OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Consolidated Financial Statements

As of December 31, 2013 and 2012 and for
the Years Ended December 31, 2013, 2012 and 2011

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Mobile TeleSystems OJSC:

We have audited the accompanying consolidated statements of financial position of Mobile TeleSystems OJSC and subsidiaries (the "Group") as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mobile TeleSystems OJSC and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2013 based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 17, 2014 expressed an unqualified opinion on the Group's internal control over financial reporting.

Deloitte & Touche

ZAO Deloitte & Touche CIS

Moscow, Russia
March 17, 2014, except for Note 28,
as to which the date is April 24, 2014

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012
(Amounts in millions of Russian Rubles, except share amounts and per share amounts)

	Note	December 31, 2013	December 31, 2012
CURRENT ASSETS:			
Cash and cash equivalents	5	30,612	22,014
Short-term investments (including available-for-sale securities at fair value of 4,154 and nil, respectively), including related party amounts of 9,235 and 101, respectively	6	14,633	4,034
Trade receivables, net of allowance for doubtful accounts of 3,753 and 3,461, respectively	7	34,554	33,372
Accounts receivable, related parties	22	965	336
Inventory and spare parts	8	8,498	8,586
Prepaid expenses, including related party amounts of 123 and 60, respectively		9,811	9,905
Deferred tax assets	21	7,933	6,998
VAT receivable		6,651	5,415
Other current assets		3,019	1,702
Total current assets		**116,676**	**92,362**
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of 293,389 and 242,886, including advances to related parties of 367 and 1,024, respectively	9	270,660	271,781
LICENSES, net of accumulated amortization of 3,194 and 4,060, respectively	3, 10	3,202	3,293
GOODWILL	3, 11	32,704	32,428
OTHER INTANGIBLE ASSETS, net of accumulated amortization of 58,153 and 47,994, including advances to related parties of 232 and 279, respectively	3, 12	38,423	37,727
DEBT ISSUANCE COSTS, net of accumulated amortization of 2,375 and 3,184, respectively		2,023	3,574
INVESTMENTS IN AND ADVANCES TO ASSOCIATES	13	13,393	5,532
OTHER INVESTMENTS, including related party amounts of 743 and 3,024, respectively	14	4,392	5,814
OTHER NON-CURRENT ASSETS, including restricted cash of nil and 115, deferred tax assets of 862 and 2,186, respectively	21	4,051	2,467
Total assets		**485,524**	**454,978**

The accompanying notes are an integral part of these consolidated financial statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2013 AND 2012
(Amounts in millions of Russian Rubles, except share amounts and per share amounts)

	Note	December 31, 2013	December 31, 2012
CURRENT LIABILITIES:			
Accounts payable, related parties	22	3,315	2,338
Trade payables		23,864	22,588
Subscriber prepayments and deposits		17,884	16,548
Debt, current portion	15	7,564	17,422
Notes payable, current portion	15	17,462	10,039
Deferred connection fees, current portion	17	1,604	1,463
Income tax payable		997	728
Accrued liabilities	20	27,674	25,438
Provision for claims in Uzbekistan	4	-	8,031
Bitel liability	27	-	6,718
Other payables (including capital lease obligations of 38 and 163, respectively)		1,498	2,092
Total current liabilities		**101,862**	**113,405**
LONG-TERM LIABILITIES:			
Notes payable, net of current portion	15	85,282	70,737
Debt, net of current portion	15	108,792	133,695
Deferred connection fees, net of current portion	17	2,045	2,354
Deferred taxes	21	21,202	10,670
Retirement and post-retirement obligations		1,059	1,212
Property, plant and equipment contributions		2,428	2,684
Other long-term liabilities (including capital lease obligations of 10 and 49, respectively)		3,869	3,932
Total long-term liabilities		**224,677**	**225,284**
Total liabilities		**326,539**	**338,689**
Commitments and contingencies	27		
Redeemable noncontrolling interest	24	2,932	2,298
SHAREHOLDERS' EQUITY:			
Common stock (2,066,413,562 shares issued as of December 31, 2013 and 2012, 777,396,505 of which are in the form of ADS as of December 31, 2013 and 2012)	23	207	207
Treasury stock (77,582,378 and 77,494,385 common shares at cost as of December 31, 2013 and 2012)		(24,482)	(24,462)
Additional paid-in capital		3,019	283
Accumulated other comprehensive loss		(15,030)	(13,676)
Retained earnings		188,217	148,371
Total equity attributable to the Group		**151,931**	**110,723**
Nonredeemable noncontrolling interest		4,122	3,268
Total equity		**156,053**	**113,991**
Total liabilities and equity		**485,524**	**454,978**

The accompanying notes are an integral part of these consolidated financial statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in millions of Russian Rubles, except share amounts and per share amounts)

	Note	Years ended December 31, 2013	2012	2011
NET OPERATING REVENUES				
Services revenue and connection fees (including related party amounts of 1,113 and 492 and 396, respectively)		371,950	349,338	322,546
Sales of handsets and accessories		26,493	28,902	26,025
Total net operating revenues		**398,443**	**378,240**	**348,571**
OPERATING EXPENSES				
Cost of services, excluding depreciation and amortization shown separately below (including related party amounts of 1,186 and 692 and 466, respectively)		83,777	83,051	74,753
Cost of handsets and accessories		22,636	25,042	26,286
General and administrative expenses (including related party amounts of 2,047 and 2,097 and 1,843, respectively)	25	85,458	77,977	69,181
Allowance for doubtful accounts		3,106	2,606	3,189
Sales and marketing expenses (including related party amounts of 1,853 and 1,941 and 2,444, respectively)		22,861	21,667	24,800
Depreciation and amortization expense		73,253	67,910	63,932
Other operating expense / (income) (including related party amounts of 370 and (116) and 16, respectively)		5,594	6,193	6,135
Net operating income		**101,758**	**93,794**	**80,295**
CURRENCY EXCHANGE AND TRANSACTION LOSS / (GAIN)		**5,473**	**(3,952)**	**4,403**
OTHER (INCOME) / EXPENSES				
Interest income (including related party amounts of 742 and 172 and 445, respectively)		(2,793)	(2,588)	(1,850)
Interest expense, net of capitalized interest (including related party amounts of nil and 367 and 12, respectively)		15,498	17,673	19,333
Equity in net income of associates	13	(2,472)	(869)	(1,430)
Other (income) / expenses, net (including gain of (11,087) related to Bitel settlement in 2013)	27	**(10,636)**	**688**	**180**
Total other (income) / expenses, net		**(403)**	**14,904**	**16,233**
Income from continuing operations before provision for income taxes		**96,688**	**82,842**	**59,659**
PROVISION FOR INCOME TAXES	21	19,633	19,384	15,526
NET INCOME FROM CONTINUING OPERATIONS		**77,055**	**63,458**	**44,133**
NET INCOME / (LOSS) FROM DISCONTINUED OPERATIONS	4	**3,733**	**(32,846)**	**1,806**
NET INCOME		**80,788**	**30,612**	**45,939**
LESS: NET INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST		**(949)**	**(970)**	**(3,624)**
NET INCOME ATTRIBUTABLE TO THE GROUP		**79,839**	**29,642**	**42,315**

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in millions of Russian Rubles, except share amounts and per share amounts)

	Note	Years ended December 31, 2013	2012	2011
OTHER COMPREHENSIVE (LOSS) / INCOME, NET OF TAX				
Currency translation adjustment		**(2,877)**	**(2,211)**	**2,165**
Unrealized gain on derivatives, net of tax of (361) and (64) and (54)	18	**1,445**	**255**	**216**
Unrecognized actuarial gain / (loss), net of tax of (46) and 38 and (47)		**185**	**(152)**	**188**
Other comprehensive (loss) / income, net of tax		**(1,247)**	**(2,108)**	**2,569**
TOTAL COMPREHENSIVE INCOME		**79,541**	**28,504**	**48,508**
LESS: TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST		**(1,056)**	**(772)**	**(3,749)**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE GROUP		**78,485**	**27,732**	**44,759**
Weighted average number of common shares outstanding, in thousands – basic and diluted		1,988,849	1,988,919	1,970,953
Earnings per share attributable to the Group – basic and diluted, RUB				
EPS from continuing operations		38.27	31.42	20.55
EPS from discontinued operations		1.88	(16.51)	0.92
Total EPS		40.14	14.90	21.47

The accompanying notes are an integral part of these consolidated financial statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock		Additional paid-in capital	Accumulated other comprehensive (loss)	Retained earnings	Total equity attributable to the Group	Non-redeemable noncontrolling interest	Total equity	Redeemable noncontrolling interest
	Shares	Amount	Shares	Amount							
Balances at January 1, 2011	**1,993,326,138**	**199**	**(76,456,876)**	**(26,084)**	**-**	**(14,210)**	**135,330**	**95,235**	**31,451**	**126,686**	**2,650**
Net income	-	-	-	-	-	-	42,315	**42,315**	3,425	**45,740**	199
Other comprehensive income / (loss), net of tax	-	-	-	-	-	2,444	-	**2,444**	30	**2,474**	95
Dividends declared by MTS	-	-	-	-	-	-	(28,919)	**(28,919)**	-	**(28,919)**	-
Dividends to noncontrolling interest	-	-	-	-	-	-	-	**-**	(5,701)	**(5,701)**	(154)
Change in fair value of noncontrolling interest of K-Telecom	-	-	-	-	-	-	195	**195**	-	**195**	(195)
Acquisition of own stock	-	-	(8,000)	(2)	-	-	-	**(2)**	-	**(2)**	-
Exercise of put option in Comstar-UTS	-	-	-	-	-	-	360	**360**	-	**360**	-
Comstar-UTS merger	73,087,424	8	(1,031,849)	1,624	9,912	-	-	**11,544**	(11,232)	**312**	-
Acquisition of noncontrolling interest in Comstar-UTS	-	-	-	-	-	-	(1,262)	**(1,262)**	(3,391)	**(4,653)**	-
Acquisition of noncontrolling interest in MGTS (Note 3)	-	-	-	-	(9,780)	-	-	**(9,780)**	(11,188)	**(20,968)**	-
Increase in ownership in subsidiaries (Note 3)	-	-	-	-	(22)	-	-	**(22)**	(542)	**(564)**	-
Balances at December 31, 2011	**2,066,413,562**	**207**	**(77,496,725)**	**(24,462)**	**110**	**(11,766)**	**148,019**	**112,108**	**2,852**	**114,960**	**2,595**
Net income	-	-	-	-	-	-	29,642	**29,642**	694	**30,336**	276
Other comprehensive (loss) / income, net of tax	-	-	-	-	-	(1,910)	-	**(1,910)**	41	**(1,869)**	(239)
Dividends declared by MTS	-	-	-	-	-	-	(29,257)	**(29,257)**	-	**(29,257)**	-
Dividends to noncontrolling interest	-	-	-	-	-	-	-	**-**	-	**-**	(367)
Change in fair value of noncontrolling interest of K-Telecom	-	-	-	-	-	-	(33)	**(33)**	-	**(33)**	33
Sale of own stock	-	-	2,340	0	-	-	-	**0**	-	**0**	-
Repurchase of own shares by MGTS (Note 23)	-	-	-	-	57	-	-	**57**	(319)	**(262)**	-
Disposal of Stream (Note 3)	-	-	-	-	116	-	-	**116**	-	**116**	-
Balances at December 31, 2012	**2,066,413,562**	**207**	**(77,494,385)**	**(24,462)**	**283**	**(13,676)**	**148,371**	**110,723**	**3,268**	**113,991**	**2,298**

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in millions of Russian Rubles, except share amounts)

	Common stock		Treasury stock		Additional paid-in capital	Accumulated other comprehensive (loss)	Retained earnings	Total equity attributable to the Group	Non-redeemable noncontrolling interest	Total equity	Redeemable noncontrolling interest
	Shares	Amount	Shares	Amount							
Balances at December 31, 2012	**2,066,413,562**	**207**	**(77,494,385)**	**(24,462)**	**283**	**(13,676)**	**148,371**	**110,723**	**3,268**	**113,991**	**2,298**
Net income	-	-	-	-	-	-	79,839	**79,839**	693	**80,532**	256
Other comprehensive (loss) / income, net of tax	-	-	-	-	-	(1,354)	-	**(1,354)**	10	**(1,344)**	97
Issuance of Stock Options (Note 2)	-	-	-	-	94	-	-	**94**	-	**94**	-
Dividends declared MTS	-	-	-	-	-	-	(39,419)	**(39,419)**	-	**(39,419)**	-
Dividends to noncontrolling interest	-	-	-	-	-	-	-	**-**	-	**-**	(293)
Acquisition of own stock	-	-	(90,881)	(20)	-	-	-	**(20)**	-	**(20)**	-
Change in fair value of noncontrolling interest of K-Telecom	-	-	-	-	-	-	(574)	**(574)**	-	**(574)**	574
Sale of own stock	-	-	2,888	0	1	-	-	**1**	-	**1**	-
Disposal of Business-Nedvizhimost (Note 3)	-	-	-	-	2,641	-	-	**2,641**	151	**2,792**	-
Balances at December 31, 2013	**2,066,413,562**	**207**	**(77,582,378)**	**(24,482)**	**3,019**	**(15,030)**	**188,217**	**151,931**	**4,122**	**156,053**	**2,932**

The accompanying notes are an integral part of the consolidated financial statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in millions of Russian Rubles)

	Years ended December 31,		
	2013	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	80,788	30,612	45,939
Net (income) / loss from discontinued operations	(3,733)	32,846	(1,806)
Net income from continuing operations	77,055	63,458	44,133
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	73,253	67,910	63,932
Currency exchange and transaction loss / (gain)	5,473	(3,952)	4,403
Debt issuance cost amortization	784	952	839
Amortization of deferred connection fees	(1,921)	(2,287)	(2,838)
Equity in net income of associates	(2,472)	(869)	(1,430)
Allowance for doubtful accounts	3,106	2,606	3,189
Inventory obsolescence expense	660	759	827
Deferred tax expense	9,671	3,290	496
Other non-cash items	(192)	461	137
Changes in operating assets and liabilities:			
Increase in trade receivables	(3,474)	(8,489)	(6,145)
Increase in inventory and spare parts	(592)	(61)	(349)
Increase in prepaid expenses and other current assets	(2,966)	(727)	(507)
(Increase) / decrease in VAT receivable	(1,190)	673	(1,118)
Increase in trade payables, accrued liabilities and other current liabilities	8,136	9,365	132
(Decrease) / increase in liability for Bitel	(7,238)	241	68
Dividends received	1,831	1,526	1,250
Net cash provided by operating activities – continuing operations	**159,924**	**134,856**	**107,019**
Net cash (used in) / provided by operating activities – discontinued operations	**(547)**	**(2,733)**	**6,543**
NET CASH PROVIDED BY OPERATING ACTIVITES	**159,377**	**132,123**	**113,562**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of subsidiaries, net of cash acquired	-	(1,937)	(6,569)
Purchases of property, plant and equipment	(67,146)	(79,836)	(64,015)
Purchases of intangible assets	(14,429)	(7,947)	(8,787)
Proceeds from sale of property, plant and equipment and assets held for sale	418	395	663
Purchases of short-term investments	(37,623)	(33,474)	(14,844)
Proceeds from sale of short-term investments	27,785	31,548	22,278
Purchase of other investments	(703)	(2,100)	(1,614)
Proceeds from sales of other investments	-	2,029	140
Investments in and advances to / from associates, net	(5,088)	-	90
Net cash used in investing activities – continuing operations	**(96,786)**	**(91,322)**	**(72,658)**
Net cash provided by / (used in) investing activities – discontinued operations	**115**	**(2,045)**	**(4,552)**
NET CASH USED IN INVESTING ACTIVITIES	**(96,671)**	**(93,367)**	**(77,210)**

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in millions of Russian Rubles)

