

MOBILE TELESYSTEMS OJSC
Form 20-F
April 19, 2013

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

Form 20-F

- o **Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**

or
- ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012**

or
- o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

or
- o **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Date of event requiring this shell company report
Commission file number 333-12032

MOBILE TELESYSTEMS OJSC

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING 2 SHARES OF COMMON STOCK COMMON STOCK, PAR VALUE 0.10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE NEW YORK STOCK EXCHANGE ⁽¹⁾

Securities registered or to be registered pursuant to Section 12(g) of the Act:

NONE
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report 1,988,919,177 ordinary shares, par value 0.10 Russian rubles each and 388,698,252 American Depositary Shares as of December 31, 2012.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated Filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

- (1) Listed, not for trading or quotation purposes, but only in connection with the registration of ADSs pursuant to the requirements of the Securities and Exchange Commission.
-

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Unless otherwise indicated or unless the context requires otherwise, references in this document to (i) "MTS," "the Group," "we," "us," or "our" refer to Mobile TeleSystems OJSC and its subsidiaries; (ii) "MTS Ukraine" is to MTS Ukraine Private Joint Stock Company (formerly CJSC Ukrainian Mobile Communications), our Ukrainian subsidiary; (iii) "MTS-Uzbekistan" is to Uzdurobita, our Uzbekistan subsidiary; (iv) "MTS-Turkmenistan" and "BCTI" are to Barash Communication Technologies, Inc., our Turkmenistan subsidiary; (v) "Comstar" or "Comstar-UTS" are to COMSTAR United TeleSystems, our fixed line subsidiary, which was merged into us in 2011; (vi) "MGTS" is to Moscow City Telephone Network, our Moscow public switched telephone network ("PSTN") fixed line subsidiary; and (vii) "K-Telecom" or "VivaCell-MTS" are to K-Telecom CJSC, our Armenian subsidiary; and (viii) "Sistema" is to Joint-Stock Financial Corporation Sistema, our majority shareholder. We refer to Mobile TeleSystems LLC, our 49% owned equity investee in Belarus, as "MTS Belarus." As MTS Belarus is an equity investee, our revenues and subscriber data do not include MTS Belarus. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

In this document, references to "U.S. dollars," "dollars," "\$" or "USD" are to the lawful currency of the United States, "rubles" or "RUB" are to the lawful currency of the Russian Federation, "hryvnias" are to the lawful currency of Ukraine, "soms" are to the lawful currency of Uzbekistan, "manats" are to the lawful currency of Turkmenistan, "dram" are to the lawful currency of Armenia and "€," "euro" or "EUR" are to the lawful currency of the member states of the European Union that adopted a single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the treaty on the European Union, signed at Maastricht on February 7, 1992. References in this document to "shares" or "ordinary shares" refers to our ordinary shares, "ADSs" refers to our American depositary shares, each of which represents two ordinary shares, and "ADRs" refers to the American depositary receipts that evidence our ADSs. Prior to May 3, 2010, each ADS represented five ordinary shares of our common stock. "CIS" refers to the Commonwealth of Independent States.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this document may constitute forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 (the "U.S. Securities Act"), and Section 21E of the U.S. Securities Exchange Act of 1934 (the "U.S. Exchange Act"). The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their businesses. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

MTS desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation and other relevant law. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. The words "believe," "expect," "anticipate," "intend," "estimate," "forecast," "project," "predict," "plan," "may," "should," "could" and similar expressions identify forward-looking statements. Forward-looking statements appear in a number of places including, without limitation, "Item 3. Key Information D. Risk Factors," "Item 4. Information on Our Company B. Business Overview," "Item 5. Operating and Financial Review and Prospects," and "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and include statements regarding:

our strategies, future plans, economic outlook, industry trends and potential for future growth;

our liquidity, capital resources and capital expenditures;

our payment of dividends;

our capital structure, including our indebtedness amounts;

our ability to generate sufficient cash flow to meet our debt service obligations;

our ability to achieve the anticipated levels of profitability;

our ability to timely develop and introduce new products and services;

our ability to obtain and maintain interconnect agreements;

our ability to secure the necessary spectrum and network infrastructure equipment;

our ability to meet license requirements and to obtain and maintain licenses and regulatory approvals;

our ability to maintain adequate customer care and to manage our churn rate; and

our ability to manage our rapid growth and train additional personnel.

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The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters

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discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

growth in demand for our services;

changes in consumer preferences or demand for our products;

availability of external financing on commercially acceptable terms;

the developments of our markets;

the highly competitive nature of our industry and changes to our business resulting from increased competition;

the impact of regulatory initiatives;

the rapid technological changes in our industry;

cost and synergy of our recent acquisitions;

the acceptance of new products and services by customers;

the condition of the economies of Russia, Ukraine and certain other countries of the CIS;

risks relating to legislation, regulation and taxation in Russia and certain other CIS countries, including laws, regulations, decrees and decisions governing each of the telecommunications industries in the countries where we operate, currency and exchange controls relating to entities in Russia and other countries where we operate and taxation legislation relating to entities in Russia and other countries where we operate, and their official interpretation by governmental and other regulatory bodies and by the courts of Russia and the CIS;

political stability in Russia, Ukraine and certain other CIS countries; and

the impact of general business and global economic conditions and other important factors described herein and from time to time in the reports filed by us with the U.S. Securities and Exchange Commission (the "SEC").

All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. Readers are cautioned not to place undue reliance on these forward-looking statements. Except to the extent required by law, neither we, nor any of our respective agents, employees or advisors intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained or incorporated by reference in this document.

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PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected consolidated financial data for the years ended December 31, 2010, 2011 and 2012, and as of December 31, 2011 and 2012, are derived from the audited consolidated financial statements, prepared in accordance with U.S. GAAP included elsewhere in this document. The following table also presents selected consolidated financial data for the years ended December 31, 2008 and 2009 and as of December 31, 2008, 2009 and 2010, derived from the audited consolidated financial statements not included in this document. Our results of operations are affected by acquisitions. Results of operations of acquired businesses are included in our audited consolidated financial statements from their respective dates of acquisition, other than with respect to our acquisition of certain subsidiaries of Sistema, as further described below.

In October 2009, we acquired a 50.91% stake in Comstar, a provider of fixed line communication services in Russia, Ukraine and Armenia, from Sistema for RUB 39.15 billion (\$1.32 billion as of October 12, 2009). We subsequently increased our ownership stake in Comstar to 61.97% (or 64.03% excluding treasury shares) in December 2009 and to 70.97% (or 73.33% excluding treasury shares) in September 2010 through a voluntary tender offer. On December 23, 2010, the extraordinary general meetings of shareholders of Comstar and MTS approved a merger of Comstar and us. On March 10, 2011, we completed a share buyback as part of the reorganization of MTS and on April 1, 2011 the merger was completed. A total of 8,000 MTS ordinary shares representing 0.0004% of our issued share capital were repurchased in the buyback for RUB 1.96 million (\$70,000 as of March 31, 2011). The buyback price was set at RUB 245.19 (\$8.62 as of March 31, 2011) per one MTS ordinary share. In addition, a total of 22,483,791 Comstar ordinary shares representing 5.38% of the Comstar issued share capital were repurchased for RUB 4.8 billion (\$168.3 million as of March 31, 2011). The buyback price was set at RUB 212.85 (\$7.49 as of March 31, 2011) per one Comstar ordinary share. The remaining 98,853,996 Comstar ordinary shares were converted into MTS ordinary shares at an exchange ratio of 0.825 MTS ordinary shares for each Comstar ordinary share. See "Item 5. Operating and Financial Review and Prospects A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Acquisitions."

In June 2010, we acquired a 15% ownership interest in TS-Retail OJSC ("TS-Retail") from Sistema for one US dollar consequently increasing our effective ownership interest in TS-Retail to 49.6%. We subsequently increased our effective ownership interest in TS-Retail to 50.95%, which was achieved through a voluntary tender offer to purchase Comstar's shares in September 2010.

In August 2010, we acquired a 95% ownership interest in Metro-Telecom, a company which owns a fiber optic network located in the Moscow metro, from Invest-Svyaz CJSC, a wholly owned subsidiary of Sistema, for RUB 339.35 million (\$11.01 million as of August 27, 2010).

In December 2010, we acquired a 100% ownership stake in Sistema Telecom, a subsidiary of Sistema which owns the egg-shaped logos each of the telecommunications companies operating within the Sistema group uses, including us, and a 45% ownership stake in TS-Retail, from Sistema for

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RUB 11.59 billion (\$378.98 million as of December 27, 2010). As a result of this acquisition and the completion of our merger with Comstar on April 1, 2011, we currently own a 100% stake in TS-Retail.

As we, Comstar, TS-Retail, Sistema Telecom and Metro-Telecom were under the common control of Sistema, our acquisition of majority stakes in these companies has been treated as a combination of entities under common control and accounted for in a manner similar to a pooling-of-interests, *i.e.*, the assets and liabilities acquired were recorded at their historical carrying value and the consolidated financial statements were retroactively restated to reflect the Group as if these companies had been owned since the beginning of the earliest period presented. Accordingly, the financial data presented below for the years ended December 31, 2008 and 2009, the financial years preceding the acquisitions, have been restated to include the financial position and results of operations of the companies acquired from Sistema as if the acquisitions had occurred as of January 1, 2008, and the financial data for the years ended December 31, 2009 and 2010 includes the financial position and results of operations of Comstar, TS-Retail, Sistema Telecom and Metro-Telecom for the full year.

The selected financial data should be read in conjunction with our audited consolidated financial statements, included elsewhere in this document, "Item 3. Key Information D. Risk Factors" and "Item 5. Operating and Financial Review and Prospects." Certain industry and operating data are also provided below. The following table presents selected consolidated financial data for the years ended December 31, 2008, 2009 and 2010 and as of December 31, 2008, 2009 and 2010, derived from our audited consolidated financial statements not included in this document.

	Years Ended December 31,				
	2008 (restated, other than industry and operating data)	2009 (restated, other than industry and operating data)	2010	2011	2012
(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)					
Consolidated statements of operations data:					
Services revenue and connection fees	\$ 11,836,158	\$ 9,513,353	\$ 10,586,068	\$ 11,430,377	\$ 11,507,150
Sales of handsets and accessories	156,465	353,900	707,168	888,311	928,505
Total net operating revenues	11,992,623	9,867,253	11,293,236	12,318,688	12,435,655
Operating expenses:					
Cost of services, excluding depreciation and amortization shown separately below	2,451,978	2,011,332	2,260,888	2,633,434	2,722,111
Cost of handsets and accessories	229,992	375,444	727,683	902,692	807,793
Sales and marketing expenses	908,824	728,483	850,584	878,222	711,703
Depreciation and amortization expense	2,153,077	1,844,174	2,000,496	2,335,204	2,274,870
Sundry operating expenses ⁽¹⁾	2,621,506	2,351,935	2,719,027	2,760,251	3,923,117
Net operating income	3,627,246	2,555,885	2,734,559	2,808,885	1,996,061
Currency exchange and transaction (gain)/loss	561,963	252,694	(20,238)	158,066	(102,786)

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	Years Ended December 31,				
	2008 (restated, other than industry and operating data)	2009 (restated, other than industry and operating data)	2010	2011	2012
	(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)				
Other (income) expenses:					
Interest income	(69,697)	(104,566)	(84,396)	(62,559)	(84,359)
Interest expense, net of capitalized interest	234,424	571,901	777,287	656,898	568,184
Equity in net income of associates	(75,688)	(60,313)	(70,649)	(49,443)	(27,929)
Impairment of investments		368,355			
Change in fair value of derivatives	41,554	5,420			
Other expenses, net	29,090	23,254	66,924	6,571	23,164
 Total other expenses, net	 159,683	 804,051	 689,166	 551,467	 479,060
 Income before provision for income taxes and noncontrolling interests	 2,905,600	 1,499,140	 2,065,631	 2,099,352	 1,619,787
Provision for income taxes	744,320	505,047	517,188	531,620	581,327
Net income (loss) attributable to the noncontrolling interest	\$ 182,173	\$ (20,110)	\$ 167,812	\$ 123,788	\$ 31,176
Net income attributable to the Group	1,979,107	1,014,203	1,380,631	1,443,944	1,007,284
 Dividends declared ⁽²⁾	 \$ 1,257,453	 \$ 1,265,544	 \$ 991,211	 \$ 1,066,753	 \$ 916,310
 Net income per share, basic and diluted, US dollars	 1.05	 0.54	 0.72	 0.73	 0.51
Dividends declared per share, US dollars	0.63	0.65	0.50	0.52	0.44
Dividends declared per share, rubles	14.84	20.15	15.40	14.54	14.71
Number of common shares outstanding	1,885,052,800	1,916,869,262	1,916,869,262	1,988,916,837	1,988,919,177
Weighted average number of common shares outstanding basic	1,921,934,091	1,885,750,147	1,916,869,262	1,970,953,129	1,988,918,528
Weighted average number of common shares outstanding diluted	1,921,934,091	1,885,750,147	1,916,869,262	1,970,953,129	1,988,918,528
Consolidated statement of cash flows data:					
Cash provided by operating activities	\$ 5,027,000	\$ 3,592,230	\$ 3,617,170	\$ 3,849,005	\$ 4,236,613
Cash used in investing activities	(2,698,386)	(2,372,171)	(2,181,627)	(2,555,039)	(3,060,209)
(of which capital expenditures) ⁽³⁾	(2,612,825)	(2,328,309)	(2,647,117)	(2,584,466)	(2,902,768)
Cash (used in)/provided by financing activities	(1,679,647)	130,949	(3,036,442)	(270,308)	(2,407,621)

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	Years Ended December 31,				
	2008 (restated, other than industry and operating data)	2009 (restated, other than industry and operating data)	2010	2011	2012
	(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)				
Consolidated statement of financial position (end of period):					
Cash, cash equivalents and short-term investments	\$ 1,499,531	\$ 2,735,480	\$ 1,261,288	\$ 1,937,068	\$ 857,632
Property, plant and equipment, net	7,765,873	7,750,617	7,971,830	8,242,477	8,948,212
Total assets	14,737,318	15,764,489	14,478,042	15,327,136	14,979,848
Total debt (long-term and short-term) ⁽⁴⁾	5,394,852	8,350,244	7,160,612	8,715,203	7,641,899
Total shareholders' equity	6,194,864	4,365,711	4,156,803	3,570,623	3,753,079
Common stock less treasury stock	(1,376,195)	(1,004,368)	(1,004,368)	(941,327)	(941,327)
Financial ratios (end of period):					
Total debt/total capitalization ⁽⁵⁾	46.5%	65.7%	63.3%	70.9%	67.1%
Mobile industry and operating data:⁽⁶⁾					
Mobile penetration in Russia (end of period)	129%	143%	151%	157%	161%
Mobile penetration in Ukraine (end of period)	121%	121%	118%	118%	126%
Mobile subscribers in Russia (end of period, thousands) ⁽⁷⁾	64,628	69,342	71,442	69,954	71,227
Mobile subscribers in Ukraine (end of period, thousands) ⁽⁷⁾	18,115	17,564	18,240	19,223	20,709
Overall market share in Russia (end of period)	34%	33%	33%	31%	31%
Overall market share in Ukraine (end of period)	32%	32%	34%	36%	36%
Average monthly usage per subscriber in Russia (minutes) ⁽⁸⁾	208	213	234	269	304
Average monthly usage per subscriber in Ukraine (minutes) ⁽⁸⁾	279	462	535	580	597
Average monthly service revenue per subscriber in Russia ⁽⁹⁾	\$ 11	\$ 8	\$ 8	\$ 9	\$ 10
Average monthly service revenue per subscriber in Ukraine ⁽⁹⁾	\$ 7	\$ 5	\$ 5	\$ 5	\$ 5
Subscriber acquisition costs in Ukraine ⁽¹⁰⁾	\$ 11	\$ 7	\$ 8	\$ 8	\$ 8
Churn in Russia ⁽¹¹⁾	27.0%	38.3%	45.9%	47.6%	42.4%
Churn in Ukraine ⁽¹¹⁾	47.3%	40.0%	31.0%	30.7%	30.5%

(1) "Sundry operating expenses" consist of general and administrative expenses, provision for doubtful accounts, impairment of long-lived assets and goodwill, provision for claims in Uzbekistan and other operating expenses.

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- (2) Dividends declared in each of the years ended December 31, 2008, 2009, 2010, 2011 and 2012 were, in each case, in respect of the prior fiscal year (*i.e.*, in respect of each of the years ended December 31, 2007, 2008, 2009, 2010 and 2011, respectively). Includes dividends on treasury shares of \$36.5 million, \$45.6 million, \$35.1 million, \$40.0 million and \$34.4 million in respect of the years ended December 31, 2007, 2008, 2009, 2010, and 2011, respectively. Annual dividends are calculated at the exchange rate on the date when dividends are declared at the Annual General Meeting of Shareholders.
- (3) Capital expenditures include purchases of property, plant and equipment and intangible assets.
- (4) Includes notes payable, bank loans, capital lease obligations and other debt.
- (5) Calculated as book value of total debt divided by the sum of the book values of total shareholders' equity and total debt at the end of the relevant period. See footnote 4 above for the definition of "total debt."
- (6) Source: AC&M-Consulting and our data. Operating data is presented for mobile operations only. None of this data is derived from our audited consolidated financial statements.
- (7) We define a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of prepaid tariffs) or whose account does not have a negative balance for more than this period.
- (8) Average monthly minutes of usage per subscriber is calculated by dividing the total number of minutes of usage during a given period by the average number of our subscribers during the period and dividing by the number of months in that period.
- (9) We calculate average monthly service revenue per subscriber by dividing our service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of our subscribers during that period and dividing by the number of months in that period. Prior to April 1, 2008, we excluded connection fees from service revenues. Average monthly service revenue per subscriber data for each of the years ended December 31, 2008, 2009, 2010, 2011 and 2012 presented in this table are based on our current calculation methodology.
- (10) In Ukraine, subscriber acquisition costs are calculated as total sales and marketing expenses, handset subsidies and cost of sim cards and vouchers for a given period divided by the total number of gross subscribers added during that period. In Russia, it is impracticable to calculate subscriber acquisition costs for the period as we now have the mobile and fixed line parts of the business combined in one reportable segment, "Russia."
- (11) We define our churn as the total number of subscribers who cease to be a subscriber (see footnote 7 above for the definition of a "subscriber") during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber's request), expressed as a percentage of the average number of our subscribers during that period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our securities involves a certain degree of risk. You should carefully consider the following information about these risks, together with other information contained in this document, before you decide to buy our securities. If any of the following risks actually occur, our business, prospects, financial condition or results of operations could be materially adversely affected. In that case, the value of our securities could also decline and you could lose all or part of your investment. In addition, please read "Cautionary Statement Regarding Forward-Looking Statements" where we describe additional uncertainties associated with our business and the forward-looking statements included in this document.

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Risks Relating to Business Operations in Emerging Markets

Emerging markets such as the Russian Federation, Ukraine and other CIS countries are subject to greater risks than more developed markets, including significant legal, economic, tax and political risks.

Investors in emerging markets such as the Russian Federation, Armenia, Ukraine, Turkmenistan, Kyrgyzstan, Uzbekistan and other CIS countries should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic, tax and political risks. Investors should also note that emerging economies such as the economies of the Russian Federation and Ukraine are subject to rapid change and that the information set out herein may become outdated relatively quickly. Global financial or economic crises or even financial turmoil in any large emerging market country tend to adversely affect prices in equity markets of most or all emerging market countries as investors move their money to more stable, developed markets. Beginning in the second half of 2008, the Russian equity markets have been highly volatile, principally due to the impact of the global financial and economic crisis on the Russian economy. Such volatility has caused market regulators to temporarily suspend trading on the Moscow Interbank Currency Exchange ("MICEX") and the Russian Trading System ("RTS") multiple times. MICEX and RTS stock market indices have experienced significant overall declines since their peaks in May 2008. In December 2011, MICEX and RTS merged and now comprise the largest stock exchange in Russia, MICEX-RTS ("MICEX-RTS"). As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as funding sources are withdrawn. Furthermore, in doing business in various countries of the CIS, we face risks similar to (and sometimes greater than) those that we face in Russia and Ukraine. See also " Legal Risks and Uncertainties Our dispute with Nomihold Securities Inc. concerning Bitel has resulted in a final arbitral award against us of \$175.9 million plus more than \$34.9 million of interest and related costs, and our inability to gain operational control over Bitel has prevented us from realizing the expected benefits of this acquisition and resulted in our write off of the costs relating to the purchase of Bitel," " The inability of Business Entity MTS-Turkmenistan to sustain its recently resumed operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations," and " The inability of Uzdurobita, MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations." Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in our securities.

Risks Relating to Our Business

The telecommunications services market is characterized by rapid technological change, which could render our services obsolete or non-competitive and result in the loss of our market share and a decrease in our revenues.

The telecommunications industry is subject to rapid and significant changes in technology and is characterized by the continuous introduction of new products and services. The mobile telecommunications industry in Russia is also experiencing significant technological change, as evidenced by the introduction in recent years of new standards for radio telecommunications, such as Wi-Fi, Worldwide Inter-operability for Microwave Access ("Wi-Max"), Enhanced Data Rates for Global Evolution ("EDGE"), Universal Mobile Telecommunications System ("UMTS"), and Long Term Evolution ("LTE"), as well as ongoing improvements in the capacity and quality of communications, shorter development cycles for new products and enhancements and changes in customer requirements

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and preferences. Such continuing technological advances make it difficult to predict the extent of the future competition we may face and it is possible that existing, proposed or as yet undeveloped technologies will become dominant in the future and render the technologies we use less profitable or even obsolete. New products and services that are more commercially effective than our products and services may also be developed. Furthermore, we may not be successful in responding in a timely and cost-effective way to keep up with these developments. Changing our products or services in response to market demand may require the adoption of new technologies that could render many of the technologies that we are currently implementing less competitive or obsolete. To respond successfully to technological advances and emerging industry standards, we may require substantial capital expenditures and access to related or enabling technologies in order to integrate the new technology with our existing technology.

We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies.

The wireless telecommunications services markets in which we operate are highly competitive, particularly in Russia and Ukraine, where mobile penetration exceeds 100%. We also face increased competition in our cable TV and fixed line business, where the market for alternative fixed line communications services in Russia is rapidly evolving and becoming increasingly competitive. Competition is generally based on price, product functionality, range of service offerings and customer service.

Our principal wireless competitors in Russia are Open Joint Stock Company "Vimpel Communications," or Vimpelcom, and Open Joint Stock Company MegaFon ("MegaFon"). We also face competition from several regional operators and Tele2, which has entered the market in several regions with aggressive pricing. In addition, on April 1, 2011, the Russian government completed the reorganization of state-controlled telecommunications companies Svyazinvest Telecommunications Investment Joint Stock Company ("Svyazinvest"), and Open Joint Stock Company Long-Distance and International Telecommunications Rostelecom ("Rostelecom"). As a result, Rostelecom is currently the largest fixed-line operator and fourth largest mobile operator in Russia. In November 2009, a non-binding memorandum of understanding was signed by Sistema, Comstar and Svyazinvest contemplating an exchange of certain telecommunication assets. The transaction was completed in October 2010 and included, among other things, the entry by Sistema and Svyazinvest into an exchange transaction, upon completion of which, Svyazinvest obtained control over 100% of the share capital in Sky Link, Sistema acquired the 23.33% stake in MGTS controlled by Svyazinvest and Comstar transferred 25% plus 1 share in Svyazinvest to Rostelecom for cash consideration of 26 billion rubles. Sky Link is a Moscow-based code division multiple access ("CDMA") operator holding GSM licenses for a majority of Russian regions. In July 2012, Rostelecom acquired 100% of Sky Link which at the time of this acquisition held licenses in 76 Russian regions covering more than 90% of the total Russian population. In addition, Rostelecom won tenders for 39 out of 40 licenses to provide fourth-generation ("4G") wireless services within the 2.3-2.4 GHz frequency band and in November 2011 received permission from the Ministry of Defense to use the allotted frequencies for the creation of a 4G network.

Recently, Airport Alliance, a member of the VTB Group, announced that it entered into an agreement to acquire 100% of the Russian subsidiary of Tele2 ("Tele2 Russia") and on April 4, 2013 FAS approved this transaction. In connection with this transaction, there have been reports in the Russian media that Airport Alliance may subsequently re-sell Tele2 Russia to a Russian telecommunications provider. If one of our major competitors acquires Tele2 Russia, it may obtain a competitive advantage over us which may materially adversely affect our market share. In particular, if Tele2 Russia is eventually acquired by Rostelecom, it may become one of the key players in the mobile

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telecommunications market in Russia which may materially adversely affect our business, financial condition and results of operations.

According to Direct INFO, Rostelecom controls over 75% of all fixed line telecommunications services in Russia. The emergence of Rostelecom as an integrated nationwide provider of fixed line local and long distance communications services and mobile communications services may significantly increase competition in our markets. Moreover, any new mobile operator formed within the new state-controlled group may receive favorable pricing terms for interconnect from the regional fixed line operators within the group, putting us at a competitive disadvantage. See also " If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues."

Of the telecommunication services we provide, broadband Internet access is among the most competitive. While the Moscow and St. Petersburg markets have become mature in recent years (more than 70% of the market is controlled by the five largest companies), regional markets are in the most active phase of market formation, and it is expected that regional markets will follow the same trend as the Moscow and St. Petersburg markets in the coming years, with competition in these markets becoming extremely intense. If we fail to obtain and preserve a substantial share of the broadband Internet access market, our business, financial condition, results of operations or prospects or the value of the Shares and ADRs may be materially adversely affected.

In addition, we believe that Rostelecom, as a state-controlled company, is currently able to influence telecommunications policy and regulation in Russia and may cause substantial increases in interconnect rates for access to fixed line operators' networks by mobile cellular operators. Similarly, Rostelecom may cause substantial decreases in interconnect rates for access to mobile cellular operators' networks by fixed line operators, which could cause our revenues to decrease and may materially adversely affect our business, financial condition and results of operations.

Competition in the Ukrainian wireless telecommunications market has significantly intensified over the last several years. In October 2010, the Antimonopoly Committee of Ukraine (the "AMC"), approved the merger of Kyivstar, our primary mobile competitor in Ukraine, with URS and Golden Telecom Ukraine, Ukrainian mobile operator controlled by Vimpelcom, in connection with Vimpelcom's restructuring. We expect that the full integration of these companies will be completed by 2013. Currently, however, it is not clear how the Vimpelcom restructuring in Ukraine will affect our operations. Aggressive pricing by our competitors in Ukraine, driven primarily by Astelit, has also driven down the overall average price per minute levels significantly in Ukraine since 2006. Furthermore, we face increasing competition and aggressive pricing in Belarus from Best CJSC, a subsidiary of System Capital Management and Turkcell Iletisim Hizmetleri A.S. ("Turkcell") operating in Belarus under the "life:) " brand.

In 2011, the government of Belarus announced its intention to hold a public tender to privatize a 51% ownership interest in MTS Belarus with an opening price of \$1.0 billion. The public tender was scheduled to be held on December 23, 2011, but was cancelled due to a lack of bidders, and is now expected to be held by the State Property Committee of Belarus in 2013. The terms of share disposal have not yet been determined, although it may be conducted either through a public tender or by entering into a direct contract with a particular purchaser. If we are unable to acquire this ownership interest at a commercially reasonable price, or if it is acquired by one of our competitors, it may impact our competitive position and results of operations in Belarus.

We also face competition in Armenia. In 2009, France Telecom operating under the Orange brand entered the Armenian telecommunications market and began offering voice and data transmission services, as well as mobile phones at highly competitive prices. At the end of 2012, Orange had a market share of 15.7% and continued to pursue its strategy of providing telecommunication services (voice and internet) at highly competitive prices.

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Increased competition, including from the potential entry of new mobile operators, government-backed operators, mobile virtual network operators and alternative fixed line operators in the markets where we operate, as well as the strengthening of existing operators and increased use of Internet protocol telephony, may adversely affect our ability to increase the number of subscribers and could result in reduced operating margins and a loss of market share, as well as different pricing, service or marketing policies, and have a material adverse effect on our business, financial condition and results of operations.

Our controlling shareholder has the ability to take actions that may conflict with the interests of other holders of our securities.

We are controlled by Sistema, which owns 50.8% of our total charter capital (52.8% excluding treasury shares). If not otherwise required by Russian law and/or our charter, resolutions at a shareholders' meeting are adopted by a simple majority in a meeting at which shareholders holding more than half of the issued share capital are present or represented. Accordingly, Sistema has the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as it holds, either directly or indirectly, a majority of our shares, Sistema will control the appointment of a majority of directors and removal of all directors. Sistema is also able to control or significantly influence the outcome of any vote on matters which require three-quarters majority vote of a shareholders' meeting, such as amendments to the charter, proposed reorganizations and substantial asset sales and other major corporate transactions, among other things. Thus, Sistema can take actions that may conflict with the interests of other security holders. In addition, under certain circumstances, a disposition by Sistema of its controlling stake in our company could harm our business. See also " Risks Relating to Our Financial Condition If a change in control occurs, our noteholders and other debt holders may require us to redeem notes or other debt, which could have a material adverse effect on our financial condition and results of operations."

Sistema has a significant amount of outstanding debt. As of December 31, 2012, Sistema had consolidated indebtedness of approximately \$0.3 billion of short-term debt, \$2.9 billion comprising the short-term portion of its long-term debt, and \$12.5 billion of long-term debt (net of the short-term portion). At the corporate level, Sistema had \$9.9 million of short-term debt, \$190.1 million comprising the short-term portion of its long-term debt, and \$1,446.8 million of long-term debt (net of the short-term portion). Therefore, Sistema will require significant funds to meet its obligations, which may come in part from dividends paid by its subsidiaries, including us.

Sistema voted in favor of declaring dividends of \$747.2 million in 2007 for 2006, \$1,257.5 million in 2008 for 2007, \$1,265.5 million in 2009 for 2008, \$991.2 million in 2010 for 2009, \$1,066.8 million in 2011 for 2010 and \$916.3 million in 2012 for 2011. Annual dividends are calculated at the exchange rate on the date when dividends are declared at the Annual General Meeting of Shareholders. The indentures relating to our outstanding notes and other debt do not restrict our ability to pay dividends. As a result of paying dividends, our reliance on external sources of financing may increase, our credit rating may decrease and our cash flow and ability to repay our debt obligations, or make capital expenditures, investments and acquisitions could be materially adversely affected. Furthermore, our credit ratings can be and have been affected in the past by Sistema's activity and credit ratings.

Failure to effectively implement our geographic expansion strategy could hamper our continued growth and profitability.

Our continued growth depends, in part, on our ability to identify attractive opportunities in markets that will grow and on our ability to manage the operations of acquired or newly established businesses. Our strategy contemplates the acquisition of additional operations within the CIS in both the mobile and fixed broadband segments. These acquisitions may occur in countries that represent new operating environments for us and, in many instances, may be located a great distance from our

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corporate headquarters in Russia. We therefore may have less control over their activities. We may also face uncertainties with respect to the operational and financial needs of these businesses, and may, in the course of our acquisitions, incur additional debt to finance the acquisitions and/or take on substantial existing debt of the acquired companies. In addition, we anticipate that the countries into which we may expand will be emerging markets and, as with countries of our current presence, subject to greater political, economic, social and legal risks than more developed markets.

For example, see " Legal Risks and Uncertainties Our dispute with Nomihold Securities Inc. concerning Bitel has resulted in a final arbitral award against us of \$175.9 million plus more than \$34.9 million of interest and related costs, and our inability to gain operational control over Bitel has prevented us from realizing the expected benefits of this acquisition and resulted in our write off of the costs relating to the purchase of Bitel," and " Legal Risks and Uncertainties The inability of Business Entity MTS-Turkmenistan to sustain its recently resumed operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations," and " The inability of Uzdurobita, MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations."

Our failure to identify attractive opportunities for expansion into new markets and to manage the operations of acquired or newly established businesses in these markets could hamper our continued growth and profitability, and have a material adverse effect on our financial condition, results of operations and prospects.

Acquisitions and mergers may pose significant risks to our business.

We have expanded our business through several acquisitions. As part of our growth strategy, we will continue to evaluate opportunities to acquire, invest in or merge with other existing operators or license holders in the CIS and in growing markets outside the CIS, as well as other complementary businesses.

Prior to 2009, most of our acquisitions were of regional operators with a focus on expanding our network and subscriber footprint. In 2011 and 2012, our acquisitions focus shifted to acquiring a minority stake in subsidiary company of Multiregion JSC and regional cable TV and broadband providers in furtherance of our strategy to become a provider of integrated telecommunications services. In 2010, we also acquired Sistema Telecom in order to obtain full control over our logos. These and other business combinations entail a number of risks that could materially and adversely affect our business, financial condition, results of operations and prospects, including the following:

incorrect assessment of the value of any acquired target;

assumption of the acquired target's liabilities and contingencies;

failure to realize any of the anticipated benefits or synergies from any acquisitions or investments we complete;

problems integrating the acquired businesses, technologies or products into our operations;

incurrence of debt to finance acquisitions and higher debt service costs related thereto;

difficulties in retaining business relationships with suppliers and customers of the acquired company;

risks associated with businesses and markets in which we lack experience, including political, economic, social, legal and regulatory risks and uncertainties;

more onerous government regulation;

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potential loss of key employees of the acquired company;

potential write-offs of acquired assets; and

lawsuits arising out of disputes over ownership of acquired assets and/or the enforcement of indemnities relating to the title to such assets.

In 2009, for example, we had write downs of \$349.4 million related to Comstar's investment in Syazinvest, the government-controlled holding for fixed line telephone companies, which contributed to our loss in the fourth quarter of 2009.

In addition, companies that we acquire may not have internal policies, including accounting policies and internal control procedures that are compatible, compliant or easily integrated with ours.

If any of our future business combinations is structured as a merger with another company, or we merge with or absorb a company subsequent to its acquisition by us, such a merger would be considered a corporate reorganization under Russian law. In turn, this would provide our creditors with a statutory-based right to file a claim seeking to accelerate their claims or terminate the respective obligations, as well as seek damages. To prevail, the creditors would need to prove in court that we will not perform our obligations in due course and the amount of damages suffered. Secured creditors would be required to further prove that the security provided by us, our shareholders or third parties is not sufficient to secure our obligations. Creditors whose claims are secured by pledge do not have the right to claim additional security.

In addition, in April 2013 we acquired 25.095% stake in OJSC MTS Bank followed by a profit-sharing agreement whereby we and MTS Bank would realize 70% and 30% of the proceeds from the MTS Dengi (MTS Money) project respectively. MTS Dengi project launched by us and MTS Bank is aimed at providing customers throughout Russia with payment tools, including credit cards, near-field communications-enabled SIM cards and PoS (point-of-sale) credit. If the risks associated with the banking sector lead to our inability to receive the expected profits from MTS Dengi project it could have an adverse effect on our financial statements, financial condition and results of operations.

In addition, a merger, as well as any corporate reorganization and any business combination that constitutes a "major transaction" under Russian law, would trigger the right of our shareholders who abstain from voting on or vote against such reorganization or transaction to sell, and our obligation to buy, their shares in an amount representing up to 10% of our net assets as calculated under Russian Accounting Standards. See " Legal Risks and Uncertainties Shareholder rights provisions under Russian law could impose additional obligations and costs on us."

If our purchase of Ukrainian Mobile Communications ("UMC") is found to have violated Ukrainian law or the purchase is unwound, our business, financial condition, results of operations and prospects would be materially adversely affected.

On June 7, 2004, the Deputy General Prosecutor of Ukraine filed a claim against us and others in the Kiev Commercial Court seeking to unwind the sale by Joint Stock Company Ukrtelecom ("Ukrtelecom") of its 51% stake in UMC to us. The complaint also sought an order prohibiting us from alienating our 51% stake in UMC until the claim was resolved on the merits. The claim was based on a provision of the Ukrainian privatization law that included Ukrtelecom among a list of "strategic" state holdings prohibited from alienating or encumbering its assets during the course of its privatization. While the Cabinet of Ministers of Ukraine in May 2001 issued a decree specifically authorizing the sale by Ukrtelecom of its entire stake in UMC, the Deputy General Prosecutor asserted that the decree contradicted the privatization law and that the sale by Ukrtelecom was therefore illegal and should be unwound. On August 12, 2004, the Kiev Commercial Court rejected the Deputy General Prosecutor's claim.

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On August 26, 2004, the General Prosecutor's Office requested the Constitutional Court of Ukraine to review whether certain provisions of the Ukrainian privatization law limiting the alienation of assets by privatized companies were applicable to the sale by Ukrtelecom of UMC shares to us. On January 13, 2005, the Constitutional Court of Ukraine refused to initiate the constitutional proceedings arising from the request of the General Prosecutor's Office on the grounds that the request was incompatible with the requirements of the Ukrainian constitutional law, and that the issue, as it was raised in the request, did not fall within the jurisdiction of the Constitutional Court of Ukraine. This, however, does not prevent other persons having the right to apply to the Constitutional Court of Ukraine from challenging the constitutionality of provisions of the Ukrainian privatization law applicable to the sale by Ukrtelecom of the UMC shares, and does not preclude the challenging of such sale in the commercial courts of Ukraine.

If the Constitutional Court of Ukraine rules that the provisions of the Ukrainian privatization legislation applicable to Ukrtelecom's sale of its stake in UMC are unconstitutional, the Kiev Commercial Court could be requested to re-open the case based on new circumstances and could potentially include additional persons that were not parties to the original proceeding and/or additional claims.

In addition, as UMC was formed at a time when Ukraine's legislative framework was developing in an uncertain legal environment, its formation and capital structure may also be subject to challenges. In the event that our purchase of UMC is found to have violated Ukrainian law or the purchase is unwound, in whole or in part, our business, financial condition, results of operations and prospects would be materially adversely affected.

If we cannot successfully develop our network, we will be unable to expand our subscriber base and maintain our profitability.

Our ability to increase our subscriber base depends upon the success of our network expansion. We have expended considerable amounts of resources to enable both organic expansion and expansion through acquisitions and plan to continue to do so. Limited information regarding the markets into which we have or are considering expanding, either through acquisitions or new licenses, complicates accurate forecasts of future revenues from those regions, increasing the risk that we may overestimate these revenues. In addition, we may not be able to integrate previous or future acquisitions successfully or operate them profitably. Any difficulties encountered in the transition and integration process and in the operation of acquired companies could have a material adverse effect on our results of operations.

The build-out of our network is also subject to risks and uncertainties, which could delay the introduction of service in some areas and increase the cost of network construction, including difficulty in obtaining base station sites on commercially attractive terms. In addition, telecommunications equipment used in Russia, Ukraine and other CIS countries is subject to governmental certification, and periodic renewals of the same. We are also required to receive permits for the operation of telecommunications equipment as well as governmental certification and/or permission for the import and export of certain network equipment, which can result in procurement delays and slow network development. The failure of any equipment we use to receive timely certification or re-certification could hinder our expansion plans.

For example, the import and export of products containing cryptographic hardware is subject to special documentation requirements and approvals. As telecommunication networks comprise various components with cryptographic hardware, we must comply with these requirements in order to import such components. Moreover, where imported equipment does not contain cryptographic hardware, the federal customs service requires manufacturers to provide written confirmation regarding the absence of such hardware. The range of goods requiring the provision of "certificates of conformance" by suppliers and manufactures prior to their import into Russia has also been expanded to cover most of

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our key network components, and imported radioelectronic equipment is required to be licensed by the Russian Ministry of Industry and Trade. Similar requirements regarding the import and export of cryptographic hardware exist in Ukraine.

Furthermore, as a result of the current downturn in the global financial markets, certain banks have curtailed their lending programs, which may limit our ability to obtain external financing and, in turn, result in the reduction of our capital expenditure program. To the extent we fail to expand our network on a timely basis, we could experience difficulty in expanding our subscriber base. See also " Risks Relating to Our Financial Condition If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition, results of operations and prospects."

Our inability to develop additional sources of revenue could have a material adverse effect on our business, financial condition, results of operations and prospects.

Mobile penetration in Russia and Ukraine reached 161.3% and 126.1%, respectively, as of December 31, 2012, according to AC&M-Consulting. Until recently, customer growth has been the principal source of revenue growth. Currently, however, increasing competition, market saturation and technological development lead to the increased importance of data services in the Russian market and, to a lesser extent, the markets of other CIS countries. As a result, data services became the key driver of our revenue growth and, therefore, we will need to continue to develop new competitive services, including value-added, third-generation ("3G"), LTE, and others, as well as consider vertical integration opportunities through the development or acquisition of dealers in order to provide us with sources of revenue in addition to standard voice services. Our inability to develop additional sources of revenue could have a material adverse effect on our business, financial condition, results of operations and prospects.

The reduction, consolidation or acquisition of independent dealers and our failure to further develop our distribution network may lead to a decrease in our subscriber growth rate, market share and revenues.

We have historically enrolled a vast majority of our subscribers through a network of independent dealers. In October 2008, Vimpelcom acquired a 49.9% stake in Morefront Holdings Ltd., a company that owns 100% of the Euroset Group, the largest mobile handset retailer and leading dealer for major mobile network operators in Russia. In addition, MegaFon acquired a 50% interest in Euroset in December 2012 within the agreement of corporate governance between Ararima Enterprises Ltd, Lefbord Investments Ltd, Euroset Holding N.V., Garsdale Services Investment Ltd, MegaFon and Vimpelcom. In accordance with this agreement Vimpelcom acquired 0.1% of Euroset that led to its share increase up to 50%. Although FAS approval relating to the sale of Euroset specifically prohibits Euroset from discriminating against or providing preferential treatment to any mobile operator following the acquisition, we believe that we faced discriminatory treatment following Vimpelcom's acquisition and can continue facing such treatment following MegaFon's acquisition, including the promotion of Vimpelcom's and MegaFon's services over ours at Euroset outlets, notwithstanding these regulatory prohibitions. Although we continue to work with Euroset, our ability to attract new customers through Euroset outlets may be limited. If Euroset continues to expand its footprint in Russia through the acquisition of Svyaznoy's operations (a large nationwide dealer in Russia), our opportunities for marketing our services may be restricted. See "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation." As a result, we accelerated the development of our proprietary distribution network and have been working to increase our relationship with small regional dealers following Vimpelcom's acquisition of its stake in Euroset and in view of the deteriorating financial condition of many nationwide dealer networks. See "Item 4. Information on Our Company B. Business Overview Mobile Operations Sales and Marketing Sales and Distribution." If we are not successful in expanding our proprietary network and maintaining

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and further developing our distribution network of national, regional and local retailers, our subscriber growth rate, market share and revenues may decrease, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues.

