JSC SITRONICS
AND SUBSIDIARIES

Consolidated Financial Statements
As of December 31, 2012 and 2011
And for the Years Then Ended

JSC SITRONICS AND SUBSIDIARIES

TABLE OF CONTENTS

Deloitte.

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

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC SITRONICS:

We have audited the accompanying consolidated financial statements of JSC SITRONICS and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 and the Russian Federal Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011, 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.

Emphasis of a matter

The accompanying financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in Note 1 to the financial statements, the Group's negative working capital, recurring losses from operations and other factors raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Deloitte & Touche

April 23, 2013
Moscow, Russian Federation

Golovkina N.V., Partner
(Certificate no. 01-001193 dated January 14, 2013)

ZAO Deloitte & Touche CIS

The Entity: Sitronics JSC

Certificate of registration in the Unified State Register № 001554776 of 09.12.2002, issued by Moscow Inspectorate of the Russian Ministry of Taxation № 46.

Address: 39/5, 3 Tverskaya – Yamskaya St., building 1, Moscow,125047, Russia

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011
(Amounts in thousands of U.S. dollars)

	Notes	2012	2011
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	$ 125,328	$ 260,387
Short-term deposits and loans	5	1,414	2,707
Trade receivables, net	6	53,624	375,084
Other receivables and prepaid expenses, net	7	51,572	106,581
Inventories	8	97,991	157,560
Restricted cash	13	470	6,718
Deferred tax assets, current portion	21	9,322	10,839
Total current assets		339,721	919,876
NON-CURRENT ASSETS:			
Property, plant and equipment, net	9	386,904	446,504
Intangible assets, net	10	42,325	134,957
Goodwill	10	-	60,478
Inventories	8	-	13,816
Long-term investments	11	412,093	223,105
Long-term trade receivables	12	1,916	30,422
Deferred tax assets, non-current portion	21	22,151	31,657
Other long-term assets	14	2,108	2,390
Total non-current assets		867,497	943,329
TOTAL ASSETS		**$ 1,207,218**	**$ 1,863,205**

See notes to the consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011 (CONTINUED)
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2012	2011
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		$ 170,058	$ 360,581
Taxes payable		10,951	28,203
Accrued expenses and other current liabilities	15	120,086	211,350
Short-term loans and notes payable	16	157,232	174,815
Current portion of long-term debt	17	214,240	260,134
Deferred tax liabilities, current portion	21	10,067	7,863
Total current liabilities		682,634	1,042,946
LONG-TERM LIABILITIES:			
Capital lease obligations	18	118,101	128,134
Long-term debt	17	297,054	344,794
Other long-term liabilities	20	3,021	13,150
Deferred tax liabilities, non-current portion	21	3,914	9,291
Total long-term liabilities		422,090	495,369
TOTAL LIABILITIES		**1,104,724**	**1,538,315**
EQUITY:			
SHAREHOLDERS' EQUITY:			
Share capital (9,547,087,190 and 9,547,087,190 shares authorized and issued as of December 31, 2012 and 2011 respectively with par value of 1 Russian Ruble)	22	335,764	335,764
Treasury stock (nil and 1,000,089,605 shares as of December 31, 2012 and 2011 respectively with par value of 1 Russian Ruble)	22	-	(56,817)
Additional paid-in capital		398,956	437,850
Accumulated deficit		(594,665)	(474,689)
Accumulated other comprehensive loss	22	(46,796)	(43,780)
Foreign currency translation		(46,796)	(43,300)
Defined benefit postretirement plan		-	(480)
TOTAL EQUITY ATTRIBUTABLE TO SITRONICS		93,259	198,328
Equity attributable to non-controlling interest		9,235	126,562
TOTAL EQUITY		102,494	324,890
TOTAL LIABILITIES AND EQUITY		**$ 1,207,218**	**$ 1,863,205**

See notes to the consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Amounts in thousands of U.S. dollars unless otherwise stated)

	Notes	2012	2011
Revenues		$ 903,494	$ 1,475,106
Cost of sales, exclusive of depreciation and amortization shown separately below		(762,505)	(1,189,008)
Research and development expenses		(5,589)	(17,192)
Selling, general and administrative expenses		(102,001)	(165,002)
Depreciation and amortization		(65,267)	(95,008)
Impairment losses and reserves	27	(6,947)	(13,763)
Other operating income, net		1,827	6,948
OPERATING (LOSS)/INCOME		(36,988)	2,081
Interest income		4,370	7,728
Interest expense		(64,423)	(76,067)
Foreign currency transactions gains/(losses)		6,039	(11,142)
Equity in loss of investees and impairment loss	11	(82,667)	(1,025)
Gain on acquisition and disposal of long-term investments	3	46,129	-
Other non-operating losses		(242)	(6,655)
Loss before income tax		(127,782)	(85,080)
Income tax expense	21	(1,112)	(10,337)
NET LOSS		**$ (128,894)**	**$ (95,417)**
Less: net loss attributable to non-controlling interest		8,918	8,689
NET LOSS ATTRIBUTABLE TO SITRONICS		**$ (119,976)**	**$ (86,728)**
Weighted average number of common shares outstanding, basic and diluted:		9,156,617,555	8,546,997,585
LOSS PER SHARE – BASIC AND DILUTED, US cents		**(1.31)**	**(1.01)**

See notes to the consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Amounts in thousands of U.S. dollars)

	Notes	2012	2011
NET LOSS		$ (128,894)	$ (95,417)
Other comprehensive loss, net of tax:			
Translation adjustment		8,310	(6,153)
Unrecognized actuarial loss, net of tax		480	(862)
Total other comprehensive gain/(loss), net of tax		**8,790**	**(7,015)**
COMREHENSIVE LOSS		**(120,104)**	**(102,432)**
Comprehensive gain/(loss) attributable to non-controlling interest		(2,888)	12,514
COMPREHENSIVE LOSS ATTRIBUTABLE TO SITRONICS		**$ (122,992)**	**$ (89,918)**

See notes to the consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Amounts in thousands of U.S. dollars)

		2012		2011
OPERATING ACTIVITIES:				
Net loss	$	(128,894)	$	(95,417)
Adjustments to reconcile net loss to net cash provided by operations:				
Depreciation and amortization		65,267		95,008
Gain from disposal of property, plant and equipment		(160)		(408)
Equity in loss of investees and impairment loss		82,667		1,025
Deferred income tax		(7,676)		(3,282)
Bad debt expense		1,638		2,778
Inventory obsolescence provision		2,856		10,642
Gain on disposal of long-term investments		(46,129)		-
Stock based compensation		1,658		4,047
Change in liability for uncertain tax positions		(432)		165
Impairment losses and reserves		2,452		343
Unrealized foreign currency transactions		(5,761)		10,821
Changes in operating assets and liabilities:				
Trade receivables		2,973		48,853
Other receivables and prepaid expenses		(65,773)		21,000
Inventories		(76,841)		(22,118)
Trade accounts payable		7,775		63,457
Taxes payable		(1,636)		(29,975)
Accrued expenses and other current liabilities		60,413		(67,974)
Net cash (used in)/provided by operating activities	$	(105,603)	$	38,965
INVESTING ACTIVITIES:				
Purchases of property, plant and equipment		(44,513)		(63,682)
Proceeds from disposals of property, plant and equipment		1,341		2,318
Purchases of intangible assets		(18,221)		(32,071)
Cash received on loss of control less cash disposed with business		(86,040)		-
Change in restricted cash		6,018		(7,557)
Short-term deposits and loans		(2,259)		(1,839)
Proceeds from short-term deposits and loans returned		-		284
Purchases of long-term investments		(1,364)		(4,127)
Proceeds from sale of long-term investments		-		44
Net cash used in investing activities	$	(145,038)	$	(106,630)

