MOBILE TELESYSTEMS OJSC
Form 20-F
April 23, 2012

Use these links to rapidly review the document
Table of Contents1
Table of Contents2
Table of Contents3

Table of Contents

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, 2011**

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)

4 Marksistskaya Street, Moscow 109147 Russian Federation
(Address of Principal Executive Offices)

Joshua B. Tulgan
Director, Investor Relations
Mobile TeleSystems OJSC
5 Vorontsovskaya Street, bldg. 2, 109147 Moscow Russian Federation
Phone: +7 495 223 20 25, Fax: +7 495 911 65 67
E-mail: ir@mts.ru
(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	**NEW YORK STOCK EXCHANGE**
COMMON STOCK, PAR VALUE 0.10 RUSSIAN RUBLES PER SHARE	**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 1,988,916,837 ordinary shares, par value 0.10 Russian rubles each and 388,698,252 American Depositary Shares as of December 31, 2011.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated file, 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 ý Accelerated Filer o Non-accelerated filer o

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

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

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. o Item 17 o 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). o Yes ý 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.

Table of Contents

Cautionary Statement Regarding Forward-Looking Statements		1
Item 1.	Identity of Directors, Senior Management and Advisors	3
Item 2.	Offer Statistics and Expected Timetable	3
Item 3.	Key Information	3
A.	Selected Financial Data	3
B.	Capitalization and Indebtedness	8
C.	Reasons for the Offer and Use of Proceeds	8
D.	Risk Factors	8
Item 4.	Information on Our Company	66
A.	History and Development	66
B.	Business Overview	70
C.	Organizational Structure	133
D.	Property, Plant and Equipment	133
Item 4A.	Unresolved Staff Comments	134
Item 5.	Operating and Financial Review and Prospects	134
A.	Operating results	135
B.	Liquidity and Capital Resources	159
C.	Research and Development, Patents and Licenses, etc.	169
D.	Trend Information	169
E.	Off-balance Sheet Arrangements	171
F.	Tabular Disclosure of Contractual Obligations	172
Item 6.	Directors, Senior Management and Employees	173
A.	Directors and Senior Management Key Biographies	173
B.	Compensation of Directors and Senior Management	176
C.	Board Practices	177
D.	Employees	179
E.	Share Ownership	180
Item 7.	Major Shareholders and Related Party Transactions	181
A.	Major Shareholders	181
B.	Related Party Transactions	182
C.	Interests of Experts and Counsel	186
Item 8.	Financial Information	186
A.	Consolidated Statements and Other Financial Information	186
B.	Significant Changes	192
Item 9.	Offer and Listing Details	192
A.4.	Market Price Information	192
C.	Markets	193
Item 10.	Additional Information	193
A.	Share Capital	193
B.	Charter and Certain Requirements of Russian Legislation	193
C.	Material Contracts	209
D.	Exchange Controls	213
E.	Taxation	214
F.	Dividends and Paying Agents	223
G.	Statement by Experts	223
H.	Documents on Display	223
I.	Subsidiary Information	223
Item 11.	Quantitative and Qualitative Disclosures about Market Risk	223
Item 12.	Description of Securities Other Than Equity Securities	228

D.	American Depositary Shares	228
Item 13.	Defaults, Dividend Arrearages and Delinquencies	232
Item 14.	Material Modifications to the Rights of Security Holders and Use of Proceeds	232
Item 15.	Controls and Procedures	232
Item 16A.	Audit Committee Financial Expert	234
Item 16B.	Code of Ethics	234
Item 16C.	Principal Accountant Fees and Services	234
Item 16D.	Exemption from the Listing Standards for Audit Committees	235
Item 16E.	Purchases of Equity Securities by the Issuer and Affiliated Purchasers	236
Item 16F.	Change in Registrant's Certifying Accountant	237
Item 16G.	Corporate Governance	237
Item 17.	Financial Statements	239
Item 18.	Financial Statements	239
Item 19.	Exhibits	241

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 Uzdunrobita, 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.

Table of Contents

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.

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

Table of Contents

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.

Table of Contents

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, 2009, 2010 and 2011, and as of December 31, 2009, 2010 and 2011, are derived from the audited consolidated financial statements, prepared in accordance with U.S. GAAP included elsewhere 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% in December 2009 and to 70.97% 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 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 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 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 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

Table of Contents

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. See Notes 2 and 3 to our audited consolidated financial statements.

Financial information for the year ended December 31, 2007, is restated to reflect the acquisition of Comstar.

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.

	Years Ended December 31,				
	2007 (restated, other than industry and operating data)	2008 (restated, other than industry and operating data)	2009 (restated, other than industry and operating data)	2010	2011
	(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)				
Consolidated statements of operations data:					
Service revenues and connection fees	$ 9,634,698	$ 11,836,158	$ 9,513,353	$ 10,586,068	$ 11,430,377
Sales of handsets and accessories	89,208	156,465	353,900	707,168	888,311
Total net operating revenues	9,723,906	11,992,623	9,867,253	11,293,236	12,318,688
Operating expenses:					
Cost of services, excluding depreciation and amortization shown separately below	1,863,797	2,451,978	2,011,332	2,260,888	2,633,434
Cost of handsets and accessories	158,848	229,992	375,444	727,683	902,692
Sales and marketing expenses	775,240	908,824	728,483	850,584	878,222
Depreciation and amortization expense	1,674,885	2,153,077	1,844,174	2,000,496	2,335,204
Sundry operating expenses[1]	2,066,208	2,621,506	2,351,935	2,719,027	2,760,251
Net operating income	3,184,928	3,627,246	2,555,885	2,734,559	2,808,885
Currency exchange and transaction (gain)/loss	(161,856)	561,963	252,694	(20,238)	158,066

Table of Contents

	Years Ended December 31,				
	2007 (restated, other than industry and operating data)	2008 (restated, other than industry and operating data)	2009 (restated, other than industry and operating data)	2010	2011
	(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)				
Other (income) expenses:					
Interest income	(53,507)	(69,697)	(104,566)	(84,396)	(62,559)
Interest expense, net of capitalized interest	192,237	234,424	571,901	777,287	656,898
Equity in net income of associates	(71,116)	(75,688)	(60,313)	(70,649)	(49,443)
Impairment of investments	22,691		368,355		
Change in fair value of derivatives	145,860	41,554	5,420		
Other expenses, net	38,781	29,090	23,254	66,924	6,571
Total other expenses, net	274,946	159,683	804,051	689,166	551,467
Income before provision for income taxes and noncontrolling interests	3,071,838	2,905,600	1,499,140	2,065,631	2,099,352
Provision for income taxes	852,015	744,320	505,047	517,188	531,620
Net income (loss) attributable to the noncontrolling interest	$ 132,408	$ 182,173	$ (20,110)	$ 167,812	$ 123,788
Net income attributable to the Group	2,087,415	1,979,107	1,014,203	1,380,631	1,443,944
Dividends declared[(2)]	$ 747,213	$ 1,257,453	$ 1,265,544	$ 991,211	$ 1,066,753
Net income per share, basic and diluted, US dollars	1.06	1.05	0.54	0.72	0.73
Dividends declared per share, US dollars	0.38	0.63	0.65	0.50	0.52
Dividends declared per share, rubles	9.67	14.84	20.15	15.40	14.54
Number of common shares outstanding	1,960,849,301	1,885,052,800	1,916,869,262	1,916,869,262	1,988,916,837
Weighted average number of common shares outstanding basic	1,973,354,348	1,921,934,091	1,885,750,147	1,916,869,262	1,970,953,129
Weighted average number of common shares outstanding diluted	1,974,074,908	1,921,934,091	1,885,750,147	1,916,869,262	1,970,953,129

Table of Contents

	Years Ended December 31,				
	2007 (restated, other than industry and operating data)	2008 (restated, other than industry and operating data)	2009 (restated, other than industry and operating data)	2010	2011
	(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)				
Consolidated statement of cash flows data:					
Cash provided by operating activities	$ 3,851,372	$ 5,027,000	$ 3,592,230	$ 3,617,170	$ 3,849,005
Cash used in investing activities	(3,247,320)	(2,698,386	(2,372,171)	(2,181,627)	(2,555,039)
(of which capital expenditures)[3]	(1,898,972)	(2,612,825)	(2,328,309)	(2,647,117)	(2,584,466)
Cash (used in)/provided by financing activities	(258,069)	(1,679,647)	130,949	(3,036,442)	(270,308)
Consolidated statement of financial position (end of period):					
Cash, cash equivalents and short-term investments	$ 1,267,413	$ 1,499,531	$ 2,735,480	$ 1,261,288	$ 1,937,068
Property, plant and equipment, net	8,566,744	7,765,873	7,750,617	7,971,830	8,205,352
Total assets	15,874,942	14,737,318	15,764,489	14,478,042	15,318,229
Total debt (long-term and short-term)[4]	4,529,374	5,394,852	8,350,244	7,160,612	8,715,203
Total shareholders' equity	8,339,558	6,194,864	4,365,711	4,156,803	3,570,623
Common stock less treasury stock	(317,794)	(1,376,195)	(1,004,368)	(1,004,368)	(941,327)
Financial ratios (end of period):					
Total debt/total capitalization[5]	35.2%	46.5%	65.7%	63.3%	70.9%
Mobile industry and operating data:[6]					
Mobile penetration in Russia (end of period)	119%	129%	143%	151%	157%
Mobile penetration in Ukraine (end of period)	120%	121%	121%	118%	118%
Mobile subscribers in Russia (end of period, thousands)[7]	57,426	64,628	69,342	71,442	69,954
Mobile subscribers in Ukraine (end of period, thousands)[7]	20,004	18,115	17,564	18,240	19,223

Table of Contents

	Years Ended December 31,				
	2007 (restated, other than industry and operating data)	2008 (restated, other than industry and operating data)	2009 (restated, other than industry and operating data)	2010	2011
	(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)				
Overall market share in Russia (end of period)	33%	34%	33%	33%	31%
Overall market share in Ukraine (end of period)	36%	32%	32%	34%	36%
Average monthly usage per subscriber in Russia (minutes)[8]	157	208	213	234	269
Average monthly usage per subscriber in Ukraine (minutes)[8]	154	279	462	535	580
Average monthly service revenue per subscriber in Russia[9]	$ 9	$ 11	$ 8	$ 8	$ 9
Average monthly service revenue per subscriber in Ukraine[9]	$ 7	$ 7	$ 5	$ 5	$ 5
Subscriber acquisition costs in Ukraine[10]	$ 12	$ 11	$ 7	$ 8	$ 8
Churn in Russia[11]	23.1%	27.0%	38.3%	45.9%	47.6%
Churn in Ukraine[11]	49.0%	47.3%	40.0%	31.0%	30.7%

(1) "Sundry operating expenses" consist of general and administrative expenses, provision for doubtful accounts, impairment of long-lived assets and goodwill and other operating expenses (including charges incurred in connection with the "universal services reserve fund").