Our ability to provide commercially viable services depends on our ability to continue to interconnect cost-effectively with zonal, intercity and international fixed line and mobile operators in Russia, Ukraine and other countries in which we operate. Fees for interconnecting are established by agreements with network operators and vary depending on the network used, the nature of the call and the call destination.

In Russia, the government plans to postpone the decision to privatize Svyazinvest until the restructuring of Rostelecom and Svyazinvest is completed. In Ukraine, the government completed the privatization of Ukrtelecom, which, according to its public disclosure, has a 71% share of the local telephony market and an 83% share of the domestic and international long distance market in Ukraine. The auction to privatize Ukrtelecom was held by the State Property Fund of Ukraine in December 2010 and on March 11, 2011, following the completion of an independent appraisal required by Ukrainian law, the State Property Fund of Ukraine and ESU LLC, a wholly owned subsidiary of European Privatization & Investment Corporation ("EPIC"), signed an agreement for the sale of a 92.8% stake in Ukrtelecom to ESU LLC. On May 11, 2011, the ownership stake was transferred to ESU LLC upon the payment of a purchase price of 10,575.1 million hryvnia (\$1,325 million as of May 11, 2011) and the fulfillment of certain requirements under Ukrainian law. It is currently unclear how the privatizations of Svyazinvest and Ukrtelecom will affect our interconnect arrangements and costs, but there is a chance that our ability to interconnect cost-effectively with other telecommunications operators could be hampered

Although Russian legislation requires that operators of public switched telephone networks that are deemed "substantial position" operators cannot refuse to provide interconnects or discriminate against one operator over another, we believe that, in practice, some operators attempt to impede wireless operators by delaying interconnect applications and establishing technical conditions for interconnect feasible only for certain operators. Any difficulties or delays in interconnecting cost-effectively with other networks could hinder our ability to provide services at competitive prices or at all, causing us to lose market share and revenues, which would have a material adverse effect on our business and results of operations. See also " If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

In addition, as part of the restructuring of Svyazinvest, the Russian government has expressed its intent to establish a fourth national mobile operator in Russia. As Svyazinvest controls regional fixed line operators in all regions of Russia (other than Moscow), a mobile operator established as part of the Svyazinvest group may receive preferential terms for interconnecting with these operators, which would allow it greater flexibility in setting tariffs and put us at a competitive disadvantage. See also " We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies."

Governmental regulation of our interconnect rates in Ukraine could adversely affect our results of operations.

On June 24, 2010, MTS Ukraine and its competitors, including Kyivstar, Golden Telecom Ukraine, URS, Ukrtelecom, Astelit, Intertelecom and PEOPLENet, were declared by AMC to have a dominant position on the network interconnect market. As a result, the interconnect fees charged by us and our

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competitors for terminating calls connecting to any of our respective networks became subject to regulation by the National Commission for the Regulation on Communications (the "NCRC"). See "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Competition" for additional information.

In 2011, NCRC announced its intent to change the telecommunications regulations in Ukraine to regulate the interconnect rates of only those operators deemed by the AMC to have "significant market power." Kyivstar and MTS Ukraine are the largest mobile cellular operators in Ukraine with market shares of 48% and 38%, as of December 31, 2012, respectively, according to AC&M-Consulting.

In December 2010, the Telecommunications Law was amended to introduce the term "significant market power operator on traffic termination market" (SMP). An operator qualifies as SMP in a particular market if its share of gross revenue from the provision of traffic transfer services on fixed or mobile telecommunications networks during the last 12 months exceeded 25% of total gross revenues of all telecommunications operators for the same services during the same period. Thus, on October 20, 2011, the NCRC recognized all telecommunications operators on the Ukrainian market as SMP in the market of call termination on their respective networks by applying AMC's methodology that the service of termination on operator's network can be rendered only by this operator.

On September 22, 2011, NCRC proposed a draft law on regulating SMP operators which called for, among other things, non-discriminatory access to their infrastructure for the wholesale market, setting economically justified prices in the retail market and for separate accounting of revenues and costs for both markets. To date the draft law is in the process of consideration and is not registered in the Parliament of Ukraine.

On November 23, 2011, the NCRC was dissolved and replaced with the National Commission for the State Regulation of Communications and Informatization (the "NCCIR"). The NCCIR may similarly consider interconnect rates and may reduce the interconnect rates that we charge, which, in turn, may have a material adverse effect on our financial condition and results of operations.

On December, 12, 2011 NCRC issued Termination rates for telecommunication operators with significant market power, which came into force since January, 01, 2012.

In June 2012, the term SMP was changed by the amendment to the Telecommunications Law which came into effect on January 8, 2013. Commencing this date the significant market power operator will be qualified on the market which is defined by NCCIR (not only on traffic termination market). Criteria remained the same as in previous version of the Telecommunications Law. See also " Legal Risks and Uncertainties Changes in Ukrainian telecommunications legislation have caused uncertainty in relation to the regulation of the Ukrainian telecommunications industry and may adversely affect our business, financial condition and results of operations."

We may not realize the benefits we expect to receive from our investments in 3G and 4G wireless services, which could have a material adverse effect on our business and results of operations.

In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MegaFon, Vimpelcom and us a license to provide 3G services in the Russian Federation. In July 2012 these three companies and Rostelecom were awarded licenses to provide 4G services. The 3G license allows us to provide mobile radio telephone services using the International Mobile Telecommunications-2000 ("IMT-2000/UMTS") standard. The 4G license allows us to provide services using the LTE standard. 4G wireless services are expected to provide faster, higher quality data transfer and streaming capabilities as compared to 2G and 3G and may pose additional competition for 3G providers. Historically, mobile operators that have developed 3G and 4G networks have experienced various difficulties and challenges, including a limited supply of compatible handsets, limited international roaming capabilities, as well as 3G and 4G software and network-related problems. We

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may experience similar problems or encounter new difficulties when developing our 3G and 4G networks and may be unable to fully resolve them. For example, we cannot be certain that:

we will be able to build-out our 4G network in a timely manner or within the time frame stipulated by the license terms;

our 3G and 4G network and services will deliver the quality and level of service that our customers demand or prefer;

we will be able to provide all contemplated 3G and 4G services at reasonable prices and within a reasonable timeframe;

manufacturers and content providers will develop and offer products and services for our 3G and 4G network on a timely basis;

there will be sufficient demand for 3G and 4G services in the markets where we operate;

our 3G and 4G network will be commercially viable in all of the locations we are required to operate pursuant to our 3G and 4G licenses;

our competitors will not offer similar services at lower prices; and

changes in governmental policies, rules, regulations or practices will not affect our network rollout or our business operations.

See also " If we cannot successfully develop our network, we will be unable to expand our subscriber base and maintain our profitability."

In addition, Russian military authorities also use frequencies of the 3G and 4G spectrum, which may limit the availability of 3G and 4G frequencies for commercial use in certain areas. During the construction of our 3G and 4G network, there is also a risk that the frequencies assigned to us for commercial use may overlap with frequencies used by the Russian military. For example, conflicts over the availability of frequency long reserved for military use in Moscow caused delay in the commercial launch of 3G services in Moscow by all of the 3G license holders, although some of these frequencies were cleared for commercial use in 2009. If additional overlap were to occur, it could cause problems or delays in the development and operation of our 3G and 4G network in Russia.

We may also face competition from operators using second generation ("2G") or other forms of 3G technology. For example, licenses for the use of CDMA technology have already been granted for the provision of fixed wireless services in a number of regions throughout Russia. CDMA is a 2G digital cellular telephony technology that can be used for the provision of both wireless and fixed services. If CDMA operators were able to develop widespread networks throughout Russia, we would face increased competition.

Potential competition from other 3G, CDMA and 4G providers, together with any substantial problem with the rollout of our 3G and 4G network and provision of 3G and 4G services in the future, could materially adversely affect our business, financial condition and results of operations.

If we are unable to successfully develop and/or deploy 4G wireless services in Russia or one of the operators in the market obtains significant technological and/or commercial advantage over us in 4G wireless services, it may have a material adverse effect on our business and results of operations in the long term.

The next step in the development of Russian telecommunications is the deployment of 4G/LTE networks. The cost of 4G/LTE network development and quality of services (data speed, quality of coverage) depend on the band and the width of frequency range given to an operator.

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In September 2011, the Russian government announced its intention to auction frequencies for LTE use on a national level in 2012. Additionally, the State Radio Frequencies Commission gave Scartel (Yota brand) two ranges of LTE frequencies, 30 MHz each, in the 2.5-2.7 GHz band for use on the whole territory of Russia in exchange for 4G frequencies held by Scartel for Wi-Max technology of total width of 70MHz (the exchange was completed on a non-auction basis). Four sets of frequencies in the 791-862 MHz band were planned to be sold during the auction in 2012, after which the winners of the frequencies would have also received frequencies in the 2.5-2.7 GHz band. The remaining frequencies 40 MHz of the 2.5-2.7 GHz band were allocated evenly during the auction among four major market participants (us, Vimpelcom, MegaFon and Rostelecom).

Initially it was planned that all operators would receive equal access to the Scartel infrastructure, which would allow each operator to reduce its 4G/LTE network development costs. In March 2011, we, MegaFon, Vimpelcom and Rostelecom signed a non-binding memorandum of understanding with Scartel, according to which we, MegaFon, Vimpelcom and Rostelecom were to receive access to Scartel's 4G network infrastructure (which was to be built) and were to receive options to purchase shares in Scartel in 2014 at a price determined by an independent appraisal. MTS considered a preliminary value assessment of Scartel to be unduly high.

In July, 2012, Alisher Usmanov and Scartel shareholders (Telconet Capital and Rostechnologyi) formed a telecommunications holding company, Garsdale. In exchange for 82% interest in Garsdale, AF Telecom, which is controlled by Alisher Usmanov, contributed 50% of Megafon's shares into Garsdale's share capital. Rostechnologyi and Telconet Capital, which held 25.1% and 74.9% stakes in Scartel, respectively, contributed 100% of Scartel into Garsdale's share capital, in return for which they received an 18% stake in Garsdale, which was split equally between Rostechnologyi and Telconet Capital. As a result of this transaction, MegaFon may have obtained a significant short term competitive advantage both in terms of frequency resources and LTE network development costs. on 12 July 2012, the Federal Service for Supervision in the Area of Communications and Mass Media awarded each of MegaFon, Vimpelcom and us a license to provide 4G services using LTE and its subsequent modifications in the frequency range of 791-862 MHz.

Furthermore, the limited number of available frequencies may prevent us from realizing the full benefits we expect to receive from the development of a 4G network, because our network capacity would be constrained and our ability to expand limited. Moreover, if we cannot develop a commercially viable 4G network, and one of our competitors does, that competitor would have an advantage over us, which in turn may have a material adverse effect on our business.

Our inability to obtain a UMTS license in Ukraine on commercially reasonable terms, or at all, may negatively affect our competitive position in Ukraine.

In September 2009, the NCRC announced plans to launch a tender for a single 3G/UMTS mobile services license in Ukraine with the starting price set at 400 million hryvnia (equivalent to \$50.1 million at December 31, 2009). However, the NCRC canceled the planned tender in November 2009 following a decision by the President of Ukraine to put the tender and conversion of the radio frequencies on hold. Following the election of Viktor Yanukovich as Ukraine's President in February 2010, a tender for a 3G/UMTS license in Ukraine was expected in 2012 after the planned sale of Trimob, (formerly known as Utel), a subsidiary of Ukrtelecom, is the only UMTS license holder in Ukraine.

Our ability to prevail in a tender for a 3G/UMTS license in Ukraine may require us to pay a significant amount for the license as well as incur significant costs in building out the 3G network, and we may not be able to recoup these costs through our service revenues. Specifically, the Ministry of Defense of Ukraine indicated in 2010 that the cost of conversion of the radio frequencies required to establish a 3G/UMTS network would be equal to 841 million hryvnia. The project documentation for conversion as well as the tender for acquiring the licenses was expected by the end of March 2013, but

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has not been presented to date. According to the Ministry of Defense of Ukraine, a further revaluation of the conversion cost was commenced, and is expected to result in a further decrease of this cost. However, the budget of Ukraine does not make provisions for releasing the frequencies occupied by military communication facilities. According to the NCCIR, it is expected that the conversion will be financed by private companies MTS Ukraine, Kyivstar and Astelit (operating under the "life:") brand). However, currently no final decision has been made, and therefore additional difficulties could arise in acquiring a 3G (UMTS) license in 2013. If we do not obtain a 3G/UMTS license, the award of the license to one of our competitors would increase the competition we face in the provision of both GSM and 3G services in Ukraine and inhibit our expansion efforts. Either of the foregoing may have a material adverse effect on our business, financial condition, results of operations and prospects.

Trimob was expected to be sold by the end of 2012, subject to approval by the AMC and certain other regulatory bodies, but to date there have been no announcements regarding the sale of Trimob or plans to do so. A sale of Trimob to one of our competitors would provide that competitor with a significant advantage over us and would adversely affect our competitiveness in Ukraine, as well as our business, financial condition and results of operations. The Ukrainian government has previously indicated that funds required for the conversion of the remaining UMTS frequencies have not been provided in Ukraine's 2013 State Budget. Therefore, there is a possibility of difficulties regarding auctions for additional UMTS licenses in 2013. Nevertheless, if we do not acquire Trimob and we are unable to acquire a UMTS license when an auction is ultimately held, and our competitors do, those competitors would have an advantage over us."

Service disruptions on our networks could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

We are able to deliver services only to the extent that we can protect our network systems against damage from communications failures, computer viruses, power failures, natural disasters and unauthorized access. Any system failure, accident or security breach that causes interruptions in our operations could impair our ability to provide services to our customers and materially adversely affect our business and results of operations. In addition, to the extent that any disruption or security breach results in a loss of or damage to customers' data or applications, or inappropriate disclosure of confidential information, we may incur liability as a result, including costs to remedy the damage caused by these disruptions or security breaches.

While we maintain back-up systems for our telecommunications equipment, network management, operations and maintenance systems, these systems may not ensure recovery in the event of a network failure. In particular, in the event of extensive software and/or hardware failures, significant disruptions to our systems could occur, leading to our inability to provide services. Disruptions in our provision of services could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

Our computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, loss of power, telecommunications failures, interconnect failures, physical or software break-ins, viruses and similar events. Although our computer and communications hardware is insured against fires, storms and floods, we do not carry business interruption insurance to protect us in the event of a catastrophe, even though such an event could have a material adverse effect on our business.

Failure to fulfill the terms of our licenses could result in their suspension or termination, which could have a material adverse effect on our business and results of operations.

Each of our mobile licenses requires service to be offered by a specific date and some contain further requirements as to network capacity and territorial coverage to be reached by specified dates.

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In addition, all of our mobile licenses require us to comply with various telecommunications regulations relating to the use of radio frequencies and numbering capacity allocated to us, network construction and interconnect rules, among others. The license requirements applicable to our fixed line businesses include participation in a federal communications network, adherence to technical standards, investment in network infrastructure, employment of Russian technical personnel and the provision of certain services to the federal government and PSTN subscribers at regulated tariffs, among others. If we fail to comply with the requirements of Russian, Ukrainian or other applicable legislation or we fail to meet any terms of our licenses, our licenses and other authorizations necessary for our operations may be suspended or terminated. In addition to the impact on our operations, the suspension or loss of certain licenses could also cause an event of default under certain of our debt obligations. A suspension or termination of our licenses or other necessary governmental authorizations could therefore have a material adverse effect on our business and results of operations.

Failure to renew our licenses or receive renewed or new licenses with similar terms to our existing licenses could have a material adverse effect on our business and results of operations.

Our telecommunications licenses expire in various years from 2013 to 2022. These licenses may be renewed upon application to the relevant governmental authorities. Government officials in Russia and the other CIS countries in which we operate have broad discretion in deciding whether to renew a license, and may not renew licenses after their expiration. License renewals may be subject to additional conditions, such payment obligations or the mandatory modernization of our network. .

In addition, we may be subject to penalties or our licenses may be suspended or terminated for non-compliance with the new licenses requirements. The suspension or loss of certain licenses could significantly limit our operations and cause certain of our debt to be accelerated.

Failure to renew our telecommunications licenses or receive renewed or new licenses with similar terms to existing licenses could significantly limit our operations, which could have a material adverse effect on our business and results of operations.

If frequencies currently assigned to us are reassigned to other users or if we fail to obtain renewals of our frequency allocations, our network capacity will be constrained and our ability to expand limited, resulting in a loss of market share and lower revenues.

There is a limited number of frequencies available for wireless operators in each of the regions in which we operate or hold licenses to operate. We are dependent on access to adequate spectrum allocation in each market in which we operate in order to maintain and expand our subscriber base. If frequencies are not allocated to us in the future in the required quantities, as well as with the geographic span and for time periods that would allow us to provide wireless services on a commercially feasible basis throughout all of our license areas, our business, financial condition, results of operations and prospects may be materially adversely affected.

A loss of allocated spectrum, which is not replaced by other adequate allocations, could also have a substantial adverse impact on our network capacity. In addition, frequency allocations are often issued for periods that are shorter than the terms of the licenses, and such allocations may not be renewed in a timely manner or at all. If our frequencies are revoked or we are unable to renew our frequency allocations, our network capacity would be constrained and our ability to expand limited, resulting in a loss of market share and lower revenues.

An increase in the fees for frequency spectrum usage could have a negative effect on our financial results.

The terms of our licenses in Russia and the CIS require that we make payments for frequency spectrum usage. Any significant increase in the fees payable for the frequency channels that we use or additional frequency channels that we need in Russia or the CIS could have a negative effect on our

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financial results. For example, new rules on the calculation of fees for frequency spectrum usage in Russia effective as of January 1, 2012 led to the increase of the fees we pay for frequency spectrum usage by 40-45% in 2012 as compared to 2011. Furthermore, we expect that in 2013 the fees which we pay for frequency spectrum usage will increase by up to 16%, primarily due to the increase in the number of our base stations

These fees are subject to review at least once every two years in accordance with the terms of state budget forming. During the first six months of 2012, the rules for such fees' calculation were relatively unstable and were reconsidered three times, there is a relatively high probability of subsequent changes in this regard in the nearest future. In late 2012, the operators proposed to calculate the fees for frequency spectrum usage based on the total frequency band used by the base stations within one region. This could result in changes in amounts of such fees, whose final consideration is expected in the first half of 2013.

Similarly, in April 2010, the Cabinet of Ministers of Ukraine significantly increased the fees for frequency spectrum usage in Ukraine for cellular communications. Furthermore, according to the Tax Code of Ukraine, the fees payable for frequency usage shall be determined based in part on the rate of inflation and reviewed annually effective January 1, 2011. Accordingly, the fees for frequency usage were increased by 9.4% in 2011 as compared to 2010, by 8.9% in 2012 as compared to 2011, and are expected to be increased by approximately 8% in 2013 as compared to 2012.

If we are unable to maintain our favorable brand image, we may be unable to attract new subscribers and retain existing subscribers, leading to loss of market share and revenues.

Developing and maintaining awareness of our brands is critical to informing and educating the public about our current and future services and is an important element in attracting new subscribers. We believe that the importance of brand recognition is increasing as our markets become more competitive. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful products and services at competitive prices. Brand promotion activities may not yield increased operating revenues, and even if they do, such operating revenues may not offset the operating expenses we incur in building our brands. Furthermore, our ability to attract new subscribers and retain existing subscribers depends, in part, on our ability to maintain what we believe to be our favorable brand image. Negative publicity or rumors regarding our company, our shareholders and affiliates or our services could negatively affect this brand image, which could lead to loss of market share and revenues. Our failure to successfully and efficiently promote and maintain our brands may limit our ability to attract new subscribers and retain our existing subscribers and materially adversely affect our business and results of operations.

We engage in transactions with related parties, which may present conflicts of interest, potentially resulting in the conclusion of transactions on terms not determined by market forces.

We have purchased interests in various telecommunications companies from Sistema and entered into arrangements with subsidiaries and affiliates of Sistema for the provision of advertising services (Open Joint Stock Company Advertising Agency Maxima ("Maxima"), and Closed Joint Stock Company Mediaplanning ("Mediaplanning"), IT services and hardware purchases (LLC Sitronics IT, Private Joint Stock Company Sitronics IT Ukraine, Closed Joint Stock Company Sitronics Telecom Solutions, LLC Sitronics Smart Technologies and NVision Group), banking services (MTS Bank, formerly Moscow Bank of Reconstruction and Development ("MBRD")), the purchase of a new billing system (Open Joint Stock Company Sitronics), maintenance of the residential and commercial real estate (Closed Joint Stock Company City-Gals and Closed Joint Stock Company City-Telecom). Related party transactions with Sistema and other companies within the Sistema group may present conflicts of interest, potentially resulting in the conclusion of transactions on terms not determined by market

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forces. See "Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions."

In the event that our minority shareholders or the minority shareholders of our subsidiaries were to successfully challenge past or future interested party transactions, or do not approve interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition, results of operations and prospects could be materially adversely affected.

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. We and our subsidiaries in the past have carried out, and continue to carry out, transactions that may be considered to be "interested party transactions" under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders depending on the nature of the transaction and parties involved. The provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations and, as a result, it is possible that our and our subsidiaries' interpretation and application of these provisions could be subject to challenge. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders' meeting to approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50% of the assets of the company, repurchase of shares by the company and certain share issuances. In some cases, minority shareholders may not approve interested party transactions requiring their approval or other matters requiring minority shareholder or supermajority approval. In the event that these minority shareholders were to successfully challenge past interested party transactions, or do not approve interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition, results of operations and prospects could be materially adversely affected.

Our competitive position and future prospects depend on our senior managers and other key personnel and our inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team and other key personnel. Moreover, competition in Russia and in the other countries where we operate for personnel with relevant expertise is intense due to the relatively small number of qualified individuals. As a result, we attempt to structure our compensation packages in a manner consistent with the evolving standards of the labor markets in these countries. We are not insured against the detrimental effects to our business resulting from the loss or dismissal of our key personnel. In addition, it is not common practice in Russia and the other countries where we operate to purchase key-man insurance policies, and we do not carry such policies for our senior management and other key personnel. The loss or decline in services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

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In the event that deficiencies or ambiguities in privatization legislation are exploited to challenge our ownership in our privatized subsidiaries and we are unable to defeat these challenges, we risk losing our ownership interests in our subsidiaries or their assets, which could materially adversely affect our business, financial condition and results of operations.

Through our acquisition of a controlling stake in Comstar, we gained a controlling stake in its subsidiary, MGTS, the incumbent PSTN operator in Moscow, and our business strategy may involve the acquisition of additional privatized companies. To the extent that privatization legislation is vague, inconsistent or in conflict with other legislation, including conflicts between federal and local privatization legislation, many privatizations are vulnerable to challenge, including selective challenges. For instance, a series of presidential decrees issued in 1991 and 1992 that granted to the Moscow City government the right to adopt its own privatization procedures were subsequently held to be invalid by the Constitutional Court of the Russian Federation, which ruled, in part, that the presidential decrees addressed issues that were the subject of federal law. While this court ruling, in theory, did not require any implementing actions, the presidential decrees were not officially annulled by another presidential decree until 2000.

Sistema won a privatization tender for MGTS in April 1995 and was issued 25% of MGTS' share capital. As part of its tender obligations, Sistema committed to invest approximately \$106 million in MGTS over a three-year period in exchange for the right to purchase an additional issue of MGTS' ordinary shares. In 1998, upon satisfying its tender obligations, Sistema exercised this right and increased its stake to 50% of MGTS' share capital. At the time Sistema took possession of this interest, there were press reports that certain minority shareholders of MGTS had filed complaints with the prosecutor's office and the Federal Commission on the Securities Market (currently the Federal Service for Financial Markets ("FSFM")) objecting to the share issuance. In addition, certain members of the Russian parliament requested the Audit Chamber of the Russian Federation and other governmental agencies to investigate whether there was compliance with the relevant rules and regulations governing MGTS' privatization. Although no formal action or claim against MGTS or its shareholders was ever made by any governmental entity, in the event that any of our privatized companies are subject to challenge in the future as having been improperly privatized and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially adversely affect our business, financial condition and results of operations.

In addition, under Russian law, transactions in shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party and/or major transactions rules and failure to register the share transfer in the securities register. As a result, defects in earlier transactions in shares of our subsidiaries (where such shares were acquired from third parties) may cause our title to such shares to be subject to challenge. While Russian law provides for a three year statute of limitations for challenging private merger and acquisition transactions, there is no statute of limitations for challenging privatizations.

The entry of mobile virtual network operators into the Russian mobile communications market could increase competition and subscriber churn, resulting in a loss of our market share and decreased revenue.

On December 29, 2008, the Ministry of Communications and Mass Media adopted an order establishing the requirements for mobile virtual network operators ("MVNOs"). MVNOs are companies that provide mobile communications services but do not own the radio frequencies and, often, the network infrastructure required to do so. According to the order, MVNOs in Russia must be licensed, and their use of frequencies and infrastructure and rendering of services will be done pursuant to agreements entered into between MVNOs and existing frequency holders. There is no requirement that existing frequency holders transact with the MVNOs, and agreements between them will be entered into at their option.

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The aim of the Ministry in establishing the legal framework for MVNOs to operate is to increase competition in the Russian mobile services market, which is currently dominated by us, Vimpelcom and MegaFon. While existing frequency holders, including us, may receive revenues from MVNOs for the use of our frequencies and network infrastructure, we expect these revenues to be lower than the revenues we would receive if providing services directly to subscribers. In addition, in the event we lose subscribers to MVNOs that lease their frequencies and infrastructure from an operator other than us, we will be deprived of the revenue streams from both the subscribers and the MVNOs. The MVNOs may also establish aggressive tariffs, which could result in increased subscriber churn and/or driving down the tariffs of all mobile operators.

In March 2011, Sky Link and CountryCom, a Moscow based telecommunications company, announced that together they would launch MVNO services in the Moscow region which will be based on frequencies and infrastructure owned by Sky Link and CountryCom would be responsible for billing and other customer-related services. In September 2010, Sky Link also launched an MVNO project with Center Telecom, a regional fixed-line telecommunications company which has merged into Rostelecom, under the Domolink brand which is currently limited to Internet services. In August 2010, we launched a tariff plan under a separate brand name through X5 Retail group as a pseudo-MVNO. In addition, MegaFon recently launched a new tariff plan under a separate brand name as a pseudo-MVNO.

In December 2011, Scartel reached an agreement with MegaFon and Rostelecom to allow them to provide LTE services through Scartel's network in exchange for permitting Scartel to use the two companies' network infrastructure. In February 2012, Scartel and MegaFon received the necessary licenses to allow MegaFon to provide such services over the Scartel LTE network.

While the impact of MVNOs' entry into the Russian mobile communications market as well as the way of MVNO development in Russia (including 4G network) is not yet clear, the emergence of any of the foregoing trends could increase market competition and subscriber churn and, as a result, have a material adverse effect on our business, financial condition, results of operations and prospects.

A finding by FAS that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operation.

Our businesses have grown substantially through the acquisition and formation of companies, many of which required the prior approval of, or subsequent notification to, FAS or its predecessor agencies. In part, relevant legislation in certain cases restricts the acquisition or formation of companies by groups of companies or individuals acting in concert without such prior approval or notification. While we believe that we have complied with the applicable legislation for our acquisitions and formation of new companies, this legislation is sometimes vague and subject to varying interpretations. If FAS were to conclude that our acquisition or formation of a new company was done in contravention of applicable legislation, it could impose administrative sanctions and require the divestiture of such company or other assets, which could have a material adverse effect on our business, financial condition and results of operations.

In October 2010, FAS found that we, Vimpelcom and MegaFon violated antimonopoly laws on competition relating to our pricing for roaming services. As a result, FAS imposed an administrative fine on us in the amount of RUR 21.9 million which represents 1.0% of the revenues we derived from roaming services in CIS countries in 2009. We paid the fine imposed on us by FAS on March 28, 2011. See also "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation."

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In addition, in October 2011, FAS began an investigation of our and Vimpelcom's actions, suspecting violation of antimonopoly laws by coordinated pricing of iPhone 4 handsets. On April 26, 2012 we and Vimpelcom were found in violation of the Competition law through coordinating prices from September 2010 through April 2011; however, FAS also noted that these violations were voluntarily rectified, and terminated the proceedings as a result. On July 17, 2012, FAS imposed a turnover-based fine of RUR 16.9 million on us, which we complied with.

In November 2012, FAS began an investigation of contractual relationship between operators and content providers and in December 2012 issued a warning to us and Vimpelcom requesting each of us to cease the violation of antimonopoly laws, particularly relating, to solicitation of services to the subscribers. We and Vimpelcom complied with the requirements and on February 7, 2013, FAS closed the case. However, in case FAS finds our actions insufficient to rectify the violations or issues new similar warnings and requests in the future, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

A finding by the AMC that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations.

In December 2011, the AMC opened an investigation into whether MTS Ukraine violated antimonopoly legislation with its pricing of international roaming services. The AMC stated that the average price of international roaming services offered by MTS Ukraine and its roaming partners was higher than the corresponding prices in the European Union, which might demonstrate that the prices charged by MTS Ukraine were not economically justified. The investigation was aimed to examine whether MTS Ukraine used its dominant position in the Ukrainian telecommunications market to establish prices that would not be possible if there was significant competition on the telecommunications market. Although we believe that we did not violate antimonopoly laws, we could be liable for up to 10% of MTS Ukraine revenues. In December, 2012 the AMC issued obligatory recommendations to MTS Ukraine and Kyivstar to lower the prices both for international roaming services and national mobile services. In December 2012 MTS Ukraine submitted a report discussing the implementation of these recommendations and in January 2013, both claims of AMC were dismissed and no penalties were imposed on us. However, the AMC may determine that we violated antimonopoly legislation in this or other matters (for example, through increasing prices for mobile services at a faster pace than the consumer price growth rate), and may impose fines on us, which may have a material adverse effect on our business, financial condition and results of operation. In addition, we may be required to adjust the prices that we charge for international roaming services, which may adversely affect our revenues. See also " Governmental regulation of our interconnect rates in Ukraine could adversely affect our results of operations" and "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Competition" for additional information."

If we are found to have a dominant position in the markets where we operate, the government may regulate our subscriber tariffs and restrict our operations.

Under Russian legislation, FAS may categorize a company controlling between 35%-50% or over 50% of a market or otherwise able to control market conditions as a dominant force in such market. Moreover, recent amendments to Russian antimonopoly regulations made it possible that any three companies collectively holding a market share of over 50% or five companies collectively holding a market share of over 70%, and in each case over 8% individually, can be found to have a dominant position on a certain market. However, in some cases a company could be categorized as dominant even if its share of the corresponding market is less than 35%. Companies controlling over 35% or otherwise occupying a dominant position on the market are listed by FAS in a special register and may become subject to monitoring and reporting requirements with respect to such markets. Current

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Russian legislation does not clearly define "market" in terms of the types of services or the geographic area. One of our subsidiaries, MGTS, is categorized by the Federal Tariff Service as a natural monopoly in the Moscow telecommunications market. As a result, MGTS' tariffs are subject to regulation by the Federal Tariff Service. Another of our subsidiaries, Comstar-regions, operating in the Ryazan region, Khanty-Mansiysk Autonomous District and in Ekaterinburg, among others, is categorized as a natural monopoly in the public telecommunications market of these regions. See " We and MGTS are subject to extensive regulation of our respective tariffs, and these tariffs may not fully compensate us for the cost of providing required services."

We were also categorized by FAS as a company with a market share exceeding 35% in the mobile communications market in the Ivanovo region, Magadan region, Omsk region, Sakhalin region, Nenets Autonomous District, Udmurt Republic, Moscow and Moscow region. In the event that we are found in the future to have a dominant position on these or any additional markets, FAS would have the right to impose certain restrictions provided for under the antimonopoly laws, including a mandated reduction in our tariffs, and FAS would have the right to impose certain restrictions on our operations in such markets. See "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in the Russian Federation Competition, Interconnect and Pricing" for additional information."

Additionally, MTS Ukraine, was categorized as a company with a dominant position in the telecommunications market and is subject to certain government imposed restrictions, including limitations on the interconnect rates it can charge other operators. See " Governmental regulation of our interconnect rates in Ukraine could adversely affect our results of operations" and "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Competition" for additional information.

If we or any of our subsidiaries were to be classified by FAS (or the AMC with respect to our operations in Ukraine) as a dominant market force or as having a dominant position in the market, FAS and the Federal Tariff Service (or the AMC, as the case may be) would have the power to impose certain restrictions on our or their businesses. In particular, the authorities may impose on us tariffs at levels that could be competitively disadvantageous and/or set interconnect rates between operators that may adversely affect our revenues. Moreover, our refusal to adjust our tariffs according to such government-determined rates could result in the imposition of fines. Additionally, geographic restrictions on our expansion could reduce our subscriber base and prevent us from fully implementing our business strategy, which may materially adversely affect our business, financial condition, results of operations and prospects.

If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.

In addition to the regulation of dominant operators by FAS, the Federal Law on Communications provides for the special regulation of telecommunications operators occupying a "substantial position," *i.e.*, operators which, together with their affiliates, have 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic in a geographically defined zone within the Russian Federation. These regulations provide for governmental regulation of the key terms of such operators' interconnect agreements, including the interconnect tariffs. In addition, such operators are required to develop standard key terms of interconnect agreements and publish them as a public offer made to all operators who intend to interconnect to the networks of those operators. For additional information, see "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in the Russian Federation."

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At present, the foregoing regulations apply only to fixed line operators in Russia and therefore apply to our fixed line business. Draft legislation was introduced in 2008 that would extend the law to apply to mobile operators. Although the proposed law was not adopted, the risk that similar legislation will be introduced and adopted in the future remains. If legislation which extends the foregoing regulations to apply to mobile operators is adopted, and we and any of our mobile operator subsidiaries operating in Russia are identified as operators occupying a "substantial position," regulators may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our revenues, financial condition and results of operations.

In addition, MGTS is categorized as fixed line operator occupying a substantial position in the Moscow telecommunications market and therefore its interconnect tariffs are subject to state regulation. In January 2013, Comstar-UTS was excluded from the List of «substantial operators» in Moscow and MTS was not included therein. We believe that interconnect tariffs previously approved by the federal Agency on Communications for Comstar-UTS also apply to MTS following the merger completed on April 1, 2011. There is however a probability that we could be categorized as fixed line operator occupying a substantial position in Moscow due to our affiliation with MGTS and because of our integration with Comstar-UTS. As a result of the state regulation of the relevant interconnection rates, substantial operators may be unable to increase these in line with economic developments or any increases of our relevant costs, resulting in a material adverse effect on our financial condition and results of operations. See also " MGTS is subject to extensive regulation of our respective tariffs, and these tariffs may not fully compensate us for the cost of providing required services."

MGTS is subject to extensive regulation of tariffs, and these tariffs may not fully compensate us for the cost of providing required services.

As the PSTN operator in Moscow, MGTS is considered to be a company holding a dominant position as well as a natural monopoly in the Moscow telecommunications market under Russian antimonopoly regulations. Consequently, the Federal Tariff Service regulates MGTS' tariffs for most services provided to its PSTN subscribers, including installation fees, fees for using customer line, local call charges (flat-rate, time-based and combined payment systems), monthly subscription fees (for subscribers to the unlimited tariff plan) and local call charges (for subscribers who do not use the unlimited tariff plan). In addition, the Federal Law on Communications also provides for the special regulation of telecommunications operators occupying a "substantial position," i.e., operators which together with their affiliates have, in the Russian Federation generally or in a geographically defined specific numerical zone, 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic. MGTS was added to the register of telecommunications operators occupying a substantial position in 2006. Accordingly, the interconnect tariffs of MGTS are subject to regulation by the Federal Agency on Communications. While we believe the tariffs currently set by the Federal Tariff Service and the Federal Agency on Communications are sufficient to compensate us for the costs of providing these services, future tariffs may not be set at a level that fully compensates us for the provision of these services or increased in parallel with corresponding increases in our costs and/or inflation.

Although MGTS is permitted to petition the Federal Tariff Service for increases in tariffs based on such criteria as inflation, increased costs and the need for network investments, it is possible that future requested increases may not be granted or that the Federal Tariff Service may not adequately take such factors into account in setting tariffs. If the permissible tariffs applicable to MGTS do not compensate MGTS for the cost of providing services, the business and results of operations could be materially adversely affected. See also " If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

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Changes to the rules and regulations involving roaming charges in Russia may adversely affect our financial condition and results of operations.

In 2010, the Russian government announced its intent to monitor the pricing of roaming services. As a result, FAS conducted an investigation of the activities of Russian telecommunications operators and found that we, Vimpelcom and MegaFon violated antimonopoly laws relating to our pricing for roaming services. Subsequently, FAS imposed an administrative fine on us in the amount of RUR 21.9 million which represents 1.0% of the revenues we derived from roaming services in CIS countries in 2009. Since this decision, several draft laws were submitted for consideration to the State Duma, which are intended to change the regulation of so-called "national" (between networks) and "intra-network" (within network) roaming in Russia by introducing a flat national roaming tariff and eliminating intra-network roaming tariffs for incoming calls. It is not currently clear whether this legislation will be adopted. However, if the new legislation is adopted, we believe that our revenues from the provision of roaming services would decline considerably, which could have a material adverse effect on our financial condition and results of operations.

In addition, during 2011, the Russian government continued its efforts to decrease the level of prices for international roaming services and entered into discussions with the European Commission regarding the roaming pricing strategy of both Russian and European telecommunications operators due to an increasing number of complaints from subscribers. Further to our conversations with FAS and in response to public discussions initiated by various Russian consumers associations, we, MegaFon and Vimpelcom have voluntarily lowered international roaming tariffs and introduced certain tariff plans and options aimed at the reduction of prices for roaming services. See also "Item 4. Information on Our Company Business overview Sales and Marketing Advertising and Marketing."

However, if the Russian government determines the decrease of roaming tariffs to be insufficient, it may require us to decrease our prices for roaming services, which may adversely affect our revenues and financial condition. See also " A finding by FAS that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operation."

Compliance with the new regulations on International Mobile Equipment Identity ("IMEI") numbers may present us with technical difficulties and may lead to the expenditure of significant resources.

Russian State Duma is currently considering a draft law which will enable each mobile communications subscriber to register the user terminal free-of-charge at the operator's database, chiefly to prevent their unlawful use. The draft law will obligate operators to suspend or block the traffic transmission of the terminal upon the application of subscriber, in an effort to discourage their theft. It is still unclear if and when this regulation will be adopted. If this regulation is adopted, we may be required to develop a system to monitor IMEI numbers, and we may need to establish and maintain a database of IMEI numbers, which would necessitate the expenditure of significant technical and financial resources.

The accession of Russia into the World Trade Organization ("WTO") may lead to legislative and other changes which may adversely affect our business, financial condition and results of operation.

On December 16, 2011, Russia signed the accession protocol in order to enter into the WTO which was ratified by Federal Law on July, 21, 2012 and became mandatory law in Russia. This may lead to potentially significant changes in Russian legislation including, among others, regulation of foreign investments in Russian companies, competition laws, telecommunications laws, changes in the taxation system and customs regulations in Russia. In addition, implementation of the WTO rules may lead to the increase of competition on the markets we operate. It is unclear yet if and when these legislative developments may take place. However, if new legislation is implemented in Russia as a

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result of accession to the WTO and there is an increase in competition, this could have a certain material adverse effect on our financial condition and results of operations.

The enactment of regulations allowing mobile network subscribers to select their long distance providers could have a material adverse effect on our financial condition and results of operations.

We currently provide long distance services to our subscribers pursuant to our license for mobile services and route the long distance traffic through long distance transit operators. We receive revenue from our subscribers for these calls, and remit an interconnect fee to the long distance transit operators. In providing long distance services, we select the transit operators based on cost and quality considerations. Subscribers making domestic or international long distance ("DLD/ILD") calls on their mobile phones do not have the option of selecting their long distance provider.

In contrast, fixed line telephone users in Russia have the legal right to select their long distance operator, either by pre-selecting the operator for all of their future calls, or through a "hot choice" option, the latter of which allows callers to select their preferred long distance provider before each long distance call.

The Ministry of Communications and Mass Media is currently considering whether to extend the right to select long distance providers to mobile network subscribers. In the event that this occurs, we will need to make substantial investments in our network infrastructure to support the "hot choice" feature. In addition, allowing our subscribers to select their long distance providers may result in their selection of higher cost providers, causing higher interconnect fees to be payable by us and, consequently, lower revenues. As a result, extending the right to select long distance providers to mobile subscribers could have a material adverse effect on our financial condition and results of operations.

Much of our fixed line infrastructure is outdated, and we may be required to make significant investments beyond those that are currently planned to modernize it.

MGTS has completed migration from analogue public switch telephone network to digital technologies. In 2011, MGTS commenced building an access network employing the Gigabit-capable Passive Optical Network ("GPON") technology which would enable MGTS to enlarge the range of services by introducing High definition television ("HDTV"), video monitoring and other interactive services. However, we could encounter certain difficulties in the process of installing fiber-optic equipment in the subscribers' apartments due to the necessity of conducting adjustment works which could result in fractional subscriber churn.

MGTS invested approximately 1.5 billion rubles in 2010 (\$49.5 million as of December 31, 2010), 1.328 billion rubles in 2011 (\$41.25 million as of December 31, 2011) and 9.232 billion rubles in 2012 (\$303.98 million as of December 31, 2012) to upgrade its infrastructure. If MGTS is not able to upgrade its network in a timely manner or if it is required to make significant investments beyond those that are currently planned, our business, financial condition, results of operations and prospects could be materially adversely affected.

