JSC SITRONICS
AND SUBSIDIARIES

Consolidated Financial Statements
Years Ended December 31, 2011 and 2010

JSC SITRONICS AND SUBSIDIARIES

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

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC SITRONICS:

We have audited the accompanying consolidated balance sheets of JSC SITRONICS and its subsidiaries (the "Group") as of December 31, 2011 and 2010 and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Group as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

April 12, 2012

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars)

	Notes		2011		2010
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	4	$	260,387	$	261,688
Short-term deposits and loans	5		2,707		1,229
Trade receivables, net	6		375,084		422,011
Other receivables and prepaid expenses, net	7		106,581		128,231
Inventories	8		157,560		152,418
Restricted cash	13		6,718		34
Deferred tax assets, current portion	20		10,839		28,020
Total current assets			919,876		993,631
NON-CURRENT ASSETS:					
Property, plant and equipment, net	9		446,504		439,076
Intangible assets, net	10		134,957		160,806
Goodwill	10		60,478		63,138
Inventories	8		13,816		13,716
Long-term investments	11		223,105		230,716
Long-term trade receivables	12		30,422		38,725
Deferred tax assets, non-current portion	20		31,657		28,149
Other long-term assets			2,390		3,500
Total non-current assets			943,329		977,826
TOTAL ASSETS		**$**	**1,863,205**	**$**	**1,971,457**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010 (CONTINUED)
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2011	2010
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		$ 360,581	$ 306,413
Taxes payable		28,203	58,507
Accrued expenses and other current liabilities	14	211,350	245,703
Short-term loans and notes payable	15	174,815	131,779
Current portion of long-term debt	16	260,134	397,552
Deferred tax liabilities, current portion	20	7,863	16,388
Total current liabilities		1,042,946	1,156,342
LONG-TERM LIABILITIES:			
Capital lease obligations	17	128,134	168,307
Long-term debt	16	344,794	215,324
Other long-term liabilities	19	13,150	8,693
Deferred tax liabilities, non-current portion	20	9,291	16,414
Total long-term liabilities		495,369	408,738
TOTAL LIABILITIES		**1,538,315**	**1,565, 080**
EQUITY:			
SHAREHOLDERS' EQUITY:			
Share capital (9,547,087,190 and 9,547,087,190 shares authorized and issued as of December 31, 2011 and 2010 respectively with par value of 1 Russian Ruble)		335,764	335,764
Treasury stock (1,000,089,605 and 1,000,089,605 shares as of December 31, 2011 and 2010 respectively with par value of 1 Russian Ruble)		(56,817)	(56,817)
Additional paid-in capital		437,850	431,507
Accumulated deficit		(474,689)	(387,961)
Accumulated other comprehensive loss	21	(43,780)	(40,195)
Foreign currency translation		(43,300)	(40,155)
Defined benefit postretirement plan		(480)	(40)
TOTAL EQUITY ATTRIBUTABLE TO SITRONICS		198,328	282,298
Equity attributable to non-controlling interest		126,562	124,079
TOTAL EQUITY		324,890	406,377
TOTAL LIABILITIES AND EQUITY		**$ 1,863,205**	**$ 1,971,457**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars unless otherwise stated)

	Notes	2011	2010
Revenues		$ 1,475,106	$ 1,166,928
Cost of sales, exclusive of depreciation and amortization shown separately below		(1,176,972)	(884,253)
Research and development expenses		(29,228)	(20,269)
Selling, general and administrative expenses		(165,002)	(150,284)
Depreciation and amortization		(95,008)	(90,845)
Impairment losses and reserves	26	(13,763)	(16,475)
Other operating income, net		6,948	9,974
OPERATING INCOME		2,081	14,776
Interest income		7,728	7,102
Interest expense		(76,067)	(78,544)
Foreign currency transactions losses		(11,142)	(890)
Gain on sale of associates		-	7,885
Equity in net (loss)/income of investees		(1,025)	1,389
Other non-operating (losses)/gains		(6,655)	18
Loss before income tax		(85,080)	(48,264)
Income tax expense	20	(10,337)	(11,406)
NET LOSS		**$ (95,417)**	**$ (59,670)**
Less: net loss attributable to non-controlling interest		8,689	14,051
NET LOSS ATTRIBUTABLE TO SITRONICS		**$ (86,728)**	**$ (45,619)**
Weighted average number of common shares outstanding, basic and diluted:		8,546,997,585	8,615,020,320
LOSS PER SHARE – BASIC AND DILUTED, US cents		**(1.01)**	**(0.53)**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars)

	Notes	2011	2010
NET LOSS		**$ (95,417)**	**$ (59,670)**
Other comprehensive loss, net of tax:			
Translation adjustment		(6,153)	(20,260)
Unrecognized actuarial loss, net of tax		(862)	(729)
Total other comprehensive loss, net of tax		**(7,015)**	**(20,989)**
COMREHENSIVE LOSS		**(102,432)**	**(80,659)**
Comprehensive loss attributable to non-controlling interest		12,514	24,648
COMPREHENSIVE LOSS ATTRIBUTABLE TO SITRONICS		**$ (89,918)**	**$ (56,011)**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars)

	2011	2010
OPERATING ACTIVITIES:		
Net loss	$ (95,417)	$ (59,670)
Adjustments to reconcile net loss to net cash provided by operations:		
Depreciation and amortization	95,008	90,845
Gain from disposal of property, plant and equipment	(408)	(1,560)
Gain on disposal of subsidiaries and associates	-	(7,885)
Equity in net income of investees	1,025	(1,389)
Deferred income tax	(3,282)	(4,196)
Bad debt expense	2,778	9,447
Inventory obsolescence provision	10,642	5,956
Stock based compensation	4,047	2,596
Change in liability for uncertain tax positions	165	(1,300)
Impairment losses and reserves	343	1,072
Unrealized foreign currency transactions	10,821	76
Changes in operating assets and liabilities:		
Trade receivables	48,853	(24,596)
Other receivables and prepaid expenses	21,000	(33,180)
Inventories	(22,118)	(1,881)
Trade accounts payable	63,457	64,127
Taxes payable	(29,975)	26,324
Accrued expenses and other current liabilities	(67,974)	112,715
Net cash provided by operating activities	$ 38,965	$ 177,501
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(63,682)	(42,331)
Proceeds from disposals of property, plant and equipment	2,318	1,938
Purchases of intangible assets	(32,071)	(40,036)
Change in restricted cash	(7,557)	1,011
Purchases of short-term deposits and loans	(1,839)	(693)
Proceeds from short-term deposits and loans	284	441
Purchases of long-term investments	(4,127)	(7,969)
Proceeds from sale of long-term investments	44	8,002
Net cash used in investing activities	$ (106,630)	$ (79,637)

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars)

		2011		2010
FINANCING ACTIVITIES:				
Proceeds from short-term borrowings	$	162,956	$	221,574
Principal payments on short-term borrowings and current portion of long-term borrowings		(408,788)		(405,543)
Proceeds from long-term borrowings		310,810		210,844
Principal payments on long-term borrowings		-		(7,216)
Principal payments on capital lease obligations		(5,110)		(3,882)
Debt issuance costs		(3,094)		(1,067)
Proceeds from capital transactions of subsidiaries		12,483		-
Acquisition of non-controlling interest in subsidiary		-		(3,510)
Repurchase of common stock		-		(307)
Net cash provided by financing activities	$	69,257	$	10,893
Effects of exchange rate changes on cash and cash equivalents		(2,893)		(8,933)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**$**	**(1,301)**	**$**	**99,824**
TOTAL CASH AND CASH EQUIVALENTS, beginning of the year	**$**	**261,688**	**$**	**161,864**
TOTAL CASH AND CASH EQUIVALENTS, end of the year	**$**	**260,387**	**$**	**261,688**
CASH PAID DURING THE YEAR FOR:				
Interest, net of amounts capitalized	$	(76,459)	$	(61,731)
Income taxes		(13,952)		(6,866)
NON-CASH ITEMS:				
Equipment acquired under capital lease	$	2,708	$	2,567
Amounts due for purchase of long-lived assets		6,836		10,869
Advances for purchase of long-lived assets		27,111		22,222

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars)

	SITRONICS shareholders								
	Share capital	**Treasury stock**	**Shareholder's receivable**	**Additional paid-in capital**	**Accumulated deficit**	**Accumulated other comprehensive loss**	**Total SITRONICS equity**	**Non-controlling interest**	**Total equity**
Balances at January 1, 2010	**$ 335,764**	**(46,158)**	**(10,215)**	**429,774**	**(342,342)**	**(29,803)**	**337,020**	**152,237**	**489,257**
Repurchase of common stock	-	(10,659)	10,352	-	-	-	(307)	-	(307)
Stock-based compensation	-	-	-	1,596	-	-	1,596	-	1,596
Acquisition of non-controlling interest								(3,510)	(3,510)
Change in shareholders' receivables	-	-	(137)	137	-	-	-	-	-
Comprehensive loss:									
Net loss	-	-	-	-	(45,619)	-	(45,619)	(14,051)	(59,670)
Other comprehensive loss:									
Unrecognized actuarial losses, net of tax	-	-	-	-	-	(372)	(372)	(357)	(729)
Translation adjustment	-	-	-	-	-	(10,020)	(10,020)	(10,240)	(20,260)
Comprehensive loss	-	-	-	-	(45,619)	(10,392)	(56,011)	(24,648)	(80,659)
Balances at December 31, 2010	**$ 335,764**	**(56,817)**	**-**	**431,507**	**(387,961)**	**(40,195)**	**282,298**	**124,079**	**406,377**
Capital transactions of subsidiaries (Note 21)	-	-	-	-	-	-	-	12,483	12,483
Disposal of share in subsidiary (Note 21)	-	-	-	6,343	-	(395)	5,948	2,514	8,462
Comprehensive loss:									
Net loss	-	-	-	-	(86,728)	-	(86,728)	(8,689)	(95,417)
Other comprehensive loss:									
Unrecognized actuarial losses, net of tax	-	-	-	-	-	(440)	(440)	(422)	(862)
Translation adjustment	-	-	-	-	-	(2,750)	(2,750)	(3,403)	(6,153)
Comprehensive loss	-	-	-	-	(86,728)	(3,190)	(89,918)	(12,514)	(102,432)
Balances at December 31, 2011	**$ 335,764**	**(56,817)**	**-**	**437,850**	**(474,689)**	**(43,780)**	**198,328**	**126,562**	**324,890**

See notes to consolidated financial statements.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

1. BACKGROUND AND DESCRIPTION OF THE BUSINESS AND OPERATING ENVIRONMENT

Joint Stock Company SITRONICS ("SITRONICS") and its subsidiaries (together, the "Group") is a technology solution business with operations primarily conducted in the Russian Federation ("RF"), Ukraine, Czech Republic, Greece and Romania. The Group's controlling shareholder is Joint Stock Company RTI ("RTI"), which acquired the controlling financial interest over the Group by purchase of 63.1% of outstanding voting shares from JSFC Sistema ("Sistema") during 2011. JSFC Sistema is still the ultimate shareholder of SITRONICS.

The Group currently has three operating segments:

Telecommunication Solutions segment is engaged in the design, manufacture and distribution of hardware and software products including convergence solutions. It also offers system integration and customization services for fixed line, mobile telecommunication and other operators.