(2) Dividends declared in each of the years ended December 31, 2007, 2008, 2009, 2010 and 2011 were, in each case, in respect of the prior fiscal year (*i.e.*, in respect of each of the years ended December 31, 2006, 2007, 2008, 2009 and 2010, respectively). Includes dividends on treasury shares of $6.0 million, $36.5 million, $45.6 million, $35.1 million and $40.0 million for the years ended December 31, 2006, 2007, 2008, 2009, and 2010, respectively. Annual dividends are calculated at the exchange rate on the date when dividends are declared at the Annual General Meeting of Shareholders. On April 12, 2012, our Board of Directors recommended that the Annual General Meeting of Shareholders approve annual dividends of RUB 14.71 per ordinary MTS share (approximately $1.01 per ADS as of March 23, 2012) for the 2011 fiscal year, amounting to a total of RUB 30.4 billion (approximately $1.04 billion as of March 23, 2012).

(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

7

Table of Contents

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, 2007, 2008, 2009, 2010 and 2011 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.

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, 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 $34.9 million of

Table of Contents

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 " The inability of Barash Communication Technologies, Inc. to resume its operations in Turkmenistan on commercially acceptable terms or at all 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 digital technology, shorter development cycles for new products and enhancements and changes in customer requirements 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 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.

Table of Contents

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 May 2011, Rostelecom announced its plans to acquire Sky Link and in November 2011 the Federal Antimonopoly Service ("FAS") approved the acquisition. 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.

According to Direct INFO, Rostelecom controls over 76% 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, 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 2012. If we are unable to acquire this ownership interest at a commercially reasonable price, or if it is acquired by one of our

Table of Contents

competitors, it may impact our competitive position and results of operations in Belarus. 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."

We also face competition in Armenia and Uzbekistan. 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. The Uzbekistan telecommunications market can also be characterized by aggressive pricing by our competitors, Vimpelcom and Ucell, as well as by a rapidly developing market for mobile Internet services and the existence of various administrative barriers that make working in Uzbekistan challenging.

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 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 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 A disposition by our controlling shareholder of its stake in our company could materially harm our business."

Sistema has outstanding a significant amount of indebtedness. As of December 31, 2011, Sistema had consolidated indebtedness of approximately $0.3 billion of short-term debt, $4.1 billion comprising the short-term portion of its long-term debt, and $12.0 billion of long-term debt (net of the short-term portion). At the corporate level, Sistema had $9.3 million of short-term debt, $682.3 million comprising the short-term portion of its long-term debt, and $555.2 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.

Table of Contents

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 and $1,066.8 million in 2011 for 2010. 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 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 $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 Barash Communication Technologies, Inc. to resume its operations in Turkmenistan on commercially acceptable terms or at all 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 2009 and 2010, our acquisitions focus shifted to dealer acquisitions in furtherance of our effort to develop our distribution network, and to the acquisitions of Comstar 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

Table of Contents

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;
- 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 Svyazinvest, 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, 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."

Difficulties integrating the operations of Comstar with our existing operations may prevent us from achieving the expected benefits from the acquisition.

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

Table of Contents

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.

We merged with Comstar in furtherance of our strategy to become a full service provider of integrated telecommunications services and strengthen our position in the growing fixed and mobile broadband markets. This strategy is premised on our belief that consumer Internet use in our markets will continue to rapidly grow, the mobile and fixed line assets of MTS and Comstar are complementary, and the combination of our respective telecommunications assets will enable us to develop and provide bundled telecommunications services and take advantage of cross-selling opportunities. If any of these assumptions are incorrect or if we are unable to effectively execute our strategy, the return on our substantial investment in Comstar may not materialize and our business, financial condition and results of operations and prospects would be materially adversely affected.

In addition, our management will be required to devote substantial time and resources over the next several years to integrating the operations of Comstar and MTS, which will decrease the time that they are able to devote to managing the combined company's business. Additionally, we will depend to a significant extent upon the continued performance and contributions of individuals who formerly served in senior management positions at Comstar, as we have little or, in some cases, no experience providing certain services that were offered by Comstar.

Although a large part of Comstar operations has now been integrated, this process is still ongoing and the completion of this integration into MTS may require significant time and resources. Our inability to integrate successfully Comstar's operations into us could have a material adverse effect on our business, financial condition, results of operations and prospects. See also " Acquisitions and mergers may pose significant risks to our business" and "Item 4. Information on Our Company B. Business Overview Business Strategy."

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.

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

Table of Contents

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 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

Table of Contents

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 156.8% and 117.6%, respectively, as of December 31, 2011, according to AC&M-Consulting. While customer growth has been, and we expect it will continue to be, a principal source of revenue growth, increasing competition and market saturation will likely cause the increase in subscribers to continue to slow in comparison to our historical growth rates. As a result, we will need to continue to develop new competitive services, including value-added, third-generation ("3G"), Internet, Blackberry services, integrated telecommunications services 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. 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, including the promotion of Vimpelcom's services over ours at Euroset outlets, notwithstanding these regulatory prohibitions. In addition, Euroset has recently launched an aggressive campaign to acquire retail outlets which belong to Svyaznoy, a large independent nationwide dealer in Russia. 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, 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 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.

Table of Contents

In Russia, the government has previously expressed its intent to privatize Svyazinvest and to obtain a listing of Rostelecom Global and American Depositary Receipts after completion of the Svyazinvest reorganization. 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."

Trimob (formerly known as Utel), a subsidiary of Ukrtelecom, is the only UMTS license holder in Ukraine. Trimob is expected to be sold by the end of 2012, subject to approval by the AMC and certain other regulatory bodies. 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 2012 State Budget. Therefore, there is a possibility that auctions for additional UMTS licenses will not be held in 2012. 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. See also " Our inability to obtain a UMTS license in Ukraine on commercially reasonable terms, or at all, may negatively affect our competitive position in Ukraine."

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

Under the Ukrainian Telecommunications Law, adopted in November 2003, the National Commission for the Regulation on Communications (the "NCRC"), was authorized to regulate the tariffs for public telecommunications services rendered by fixed line operators within one geographical

Table of Contents

numbering zone. While mobile cellular operators (including MTS Ukraine) were generally entitled to set their retail tariffs and negotiate interconnect rates with other operators, the NCRC was entitled to regulate the interconnect rates of any mobile cellular operator declared to have a dominant position on the telecommunications market by the AMC. On June 24, 2010, MTS Ukraine and its competitors, including Kyivstar, Golden Telecom Ukraine, URS, Ukrtelecom, Astelit, Intertelecom and PEOPLENet, were declared to have a dominant position on the network interconnect market. As a result, the interconnect fees charged by us and our competitors for terminating calls connecting to any of our respective networks became subject to regulation by 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 46% and 36%, as of December 31, 2011, respectively, according to AC&M-Consulting.

On October 20, 2011, the NCRC recognized all telecommunications operators on the Ukrainian market as operators with significant market power in the market of call termination on their respective networks.

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. 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 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 each of MegaFon, Vimpelcom and us a license to provide 3G services in the Russian Federation. The 3G license allows us to provide mobile radio telephone services using the International Mobile Telecommunications-2000 ("IMT-2000/UMTS") standard. Historically, mobile operators that have developed 3G networks have experienced various difficulties and challenges, including a limited supply of 3G-compatible handsets, limited international roaming capabilities, as well as 3G software and network-related problems. We may experience similar problems or encounter new difficulties when developing our 3G network and may be unable to fully resolve them. For example, we cannot be certain that:

- we will be able to build-out our 3G network in a timely manner;
- our 3G 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 services at reasonable prices and within a reasonable timeframe;
- manufacturers and content providers will develop and offer products and services for our 3G network on a timely basis;
- there will be sufficient demand for 3G services in the markets where we operate;
- our 3G network will be commercially viable in all of the locations we are required to operate pursuant to our 3G license;

Table of Contents

- 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 spectrum, which may limit the availability of 3G frequencies for commercial use in certain areas. During the construction of our 3G 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 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. Currently, CDMA technology is offered by certain mobile operators in Russia who operate using the Nordic Mobile Telephone 450 MHz ("NMT-450") standard. If CDMA operators were able to develop widespread networks throughout Russia, we would face increased competition.

In addition, the development of Wi-Max networks will likely pose additional competition for 3G providers operating in the IMT-2000/UMTS standard. The Russian government held tenders for the issuance of 4G licenses for 40 Russian regions (in the 2.3-2.4 GHz frequency band). Fourth-generation 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. Rostelecom won the tender for 39 of the 40 4G licenses (in the 2.3-2.4 GHz frequency band) in February-March 2010 and in November 2011 received permission from the Ministry of Defense to use the allotted frequencies for the creation of a 4G network.

Potential competition from other 3G, CDMA, Wi-Max and 4G providers, together with any substantial problem with the rollout of our 3G network and provision of 3G 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.

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 are planned to be sold during the auction in 2012, after which the winners of the frequencies will also receive frequencies in the 2.5-2.7 GHz band. The remaining frequencies that are to be sold during the auction comprise 40 MHz of the 2.5-2.7 GHz band. Therefore, other

Table of Contents

operators may receive frequency ranges much later than Scartel and the ranges they receive may be much smaller than those given to Scartel.

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. Currently, we are still considering our further actions in regards to this arrangement.

According to recent news reports, Megafon is negotiating a possible acquisition of Scartel. If this transaction takes place, Megafon may obtain significant short term competitive advantage both in terms of frequency resources and LTE network development costs.

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 new President in February 2010, a tender for a 3G/UMTS license in Ukraine is expected in 2012 after the planned sale of Trimob. See also " Governmental regulation of our interconnect rates in Ukraine could adversely affect our results of operations."

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 2.5 billion hryvnia. That same year, as a result of discussions between the government and the telecommunications operators, it was concluded that the justifiable market price of conversion of the radio frequencies is 600 million hryvnia. However, in the beginning of 2011, the head of the Administration of State Service on Special Communications and Information Protection of Ukraine stated that the conversion of a narrow range of radio frequencies would cost 2.5 billion hryvnia.

To date, the Ministry of Defense of Ukraine has not adopted a radio frequencies conversion plan or indicated when they plan to do so and, therefore, the tender for a 3G/UMTS license in Ukraine has still not occurred. 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.

Table of Contents

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. 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 2012 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 as revenue sharing or the mandatory modernization of our network. These and similar conditions would constitute indirect payment obligations.

Table of Contents

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 quantities, 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.

We have in the past been unable to obtain certain requested frequency allocations. For example, our tender bid in Ukraine for additional frequencies on the CDMA-450 spectrum was denied in March 2010 as we were the only applicant in the tender process. In the near term, available CDMA-450 frequency spectrum capacity combined with network optimization measures undertaken by us is sufficient to support existing and potential demand for CDMA services, and generally we consider UMTS frequencies to be a bigger strategic priority than CDMA. However, if in the future we are not allocated the requested CDMA frequencies, our ability to expand CDMA-450 services in Ukraine may be hindered.

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 financial results. For example, new rules on the calculation of fees for frequency spectrum usage in Russia effective as of January 1, 2012 will lead to the increase of the fees we pay for frequency spectrum usage by 40-45% in 2012 as compared to 2011. 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, and by 8.9% in 2012 as compared to 2011.

Table of Contents

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 and Private Joint Stock Company Sitronics IT Ukraine), banking services (MTS Bank, formerly Moscow Bank of Reconstruction and Development ("MBRD")), telephone network services (MGTS), leasing of office space (MGTS) and the purchase of a new billing system (Open Joint Stock Company Sitronics), among others. 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 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

Table of Contents

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 ability 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 life 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.