	Years ended December 31,		
	2013	**2012**	**2011**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash payments for the acquisitions of subsidiaries from entities under common control and noncontrolling interests	-	(261)	(26,517)
Contingent consideration paid on acquisition of subsidiaries	-	(20)	(390)
Proceeds from issuance of notes	25,651	-	6,380
Repayment of notes	(6,195)	(25,561)	(1,381)
Notes and debt issuance cost	(193)	-	(2,171)
Reimbursement of debt issuance cost	959	-	-
Capital lease obligation principal paid	(202)	(213)	(275)
Dividends paid	(39,706)	(29,626)	(34,783)
Proceeds on sale of Business-Nedvizhimost to Sistema, net of cash disposed	3,068	-	-
Cash deconsolidated on the loss of control over Stream	-	(227)	-
Proceeds from loans	353	17,955	61,795
Loan principal paid	(38,996)	(37,394)	(8,659)
Other financing activities	116	1	371
Net cash used in financing activities – continuing operations	**(55,145)**	**(75,346)**	**(5,630)**
NET CASH USED IN FINANCING ACTIVITIES	**(55,145)**	**(75,346)**	**(5,630)**
Effect of exchange rate changes on cash and cash equivalents	1,037	(985)	594
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**8,598**	**(37,575)**	**31,316**
CASH AND CASH EQUIVALENTS, beginning of the year	**22,014**	**59,589**	**28,273**
CASH AND CASH EQUIVALENTS, end of the year	**30,612**	**22,014**	**59,589**
Less: cash and cash equivalents from discontinued operations, end of the year	**-**	**(411)**	**(4,880)**
CASH AND CASH EQUIVALENTS from continuing operations, end of the year	**30,612**	**21,603**	**54,709**
SUPPLEMENTAL INFORMATION:			
Income taxes paid	11,590	17,050	15,045
Interest paid	15,979	19,104	18,606
Non-cash investing and financing activities:			
Contributed property, plant and equipment	19	32	197
Amounts owed for capital expenditures	3,908	3,502	7,375
Payables related to business acquisitions	11	277	221

The accompanying notes are an integral part of the consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Business of the Group – Open Joint-Stock Company Mobile TeleSystems ("MTS OJSC", or "the Company") was incorporated on March 1, 2000, through the merger of MTS CJSC and Rosico TC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow license area in 1994 and then began expanding through Russia and the CIS. MTS OJSC's majority shareholder is Joint-Stock Financial Corporation Sistema or "Sistema".

In these notes, "MTS" or the "Group" refers to Mobile TeleSystems OJSC and its subsidiaries.

The Group provides a wide range of telecommunications services including voice and data transmission, internet access, pay TV, various value added services through wireless and fixed lines, as well as selling equipment and accessories. The Group's principal operations are located in Russia, Ukraine, Turkmenistan and Armenia. During 2004-2012 the Group also operated in Uzbekistan.

MTS completed its initial public offering in 2000 and listed its shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol "MBT". Since 2003 common shares of MTS OJSC have been traded on the Open Joint-Stock Company "Moscow Exchange MICEX-RTS" ("Moscow Exchange").

Since 2009, the Group has been developing its own retail network, operated by Russian Telephone Company CJSC ("RTC"), a wholly owned subsidiary of MTS OJSC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Accounting principles – The Group's entities maintain accounting books and records in local currencies of their domicile in accordance with the requirements of respective accounting and tax legislation. The accompanying consolidated financial statements have been prepared in order to present MTS' financial position and its results of operations and cash flows in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and are expressed in terms of Russian Rubles.

The accompanying consolidated financial statements differ from the financial statements used for statutory purposes in that they reflect certain adjustments, not recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, acquisition accounting, depreciation and valuation of property, plant and equipment, intangible assets and investments.

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

(Amounts in millions of Russian Rubles, unless otherwise stated)

As of December 31, 2013 and 2012, the Company had investments in the following significant legal entities:

	Accounting method	December 31, 2013	December 31, 2012
MTS Turkmenistan	Consolidated	100.0%	100.0%
MTS Bermuda [(2)]	Consolidated	100.0%	100.0%
MTS Finance	Consolidated	100.0%	100.0%
MTS Ukraine	Consolidated	100.0%	100.0%
RTC	Consolidated	100.0%	100.0%
Sibintertelecom	Consolidated	100.0%	100.0%
TVT	Consolidated	100.0%	100.0%
SibGroupInvest	Consolidated	100.0%	100.0%
Sistema Telecom	Consolidated	100.0%	100.0%
Elf Group	Consolidated	100.0%	100.0%
Intercom	Consolidated	100.0%	100.0%
Zheleznogorsk City Telephone Communications (“ZhelGorTeleCom”)	Consolidated	100.0%	100.0%
Pilot	Consolidated	100.0%	100.0%
TVKiK	Consolidated	100.0%	100.0%
Metro-Telecom	Consolidated	95.0%	95.0%
MGTS	Consolidated	94.6%	94.6%
K-Telecom	Consolidated	80.0%	80.0%
Comstar-Regions [(1)]	Consolidated	-	100.0%
Infocentr[(1)]	Consolidated	-	100.0%
Altair[(1)]	Consolidated	-	100.0%
Uzdunrobita[(3)]	Deconsolidated	-	100.0%
MTS International Funding Limited (“MTS International”)	Consolidated	VIE	VIE
Intellect Telecom	Equity	47.3%	47.3%
Stream	Equity	45.0%	45.0%
MTS Belarus	Equity	49.0%	49.0%
MTS Bank	Equity	26.3%	1.7%

(1) Merged with MTS OJSC on April 1, 2013.
(2) A wholly-owned subsidiary established to repurchase the Group’s ADSs.
(3) Deconsolidated on April 22, 2013.

The Group consolidates MTS International, a private company organized and existing as a private limited company under the laws of Ireland, which qualified as a variable interest entity under Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 810, Consolidation. The Group is the primary beneficiary of MTS International. MTS International was established for the purpose of raising capital through the issuance of debt securities on the Irish Stock Exchange followed by transferring the proceeds through a loan facility to the Group. In 2010 and 2013, MTS International issued $750 million 8.625% notes due in 2020 and $500 million 5.0% notes due in 2023, respectively (Note 15). The notes are guaranteed by MTS OJSC in the event of default. While the Group does not hold any equity in MTS International, it has concluded that it is the primary beneficiary by virtue of the fact that it has the power to direct the activities of MTS International that most significantly impact its performance and by virtue of the guarantee that exists which means the Group has the obligation to absorb losses of MTS International that could potentially be significant to MTS International.

(Amounts in millions of Russian Rubles, unless otherwise stated)

The table below summarizes the assets and liabilities of MTS International as of December 31, 2013 and 2012:

	December 31,	
	2013	**2012**
Cash and cash equivalents	1	1
Intercompany Receivable from MTS OJSC [1]	41,035	22,829
Total assets	**41,036**	**22,830**
Interest payable [2]	123	50
Notes payable due 2020 and 2023 [3]	40,912	22,779
Other payables	1	1
Total liabilities	**41,036**	**22,830**

(1) Eliminated in the Group consolidated statements of financial position.
(2) Relates to MTS International Notes due 2020 and 2023, included in accrued liabilities in the Group consolidated statements of financial position.
(3) Included in notes payable, net of current portion, in the Group consolidated statements of financial position (Note 15).

The MTS International Notes due 2020 and 2023 and related interest payable are fully covered by intercompany receivables from MTS OJSC. MTS International does not perform any other activities except those required for notes servicing. The Group bears all costs incurred by MTS International in connection with the notes' maintenance activities. Such costs for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 2,535 million, RUB 2,011 million and RUB 1,950 million, respectively, and were included in interest expense reported by the Group in the consolidated statements of operations and comprehensive income.

Functional currency translation methodology – As of December 31, 2013, the functional currencies of Group entities were as follows:

- For entities incorporated in the Russian Federation, MTS Bermuda, MTS Finance and MTS International – the Russian Ruble ("RUB");
- For MTS Ukraine – the Ukrainian Hryvna;
- For MTS Turkmenistan – the Turkmenian Manat;
- For K-Telecom – the Armenian Dram;
- For MTS Belarus – the Russian Ruble.

In 2013, the Group changed its reporting currency from the U.S. Dollar ("USD") to the Russian Ruble. The Group believes that reporting in Russian Rubles allows for greater transparency with respect to reporting the Group's financial and operating performance as such reporting more closely reflects the profile of the Group's revenues and operating income, a major portion of which are generated in Russian Rubles. In accordance with authoritative guidance, comparative information was restated in Russian Rubles. Remeasurement of the financial statements into functional currencies, where applicable, and translation of financial statements into Russian Rubles has been performed as follows:

For entities whose records are not maintained in their functional currencies, monetary assets and liabilities have been remeasured at the period-end exchange rates. Non-monetary assets and liabilities have been remeasured at historical rates. Revenues, expenses and cash flows have been remeasured at average rates. Remeasurement differences resulting from the use of these rates have been accounted for as currency exchange and translation gains and losses in the accompanying consolidated statements of operations and comprehensive income.

For entities whose records are maintained in their functional currency, which is other than the reporting currency, all year-end assets and liabilities have been translated into U.S. Dollars at the period-end exchange rate set by local central banks. Subsequently U.S. Dollars balances have been translated into Russian Rubles at the period-end exchange rate set by the Central Bank of Russia. Revenues and expenses have been translated at the average exchange rate for the period using cross-currency exchange rate via U.S. Dollar as described above. Translation differences resulting from the use of these rates are reported as a component of other comprehensive income.

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

Significant estimates include the allowance for doubtful accounts and inventory obsolescence, valuation allowance for deferred tax assets for which it is more likely than not the assets will not be realized, the valuation of assets acquired and liabilities assumed in business combinations and income tax benefits, the recoverability of investments and the valuation of goodwill, intangible assets, other long-lived assets, redeemable noncontrolling interest, certain accrued liabilities and financial instruments.

Cash and cash equivalents – Cash and cash equivalents represent cash on hand and in bank accounts and short-term investments, including term deposits, having original maturities of less than three months. The cost of these investments approximates fair value.

Short-term investments and loans – Short-term investments mainly represent investments in a mutual investment fund and time deposits which have original maturities in excess of three months and are repayable in less than twelve months. The investment in the mutual investment fund was classified as an available-for-sale financial asset in the consolidated statements of financial position with unrealized gains of RUB 154 million recorded in other comprehensive income. Deposits are recorded at cost, which approximates fair value (Note 6).

Other investments and loans – Long-term financial instruments consist primarily of investments and loans. Since quoted market prices are not readily available for all of the long-term financial instruments held by the Group, estimates of fair value are computed incorporating various unobservable market inputs. The Group reviews these investments for indicators of impairment on a regular basis. The investments in companies over which the Group has no significant influence are carried at cost. The Group does not evaluate cost-method investments for impairment unless there is an indicator of impairment.

Property, plant and equipment – Property, plant and equipment, including improvements, are stated at cost. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life. Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

Other intangible assets – Other intangible assets primarily consist of billing, telecommunication, accounting and office software as well as numbering capacity and customer base. These assets are assets with finite useful lives. They are recognized at cost and amortized on a straight-line basis over their estimated useful lives.

Accounts receivable – Accounts receivable are stated net of allowance for doubtful accounts.

Allowance for doubtful accounts – The Group provides an allowance for doubtful accounts based on management’s periodic review with respect to the recoverability of trade receivables, advances given, loans and other receivables. Such allowance reflects specific cases, collection trends or estimates based on evidence of collectability. For changes in the allowance for doubtful accounts receivable see Note 7.

Inventory and spare parts – Inventory is stated at the lower of cost or market value. Inventory cost is determined using the weighted average cost method. Handsets and accessories held for sale are expensed when sold. The Group regularly assesses its inventories for obsolete and slow-moving stock.

Value-added tax ("VAT") – Value-added tax related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed from the state, subject to certain restrictions, against VAT related to sales.

Income taxes – Income taxes of the Group's Russia-incorporated entities have been computed in accordance with Russian legislation. The corporate income tax rate in Russia is 20%. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their respective jurisdictions. Deferred tax assets and liabilities are recognized for differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making such determination, the Group considers all available information, including future reversals of existing taxable temporary differences, projected taxable income, tax strategies and recent financial results.

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

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

Asset retirement obligations – The Group calculates asset retirement obligations and an associated asset retirement cost when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group recorded the present value of asset retirement obligations as other long-term liabilities in the consolidated statements of financial position.

License costs – License costs are being amortized during the initial license period without consideration of possible future renewals, subject to periodic review for impairment, on a straight-line basis over the period of validity, which varies from three to fifteen years.

Goodwill – For acquisitions before January 1, 2009 goodwill represents the excess of the consideration paid over the fair market value of the net identifiable assets acquired in business combinations and is not amortized. For acquisitions after January 1, 2009 goodwill is determined as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. The Group determines whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with the authoritative guidance on intangible assets, and comparing the carrying amount of the reporting unit to its fair value. If an impairment of goodwill has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. During the year ended December 31, 2012 the Group recognized goodwill impairment in amount of RUB 3,523 million related to Uzdunrobita litigation (Note 4) which is included in net income / (loss) from discontinued operations.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Impairment of long-lived assets – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to their carrying amount. When the undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the assets down to fair value, measured by estimating the discounted net future cash flows expected to be generated from the use of the assets. None of the Group's long-lived assets were impaired in 2013. An impairment loss in the amount of RUB 16,514 million for the year ended December 31, 2012 was recognized by the Group subsidiaries in Uzbekistan as a result of the events described in Note 4 and included in net income / (loss) from discontinued operations.

Subscriber prepayments – The Group requires the majority of its customers to pay in advance for telecommunications services. All amounts received in advance of services provided are recorded as a subscriber prepayment liability and are not recognized as revenues until the related services have been provided to the subscriber.

Treasury stock – Shares of common stock repurchased by the Group are recorded at cost as treasury stock and reduce the shareholders' equity in the Group's consolidated financial statements.

Revenue recognition – Revenue includes all revenues from the ordinary business activities of the Group. Revenues are recorded net of value-added tax and recognized in the accounting period in which they are earned in accordance with the realization principle.

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

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

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

Mobile subscribers	7 months-5 years
Residential wireline voice phone subscribers	15 years
Residential subscribers of broadband internet service	1 year
Other fixed line subscribers	3-5 years

The Group calculates an average life of mobile subscribers for each region in which it operates and amortizes connection fees based on the average life specific to that region.

Regulated services – Regulated services provided by the Group primarily consist of local telephone services and services rendered to other operators, such as traffic charges, connection fees and line rental services. Changes in the rate structure for such services are subject to the Federal Tariff Service approval.

Revenue from regulated tariff services represented approximately 5.7%, 6.5% and 6.5% of the consolidated revenue for the years ended December 31, 2013, 2012 and 2011, respectively. This does not include revenue attributable to discontinued operations (Note 4).

Customer incentives – Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (free minutes and discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both trade receivables and service revenue.

The Group regularly provides special incentives to its retail customers. Generally the Group sells mobile devices of worldwide known brands with an offer of free telecommunication services for a time period from one to twelve months. Such arrangements with a customer provide for two deliverables – a mobile device delivered immediately and mobile services to be consumed in the future. Both deliverables in the arrangement qualify as separate units of accounting. The consideration received from a customer is allocated between the deliverables based on their standalone value on the market, which is deemed to be a vendor-specific objective evidence of selling price. Revenue on the devices sales is recognized at the moment of their sale, and the revenue on provision of free telecommunication services is deferred and recognized in line with their consumption by a subscriber. Revenue generated from multiple-element arrangements in the amount of RUB 3,276 million was recognized in the consolidated statements of operations and comprehensive income for the year ended December 31, 2013. The amounts recognized for the years ended December 31, 2012 and 2011 were not significant. The Group’s multiple-element arrangements stipulate no performance-, cancellation-, termination- and refund-type provisions.