We are subject to anti-corruption laws in the jurisdictions in which we operate, including anti-corruption laws of Russia and the US Foreign Corrupt Practices Act (the "FCPA"), and we may be subject to the UK Bribery Act of 2010 (the "UK Bribery Act"). Our failure to comply therewith could result in penalties which could harm our reputation and have a material adverse effect on our business, financial condition and results of operations.

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits, along with various other anti-corruption laws. We may also be subject to the

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recently-enacted UK Bribery Act. The UK Bribery Act is broader in scope than the FCPA in that it directly addresses commercial bribery in addition to bribery of government officials and it does not recognize certain exceptions, notably facilitation payments that are permitted by the FCPA. Although we regularly review and update our policies and procedures designed to ensure that we, our employees, distributors and other intermediaries comply with the anti-corruption laws to which we are subject, there is no assurance that such policies or procedures will work effectively all of the time or protect us against liability under these or other laws for actions taken by our employees, distributors and other intermediaries with respect to our business or any businesses that we may acquire. We operate primarily in Russia and other countries of the former Soviet Union, many of which pose elevated risks of corruption violations. We and certain of our subsidiaries are in frequent contact with persons who may be considered "foreign officials" under the FCPA and UK Bribery Act, and therefore, are subject to an increased risk of potential FCPA and UK Bribery Act violations. If we are not in compliance with the FCPA, the UK Bribery Act and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, results of operations, financial condition and liquidity. Any investigation of any potential violations of the FCPA, the UK Bribery Act or other anti-corruption laws by US, UK or foreign authorities could also have an adverse impact on our business, financial condition and results of operations.

Our intellectual property rights are costly and difficult to protect.

We regard our copyrights, trademarks, trade secrets and similar intellectual property, including our rights to certain domain names, as important to our continued success. We rely upon trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. Nonetheless, intellectual property rights are especially difficult to protect in the markets where we operate. In these markets, the regulatory agencies charged to protect intellectual property rights are inadequately funded, legislation is underdeveloped, piracy is commonplace and enforcement of court decisions is difficult. For example, in Russia, legislation in the area of copyrights, trademarks and other types of intellectual property was significantly changed in 2008, and Russian courts have limited experience in applying and interpreting the new laws.

In addition, litigation may be necessary to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Any such litigation may result in substantial costs and diversion of resources, and, if decided unfavorably to us, could have a material adverse effect on our business and results of operations. We also may incur substantial acquisition or settlement costs where doing so would strengthen or expand our intellectual property rights or limit our exposure to intellectual property claims of third parties.

In August 2012, we received a claim on behalf of MTS LLC (Simferopol, Ukraine) regarding the invalidation of international registrations of our four trademarks within the territory of Ukraine (the word "MTS" written in Russian and English both in color and black and white). According to the decision of Kiev City Commercial Court dated November 19, 2012, the expert testimony was scheduled for December 19, 2012, according to our request and the request of "MTS" LLC. To date, the proceedings are suspended. Our inability to protect our rights to these trademarks could have a material adverse effect on our business and results of operations.

We are in the process of transferring to a new billing system and optimizing our information technology infrastructure, which could have a material adverse effect on our business and results of operations in the short term.

We have completed implementation of a new billing system in Russia and Belarus. We have also completed the transfer of our individual subscribers in Ukraine to a new billing system. We may face

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difficulties and delays in implementing the new billing system in newly acquired companies. Although we have already begun to experience increases in our overall efficiency and reductions in our expenses as a result of the new billing system, in Ukraine it is still necessary for us to run both the old and new billing systems simultaneously during the transition period, creating additional burdens on our technical support staff. We may also experience technical problems with the new billing system during the transition period. In addition, the introduction of new services by our subsidiaries, including paid TV services, may result in increased complexity and prolonged duration of the upgrade of our billing system. These factors may increase our operational risks and expenses and inconvenience subscribers in the short term. In addition, we are also currently optimizing our information technology infrastructure, which may result in temporary technical disruptions. The failure or breakdown of key components of our infrastructure in the future, including our billing system and its susceptibility to fraud, could have a material adverse effect on our business and results of operations.

If leaks of confidential information, including information relating to our subscribers, occur it may negatively impact our reputation and our brand image and lead to a loss of market share, which could materially adversely affect our business, financial condition, results of operations and prospects.

Although we make efforts to protect confidential information, breaches of security and leaks of confidential information, including information relating to our subscribers, may negatively impact our reputation and our brand image and result in a loss of market share or otherwise have a material adverse effect on our business, financial condition and results of operations. For example, in January 2003, we discovered that part of our database of subscribers, containing private subscriber information, was illegally copied and stolen. The database contained information such as the names, addresses, home phone numbers, passport details and other personal information of approximately five million of our subscribers. In addition, in May 2003, certain subscriber databases of several operators in the North-West region, including those of us, MegaFon, Delta Telecom and two other operators, were stolen. In each case, the stolen databases were thereafter available for sale in Russia. In December 2003, we completed our internal investigation relating to the theft of our subscriber databases and found that these incidents were due to weaknesses in our internal security in relation to physical access to such information. Despite the measures taken, we cannot completely exclude the possibility of such incidents in the future. See also " Our failure to comply with new personal data protection laws and with the regulations of state authorities regarding information security in the telecommunications networks in Russia may have a material adverse effect on our business, financial condition and results of operations."

Alleged medical risks of cellular technology may subject us to negative publicity or litigation, decrease our access to base station sites, diminish subscriber usage and hinder access to additional financing.

Electromagnetic emissions from transmitter masts and mobile handsets may harm the health of individuals exposed for long periods of time to these emissions. The actual or perceived health risks of transmitter masts and mobile handsets could materially adversely affect us by reducing subscriber growth, reducing usage per subscriber, increasing the number of product liability lawsuits, increasing the difficulty in obtaining or maintaining sites for base stations and/or reducing the financing available to the wireless communications industry. Each of these potential circumstances may adversely affect our business, financial condition, results of operations and prospects.

Risks Relating to Our Financial Condition

We may be adversely affected by the current economic environment.

As a result of the credit market crisis (including uncertainties with respect to financial institutions and the global capital markets), decreased prices for major export commodities (including oil and metals) and other macro-economic challenges currently affecting many of the economies in which we

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operate, our subscribers' disposable incomes and our vendors' cash flows may be adversely impacted. Consequently, subscribers may modify or decrease their usage of our services or fail to pay the outstanding balances on their accounts, and vendors may significantly increase their prices, eliminate vendor financing or reduce their output.

We may also experience increases in accounts receivable and bad debt among corporate subscribers, some of whom may face liquidity problems and potential bankruptcy, as well as the potential bankruptcy of our corporate partners. For example, in 2008, we extended a short-term loan to Closed Joint Stock Company "Beta Link," or Beta Link, mobile handset retailer and MTS dealer, for \$28.2 million. Beta Link subsequently filed for bankruptcy in March 2009, and we believe it is unlikely that we will be able to recover the loan amount or accounts receivable due from Beta Link. See also "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation."

By the end of 2011, inflation in Belarus increased by 108.7% followed by the local currency depreciation which resulted in a decline of purchasing power. According to IMF estimations, the inflation rate in 2012 is expected to be 38.4%.

In addition, Belarus is undergoing a balance of payments crisis which resulted from large government-mandated lending by local banks, rapid growth of public sector wages and pensions, and loose monetary policy. Furthermore, the three-year cumulative inflation rate for Belarus exceeded 100 percent as of September 30, 2011, thereby meeting the quantitative requirement under U.S. GAAP for its economy to be considered highly inflationary, and we have accordingly accounted for this in our financial statements. See Note 2 to our audited consolidated financial statements. It is possible that the use of administrative methods by the Belarusian government to regulate the currency and consumer markets may lead to an aggravation of the crisis. As a result, our business, financial condition and results of operations could be materially adversely affected. See also " Risks Relating to Our Financial Condition Inflation could increase our costs and adversely affect our results of operations."

A decline in subscriber usage, an increase in bad debts, material changes in equipment pricing or financing terms or the potential bankruptcy of our corporate subscribers or partners may have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, a deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as a difference between the fair value of the assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an ongoing basis. The weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. Future write downs relating to the value of the goodwill or portion of such value could have a material adverse effect on our financial condition and results of operations.

Continued turmoil in the credit markets could cause our business, financial condition, results of operations and the value of our shares and ADSs to suffer.

Since the summer of 2007, turmoil in the international credit markets, the recession in the United States and several major European economies and the collapse or near collapse of several large banks and financial services companies in the United States and United Kingdom have resulted in increased volatility in the securities markets in the United States and across Europe, including Russia. In addition, many financial market indices in Russia and other emerging markets, as well as developed markets, have declined significantly since the summer of 2008, and continue to be depressed. Continued volatility in the United States, European and/or Russian securities markets stemming from these or other factors may continue to adversely affect the value of our shares and ADSs.

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The downturn in the global financial markets has also caused some companies to experience difficulties accessing their cash equivalents, trading investment securities, drawing on revolvers, issuing debt and raising capital generally. A continuation of this downturn and resulting volatility of the trading price of our shares and ADSs may negatively impact our ability to obtain financing on commercially reasonable terms and could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our inability to generate sufficient cash flow to satisfy our debt service obligations or to refinance debt on commercially reasonable terms, could materially adversely affect our business, financial condition, results of operations and prospects.

We have a substantial amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with our notes and bank loans. As of December 31, 2012, our consolidated total debt, including capital lease obligations, was \$7,642 million. Our interest expense for the year ended December 31, 2012 was \$568,184 million, net of amounts capitalized.

Our ability to service, repay and refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we may default under the terms of our indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, potentially causing cross-defaults under and acceleration of our other indebtedness. Furthermore, as of December 31, 2012, approximately 18.1% of the debt we have incurred is at floating rates of interest linked to indices, such as LIBOR and EURIBOR, and we have hedged the interest rate risk with respect to approximately 28.1% of our floating interest rate debt. As a result, our interest payment costs can increase if such indices rise.

We may not be able to generate sufficient cash flow or access international capital markets or incur additional indebtedness to enable us to service or repay our indebtedness or to fund our other liquidity needs. We may be required to refinance all or a portion of our indebtedness on or before maturity for a number of reasons; for example, the terms of some of our loan agreements may require us to prepay the loan in certain circumstances, such as a deterioration in our credit rating, we are delisted or our retained earnings drop below a certain level. This, in turn, may force us to sell assets, reduce or delay capital expenditures or seek additional capital. Refinancing or additional financing may not be available on commercially reasonable terms or at all, and we may not be able to sell our assets or, if sold, the proceeds therefrom may not be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would materially adversely affect our business, financial condition, results of operations and prospects. See "Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources."

Ruble depreciation and regulatory changes in foreign currency regulation could increase our costs, decrease our cash reserves, or make it more difficult for us to comply with financial ratios and to repay our debts and would affect the value of dividends received by holders of ADSs.

Over the past two decades, the ruble has fluctuated, at times substantially over short periods of time, against the U.S. dollar. In particular, it significantly depreciated against the U.S. dollar in 2008 and 2009 as a result of the ongoing global financial downturn. For example, on December 31, 2008, the official exchange rate published by the Central Bank of Russia ("CBR") was 29.38 rubles per one U.S. dollar, as compared to 24.55 rubles per one U.S. dollar on December 31, 2007. The ruble continued to depreciate against the U.S. dollar in early 2009, reaching 36.43 rubles per one U.S. dollar on February 19, 2009. As of December 31, 2012, the exchange rate was 30.37 rubles per one U.S. dollar.

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and as of April 18, 2013, the exchange rate was 31.23 rubles per one U.S. dollar. The ruble has also depreciated against the euro. On December 31, 2011 and 2012, the official exchange rate was 41.67 rubles and 40.23 rubles per one euro, respectively, as compared to 40.33 rubles and 43.38 rubles per one euro on December 31, 2010 and 2009, respectively.

Currently, the Russian foreign currency market is regulated by legislation, which is aimed at liberalization of currency regulation and lowering of administrative barriers. This legislation provides a general framework and a set of rules, within which both the Russian government and the CBR are authorized to propose various regulations, which result in uncertainty for us in carrying out importation of equipment. The CBR from time to time has imposed various currency-trading restrictions in attempts to support the ruble. The ability of the government and the CBR to maintain a stable ruble will depend on many political and economic factors. These include their ability to finance the budget without recourse to monetary emissions, to control inflation and to maintain sufficient foreign currency reserves to support the ruble. Furthermore, changes in foreign currency regulation may affect our ability to fund payments denominated in foreign currency and result in us entering into supplementary agreements with our foreign counterparts.

A significant portion of our capital expenditure and liabilities and borrowings are either denominated in or tightly linked to the U.S. dollar. Conversely, a majority of our revenues are denominated in rubles. As a result, devaluation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in rubles, both in absolute terms and relative to our revenues, and make it more difficult to comply with the financial ratios contained in our various loan agreements or fund cash payments on our indebtedness on time. A decline in the value of the ruble against the U.S. dollar will also result in a translation loss when we translate the ruble revenues into U.S. dollars for inclusion in our audited consolidated financial statements. It also reduces the U.S. dollar value of tax savings arising from tax incentives for capital investment and the depreciation of our property, plant and equipment, since their basis for tax purposes is denominated in rubles at the time of the investment. Increased tax liability would also increase total expenses, which would have an adverse impact on our results.

We also anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and will be converted into U.S. dollars by the depositary and distributed to holders of the ADSs. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. Depreciation of the ruble against the U.S. dollar could therefore materially adversely affect our financial condition, results of operations and prospects and the value of the ADSs. See also "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

Changes in the exchange rate of local currencies in the countries where we operate against the U.S. dollar and/or euro could adversely impact our revenues reported in U.S. dollars and costs in terms of local currencies.

A significant portion of our expenditures and liabilities, including capital expenditures and borrowings (including our U.S. dollar denominated notes), are either denominated in, or closely linked to, the U.S. dollar and/or euro, while substantially all of our revenues are denominated in local currencies of the countries where we operate. As a result, the devaluation of local currencies against the U.S. dollar and/or euro can adversely affect our revenues reported in U.S. dollars and increase our costs in terms of local currencies. If local currencies decline against the U.S. dollar and/or euro and price increases cannot keep pace, we could have difficulty repaying or refinancing our U.S. dollar and/or euro-denominated indebtedness, including our U.S. dollar denominated notes. In addition, local regulatory restrictions on the sale of hard currency in particular CIS countries (for example, Belarus) may delay our ability to purchase equipment and services necessary for network expansion which, in turn, may cause difficulty in expanding our subscriber base in that country. Further, a portion of our

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cash balances is held in jurisdictions outside Russia, and as a result of exchange controls in those jurisdictions, these cash balances may not always be readily available for our use.

The Ukrainian hryvnia experienced significant volatility over the last quarter of 2008 and in 2009, with the official exchange rate falling from 4.86 hryvnias per one U.S. dollar as of October 1, 2008 to 7.70 hryvnias and 7.97 hryvnias per one U.S. dollar as of December 31, 2008, and 2009, respectively. The official exchange rate stabilized in the last three years and was 7.99 hryvnias per U.S. dollar as of each of December 31, 2011 and 2012.

The Belarusian ruble experienced significant volatility in 2011, with the official exchange rate falling from 3,000.00 rubles per one U.S. dollar as of January 1, 2011 to 4,970.00 rubles per one U.S. dollar as of June 1, 2011 and to 8,570 rubles per one U.S. dollar as of December 31, 2012. On May 23, 2011, the National Bank of the Republic of Belarus announced the significant devaluation of the Belarusian ruble against major foreign currencies to stabilize the situation on the foreign currency exchange market.

Furthermore, the three-year cumulative inflation rate for Belarus exceeded 100 percent as of September 30, 2011, thereby meeting the quantitative requirement under U.S. GAAP for its economy to be considered highly inflationary, and we have accordingly accounted for this in our financial statements. The continued devaluation of the Belarusian ruble and the highly inflationary economy may adversely affect our revenues from this market. See also " Risks Relating to Our Financial Condition Inflation could increase our costs and adversely affect our results of operations," "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk" and Note 2 to our audited consolidated financial statements.

If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We will need to make significant capital expenditures, particularly in connection with the development, construction and maintenance of, and the purchasing of software for our mobile and fixed line networks. We spent \$2,647.1 million in 2010, \$2,585 million in 2011 and \$2,902.8 million in 2012, for the fulfillment of our capital spending plans. In addition, the acquisition of 3G and 4G licenses and frequency allocations and the build-out of our 3G, 4G and broadband Internet networks will require additional capital expenditures. However, future financings and cash flow from our operations may not be sufficient to meet our planned needs in the event of various unanticipated potential developments, including the following:

- a lack of external financing sources;
- changes in the terms of existing financing arrangements;
- construction of the wireless networks at a faster rate or higher capital cost than anticipated;
- pursuit of new business opportunities or investing in existing businesses that require significant investment;
- acquisitions or development of any additional wireless licenses;
- slower than anticipated subscriber growth;
- slower than anticipated revenue growth;
- regulatory developments;
- changes in existing interconnect arrangements; or

a deterioration in the economies of the countries where we operate.

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Our indebtedness and the limits imposed by covenants in our debt obligations could limit our ability to obtain additional financing and thereby constrain our ability to invest in our business and place us at a possible competitive disadvantage. Also, currently we are not able to raise equity financing through newly issued depositary receipts such as ADSs, due to Russian securities regulations providing that no more than 25% of a Russian company's shares may be circulated abroad through sponsored depositary receipt programs. Prior to December 31, 2005 and at the time of our initial public offering, this threshold was 40% and our current ADSs program is near its full capacity. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Inflation could increase our costs and adversely affect our results of operations.

The Russian and Ukrainian economies have been characterized by high rates of inflation. According to the Federal Statistics Service, inflation reached 6.1% and 6.6% in Russia in 2011 and 2012, respectively. In Ukraine, inflation amounted to 4.6% in 2011, as compared to deflation of 0.2% in 2012, according to the State Statistics Committee of Ukraine (calculated on a December to December basis). As we tend to experience inflation-driven increases in certain of our costs, which are sensitive to rises in the general price level in Russia and Ukraine, our costs will rise. In addition, media inflation in Russia continues to be very high and shows little sign of slowing, which may lead to higher marketing expenditures by us in order to remain competitive. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia and Ukraine could increase our costs and decrease our operating margins. See also "Item 5. Operating and Financial Review and Prospects A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Inflation."

The three-year cumulative inflation rate for Belarus exceeded 100 percent as of September 30, 2011, thereby meeting the quantitative requirement under U.S. GAAP for its economy to be considered highly inflationary, and we have accordingly accounted for this in our financial statements. See Note 2 to our audited consolidated financial statements. Since most of our revenues in Belarus are denominated in local currency, the devaluation has resulted in lower revenues in dollar terms. Additionally, since a significant portion of our operating costs are denominated or tied to foreign currency, the devaluation and high inflation have also resulted in higher operating costs in comparison to revenues. Accordingly, the devaluation and the highly inflationary economy in Belarus may materially adversely affect our revenues and results of operations in that country. See also " Risks Relating to Our Financial Condition Changes in the exchange rate of local currencies in the countries where we operate against the U.S. dollar and/or euro could adversely impact our revenues reported in U.S. dollars and costs in terms of local currencies" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

If Apple Sales International lodges a claim against us as a result of our failure to fulfill our iPhone handset purchase commitment, this could have a material adverse effect on our financial condition and results of operations.

In 2008, we entered into an unconditional purchase agreement with Apple Sales International to buy certain quantities of iPhone handsets at list prices at the dates of the respective purchases for the three year period. The purchase agreement terminated on September 30, 2012. Pursuant to the agreement, we were also to incur certain iPhone promotional costs. We did not fulfill our total purchase installment contemplated by the agreement. As a result of not having fulfilled our required purchase commitments under our agreement with Apple Sales International, it is possible that Apple Sales International may bring a claim against us, which could have a material adverse effect on our

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financial condition and results of operations. The total amount paid for handsets purchased under the agreement for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 amounted to \$81.8 million, \$140.8 million, \$79.4 million, \$3.4 million and \$65.4 million, respectively.

Indentures relating to some of our notes contain, and some of our loan agreements and Sistema's loan agreements contain, restrictive covenants, which limit our ability to incur debt and to engage in various activities.

Covenants in the loan agreement relating to our notes due 2020 limit our ability to create liens on our properties, merge or consolidate with another person or convey our properties and assets to another person. Additionally, the loan agreement contains covenants limiting our ability to incur debt, create liens on our properties, enter into sale and lease-back transactions, merge or consolidate with another person or convey our properties and assets to another person, as well as our ability to sell or transfer any of our or our subsidiaries' GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. Some of our loan agreements contain similar and other covenants, including, in relation to the incurrence of indebtedness, creation of liens and disposal of assets. Failure to comply with these covenants could cause a default and result in the debt becoming immediately due and payable, which would materially adversely affect our business, financial condition and results of operations.

In addition, Sistema, which owns 50.8% of our total charter capital (52.8% excluding treasury shares) and consolidates our results in its financial statements, is subject to various covenants in its credit facilities. These covenants impose restrictions on Sistema and its restricted subsidiaries (including us) with respect to, *inter alia*, incurrence of indebtedness, creation of liens and disposal of assets. In the indentures, Sistema undertakes that it will not, and will not permit its restricted subsidiaries (including us) to, incur indebtedness unless a certain debt/EBITDA (as defined therein) ratio is met. In addition to us, Sistema has various other businesses that require capital and, therefore, the consolidated Sistema group's capacity to incur indebtedness otherwise available to us could be diverted to its other businesses. Sistema may also enter into other agreements in the future that may further restrict it and its restricted subsidiaries (including us) from engaging in these and other activities. We expect Sistema to exercise its control over us in order for Sistema, as a consolidated group, to meet its obligations under its current and future financings and other agreements, which could materially limit our ability to obtain additional financing required for the implementation of our business strategy. The inability to implement our business strategy may have a material adverse effect on our financial condition and results of operations.

If a change in control occurs, our noteholders and other debt holders may require us to redeem notes or other debt, which could have a material adverse effect on our financial condition and results of operations.

Under the terms of our outstanding notes, if a change in control occurs, our noteholders will have the right to require us to redeem notes not previously called for redemption. The price we will be required to pay upon such event will be 101% of the principal amount of the notes, plus interest accrued prior to the redemption date. A change in control will be deemed to have occurred in any of the following circumstances:

With respect to the notes due 2020, any person acquires beneficial or legal ownership of, or control over, more than 50% of our issued shares, ownership of or control over more than 50% of the voting interests in our share capital or obtains the power to elect not less than half of our directors, provided that the following transactions would not be deemed to result in a change of control:

any acquisition by Sistema or its subsidiaries that results in the 50% threshold being exceeded;

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any acquisition by us, our subsidiary or our employee benefit plan; and

a contribution by Sistema of all or part of its ownership interest in us into a partnership, joint venture or other indirect holding vehicle as long as any other person who is an owner of or party interested in that partnership, joint venture or other indirect holding vehicle does not acquire beneficial ownership of or control over more than 50% of our issued shares, does not acquire ownership of or control over more than 50% of the voting interests in our share capital and does not obtain the power to elect not less than half of our directors.

Some of our loan agreements contain similar change of control provisions. If a change in control occurs, and our noteholders and other debt holders exercise their right to require us to redeem all of their notes or debt, such event could have a material adverse effect on our financial condition and results of operations.

In addition, under certain of our debt agreements, an event of default may be deemed to have occurred and/or we may be required to make a prepayment if Sistema disposes of its stake in our company and a third party takes a controlling position in our company. The occurrence of any such event of default or failure to make any required prepayment which leads to an event of default could trigger cross default/cross acceleration provisions under certain of our other debt agreements. In such event, our obligations under one or more of these agreements could become immediately due and payable, which would have a material adverse effect on our business and our shareholders' equity. If Sistema were to dispose of its stake in us, our company may be deprived of the benefits and resources that it derives from Sistema, which could harm our business.

Risks Relating to Our Countries of Operation

Economic Risks

Economic instability in the countries where we operate could adversely affect our business.

Since the dissolution of the Soviet Union in 1991, the economies of Russia and other CIS countries where we operate have experienced periods of considerable instability and have been subject to abrupt downturns. Most notably, following the Russian government's default on its ruble denominated securities in August 1998, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in the immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation, a substantial decline in the prices of Russian debt and equity securities, and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the subsequent near collapse of the Russian banking sector, with the termination of banking licenses of a number of major Russian banks. This crisis had a severe impact on the economies of Russia and the other CIS countries.

While the economies of Russia and the other CIS countries where we operate have experienced positive trends in recent years, such as increases in gross domestic product, relatively stable national currencies, strong domestic demand, rising real wages, increased disposable income, increased consumer spending and a relatively reduced rate of inflation, these positive trends have been supported, in part, by increases in global commodity prices, and may not continue or may abruptly reverse. The current financial downturn, as well as any future economic downturns or slowturns in Russia or the other CIS countries where we operate could lead to decreased demand for our services, decreased revenues and negatively affect our liquidity and ability to obtain debt financing, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

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The Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

Russia's banking and other financial systems are less developed or regulated as compared to other countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

In recent years, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by a deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading Russian banks to hold increasingly large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, the CBR has from time to time revoked the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Recently a number of banks and credit institutions have lost their licenses due to deficiency of capital and failure to meet the CBR requirements. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

The recent disruptions in the global markets have generally led to reduced liquidity and increased cost of funding in Russia. Borrowers have generally experienced a reduction in available financing both in the inter-bank and short-term funding market, as well as in the longer term capital markets and bank finance instruments. The non-availability of funding to the banking sector in the Russian Federation has also negatively affected the anticipated growth rate of the Russian Federation. In December 2008, Standard & Poor's lowered Russia's long-term sovereign credit rating to BBB and maintained its negative outlook, citing the "rapid depletion" of Russia's financial reserves. In addition to anticipated slower asset growth on the Russian banking market in 2009, the Russian Federation was facing significant inflation, a significant volatility in stock prices and a substantial outflow of capital from the country. In December 2009, Standard & Poor's changed its outlook on Russia's long-term sovereign credit rating to stable. The Russian government and the CBR provide financial support only to a limited number of banks, which may result in the liquidation of other banks and financial institutions. A combination of these factors may result in a significant deterioration in the financial fundamentals of Russian banks, notably liquidity, asset quality and profitability.

There is currently a limited number of sufficiently creditworthy Russian banks and few ruble-denominated financial instruments in which we can invest our excess ruble cash. We hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

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The physical infrastructure in Russia, Ukraine and the other countries where we operate is in poor condition, which could disrupt our normal business activities and adversely impact our results.

The physical infrastructure in Russia, Ukraine and the other countries where we operate largely dates back to Soviet times and has not been adequately funded and maintained over the past two decades. Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. For example, in August 2009, a major accident occurred at Russia's largest power plant, the Sayano-Shushenskaya hydroelectric power station, resulting in flooding of the engine and turbine rooms, a transformer explosion and the death of 75 people. Power generation from the station ceased completely following the incident, which led to a major power outage in the nearby residential areas and at certain industrial facilities as well as pollution of the rivers and soil as a result of an oil spill from the transformer.

In addition, the road conditions throughout our countries of operation are poor with many roads not meeting minimum quality standards, causing disruptions and delays in the transportation of goods to and within these countries. The Russian and Ukrainian governments are actively considering plans to reorganize their national rail, electricity and communications systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of the physical infrastructure in Russia, Ukraine and the other countries where we operate harms the national economies, adds costs to doing business in these countries and generally disrupts normal business activities. These difficulties can impact us directly; for example, we keep portable electrical generators to help us maintain base station operations in the event of power outages. Further deterioration of the physical infrastructure in Russia and Ukraine, as well as the other countries where we operate, could have a material adverse effect on our business, financial condition and results of operations. In addition, the increased charges and tariffs that may result from the government reorganization may also have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in the global economy may materially adversely affect the economies of the countries where we operate and our business in these countries.

The economies of the countries where we operate are vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia, Ukraine and elsewhere in the CIS, and businesses in these countries could face severe liquidity constraints, further adversely affecting their economies. Additionally, because Russia and Turkmenistan produce and export large amounts of oil and gas, the Russian and Turkmen economies are especially vulnerable to the price of oil and gas on the world market and a decline in the price of oil and gas could slow or disrupt the Russian and Turkmen economies. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. Russia and Ukraine are also major producers and exporters of metal products and their economies are vulnerable to world commodity prices and the imposition of tariffs and/or antidumping measures by the United States, the European Union or by other principal export markets.

The disruptions recently experienced in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets, including us, may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs. To the extent that the current market downturn continues or worsens, it may lead to constraints on our liquidity and ability to obtain debt financing, which may have a material adverse effect on our business, financial conditions and results of operations.

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Political and Social Risks

Political and governmental instability in Russia and the CIS could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Since 1991, Russia has sought to transform from a one-party state with a centrally planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. Furthermore, recent parliamentary elections held in December 2011 and presidential elections held in March 2012 led to some political demonstrations in a few Russian cities. New protests may occur in the future. Ukraine and the other CIS countries where we operate are similarly vulnerable. Current and future changes in the Russian and other CIS governments, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs. A deterioration of the socio-political situation in Russia could also trigger an event of default under some of our loan agreements.

Potential conflict between central and regional authorities could create an uncertain operating environment hindering our long-term planning ability.

The Russian Federation is a federation of 83 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities could result in the enactment of conflicting legislation at various levels and may lead to political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus may hinder our long-term planning efforts and create uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, which can halt normal economic activity and disrupt the economies of neighboring regions. For example, violence and attacks relating to the Chechen conflict have spread to other parts of Russia and several terrorist attacks have been carried out in other parts of Russia, including Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia. These factors could materially adversely affect our business and the value of our shares and ADSs.

In Ukraine, tensions between certain regional authorities and the central government were ignited following the November 2004 presidential elections. Amid the mass demonstrations and strikes that took place throughout Ukraine to protest the election process and results, the conference of the representatives of the regional authorities in eastern Ukraine decided to conduct a referendum on creating an autonomous region, separate from Ukraine. Though the regional authorities ultimately

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backed down from this intention, and tensions in Ukraine subsided, the reemergence of these tensions in Ukraine in the future may cause our long-term planning ability and operations in Ukraine to suffer.

A deterioration in relations between Russia and other former Soviet republics and/or the United States and the European Union could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Relations between Russia and certain other former Soviet republics are or have in the past been strained. For example, in August 2008, a significant armed conflict erupted between Russia and Georgia over the self-appointed republics South Ossetia and Abkhazia, culminating in Russia's recognition of their independence from Georgia. The political and economic relationships between Ukraine and Russia have also been strained in recent years. The possible accession by Ukraine and Georgia to the North Atlantic Treaty Organization is also a significant source of tension between Russia and these countries. Although we currently do not have operations in Georgia, our operations in Ukraine are significant. If disputes with Ukraine were to disrupt or reduce the flow of Russia's trade with Ukraine, the Ukrainian economy could be materially adversely affected. Declines in the Ukrainian economy could have a material adverse effect on our operations in Ukraine and, consequently, on our financial condition, results of operations and prospects.

The conflicts between Russia and these and other former Soviet republics have, in some instances, also strained Russia's relationship with the United States and the European Union which, at times, has negatively impacted Russia's financial markets. The emergence of new or escalated tensions between Russia and other former Soviet republics could further exacerbate tensions between Russia and the United States and the European Union, which may have a negative effect on the Russian economy, our ability to obtain financing on commercially reasonable terms, and the level and volatility of the trading price of our shares and ADSs. Any of the foregoing circumstances could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs. See also " The inability of Business Entity MTS-Turkmenistan ("MTS-Turkmenistan") to sustain its recently resumed operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations," and " The inability of Uzdunrobita, MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations."

Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations.

Changes to the Constitution of Ukraine that came into effect on January 1, 2006, shifted important powers from the President to the Parliament, including the right to appoint the Prime Minister and to form the government. Although these changes were intended to prevent an impasse between the President and the Parliament, they effectively caused a protracted political struggle.

On February 7, 2010, Viktor Yanukovich, a leader of the Party of Regions, won 48.95% of the popular vote in a tightly contested presidential election campaign over Ukraine's then Prime Minister, Yulia Tymoshenko, a leader of the Yulia Tymoshenko Bloc, who won 45.47% of the popular vote. Although Ms. Tymoshenko initially contested the results of the election, she subsequently conceded and Mr. Yanukovich was inaugurated as the President of Ukraine on February 25, 2010. The close results of the Presidential election and the significantly different political platforms on which the candidates based their campaigns are indicative of a significant split in popular opinion amongst the general public over the best path forward for Ukraine.

On March 3, 2010, Ms. Tymoshenko was removed from the position of Prime Minister after the Parliament concluded a vote of no confidence. In March 2010, the law governing the formation of parliamentary coalitions (the "Parliament Law") was amended to enable President Yanukovich to

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form a new parliamentary coalition and appoint Mr. Mykola Azarov as the Prime Minister on March 11, 2010. The amended Parliament Law was challenged by members of Parliament in the Constitutional Court of Ukraine which in April 2010 issued a ruling in connection with the application requesting an official interpretation, but it did not expressly opine on the constitutionality of such provisions. Accordingly, any future ruling by the Court that relevant provisions of the Parliament Law are unconstitutional may result in further political instability in Ukraine.

In February 2011, a new law amending the Constitution of Ukraine to unify the term of the President, the Parliament, and local councils (the "2011 Constitution Amendment Law") entered into force. The 2011 Constitution Amendment Law provides, inter alia, for reinstating the five-year period for each parliamentary term. The following parliamentary elections were held on October 28, 2012. These parliamentary elections were the first elections under the recently adopted Law of Ukraine "On the Elections of National Deputies of Ukraine" dated November 17, 2011. In the course of the elections, there were a number of disputes as to the results of the election and their process. In particular, the Central Election Commission announced that it was impossible to establish the results of the elections in five single-member districts and on November 6, 2012 the Parliament issued a resolution recommending the Central Election Commission to order a repeat election in those districts. The repeat elections are expected to take place in 2013. The new Parliament convened its first session on December 12, 2012. Although the absence of five members in Parliament does not legally prevent Parliament from operating, no assurance can be given that the results of the elections will not be further disputed and that the operation of Parliament will not be obstructed.

Furthermore, the Ukrainian tax authorities and the General Prosecutor Office of Ukraine initiated several criminal investigations against Ms. Tymoshenko alleging numerous corrupt practices and abuse of powers while being the Prime Minister of Ukraine. On October 11, 2011, the Pechersky District Court found Ms. Tymoshenko guilty of abuse of powers and sentenced her to 7 years of imprisonment.

A number of additional factors could adversely affect political stability in Ukraine, including:

failure to obtain or maintain the number of parliamentary votes required to support a stable government;

lack of agreement within the factions and amongst the deputies that form a parliamentary coalition;

court action taken by opposition parliamentarians against decrees and other actions of the President, the government or parliamentary coalition;

political polarization in Ukrainian society resulting from what is seen as an insufficiently balanced or controversial position of the President and the government on various domestic and foreign policy issues; and

growing opposition of certain factions in the Parliament and certain political parties and associations which are not represented in the Parliament to what is broadly seen as significant concessions made by the President and the government to the Russian Federation in certain political and economic areas.

According to the poll watchers' report heard by the Parliamentary Assembly of Council of Europe, the parliamentary elections held in October 2012 were legitimate. The coalition in the Parliament would be formed in the nearest future, and is expected to be founded on the basis of the majority party. If political instability continues or heightens, it may have negative effects on the Ukrainian economy and, as a result, have a material adverse effect on our business, results of operations and financial condition.

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Crime and corruption could disrupt our ability to conduct our business and thus materially adversely affect our operations.

The political and economic changes in the countries where we operate in recent years have resulted in significant dislocations of authority. The local and international press have reported the existence of significant organized criminal activity, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the local and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. Additionally, some members of the media in the countries we operate in regularly publish disparaging articles in return for payment. The depredations of organized or other crime, demands of corrupt officials or claims that we have been involved in official corruption could result in negative publicity, disrupt our ability to conduct our business and could thus materially adversely affect our business, financial condition, results of operations and prospects.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our operations.

A decrease in the price of oil, as well as increased unemployment rates, the failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, including restrictions on foreign involvement in the economies of the countries where we have operations; and increased violence. An occurrence of any of the foregoing events could restrict our operations and lead to the loss of revenues, materially adversely affecting our operations.

Legal Risks and Uncertainties

Weaknesses relating to the legal system and legislation in the countries where we operate create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of our shares and ADSs.

Each of the countries we operate in is still developing the legal framework required to support a market economy. The following risk factors relating to these legal systems create uncertainty with respect to the legal and business decisions that we make, many of which uncertainties do not exist in countries with more developed market economies:

inconsistencies between and among the constitution, federal and regional laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;

conflicting local, regional and federal rules and regulations;

the lack of judicial and administrative guidance on interpreting legislation;

the relative inexperience of judges and courts in interpreting legislation;

the lack of an independent judiciary;

a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and

poorly developed bankruptcy procedures that are subject to abuse.

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The recent nature of much of the legislation in the CIS countries, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of these legal systems in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, legislation in these countries often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our licenses and contracts, or to defend ourselves against claims by others. Moreover, it is possible that regulators, judicial authorities or third parties may challenge our internal procedures and bylaws, as well as our compliance with applicable laws, decrees and regulations.

The inability of Uzdurobota, MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations.

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

On August 6 and 7 of 2012, sixteen regional antimonopoly divisions of the Republic of Uzbekistan simultaneously held hearings and declared that Uzdurobota had violated antimonopoly laws, consumer protection laws and laws governing advertisements. In total, the claims of the regional antimonopoly departments against Uzdurobota amounted to approximately \$80 million. This amount was subsequently reduced by the superior antimonopoly regulator to \$13.0 million in the aggregate.

The disputes with antimonopoly authorities were dismissed after payments were made by Uzdurobota pursuant to the Appeal Decision (as defined below).

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

Notwithstanding the fact that a tax audit of Uzdurobota's operations for the period of 2007-2010 was completed in February 2012 and did not reveal any serious violations, further tax audits were conducted and purported to find alleged violations of licensing regulations and income and other tax legislation resulting in the imposition of additional taxes and fines totaling approximately \$900.0 million. This amount was subsequently reduced to \$669.0 million in the aggregate. Whether these taxes and sanctions be further claimed by Uzbek tax authorities or not is yet unclear in light of the decisions made by the High Economic Court and Regional Economic Courts of Appeals (with exception of Kashkadarya and Bukhara Economic Courts of Appeal) between April 4, 2013 and April 11, 2013 which dismissed the obligation of the tax authorities to enforce the financial sanctions (the decisions, however, do not cover any obligation of the local tax authorities to collect the additional taxes).

During September-October of 2012, \$6.4 million from Uzdurobota's bank accounts were seized by the Uzbek State and applied to settle a portion of the State's alleged claims.

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

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On November 8, 2012, the Appellate Instance of the Tashkent City Criminal Court allowed Uzdurobita's appeal challenging the verdict of the Tashkent City Criminal Court dated September 17, 2012. The appeals Court found that all damages (taxes, sanctions, unpaid licenses duties and damages to the customers) suffered by the State must be compensated by Uzdurobita. The amount of damages was calculated and determined on the basis of all of the aforementioned claims against Uzdurobita existing as of November 8, 2012, which amounted to \$587 million payable in equal monthly installments over eight months (the "Appeal Decision").

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

Following this rejection, Uzdurobita immediately filed a further petition to appeal to the Supreme Court of Uzbekistan with the Chairman of the Supreme Court of Uzbekistan. On January 23, 2013, the Company was notified that the matter had been submitted by the Supreme Court for consideration by the Chairman of the Tashkent City Court. As of the date of this filing, Uzdurobita has not received a response from the Chairman of the Tashkent City Court. In order to comply with the Appeal Decision, Uzdurobita has paid two scheduled installments in November and December 2012 respectively, totaling \$147.5 million. On January 14, 2013, further to the payment of a portion of the third installment (payable in January 2013) totaling \$15.9 million paid with all cash remaining in Uzdurobita's bank accounts, Uzdurobita filed a petition for voluntary bankruptcy with the Tashkent Commercial Court due to its inability to meet Uzdurobita's further obligations arising out of the Appeal Decision. On January 18, 2013, the Court initiated bankruptcy proceedings and appointed an external temporary supervisor over Uzdurobita, and scheduled a further bankruptcy hearing for April 22, 2013.

Uzdurobita continues to defend its rights in accordance with the laws of the Republic of Uzbekistan. MTS also reserves its rights to pursue all available legal options both domestically and internationally in order to claim damages or seek any other available remedy in connection with the unlawful termination of Uzdurobita's operations in Uzbekistan.

In connection with and as a result of the actions by the Uzbek authorities described above, liabilities of \$500 million relating to the tax, antimonopoly and SACI claims and \$579 million relating to impairment of long-lived assets were recorded by the end of second quarter of 2012 with an associated charge to the consolidated income statement.

In 2011, Uzdurobita's share in our total revenue and OIBDA, calculated on the basis of US GAAP financial information, was 3.5% and 4.5%, respectively.

The inability of Business Entity MTS Turkmenistan ("MTS-Turkmenistan") to sustain its recently resumed operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations.

In December 2010, our operations in Turkmenistan were suspended following a notice received from the Ministry of Communications of Turkmenistan informing us of a decision by the Turkmenistan government to suspend licenses held by BCTI for a period of one month starting from December 21, 2010. On January 21, 2011, the period of license suspension expired, however, permission to resume operations was never granted.

The Group operated in Turkmenistan under a trilateral agreement signed in November 2005 by Barash Communication Technologies, Inc. ("BCTI"), us and the Ministry of Communications of Turkmenistan, which valid for five year term with a possibility of extension (the "2005 Agreement"). Under the 2005 Agreement, BCTI shared net profits derived from its operations in the country with

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the Ministry of Communications of Turkmenistan. The amount of shared net profit was calculated based on the financial statements prepared in accordance with local accounting principles subject to certain adjustments. Accordingly, BCTI shared 20% of its net profit commencing December 21, 2005. We at all times were led to believe that the 2005 Agreement would be extended and approached the Ministry of Communications within the required timeframe to formalize the extension. However, the Ministry of Communications and the Turkmenistan government did not extend the 2005 Agreement.

Following the decision to suspend BCTI's licenses, Turkmenistan government authorities took further steps, including unilateral termination of interconnect agreements between BCTI and state-owned telecom operators, to prevent us from providing services to our customers.