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

Table of Contents

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.

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 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.

Table of Contents

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."

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. The investigation is currently in progress. Although we believe that we have not violated antimonopoly laws, we could be liable for fines of up to 15% of the revenues we derived from iPhone 4 sales if a violation is found.

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 operation.

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 is higher than the corresponding prices in the European Union, which may demonstrate that the prices charged by MTS Ukraine are not economically justified. The investigation will 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. We plan to submit our arguments to the AMC regarding the matter of this investigation. However, the AMC may determine that we violated antimonopoly legislation in this or other matters, 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

Table of Contents

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. 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 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. 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 and Udmurt Republic. 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 in 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 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."

Table of Contents

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.

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.

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, 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. Comstar and MGTS were added to the register of telecommunications operators occupying a substantial position in 2005 and 2006, respectively. Accordingly, the interconnect tariffs established by Comstar, prior to its merger with us, and MGTS are also subject to regulation by the Federal Agency on Communications. Although we have not been formally recognized as a telecommunications operator occupying a substantial position on the market, we believe that interconnect tariffs previously approved by the Federal Agency on Communications for Comstar also apply to us following the merger completed on April 1, 2011. 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 we are 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 tariffs applicable to Comstar (prior to its merger with us, but now, applicable to us), and MGTS do not compensate us for the cost of providing services, our business and results of operations could be materially adversely affected.

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

Table of Contents

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, in 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.

On January 11, 2012, the Ministry of Communications and Mass Media published a draft regulation, which will require all handsets and other telecommunications devices to be assigned individual IMEI numbers. 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 may lead to significant changes in Russian legislation including, among others, regulation of foreign investments in Russian companies, competition laws, as well as 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 the new legislation is implemented in Russia as a result of accession to the WTO and there is an increase in competition, this could have a 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.

Table of Contents

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.

A significant portion of MGTS' infrastructure has not been modernized. For example, although MGTS has recently completed the digitalization of its network, the newly installed equipment may not function properly within parts of the network that have not yet been upgraded. In addition, MGTS' network switching equipment may become obsolete or unusable, in which case we may be required to make significant investments to modernize MGTS' infrastructure in order to ensure that it fulfills its regulatory obligation to provide telephony services as a PSTN operator. The overburdening of MGTS' infrastructure may inconvenience subscribers by causing incoming and outgoing calls to have lower completion rates.

MGTS invested approximately 1.5 billion rubles in 2010 ($49.5 million as of December 31, 2010) and approximately 1,328 million rubles in 2011 ($41.25 million as of December 31, 2011) and plans to invest approximately 15.1 billion rubles in 2012 ($468.3 million as of December 31, 2011) 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 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 anti-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

Table of Contents

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.

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, and are approaching the final stage of transferring our individual subscribers in Uzbekistan to a new billing system. In addition, we may face 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. 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 lead to a loss of market share, which could materially adversely affect our business, financial condition, results of operations and prospects. 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

Table of Contents

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. We have taken measures that we believe will prevent such incidents from occurring in the future, but such incidents may nonetheless recur.

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 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."

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.

Table of Contents

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.

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.

Servicing and refinancing our indebtedness will require a significant amount of cash. Our ability to generate cash or obtain financing depends on many factors beyond our control.

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, 2011, our consolidated total debt, including capital lease obligations, was $8,715 million. Our interest expense for the year ended December 31, 2011 was $656,899 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, 2011, approximately 14.7% 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 21.6% 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."

Table of Contents

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 will 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, 2011, the exchange rate was 32.20 rubles per one U.S. dollar and as of April 20, 2012, the exchange rate was 29.51 rubles per one U.S. dollar. The ruble has also depreciated against the euro. On December 31, 2010 and 2011, the official exchange rate was 40.33 rubles and 41.67 rubles per one euro, respectively, as compared to 43.38 rubles and 41.44 rubles per one euro on December 31, 2009 and 2008, 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 majority 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

Table of Contents

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 Uzbekistan 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 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 two years and was 7.96 hryvnias and 7.99 hryvnias per U.S. dollar as of December 31, 2010 and 2011, respectively.

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 8,450 rubles per one U.S. dollar as of November 1, 2011. 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.

A disposition by our controlling shareholder of its stake in our company could materially harm our business.

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.

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 $2,328.3 million in 2009, $2,647.1 million in 2010 and $2,585 million in 2011, for the fulfillment of our capital spending plans. In addition, the acquisition of 3G licenses and frequency allocations and the build-out of our 3G and broadband Internet networks will require additional capital expenditures. However, future financings and cash flow from our operations may not

Table of Contents

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.

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 relative to our competitors. 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 8.8% and 6.1% in Russia in 2010 and 2011, respectively. Inflation reached 9.4% and 8.0% in Ukraine in 2010 and 2011, respectively, according to the State Statistics Committee of Ukraine. 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."

In May 2011, Belarus announced a significant devaluation of the Belarusian ruble against major foreign currencies. 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. 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

Table of Contents

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."

Our failure to fulfill our iPhone handset purchase commitment under our agreement with Apple Sales International 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. Pursuant to the agreement, we are also to incur certain iPhone promotional costs. We did not fulfill our total purchase installment contemplated by the agreement in 2011, 2010, 2009 and 2008. As a result, it is possible that Apple may bring a claim against us, which could have a material adverse effect on our financial condition and results of operations. To date, Apple has not brought a claim against us. The total amount paid for handsets purchased under the agreement for the years ended December 31, 2011, 2010, 2009 and 2008 amounted to $140.8 million, $79.4 million, $3.4 million and $65.4 million, respectively. The purchase agreement with Apple Sales International expired on March 31, 2012, and we intend to negotiate an extension of this agreement. Failure to renew the agreement with Apple Sales International on commercially acceptable terms or at all may adversely affect our financial condition and results of operations.

Indentures relating to 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.

Table of Contents

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;
  - 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.

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

Table of Contents

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.

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

Table of Contents

banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

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

Table of Contents

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.

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. 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

Table of Contents

creating an autonomous region, separate from Ukraine. Though the regional authorities ultimately 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 separatist regions of 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.

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 new 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 Yanukovych, 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. Yanukovych 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 Yanukovych to 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 by two groups of Parliament members, with one group requesting an official interpretation of certain provisions of the law, and the other challenging the constitutionality of

Table of Contents

certain provisions of the law. In April 2010, the Constitutional Court 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.

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.

New parliamentary elections in Ukraine are expected to be held in October 2012 and may influence the political landscape in Ukraine. 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.

Crime and corruption could disrupt our ability to conduct our business.

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

Table of Contents

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

The inability of Barash Communication Technologies, Inc. ("BCTI") to resume its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations.

In June 2005, we commenced operations in Turkmenistan through our wholly owned subsidiary BCTI. By December 2010, our investments in BCTI exceeded $250.0 million and, as a result, BTCI became the largest telecommunications operator in Turkmenistan providing services to more than 2.4 million subscribers. Our annual revenues from providing telecommunications services in Turkmenistan for the years ended December 31, 2008, 2009 and 2010 amounted to $131.4 million, $160.7 million and $207.6 million, respectively.

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.

We conducted operations in Turkmenistan under a trilateral agreement signed in November 2005 by BCTI, us and the Ministry of Communications of Turkmenistan, which was due to be automatically extended on December 21, 2010, provided certain terms and conditions were satisfied (the "2005 Agreement"). Under the 2005 Agreement, BCTI shared net profits derived from its operations in the country with 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 failed to extend the 2005 Agreement in accordance with its terms.

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.

We initiated a number of proceedings against Turkmenistan government authorities and state-owned telecom operators to defend our legal rights. On December 21, 2010, BCTI filed three requests for arbitration with the International Court of Arbitration of the International Chamber of Commerce (the "ICC") against the Ministry of Communications of Turkmenistan and several state-owned telecom operators requesting specific performance on the respective agreements and compensation of damages. Subsequently, the sovereign state of Turkmenistan was joined as a respondent in the proceedings against the Ministry of Communications of Turkmenistan. An independent appraisal has shown that we have suffered damages amounting to $855 million as a result of breaches committed by the respondents. We have made a claim for this amount in the ICC proceedings. In March 2012, we withdrew the demand for specific performance of the 2005 Agreement from our claim against the

Table of Contents

Ministry of Communications of Turkmenistan and the sovereign state of Turkmenistan after negotiations with the Turkmenistan government stopped at the end of 2011 and not resumed to date.

On January 21, 2011, we sent a formal notice to the Government of Turkmenistan requesting to resolve the dispute through negotiations and notifying it of our intention to file a claim pursuant to the provisions of the Bilateral Investment Treaty between the Russian Federation and Turkmenistan. The dispute was not resolved by negotiations and, accordingly, on September 1, 2011, we filed a claim against Turkmenistan in the International Centre for the Settlement of Investment Disputes (the "ICSID"). On October 5, 2011, the claim was registered by the ICSID Secretariat.

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.

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.

Table of Contents

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 third 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.

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 of some of our subsidiaries is negative. Although we are currently taking steps to remedy this and 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, political and nationalistic 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,

Table of Contents

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.

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 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 and $3.2 million in the consolidated financial statements for the year ended December 31, 2010 and 2011, respectively (representing interest accrued on the awarded sums).

Table of Contents

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 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, we and MTS Finance have agreed to refer to arbitration the question of whether under the Intercompany Loan Agreement itself there remains an obligation by us to make any further payments to MTS Finance in light of the Direct Payment. On February 9, 2012, we received a request for arbitration from MTS Finance. The process is underway and will clarify the rights between the parties under the Intercompany Loan Agreement. We deny that any further payments are due under the Intercompany Loan Agreement. The arbitration will be conducted under the Rules of the LCIA and it is expected to last between 6 and 12 months.

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. Bitel's Isle of Man advocates have recently withdrawn from their representation of Bitel, and Bitel does not appear to be pursuing these 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"), CP-Crédit Privé SA and Fellowes International Holdings Limited, for the wrongful misappropriation and seizure of Bitel. The defendants sought to challenge the jurisdiction of the Isle of Man courts to try the counterclaims asserted by the KFG Companies.

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

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

Table of Contents

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 and suspended BCTI's telecommunications services license for one month. The suspension lapsed on January 21, 2010; however, the license remains suspended as of the date of this document. Similar actions in other countries where we operate could have a material adverse effect on results of our operations. See also " The inability of Barash Communication Technologies, Inc. to resume its operations in Turkmenistan on commercially acceptable terms or at all 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 arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Table of Contents

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. 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.

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 fiduciary duties

Table of Contents

of directors and officers 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 on behalf of the company, 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.

Table of Contents

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.

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 December 31, 2008, we merged 25 of our wholly owned subsidiaries into MTS. Following the approval of the merger of our two subsidiaries into MTS at the general shareholders meeting in June 2008, 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), or 10% of our net assets as of March 31, 2008 calculated according to Russian accounting standards. 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).

Table of Contents

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.

The Strategic Foreign Investment Law imposes certain restrictions on us and our existing and potential foreign shareholders.

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.

Reduction of the Calling Party Pays Settlement Rate and other regulatory changes in Russia 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 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.