Prepaid cards – The Group sells prepaid cards to subscribers separately from the handset. Prepaid cards, used as a method of cash collection, are accounted for as customer advances. These cards allow subscribers to make a predetermined allotment of wireless phone calls and / or take advantage of other services offered by the Group, such as short messages and value-added services. Revenue from the sale of prepaid cards is deferred until the service is rendered to the customer, whereby the customer uses the airtime or the card expires.

Roaming discounts – The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group accounts for discounts received from and granted to roaming partners in accordance with the authoritative guidance on customer payments and incentives. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Group accounts for discounts received as a reduction of roaming expenses and rebates granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statements of financial position.

Sales and marketing expenses – Sales and marketing expenses consist primarily of dealers’ commissions and advertising costs. Dealers’ commissions are linked to revenues received during the six-month period from the date a new subscriber is activated by a dealer. The Group expenses these costs as incurred. Advertising costs for the years ended December 31, 2013, 2012 and 2011, were RUB 8,463 million, RUB 7,908 million and RUB 8,817 million, respectively.

Retirement benefit and social security costs – The Group contributes to the local state pension and social funds on behalf of all its employees.

In Russia all social contributions paid during the year ended December 31, 2013 are represented by payments to governmental social funds, including the Pension Fund of the Russian Federation, the Social Security Fund of the Russian Federation and the Medical Insurance Fund of the Russian Federation. The contributions are expensed as incurred. The amount of social contributions recognized by the Group in Russia amounted to RUB 7,535 million, RUB 6,512 million and RUB 5,877 million in 2013, 2012 and 2011, respectively.

MGTS, a subsidiary of the Group, has historically offered its employees certain benefits upon and after retirement. The cost of such benefits includes interest costs, current service costs, amortization of prior service costs and net actuarial loss / gain. The expense is recognized during an employee's years of active service with MGTS. The recognition of expense for retirement pension plans is impacted by estimates made by management such as discount rates used to value certain liabilities, expected return on assets, future rates of compensation increase and other related assumptions. The Group accounts for pension plans in accordance with the requirements of the Financial Accounting Standards Board ("FASB") authoritative guidance on retirement benefits.

In Ukraine, Turkmenistan and Armenia the subsidiaries of the Group are required to contribute a specified percentage of each employee's payroll up to a fixed limit to the local pension, unemployment and social security funds. Payments to the pension fund in Ukraine amounted to RUB 2,803 million, RUB 2,493 million and RUB 2,250 million for the years ended December 31, 2013, 2012 and 2011, respectively. Amounts contributed to the pension funds in Turkmenistan and Armenia were not significant.

Redeemable noncontrolling interest – From time to time, to optimize the structure of business acquisitions and to defer payment of the purchase price, the Group enters into put and call option agreements to acquire the remaining noncontrolling stakes in newly acquired subsidiaries. As these put and call option agreements are not freestanding, the underlying shares of such put and call options are classified as redeemable securities and are accounted for at redemption value which is the fair value of redeemable noncontrolling interests as of the reporting date. The fair value of redeemable noncontrolling interests is measured using discounted future cash flows techniques, subject to applicable caps. The noncontrolling interest is measured at fair value using a discounted cash flow technique utilizing significant unobservable inputs ("Level 3" significant unobservable inputs of the hierarchy established by the U.S. GAAP guidance). Changes in the redemption value of redeemable noncontrolling interests are accounted for in the Group's retained earnings. Redeemable noncontrolling interests are presented as temporary equity in the consolidated statements of financial position.

Financial instruments and hedging activities – The Group uses derivative instruments, including interest rate and foreign currency swaps, to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them as either other current or other non-current assets or liabilities in the consolidated statements of financial position. Cash flows from derivatives are classified according to their nature. The Group reviews its fair value hierarchy classifications on a quarterly basis. Changes in significant observable valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities. During the years ended December 31, 2013, 2012 and 2011, no reclassifications occurred. The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments ("Level 2" of the hierarchy established by the U.S. GAAP guidance).

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. Gains and losses associated with the related hedged items are recognized in the consolidated statements of operations and comprehensive income, depending on their nature.

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

For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are included in the consolidated statements of operations and comprehensive income (Note 18).

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

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

Fair value of financial instruments – The fair market value of financial instruments, consisting of cash and cash equivalents, short-term investments, receivables and payables, which are included in current assets and liabilities, approximates the carrying value of these items due to the short-term nature of these amounts. The fair value of issued notes as of December 31, 2013 is disclosed in Note 15 and is based on quoted prices in active markets ("Level 1" of the hierarchy established by the U.S. GAAP guidance).

Based on current market interest rates available to the Group for long-term borrowings with similar terms and maturities, the Group believes that the fair value of other fixed rate debt including capital lease obligations and the fair value of variable rate debt approximated its carrying value as of December 31, 2013.

Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities;
- Level 3 – No observable pricing inputs in the market.

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Group's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Stock-based compensation – The Group accounts for stock-based compensation under the authoritative guidance on share-based compensation. Under the provisions of this guidance, companies must calculate and record the cost of equity instruments, such as stock options awarded to employees for services received, in the statements of operations and comprehensive income. The cost of the equity instruments is to be measured based on the fair value of the instruments on the date they are granted (with certain exceptions) and recognized over the period during which the employees are required to provide services in exchange for equity instruments. Compensation cost related to phantom stock options granted to the Group's employees recognized in the consolidated statements of operations and comprehensive income for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 483.0 million, RUB 1,445.8 million and RUB 470.2 million, respectively.

Concentration of credit risk – Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, trade accounts receivable, financing receivables and derivatives. The Group maintains cash and cash equivalents, investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographical regions, and the Group's policy is designed to limit exposure to any one institution. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of the financial institutions.

Concentrations of credit risk with respect to trade receivables are limited due to a highly diversified customer base, which includes a large number of individuals, private businesses and state-financed institutions.

(Amounts in millions of Russian Rubles, unless otherwise stated)

New and recently adopted accounting pronouncements –

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

In March 2013, the FASB issued the authoritative guidance on a 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 releases 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.

3. BUSINESS ACQUISITIONS AND DISPOSALS

Disposal in 2013

Disposal of Business-Nedvizhimost – In December 2013, the Group sold a 51% stake in Business-Nedvizhimost CJSC to Sistema, a majority shareholder of the Group, for a price of RUB 3.2 billion. Business-Nedvizhimost owns and manages 76 real estate sites and 44 real estate facilities throughout Moscow with a total area of roughly 178,000 sq. m. After the loss of control over the subsidiary, the Group deconsolidated Business-Nedvizhimost and applied for its remaining 49% interest using the equity method of accounting. The disposal was accounted for as a transaction under common control directly in equity.

Acquisitions and disposals in 2012

Acquisitions of controlling interests in regional fixed line operators – In 2012, as part of its program of regional expansion, the Group acquired controlling interests in a number of fixed line operators in certain regions of Russia. The purchase price for these acquisitions was paid in cash. The acquisitions were accounted for using the acquisition method of accounting.

The following table summarizes the purchase price allocation for regional fixed line operators acquired during the year ended December 31, 2012:

	Elf Group	**Intercom**	**ZhelGorTele-Com**	**Pilot & TVKiK**	**Total**
Month of acquisition	August	August	October	October	
Region of operations	Central region	Volga region	Central region	Central region	
Ownership interest acquired	100%	100%	100%	100%	
Current assets	6	9	4	3	**22**
Property, plant and equipment	49	11	3	21	**84**
Goodwill	172	62	115	55	**404**
Customer base	45	29	54	22	**150**
Current liabilities	(44)	(15)	(13)	(6)	**(78)**
Non-current liabilities	(9)	(6)	(11)	(4)	**(30)**
Fair value of contingent consideration	(28)	(10)	(5)	-	**(43)**
Consideration paid	**191**	**80**	**147**	**91**	**509**

(Amounts in millions of Russian Rubles, unless otherwise stated)

The Group's consolidated financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed.

Customer base intangibles recognized as a result of the acquisitions are being amortized over a period ranging from 7 to 9 years depending on the type of subscribers.

The recognition of goodwill in the amount of RUB 404 million from the acquisitions is due to the economic potential of the markets in which the acquired companies operate and synergies arising from the acquisitions. Goodwill is attributable to the "Russia" segment.

Tascom – In May 2012, the Group acquired a 100% stake in Tascom CJSC ("Tascom"), a market leader in providing telecommunication services to corporate clients in Moscow and the Moscow region, for RUB 1,437 million. The seller has indemnified the Group against all losses which arise in connection with liability for taxation matters relating to the pre-acquisition period. As of the acquisition date the Group recorded a provision for tax liabilities and a related indemnification asset in the amount of RUB 236 million relating to this warranty. As of December 31, 2013 the amount of indemnification asset and related provision for tax liabilities was reduced to RUB 139 million.

The Group also should pay to the seller any amounts received for the services rendered by Tascom prior to the acquisition date, capped at RUB 400 million – this contingent consideration arrangement was recorded at fair value of RUB 170 million which was determined based on unobservable inputs ("Level 3" of the hierarchy established by the U.S. GAAP guidance). The fair value was measured as the best estimate of all possible outcomes. During 2012-2013, the contingent consideration in the amount of RUB 170 million was completely paid to the seller.

The acquisition was accounted for using the acquisition method of accounting. The summary of the purchase price allocation for the acquisition was as follows:

Current assets	489
Property, plant and equipment	586
Goodwill	1,098
Customer base	168
Other non-current assets	188
Current liabilities	(815)
Non-current liabilities	(107)
Fair value of contingent consideration	(170)
Consideration paid	**1,437**

The excess of the consideration paid over the value of net assets acquired in the amount of RUB 1,098 million was allocated to goodwill which was attributable to the "Russia" segment and is not deductible for income tax purposes. Goodwill is mainly attributable to the expected synergies from increase of market share and reduction of capital expenditures to be made by the Group to construct optical fiber network.

Disposal of Stream – In May 2012, MTS and Sistema signed a shareholders agreement with respect to the management of Stream LLC ("Stream"), which owns and manages Stream.ru. In addition Sistema contributed RUB 496.1 million into Stream's charter capital giving it an ownership of 55% of Stream, thereby reducing MTS's direct ownership in Stream from 100% to 45%. After a loss of control over the subsidiary, the Group deconsolidated Stream and accounted for its interest using the equity method. The disposal was accounted for as transaction under common control directly in equity.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Acquisitions in 2011

Increase of stake in MGTS – In December 2011, the Group acquired 29% of the ordinary shares of MGTS from Sistema through acquisition of Sistema-Invenchur for RUB 10.56 billion. In addition the Group assumed debt in the amount of RUB 10.41 billion due and payable by the end of 2011. MGTS is Moscow's incumbent fixed line operator that initially joined the Group as a result of Comstar acquisition. Upon completion of the transaction the Group's ownership stake in MGTS increased to 99.01% of ordinary shares and 69.7% of preferred shares, which overall totals 94.1% of MGTS charter capital. The transaction was accounted for directly in equity.

Acquisitions of controlling interests in regional fixed line operators – In 2011, as part of its program of regional expansion, the Group acquired controlling interests in a number of fixed line operators in certain regions of Russia. The purchase price for these acquisitions was paid in cash. The acquisitions were accounted for using the acquisition method of accounting.

The following table summarizes the purchase price allocation for regional fixed line operators acquired during the year ended December 31, 2011:

	Inteleca Group	**Infocentr**	**Altair**	**TVT**	**Total**
Month of acquisition	April	April	August	October	
Region of operations	Sibir region	Ural region	Central region	Volga region	
Ownership interest acquired	100%	100%	100%	100%	
Current assets	25	80	94	237	**436**
Property, plant and equipment	307	72	109	2,156	**2,644**
Goodwill	303	411	372	3,509	**4,595**
Customer base	63	135	381	230	**809**
Other non-current assets	1	-	47	59	**107**
Current liabilities	(128)	(239)	(162)	(799)	**(1,328)**
Non-current liabilities	(25)	(28)	(92)	(299)	**(444)**
Consideration paid	**546**	**431**	**749**	**5,093**	**6,819**

The Group's consolidated financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed.

Customer base recognized as a result of the acquisitions is amortized over a period ranging from 8 to 14 years depending on the type of subscribers.

The recognition of goodwill in the amount of RUB 4,595 million is due to the economic potential of the markets in which the acquired companies operate and synergies arising from the acquisitions. Goodwill is attributable to the "Russia" segment.

4. OPERATIONS IN UZBEKISTAN

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

On August 6 and 7, 2012, fourteen regional antimonopoly departments of the Republic of Uzbekistan simultaneously held hearings and declared that Uzdunrobita had violated antimonopoly laws, consumer protection laws and laws governing advertisements. In total, the claims of the regional antimonopoly departments against Uzdunrobita amounted to approximately RUB 2,558 million. This amount was subsequently reduced by the superior antimonopoly regulator to RUB 416 million in the aggregate. The disputes with the antimonopoly authorities were dismissed after payments were made by Uzdunrobita pursuant to the Appeal Decision (as defined below).

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

Notwithstanding the fact that a tax audit of Uzdunrobita's operations for the period of 2007-2010 was completed in February 2012 and did not reveal any serious violations, further tax audits were conducted and purported to find alleged violations of licensing regulations as well as income and other tax legislation resulting in the imposition of additional taxes and fines totaling approximately RUB 28,776 million. This amount was subsequently reduced to RUB 21,390 million in the aggregate. Whether these taxes and sanctions can be claimed by the Uzbek tax authorities from Uzdunrobita under bankruptcy procedures (discussed below) is uncertain in light of the decisions made by the High Economic Court and the Regional Economic Courts of Appeals between April 4, 2013 and April 11, 2013. With limited exceptions, those decisions dismissed the obligation of the regional tax authorities to enforce the financial sanctions. The decisions, however, do not cover any obligation of the local tax authorities to collect the additional taxes.

During September-October of 2012, RUB 201 million were seized from Uzdunrobita's bank accounts by the Uzbek State and applied to settle a portion of the State's alleged claims.

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

On November 8, 2012, the Appellate Instance of the Tashkent City Criminal Court allowed Uzdunrobita's appeal challenging the verdict of the Tashkent City Criminal Court dated September 17, 2012. The appeals court found that all damages (taxes, sanctions, unpaid licenses duties and damages to customers) suffered by the State must be compensated by Uzdunrobita. The amount of damages was calculated and determined on the basis of all of the aforementioned claims against Uzdunrobita existing as of November 8, 2012, which amounted to RUB 18,375 million to be paid in eight equal monthly instalments (the "Appeal Decision").

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

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

In order to comply with the Appeal Decision, Uzdunrobita paid two scheduled installments in November and December 2012 totaling RUB 4,584 million. On January 14, 2013, subsequent to the payment of a portion (RUB 242 million) of the third installment due in January 2013 with all cash remaining in Uzdunrobita's bank accounts, Uzdunrobita filed a petition for voluntary bankruptcy with the Tashkent Economic Court due to its inability to meet its further obligations arising out of the Appeal Decision. On January 18, 2013, the Court initiated bankruptcy proceedings and appointed an external temporary supervisor over Uzdunrobita, and scheduled a further bankruptcy hearing which took place on April 22, 2013.

(Amounts in millions of Russian Rubles, unless otherwise stated)

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

	Impairment loss
Property, plant and equipment	8,438
Licenses	2,709
Rights to use radio frequencies	2,523
Numbering capacity	1,190
Software and other intangible assets	1,654
Goodwill	3,523
Total impairment loss related to goodwill and long-lived assets	**20,037**

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

Separate to the impairments recognized, a liability of RUB 12,706 million relating to the claims was recorded with an associated charge to the consolidated statements of operations and comprehensive income for the year ended December 31, 2012 as the minimum of a range of probable losses according to management's estimations, as required by U.S. GAAP if no estimate within a range is more likely than any other.