Information Technologies Solutions segment is engaged in computer systems integration, IT consulting and software development services for telecommunication operators, banking and financial institutions and the public sector.

Microelectronic Solutions segment is engaged in the design, manufacture, testing and distribution of semiconductor products and components, distribution and production of chip cards, microchip packaging and related solutions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation of Financial Statements – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Group's entities maintain accounting records in local currencies in accordance with the requirements of accounting and tax legislation in the countries of their incorporation. The accompanying consolidated financial statements differ from the financial statements prepared for statutory purposes. The consolidated statements are expressed in terms of US dollars (see "Foreign Currency" below) and reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP, which are not recorded in the accounting books of the Group's entities.

Significant subsidiaries and joint ventures – the effective ownership interest and proportion of voting power of SITRONICS in its significant subsidiaries and joint ventures, as well as the locations of their principal business operations as of December 31, 2011 and 2010 were as follows:

Operating entities	Locations of principal business operations	Effective ownership interest as of December 31, 2011	Effective ownership interest as of December 31, 2010	Voting interest as of December 31, 2011	Voting interest as of December 31, 2010
Telecommunication Solutions segment:					
Intracom S.A. Telecom Solutions	Greece	51%	51%	51%	51%
Intrarom S.A.	Romania	34%(1)	34%(1)	67%	67%
JSC "SITRONICS Telecom Solutions, Czech Republic a.s." ("SITRONICS TS CR")	Czech Republic	100%	100%	100%	100%
JSC "SITRONICS Telecom Solutions" ("SITRONICS TS")	Russia	100%	100%	100%	100%
Information Technologies Solutions segment:					
SITRONICS IT B.V.	Netherlands	100%	100%	100%	100%
LLC "SITRONICS Bashkortostan"	Russia	100%(1)	100%	100%(1)	100%
JSC "SITRONICS Information Technologies Ukraine"	Ukraine	100%	100%	100%	100%
LLC "SITRONICS Information Technologies"	Russia	100%	100%	100%	100%

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Operating entities	Locations of principal business operations	Effective ownership interest as of December 31, 2011	Effective ownership interest as of December 31, 2010	Voting interest as of December 31, 2011	Voting interest as of December 31, 2010
Microelectronic Solutions segment:					
JSC "NII of molecular electronics and Mikron manufacturing plant" ("Mikron")	Russia	80%	77%	80%	77%
JSC "VZPP Mikron"	Russia	100%	100%	100%	100%
LLC "SITRONICS Smart Technologies"	Russia	75%	100%	75%	100%
LLC "SITRONICS-Nano"	Russia	50%(2)	50%(2)	50%(2)	50%(2)
Cosmos Wealth Ltd	China	100%	100%	100%	100%
All other segments:					
JSC "SITRONICS CAMS"	Russia	74%	74%	74%	74%
LLC "Network Systems"	Russia	51%	51%	51%	51%
JSC "Kvant"	Russia	78%	78%	88%	88%
JSC "Elaks"	Russia	84%	84%	84%	84%
JSC "Elion"	Russia	75%	75%	90%	90%
JSC "Koncel"	Russia	100%	100%	100%	100%

(1) Including indirect ownership.
(2) Variable interest entity where SITRONICS is not the primary beneficiary and, accordingly, it is accounted for as an equity method investment (Note 11).

Principles of Consolidation – The consolidated financial statements include the accounts of SITRONICS, and its majority-owned subsidiaries. The consolidated financial statements also include accounts of variable interest entities, where the Group is the primary beneficiary. All intercompany transactions, balances and unrealized gains/(losses) on transactions are eliminated on consolidation.

Business Combinations – Acquisitions of businesses from third parties are accounted for using the purchase method. On the acquisition date, the assets acquired, liabilities assumed and any non-controlling interest in the acquiree are measured and recognized at their fair values as at that date. Goodwill arising on acquisition is recognized as an asset and initially measured as the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Any excess of the Group's interest in the total acquisition date fair value of the identifiable net assets over the fair value of consideration transferred plus any non-controlling interest in the acquiree is recognized in earnings as a gain attributable to the acquirer.

Changes in the Group's ownership interest while the Group retains its controlling financial interest in its subsidiary are accounted for as equity transactions. No gain or loss is recognized in consolidated net income or comprehensive income. The carrying amount of the non-controlling interest is adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the non-controlling interest is adjusted is recognized in equity attributable to the parent.

The results of acquired entities are included in the Group's financial statements from the date control was acquired.

Disposed entities are excluded from the Group's financial statements from the date when control does not rest with the Group.

Variable Interest Entities – The Group evaluates its equity investments for consolidation in accordance with a standard issued by the Financial Accounting Standards Board ("FASB") that provides guidance on entities subject to consolidation as well as how to consolidate. The standard focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. A variable interest entity ("VIE") is a legal structure that does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. The standard requires that a VIE be consolidated by a company if that company is the primary beneficiary of the VIE. The primary beneficiary of a VIE is an entity that is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the VIE's residual returns or both. The standard requires continuous reassessment of VIE and primary beneficiary status.

As of December 31, 2011, The Group had no investments in affiliates that have not been consolidated that would be considered VIEs where the Group is determined to be the primary beneficiary. The Group applies the equity method of accounting for the financial results of SITRONICS-Nano, a variable interest entity of which the Group is not the primary beneficiary.

Use of Estimates – The preparation of 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 for the reporting period. Actual results could differ from those estimates.

Significant estimates include revenue recognition, costs to complete projects, allowance for doubtful accounts, carrying value of long-lived assets and inventories, useful lives and recoverability of long-lived tangible and intangible assets, fair value of financial instruments, valuation allowance on deferred tax assets, warranty liabilities, obligations related to employee benefits, and contingencies.

Foreign Currency – The primary financial statements of the entities of the Group are prepared and presented in the currency of the primary economic environment, in which each entity operates, i.e. its functional currency. Management has determined that the functional currency of SITRONICS and its significant subsidiaries for the year ended December 31, 2011 are the currencies of the countries of their domicile.

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the relevant subsidiaries at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into the relevant functional currency at the rate of exchange ruling at the date of the transaction. Transaction gains and losses, other than those related to current and deferred tax assets and liabilities, are recognized as foreign currency transactions gains and losses in the consolidated statements of operations. Transaction gains and losses arising on foreign currency denominated current and deferred tax assets and liabilities are included within income taxes in the consolidated statements of operations.

The Group has selected the United States Dollar (“USD”) as its reporting currency. The results of operations for subsidiaries, whose functional currency is not the USD, have been translated into the USD at the average rates of exchange during the period, with the subsidiaries’ balance sheets translated at the rates ruling at the balance sheet date. The resulting translation gains and losses are recorded as a separate component of other comprehensive loss.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, amounts on deposit in banks and cash invested temporarily in various instruments having original maturities of less than three months. Any cash over which there is restriction as to its use is excluded from cash and cash equivalents and is reflected as restricted cash on the consolidated balance sheet. Deposits and loans with original maturity of greater than three months are included in short-term deposits and loans in the consolidated balance sheets.

Derivative Financial Instruments and Hedging Activities – All derivatives are measured at fair value and recognized as either assets or liabilities on the balance sheet. The Group’s derivatives have not been designated as hedges for accounting purposes. Accordingly, gains and losses from changes in the fair value are included in the consolidated statements of operations. At December 31, 2011 and 2010 the Group had no derivatives.

Fair Value Measurements – Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, whilst unobservable inputs reflect our market assumptions. Observable inputs are used as the preferred source of inputs. Unobservable inputs are only used in the absence of market inputs.

The inputs are categorized into the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 Significant inputs to the valuation model are unobservable.

As of December 31, 2011, the Group had no financial instruments treated using Level 1 or Level 2 of the hierarchy.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, investments, accounts payable and fixed and variable rate debt. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Group has estimated the fair value of its financial instruments as follows:

- The fair value of short-term financial instruments approximates the carrying value due to the short-term nature of the instruments;
- The carrying value is equivalent to fair value for long-term variable rate financial instruments as management believes these are consistent with the terms upon which it could enter into similar agreements at December 31, 2011;
- The fair value of the RUB – denominated bonds (Note 16) approximates their carrying value as the coupon rate is revised semi-annually to respond to the market environment; and
- The fair value of other long-term loans approximates their carrying values;

The Group doesn’t apply fair value measurement techniques to financial instruments with related parties. Therefore, the fair value of such financial instruments may be different from their carrying value.

Accounts Receivable – Accounts receivable are stated net of allowance for doubtful accounts. Such allowance reflects either specific cases of delinquencies or defaults or estimates based on evidence of collectability.

The Telecommunication Solutions segment of the Group enters into sale agreements with certain of its clients where the final payment is not due until more than 12 months from the delivery date. Long-term trade receivables are measured at amortized cost using the effective interest method less any allowance.

Inventories – Inventories comprise raw materials and spare parts, work-in-progress, finished goods and goods for resale and are stated at the lower of cost or market value.

The Information Technologies Solutions segment accounts for its inventories using the first-in, first-out (“FIFO”) cost method. The cost of inventories of the Group’s other segments is computed on an average cost basis.

The cost of raw materials includes the cost of purchase, customs duties, transportation and handling costs. Work-in-progress and finished goods are stated at production cost, which includes manufacturing overheads.

The Group periodically assesses its inventories and spare parts for obsolete and slow-moving stock.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Property, Plant and Equipment – Property, plant and equipment ("PP&E") is stated at cost, less accumulated depreciation. The cost of PP&E includes major expenditures for improvements and replacements which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the consolidated statements of operations as incurred.

Items of PP&E that are retired or otherwise disposed of are eliminated from the consolidated balance sheets along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the consolidated statements of operations.

PP&E, excluding land which is not depreciated, is depreciated on a straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	40-50 years
Leasehold improvements	Lesser of the estimated useful life or the term of the lease
Plant, machinery and equipment	3-15 years

Intangible Assets – Intangible assets represent values of purchased and internally developed software, customer contracts and the related customer relationships, trademarks and licenses.

Software development costs are capitalized upon the Group establishing technological feasibility and marketability of a software product. Technological feasibility is established when the Group has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements.

Customer relationships are amortized on an accelerated basis determined in proportion to the estimated discounted future cash inflows expected from these relationships. Other finite-life intangible assets are amortized on a straight-line basis. The useful lives of intangible assets are estimated as follows:

Software development costs	Greater of the ratio of current product revenues to total projected product revenues or the estimated economic life of the product (3-5 years)
Customer contracts and customer relationships	3-7 years
Purchased software, licenses and other intangible assets	3-10 years

Investments – Investments in businesses in which the Group does not have control but has the ability to exercise significant influence are accounted for by the equity method of accounting whereby the investment is carried at acquisition cost plus Group's equity in undistributed earnings or losses since acquisition. Investments in which the Group does not have the ability to exercise significant influence are accounted for by the cost method. Equity and cost method investments are included in long-term investments in the consolidated balance sheets.

Debt Issuance Costs – Debt issuance costs are capitalized and amortized using the effective interest method over the terms of the related debt. Unamortized debt issuance costs amounted to $3.2 million and $4.4 million as of December 31, 2011 and 2010 respectively.

Impairment of Long-lived Assets excluding Goodwill – The Group evaluates the recoverability of the carrying amount of its long-lived assets, excluding goodwill, whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable. The Group compares the undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. If the undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value. Fair value is usually measured based on the estimated discounted net future cash flows associated with such assets.

