# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

**Unaudited Condensed Consolidated Interim Financial Statements**

As of June 30, 2014 and December 31, 2013
and for the Six Months Ended June 30, 2014 and 2013

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2014 AND DECEMBER 31, 2013

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

| | Note | June 30, 2014 | December 31, 2013 |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents | 2, 11 | 53,449 | 30,612 |
| Short-term investments, including related party amounts of nil and 9,235, respectively | 3, 11 | 20,778 | 14,633 |
| Trade receivables, net of allowance for doubtful accounts of 1,888 and 3,753, respectively | | 29,510 | 34,554 |
| Accounts receivable, related parties | 11 | 4,211 | 965 |
| Inventory and spare parts | | 7,281 | 8,498 |
| Prepaid expenses, including related party amounts of 203 and 123, respectively | | 7,532 | 9,811 |
| Deferred tax assets | | 7,993 | 7,933 |
| VAT receivable | | 6,312 | 6,651 |
| Other current assets | | 2,868 | 3,019 |
| **Total current assets** | | **139,934** | **116,676** |
| **PROPERTY, PLANT AND EQUIPMENT**, net of accumulated depreciation of 292,721 and 293,389, respectively, including advances given to related parties of 457 and 367, respectively | | 265,723 | 270,660 |
| **LICENSES**, net of accumulated amortization of 3,519 and 3,194, respectively | | 2,976 | 3,202 |
| **GOODWILL** | | 32,752 | 32,704 |
| **OTHER INTANGIBLE ASSETS**, net of accumulated amortization of 57,886 and 58,153, including prepayments to related parties of 129 and 232, respectively | | 37,826 | 38,423 |
| **DEBT ISSUANCE COSTS**, net of accumulated amortization of 2,311 and 2,375, respectively | | 1,711 | 2,023 |
| **INVESTMENTS IN AND ADVANCES TO ASSOCIATES** | 4 | 15,351 | 13,393 |
| **OTHER INVESTMENTS**, including related party amounts of 743 and 743, respectively) | 5, 11 | 18,046 | 4,392 |
| **OTHER NON-CURRENT ASSETS** | | 4,705 | 4,051 |
| **Total assets** | | **519,024** | **485,524** |

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

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED) AS OF JUNE 30, 2014 AND DECEMBER 31, 2013

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

| | Note | June 30, 2014 | December 31, 2013 |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Accounts payable, related parties | 11 | 2,627 | 3,315 |
| Trade payables | | 20,556 | 23,864 |
| Subscriber prepayments and deposits | | 14,739 | 17,884 |
| Debt, current portion | 6 | 6,225 | 7,564 |
| Notes payable, current portion | 6 | 3,844 | 17,462 |
| Deferred connection fees, current portion | | 1,236 | 1,604 |
| Income tax payable | | 1,602 | 997 |
| Accrued liabilities | | 32,276 | 27,674 |
| Dividends payable | 1 | 37,405 | - |
| Other payables, including capital lease obligations of 313 and 38, respectively | | 1,638 | 1,498 |
| **Total current liabilities** | | **122,148** | **101,862** |
| **LONG-TERM LIABILITIES:** | | | |
| Notes payable, net of current portion | 6 | 83,607 | 85,282 |
| Debt, net of current portion | 6 | 124,877 | 108,792 |
| Capital lease obligation, net of current portion | 7 | 5,287 | 10 |
| Deferred connection fees, net of current portion | | 1,831 | 2,045 |
| Deferred taxes | | 23,827 | 21,202 |
| Retirement and post-retirement obligations | | 1,134 | 1,059 |
| Property, plant and equipment contributions | | 2,382 | 2,428 |
| Other long-term liabilities | | 3,916 | 3,859 |
| **Total long-term liabilities** | | **246,861** | **224,677** |
| **Total liabilities** | | **369,009** | **326,539** |
| COMMITMENTS AND CONTINGENCIES | 12 | - | - |
| **Redeemable noncontrolling interest** | | 2,153 | 2,932 |
| **SHAREHOLDERS' EQUITY:** | | | |
| Common stock (2,066,413,562 shares with a par value of 0.1 rubles authorized 2,066,413,562 shares issued as of June 30, 2014 and December 31, 2013, 777,396,505 of which are in the form of ADS as of June 30, 2014 and December 31, 2013 ) | | 207 | 207 |
| Treasury stock (77,491,497 and 77,582,378 common shares at cost as of June 30, 2014 and December 31, 2013 ) | | (24,462) | (24,482) |
| Additional paid-in capital | | 5,569 | 3,019 |
| Accumulated other comprehensive loss | | (23,895) | (15,030) |
| Retained earnings | | 186,226 | 188,217 |
| **Total equity attributable to the Group** | | **143,645** | **151,931** |
| **Nonredeemable noncontrolling interest** | | 4,217 | 4,122 |
| **Total shareholders' equity** | | **147,862** | **156,053** |
| **Total liabilities and shareholders' equity** | | **519,024** | **485,524** |

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

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013

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

| | **Note** | **Six months ended June 30, 2014** | **Six months ended June 30, 2013** |
|---|---|---|---|
| **NET OPERATING REVENUES** | | | |
| Service revenue and connection fees, including related party amounts of 724 and 436, respectively | | 184,442 | 178,766 |
| Sales of handsets and accessories | | 11,980 | 11,538 |
| **Total net operating revenues** | | **96,422** | **190,304** |
| **OPERATING EXPENSES** | | | |
| Cost of services, excluding depreciation and amortization shown separately below, including related party amounts of 895 and 282, respectively | | 41,721 | 40,678 |
| Cost of handsets and accessories | | 10,659 | 9,569 |
| General and administrative expenses, including related party amounts of 1,042 and 948, respectively | | 45,093 | 42,560 |
| Allowance for doubtful accounts | | 1,733 | 1,075 |
| Sales and marketing expenses, including related party amounts of 862 and 828, respectively | | 10,440 | 10,983 |
| Depreciation and amortization expense | | 36,272 | 36,589 |
| Other operating expenses / (income), including related party amounts of (277) and 16, respectively | | 2,094 | 1,706 |
| **Net operating income** | | **48,410** | **47,144** |
| **CURRENCY EXCHANGE AND TRANSACTION (GAIN) / LOSS** | | (435) | 4,605 |
| **OTHER EXPENSES / (INCOME)** | | | |
| Interest income, including related party amounts of 405 and 342, respectively | | (2,316) | (1,496) |
| Interest expense, net of amount capitalized 778 and 1,361 | 6 | 8,012 | 8,479 |
| Equity in net income of associates | 4 | (1,153) | (698) |
| Other expense / (income), net, including gain of (10,445) related to Bitel settlement in 2013 | | 25 | (10,206) |
| **Total other expenses / (income), net** | | **4,568** | **(3,921)** |
| **Income from continuing operations before provision for income taxes** | | **44,277** | **46,460** |
| PROVISION FOR INCOME TAXES | 10 | 9,723 | 7,682 |
| **NET INCOME FROM CONTINUING OPERATIONS** | | **34,554** | **38,778** |
| **NET INCOME FROM DISCONTINUED OPERATIONS** | | - | 3,733 |
| **NET INCOME** | | **34,554** | **42,511** |
| **LESS: NET INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST** | | 440 | 502 |
| **NET INCOME ATTRIBUTABLE TO THE GROUP** | | **34,114** | **42,009** |