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

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

The Group believes that the claims of the Uzbek state authorities against Uzdunrobita that resulted in the initiation of its bankruptcy are unfounded. The Group reserves its right to pursue all available legal options in Uzbekistan and internationally to defend itself, protect its investments and fully recover damages or obtain other relief including from any party involved in depriving MTS 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"), which is part of the World Bank Group, in Washington, D.C. The claim was registered on November 15, 2012. The tribunal was formed on August 29, 2013 and first procedural hearings took place in November 2013.

(Amounts in millions of Russian Rubles, unless otherwise stated)

The results of operations of Uzdunrobita are reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income and consolidated statements of cash flows for all periods presented. Consolidated statement of financial position was not retrospectively adjusted on discontinued operations and includes Uzbekistan as of December 31, 2012. The gain on disposal recognized in the amount of RUB 3,682 million related to the recycling from accumulated other comprehensive income of the cumulative translation adjustment attributable to Uzdunrobita. The results of discontinued operations of Uzdunrobita for the year ended December 31, 2013, 2012 and 2011 were as follows:

	Years ended December 31,		
	2013	**2012**	**2011**
Total revenues	-	8,357	12,919
Income / (loss) before income tax	1,109	(34,171)	1,841
Income tax (expense) / benefit	(1,058)	1,325	(35)
Gain on disposal, net of tax	3,682	-	-
Income / (loss) from discontinued operations, net of tax	**3,733**	**(32,846)**	**1,806**

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

	April 22, 2013	**December 31, 2012**
Current assets	341	755
Non-current assets	9,615	10,524
Total assets	**9,956**	**11,279**
Current liabilities	9,956	11,279
Total liabilities	**9,956**	**11,279**

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2013 and 2012 comprised the following:

	December 31,	
	2013	**2012**
Ruble current accounts	5,900	7,401
Ruble deposit accounts	14,215	3,550
U.S. Dollar current accounts	1,336	1,261
U.S. Dollar deposit accounts	7,503	1,519
Euro current accounts	395	5,061
Euro deposit accounts	136	-
Hryvna current accounts	87	266
Hryvna deposit accounts	276	2,343
Uzbek som current accounts	-	363
Turkmenian manat current accounts	697	175
Armenian dram current accounts	67	75
Total cash and cash equivalents	**30,612**	**22,014**

(Amounts in millions of Russian Rubles, unless otherwise stated)

6. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2013 comprised the following:

Type of investment	Annual interest rate	Maturity date	Amount
Deposits	4.2-14.0%	February 2014-July 2014	5,377
Deposits at MTS Bank (related party) (Note 22)	8.7%	June 2014	5,081
Mutual investment fund "Reservnyi", managed by "DIK" (related parties) (Note 22)	-	Upon request	4,154
Other			21
Total short-term investments			**14,633**

Short-term investments as of December 31, 2012 comprised the following:

Type of investment	Annual interest rate	Maturity date	Amount
Deposits	4.1-9.0%	January-June 2013	4,034
Total short-term investments			**4,034**

The Group considers credit risk for short-term investments to be low.

7. TRADE RECEIVABLES, NET

Trade receivables as of December 31, 2013 and 2012 comprised the following:

	December 31,	
	2013	2012
Roaming	15,875	15,601
Subscribers	12,548	11,313
Interconnect	2,847	3,390
Dealers	2,127	2,457
Other	4,910	4,072
Allowance for doubtful accounts	(3,753)	(3,461)
Trade receivables, net	**34,554**	**33,372**

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Balance, beginning of the year	**3,461**	**3,122**	**3,671**
Allowance for doubtful accounts charge	3,366	2,257	2,941
Accounts receivable written off	(3,074)	(1,918)	(3,490)
Balance, end of the year	**3,753**	**3,461**	**3,122**

(Amounts in millions of Russian Rubles, unless otherwise stated)

8. INVENTORY AND SPARE PARTS

Inventory and spare parts as of December 31, 2013 and 2012 comprised the following:

	December 31,	
	2013	**2012**
Handsets and accessories	7,436	7,230
SIM cards and prepaid phone cards	395	166
Spare parts for telecommunication equipment	305	715
Advertising and other materials	362	475
Total inventory and spare parts	**8,498**	**8,586**

Other materials mainly consist of stationary, fuel and auxiliary materials.

Obsolescence expense for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 660 million, RUB 759 million and RUB 827 million, respectively, and was included in general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income. Spare parts for base stations included in inventory are expected to be utilized within the twelve months following the statements of financial position date.

9. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2013 and 2012 was as follows:

	Useful lives,	December 31,	
	years	**2013**	**2012**
Network, base station equipment and related leasehold improvements	5-17	445,857	391,737
Office equipment, computers and other	3-15	42,121	39,743
Buildings and related leasehold improvements (including leased assets of 28 and 26, respectively)	20-59	25,496	25,114
Vehicles (including leased assets of 942 and 991, respectively)	3-7	3,139	2,865
Property, plant and equipment, at cost (including leased assets of 970 and 1,017, respectively)		516,613	459,459
Accumulated depreciation (including leased assets of 793 and 557, respectively)		(293,389)	(242,886)
Construction in progress and equipment for installation		47,436	55,208
Property, plant and equipment, net		**270,660**	**271,781**

Depreciation expense during the years ended December 31, 2013, 2012 and 2011 amounted to RUB 58,599 million, RUB 54,766 million and RUB 50,873 million, respectively.

Depreciation of the assets recorded as capital leases amounted to RUB 276.1 million, RUB 287.8 million and RUB 280.4 million, respectively. Interest expense accrued on capital lease obligations for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 181.5 million, RUB 135.2 million and RUB 53.7 million.

(Amounts in millions of Russian Rubles, unless otherwise stated)

10. LICENSES

In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group has been granted access to various telecommunication licenses through acquisitions. In foreign subsidiaries, the licenses are granted by the local communication authorities.

As of December 31, 2013 and 2012, the recorded values of the Group's telecommunication licenses were as follows:

	December 31, 2013	December 31, 2012
Armenia	5,982	5,580
Russia	291	274
Ukraine	123	1,499
Licenses, at cost	6,396	7,353
Accumulated amortization	(3,194)	(4,060)
Licenses, net	**3,202**	**3,293**

Amortization expense for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 544 million, RUB 662 million and 1,142 million, respectively.

The Group's operating licenses do not provide for automatic renewal. As of December 31, 2013, all licenses covering the territories of the Russian Federation were renewed. The cost to renew the licenses was not significant. The weighted-average period until the next renewal of licenses in the Russian Federation is four years.

License for the provision of telecommunication services in Ukraine was renewed in 2013 and is valid until 2026. License for the provision of telecommunication services in Armenia is valid until 2019. The license in Turkmenistan was suspended by the Turkmenistan Ministry of Communications in December 2010 which resulted in the cessation of the Group's operational activity in Turkmenistan. However, in July 2012, the Turkmenistan Ministry of Communications granted to the Group GSM and 3G licenses for a three-year term and the Group recommenced its operations in Turkmenistan. The license for the provision of telecommunication services in Uzbekistan was withdrawn in August 2012 (Note 4).

Based on the cost of amortizable operating licenses existing at December 31, 2013 and current exchange rates, the estimated future amortization expenses for the five years ending December 31, 2018 and thereafter are as follows:

Estimated amortization expense in the year ended December 31,	
2014	531
2015	531
2016	533
2017	531
2018	530
Thereafter	546
Total	**3,202**

The actual amortization expense 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.

Operating licenses contain a number of requirements and conditions specified by legislation. The requirements generally include targets for service start date, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

(Amounts in millions of Russian Rubles, unless otherwise stated)

11. GOODWILL

The change in the net carrying amount of goodwill for the years ended December 31, 2013 and 2012 by reportable segments was as follows:

	Russia	Ukraine	Uzbekistan [1]	Other	Total
Balance at January 1, 2012					
Gross amount of goodwill	28,249	171	3,495	4,415	**36,330**
Accumulated impairment loss	(1,466)	-	-	-	**(1,466)**
	26,783	**171**	**3,495**	**4,415**	**34,864**
Acquisitions (Note 3)	1,502	-	-	-	**1,502**
Impairment loss (Note 4)	-	-	(3,523)	-	**(3,523)**
Currency translation adjustment	-	(9)	28	(434)	**(415)**
Balance at December 31, 2012					
Gross amount of goodwill	29,751	162	3,523	3,981	**37,417**
Accumulated impairment loss	(1,466)	-	(3,523)	-	**(4,989)**
	28,285	**162**	**-**	**3,981**	**32,428**
Disposals	(23)	-	-	-	**(23)**
Currency translation adjustment	-	12	-	287	**299**
Balance at December 31, 2013					
Gross amount of goodwill	29,728	174	-	4,268	**34,170**
Accumulated impairment loss	(1,466)	-	-	-	**(1,466)**
	28,262	**174**	**-**	**4,268**	**32,704**

[1] The results of operations in Uzbekistan are reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income for all periods presented (Note 4). Uzbekistan does not represent a separate reportable segment and thus is included in "Other" category within the segment reporting note (Note 26).

12. OTHER INTANGIBLE ASSETS

Intangible assets as of December 31, 2013 and 2012 comprised the following:

		December 31, 2013			December 31, 2012		
	Useful lives, years	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Billing and telecommunication software	1 to 20	55,738	(38,258)	**17,480**	51,160	(34,441)	**16,719**
Acquired customer base	4 to 31	8,757	(3,622)	**5,135**	8,987	(3,023)	**5,964**
Rights to use radio frequencies	1 to 15	9,850	(4,905)	**4,945**	9,563	(3,841)	**5,722**
Accounting software	1 to 5	4,330	(3,021)	**1,309**	3,692	(2,139)	**1,553**
Numbering capacity	2 to 15	3,623	(2,849)	**774**	3,614	(2,176)	**1,438**
Office software	1 to 10	9,309	(3,582)	**5,727**	5,050	(1,927)	**3,123**
Other	1 to 10	4,577	(1,916)	**2,661**	2,605	(447)	**2,158**
		96,184	**(58,153)**	**38,031**	**84,671**	**(47,994)**	**36,677**
Prepayments for intangible assets		392	-	**392**	1,050	-	**1,050**
Total other intangible assets		**96,576**	**(58,153)**	**38,423**	**85,721**	**(47,994)**	**37,727**

(Amounts in millions of Russian Rubles, unless otherwise stated)

As a result of the limited availability of local telephone numbering capacity in Moscow and the Moscow region, the Group entered into agreements for the use of telephone numbering capacity with other telecommunications operators in the region. The costs of acquired numbering capacity with a finite contractual life are amortized over a period of two to ten years in accordance with the terms of the contracts to acquire such capacity.

On December 26, 2012, the State Duma passed a law on the portability of a cellphone number by a subscriber when changing service provider. In connection with this law the Group reclassified numbering capacity with indefinite useful lives in amount of RUB 1,298 million to numbering capacity with finite contractual lives and amortizes it over two years.

Amortization expense for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 14,110 million, RUB 12,482 million and RUB 11,917 million, respectively. Based solely on the cost of amortizable intangible assets existing at December 31, 2013 the estimated future amortization expenses for the five years ending December 31, 2018 and thereafter are as follows:

Estimated amortization expense in the year ended December 31,	
2014	13,062
2015	9,640
2016	6,399
2017	3,743
2018	1,563
Thereafter	3,624
Total	**38,031**

The 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.

Weighted-average amortization period for billing and telecommunication software acquired during the years ended December 31, 2013 and 2012 is four years.

13. INVESTMENTS IN AND ADVANCES TO ASSOCIATES

As of December 31, 2013 and 2012, the Group's investments in and advances to associates comprised the following:

	December 31,	
	2013	**2012**
MTS Belarus – equity investment	5,013	5,019
MTS Bank – equity investment	5,476	-
MTS Bank – loan [(1)]	2,100	-
Business-Nedvizhimost – equity investment	410	-
Intellect Telecom – equity investment	163	287
Stream – equity investment	231	226
Total investments in and advances to associates	**13,393**	**5,532**

[(1)] The loan was reclassified to investments in and advances to associates upon MTS Bank recognition as the Group's associate in 2013.

Intellect Telecom – In November 2010, MGTS acquired a 43.8% interest in Intellect Telecom from one of the subsidiaries of Sistema for $12.4 million (RUB 378.5 million at the date of transaction). Intellect Telecom is a research and development innovation center in the field of telecommunications. In March 2011, MGTS acquired a further 6.14% interest in Intellect Telecom in exchange for building of a business center in Moscow City with net book value of $0.8 million (RUB 23.9 million at the date of transaction), thus increasing its share in Intellect Telecom to 49.95%.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Stream – After loss of control over the subsidiary in May 2012, the Group deconsolidated Stream and accounted for the investment using the equity method of accounting (Note 3).

Business-Nedvizhimost – In September 2013, MGTS, the Group's subsidiary, spun off Business-Nedvizhimost CJSC from its wholly-owned subsidiary MGTS-Nedvizhimost and, in December 2013, sold a 51% stake in Business-Nedvizhimost to Sistema. After the loss of control over the subsidiary, the Group deconsolidated Business-Nedvizhimost and accounted for the investment using the equity method of accounting.

MTS Bank – In April 2013, the Group acquired a 25.1% stake in Open Joint Stock Company "MTS Bank" ("MTS Bank") through the purchase of MTS Bank's additional share issuance for RUB 5,089 million. As a result of the transaction, the Group's effective ownership in MTS Bank increased to 26.3%, as MTS OJSC previously owned an interest of 1.7% (such original interest decreased to 1.2% due to additional share issuance) in MTS Bank through its subsidiary MGTS. In September 2012, the Group provided a 10-year subordinated loan to MTS Bank in the amount of RUB 2,100 million at 8.8% p.a.

The financial position and results of operations of MTS Bank as of and for the year ended December 31, 2013 (since acquisition) were as follows:

	2013
Total assets	224,446
Total liabilities	(201,077)
Noncontrolling interest	(1,924)
Total interest income	(18,266)
Total interest expense	7,737
Operating profit	(1,036)
Net income	(868)

Summarized financial position and results of operations of other equity method investees as of and for the year ended December 31, 2013 were as follows:

	MTS Belarus	**Intellect Telecom**	**Stream**	**Business-Nedvizhimost** (since deconsolidation)
Total current assets	5,867	140	485	313
Total non-current assets	6,539	483	214	749
Total assets	**12,406**	**623**	**699**	**1,062**
Total current liabilities	(3,161)	(267)	(206)	(181)
Total non-current liabilities	-	(14)	-	(50)
Total liabilities	**(3,161)**	**(281)**	**(206)**	**(231)**
Revenue	(14,310)	(357)	(738)	(13)
Gross profit	(10,271)	(66)	(253)	(8)
Net (income) / loss	(4,649)	81	(9)	(5)

(Amounts in millions of Russian Rubles, unless otherwise stated)

Summarized financial position and results of operations of equity method investees as of and for the year ended December 31, 2012 were as follows:

	MTS Belarus	**Intellect Telecom**	**Stream** (since deconsolidation)
Total current assets	4,229	89	381
Total non-current assets	6,517	484	265
Total assets	**10,746**	**573**	**646**
Total current liabilities	(1,629)	(141)	(154)
Total non-current liabilities	-	(9)	-
Total liabilities	**(1,629)**	**(150)**	**(154)**
Revenue	(11,197)	(182)	(60)
Gross (profit) / loss	(8,055)	45	84
Net (income) / loss	(2,109)	159	188

The Group's share in the total earnings or losses of associates was included in other income in the accompanying consolidated statements of operations and comprehensive income. For the years ended December 31, 2013, 2012 and 2011 this share of earnings amounted to income of RUB 2,472 million, RUB 869 million and RUB 1,430 million, respectively.