See notes to the consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Amounts in thousands of U.S. dollars)

		2012		2011
FINANCING ACTIVITIES:				
Proceeds from short-term borrowings	$	297,863	$	162,956
Principal payments on short-term borrowings and current portion of long-term borrowings		(172,711)		(408,788)
Proceeds from long-term borrowings		50,100		310,810
Principal payments on long-term borrowings		(77,293)		-
Principal payments on capital lease obligations		(16,107)		(5,110)
Debt issuance costs		-		(3,094)
Proceeds from capital transactions of subsidiaries		-		12,483
Proceeds from sale of treasury stock		17,923		-
Net cash provided by financing activities	$	99,775	$	69,257
Effects of exchange rate changes on cash and cash equivalents		15,807		(2,893)
DECREASE IN CASH AND CASH EQUIVALENTS	**$**	**(135,059)**	**$**	**(1,301)**
TOTAL CASH AND CASH EQUIVALENTS, beginning of the year	**$**	**260,387**	**$**	**261,688**
TOTAL CASH AND CASH EQUIVALENTS, end of the year	**$**	**125,328**	**$**	**260,387**
CASH PAID DURING THE YEAR FOR:				
Interest, net of amounts capitalized	$	(36,702)	$	(76,459)
Income taxes		(7,560)		(13,952)
NON-CASH ITEMS:				
Equipment acquired under capital lease	$	48	$	2,708
Amounts due for purchase of long-lived assets		12,424		6,836
Advances for purchase of long-lived assets		12,639		27,111

See notes to the consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Amounts in thousands of U.S. dollars)

		SITRONICS shareholders							
		Share capital	Treasury stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total SITRONICS equity	Non-controlling interest	Total equity
Balances at January 1, 2011	$	**335,764**	**(56,817)**	**431,507**	**(387,961)**	**(40,195)**	**282,298**	**124,079**	**406,377**
Capital transactions of subsidiaries		-	-	-	-	-	-	12,483	12,483
Disposal of share in subsidiary		-	-	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**
Treasury stock sale (Note 22)			56,817	(38,894)	-	-	17,923	-	17,923
Deconsolidation of subsidiaries (Note 22)		-	-		-	-		(120,215)	(120,215)
Comprehensive loss:		-	-		-	-	-	-	
Net loss			-	-	(119,976)	-	(119,976)	(8,918)	(128,894)
Other comprehensive loss:			-	-		-	-	-	
Unrecognized actuarial gains net of tax			-		-	480	480	-	480
Translation adjustment net of tax			-		-	(3,496)	(3,496)	11,806	8,310
Comprehensive loss			-	-	(119,976)	(3,016)	(122,992)	2,888	(120,104)
Balances at December 31, 2012	$	**335,764**	**-**	**398,956**	**(594,665)**	**(46,796)**	**93,259**	**9,235**	**102,494**

See notes to the consolidated financial statements.

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 purchasing of 100% of the outstanding voting shares from JSFC Sistema ("Sistema") and the open market during 2011 and 2012. JSFC Sistema is still the ultimate shareholder of SITRONICS.

In 2011 and for the part of 2012 the Group had 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.

In 2012 the Group disposed its assets in the Telecommunication Solutions and Information Technologies Solutions segments (see Note 3). Therefore, after the date of the disposal, the Group had one operating segment, *Microelectronic Solutions,* with operations primarily conducted in RF.

As of December 31, 2012 the Group has an accumulated deficit in the amount of $594.7 mln, net current liabilities of $342.9 mln and recognized a loss of $128.9 mln for the year then ended. During 2013, the Group is due to repay debt in the amount of $371.5 mln, a significant part of which relates to external debt, namely: bonds series BO-01 and BO-02 ($159.1 mln), loans received from Sberbank ($18.1 mln), Bank of Moscow ($48.1 mln) and others for the total amount of $6.3 mln.

The management of the Group continues to take measures to increase revenues and reduce expenses and losses. In particular, management of the Group has assessed its current strategic and operational intentions, the future profitability of its operations based on current market conditions, its cash requirements, its ability to access financing and the associated cost of such financing. Based on this assessment, management has taken the following actions:

1. Restructuring of loans – Management has refinanced its obligations to the Bank of Moscow (see also Note 28);
2. Reduction of costs – By the end of the year 2012 the headcount of the JSC SITRONICS was reduced by more than 200 employees, when comparing to the end of 2011. The positive impact from this measure is expected in 2013;
3. New strategy development – The management of the company is developing a new strategy aimed to increase revenues and profits generating by its assets. A part of a strategy is a critical review of the Group's assets that may result in their sale;
4. Support from Sistema – The Group has obtained a letter of support from Sistema covering the period to June 2014.

Management believes, based on the actions undertaken, that it will have adequate liquidity to continue to fund its liabilities and operations and continue as a going concern for the next year.

These consolidated financial statements have been prepared based on the assumption that the Group is able to continue its business as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern

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

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, 2012 and 2011 were as listed below:

Operating entities	Locations of principal business operations	Effective ownership interest as of December 31,		Voting interest as of December 31,	
		2012	2011	2012	2011
Intracom S.A. Telecom Solutions [(2)]	Greece	48%	51%	48%	51%
Intrarom S.A. [(2)]	Romania	32%	34%[(1)]	0%	67%
JSC "SITRONICS Telecom Solutions, Czech Republic a.s." ("SITRONICS TS CR") [(2)]	Czech Republic	37%	100%	0%	100%
JSC "SITRONICS Telecom Solutions" ("SITRONICS TS") [(2)]	Russia	37%	100%	0%	100%
Information Technologies Solutions segment:					
SITRONICS IT B.V.	Netherlands	100%	100%	100%	100%
LLC "SITRONICS Bashkortostan" [(2)]	Russia	37%	100%	0%	100%
JSC "SITRONICS Information Technologies Ukraine" [(2)]	Ukraine	37%	100%	0%	100%
LLC "SITRONICS Information Technologies" [(2)]	Russia	37%	100%	0%	100%
Microelectronic Solutions segment:					
JSC "NII of molecular electronics and Mikron manufacturing plant" ("Mikron")	Russia	80%	80%	80%	80%
JSC "VZPP Mikron"	Russia	100%	100%	100%	100%
LLC "SITRONICS Smart Technologies"	Russia	75%	75%	75%	75%
LLC "SITRONICS-Nano"	Russia	50%[(3)]	50%[(3)]	50%[(3)]	50%[(3)]
Cosmos Wealth Ltd	China	100%	100%	100%	100%
All Other segments:					
JSC "SITRONICS CAMS"	Russia	74%	74%	74%	74%
Network Systems LLC[(2)]	Russia	49%	51%	49%	51%
JSC "Kvant"	Russia	78%	78%	78%	78%
JSC "Elaks"	Russia	84%	84%	84%	84%
JSC "Elion"	Russia	75%	75%	75%	75%
JSC "Koncel"	Russia	100%	100%	100%	100%

(1) Including indirect ownership;

(2) Subsidiaries disposed of in 2012 (see Note 3);

(3) 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.

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, 2012, The Group had no investments in affiliates that have not been consolidated that could 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, 2012 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, 2012 and 2011 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, 2012, 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, 2012;
- The fair value of the RUB – denominated bonds (Note 17) 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 does not 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 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 cost of inventories of the Group 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.

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.

The useful lives of intangible assets are estimated as follows:

Microelectronic development costs	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 the 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 $2.6 million and $3.2 million as of December 31, 2012 and 2011, 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.

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 of the 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 depreciation and amortization costs.