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

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED) FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013

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

| | Note | Six months ended June 30, 2014 | Six months ended June 30, 2013 |
|---|---|---|---|
| **Other comprehensive (loss) / income, net of tax** | | | |
| Currency translation adjustment | | (10,012) | (2,890) |
| Unrealized gains on derivatives, net of tax of (293) and (399) | | 1,173 | 1,595 |
| Unrecognized actuarial gains, net of tax of (2) and (4) | 14 | 9 | 19 |
| **Total other comprehensive loss, net of tax** | | **(8,830)** | **(1,276)** |
| **TOTAL COMPREHENSIVE INCOME** | | **25,724** | **41,235** |
| **LESS: TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST** | | 476 | 645 |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE GROUP** | | **25,248** | **40,590** |
| Weighted average number of common shares outstanding, in thousands – basic and diluted | | 1,988,782 | 1,988,868 |
| Earnings per share attributable to the Group – basic and diluted, RUB | | | |
| EPS from continuing operations | | 17.15 | 19.24 |
| EPS from discontinuing operations | | - | 1.88 |
| Total EPS | | 17.15 | 21.12 |

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

# OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013
***(Amounts in millions of Russian Rubles)***

| | Six months ended June 30, 2014 | Six months ended June 30, 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | 34,554 | 42,511 |
| Less: net income from discontinued operations | - | (3,733) |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| Depreciation and amortization | 36,272 | 36,589 |
| Currency exchange and transaction (gain) / loss | (435) | 4,605 |
| Debt issuance cost amortization | 337 | 1,377 |
| Amortization of deferred connection fees | (576) | (479) |
| Equity in net income of associates | (1,153) | (698) |
| Allowance for doubtful accounts | 1,733 | 1,076 |
| Inventory obsolescence expense and other provisions | 162 | 391 |
| Deferred tax expense | 1,922 | 5,310 |
| Other non-cash items | 160 | 120 |
| **Changes in operating assets and liabilities:** | | |
| Decrease / (Increase) in trade receivables | 2,027 | (6,286) |
| Decrease in inventory | 1,030 | 1,959 |
| Decrease / (Increase) in prepaid expenses and other current assets | 1,923 | (6,641) |
| Decrease / (Increase) in VAT receivable | 280 | (36) |
| (Decrease) / Increase in trade payables, accrued liabilities and other current liabilities | (1,340) | 6,512 |
| Decrease in liability related to Bitel | - | (7,238) |
| Dividends received from associates | 1,303 | 809 |
| **Net cash provided by operating activities – continuing operations** | **78,199** | **76,148** |
| **Net cash used in operating activities – discontinued operations** | **-** | **(547)** |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | **78,199** | **75,601** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of property, plant and equipment | (23,423) | (20,515) |
| Purchases of intangible assets | (5,447) | (5,579) |
| Proceeds from sale of property, plant and equipment and assets held for sale | 231 | 230 |
| Purchases of short-term investments | (29,187) | (26,598) |
| Proceeds from disposal of short-term investments | 23,383 | 14,032 |
| Purchases of other investments | (15,283) | - |
| Proceeds from sale of other investments | 730 | - |
| Investments in and advances to associates, net | (2,702) | (5,089) |
| **Net cash used in investing activities – continuing operations** | **(51,698)** | **(43,519)** |
| **Net cash provided by investing activities – discontinued operations** | **-** | **115** |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(51,698)** | **(43,404)** |

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

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013

*(Amounts in millions of Russian Rubles)*

| | Six months ended June 30, 2014 | Six months ended June 30, 2013 |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from issuance of notes | - | 25,651 |
| Acquisition of noncontrolling interests in existing subsidiaries | (26) | - |
| Repayment of notes | (16,619) | (1,876) |
| Loan principal paid | (5,944) | (14,528) |
| Proceeds from loans | 20,000 | - |
| Notes and debt issuance cost paid | (25) | (146) |
| Capital lease obligation principal paid | (20) | (247) |
| Dividends paid | (56) | (50) |
| Other financial activities | 24 | (20) |
| **Net cash (used in) / provided by financing activities – continuing operations** | **(2,666)** | **8,784** |
| **NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES** | **(2,666)** | **8,784** |
| Effect of exchange rate changes on cash and cash equivalents | (998) | 1,161 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **22,837** | **42,142** |
| **CASH AND CASH EQUIVALENTS, beginning of the period** | **30,612** | **22,014** |
| **CASH AND CASH EQUIVALENTS, end of the period** | **53,449** | **64,156** |
| **Less cash and cash equivalents from discontinued operations, end of the period** | **-** | **-** |
| **CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS, end of the period** | **53,449** | **64,156** |
| **SUPPLEMENTAL INFORMATION:** | | |
| Income taxes paid | 5,898 | 7,833 |
| Interest paid | 8,108 | 8,457 |
| **Non-cash investing and financing activities:** | | |
| Finance lease obligation related to property, plant and equipment | 5,600 | 128 |

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

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
### FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013
***(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, 2013** | **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 | - | - | - | - | - | - | 42,009 | 42,009 | **353** | 42,362 | **149** |
| Other comprehensive (loss) / income, net of tax | - | - | - | - | - | (1,417) | - | (1,417) | **1** | (1,416) | **141** |
| Issuance of Stock Options | - | - | - | - | 51 | - | - | 51 | **-** | 51 | **-** |
| Dividends declared MTS | - | - | - | - | - | - | (29,037) | (29,037) | **-** | (29,037) | **-** |
| Dividends to noncontrolling interest | - | - | - | - | - | - | (50) | (50) | **-** | (50) | **50** |
| Acquisition of own stock | - | - | (90,881) | (20) | - | - | - | (20) | **-** | (20) | **-** |
| Change in fair value of noncontrolling interest of K-Telecom (Armenia) | - | - | - | - | - | - | 82 | 82 | **-** | 82 | **(82)** |
| Sale of own stock | - | - | 2,888 | - | 1 | - | - | 1 | **-** | 1 | **-** |
| **Balances at June 30, 2013** | **2,066,413,562** | **207** | **(77,582,378)** | **(24,482)** | **335** | **(15,093)** | **161,375** | **122,342** | **3,622** | **125,964** | **2,556** |