Table of Contents

In addition, FAS recently indicated its intention to introduce a draft law which would require telecommunications operators, including us, to base their tariffs on per-second billing. It is not clear yet whether this draft law will be adopted; however, if the proposed changes, including the switch from per-minute billing to per-second billing, become effective, the new law may have a negative impact on our revenues and results of operations.

Additionally, President Dmitry Medvedev has recently called for the implementation of new rules to allow customers in Russia to retain their mobile phone numbers after switching their mobile operator and has asked the Ministry of Communications and Mass Media and the Prosecutor General's Office to review this issue. If new rules that mandate mobile number portability are introduced, they may have a material adverse effect on our financial condition and results of operation.

Furthermore, potential regulatory changes that may be enacted in the future, such as the introduction of new rules regulating MVNOs, could 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 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 Ministry 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 and ensure that our automated accounting systems do not have any undeclared capabilities. 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 contain significant ambiguity and in certain cases their implementation may be impossible on technical grounds, which may impede our ability to comply and creates the potential for Russian authorities to form differing views on compliance. It is expected that by the middle of 2012 current standards will be supplemented by government regulations which will detail these standards. However, although the regulations are only expected in 2012, the Federal Law on Personal Data applies to relevant data protection systems as of July 1, 2011.

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.

Table of Contents

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). However, certain regulatory bodies established by the law were unable to duly exercise their regulatory functions for an extended period of time. For example, the NCRC was established in August 2004 by a Decree of the President of Ukraine. On January 1, 2005, it was vested with the powers of the central regulatory body in the sphere of communications by the Ukrainian Law on Telecommunications. The NCRC was considered formed and began to perform its regulatory activity in April 2005, when both the chairperson and its members were appointed as required by the Ukrainian Law on Telecommunications. However, in 2007 and 2008, the authority to appoint the NCRC chairperson and its members became the subject of a dispute between the President of Ukraine and the Cabinet of Ministers of Ukraine and the respective appointments were challenged in Ukrainian courts because of conflicting orders and regulations issued by the President of Ukraine and the Cabinet of Ministers. On October 8, 2008, the Constitutional Court of Ukraine passed a resolution pursuant to which the right of the Cabinet of Ministers to appoint the NCRC members and adopt its regulations was confirmed. On September 30, 2010, the Constitutional Court of Ukraine passed another decision which stated that members and the chairperson of the NCRC are to be appointed by the President of Ukraine.

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 on the telecommunications market to develop public telecommunications services if directed to do so by the regulatory authorities. On June 24, 2010, MTS Ukraine was found to have a dominant position on the interconnect market by the AMC. 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

Table of Contents

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 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.). Given the uncertainty regarding this law, we may not be able to benefit from this new legislation.

Table of Contents

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.

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.

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 January 2008, the Russian tax authorities initiated an audit of our compliance with tax legislation for the years ended December 31, 2005 and 2006. Based on the results of this audit, we were assessed with additional tax liability in the amount of 1,130.0 million rubles (approximately $38.5 million as of December 31, 2008), including taxes, fines and penalties. As of December 31, 2008, we paid to the tax authorities the full amount assessed. However, we also filed a petition with the Arbitrazh Court of the Moscow District seeking to invalidate part of the assessment in the amount of 1,026.1 million rubles (approximately $34.9 million as of December 31, 2008). In December 2008, the court ruled to partially invalidate the assessment in the amount of 981.5 million rubles (approximately $33.4 million as of December 31, 2008). This decision was upheld by higher courts, most recently by the Federal Arbitrazh Court of the Moscow District. The amount invalidated was used to set off subsequent tax liability.

In 2009, the tax authorities completed a tax audit of our subsidiary, Sibintertelecom, in respect of the years ended December 31, 2006, 2007 and 2008. As a result of the audit, the tax authorities imposed additional tax liability in the amount of 174.5 million rubles (approximately $5.8 million as of December 31, 2009), including taxes, fines and penalties. Sibintertelecom filed a petition with the Arbitrazh Court of Moscow seeking to invalidate this assessment and in November 2010 the court ruled to invalidate the decision of the tax authorities. The court decision was further upheld by the Ninth Arbitrazh Appeal Court in February 2011. The tax authorities then appealed the latter decision to the Federal Arbitrazh Court of the Moscow District, which similarly upheld the decision.

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

Table of Contents

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 set to commence on April 26, 2012.

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.

See also "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.

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. As a result, the issue of how to recalculate the input tax credit for non-current assets purchased before January 1, 2011, remains unresolved. There are currently two contradictory clarifications from the tax authorities on this issue, but both do not comply with the existing law.

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.

Table of Contents

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. 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.

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);

Table of Contents

- 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 that 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 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.

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.

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 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

Table of Contents

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 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

Pursuant to recently enacted legislation, starting 1 January 2013, 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 ultimate owner of the ADSs and the number of shares attributable to each ADS holder. 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:

- issuers must collate, at least quarterly, lists of ADS holders, and depositaries must facilitate the collection of the relevant information and provision thereof to issuers; and
- the FSFM, Russian courts, pretrial investigation agencies and internal affairs authorities may request such lists of DR 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 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.

In addition, the new legislation envisages the accreditation of a central depositary, which will be selected by the FSFM among the existing Russian depositaries. Within one year from the accreditation of the central depositary, only entities maintaining an account with this central depositary will be able to serve as custodians for shares underlying all depositary programs of Russian issuers. 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.

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

Table of Contents

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 central depositary, 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. 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;
- 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

Table of Contents

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.

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 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.

Table of Contents

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 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."

Table of Contents

The lack of a developed share registration system in Russia may result in improper record ownership of our shares, including the shares underlying the ADSs.

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, there is no central registration system in Russia. 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.

According to recently enacted legislation, a central depositary may be established in the near future. It is yet unclear how this legislation will be implemented, when the central depositary will be established and how this will affect us. 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."

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.

Table of Contents

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.

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."

MTS CJSC inaugurated service in the Moscow license area in 1994 and began expanding into nearby regions in 1997. Since that time, we have continued to grow by applying for GSM licenses in new regions, investing in new GSM licensees, increasing our ownership percentage in these licensees and acquiring existing GSM license holders and operators in Russia and the CIS. We expanded into the fixed line communications market in 2009 with our acquisition of Comstar.

Mobile TeleSystems OJSC was created on March 1, 2000, through the merger of MTS CJSC and RTC CJSC, a wholly owned subsidiary. In accordance with Russian merger law, MTS CJSC and RTC CJSC ceased to exist and MTS OJSC was created with the assets and obligations of the predecessor companies. 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.

Table of Contents

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. Pursuant to the tender conditions, we formed a company in Belarus, MTS Belarus, and contributed approximately $2.5 million in exchange for 49% of the share capital of the company (the other 51% of which is held by a state-owned enterprise). According to the tender conditions we also paid a lump sum of $10.0 million to the government of Belarus, MTS Belarus made a one-time payment of $5.0 million (which was funded by a $5.0 million loan from us) and we paid a total of $6.0 million to the government of Belarus from 2003 through 2007. 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. MTS Belarus is an equity investment, and its results are not consolidated in our financial statements. MTS Belarus operates under a license to carry out telecommunications activities issued by the Ministry for Communications and Information Technology of the Republic of Belarus, valid until April 30, 2012. We expect the license will be renewed in due course. The State Property Committee of Belarus is expected to conduct a public tender in 2012 to privatize a 51% ownership interest in MTS Belarus. 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."

In March 2003, we purchased a 57.7% stake in MTS Ukraine for $199.0 million. We purchased a 16.33% stake from KPN, a 16.33% stake from Deutsche Telekom, and a 25.0% stake from Ukrtelecom. In June 2003, we purchased an additional 26.0% stake in MTS Ukraine from Ukrtelecom for $87.6 million pursuant to a call option agreement, which increased our ownership in MTS Ukraine to 83.7%. We purchased the remaining 16.33% stake in MTS Ukraine from TDC for $91.7 million in July 2003 pursuant to a put and call option agreement. Since July 2007, we have operated under the MTS brand in Ukraine.

In April 2003 and December 2004, T-Mobile completed offerings of approximately 5.0% and 15.1% of our shares, respectively, in the form of GDRs through an unsponsored GDR program. In September 2005, T-Mobile sold its remaining 10.1% interest in us on the open market.

In August 2004, we acquired a 74% stake in Uzdunrobita, 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 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 have since ceased providing mobile telecommunications services in Turkmenistan and are in the process of resolving the disagreement with the relevant authorities in that country. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Barash Communication Technologies, Inc. to resume its 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.

Table of Contents

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.

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% in December 2009 and to 70.97% 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.

As we and Comstar were under the common control of Sistema, our acquisition of a majority stake in Comstar 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 Comstar had been owned since the beginning of the earliest period presented. As a result, Comstar and its assets have been recorded at book value as if the businesses and assets of Comstar had been owned by us since the beginning of the financial periods presented in this document. See "Item 5. Operating and Financial Review and Prospects A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Acquisitions."

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. We believe the merger of Comstar into us provides us access to important growth markets in corporate and residential broadband in furtherance of our strategy to develop convergent telecommunications services and evolve into an integrated telecommunications operator.

In 2011, we completed the re-branding of Comstar with our main MTS brand. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Difficulties integrating the operations of Comstar with our existing operations may prevent us from achieving the expected benefits from the acquisition."

Capital Expenditures

We spent in total $2,584.5 million in 2011 for network development in Russia and the other countries where we operate, which included $2,239.8 million in cash expenditures on property, plant and equipment, and $344.7 million for the purchase of intangible assets. We expect to spend approximately $2,494.5 million (USD amount at exchange rate on December 31, 2011) in 2012 for our current operations, including for increasing network capacity, maintaining and modernizing our mobile and fixed line networks, developing our network in the regions and continuing the build-out of our 3G and broadband Internet networks. We plan to finance our capital expenditures primarily through operating cash flows, and to the extent necessary, through additional external financing activities. The actual amount of our capital expenditures for 2012 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 2012 excludes expenditures that may be made in

Table of Contents

connection with acquisitions or new licenses. A breakdown of our capital expenditures in 2011 by country is set forth below. For the first quarter of 2012 and continuing into the second quarter, our principal capital expenditures have related and continue to relate to the build-out of our 3G network and other expenditures related to the maintenance and expansion of our GSM network which we have financed through operating cash flows.

Excluding our acquisition of Comstar and certain other subsidiaries from our related parties, we spent $270.5 million, $195.1 million and $219.5 million in 2009, 2010 and 2011, respectively, for acquisitions of subsidiaries, net of cash acquired. We additionally spent $1,322.3 million for the acquisition of a 50.91% stake in Comstar, additional consideration in the form of cash and MTS common shares for the acquisition of an 11.06% ownership stake in Comstar in December 2009, as well as 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 $2,242.3 million in 2011 for network development in Russia, including $1,995.4 million in cash expenditures on property, plant and equipment, and $246.9 million for the purchase of intangible assets.

Ukraine

We spent $148.0 million in 2011 for network development in Ukraine, including $98.1 million in cash expenditures on property, plant and equipment, and $49.9 million for the purchase of intangible assets.

Uzbekistan

We spent $145.7 million in 2011 for network development in Uzbekistan, including $108.6 million in cash expenditures on property, plant and equipment, and $37.1 million for the purchase of intangible assets.