Goodwill – In business combinations completed subsequent to January 1, 2009, goodwill represents the excess of the fair value of the consideration given and the fair value of any non-controlling interest in the acquiree over the fair value of all the identifiable assets and liabilities acquired. For business combinations completed prior to January 1, 2009 goodwill represents the excess of the fair value of the consideration given over the fair value of the interest in identifiable assets and liabilities acquired.

Goodwill is not amortized to operations, but instead is reviewed for impairment, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of those net assets. If the reporting unit's carrying amount is greater than its fair value, then a second step is performed whereby the portion of the fair value that relates to the reporting unit's goodwill is compared to the carrying value of that goodwill. The Group recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds the fair value. The Group has determined that there are no impairment losses in respect of goodwill for any of the reporting periods covered by these consolidated financial statements.

Leasing Arrangements – Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as capital leases. For capital leases, the present value of the future minimum lease payments at the inception of the lease or fair value, whichever is less, is reflected as an asset and a liability in the consolidated balance sheets. Principal amounts due within one year are classified as current liabilities and the remaining balance as long-term liabilities.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the period of the lease.

Postretirement benefit plans – According to the Greek labor legislation, Intracom Telecom is obliged to provide certain postretirement benefits to its employees. The defined benefit postretirement plan is unfunded (Note 18).

The regular contributions for defined benefit plans constitute net periodic costs for the year in which they are due and as such are included in staff costs.

The liability in respect of defined benefit retirement plan is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets together with adjustments for actuarial gains/(losses) and past service cost. Independent actuaries using the projected unit credit method calculate the defined benefit obligation annually.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to the statement of comprehensive income over the employees' expected average remaining working lives. Past-service costs are recognized immediately in the statement of comprehensive income, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Revenue Recognition – The Group recognizes revenues when all of the following conditions have been met: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed and determinable; and (iv) collectability of the fee is reasonably assured. Provisions for warranty and product returns are provided for as reductions to revenue in the same period as the related sales are recorded. The Group monitors and tracks the amount of sales deductions based on historical experience to estimate the reduction to revenues.

Revenues under arrangements specific to the respective segments of the Group are recognized as follows:

Telecommunication Solutions segment

The sale of software products are multiple-element arrangements, involving the provision of related services, including customization, implementation and integration services, as well as ongoing support and maintenance provided to customers.

If the services element of the arrangement is deemed essential to the functionality of the software arrangement, the accounting for performance of construction-type contracts is applied, provided that the following conditions are met: (a) contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement; (b) the buyer can be expected to satisfy its obligations under the contract; and (c) the Group can be expected to perform its contractual obligations. The measurement of progress towards completion is based on efforts devoted to a contract at the particular stages. A contract is considered as substantially complete when (a) the product is delivered, and (b) the product is accepted by the customer.

If the services element of the arrangement is not deemed essential to the functionality of the software, the service revenues are accounted for separately from the software revenues. In such multiple-element arrangements, the software component is accounted for using the residual method.

In cases where extended payment terms exist, license and related customization fees are recognized when payments are due, unless a history of collection, without providing concessions, has been established under comparable arrangements.

Information Technologies Solutions segment

The sale of systems integration services typically includes multiple elements, such as equipment and software, installation services and post-contract support. A multiple-element arrangement is separated into more than one unit of accounting if all of the following criteria are met: i) the delivered items have value to the customer on a standalone basis; ii) there is objective and reliable evidence of the fair value of the undelivered items; and iii) the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Group.

If evidence of the fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract support are recognized as revenue on a pro rata basis over the support period. Fees allocated to other services are recognized as revenue as services are performed.

Revenue and cost of sales from contracts involving solutions achieved through modification of complex telecommunications equipment and software are recognized by reference to the stage of completion of the contract activity at the balance sheet date when the outcome of a contract can be estimated reliably. This is normally measured by the proportion that contract costs incurred for work performed to date relate to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

Microelectronic Solutions segment

The products within this segment are generally sold with a limited warranty of product quality. The product return reserves, warranty and other post-contract support obligations are accrued at the time of sale. The Group accrues for known warranty if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical activity.

There are contracts with agents who sell products on behalf of the Group. In the case of agreements with agents, the revenue is recognized upon notification by the agent that goods have been shipped to the customer. For provision of research and development services to customers, revenue is recognized at the end of each phase within a contract. This is upon acceptance by the client that the phase is complete and all contractual deliverables provided.

Research and Development Costs – Research and development (“R&D”) costs are charged to the consolidated statements of operations when incurred. The costs of materials and equipment, facilities that are acquired or constructed for research and development activities are capitalized when acquired or constructed and depreciation expense associated with R&D activities is included in research and development costs.

Income Taxes – Current income taxes for the Group’s subsidiaries have been computed in accordance with the respective local laws.

Deferred income taxes are recognized for the differences between the tax bases of assets and liabilities and their reported amounts in the accompanying consolidated financial statements 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. A valuation allowance is provided against deferred tax assets, if it is more likely than not some portion or all of the deferred tax assets will not be realized.

The Group recognizes uncertain tax positions for tax 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 accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the years ended December 31, 2011 and 2010 amounted to $7.3 million and $2.5 million respectively. The remaining borrowing costs are recognized as an expense in the period in which they are incurred.

Asset Retirement Obligations – The Group records an asset retirement obligation and an associated asset retirement cost when the Group has a legal or contractual obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing equipment from its leased production facilities and other leased sites. As of December 31, 2011 and 2010, the estimated assets retirement obligations were not significant to the Group's consolidated financial position and results of operations.

Stock Options – Stock based compensation represents the cost of stock options granted to employees. The Group measures compensation cost based on the estimated fair value of the instruments on the reporting using option pricing models and the cost is recognized as an expense over the period during which the employees are required to provide services (Note 22).

New Accounting Pronouncements

To be adopted in future periods

In May 2011, the FASB issued ASU No. 2011-01 "Fair Value Measurement", which both amends existing requirements and improves the comparability of fair value measurement and disclosure between U.S. GAAP and International Financial Reporting Standards. Some of the amendments clarify the application of existing fair value measurement requirements and other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The guidance will be effective prospectively for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial position, results of operations and cash flows.

In June 2011, the FASB issued ASU No. 2011-05 "Comprehensive income". Under the guidance, an entity has the option to present comprehensive income in either one continuous statement or two separate but consecutive financial statements. The guidance does not change those items which must be reported in other comprehensive income, and does not change the definition of net income or the calculation of earnings per share. In December 2011 the FASB amended the guidance issued in June 2011 on the presentation of comprehensive income. The amendments deferred the requirements to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. The amendment becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. This guidance will not have an impact on the Group's consolidated financial statements as it is disclosure-only in nature.

In September 2011, the FASB updated the authoritative guidance on testing goodwill for impairment (ASU No. 2011-08 "Intangibles – Goodwill and Other"). The guidance permits an entity to first assess the qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. An entity also has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test and may resume performing the qualitative assessment in any subsequent periods. The guidance is effective for all entities for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Group does not expect the adoption of this guidance to have a significant impact on the Group's consolidated financial statements.

Adopted During the Current Year

In October 2009, the FASB issued ASU 2009-14 "Software" (Topic 985): Certain Revenue Arrangements That Include Software Elements - a consensus of the FASB Emerging Issues Task Force. This Update removes non-software components of tangible products and certain software components of tangible products from the scope of existing software revenue guidance, resulting in the recognition of revenue similar to that for other tangible products. The FASB amended the revenue recognition for multiple deliverable arrangements guidance to require the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. Vendors that are affected by the amendments in this Update are required to provide disclosures that are included within the amendments in Update 2009-13 "Revenue Recognition" (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force, which is being issued concurrently with this Update. The Update is effective prospectively for revenue arrangements entered into or materially modified in years beginning on or after June 15, 2010. The adoption of ASU 2009-14 and 2009-13 did not have a material impact on the Group's results of operations, financial position, cash flows or disclosures.

On January 1, 2011, the Group adopted new guidance issued by the FASB related to new disclosures about fair value measurements and clarification on certain existing disclosure requirements, new disclosures on significant transfers in and out of Level 1 and Level 2 categories of fair value measurements (ASU No. 2010-06 "Fair Value Measurement and Disclosures"). This guidance also clarifies existing requirements on (i) the level of disaggregation in determining the appropriate classes of assets and liabilities for fair value measurement disclosures, and (ii) disclosures about inputs and valuation techniques. The Group adopted the amended disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements from January 1, 2011. There was no impact on the consolidated financial statements resulting from the adoption of this guidance.

On January 1, 2011, the Group adopted new guidance issued by the FASB on the effect of denominating the exercise price of a share-based payment award in the currency of the market in which the underlying equity security trades (ASU No. 2010-13 "Compensation - Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades - a consensus of the FASB Emerging Issues Task Force"). This guidance clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The Company has historically accounted for share based payment awards in a manner consistent with the guidance, and therefore the adoption of this guidance did not impact the Company's consolidated financial position, results of operations or cash flows.

On January 1, 2011, the Group adopted new guidance issued by the FASB on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions (ASU No. 2010-17 "Revenue Recognition – Milestone Method"). This guidance clarifies that: (i) consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive; (ii) milestones should be considered substantive in their entirety and may not be bifurcated; (iii) an arrangement may contain both substantive and non substantive milestones; and (iv) each milestone should be evaluated individually to determine if it is substantive. The adoption of the guidance did not impact the Group's consolidated financial position, results of operations or cash flows.

On January 1, 2011, the Group adopted new guidance issued by the FASB amending goodwill impairment testing guidance for reporting units with an overall nil or negative carrying amount, but a positive goodwill balance (ASU No. 2010-28 "Intangibles – Goodwill and Other"). These amendments require that for these reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This assessment should be made by considering whether there are any adverse qualitative factors indicating impairment of the goodwill. The adoption of this guidance did not have an impact on goodwill impairment test performed for reporting units of the Group.

On January 1, 2011, the Group adopted new guidance issued by the FASB clarifying the disclosure requirements for pro forma information on revenues and earnings for business combinations (ASU No. 2010-29 "Business Combinations"). This guidance clarifies that where comparative financial statements are presented, revenue and earnings of the combined entity should be disclosed as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance also expands disclosure requirements to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. There was no impact on the consolidated financial statements resulting from the adoption of this guidance.

Revision of comparative information for prior periods – During the fourth quarter of 2011, the Group concluded that the amounts within intangible assets (customer contracts and related customer relationships), goodwill and related deferred tax liabilities, recognized at the acquisition of the remaining 49% interest in its subsidiary SITRONICS IT B.V. in 2008 and that were held in the functional currency of the acquired subsidiary (the USD) should have been more appropriately allocated to the level of the operating subsidiaries of the acquired entity, which functional currencies were Russian ruble and Ukrainian hryvna. The respective amounts of intangible assets and related deferred taxes were retranslated into the functional currencies of the operating subsidiaries to which they related upon acquisition. Due to the devaluation of the Russian and Ukrainian currencies in 2008, the most significant foreign currency impact caused by this change occurred before the earliest period presented in these financial statements, being a reclassification to decrease goodwill ($23.7 million), intangible assets ($14.9 million) and deferred tax liabilities ($2.8 million), with an offsetting amount to accumulated other comprehensive income ($35.8 million) as of December 31, 2010. These financial statements have been retrospectively adjusted to correct for this by adjusting the opening balances of assets, liabilities and equity for the earliest prior period presented. This adjustment did not have a material impact, either individually or in aggregate, on the consolidated statement of operations for the years ended December 31, 2010 and 2011.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

3. ACQUISITIONS AND DISPOSALS

In July 2011, the Group jointly with X5 Retail Group and RUSNANO set up LLC Future Store. The Group made a capital contribution of $1.4 million for 33.3% interest in the share capital of the newly established company. This investment is accounted for by the equity method, and included in long-term investments.