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

## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
### FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013
### *(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, 2014** | **2,066,413,562** | **207** | **(77,582,378)** | **(24,482)** | **3,019** | **(15,030)** | **188,217** | **151,931** | **4,122** | **156,053** | **2,932** |
| Net income | - | - | - | - | - | - | 34,113 | 34,113 | **309** | 34,422 | **131** |
| Other comprehensive (loss) / income, net of tax | - | - | - | - | - | (8,865) | - | (8,865) | **2** | (8,863) | **33** |
| Issuance of Stock Options | - | - | - | - | 42 | - | - | 42 | **-** | 42 | **-** |
| Dividends declared MTS | - | - | - | - | - | - | (36,994) | (36,994) | **-** | (36,994) | **-** |
| Dividends to noncontrolling interest | - | - | - | - | - | - | - | - | **(357)** | (357) | **(53)** |
| Sale of own stock | - | - | 90,881 | 20 | 4 | - | - | 24 | **-** | 24 | **-** |
| Change in fair value of noncontrolling interest of K-Telecom (Armenia) | - | - | - | - | - | - | 890 | 890 | **-** | 890 | **(890)** |
| Acquisition of NCI in Teleservice | - | - | - | - | (23) | - | - | (23) | **(3)** | (26) | **-** |
| Sale of Business-Nedvizhimost (Note 4) | - | - | - | - | 2,527 | - | - | 2,527 | **144** | 2,671 | **-** |
| **Balances at June 30, 2014** | **2,066,413,562** | **207** | **(77,491,497)** | **(24,462)** | **5,569** | **(23,895)** | **186,226** | **143,645** | **4,217** | **147,862** | **2,153** |

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

***Basis of presentation*** – The accompanying unaudited condensed consolidated interim financial statements of Mobile TeleSystems OJSC and its subsidiaries ("MTS" or "the Group") as of June 30, 2014 and December 31, 2013 and for the Six Months ended June 30, 2014 and 2013 have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial reporting. Management believes that these unaudited condensed consolidated interim financial statements include all adjustments (consisting of normal recurring accruals) necessary to present fairly the Group's financial position, results of operations and cash flows for the periods presented. Operating results for the six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014.

The accompanying unaudited condensed consolidated interim financial statements as of June 30, 2014 and December 31, 2013 and for the Six Months ended June 30, 2014 and 2013 should be read in conjunction with the Annual report on Form 20-F for the year ended December 31, 2013 filed with the Securities and Exchange Commission on April 24, 2014. Significant accounting policies remained unchanged since December 31, 2013. The unaudited condensed consolidated statement of financial position as of December 31, 2013 has been derived from the audited consolidated financial statements at that date but does not include all disclosures required by U.S. GAAP for the full set financial statements. However, management believes that the disclosures are adequate to ensure that the information herein is not misleading.

***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 unaudited condensed consolidated interim financial statements have been prepared in order to present the Group's financial position and its results of operations and cash flows in accordance with U.S. GAAP and are expressed in terms of Russian Rubles.

The accompanying unaudited condensed consolidated interim financial statements as of June 30, 2014 and December 31, 2013 and for the six months ended June 30, 2014 and 2013 differ from the financial statements used for statutory purposes in that they reflect various 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 unaudited condensed consolidated interim financial statements include the accounts of Mobile TeleSystems OJSC ("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 do 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 unaudited condensed consolidated interim 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 on consolidation.

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013** ***(Amounts in millions of Russian Rubles unless otherwise stated)***

As of June 30, 2014 and December 31, 2013, MTS OJSC had investments in the following significant legal entities:

| | Accounting method | June 30, 2014 | December 31, 2013 |
|---|---|---|---|
| MTS Turkmenistan | Consolidated | 100.0% | 100.0% |
| MTS Bermuda [1] | 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% |
| Stream-TV | 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% |
| Moscow City Telephone Network (“MGTS” Group) | Consolidated | 94.6% | 94.6% |
| K-Telecom (Armenia) | Consolidated | 80.0% | 80.0% |
| 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% | 26.3% |
| OZON Holdings Limited | Equity | 10.8% | - |

[1] A wholly-owned subsidiary established to repurchase the Group’s ADSs.

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 6). In 2014 the Group repurchased Notes due in 2020 and 2023 with a nominal value of $69.7 million (RUB 2,518 million) and $13.5 million (RUB 482 million), respectively. 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.

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 *(Amounts in millions of Russian Rubles unless otherwise stated)***

The table below summarizes the assets and liabilities of MTS International as of June 30, 2014 and December 31, 2013:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Cash and cash equivalents | 2 | 1 |
| Intercompany Receivable from MTS OJSC (1) | 42,165 | 41,035 |
| **Total assets:** | **42,167** | **41,036** |
| Interest payable (2) | 127 | 123 |
| Notes payable due 2020 and 2023 (3) | 42,038 | 40,912 |
| Other payables | 2 | 1 |
| **Total liabilities:** | **42,167** | **41,036** |

(1) Eliminated in the Group consolidated statements of financial position

(2) Relates to MTS International Notes due 2020 and 2023. Thereof RUB 120 million and RUB 123 million are included in Accrued liabilities in the Group consolidated statements of financial position as of June 30, 2014 and December 31, 2014

(3) RUB 39,240 million and RUB 40,912 million are included in notes payable, net of current portion, in the Group consolidated statements of financial position (Note 6)

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 servicing of these notes. The Group bears all costs incurred by MTS International in connection with such maintenance activities. Such costs for the six months ended June 30, 2014 and 2013 amounted to RUB 1,979 million and RUB 1,073 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 June 30, 2014, 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 (Armenia) – the Armenian Dram;

For MTS Belarus – the Russian Ruble.

***Management estimates*** – The preparation of unaudited condensed consolidated interim 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.

***Dividends*** – On June 24, 2014, MTS’s shareholders approved cash dividends in the amount of RUB 38.4 billion (including dividends on treasury shares of RUB 1,441 million). The amount of dividends declared was included in dividends payable in the accompanying consolidated statement of financial position as of June 30, 2014.

***New and recently adopted accounting pronouncements*** – In May 2014, the Financial Accounting Standards Board ("FASB") amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group is required to adopt the amendments in the reporting period starting after December 15, 2016. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The management of the Group is currently evaluating the impact of these amendments and the transition alternatives on the Group unaudited condensed consolidated interim financial statements.