Armenia

We spent $45.0 million in 2011 for network development in Armenia, including $34.7 million in cash expenditures on property, plant and equipment, and $10.3 million for the purchase of intangible assets.

Belarus

MTS Belarus spent $35.5 million in 2011 for network development in Belarus, including $26.8 million in cash expenditures on property, plant and equipment, and $8.7 million for the purchase

Table of Contents

of intangible assets. We do not include the capital expenditures of MTS Belarus in our capital expenditures described above as MTS Belarus' 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 mobile operator in Russia, Uzbekistan and Armenia and the second largest in Ukraine in terms of mobile subscribers.

As of December 31, 2011, we had a mobile subscriber base of approximately 101.14 million (approximately 69.95 million in Russia, 19.51 million in Ukraine, 9.30 million in Uzbekistan, and 2.38 million in Armenia), which is a decrease of 2.41% compared to December 31, 2010. 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, 2011, according to Direct INFO.

However, see also "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Barash Communication Technologies, Inc. to resume its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations" regarding the recent suspension of our primary operating license in Turkmenistan.

Our revenues for the year ended December 31, 2011, were $12,319 million, an increase of 9.1% from the year ended December 31, 2010. Our net income for the year ended December 31, 2011, was $1,568 million, an increase of 1.2% from the year ended December 31, 2010.

Russia is our principal market, both in terms of subscribers and revenues. For the years ended December 31, 2009, 2010 and 2011, approximately 81%, 83%, and 86% of our revenues came from operations in Russia; approximately 11%, 9%, and 9% of our revenues came from operations in Ukraine; and approximately 8%, 8%, and 5% of our revenues came from operations in our other countries, respectively.

At December 31, 2011, approximately 69% of our mobile subscriber base was in Russia and approximately 19% was in Ukraine. According to AC&M-Consulting, we had a 30.73% and 35.8% market share of total mobile subscribers in Russia and Ukraine, at December 31, 2011, respectively.

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

Period	Subscribers[1] (in thousands)
2007	82.0
2008	91.3
2009	97.8
2010	103.3
2011	101.1[2]

(1) Excludes MTS Belarus subscribers. 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 brand tariffs) or whose account does not have a negative balance for more than this period.

(2) Excludes Turkmenistan subscribers.

Our consolidated mobile subscriber base decreased insignificantly in 2012. Specifically, according to our estimates at April 1, 2012, we had approximately 100.5 million subscribers, including approximately 69.4 million in Russia, 19.4 million in Ukraine, 9.45 million in Uzbekistan and 2.2 million in Armenia.

Table of Contents

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. For more information, see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Barash Communication Technologies, Inc. to resume its 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."

According to AC&M-Consulting, overall mobile cellular penetration in Russia was approximately 156.8% at December 31, 2011, which was an increase from 151.0% at December 31, 2010. Mobile cellular penetration in Ukraine was approximately 117.6% at December 31, 2011, which was a decrease from 118.1% at December 31, 2010, according to AC&M-Consulting. According to our estimates, mobile cellular penetration in Uzbekistan and Armenia was approximately 82.2% and 116.4% at December 31, 2011, respectively, as compared to approximately 73.3% and 115.5% at December 31, 2010, respectively.

As of December 31, 2011, 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 Uzbekistan with a population of approximately 28 million people and for the entire territory of Armenia with a population of approximately 3 million people. Prior to December 21, 2010 when we suspended our operations in Turkmenistan, we had mobile licenses to operate and commercial mobile operations for the entire territory of Turkmenistan with a population of approximately 5 million people. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Barash Communication Technologies, Inc. to resume its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations."

MTS Belarus had approximately 4.93 million subscribers and a leading market share of 43% at December 31, 2011, according to our estimates. At December 31, 2010, according to our estimates, MTS Belarus had approximately 4.72 million subscribers and a leading market share of 45.1%. Belarus, a country with a population of approximately 9.5 million, had a mobile cellular penetration rate of approximately 121% at December 31, 2011, according to our estimates.

In 2009, 2010 and 2011, we significantly expanded our operations in an effort to meet the challenges of our evolving markets and further the goals of our new "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 integrated fixed line services provider in Russia.

We also continued to aggressively 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 primary strategic goal is to be the leading communications operator in the territories where we are present, providing our customers with mobile and fixed telephony, high-speed Internet access at home and on the move, cable TV and the widest choice of licensed content on the market. We strive to

Table of Contents

maintain and strengthen our market position by investing in network and product development, new technologies and customer service.

From October 2009, we have adopted a new "3i" strategy, which we believe represents a logical development of our previous strategic principles and corresponds to the changing market environment. Consistent with our new strategy, we moved beyond simple mobile access, both horizontally and vertically, through our acquisition of Comstar, the rapid build-out of our proprietary distribution network and the launch of our first online content platform, Omlet.ru. Our development beyond mobile access is the intrinsic part of our new "3i" strategy, which is focused on the following key directions:

Integration: developing new pipelines and customer touch points. We aim to provide a comprehensive integrated service portfolio for all of our customers' communication needs, through both fixed line and wireless access. Through the networks and platforms we develop, we will seek to create a seamless and unsurpassed user experience.

Internet: offering universal connectivity. Our customers increasingly expect faster and broader connectivity as more devices and services depend on integrated mobile and fixed networks. Our goal is to create smarter pipelines so customers can realize the full benefits of today's technologies, while creating additional value for us. Through so-called "smart pipes," we will strive to offer best-in-class content applications and market- leading services, enabling transactions and bringing us closer to our customers.

Innovation: differentiating ourselves from our competitors by offering a unique mix of products and services. We will offer exclusive devices, distinct packages of services catering to all customer segments and a market-leading end-to-end user experience at home, 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, Uzbekistan and Armenia. Prior to the suspension of BCTI's primary operating license on December 21, 2010, by the Ministry of Communication of Turkmenistan, we also provided mobile cellular communications services for the entire territory of Turkmenistan. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Barash Communication Technologies, Inc. to resume its operations in Turkmenistan on commercially acceptable terms or at all 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."

Table of Contents

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, 2011, we had bilateral roaming contracts with 711 wireless operators in 228 countries, including with regional operators in Russia. We continually seek to expand our roaming capability and are currently in negotiations with additional operators. In Russia, as of December 31, 2011, in addition to our network coverage area in 82 of the 83 regions of Russia, GSM service was available to our subscribers in the Penza region of Russia where we operated through our roaming agreements with 11 regional 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 did not previously have a GSM license. We plan to start the construction of a GSM network in the Penza region in 2012. As a result, we are now able to expand our GSM network coverage throughout the entire territory of Russia.

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

	Wireless Application Protocol ("WAP")	Information and Directory Service
Location-Based Service ("LBS")		
	MTS-Connect	International Access Service
General Packet Radio Service ("GPRS")		
	SIM-browser	WEB and WAP portal
Intelligent call assistant		
	Point-to-point transfer	Real IP
APN remote access point		
	Unstructured Supplementary Services Data ("USSD")	Automatic Customer Care System and Customer Care System via the Internet
Fixed Mobile Convergence		
	High-Speed Downlink Packet Access ("HSDPA")	Ring Back Tone
EDGE		
	Mobile TV	Collect call
E-shop		

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

Table of Contents

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 GPRS roaming to our subscribers, enabling them to use various GPRS-based services while traveling abroad.

In 2005, we launched EDGE services in the Moscow metropolitan area. Further, we extended our data transmission network to expand EDGE services to cover the most developed markets where we operate. EDGE is a high-speed, high-quality data transfer technology capable of transmitting streamline video and TV programs onto mobile phones. At present, EDGE services are available to our subscribers in Russia, Ukraine, Armenia, Uzbekistan and Belarus. Prior to the suspension of BCTI's primary operating license on December 21, 2010, we also provided our subscribers in Turkmenistan with EDGE services. For more information, see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Barash Communication Technologies, Inc. to resume its 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."

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 181 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 2011.

3G Technology

The key benefit of a 3G network based on R99/HSDPA/HSPA technologies is the ability to provide subscribers with faster data download and upload speeds with top download capacity using HSPA technology up to 21 Mbit per second in Russia and Armenia. This is over 50 times faster than the currently available 2G EDGE 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 OJSC ("Vimpelcom") and MegaFon OJSC ("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, 2011, our 3G indoor network operates in 96 trade and business centers in Moscow and in various metro stations. We also provide 3G services to various large companies within Moscow.

Table of Contents

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 2011, we installed 21,670 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 in Moscow which supports 42 Mbit per second data transmission speed.

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 2011, we installed 66 femtocells in Moscow and 60 femtocells in Saint-Petersburg.

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 and currently offer high-speed mobile Internet access to our subscribers.

In Uzbekistan, the Communications and Information Agency of Uzbekistan allocated a 3G/UMTS license to us in April 2007. The license is valid through 2016 and covers the entire territory of the country. In December 2008, we commercially launched our 3G network in Uzbekistan's two largest cities, Tashkent and Samarkand, followed by the launch in three additional cities Urgench, Khiva and Bukhara in January 2009. In 2011, we completed our 3G network expansion into all regional centers of Uzbekistan. We plan to further develop our 3G network in Uzbekistan in 2012.

In January 2010, the Communications and Information Agency of Uzbekistan granted us an LTE license covering Uzbekistan. In July 2010, we started to construct a 4G network based on the LTE technology in Uzbekistan. Currently, the 4G network is accessible only in the central part of Tashkent; however, we plan to expand it in the future to cover all of Uzbekistan.

In Armenia, our subsidiary K-Telecom is licensed to offer 3G services in the UMTS standard throughout Armenia pursuant to its wireless services license. In October 2007, K-Telecom 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, our 3G outdoor coverage currently covers more than 91% of inhabited areas. In 2011, K-Telecom started to provide telecommunications services based on HSPA+ technology in Yerevan, Guymri and Vanadzor. We plan to extend HSPA+ technology to all regions of the country.

In Yerevan, the capital of Armenia, we commenced a commercial test of the first 4G/LTE network in December 2010. We plan to start providing LTE services in Guymri and Vanadzor in 2012.

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

Table of Contents

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, Uzbekistan, 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.

To promote subscriber loyalty, we offer discounts with respect to our tariff plans for customers willing to enter into extended contracts with us. This strategy also helps to mitigate churn rates among our subscribers in a highly competitive market.

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, Uzbekistan and Armenia;
- information advertising and promotion to inform potential customers of the advantages of the high quality and variety of our services and the extensive coverage we offer; and
- product and tariff related advertising and promotion for specific marketing campaigns, new tariff plans for various target audiences and pricing discounts.

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 to younger tech-savvy consumers. Our indirect advertising includes sponsorship of selected television programs, sporting events, concerts and other popular events. We also coordinate the advertising policies of our dealers to capitalize on the increased volume of joint advertising and preserve the integrity and high-quality image of the MTS brand. As we have expanded our network, we have concentrated a greater part of our advertising and marketing effort on international and cross market offers with other companies, positioning the MTS brand as a truly national brand. In addition, we focus our advertising and marketing on the affordability and variety of our tariff plans, on the broad coverage of our network and the use and availability of national roaming.