The Group initiated a number of proceedings against Turkmenistan government authorities and state-owned telecom operators to defend our legal rights in the International Court of Arbitration of the International Chamber of Commerce (the "ICC") and in the International Centre for the Settlement of Investment Disputes ("ICSID"). At the same time, the parties continued to negotiate MTS' return to Turkmenistan.

As a result of negotiations with the Turkmenistan government and ministries on May 24, 2012 MTS and state-owned telecom operator Turkmentelekom, acting in accordance with a decree issued by the President of Turkmenistan, signed the agreement regarding our terms of operations in Turkmenistan (the "Agreement"). The Agreement has five year term and could be extended for next five years provided certain terms and conditions are satisfied. Under this Agreement MTS-Turkmenistan will pay Turkmentelekom monthly an amount calculated as 30% of our net profit in Turkmenistan based on accounting rules of Turkmenistan.

MTS-Turkmenistan was granted GSM and 3G licenses for a term of three years, signed several agreements with the state-owned telecom operators regarding the cooperation upon infrastructure that allows us to restart the network and commence to provide services to the subscribers in the capacities as we used to provide.

On July 25, 2012, we, our subsidiary BCTI, the republic of Turkmenistan, the Ministry of Communications of Turkmenistan, the state-owned company Turkmentelecom and mobile operator Altyn Asyr signed a settlement agreement pursuant to which the parties undertook to withdraw all mutual legal claims relevant to the cessation of BCTI's and MTS' activities in Turkmenistan in December 2010.

In August 2012, MTS-Turkmenistan started mobile communication network in Turkmenistan and providing services for subscribers who did not cancel the BCTI contracts. Since October 1, 2012 MTS-Turkmenistan started entering into contracts with all subscribers.

Russian and Ukrainian companies can be forced into liquidation on the basis of formal non-compliance with certain legal requirements.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation.

For example, in Russian corporate law, if the net assets of a Russian joint stock company calculated on the basis of Russian accounting standards are lower than its charter capital as at the end of its second or any subsequent financial year, the company must either decrease its charter capital or liquidate. If the company fails to comply with these requirements, governmental or local authorities can seek the involuntary liquidation of such company in court, and the company's creditors will have the right to accelerate their claims or demand early performance of the company's obligations as well as demand compensation of any damages.

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The existence of negative assets may not accurately reflect the actual ability to pay debts as they come due. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, *i.e.*, their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets. Some Russian courts, in deciding whether or not to order the liquidation of a company for having negative net assets, have looked beyond the fact that the company failed to fully comply with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. Nonetheless, creditors have the right to accelerate claims, including damages claims, and governmental or local authorities may seek the liquidation of a company with negative net assets. Courts have, on rare occasions, ordered the involuntary liquidation of a company for having net assets less than the minimum charter capital required by law, even if the company had continued to fulfill its obligations and had net assets in excess of the minimum charter capital at the time of liquidation.

The amount of net assets in accordance with the local accounting standards of some of our subsidiaries is negative. Although these subsidiaries continue to meet all of their obligations to creditors, there is a risk of their liquidation while the net assets remain below the minimum legal requirements.

There have also been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. Weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, such liquidation could lead to significant negative consequences for our group. Ukrainian law also contains provisions similar to Russian law, whereby a company's failure to comply with certain legal requirements concerning its formation, net assets or operation may be grounds for its liquidation.

The judiciary's lack of independence and overall inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of our securities from obtaining effective redress in a court proceeding.

The judicial systems in the countries where we operate are not always independent or immune from economic and political influences, and are often understaffed and underfunded. Judges and courts are generally inexperienced in the area of business, corporate and industry (telecommunications) law. Judicial precedents generally have no binding effect on subsequent decisions, and not all court decisions are readily available to the public or organized in a manner that facilitates understanding. The judicial systems in these countries can also be slow or unjustifiably swift. Enforcement of court orders can, in practice, be very difficult to achieve. All of these factors make judicial decisions in these countries difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies, and the government may attempt to invalidate court decisions by backdating or retroactively applying relevant legislative changes. Furthermore, recognition and enforcement of arbitral awards in countries where we operate is subject to compliance with corresponding rules of civil procedure and applicable laws, and courts in countries where we operate may interpret applicable regulations in a manner which would result in denial of such recognition and enforcement.

These uncertainties also extend to property rights. For example, during Russia and Ukraine's transformation from centrally planned economies to market economies, legislation has been enacted in both countries to protect private property against uncompensated expropriation and nationalization. However, there is a risk that due to the lack of experience in enforcing these provisions and due to political factors, these protections would not be enforced in the event of an attempted expropriation or

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nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business, financial condition, results of operations and prospects.

Our dispute with Nomihold Securities Inc. concerning Bitel has resulted in a final arbitral award against us of \$175.9 million plus \$34.9 million of interest and related costs, and our inability to gain operational control over Bitel has prevented us from realizing the expected benefits of this acquisition and resulted in our write off of the costs relating to the purchase of Bitel.

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

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

Following a decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's corporate offices were seized by a third party. As we did not regain operational control over Bitel's operations in 2005, we accounted for our 51.0% investment in Bitel at cost as at December 31, 2005. As reflected in our audited annual consolidated financial statements for the year ended December 31, 2006, we wrote off the costs relating to the purchase of the 51.0% stake in Bitel. Furthermore, with the impairment of the underlying asset, a liability of \$170.0 million was recorded with an associated charge to non-operating expenses.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell the Option Shares for \$170.0 million to MTS Finance. In January 2007, Nomihold commenced an arbitration proceeding against MTS Finance in the London Court of International Arbitration ("LCIA") in order to compel MTS Finance to purchase the Option Shares. Nomihold sought specific performance of the put option, unspecified monetary damages, interest, and costs. In January 2011, the LCIA made an award in favor of Nomihold satisfying Nomihold's specific performance request and ordered MTS Finance to pay to Nomihold \$170.0 million for the Option Shares, \$5.9 million in damages and \$34.9 million in interest and other costs all representing in total approximately \$210.8 million ("Award"). The Award is accruing interest until the Award is satisfied. In addition to the \$170.0 million liability related to this case and accrued in the year ended December 31, 2006, we recorded an additional \$40.8 million, \$3.2 and \$7.2 million in the consolidated financial statements for the year ended December 31, 2010, 2011 and 2012, respectively (representing additional losses in 2010 and interest accrued on the awarded sums in 2011 and 2012).

On January 26, 2011, Nomihold obtained a freezing order in respect of the Award from the English High Court of Justice ("High Court") which, in part, restricts MTS Finance from dissipating its assets. Additionally, MTS Finance has been granted permission to appeal the Award, but the High Court has imposed conditions upon the appeal. MTS Finance is currently seeking to have the conditions lifted.

Further on February 1, 2011, Nomihold obtained an order of the Luxembourg District Court enforcing the Award in Luxembourg. This order is in the process of being appealed.

As an issuer of US \$400,000,000 2012 Notes pursuant to an Indenture dated January 28, 2005 (as amended) (the "Notes"), MTS Finance was due to redeem the principal of the Notes and pay the final

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coupon payment on January 30, 2012. However as a result of the freezing order, we applied to and obtained from the High Court an order authorizing both payments to be made by us instead of by MTS Finance (the "Direct Payments"). The Direct Payments to noteholders by the trustee under the Indenture were made on or around January 28, 2012.

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

In relation to the obligations under the Intercompany Loan Agreement, MTS OJSC and MTS Finance have agreed to refer to arbitration the question of whether under the Intercompany Loan Agreement itself there remains an obligation by MTS OJSC to make any further payments to MTS Finance in light of the Direct Payment. On February 9, 2012, MTS OJSC received a request for arbitration from MTS Finance. The hearing took place in the end of January 2013 and award is expected by July 2013. The award will clarify the rights between the parties under the Intercompany Loan Agreement. MTS OJSC is denying that any further payments are due under the Intercompany Loan Agreement. The arbitration was conducted under the Rules of the London Court of International Arbitration.

In March 2013, Nomihold has obtained (via a unilateral written application to the court) initial permission from the English Commercial Court to serve proceedings out of the jurisdiction on MTS OJSC. The time for service of the claims has been extended to permit service in accordance with the requirements of the Hague Convention. Nomihold purports that MTS is liable to compensate it for a number of allegedly tortious wrongs, relating in part to recent proceedings in an international arbitration tribunal constituted under the rules of the LCIA between Nomihold and MTS Finance, in the total amount exceeding \$215 million. MTS denies any allegation of wrongdoing and considers the claims made by Nomihold without merit and inadmissible before the English courts. MTS is considering its legal position.

In addition, three Isle of Man companies affiliated with us (the "KFG Companies") have been named defendants in lawsuits filed by Bitel in the Isle of Man seeking the return of dividends received by these three companies in the first quarter of 2005 from Bitel in the amount of approximately \$25.2 million plus compensatory damages, and to recover approximately \$3.7 million in losses and accrued interest. In the event that the KFG Companies do not prevail in these lawsuits, they may be liable to Bitel for such claims. In January 2007, the KFG Companies asserted counterclaims against Bitel, and claims against other defendants, including Altimo LLC ("Altimo"), Altimo Holdings & Investments Limited ("Altimo Holdings") for the wrongful misappropriation and seizure of Bitel. The defendants sought to challenge the jurisdiction of the Isle of Man courts to try the counterclaims asserted by the KFG Companies.

On March 10, 2011, the Judicial Committee of the UK Privy Council ruled in favor of the KFG Companies and confirmed the jurisdiction of the Isle of Man courts to try the counterclaims asserted by the KFG Companies against various defendants, including Sky Mobile, Altimo and Altimo Holdings, for the wrongful misappropriation and seizure of Kyrgyz telecom operator Bitel and its assets.

On June 30, 2011, the KFG Companies obtained from the Isle of Man court a general asset freezing injunction over the assets of Altimo and Altimo Holdings. The general freezing injunction against Altimo Holdings was replaced on November 30, 2011, by a specific freezing injunction over (i) Altimo Holding's interest in its Dutch subsidiary, Altimo Coöperatief U.A., and (ii) VimpelCom common shares worth approximately \$500 million (which was later increased to \$900 million by the

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court) that Altimo Coöperatief U.A. has lodged with the Isle of Man court. The KFG Companies are proceeding with their counterclaims in the Isle of Man. A trial has been set to commence in May 2013.

In a separate arbitration proceeding initiated against the KFG Companies by Kyrgyzstan Mobitel Investment Company Limited ("KMIC") under the rules of the LCIA, the arbitration tribunal in its award found that the KFG Companies breached a transfer agreement dated May 31, 2003, (the "Transfer Agreement") concerning the shares of Bitel. The Transfer Agreement was made between the KFG Companies and IPOC International Growth Fund Limited ("IPOC"), although IPOC subsequently assigned its interest to KMIC, and KMIC was the claimant in the arbitration. The tribunal ruled that the KFG Companies breached the Transfer Agreement when they failed to establish a date on which the equity interests in Bitel were to be transferred to KMIC and by failing to take other steps to transfer the Bitel interests. This breach occurred prior to MTS Finance's acquisition of the KFG Companies. The arbitration tribunal ruled that KMIC is entitled only to damages in an amount to be determined in future proceedings. The tribunal is currently deciding whether to stay the damages phase of the LCIA proceedings pending conclusion of the Isle of Man proceedings. We are not able to predict the outcome of these proceedings or the amount of damages to be paid, if any. For additional information, see Note 27 to our audited consolidated financial statements.

Selective or arbitrary government action could have a material adverse effect on our business, financial condition, results of operations and prospects.

Governmental authorities in the countries where we operate have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations.

Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions. Moreover, the government also has the power in certain circumstances, by regulation or government acts, to interfere with the performance of, nullify or terminate contracts. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us.

In Turkmenistan, we commenced operations in June 2005 through our wholly owned subsidiary, BCTI, and operated under a trilateral agreement by and among the Ministry of Communication of Turkmenistan, BCTI and us. However, when this agreement expired on December 21, 2010, the Ministry of Communication of Turkmenistan refused to prolong the agreement. After several international lawsuits and negotiations regarding adjustments of disputes we restarted our network in Turkmenistan on August 30, 2012 and resumed our operations on October 1, 2012. Similar actions in other countries where we operate could have a material adverse effect on results of our operations. See also " The inability of Business Entity MTS-Turkmenistan to sustain recently resumed operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations," and " The inability of Uzdunrobita, MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations."

In addition, in recent years, the Russian tax authorities have aggressively brought tax evasion claims relating to Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or

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arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required to transmit television channels or operate telecommunications equipment, or the findings of government inspections or increased governmental regulation of our operations, could result in a disruption in our business and substantial additional compliance costs and sanctions.

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, approvals, authorizations and permits, as well as with ongoing compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, approvals, authorizations and permits and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future inspections may conclude that we or our subsidiaries have violated laws, decrees or regulations, and we may be unable to refute such conclusions or remedy the violations. See also " The regulatory environment for telecommunications in Russia, Ukraine and other countries where we operate or may operate in the future is uncertain and subject to political influence or manipulation, which may result in negative and arbitrary regulatory and other decisions against us on the basis of other than legal considerations and in preferential treatment for our competitors."

Due primarily to delays in the issuance of permits, approvals and authorizations by regulatory authorities, it is frequently not possible to procure all of the permits for each of our base stations or other aspects of our network before we put the base stations into commercial operation or to amend or maintain all of the permits when we make changes to the location or technical specifications of our base stations. At times, there can be a significant number of base stations or other communications facilities and other aspects of our networks for which we do not have final permits to operate and there can be delays in obtaining the final permits, approvals and authorizations for particular base stations or other communications facilities and other aspects of our networks.

In addition, we may be unable to transmit certain television channels if entities that provide television content to us do not possess the requisite licenses. In case such providers of television content do not obtain the required licenses, or have their existing licenses suspended or terminated, our selection of potential television channels for transmission could be significantly limited. Furthermore, we could be subject to fines and other penalties, including forced suspension of our cable network operators' activity for up to 90 days. In some cases of service providing (for example, employing GPON technology) power failures in subscribers' households may lead to incompliance with rules regulating local telephony communication services. Any of these consequences could have a material adverse effect on our business, financial condition and results of operations.

Our failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required to operate telecommunications equipment or the findings of government inspections may also result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, approvals, authorizations and permits, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Moreover, an agreement or transaction entered into in violation of Russian law may be invalidated and/or unwound by a court decision. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could result in a disruption of our business and substantial additional compliance costs and could materially adversely affect our business, financial condition, results of operations and prospects. In addition, following our integration with Comstar on April 1, 2011 we have assumed risks of potential claims from subscribers and regulating authorities regarding the former activities of Comstar.

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Developing corporate and securities laws and regulations in Russia could limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than, for example, in the United States and Western Europe. Securities laws, including those relating to corporate governance, insider trading, disclosure and reporting requirements, are relatively new, while other laws concerning anti-fraud and directors' and officers' liabilities remain underdeveloped. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

the Federal Service for the Financial Markets;

FAS;

the CBR; and

various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct capital markets transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to us. As a result, we may be subject to fines and/or other enforcement measures despite our best efforts at compliance, which could have a material adverse effect on our business, financial condition and results of operations.

There is little minority shareholder protection in Russia.

Minority shareholder protection under Russian law principally derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. In practice, enforcement of these protections has been poor. Shareholders of some companies have also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our controlling shareholder in the future may not run us and our subsidiaries for the benefit of minority shareholders, and this could have a material adverse effect on the value of our shares and ADSs.

While the Federal Law on Joint Stock Companies of December 26, 1995, (the "Joint Stock Companies Law") provides that shareholders owning not less than 1% of the company's stock may bring an action for damages caused to a company by its CEO, member of the Board of Directors or its Management Board and certain other officials, Russian courts to date do not have much experience with such lawsuits. In 2009, new legislation was adopted which contemplates class action litigation. However, since the legislation is relatively new, Russian courts are not experienced in resolving such disputes and do not have a clear and consistent approach in regards to class action litigation. Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of our shares and ADSs.

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Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code of the Russian Federation, the Joint Stock Companies Law and the Federal Law "On Limited Liability Companies" generally provide that shareholders in a Russian joint stock company or members of a limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is deemed an "effective parent." The entity whose decisions are capable of being so determined is deemed an "effective subsidiary." The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and

the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for the debts of our subsidiaries. This liability could have a material adverse effect on our business, results of operations and financial condition.

Shareholder rights provisions under Russian law could impose additional obligations and costs on us, which could have a material adverse effect on our business, financial condition, results of operations and prospects

Russian law provides that shareholders that vote against or did not participate in voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

decisions with respect to a reorganization;

the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth more than 50% of the gross book value of our assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and

the amendment of our charter in a manner that limits shareholder rights.

For example, from 2004 through March 31, 2013, we merged over 45 of our wholly owned subsidiaries into MTS. Following the approval of the first of the series of mergers we repurchased shares from investors who voted against or abstained from voting on the merger in the amount of 11.1 billion rubles (\$446.3 million as of the date of repurchase). Also, on March 10, 2011, we completed a share buyback as part of the reorganization of MTS involving a merger with Comstar, Dagtelecom and Evrotel. Specifically, a total of 8,000 MTS ordinary shares representing 0.0004% of our issued share capital were repurchased for RUR 1.96 million (\$67,000 as of the date of repurchase). In addition, a total of 22,483,791 Comstar ordinary shares representing 5.3809% of the Comstar issued share capital were repurchased for RUR 4.8 billion (\$161.3 million as of the date of repurchase). Also as a part of our reorganization during 2013 a total of 90,881 MTS ordinary shares representing 0.004%

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of our issued share capital were repurchased for RUR 19.7 million (approximately \$650,000 as of March 31, 2013).

Our obligation to purchase shares in these circumstances, which is limited to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects. Under Russian law, if we are unable to sell the repurchased shares at a price equal to or exceeding the market price within one year after the date of repurchase, we have to reduce our charter capital accordingly.

The Strategic Foreign Investment Law imposes certain restrictions on us and our existing and potential foreign shareholders, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

On May 7, 2008, the Federal Law "On the Procedure for Foreign Investment in Commercial Organizations of Strategic Importance for the Defense and Security of the State," or the Strategic Foreign Investment Law, came into force in Russia. This law sets forth certain restrictions relating to foreign investments in Russian companies of "strategic importance." Among others, companies with a dominant position in the Russian telecommunications market are considered to be strategically important and foreign investments in such companies are subject to regulations and restrictions to these companies set out by the Strategic Foreign Investment Law. For purposes of the Strategic Foreign Investment Law, a mobile telecommunications provider is deemed to be dominant if its market share in the Russian market exceeds 25%, as may be determined by FAS. In addition, a company may be considered to be strategically important due to our offering of services involving the use of cryptographic technologies.

Starting from the effective date of the Strategic Foreign Investment Law, a foreign investor seeking to obtain direct or indirect control over a strategically important company is required to have the respective transaction pre-approved by an authorized governmental agency. In addition, foreign investors are required to notify this authorized governmental agency about any transactions undertaken by them resulting in the acquisition of 5% or more of the charter capital of strategically important companies. Within 180 days from the effective date of the Strategic Foreign Investment Law, foreign investors having 5% or more of the charter capital of strategically important companies were required to notify the authorized governmental agency about their current shareholding in such companies.

On April 8, 2009, MTS and two of our subsidiaries, Dagtelecom LLC (Dagtelecom LLC has since been merged into MTS) and Sibintertelecom CJSC, were added to the register of companies occupying a dominant position on the market with a market share exceeding 25% for the purpose of the Strategic Foreign Investment Law.

As we are classified as a strategically important company, our current and future foreign investors are subject to the notification requirements described above and our current and potential investors may be limited in their ability to acquire a controlling stake in, or otherwise gain control over, us. Such increase in governmental control or limitation on foreign investment could impair the value of your investment and could hinder our access to additional capital.

Regulatory changes in Russia, including the reduction of the Calling Party Pays Settlement Rate, reduction of the minimum item for billing, introduction of the mobile number portability principle and others may have a material adverse effect on our financial condition and results of operations.

An amendment to the Federal Law on Communications, which became effective July 1, 2006, implemented the CPP principle prohibiting mobile operators from charging their subscribers for incoming calls. Prior to the implementation of the CPP, subscribers of fixed line operators could initiate calls to mobile phone users free of charge (*i.e.*, there was no charge in addition to the monthly fee for

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fixed line service). Under the new system, fixed line operators began charging their subscribers for such calls and transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is established by the regulator and is known as the "settlement rate." Any reduction of the settlement rate by the regulator could have a negative impact on our average monthly service revenues per subscriber and margins.

In January 2013, the Ministry of Communications and Mass Media held open discussions as part of its efforts to develop a revamped version of the Federal Law on Communications. Ministry officials propose to amend the law in order to minimize operators' expenditures on infrastructure development by introducing unified licenses for communications, without linking them to certain technologies and other similar means. Frequencies are proposed to be granted on the basis of auctions instead of competitive selection. Furthermore, in January 2013 the Ministry of Communications and Mass Media adopted Order No. 5 "On Approving a Plan for Development of Draft Legislation for 2013" which contains the concept of introducing turn-over based fines for communication offences. Currently, it is not yet clear if or when such amendments will be adopted; however, the introduction, and imposition on us, in instances of our incompliance with the relevant laws, of turnover-based fines may have a significant impact our business, financial condition and results of operations.

In 2012, Ministry of Communications and Mass Media prepared a new version of the Rules on Rendering Mobile Services which indicates that in every sub-sovereign entity there should be at least one subscriber tariff with per-second billing and at least one subscriber tariff with minimum item for billing in roaming no higher than 10 seconds. If it becomes effective, the new law may have a negative impact on our revenues and results of operations.

The adoption of the law regarding the ability of a subscriber to retain the telephone number after switching from one operator of mobile communications to another (mobile number portability ("MNP")) may lead to intensification of competition and an increase in our costs. This law was signed by the President of the Russian Federation on December 25, 2012 and will come into legal force on December 1, 2013. To enable the subscribers to employ MNP principle, a certain number of regulatory legal acts currently remain to be passed. Moreover, the introduction of MNP would impose additional costs on the operators of mobile communications due to the necessity of implementing several complex and resource-intensive actions involving organizational and technical infrastructure, the requirement to improve the software of telecommunication facilities, and change certain business processes. The costs could also further increase as a result of adopting the scheme of number portability where subscribers, including corporate clients, can switch to another operator of mobile communications before finalizing the settlement for services, including international roaming and other high value services, with their current operator.

The new version of the Federal Law on Information, Information Technologies and Information Security could assign the status of critically important objects to our information systems, which would involve the need to comply with additional information security requirements and could lead to considerable modernization costs. There is also a possible necessity of replacing foreign information security products with locally developed analogues.

In addition, the Federal Law on Protection of Children from Information Harmful to their Health and Development, dated July 28, 2012 requires the introduction of as integrated automated data system which is able to identify Internet sites containing certain prohibited information. We have developed such a security system, which is currently being tested pending its implementation and at the same time we are working on introducing the fully-featured security system "Barjer". However, if we are unable to fully implement it timely or in case this system fails to perform as expected, we could be subjected to penalties or some of our services could be suspended until we fully comply with the requirements.

Furthermore, potential regulatory changes that may be enacted in the future, such as the introduction of new rules regulating MVNOs, new rules concerning our pricing policy and others, could

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weaken our competitive position in the mobile telecommunications market and, as a result, materially adversely affect our financial condition and results of operations.

Our failure to comply with new personal data protection laws and with the regulations of state authorities regarding information security in the telecommunications networks in Russia may have a material adverse effect on our business, financial condition and results of operations.

The Federal Law on Personal Data and certain regulations enacted thereunder require our information storage, processing and protection practices to be in compliance with the statutory standards, effective as of July 1, 2011. Additionally, various amendments to the current regulatory regime have been proposed by the State Duma, the Federal Council, the Ministry of Communications and Mass Media, the Federal Service for Supervision in the Area of Communications and Mass Media, the Federal Service for Technical and Export Control, and the Federal Security Service, in order to increase regulatory oversight over data protection.

As a result of these and other changes in personal data protection regulations, we are faced with significant technical, financial and managerial undertakings. For example, we are required to treat subscribers' personal data with the level of protection afforded to state secrets, obtain state certification of our installed information protection facilities from the Federal Service for Technical and Export Control and the Federal Security Service. We are also now directly liable for the actions of third parties to whom we forward personal data for processing. Moreover, we must now make public our data protection policies, which currently comprise a trade secret, and which may increase the risk of data protection violations if revealed. Furthermore, the modernization of our information protection systems and the optimization and reengineering of our personal data processing systems will require us to incur significant expenses. At the same time, the new regulations established by the Russian government on November 1, 2012 introduced excessive data protection requirements around data processing within the informational systems (for example, to ensure that our system and application software of foreign origin do not have any undeclared capabilities). If the resources required to develop and implement data protection systems meeting the new standards are greater than expected, or we fail to comply with the data protection laws despite our best efforts to do so, our business, financial condition and results of operations could be materially adversely affected.

Changes in Ukrainian telecommunications legislation have caused uncertainty in relation to the regulation of the Ukrainian telecommunications industry and may adversely affect our business, financial condition and results of operations.

The Ukrainian Law on Telecommunications came into force on December 23, 2003 (certain articles became effective in 2004 and 2005). The NCRC as the central regulatory body in the sphere of communications was established in August 2004.

On November 23, 2011, the NCRC was dissolved and the Ukrainian government created the NCCIR. As a result of the NCRC dissolution, the State Inspection of Communications has similarly been dissolved and there are currently no provisions in the legislation that would provide for a similar regulatory body or for its authority. The authority granted to the NCCIR is largely similar to the authority that was afforded to the NCRC.

In addition, the Ukrainian Law on Telecommunications may require, among other things, companies declared to have dominant position or SMP on the telecommunications market to develop public telecommunications services if directed to do so by the regulatory authorities. On June 24, 2010, MTS Ukraine (among other mobile operators) was found to have a dominant position on the interconnect market by the AMC. In 2012, there have been changes in telecommunications legislation including the Rules on Telecommunication Services making the operators responsible for the actions of content-providers, the law on state lotteries prohibiting all lotteries in Ukraine excluding those of state

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status and the law on telecommunications prohibiting entry with new subscribers unless they provide a passport as identity confirmation.

In November 2012, NCCIR issued the statements regarding MNP, which is expected to provide the subscribers with the possibility of retaining their telephone number after switching from one operator of mobile communications to another. However, the relevant clause has not yet been approved by NCCIR since there have been several uncertainties regarding the MNP implementation. The operators have submitted their recommendations to NCCIR and it is expected that NCCIR will approve MNP services in Ukraine on one of its future sessions. The approval of MNP services may lead to an increase in our costs caused by the necessity of infrastructure improvement and also lead to the intensification of competition.

Accordingly, the implementation of this law may materially adversely affect our business, financial condition and results of operations. See "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Legislation."

The Russian taxation system is underdeveloped and any imposition of significant additional tax liabilities could have a material adverse effect on our business, financial condition or results of operations.

The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in our shares and ADSs. See also "Item 10. Additional Information E. Taxation."

In general, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, corporate income tax, value added tax, property taxes, excise duties, payroll-related taxes and other taxes.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent and selective enforcement. In some instances, although it may be viewed as contrary to Russian constitutional law, the Russian tax authorities have applied certain new tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period multiple times.

On October 12, 2006, the Plenum of the High Arbitrazh Court of the Russian Federation issued Resolution No. 53 formulating the concept of "unjustified tax benefit," which is described in the Resolution by reference to circumstances, such as absence of business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the recharacterization of the transaction. There has been very little further guidance on the interpretation of this concept by the tax authorities or courts, but it is likely that the tax authorities will actively seek to apply this concept when challenging tax positions taken by taxpayers in Russian courts. While the intention of this Resolution might have been to combat abuse of tax laws, in practice, there is no assurance that the tax authorities will not seek to apply this concept in a broader sense.

Generally, tax returns in Russia remain open and subject to tax audit by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent further review of that year, or any tax return applicable to that year, during the eligible three-year period by a superior tax authority or, in certain limited instances, by a tax authority which conducted an initial review.

On July 14, 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax penalties to be extended beyond the three-year term set forth in the

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tax laws if a court determines that the taxpayer has obstructed or hindered a tax audit. Additionally, according to amendments to the Tax Code of the Russian Federation, effective January 1, 2007, the three-year statute of limitations may be extended if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed" or "hindered" or "created insurmountable obstacles" in respect of a tax audit and to ultimately seek review and possibly apply penalties beyond the three-year terms. According to Presidium of High Arbitrazh Court Resolution # 4134/11 of September 27, 2011, the statute of limitations for tax penalties is calculated starting from the day immediately following the expiration of the tax period when the violation was committed.

On March 17, 2009, the Constitutional Court of the Russian Federation issued a decision preventing the Russian tax authorities from carrying out a subsequent tax audit of a tax period if, following the initial audit of such tax period, a court decision was made concerning a tax dispute between the relevant taxpayer and the relevant tax authority arising out of such tax period, and such decision has not been revised or discharged. The Constitutional Court of the Russian Federation then issued Decision # 138-O-P on January 28, 2010, which confirmed the above approach. Subsequently, the Presidium of High Arbitrazh Court held in several cases that under certain circumstances (in particular, when the case has not been considered in substance) a superior tax body is still entitled to conduct a tax audit with respect to re-opened tax periods and taxes already reviewed during the initial tax audit; however, the circumstances under which the audit is conducted should differ from the initial ones (# 14585/09 of March 16, 2010, # 17099/09 of May 25, 2010, # 7278/10 of October 20, 2010).

There is no guarantee that the tax authorities will not review our compliance with applicable tax law beyond the three-year limitation period. Any such review could, if it concluded that we had significant unpaid taxes relating to such periods, have a material adverse effect on our business, financial condition, results of operations and prospects.

As of January 1, 2012, changes to the Tax Code of the Russian Federation enable Russian taxpayers which are part of a group to consolidate their financial results for profit tax purposes. It is yet unclear how the new legislative provisions will be applied by the tax authorities as currently only limited regulatory guidance is available on this matter. In addition to imposing certain criteria that must be met in order to create a consolidated group of taxpayers, the law also limits certain transactions within the group (e.g. corporate restructurings, etc.). We are now considering creating the consolidated group of taxpayers as of 2014.

In addition, intercompany dividends are subject to a withholding tax of 0% or 9% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules), if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties), if being distributed to foreign companies. If the receiving company itself pays a dividend, it may offset tax withheld against its own withholding liability of the onward dividend although not against any withholding made on a distribution to a foreign company. These tax requirements impose additional burdens and costs on our operations, including management resources.

According to the draft version of the Main Directions of Russian Tax Policy for 2013 and Planned for 2014 - 2015 and draft amendments to the Tax Code of the Russian Federation, our ability to apply accelerated tax depreciation on our equipment may be limited or excluded. It is unclear if and when such amendments will be enacted and their impact on our business, financial condition, results of operations and prospects.

The Russian tax authorities may take a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may nonetheless be subject to challenges in the future. The foregoing factors raise the risk of the imposition of arbitrary or onerous taxes on us, which could adversely affect the value of our shares and ADSs.

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Current Russian tax legislation is, in general, based upon the formal manner in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities are increasingly taking a "substance and form" approach, which may cause additional tax exposures to arise in the future. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and prospects.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how any new measures would operate, any such introduction may affect our overall tax efficiency and may result in significant additional taxes becoming payable. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to deductibility of certain expenses. This uncertainty could possibly expose us to significant fines and penalties and to enforcement measures, despite our best efforts at compliance, and could result in a greater than expected tax burden.

In 2010, the Russian tax authorities initiated an audit of our compliance with tax legislation for the years ended December 31, 2008 and 2007. Based on the results of this audit, the tax authorities imposed an additional tax liability in the amount of 353.9 million rubles (approximately \$11.6 million as of December 31, 2010), including taxes, fines and penalties. We appealed this assessment with the Federal Tax Service, which ruled to partially invalidate the assessment. We have filed a petition with a court in order to invalidate this tax assessment in full. The sitting of the court is assigned on April 5, 2013.

Recently, the tax authorities conducted a field tax audit of MGTS for the years 2007-2008. After consideration of company objections, additional tax liability in the amount of 258.1 million rubles (including taxes, fines and penalties) was imposed on February 9, 2012. In February 2012, MGTS attempted to challenge the tax authorities' decision with higher authorities within the Federal Tax Service. Following a rejection of the challenge request, MGTS filed an appeal with the Moscow Arbitrazh Court. In February 2013, the Moscow Arbitrazh Court issued a ruling to grant the claim dismissing the imposition of additional tax liability in its entirety.

Based on the results of their audit in August 2012, the tax authorities of Uzbekistan assessed \$669 million in additional taxes, penalties and fines payable by Uzdunrobota. Uzdunrobota is up to challenge the tax authorities' decisions among other Uzbek authorities' claims in due course. See also " Legal Risks and Uncertainties The inability of Uzdunrobota, MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations", and "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Tax Audits and Claims."

The implications of the tax system in Ukraine are uncertain and various tax laws are subject to different interpretations.

Besides the new Tax Code, which came into force on January 1, 2011, Ukraine currently has a number of laws related to various taxes imposed by both central and regional authorities. Applicable taxes include value added tax ("VAT"), corporate income tax (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time compared to more developed market economies and are constantly changed and amended. Accordingly, few precedents regarding tax issues are available.

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Although the Ukrainian Constitution prohibits retroactive enforcement of any newly enacted tax laws and the Law on Taxation System specifically requires legislation to adopt new tax laws at least six months prior to them becoming effective, such rules have largely been ignored. In addition, tax laws are often vaguely drafted, making it difficult for us to determine what actions are required for compliance.

Furthermore, with the entry into force of the new Tax Code of Ukraine (the "TCU"), there is uncertainty in regards to tax accounting of payments for the use of computer software. As part of its business, MTS Ukraine purchases limited end-user rights for the use of computer software. Currently, there are no clear rules for the classification of the payments made by MTS Ukraine for these purchases. Under the TCU, these payments may be treated as payments for copyrights (royalties), as payments for intangible assets or as payments for fixed assets. Tax authorities of different levels have provided inconsistent tax clarifications on this matter. The tax rate applicable to these payments will vary according to their classification.

Also, rules established by the TCU for recalculation of the input tax credit for non-current assets are unclear. Uncertain transfer pricing rules and their inconsistent application by the Ukrainian tax authorities and courts may also adversely affect MTS Ukraine's operations. MTS Ukraine's transactions with its related parties as well as certain transactions with non-Ukrainian entities that are not MTS Ukraine's related parties may be affected by the application of the transfer pricing rules. No "safe harbor" margin is provided under Ukrainian legislation if the sale price deviates from the arm's length price.

Due to the poor quality of the applicable tax legislation and its inconsistent interpretation, it is possible that MTS Ukraine's prices could be subject to challenge and adjustment for corporate income tax or VAT purposes. Profit repatriation arrangements, such as the level of royalties for trademarks or loan interest paid by MTS Ukraine from Ukraine abroad, may also be challenged for the same reasons. If such price adjustments are implemented, MTS Ukraine's effective tax rate may increase and its financial results may be adversely affected.

Differing opinions regarding the legal interpretation of tax laws often exist both among and within governmental ministries and organizations, including the tax administration, creating uncertainties and areas of conflict for taxpayers and investors. In practice, the Ukrainian tax authorities tend to interpret tax laws in an arbitrary way that rarely favors taxpayers.

Tax declarations/returns, together with other legal compliance areas (e.g., customs and currency control matters), may be subject to review and investigation by various administrative divisions of the tax authorities, which are authorized by law to impose severe fines, penalties and interest charges. These circumstances create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems. Generally, tax declarations/returns in Ukraine remain open and subject to inspection for a three-year period. However, this term may not be observed or may be extended under certain circumstances, including in the context of a criminal investigation.

The changes into the new Tax Code of the Ukraine during 2012 introduced a duty to pay advance installments on the profit tax on a monthly basis along with retaining the duty to pay advance installments on dividend payments. Before 2013 the profit tax charged for the accounting period was reduced for the amount of advance installments made on dividend payments. Commencing 2013 such reduction would not be encountered and we are obliged to pay the new monthly advance installment on the profit tax as well as the advance installment on the dividend payments which increases our tax expenses.

While we believe that we are currently materially in compliance with the tax laws affecting our operations in Ukraine, it is possible that relevant authorities may take differing positions with regard to interpretative issues, which may result in a material adverse effect on our results of operations and financial condition.

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Vaguely drafted Russian transfer pricing rules, and lack of reliable pricing information may impact our business and results of operations.

Russian transfer pricing legislation became effective in the Russian Federation on January 1, 1999. This legislation allowed the tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to all "controlled" transactions, provided that the transaction price differed from the market price by more than 20%. "Controlled" transactions included transactions with related parties, barter transactions, foreign trade transactions and transactions with significant price fluctuations (*i.e.*, if the price with respect to such transactions differs from the prices on similar transactions conducted within a short period of time by more than 20%). Special transfer pricing provisions were established for operations with securities and derivatives. Russian transfer pricing rules were vaguely drafted, generally leaving wide scope for interpretation by Russian tax authorities and courts. There has been very little guidance (although some court practice is available) as to how these rules should be applied. These transfer pricing rules apply with respect to transactions that occurred before January 1, 2012.

New transfer pricing rules became effective on January 1, 2012. The implementation of these new rules should help to align domestic rules with OECD principles. The new rules are expected to considerably toughen the previously effective law by, among other things, effectively shifting the burden of proving market prices from the tax authorities to the taxpayer and obliging the taxpayer to keep in certain cases specific documentation. In addition, the amendments:

introduce the possibility for major taxpayers to enter into an advance pricing agreement with the tax authorities;

introduce the 'arm's length' principle as a fundamental principle of the Russian transfer pricing rules;

establish a new list of controlled transactions (which would cover cross-border transactions with certain commodities, cross-border transactions with related parties and tax haven residents, and certain intra-Russian transactions with related parties);

extend the list of related parties;

extend the list of transfer pricing methods (including the Transactional Net Margin Method and the Profit Split method) with the choice of method depending on the allocation of functions performed, risks assumed and assets used by the parties to a transaction (instead of a rigid priority of methods under prior legislation);

replace the existing permitted deviation threshold with the 'arm's length' range of market prices (profitability);

introduce double-side adjustments in relation to domestic transactions; and

introduce special transfer pricing audits by federal tax authorities and specific transfer pricing penalties (more severe than in case of other, non-transfer pricing related, tax assessments).

If the Russian tax authorities were to impose significant additional tax liabilities through the introduction of transfer pricing adjustments, it could have a material adverse impact on our business, financial condition and results of operations. Adoption of the new transfer pricing rules may increase the risk of transfer pricing adjustments being made by the tax authorities. In addition to the usual tax risks and tax burden imposed on Russian taxpayers, the uncertainties of the new transfer pricing rules complicate tax planning and related business decisions. It will also require us to ensure compliance with the new transfer pricing documentation requirements proposed in such rules. Uncertainty of the new rules may also require us to expend significant additional time and material resources for implementation of our internal compliance procedures. Tax authorities could impose additional tax

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liability as well as penalties on the underpaid tax in case the prices or profitability are outside the market range and if the required transfer pricing documentation has not been prepared, which could have a material adverse effect on our results of operations and financial condition.

The regulatory environment for telecommunications in Russia, Ukraine and other countries where we operate or may operate in the future is uncertain and subject to political influence or manipulation, which may result in negative and arbitrary regulatory and other decisions against us on the basis of other than legal considerations and in preferential treatment for our competitors.

We operate in an uncertain regulatory environment. The legal framework with respect to the provision of telecommunications services in Russia and Ukraine and the other countries where we operate or may operate in the future is not well developed, and a number of conflicting laws, decrees and regulations apply to the telecommunications sector.

Moreover, regulation is conducted largely through the issuance of licenses and instructions, and governmental officials have a high degree of discretion. In this environment, political influence or manipulation could be used to affect regulatory, tax and other decisions against us on the basis of other than legal considerations. For example, Russian government authorities investigated Vimpelcom in late 2003 on grounds that it was illegally operating in Moscow pursuant to a license issued to its wholly owned subsidiary rather than to Vimpelcom itself. In addition, some of our competitors may receive preferential treatment from the government, potentially giving them a substantial advantage over us. For example, according to press reports, MegaFon and Kyivstar, our competitors in Russia and Ukraine, respectively, received preferential treatment in regulatory matters in the past.

An adverse change in the infrastructure regulation in Russia could result in additional costs on us.

In 2012, the Russian Ministry for Transportation proposed new rules for calculating mandatory payments for using the public easement areas of public roads where we place our communication equipment and cables. Although these rules have not been adopted to date, they provide for a calculation method which, if employed, could result in significant additional costs on us. There have been press reports that the Russian Ministry for Economic Development and Trade in its official comment disagreed with these rules implying that the rules are to be adjusted. However, it is currently unclear whether or not the original approach of the Russian Ministry for Transportation will be retained. As a result, we could be unable to successfully pass the relevant additional costs on to our customers.

In addition, starting from January 1, 2013, telecommunications operators are required to enter into agreements with owners of the roads whose public easement areas host telecommunication equipment. These agreements have to contain certain mandatory provisions to be prescribed by the Russian Ministry for Transportation and the Russian Ministry for Economic Development and Trade. To date, no list of such provisions has been adopted. There is a risk of imbalance in commercial interests of the operators and road owners in case such list is adopted.

Consequently, any adverse changes in legislation relating to the regulation of public roads and their interaction with telecommunications matters could have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Relating to the Shares and ADSs and the Trading Market

Government regulations may limit the ability of investors to deposit shares into our ADS facility.

The ability of investors to deposit shares into our ADS facility may be affected by current or future governmental regulations. For example, under Russian securities regulations, no more than 25% of a Russian company's shares may be circulated abroad through sponsored depositary receipt

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programs. Prior to December 31, 2005, and at the time of our initial public offering, this threshold was 40%. Although we believe that the new lower threshold does not apply to our ADSs, in the future, we may be required to reduce the size of our ADS program or amend the depositary agreement for the ADSs.