In April 2014, the FASB issued guidance which changes the criteria for identifying a discontinued operation. The guidance limits the definition of a discontinued operation to the disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The guidance is effective for fiscal years and interim reporting periods within those fiscal years beginning after December 15, 2014, with early adoption permitted for transactions that have not been reported in financial statements previously issued. The adoption of this guidance is not expected to have a material impact on the Group's unaudited condensed consolidated interim financial statements.

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 *(Amounts in millions of Russian Rubles unless otherwise stated)***

## 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2014 and December, 31 2013 comprised the following:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Ruble current accounts | 6,105 | 5,900 |
| Ruble deposit accounts | 30,430 | 14,215 |
| U.S. dollar current accounts | 6,525 | 1,336 |
| U.S. dollar deposit accounts | 3,207 | 7,503 |
| Euro current accounts | 1,421 | 395 |
| Euro deposit accounts | 1,652 | 136 |
| Hryvna current accounts | 858 | 87 |
| Hryvna deposit accounts | 2,546 | 276 |
| Turkmenian manat current accounts | 629 | 697 |
| AMD current accounts | 76 | 67 |
| **Total cash and cash equivalents** | **53,449** | **30,612** |

## 3. SHORT-TERM INVESTMENTS

Short-term investments as of June 30, 2014 comprised the following:

| Type of investment | Annual interest rate | Maturity date | Amount |
|---|---|---|---|
| Deposits | 2.0%-10.6% | July 2014-December 2014 | 20,756 |
| Other | | | 22 |
| **Total** | | | **20,778** |

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 11) | 8.7% | June 2014 | 5,081 |
| Mutual investment fund "Reservnyi", managed by "DIK" (related parties) (Note 11) [1] | - | Upon request | 4,154 |
| Other | | | 21 |
| **Total short-term investments** | | | **14,633** |

[1] Sold in April 2014 for RUB 4,165 million

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 *(Amounts in millions of Russian Rubles unless otherwise stated)*

## 4. INVESTMENTS IN AND ADVANCES TO ASSOCIATES

As of June 30, 2014 and December 31, 2013, the Group's investments in and advances to associates comprised the following:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| MTS Bank – equity investment | 5,253 | 5,476 |
| MTS Bank – loan | 2,100 | 2,100 |
| MTS Belarus – equity investment | 4,906 | 5,013 |
| OZON Holdings Limited – equity investment | 2,702 | - |
| Business-Nedvizhimost – equity investment | - | 410 |
| Stream – equity investment | 277 | 231 |
| Intellect Telecom – equity investment | 113 | 163 |
| **Total investments in and advances to associates** | **15,351** | **13,393** |

***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 the Group previously owned an interest of 1.7% (such original interest decreased to 1.2% due to the 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.

***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 for a price of RUB 3.2 billion. After the loss of control over the subsidiary, the Group deconsolidated Business-Nedvizhimost and accounted for the investment using the equity method of accounting. In April 2014 MGTS sold a remaining 49% stake in Business-Nedvizhimost to Sistema for a price of RUB 3.1 billion. The disposal was accounted for as a transaction under common control directly in equity.

***OZON Holdings Limited*** - In April 2014 the Group acquired a 10.82% stake in OZON Holdings Limited through the purchase of OZON Holdings Limited's additional share issuance for USD 75 million (RUB 2,702 million). The Group concluded that it is able to exercise significant influence over OZON Holdings Limited based on direct and indirect ownership of equity shares, representation on the investee's Board of Directors and certain veto rights related to matters intersecting with the Group's interests. The Group is accounting for the investment using the equity method of accounting.

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 six months ended June 30, 2014 and June 30, 2013, this share amounted to a gain of RUB 1,153 million and RUB 698 million, respectively.

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 *(Amounts in millions of Russian Rubles unless otherwise stated)***

## 5. OTHER INVESTMENTS

As of June 30, 2014 and December 31, 2013, the Group's other investments comprised the following:

| | Annual interest rate | Maturity date | June 30, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Deposits | 2.5 -2.7% | July 2015 | 14,272 | - |
| Loan receivable from Mr. P. Fattouche and Mr. M. Fattouche | 6% | December 2015 | 3,027 | 2,946 |
| Loan Participation Notes EMIS BV | 6% | - | - | 699 |
| Promissory notes of Sistema (Note 11) | 0.0% | 2017 | 618 | 618 |
| Investments in ordinary shares (related parties) (Note 11) | - | - | 125 | 125 |
| Other | - | - | 4 | 4 |
| **Total other investments** | | | **18,046** | **4,392** |

The Group does not discount promissory notes and loans granted to related parties, where interest rates may vary from market rates. Accordingly, the 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. Interest accrued on the loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche for the six months ended June 30, 2014 and 2013, amounted to RUB 94 million and RUB 84 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 on-market interest rate.

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 interest of 6% per annum and are due in 2015. The Notes were sold in May 2014 before final maturity for $ 22.3 million (RUB 764 million at the date of transaction) including realized interest of $1 million (RUB 34 million at recognition dates).

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 *(Amounts in millions of Russian Rubles unless otherwise stated)***

### 6. BORROWINGS

***Notes*** – As of June 30, 2014 and December 31, 2013, the Group's notes consisted of the following:

| | Currency | Interest rate | June 30, 2014 | December 31, 2013 |
|---|---|---|---|---|
| MTS International Notes due 2020 (Note 1) | USD | 8.625% | 22,879 | 24,547 |
| MTS International Notes due 2023 (Note 1) | USD | 5.00% | 16,361 | 16,365 |
| MTS OJSC Notes due 2020 | RUB | 8.15% | 15,000 | 15,000 |
| MTS OJSC Notes due 2014 | RUB | 7.60% | - | 13,619 |
| MTS OJSC Notes due 2017 | RUB | 8.70% | 10,000 | 10,000 |
| MTS OJSC Notes due 2023 | RUB | 8.25% | 10,000 | 10,000 |
| MTS OJSC Notes due 2015 | RUB | 7.75% | 7,537 | 7,537 |
| MTS OJSC Notes due 2018 | RUB | 7.50% | 3,844 | 3,844 |
| MTS OJSC Notes due 2016 | RUB | 8.75% | 1,788 | 1,788 |
| MTS OJSC Notes due 2015 (A series) | RUB | 10.0% | 12 | 12 |
| MTS OJSC Notes due 2016 (B series) | RUB | 8.0% | 12 | 12 |
| MTS OJSC Notes due 2022 (V series) | RUB | 5.0% | 12 | 12 |
| Plus: unamortized premium | | | 6 | 8 |
| **Total notes** | | | **87,451** | **102,744** |
| Less: current portion | | | (3,844) | (17,462) |
| **Total notes, long-term** | | | **83,607** | **85,282** |

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 the 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 are 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.