Table of Contents

In 2010, we made enhancements to the MTS Bonus loyalty program, including better opportunities for participants both in terms of points accumulation and points exchange. The MTS Bonus loyalty program is aimed at retaining subscribers within the MTS network and stimulating their further use of our mobile services. It is also designed to enhance brand loyalty and create overall positive brand perception. In April 2010, we signed an agreement with Sberbank, one of the leading Russian banks, to launch co-branded credit cards. The holders of such credit cards receive MTS Bonus program points when they make payments using the credit card. The bonus points can be used to pay for our services, make purchases in MTS-branded stores and pay for other goods and services with a co-branded MTS credit card.

In 2011, we took several steps to increase our subscribers' loyalty with successful enhancements to the MTS Bonus loyalty program, such as the launch of the advertising campaign "Which MTS Bonus prize is yours?" and the creation of the financial product "MTS Dengi." The main purpose of the advertising campaign was to inform our customers that they can obtain various gifts in exchange for accumulated bonus points. We also promoted the use of the "MTS Dengi" credit card, as it allows customers to receive more bonus points.

In addition to further promoting the MTS Bonus loyalty program, we undertook the following initiatives in 2011:

New Plan

In 2011, we introduced 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, was our main sales-driving offer of 2011. In addition, we continued to implement our long-term strategy of developing data offers to customers. We focused on offers for mobile internet users as well as for those customers who prefer internet access from computer or tablet devices. For more detailed information, see " Tariffs."

Roaming

During 2011 we launched an advertising campaign aimed at promoting our roaming offers and changing the commonly-held perception that roaming services are overpriced. The campaign publicized the special offer, "Everywhere like home," which allows for unlimited incoming calls while travelling in Russia. It also publicized the offer, "Zero without borders," which allows for limited incoming calls while travelling abroad.

Fixed

In 2011, we presented the "Twenty percent back" program as a part of our triple-play products promotion campaign. As part of the program, we offered to give back to mobile subscribers 20% of their monthly payments for 3G Internet, broadband or TV services. The amounts returned to the mobile subscribers' accounts can then be used to purchase other telecommunications services provided by us. The "Twenty percent back" program was promoted online, over television and radio. We also promoted our fixed line services, such as broadband and cable TV, on the regional level with the use of special offers.

Business-to-business offers

In 2011, we launched several offers for small and medium-sized companies. We introduced new SIM-chips that enable companies to monitor and manage technological equipment in difficult climatic conditions. In 2011, we also advertised two new tariff plans: "Ready office" and "United business." "Ready office" is the first tariff plan on the market that enables companies to customize tariff rates and conditions for each individual employee. "United business" is the first tariff plan developed for businesses which operate in multiple regions.

Table of Contents

Handsets sales offers

During 2011, we continued reinforcing our image as a leading retailer of mobile devices, including MTS branded phones and phones of other vendors. We significantly increased the range of offered MTS branded phones. In partnership with Google we developed an advertising campaign to promote MTS 916 the first MTS branded smartphone based on the Android platform. We also introduced the MTS 1055 tablet and two other smartphones based on the Anrdoid platform, MTS 950 and MTS 955. In addition, we launched several low-cost non-smartphone models during 2011. During 2011, we continued active collaboration with key vendors. Throughout the year we launched joint advertising campaigns with Nokia, HTC, Apple and Samsung to promote offers of new smartphones.

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 new 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 new 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."

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 Bank, a subsidiary of Sistema, announced a change of its name to MTS Bank OJSC ("MTS Bank"), having agreed to use the MTS brand owned by us as a basis for further development.

Global recognition

In May 2011, MTS was ranked 80 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 remain the highest-ranked brand in Russia. In December 2010, MTS was named the Best Russian Brand 2010, according to Interbrand, an international brand consulting agency.

Table of Contents

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. In addition, we restored our cooperation and resumed working with Euroset in November 2010. We intend to continue developing a diversified range of distribution channels by entering into cooperation agreements with major national retailers of electronics and household appliances. 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 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 Teleforum, 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 2011, we continued to implement our strategy in retail operations by significantly expanding our proprietary sales and distribution network organically. The number of MTS retail outlets (including our partners, operating under the MTS brand), increased in 2011 by 17% as compared to 2010.

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, 2010, our proprietary distribution network in Russia consisted of 3,539 points-of-sale, including 1,206 franchise points-of-sale and 2,333 points-of-sale owned by us.

In 2011, we have been focusing on the further development of our proprietary network in Russia. As of December 31, 2011, we operated 4,146 points-of-sale, including 1,686 franchise points-of-sale and 2,460 points-of-sale owned by us.

Of the retail outlets acquired by us, 411 were re-branded as MTS monobrand outlets in 2010, and 308 outlets in 2011.

Table of Contents

As a result of our strategy, the number of subscribers in Russia who were enrolled directly by us increased by 16% during the year ended December 31, 2011, as compared to the year ended December 31, 2010. In 2011, the share of subscribers enrolled through our own distribution network reached 35%.

Our proprietary distribution network outside of Russia as of December 31, 2011, consisted of 41 points-of-sale in Ukraine, 26 points-of-sale in Uzbekistan and 99 points-of-sale in Armenia.

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 100 and RUB 2,800 ($3 and $87) 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 subscribers, as well as a lump sum amount of between $156 and $3,150 to exclusive dealers who sell exclusively MTS Ukraine subscriptions. 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, 2011, overall wireless penetration in Russia was approximately 156.8%, or approximately 227.6 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 212.1% and 215.6%, respectively, as of December 31, 2011, according to AC&M-Consulting. The average penetration rate in regional markets reached approximately 146.0% as of December 31, 2011, according to AC&M-Consulting.

Table of Contents

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

	As of December 31,				
	2007	2008	2009	2010	2011
	(amounts in millions, except for percentages)				
Subscribers[1]	172.9	187.8	207.9	219.2	227.6
Subscriber penetration	119%	129%	143%	151%	157%

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 38.6% and 36.2% of subscribers in Moscow, 31.0% and 28.0% of subscribers in St. Petersburg and 32.6% and 30.7% of total Russian subscribers as of December 31, 2010 and 2011, 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 minimize the number of subscribers who have a positive balance but are infrequent users of our mobile services. We believe that this restructuring will increase the overall rate of usage and ultimately have a positive influence on average revenue per user in the future.

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."

The following table illustrates the number of wireless subscribers for each network operator in Russia as of December 31, 2009, 2010 and 2011:

	As of December 31,		
Operator	2009	2010	2011
	(amounts in millions)		
MTS	69.3	71.4	70.0
MegaFon	50.2	56.6	61.6
Vimpelcom	50.9	52.0	57.2
Others	37.5	39.3	38.8

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. The MegaFon group holds GSM 900/1800/UMTS (3G) licenses to operate in all 83 regions of the Russian Federation. According to AC&M-Consulting, MegaFon had a subscriber base of approximately 61.6 million subscribers in Russia as of December 31, 2011, including 9.4 million subscribers in the Moscow license area. At December 31, 2011, according to AC&M-Consulting, MegaFon had a 26.1% market share in Moscow, a 34.0% market share in St. Petersburg and a 27.1% market share of total wireless subscribers in Russia.

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

According to AC&M-Consulting, it had a subscriber base of approximately 57.2 million in Russia at December 31, 2010, including 12.9 million subscribers in the Moscow license area. At December 31,

Table of Contents

2011, according to AC&M-Consulting, Vimpelcom had a 35.7% market share in Moscow, a 20.0% market share in St. Petersburg and a 25.1% 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 20.6 million subscribers as of December 31, 2011. Also, we compete with Rostelecom (through its subsidiaries CenterTelecom, SibirTelecom, Dalsvyaz, Uralsvyazinform, Volga Telecom, North-West Telecom, Southern Telecommunications Company and Dagsvyazinform), which had approximately 12.6 million customers as of December 31, 2011.

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 82% of the market, with 36% and 46%, respectively, as of December 31, 2011, 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. 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.

Astelit, another competitor operating in Ukraine, is continuing its campaign of aggressive pricing in the market. In response to the increasingly competitive operating environment, MTS Ukraine continued to focus on developing and marketing its network quality and coverage while improving the quality of its subscriber base and increasing usage levels to stimulate improved subscriber loyalty. As a result, overall minutes of use per subscriber increased more than 15% during 2010 and more than 10% during 2011, offsetting a decline in average price per minute.

Overall wireless penetration in Ukraine in 2011 increased to 117.6%, or approximately 51.0 million subscribers, as compared to 113.0%, or approximately 48.7 million subscribers, in 2010, 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	December 31, 2009	December 31, 2010	December 31, 2011
	(amounts in millions)		
Kyivstar	22.0	24.4(1)	24.8
MTS Ukraine	17.6(2)	18.2(2)	19.5(2)
Astelit	7.8(3)	6.1(3)	7.0(3)
URS (Vimpelcom)(1)	2.0		

(1) In October 2010, Kyivstar and URS each announced that they started integrating their operating activities in Ukraine. The number of subscribers of Kyivstar has been adjusted to reflect this integration.

(2) Number indicates our GSM subscribers. As of December 31, 2011, also includes our CDMA subscribers, which reached 0.3 million.

(3) Number of three-month active subscribers.

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

Table of Contents

In Ukraine, we compete primarily with Kyivstar, a GSM operator with approximately 24.8 million subscribers as of December 31, 2011. Kyivstar offers wireless services using GSM 900/1800 technologies. Kyivstar is also licensed to provide fixed line services by the fiber-to-the-building technology ("FTTB") under the brand "Kyivstar Home Internet." FTTB technology allows provision of services using a fiber-optic cable. Astelit is owned by Turkcell and 13.2% of Turkcell is owned by Alfa Group. 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 competition from other operators, including Intertelecom, People.net, CDMA Ukraine, Utel (the only UMTS license holder in Ukraine), fixed broadband operators and Wi-Max operators

In December 2011, MTS in cooperation with Comstar Ukraine began to provide fixed line services using FTTB technology, including Internet Protocol Television ("IPTV), under the brand "Home MTS Connect."

The Uzbekistan wireless telecommunications market

The Uzbekistan wireless telecommunications market is characterized by increasing penetration rates. In 2011, overall wireless penetration in Uzbekistan increased from approximately 73.3% in 2010 to 82.2% in 2011, or by approximately 2.9 million subscribers, according to our estimates and data from the websites of Vimpelcom and TeliaSonera.

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

Operator	December 31, 2009	December 31, 2010	December 31, 2011
	(amounts in millions)		
MTS-Uzbekistan[1]	7.1	8.8	9.3
Unitel (Vimpelcom)[2]	3.5	4.8	6.4
Ucell (Coscom)[3]	5.1	6.8	7.7
Others[1]	0.3	0.3	0.3

(1) Subscriber information based on our estimates.

(2) Subscriber information based on Vimpelcom's estimates.

(3) Subscriber information based on TeliSonera's estimates.

MTS-Uzbekistan offers wireless services in Uzbekistan using GSM, UMTS and LTE (4G) technologies. As of December 31, 2011, it had approximately 9.3 million subscribers and a 39.2% market share according to our estimates. In Uzbekistan, we compete primarily with Ucell (Coscom), a GSM operator beneficially owned by TeliaSonera with approximately 7.69 million subscribers and a 32.4% market share as of December 31, 2011. We also compete with Beeline (Unitel), a GSM and UMTS operator owned by Vimpelcom with approximately 6.36 million subscribers and a 26.8% market share as of December 31, 2011 (according to our estimates).