Because our ADS program is regularly at or near capacity, purchasers of our shares may not be able to deposit these shares into our ADS facility, and ADS holders who withdraw the underlying shares from the facility may not be able to re-deposit their shares in the future. As a result, effective arbitrage between our ADSs and our shares may not always be possible. Our shares are listed and trade on the Moscow Interbank Currency Exchange. Due to the limited public free float of our common stock, the public market for our shares is significantly less active and liquid than for our ADSs. The cumulative effect of these factors is that our shares may from time to time, and for extended periods of time, trade at a significant discount to our ADSs.

New Russian legislation requires the disclosure of information about ownership of the ADSs, including in some cases beneficial ownership of the ADSs, and a failure to provide such disclosure may restrict your ability to vote and/or receive dividends

According to the Federal Law "On Introduction of Amendments to Certain Legislative Acts of the Russian Federation in Connection with Federal Law "On Central Depository"" No. 415-FZ dated December 7, 2012, the holder of a depositary receipt program, representing rights in Russian securities, will be required to open a special depositary program depo account with the Russian Central Depository (the "CSD"). Such accounts need to be open within one year from the accreditation of the CSD which happened on November 6, 2012. Accordingly, the compliance of our ADS program with this new legislation will depend on the ability of our custodian to timely adapt to the new regulation and open the requisite accounts. After depositary accounts with our shares are opened new disclosure obligations in order to vote or receive dividends will apply.

Pursuant to recently enacted legislation, depositaries, and as a result, ADS holders, will not be able to vote or receive dividends in connection with the shares underlying ADSs on behalf of the ADS holders unless they provide certain information to the issuer. At a minimum, this information will include the identity of the holder of the ADSs and the number of shares attributable to each ADS holder. The use of voting rights currently requires only the provision of the information about the holder of ADSs. The exact scope of the required disclosure and procedures involved are not fully described in the new legislation, and can be further clarified in regulations to be issued by the FSFM.

Moreover, even if an ADS holder chooses to provide the required information, there may be no assurance that the depositary will be successful in collecting and providing this information to the issuer on a timely basis or at all, since the process of obtaining this information is untested and could be technically complicated. In particular, the ADS ownership chains are typically multi-layered and involve, among others, global clearing systems and institutional participants in such clearing systems. Since similar data collection processes have not been widely used to date, and due to the multitude of parties involved, it is possible that technical or procedural complications will make it difficult to obtain and provide all the necessary information to the issuer on a timely basis, if at all. As a result, in case you fail to disclose your ownership or the disclosed details are not provided by the depositary to us in a timely fashion, you may be unable to vote the ADSs and/or receive dividends.

Furthermore, the new legislation stipulates that starting from 1 July 2012 the FSFM, Russian courts, pretrial investigation agencies and internal affairs authorities may request such lists of depositary receipt holders from the issuers.

In case of non-compliance with the above requirements, the FSFM may suspend, or impose limitations on, transactions with securities held in the relevant accounts of Russian custodians for a period of up to six months. As a result, the shares underlying the ADSs may be blocked and it may be

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impossible to deposit or withdraw the shares into or from the depositary program during this period. Moreover, the depositary may be subject to administrative fines in case of non-compliance.

Because the depositary may be considered the owner of the shares underlying the ADSs, these shares may be arrested or seized in legal proceedings in Russia against the depositary.

Many jurisdictions, such as the United Kingdom and the United States, recognize a distinction between legal owners of securities, such as the depositary, and the beneficial owners of securities, such as the ADS holders. In these jurisdictions, the shares held by the depositary on behalf of the ADS holders would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the shares.

Russian law may not, however, recognize a distinction between legal and beneficial ownership of securities. Russian law generally treats a depositary as the owner of shares underlying the ADSs and, accordingly, may not recognize ADS holders' beneficial ownership therein.

Thus, in proceedings brought against a depositary, whether or not related to shares underlying the ADSs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. In the past, a lawsuit was filed against a depositary seeking the seizure of various Russian companies' shares represented by ADSs issued by that depositary. In the event that this type of suit were to be successful in the future against our depositary, and the shares underlying our ADSs were to be seized or arrested, the ADS holders involved could lose their rights to such underlying shares and all of the money invested in them.

According to recently enacted Russian legislation, within one year of the accreditation of the CSD, shares underlying the ADSs will need to be moved to a special nominee account for the depositary. Starting January 1, 2013, Shares that are moved to such an account will no longer be subject to seizure or arrest in case of a lawsuit against the depositary. See also " New Russian legislation will require the disclosure of beneficial ownership of the ADSs, and a failure to provide such disclosure may restrict your ability to vote and/or receive dividends."

The market price of our ADSs has been and may continue to be volatile.

The market price of our ADSs experienced, and may continue to experience, significant volatility. The closing price of our ADSs on the New York Stock Exchange ranged from a low of \$18.60 to a high of \$54.54 per ADS in 2009, a low of \$17.84 to a high of \$23.55 per ADS in 2010 and a low of \$11.41 to a high of \$21.86 per ADS in 2011, and a low of \$15.69 to a high of \$20.07 per ADS in 2012. On May 3, 2010, the ADS to ordinary share ratio was changed from five ordinary share for one ADS to two ordinary shares for one ADS.

Numerous factors, including many over which we have no control, may have a significant impact on the market price of our ADSs, including, among other things:

periods of regional or global macroeconomic instability;

announcements of technological or competitive developments;

regulatory developments in our target markets affecting us, our customers or our competitors;

actual or anticipated fluctuations in our quarterly operating results;

changes in financial estimates or other material comments by securities analysts relating to us, our competitors or our industry in general;

announcements by other companies in our industry relating to their operations, strategic initiatives, financial condition or financial performance or to our industry in general;

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announcements of acquisitions or consolidations involving industry competitors or industry suppliers;

sales or perceived sales of additional ordinary shares or ADSs by us or our significant shareholders; and

impact and development of any lawsuit, currently pending or threatened, or that may be instituted in the future.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of our ADSs, regardless of our operating performance.

Voting rights with respect to the shares represented by our ADSs are limited by the terms of the deposit agreement for our ADSs and relevant requirements of Russian law.

ADS holders will have no direct voting rights with respect to the shares represented by the ADSs. They will be able to exercise voting rights with respect to the shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Joint Stock Companies Law and our charter require us to notify shareholders no less than 30 days prior to the date of any meeting and at least 70 days prior to the date of an extraordinary meeting to elect our Board of Directors. Our ordinary shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

ADS holders by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depositary. The depositary has undertaken, in turn, as soon as practicable thereafter, to mail to you the notice of such meeting, voting instruction forms and a statement as to the manner in which instructions may be given by ADS holders. To exercise their voting rights, ADS holders must then instruct the depositary how to vote the shares represented by the ADSs they hold. Because of this additional procedural step involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of the shares and we cannot assure ADS holders that they will receive voting materials in time to enable them to return voting instructions to the depositary in a timely manner. ADSs for which the depositary does not receive timely voting instructions will not be voted.

Amendments to the Federal Law on Securities Market provide for new restrictions in relation to voting of shares represented by ADSs. The depositary holding such shares is entitled to participate in the general shareholders' meeting solely with the shares represented by foreign securities, details of which (including the number of shares represented by the securities held and the person holding or otherwise entitled to use such securities) are provided to the Company. These rules come into force only after the central depositary account in our register is opened and respective depositary accounts with our shares are opened with the CSD. This is expected to take place in the second half of 2013.

In addition, although Russian securities regulations expressly permit the depositary to split the votes with respect to the shares underlying the ADSs in accordance with instructions from ADS holders, there is little court or regulatory guidance on the application of such regulations, and the depositary may choose to refrain from voting at all unless it receives instructions from all ADS holders to vote the shares in the same manner. ADS holders may thus have significant difficulty in exercising voting rights with respect to the shares underlying the ADSs. We cannot assure you that holders and beneficial owners of ADSs will (i) receive notice of shareholder meetings to enable the timely return of

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voting instructions to the depositary, (ii) receive notice to enable the timely cancellation of ADSs in respect of shareholder actions or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

ADS holders may be unable to repatriate distributions made on the shares and ADSs.

We anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and will be converted into U.S. dollars by the depositary and distributed to holders of ADSs, net of the depositary's fees and expenses. The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited by size, market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is a limited market for the conversion of rubles into foreign currencies outside of Russia and limited market in which to hedge ruble and ruble-denominated investments.

ADS holders may be unable to benefit from the United States Russia income tax treaty.

Under Russian law, dividends paid to a non-resident holder of the shares generally will be subject to Russian withholding tax at a rate of 15%. This tax may potentially be reduced to 5% or 10% for legal entities and organizations and to 10% for individuals under the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital (the "United States Russia income tax treaty") provided a number of conditions are satisfied. However, the Russian tax rules on the application of double tax treaty benefits to individuals are unclear and there is no certainty that advance clearance would be possible. The Russian tax rules applicable to ADS holders are characterized by significant uncertainties. In a number of clarifications, the Ministry of Finance of the Russian Federation expressed a view that ADS holders (rather than the depositary) should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax residencies of the ADS holders are duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts will ultimately treat the ADS holders in this regard. Thus, we may be obliged to withhold tax at standard non-treaty rates when paying out dividends, and U.S. ADS holders may be unable to benefit from the United States Russia income tax treaty. See also "Item 10. Additional Information E. Taxation" for additional information.

Capital gain from the sale of shares and ADSs may be subject to Russian income tax.

Under Russian tax legislation, gains realized by non-resident legal entities or organizations from the disposition of shares and securities of Russian organizations, as well as financial instruments derived from such shares, such as the ADSs, may be subject to Russian withholding income tax if immovable property located in Russia constitutes more than 50% of our assets. However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered permanent establishment in Russia. Gains arising from the disposition of the foregoing types of securities on foreign stock exchanges by non-resident holders who are legal entities or organizations are not subject to taxation in Russia.

The taxation of income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law does not give a definition of how the "source of income" should be determined with respect to the sale of securities, other than that income from the

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sale of securities "in Russia" should be considered as Russian source income. As there is no further definition of what should be considered to be a sale "in Russia," the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares or other similar criteria.

Non-residents who are individuals are taxable on Russian-source income. Provided that gains arising from the disposition of the foregoing types of securities and derivatives outside of Russia by U.S. holders who are individuals not resident in Russia for tax purposes will not be considered Russian source income, then such income should not be taxable in Russia. However, gains arising from the disposition of the same securities and derivatives "in Russia" by U.S. holders who are individuals not resident in Russia for tax purposes may be subject to tax either at the source in Russia or based on an annual tax return, which they may be required to submit with the Russian tax authorities. See also "Item 10. Additional Information E. Taxation."

The lack of a developed share registration system in Russia and other countries where we operate may result in improper record ownership of our shares, including the shares underlying the ADSs, and other problems connected with the rights attributed to the relevant shares such as dividend payments.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, the central registration system in Russia is under development. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the depositary, under the terms of the deposit agreement, will not be liable for the unavailability of our shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares.

On December 7, 2011 amendments to the relevant legislation were adopted, substantially reforming the registration system by introducing the CSD. In the course of this reform of the share keeping system, numerous different depositaries with accounts in the registers of companies are expected to be replaced by a single central depositary, whose primary function would be the custody of shares in all major companies. These changes became effective on January 1, 2012 and are currently being implemented. On November 6, 2012 FSFM officially appointed the National Settlement Depositary as the central depositary. It is envisaged that the central depositary will open its account in the register of each major issuer in the first half of 2013. However, it is not clear yet whether these changes will affect us.

In addition on July 6, 2012 a central depositary was introduced in Ukraine. Such central depositary is expected to account the shares of all joint stock companies in Ukraine. The way of the dividend payout would be changed and should be effected through the CSD. The changes are expected to come into force on October 11, 2013 and could affect the timing of dividend payout.

See also " New Russian legislation will require the disclosure of beneficial ownership of the ADSs, and a failure to provide such disclosure may restrict your ability to vote and/or receive dividends."

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Foreign judgments may not be enforceable against us.

Our presence outside the United States may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation. Substantially all of our directors and executive officers named in this document reside outside the United States. All or a substantial portion of our assets and the assets of our officers and directors are located outside the United States. As a result, you may not be able to effect service of process within the United States on us or on our officers and directors. Similarly, you may not be able to obtain or enforce U.S. court judgments against us, our officers and directors, including actions based on the civil liability provisions of the U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws.

There is no treaty between the United States and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in our shares and ADSs. The deposit agreement provides for actions brought by any party thereto against us to be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, provided that any action under the U.S. federal securities laws or the rules or regulations promulgated thereunder may, but need not, be submitted to arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors and Russian courts' inability to enforce such orders and corruption.

Other Risks

We have not independently verified information we have sourced from third parties.

We have sourced certain information contained in this document from third parties, including private companies and Russian government agencies, and we have relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of more developed countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. In addition, the veracity of some official data released by the Russian government may be questionable. In 1998, the Director of the Russian State Committee on Statistics and a number of his subordinates were arrested and subsequently sentenced by a court in 2004 in connection with their misuse of economic data.

Because no standard definition of a subscriber, average monthly service revenue per user ("ARPU"), average monthly usage per user ("MOU") or churn exists in the telecommunications industry, comparisons between certain operating data of different companies may be difficult to draw.

The methodology for calculating subscriber numbers, ARPU, MOU and churn varies substantially in the telecommunications industry, resulting in variances in reported numbers from that which would result from the use of a uniform methodology. Therefore, comparisons of certain operating data between different telecommunications companies may be difficult to draw.

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Item 4. Information on Our Company

A. History and Development

Mobile TeleSystems CJSC ("MTS CJSC") our predecessor, was formed in 1993. The founding shareholders included MGTS and three other Russian telecommunications companies, which collectively held 53% of our original share capital, and two German companies, Siemens AG and T-Mobile Deutschland GmbH, an affiliate of Deutsche Telekom AG, which collectively held the remaining 47%. Sistema currently owns 50.8% of our share capital (52.8% excluding treasury shares). See "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders."

Our legal name is Mobile TeleSystems OJSC, and we are incorporated under the laws of the Russian Federation. Our head office is located at 5 Vorontsovskaya Street, Bldg. 2, Moscow 109147, Russian Federation, and the telephone number of our investor relations department is +7 495 223-2025. The address of our incorporation is 4 Marksistskaya Street, Moscow 109147, Russian Federation. We maintain a website at www.mtsgsm.com. The information on our website is not a part of this report. We have appointed Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19715 as our authorized agent for service of process for any suit or proceeding arising out of or relating to our shares, ADSs or the deposit agreement.

Mobile TeleSystems OJSC was created on March 1, 2000, through the merger of MTS CJSC and RTC CJSC, a wholly owned subsidiary. Our charter was registered with the State Registration Chamber on March 1, 2000, which is our date of incorporation, and with the Moscow Registration Chamber on March 22, 2000. Our initial share issuance was registered by the Russian Federal Commission on the Securities Market on April 28, 2000.

We completed our initial public offering on July 6, 2000, and listed our shares of common stock, represented by ADSs on the New York Stock Exchange (the "NYSE") under the symbol "MBT." Each ADS represents two underlying shares of our common stock. Prior to May 3, 2010, each ADS represented five shares of our common stock.

In September 2001, we won a tender held by the Telecommunications Ministry of the Belarus Republic to form a joint venture with a GSM 900/1800 license to operate in Belarus. On June 26, 2002, MTS Belarus received all of the governmental approvals and licenses required to commence operations in Belarus and it began operations on June 27, 2002. In March 2003, we purchased a 57.7% stake in MTS Ukraine for \$199.0 million. Since July 2007, we have operated under the MTS brand in Ukraine.

In August 2004, we acquired a 74% stake in Uzdurobita, the largest wireless operator in Uzbekistan, for \$126.4 million in cash. We acquired the remaining 26% stake in June 2007 pursuant to a put option agreement for \$250.0 million in cash. Since May 2006, we have operated under the MTS brand in Uzbekistan. In July 2012, we suspended providing services in Uzbekistan per the order from the State Agency for Communications and Information ("SACI") of Uzbekistan on the temporary suspension of the operating license of Uzdurobita for a period of 10 business days which was subsequently extended to three months. On August 13, 2012, the Tashkent Economic Court granted the petition of the SACI to withdraw all operating licenses of Uzdurobita. Simultaneously various Uzbek government agencies have claimed multiple violations by Uzdurobita which having passed through numerous court hearings was sanctioned with heavy penalties. Been unable to satisfy those, Uzdurobita has submitted its application initiating self-bankruptcy procedures to relevant Uzbek court. We are procuring efforts to resolve the dispute both within Uzbek legal system and under international laws. Please see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Uzdurobita, Ltd., MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations" regarding recent suspension of our services in Uzbekistan and "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Uzbekistan."

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In two separate purchases in June and November 2005, we acquired 100% of BCTI, the leading wireless operator in Turkmenistan, for \$46.7 million in cash. Since October 2006, we have operated under the MTS brand in Turkmenistan. On December 21, 2010, the Ministry of Communication of Turkmenistan suspended our primary operating license and we ceased providing mobile telecommunications services in Turkmenistan. In August 2012, we restarted our mobile communication operations in Turkmenistan and resumed providing services for subscribers who did not cancel their contracts. Since October 1, 2012, we resumed our operations in Turkmenistan entirely and started entering into contracts with new subscribers. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Business Entity MTS-Turkmenistan to sustain its recently resumed operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations." and "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Turkmenistan."

In September 2007, we acquired an 80% stake in International Cell Holding Ltd., a 100% indirect owner of K-Telecom, the leading wireless operator in Armenia, for €260.0 million (\$361.2 million as of the date of acquisition), and entered into a call and put option agreement initially valid until 2012 (and later extended until 2016) for the remaining 20%. K-Telecom operates in the GSM-900/1800 standard, covering the entire territory of Armenia. It historically operated under the VivaCell brand, and was re-branded as VivaCell-MTS in September 2008.

In October 2009, we acquired a 50.91% stake in Comstar, a leading fixed line operator in Russia, from Sistema, and subsequently increased our ownership interest to 61.97% (or 64.03% excluding treasury shares) in December 2009 and to 70.97% (or 73.33% excluding treasury shares) in September 2010 through a voluntary tender offer. On December 23, 2010, the extraordinary general meetings of shareholders of Comstar and MTS approved a merger of Comstar and us, which was completed on April 1, 2011. As a result, Comstar ceased to exist as a separate legal entity and we became the legal successor of Comstar in respect of all its rights and obligations.

Prior to April 1, 2011, Comstar operated in both the alternative and traditional fixed line communications markets, offering voice telephony, broadband Internet and pay-TV, operator interconnect and other services to its subscribers. After April 1, 2011, we continued, and still continue to provide these services. Among our subsidiaries is MGTS, Moscow's incumbent fixed line operator with "last mile" access (the final phase of delivering connectivity from a communications provider to a customer) to approximately 96% of the households in Moscow.

In 2011, we completed the re-branding of Comstar with our main MTS brand. MGTS, a former subsidiary of Comstar, continues to provide services under its own brand.

In 2009, we started to develop our sales and distribution network both organically and through the acquisition of several national and regional retail chains. We organized our retail operations under a wholly owned subsidiary, Russian Telephone Company ("RTC"). RTC handles all functions relating to our retail operations, including the management of points-of-sale, the purchase and sale of handsets and accessories and subscriber enrollment at our retail outlets.

In 2010, 2011 and 2012 we acquired controlling stakes in various regional fixed line operators as we are determined to develop broadband Internet through regional expansion.

In April 2013, MTS, through its wholly-owned subsidiary, acquired a 25.095% stake in MTS Bank OJSC for 5.09 billion rubles (\$163.5 million as of April 3, 2013) through an additional share issuance by the bank. The transaction was concluded in accordance with the terms of an indicative offer between MTS, MTS Bank and Sistema. Completion of the transaction is subject to the registration of the shares issuance report by Russian Central Bank. MTS and MTS Bank have also concluded a profit-sharing agreement pursuant to which MTS and MTS Bank would realize 70% and 30% of the proceeds from the MTS Dengi (MTS Money) project, respectively. The MTS Dengi project was recently launched by

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MTS and MTS Bank and is aimed at providing customers throughout Russia with a variety of payment tools, including credit cards, near-field communications-enabled SIM cards and PoS (point-of-sale) credit.

Capital Expenditures

We spent in total \$2,902.8 million in 2012 for network development in Russia and the other countries where we operate, which included \$2,642.8 million in cash expenditures on property, plant and equipment, and \$260.0 million for the purchase of intangible assets. We expect to spend approximately \$2,633.6 million (USD amount at exchange rate on December 31, 2012) in 2013 for LTE deployment and installation in certain key regions, for increasing network capacity, modernizing our mobile and fixed line networks, developing our network in the regions as well as on "GPON" and "Video surveillance at schools" projects. We plan to finance our capital expenditures primarily through operating cash flows, and to the extent necessary, through additional external financing. The actual amount of our capital expenditures for 2013 may vary depending on subscriber growth, demand and network development, as well as currency volatility, vendor terms and the availability of external financing. The capital expenditure estimate for 2013 excludes expenditures that may be made in connection with acquisitions or new licenses. A breakdown of our capital expenditures in 2012 by country is set forth below. For the first quarter of 2013 and continuing into the second quarter, our principal capital expenditures have related and continue to relate to the build-out of our network and GPON project which we have financed through operating cash flows.

Excluding our acquisition of Comstar and certain other subsidiaries from our related parties, we spent \$195.1 million, \$219.5 million and \$60.9 million in 2010, 2011 and 2012, respectively, for acquisitions of subsidiaries, net of cash acquired. We additionally spent RUB8.3 billion (\$271.9 million as of October 6, 2010) for the acquisition of an additional 9% in Comstar through a voluntary tender offer in September 2010.

Furthermore, on December 23, 2010, an extraordinary general meeting of the MTS' shareholders approved the merger of Comstar-UTS into MTS OJSC. We redeemed Comstar-UTS shares held and put by non-controlling interest shareholders within the limit set forth by Russian law at a specified price. The consideration paid to Comstar-UTS shareholders in the first quarter of 2011 totaled \$168.5 million.

In December 2011, we acquired 29% of the ordinary shares of MGTS from Sistema for RUB10.56 billion (\$336.3 million as of exchange rate on December 1, 2011). In addition, we assumed debt in the amount of RUB10.41 billion (\$331.5 million as of exchange rate on December 1, 2011) due and payable by the end of 2011. See also "Item 5. Operating and Financial Review and Prospects A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Acquisitions" and Note 3 to our audited consolidated financial statements.

Russia

We spent \$2,664.6 million in 2012 for network development in Russia, including \$2,457.7 million in cash expenditures on property, plant and equipment, and \$206.9 million for the purchase of intangible assets.

Ukraine

We spent \$132.9 million in 2012 for network development in Ukraine, including \$85.5 million in cash expenditures on property, plant and equipment, and \$47.4 million for the purchase of intangible assets.

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Uzbekistan

We spent \$81.0 million in 2012 for network development in Uzbekistan, including \$79.8 million in cash expenditures on property, plant and equipment, and \$1.2 million for the purchase of intangible assets.

Armenia

We spent \$23.9 million in 2012 for network development in Armenia, including \$19.5 million in cash expenditures on property, plant and equipment, and \$4.4 million for the purchase of intangible assets.

Belarus

MTS Belarus spent \$65.1 million in 2012 for network development, including \$46.1 million in cash expenditures on property, plant and equipment, and \$19.0 million for the purchase of intangible assets. We do not include the capital expenditures of MTS Belarus in our capital expenditures described above as its results are not consolidated in our financial statements.

B. Business Overview

We are a leading telecommunications provider in Russia and the CIS, providing a wide range of mobile and fixed line voice and data telecommunications services, including transmission, broadband, pay-TV and various value-added services, as well as selling equipment and accessories. According to AC&M-Consulting, we are the largest provider of mobile cellular communications services in Russia and Armenia and the second largest in Ukraine in terms of mobile subscribers.

As of December 31, 2012, we had a mobile subscriber base of approximately 95.8 million (approximately 71.2 million in Russia, 20.7 million in Ukraine, 2.4 million in Armenia, and 1.5 million in Turkmenistan), which is a decrease of 5.29% compared to December 31, 2011. This decrease is attributable to the suspension of our services in Uzbekistan, which accounted for 9.3 million subscribers as of December 31, 2011. Subscriber base in Russia, Ukraine and Armenia increased by 2.7% compared to December 31, 2011. We are also the largest operator in the Moscow residential broadband market in terms of subscribers, with a 28.5% market share as of December 31, 2012, according to Direct INFO.

Please see also "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Uzdurobita, Ltd., MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations" regarding recent suspension of our services in Uzbekistan.

Our revenues for the year ended December 31, 2012, were \$12,436 million, an increase of 0.9% from the year ended December 31, 2011. Our net income for the year ended December 31, 2012, was \$1,038 million, a decrease of 34% from the year ended December 31, 2011.

Russia is our principal market, both in terms of subscribers and revenues. For the years ended December 31, 2012, 2011 and 2010, approximately 87%, 86%, and 83% of our revenues came from operations in Russia; approximately 9%, 9%, and 9% of our revenues came from operations in Ukraine; and approximately 4%, 5%, and 8% of our revenues came from operations in other countries, respectively.

As of December 31, 2012, approximately 75% of our mobile subscriber base was in Russia and approximately 21% was in Ukraine. According to AC&M-Consulting, as of December 31, 2012, we had a 30.90% and 35.56% market share of total mobile subscribers in Russia and Ukraine, respectively.

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The table below sets forth our total mobile subscribers as of the end of the last five years:

Period	Subscribers ⁽¹⁾ (in million)
2008	91.3
2009	97.8
2010	103.3
2011	101.1 ⁽²⁾
2012	95.8 ⁽³⁾

- (1) Excludes MTS Belarus subscribers as its results of operations are not consolidated in our financial statements. We define a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of our prepaid tariffs) or whose account does not have a negative balance for more than this period.
- (2) Excludes Turkmenistan subscribers.
- (3) Excludes Uzbekistan subscribers.

In 2012 we ceased to provide mobile cellular communications services in Uzbekistan as all operating licenses of our subsidiary, Uzdunrobita, were withdrawn by the State Agency for Communications and Information of Uzbekistan on August 13, 2012. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Uzdunrobita, Ltd., MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations."

In Turkmenistan, our primary operating license was suspended on December 21, 2010, and we ceased providing mobile telecommunications services in that country since that date. In 2012, our operating license and as a result our operations in Turkmenistan were resumed. Our subscriber base amounted to approximately 1.44 million subscribers as of December 31, 2012. For more information, see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Business Entity MTS-Turkmenistan to sustain its recently resumed operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations."

According to AC&M-Consulting, overall mobile cellular penetration in Russia was approximately 161.3% as of December 31, 2012, which is an increase from 156.8% at December 31, 2011. Mobile cellular penetration in Ukraine was approximately 126.1% as of December 31, 2012, which is an increase from 117.6% as of December 31, 2011. According to our estimates, mobile cellular penetration in Armenia was approximately 118% as of December 31, 2012, as compared to approximately 116.4% as of December 31, 2011. Mobile penetration in Turkmenistan was approximately 85.9% as of December 31, 2012, according to our estimates.

Our consolidated mobile subscriber base increased insignificantly in the first three months of 2013. Specifically, according to our estimates at April 1, 2013, we had approximately 96.7 million subscribers, including approximately 71.5 million in Russia, 21.0 million in Ukraine, 2.4 million in Armenia and 1.8 million in Turkmenistan.

As of December 31, 2012, we had mobile licenses to operate and commercial mobile operations for the entire territory of Russia with a population of approximately 143 million people, for the entire territory of Ukraine with a population of approximately 46 million people, for the entire territory of Turkmenistan with a population of approximately 5 million people and for the entire territory of Armenia with a population of approximately 3 million people. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Failure to renew our licenses or receive renewed or new licenses with similar terms to our existing licenses could have a material adverse effect on our business and results of operations," and "Item 3. Key Information D. Risk Factors Risks Relating to Our

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Business Failure to fulfill the terms of our licenses could result in their suspension or termination, which could have a material adverse effect on our business and results of operations."

MTS Belarus had approximately 5.23 million subscribers and a leading market share of 46.9% at December 31, 2012, according to our estimates. At December 31, 2011, according to our estimates, MTS Belarus had approximately 4.93 million subscribers and a leading market share of 43.0%. Belarus, a country with a population of approximately 9.5 million, had a mobile cellular penetration rate of approximately 117% at December 31, 2012, according to our estimates.

In 2010, 2011 and 2012, we significantly expanded our operations in an effort to meet the challenges of our evolving markets and further the goals of our "3i" strategy set out in more detail below. Through our acquisition of a controlling stake in Comstar in October 2009, we have become a leading fixed line services provider in Russia.

We also continued to develop our proprietary sales and distribution network organically. We additionally focused on the development of online platforms and content, launching Omlet.ru in September 2009. Omlet.ru is an online and mobile content portal offering a large selection of videos, music and games for sale and a high degree of interoperability between mobile devices and computers as well as network flexibility (e.g., EDGE and 3G).

To maintain and increase our market share and brand awareness, we use a combination of print media, radio, television, direct mail and outdoor advertising, focusing on brand and image advertising, as well as promotion of particular tariff plans.

Business Strategy

Our key strategic goal is leadership in all markets of presence, delivering the best-in-the-market telecommunication experience to our subscribers, including high-speed Internet at home and on the go, mobile finance and banking ecosystem, cable TV entertainment with access to best content portfolio and top quality mobile and fixed voice services. We are in the vanguard of LTE development in Russia and CIS and we are focusing our efforts on building the strongest 4th generation wireless network and providing the best service to our customers by bringing the connected smartphone world to them.

Our "3i" strategy, as described below, is key to sustaining our leadership positions as it continues and extends our strategic priorities and principles that we formulated in 2009. A steady implementation of the "3i" strategy allowed us to set new quality, service and technology standards in the Russian telecommunications industry. As a result, we currently provide a full telecommunications ecosystem to our customers. Our latest developments made it possible to provide our clients with a wide range of products and services from our own distribution network and our branded service outlets to cutting-edge finance and banking services. We strive to innovate in every aspect of our business, from LTE network development to delivering the best multimedia content to our customers, which is based on our "3i" strategy and the following three key principles:

Integration: a deeper integration of fixed and mobile voice and data services and a development of new customer touch points. We aim to provide our customers with integrated service packages that will address all of their communications needs, which will be achieved through tighter integration of fixed and wireless access. Continuous development of new networks and platform solutions will provide top quality telecommunications experience to our clients in both consumer and business market segments.

Internet: bringing a connected smartphone world to our customers, driving data services on all markets and becoming the ultimate digital world operator. As our customers want seamless data experience in both fixed and mobile communications, we focus on offering the best of technology and services to our clients in order to bridge the gap between technology and the end-user and go beyond "smart pipe" by offering best-in-class content and applications.

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Innovation: we differentiate ourselves from our competitors by offering not just spate lines of products, services or technology but rather a unique and appealing combination of the three. Among other things, we offer our subscribers exclusive devices, outstanding service quality and the latest technology in various settings, at home, at work and on the move.

Implementation of these strategies is subject to a number of risks. See "Item 3. Key Information D. Risk Factors" for a description of these and other risks we face.

Current Operations

We are a provider of mobile cellular communications services in Russia, Ukraine, Armenia and Turkmenistan. Prior to withdrawal of all operating licenses of Uzdnrobita on August 13, 2012, by the State Agency for Communications and Information of Uzbekistan, we also provided mobile cellular communications services on the entire territory of Uzbekistan. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Uzdnrobita, Ltd., MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations."

Subsidiaries

For a list of our major subsidiaries and our ownership percentages in these subsidiaries, see "Item 4. Information on our Company C. Organizational Structure."

Mobile Operations

Services Offered

Network Access

We primarily offer mobile cellular voice and data communication services to our subscribers on the basis of various tariff plans designed for different market segments. In general, most of our tariff plans combine per minute usage charges, value-added services and, in some cases, monthly network access fees. See "Item 4. Information on Our Company B. Business Overview Mobile Operations Tariffs."

Automatic Roaming

Roaming allows our customers, both subscribers and guest roamers, to receive and make international, local and long-distance calls while traveling outside of their home network. Roaming is provided through individual agreements between us and other GSM operators. Unlike many non-GSM providers that require additional equipment or prior notification, our roaming service is instantaneous, automatic and requires no additional equipment.

As of December 31, 2012, we had bilateral roaming contracts with 743 wireless operators in 227 countries, including 12 regional operators in Russia. We continually seek to expand our roaming capability and are currently in negotiations with additional operators. On April 19, 2011, we won a public tender held by the State Radio Frequencies Commission and obtained radio frequencies which allows us to provide GSM services in the Penza region, where we had not previously had a GSM license. We started the construction of a GSM network in the Penza region in 2012. As a result, we expanded our GSM network coverage throughout the entire territory of Russia.

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Value-Added Services

We offer various value-added services to our customers. These services may be included in the tariff plan selected by the subscriber or subscribers may pay additional monthly charges and, in some cases, usage charges for them. Some basic value-added services that we offer include:

Blackberry	Call Barring	Call Waiting
Call Divert/Forwarding	SMS	MMS
Caller ID Display and anti-Caller ID Display	Mobile Office	Melody Ring Tones
Conference Calling	Voicemail	Missed Call Alert
Wi-Fi	Mobile banking	Itemization of Monthly Bills
Location-Based Service ("LBS")	Wireless Application Protocol ("WAP")	Information and Directory Service
General Packet Radio Service ("GPRS")	MTS-Connect	International Access Service

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Intelligent call assistant	SIM-browser	WEB and WAP portal
APN remote access point	Point-to-point transfer	Real IP
Fixed Mobile Convergence	Unstructured Supplementary Services Data ("USSD")	Automatic Customer Care System and Customer Care System via the Internet
EDGE	High-Speed Downlink Packet Access ("HSDPA")	Ring Back Tone
E-shop	Mobile TV	Collect call
Personal cabinet (Internet helper)	Black List	My subscriptions

LTE

We also provide many voice and SMS-based value-added services in cooperation with various content providers.

GPRS and Internet Access

We offer GPRS services, enabling our subscribers to access the Internet, WAP and MMS in all of the countries where we operate. We also provide international data transfer roaming to our subscribers, enabling them to use various GPRS/3G based services while traveling abroad.

We also offer the MTS-Connect service, which allows our subscribers to get mobile Internet access through a GPRS/EDGE/3G/HSDPA/HSPA ("High Speed Packet Access") connection, using a computer, PC-card and USB-modem. This service is available to our subscribers in Russia and Ukraine and in more than 217 countries where we have GPRS roaming.

We signed an agreement with Research In Motion in September 2005 to offer BlackBerry services to our subscribers and were the first mobile operator to offer BlackBerry services in the CIS. Following our receipt of the required regulatory approvals, we began providing BlackBerry services to corporate users in Ukraine in October 2007 and to corporate users in Russia in June 2008. In addition to corporate users, we also provide BlackBerry services to individual subscribers in Ukraine and in Moscow and the Moscow region in Russia. In May 2009, we launched BlackBerry Internet Service in Moscow and the Moscow region, and in October 2009, we launched commercial operations of BlackBerry Enterprise Server ("BES") and BlackBerry Internet Service ("BIS") in 39 regions of Russia, and expanded such services to 81

regions by the end of 2012.

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3G Technology

In April 2007, the Russian Ministry of Communications and Mass Media announced the results of a tender for 3G licenses. We were one of three companies, along with Vimpelcom and MegaFon, who received a nationwide 3G/UMTS (Universal Mobile Telecommunications System) license in Russia. The license is valid through 2017 and covers the entire territory of Russia. In accordance with the conditions set forth in the tender documentation, we, Vimpelcom and MegaFon were required to begin undertaking the construction of a 3G network over a period of two years from the time the license was received. We currently have commercial 3G networks launched in all regions of Russia.

In May 2009, we, along with Vimpelcom and MegaFon, were allocated 3G/UMTS frequencies to begin testing our 3G network in Moscow and the Moscow region. Starting from May 2009, we were allowed to launch our 3G network inside buildings and other indoor structures in Moscow as well as in the Moscow metro. As of December 31, 2012, our 3G indoor network operates in 823 different properties throughout Russia, 638 of which operate in trade and business centers in Moscow.

In December 2009, we obtained a permit to install 783 base stations in the UMTS standard in Moscow and commercially launched our 3G network in Moscow. Our 3G network uses 1950-1965 MHz, 2015-2020 MHz and 2140-2155 MHz frequencies and complements our existing GSM network. By the end of 2012, we installed 27,064 3G base stations throughout Russia. In order to expand our coverage in the Moscow region's countryside, we launched a 3G network in the 900 MHz frequency band.

In 2010, we began to implement an upgraded version of the HSPA technology known as HSPA+. This technology allows us to provide our subscribers with faster data transmission speeds. We have launched HSPA+ technology which supports up to 42 Mbit per second data transmission speed in more than 1100 UMTS sites in the largest Russian cities. We also provide our subscribers in major cities of Russia, Belarus and Armenia with faster data download and upload speeds with top download capacity up to 21 Mbit per second using HSPA technology.

In 2011, we began to develop a 3G femtocell network. Femtocells are small low-power wireless base stations in the licensed 2100 MHz spectrum. They connect to a mobile operator's network using residential DSL or cable broadband connections and can support multiple standard mobile devices. Femtocells deliver a strong signal and high-quality voice service to standard mobile devices in homes, small and large offices, outdoor public spaces, metro hotspots and rural areas. They allow for strong signal performance even in areas where MTS cellular coverage is limited or unavailable. A femtocell network also provides for high speed of data upload and download. In 2012, we installed 1093 femtocells in Russia and thus total number of femtocells installed in Russia reached 1270 by the end of 2012.

In July 2006, MTS Ukraine was licensed to provide telecommunications services using CDMA 450 technology. CDMA 450 is a 3G telecommunication standard ratified by the International Telecommunication Union. We commenced commercial services using CDMA 450 technology in Ukraine in November 2007. In July 2012, we launched Rev B CDMA technology services in the Kiev region and currently offer high-speed mobile Internet access to our subscribers throughout Ukraine.

In October 2007, K-Telecom, our subsidiary in Armenia was allocated frequencies to offer 3G services throughout the entire territory of Armenia. The frequencies were allocated for a 10-year period. In 2009, we commercially launched our 3G network in Armenia. In 2010, we further expanded our 3G network to cover all towns and villages with a population of more than 2,000 people, and, as a result, more than 91% of inhabited areas are covered with our 3G outdoor services. In 2011, K-Telecom started to provide telecommunications services based on HSPA+ technology in Yerevan, Gyumri and Vanadzor. We plan to extend HSPA+ technology to all regions of the country. In 2012, we completed replacement of outdated 2G radio equipment with SingleRAN technology. We are currently

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implementing an all-IP concept by providing IP interfaces and transmission link for all base station sites, which is the basic approach for future LTE networks.

In Turkmenistan, we currently provide services based on 3G technology in Ashgabat where we also provide HSPA+ services. In 2013, we plan to significantly expand our 3G network in Turkmenistan and launch 3G services in all inhabited areas of the country.

LTE Technology

In July 2012, the Russian Ministry of Communications and Mass Media announced the results of a tender for national-wide LTE-FDD frequencies. MTS is among the four companies, including Rostelecom, MegaFon, and Vimpelcom which obtained LTE-FDD frequencies in 700, 800 and 2600 MHz bands.

In August 2012 we launched LTE services in Kazan based on the MVNO business strategy. In September, 2012 we began offering LTE-based commercial services in Moscow region where we initially rolled out more than 800 LTE TDD enodeB's. By the end of 2012, we had 1485 enode B's in Moscow. In 2013, we plan to launch LTE-FDD network in 10 regions of Russia.

In Yerevan, the capital of Armenia, we commenced a commercial test of the first 4G/LTE network in December 2010. In 2012 we began to provide LTE services in Gyumri and Vanadzor. We plan to further expand the LTE coverage in Armenia in 2013.

Other Services

In addition to cellular communication services, we offer corporate clients a number of telecommunications services such as design, construction and installation of local voice and data networks capable of interconnecting with fixed line operators, installation and maintenance of cellular payphones, lease of digital communication channels, access to open computer databases and data networks, including the Internet, and provision of fixed, local and long-distance telecommunications services, as well as video conferencing.

Strategic Partnership with Vodafone

In October 2008, we announced a strategic agreement with Vodafone aimed at drawing on Vodafone's expertise in building and developing 3G networks and mobile broadband products, working with leading global equipment providers and deploying innovative client relationship management ("CRM") practices to enhance quality and further improve the efficiency of our operations. In addition, the agreement allows us exclusive access to a range of products, services and devices from Vodafone for our markets of operation in Russia, Ukraine, Turkmenistan and Armenia.

Sales and Marketing

Target Customers

Our target customers historically included companies, professionals, high-income individuals, reporters, government organizations, businesspersons and diplomats. However, with mobile cellular penetration in these segments becoming saturated, we began to more aggressively promote our mobile cellular services to a much wider group of the population. Over time, we adjusted our service model to provide differentiated levels of service to meet the needs of distinctive customer segments as such segments have developed. Today, we are considered a mass-market mobile network operator with a wide range of subscribers in all customer segments. As part of our business, we provide a wide range of products and services to these customer segments.

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In 2012, we concentrated our marketing initiatives on two key strategic areas, which will continue to be our focus in 2013. The goal of these marketing initiatives is to establish us as the best value operator with the most attractive data services provider in the Russian market.

These key focuses are in line with growing global market trend from voice to data transition.

Advertising and Marketing

Our advertising and public relations initiatives include:

brand and image advertising and public relations to position us as the leading mobile cellular operator in Russia, Ukraine, Belarus, Turkmenistan and Armenia;

advertising information and promotion to inform our current and potential customers of the advantages of the high quality and variety of our services and the extensive coverage we offer; and about the attractive value proposition we provide in all our markets;

product and tariff related advertising and promotion for specific marketing campaigns, new tariff plans for various target audiences and pricing discounts and

image and product related advertising information and promotion to inform our current and potential customers of our market leading data products and services

We use a combination of newspaper, magazine, radio, television and outdoor advertising, including billboards and signs on buses and kiosks, and exhibitions to build brand awareness and stimulate demand. We also advertise on-line to market and promote our products and services among the younger tech-savvy consumers. Our indirect advertising includes sponsorship of selected television programs, sport events, music shows and other popular events. We also coordinate the advertising policies of our dealers and partners, such as MTS Bank OJSC ("MTS Bank"), to capitalize on the increased volume of joint advertising and preserve the integrity and high-quality image of the MTS brand. For example, in 2012, we developed a creative framework and visual style for MTS Bank which has been used by MTS Bank in all of its communications since March 2012. In addition, we focus our advertising and marketing efforts on emphasizing the affordability and variety of our tariff plans, the broad coverage of our network and the use and availability of national roaming.