14. OTHER INVESTMENTS

As of December 31, 2013 and 2012, the Group's other investments comprised the following:

	Annual interest rate	**Maturity date**	**December 31, 2013**	**2012**
Loan receivable from Mr. P. Fattouche and Mr. M. Fattouche	6%	2015	2,946	2,734
Loan receivable from MTS Bank (related party) (Note 22) [(1)]	-	-	-	2,100
Loan Participation Notes EMIS BV	6%	2015	699	-
Promissory notes of Sistema (Note 22)	0.0%	2017	618	618
Investments in ordinary shares (related parties) (Note 22)	-	-	125	306
Other	-	-	4	56
Total other investments			**4,392**	**5,814**

(1) Reclassified to Investments in and advances to associates upon MTS Bank recognition as the Group's associate in 2013.

The Group does not discount promissory notes and loans granted to related parties, interest rates on which are different from market rates. Accordingly, fair value of such notes and loans may be different from their carrying value.

In December 2010, the Group granted a $90.0 million (RUB 2,777 million at the date of transaction) loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche, the holders of a 20% noncontrolling stake in K-Telecom, the Group's subsidiary in Armenia. Simultaneously, the Group signed an amendment to the put and call option agreement for the remaining 20% stake. According to the amendment, the call exercise price shall be reduced by deducting any outstanding balance on the loan amount and all accrued and unpaid interest and any other sums due and outstanding under the loan agreement at the time of exercise (Note 26). Interest accrued on the loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 172.7 million, RUB 174.1 million and RUB 120.5 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations and comprehensive income. The fair value of the loan approximates its carrying value due to the marketable interest rate.

(Amounts in millions of Russian Rubles, unless otherwise stated)

In August 2013, the Group invested $21.3 million (RUB 703 million at the date of transaction) in Loan Participation Notes issued by EMIS BV (effective issuer – Renaissance Capital). The Notes bear an interest of 6% per annum and are due in 2015. The Notes are classified as held to maturity and carried at amortized cost. The fair value of the notes approximates their carrying value due to the marketable interest rate.

The Group considers credit risk for other investments in loan receivable and notes to be low.

15. BORROWINGS

Notes – As of December 31, 2013 and 2012, the Group's notes consisted of the following:

	Currency	Interest rate	December 31, 2013	December 31, 2012
MTS International Notes due 2020 (Note 2)	USD	8.625%	24,547	22,779
MTS International Notes due 2023 (Note 2)	USD	5.00%	16,365	-
MTS OJSC Notes due 2020	RUB	8.15%	15,000	15,000
MTS OJSC Notes due 2014	RUB	7.60%	13,619	13,619
MTS OJSC Notes due 2017	RUB	8.70%	10,000	10,000
MTS OJSC Notes due 2023	RUB	8.25%	10,000	-
MTS OJSC Notes due 2015	RUB	7.75%	7,537	7,537
MTS OJSC Notes due 2018	RUB	7.50%	3,844	9,610
MTS OJSC Notes due 2016	RUB	8.75%	1,788	1,788
MTS OJSC Notes due 2015 (A series)	RUB	10.00%	12	-
MTS OJSC Notes due 2016 (B series)	RUB	8.00%	12	-
MTS OJSC Notes due 2022 (V series)	RUB	5.00%	12	-
MTS OJSC Notes due 2013	RUB	7.00%	-	429
Plus: unamortized premium			8	14
Total notes			**102,744**	**80,776**
Less: current portion			(17,462)	(10,039)
Total notes, long-term			**85,282**	**70,737**

The Group has an unconditional obligation to repurchase certain MTS OJSC Notes at par value if claimed by the noteholders subsequent to the announcement of sequential coupon. The dates of the announcement for each particular note issue are as follows:

MTS OJSC Notes due 2018	December 2014
MTS OJSC Notes due 2020	November 2015
MTS OJSC Notes due 2023	March 2018

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 the notes as maturing in 2014 (MTS OJSC Notes due 2018), in 2015 (MTS OJSC Notes due 2020) and in 2018 (MTS OJSC Notes due 2023) in the aggregated maturities schedule as these are the reporting periods when the noteholders will have the unilateral right to demand repurchase.

(Amounts in millions of Russian Rubles, unless otherwise stated)

In June 2013, the Group changed the coupon rate for MTS OJSC Notes due 2018 from 8.00% to 7.00%. Following the announcement of new coupon rates the Group repurchased MTS OJSC Notes due 2018 at the request of eligible noteholders in the amount of RUB 1,875 million.

In December 2013, the Group changed the coupon rate for MTS OJSC Notes due 2018 from 7.00% to 7.50%. Following the announcement of new coupon rates the Group repurchased MTS OJSC Notes due 2018 at the request of eligible noteholders in the amount of RUB 3,891 million.

The fair values of notes based on the market quotes as of December 31, 2013 at the stock exchanges where they are traded were as follows:

	Stock exchange	% of par	Fair value
MTS International Notes due 2020	Irish stock exchange	118.60	29,113
MTS International Notes due 2023	Irish stock exchange	93.75	15,342
MTS OJSC Notes due 2020	Moscow Exchange	100.70	15,105
MTS OJSC Notes due 2014	Moscow Exchange	100.15	13,639
MTS OJSC Notes due 2017	Moscow Exchange	101.47	10,147
MTS OJSC Notes due 2023	Moscow Exchange	101.00	10,100
MTS OJSC Notes due 2015	Moscow Exchange	100.14	7,557
MTS OJSC Notes due 2018	Moscow Exchange	100.30	3,855
MTS OJSC Notes due 2016	Moscow Exchange	101.25	1,810
Total notes			**106,668**

Bank loans and other debt – As of December 31, 2013 and 2012, the Group's loans from banks and financial institutions consisted of the following:

	Maturity	Interest rate (actual at December 31, 2013)	December 31, 2013	December 31, 2012
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2013-2020	LIBOR + 1.15% (1.50%)	26,132	28,040
Skandinavska Enskilda Banken AB	2013-2017	LIBOR + 0.23%-1.8% (0.57%-2.15%)	4,238	5,072
HSBC Bank plc and ING BHF Bank AG	2013-2014	LIBOR + 0.3% (0.65%)	394	965
Citibank International plc and ING Bank N.V.	2013	LIBOR + 0.43% (0.77%)	-	574
HSBC Bank plc, ING Bank and Bayerische Landesbank	2013	LIBOR + 0.3% (0.65%)	-	800
Commerzbank AG, ING Bank AG and HSBC Bank plc	2013	LIBOR + 0.3% (0.65%)	-	659
ABN AMRO Bank N.V.	2013	LIBOR + 0.35% (0.70%)	-	191
Other	2013-2014	Various	258	91
			31,022	**36,392**
EUR-denominated:				
Bank of China	2013-2016	EURIBOR + 1.95% (2.34%)	2,435	2,905
Credit Agricole Corporate Bank and BNP Paribas	2013-2018	EURIBOR + 1.65% (2.04%)	1,557	1,671
LBBW	2013-2017	EURIBOR + 0.75% (1.14%)	839	938
ABN AMRO Bank N.V.	2013	EURIBOR + 0.35% (0.74%)	-	139
Other	2013	Various	-	62
			4,831	**5,715**

(Amounts in millions of Russian Rubles, unless otherwise stated)

	Maturity	Interest rate (actual at December 31, 2013)	December 31, 2013	2012
RUB-denominated:				
Sberbank [(1)]	2020	8.45%	80,000	100,000
Bank of Moscow	2013	8.25%	-	4,000
Notes in REPO	2013	6.13%	-	4,485
Other	2013-2023	Various	395	525
			80,395	**109,010**
AMD-denominated:				
ASHIB	2014	13.45%	108	-
			108	**-**
Total bank loans and other debt			**116,356**	**151,117**
Less: current portion			(7,564)	(17,422)
Total bank loans and other debt, long-term			**108,792**	**133,695**

(1) In December 2010, the Group entered into two Sberbank non-revolving credit line facilities in the amount of RUB 60 billion and RUB 40 billion respectively. In July 2013, the Group repaid RUB 20 billion of the RUB 40 billion credit facility. In December 2013, the tenor of the credit agreements was increased from December 2017 until March 2020, while the annual interest rate on both lines was lowered from 8.50% to 8.45%. The interest rate for the period starting from October 23, 2013 till December 31, 2014 also depends on the volume of turnover in the bank accounts of certain entities of the Group. In case the average volume falls below a certain limit, the interest rate is increased by 1% to 9.45%. In addition, Sberbank is entitled to voluntarily revise the interest rate on the lines as a result of and proportionate to the change in the refinancing rate set by the Central Bank of Russia.

Borrowing costs and interest capitalized – Borrowing costs include interest incurred on existing indebtedness and debt issuance costs. Interest costs for assets that require a period of time to prepare them for their intended use are capitalized and amortized over the estimated useful lives of the related assets. The capitalized interest costs for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 1,942 million, RUB 1,792 million and RUB 1,497 million, respectively, and were recorded as additions to the cost of network and base station equipment within property, plant and equipment in the consolidated statements of financial position. Debt issuance costs are capitalized and amortized over the term of the respective borrowings using the effective interest method.

Interest expense, net of amounts capitalized and amortization of debt issuance costs, for the years ended December 31, 2013, 2012 and 2011 was RUB 14,714 million, RUB 16,721 million and RUB 18,494, respectively.

Compliance with covenants – Bank loans and notes of the Group are subject to certain covenants limiting the Group's ability to incur debt, create liens, dispose assets, sell or transfer lease properties, enter into loan transactions with affiliates, delist notes, delay coupon payments, merge or consolidate with another entity or convey its properties and assets to another entity, sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas, or be subject to a judgment requiring payment of money in excess of $10 million (RUB 327 million as of the reporting date), which continue unsatisfied for more than 60 days without being appealed, discharged or waived or the execution thereof stayed.

The Group is also required to comply with certain financial ratios, maintain ownership in certain subsidiaries and to take all commercially reasonable steps necessary to maintain the rating of the notes assigned by Moody's and Standard & Poor's.

Also, the noteholders of MTS International Notes due 2020 and MTS International Notes due 2023 have the right to require the Group to redeem the notes at 101% of their principal amount, plus accrued interest, if the Group experiences a change in control.

If the Group fails to meet these covenants, after certain notice and cure periods, the debtholders can accelerate the debt to be immediately due and payable.

(Amounts in millions of Russian Rubles, unless otherwise stated)

The Group was in compliance with all existing notes and bank loan covenants as of December 31, 2013.

As of December 31, 2013, the Group did not have any pledged assets.

Available credit facilities – As of December 31, 2013, the Group's total available unused credit facilities amounted to RUB 5 billion and related to the following credit lines:

	Maturity	Interest rate	Available till	Available amount
ING Bank Eurasia	2014	MosPrime / LIBOR / EURIBOR + 1.50%	July 2014	2,500
Rosbank	2014	MosPrime + 0.75%	July 2014	2,500
Total				**5,000**

In addition, the Group has a credit facility made available by Citibank at MosPrime + 1.50% interest rate with the available amount set up on request and to be repaid within 182 days.

The following table presents the aggregated scheduled maturities of principal on notes and bank loans outstanding for the five years ending December 31, 2018 and thereafter:

	Notes	Bank loans and other debt
Payments due in the year ending December 31,		
2014	17,462	7,564
2015	22,558	11,669
2016	1,800	26,590
2017	10,000	20,264
2018	10,000	19,420
Thereafter	40,924	30,849
Total	**102,744**	**116,356**

16. ASSET RETIREMENT OBLIGATIONS

As of December 31, 2013 and 2012, the estimated present value of the Group's asset retirement obligations and change in liabilities were as follows:

	2013	2012
Balance, beginning of the year	**2,763**	**2,245**
Liabilities incurred in the current period	303	264
Accretion expense	97	293
Revisions in estimated cash flows	(453)	(15)
Currency translation adjustment	33	(24)
Balance, end of the year	**2,743**	**2,763**

Revisions in estimated cash flows are attributable to the change in the estimated inflation rate and cost of dismantling of assets.

(Amounts in millions of Russian Rubles, unless otherwise stated)

17. DEFERRED CONNECTION FEES

Deferred connection fees for the years ended December 31, 2013 and 2012, were as follows:

	2013	2012
Balance, beginning of the year	**3,817**	**3,931**
Payments received and deferred during the year	1,714	1,914
Amounts amortized and recognized as revenue during the year	(1,921)	(2,287)
Currency translation adjustment	39	259
Balance, end of the year	**3,649**	**3,817**
Less: current portion	(1,604)	(1,463)
Non-current portion	**2,045**	**2,354**

The Group defers initial connection fees paid by subscribers for the activation of network service as well as one time activation fees received for connection to various value added services. These fees are recognized as revenue over the estimated average subscriber life (Note 2).

18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Cash flow hedging

In 2009, 2008 and 2007, the Group entered into variable-to-fixed interest rate swap agreements to manage the exposure of changes in variable interest rate related to its debt obligations. The instruments qualify for cash flow hedge accounting under U.S. GAAP requirements. Each interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective hedges. Interest rate swap contracts outstanding as of December 31, 2013 mature in 2014-2015.

In aggregate the Group entered into interest rate swap agreements designated to manage the exposure of changes in variable interest rate relate to 1.1% of the Group's USD- and Euro- denominated bank loans outstanding as of December 31, 2013.

In addition to the above, the Group has also entered into several cross-currency interest rate swap agreements. These contracts hedged the risk of both interest rate and currency fluctuations and assumed periodic exchanges of both principal and interest payments from RUB-denominated amounts to USD- and Euro- denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2019-2020.

The Group entered into cross-currency interest rate swap agreements designated to manage the exposure of changes in variable interest rate and currency exchange rate for 33.5% of its USD- and Euro- denominated bank loans outstanding as of December 31, 2013.

The following table presents the fair value of the Group's derivative instruments designated as hedges in the consolidated statements of financial position as of December 31, 2013 and 2012.

	Statements of financial position location	December 31, 2013	December 31, 2012
Asset derivatives			
Cross-currency interest rate swaps	Other non-current assets	1,825	94
Interest rate swaps	Other non-current assets	12	41
Total		**1,837**	**135**
Liability derivatives			
Interest rate swaps	Other long-term liabilities	(389)	(386)
Interest rate swaps	Other payables	(32)	(17)
Total		**(421)**	**(403)**

(Amounts in millions of Russian Rubles, unless otherwise stated)

The following table presents the effect of the Group's derivative instruments designated as hedges in the consolidated statements of operations and comprehensive income for the years ended December 31, 2013, 2012 and 2011. The amounts presented include the ineffective portion of derivative instruments and the amounts reclassified into earnings from accumulated other comprehensive income.

	Location of loss recognized	Years ended December 31, 2013	2012	2011
Interest rate swaps	Interest expense	(184)	(429)	(398)
Cross-currency interest rate swaps	Currency exchange and transaction loss	(777)	(235)	(120)
Total		**(961)**	**(664)**	**(518)**

The following table presents the amount of ineffective portion of Group's derivative instruments designated as hedges in the consolidated statements of operations and comprehensive income for the years ended December 31, 2013, 2012 and 2011.

	Location of gain / (loss) recognized	Years ended December 31, 2013	2012	2011
Interest rate swaps	Interest (expense) / income	(28)	(183)	233
Cross-currency interest rate swaps	Currency exchange and transaction gain	-	-	55
Total		**(28)**	**(183)**	**288**

In May 2013, the Group repaid the full amount due under the HSBC bank credit facility granted to MTS OJSC in 2004 with an original maturity in November 2013. The voluntary prepayment of principal and interest in the amount of RUB 102 million ($3.2 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In May 2013, the Group repaid the full amount due under the Citibank credit facility granted to MTS OJSC in 2005 with an original maturity in May 2014. The voluntary prepayment of principal and interest in the amount of RUB 686 million ($21.8 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In April 2013, the Group repaid the full amount due under the HSBC bank credit facility granted to MTS OJSC in 2004 with an original maturity in October 2013. The voluntary prepayment of principal and interest of RUB 132 million ($4.2 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In March 2013, the Group repaid the full amount due under the HSBC bank credit facility granted to MTS OSJC in 2004 with an original maturity in September 2013. The voluntary prepayment of principal and interest in the amount of RUB 276 million ($8.9 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In February 2011, the Group repaid the full amount due under the Barclays bank credit facility granted to MTS OJSC in 2005 with an original maturity in 2014. The voluntary prepayment of principal and interest in the amount of RUB 1,373 million ($46.3 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

After the termination of hedging relationships any amounts accumulated in other comprehensive income and associated with the prepaid debt have been reclassified into earnings, going forward those derivatives are marked to market through earnings.