In September 2011, the Group purchased 7% interest in JSC Universal Electronic Card (UEK) for a consideration of $2.2 million. This investment is carried at cost, and included in long-term investments.

In December 2011, the Group disposed of 25% interest in its subsidiary SITRONICS Smart Technologies to LLC Comvision Rusland for consideration of $8.0 million (Note 21).

In 2011, the Group established several subsidiaries with 100% ownership, which are consolidated: LLC SITRONICS IT Consulting, SITRONICS Telecom Solutions D.O.O, JSC Design house "Mikron” and JSC Molecular Electronics Research Institute.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2011 and 2010 comprised the following:

	2011	2010
RUB, USD current accounts with subsidiary of Sistema:		
Moscow Bank for Reconstruction and Development (MBRD)	$ 119,275	$ 56,946
RUB deposits with subsidiary of Sistema:		
MBRD	-	28,448
Term deposits with third parties:		
RUB deposits	14,878	-
EUR deposits	14,641	47,606
USD deposits	13,452	21,899
UAH deposits	13,105	8,579
Other deposits	4,165	5,082
Current accounts with third parties:		
RUB current accounts	53,487	54,554
USD current accounts	7,833	23,756
EUR current accounts	4,447	3,628
UAH current accounts	2,997	1,742
CNY current accounts	2,844	710
CZK current accounts	1,458	2,821
UZS current accounts	1,371	341
Other current accounts	5,848	4,840
Cash on hand	586	736
Total	**$ 260,387**	**$ 261,688**

Term deposits have original maturities of three months or less.

As of December 31, 2011, term deposits with third parties bear interest at rates varying from 0.7% to 16.0% per annum. Interest income earned on MBRD current accounts and deposits is disclosed in Note 24.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

5. SHORT-TERM DEPOSITS AND LOANS

Short-term deposits and loans as of December 31, 2011 and 2010 comprised the following:

	Annual interest rate (Actual at December 31, 2011)	2011	2010
Bank deposits (over 3 months)	4%-8.45%	$ 1,504	$ 2
Short-term loans to Sistema and subsidiaries	17%	600	545
Short-term loans	10%-17%	467	682
Other		136	-
Total		**$ 2,707**	**$ 1,229**

6. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful accounts, as of December 31, 2011 and 2010 comprised the following:

	2011	2010
Trade receivables	$ 417,642	$ 472,500
Less: provision for doubtful accounts	(42,558)	(50,489)
Total	**$ 375,084**	**$ 422,011**

Included in trade receivables as of December 31, 2011 and 2010 are receivables for services provided and products shipped to subsidiaries and affiliates of Sistema in the amounts of $77.5 million and $83.3 million respectively (Note 24).

7. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other receivables and prepaid expenses, net of provision for doubtful accounts, as of December 31, 2011 and 2010 comprised the following:

	2011	2010
Advances to suppliers	$ 48,785	$ 59,988
Prepaid expenses	25,770	35,258
Recoverable VAT	16,198	12,564
Receivable from Digital Electronics JSC	15,023	15,871
Other taxes prepaid	9,577	14,206
Loans to employees	1,327	1,018
Receivable from EU programs	1,147	3,256
Debt issuance costs, current portion	798	870
Other	7,484	10,631
Less: provision for doubtful accounts	(19,528)	(25,431)
Total	**$ 106,581**	**$ 128,231**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

8. INVENTORIES

Inventories as of December 31, 2011 and 2010 comprised the following:

	2011	2010
Raw materials and spare parts	$ 68,797	$ 63,486
Finished goods and goods for resale	62,916	64,927
Work-in-progress	39,663	37,721
	171,376	166,134
Less: long-term portion	(13,816)	(13,716)
Total	**$ 157,560**	**$ 152,418**

The Group has evaluated the classification of inventories and determined that $13.8 million of inventories is expected to be sold or used in periods in excess of one year from the 2011 balance sheet date. Accordingly, this amount has been classified into long-term assets.

During 2011, an obsolescence provision charge of $10.6 million (2010: $6.0 million) has been recognized (Note 26).

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2011 and 2010 comprised the following:

	2011	2010
Land	$ 19,539	$ 19,929
Buildings and leasehold improvements	188,757	191,675
Plant, machinery and equipment (including leased vehicles and equipment of $183,579 and $193,983 as of December 31, 2011 and 2010 respectively)	326,554	333,053
Construction in progress and equipment for installation	76,163	31,111
	611,013	575,768
Less accumulated depreciation:		
Buildings and leasehold improvements	(66,991)	(61,953)
Plant, machinery and equipment (including leased vehicles and equipment of ($44,538) and ($29,473) as of December 31, 2011 and 2010 respectively)	(97,518)	(74,739)
	(164,509)	(136,692)
Total	**$ 446,504**	**$ 439,076**

Depreciation expense for property, plant and equipment for the years ended December 31, 2011 and 2010 was $44.4 million and $40.4 million respectively.

Land, buildings and equipment with an approximate carrying value of $25.0 million and $48.6 million as of December 31, 2011 and 2010 respectively were pledged to collateralize the outstanding balance of debt to Sberbank, Bank of Moscow and BAWAG bank (Note 15, Note 16).

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

10. INTANGIBLE ASSETS AND GOODWILL, NET

Intangible assets, net of accumulated amortization, and goodwill as of December 31, 2011 and 2010 comprised the following:

	2011			2010		
	Gross carrying value	Accumu-lated amorti-zation	Net carrying value	Gross carrying value	Accumu-lated amorti-zation	Net carrying value
Finite-life intangible assets:						
Customer contracts and the related customer relationships	$ 63,148	(30,319)	32,829	$ 63,817	(24,183)	39,634
Software costs	163,489	(105,284)	58,205	157,265	(92,014)	65,251
Licenses	26,369	(8,871)	17,498	28,425	(7,409)	21,016
Other	48,152	(21,730)	26,422	45,901	(11,000)	34,901
	301,158	(166,204)	134,954	295,408	(134,606)	160,802
Indefinite-life intangible assets:						
Trademarks	3	-	3	4	-	4
Goodwill	60,478	-	60,478	63,138	-	63,138
Total	**$ 361,639**	**(166,204)**	**195,435**	**$ 358,550**	**(134,606)**	**223,944**

The amortization expense for the years ended December 31, 2011 and 2010 was $50.6 million and $50.4 million respectively.

The estimated amortization expense for the finite-life intangible assets as of December 31, 2011 for each of the five succeeding fiscal years and thereafter is as follows:

2012	42,655
2013	34,478
2014	30,443
2015	12,374
2016	6,818
Thereafter	8,186
Total	**$ 134,954**

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.

11. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2011 and 2010 comprised the following:

	2011	2010
Share in LLC SITRONICS-Nano	211,225	220,677
Share in JSC Intellect Telecom	$ 6,163	$ 7,940
Other	5,717	2,099
Total	**$ 223,105**	**$ 230,716**

LLC SITRONICS-Nano – In October 2009, the Group entered into an agreement to form SITRONICS-Nano, which is owned 49.975% by the Group, 49.975% by RUSNANO and 0.05% by another party. The primary purpose of SITRONICS-Nano is to acquire equipment and licenses necessary to launch 90 nanometer microchip production and to lease them to the Group, and to provide project financing to the Group. The equipment and licenses purchases is financed through the equity of SITRONICS-Nano and external borrowings.

SITRONICS-Nano is determined to be a variable interest entity where the Group has a variable interest through a lease agreement and is not the primary beneficiary. The Group accounts for the investment under the equity method.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

RUSNANO has a put option to sell its shares to Sistema at market price +25% not earlier than in nine years and not later than in 10.5 years from the date of financing (December 2009). Sistema has a call option to acquire at any time RUSNANO's shares at RUB 6,480.0 million plus 18% p.a.

In addition, during the first nine years of operations of SITRONICS-Nano on non-fulfillment of certain criteria, RUSNANO can put its share in SITRONICS-Nano to Sistema at RUB 6,480.0 million plus 18% p.a., less any net profit attributed and paid to RUSNANO during the period from the date of the put option application.

The maximum exposure to a loss is determined as the Group's contribution to SITRONICS-Nano adjusted by the Group's share of distributed results of the investee and is equal to $211.2 million.

12. LONG-TERM TRADE RECEIVABLES

The long-term portion of trade receivables as of December 31, 2011 and 2010 comprised the following:

	Annual interest rate (Actual at December 31, 2011)	Maturity date		2011		2010
Trade receivables from third parties	6 month EURIBOR+1.8%; 3 month EURIBOR+1.8%; 6 month EURIBOR+2%; 6 month EURIBOR+1%; 1 year EURIBOR+2.5%; 4.79%; 2%-6% 8.85%; interest free	2013-2016	$	30,422	$	33,214
Trade receivables from Sistema affiliates				-		5,511
Total			**$**	**30,422**	**$**	**38,725**

The long-term trade receivables are primarily related to customers of Intracom Telecom.

13. RESTRICTED CASH

As of December 31, 2011, the Group had restricted cash in the amount of $6.7 million related to government financing with predefined purposes of use.

14. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2011 and 2010 comprised the following:

		2011		2010
Customers' prepayments	$	125,415	$	170,627
Current portion of capital lease obligation (Note 17)		34,854		2,691
Accrued payroll and vacation		17,627		21,821
Interest payable on debt		15,127		27,089
Accrued expenses and other current liabilities		13,463		16,825
Warranty obligations		2,831		3,581
Provision for uncertain tax positions (Note 20)		1,152		1,236
Current portion of postretirement benefit obligations (Note 18)		881		835
Stock option obligation (Note 22)		-		998
Total	**$**	**211,350**	**$**	**245,703**

As of December 31, 2011 and 2010, customers' prepayments included amounts related to transactions with subsidiaries and affiliates of Sistema of $82.4 million and $118.7 million respectively (Note 24).