The Armenian wireless telecommunications market

As of December 31, 2011, overall wireless penetration in Armenia was approximately 116.4%, or approximately 3.723 million subscribers, according to our estimates.

Table of Contents

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	December 31, 2009	December 31, 2010	December 31, 2011
	(amounts in millions)		
VivaCell-MTS	2.1	2.5	2.4
ArmenTel (Vimpelcom)	0.5	0.7	0.8
Orange (France Telecom)	0.1	0.6	0.6

Source: Subscriber information based on our estimates.

As of December 31, 2011, VivaCell-MTS had approximately 2,378 million subscribers and a 63.86% 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:

	At December 31,		
	2009	2010	2011
Russia			
Prepaid	79%	81%	77%
Contract and corporate	21%	19%	23%
Ukraine			
Prepaid	92%	92%	92%
Other	8%	8%	8%

We are actively 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, 2011.

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

Table of Contents

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. For example, we offer a tariff plan, "Red Energy", geared towards students and youth that allows subscribers to elect on-demand additional unlimited on-net, SMS and data options that are charged on a daily basis. We also 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. 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" tariff plans are geared toward moderate- and heavy users who use their mobile phones for personal and business communications. These plans feature a monthly fee for a package of services, including a certain pre-determined number of minutes and reduced fees for subscribers who exceed this limit. "Maxi" subscribers choose between a local and federal number with the local number being more expensive, and from a wide range of value-added services.

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 $97 and those using a federal number pay from $69 per month. In 2011, we improved the tariff plan "Ultra", which offers unlimited voice and SMS services and mobile Internet access. We added an "Unlimited SMS" option to the tariff plan (with no additional charges), which provides 30 SMS messages per day to other mobile networks (within the region) and unlimited SMS messages to MTS numbers (within the region). 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). These tariffs are offered with different plans and unlimited data options at competitive prices per megabyte. In 2011, we introduced a specifically designed tariff option, "Super BIT", for unlimited mobile internet via mobile phone. This option provides customers with unlimited mobile Internet in any region within Russia for a monthly fee. We plan to continue active development of mobile internet usage in 2012.

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.

Table of Contents

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, 2011, the per-minute tariff for local calls within the MTS network varied from $0.041 per minute to $0.060 per minute. Different rates apply to local calls to other networks and vary from $0.052 per minute to $0.082 per minute. Higher rates apply to domestic long distance calls and rates for international calls vary from $0.12 per minute for calls to MTS subscribers within the CIS to $1.91 per minute for calls to other parts of the world. Certain value-added services are included in all current tariff plans at no additional charge (other than for subscribers using old tariff plans that we no longer offer, some of which carry a charge of up to $1.87 per month for these services). Periodically, we run various promotional campaigns, either on the federal or regional level, in which we provide temporary discounts to our regular prices.

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 designed to appeal to business segment subscribers, including tariffs with per second billing, as well as special low prices, no connection fees and free minutes for calls among members of the same company and within the MTS Ukraine network. We also offer corporate clients discounts based in their monthly usage, as well as provide handset subsidies.

Private Postpaid: A set of postpaid tariff plans designed to appeal to mass-market subscribers, offering free calls within the MTS network and no connection fees. These tariff plans also include a certain number of free minutes per month for calls within the MTS network.

Private Prepaid:

MTS Prepaid Mass: A set of special tariff plans designed to appeal to mass-market subscribers. The main tariff plan "Super MTS Without Call Setup Fee" offers a limited number of minutes and SMS messages for free each day within the MTS Ukraine network. The provision of free minutes is available to subscribers only after account recharge on a specified amount. There is also a subscription fee in this tariff plan.

MTS Prepaid Youth: A set of special tariff plans designed to appeal to youth-market subscribers. The popular tariff plan "MAX Energy" offers a monthly set of minutes and SMS messages within the MTS Ukraine network, as well as a limited number of GPRS megabytes for mobile internet use. The plan is available upon payment of a monthly subscription fee.

MTS Prepaid Regional: A set of aggressively priced tariff plans tailored to particular regions and cities where MTS Ukraine currently has a relatively low market share of subscribers (*e.g.*, Kiev, Odessa and Lvov). The main price differentiators between regional tariffs are volumes of free minutes in the network, prices on calls to other operators' networks and the existence of daily fees.

MTS Prepaid Segmented: A set of special tariff plans offered to certain underrepresented market segments such as Russian tourists spending summer months in Crimea or children between the ages of 7 and 12. In particular, the tariff plan "Tourist MTS 2011" offers low rates for calls from Ukraine to Russia, while the tariff plan "Super MTS Team" allows children to make calls free of charge to their parents, but denies them access to the Internet.

As of December 31, 2011, the standard per minute tariff for calls in Ukraine varied from $0.03 per minute to $0.13 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 $0.08 per minute. Higher rates applied to international calls ranging from $0.13 per minute for calls using special tariffs to $9.2 per minute for standard international tariffs. 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 exchange rate as of December 31, 2011.

Table of Contents

Customer Payments and Billing

We enroll new subscribers, except for certain corporate and exclusive clients, in an advance payment program, under which the subscriber prepays a specific amount of money to use our services. As of December 31, 2011, approximately 80% of our consolidated subscriber base was enrolled in the advance payment program and 20% 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, 2011, subscribers using the credit system of payment had credit limits of up to $1.6 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 charge history (*i.e.,* average balance usage) during the prior three months. As of December 31, 2011, subscribers using the "in full confidence" service had a maximum credit limit of $6,300. 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 and Belarus 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 the end of 2012, and are approaching the final stage of transferring our individual subscribers in Uzbekistan to a new billing system. In Armenia, we use the "Eskadenia" billing system which is currently being upgraded. 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 old billing system could not support such a service.

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

Table of Contents

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, SMS/MMS 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.

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

In 2011, we started the process of integration of our fixed line business customer service and assistance into MTS. As a result of this integration, any MTS fixed line services customer in Russia can now receive advice and expert assistance in the MTS 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 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.

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. In 2010 and 2011, we also continued pursuing a personalized approach in customer care using the Siebel CRM system, which helps us manage all customer-facing operations. We plan to implement the CRM system across the MTS-branded retail network. Further CRM system development will help us to assist all of our customers, including fixed line services 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 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 and 2011, we further enhanced the

Table of Contents

quality of our customer service as a result of the complete integration of our IVRs and billing. In 2011, we made improvements to the IVRs menu to enhance their usability.

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.

We also increased the number of outsourced personnel who process various customer requests in 2011, such as requests related to value-added services and account balance information.

Additionally, with the addition of new software, we improved our e-learning system for personnel in 2011. We also launched "blended learning", a new training method for our employees in contact centers, that included special interactive courses and learning combined with practical work with customers. All these efforts helped us increase customer satisfaction in Ukraine to 93.0% for the year ended December 31, 2011, from 91.7% for the year ended December 31, 2010.

In 2012, we plan to make the customer assistance process in Ukraine more personalized by anticipating customer needs. We plan to maintain a history of subscribers' requests and personalize the IVR for each customer profile, which will depend 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. We also aim to offer personal agents to our premium customers, establish an operational CRM system and renew the technical platform of our contact center.

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, including Russia and Ukraine, 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.

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 2012, we will continue to develop UMTS 2100 networks in Russia, Belarus, Uzbekistan and Armenia in order to provide our subscribers with high-quality services. In 2011, we launched UMTS 900 in the Moscow region. The double-band 2100/900 UMTS network in the Moscow region gives us a significant advantage on the wireless broadband market of the Moscow region in terms of coverage area. We are planning to launch UMTS 900 in the Far East (Khabarovsk region) because of the regulatory limitations on the use of UMTS 2100. All mobile GSM and UMTS networks are being developed towards IP interfaces in accordance with the ALL (full set) IP concept which is the basic concept in future LTE networks.

Table of Contents

We have been implementing the latest cutting-edge technologies such as LTE. We launched LTE FDD 2600 in Uzbekistan and Armenia in 2010. We are planning to launch LTE TDD 2600 in Moscow in 2012. We also plan to participate in the LTE frequency band tender that the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media is going to arrange in 2012.

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 2596-2610 MHz spanning 25 MHz for LTE TDD network deployment in Moscow and the Moscow region. We have submitted applications for 873 LTE TDD base stations in Moscow and the Moscow region to the State Radio Frequencies Commission.

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 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 site development software supplied mainly by Aircom International to assess new sites so that the network design and site development are coordinated. Our software in Russia and Ukraine can create digital cellular coverage maps of our license areas, taking into account the peculiarities of the urban landscape, including the reflection of radio waves from buildings and moving automobiles. 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

Table of Contents

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 quality service to subscribers, 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 operation and maintenance centers in major cities throughout Russia. 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.

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

The handling of any significant network problems and outages is monitored and coordinated at our corporate headquarters in Moscow, which also manages the cross-functional coordination of our networks in all of our 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. 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.

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

Table of Contents

"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.

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, 2011, we had numbering capacity (federal and local) for over 24.73 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 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. 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. Furthermore, in 2011 we expanded our numbering capacity by obtaining 800,000 numbers with the code "896" which allows us to develop our fixed line network without regard to administrative country zones throughout Ukraine and allows us to use IP-technology for providing fixed line services. 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.

Table of Contents

Handsets

Nearly all of our handset sales in 2009 consisted of dual-band GSM 900/GSM 1800 handsets. These dual-band handsets are currently in widespread use on networks in Western Europe and, because they send and receive communications on both GSM 900 and GSM 1800 frequencies, they can relieve possible congestion on our network and increase the ability of our customers to roam. In 2010 and 2011, 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, 2009, 2010 and 2011, we provided net handset subsidies of $15.6 million, $12.8 million and $8.6 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 and others to purchase handsets. In 2010, we entered into an agreement with Huawei to purchase handsets. We are not dependent on any particular supplier for handsets. We also offer an array of mobile telephone accessories.

In August 2008, we signed an agreement with Apple Sales International 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 with Apple Sales International expired on March 31, 2012, and we intend to negotiate an extension of this agreement. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Financial Condition Our failure to fulfill our iPhone handset purchase commitment under our agreement with Apple Sales International could have a material adverse effect on our financial condition and results of operations" and Note 27 to our audited consolidated financial statements.

In line with our strategy to expand our proprietary distribution network, our handset sales increased by 303% in 2010 and by 25.6% in 2011. We expect moderate growth in our handset sales in 2012. 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 now also operate in both the alternative and traditional fixed line communications markets. We now offer alternative and traditional communications services in over 150 cities across Russia, covering a population of over 53 million people.

Our alternative fixed line communications services include voice, data and 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, 2011, 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.

Table of Contents

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 96% of the city's total households who are active users of fixed line voice telephony, 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; and
- Internet and data transmission services and numbering capacity to subscribers of other communications operators through agency agreements concluded with such operators.