Income Taxes – Current income taxes for the Group's subsidiaries have been calculated 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, 2012 and 2011 amounted to $10.2 million and $7.3 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, 2012 and 2011, 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 23).

New Accounting Pronouncements

To be adopted in future periods

In December 2011, the FASB issued ASU No. 2011-11 "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities". The amendments in this Update will enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. The guidance is to be applied on a retrospective basis for annual reporting periods beginning on or after January 1, 2013. As this guidance only requires expanded disclosures its adoption will not have an impact on the Group's consolidated financial position or results of operations.

In February 2013, the FASB issued accounting guidance on the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts not required to be reclassified in their entirety to net income in the same reporting period, a cross reference to other disclosures that provide additional detail about the reclassification amounts is required. This guidance is effective January 1, 2013. The Group does not expect the adoption of this guidance to have a significant impact on its financial statements.

In July 2012, the FASB issued ASU No. 2012-02 "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment". The amendments in this Update are intended to reduce cost and complexity by providing an entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The amendments also enhance the consistency of impairment testing guidance among long-lived asset categories by permitting an entity to assess qualitative factors to determine whether it is necessary to calculate the asset's fair value when testing an indefinite-lived intangible asset for impairment, which is equivalent to the impairment testing requirements for other long-lived assets. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company does not expect the adoption of this guidance to have a significant effect on its consolidated financial position, results of operations and cash flows.

Adopted during the current year

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 Group adopted the ASU since January 1, 2012. The adoption did not have a significant effect on the Group's 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 Group adopted the ASU since January 1, 2012. The Group chose the option to present comprehensive income in two separate but consecutive financial statements. The adoption did not have a significant effect on the Group's consolidated financial position, results of operations and cash flows.

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 Group adopted the ASU since January 1, 2012. The adoption had no significant effect on the Group's consolidated financial position, results of operations and cash flows.

3. ACQUISITIONS AND DISPOSALS

In March 2012 the Group sold 2% shareholding in its subsidiary LLC Networks Systems for consideration of $30 thousand to LLS "Nefteprominvest" thus decreasing the Group's ownership interest to 49%.

In April 2012 the Group sold 3% shareholding in its subsidiary Intracom Telecom S.A. for a cash consideration of $1.4 million to RYDRA TRADING Ltd thus decreasing the Group's ownership interest to 48%. The transaction resulted in a loss of control but the Group retained significant influence over the operations and policies of the company. The Group applied the equity method of accounting in respect of the residual investment (see Note 11). The loss on sale of 3% ownership amounted to $5.5 million and was included into the gain on acquisition and disposal of long term investments of the consolidated statements of operations.

In September 2012 the Group acquired 37.1% ownership in CJSC Nvision ("Nvision"), a system integration company. SITRONICS paid cash consideration in the amount of RUB 393 million (equivalent of $12.5 million as of the date of the transaction) to LLC MANAGEMENT COMPANY NVISION GROUP and individual shareholders and participated in an additional share issue of Nvision by contributing its subsidiaries SITRONICS TS CR, SITRONICS TS, SITRONICS Information Technologies Ukraine and SITRONICS Information Technologies with a total carrying value of $83.5 million and a fair value of $135.1 million into the share capital of Nvision. The transaction resulted in a gain for the Group of $51.6 million, and was included into gain on acquisition and disposal of long term investments of the consolidated statements of operations (see also Note 11).

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2012 and 2011 comprised the following:

	2012	2011
RUB, USD current accounts with subsidiary of Sistema:		
MTS Bank	$ 7,658	$ 119,275
RUB deposits with subsidiary of Sistema:		
MTS Bank	2,831	-
Term deposits with third parties:		
RUB deposits	2,749	14,878
EUR deposits	-	14,641
USD deposits	-	13,452
UAH deposits	-	13,105
Other deposits	-	4,165
Current accounts with third parties:		
RUB current accounts	104,827	53,487
USD current accounts	403	7,833
EUR current accounts	8	4,447
UAH current accounts	116	2,997
CNY current accounts	6,631	2,844
CZK current accounts	-	1,458
UZS current accounts	-	1,371
Other current accounts	105	5,848
Cash on hand	-	586
Total	$ 125,328	$ 260,387

Term deposits have original maturities of three months or less.

As of December 31, 2012, term deposits with third parties bear interest at rates varying from 5% to 7% per annum. Interest income earned on MTS Bank current accounts and deposits is disclosed in Note 25.

5. SHORT-TERM DEPOSITS AND LOANS

Short-term deposits and loans as of December 31, 2012 and 2011 comprised the following:

	Annual interest rate (Actual at December 31, 2012)	2012	2011
Bank deposits (over 3 months)		$ -	$ 1,504
Short-term loans to Sistema and subsidiaries	14%	637	600
Short-term loans	10-14%	753	467
Other	10.5%	24	136
Total		$ 1,414	$ 2,707

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

6. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful accounts, as of December 31, 2012 and 2011 comprised the following:

	2012	2011
Trade receivables	$ 78,663	$ 417,642
Less: provision for doubtful accounts	(25,039)	(42,558)
Total	**$ 53,624**	**$ 375,084**

Included in trade receivables as of December 31, 2012 and 2011 are receivables for services provided and products shipped to subsidiaries and affiliates of Sistema in the amounts of $30.5 million and $77.5 million respectively (Note 25).

7. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other receivables and prepaid expenses, net of provision for doubtful accounts, as of December 31, 2012 and 2011 comprised the following:

	2012	2011
Recoverable VAT	$ 22,758	$ 16,198
Receivable from Digital Electronics JSC	15,925	15,023
Receivable from Nvision Group companies	11,785	-
Advances to suppliers	11,386	48,785
Prepaid expenses	2,741	25,770
Other taxes prepaid	1,034	9,577
Loans to employees	179	1,327
Debt issuance costs, current portion	539	798
Receivable from EU programs	-	1,147
Other	2,550	7,484
Less: provision for doubtful accounts	(17,325)	(19,528)
Total	**$ 51,572**	**$ 106,581**

8. INVENTORIES

Inventories as of December 31, 2012 and 2011 comprised the following:

	2012	2011
Finished goods and goods for resale	$ 41,373	$ 62,916
Raw materials and spare parts	40,396	68,797
Work-in-progress	16,222	39,663
	97,991	171,376
Less: long-term portion	-	(13,816)
Total	**$ 97,991**	**$ 157,560**

During 2012, an obsolescence provision charge of $2.9 million (2011: $10.6 million) has been recognized (Note 27).

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

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2012 and 2011 comprised the following:

	2012	2011
Plant, machinery and equipment (including leased vehicles and equipment of $182,926 and $183,579 as of December 31, 2012 and 2011, respectively)	$ 303,014	$ 326,554
Land	-	19,539
Buildings and leasehold improvements	123,903	188,757
Construction in progress and equipment for installation	99,140	76,163
	526,057	611,013
Less accumulated depreciation:		
Plant, machinery and equipment (including leased vehicles and equipment of ($57,810) and ($44,538) as of December 31, 2012 and 2011, respectively)	(102,936)	(97,518)
Buildings and leasehold improvements	(36,217)	(66,991)
	(139,153)	(164,509)
Total	$ **386,904**	$ **446,504**

Depreciation expense for property, plant and equipment for the years ended December 31, 2012 and 2011 amounted to $38.7 million and $44.4 million, respectively.

Land, buildings and equipment with an approximate carrying value of $26.3 million and $25.0 million as of December 31, 2012 and 2011 respectively were pledged to collateralize the outstanding balance of debt to Sberbank and Bank of Moscow (Note 16, Note 17).