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

15. SHORT-TERM LOANS AND NOTES PAYABLE

At December 31, 2011 and 2010, short-term loans and notes payable comprised the following:

	Annual interest rate (Actual at December 31, 2011)	2011	2010
Revolving credit facilities:			
Including:			
EUR-denominated	3 month EURIBOR+3.5%; 3 month EURIBOR+4.5%; 3 month EURIBOR+5.0%; 1 month EURIBOR+2.8%	18,991	17,734
USD-denominated	1 month LIBOR+8.5%; 9.5%	15,900	13,901
RUB-denominated	3 month MOSPRIME+5.5%	$ 4,652	$ -
		39,543	**31,635**
RUB-denominated loans and notes payable to Sistema and subsidiaries:			
Including:			
Notes payable	2.55%	89,452	58,360
Loans payable	9.5%; 12%	988	17,061
		90,440	**75,421**
Loans and notes payable to other parties:			
Including:			
RUB-denominated	3 month MOSPRIME+5.0%; 8.0%; 15.0%	26,811	166
EUR-denominated	2 month EURIBOR+5.0%; 3 month EURIBOR+6.0%; 1 month EURIBOR+2.25%	16,565	21,836
CZK-denominated	3 month PRIBOR+0.35%	1,456	1,726
USD-denominated	-	-	995
		44,832	**24,723**
Total		**$ 174,815**	**$ 131,779**

Revolving Credit Facilities

In December 2005, Intracom Telecom entered into several EUR-denominated revolving loan agreements with a number of financial institutions, including National Bank of Greece S.A., Piraeus Bank S.A. and EFG Eurobank S.A. limited in the aggregate to $82.5 million. As of December 31, 2011 these facilities bear interest rates from one month EURIBOR+2.8% to three month EURIBOR+5.0% per annum. As at December 31, 2011 the outstanding amount under these facilities comprised $19.0 million.

During the year ended December 31, 2008, SITRONICS Smart Technologies entered into a revolving credit facility agreement with HSBC denominated in USD, limited to $15.0 million. The credit facility bears an interest rate of one month LIBOR+8.5% per annum. During the year ended December 31, 2011, the credit facility was extended and matures in July 2012. As of December 31, 2011, the outstanding amount under the credit facility comprised $14.0 million.

During the year ended December 31, 2010, SITRONICS Information Technologies Ukraine entered into a USD-denominated revolving loan agreement with BM Bank (subsidiary of the Bank of Moscow in Ukraine). The loan is limited to $5.0 million and bears an interest rate of 9.5% per annum. During the year ended December 31, 2011, the credit facility was extended and matures in December 2012. The facility is secured by the guarantee of SITRONICS IT B.V. subsidiaries. Land and buildings of SITRONICS IT B.V. subsidiaries with an approximate carrying value of $0.3 million were also pledged as security under the agreement. The amount outstanding as at December 31, 2011 under this agreement comprised $1.9 million.

During the year ended December 31, 2011, SITRONICS Information Technologies entered into a RUB-denominated revolving loan agreement with Bank of Moscow. The loan is limited to RUB 150 million, which is equal to $4.7 million at December 31, 2011, and bears an interest rate of three month MOSPRIME+5.5% per annum and matures in March 2012. As of December 31, 2011, the outstanding amount under this agreement comprised $4.7 million.

RUB-denominated Loans and Notes Payable to Sistema and subsidiaries

During the year ended December 31, 2011, SITRONICS issued RUB-denominated promissory notes to its subsidiary SITRONICS Management which were subsequently sold to RTI. The promissory notes bear an interest rate of 2.55% per annum and mature by request not earlier than September 2012. The amount outstanding as at December 31, 2011 under this arrangement comprised $89.5 million. The borrowed funds were used to repay the indebtness of SITRONICS Management to Sistema bearing interest rate of 0.1% with $58.4 million outstanding payable as of December 31, 2010 and indebtness of SITRONICS to Sistema and subsidiaries bearing interest rate of 20.5% with $17.1 million outstanding payable as of December 31, 2010 as well as accrued interest on those.

During the year ended December 31, 2011, SITRONICS CAMS entered into a RUB-denominated unsecured loan agreement with Concern RTI Systems. The loan bears an interest rate of 9.5% per annum and matures in April 2012. The amount outstanding as at December 31, 2011 under this agreement comprised $0.7 million.

During the year ended December 31, 2011, VZPP Mikron entered into RUB-denominated loan agreement with MBRD. The loan bears an interest rate of 12% per annum and matures in May 2012. The amount outstanding as at December 31, 2011 under this agreement comprised $0.3 million.

Loans and Notes Payable to Other Parties

During the year ended December 31, 2010, SITRONICS Information Technologies entered into a RUB-denominated unsecured loan agreement with PROBUSINESSBANK, bearing an interest rate of 15%. During the year ended December 31, 2011, the loan was extended and matures in March 2012. The amount outstanding as at December 31, 2011, under this agreement comprised $0.4 million.

During the year ended December 31, 2010, SITRONICS entered into a RUB-denominated credit facility with Bank of Moscow. The facility is limited to 700 RUB million ($21.7 million) and matures in November, 2012. The borrowings under the facility bear interest rate of three month MOSPRIME+5% per annum and are secured by the guarantees of Mikron, SITRONICS Telecommunication Solutions and SITRONICS Information Technologies. The amount outstanding as at December 31, 2011 comprised $21.7 million.

During the year ended December 31, 2011, SITRONICS Management entered into a repurchase agreement (REPO) in open debt market with URSA Capital acting as a broker with maturity date in March 23, 2012 and interest rate of 8% per annum. The payable under the repurchase agreement is secured by SITRONICS' bonds series BO-01. As of December 31, 2011, the amount outstanding under the REPO comprised $4.7 million.

During the year ended December 31, 2011, Intracom Telecom has obtained several tranches within EUR-denominated unsecured credit facilities with General Bank of Greece S.A. and Alpha bank. As of December 31, 2011, the outstanding amount under the credit facility with General Bank of Greece comprised $7.1 million. The credit facility is limited to EUR 5.5 million ($7.1 million), bears an interest rate of two month EURIBOR+5% per annum and matures in February 2012. As of December 31, 2011 the outstanding amount under the credit facility with Alpha bank comprised $6.5 million. The credit facility is limited to EUR 52.3 million ($67.7 million), bears an interest rate of three month EURIBOR+6% per annum and matures in January 2012.

During the year ended December 31, 2003, Intracom Telecom subsidiary Intrarom entered into a EUR-denominated overdraft facility agreement with ING BANK bearing an interest rate of one month EURIBOR+2.25% per annum. The overdraft amount outstanding as at December 31, 2011 under this agreement comprised $3.0 million and is to be repaid in January 2012.

In 2003, SITRONICS TS CR obtained a CZK-denominated loan of $2.3 million from BAWAG Bank. The loan bears an interest rate of three month PRIBOR+0.35% per annum. Land and buildings of SITRONICS TS CR with an approximate carrying value of $1.5 million are pledged as security under the agreement. The amount outstanding as at December 31, 2011 under this agreement comprised $1.5 million.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

16. LONG-TERM DEBT

Long-term debt as of December 31, 2011 and 2010 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2011)	2011	2010
RTI	RUB, USD	CBR refinancing rate+2.75%; 3 month LIBOR+7.25%;	$ 227,960	$ -
Bonds (Series BO-01; Series BO-02)	RUB	11.75%; 10.75%	132,190	139,647
Syndicated loan to Intracom Telecom (2008)	EUR	2 month EURIBOR+4.5%	116,487	158,808
SITRONICS-Nano	RUB	14%	54,992	45,623
Bank of Moscow	RUB	3 month Mosprime+7.25%; 10.25%	42,514	-
Sberbank	RUB	11.25%	24,568	25,954
GOLDEN GATES B.V. (Bank of Moscow)	USD	-	-	230,000
Science and Industrial Policy Department of the Moscow Government	RUB	-	-	7,120
Other loans	various	1 month LIBOR+9.5%; 2.5%	6,217	5,724
Subtotal			**604,928**	**612,876**
Less current portion of long-term debt			(260,134)	(397,552)
Total			**$ 344,794**	**$ 215,324**

Loan Agreements with RTI – In November 2011, SITRONICS entered into unsecured RUB- and USD-denominated loan agreements with RTI. The RUB-denominated loan agreement bears an interest rate equal to the refinancing rate of Central Bank of Russia ("CBR")+2.75% per annum. The USD-denominated loan agreement bears an interest rate of three month LIBOR+7.25% per annum. These facilities mature in 2018, and amortization starts in 2014. The proceeds of the loans were used to refinance the borrowing from Golden Gates. The amount outstanding as at December 31, 2011 under these agreements comprised $228.0 million.

Bonds Series BO-01 – In June 2010, SITRONICS issued RUB-denominated non-convertible interest-bearing bonds Series BO-01 with a par value of 1,000 Rubles each. The three-year RUB 2 billion issue was priced at face value. The bonds have six coupon periods (the duration of each coupon period is 182 days) and mature in June 2013. The semi-annual coupon payment of 11.75% per annum was determined for the first four semi-annual coupon periods from June 2010 to June 2012. Bonds holders have an early redemption option exercisable on June 26, 2012 when the coupon rate for coupon periods 5-6 will be established. In June 2010, SITRONICS Management repurchased RUB 744.0 million of SITRONICS bonds at nominal value. As of December 31, 2011, the outstanding amount comprised $39.0 million and was included in the current portion of long-term debt.

Bonds Series BO-02 – In October 2010, SITRONICS issued RUB-denominated non-convertible interest-bearing bonds Series BO-02 with a par value of 1,000 Rubles each. The three-year RUB 3 billion issue was priced at face value. The bonds have six coupon periods (the duration of each coupon period is 182 days) and mature in October 2013. The semi-annual coupon payment of 10.75% per annum was determined for the first four semi-annual coupon periods from October 2010 to October 2012. Bond holders have an early redemption option exercisable on October 15, 2012 when the coupon rate for coupon periods 5-6 will be established. As of December 31, 2011, the outstanding amount comprised $93.2 million and was included in the current portion of long-term debt.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Syndicated Loan to Intracom Telecom – In June 2008, Intracom Telecom entered into a EUR 150 million syndicated loan agreement with a number of banks (Alpha bank (the "Agent"), HSBC Bank plc, Geniki Bank of Greece S.A., National Bank of Greece S.A., Piraeus Bank S.A., EFG Eurobank S.A., FBB-First Business Bank S.A., T-Bank (former Aspis Bank), Millennium Bank S.A.). The loan bears interest of two month EURIBOR+4.5% per annum. In the year ended December 31, 2011, Intracom repaid EUR 30 million of the principal amount and the loan was extended till February 28, 2012 with an option to extend till June 30, 2012. The loan is guaranteed by SITRONICS and Intracom Holding S.A. by 51% and 49% respectively. The amount outstanding as at December 31, 2011, under this agreement comprised EUR 90 million ($116.5 million) and is included in the current portion of long-term debt.

Borrowing from SITRONICS-Nano – During the years ended December 31, 2009, 2010 and 2011, Mikron entered into a number of credit facility agreements with SITRONICS-Nano denominated in RUB, limited in aggregate to $55.0 million. The drawdowns bear an interest rate of 14% per annum and mature at the end of 2017. The amount outstanding as at December 31, 2011 under these agreements comprised $55.0 million.

Borrowing from Sberbank – During the year ended December 31, 2010, Mikron entered into a credit facility agreement with Sberbank denominated in RUB, limited in aggregate to $24.6 million. The drawdown bears an interest rate of 11.25% per annum and matures in June 2013. The facility is secured by the guarantee of SITRONICS. Land and buildings of Mikron with an approximate carrying value of $14.4 million were also pledged as security under the agreement. The amount outstanding as at December 31, 2011 under this agreement comprised $24.6 million, of which $8.7 million matures in December 2012 and is included in the current portion of long-term debt.