(Amounts in millions of Russian Rubles, unless otherwise stated)

The following table presents the amount of accumulated other comprehensive loss reclassified into earnings during the years ended December 31, 2013, 2012 and 2011 due to termination of hedging relationships.

	Location of (loss) recognized	Years ended December 31, 2013	2012	2011
Interest rate swaps	Interest expense	(33)	-	(58)
Total		**(33)**	**-**	**(58)**

The following table presents the effect of the Group's interest rate swap agreements designated as hedges in accumulated other comprehensive income for the years ended December 31, 2013, 2012 and 2011.

	2013	2012	2011
Accumulated derivatives income / (loss), beginning of the year, net of tax of 4 and (60) and (113), respectively	**21**	**(241)**	**(453)**
Fair value adjustments on hedging derivatives, net of tax of 138 and (29) and (9), respectively	691	(204)	(100)
Amounts reclassified into earnings during the period, net of tax of 151 and 93 and 62, respectively	755	466	312
Accumulated derivatives income / (loss), end of the year, net of tax of 293 and 4 and (60), respectively	**1,467**	**21**	**(241)**

As of December 31, 2013, the outstanding hedging instruments were highly effective. Approximately RUB 322 million of net loss is expected to be reclassified into net income during the next twelve months.

Cash inflows and outflows related to hedging instruments were included in cash flows from operating and financing activities in the consolidated statements of cash flows for the years ended December 31, 2013, 2012 and 2011.

Non-designated derivative instruments

Foreign currency options – In 2010 and 2009, the Group entered into foreign currency option agreements to manage the exposure to changes in currency exchange rates related to USD-denominated debt obligations. According to the agreements, the Group had a combination of put and call option rights to acquire $330.0 million (RUB 10,022 million) at rates within a range specified in contracts. These contracts were not designated for hedge accounting purposes. These currency option agreements matured in 2012.

The following table presents the effect of the Group's derivative instruments not designated as hedges on the consolidated statements of operations and comprehensive income for the years ended December 31, 2013, 2012 and 2011.

	Location of gain / (loss) recognized	Years ended December 31, 2013	2012	2011
Foreign currency options	Currency exchange and transaction (loss) / gain	-	(4)	96
Total		**-**	**(4)**	**96**

(Amounts in millions of Russian Rubles, unless otherwise stated)

Fair value of derivative instruments

The Group measured assets and liabilities associated with derivative agreements at fair value Level 2 on a recurring basis. There were no assets and liabilities associated with derivative agreements measured at fair value Level 1 and Level 3 as of December 31, 2013 and 2012 (Note 2 and 19).

The following fair value hierarchy table presents information regarding the Group's assets and liabilities associated with derivative agreements as of December 31, 2013 and 2012:

	Significant other observable inputs (Level 2) as of December 31, 2013	Significant other observable inputs (Level 2) as of December 31, 2012
Assets		
Interest rate swap agreements	12	41
Cross-currency interest rate swap agreements	1,825	95
Liabilities		
Interest rate swap agreements	(421)	(403)

19. FAIR VALUE MEASUREMENTS

According to U.S. GAAP requirements the Group records derivative instruments, redeemable noncontrolling interest, contingent consideration and investment in a mutual investment fund at fair value on a recurring basis.

The following tables summarize those assets and liabilities measured at fair value on a recurring basis:

	Significant observable inputs (Level 1) as of December 31, 2013	Significant other observable inputs (Level 2) as of December 31, 2013	Significant unobservable inputs (Level 3) as of December 31, 2013
Assets			
Mutual investment fund "Reservnyi" (Note 6 and 22)	4,154	-	-
Derivative instruments (Note 18)	-	1,837	-
Liabilities			
Derivative instruments (Note 18)	-	(421)	-
Contingent consideration	-	-	(11)
Redeemable noncontrolling interest (Note 24)	-	-	(2,932)

	Significant other observable inputs (Level 2) as of December 31, 2012	Significant unobservable inputs (Level 3) as of December 31, 2012
Assets		
Derivative instruments (Note 18)	136	-
Liabilities		
Derivative instruments (Note 18)	(403)	-
Contingent consideration	-	(277)
Redeemable noncontrolling interest (Note 24)	-	(2,298)

(Amounts in millions of Russian Rubles, unless otherwise stated)

Changes in the Group's net assets and earnings resulted from fair value measurements of Level 3 assets and liabilities were not significant for the years ended December 31, 2013 and 2012. There were no realized and unrealized gains and losses on Level 3 assets and liabilities for the years ended December 31, 2013 and 2012.

The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments. The redeemable noncontrolling interest was measured at fair value using a discounted cash flow technique. The fair value of contingent consideration was determined as the best estimate of all possible outcomes of the contingency. The inputs are based on all available internal and external information, including growth projections and industry experts' estimates, where applicable.

The most significant quantitative inputs used to measure the fair value of redeemable noncontrolling interest as of December 31, 2013 and 2012 are presented in the table below:

	December 31,	
Unobservable inputs	**2013**	**2012**
Discount rate	12%	12%
Revenue growth rate	0.7%-1.2% (av. 0.9%)	0.5%-1.0% (av. 0.7%)
OIBDA margin	49.4%-50.7% (av. 49.8%)	44.0%-45.5% (av. 44.6%)

There were no transfers between levels within the hierarchy for the years ended December 31, 2013 and 2012.

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Group records assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. No impairment charges were recognized in the consolidated statements of operations and comprehensive income for the year ended December 31, 2013. The losses recognized on assets measured at fair value on a nonrecurring basis for the year ended December 31, 2012 are summarized below. In 2013, these losses were assigned to discontinued operations (Note 4):

	2012
Property, Plant and Equipment	8,438
Licenses	2,709
Rights to use radio frequencies	2,523
Numbering capacity	1,190
Software and other intangible assets	1,654
Goodwill	3,523
Total	**20,037**

As of December 31, 2012, the fair value of the impaired property, plant and equipment, other intangible assets, licenses and goodwill amounted to RUB 7,782 million, RUB 1,558 million, nil and nil, respectively.

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 that market. The forecasts were based on all available internal and external information, including growth projections and industry experts' estimates.

(Amounts in millions of Russian Rubles, unless otherwise stated)

The carrying amounts of cash and cash equivalents; short-term investments; accounts receivable; accounts payable and accrued expenses approximate their fair values because of the relatively short-term maturities of these financial instruments.

The fair value of notes payable is estimated based on quoted prices for those instruments (“Level 1” of the hierarchy established by the U.S. GAAP guidance). As of December 31, 2013 and 2012, the fair value of notes payable, including the current portion, amounted to RUB 106,668 million and RUB 86,657 million, respectively.

The fair value of bank loans and other debt is estimated using discounted cash flows and market-based expectations for interest rates, credit risk and the contractual terms of the debt instruments (“Level 2” of the hierarchy established by the U.S. GAAP guidance). As of December 31, 2013 and 2012, the fair value of bank loans and other debt, including the current portion, approximates their carrying value and amounted to RUB 116,356 million and RUB 151,323 million, respectively.

20. ACCRUED LIABILITIES

	December 31,	
	2013	**2012**
Accruals for services	9,911	9,963
Accruals for taxes	8,355	6,546
Accrued payroll and vacation	7,247	6,928
Interest payable on debt	1,792	1,582
Accruals for payments to social funds	369	419
Total accrued liabilities	**27,674**	**25,438**

21. INCOME TAX

Provision for income taxes for the years ended December 31, 2013, 2012 and 2011 was as follows:

	Years ended December 31,		
	2013	**2012**	**2011**
Income from continuing operations before provision for income taxes			
Russia	77,502	71,626	53,164
Other jurisdictions	19,186	11,216	6,495
Total income from continuing operations before provision for income taxes	**96,688**	**82,842**	**59,659**
Current income tax expense			
Russia	7,557	13,790	13,471
Other jurisdictions	2,405	2,304	1,559
Total current income tax expense	**9,962**	**16,094**	**15,030**
Deferred income tax expense			
Russia	8,487	2,312	133
Other jurisdictions	1,184	978	363
Total deferred income tax expense	**9,671**	**3,290**	**496**
Total provision for income taxes	**19,633**	**19,384**	**15,526**

The statutory income tax rates in jurisdictions in which the Group operates for the fiscal years of 2013, 2012 and 2011 were as follows: Russia, Armenia – 20.0%, Turkmenistan – 8.0%. During the years ended December 31, 2013, 2012 and 2011 the Ukraine tax rate was 19.0%, 21.0% and 23.0%, respectively. For the year ended December 31, 2014 the Ukraine tax rate is 18.0% and it is expected to decrease to 17.0% and 16.0% for the years ended December 31, 2015 and 2016, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated)

The Russia statutory income tax rate reconciled to the Group's effective income tax rate for the years ended December 31, 2013, 2012 and 2011 was as follows:

	2013	2012	2011
Statutory income tax rate for the year	**20.0%**	**20.0%**	**20.0%**
Adjustments:			
(Income) / expenses not liable for tax purposes	(0.5)	2.0	2.9
Change in unrecognized tax benefits	-	(0.5)	(0.2)
Settlements with tax authorities	(0.3)	0.4	(0.5)
Earnings distribution from subsidiaries	1.8	1.5	3.0
Effect of change in tax rate in Ukraine	(0.1)	0.2	0.8
Loss carryforward utilisation	-	(0.3)	
Different tax rate of foreign subsidiaries	(0.5)	-	-
Other	(0.1)	0.1	-
Effective income tax rate	**20.3%**	**23.4%**	**26.0%**

Temporary differences between the tax and accounting bases of assets and liabilities gave rise to the following deferred tax assets and liabilities as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Assets / (liabilities) arising from tax effect of:		
Deferred tax assets		
Depreciation of property, plant and equipment	1,229	2,948
Deferred connection fees	1,115	1,143
Accrued expenses for services	6,291	4,825
Inventory obsolescence	265	683
Loss carryforward	5,880	6,689
Impairment of long-lived assets	-	1,067
Other	1,242	1,067
Valuation allowance	(5,504)	(4,952)
Total deferred tax assets	**10,518**	**13,470**
Deferred tax liabilities		
Licenses acquired	(774)	(786)
Depreciation of property, plant and equipment	(12,735)	(7,273)
Customer base	(1,027)	(1,133)
Other intangible assets	(2,995)	(1,695)
Debt issuance cost	(405)	(519)
Potential distributions from / to Group's subsidiaries / associates	(4,553)	(3,403)
Other	(436)	(147)
Total deferred tax liabilities	**(22,925)**	**(14,956)**
Net deferred tax (liability) / asset	**(12,407)**	**(1,486)**
Net deferred tax asset, current	7,933	6,998
Net deferred tax asset, non-current	862	2,186
Net deferred tax liability, long-term	(21,202)	(10,670)

(Amounts in millions of Russian Rubles, unless otherwise stated)

The Group has the following significant balances for income tax losses carryforward and related operating losses as of December 31, 2013 and 2012:

		December 31,			
		2013		2012	
Jurisdiction	**Period for carry-forward**	**Operating losses**	**Tax losses**	**Operating losses**	**Tax losses**
Luxembourg (MGTS Finance S.A.)	Unlimited	14,064	4,101	13,053	3,789
Russia (Comstar-Regions and other)	2014-2023	8,897	1,779	14,499	2,900
Total		**22,961**	**5,880**	**27,552**	**6,689**

Management established the following valuation allowances against deferred tax assets where it was more likely than not that some portion of such deferred tax assets will not be realized:

	December 31,	
Valuation allowances	**2013**	**2012**
Sale of investment in Svyazinvest	2,160	2,089
Operating loss in Luxemburg (MGTS Finance S.A.)	3,086	2,863
Other	258	-
Total	**5,504**	**4,952**

The following table summarizes the changes in the allowance against deferred tax assets for the years ended December 31, 2013, 2012 and 2011:

	Balance, beginning of the period	**Charged to costs and expenses**	**Impact of foreign currency translation adjustments**	**Balance, end of the period**
Year ended December 31, 2013	**4,952**	258	294	**5,504**
Year ended December 31, 2012	**5,250**	-	(298)	**4,952**
Year ended December 31, 2011	**5,059**	-	191	**5,250**

For the remaining balances for income tax losses carryforward realization is dependent on generating sufficient taxable income prior to expiration of the losses carryforward. Although realization is not assured, management believes that it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of December 31, 2013 and 2012, the Group recognized deferred income tax liabilities of RUB 2,511 million and RUB 1,653 million, respectively, for income taxes on future dividend distributions from foreign subsidiaries (MTS Ukraine and K-Telecom) which are based on RUB 36,245 million and RUB 34,420 million cumulative undistributed earnings of those foreign subsidiaries in accordance with local statutory accounting regulations (unaudited) because such earnings are intended to be repatriated.

As of December 31, 2013, 2012 and 2011, the Group included accruals for uncertain tax positions in the amount of RUB 518 million, RUB 321 million and RUB 526 million, respectively, as a component of income tax payable.

(Amounts in millions of Russian Rubles, unless otherwise stated)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2013	2012	2011
Balance, beginning of the year	**321**	**526**	**426**
Additions based on tax position related to the current year	366	-	268
Additions based on tax positions related to prior years	1	66	78
Additions based on tax of acquired entities	-	10	151
Reduction in tax positions related to prior years	(170)	(220)	(152)
Settlements with tax authorities	-	(61)	(245)
Balance, end of the year	**518**	**321**	**526**

Accrued penalties and interest related to unrecognized tax benefits as a component of income tax expense for the years ended December 31, 2013, 2012 and 2011 amounted to a reversal of RUB 53 million, a reversal of RUB 36 million and a charge of RUB 2 million, respectively, and were included in income tax expense in the accompanying consolidated statements of operations and comprehensive income. Accrued interest and penalties were included in income tax payable in the accompanying consolidated statements of financial position and totaled RUB 97 million and RUB 150 million as of December 31, 2013 and 2012, respectively. The Group does not expect the unrecognized tax benefits to change significantly over the next twelve months.

22. RELATED PARTIES

Related parties include entities under common ownership and control with the Group, affiliated companies and associated companies.

As of December 31, 2013 and 2012, accounts receivable from and accounts payable to related parties were as follows:

	December 31,	
	2013	2012
Accounts receivable:		
Sitronics N, a subsidiary of Sistema	337	74
MTS Belarus, an associated company of the Group	304	25
MTS Bank, an associated company of the Group	128	137
Stream, an associated company of the Group	59	-
NVision Group, subsidiaries of Sistema	33	66
Other related parties	104	34
Total accounts receivable, related parties	**965**	**336**
Accounts payable:		
NVision Group, subsidiaries of Sistema	1,605	1,230
MTS Bank, an associated company of the Group	697	364
Maxima, a subsidiary of Sistema	307	304
MTS Belarus, an associated company of the Group	208	34
Smart Cards Group, subsidiaries of Sistema	201	178
Other related parties	297	228
Total accounts payable, related parties	**3,315**	**2,338**

The Group has neither the intent nor the ability to offset the outstanding accounts payable and accounts receivable with related parties under the terms of existing agreements.