10. INTANGIBLE ASSETS AND GOODWILL, NET

Intangible assets, net of accumulated amortization, and goodwill as of December 31, 2012 and 2011 comprised the following:

	2012			2011		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-life intangible assets:						
Customer contracts and the related customer relationships	$ -	-	-	$ 63,148	(30,319)	32,829
Microelectronic solutions costs	22,599	(745)	21,854	3,030	-	3,030
Software solutions costs	2,843	(1,843)	1,000	163,489	(105,284)	58,205
Licenses	27,510	(9,706)	17,804	26,369	(8,871)	17,498
Other	12,894	(11,227)	1,667	45,125	(21,730)	23,395
	65,846	(23,521)	42,325	301,161	(166,204)	134,957
Indefinite-life intangible assets:						
Goodwill [1]	-	-	-	60,478	-	60,478
Total	$ **65,846**	**(23,521)**	**42,325**	$ **361,639**	**(166,204)**	**195,435**

The amortization expense for the years ended December 31, 2012 and 2011 was $26.6 million and $50.6 million respectively.

[1] The Goodwill recognized at the acquisition of 49% ownership in SITRONICS IT B.V. in 2008 was disposed of together with related assets upon the acquisition of 37.1% of Nvision (see Note 3)

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

The estimated amortization expense for the finite-life intangible assets as of December 31, 2012 for each of the five succeeding fiscal years and thereafter is as follows:

2013	9,129
2014	8,905
2015	8,108
2016	4,979
2017	4,907
Thereafter	6,297
Total	$ **42,325**

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, 2012 and 2011 comprised the following:

	2012	2011
Share in LLC SITRONICS-Nano	225,844	211,225
Share in CJSC Nvision	$ 152,373	$ -
Share in Intracom S.A. Telecom Solutions	20,937	-
Share in JSC Intellect Telecom	5,216	6,163
Other	7,723	5,717
Total	$ **412,093**	$ **223,105**

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 are 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.

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 Group's share of operating gain in relation to Sitronics-Nano for the year ended December 31, 2012 was $0.1 mln. 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 $225.8 million.

Share in CJSC Nvision – In September 2012 the Group entered into an arrangement jointly with RTI to acquire ownership in CJSC Nvision. As a result of the arrangement RTI achieved control over Nvision with cumulative direct and indirect ownership of 50% plus ½ share. Indirect ownership was achieved through ownership of the Group in CJSC Nvision of 37.1% (see also Note 3).

SITRONICS has no ability to exercise significant influence over CJSC Nvision. The investment is accounted for under the cost method with initial recognition at fair value of $147.4 million.

The maximum exposure to a loss is determined as the Group's contribution to JSC Nvision and equals to $152.4 million.

Share in Intracom S.A. Telecom – In June 2006, SITRONICS acquired 51.0% of the common shares of Intracom Telecom for EUR 120.0 million (equivalent of $150.6 million at the date of the transaction) from Intracom Holdings S.A., of which $106.7 million was paid in cash in June 2006. In May 2007, the purchase price was reduced by $1.0 million and $39.6 million of the outstanding balance was paid in cash.

In April 2012 SITRONICS decreased its ownership in Intracom Telecom from 51% to 48% by the sale of 3% to RYDRA TRADING Ltd for a cash consideration of $1.4 million and deconsolidated Intracom Telecom S.A. from the Group's financial statements (see also Note 3).

Subsequent to the sale, SITRONICS applied the equity method of accounting in regards of its remaining 48% investment in Intracom Telecom.

The Group's share of operating loss in relation to Intracom for the year ended December 31, 2012 was $15.7 mln. As of December 31, 2012, having considered the adverse impact of the current economic environment and other factors, the Group concluded that a decrease in value of the investment that is other than temporary has occurred. As a result, an impairment loss of $65.3 million was recorded in the consolidated statement of operations and comprehensive income for the year ended December 31, 2012.

Upon acquisition of Intracom Telecom in 2006, SITRONICS also entered into a put option with Intracom Holdings S.A. to acquire the remaining 49.0% of the common shares of Intracom Telecom. The agreement stipulates that the purchase price will be agreed by the parties, or will be equal to the fair value as determined by an independent appraiser. As of December 31, 2012 the option was in the process of execution with no binding obligation of SITRONICS for the repurchase.

The exposure to a loss is equal to not less than $94.1 million and is determined as the sum of (a) the Group's investment in Intracom Telecom adjusted by the Group's share of distributed results of the investee and is equal to$20.9 million; (b) the value of the put option to buy an additional 49% of Intracom Telecom (the amount is not determined); (c) financial guaranty obligations of SITRONICS for loans of Intracom Telecom (including a Syndicated loan) with maximum amount of the obligation of EUR 55.3 million ($73.2 million) (see also Notes 16 and 26).

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

12. LONG-TERM TRADE RECEIVABLES

The long-term portion of trade receivables as of December 31, 2012 and 2011 comprised the following:

	Annual interest rate (Actual at December 31, 2012)	Maturity date	2012	2011
Trade receivables from third parties	13.5%; interest free	2014-2018	$ 1,916	$ 30,422
Total			**$ 1,916**	**$ 30,422**

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

13. RESTRICTED CASH

As of December 31, 2012, the Group had restricted cash in the amount of $0.5 million related to government financing with predefined purposes of use.

14. OTHER LONG-TERM ASSETS

Other long term assets include the long-term portion of unamortized debt issuance costs which amounted to $2.1 million and $2.4 million as of December 31, 2012 and 2011, respectively.

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2012 and 2011 comprised the following:

	2012	2011
Current portion of capital lease obligation (Note 18)	$ 39,804	$ 34,854
Interest payable on debt	33,142	15,127
Accrued expenses and other current liabilities	21,236	13,463
Customers' prepayments	15,398	125,415
Accrued payroll and vacation	7,660	17,627
Warranty obligations	2,846	2,831
Provision for uncertain tax positions (Note 21)	-	1,152
Current portion of postretirement benefit obligations (Note 19)	-	881
Total	**$ 120,086**	**$ 211,350**

As of December 31, 2012 and 2011, customers' prepayments included amounts related to transactions with subsidiaries and affiliates of Sistema of $14.6 million and $82.4 million respectively (Note 25).

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

16. SHORT-TERM LOANS AND NOTES PAYABLE

At December 31, 2012 and 2011, short-term loans and notes payable comprised the following:

	Annual interest rate (Actual at December 31, 2012)	2012	2011
Revolving credit facilities:			
Including:			
RUB-denominated	3M MOSPRIME+5.0%; 3M MOSPRIME+6%	$ 32,877	$ 4,652
EUR-denominated		-	18,991
USD-denominated		-	15,900
		32,877	**39,543**
RUB-denominated loans and notes payable to Sistema and subsidiaries:			
Including:			
Notes payable	2.55%	94,822	89,452
Loans payable	4.5%-12%	23,166	988
		117,988	**90,440**
Loans and notes payable to other parties:			
Including:			
RUB-denominated	10.0%	3,367	26,811
USD-denominated	0.24%	3,000	-
EUR-denominated		-	16,565
CZK-denominated		-	1,456
		6,367	**44,832**
Total		**$ 157,232**	**$ 174,815**

Revolving Credit Facilities

During the year ended December 31, 2012, SITRONICS entered into RUB-denominated revolving credit facilities with Bank of Moscow. The RUB 300 million facility ($9.9 million at December 31, 2012) bears an interest rate of three month MOSPRIME+6.0% per annum and matures in April 2013. As of December 31, 2012, the outstanding amount under this facility comprised $9.9 million. The 700 RUB million facility ($23.0 million at December 31, 2012) matures in October, 2013. The borrowings under the facility bear interest rate of three month MOSPRIME+5% per annum and are secured by the guarantees of Mikron and RTI and its subsidiaries. The amount outstanding as at December 31, 2012 comprised $23.0 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. The amount outstanding as at December 31, 2012 under this arrangement comprised $94.8 million.