The fair values of notes based on the market quotes as of June 30, 2014 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 | 117,80 | 26,951 |
| MTS International Notes due 2023 | Irish stock exchange | 96,20 | 15,740 |
| MTS OJSC Notes due 2020 | Moscow Exchange | 99,50 | 14,925 |
| MTS OJSC Notes due 2023 | Moscow Exchange | 100,02 | 10,002 |
| MTS OJSC Notes due 2017 | Moscow Exchange | 98,93 | 9,893 |
| MTS OJSC Notes due 2015 | Moscow Exchange | 99,50 | 7,499 |
| MTS OJSC Notes due 2018 | Moscow Exchange | 99,50 | 3,824 |
| MTS OJSC Notes due 2016 | Moscow Exchange | 100,41 | 1,795 |
| **Total notes** | | | **90,629** |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 *(Amounts in millions of Russian Rubles unless otherwise stated)*

***Bank loans and other debt*** – As of June 30, 2014 and December 31, 2013, the Group's loans from banks and financial institutions consisted of the following:

| | Maturity | Interest rate (actual at June 30, 2014) | June 30, 2014 | December 31, 2013 |
|---|---|---|---|---|
| ***USD-denominated:*** | | | | |
| Calyon, ING Bank N.V., Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG | 2014-2020 | LIBOR+1.15% (1.48%) | 24,755 | 26,132 |
| Skandinavska Enskilda Banken AB | 2014-2017 | LIBOR+0.23%-1.8% (0.55%-2.13%) | 3,724 | 4,238 |
| HSBC Bank plc and ING BHF Bank AG | 2014 | LIBOR+0.3% (0.63%) | 72 | 394 |
| Other | - | - | - | 258 |
| | | | **28,551** | **31,022** |
| ***EUR-denominated:*** | | | | |
| Credit Agricole Corporate Bank and BNP Paribas | 2014-2018 | EURIBOR+1.65% (1.95%) | 1,428 | 1,557 |
| LBBW | 2014-2017 | EURIBOR+1.52% (1.82%) | 748 | 839 |
| Bank of China | - | - | - | 2,435 |
| | | | **2,176** | **4,831** |
| ***RUB-denominated:*** | | | | |
| Sberbank [1)] | 2015-2020 | 8.45%-9.96% | 100,000 | 80,000 |
| Other | 2014-2023 | Various | 375 | 395 |
| | | | **100,375** | **80,395** |
| ***AMD-denominated:*** | | | | |
| ASHIB | - | - | - | 108 |
| | | | **-** | **108** |
| **Total bank loans and other debt** | | | **131,102** | **116,356** |
| Less: current portion | | | (6,225) | (7,564) |
| **Total bank loans and other debt, long-term** | | | **124,877** | **108,792** |

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 depends on the volume of turnovers on 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 April 2014, the Group entered into a new non-revolving credit line facility in the amount of RUB 20 billion which expires on July 10, 2015 and bear interest at a rate equal 9.96%. The interest rate will be decreased from 9.96% to 9.7% starting from April 2015. In addition, Sberbank is entitled to voluntary 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 six months ended June 30, 2014 and 2013 were RUB 778 million and RUB 1,361 million, respectively. 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 six months ended June 30, 2014 and 2013 were RUB 7,675 million and RUB 7,102 million, respectively.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 *(Amounts in millions of Russian Rubles unless otherwise stated)*

***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, be subject to a judgment requiring payment of money in excess of $10 million (RUB 336 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 a 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.

The Group was in compliance with all existing notes and bank loan covenants as of June 30, 2014.

As of June 30, 2014, the Group did not have any assets pledged.

***Available credit facilities*** – As of June 30, 2014, the Group's total available unused credit facilities amounted to RUB 15 billion and related to the following credit lines:

| | Maturity | Interest rate | Available till | Available amount |
|---|---|---|---|---|
| CitiBank Europe | 2015 | LIBOR 6M + 0.9% | April 2015 | 10,089 |
| ING Bank Eurasia | 2014 | MosPrime/LIBOR/ EURIBOR + 1.50% | July 2014 | 2,500 |
| Rosbank | 2014 | MosPrime + 0.75% | July 2014 | 2,500 |
| **Total** | | | | **15,089** |

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 June 30, 2019 and thereafter:

| | Notes | Bank loans |
|---|---|---|
| Payments due for the twelve months ended June 30, | | |
| 2015 | 3,844 | 6,225 |
| 2016 | 22,556 | 41,010 |
| 2017 | 1,800 | 25,766 |
| 2018 | 20,000 | 14,832 |
| 2019 | - | 24,378 |
| Thereafter | 39,251 | 18,891 |
| **Total** | **87,451** | **131,102** |

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 *(Amounts in millions of Russian Rubles unless otherwise stated)***

## 7. CAPITAL LEASE OBLIGATION

The following table presents a summary of assets under capital lease and accumulated depreciation as of June 30, 2014 and December 31, 2013:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Network and base station equipment | 6,122 | - |
| Vehicles | 132 | 942 |
| Buildings | - | 28 |
| **Leased assets, at cost** | **6,254** | **970** |
| Accumulated depreciation | (210) | (793) |
| **Leased assets, net** | **6,044** | **177** |

Depreciation of the assets under capital leases for the six months ended June 30, 2014 and 2013 amounted to RUB 237 million and RUB 140 million, respectively and was included in depreciation and amortization expense in the accompanying consolidated statements of operations and comprehensive income.

Interest expense on capital lease obligations for the six months ended June 30, 2014 and 2013 amounted to RUB 111 million and RUB 94 million, respectively.

The following table presents future minimum lease payments under capital leases with the present value of the net minimum lease payments:

| | |
|---|---|
| **Payments due for the year ended June 30,** | |
| 2015 | 657 |
| 2016 | 640 |
| 2017 | 649 |
| 2018 | 668 |
| 2019 | 668 |
| Thereafter | 4,695 |
| **Total minimum lease payments (undiscounted)** | **7,977** |
| Less amount representing interest | (2,377) |
| **Present value of net minimum lease payments** | **5,600** |
| Less current portion of lease obligations | (313) |
| **Non-current portion of lease obligations** | **5,287** |

Leased assets include automobiles and transponders which are installed on the satellite. The average lease term of the automobiles is three years. The Group has an obligation to purchase automobiles under the respective capital lease agreements at the end of the lease term. The lease term of the transponders is twelve years. The Group is planning to use transponders for providing satellite television services.

## 8. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

### Cash flow hedging

From 2007 till 2014, the Group entered into variable-to-fixed interest rate swap agreements to manage the exposure of changes in variable interest rates related to its debt obligations. The instruments qualify for cash flow hedge accounting under U.S. GAAP. 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 June 30, 2014 mature in 2014-2015, 2018 and 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 *(Amounts in millions of Russian Rubles unless otherwise stated)*

In aggregate the Group entered into interest rate swap agreements designated to manage the exposure of changes in variable interest rate which resulted in 12% of the Group's debt being subject to variable interest rates as of June 30, 2014.