Credit agreement with Bank of Moscow – In July 2011, Mikron entered into a credit facility agreement with Bank of Moscow denominated in RUB, limited in aggregate to $14 million. The drawdown bears an interest rate of three month MOSPRIME+7.25% per annum and matures in 2016. The facility is secured by the guarantees of SITRONICS-Nano and SITRONICS. The amount outstanding as at December 31, 2011 under this agreement comprised $14 million, where $0.3 million is included in the current portion of long-term debt. In September 2011, Mikron entered into another credit facility agreement with Bank of Moscow denominated in RUB, limited in aggregate to $28.5 million. The drawdown bears an interest rate of 10.25% per annum and matures in 2014. The facility is secured by the guarantee of SITRONICS. The amount outstanding as at December 31, 2011 under this agreement comprised $28.5 million. Land and buildings of Mikron with an approximate carrying value of $8.8 million were pledged as security under these agreements.

Other loans – In April 2010, SITRONICS Smart Technologies entered into a USD-denominated credit facility with Bank of Moscow. The facility is limited to $5.0 million and matures on March 31, 2012. The borrowing under the facility bears an interest rate of one month LIBOR+9.5% but not less than 9.75% and not more than 11% per annum. The facility is secured by the guarantees of Mikron and SITRONICS. The amount outstanding as at December 31, 2011 under this agreement comprised $2.4 million and is included in the current portion of long-term debt.

In July and December 2011, SITRONICS entered into number of unsecured RUB-denominated loan agreements with Concern RTI Systems. The loan agreements bear an interest rate of 2.5% per annum and mature in December 2013. The amount outstanding as at December 31, 2011 under these agreements comprised $3.8 million.

The other borrowings outstanding at December 31, 2010, were repaid, refinanced or extended during 2011.

The following table presents the aggregate scheduled maturities of the total debt outstanding as of December 31, 2011:

Year ended December 31,	
2012	260,134
2013	29,578
2014	69,725
2015	53,723
2016	45,592
Thereafter	146,176
Total	**$ 604,928**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

17. CAPITAL LEASE OBLIGATIONS

The capital lease obligations as of December 31, 2011 and 2010 are presented as follows:

	2011	2010
Total minimum lease payments (undiscounted)	$ 168,511	$ 177,903
Less: amount representing interest	(5,523)	(6,905)
Present value of net minimum lease obligations	**162,988**	**170,998**
Less: current portion of capital lease obligations (Note 14)	(34,854)	(2,691)
Non-current portion of capital lease obligations	**$ 128,134**	**$ 168,307**

In December 2009, Mikron entered into a lease agreement for equipment and vehicles with SITRONICS-Nano classified as a capital lease. The total amount of the minimum lease payments equals to $163.5 million and $171.9 million as at December 31, 2011 and 2010 respectively.

Most of the agreements expire in 2018 and thereafter. Future payments under capital leases in effect as of December 31, 2011, are as follows:

Year ended December 31,	
2012	35,378
2013	36,988
2014	18,729
2015	18,222
2016 and thereafter	59,194
Less: amount representing interest	(5,523)
Total	**$ 162,988**

18. POSTRETIREMENT BENEFITS

According to Greek labor legislation, Intracom Telecom is obliged to provide certain postretirement benefits to its employees (Note 2). The following are the key assumptions used in determining the projected benefit obligation and net periodic expense:

	2011	2010
Discount rate	4.6% p.a.	4.6% p.a.
Annual payroll increase	4.0% p.a.	4.5% p.a.
Long-term inflation	2.0% p.a.	2.0% p.a.
Staff turnover for voluntary resignation (up to 30)	10.6% p.a.	11.0% p.a.
Staff turnover for voluntary resignation (from 31 to 50)	5.7% p.a.	5.5% p.a.
Staff turnover for voluntary resignation (for ages above 51)	0.4% p.a.	2.0% p.a.
Staff turnover for dismissal (for ages below 51)	0.4% p.a.	0.2% p.a.

The change in the projected benefit obligation for the years ended December 31, 2011 and 2010 is presented in the following table:

	2011	2010
Projected benefit obligation, beginning of the year	$ 8,150	$ 7,166
Service cost	973	679
Interest cost	412	394
Amendments	1,641	2,181
Benefit payments	(2,108)	(2,679)
Actuarial loss	1,078	968
Currency translation effect	(320)	(559)
Projected benefit obligation, end of the year	**$ 9,826**	**$ 8,150**
Current portion (Note 14)	881	835
Long-term portion (Note 19)	8,945	7,315

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

The future payments to employees under the plan are expected as follows:

Year ended December 31,		
2012		881
2013		958
2014		1,010
2015		1,074
2016 and thereafter		5,903
Total	**$**	**9,826**

The components of the net periodic costs for the years ended December 31, 2011 and 2010 are as follows:

		2011		**2010**
Service cost	$	973	$	679
Interest cost		412		394
Recognized actuarial loss		-		58
Net periodic cost	**$**	**1,385**	**$**	**1,131**

Unrecognized actuarial loss recorded in other comprehensive loss for the years ended December 31, 2011 and 2010 amounted to $0.5 million and $0.5 million respectively. Deferred tax effects recognized in respect of these amounts were $0.1 million gain and $0.1 million gain in the years ended December 31, 2011 and 2010 respectively (Note 21).

19. OTHER LONG-TERM LIABILITIES

As of December 31, 2011 and 2010, other long-term liabilities of the Group comprised the following:

		2011		**2010**
Postretirement benefit obligation, long-term portion (Note 18)	$	8,945	$	7,315
Letter of credit guarantee for SITRONICS-Nano (Note 25)		1,566		-
Warranty obligations, long-term portion		818		1,101
Other		1,821		277
Total	**$**	**13,150**	**$**	**8,693**

20. INCOME TAX

Income tax rates effective at December 31, 2011 and 2010, in countries where the Group primarily operates were as follows:

	2011	**2010**
Russia	20%	20%
Ukraine	23%	25%
Czech Republic	19%	19%
Greece	20%	24%
Romania	16%	16%

The Group’s provision for income taxes for the years ended December 31, 2011 and 2010 was as follows:

		2011		**2010**
Current tax expense	$	13,619	$	15,602
Deferred income tax benefit		(3,282)		(4,196)
Total income tax expense	**$**	**10,337**	**$**	**11,406**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

The provision for income taxes is different from that which would be obtained by applying the Russian statutory income tax rate of 20% to the loss before income tax.

The items causing this difference are as follows:

	2011	2010
Loss before income tax	$ (85,080)	$ (48,264)
Russian statutory tax rate	20%	20%
Income tax benefit	(17,016)	(9,653)
Adjustments due to:		
Expenses not deductible for tax purposes	23,657	19,146
Movement in valuation allowance	1,423	486
Tax loss carried forward movement	1,385	(1,238)
Change in liability for uncertain tax positions	165	(1,300)
Income tax paid in capacity of agent	-	1,944
Effect of different tax rates in foreign subsidiaries	1,357	1,638
Other	(634)	383
Income tax expense	**$ 10,337**	**$ 11,406**

Temporary differences between the tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities as at December 31, 2011 and 2010:

	2011	2010
Deferred tax assets		
Property, plant and equipment	$ 13,080	$ 15,125
Tax loss carried forward	21,038	15,565
Accounts receivable	6,016	14,317
Accrued expenses	7,266	11,882
Inventories	10,907	11,869
Allowance for deferred tax asset	(2,470)	(1,047)
Other	8,771	6,634
Total deferred tax assets	**$ 64,608**	**$ 74,345**
Deferred tax liabilities		
Undistributed untaxed profit	(10,462)	(10,697)
Property, plant and equipment	(6,170)	(13,916)
Intangible assets	(7,684)	(10,699)
Other	(14,950)	(15,666)
Total deferred tax liabilities	**$ (39,266)**	**$ (50,978)**
Deferred tax assets, current portion	$ 10,839	$ 28,020
Deferred tax assets, non-current portion	31,657	28,149
Deferred tax liabilities, current portion	(7,863)	(16,388)
Deferred tax liabilities, non-current portion	(9,291)	(16,414)

As of December 31, 2011, deferred tax assets relating to tax loss carried forward are mainly attributable to Mikron, SITRONICS and SITRONICS TS (including SITRONICS TS CR) in the amounts of $15.0, $3.4 and $1.4 million respectively. The remaining balance is attributable to SITRONICS Smart Technologies, Elion and Koncel. The tax loss can be utilized through 2014 in the Czech Republic and through 2020 in Russia.

The Group accounts for uncertain tax positions in accordance with FASB ASC No. 740 “Income Taxes”. The effect on the consolidated statements of operations for the years ended December 31, 2011 and 2010 was $0.1 million and $1.3 million gain respectively.

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

	2011	2010
Opening balance	**$ (487)**	**$ (545)**
Decrease due to the change of tax positions	79	58
Closing balance	**$ (408)**	**$ (487)**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

A reconciliation of the beginning and ending balances of interest and penalties related to unrecognized tax benefits are as follows:

		2011		2010
Opening balance	$	**(749)**	$	**(2,031)**
Decrease due to the change of tax positions		5		1,282
Closing balance	$	**(744)**	$	**(749)**

During the years ended December 31, 2011 and 2010, the Group reversed uncertain tax positions related to unrecognized tax benefits in the amount of $0.1 million and $1.5 million respectively as the time allowed for claims expired. The Group considers it reasonably possible that approximately $0.6 million of the unrecognized tax benefit will be reversed within the next twelve months.

21. SHAREHOLDERS' EQUITY

Common Stock – SITRONICS' share capital comprises of one class of ordinary shares with each share having equal voting rights. Based on Russian law, distributions to shareholders can only be paid out of distributable earnings. The distributable retained earnings of SITRONICS are based on amounts determined in accordance with Russian statutory accounting regulations and may differ significantly from the amounts calculated on the basis of U.S. GAAP.

Additional paid-in Capital – In December 2011, the Group disposed of 25% interest in its subsidiary, SITRONICS Smart Technologies for consideration of $8.0 million (Note 3). The gain of $6.3 million on the transaction was posted to increase of additional paid-in capital in the reporting period. This transaction also caused an increase of the non-controlling interest balance by $2.5 million and reclassification of $0.4 million translation adjustment balance to non-controlling interest.

Non-controlling interest – In 2011, the non-wholly-owned subsidiaries of the Group, namely, Mikron, SITRONICS-ZTE Ltd. and Cosmos Wealth Technology Ltd. (subsidiary of Cosmos Wealth Ltd.) issued shares in amounts of $83.7 million, $6.1 million and $0.4 million respectively. The Group acquired $74.5 million, $3.1 million and $0.1 million stakes, which equal to 89%, 51% and 16% of the respective share issues. The rest of the share issues were acquired by non-controlling shareholders in all three cases. These transactions resulted in an increase of the Group's ownership interest in Mikron from 77% to 80% (Note 2), caused no change in the ownership interest of SITRONICS-ZTE Ltd and decreased ownership interest in Cosmos Wealth Technology Ltd. from 75% to 65%. The transactions caused increase in the non-controlling interest balance in total amount of $12.5 million.