During the year ended December 31, 2012, SITRONICS FINANCE entered into a RUB-denominated unsecured loan agreement with RTI. The loan bears an interest rate of 4.5% per annum and matures on request. The amount outstanding as at December 31, 2012 under this agreement comprised $12.9 million.

During the year ended December 31, 2012, Mikron entered into a RUB-denominated unsecured loan agreement with MTS BANK. The loan bears an interest rate of 12% per annum and matures in July 2013. The amount outstanding as at December 31, 2012 under this agreement comprised $6.6 million.

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

During the year ended December 31, 2012, SITRONICS Management entered into a RUB-denominated unsecured loan agreement with RTI. The loan bears an interest rate of 10.5% per annum and matures in December 2013. The amount outstanding as at December 31, 2012 under this agreement comprised $3.3 million.

During the year ended December 31, 2012, SITRONICS Smart Cards entered into a RUB-denominated loan agreement with JSC RTI. The loan bears an interest rate of 12% per annum and matures in December 2013. The amount outstanding as at December 31, 2012 under this agreement comprised $0.3 million.

Loans and Notes Payable to Other Parties

During the year ended December 31, 2012, SITRONICS Management entered into a repurchase agreement (REPO) in the open debt market with URSA Capital acting as a broker with a maturity date in March 2013 and interest rate of 10% per annum. The payable under the repurchase agreement is secured by SITRONICS' bonds series BO-01. As of December 31, 2012, the amount outstanding under the REPO comprised $3.3 million.

During the year ended December 31, 2012, SITRONICS obtained an unsecured USD-denominated loan from Rydra Trading Limited. The loan bears an interest rate 0.24% per annum. The amount outstanding as at December 31, 2012, under this agreement comprised $3.0 million.

17. LONG-TERM DEBT

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

	Currency	Annual interest rate (Actual at December 31, 2012)	2012	2011
Bonds (Series BO-01; Series BO-02)	RUB	12%	159,134	132,190
Loans and notes payable to RTI and its subsidiaries	RUB, USD	CBR refinancing rate+2.75%; 3 month LIBOR+7.25%; 0%-12%	$ 185,678	$ 227,960
Syndicated loan to Intracom Telecom (2008)	EUR	-	-	116,487
MCB	RUB	13.50%	20,248	-
Sberbank	RUB, USD	11.25%	18,141	24,568
Bank of Moscow	RUB	3MosPrime + 7%; 3MosPrime + 7.25%; 1mLIBOR+9.5%; 10.25%	69,800	42,514
SITRONICS-Nano	RUB	14%	58,293	54,992
Other loans	various	-	-	6,217
Subtotal			511,294	604,928
Less current portion of long-term debt			(214,240)	(260,134)
Total			$ 297,054	$ 344,794

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 12.0% per annum was determined for the fifth and sixth semi-annual coupon periods from June 2012 to June 2013. In June 2010, SITRONICS Management repurchased RUB 166.7 million of SITRONICS bonds at nominal value. As of December 31, 2012, the outstanding amount comprised $60.4 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 12% per annum was determined for the fifth and sixth semi-annual coupon periods from October 2012 to October 2013. As of December 31, 2012, the outstanding amount comprised $98.8 million and was included in the current portion of long-term debt.

Loan and notes payable to RTI and its subsidiaries – During the years ended December 31, 2011 and 2012, SITRONICS and its subsidiaries entered into a number of RUB- and USD-denominated loan agreements with RTI and its subsidiaries.

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 repayment starts in 2014. The proceeds of the loans were used to refinance the borrowing from Golden Gates. The amount outstanding as at December 31, 2012 under these agreements comprised $162.7 million.

During the year ended December 2012, SITRONICS entered into a number unsecured RUB-denominated loan agreements with RTI. The loan agreements mature in December 2013 and bear the interest rates of 10.5% and 11% per annum. As of December 31, 2012, the outstanding amount comprised $13.0 million and was included in the current portion of long-term debt.

During the year ended December 2012, SITRONICS entered into a number of unsecured RUB-denominated loan agreements with Concern RTI Sistems, a subsidiary of RTI. The loan agreements mature in December 2013 and bear the interest rates of 3% and 12% per annum. As of December 31, 2012, the outstanding amount comprised $5.4 million and was included in the current portion of long-term debt.

During the year ended December 31, 2012, SITRONICS entered into a RUB-denominated unsecured loan agreement with JSC «Dubna Machine-Building Plant, a subsidiary of RTI, maturing in 2013. The loan bears an interest rate of 12.0% per annum. The amount outstanding as at December 31, 2012 under this agreement comprised $3.3 million and was included in the current portion of long-term debt.

During the year ended December 31, 2011, SITRONICS CAMS entered into a RUB-denominated unsecured loan agreement with Concern RTI Systems with maturity in 2012. During the year ended December 31, 2012, the loan was extended and matures in January 2014. The loan bears an interest rate of 9.5% per annum. The amount outstanding as at December 31, 2012 under this agreement comprised $0.7 million.

During the year ended December 31, 2012, SITRONICS issued RUB-denominated promissory notes to RTI and its subsidiaries. The promissory notes are interest free and mature in 2061. As of December 31, 2012 the amount outstanding under these promissory notes comprised $0.4 million.

Borrowing from MCB – During the year ended December 31, 2012, Mikron entered into an unsecured credit facility agreement with Moscow Commercial Bank (MCB) denominated in RUB, limited to $32.9 million. The drawdown bears an interest rate of 13.5% per annum and matures in June 2014. As of December 31, 2012, the outstanding amount comprised $20.3 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 $26.0 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 $17.3 million were also pledged as security under the agreement. As of December 31, 2012, the outstanding amount comprised $18.1 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)

Credit agreements with Bank of Moscow – During the year ended December 31, 2011, Microelectronic solution companies entered into a number of credit facility agreements with Bank of Moscow.

In July 2011, Mikron entered into RUB-denominated credit facility limited to $23 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, 2012 under this agreement comprised $22.7 million, where $2.0 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 $30.0 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. As at December 31, 2012, the outstanding amount under this agreement comprised $30.2 million, where $8.6 million was included in the current portion of long-term debt. Land and buildings of Mikron with an approximate carrying value of $9.0 million were pledged as security under this agreement.

In April 2012, SITRONICS Smart Technologies entered into credit facility agreement with Bank of Moscow denominated in RUB, limited in aggregate to $17.9 million. The drawdown bears an interest rate of three months MOSPRIME+7% per annum and matures in 2015. The facility is secured by the guarantees of SITRONICS, Mikron and Koncel. As at December 31, 2012, the outstanding amount under this agreement comprised $16.9 million, where $4.6 million was included in the current portion of the long-term debt. Land and buildings of Mikron with an approximate carrying value of $9.0 million were pledged as security under this agreement.

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 $58.3 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, 2012 under these agreements comprised $58.3 million.

The other borrowings outstanding at December 31, 2012, were repaid, refinanced or extended during 2012.

The following table presents the aggregate scheduled maturities of the total debt outstanding as of December 31, 2012:

Year ended December 31,	
2013	
2014	214,240
2015	56,032
2016	13,973
2017	5,597
Thereafter	-
	221,452
Total	**$ 511,294**

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

18. CAPITAL LEASE OBLIGATIONS

The capital lease obligations as of December 31, 2012 and 2011 are presented as follows:

	2012	2011
Total minimum lease payments (undiscounted)	$ 161,582	$ 168,511
Less: amount representing interest	(3,677)	(5,523)
Present value of net minimum lease obligations	**157,905**	**162,988**
Less: current portion of capital lease obligations (Note 15)	(39,804)	(34,854)
Non-current portion of capital lease obligations	**$ 118,101**	**$ 128,134**

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 $158.6 million and $163.5 million as at December 31, 2012 and 2011, respectively.