In 2012, we concentrated our efforts on strengthening our positioning as data services provider and operator. As a result the major part of our marketing activities in both products and services areas was closely connected with this strategic focus.

To support our key directions we undertook the following initiatives in 2012:

Voice

In 2012, we continued to actively support and develop the "Super MTS" tariff plan. This is our "flagship" tariff plan which is aimed at mass-market subscribers. Super MTS, developed from the Super Zero tariff plan in 2011, continued to be our main sales-driving offer for 2012. We enhanced our Super MTS tariff plan with additional features: bonus ("100 RUB for replenishment" campaign), local roaming ("Zero on net all over Russia" campaign) and free internet.

In 2012 we also continued to support our Maxi tariff with the focus on off-net calls and internet aimed at higher income audience. The tariff included both off net voice and data advantages.

Data

In 2012, we continued to actively develop and promote data services in line with our strategy. These development efforts included the promotion of the Super BIT add-on to our tariff plans, which offers an unlimited mobile internet throughout Russia, as well as our LTE campaign, BIT

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campaign on TV and several campaigns with our device partners, such as Nokia, Samsung and HTC. We also launched "LTE Internet for the fastest," a special offer which included an MTS 4G LTE modem, a tariff plan and 15 days of free usage. BIT campaign included "After school," a sponsored TV project which started in November 2012 on Channel One and offered unique double-screen format and included product placement, interaction and contest for the viewers. To promote certain mobile devices we launched "Three months of free unlimited mobile internet with Nokia Lumia," "NFC services with Sony Xperia" and "MTS apps for Samsung Galaxy."

Business-to-business offers

In 2012, we introduced several offers for small and medium-sized companies, including a new line of unlimited tariffs with three options depending on the particular client's business needs L, XL and XXL for unlimited communication within the home region, in Russia and internationally, respectively. We also initiated a considerable TV campaign, both image and products oriented, aimed at business customers. We launched a set of programs on RBC TV about small and medium-sized companies which successfully used our products and services in different regions of Russia

Handsets sales offers

During 2012, we continued to reinforce our image as a leading retailer of mobile devices, including MTS branded phones and phones of other vendors. We effectively supported the range of offered MTS branded phones. Throughout the year we launched joint advertising campaigns with Nokia, HTC and Samsung to promote offers of new smartphones. In line with our strategy, our efforts were focused on sales of smartphones and tablet devices.

Other products and services

In 2012, we launched a new product MTS TV, which was supported by two campaigns, Mobile TV and TV a-la-carte digital TV, and by our joint promotional activities with MGTS. As part of this joint effort, we developed a comprehensive strategy for GPON and conducted market research to fine-tune MGTS' image. MTS and MGTS developed GPON in Moscow in terms of technical, product and advertising. We also launched a campaign called "I do not want to pay for Internet and I will not" to promote our broadband offerings, as well developed a GPON focused training commercial for MGTS staff.

Renewed Brand

In December 2008, we reached an agreement with Sistema Shyam TeleServices Limited ("Sistema Shyam") allowing Sistema Shyam to use the MTS brand in India. Sistema is the majority shareholder of Sistema Shyam with an ownership stake of 56.68%. Under the terms of the agreement, Sistema Shyam has had the right to use the MTS brand in India since March 2009, while we started receiving royalties of 0.16% of Sistema Shyam's revenues. The agreement is limited to Sistema Shyam using the MTS brand in India and does not contemplate our participation in Sistema Shyam's operations. The terms also stipulate that we will act as the brand guardian to ensure brand usage and marketing communications adhere to our brand guidelines.

On October 1, 2010, we announced the launch of a refreshed logo which we believe better emphasizes the ideas of innovation and dynamism reflected in our recently introduced new slogan "a step ahead." Our logo and brand style refresh are among the goals of our brand positioning. The refreshed logo retains the same egg shape, but transforms the former logo into a 3D image of a white egg against a red background, which gives the logo a more dynamic and modern look and perception. This new logo is aimed at graphically enhancing and modernizing the egg-shaped logo we have been using since 2006. In addition, we believe that the logo better symbolizes our dynamic and innovative approach to doing business and our stated mission of "creating the best client experience," and our slogan "a step ahead."

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In December 2010, we acquired Sistema Telecom from Sistema, which gave us control over the universal brand featuring the egg-shaped symbol against backgrounds of various colors used by us and our affiliates operating in the telecommunications sphere.

In furtherance of our effort to integrate Comstar within our group, develop and offer integrated communications services and create a unified platform for subscribers, we completed the process of re-branding Comstar with our main MTS brand. Specifically, we carry out advertising campaigns aimed at promoting each of our mobile network, fixed TV and Internet broadband services under the MTS brand name across all media channels.

In February 2012, MBRD a subsidiary of Sistema, announced a change of its name to MTS Bank OJSC, having agreed to use MTS brand owned by us as a basis for further development. During 2012, we took an active part in MTS Bank's re-branding, as well as in product and advertising development. Two campaigns, image-oriented and product-oriented, were implemented. The image campaign, "Many years we helped you to share your dreams, now we help you to fulfill them" was organized to inform consumers that we now offer not only telecommunications services, but also bank services through MTS Bank. The product-oriented campaign was organized to promote our MTS-Dengi banking card.

A new retail format was developed for MTS Bank. It includes our corporate style and colors with a new corporate color, Turkish blue. The new format offers modern consumer-oriented approach. Particularly it influences the way the internal space of the bank offices is organized.

Global recognition

In May 2012, MTS was ranked 85 in the BRANDZ Top 100 Most Powerful Brands, an independent ranking published by the *Financial Times* and Millward Brown, a leading global market research and consulting firm. We were the first Russian company to join the ranks of the most powerful brands in the world in 2008 and we maintained our positions in 2009, 2010, 2011 and 2012.

Sales and Distribution

We have historically enrolled a vast majority of our subscribers through a network of independent dealers that operate numerous points-of-sale in places with high consumer activity, such as supermarkets, shopping centers, air terminals and markets. However, according to press reports, the financial downturn and tightening of the credit markets resulted in virtually all of the large national and regional mobile handset retailers in Russia facing liquidity issues or being on the verge of bankruptcy. In addition, as of April 1, 2009, we ceased working with Euroset, the largest mobile handset retailer in Russia, following Vimpelcom's indirect acquisition of a 49.9% stake. As a result of these factors, the share of our subscribers enrolled through these retailers dropped dramatically during the last quarter of 2008 and continued to drop in 2009. In the second half of 2010, we focused on improving our cooperation with certain of the large national and regional mobile handset retailers such as AltTelekom. We restored our cooperation and resumed working with Euroset in November 2010. We expect a significant reduction in sales through Euroset in 2013 due to the acquisition by MegaFon of a 50% stake in this retailer in December 2012. Currently, Euroset is equally owned by our major competitors, MegaFon and Vimpelcom. With the aim of maintaining our leading position on the mobile retail market, we entered into an agreement with Svyaznoy to increase our sales through its outlets. We also continued to develop our monobrand retail chain in 2012. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business The reduction, consolidation or acquisition of independent dealers and our failure to further develop our distribution network may lead to a decrease in our subscriber growth rate, market share and revenues."

In 2009, we changed the structure of our retail operations by significantly expanding our proprietary sales and distribution network both organically and through the acquisition of several national and regional retail chains. Over the course of 2009, we acquired 100% of handset retailer

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Telefon.Ru, which at the date of acquisition operated 512 stores in 180 cities in Russia; 100% of the Eldorado handset retail chain, which operated 383 stores in 153 cities in Russia; and 100% of handset retailer Telefon.Ru, which operated 180 stores in St. Petersburg and several other regions of Russia.

In addition, in March 2009, we entered into a three-year executive services agreement with the majority shareholder of the Svyaznoy group of companies, which operates a nationwide dealer network in Russia. Under the agreement, the Svyaznoy shareholder provides operational and strategic consultancy services to us, as well as procures that certain managers from the Svyaznoy group, as set forth in the agreement, cease to be employed by the Svyaznoy group and become our full time employees. The contract terminated in 2011 and former managers of Svyaznoy ceased to be our employees.

In addition, we organized our retail operations under a wholly owned subsidiary, Russian Telephone Company ("RTC"). RTC handles all functions relating to our retail operations, including the management of points-of-sale, the purchase and sale of handsets and accessories and subscriber enrollment at our retail outlets. It also endeavors to secure optimal locations for our points-of-sale and monitors the effectiveness of their operations.

In 2012, we continued to implement our strategy in retail operations by increasing the efficiency and optimizing the structure of our proprietary sales and distribution network. We expect to continue enhancing the efficiency and structure of this sales network, including through the optimization of points-of-sale locations, with the aim of maintaining our market position.

Our proprietary distribution network consists of MTS-branded franchise points-of-sale (third-party dealers operating under the MTS brand) and MTS-branded points-of-sale owned by us. As of December 31, 2011, our proprietary distribution network in Russia consisted of 4,146 points-of-sale, including 1,686 franchise points-of-sale and 2,460 points-of-sale owned by us.

In 2012, we have been focusing on the further development of our proprietary network in Russia. As of December 31, 2012, we operated 4,462 points-of-sale, including 1,573 franchise points-of-sale and 2,889 points-of-sale owned by us.

Our proprietary distribution network outside of Russia as of December 31, 2012, consisted of 41 points-of-sale in Ukraine 98 points-of-sale in Armenia and 7 points-of-sale in Turkmenistan.

For newly acquired mobile subscribers in Russia, we link commissions payable to a dealer on a monthly basis to the amount of revenues we receive during the six-month period from the date a subscriber is activated by such dealer. In addition, we have established caps, or a maximum commission amount payable to our dealers. The dealer commissions in Russia currently range between RUB 200 and RUB 2,800 (\$7 and \$92) per subscription.

In Ukraine, we link dealer commissions to the tariff package sold, category of subscriber, subscriber revenue, the duration of a subscriber being active, city of subscription and status of the specific dealer. We have different commission structures based on whether the subscriber is prepaid, postpaid or a CDMA-only subscriber (*i.e.*, subscribers using only mobile Internet services). For each new subscriber, a dealer typically receives a one-time commission payment at the time the contract is signed or monthly payments based on the revenue generated from the subscriber. The dealer commissions in Ukraine for postpaid tariffs consist of one-time commissions of \$5 and we are entitled to retain the full commission amount if the subscriber stops using our services within five months following the month of activation. In addition, we may also pay monthly commission in an amount ranging from 30% to 36% of the revenues generated by the subscriber for a period of 12 months. Prepaid tariff commissions for activation of a subscriber are linked to the territory where a dealer operates. The period during which we pay a dealer commission depends on our market share in that territory and may vary from 4 to 8 months, and is the lesser amount of 50% of the subscriber's monthly invoice and \$10.6. We also pay monthly dealer commissions of \$15 for high quality, long-term

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subscribers, as well as a lump sum amount of between \$156 and \$3,150 to exclusive dealers who sell exclusively MTS Ukraine products and services. For CDMA subscriptions, we typically pay dealers a one-time fee of \$5 upon subscriber activation, as well as monthly payments up to 12 months based on the revenue generated by the subscriber.

We believe that our method for paying commissions provides dealers with greater incentives to add new subscribers, reduces the risk of dealer fraud and improves our cash-flow management.

Competition*The Russian wireless telecommunications market*

Demand for wireless communications services in Russia has grown rapidly over the last 10 years due to rising disposable incomes, increased business activity and declining prices due to intensified competition among wireless communications providers. As of December 31, 2012, overall wireless penetration in Russia was approximately 161.3%, or approximately 230.5 million subscribers, according to AC&M-Consulting.

The Russian market has achieved high levels of penetration in Moscow and St. Petersburg, where penetration reached approximately 201.0% and 205.6%, respectively, as of December 31, 2012, according to AC&M-Consulting. The average penetration rate in regional markets reached approximately 152.0% as of December 31, 2012, according to AC&M-Consulting.

The following table sets forth key data on Russia's wireless telecommunications market as of the dates indicated:

	As of December 31,				
	2008	2009	2010	2011	2012
	(amounts in millions, except for percentages)				
Subscribers ⁽¹⁾	187.8	207.9	219.2	227.6	230.5
Subscriber penetration	129%	143%	151%	157%	161%

Source:

AC&M-Consulting.

(1)

Based on registered subscribers (SIM cards only). There is no uniform definition of active subscribers in the Russian wireless market.

According to AC&M-Consulting, we accounted for 36.2% and 37.6% of subscribers in Moscow, 28.0% and 28.0% of subscribers in St. Petersburg and 30.7% and 30.9% of total Russian subscribers as of December 31, 2011 and 2012, respectively. We believe that the decrease in our market share in Russia, particularly in Moscow, is the result of our effort to restructure our subscriber base to reduce churn by focusing on loyal subscribers rather than infrequent users of our mobile services.

The primary mobile competitors in Russia include us, MegaFon and Vimpelcom, each of which has effective national coverage in Russia. Competition today is based largely on local tariff prices and secondarily on network coverage and quality, the level of customer service provided, roaming and international tariffs and the range of services offered. For a description of the risks we face from increasing competition, see "Item 3. Key Information D. Risk Factors Risks Relating to Our Business We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies."

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The following table illustrates the number of wireless subscribers for each network operator in Russia as of December 31, 2010, 2011 and 2012:

Operator	As of December 31,		
	2010	2011	2012
	(amounts in millions)		
MTS	71.4	70.0	71.2
MegaFon	56.6	61.6	62.6
Vimpelcom	52.0	57.2	56.1
Others	39.3	38.8	40.6

Source: AC&M-Consulting.

MegaFon. MegaFon, which operates GSM 900/1800/UMTS (3G) networks, is one of our primary competitors in Russia, and it is the second largest GSM wireless operator in Russia in terms of subscribers. MegaFon group holds GSM 900/1800/UMTS (3G)/LTE licenses to operate in all 83 regions of the Russian Federation. According to AC&M-Consulting, MegaFon had a subscriber base of approximately 62.6 million subscribers in Russia as of December 31, 2012, including 9.9 million subscribers in the Moscow license area. At December 31, 2012, according to AC&M-Consulting, MegaFon had a 26.4% market share in Moscow, a 34.1% market share in St. Petersburg and a 27.1% market share of total wireless subscribers in Russia.

Given the increasing demand for data services we monitor the development of Skartel LLC, which operates under the YOTA trade mark. Currently YOTA offers LTE Internet services in 22 cities of Russia. Skartel LLC is a wholly owned subsidiary of Garsdale Services Investment Limited which also holds 50% plus 1 share in MegaFon.

Vimpelcom. In addition to MegaFon, we also compete with Vimpelcom, which is the third largest GSM 900/1800/UMTS (3G)/LTE wireless operator in Russia in terms of subscribers.

According to AC&M-Consulting, it had a subscriber base of approximately 56.1 million in Russia at December 31, 2012, including 13.2 million subscribers in the Moscow license area. At December 31, 2012, according to AC&M-Consulting, Vimpelcom had a 35.2% market share in Moscow, a 19.6% market share in St. Petersburg and a 24.3% market share of total wireless subscribers in Russia.

Other Operators. In addition to our principal competitors, MegaFon and Vimpelcom, we also compete with local GSM operators in several Russian regions.

In certain areas of Russia, we compete with Tele2, which had approximately 22.7 million subscribers as of December 31, 2012 according to AC&M-Consulting. Also, we compete with Rostelecom and its subsidiaries CenterTelecom, SibirTelecom, Dalsvyaz, Uralsvyazinform, Volga Telecom, North-West Telecom, Southern Telecommunications Company and Dagsvyazinform. According to AC&M-Consulting, Rostelecom had approximately 13.6 million customers as of December 31, 2012.

The Ukrainian wireless telecommunications market

From 2003 to 2007, the Ukrainian wireless telecommunications market enjoyed rapid growth, in part, due to broader economic recovery in Ukraine, changes in ownership of the two major operators, the introduction of CPP (calling party pays) billing arrangements and the launch of the Beeline brand in Ukraine in April 2006 by Ukrainian RadioSystems ("URS"), a wholly owned subsidiary of Vimpelcom. The two largest wireless telecommunications providers in Ukraine are MTS Ukraine and Kyivstar who share 81% of the market, with 36% and 45%, respectively, as of December 31, 2012, according to AC&M-Consulting. The competitive environment in Ukraine changed after Vimpelcom Ltd., a Bermuda holding company, completed the acquisition of Vimpelcom and Kyivstar initiated earlier in 2010 pursuant to the restructuring of Vimpelcom. As a result, Vimpelcom Ltd.

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currently controls both Kyivstar and URS. Consequently, in October 2010, Kyivstar and URS each announced that they have started integrating their operating activities in Ukraine, including the re-branding of URS services under the Kyivstar brand and introducing unified tariffs and a common system for client relationships management. During the third quarter of 2012, in response to the previous quarter's weak results, Kyivstar intensified its marketing activities by launching a market strategy which was significantly similar to ours, offering "zero" prices for in-net calls nation-wide with different price points on the specified regional levels. In turn, we promptly launched a winter campaign called "Zero without compulsory charges," as daily charges were viewed as the principal negative factor for Kyivstar customers.

Astelit, another competitor operating in Ukraine, is continuing its campaign of downmarket pricing. In response to the increasing competitive operating environment, we continued to focus on developing and marketing our best customer experience and positioning ourselves as offering the optimum price/quality proposition. In addition, we continued to improve the quality of our subscriber base by enhancing customer realization rates and increasing usage levels to stimulate subscriber loyalty. As a result, in 2012 our annual MOU and ARPU increased by 3% and 1%, respectively, while APPM remained stable.

Overall wireless penetration in Ukraine in 2012 increased to 126.1%, or approximately 57.7 million subscribers, as compared to 117.6%, or approximately 51.0 million subscribers, in 2011, according to our estimates.

The following table shows the number of subscribers of the top mobile operators in Ukraine as of the dates indicated and the coverage area of MTS Ukraine and our competitors in Ukraine:

Operator	As of December 31,		
	2010	2011	2012
	(amounts in millions)		
Kyivstar	24.4 ⁽¹⁾	24.8	26.0
MTS Ukraine	18.2 ⁽²⁾	19.5 ⁽²⁾	20.7 ⁽²⁾
Astelit	6.1 ⁽³⁾	7.0 ⁽³⁾	8.0 ⁽³⁾

- (1) In October 2010, Kyivstar and URS each announced that they started integrating their operating activities in Ukraine. The number of subscribers of Kyivstar for 2010 has been adjusted to reflect this integration.
- (2) Number indicates our GSM subscribers. As of December 31, 2012 and 2011 also includes our CDMA subscribers, which reached 0.3 million and 0.3 million, respectively.
- (3) Number of three-month active subscribers.

Source: Subscriber information based on AC&M-Consulting data and operators official financial and operational reports.

In Ukraine, we compete primarily with Kyivstar, a GSM operator with approximately 26.0 million subscribers as of December 31, 2012. Kyivstar offers wireless services using GSM 900/1800 technologies under the "Kyivstar," "Djuice" and "Beeline" brands and fixed line services by the fiber-to-the-building technology ("FTTB") under the brand "Kyivstar Home Internet." Astelit offers services in GSM 900/1800 standards under the "life:" brand.

In July 2006, we received a license to provide telecommunications services on the entire territory of Ukraine using the CDMA-450 standard. Following our development strategy in Ukraine, we launched a broadband network using CDMA 2000, deployed in the 450 MHz spectrum band, in November 2007. In 2010 we started to offer prepaid CDMA tariffs. Our CDMA business in Ukraine faces wide competition from other operators, including Intertelecom (including CDMA Ukraine), People.net, Utel (the only UMTS license holder in Ukraine), fixed broadband operators and Wi-Max operators. In 2012, we launched Rev B CDMA technology services in the Kiev region.

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As of December 31, 2012, overall wireless penetration in Armenia was approximately 118.0%, or approximately 3.79 million subscribers, according to our estimates.

The following table shows the number of subscribers as of the dates indicated and the coverage area of VivaCell-MTS and our competitors in Armenia:

Operator	As of December 31,		
	2010	2011	2012
	(amounts in millions)		
VivaCell-MTS	2.5	2.4	2.4
ArmenTel (Vimpelcom)	0.7	0.8	0.8
Orange (France Telecom)	0.6	0.6	0.6

Source: Subscriber information based on our estimates.

As of December 31, 2012, VivaCell-MTS had approximately 2.41 million subscribers and a 64.0% market share, according to AC&M-Consulting and our estimates. In Armenia, we compete with ArmenTel, a fixed line and mobile operator wholly owned by Vimpelcom. ArmenTel holds a license in the GSM 900 standard for the entire territory of Armenia and a radio frequency permit for fixed line communications with CDMA equipment. Starting from 2009, we also compete with Orange (France Telecom), which was granted a GSM-900/1800 network license in October 2008.

Tariffs

We customize our marketing efforts and pricing policies in each region of Russia and our other countries of operation by considering such factors as average income levels, the competitive environment and subscriber needs, all of which vary from region to region. Consistent with our marketing strategy, we have developed tariff plans to appeal to a broader market. The following table shows the mix between prepaid and other subscribers, such as contract and corporate customers, for Russia and Ukraine for the periods indicated:

	As of December 31,		
	2010	2011	2012
Russia			
Prepaid	81%	77%	74%
Contract and corporate	19%	23%	26%
Ukraine			
Prepaid	92%	92%	91%
Other	8%	8%	9%

We are seeking to migrate our customers from advance payment plans to credit payment plans in an effort to stimulate ARPU and reduce churn. We endeavor to mitigate the risk of bad debt through the implementation of credit scoring algorithms that assess and help manage the risk of potential bad debt.

We currently have a unified system of tariff plans offered to subscribers throughout Russia. The unified system is aimed at achieving such benefits as clarity, simplicity and transparency for prospective subscribers by offering the same set of tariff categories throughout Russia. Under each tariff category, we offer different tariff plans with different connection fees, per minute call charges and a wide range of value-added services. All tariffs presented below are expressed in U.S. dollars converted from rubles using the exchange rate as of December 31, 2012.

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By advertising on a national rather than regional or local level, we have been able to streamline and reduce our advertising and marketing expenses through unified advertising campaigns throughout Russia. Furthermore, we are able to convey to consumers a more uniform perception of our brand and services.

Currently, each of our tariff plans in Russia combines per minute usage charges, value-added services in packages and different monthly network access fees (with the exception of the prepaid tariff plans) designed for different market segments. Our tariff plans are designed to be simple and appeal to particular segments of the market taking into account such factors as customer needs and consumption levels. Our tariff plans are currently divided into five categories "Prepaid," "Maxi," "Unlimited," "Data" and "Corporate" with each category designed to target specific segments as follows:

Prepaid: Prepaid tariff plans are geared towards consumers who use their mobile phones for personal communication. These plans do not have monthly subscription fees and the per-minute fee charges depend largely on the tariff plan chosen. We offer a family-oriented tariff plan, Super MTS, which allows family members to make up to 60 minutes of calls per day within the network for free (on condition that customers top up their account for a specified amount). The Super MTS tariff plan was launched instead of the Super Zero tariff plan in the fourth quarter of 2011 as part of our "zero territory" evolution (our development of tariff plans with at least one included free option). The Super MTS tariff plan varies depending on the region of the customer and it is a tariff plan which we believe will remain a competitive tariff plan over a long period of time. We also offer a tariff plan, "Red Energy," developed for different market segments, featuring flat price for calls within our network and calls to other networks. Subscribers to our prepaid plans can reduce the price of their calls by using tariff options which have a subscription fee. Subscribers to our prepaid plans can reduce the price of their calls by using tariff options which have a subscription fee. There are at least three prepaid plans available in each of the Russian regions where we operate. After our customers subscribe to a particular prepaid plan, they have the option of switching to a different prepaid plan by sending an SMS message (USSD request) to a designated number.

Maxi: "Maxi" is the re-designed family of integrated voice and data tariff plans for customers with active mobile data usage. MAXI has a monthly fee for a bundle of all-net minutes and Internet. On-net calls above the bundle are free. Versions of MAXI (MAXI Smart and MAXI Top) differ by amount of minutes and megabytes included in the bundle and the corresponding monthly fee.

Unlimited: "Unlimited" tariff plans are designed for heavy users who call primarily within their domestic region. Subscribers of unlimited tariff plans are provided an unlimited number of local minutes, an opportunity to pay through our credit payment system and access to personal customer care service. In the Moscow region, for those subscribers issued a local number, monthly fees start from \$106.2 and those using a federal number pay from \$69.8 per month. The Ultra tariff plan includes unlimited calls to MTS numbers as long as the recipient and the caller are in the same region (defined as "home region"), free domestic calls from the MTS network to any number regardless of carrier up to a certain limit of minutes, no roaming charges within Russia, unlimited mobile Internet access and unlimited SMS messages within the network.

Data: We offer special tariffs for active users of mobile Internet devices (*e.g.*, USB-modems and 3G-capable devices). For data users, our range of tariff plans is optimized by device type: smart phones and feature phones (small screen), tablets (mid screen) and laptop / table computers (big screen). For "small screen" users we offer the BIT add-on option family MiniBIT, BIT, SuperBIT that are available on voice tariff plans. In 2012, we have launched a new tariff plan MTS Planshet (means "Tablet" in Russian) that addresses a growing "mid screen" market. For "big screen" users, either for USB-modem or embedded modems, we offer a set of options on

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MTS Connect tariff plan. We plan to continue the active development of mobile internet usage in 2013.

Corporate: We offer up to four tariff plans in each region targeted to meet the demands of our corporate clients, each plan allowing them to optimize their communication expenses in accordance with their individual consumption patterns. These plans feature specialized customer care, payment through our credit system and volume and tenure discounts. In addition, we provide customized pricing offers and technical solutions to our biggest clients.

Our tariffs vary from plan to plan. The following description of tariffs and charges are, in each case, exclusive of VAT. As of December 31, 2012, the per-minute tariff for local calls within the MTS network varied from zero per minute to \$0.084 per minute. Different rates apply to local calls to other networks and vary from \$0.018 per minute to \$0.092 per minute. Higher rates apply to domestic long distance calls and rates for international calls vary from \$0.066 per minute for calls to MTS subscribers within the CIS to \$2.305 per minute for calls to other parts of the world. Periodically, we run various promotional campaigns, either on the federal or regional level, in which we provide temporary discounts to our regular prices.

We offer unified tariff plans throughout Ukraine and, in connection with our re-branding efforts in Ukraine during 2007 and 2008, we developed new regional and segmented tariff plans that focus on the differing needs of subscribers in the various market segments. Our tariff plans in Ukraine are oriented towards the following three main segments: (i) Business Postpaid, (ii) Private Postpaid and (iii) Private Prepaid. Private Prepaid tariffs are further divided into national mass-market tariffs, youth market tariffs, regional tariffs, and segmented tariffs.

Business Postpaid: A set of postpaid corporate tariff plans targeting business segment subscribers, including tariffs with per second billing, as well as special low prices for calls to other mobile operators, no connection fees and free of charge unlimited calls within the MTS Ukraine network. Along with business tariffs for corporate customers, we have designed a special tariff plan for machine-to-machine customer segment based featuring a unique tariff which combines service packages for M2M-cards and personalized service and consulting. We offer corporate clients specially designed combined service packages with a wide range of telecommunications services included. We also offer cross bill discounts based on business customers' monthly usage, as well as provide special handset subsidies on the condition that the buyers remain our customers

Private Postpaid: A set of postpaid tariff plans designed to approach mass-market subscribers, offering free of charge unlimited calls within the MTS network and no connection fees. The Private Postpaid tariffs are the main instrument for the postpaid base growth due to customers life time value development and migrations from Prepaid segment. We offer special postpaid tariffs which are available only to customers switching from Prepaid plans and other privileges for these migrating customers. The main advantages of Postpaid over Prepaid are include the customer's ability to obtain all services on credit, per second billing, more convenient roaming and customer service.

Private Prepaid:

MTS Prepaid Mass: A set of special tariff plans designed to attract mass-market subscribers. The main national tariff plan "Super MTS Without Call Setup Fee and Recharges" offers a certain daily number of minutes and SMS, free of charge within the MTS Ukraine network, step-charging billing and higher rates for calls to other mobile operators than in Postpaid. There is also a daily fee in this tariff plan. Together with this tariff, we offer an extensive list of segmented services for medium and heavy users, such as calls in MTS network or other networks, Mobile Internet, SMS, MMS, International calls, Roaming for better customer development and higher customer loyalty.

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MTS Prepaid Youth: A special youth tariff platform designed to appeal to youth-market subscribers. Popular tariff plan "MAX Energy" offers a monthly set of free minutes and SMS in MTS Ukraine network and free GPRS megabytes without daily limits, without call setup fees. There is also a special daily fee associated with this tariff plan. The youth segment is characterized by large volumes of data traffic and the highest significant smartphone penetration rate among our customers.

MTS Prepaid Regional: A set of low priced tariff plans tailored to particular regions and cities where MTS Ukraine currently have moderate or small market share. Our regional pricing strategy covers 26 regions of Ukraine grouped by level of MTS' market share and competitive environment in five clusters: strong, medium, strategic, growing and unattractive. Tariffs plans for each cluster can vary by the number of free minutes, prices for off-net services, daily fees and prices for additional services.

MTS Prepaid Segments: A set of special tariff plans offered to certain low volume market segments such as Russian tourists spending summer months in Crimea or children in age between 7 and 12 years old. In particular, the tariff plan "Tourist MTS 2012" offers low rates for calls from Ukraine to Russia, tariff plan "Super MTS Team" allows children to make free of charge calls to their parents, while Internet and content services are prohibited on this tariff plan. We also engage in event marketing: for example, we launched a special tariff plan to target the EURO-2012 visitors with low international calling rates and predefined volumes of data services.

As of December 31, 2012, the standard per minute tariff for calls in Ukraine varied from \$0.03 per minute to \$0.15 per minute. The standard per minute tariff for calls made within the MTS Ukraine network ranged from \$0 per minute with limitations in minutes to \$0.09 per minute. Higher rates, ranging from \$0.02 per minute, applied to international calls to fixed lines of some countries in special service to \$9.2 per minute in standard international tariffs for satellites. All tariffs for MTS Ukraine subscribers are quoted in hryvnias. The tariffs set forth above are translated from hryvnias to U.S. dollars using the official exchange rate of UAH7.993 per \$1 as of December 31, 2012.

Customer Payments and Billing

We enroll new subscribers in an advance payment program, under which the subscriber prepays a specific amount of money to use our services. As of December 31, 2012, 79% of our consolidated subscriber base was enrolled in the advance payment program and 21% used the credit system.

Our advance payment system monitors each subscriber account and sends an advance warning on the subscriber's mobile telephone when the balance on the subscriber's account decreases below a certain threshold.

Under the credit payment system, customers are billed monthly in arrears for their network access and usage. We limit the amount of credit extended to customers based on the customer's payment history, type of account and past usage. As of December 31, 2012, subscribers using the credit system of payment had credit limits of up to \$3.3 million for key corporate customers in Russia. When a credit limit is reached, we block the telephone number until the balance is settled. There are no credit limits established for certain exceptional, high loyalty level customers.

In 2007, we began to actively promote our credit payment system to our existing and new subscribers with the aim of migrating our subscriber base to the credit payment system from the existing advance payment system. In furtherance of this effort, during the period from 2009 to 2010, we introduced the "in full confidence" service (instead of the "Credit" service), which allows our prepaid customers who subscribe to this service to continue using services when the balance on the subscriber's account becomes negative. We assign credit limits to our subscribers based on their payments and

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charge history (*i.e.*, average balance usage) during the prior three months. As of December 31, 2012, subscribers using the "in full confidence" service had a maximum credit limit of \$ 1,867. Customer service representatives can also set individual credit limits for subscribers. When the credit limit is reached, our billing system blocks the phone number until the balance is settled. Similarly to the credit payment system, the subscribers are billed monthly in arrears for usage. The invoice, which can be delivered to the customer by e-mail, fax, regular post and Internet, should be settled within 24 days. If the invoice is not paid five to seven days prior to the due date, the system sends an additional reminder. The telephone number is blocked on the 25th day if the invoice is not settled.

We completed implementation of the Foris billing system in Russia in 2008 and have already begun to experience increases in our overall efficiency and reductions in our expenses. We are planning to complete the transfer of our individual subscribers in Ukraine to the Foris billing system by September 2013. In Armenia, we use the "Eskadenia" billing system. The new billing system allows us to offer all of our subscribers a uniform and consistently high level of service. It also supports the monitoring of account usage in real time. In addition, the system provides us with the ability to offer flexible tariff plans with various usage discounts and subscriber loyalty bonuses. Furthermore, we are able to provide our corporate subscribers with more sophisticated customized billing solutions. For example, our corporate subscribers who use multiple phone numbers in different regions of Russia now receive a single invoice, whereas our previous billing system could not support such a service.

In Russia, we offer our subscribers various ways to pay for our services, including by cash or credit card, wire transfer, prepaid cards and express payment cards.

In Ukraine, our post-paid corporate and high-end subscribers receive an invoice which must be paid by a specified date. If the subscriber fails to pay, we block the phone number until the balance is settled. Our contract subscribers, who make an advance payment, are able to continue using our services once they reach a zero balance or until their accounts reach the credit limit specified in their service agreements. When the limit for such a subscriber is reached, we suspend our service until the balance is settled. We determine account terms and credit limits for each subscriber based on the subscriber's age, payment history and tariff plan. In Ukraine we provide services to our pre-paid customers for as long as the balance on their accounts remains above zero and/or the tariff plans allow to use free-of-charge services without having the positive balance on the account.

In Ukraine we offer our subscribers various ways to pay for our services, including by cash or payment card in the assigned cash desks in our mono-brand shops, cash or card payment at the cash desk of the bank, through the recharge terminals, bank transfer from the current account (for legal entities), via internet and payment card of fixed nominal value.

Customer Service

We believe that to attract and retain customers, we must provide a high level of service in the key areas of customer assistance, care and billing. In each of the markets where we operate, we have contact centers that provide customer service 24 hours a day, seven days a week. Contact centers provide services to our customers through various channels (*i.e.*, telephony, e-mail and fax). Customer service representatives answer inquiries regarding disconnection due to lack of payment, handset operation, roaming capabilities, service coverage and billing. A special group of customer service representatives handles customer claims and assists customers who wish to change their services. We regularly use automatic systems and independent analysis to monitor the contact centers' accessibility and customer satisfaction with the service level offered at such centers. To improve customer loyalty, reduce churn rate and promote our services, we conduct outbound calling campaigns using MTS staff, including the outbound contacts center and the customer relationship management laboratory, a system for managing our interaction with customers, clients and sales prospects.

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In 2009, we implemented the CRM system for our customer care processes in each of our primary macro-regions in Russia. We use the functionality of the CRM system to aid in the planning of our marketing activities.

In 2012, we finished the process of integration of our fixed line business customer service and assistance into us. As a result of this integration, any fixed line customer in Russia can now receive advice and expert assistance in our contact center.

In order to reduce operating expenses, the contact centers were relocated from regions where property ownership was expensive to other Russian regions where such costs are lower. To further increase operating efficiencies, we completed the consolidation of our contact centers into three key locations in Russia in 2011. We continuously work to improve customer satisfaction by providing our subscribers with convenient and functional self-service systems (*e.g.*, Internet-Helper, interactive voice response ("IVR") and Mobile Helper). For instance, Internet-Helper is a service that, among other things, provides the customer with an opportunity to view information about his contract and personal information as well as manage certain account data. Similarly, Mobile Helper, among other things, allows a customer to receive information about his current balance, tariff plan details, as well as change service language and view bills for previous months. In 2012, we offered our customers the ability to pay for services using interactive voice menu IVR. As a result, the customers can now refill their accounts at any time using their bank cards and IVR.

In 2010 and 2011, we also continued expanding our retail chain and began providing customer support in our retail stores. Currently, customer assistance is offered in over 3,000 monobrand retail stores in Russia. In order to support customer assistance in our monobrand outlets, in 2011 we established a special center for processing delayed customers' claims and requests from all over Russia. In 2012, we established a telephone hotline support for our monobrand retail stores. The staff at our shops can call the hotline and get advice regarding our services. With the creation of the center of claims processing and support hotline mono-brand stores we are able to provide our clients with a high level of service at our retail stores

We also have back-office employees responsible for handling diverse customer inquiries and for helping reduce the impact of technical problems and incidents on our customers. In addition, we have established customer retention departments throughout the territory of Russia to develop and implement customer retention programs with respect to all key customer segments and each of our primary service offerings. Our customer retention personnel are responsible for training front line employees on handling customer claims and suggestions, as well as following up with those customers who disconnected from our network to understand the reasons for the disconnection and properly respond to the changing needs of our customers. We continued pursuing a personalized approach in customer care using the Siebel CRM system, which helps us manage all customer-facing operations. In 2012, we began to implement Siebel CRM in our retail network, as well as for fixed business customers. Further CRM system development will help us to assist all of our customers, including fixed line business customers, in a more personalized manner. The segmentation model we use in customer care allows us to differentiate the service levels for our customers. In 2013, we plan to actively develop the self-service for our customers and implement speech recognition in the IVR voice menu. Also in 2013, our customers will be able to order in IVR SMS messages containing background information about the services. We also plan to continue the integration of off-line functions of the MGTS, such as claims processing, queries, and the integration of billing center with our operations.

In 2008, in Ukraine, we launched a web portal and started to provide free access at special terminals in our sales offices for contract customers. In 2009, 2010, 2011 and 2012 we further enhanced the quality of our customer service as a result of the complete integration of our IVRs and billing. In 2012, we made improvements to the IVRs menu to enhance its utility.

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In 2010, in Ukraine, we launched an online "self-service" for our pre-paid customers and significantly increased the number of its users in 2011. As part of online "self-service," we continued developing "self-care" functions through the web and IVRs (which provide, among other things, details of the subscriber's account, tariff plan specifications, amounts charged on credit cards, management of on-line service and charge details for contract subscribers). We also developed special services, such as shortened phone numbers, for broadband users and premium customers who require assistance. We increased the number of services available to our customers in contact centers and started telephone outbound sales through the outsourced contact center.

In 2012, we significantly increased retention and cross- and up- selling activities in our contact centers, including interactive presentations by agents, IVR system and launch of new paid services. We also completed the process of simplifying and unifying customers care functions through our call centers. In 2012, we made improvements to our self-care channels, launched a mobile version of the Internet Helper for smartphones. We have also started to provide support for our broadband subscribers, which we plan to further develop in 2013.

In 2012, we restructured the customer services department in MTS Ukraine which allowed us to increase efficiency of the management of customer service business processes. We made the customer assistance process in Ukraine more personalized by anticipating customer needs. We maintain a history of subscribers' requests and personalize the IVR for each customer profile, which depends on individual ARPU, region and other parameters. Based on these parameters we calculate the customer lifetime value index ("CLVI"), which we use to classify our subscribers, so that we can provide our priority customers with a wider range of services.

In 2013, we will continue to transform our call centers into effective channels for client relationship management. We plan to establish an operational CRM system and renew the technical platform for our contact center. In 2013, we plan to expand our self-care channels and launch mobile application for mobile phones.

Network

Network Technology

We believe that geographic coverage, capacity and reliability of the network are key competitive factors in the sale of mobile cellular telecommunications services. Our 2G network is based primarily on GSM 900 infrastructure, augmented by GSM 1800 equipment. We use GSM 1800 equipment in high-use areas, because 1800 MHz base stations are more efficient in relieving capacity constraints in high traffic areas. Although there is no difference in quality between GSM 900 and GSM 1800 services, the higher frequency 1800 MHz signals do not propagate as far as 900 MHz signals. As a result, more 1800 MHz base stations are typically required to achieve the same geographic coverage. Accordingly, in regions where geographic coverage, rather than capacity, is a limiting factor, networks based on GSM 900 infrastructure are typically superior to those based on GSM 1800, because they require fewer base stations to achieve coverage and, therefore, cost less. In most markets, the most efficient application of GSM technology is to combine GSM 900 and GSM 1800 infrastructure in a unified network, which is commonly referred to as a dual-band GSM network. In 2012, we completed the replacement of outdated 2G radio network equipment with SingleRAN technology in Moscow, the Moscow region, Far East and Armenia.

Our 3G network is based on UMTS 2100, and our existing GSM infrastructure is actively used for our 3G rollout. We are combining our UMTS and GSM infrastructures in a unified network based on the Single RAN concept introduced by our vendors. In 2013, we will continue to develop UMTS 2100 networks in Russia, Belarus, Turkmenistan and Armenia in order to provide our subscribers with high-quality services. We provide HSPA+ services with download speeds of up to 21 Mbps in Russia and Armenia and DualCell services with download speeds of up to 42 Mbps in Moscow and Yerevan.

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In 2011 we launched UMTS 900 in the Moscow region. In 2012, we began the re-farming of available GSM spectrum and launched UMTS 900 in the Far East (Khabarovsk region). We launched UMTS 900 because of the regulatory limitations on the use of UMTS 2100. The dual-band 2100/900 UMTS network gives us a significant advantage in the wireless broadband market in terms of coverage. Our GSM and UMTS networks are being developed towards IP interfaces in accordance with the ALL IP (full set) concept which is the basic concept for future LTE networks.

We have been implementing the latest cutting-edge technologies such as LTE. We launched LTE FDD 2600 in Armenia in 2010. In 2012, we continued to develop our LTE network and covered additional cities in the Northern regions of Armenia and launched LTE TDD 2600 in Moscow. Commercial services based on LTE are available in the Moscow region from September 2012. Currently, we and Scartel are the only mobile operators with own LTE network in Moscow.

In 2013, we plan to launch LTE-FDD network in 10 regions of Russia and continue to improve the LTE coverage in Armenia.

Network Infrastructure and Frequency Allocation

We use switching and other network equipment supplied by Motorola, Nokia Siemens Networks, Ericsson, Huawei, Alcatel-Lucent and other major network equipment manufacturers.