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 2015 and 2019-2020.

The Group entered into cross-currency interest rate swap agreements designated to manage the exposure of changes in variable interest rates and currency exchange rates for 35% of its debt denominated in foreign currency and outstanding as of June 30, 2014.

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 June 30, 2014 and December 31, 2013.

| | **Statements of financial position location** | **June 30, 2014** | **December 31, 2013** |
|---|---|---|---|
| ***Asset derivatives*** | | | |
| Cross-currency interest rate swaps | Other non-current assets | 3,288 | 1,825 |
| Cross-currency interest rate swaps | Other current assets | 471 | - |
| Interest rate swaps | Other current assets | 4 | 12 |
| **Total** | | **3,763** | **1,837** |
| ***Liability derivatives*** | | | |
| Interest rate swaps | Other long-term liabilities | (469) | (389) |
| Interest rate swaps | Other payables | (7) | (32) |
| **Total** | | **(476)** | **(421)** |

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 six months ended June 30, 2014 and 2013. The amounts presented include the ineffective portion of derivative instruments and the amounts reclassified into earnings from accumulated other comprehensive income.

| | **Location of gain / (loss) recognized** | **Six months ended June 30, 2014** | **Six months ended June 30, 2013** |
|---|---|---|---|
| Interest rate swaps | Interest expense | (47) | (179) |
| Cross-currency interest rate swaps | Currency exchange and transaction gain/(loss) | 1,056 | (224) |
| **Total** | | **1,009** | **(403)** |

The following table presents the amount of the ineffective portion of the Group's derivative instruments designated as hedges in the consolidated statements of operations and comprehensive income for the six months ended June 30, 2014 and 2013.

| | **Location of gain / (loss) recognized** | **Six months ended June 30, 2014** | **Six months ended June 30, 2013** |
|---|---|---|---|
| Interest rate swaps | Interest expense | (54) | (81) |
| Cross-currency interest rate swaps | Currency exchange and transaction gain | 471 | - |
| **Total** | | **417** | **(81)** |

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013** ***(Amounts in millions of Russian Rubles unless otherwise stated)***

The following table presents the effect of the Group's interest rate swap agreements designated as hedges in accumulated other comprehensive income for the six months ended June 30, 2014 and 2013.

| | Six months ended June 30, | |
|---|---|---|
| | **2014** | **2013** |
| **Accumulated derivative income / (loss), beginning of the year, net of tax of (293) and (4), respectively** | **1,467** | **21** |
| Fair value adjustments on hedging derivatives, net of tax of (242) and (250), respectively | 1,208 | 1,249 |
| Amounts reclassified into earnings during the period, net of tax of 7 and (65), respectively | (36) | 325 |
| **Accumulated derivative income / (loss), end of the year, net of tax of (528) and (318), respectively** | **2,639** | **1,595** |

As of June 30, 2014, the outstanding hedging instruments were highly effective. Approximately RUB 585 million of gain on derivatives 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 six months ended June 30, 2014 and 2013.

### Fair value of derivative instruments

The Group measured assets and liabilities associated with derivative instrument arrangements at fair value on a recurring basis using Level 2 inputs. There were no assets or liabilities associated with derivative agreements measured at fair value using Level 1 or Level 3 inputs as of June 30, 2014 and December 31, 2013 (Notes 1 and 13).

The following fair value hierarchy table presents information regarding the Group's assets and liabilities associated with derivative agreements as of June 30, 2014 and December 31, 2013:

| | **Significant other observable inputs (Level 2) as of June 30, 2014** | **Significant other observable inputs (Level 2) as of December 31, 2013** |
|---|---|---|
| ***Assets*** | | |
| Interest rate swap agreements | 4 | 12 |
| Cross-currency interest rate swap agreements | 3,759 | 1,825 |
| ***Liabilities*** | | |
| Interest rate swap agreements | (476) | (421) |

## 9. FAIR VALUE MEASUREMENTS

In accordance with authoritative U.S. GAAP guidance, the Group records derivative instruments, redeemable noncontrolling interests, contingent consideration arising from business combinations and an investment in a mutual investment fund at fair value on a recurring basis.

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

| | Significant observable inputs (Level 1) as of June 30, 2014 | Significant other observable inputs (Level 2) as of June 30, 2014 | Significant unobservable inputs (Level 3) as of June 30, 2014 |
|---|---|---|---|
| ***Assets*** | | | |
| Derivative instruments (Note 8) | - | 3,763 | - |
| ***Liabilities*** | | | |
| Derivative instruments (Note 8) | - | (476) | - |
| Contingent consideration | - | - | (5) |
| Redeemable noncontrolling interest | - | - | (2,153) |

| | 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 3 and 11) | 4,154 | - | - |
| Derivative instruments (Note 8) | - | 1,837 | - |
| ***Liabilities*** | | | |
| Derivative instruments (Note 8) | - | (421) | - |
| Contingent consideration | - | - | (11) |
| Redeemable noncontrolling interest | - | - | (2,932) |

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 six months ended June 30, 2014 and 2013. There were no significant realized and unrealized gains and losses on Level 3 assets and liabilities for the six months ended June 30, 2014 and 2013.

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 June 30, 2014 and December 31, 2013 are presented in the table below:

| **Unobservable inputs** | **As of June 30, 2014** | **As of December 31, 2013** |
|---|---|---|
| Discount rate | 13% | 12% |
| Revenue growth rate | stable | 0.7%-1.2% (av. 0.9%) |
| OIBDA margin | 43.2%-46.1% (av. 44.5%) | 49.4%-50.7% (av. 49.8%) |

There were no transfers between levels within the hierarchy for the six months ended June 30, 2014 and 2013.

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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 authoritative U.S. GAAP guidance). As of June 30, 2014 and December 31, 2013, the fair value of notes payable, including the current portion, amounted to RUB 90,636 million and RUB 106,668 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 June 30, 2014 and December 31, 2013, the fair value of bank loans and other debt, including the current portion, approximates their carrying value and amounted to RUB 131,102 million and RUB 116,356 million, respectively.

## 10. INCOME TAX

The statutory income tax rates in jurisdictions in which the Group operates for 2014 were as follows: Russia and Armenia – 20.0%, Ukraine – 18%, Turkmenistan – 8%.