Most of the agreements expire in 2017 and thereafter. Future payments under capital leases in effect as of December 31, 2012, are as follows:

Year ended December 31,	
2013	40,994
2014	38,533
2015	19,307
2016	19,307
2017 and thereafter	43,441
Less: amount representing interest	(3,677)
Total	**$ 157,905**

19. POSTRETIREMENT BENEFITS

After deconsolidation of Intracom Telecom (Note 3, Note 11) the Group has no postretirement benefit plans.

20. OTHER LONG-TERM LIABILITIES

As of December 31, 2012 and 2011, other long-term liabilities of the Group comprised the following:

	2012	2011
Postretirement benefit obligation, long-term portion (Note 19)	$ -	$ 8,945
Letter of credit guarantee for SITRONICS-Nano (Note 26)	3,021	1,566
Warranty obligations, long-term portion	-	818
Other	-	1,821
Total	**$ 3,021**	**$ 13,150**

21. INCOME TAX

Income tax rates effective at December 31, 2012 and 2011, in countries where the Group primarily operates were as follows:

	2012	2011
Russia	20%	20%
Ukraine	21%	23%
Czech Republic	19%	19%
Greece	20%	20%
Romania	16%	16%

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

The Group's provision for income taxes for the years ended December 31, 2012 and 2011 was as follows:

	2012	2011
Current tax expense	$ 8,788	$ 13,619
Deferred income tax benefit	(7,676)	(3,282)
Total income tax expense	**$ 1,112**	**$ 10,337**

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:

	2012	2011
Loss before income tax	$ (127,782)	$ (85,080)
Russian statutory tax rate	20%	20%
Income tax benefit	(25,556)	(17,016)
Adjustments due to:		
Expenses not deductible for tax purposes	29,375	23,657
Movement in valuation allowance	-	1,423
Tax loss carried forward movement	(3,189)	1,385
Change in liability for uncertain tax positions	(432)	165
Income tax paid in capacity of agent	926	-
Effect of different tax rates in foreign subsidiaries	(12)	1,357
Other	-	(634)
Income tax expense	**$ 1,112**	**$ 10,337**

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, 2012 and 2011:

	2012	2011
Deferred tax assets		
Property, plant and equipment	$ 8,047	$ 13,080
Tax loss carried forward	23,557	21,038
Accounts receivable	1,996	6,016
Accrued expenses	1,331	7,266
Inventories	734	10,907
Allowance for deferred tax asset	-	(2,470)
Other	6,512	8,771
Total deferred tax assets	**$ 42,177**	**$ 64,608**
Deferred tax liabilities		
Undistributed untaxed profit	-	(10,462)
Property, plant and equipment	(11,646)	(6,170)
Intangible assets	(9,548)	(7,684)
Other	(3,491)	(14,950)
Total deferred tax liabilities	**$ (24,685)**	**$ (39,266)**
Deferred tax assets, current portion	$ 9,322	$ 10,839
Deferred tax assets, non-current portion	22,151	31,657
Deferred tax liabilities, current portion	(10,067)	(7,863)
Deferred tax liabilities, non-current portion	(3,914)	(9,291)

As of December 31, 2012, deferred tax assets relating to tax losses carried forward are mainly attributable to Mikron and SITRONICS in the amounts of $14.9 and $8.5 million respectively. The remaining balance is attributable to SITRONICS Smart Technologies, Elion and Koncel. The tax loss can be utilized through 2021 in Russia.

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

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, 2012 and 2011 was $1.2 million and $0.1 million gain respectively.

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

	2012	2011
Opening balance	$ (408)	$ (487)
Increase due to the change of tax positions	(11)	79
Disposal of subsidiaries	419	-
Closing balance	$ -	$ (408)

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

	2012	2011
Opening balance	$ (744)	$ (749)
Decrease due to the change of tax positions	482	5
Disposal of subsidiaries	262	-
Closing balance	$ -	$ (744)

During the years ended December 31, 2012 and 2011, the Group reversed uncertain tax positions related to unrecognized tax benefits in the amount of $0.1 million and $0.1 million respectively as the time allowed for claims expired.

22. 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.

Treasury stock and Additional paid-in Capital – during 2012, the Group transferred its treasury stock to RTI for a cash consideration of $17.9 million. The carrying value of the shares transferred amounted to $17.9 million.

Non-controlling interest – In April 2012 the Group changed its accounting approach of the investment in Intracom Telecom from consolidation to equity method accounting as a result of the partial disposal of a 3% ownership interest in the company (see Note 3, Note 11). As a result of the changed accounting approach the Group derecognized the non-controlling interest related to Intracom Telecom from its balance sheet in the amount of $118.9 million.

In March 2012 the Group sold 2% of its shareholding in its subsidiary LLC Networks Systems, which resulted in a change of the accounting approach in respect of the investment from consolidation to equity method accounting (see Note 3, Note 11). As a result of the changed accounting approach the Group derecognized the non-controlling interest related to LLC Networks Systems in the amount of $0.7 million.

In September 2012 the Group disposed assets of SITRONICS TS CR, SITRONICS TS, SITRONICS Information Technologies Ukraine and SITRONICS Information Technologies which were transferred as a contribution in CJSC Nvision (see Note 3, Note 11). The transaction resulted in the deconsolidation of the subsidiaries, including derecognition of the non-controlling interest in the amount of $0.6 million.

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

Accumulated other comprehensive loss for the years ended December 31, 2012 and 2011, comprised the following:

		Translation adjustment	Unrecognized actuarial gains/(losses)	Deferred tax	Total accumulated other comprehensive loss
Balances at January 1, 2011	**$**	**(40,155)**	**(132)**	**92**	**(40,195)**
(Debit)/credit for the year		(3,145)	(550)	110	**(3,585)**
Balances at December 31, 2011	**$**	**(43,300)**	**(682)**	**202**	**(43,780)**
(Debit)/credit for the year		(3,496)	682	(202)	**(3,016)**
Balances at December 31, 2012	**$**	**(46,796)**	**-**	**-**	**(46,796)**

Earnings Per Share (EPS) – EPS are computed using the weighted average number of shares outstanding during the years ended December 31, 2012 and 2011. 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.

23. STOCK OPTIONS

Phantom stock option plan for senior and middle management of the Group 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, 2012 and 2011, the phantom shares vested at $0.75 and $0.6 respectively per phantom share.

Option 1

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, 2012 and 2011 was as follows:

Number of shares	2012	2011
Outstanding at December 31, 2011	827,569	3,847,587
Options granted	-	-
Options exercised	-	(2,697,825)
Options forfeited	(195,694)	(322,193)
Outstanding at December 31, 2012	631,875	827,569

The number of vested phantom options for the year ended December 31, 2012 and 2011 was equal to 631,875 and 1,415,296 phantom shares.

The compensation cost recorded during the years ended December 31, 2012 and 2011 was $0.5 million and $0.9 million respectively and is included in selling, general and administrative expenses.

As of December 31, 2012, all the compensation costs related to share-based compensation arrangements granted under Option 1 were fully recognized.

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

Option 2

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, 2012 was as follows:

Number of shares	**2012**	**2011**
Outstanding at December 31, 2011	2,539,859	-
Options granted	-	7,619,578
Options exercised	-	(5,079,719)
Options forfeited	(454,019)	-
Outstanding at December 31, 2012	2,085,840	2,539,859

The number of vested phantom options for the year ended December 31, 2012 and 2011 was equal to 2,085,840 and 5,079,719 phantom shares.