Accumulated other comprehensive loss for the years ended December 31, 2011 and 2010, comprised the following:

		Translation adjustment	Unrecognized actuarial gains/(losses)	Deferred tax	Total accumulated other comprehensive loss
Balances at January 1, 2010	$	**(30,135)**	**332**	**-**	**(29,803)**
(Debit)/credit for the year		(10,020)	(464)	92	**(10,392)**
Balances at December 31, 2010	$	**(40,155)**	**(132)**	**92**	**(40,195)**
(Debit)/credit for the year		(3,145)	(550)	110	**(3,585)**
Balances at December 31, 2011	$	**(43,300)**	**(682)**	**202**	**(43,780)**

Earnings Per Share (EPS) – EPS are computed using the weighted average number of shares outstanding during the years ended December 31, 2011 and 2010. Diluted earnings per share are computed on the basis of the weighted average number of shares outstanding plus any dilutive effect of the outstanding stock options.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

22. STOCK OPTIONS

Phantom stock option plan for senior and middle management of the Group for 2010-2012 years

In January 2010, SITRONICS' Board of Directors established a three-year stock option plan for senior and middle management of the Group. The participants are granted phantom shares, contingent on continued employment with the Group and other conditions. The plan consists of 3 options each starting in the beginning of years 2010, 2011, 2012. All the distributions to participants are given in cash with amounts determined as a price equal to the average price of 1 GDR at the London Stock Exchange ("LSE") 60 days prior to the end of the year multiplied by a respective quantity of phantom shares. The Group recognizes compensation cost on a straight-line basis over the requisite service period for each separately vesting portion of the award. The Lattice model is used to calculate the present value of the expected option value at the end of the vesting periods, based on the variability of outcomes with relevant probability allocated to each one.

In the years ended December 31, 2011 and 2010, the phantom shares vested at $0.6 and $0.78 respectively per phantom share.

<u>Option 1</u>

In the beginning of 2010, SITRONICS' Board of Directors established all the key provisions of the first part of the stock option plan with the quantity of phantom shares granted equal to 5,288,470 ("Option 1").

The activity relating to the stock options ("Option 1") for the years ended December 31, 2011 and 2010 was as follows:

Number of shares	**2011**	**2010**
Outstanding at December 31, 2010	3,847,587	-
Options granted	-	5,288,470
Options exercised	(2,697,825)	-
Options forfeited	(322,193)	(1,440,883)
Outstanding at December 31, 2011	827,569	3,847,587

The number of vested phantom options for the years ended December 31, 2011 and 2010 was equal to 1,415,296 and 1,282,529 phantom shares respectively.

In December 2011, 2,697,825 phantom options under the stock option plan were exercised.

The compensation cost recorded during the years ended December 31, 2011 and 2010 was $0.9 million and $1.0 million respectively and is included in selling, general and administrative expenses.

As of December 31, 2011, there was $0.5 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under Option 1. That cost is expected to be recognized in 2012.

<u>Option 2</u>

In the beginning of 2011, SITRONICS' Board of Directors approved the key terms of the second part of the stock option plan with the quantity of phantom shares granted equal to 7,619,578 ("Option 2").

The activity relating to the stock options ("Option 2") for the year ended December 31, 2011 was as follows:

Number of shares	**2011**
Outstanding at December 31, 2010	-
Options granted	7,619,578
Options exercised	(5,079,719)
Options forfeited	-
Outstanding at December 31, 2011	2,539,859

The number of vested phantom options for the year ended December 31, 2011 was equal to 5,079,719 phantom shares.

The compensation cost recorded during the year ended December 31, 2011 was $3.2 million, and is included in selling, general and administrative expenses.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

As of December 31, 2011, there was $1.4 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under Option 2. That cost is expected to be recognized in 2012.

Option 3

In December 2011, SITRONICS' Board of Directors made a decision to cancel the third part of the three year stock option plan for senior and middle management of the Group.

23. SEGMENT INFORMATION

The FASB ASC No. 280 "Segment Reporting" establishes standards for reporting information about operating segments in the financial statements. Operating segments are defined as components of an enterprise engaging in business activities for which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance.

The Group has three operating segments, namely the Telecommunication Solutions segment, Information Technologies Solutions segment and the Microelectronic Solutions segment. These operating segments have differing production processes and product specification. The Group's management evaluates performance of the segments based on their operating income.

The intercompany eliminations presented below consist primarily of intercompany sales transactions, intercompany investments and loans and other intercompany transactions and balances conducted in the normal course of operations.

The All other category does not constitute either an operating segment or a reportable segment. Rather, it includes the results of a number of other operating segments that do not meet the quantitative and thresholds for separate reporting. These operating segments do not qualify for aggregation to produce a reportable segment, since these operating segments do not have similar economic characteristics.

Corporate segment includes various corporate expenses, assets and liabilities that can not be allocated to operating segments.

In 2011, SITRONICS Bashkortostan was sold to SITRONICS Information Technologies which led to reclassification of its results and assets from All other category to Information Technologies Solutions Segment (Note 2). The figures for the year ended December 31, 2010 were adjusted for comparability.

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the years ended December 31, 2011 and 2010 is as follows:

For the year ended December 31, 2011	Telecom-munication Solutions	Information Technologies Solutions	Micro-electronic Solutions	All other	Corporate	Total
Sales to external customers	$ 545,484	$ 492,640	$ 316,395	$ 120,587	$ -	$ 1,475,106
Intersegment sales	2,043	337	30,093	1,086	-	33,559
Depreciation and amortization	(43,795)	(13,428)	(34,689)	(2,221)	(875)	(95,008)
Operating income/(loss)	11,431	8,049	2,280	4,450	(24,129)	2,081

For the year ended December 31, 2010	Telecom-munication Solutions	Information Technologies Solutions	Micro-electronic Solutions	All other	Corporate	Total
Sales to external customers	$ 525,929	$ 353,344	$ 255,447	$ 32,208	$ -	$ 1,166,928
Intersegment sales	3	587	11,935	1,053	-	13,578
Depreciation and amortization	(48,945)	(7,230)	(30,773)	(3,288)	(609)	(90,845)
Operating income/(loss)	627	21,481	11,050	1,472	(19,854)	14,776

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

The reconciliation of segment operating income to loss before income tax is as follows:

	2011	2010
Telecommunication Solutions	$ 11,431	$ 627
Information Technologies Solutions	8,049	21,481
Microelectronic Solutions	2,280	11,050
Total segment operating income for reportable segments	**21,760**	**33,158**
All other	4,450	1,472
Corporate	(24,129)	(19,854)
Interest expense, net	(68,339)	(71,442)
Foreign currency transactions losses	(11,142)	(890)
Gain on sale of associates	-	7,885
Equity in net (loss)/income of investees	(1,025)	1,389
Other non-operating (losses)/gains	(6,655)	18
Loss before income tax	**$ (85,080)**	**$ (48,264)**

As of December 31, 2011 and 2010, the total assets of reportable segments comprised the following:

	2011	2010
Telecommunication Solutions	$ 658,929	$ 811,389
Information Technologies Solutions	399,516	392,273
Microelectronic Solutions	734,316	739,448
Total for reportable segments	**1,792,761**	**1,943,110**
All other	98,913	35,357
Corporate	499,901	561,989
Intersegment eliminations	(528,370)	(568,999)
Total assets	**$ 1,863,205**	**$ 1,971,457**

For the years ended December 31, 2011 and 2010, the Group's additions to property, plant and equipment and intangible assets, comprised the following:

	2011	2010
Telecommunication Solutions	$ 28,842	$ 18,747
Information Technologies Solutions	6,376	14,283
Microelectronic Solutions	65,209	37,577
Total for reportable segments	**100,427**	**70,607**
All other	1,404	384
Corporate	1,361	1,131
Total additions to property, plant and equipment and intangible assets	**$ 103,192**	**$ 72,122**

Information about the Group's revenues attributed to different geographic areas for the years ended December 31, 2011 and 2010 is shown below. The revenue is attributed by the location of the registered office of the customer.

	2011	2010
Russia and CIS, except for Ukraine	$ 1,079,989	$ 671,593
Central and Eastern Europe	136,971	154,149
Ukraine	113,289	89,558
Greece	77,264	121,320
Asia-Pacific region	42,775	55,567
Middle East and Africa	15,398	56,997
Others	9,420	17,744
Total sales to external customers	**$ 1,475,106**	**$ 1,166,928**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

As of December 31, 2011 and 2010, the Group's property, plant and equipment and intangible assets, net of accumulated depreciation and amortization plus goodwill, in respect of their geographical location were as follows:

	2011	2010
Russia and CIS, except for Ukraine	$ 354,128	$ 341,017
Ukraine	130,371	139,092
Greece	98,938	110,045
Czech Republic	37,804	52,420
Romania	10,732	12,161
Other	9,966	8,285
Total property, plant and equipment and intangible assets, net of accumulated depreciation and amortization plus goodwill	**$ 641,939**	**$ 663,020**

24. RELATED PARTY TRANSACTIONS

The Group enters into related party transactions, such as for the sale of software and telecommunications equipment, sale of smart cards, and providing of services for implementation of systems integration with entities affiliated with the Group through common ownership. A majority of these transactions are executed in the normal course of business at customary rates established with third parties.

During the years ended December 31, 2011 and 2010, the Group entered into transactions with related parties as follows:

	2011	2010
Sales of software and telecommunication equipment	$ 316,995	$ 187,574
Systems integration	343,886	233,635
Sales of smart cards	77,875	46,720
Cost of goods sold	(20,763)	(256)
Interest income	1,023	2,016
Interest expense	(13,178)	(14,623)
Operating services consumed	(6,461)	(2,834)
Other income	459	8,670

Sales of Software and Telecommunication Equipment

JSC Mobile TeleSystems ("MTS") – During the years ended December 31, 2011 and 2010, SITRONICS TS CR and SITRONICS TS entered into transactions with MTS, a subsidiary of Sistema, and its affiliates for sales of communications software support systems and telecommunication equipment and rendering services on development and technical support of billing solutions. Pursuant to these contracts, SITRONICS TS CR and SITRONICS TS sold software, equipment and related services for approximately $138.1 million and $127.2 million during the years ended December 31, 2011 and 2010 respectively.

During the years ended December 31, 2011 and 2010, Intracom Telecom sold telecommunication equipment and provided installation services to MTS for approximately $140.3 million and $29.0 million respectively.

During the years ended December 31, 2011 and 2010, Network Systems sold software products to MTS for approximately $13.6 million and $12.2 million respectively.

During the year ended December 31, 2011, SITRONICS CAMS entered into agreement with JSC MGTS, a subsidiary of MTS for sale of telecommunication equipment and rendering services on technical support of telecommunication solutions for approximately $7.3 million.

Other Subsidiaries of Sistema – During the years ended December 31, 2011 and 2010, the Telecommunication Solutions segment companies provided installation services, sold telecommunication equipment and rendered system maintenance services to Sistema Shyam TeleServices Ltd, subsidiary of Sistema, for approximately $8.7 million and $16.4 million respectively.

During the year ended December 31, 2011, SITRONICS TS sold telecommunication equipment, licenses and provided installation services to JSC Navigation-Information Systems ("NIS"), subsidiary of Sistema, for approximately $4.6 million.

Systems integration

During the years ended December 31, 2011 and 2010, the Information Technologies Solution segment companies provided system integration services to MTS and its subsidiaries for $285.6 million and $188.1 million respectively.

In addition, starting from 2010 the Information Technologies Solutions segment companies extensively expanded its business activity to the "Oil and gas" Business Unit of Sistema. During the years ended December 31, 2011 and 2010, Information Technologies Solutions segment companies provided system integration services for approximately $48.8 million and $37.7 million respectively.