In the Moscow license area, we have allocated frequencies spanning 2×11.4 MHz of spectrum in the GSM 900 frequency band and 2×24.6 MHz of spectrum in the GSM 1800 frequency band for operation of a dual GSM 900/1800 network. In 2011, we have allocated frequencies 2595-2620 MHz spanning 25 MHz for LTE TDD network deployment in Moscow and the Moscow region.

In St. Petersburg and the Leningrad region, we have allocated frequencies spanning 2×9.6 MHz of spectrum in the GSM 900 frequency band (including 2×1.6 MHz in the E-GSM band) and 2×18.2 MHz of spectrum in the GSM 1800 frequency band for operation of a dual GSM 900/1800 network.

We have allocated frequencies 1950-1965 MHz, 2010-2015 MHz and 2140-2155 MHz in the UMTS core frequency bands spanning 2×15 MHz (for FDD mode) and 5 MHz (for TDD mode) for UMTS network deployment for the entire territory of the Russian Federation.

We have allocated frequency bands 2540-2550 MHz and 2660-2670 MHz spanning 2×10 MHz and frequency bands 798.5-806 MHz and 839.5-847 MHz spanning 2×7.5 MHz for LTE FDD network deployment for the entire territory of the Russian Federation.

We have frequencies allocated to us for the operation of GSM 900 and GSM 1800 frequency bands in all regions of Ukraine. The radio frequencies allocated to us for the operation of GSM 900 span from 2×4.0 MHz of spectrum in the Crimea Autonomous Republic to 2×5.8 MHz in the Nikolaev, Lugansk, Chernovtsy and Kirovograd regions and in Kiev. We also have been allocated frequencies spanning from 2×20.0 MHz in the Kiev region to 2×26.6 MHz in the Dnepropetrovsk region for operation of GSM 1800 base stations. In addition, we have been allocated frequencies spanning from 453.35-457.1 MHz and 463.35-467.1 MHz in the CDMA-450 core frequency and bands spanning 3×1.25 MHz for CDMA-450 network deployment for the entire territory of the Ukraine.

We believe that we have been allocated adequate spectrum in each of our license areas.

Base Station Site Procurement and Maintenance

The process of obtaining appropriate sites requires that our personnel coordinate, among other things, site-specific requirements for engineering and design, leasing of the required space, obtaining all necessary governmental permits, construction of the facility and equipment installation. In Russia, we use special radio planning software supplied by Aircom International and Mentum to assess new sites

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so that the network design and site development are coordinated. This software can create digital cellular coverage maps of our licensed areas, taking into account the peculiarities of the urban landscape, including the reflection of radio waves from buildings and moving automobiles and supports all necessary technologies, such as 2G, 3G and LTE. To use with these tools more effectively we purchase high quality 3D digital maps for more precise planning. Used together, these software tools enable us to plan base station sites without the need for numerous field trips and on-site testing, saving us considerable time and money in our network build-out.

Base station site contracts are essentially cooperation agreements that allow us to use space for our base stations and other network equipment. The terms of these agreements range from one to 49 years, with the term of a majority of agreements being one to five years. Under these agreements, we have the right to use premises located in attics or on top floors of buildings for base stations and space on roofs for antennas. In areas where a suitable base station site is unavailable, we construct towers to accommodate base station antennas, mainly on leased plots of land. We anticipate that we will be able to continue to use our existing GSM 900 base station sites and to co-locate GSM 1800, UMTS 2100 and UMTS 900 base stations at some of the same sites.

To provide high quality service to our subscribers in Russia, we launched a global network operation center ("GNOC") in Krasnodar in July 2012. The GNOC experts carry out the monitoring of network equipment in six macro-regions of Russia around the clock. We have two more operation and maintenance centers in Moscow and Voronezh. Our maintenance department, staffed 24 hours per day, performs daily network integrity checks and responds to reported problems. Our technicians inspect base stations and carry out preventative maintenance at least once every six months.

Network Monitoring Equipment

We have three network operation and maintenance centers: GNOC in Krasnodar and two local network operation centers in Moscow and Voronezh. We constantly control and monitor the performance of our network, call completion rate and other major key technical performance indicators. We use monitoring systems to optimize our network and to locate and identify the cause of failures or problems, and also to analyze our network performance and obtain network statistics. We have agreements with different suppliers for technical support services that allow us to obtain their assistance in trouble shooting and correcting problems with our network within the warranty period.

The GNOC in Krasnodar allows us to centralize such functions as monitoring and controlling of equipment, network planning and optimization, and also helps to solve incidents related to service interruptions. The GNOC experts have the technical ability to monitor network problems and unusual situations online in six macro-regions of Russia. We expect that GNOC will strengthen our network's reliability and safety, as well as will create the necessary conditions to launch and implement new technologies and network standards.

In Voronezh, the operation and maintenance center is realized in the form of outsourcing partnership with Nokia Siemens Networks and is used for network monitoring in macro-region "Center."

The local network operation center in Moscow is used for network monitoring in macro-region "Moscow."

Our networks in Ukraine, Turkmenistan, Armenia and Belarus are monitored by our local operation and maintenance centers in each country. In addition to monitoring of network performance, these centers are used to analyze network quality parameters and provide reports and recommendations to management.

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The handling of any significant network problems and outages is monitored and coordinated at our headquarters in Moscow, where we also manage the cross-functional coordination of our networks in all countries of operation.

Interconnect Arrangements and Telephone Numbering Capacity

We operate various types of communications networks, including mobile cellular, DLD/ILD and local fixed line and zonal fixed line networks.

Cellular operators must interconnect with fixed zonal, wireless, long distance and international telephone operators to obtain access to their networks and, via these operators, to the networks of other operators around the world. Cellular and fixed line operators must also obtain telephone numbering capacity to allocate to their subscribers. There are two categories of telephone numbers: "federal" 11-digit numbers (non-geographical numbering plan for cellular operators) and "local" seven-digit numbers (geographical numbering plan for fixed-line operators which can also be used as additional numbering capacity for mobile operators). In Moscow, both "federal" and "local" numbers have been used in the 11-digit format since the beginning of 2011. We have entered into various agreements for the provision of local telephone numbering capacity with several local telecommunications operators in Moscow and in other regions of Russia and in Ukraine. We have also built our own local networks in certain cities within Russia (including Moscow) to provide local telephone numbering capacity to our subscribers. We are allocated federal telephone numbering capacity by the government and we provide interconnect services to other operators on the zonal level in all regions of Russia. Our fixed line zonal and local networks in Russia are interconnected with other operators. Zonal/local interconnect typically entails payment of a one-time connection fee per point of interconnect (E1) and a usage charge based on minutes of traffic. Operators with a substantial market position may also charge a guarantee monthly usage fee in case traffic is less than 30 kmin per E1.

The Ministry of Communications and Mass Media has allocated special numbering codes for federal 11-digit telephone numbers on a non-geographical basis for all cellular operators. We believe that we have been allocated sufficient numbering capacity for the development of our network. However, a combination of regulatory, technological and financial factors has led to the limited availability of local 7-digit telephone numbering capacity in Moscow and the Moscow region. Moscow's "495" code and the Moscow region's "496" code have already reached numbering capacity limits. As a result, the new "499" code was introduced in order to increase the Moscow numbering capacity, the "498" code was introduced to increase Moscow region numbering capacity.

To meet subscriber demand and provide for an adequate inventory of numbering capacity, we used to enter into contracts with local fixed line providers for allocation of numbering capacity to us. However, the Ministry of Communications and Mass Media subsequently took the view that numbering capacity assigned to one operator could not be rented to other operators. Accordingly, we have entered into arrangements whereby fixed line operators make their numbers available to our subscribers via agency contracts between the subscribers and us acting on behalf of such fixed line operators. Our right to use numbering capacity ranges from five years to an unlimited period of time. As a result of our merger with Comstar, we have decreased the use of local numbering capacity of other operators. As of December 31, 2012, we had numbering capacity (federal and local) for approximately 24.72 million subscribers in the Moscow license area.

To provide our subscribers in Russia with DLD/ILD services, we have interconnect agreements with national operators Rostelecom, MTT (an affiliate of Sistema until March 18, 2009), Vimpelcom and other national transit operators. We have also built and operate our own DLD/ILD network, which allows us to interconnect directly to foreign operators and thereby decrease our interconnect costs. Most interconnect fees payable for connecting users of other operators' fixed line and wireless networks

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to our network are based on a one-time connection fee, a monthly fee per point of interconnect and usage by minute which vary depending on the destination called.

Russian legislation provides that fixed line operators with a substantial position in the market cannot refuse to provide interconnect or discriminate against one operator in comparison to another, and the interconnect rates of operators with a substantial position are regulated by the government. See "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in the Russian Federation Competition, Interconnect and Pricing" and "Item 3. Key Information D. Risk Factors Risks Relating to Our Business If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues."

Interconnect and traffic transit between the networks of mobile operators in Russia occur through direct channels connecting the switches of the different mobile operators within the same city; through the network of transit long distance operators, which connect the networks of different mobile operators in different cities; or through operators' proprietary long distance networks. For domestic long distance traffic transit, we use our DLD/ILD network and networks of different national operators, including among others, MTT, Rostelecom and Vimpelcom. For ILD traffic transit, we use primarily our DLD/ILD network which is interconnected with more than 20 international carriers, including, for example, France Telecom S.A. and Deutsche Telecom A.G. We also have an interconnect of a DLD/ILD MTS network to the ILD networks of our subsidiaries, MTS Ukraine and K-Telecom, in order to provide the transit of international traffic.

In Ukraine, mobile operators are allocated numbering capacity by the NCCIR (National Commission for the State Regulation of Communications and Informatization). We believe that we have been allocated sufficient numbering capacity in Ukraine for the development of our mobile network. We also believe that we have been allocated sufficient fixed line numbering capacity with respect to the cities in which we are developing our fixed line network. We plan to develop fixed line network in other administrative districts of Ukraine. For this purpose we plan to purchase additional numbering capacity of 3000 numbers in three more cities. However, we estimate that it would take between 1.5-2 years to obtain additional fixed line numbering capacity should we seek such increased capacity.

Handsets

Nearly all of our handset sales consisted of tri-band GSM 900/1800/1900 and dual-band UMTS 900/2100 handsets, except for certain models in the low cost segment and touch-phones. These handsets, which function in the GSM 900, GSM 1800 and PCS-1900 standards, provide users with greater automatic roaming possibilities in Russia, Europe, the United States and Canada. We generally do not offer handset subsidies in Russia but do offer them in Ukraine to a limited number of contract subscribers as well as modem subsidies for GSM and CDMA users. For the years ended December 31, 2010, 2011 and 2012, we provided net handset subsidies of \$12.8 million, \$8.6 million and \$5.4 million, respectively, in Ukraine.

In 2009, we substantially changed the strategy and structure of our retail operations by significantly expanding our proprietary sales and distribution network both organically and through the acquisition of national and regional retail chains. We organized these operations under RTC, our wholly owned subsidiary. From 2009, RTC handles all functions relating to our retail operations, including the purchase and sale of handsets and accessories and subscriber enrollment at our retail outlets. RTC has entered into arrangements with Sony Ericsson, Nokia, Motorola, Samsung, Siemens, Alcatel, Huawei and others to purchase handsets. We also offer an array of mobile telephone accessories.

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In August 2008, we signed an agreement with Apple Sales International, which was renamed to Apple Distribution International in May 2012 and launched iPhone 3G sales in October 2008. Under the agreement, we committed to purchasing a certain quantity of iPhone 3G headsets over 2009, 2010 and 2011. The purchase agreement terminated on September 30, 2012. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Financial Condition If Apple Sales International lodges a claim against us as a result of our failure to fulfill our iPhone handset purchase commitment, this could have a material adverse effect on our financial condition and results of operations" and Note 29 to our audited consolidated financial statements.

In line with our strategy to expand our proprietary distribution network, our handset sales increased by 25.6% in 2011 and by 4.5% in 2012. We expect moderate growth in our handset sales in 2013. See also "Item 5. Operating and Financial Review and Prospects A. Operating Results Revenues Sales of Handsets and Accessories."

Fixed Line Operations

On April 1, 2011, we completed our merger with Comstar, the leading supplier of integrated fixed line telecommunications solutions in Russia. In addition to our mobile operations, we are now active in both the alternative and traditional fixed line communications markets. We now offer alternative and traditional communications services in more than 160 cities across Russia, covering population of over 53 million people.

Our alternative fixed line communications services include voice, data, Internet and pay-TV services for corporate and residential subscribers, as well as the provision of interconnect services to other communications operators and numbering capacity to their subscribers. According to Direct INFO, as of December 31, 2012, we are the largest operator in the Moscow residential broadband market in terms of subscribers, with a 28.5% market share. We also operate in Ukraine and Armenia, where we provide digital telephony communications services, data transmission, Internet access and the renting of channels.

Our traditional fixed line communications services are provided through incumbent operator MGTS. Through MGTS, we own "last mile" access to approximately 4.1 million households in Moscow, representing approximately 93% of the overall number of households in Moscow, according to Direct INFO. MGTS provides regulated and unregulated services, including:

local telephony services at tariffs regulated by the Russian government;

DLD/ILD voice telephony through licensed operators;

interconnect to other operators;

Internet and data transmission services and numbering capacity to subscribers of other communications operators through agency agreements concluded with such operators.

For a list of the telecommunications licenses held by us, see "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Licenses."

Customers and Services Offered Alternative Fixed Line Business

We provide alternative fixed line communications services to corporate, operator and residential subscribers in more than 160 cities throughout Russia. Specifically, we offer local voice, DLD/ILD voice, data and Internet and pay-TV services to our subscribers. The interconnect tariffs we charge other telecommunications operators for in Moscow and certain other cities are regulated by the Russian government. We believe our alternative fixed line subscribers typically evaluate our service and product offerings based on such factors as price, technology, security, reliability and customer service.

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The following table presents certain operating data for our alternative fixed line business in the Moscow market and in the Russian regions as of and for the years ended December 31, 2011 and 2012.

Alternative fixed line business	December 31, 2011	December 31, 2012
Moscow market		
Installed telephone lines (000s)	659	659
<i>Residential</i>		
Number of subscribers (000s) ⁽¹⁾	620	523
ARPU (RUB)	554	468
ARPU (US\$)	18.9	15.1
<i>Corporate</i> ⁽²⁾		
Number of subscribers (000s)	30	26
ARPU (RUB)	16,375	17,154
ARPU (US\$)	557.9	552.6
Russian regions (excluding Moscow market) ⁽³⁾		
<i>Residential</i>		
Number of subscribers (000s) ⁽¹⁾	4,380	4,268
ARPU (RUB)	178	172
ARPU (US\$)	6.1	5.5
<i>Corporate</i> ⁽²⁾		
Number of subscribers (000s)	113	120
ARPU (RUB)	2,614	2,233
ARPU (US\$)	89.0	72.0

(1) Subscribers to broadband Internet, pay-TV, Wi-Max, voice and other services. We calculate our subscribers based on the number of active lines in service. A line is considered "active" if the subscriber has used and paid for the service within the last six months.

(2) Includes state-owned enterprises and government agencies.

(3) No reliable data is available on installed lines outside of the Moscow market.

Corporate subscribers

We target corporate subscribers covering a range of industries, such as business centers, hotels, financial institutions, professional services firms, consumer goods companies, manufacturers and companies involved in extractive industries, among others. These subscribers vary in size, ranging from large multinational and Russian corporations with thousands of employees to small-and medium-sized enterprises with up to several hundred employees. As of December 31, 2012, we had approximately 51,000 voice and 64,500 Internet corporate subscribers.

As further described below, we offer voice, data transmission and Internet and various value-added services to our corporate subscribers.

Voice Services. We provide a full range of alternative fixed line voice services to corporates in Moscow, the Moscow region and other select regions of Russia, which include local, zonal, and DLD/ILD services using our transmission network and leased capacity between major Russian cities. We also provide integrated voice and data services, voice over frame relay and certain integrated services digital network ("ISDN") services. We charge our corporates a connection fee of RUB 1,000-RUB 11,800 (\$32.9-\$388.5) per number, as well as a monthly subscription fee of RUB 39-RUB 1,120 (\$1.3-\$36.9) per number, based on the quantity of numbers used by the corporate subscriber.

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Data Transmission and Internet Services. We offer high quality data transmission services to corporates, which allow for data exchange between their various branches or offices located within Russia and internationally. For data transmission services, our network is capable of transferring data at speeds of up to 10 Gbps and utilizes various technologies, such as 10 GE, GE, ATM, TDM, VPN-MPLS, xDSL, LTE and Wi-Fi to provide high quality solutions at a relatively low cost. We endeavor to ensure the reliability of network connections by utilizing a full reservation approach to back up all elements of the network.

In addition, we offer a wide range of Internet services to corporates, including broadband Internet access, VoIP, VPNs and data center services using the following technologies: (1) NGN (up to 10 Gbps), (2) xDSL (up to 60 Mbps), (3) radio Ethernet (up to 27 Mbps), (4) Wi-Fi (up to 54 Mbps), and (5) LTE (up to 100 Mbps). We also provide continuous flexibility to upgrade their network capacity to handle additional Internet services. For example, we often integrate data transmission and Internet services for our clients as they expand their operations and need to interconnect and exchange data with newly opened offices and/or branches.

We offer a broad range of Internet packages that vary in terms of data transfer speeds and pricing, with higher tariffs for faster uploading and downloading capabilities. Corporates with xDSL-based broadband Internet packages generally experience data transfer speeds between 1 Mbps and 60 Mbps. In addition, we offer a premium broadband Internet service over our NGN in which subscribers enjoy data transfer speeds between 61 Mbps and 10 Gbps. The NGN provides subscribers with the benefit of the same uploading and downloading data transfer speeds, whereas Internet subscribers using an xDSL connection upload at speeds that are much slower than the one at which they can download.

We utilize MGTS' PDTN to provide high-speed reliable Internet services and create VPNs for our corporates.

We charge our corporate subscribers a connection fee up to RUB 120,000 (\$3,950.9) per digital channel, as well as a monthly subscription fee up to RUB 420,000 (\$13,828.2) per channel, based on the maximum speed of the connection.

Leased Channels. We provide corporate clients with the ability to rent high speed data channels. These "leased channels" are dedicated lines of data transmission.

Value-Added Services. We provide corporates with several value-added services, including @utosekretar and integrated solutions. The @utosekretar service is based on our proprietary IN and is designed to help our corporates manage the reception and servicing of a large volume of incoming calls. The unique multi-channel telephone number assigned to customers will not change even if the customer moves to a different location in Moscow, and does not require the customer to install any equipment. In addition, this service allows all incoming calls to be transferred to other fixed or mobile telephone numbers in Russia or in other countries. The IN identifies a subscriber by phone number, phone card or password, which allows our customers to bill their subscribers for services and, if necessary, block access for subscribers who have a negative balance on their account.

In addition, we serve as general contractor for the provision of a full range of integrated solutions to subscribers wishing to establish a modern integrated communications infrastructure. Each solution is customized for subscriber-specific needs. In developing these customized networks, we are able to offer the following range of services: site survey, cost analysis and optimum project planning, assistance with government-related documentation, supply of equipment and operational, technical and maintenance support on an ongoing basis. Once the infrastructure is established or renovated, as the case may be, we typically provide digital voice communications, voice intelligent services, high-speed Internet services, videoconferencing and other data transmission services. We intend to expand our service offerings to include customer premises management and network-centric IT solutions.

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Fixed mobile convergence. Based on our fixed and mobile networks, we offer fixed-to-mobile convergence services to corporate clients providing use of their mobile phone as an extension of their private branch exchange ("PBX"). We also provide access to corporate IP-networks from a mobile phone via GPRS/EDGE/3G/4G.

Operators

We are the largest mobile operator in Russia, according to AC&M-Consulting. We also operate fixed-line local and zonal networks in Moscow and other cities for provision of telephony services to fixed-line subscribers and additional local numbers to mobile subscribers. In order to lower the costs of intercity and international traffic transition, we put into operation an intercity international network in December 2008.

According to Direct INFO, together with MGTS, we had approximately 77% of the total active numbering capacity in Moscow as of December 31, 2012. We now have approximately 105 local fixed networks in 56 regions of Russia, including Moscow, and 25 zonal fixed networks to provide telephony services to subscribers. Our integrated intercity\international network is interconnected to more than 40 international operators. As of December 31, 2012, we had more than 815 interconnect agreements with national and international operators for interconnection of our fixed networks.

Residential subscribers

We offer voice, Internet and pay-TV services to residential subscribers.

Voice Services. We provide voice services to residential and corporate subscribers. Like corporate subscribers, residential subscribers in each of the regions that we have presence in seek a full range of high quality voice services equivalent to those provided in Western Europe. In addition to "basic" voice telephony services, we provide a number of additional services, such as call forwarding, call transferring, call waiting, conference, voicemail and Caller ID, among others. Residential voice services are primarily offered to high value residential subscribers in high-end housing by our alternative fixed line business. Local and domestic fixed voice service rates are regulated by the government in certain cities.

Internet Services. We offer broadband Internet services to residential subscribers throughout Russia. As of December 31, 2012, we had 10% market share in the Russian Federation together with Moscow where we had a 28.5% share, according to Direct INFO. Depending on the Internet connection speed, we charge residential subscribers a subscription fee of RUB 150-RUB 1,500 (\$4.9-\$49.4) per month in Moscow and a subscription fee of RUB 100-RUB 2,500 (\$3.3-\$82.3) in other regions of Russia.

Pay-TV. We operate a TV service based on ADSL IP and GPON technologies in Moscow. In addition, we offer pay-TV services based on HFC (broadband network which combines optical fiber and coaxial cable), FTTB, DVB-C (digital television via cable connection) and MMDS (wireless cable) technologies in most of the regions in which we are present. Special auxiliary equipment allows pay-TV subscribers to access more than 150 channels of digital quality from a home television without satellite dishes or specialized antennas. International and Russian channels are included as part of the base services package. As of December 31, 2012, we had approximately 111.5 thousand pay-TV subscribers in Moscow and approximately 2.8 million subscribers in other regions of Russia.

Our pricing structure is designed to appeal to large numbers of consumers with various interests and purchasing power, and varies significantly between regions. We charge a subscription fee of RUB 99-RUB 649 (\$3.3-\$21.4) per month in Moscow and a subscription fee of up to RUB 99-RUB 365 (\$3.3-\$12.0) in other regions of Russia, depending on the number of channels included in the package. We also offer bundled Internet and pay-TV services for RUB 260-RUB 1,480 (\$8.6-\$48.7) per month in Moscow and RUB 299-RUB 2,350 (\$9.8-\$77.4) in certain other regions of Russia, depending on the

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speed of the Internet connection, the number of pay-TV channels being provided and level of competition in a particular region.

Customers and Services Offered Traditional Fixed Line Business

We provide traditional fixed line communications services through our subsidiary, MGTS, which is the incumbent fixed line PSTN operator in Moscow. MGTS owns Moscow's PSTN infrastructure, including switches, a transmission network, underground ducts, and owns or holds leases to properties housing its offices and equipment.

As of December 31, 2012, MGTS had approximately 4.36 million active lines in service, a cable network of over 109,039 km, a fiber optic network of over 12,884 km and 2,960 payphones. Although MGTS' core backbone network is fully digital and is based on state-of-the-art SDH technology. In 2011, MGTS completed the digitalization of its network based on the special range of equipment MPN (Mediator Private Network). The total installed capacity of the telephone network reached 4.9 million numbers as of December 31, 2012.

Residential subscribers accounted for approximately 81.8% of MGTS' total lines, corporates for 10.8% and public sector subscribers for 7.4%, as of December 31, 2012.

MGTS holds licenses and regulatory approvals to provide, among others, the following services:

local telephony;

DLD/ILD voice telephony through licensed DLD/ILD operators, including us;

interconnect to other operators;

Internet and data transmission, including leased DLD/ILD services;

inquiry and information, including telephone directories;

use of payphones; and

numbering capacity provided to the subscribers of other communications operators through agency agreements concluded with such operators.

As the only licensed PSTN operator in Moscow, MGTS is considered a natural monopoly under Russian antimonopoly regulations. Consequently, most of the services provided by MGTS are subject to governmental regulation. The Federal Tariff Service regulates MGTS' tariffs for voice telephony services provided to its PSTN subscribers, including monthly subscription fees, installation fees and local call charges. Operating revenues from regulated services accounted for approximately 62% of service operating revenues of our traditional fixed line business in 2012 and 69% in 2011 and 2010. The percentage decline is connected with growth of operating revenues from non-regulated services as a proportion of the overall operating revenues in 2012 as compared to 2011 and 2010. The Federal Tariff Service sets the tariffs MGTS can charge taking into account cost of services, network investment and a certain profit margin, and the current tariffs fully compensate MGTS for the cost of services provided to residential and government subscribers. According to Russian legislation, MGTS is allowed to petition the Federal Tariff Service for tariff increases upon certain conditions, such as inflation or increases in the cost of services. Historically, MGTS has petitioned the relevant Russian government agency for tariff increases once or twice per year. The Federal Tariff Service has permitted MGTS to increase its tariffs several times.

MGTS also provides a number of unregulated services. According to Russian legislation, DLD/ILD services provided by licensed non-monopoly operators, public payphones, data transmission services,

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value-added services and a number of other services are not subject to tariff regulation. Among others, MGTS provides the following unregulated services:

various value-added services, including call forwarding, call waiting, call holding, caller ID, provision of second direct inward dialing (DID) number;

Internet access for residential subscribers and corporates; and

rent of space for telecommunications equipment of other operators connected to MGTS' network.

MGTS is not licensed to provide DLD/ILD communications services directly to its subscribers but must route such traffic through a licensed DLD/ILD operator. As a result, DLD/ILD traffic originated by MGTS subscribers is carried either by us, with these services included in MGTS' monthly bill, or by other providers of DLD/ILD services, who bill MGTS subscribers directly or pay MGTS an agency fee for processing their bills.

The following table presents certain operating data for our traditional fixed line business as of and for the years ended December 31, 2011 and 2012.

	December 31, 2011	December 31, 2012
Traditional fixed line business		
Installed telephone lines (000s)	5,100	4,944
<i>Residential</i>		
Number of subscribers (000s) ⁽¹⁾	3,610	3,554
CPP traffic (millions of minutes)	1,832	1,562
ARPU (RUB)	371	382
ARPU (US\$)	12.7	12.3
<i>Corporate⁽²⁾</i>		
Number of subscribers (000s)	66	66
CPP traffic (millions of minutes)	883	788
ARPU (excl. revenue from points of interconnect) (RUB)	8,047	9,673
ARPU (excl. revenue from points of interconnect) (US\$)	275	312

(1) We calculate our subscribers based on the number of active lines in service. A line is considered "active" if the subscriber has used and paid for the service within the last six months.

(2) Includes state-owned enterprises and government agencies.

MGTS' subscriber segments and the services provided to each subscriber segment are further described below.

Residential and corporate subscribers

MGTS provides basic regulated voice services to residential and corporate subscribers using its PSTN facilities and copper "last mile" access. Tariffs for these services are established by the Federal Tariff Service.

In addition to basic voice services, MGTS also provides its residential and corporate subscribers with digital telecommunications services, Internet and VPN deployment services, rental of high-speed communication channels, intelligent voice and various other services.

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The following table illustrates MGTS' regulated tariff development in the period from March 1, 2009, to March 1, 2013:

MGTS Regulated Tariffs	March 1, 2009	February 1, 2010	January 1, 2011	March 1, 2012	March 1, 2013
<i>Residential⁽¹⁾</i>					
Line rental					
RUB per month	135	155	175	190	205
USD per month	3.78	5.09	5.87	6.55	6.72
Per minute tariff plan local connection fee					
RUB per minute	0.30	0.36	0.40	0.44	0.48
USD per minute	0.01	0.01	0.01	0.02	0.02
Unlimited tariff plan connection fee (unlimited connection)					
RUB per month	245	250	260	266	276
USD per month	6.86	8.22	8.72	9.16	9.05
Combined tariff plan fee for fixed amount of minute ⁽²⁾					
RUB per month	120	140	152	172	184
USD per month	3.36	4.6	5.1	5.93	6.03
Combined tariff plan fee for each additional minute					
RUB per minute	0.28	0.34	0.38	0.42	0.46
USD per minute	0.01	0.01	0.01	0.01	0.02
<i>Corporate (non-governmental)⁽¹⁾</i>					
Line rental (USD per month)					
RUB per month	160	175	195	205	220
USD per month	4.48	5.75	6.54	7.06	7.21
Per minute tariff plan local connection fee					
RUB per minute	0.30	0.36	0.40	0.44	0.48
USD per minute	0.01	0.01	0.01	0.02	0.02
Unlimited tariff plan connection fee (unlimited connection)					
RUB per month	342	350	365	375	385
USD per month	9.57	11.5	12.25	12.92	12.62
Combined tariff plan fee for fixed amount of minute ⁽²⁾					
RUB per month	120	140	152	172	184
USD per month	3.36	4.6	5	5.93	6.03
Combined tariff plan fee for each additional minute					
RUB per minute	0.28	0.34	0.38	0.42	0.46
USD per minute	0.01	0.01	0.01	0.01	0.02
<i>Corporate (governmental and state-funded organizations)⁽¹⁾</i>					
Line rental					
RUB per month	145	160	180	200	215
USD per month	4.06	5.26	6.04	6.89	7.05
Per minute tariff plan local connection fee					
RUB per minute	0.3	0.36	0.40	0.44	0.48
USD per minute	0.01	0.01	0.01	0.02	0.02
Unlimited tariff plan connection fee (unlimited connection)					
RUB per month	331	350	365	375	385
USD per month	9.27	11.5	12.25	12.92	12.62

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MGTS Regulated Tariffs	March 1, 2009	February 1, 2010	January 1, 2011	March 1, 2012	March 1, 2013
Combined tariff plan fee for fixed amount of minutes ⁽²⁾					
RUB per month	120	140	152	172	184
USD per month	3.36	4.6	5.1	5.93	6.03
Combined tariff plan fee for each additional minute					
RUB per minute	0.28	0.34	0.38	0.42	0.46
USD per minute	0.01	0.01	0.01	0.01	0.02

- (1) Tariffs for residential subscribers are shown including VAT; tariffs for non-governmental corporate subscribers and governmental/state-funded organizations are shown excluding VAT.
- (2) From February 1, 2007, until February 1, 2010, this plan included 450 minutes per month; from February 1, 2010, until March 1, 2013, this plan included 400 minutes per month.

Operators

MGTS provides interconnect, traffic transmission and leased line services to other communications operators. Interconnect is carried out on the local and zonal levels in accordance with terms and conditions that are publicly disclosed. MGTS also provides additional services to operators interconnecting to MGTS' network, including access to emergency service, information and customer care numbers.

MGTS has also established an active presence in the data transmission market. Through its PDTN, MGTS can establish VPNs for other operators as well as provide other data network services. Operators can also rent space and utility systems from MGTS to house their network equipment.

*Sales and Marketing**Alternative fixed line business*

Our target customers include corporate, operator and residential subscribers.

To promote our product and service offerings, we use various communication channels for advertising and marketing, including direct marketing, printed mass media, television, Internet, radio, directories, outdoor advertising, advertising in the subway, special promotions and cross promotions. Through these various advertising and marketing channels, we intend to further develop our brand recognition. Our marketing strategy is designed to create a unified brand for each of our various product and service offerings with the aim of becoming a single source for all of our subscribers' communications needs.

We also actively promote our services to existing subscribers with special bundled product offerings aimed at servicing their communication requirements and enhancing subscriber loyalty. Our advertising and marketing materials are aimed primarily at the promotion of MTS brand. All fixed-line products are offered and marketed under this brand. However, when we enter new markets and acquire existing companies, we have to use both brands in advertising MTS and the one popular in a certain area. This is done to decrease churn as customers tend to express strong loyalty towards local brands. We then gradually decrease presence of the local brand and this allows us to make MTS a market leader in a given region in future. Our advertising and marketing efforts are designed to convey a positive image of us to the market as a leading communications operator focused on customer satisfaction.

Traditional fixed line business

As the incumbent PSTN, MGTS has not invested significantly in sales and marketing. In 2012 MGTS continued realization of its long-term modernization program on GPON, therefore, the biggest part of advertising budget was spent on convergent products promotion like Double and Triple Play

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with the use of GPON technology. GPON allows us to provide higher quality services than our competitors. By the end of 2012, more than 166,000 subscribers were transferred to GPON.

In 2013, we are going to continue the development of GPON technology and increase the number of our subscribers using it five times by the end of the year.

Competition

We compete with a number of fixed line telecommunications operators servicing Moscow, St. Petersburg and other major Russian cities. Moscow is the largest and most competitive of these markets. Our primary competitors include:

Vimpelcom, which is also one of our primary competitors in the Russian mobile communications market, offers voice, data and Internet services to corporates, operators and residential subscribers in major cities throughout Russia, Ukraine, Kazakhstan and Uzbekistan using intercity fiber optic and satellite-based networks. We compete with Vimpelcom in the corporate, operator and residential fixed line telecommunications markets in Moscow and in certain other regions of Russia where we are present, including, among others, Rostov, Nizhny Novgorod, St. Petersburg, Ekaterinburg and Krasnodar.

Rostelecom, Russia's largest national fixed line telecommunications operator with presence in all Russian regions. We compete with Rostelecom in the corporate, operator and residential fixed line telecommunications markets in all regions where we operate in Russia (including the Moscow region). We also compete with Rostelecom in the mobile telecommunications market.

Akado Group (formerly Renova Media), a leading provider of pay-TV, broadband Internet and digital telephony in Moscow. We compete with the Akado Group primarily in the residential fixed line telecommunications markets in Moscow and Ekaterinburg.

MegaFon, which acquired operators Synterra and Net-by-Net, and offers services in the operator, corporate and residential fixed line telecommunications markets in Moscow, St.-Petersburg, and other regions.

Er-Telecom, voice telephony, broadband and TV operator. We compete with Er-Telecom in the residential fixed line telecommunications market in St.-Petersburg, Novosibirsk, Omsk, N.Novgorod, Ekaterinburg, Kazan, Rostov, Chelyabinsk and other regions.

Corporate subscribers

The following table sets forth the corporate subscriber market shares of the primary fixed line operators (including both alternative and incumbent operators) in Moscow as of December 31, 2012:

MTS	9%
MGTS	11%
Vimpelcom	21%
Synterra	5%
TransTeleCom (TTK)	5%
Orange	3%
Akado	9%
Rostelecom (incl. RTCOMM)	11%
Other	26%
Total	100%

Source: Direct INFO

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In the corporate subscriber segment, we generally compete on the basis of network quality, individual and bundled service offerings, customer service, installation time, geographical presence and pricing.

*Residential subscribers**Voice services*

The following table sets forth the market shares of the primary fixed line operators (including both alternative and incumbent operators) for voice services in Russia as of December 31, 2012:

Company	Russia
MTS	12%
Rostelecom	75%
Other	13%
Total	100%

Source: Direct INFO

As Moscow's only PSTN operator, MGTS faces limited competition in the market for residential local telephony services in Moscow. As of December 31, 2012, it provided local voice telephony services for approximately 96% of all residential subscribers in Moscow, according to Direct INFO.

In the alternative voice services market, we generally compete based on the availability of bundled packages comprising broadband Internet access and pay-TV services, value-added services, network quality, installation time and customer service.

Internet

According to Direct INFO, as of December 31, 2012, computer penetration of households was 68% in Russia, with 94% of these households having Internet access. The following table sets forth the market shares of the primary operators in the residential broadband Internet market in Russia as of December 31, 2012:

Company	Russia
MTS	10%
Akado	4%
Vimpelcom	11%
Er-Telecom	11%
Rostelecom (including OJSC «National Cable Networks»)	39%
Other	25%
Total	100%

Source: Direct INFO

Table of Contents*Pay-TV*

According to Direct INFO, as of December 31, 2012, TV penetration was 76% in Russia. The following table sets forth the market shares of the primary operators in the TV market in Russia as of December 31, 2012:

Company	Russia
MTS	10%
Akado	4%
Rostelecom	21%
Tricolor TV	30%
Vimpelcom	1%
Er-Telecom	8%
Other	26%
Total	100%

Source: Direct INFO

In the TV market, we generally compete on the basis of pricing, channel selection and content, individual and bundled service offerings, customer service and installation time.

Tariffs

We establish prices for our unregulated services and different subscriber segments based on certain common considerations, policies and goals. For example, we generally seek to establish competitive prices based on market rates for the services we offer and below market prices when our lower-than-average costs or economies of scale allow us to do so. We also offer subscribers bundled service packages with several services offered together at a discount to the cost of ordering each individual service separately and to promote additional services to our existing subscribers. In addition, we often offer promotions to our various subscriber segments waiving or discounting installation fees in order to attract new subscribers or promote new services.

With regard to corporates, we generally aim to derive the bulk of our operating revenues from monthly payments. Thus, depending on the scale and type of services ordered, we will often discount or waive installation fees.

For services offered to other communications service providers, we aim to generate most of our operating revenues from monthly payments and by offering an array of value-added services.

We develop tariffs for service offerings to residential subscribers with the aim of attracting new subscribers, as well as expanding the services used by existing subscribers in order to generate higher ARPU.

*Network Infrastructure**Long-haul backbone network*

As a result of our acquisitions of Comstar and Evrotel, we became one of the largest operators of the Internet long-haul backbone networks in Russia. We continue to develop our long-haul backbone network through the build-out of a fiber optic infrastructure and acquisitions of other Internet backbone service providers. We currently have a fiber optic network of approximately 70,000 km, which also allows us to operate an optical transport network using dense wavelength division multiplexing technology.

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In addition, we have our own IP MPLS network, which is capable of providing Internet and L2/L3 VPN services, as well as deliver other media products, such as digital television and internet protocol television, to regional networks for the use in our fixed line and mobile operations, as well as for our wholesale customers. Our IP MPLS backbone network covers most of Russia and Ukraine and is present in most of the European and U.S. Internet exchange points, such as DE-CIX in Frankfurt, NETNOD in Stockholm, AMS-IX in Amsterdam, PARIX in Paris, LINX in London, Equinix in Ashburn and New York, NIIX in New York and Any2 in Los-Angeles. In 2011, we also established connection to FICIX in Helsinki. More than 75% of our international Internet traffic is delivered through settlement-free peerings with other large networks. The remaining international Internet traffic is delivered through direct connections with certain of the largest networks. All internet traffic in Russia is delivered through settlement-free peering with the largest ISPs in Russia.

Alternative fixed line business

The network infrastructure we maintain in Moscow is substantially different from the infrastructures we use in the regions. In Moscow, we have primarily grown organically, while our regional development has largely been through the acquisition of companies with different business models and a focus on different services. As a result, the network infrastructures in the regions outside Moscow and the technologies used to support such infrastructures are different from the network infrastructure established in Moscow and which we currently own.

Moscow and Moscow Region

The Moscow telephone network consists of 23 switching nodes (10 TDM switches and 13 soft switches) with total capacity of over 1,000,000 subscribers.

The Moscow region telephone network consists of 13 soft switches with total capacity of around 100,000 subscribers.

All of our PSTN switching centers are connected to a digital transport network, which uses SDH technology and covers the entire territory of Moscow and most of the Moscow region. The network ensures the functioning of our digital ATs and their connectivity with analog and digital equipment of PSTNs of other operators. The digital transport network includes a trunk core STM-64, with connected half-rings STM-16 and STM-4. Multiplexers of access level are connected to trunk nodes by means of fiber-optic lines that organize streams STM-4 and STM-1. There are 1,000 multiplexers. The management of the transport network and digital ATs is carried out remotely from network operation centers.

For the provision of Internet access, IP-telephony and other services, we have our own IP MPLS network, the core of which is constructed as IP MPLS rings with routers connected to each other by means of 10 GE channels. In addition, separate routers are used for inter-carrier connections and are connected to the core routers by means of 10 GE interfaces.

As of December 31, 2012, our wireless broadband network in Moscow and the Moscow region included 60 base stations in the 5 GHz frequency band. As of December 31, 2012, our radio-relay communication lines included 25 links and 115 Internet hot-spots using Wi-Fi technology.

Russian Regions

As of December 31, 2012, outside of Moscow and the Moscow region, we provide cable Internet access to 7.0 million households and cable TV access to 8.0 million households. Among the access equipment used are Ethernet switches, IP DSLAM and PON. We mainly use FTTB technology for internet access, which can provide speeds up to 1 Gb/sec. In 2011, we started to roll-out DVB-C technology for cable TV service.

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The addition of Comstar allowed us to use MTS fiber optic lines for fixed network development. Optic network construction in cities are carried out to satisfy fixed and mobile business needs. Also, as we modernize and construct new networks, we deploy fixed and mobile equipment on the basis of 'collocation' method.

Traditional fixed line business

PSTN

Our traditional fixed line communications network has an installed capacity of more than 5.0 million numbers, of which 1.9 million is digital exchange TDM capacity, 0.76 million is NGN exchange capacity and 2.2 million subscribers were connected to the IMS (IP Multimedia Subsystem) core. TDM portion of the network is based on the SDH transport, new one (NGN and IMS) use transport level of the PDTN build on IP/MPLS technology. The total spread of the fiber-optic network is more than 8,648 km.

The SDH network, which uses Lucent Technologies equipment, is configured as follows: 29 rings STM-4/STM-16, based on DACS cross-switches, located in the buildings with switches ATC 316 and ATC 201. There are a total of 159 multiplexers in the network, including ISM2000, ADM16/1, ADM16/1c, ADM4/1 and ADM4/1c. The SDH network allows for traffic transmission between exchanges and traffic exchange with interconnected carriers 1676 E1. The ECI SDH network topology (SDM 1/4/16, XDM500 and XDM1000) is multi-layered, with each network layer designed to carry a certain type of traffic: 19139E1, 168 rings STM-4/STM-16, 457 multiplexers.