The compensation cost recorded during the year ended December 31, 2012 was $1.6 million, and is included in selling, general and administrative expenses.

As of December 31, 2012, all the compensation costs related to share-based compensation arrangements granted under Option 2 were fully recognized.

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.

24. 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 had three operating segments, namely the Telecommunication Solutions segment, Information Technologies Solutions segment and the Microelectronic Solutions segment in 2011-2012. These operating segments had differing production processes and product specifications. The Group's management evaluated the performance of the segments based on their operating income. In 2012 the Group disposed of its assets related to the Telecommunication Solutions and Information Technologies Solutions segments (see Note 3). Therefore, after the date of the disposal, the Group retains only the Microelectronic Solutions segment.

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. 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 cannot be allocated to operating segments.

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

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, 2012 and 2011 is as follows:

For the year ended December 31, 2012	Telecom-munication Solutions	Information Technologies Solutions	Micro-electronic Solutions	All other	Corporate	Total
Sales to external customers	$ 145,825	$ 338,113	$ 292,064	$ 127,492	$ -	$ **903,494**
Intersegment sales	47	362	161	601	-	**1,171**
Depreciation and amortization	(13,112)	(10,274)	(38,344)	(2,194)	(1,343)	**(65,267)**
Operating income/(loss)	(6,761)	(7,019)	(9,852)	5,157	(18,513)	**(36,988)**
Interest income	2,772	48	393	256	901	**4,370**
Interest expenses	(2,799)	(1,561)	(13,665)	(740)	(45,658)	**(64,423)**

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
Interest income	6,625	486	124	116	377	7,728
Interest expenses	(16,286)	(843)	(9,448)	(1,306)	(48,184)	(76,067)

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

	2012	2011
Telecommunication Solutions	$ (6,761)	$ 11,431
Information Technologies Solutions	(7,019)	8,049
Microelectronic Solutions	(9,852)	2,280
Total segment operating (loss)\income for reportable segments	**(23,632)**	**21,760**
All other	5,157	4,450
Corporate	(18,513)	(24,129)
Interest expense, net	(60,053)	(68,339)
Foreign currency transactions gains/(losses)	6,039	(11,142)
Gain on acquisitions and disposals of long-term investments	46,129	-
Equity in net loss of investees and impairment loss	(82,667)	(1,025)
Other non-operating losses	(242)	(6,655)
Loss before income tax	**$ (127,782)**	**$ (85,080)**

As of December 31, 2012 and 2011, the total assets of reportable segments comprised the following:

	2012	2011
Telecommunication Solutions	$ -	$ 658,929
Information Technologies Solutions	-	399,516
Microelectronic Solutions	804,199	734,316
Total for reportable segments	**804,199**	**1,792,761**
All other	162,928	98,913
Corporate	638,473	499,901
Intersegment eliminations	(398,382)	(528,370)
Total assets	**$ 1,207,218**	**$ 1,863,205**

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

For the years ended December 31, 2012 and 2011, the Group's additions to property, plant and equipment and intangible assets, comprised the following:

		2012		2011
Microelectronic Solutions	$	65,475	$	65,209
Telecommunication Solutions		8,301		28,842
Information Technologies Solutions		5,326		6,376
Total for reportable segments		**79,102**		**100,427**
All other		887		1,404
Corporate		286		1,361
Total additions to property, plant and equipment and intangible assets	$	**80,275**	$	**103,192**

Information about the Group's revenues attributed to different geographic areas for the years ended December 31, 2012 and 2011 is shown below. The revenue is attributed by the location of the registered office of the customer.

		2012		2011
Russia and CIS, except for Ukraine	$	755,806	$	1,079,989
Ukraine		49,097		113,289
Central and Eastern Europe		38,919		136,971
Asia-Pacific region		29,072		42,775
Greece		18,520		77,264
Middle East and Africa		3,192		15,398
Others		8,888		9,420
Total sales to external customers	$	**903,494**	$	**1,475,106**

As of December 31, 2012 and 2011, 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		2011
Russia and CIS, except for Ukraine	$	423,577	$	354,128
Ukraine		-		130,371
Greece		-		98,938
Czech Republic		-		37,804
Romania		-		10,732
Other		5,652		9,966
Total property, plant and equipment and intangible assets, net of accumulated depreciation and amortization plus goodwill	$	**429,229**	$	**641,939**

25. 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.

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

During the years ended December 31, 2012 and 2011, the Group entered into transactions with related parties as follows:

		2012		2011
Sales of software and telecommunication equipment	$	101,317	$	316,995
Systems integration		200,831		343,886
Sales of smart cards		31,050		77,875
Cost of goods sold		(15,483)		(20,763)
Interest income		431		1,023
Interest expense		(24,791)		(13,178)
Operating services consumed		(5,163)		(6,461)
Other income		767		459

Sales of Software and Telecommunication Equipment

JSC Mobile TeleSystems ("MTS")

During the years ended December 31, 2012 and 2011, Sitronics TS CR and Sitronics TS entered into transactions with MTS, a subsidiary of Sistema, and its affiliates for sale of a communications software support system, 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 $59.9 million and $138.1 million during the years ended December 31, 2012 and 2011, respectively.

During the years ended December 31, 2012 and 2011, Intracom Telecom sold telecommunication equipment and provided installation services to MTS for approximately $24.8 million and $140.3 million respectively.

During the year ended December 31, 2012 and 2011, Elion entered into a number of transactions with MTS and its subsidiaries for sale of telecommunication equipment for approximately $13.5 million and $13.2 million during the years ended December 31, 2012 and 2011, respectively.

Other Subsidiaries of Sistema

During the years ended December 31, 2012 and 2011, 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 $2.8 million and $ 8.7 million respectively.

Systems integration

During the years ended December 31, 2012 and 2011, the IT Solution segment companies provided system integration services to MTS and its subsidiaries for $159.6 million and $285.6 million respectively.

During the years ended December 31, 2012 and 2011 IT Solutions segment companies provided system integration services for approximately $30.1 million and $48.8 million to the "Oil and gas" Business Unit of Sistema, respectively.

Sales of Smart Cards

During the years ended December 31, 2012 and 2011, SITRONICS Smart Technologies sold smart cards to MTS and its affiliates for $30.8 million and $77.6 million respectively.

Cost of Goods sold

During the years ended December 31, 2012 and 2011, SITRONICS CAMS purchased from NIS equipment and other goods for implementation of the Intellectual transport system ("ITS") project for $15.3 million and $20.4 million.

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

Operating services consumed

During the years ended December 31, 2012 and 2011, the Group received operating services, including wireless connection services, rent services and others from MTS and its subsidiaries amounted to $5.2 million and $6.5 million respectively.

Interest Income

During the years ended December 31, 2012 and 2011, the Group has earned $0.4 million and $0.4 million from deposits placed at MTS BANK respectively.

Interest Expense

During the years ended December 31, 2012 and 2011, the Group had several short-term and long-term loans outstanding with Sistema and its subsidiaries, including Concern RTI Systems, RTI and MTS BANK (Note 16, Note 17). Interest expense on these loans amounted to $24.7 million and $10.3 million for the years ended December 31, 2012 and 2011 respectively.

During the years ended December 31, 2009, 2010 and 2011, Mikron entered into a number of credit facility agreements with SITRONICS-Nano (Note 17). Interest expense on these loans amounted to $0.7 million and $1.1 million for the years ended December 31, 2012 and 2011 respectively.

In 2009, Mikron entered into a capital lease agreement for equipment and vehicles with SITRONICS-Nano (Note 18). Interest expense in respect of the lease obligation for the years ended December 31, 2012 and 2011 amounted to $1.4 million and $1.8 million respectively.