(Amounts in millions of Russian Rubles, unless otherwise stated)

As of December 31, 2013 and 2012, advances given to related parties were as follows:

	December 31,	
	2013	**2012**
Advances for property, plant and equipment:		
NVision Group, subsidiaries of Sistema	352	1,024
Other related parties	15	-
Total advances for property, plant and equipment	**367**	**1,024**
Advances for intangible assets:		
NVision Group, subsidiaries of Sistema	144	191
Geoinformatika, a subsidiary of Sistema	88	88
Total advances for intangible assets	**232**	**279**

Operating transactions:

For the years ended December 31, 2013, 2012 and 2011, operating transactions with related parties were as follows:

	Years ended December 31,		
	2013	**2012**	**2011**
Revenues from related parties:			
MTS Bank, an associated company of the Group (mobile, call center services, commission for bank cards distribution)	378	88	19
Sitronics N, a subsidiary of Sistema (construction of fiber optic link)	288	26	46
MTS Belarus, an associated company of the Group (roaming and interconnection services)	149	209	192
NVision Group, subsidiaries of Sistema (fixed line services)	75	77	85
Jet Air Group, subsidiaries of Sistema (rent)	60	-	-
Medsi Group, subsidiaries of Sistema (mobile and call center services)	48	28	27
Other related parties	115	64	27
Total revenues from related parties	**1,113**	**492**	**396**
Operating expenses incurred on transactions with related parties:			
Maxima, a subsidiary of Sistema (advertising)	1,757	1,902	2,407
NVision Group, a subsidiary of Sistema (IT consulting)	1,083	1,115	1,415
Stream, an associated company of the Group (content services)	711	-	-
MTS Bank, an associated company of the Group (commission related expenses)	413	55	83
AB Safety, a subsidiary of Sistema (security services)	354	344	296
Elavius, a subsidiary of Sistema (transportation services)	347	351	-
MTS Belarus, an associated company of the Group (roaming and interconnection services)	278	424	309
Other related parties	513	423	259
Total operating expenses incurred on transactions with related parties	**5,456**	**4,614**	**4,769**

(Amounts in millions of Russian Rubles, unless otherwise stated)

Investing and financing transactions:

During the years ended December 31, 2013 and 2012 the Group made certain investments in and provided loans to related parties. Respective balances are summarized as follows:

	December 31,	
	2013	**2012**
Loans to, promissory notes and investments in shares of related parties:		
Short-term investments (Note 6)		
Deposits at MTS Bank	5,081	101
Investment fund “Reservnyi”, managed by “DIK”, a subsidiary of Sistema	4,154	-
Total short-term investments in related parties	**9,235**	**101**
Other investments (Note 14)		
Sistema, promissory notes	618	618
MTS Bank, an associated company of the Group (Note 13)	-	2,100 [1]
Total other investments to related parties	**618**	**2,718**
Investments in shares (Note 14)		
Sistema Mass Media, a subsidiary of Sistema	117	117
MTS Bank, an associated company of the Group (Note 13)	-	159 [1]
Other	8	30
Total investments in shares of related parties	**125**	**306**

[1] Reclassified to investments in and advances to associates upon MTS Bank recognition as the Group’s associate in 2013.

Open Joint-Stock Company “MTS Bank” (“MTS Bank”) – The Group has a number of loan agreements and also maintains certain bank accounts with MTS Bank, an associated company of the Group. As of December 31, 2013 and 2012, the Group’s cash position at MTS Bank amounted to RUB 11,297 million and RUB 8,161 million, respectively, including short-term deposits in the amount of RUB 5,081 million and RUB 101 million, respectively. Interest accrued on loan receivable, the deposits and cash on current accounts for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 742 million, RUB 172 million and RUB 445 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations and comprehensive income. Interest expense on the funds raised from MTS Bank for the year ended December 31, 2012 amounted to RUB 363 million and was included as a component of interest expense in the accompanying consolidated statements of operations and comprehensive income.

Sistema – In November 2009, the Group accepted a promissory note, issued by Sistema, as repayment of a loan principal and interest accrued to date under the agreement with Sistema-Hals (Note 14). The note is interest free and repayable in 2017. As of December 31, 2013 and 2012, the amount receivable of RUB 618 and RUB 618 million was included in other investments in the accompanying consolidated statements of financial position.

Doveritelnaja Investizionnaja Kompanija (“DIK”) – In April and May 2013, the Group invested RUB 4.0 billion in Investment fund “Reservnyi” managed by “DIK”, a subsidiary of Sistema. As of December 31, 2013, unrealized gain in the amount of RUB 154 million was recognized as other comprehensive income in the accompanying consolidated statements of operations and comprehensive income.

(Amounts in millions of Russian Rubles, unless otherwise stated)

Investments in ordinary shares – As of December 31, 2013 and 2012, the Group had several investments in shares of subsidiaries and affiliates of Sistema totaling RUB 125 million and RUB 306 million, respectively, included in other investments in the accompanying consolidated statements of financial position. The main investment is 3.14% of Sistema Mass-Media, a subsidiary of Sistema.

Smart Cards Group **–** During the years ended December 31, 2013, 2012 and 2011, the Group purchased from Smart Cards Group, subsidiaries of Sistema, SIM cards and prepaid phone cards for approximately RUB 765 million, RUB 842 million and RUB 2,336 million, respectively.

NVision Group – During the years ended December 31, 2013, 2012 and 2011, the Group acquired from NVision Group, subsidiaries of Sistema, telecommunications equipment, software and billing systems (FORIS) for approximately RUB 13,394 million, RUB 12,898 million and RUB 14,783 million, respectively, and incurred expenses of RUB 1,083 million, RUB 1,115 million and RUB 1,415 million, respectively, under an IT consulting agreement.

As of December 31, 2013 and 2012, the advances given to NVision Group amounted to RUB 496 million and RUB 1,215 million, respectively. These amounts were included into property, plant and equipment and intangible assets in the accompanying consolidated statements of financial position.

23. STOCKHOLDERS' EQUITY

Share capital – The Company's charter capital is represented of 2,066,413,562 ordinary shares of which 1,998,831,184 and 1,988,919,177 were outstanding as of December 31, 2013 and 2012, respectively. The total shares in treasury stock comprised 77,582,378 and 77,494,385 as of December 31, 2013 and 2012, respectively.

Each ADS represents 2 ordinary shares. As of December 31, 2013, the Group repurchased 33,997,667 ADSs.

Noncontrolling interest – The Group's equity was affected by changes in the respective subsidiaries' ownership interests as follows:

	Years ended December 31,		
	2013	**2012**	**2011**
Net income attributable to the Group	**79,839**	**29,642**	**42,315**
Transfers from the noncontrolling interest			
Decrease in own equity due to acquisition of noncontrolling interest in Comstar-UTS	-	-	(1,262)
Increase in own equity resulted from exchange of MTS shares for noncontrolling interest in Comstar-UTS	-	-	11,544
Increase in own equity due to exercise of the put option on Comstar-UTS shares	-	-	360
Decrease in own equity due to acquisition of noncontrolling interest in MGTS	-	-	(9,780)
Increase in own equity due to acquisition of own shares by MGTS	-	57	-
Increase of ownership in subsidiaries	-	-	(22)
Net transfers from the noncontrolling interest	**-**	**57**	**840**
Net income attributable to the Group and transfers from the noncontrolling interest	**79,839**	**29,699**	**43,155**

(Amounts in millions of Russian Rubles, unless otherwise stated)

Accumulated other comprehensive loss – The following table represents accumulated other comprehensive loss balance, net of tax[(1)], for the years ended December 31, 2013, 2012 and 2011:

	Currency translation adjustment	Unrealized (gains) / losses on derivatives	Unrecognized actuarial (gains) / losses	Accumulated other comprehensive (income) / loss
Balance at January 1, 2011	**13,257**	**450**	**503**	**14,210**
Recognized in other comprehensive income	(2,054)	(216)	(174)	(2,444)
Balance at December 31, 2011	**11,203**	**234**	**329**	**11,766**
Recognized in other comprehensive loss / (income)	2,021	(255)	144	1,910
Balance at December 31, 2012	**13,224**	**(21)**	**473**	**13,676**
Recognized in other comprehensive loss / (income)	2,975	(1,445)	(176)	1,354
Balance at December 31, 2013	**16,199**	**(1,466)**	**297**	**15,030**

(1) Tax amounts on items in other comprehensive (income) / loss are not significant and therefore are not reported separately.

The following table represents changes in the balances of accumulated other comprehensive loss by components for the year ended December 31, 2013:

	Currency translation adjustment	Unrealized (gains) / losses on derivatives	Unrecognized actuarial (gains) / losses	Accumulated other comprehensive (income) / loss
Balance at December 31, 2012	**13,224**	**(21)**	**473**	**13,676**
Other comprehensive loss / (income)	6,657	(861)	-	5,796
Less: tax expense	-	172	-	172
Amounts reclassified to net income	(3,682)[(1)]	(945)	(220)	(4,847)
Less: tax expense	-	189	44	233
Net other comprehensive loss / (income)	**2,975**	**(1,445)**	**(176)**	**1,354**
Balance as of December 31, 2013	**16,199**	**(1,466)**	**297**	**15,030**

(1) The currency translation adjustment of RUB 3,682 million included as income from discontinued operations in consolidated statement of operations and comprehensive income.

Dividends – In 2013, the Board of Directors approved a dividend policy, whereby the Group shall aim to make minimum dividend distribution payments to shareholders for the calendar years 2013-2015 in the amount equal to at least 75% of Free cash flow for the relevant financial period or, if greater, RUB 40.0 billion per year. Free cash flow is defined by cash flows from operating activities less cash paid (received) for acquisition or disposal of property, plant and equipment, intangible assets and other adjustments.

The dividend can vary depending on a number of factors, including the outlook for earnings growth, capital expenditure requirements, cash flows from operations, potential acquisition opportunities, as well as the Group’s debt position.

(Amounts in millions of Russian Rubles, unless otherwise stated)

The Group may take decisions on dividend payout based not only on financial year-end results but also based on interim results for three, six or nine months of the fiscal year. Annual dividend payments, if any, must be recommended by the Board of Directors and approved by the shareholders.

In accordance with Russian laws, earnings available for dividends are limited to profits determined under Russian statutory accounting regulations, denominated in Russian Rubles, after certain deductions. The net income of MTS OJSC for the years ended December 31, 2013, 2012 and 2011 that is distributable under Russian legislation totaled RUB 55,999 million (unaudited), RUB 42,949 million and RUB 54,129 million, respectively.

The following table summarizes the Group's declared cash dividends in the years ended December 31, 2013, 2012 and 2011:

	Years ended December 31,		
	2013	2012	2011
Dividends declared (including dividends on treasury shares of 1,538 and 1,140 and 1,127, respectively)	40,956	30,397	30,046
Dividends, RUB per ADS	39.64	29.42	29.08
Dividends, RUB per share	19.82	14.71	14.54

As of December 31, 2013 and 2012, dividends payable were RUB 57.0 million and RUB 70.0 million, respectively.

MGTS' preferred stock – MGTS, a subsidiary of MTS, had 15,574,492 preferred shares outstanding at December 31, 2013 and 2012. In June 2012, the General shareholders' meeting of MGTS approved the reorganization of MGTS in a form of spin-off of MGTS-N JSC, a newly established wholly-owned subsidiary, and a merger of both MTS-P JSC, a subsidiary of MTS, and UTS-MGTS JSC with MGTS. In September 2012, the Group completed the MGTS' shares buyback related to this reorganization. A total of 82,891 common and 391,358 preferred shares of MGTS were repurchased for RUB 260.8 million.

MGTS' preferred shares carry guaranteed non-cumulative dividend rights amounting to the higher of (a) 10% of MGTS' net profit as determined under Russian accounting regulations and (b) the dividends paid on common shares. No dividends may be declared on common shares before dividends on preferred shares are declared. If the preferred dividend is not paid in full in any year the preferred shares also obtain voting rights, which will lapse after the first payment of the dividend in full. Otherwise, preferred shares carry no voting rights except on resolutions regarding liquidation or reorganization of MGTS and changes / amendments to MGTS' charter restricting the rights of holders of preferred shares. Such resolutions require the approval of 75% of the preferred shareholders. In the event of liquidation, dividends to preferred shareholders that have been declared but not paid have priority over ordinary shareholders.

In June 2013 and 2012, at MGTS' annual shareholders meeting the decision was made not to pay dividends on preferred shares for 2012 and 2011. Therefore the holders of preferred shares obtained voting rights.

In May 2011, MGTS' annual shareholders meeting approved dividends on ordinary and preferred shares totaling RUB 18,961 million for 2010. As of December 31, 2013 and 2012, dividends payable were RUB 48.6 and RUB 63.8 million, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated)

24. REDEEMABLE NONCONTROLLING INTEREST

In September 2007, the Group acquired an 80% stake in International Cell Holding Ltd, the 100% indirect owner of K-Telecom, Armenia's mobile phone operator, and signed a call and put option agreement to acquire the remaining 20% stake. In December 2010, the Group signed an amendment to the put and call option agreement. According to the amended option agreement, the price for the remaining 20% stake option will be determined by an independent investment bank subject to a cap of EUR 200 million. The put option can be exercised during the period from the next business day following the date of settlement of all liabilities under the loan agreement (Note 14) up to December 31, 2016. The call option can be exercised during the period from July 1, 2010 up to December 31, 2016. If both the call notice and the put notice are served on the same day then the put notice shall be deemed exercised in priority to the call notice. The noncontrolling interest was measured at fair value using a discounted cash flow technique and amounted to RUB 2,932 million and 2,298 million as of December 31, 2013 and 2012, respectively (Note 19). The fair value was determined based on unobservable inputs ("Level 3" of the hierarchy established by the U.S. GAAP guidance).

25. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2013, 2012 and 2011 comprised the following:

	Years ended December 31,		
	2013	**2012**	**2011**
Salaries and social contributions	45,790	40,486	35,468
Rent	14,677	13,334	11,297
General and administrative	7,955	8,016	7,981
Taxes other than income	6,374	5,422	3,976
Repair and maintenance	6,217	6,364	5,715
Billing and data processing	2,035	1,726	1,761
Consulting expenses	1,569	1,689	1,964
Inventory obsolescence	660	759	827
Insurance	181	181	192
Total general and administrative expenses	**85,458**	**77,977**	**69,181**

26. SEGMENT INFORMATION

In 2012, the Group aligned its business into three reportable segments of Russia, Ukraine and Uzbekistan based on the business activities in different geographical areas to effectively manage both the mobile and the fixed line operations as an integrated business. The Russian reportable segment arose due to the aggregation of two similar operating segments: MTS Russia and MGTS Russia.

In 2013, the results of operations of Uzbekistan are reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income for all periods presented. The segment reporting for the years ended December 31, 2012 and 2011 was restated accordingly. The statement of financial position was not retrospectively restated and therefore as of December 31, 2012 captions of statement of financial position in the "Other" category include Uzbekistan.

The Group provides a wide range of mobile and fixed line voice and data telecommunications services in Russia and Ukraine, including transmission, broadband, pay TV and various value-added services, i. e. both mobile and fixed line services to customers across multiple regions.

(Amounts in millions of Russian Rubles, unless otherwise stated)

The "Other" category does not constitute a reportable segment. It includes both the results of a number of other operating segments that do not meet the quantitative thresholds for separate reporting, such as Armenia, Turkmenistan, and the headquarters.

Other unallocated expenses such as interest (income) / expense, equity in net income of associates, other (income) / expenses and currency exchange and transaction loss / (gain) are shown for purposes of reconciling the Group's segment measure, net operating income, to the Group's consolidated total for each of the periods presented.

The intercompany eliminations presented below primarily consist of sales transactions between segments conducted in the normal course of operations.