Sales of Smart Cards

During the years ended December 31, 2011 and 2010, SITRONICS Smart Technologies sold smart cards to MTS and its affiliates for $77.6 million and $46.0 million respectively.

Cost of Goods sold

During the year ended December 31, 2011, SITRONICS CAMS purchased from NIS equipment and other goods for implementation of the Intellectual transport system ("ITS") project for $20.4 million.

Operating services consumed

During the years ended December 31, 2011 and 2010, the Group received operating services, including wireless connection services, rent services and others from MTS and its subsidiaries amounted to $6.5 million and $2.8 million respectively.

Interest Income

During the years ended December 31, 2011 and 2010, the Group has earned $0.4 million and $0.4 million from deposits placed at MBRD respectively. For the years ended December 31, 2011 and 2010 the interest income on the loan provided to K-Telecom amounted to $0.4 million and $0.6 million respectively. The remainder of the interest income was earned from different transactions with Sistema and its subsidiaries.

Interest Expense

During the years ended December 31, 2011 and 2010, the Group had several short-term and long-term loans outstanding with Sistema and its subsidiaries, including Concern RTI Systems, RTI and MBRD (Note 15, Note 16). Interest expense on these loans amounted to $10.3 million and $11.5 million for the years ended December 31, 2011 and 2010 respectively.

During the years ended December 31, 2011 and 2010, Mikron entered into a number of credit facility agreements with SITRONICS-Nano (Note 16). Interest expense on these loans amounted to $1.1 million and $1.9 million for the years ended December 31, 2011 and 2010 respectively.

In 2009, Mikron entered into a capital lease agreement for equipment and vehicles with SITRONICS-Nano (Note 17). Interest expense in respect of the lease obligation for the years ended December 31, 2011 and 2010 amounted to $1.8 million and $1.3 million respectively.

Transactions and Balances with Intracom Holdings S. A.

During the year ended December 31, 2011, Intracom Telecom entered into transactions with subsidiaries and affiliates of Intracom Holdings S.A., its non-controlling shareholder. For the years ended December 31, 2011 and 2010, revenues from these transactions amounted to $49.5 million and $78.8 million respectively. The corresponding balances of accounts receivable as of December 31, 2011 and 2010 comprised $102.8 million and $93.7 million respectively. In addition, Intracom Telecom's expenses for services consumed and inventories purchased from these entities amounted to $13.1 million and $16.3 million in the years ended December 31, 2011 and 2010 respectively. As of December 31, 2011 and 2010, trade and other payables to subsidiaries and affiliates of Intracom Holdings S.A. amounted to $30.1 million and $27.0 million respectively.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

25. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Group leases land, buildings and vehicles from other parties through contracts, which expire in various years through 2019. Rental expenses under these leases were $10.6 million and $10.2 million for the years ended December 31, 2011 and 2010 respectively, and were included in selling, general and administrative expenses in the consolidated statements of operations.

Future minimum rental payments under operating leases in effect as of December 31, 2011 were as follows:

Year ended December 31,		
2012		6,592
2013		5,393
2014		1,216
2015		885
2016		572
Thereafter		5,719
Total	**$**	**20,377**

Legal Proceedings

In the ordinary course of business, the Group may be party to various legal and tax proceedings, and be subject to claims. In the opinion of the management, the Group's liability, if any, in all pending litigation, other legal proceedings or other matters, will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

Import of Goods

The Telecommunication Solutions and Information Technologies segments companies utilize third parties to import goods into the CIS countries. There is a risk that the third parties' import transactions may be challenged by regulatory authorities and would be determined as inappropriate. The impact that this determination may potentially have on the Group's net income and financial position cannot be quantified at this stage due to the lack of precedent for such determinations. No contingent liabilities have been recorded in
the Group's financial statements in relation to these transactions.

Guarantees

During 2011, SITRONICS provided a financial guarantee to the Bank of Moscow in respect of obligations of SITRONICS-Nano under the uncovered irrevocable letter of credit with post-financing in favor of STMicroelectronic N.V. in the amount of EUR 27.0 million ($34.9 million) for a period of up to 3 years.

26. CONCENTRATIONS OF RISK

Credit Risks

During the years ended December 31, 2011 and 2010, the Group's sales to subsidiaries of Sistema and affiliates amounted to $741.1 million and $468.7 million respectively or 50.2% and 40.2% of the Group's consolidated revenues for the respective periods. The Group's trade receivables from subsidiaries of Sistema and affiliates as of December 31, 2011 and 2010 are disclosed in Note 6; the Group's cash and cash equivalents, short-term deposits and loans balances with subsidiaries of Sistema and affiliates are disclosed in Notes 4 and 5 respectively.

Intracom Telecom encounters a concentration of revenue and receivables among a few significant customers. Five customers in this entity accounted for revenues of $214.6 million in the year ended December 31, 2011, which is 27.2% of the Group's consolidated revenues for this year. Trade receivables from these customers amounted to $91.1 million as of December 31, 2011.

Industry Risks

The industries in which the Group operates are characterized by rapid technological changes, competitive pricing pressures and cyclical market patterns. The Group's financial results are affected by a wide variety of factors, including the general economic conditions in the countries where the Group's entities operate, industry-specific economic conditions, the timely implementation of new manufacturing technologies, the ability to safeguard patents and intellectual property in rapidly evolving markets and reliance on vendors and independent distributors. The Group is exposed to the risk of obsolescence of its inventory depending on the mix of future business. As a result, the Group may experience significant period-to-period fluctuations in future operating results due to the factors mentioned above, or other factors.

Tax Risk

The Russian and Ukrainian economies, while deemed to be of market status, continue to display certain traits consistent with that of emerging markets. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The continued success and stability of the Russian and Ukrainian economies will be subject to their respective governments' continued actions with regard to legal and economic reforms.

Russia and Ukraine currently have a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include VAT, corporate income tax, and payroll taxes, together with others. The policies on implementation of these regulations are 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 Ukraine that are more significant than typically found in countries with more developed tax systems.

Management believes that it has adequately provided for tax liabilities in the Group's consolidated financial statements; however, the risk remains that relevant authorities could take a different position with regard to interpretive issues.

Operating Environment and Financial Risks

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the economy of Russian Federation, adversely affect the Group's access to capital and the cost of capital for the Group, negatively impact the value of the currencies of the countries where the Group conducts most part of its operations and, more generally, its business, results of operations, financial condition and prospects. However, in the context of the current global economic environment, the degree of volatility could be very different from management's expectation. This may affect the financial position and results of operations of the Group.

As shown in the consolidated financial statements, the Group has incurred net losses of $95.4 million and $59.7 million in 2011 and 2010 respectively. The devaluation of currencies against the US dollar resulted in $11.1 million and $1.0 million of exchange losses in 2011 and 2010 respectively while the impact of the impairment of assets, bad debt expenses and other reserves amounted to $13.8 million and $16.5 million in the years ended December 31, 2011 and 2010 respectively. The primary components of these costs relate to the inventory obsolescence provision in the Telecommunication Solutions and the Microelectronic Solutions segments and the provision for bad debts in the Telecommunication Solutions and the Microelectronic Solutions segments. The provisions for bad debts reflect the current estimation of collectability of the Group's outstanding receivables.

The financing receivables portfolio, excluding trade receivables, as of December 31, 2011, is considered by management to be insignificant in amount, and therefore no specific analysis for credit quality was performed.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

The impairment losses and reserves are presented in a separate line in the consolidated statements of operations and comprise as follows:

	2011	2010
Inventory obsolescence provision	$ 10,642	$ 5,956
Bad debt expense	2,778	9,447
Impairment of short-term deposits, loans and other assets	179	562
Impairment of property, plant and equipment	164	510
Total	**$ 13,763**	**$ 16,475**

Management believes that the amount of provisions and reserves adequately reflects the future uncertainties related to the recoverability of Group assets.

27. SUBSEQUENT EVENTS

Overdraft Facility with ING BANK – In January 2012, Intrarom S.A. (a subsidiary of Intracom Telecom) extended an existing EUR-denominated overdraft facility agreement with ING BANK to April 2012. In March 2012, the credit limit on this facility was decreased to EUR 3.4 million ($4.7 million).

Borrowing from MTS Bank (former MBRD) – In January 2012, Mikron entered into unsecured RUB-denominated credit facility agreement with MTS Bank amounted to RUB 200.0 million ($6.2 million). The facility bears an interest rate of 12% per annum and matures in July 2012.

Borrowing from Alpha Bank and General Bank of Greece S.A. – in January and February 2012, Intracom Telecom refinanced its EUR-denominated credit facilities with Alpha bank (amount outstanding as of December 31, 2011 - $6.5 million) and General Bank of Greece S.A. (amount outstanding as of December 31, 2011 - $7.1 million) respectively. The refinanced facilities bear interest rates of three month EURIBOR+6% and two month EURIBOR+5% per annum respectively and mature in April 2012.

Borrowing from Ukrin Bank - In February and March 2012, SITRONICS Information Technologies Ukraine entered into a UAH-denominated overdraft facility with Ukrin Bank with an interest rate of 22% per annum and maturity date in February 2013. And a USD-denominated revolving credit facility was obtained which is limited to $4.5 million, bears an interest rate of 12% per annum and matures in March 2015. Plant and equipment with an approximate carrying value of $0.2 million were pledged as security under the revolving credit and the overdraft facilities.

Bonds repurchase agreement - In March 2012, SITRONICS Management repurchased SITRONICS' bonds series BO-01 with a nominal value of RUB 300.0 million (Note 15) and entered into a new repurchase agreement in open debt market with URSA Capital acting as a broker. The payables amounted to RUB 402.3 million ($12.5 million) under the new repurchase agreement are secured by SITRONICS' bonds series BO-01.

Borrowing of SITRONICS Information Technologies from Bank of Moscow - In March 2012, SITRONICS Information Technologies increased credit limit up to RUB 300.0 million ($9.3 million) on existing RUB-denominated revolving loan agreement with Bank of Moscow.

SITRONICS Voluntary Tender Offer – In March 2012, SITRONICS received a Voluntary Tender Offer from RTI to acquire up to 36.926% of ordinary registered shares of SITRONICS at a cash price of RUB 0.55 per common share.

Interest Payment to Bondholders – In April 2012, SITRONICS made the third interest payment on the Bonds Series BO-02. The coupon rate comprised 10.75% per annum. The total amount of interest paid was RUB 160.8 million ($5.2 million).

Borrowing of JSC SITRONICS from Bank of Moscow – In April 2012, SITRONICS entered into a credit facility agreement with Bank of Moscow denominated in RUB, limited in aggregate to RUB 300.0 million ($9.3 million). The drawdown bears an interest rate of MOSPRIME+7% per annum. The facility is secured by the guarantees of Mikron, SITRONICS Telecommunication Solutions and SITRONICS Information Technologies and matures in December 2012.

Borrowing of SITRONICS Smart Technologies from Bank of Moscow - In April 2012, SITRONICS Smart Technologies entered into a credit facility agreement with Bank of Moscow denominated in RUB, limited in aggregate to RUB 545.0 million ($16.9 million). The drawdown bears an interest rate of MOSPRIME+7% per annum. The facility is secured by the guarantees of Mikron and SITRONICS and matures in 2014.

Management of the Group has evaluated subsequent events through April 12, 2012, the date when its financial statements were issued.