26. 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 $5.1 million and $10.6 million for the years ended December 31, 2012 and 2011 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, 2012 were as follows:

Year ended December 31,	
2013	262
2014	262
2015	262
2016	262
2017	262
Thereafter	6,540
Total	$ 7,850

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.

Guarantees

SITRONICS and Mikron 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 ($35.8 million) as of December 31, 2012. The guarantee expires in March 2017.

SITRONICS and Mikron provided a financial guarantee to the RUSNANO corporation in respect of a credit facility issued to SITRONICS-Nano in the amount of RUR 1.8 billion ($59.2 million) as of December 31, 2012. The guarantee expires in October 2013.

SITRONICS provided financial guarantees to a number of banks in respect of credit facilities of Intracom Telecom S.A. (including Syndicated Loan). The credit facilities are guaranteed by SITRONICS and Intracom Holding S.A. by 51% and 49% respectively. The total amount of the financial guarantees in SITRONICS's share is EUR 55.3 million ($73.2 million) as of December 31, 2012. The period of expiration is based on the maturity of relevant credit facilities.

SITRONICS and Mikron provided a financial guarantee to the Bank of Moscow in respect of credit facility issued to OJSC "RTI" in the amount of $115 million and RUB 3,637 million ($115 million) as of December 31, 2012. The guarantee expires in December 2018.

As of December 31, 2012, SITRONICS provided a financial guarantee to the Bank BKF in respect of a credit facility issued to OJSC "RTI" in the amount of $8 million as of December 31, 2012. The guarantee expires in June 2014.

27. CONCENTRATIONS OF RISK

Credit Risks

During the years ended December 31, 2012 and 2011, the Group's sales to subsidiaries of Sistema and affiliates amounted to $333.5 million and $741.1 million respectively, or 36.9% and 50.2% 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, 2012 and 2011 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.

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 economy, while deemed to be of market status, continues 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 economy will be subject to their respective governments' continued actions with regard to legal and economic reforms.

Russia currently has 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 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.

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

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 the 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 the 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 $128.9 million and $95.4 million in 2012 and 2011 respectively. The devaluation of currencies against the US dollar resulted in $6.0 million of exchange gain and $11.1 million of exchange losses in 2012 and 2011 respectively while the impact of the impairment of assets, bad debt expenses and other reserves amounted to $6.9 million and $13.8 million in 2012 and 2011 respectively.

The financing receivables portfolio, excluding trade receivables, as of December 31, 2012, is considered by management to be insignificant in amount, and therefore no specific analysis for credit quality was performed.

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

	2012	2011
Inventory obsolescence provision	$ 2,856	$ 10,642
Bad debt expense	1,638	2,778
Impairment of short-term deposits, loans and other assets	2,452	179
Impairment of property, plant and equipment	-	164
Total	$ 6,946	$ 13,763

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

28. SUBSEQUENT EVENTS

Borrowing of JSC SITRONICS from JSC RTI – In January 2013, JSC SITRONICS entered into a credit agreement with JSC RTI denominated in RUB, amounted to RUB 700.0 million ($23.1 million) with maturity date of December 31, 2013. The interest rate comprised 12% per annum. The proceeds were used to repay debt to Bank of Moscow.

In March 2013 JSC SITRONICS entered into a credit agreement with JSC RTI denominated in RUB, amounted to RUB 3.4 million ($0.1 million) with maturity date December 31, 2013. The interest rate comprised 13% per annum. The proceeds were used to repay interest to Bank of Moscow.

In April 2013 JSC SITRONICS entered into a credit agreement with JSC RTI denominated in RUB, amounted to RUB 180.0 million ($5.8 million) with maturity date December 31, 2013. The interest rate comprised 13% per annum. The proceeds were used to pay interest to BO-2 bondholders.

In April 2013 JSC SITRONICS entered into a credit agreement with JSC RTI denominated in RUB, amounted to RUB 300.2 million ($9.7 million) with maturity date December 31, 2013. The interest rate comprised 13% per annum. The proceeds were used to pay principal and interest to Bank of Moscow.

In April 2013 JSC SITRONICS entered into a RUB-denominated credit agreement with JSC RTI, amounted to RUB 37.3 million ($1.2 million) with maturity date December 31, 2013. The interest rate comprised 13% per annum. The proceeds were used in operating activity.

Repayment to Bank of Moscow – In January 2013, JSC SITRONICS repaid to Bank of Moscow RUB 700.0 million ($23.1 million) on maturity date.

In April 2013, JSC SITRONICS repaid to Bank of Moscow RUB 300.0 million ($9.6 million) on maturity date.

Repayment to Rydra Trading – In January 2013, JSC SITRONICS fully repaid to Rydra Trading principal and interest amounted to $3 million (RUB 91.2 million).

Mikron share Issue – In January 2013, Federal Agency for State Property Management (Rosimushchostvo) acquired 379,463 of additional shares issued by Micron for cash proceeds of RUR 255 million ($8.5 million). As a result of the transaction SITRONICS ownership in Mikron decreased from 80.35% to 78.4%. The capital transaction was in line with State Program "Development of electronic components and electronics". In March 2013, the Ministry of Industry and Trade of the Russian Federation paid RUR 190 million ($6.1 million) for 282,738 shares. The issue of share was not registered as of April, 23 2013, the date financial statements were issued.

Mikron capital lease arrangement with Sitronics-Nano – In January 2013 Mikron entered into a capital lease arrangement with SITRONICS-Nano to acquire production equipment and licenses within the 90 nanometer microchip production project. The carrying amount of acquired assets equals to RUB 7,033.9 million ($232 million).

Borrowing of Mikron from Sistema Telekom Aktivy – In February 2013, Mikron entered into a credit agreement with Sistema Telekom Aktivy, a subsidiary of SISTEMA, denominated in RUB, amounted to RUB 173.0 million ($5.6 million) and maturing on demand. The interest rate comprised 4.5% per annum.

Bonds repurchase agreement – In March 2013, LLC SITRONICS Management entered into a repurchase agreement in the open debt market with URSA Capital acting as a broker. The payables amounted to RUB 100.2 million ($3.2 million) under the new repurchase agreement are secured by SITRONICS' bonds series BO-01. The bonds mature in June 2013.

Interest Payment to Bondholders – In April 2013, JSC SITRONICS made the third interest payment on the Bonds Series BO-02. The coupon rate comprised 12.00% per annum. The total amount of interest paid was RUB 179.1 million ($5.7 million).

Borrowing of Sitronics-CAMS from Bank of Moscow – In April 2013, SITRONICS-CAMS, the subsidiary of SITRONICS, signed a credit facility agreement with Bank of Moscow amounted up to RUB 4 billion. The interest rate comprised 11.8% for draw-downs less than 181 days and Mosprime 3 months + 5.5% for draw-downs more than 181 days.

Sale of share in CJSC Nvision – In March 2013, SITRONICS IT B.V., a subsidiary of SITRONICS, disposed of its share in CJSC Nvision to JSC RTI for a consideration of Euro 72 million ($93 million). As a result of the transaction SITRONICS decreased its ownership interest in CJSC Nvision from 37.1% to 22.9%.

Appointment of Sitronics new President – In February 2013, Shavrov A.I. was appointed as the new President of SITRONICS.

Management of the Group has evaluated subsequent events through April 23, 2012, the date when its financial statements were issued.

Прошнуровано, пронумеровано и
скреплено печатью 40 страниц

Партнер
ЗАО «Делойт и Туш СНГ»

Головкина Н.В.

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ДЕЛОЙТ И ТУШ СНГ»
для аудиторских заключений
Россия, г. Москва, ул. Лесная, д. 5