Financial information by reportable segment is presented below:

	Years ended December 31,		
	2013	**2012**	**2011**
Net operating revenues from external customers:			
Russia	352,930	336,771	310,759
Ukraine	37,665	36,118	32,466
Other	7,848	5,351	5,346
Total net operating revenues from external customers	**398,443**	**378,240**	**348,571**
Including revenue from mobile services	339,883	322,517	294,947
Including revenue from fixed line services	58,560	55,723	53,624
Intersegment operating revenues:			
Russia	1,964	1,178	1,016
Ukraine	2,067	1,604	1,254
Other	1,281	1,030	588
Total intersegment operating revenues	**5,312**	**3,812**	**2,858**
Depreciation and amortization expense:			
Russia	62,825	56,235	51,321
Ukraine	8,896	9,571	10,169
Other	1,589	2,104	2,441
Intercompany eliminations	(57)	-	1
Total depreciation and amortization expense	**73,253**	**67,910**	**63,932**
Operating income:			
Russia	94,873	91,773	81,530
Ukraine	11,745	9,647	5,946
Other	(4,803)	(7,625)	(7,216)
Intercompany eliminations	(57)	(1)	35
Net operating income	**101,758**	**93,794**	**80,295**
Net operating income	101,758	93,794	80,295
Currency exchange and transaction loss / (gain)	5,473	(3,952)	4,403
Interest income	(2,793)	(2,588)	(1,850)
Interest expense	15,498	17,673	19,333
Equity in net income of associates	(2,472)	(869)	(1,430)
Other (income) / expense, net	(10,636)	688	180
Income from continuing operations before provision for income taxes and noncontrolling interest	**96,688**	**82,842**	**59,659**

(Amounts in millions of Russian Rubles, unless otherwise stated)

	Years ended December 31,	
	2013	**2012**
Additions to long-lived assets:		
Russia	70,162	77,647
Ukraine	8,856	5,692
Other	1,849	3,742
Total additions to long-lived assets	**80,867**	**87,081**

	December 31,	
	2013	**2012**
Long-lived assets [(1)]:		
Russia	308,336	301,343
Ukraine	24,107	22,994
Other	12,546	20,892
Total long-lived assets	**344,989**	**345,229**
Total assets:		
Russia	431,257	391,560
Ukraine	38,586	38,060
Other	15,681	25,358
Total assets	**485,524**	**454,978**

[(1)] Comprises property, plant and equipment, licenses, goodwill and other intangible assets.

27. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of December 31, 2013, the Group had executed purchase agreements of approximately RUB 34,728 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Operating leases – The Group has entered into non-cancellable agreements to lease space for telecommunications equipment, offices and transmission channels, which expire in various years up to 2068. Rental expenses under the operating leases of RUB 14,677 million, RUB 13,334 million and RUB 11,297 million for the years ended December 31, 2013, 2012 and 2011, respectively, are included in operating expenses in the accompanying consolidated statements of operations and comprehensive income. Rental expenses under the operating leases of RUB 7,583 million, RUB 7,207 million and RUB 6,720 million for the years ended December 31, 2013, 2012 and 2011, respectively, are included in cost of services in the accompanying consolidated statements of operations and comprehensive income. Future minimum lease payments due under these leases for the five years ending December 31, 2018 and thereafter are as follows:

Payments due in the years ended December 31,	
2014	4,684
2015	723
2016	356
2017	230
2018	198
Thereafter	1,371
Total	**7,562**

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 and Ukrainian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2013, tax declarations of MTS OJSC and other subsidiaries in Russia and Ukraine for the preceding three fiscal years were open for further review.

In December 2010, the Russian tax authorities completed a tax audit of MTS OJSC for the years ended December 31, 2007 and 2008. Based on the results of this audit, the Russian tax authorities determined that RUB 353.9 million in additional taxes, penalties and fines were 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 RUB 173.9 million. The Group filed an appeal for RUB 84.2 million of the remaining RUB 180.0 million with the Moscow Arbitrate Court. In August 2013, the Moscow Arbitrate Court issued a ruling to partly grant the Group's claim, which was subsequently confirmed by the Arbitrate Appeal Court in November 2013. However, the Group appealed the decision of the Arbitrate Appeal Court in the Federal Arbitrate Court of Moscow District, which issued a ruling to partly grant the Group's claim in March 2014. The Group is considering its further actions.

In June 2013, the Russian tax authorities completed a tax audit of MTS OJSC for the years ended December 31, 2009, 2010 and 2011. Based on the results of this audit, the Russian tax authorities determined that RUB 253.4 million in additional taxes, penalties and fines were payable by the Group. The claim was accrued in full amount in the consolidated financial statements for the year ended December 31, 2013 and final amounts due were paid in January 2014. In December 2013, the Group appealed the resolution of this assessment to the Federal Tax Service, and, further to its refusal to grant the appeal, the Group is considering appealing to the Moscow Arbitrate Court.

The Group purchases supplemental software from foreign suppliers of telecommunications equipment in the ordinary course of business, which is subject to customs regulation. In addition 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. Management believes that it has adequately provided for tax and customs liabilities in the accompanying consolidated financial statements. As of December 31, 2013 and 2012, the provision accrued for taxes other than income tax and customs settlements amounted to RUB 2,278 million and RUB 804 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 RUB 615 million and RUB 471 million as of December 31, 2013 and 2012, respectively. However, the risk remains that the relevant tax and customs authorities could take differing positions with regard to interpretive issues and the effect could be significant.

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 is required to (i) build a certain number of base stations that support 3G standards, (ii) have commenced providing services in Russia by a certain date, and (iii) build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting the license. Management believes that as of December 31, 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 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 annually toward the LTE roll-out until the network is fully deployed. Management believes that as of December 31, 2013 the Group is in compliance with these conditions.

Bitel – In December 2005, MTS Finance acquired a 51.0% stake in Tarino Limited ("Tarino"), from Nomihold Securities Inc. ("Nomihold"), for RUB 4,322 million ($150.0 million at exchange rate for December 2005) in cash based on the belief that Tarino was at that time the indirect owner, through its wholly owned subsidiaries, of Bitel LLC ("Bitel"), a Kyrgyz company holding a GSM 900/1800 license for the entire territory of Kyrgyzstan.

Following the purchase of the 51.0% stake, MTS Finance entered into a put and call option agreement with Nomihold for the remaining 49.0% interest in Tarino shares and a proportional interest in Bitel shares ("Option Shares"). The call option was exercisable by MTS Finance from November 22, 2005 to November 17, 2006, and the put option was exercisable by Nomihold from November 18, 2006 to December 8, 2006. The call and put option price was RUB 4,898 million ($170.0 million at exchange rate for December 2005).

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

In January 2007, the Prosecutor General of Kyrgyzstan informed the Group that there were no grounds for involvement by the Prosecutor General's office in the dispute and that no legal basis existed for the Group to appeal the decision of the Kyrgyz Supreme Court. Consequently, the Group wrote off the costs relating to the purchase of the 51.0% stake in Bitel, which was reflected in its annual consolidated financial statements for the year ended December 31, 2006. Furthermore, with the impairment of the underlying asset, a liability of RUB 4,476 million ($170.0 million as of December 31, 2006) 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 RUB 4,526 million ($170.0 million at exchange rate for November 2006) to MTS Finance. In January 2007, Nomihold commenced an arbitration proceeding against MTS Finance in the London Court of International Arbitration ("LCIA") in order to compel MTS Finance to purchase the Option Shares. Nomihold sought specific performance of the put option, unspecified monetary damages, interest, and costs. In January 2011, LCIA made an award in favor of Nomihold satisfying Nomihold's specific performance request and ordered MTS Finance to pay to Nomihold the award ("Award") including RUB 5,115 million ($170.0 million at exchange rate for January 2011) for the Option Shares and RUB 178 million ($5.9 million at exchange rate for January 2011) in damages, bearing interest until Award is satisfied. In addition to the RUB 4,476 million ($170.0 million as of December 31, 2006) liability related to this case and accrued in the year ended December 31, 2006, the Group recorded an additional loss in the amount of RUB 224 million ($7.2 million at exchange rate for the year ended December 31, 2012), RUB 94 million ($3.2 million at exchange rate for the year ended December 31, 2011) and RUB 1,239 million ($40.8 million at exchange rate for the year ended December 31, 2010) in the consolidated financial statements for the years ended December 31, 2012, 2011, and 2010, respectively, representing damages, other costs and interest accrued on the awarded sums. The total liability accrued amounted to RUB 7,236 million ($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 RUB 11,201 million ($400.0 million as of January 28, 2005) Notes due 2012 pursuant to an Indenture dated January 28, 2005 (as amended) ("the Notes"), MTS Finance was due to redeem the principal of the Notes and pay the final coupon payment on January 30, 2012. However as a result of the freezing order, MTS OJSC applied to and obtained from the English Court an order authorizing both payments to be made by MTS OJSC rather than MTS Finance ("the Direct Payments"). The Direct Payments to noteholders by the trustee under the Indenture were made on or around January 28, 2012.

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

In relation to the obligations under the Intercompany Loan Agreement, MTS OJSC and MTS Finance have agreed to refer to arbitration under the Rules of LCIA the question of whether under the Intercompany Loan Agreement itself there remains an obligation to make any further payments to MTS Finance in light of the Direct Payments. On February 9, 2012, MTS OJSC received a request for arbitration from MTS Finance. The hearing took place at the end of January 2013.The award has clarified the rights between the parties under the Intercompany Loan Agreement. MTS OJSC was denying that any further payments were due under the Intercompany Loan Agreement. The arbitration was conducted under the Rules of LCIA.

In March 2013, Nomihold obtained initial permission from the English Commercial Court to serve proceedings out of the jurisdiction on MTS. Nomihold purported that MTS was liable to compensate it for a number of allegedly tortious wrongs, relating in part to recent proceedings in an international arbitration tribunal constituted under the rules of LCIA between Nomihold and MTS Finance, in the total amount exceeding RUB 6,662 million ($215 million at exchange rate for March 2013). 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 RUB 776 million ($25.2 million at exchange rate for March 2013) plus compensatory damages, and to recover approximately RUB 114 million ($3.7 million at exchange rate for March 2013) 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 RUB 15,661 million ($500 million as of November 30, 2011) (in April 2013 increased to RUB 28,197 million ($900 million at exchange rate for April 2013)) that Altimo Coöperatief U.A. has lodged with the Isle of Man court. The KFG Companies were proceeding with their counterclaims in the Isle of Man.

In a separate arbitration proceeding initiated against the KFG Companies by Kyrgyzstan Mobitel Investment Company Limited (“KMIC”), under the rules of LCIA, the arbitration tribunal in its award found that the KFG Companies breached a transfer agreement dated May 31, 2003 (the “Transfer Agreement”), concerning the shares of Bitel. The Transfer Agreement was made between the KFG Companies and IPOC International Growth Fund Limited (“IPOC”), although IPOC subsequently assigned its interest to KMIC, and KMIC was the claimant in the arbitration. The tribunal ruled that the KFG Companies breached the Transfer Agreement when they failed to establish a date on which the equity interests in Bitel were to be transferred to KMIC and by failing to take other steps to transfer the Bitel interests. This breach occurred prior to the acquisition of the KFG Companies by MTS Finance. The arbitration tribunal ruled that KMIC is entitled only to damages in an amount to be determined in future proceedings. At the request of the parties, the tribunal agreed to stay the damages phase of the proceedings pending conclusion of the Isle of Man proceedings.

In June 2013, an agreement was reached between Altimo, Altimo Holdings, MTS OJSC, MTS Finance, Nomihold and other associated parties to settle all disputes that have arisen from investments in Bitel (“the Agreement”). The Agreement covers matters involving a number of parties and legal proceedings, including those in the Isle of Man, London, Luxembourg and other jurisdictions. Pursuant to the Agreement all proceedings between the parties and their associated parties have been discontinued and waived, and MTS OJSC received a total payment of RUB 4,909 million ($150 million at exchange rates at the dates of payments) (“Settlement Payment”). All parties made the necessary submissions to the respective courts and tribunals to document the settlement, which, among other actions, fully discharged any and all outstanding obligations under the Award rendered by LCIA against MTS Finance in January 2011, as well as settled the tripartite LCIA arbitration between MTS OJSC, MTS Finance and Nomihold and a tort action filed by Nomihold against MTS OJSC in the English Courts.

The Group released provision of RUB 7,236 million ($221 million), comprising RUB 5,566 million ($170 million) set by LCIA to exercise the put option for acquisition of the remaining 49% stake in Bitel plus RUB 1,670 million ($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 as non-operating income in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2013, being the same line item through which the initial charge was taken.

The Group recognized a gain of RUB 4,911 million ($150 million) with respect to the Settlement Payment in the consolidated statement of operations and comprehensive income for the year ended December 31, 2013, of which RUB 1,060 million ($32.4 million) was recognized as operating income, and RUB 3,851 million ($117.6 million) as non-operating income on a pro-rata basis with respect to the expenses previously incurred and recognized in relation to the Bitel dispute.

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

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

28. SUBSEQUENT EVENTS

Political and economic crisis in Ukraine – Subsequent to year end, key aspects of the Ukrainian economy continued to deteriorate. Opposing groups have organized protests in Kyiv and other regions of the country. A referendum on the status of Crimea was held on March 16, 2014 followed by Crimea's acceding to the Russian Federation on March 21, 2014. These protests and the related unrest have caused a deterioration of Ukraine's credit ratings and depreciation of the national currency. The political tension in Ukraine remains high and in case of further escalation, conflict or imposition of any sanctions applicable to the Group's operations could result in a negative impact on our business in Ukraine including on its financial position and results of operations, and such impact, if any, could be significant.

Raising financing from Citibank Europe and Swedish Export Credit Corporation – On March 12, 2014, the Group entered in a credit facility agreement with Citibank Europe PLC and Swedish Export Credit Corporation for up to $300 million (RUB 10,920 million at the date of transaction). The credit facility will be used for the development of the Group's mobile networks through purchases of equipment from Ericsson. The facility will be made available in one tranche with maturity in July 2024. The interest rate is LIBOR + 0.9%. The amounts may be drawn by the Company over the next 12 months and will be linked to equipment purchases for the development of LTE networks.

Depreciation of the Russian Ruble – During the period from December 31, 2013 to April 17, 2014, the Russian Ruble further depreciated by 10% and 11% against the U.S. Dollar and the Euro, respectively. Since a portion of the Group's capital expenditures, borrowings and certain operating costs are denominated in U.S. Dollars and Euros, this and any further devaluation could adversely affect the Group's results of operations in 2014. The Group would experience an estimated currency exchange loss of RUB 4.3 billion on its U.S. Dollar- and Euro- denominated net monetary liabilities as a result of a hypothetical 10% and 11% depreciation of the Russian Ruble against the U.S. Dollar and Euro at December 31, 2013, respectively. This sensitivity analysis includes only outstanding U.S. Dollar- and Euro- denominated monetary items.

Repurchase of Notes – In March 2014, the Group repurchased part of MTS International Notes due 2020 with nominal value of USD 50.2 million (RUB 1,819 million at the date of transaction).

Disposal of Business-Nedvizhimost – In April 2014, the Group sold a 49% stake in Business-Nedvizhimost to Sistema for cash consideration of RUB 3.1 billion to be paid by June 30, 2014. Before the disposal an ownership interest in Business-Nedvizhimost was held by MGTS-Nedvizhimost CJSC, a subsidiary of MGTS, and was accounted for by the Group using the equity method (Note 3).

Raising financing from Sberbank – On April 11, 2014 the Group signed an agreement with Sberbank to open a non-revolving credit line for a total amount of RUB 20 billion. The credit line matures in July 2015 and bears an annual interest rate of 9.96%. The line will be used to support general corporate needs.

Investigations into former operations in Uzbekistan – In March 2014, the Group received requests for the provision of information from the United States Securities and Exchange Commission and the United States Department of Justice relating to an investigation of the Group's former subsidiary in Uzbekistan (Note 4). As the aforementioned US government investigations are at an early stage, the Company cannot predict the outcome of the investigations, including any fines or penalties that may be imposed, and such fines or penalties could be significant.