. SUBSEQUENT EVENTS

For the purpose of the accompanying condensed consolidated financial statements, subsequent events have been evaluated through August 28, 2013.

In June 2013, Sistema signed two binding agreements with Bradinor Holdings Limited and Cromeld Management Limited for the sale of the Group's 49% stake in OJSC Oil and Gas Company RussNeft for a total cash consideration of $1.2 billion. The sale was completed in July 2013.

In July 2013, Sistema sold a 15% stake in SG-trans to Unirail Holdings Limited ("Unirail") for RUB 2.5 billion ($75.5 million at the sale date). As a result of this transaction, Unirail and Sistema now each own 15% stakes in SG-trans.

In July 2013, Detsky Mir-Centre, a subsidiary of the Group, signed an agreement with Sberbank to buy back a 25% + 1 share stake in Detsky Mir for RUB 4.5 billion ($138.9 million at the agreement date). As a result of this transaction, the Group's effective ownership in Detsky Mir increased to 100%.

On August 26, 2013 the Extraordinary Meeting of Shareholders of JSOC "Bashneft", an 75% owned subsidiary of the Group, approved a sale of 98% stake in OJSC "United Petrochemical Company" to Sistema JSFC.