Network management is carried out in two control centers: one active control center and one stand-by control center. These centers contain an ORION system to monitor and control the fiber-optic network and SyncView Manager 3.1.1 to monitor and control timing sources. Subscribers are connected directly on the level of host switches and remote units. The network currently operates 26 TDM hosts, 6 SG exchanges based on NGN and 2 geographical spare IMS core (NSN, Huawei technologies and STS), 24 TG product Huawei technologies and STS, and 10 AXE-10 tandem nodes (Ericsson) with total capacity of 1.0 million ports. TDM hosts are interconnected to each other by mesh topology via transit nodes with the analog network. We use the following types of host switches: EWSD (Siemens), 5ESS (Lucent Technologies) and MEDIO (STROM Telecom), ZTE. About 200 operators and more than 450 corporate clients have connection to MGTS network.

In addition, to provide instant dial services (*e.g.*, emergency and information calls), we operate two nodes based on MEDIO IN equipment. More than 15 operators have a point of presence in IMS core, and 34 corporate clients are connected to SG Huawei Technologies.

Monitoring of the digital network and management of switching equipment is centralized and carried out from MGTS' control centers.

Public Data Transmission Network ("PDTN")

Our PDTN is a hierarchical 3-layer IP/MPLS network. The first level is the transport level for high rate traffic throughput over the PDTN. The second level is used for terminating subscriber sessions and, at the same time, to backhaul traffic from PoPs to the transport level. The third level allows subscribers to access the PDTN.

The first level comprises the core of the PDTN and contains 10 nodes based on Cisco ASR9010 routers. Topologically, the nodes are linked into a 10-node transport ring with an attached two-node "minor" ring based on Cisco CRS-16. The transport ring is designed to connect peripheral networks of the PDTN and overlay network equipment and for interconnect with partner providers. The minor transport ring covers the points of connection of Internet channel groups of other operators and

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content providers. On the transport level, the trunk connections are made by optical mono-mode 10 GE interfaces.

The second or termination level of the PDTN is based on Redback SE routers designed to direct traffic to the nearest transport node and to terminate subscribers. Topologically, the termination level comprises several Redback SE routers connected to the transport level routers by 10GE interfaces. All the routers of the transport level and termination level function in one IP/MPLS network with automatic re-routing.

The third or access level of PDTN is built based on IP DSLAM, linked by GE trunk interfaces and GE switches, linked by GE interfaces. The main function performed on the access level is data transmission on the "last mile" network. The network currently uses mostly DSLAM hiX5635M1100 from Siemens and SmartAX MA5600 from Huawei. Both DSLAMs use an optical or electrical GE interface for trunk interfacing.

As access nodes (PoP), the PDTN uses MGTS' switching centers connected with at least 4,000 subscribers. We currently have over 250 PoPs in service. The coupling of two or more DSLAMs within one PoP is through Catalyst 2970G GE switches or similar switches having a minimum of 12 GE ports. Each PoP is connected to an individual GE port of the nearest Cisco 7606 router.

Principal suppliers

Our principal suppliers are Ericsson, Sitronics Telecom Solutions, Huawei and Nokia Siemens Networks for switching equipment; ECI Telecom, Tellabs and Alcatel Lucent for transport network equipment; Cisco Systems, Huawei and Alcatel Lucent for Internet and data network equipment; Secure Media for crypto-protection conditional access software; and Tandberg TV (Ericsson) and Irdeto for broadcasting equipment. All of our equipment is supplied through authorized dealers.

Seasonality

Our results of operations are impacted by certain seasonal trends. Generally, revenue is higher during the second and third quarter due to increased mobile phone use by subscribers who travel in the summer from urban areas to more rural areas where fixed line penetration is relatively low, as well as an increase in roaming revenues and guest roaming revenues during these quarters. Quarterly trends can also be influenced by a number of factors, including new marketing campaigns and promotions, and may not be consistent from year to year

Regulation of Telecommunications in the Russian Federation and Ukraine

Regulation in the Russian Federation

In the Russian Federation, the federal government regulates telecommunications services. The principal law regulating telecommunications in the Russian Federation is the Federal Law on Communications, which provides, among other elements, for the following:

licensing of telecommunications services;

requirements for obtaining a radio frequency allocation;

equipment certification;

equal rights for individuals and legal entities, including foreign individuals and legal entities, to offer telecommunications services;

fair competition;

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freedom of pricing other than pricing by companies with a substantial position in public telecommunication networks; and
liability for violations of Russian legislation on telecommunications.

The new Federal Law on Communications came into force on January 1, 2004, and replaced the law of 1995 regulating the same subject matter. The Federal Law on Communications creates a framework in which government authorities may enact specific regulations. Regulations enacted under the legislative framework in place prior to the enactment of the Federal Law on Communications continue to be applied to the extent they do not conflict with the Federal Law on Communications. The lack of interpretive guidance from the regulatory authorities regarding the new regulations and the uncertainty surrounding their compatibility with the regulations still in effect impedes our ability to assess effectively the full impact of the new regulations under the Federal Law on Communications on our business.

The Federal Law on Communications, which confers broad powers to the state to regulate the communications industry, including the allocation of frequencies, the establishment of fees for frequency use and the allocation and revocation of numbering capacity, significantly modifies the system of government regulation of the provision of communications services in Russia. In particular, licenses to provide communications services in territories where frequency and numbering capacity are limited may be issued only on the basis of a tender. In addition, the Federal Law on Communications provides for the establishment of a "universal services reserve fund" which is funded by a levy imposed on all operators of public networks, including us.

Regulatory Authorities

The Russian telecommunications industry is regulated by several governmental agencies. These agencies form a complex, multi-tier system of regulation that resulted, in part, from the implementation of the Federal Law on Communications, as well as from the large-scale restructuring of the Russian government in March 2004 and subsequent restructuring in May 2008. The system of regulation is still evolving and further changes are expected. See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Countries of Operation Political and Social Risks Political and governmental instability in Russia and the CIS could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs."

The Ministry of Communications and Mass Media is the federal executive body that develops and supervises the implementation of governmental policy in the area of communications and coordinates and controls the activities of its subordinate agencies. The Ministry has the authority to issue certain regulations implementing the federal law on communications and other federal laws.

The Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications is a federal executive body that supervises and controls certain areas of communications and information technologies, including:

- the issuance of licenses and permissions in the area of communications and information technologies;
- the registration of radio-electronic and high-frequency equipment;
- the assignment of radio frequencies based on decisions taken by the State Radio Frequencies Commission and registration of such assignments;
- the technical supervision of networks and network equipment throughout Russia;
- the monitoring of compliance by network operators with applicable regulations, terms of their licenses and terms of the use of frequencies allocated and assigned to them;

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the enforcement of equipment certification requirements;

the examination of electromagnetic compatibility of equipment with existing civil radio-electronic equipment;

the organization of tenders with respect to licenses in the sphere of communications; and

the control of activity in processing of personal data.

The Federal Agency of Communications is a federal executive body that implements governmental policy, manages state property and provides public services in the area of communications, including the allocation of numbering capacity and the certification of equipment for compliance with technical requirements.

The State Radio Frequencies Commission is an inter-agency coordination body acting under the Ministry of Communications and Mass Media which is responsible for the regulation of the radio frequency spectrum, develops long-term policy for frequency allocation in the Russian Federation and decides on the allocation of frequency bands.

The Federal Antimonopoly Service (FAS) is a federal executive body that supervises competition regulations and enforces the Federal Law on Protection of Competition and the Federal Law on Natural Monopolies and the regulations enacted thereunder. FAS controls certain activity of natural monopolies, including monitoring their execution of certain obligatory contracts, and can issue mandatory orders as provided for in the Federal Law on Natural Monopolies.

Other regulatory authorities. In addition, the Federal Tariff Service regulates certain tariffs in the sphere of telecommunications, including the tariffs on the local and DLD calls by subscribers of public switched telephone networks and installation and subscription fees. The Federal Service for Supervision in the Area of Consumer Rights Protection and Human Well-Being is responsible for the enforcement of sanitary regulations, including some authority over the location of telecommunications equipment, and supervises the compliance of companies with the regulations relating to the protection of consumer rights. The Federal Registration Service is responsible for registering certain telecommunications infrastructure that is considered real property in accordance with Government Decree No. 68 dated February 11, 2005.

Licensing of Telecommunications Services and Radio Frequency Allocation

Telecommunications licenses are issued based on the Federal Law on Communications and Government Decree No. 8 dated January 12, 2006 on Approval of Regulations for Holding a Competitive Tender for Receipt of Telecommunication License. Under these regulations, licenses may be issued and renewed for periods ranging from three to twenty-five years. Several different licenses to conduct different communication services may be issued to one entity. Provided the licensee has conducted its activities in accordance with the applicable law and terms of the license, renewals may be obtained upon application to the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media. Officials of the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media have broad discretion with respect to both issuance and renewal procedures.

A company must complete a multi-stage process before the commercial launch of its communications network. A company must:

receive a license from the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media to provide communications services;

obtain approval to use specific frequencies within the specified band from the State Radio Frequencies Commission if providing wireless telecommunications services; and

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obtain permission from the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media for network operations. To receive this permission, a wireless telecommunications services provider must develop a frequency assignment and site plan, which is then reviewed and certified by the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media for electromagnetic compatibility of the proposed cellular network with other radio equipment operating in the license area. The Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media has discretion to modify this plan, if necessary, to ensure such compatibility.

Effective January 1, 2004, licenses may be transferred in case of mergers or other reorganizations of the licensee upon application by a transferee as a new license holder. Additionally, the Ministry of Communications and Mass Media has declared that agreements on the provision of telecommunications services must be concluded and performed by the license holder.

If the terms of a license are not fulfilled or the service provider violates applicable legislation, the license may be suspended or terminated. Licenses may be suspended for various reasons, including:

detection of violations which may cause damage to rights, interests, life or health of individuals or to interests of government administration including, but not limited to, presidential and government telecommunication networks, defense, security and protection of legal order in the Russian Federation;

annulment of a frequency allocation if it results in the inability to render communications services;

failure in a timely requirements of the licensing authority, which commits to eliminate detected violations, including provisions that had been granted under reprimand to suspend the license.

In addition, licenses may be terminated for various reasons by a court, including:

failure to remedy in a timely manner a violation that led to the suspension of the license;

provision of inaccurate information in documents on the basis of which a license was issued; and

failure to fulfill obligations undertaken in the process of a tender or auction.

The license may also be terminated by the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media in a number of cases, including liquidation of a license holder. A suspension or termination of a license may be appealed in court.

Frequencies are allocated for a maximum term of ten years, which may be extended upon the application of a frequency user. Under the Federal Law on Communications, frequency allocations may be changed for purposes of state management, defense, security and protection of legal order in the Russian Federation with the license holder to be compensated for related losses. Further, frequency allocations may be suspended or terminated for a number of reasons, including failure to comply with the conditions on which the frequency was allocated.

The following one-time license fee is payable irrespective of the number of regions covered by the license: RUB 2,600 (equivalent to \$86 as of December 31, 2012) for services involving, among other things, the use of a frequency spectrum and the lease of communication channels. The license fee for a license received through a tender or auction is determined by the terms of such tender or auction.

In addition to licensing fees, a government decree enacted on June 2, 1998, required payment of fees for the use of radio frequencies for cellular telephone services. The payment procedure was established by a government decree enacted on August 6, 1998, which required that all wireless telecommunications services operators pay an annual fee set by the State Radio Frequencies Commission and approved by FAS for the use of their frequency spectrums. On January 1, 2012, a new

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government decree came into force which provides that fees for the use of radio frequency spectrums consist of a one-time fee and an annual fee. The fees are determined according to the methodology approved by the Ministry of Communications and Mass Media.

Furthermore, the Federal Law on Communications provides for the establishment of a "universal services reserve fund" for the purpose of supporting communications companies operating in less developed regions of Russia through the financing, construction and maintenance of telecommunications networks in low-profit and unprofitable sectors. This reserve fund is aimed at eliminating the practice of cross-subsidies by compensating operators for certain mandatory, loss-making local services in rural and sparsely populated areas. It is funded by a levy imposed on all operators of public networks, including us, in the amount of 1.2% of revenues from telecommunications services less the amount of taxes paid by subscribers. The universal service fund concept has been used in some developed countries and in Eastern Europe.

The Federal Law on Communications empowers the Russian government to determine and annually review the list of licensing requirements applicable to various communication services being licensed. The list of licensing requirements was enacted by Government Decree No. 87 dated February 18, 2005, as amended. Licenses also generally contain a number of other detailed conditions, including a date by which service must begin, technical standards and certain other terms and conditions. We have either commenced service by the applicable deadline or received an extension of the applicable deadline for all of our licenses.

Equipment Certification

Government Decree No. 532 adopted on June 25, 2009, sets forth the types of communications equipment that is subject to mandatory certification. Communications equipment must be certified, or its compliance with the established requirements must be declared and proven in the interconnected communications network of the Russian Federation, which includes all fixed line and wireless networks open to the public. All our networks must be certified. The Federal Agency of Communications issues certificates of compliance with technical requirements to equipment suppliers based on the Agency's internal review. In addition, a Presidential decree requires that licenses and equipment certifications should be obtained from the Federal Security Service to design, produce, sell, use or import encryption devices. Some commonly used digital cellular telephones are designed with encryption capabilities and must be certified by the Federal Security Service.

Further, certain high-frequency equipment, a list of which was approved by Government Decree No. 539 dated October 12, 2004, as amended, manufactured or used in the Russian Federation requires special permission from the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media. These permissions are specific to the entity that receives them and do not allow the use of the equipment by other parties. Failure to receive such certification could result in the mandatory cessation of the use of such equipment.

Competition, Interconnect and Pricing

The Federal Law on Communications requires federal regulatory agencies to encourage competition in the provision of communication services and prohibits the abuse of a dominant position to limit competition. The Federal Law on Communications provides that telecommunications tariffs may be regulated in cases provided for by legislation. The Federal Law on Communications and Presidential Decree No. 221, enacted on February 28, 1995, as amended, on Measures for Streamlining State Regulation of Prices (Tariffs) allow for regulation of tariffs and other commercial activities of telecommunications companies that are "natural monopolies." Government Decree No. 637, dated

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October 24, 2005, authorized the Federal Tariff Service to set the following tariffs for the natural monopolies in the communications market, including:

provision of access to a local telephone network;

permanent use of a subscriber's line;

local, intra-zone and DLD calls.

In addition, the Federal Law on Natural Monopolies establishes the legal basis for federal regulation of natural monopolies, including those in the communications market, and provides for governmental control over tariffs and certain activities of the natural monopolies. The Federal Law on Natural Monopolies outlines the types of transactions for which a regulated entity must obtain prior FAS approval and establishes the general principle that regulated entities may not refuse to provide regulated services to certain types of consumers. Regulated entities are also subject to continuous reporting requirements, including submitting plans for capital investments.

The Federal Tariff Service maintains a Register of Natural Monopolies whose tariffs are controlled and regulated by the state. A telecommunications operator may be included in this register upon a decision by the Federal Tariff Service based on the Service's analysis of the operator's activities and the market conditions.

Our subsidiary, MGTS, was added to the Register of Natural Monopolies in 2000. In addition, Comstar-Regions, a former subsidiary of Comstar, was added to the Register of Natural Monopolies in 2009. As a result, MGTS and Comstar-Regions are subject to the requirements of the Federal Law on Natural Monopolies including, *inter alia*, the following:

the Federal Tariff Service regulates and controls tariffs for services provided by MGTS and Comstar-Regions, including installation fees, monthly subscription fees (for subscribers to the unlimited tariff plan) and local call charges (for subscribers who do not use the unlimited tariff plan), as well as interconnect and traffic transit tariffs;

MGTS and Comstar-Regions must obtain prior FAS approval for any transaction involving the acquisition, disposal or lease of assets not related to the regulated activity, if the value of such assets exceeds 10% of MGTS' or Comstar-Regions' share capital, additional capital, retained profits and reserves;

MGTS and Comstar-Regions are required to maintain separate accounting records for each type of activity they carry out;

MGTS and Comstar-Regions are required to publicly disclose information on their tariffs, products, material conditions of their contracts with customers, capital expenditure programs and certain other information.

In addition, FAS is authorized by law to maintain a register of companies holding a market share in excess of 35%. Companies included in this register may become subject to certain restrictions in conducting their business, including in relation to pricing, acquisitions, geographical expansion, and associations and agreements with competitors. We are categorized by FAS as a company with a market share exceeding 35% in Ivanovo Region, Arkhangelsk region, Magadan region, Omsk region and Nenets Autonomous District. See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business If we are found to have a dominant position in the markets where we operate, the government may regulate our subscriber tariffs and restrict our operations."

The Federal Law on Communications also provides for the special regulation of telecommunications operators occupying a "substantial position," *i.e.*, operators which together with their affiliates have, in the Russian Federation generally or in a geographically defined specific numerical zone, 25% or more of installed capacity or capacity to carry out transmission of not less than

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25% of traffic. Comstar-UTS and MGTS were added to the register of telecommunications operators occupying a substantial position in 2005 and 2006, respectively. Following the completion of our merger with Comstar-UTS on April 1, 2011, we were (until in January, 2013, Comstar-UTS was excluded from the register) and MGTS is subject to the requirements of the Federal Law on Communications relating to operators occupying a substantial position in the public switched telephone networks including, *inter alia*, the following:

MGTS must develop interconnect rules and procedures in accordance with the requirements set forth by the federal government;

MGTS must ensure that interconnect agreements with operators who intend to interconnect to our networks are entered on the same terms and conditions as the agreements between MGTS, us and our affiliates; MGTS also cannot refuse to provide interconnect or discriminate against one operator over another; and

the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media may monitor MGTS' interconnect terms and procedures and issue mandatory orders to the companies where non-compliance with the law is found.

The Federal Law on Communications and implementation rules adopted by Government Decrees No. 161 dated March 28, 2005, and No. 627 dated October 19, 2005, also provides for government regulation of interconnect tariffs established by operators occupying a substantial position. In addition, such operators, including MGTS, are required to develop standard interconnect contracts and publish them as a public offer for all operators who intend to use such interconnect services.

Notwithstanding the above, fixed line operators not considered to occupy a substantial position and not included in the Register of Natural Monopolies, as well as mobile operators, are free to set their own tariffs. Also see "Item 3. Key Information D. Risk Factors Risks Relating to Our Business If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

Calling Party Pays

In March 2006, the Federal Law on Communications was amended to incorporate a "calling party pays" scheme effective as of July 1, 2006. Prior to the implementation of the "calling party pays" principle, subscribers of fixed line operators could initiate calls to mobile phone users free of charge. Under the current system, fixed line operators charge their subscribers for such calls and transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is regulated by the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media and is known as the settlement rate. Any reduction of the settlement rate by the regulator could have a negative impact on our average monthly service revenues per subscriber and margins.

Regulation in Ukraine

Regulatory Authorities

Administration of State Service on Special Communications and Information Protection of Ukraine. This body is responsible mainly for establishing and overseeing technical policies and standards in the sphere of telecommunications. Previously these functions were carried out by the State Communications Administration.

The NCCIR National Commission for the State Regulation of Communications and Informatization. The functions of the NCCIR were formerly carried out by the NCRC. Established by a Decree of the

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President of Ukraine in August 2004, the NCRC was vested with the powers of the central regulatory body in the sphere of telecommunications on January 1, 2005 pursuant to the Telecommunications Law described below. It consisted of seven members and a chairperson. The NCRC commenced its activity in April 2005 when the chairperson and its members were appointed as required by the Telecommunications Law.

The NCRC has been responsible for issuing licenses for telecommunications services and use of radio frequencies commencing January 1, 2005, as well as various other responsibilities of the SCA from that date. According to the amendments to the Telecommunications Law introduced in July 2011, the NCRC was replaced in August 2011 with the NCCIR, which now consists of six members and a chairperson. The NCCIR is currently responsible for issuing licenses for telecommunications services and use of radio frequencies, and other functions of former NCRC.

The State Center for Radio Frequencies of Ukraine (the "SCRF"). While licenses for radio frequencies for wireless communications are issued by the NCCIR, SCRF is the authority responsible for all technical issues related to the use of radio frequency resources and, in such proxy, is also involved in the issuance of radio frequency licenses. In particular, the SCRF determines frequency availability and technical aspects of frequency allocation, as well as provides the NCCIR with an expert opinion in relation to each application for radio frequency. The SCRF also monitored use of the frequencies and continued monitoring compliance with the license terms and physically inspecting operators and providers of telecommunications services until the establishment of the State Inspection of Communications, as described below. The SCRF also independently issues individual permissions for the use of radio-electronic and radio-emitting equipment, its development, import, sale and purchase, and maintains a data base of IMEI codes of mobile telephones.

The State Inspection of Communications (the "SIC"), established by the new Telecommunications Law, was a division of the NCRC. The SIC was responsible for the general supervision of the telecommunications market and the use of radio frequency resources. The SIC also monitored compliance with license terms, physically inspected operators and providers of telecommunications services and, together with the SCRF, reviewed cases relating to administrative violations in the areas of telecommunications and radio frequencies. In July 2011, the SIC was eliminated, and inspectors tasked with supervision were re-assigned to the NCCIR.

The AMC Antimonopoly Committee is charged with the administration of competition legislation and the protection and regulation of economic competition in Ukraine, including economic competition among industry participants in the telecommunications sector.

Legislation

The principal legislation regulating the telecommunications industry consists of the Law on Telecommunications dated November 18, 2003, (the "Telecommunications Law"), and the Radio Frequencies Law dated June 1, 2000, (the "Radio Frequencies Law").

The Telecommunications Law provides for, among other bearings, equal rights for private entrepreneurs and legal entities to offer telecommunications services, fair competition and freedom of pricing. The Telecommunications Law also sets forth the legal, economic and organizational framework for the operation of companies, associations and government bodies forming part of the telecommunications networks. The licensing of telecommunications services, the requirements for equipment certification and liability for violations of Ukrainian legislation on telecommunications are also determined by this legislation. The Telecommunications Law also governs the relations between the state and local governmental bodies, telecommunications operators and users of telecommunications services and radio frequencies.

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The Telecommunications Law addresses various areas of telecommunications services in Ukraine, including numbering requirements, tariff and settlement regulations, interconnect, public telecommunications services, market access rules and licensing issuance and renewal. The Telecommunications Law also significantly expands the definition of the telecommunications services market, including in its scope Internet Protocol telecommunications, transmission of data and facsimile communications.

The Telecommunications Law also restructured the regulatory bodies governing the area of telecommunications. It provided for the creation of the NCRC, which, between January 1, 2005, and July 5, 2011, had been responsible for many of the functions formerly handled by the SCA. In August 2011, the NCRC was replaced with the NCCIR, which is authorized, *inter alia*, to issue regulations for telecommunications services, issue telecommunications licenses to operators and providers, issue frequency licenses, request information from operators, providers and authorities, impose administrative penalties and maintain the register of the operators and providers. The NCCIR is also authorized to conduct hearings and to resolve disputes among operators concerning the interconnect of telecommunications networks.

In July 2010, the Telecommunications Law was amended with provisions on mobile number portability and national roaming obligations. According to the amendments, the NCCIR (formerly NCRC) shall adopt regulations which would allow subscribers to retain their mobile telephone numbers when switching from one mobile telecommunications operator to another. On August 25, 2011, the NCCIR enacted national roaming regulations. Accordingly, telecommunications operators were enabled to conclude agreements on national roaming and prescribed to provide this service as described in the regulations (*e.g.*, must inform users on roaming prices and maintain quality of service on the same level for own subscribers and subscribers of operators with whom roaming agreements are signed). Foreign investments in Ukrainian telecommunications operators are not limited; however, in order to provide telecommunications services in Ukraine an entity must be located on the territory of Ukraine and registered in accordance with Ukrainian legislation.

The Radio Frequencies Law sets forth comprehensive rules regarding the allocation, assignment, interrelation and use of radio frequencies, the licensing of the users of radio frequencies and other relevant issues.

Licensing of Telecommunications Services and Radio Frequency Allocation

Commencing January 1, 2005, the NCCIR (formerly NCRC) has assumed responsibility for issuing telecommunications licenses and frequency licenses pursuant to the Telecommunications Law and the 2004 amendments to the Radio Frequencies Law. Licenses are issued for the following types of telecommunications services:

fixed-line telephone communications services (local, intercity, international):

fixed-wireless telephone communications services (local, intercity, international):

mobile telephone communications services;

technical maintenance and exploitation of telecommunications networks.

Starting from July 5, 2011, the leasing of electric communications channels no longer requires licensing.

Other telecommunications services do not require licenses.

An operator that is granted a telecommunications license may not commence the provision of wireless telecommunications services until it receives a frequency license. The issuance of a frequency license is, in turn, subject to the availability of radio frequencies in the respective regions of Ukraine.

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Frequency licenses are issued for specific bandwidths within certain frequency spectrums in specific regions. The GSM and UMTS spectrum is presently considered to be the most commercially attractive for telecommunications operators. It is currently deemed to be virtually impossible to obtain a license for GSM frequencies in major Ukrainian cities because most of the GSM radio frequencies in such cities are already licensed to the existing GSM operators, including us. UMTS radio frequencies are currently allocated for special users, in particular, the Ministry of Defense. In September 2009, the NCRC announced plans to launch a tender for a single 3G/UMTS mobile services license in Ukraine. However, the NCRC canceled the planned tender in November 2009 following a decision by the President of Ukraine to put the tender and conversion of the radio frequencies on hold.

Following the election of Viktor Yanukovich as Ukraine's new President in February 2010, a working group was created in order to fulfill the assignment of Ukraine's Cabinet of Ministers on conversion of frequencies.

In October 2010, the NCRC proposed an updated plan that stipulates carrying out the conversion within eight months of November 2010 and at a cost of UAH 841 million in one stage by means of releasing a whole range of 100 MHz frequency. In March 2011, the NCRC developed a draft regulation (which has yet to be approved by the Ukrainian government) for the compensation of costs incurred by various governmental agencies (including the Ministry of Defense) that currently hold frequencies to be converted. In 2012, the NCCIR was planning to determine the specific requirements of a public tender for the sale of frequencies for the development of 3G networks. The tender was not held in 2012 and is currently on hold. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Our inability to obtain a UMTS license in Ukraine on commercially reasonable terms, or at all, may negatively affect our competitive position in Ukraine."

Under applicable legislation, licenses for telecommunications services may be issued and renewed for periods of not less than 5 years, with the actual period generally ranging from 10 to 15 years. Renewal of a license is made by an application submitted to the NCCIR at least four months prior to the expiration of the license term. NCCIR officials have broad discretion with respect to both the issuance and the renewal of licenses. The Telecommunications Law further provides that the NCCIR must grant licenses on a first come-first served basis within 30 days from submission of an application. If resources are limited or consumer interests so require, the NCCIR may adopt a decision to limit the number of licenses. In this event, the law requires that such decision is made public along with the rationale and that the licenses be allocated through a tender.

In accordance with the Radio Frequencies Law, the NCCIR issues a frequency license concurrently with the issuance of a telecommunications license for the type of services requiring use of radio frequency resources. A telecommunications operator that has the respective telecommunications license may apply for licenses for additional radio frequency bands. Frequency licenses may not be issued for a period shorter than the term of the relevant telecommunications license.

Under applicable legislation, a public tender or an auction for a radio frequency license must be held by the NCCIR if demand for radio frequency resources exceeds available resources. Radio frequency licenses issued on the basis of a public tender or an auction for the same type of radio technology must include identical conditions regarding the radio frequency bands and development period. Telecommunications operators are allowed to apply to the NCCIR for redistribution of the radio frequency resources previously allocated to them.

Applicable legislation prohibits the transfer of a license by the licensee, including by means of assignment or pledge of a license as collateral, and agreements regarding the provision of telecommunications services must be executed and performed by the actual licensee.

Licenses generally contain a number of detailed conditions, including the date by which service must be commenced, terms of network deployment and territory coverage, the requirement to use only

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certified equipment, the technical standards which must be considered and the requirement to comply with all environmental regulations. Frequency licenses issued after January 1, 2005 will also contain the date by which the radio frequency resources must be fully utilized.

Telecommunications operators' activities are subject to strict regulations, especially regarding electromagnetic compatibility; construction and technical maintenance of a telecommunications network must be carried out in accordance with specific regulations applicable in Ukraine. Telecommunications operators must submit periodic reports to the NCCIR on the amount and quality of services provided under the telecommunications license. We believe that we are in material compliance with the applicable laws and regulations related to our Ukrainian licenses.

Some licenses also provide that services for persons entitled to certain social benefits must be provided at or below certain minimum thresholds established by Ukrainian legislation in effect at that time.

If the terms of a license are not fulfilled or the service provider violates legislation, the license may be suspended or terminated. Both telecommunications services licenses and radio frequency licenses may be terminated for various reasons, including:

- provision of inaccurate information in the application for a license;
- repeated refusal to allow the representatives of the NCCIR to make inspections;
- failure to remedy in a timely manner the circumstances which resulted in a violation of the license terms;
- repeated violation of the license terms;
- transfer or assignment of the license to a third party;
- other grounds set forth by Ukrainian laws.

Radio frequency licenses may also be terminated for the following reasons:

- failure to commence using radio frequency resources within the time period specified in the license;
- termination of use of radio frequency resources specified in the license for more than one year;
- failure to use radio frequency resources to the full extent within the time period specified in the license;
- failure to pay monthly fees for the use of allocated radio frequencies for six months or more.

Decisions of the NCCIR on termination of licenses may be appealed to a court.

Equipment Certification

The Telecommunications Law requires that all technical devices and equipment to be used in interconnected communications networks in Ukraine, including fixed line and wireless networks, must be certified. The Administration of State Service on Special Communications and Information Protection of Ukraine sets the technical standards for equipment to be used in telecommunications networks in Ukraine. Companies that are assigned by the special authority and agreed by the NCCIR issue equipment compliance certificates. If the equipment a prospective operator intends to use is certified in Ukraine by either the manufacturer or the vendor, there is no need for the operator to go through the

equipment certification process. However, if the equipment is not certified in Ukraine or if it is certified by a third party that is unwilling or unable to give the operator its permission to utilize its certification, then the operator will need to apply for the certification of the equipment in its own name.

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The Radio Frequencies Law provides that users of radio frequency resources must obtain permits for the operation of radio-electronic and radio-emitting equipment, except for equipment used on a permit-free basis in accordance with this law. In order to obtain such operation permit, a company is required to file an application with the SCRF. The Radio Frequencies Law also requires producers and importers of radio-electronic and radio-emitting equipment to be used on the territory of Ukraine to register such equipment with the NCCIR.

Competition

The Telecommunications Law provides that one of the purposes of the licensing of telecommunications services is to encourage competition and de-monopolization in the telecommunications industry.

Ukrainian antimonopoly legislation prohibits a company operating in Ukraine from abusing its dominant position in its market to gain, inter alia, an unfair or anti-competitive advantage in the provision of its services or products. A legal entity is deemed to be in a dominant position if such entity has no competitor in the market or is not subject to substantial competition due to restricted access or entry barriers for other business entities. Further, Ukrainian antimonopoly legislation provides that a company shall be deemed dominant if its market share in the respective product market exceeds 35% unless such company proves that it faces significant competition in the respective product market.

According to AC&M-Consulting, MTS Ukraine had a 35.6% market share of the wireless communications market in Ukraine as of December 31, 2012.

A telecommunications operator which is found by the AMC to have a dominant position in the market, in particular, may specifically be required to:

annually submit to the NCCIR irrevocable public offers regarding interconnect with the other operators' telecommunications networks;

comply with the regulations of the NCCIR regarding the technical, organizational and commercial terms and conditions of interconnect with the other operators' telecommunications networks;

comply with the cost determination factors set by the NCCIR for access to the operator's own network; and

not discriminate other players in the telecommunications market.

In September 2003, the AMC began a review of the telecommunications services market for the purpose of determining the status of competition and the existence of dominant market forces. In August 2004, the AMC notified MTS Ukraine and its largest competitor, Kyivstar, that the preliminary results of its review of the wireless telecommunications industry indicated that each of MTS Ukraine and Kyivstar qualified as having a dominant position in the market. The AMC offered MTS Ukraine and Kyivstar the opportunity to submit their objections to these preliminary findings and indicated that it would issue a decision following its review thereof. In December 2004, the AMC announced its issuance of a decision in which it confirmed that neither MTS Ukraine nor Kyivstar qualified as having a dominant position in the wireless communications market.

In November 2005, the AMC recommended that MTS Ukraine and Kyivstar abolish the connection fees both operators charge their subscribers. In April 2006, MTS Ukraine responded by notifying the AMC that it had partially abolished the connection fees it charged to those subscribers participating in its monthly tariff plans, but would not alter the connection fees charged to subscribers of pre-paid tariff plans. The AMC has not taken any further actions relating to this matter. Over the course of 2007-2009, the AMC conducted an investigation of the telecommunications interconnect market among mobile operators in Ukraine and issued a finding in May 2009 that eight mobile

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operators, including MTS Ukraine and its closest competitors, have a dominant position in relation to the market for interconnecting to each of their own respective mobile networks. MTS Ukraine appealed this decision in June 2009, and the AMC suspended the decision pending resolution of the appeal. In June 2010, the AMC confirmed its earlier decision and eight mobile operators, including MTS Ukraine and its closest competitors, were determined as having a dominant position on the market for interconnecting to their own mobile networks. As a result, the interconnect fees charged by these operators, including MTS Ukraine, for termination of calls on their networks are currently regulated by the NCCIR. In February 2010, the NCRC approved interconnect rates for telecommunications operators found by the AMC to have a dominant position. Thus, MTS Ukraine was obligated to charge interconnect rates established by the NCRC, which were UAH 0.35-0.40 per minute excluding VAT (approximately \$0.04 - \$0.05 as of December 31, 2012). See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Governmental regulation of our interconnect rates in Ukraine could adversely affect our results of operations."

In December 2010, the Telecommunications Law was amended to introduce the term "significant market power operator." An operator qualifies as a significant market power operator ("SMP operator") if its share of gross revenue from the provision of traffic transfer services on fixed or mobile telecommunications networks during the last 12 months exceeded 25% of total gross revenues of all telecommunications operators for the same services during the same period. An operator can be classified as a significant market power operator on either the fixed telecommunications market, the mobile telecommunications market, or on both. Such an amendment could allow the NCCIR to recognize certain operators, including us, as operators with significant market power (rather than operators with dominant positions) and to regulate consequently their fees for traffic transfer services (rather than interconnect fees for termination of calls on the operators' networks).

In July 2010, the term "significant market power operator" was changed by the amendment to the Telecommunications Law which came into effect on January 1, 2013. From this date, the significant market power operator will be qualified in the market which is defined by NCCIR.

On October 20, 2011, the NCCIR issued a decision, which recognizes all mobile operators, including MTS Ukraine, as SMP operators on the market of call termination on their own networks.

On December 1, 2011, the NCCIR approved an interconnect rate of UAH 0.36 per minute excluding VAT (approximately \$0.04 as of December 31, 2012) which came into effect on January 1, 2012, for all SMP operators on the market of call termination on their own networks.

The Telecommunications Law also extends the power of the NCCIR to receive financial and economic data from telecommunications operators. Such information allows the NCCIR to analyze the Ukrainian telecommunications services market in order to determine which operators (if any) have a dominant position and which ones (if any) are significant market power operators for purposes of regulating fees such operators can charge for interconnect and traffic transfer services. In addition, the financial and economic data permits the NCCIR to better regulate the interaction of operators with regard to traffic transfer services and to assist without court dispute settlement. New amendments to the Telecommunications Law also set forth the methodology for fee determination that can be charged for traffic transfer services based largely on a calculation that includes an operator's base cost plus profit level of certain services. Furthermore, in order to prevent "dumping" fees, operators that do not have a dominant position nor significant market power are prohibited under the Telecommunications Law from charging fees less than those charged by the regulated entities, but can certainly charge more would they choose.

Due to the currently large market shares held by MTS Ukraine and Kyivstar in Ukraine, we believe that the AMC may determine that only these two operators (and not the current eight operators) have dominant positions on the market in 2011. If so, we and Kyivstar would remain the only regulated operators in Ukraine and, as a result, we could suffer a significant decrease in our

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interconnect revenues as well as an increase in the interconnect fees we pay to other operators not deemed to have a dominant position or significant market power.

On December 30, 2011, the AMC commenced an investigation of the telecommunications services market for the purpose of determining dominant market force abuse by MTS Ukraine in relation to international roaming services. During the investigation, MTS Ukraine has been continuously providing the AMC with documents and information officially requested by the AMC. A similar investigation was commenced in relation to our main competitor in Ukraine, Kyivstar. In the event that the AMC finds any operator in abuse of its dominant market force in relation to international roaming services, it could fine such an operator for up to 10% of its revenue for the previous year, calculated in accordance with local accounting principals.

On December 19, 2012, the AMC issued obligatory recommendation regarding international roaming services investigation against it described above. According to this recommendation, MTS Ukraine is obligated to decrease its tariffs on international roaming services to significant competition level. In January 2013, MTS Ukraine provided the AMC with the required information, necessary for fulfill this recommendation.

On September 27, 2012, the AMC commenced an investigation of the telecommunications services market for the purpose of determining dominant market force abuse of MTS Ukraine in relation to national mobile communications services. During the investigation, MTS Ukraine has been continuously providing the AMC with documents and information officially requested by the AMC. A similar investigation was commenced in relation to our main competitor in Ukraine, Kyivstar. In the event that the AMC finds any operator in abuse of its dominant market force in relation to international roaming services, it could fine such an operator for up to 10% of its revenue for the previous year, calculated in accordance with NR(S)AU.

On December 19, 2012, the AMC issued obligatory recommendation regarding national mobile communications investigation against it described above. According to this recommendation, MTS Ukraine is obliged to decrease its national tariffs on mobile communications services to significant competition level. On December 20, 2012, MTS Ukraine provided the AMC with comprehensive response, giving information on the measures we intend to take to fulfill this recommendation. The cases on international roaming services and national mobile communications services have been closed, with MTS Ukraine receiving the relevant notices from the AMC on February 8, 2013 and February 11, 2013, respectively

Please see also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business A finding by the AMC that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations" for details of AMC of Ukraine investigations in respect of international roaming services and national mobile communications services.

Tariffs

Telecommunications tariffs are regulated by the NCCIR for:

"public telecommunication" services; and

provision of electric communications channels by operators with a dominant position on the market.

The Telecommunications Law withdrew the authority of the Cabinet of Ministers of Ukraine to regulate the prices for telecommunications services.

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In February 2006, the NCRC established maximum tariffs for the provision of electric communications channels by operators having a dominant position on the market and, in April 2009, it established maximum tariffs for fixed line public telecommunications services.

Although there are no additional regulations limiting the rates at which tariffs may be set for wireless telecommunications services, in case if Antimonopoly Committee believes competition laws are violated, it can believe that tariffs are unfair and injurious to market competition. In such cases, the AMC may, inter alia, request the violating telecommunications operator to remedy the situation, in particular, by amending its tariff scheme, and impose fines on the company for an infringement.

Subject to the above, wireless operators are free to set tariffs at levels they consider appropriate.

Interconnect

Interconnect activity is regulated by the NCCIR. Operators may provide offers for interconnect to the NCCIR, and the NCCIR is required to publish on an annual or regular basis a catalog of such offers. Operators with a dominant position on the market are obligated to submit interconnect offers to the NCCIR for each catalog.

Interconnect is made pursuant to interconnect agreements between network operators as prescribed by the regulatory authorities. Such agreements are required under the law to contain certain provisions. An operator with a dominant position cannot refuse an offer to conclude an interconnect agreement with another operator, if the offeror has offered points of interconnect that were previously published by the NCCIR in the catalogue of interconnect proposals.

The NCCIR is authorized to conduct hearings and to resolve disputes among operators concerning the interconnect of telecommunications networks. Decisions of the NCCIR are binding upon the parties in the dispute but a party to the dispute may appeal such a decision in court.

In May 2009, the AMC issued a finding that eight mobile operators, including MTS Ukraine and its closest competitors, have a dominant position in relation to the market for interconnecting to each of their respective networks. MTS Ukraine appealed this decision in June 2009, and the AMC suspended the decision pending resolution of the appeal. In June 2010, the AMC confirmed its earlier decision and interconnect fees charged by MTS Ukraine for terminating calls on its network are currently regulated. In February 2010, the NCRC established regulated interconnect fees for termination of calls on the networks of operators that have a dominant position. See " Competition."

In October 2011, the NCCIR defined all of operators, that have operated in the Ukrainian market in the period from 2009 through 2010 as having significant market power (SMP-operators) for termination traffic on their fixed and mobile networks (433 fixed and 8 mobile operators). Effective 1 January 2012, the NCCIR regulates the interconnection rates for all SMP fixed and mobile operators, including MTS Ukraine. The interconnection rates charged by long-distance operators are set up equal to rates charged by mobile operators.

The NCCIR regularly analyses the telecommunication market to determine operators with significant market power in this market. The last analysis was carried out in October 2011. As a result of this analysis, no operator that entered the market after October 2011 was determined by the NCCIR to possess significant market power.

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Licenses

Mobile Operations

The following table shows, as of March 1, 2013, information with respect to the license areas in which we and our subsidiaries and affiliates provide or expect to provide GSM services:

License Region	GSM 900		GSM 1800	
	Licensee	Expiry date	Licensee	Expiry date
Moscow License Area				
Moscow	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Moscow Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
St. Petersburg License Area				
St. Petersburg	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Leningrad Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Russian Regional License Areas				
European Russia				
Adygeya Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Arkhangelsk Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Astrakhan Region	MTS OJSC	December 11, 2013	MTS OJSC	October 18, 2016
Bashkortostan Republic	MTS OJSC	August 22, 2017	MTS OJSC	August 22, 2017
Belgorod Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Bryansk Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Chuvashia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Chechen Republic			MTS OJSC	April 28, 2016
Dagestan Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Ivanovo Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Ingushetia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Kabardino-Balkar Republic			MTS OJSC	December 30, 2013
Kaliningrad Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Kalmykia Republic	MTS OJSC	January 25, 2016	MTS OJSC	December 30, 2013
Kaluga Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Karachaevo-Cherkesia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Karelia Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Kirov Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Komi Republic	MTS OJSC	August 22, 2017	MTS OJSC	August 22, 2017
Kostroma Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Krasnodar Region	MTS OJSC	May 30, 2017	MTS OJSC	May 30, 2017
Kursk Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Lipetsk Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Mari-El Republic	MTS OJSC	January 15, 2017	MTS OJSC	January 15, 2017
Mordovia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Murmansk Region	MTS OJSC			