The Russian statutory income tax rate reconciled to the Group’s effective income tax rate for the six months ended June 30, 2014 and 2013 as follows:

| | 6 months ended June 30, 2014 | 6 months ended June 30, 2013 |
|---|---|---|
| **Statutory income tax rate for the year** | **20.0%** | **20.0%** |
| Adjustments: | | |
| Bitel settlement tax effect | - | (4.9) |
| Expenses not deductible for tax purposes | 1.6 | 0.9 |
| Change in unrecognized tax benefits | - | 0.4 |
| Settlements with tax authorities | 0.9 | (0.4) |
| Different tax rate of foreign subsidiaries | (0.9) | (0.4) |
| Earnings distribution from subsidiaries | 0.3 | 0.8 |
| Change in valuation allowance | - | 0.6 |
| Change in fair value of derivative financial instruments | 0.2 | (0.1) |
| Other | (0.1) | (0.4) |
| **Effective income tax rate** | **22.0%** | **16.5%** |

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## 11. RELATED PARTIES

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

As of June 30, 2014 and December 31, 2013, accounts receivable from and accounts payable to related parties were as follows:

| | June, 30 2014 | December, 31 2013 |
|---|---|---|
| **Accounts receivable:** | | |
| Sistema, parent company (Note 4) | 3,088 | - |
| MTS Bank, an associated company of the Group | 347 | 128 |
| Sitronics N, a subsidiary of Sistema | 341 | 337 |
| MTS Belarus, an associated company of the Group | 169 | 304 |
| Stream OOO, an associated company of the Group | 44 | 59 |
| NVision Group, a subsidiary of Sistema | 29 | 33 |
| Other related parties | 193 | 104 |
| **Total accounts receivable, related parties** | **4,211** | **965** |
| **Accounts payable:** | | |
| NVision Group, a subsidiary of Sistema | 1,300 | 1,605 |
| MTS Bank, an associated company of the Group | 366 | 697 |
| Maxima, a subsidiary of Sistema | 366 | 307 |
| Stream, an associated company of the Group | 170 | 99 |
| Intracom Telecom, an associated company of Sistema | 115 | 21 |
| MTS Belarus, an associated company of the Group | 76 | 208 |
| Smart Cards Group, a subsidiary of Sistema | 38 | 201 |
| Other related parties | 196 | 177 |
| **Total accounts payable, related parties** | **2,627** | **3,315** |

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.

### Investing and financing transactions:

During the six months ended June 30, 2014 and the year ended December 31, 2013, the Group made certain investments in related parties. Respective balances are summarized as follows:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Short-term investments (Note 3) | | |
| Deposits at MTS Bank | - | 5,081 |
| Investment fund “Reservnyi”, managed by “DIK”, a subsidiary of Sistema | - | 4,154 |
| **Total short-term investments in related parties** | **-** | **9,235** |
| Other investments (Note 5) | | |
| Sistema, promissory notes | 618 | 618 |
| **Total other investments to related parties** | **618** | **618** |
| Investments in shares (Note 4) | | |
| Sistema Mass Media, a subsidiary of Sistema | 117 | 117 |
| Other | 8 | 8 |
| **Total investments in shares of related parties** | **125** | **125** |

***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 June 30, 2014 and December 31, 2013, the Group's cash position at MTS Bank amounted to RUB 9,371 million and RUB 11,297 million, respectively, including short-term deposits in the amount of RUB nil and RUB 5,081 million, respectively. Interest accrued on loan receivable, the deposits and cash on current accounts for the six months ended June 30, 2014 and 2013 amounted to RUB 405 million and RUB 342 million, respectively, and was included as a component of interest income 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 the loan principal and interest accrued to date under an agreement with Sistema-Hals (Note 5). The note is interest free and repayable in 2017. As of June 30, 2014 and December 31, 2013, the amount receivable of RUB 618 and RUB 618 million was included in other investments in the accompanying consolidated statements of financial position.

In April 2014 the Group sold a 49% stake in Business-Nedvizhimost to Sistema for a price of RUB 3.1 billion to be paid by the end of 2014 (Note 4). As of June 30, 2014, the accounts receivable in the accompanying unaudited condensed consolidated statements of financial position amounted to RUB 3.1 billion.

***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. The investment was sold in April 2014 for RUB 4,165 million. The realized gain of RUB 165 million was recognized as a component of other expenses (net) in the accompanying consolidated statements of operations and comprehensive income.

***Investments in ordinary shares*** – As of June 30, 2014 and December 31, 2013 the Group had several investments in shares of subsidiaries and affiliates of Sistema totaling RUB 125 million and RUB 125 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 six months ended June 30, 2014 and 2013 the Group purchased from Smart Cards Group, subsidiaries of Sistema, SIM cards and prepaid phone cards for approximately RUB 114 million and RUB 331 million, respectively.

***NVision Group*** – During the six months ended June 30, 2014 and 2013 the Group acquired from NVision Group, subsidiaries of Sistema, telecommunications equipment, software and billing systems (FORIS) for approximately RUB 2,822 million and RUB 5,708 million, respectively and incurred expenses of RUB 496 million and RUB 558 million, respectively, under an IT consulting agreement.

As of June 30, 2014 and December 31, 2013, the advances given to NVision Group amounted to RUB 491 million and RUB 496 million, respectively. These amounts were included into property, plant and equipment and intangible assets in the accompanying consolidated statements of financial position.

## 12. COMMITMENTS AND CONTINGENCIES

***Capital commitments*** – As of June 30, 2014, the Group had executed purchase agreements of approximately RUB 38,400 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 2063.

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Rental expenses under operating leases of RUB 7,860 million and RUB 7,259 million for the six months ended June 30, 2014 and 2013, respectively, are included in operating expenses in the accompanying consolidated statements of operations and comprehensive income. Rental expenses under operating leases of RUB 3,831 million and RUB 3,775 million for the six months ended June 30, 2014 and 2013, 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 at June 30, 2014 are as follows:

| **Payments due** | |
|---|---|
| for the six months ended December 31, 2014 | 3,619 |
| for 2015 | 1,672 |
| for 2016 | 769 |
| for 2017 | 548 |
| for 2018 | 532 |
| Thereafter | 2,255 |
| **Total** | **9,395** |

***Taxation*** – The Russian Federation and other CIS countries currently have 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 other 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 June 30, 2014, 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 tax audits of MTS OJSC for the years ended December 31, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed RUB 354 million in additional taxes, penalties and fines payable by the Group. The resolution did not come into force as the Group prepared and filed a petition with the Federal Tax Service to declare the tax authorities' resolution to be invalid. In September 2011, the Federal Tax Service partially satisfied the Group's petition, decreasing the amount of additional taxes, penalties and fines payable by the Group by RUB 174 million. The Group filed an appeal for RUB 84 million of the remaining RUB 180 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 does not intend further appeals.

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 does not intend further appeals.

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 unaudited condensed consolidated interim financial statements. As of June 30, 2014 and December 31, 2013, the provision accrued for taxes other than income tax and customs settlements amounted to RUB 2,477 million and RUB 2,278 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 398 million and RUB 615 million as of June 30, 2014 and December 31, 2013, 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 will have to build a certain number of base stations that support 3G standards, will have to start providing services in the Russian Federation by a certain date, and will have to build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting the license. Management believes that as of June 30, 2014 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 June 30, 2014 the Group is in compliance with these conditions.

***Litigation in Ukraine*** – In August 2012, the Group received a claim requesting cancellation of the international registration of four of the Group's trademarks on the territory of Ukraine from MTS LLC, based in Crimea. The claim was heard by the Economic Court of Kiev, which dismissed the claim in July 2013. MTS LLC then appealed the decision of the Economic Court of Kiev, but the appeal was dismissed by the Economic Court of Kiev in December 2013. The Group expects no negative consequences, however, discloses the claim, as legal uncertainties currently affect the region.

***Litigation related to Uzdunrobita -*** 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 the first procedural hearings took place in November 2013. However, in July 2014 MTS signed a settlement agreement ("Settlement Agreement") with the Republic of Uzbekistan. According to the terms of the Settlement Agreement, the Group intends to resume operations in Uzbekistan through a joint enterprise with the Republic of Uzbekistan. The parties intend to finalize all procedures stipulated in the Settlement Agreement, and to ensure commercial launch of the joint enterprise`s mobile network by the end of 2014. Within the scope of fulfillment of the terms and conditions set out in the Settlement Agreement and transfer of a stake in the joint enterprise to MTS, the parties will submit a joint application to discontinue ongoing legal proceedings in the ICSID. For details of operations in Uzbekistan please refer to Note 4 in the consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011.

***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 proceedings or other matters will not have a material effect upon its financial condition, results of operations or liquidity of the Group.

***Political and economic crisis in Ukraine*** – During the six months ended June 30, 2014, a deterioration in the political environment of Ukraine has led to general instability and armed conflict in eastern Ukraine. Given the country's recently stagnant macroeconomic trends, the resulting weakness in Ukraine's economy has led to reduced credit ratings and the depreciation of its national currency. On August 14, 2014, the Ukrainian Parliament adopted a law allowing for the imposition of sanctions against countries, persons and companies deemed by the Ukrainian government to threaten Ukrainian national interests, national security, sovereignty or the territorial integrity of Ukraine. As of the reporting date it is unclear whether or how these sanctions might influence MTS or MTS Ukraine. These circumstances, combined with continued political and economic instability in the country could result in a negative impact on our business including on its financial position and results of operations, and such impact, if any, could be significant.

## 13. SEGMENT INFORMATION

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

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.

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.

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Financial information by reportable segment is presented below:

| | 6 months ended June 30, | |
|---|---|---|
| | **2014** | **2013** |
| Net operating revenues from external customers: | | |
| Russia | 176,571 | 168,622 |
| Ukraine | 15,664 | 18,196 |
| Other | 4,187 | 3,486 |
| **Total net operating revenues from external customers:** | **196,422** | **190,304** |
| Including revenue from mobile services | 168,009 | 161,570 |
| Including revenue from fixed line services | 28,413 | 28,734 |
| Intersegment operating revenues: | | |
| Russia | 1,071 | 585 |
| Ukraine | 1,559 | 798 |
| Other | 562 | 590 |
| **Total intersegment operating revenues:** | **3,192** | **1,973** |
| Depreciation and amortization expense: | | |
| Russia | 31,468 | 31,227 |
| Ukraine | 3,921 | 4,646 |
| Other | 913 | 738 |
| Intercompany eliminations | (30) | (22) |
| **Total depreciation and amortization expense** | **36,272** | **36,589** |
| Operating income / (loss): | | |
| Russia | 46,615 | 43,842 |
| Ukraine | 4,787 | 5,239 |
| Other | (2,955) | (1,913) |
| Intercompany eliminations | (37) | (24) |
| **Net operating income** | **48,410** | **47,144** |
| Net operating income | 48,410 | 47,144 |
| Currency exchange and transaction (gain) / loss | (435) | 4,605 |
| Interest income | (2,316) | (1,496) |
| Interest expense | 8,012 | 8,479 |
| Equity in net income of associates | (1,153) | (698) |
| Other expense / (income), net | 25 | (10,206) |
| **Income from continuing operations before provision for income taxes and noncontrolling interest** | **44,277** | **46,460** |

| | As of June 30, 2014 | As of December 31, 2013 |
|---|---|---|
| Long-lived assets (1): | | |
| Russia | 312,158 | 308,336 |
| Ukraine | 14,800 | 24,107 |
| Other | 12,319 | 12,546 |
| Total long-lived assets | **339,277** | **344,989** |
| Total assets: | | |
| Russia | 472,618 | 431,257 |
| Ukraine | 30,211 | 38,586 |
| Other | 16,195 | 15,681 |
| Total assets | **519,024** | **485,524** |

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

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## 14. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table represents changes in the balances of accumulated other comprehensive loss by components for the six months ended June 30, 2014 and 2013:

| | Currency translation adjustment | Unrealized (gains) / losses on derivatives | Unrecognized actuarial losses / (gains) | Accumulated other comprehensive loss / (income) |
|---|---|---|---|---|
| **Balance at December 31, 2013** | **16,199** | **(1,466)** | **297** | **15,030** |
| Other comprehensive loss / (income) | 10,046 | (1,512) | - | 8,534 |
| Less: tax expense | - | 302 | - | 302 |
| Amounts reclassified to net income | - | 45 | (9) | 36 |
| Less: tax (benefit) / expense | - | (9) | 2 | (7) |
| **Net other comprehensive loss / (income)** | **10,046** | **(1,173)** | **(7)** | **8,865** |
| **Balance as of June 30, 2014** | **26,245** | **(2,639)** | **290** | **23,895** |

| | Currency translation adjustment | Unrealized (gains) / losses on derivatives | Unrecognized actuarial (gains) / losses | Accumulated other comprehensive loss / (income) |
|---|---|---|---|---|
| **Balance at December 31, 2012** | **14,154** | **(21)** | **(458)** | **13,675** |
| Other comprehensive loss / (income) | 6,714 | (1,590) | - | 5,124 |
| Less: tax expense | - | 318 | - | 318 |
| Amounts reclassified to net income | (3,682) (1) | (404) | (23) | (4,109) |
| Less: tax expense | - | 81 | 4 | 85 |
| **Net other comprehensive loss / (income)** | **3,032** | **(1,595)** | **(19)** | **1,418** |
| **Balance as of June 30, 2013** | **17,186** | **(1,616)** | **(477)** | **15,093** |

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

## 15. SUBSEQUENT EVENTS

No significant subsequent events were revealed.