In November 2009, Sistema, Comstar and Svyazinvest signed a non-binding memorandum of understanding, contemplating an exchange of certain telecommunications assets. The transaction was completed in October 2010 and included, among other things, the entry by Sistema and Svyazinvest into an exchange transaction pursuant to which Svyazinvest obtained control over 100% of the share capital of Sky Link and Sistema acquired a 23.33% stake in MGTS from Svyazinvest. In addition, Comstar transferred its 25% plus 1 share ownership stake in Svyazinvest to Rostelecom for cash consideration of RUB 26 billion ($839.2 million as of September 23, 2010). The proceeds of the sale were used by Comstar to pay down its outstanding debt to Sberbank in the amount of RUB 26 billion ($839.2 million as of September 23, 2010). Sky Link is a Moscow-based CDMA operator holding GSM licenses for a majority of the Russian regions.

Comstar's shares of common stock, represented by Global Depositary Receipts, were listed on the London Stock Exchange under the symbol "CMST" from February 2006 until March 25, 2011. On March 25, 2011, the UK Listing Authority cancelled the listing of Comstar's Global Depositary Receipts from the Official List following Comstar's announcements regarding its intention to seek cancellation of its listing of Global Depositary Receipts. As a result, Comstar's Global Depositary Receipts are no longer admitted to trade on the London Stock Exchange.

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 over 150 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 to other telecommunications operators 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.

Table of Contents

The following table presents certain operating data for our alternative fixed line business in the Moscow market and in the Russian regions and the CIS as of and for the years ended December 31, 2010 and 2011.

Alternative fixed line business	December 31, 2010	December 31, 2011
Moscow market		
Installed telephone lines (000s)	659	659
Residential		
Number of subscribers (000s)[1]	541	620
ARPU (RUB)	566	554
ARPU (USD)	18.6	18.9
Corporate[2]		
Number of subscribers (000s)	29	30
ARPU (RUB)[4]	17,477	16,375
ARPU (USD)[4]	575.7	557.9
Operators		
Number of active lines (000s)	438	438
of which, used by mobile operators (000s)	307	85
Russian regions and the CIS (excluding Moscow market)[3]		
Residential		
Number of subscribers (000s)[1]	3,661	4,392
ARPU (RUB)	188	178
ARPU (USD)	6.2	6.1
Corporate[2]		
Number of subscribers (000s)	73	117
ARPU (RUB)	3,302	2,614
ARPU (USD)	108.6	89.0
Operators		
Number of active lines (000s)	5	9

(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 the Moscow market.

(4) The calculation changed from 2011 onwards. Pay-TV and data transmission revenue are now included in the calculation of ARPU.

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, 2011, we had approximately 51,000 voice and 73,000 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 and DLD/ILD services using our transmission network and leased capacity between major Russian cities. We also

Table of Contents

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 3,200-RUB 11,200 ($99.4-$347.9) per number, as well as a monthly subscription fee of RUB 224-RUB 1,120 ($7.0-$34.8) per number, based on the quantity of numbers used by the corporate subscriber.

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, Wi-Max 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 1 Gbps), (2) ADSL2+ (up to 24 Mbps), (3) radio Ethernet (up to 27 Mbps), (4) Wi-Fi (up to 54 Mbps), and (5) Wi-Max (up to 10 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 ADSL-based broadband Internet packages generally experience data transfer speeds between 1.5 Mbps and 29 Mbps. In addition, we offer a premium broadband Internet service over our NGN in which subscribers enjoy data transfer speeds between 64 Kbps and 10 Gbps. The NGN provides subscribers with the benefit of the same uploading and downloading data transfer speeds, whereas Internet subscribers using an ADSL connection upload at speeds that are much slower than the one at which they can download.

For the provision of broadband Internet services, we have secured access to MGTS' network allowing data transmission at speeds of up to 24 Mbps along installed copper lines using ADSL technology. As of December 31, 2011, all of MGTS' 225 PoPs were DSL-enabled. In addition, 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 of RUB 3,200-RUB 176,000 ($99.4-$5,466.5) per digital channel, as well as a monthly subscription fee of RUB 1,600-RUB 160,000 ($49.7-$4,695.5) 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 Logic Line and integrated solutions. The Logic Line 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.

Table of Contents

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.

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.

Equipment Sales. We offer and sell equipment manufactured by different manufacturers.

Operators

We are the largest mobile operator in Russia, according to AC&M-Consulting. We also operate fixed-line local networks in Moscow and other cities mostly for provision of 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, 2011. We now have approximately 78 local fixed networks in 51 regions of Russia, including Moscow, and 21 zonal fixed networks to provide telephony services to subscribers. Our integrated intercity\international network is interconnected to more than 45 international operators. As of December 31, 2011, we had more than 1100 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. For a more detailed discussion of these services, see " Corporate subscribers Voice Services." Like corporate subscribers, residential subscribers in each of the regions that we have a presence 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 by our alternative fixed line business to high value residential subscribers in high-end housing. 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, 2011, we had a 28.5% share of the residential broadband Internet market in Moscow, according to Direct INFO. In 2009, we launched wireless broadband Internet services throughout Moscow based on mobile Wi-Max technology. As a result, the Internet is currently accessible for Moscow residents from nearly any place in the city using a range of our fixed and wireless technologies. Depending on the Internet connection speed, we charge residential subscribers a subscription fee of RUB 300-RUB 3,000 ($9.3-$93.2) per month in Moscow and a subscription fee of RUB 100-RUB 2,000 ($3.1-$62.1) in other regions of Russia. We do not charge a connection fee in Moscow and in most of the Russian regions.

Table of Contents

Pay-TV. We operate a TV service based on ADSL IP technology in Moscow. In addition, we offer pay-TV services in most of the regions in which we are present, 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. Special auxiliary equipment allows pay-TV subscribers to access more than 100 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, 2011, we had approximately 133,800 pay-TV subscribers in Moscow and approximately 2,849,900 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 110-RUB 450 ($3.4-$14.0) per month in Moscow and a subscription fee of up to RUB 99-RUB 365 ($3.1-$11.3) in other regions of Russia, depending on the number of channels included in the package. There is a connection fee in some regions of Russia. We also offer bundled Internet and pay-TV services for RUB 260-RUB 1,480 ($8.1-$46.0) per month in Moscow and RUB 299-RUB 2,350 ($9.3-$73.0) in certain other regions of Russia, depending on the 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, 2011, MGTS had approximately 4.42 million active lines in service, a cable network of over 110,217 km, a fiber optic network of over 8,896 km and 2,997 payphones. Although MGTS' core backbone network is fully digital and is based on state-of-the-art SDH technology, only around 69% of installed lines were digital as of December 31, 2010. As a result, those subscribers who connect to our network using an analog ATE (automatic test equipment) are currently not able to receive our value-added services. In 2011, MGTS completed the digitalization of its network based on the special range of equipment MPN (Mediator Private Network), which allowed MGTS to complete the digitalization of the network two years ahead of schedule. The total installed capacity of the telephone network reached 4.9 million numbers as of December 31, 2011.

Residential subscribers accounted for approximately 81.7% of MGTS' total lines, corporates for 11.2% and public sector subscribers for 7.1%, as of December 31, 2011.

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.

Table of Contents

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 69% of service operating revenues of our traditional fixed line business in 2009, 2010 and 2011. 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, 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.

Table of Contents

The following table presents certain operating data for our traditional fixed line business as of and for the years ended December 31, 2010 and 2011.

Traditional fixed line business	December 31, 2010	December 31, 2011
Installed telephone lines (000s)	4,903	5,100
Residential		
Number of subscribers (000s)[1]	3,615	3,610
CPP traffic (millions of minutes)	1,993	1,832
ARPU (RUB)	352	371
ARPU (USD)	11.6	12.7
Corporate[2]		
Number of active lines (000s)	785	809
Number of subscribers (000s)	66	66
CPP traffic (millions of minutes)	924	883
ARPU (excl. revenue from points of interconnect) (RUB)	7,016	8,047
ARPU (excl. revenue from points of interconnect) (USD)	231.1	274.7
Number of points of interconnect (000s)	20	10
Average monthly revenue per point of interconnect (RUB)	6,714	9,932
Average monthly revenue per point of interconnect (USD)	221.3	341.6
Operators		
Number of interconnected operators	195	200
Number of points of interconnect (000s)	235	244
Average monthly revenue per point of interconnect (RUB)	1,194	1,247
Average monthly revenue per point of interconnect (USD)	39.3	42.5

(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.

Table of Contents

The following table illustrates MGTS' regulated tariff development in the period from February 1, 2008, to March 1, 2012:

MGTS Regulated Tariffs	February 1, 2008	March 1, 2009	February 1, 2010	January 1, 2011	March 1, 2012
Residential[1]					
Line rental					
RUB per month	125	135	155	175	190
USD per month	5.12	3.78	5.09	5.87	6.55
Per minute tariff plan local connection fee					
RUB per minute	0.28	0.30	0.36	0.40	0.44
USD per minute	0.01	0.01	0.01	0.01	0.02
Unlimited tariff plan connection fee (unlimited connection)					
RUB per month	220	245	250	260	266
USD per month	9.01	6.86	8.22	8.72	9.16
Combined tariff plan fee for fixed amount of minutes[2]					
RUB per month	104	120	140	152	172
USD per month	4.26	3.36	4.6	5.1	5.93
Combined tariff plan fee for each additional minute					
RUB per minute	0.24	0.28	0.34	0.38	0.42
USD per minute	0.01	0.01	0.01	0.01	0.01
Corporate (non-governmental)[1]					
Line rental (USD per month)					
RUB per month	160	160	175	195	205
USD per month	6.55	4.48	5.75	6.54	7.06
Per minute tariff plan local connection fee					
RUB per minute	0.28	0.30	0.36	0.40	0.44
USD per minute	0.01	0.01	0.01	0.01	0.02
Unlimited tariff plan connection fee (unlimited connection)					
RUB per month	342	342	350	365	375
USD per month	14.0	9.57	11.5	12.25	12.92
Combined tariff plan fee for fixed amount of minutes[2]					
RUB per month	104	120	140	152	172
USD per month	4.26	3.36	4.6	5	5.93
Combined tariff plan fee for each additional minute					
RUB per minute	0.24	0.28	0.34	0.38	0.42
USD per minute	0.01	0.01	0.01	0.01	0.01
Corporate (governmental and state-funded organizations)[1]					
Line rental					
RUB per month	136	145	160	180	200
USD per month	5.57	4.06	5.26	6.04	6.89
Per minute tariff plan local connection fee					
RUB per minute	0.28	0.3	0.36	0.40	0.44
USD per minute	0.01	0.01	0.01	0.01	0.02

Table of Contents

MGTS Regulated Tariffs	February 1, 2008	March 1, 2009	February 1, 2010	January 1, 2011	March 1, 2012
Unlimited tariff plan connection fee (unlimited connection)					
RUB per month	302	331	350	365	375
USD per month	12.36	9.27	11.5	12.25	12.92
Combined tariff plan fee for fixed amount of minutes[2]					
RUB per month	104	120	140	152	172
USD per month	4.26	3.36	4.6	5.1	5.93
Combined tariff plan fee for each additional minute					
RUB per minute	0.24	0.28	0.34	0.38	0.42
USD per minute	0.01	0.01	0.01	0.01	0.01

(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, 2012, this plan included 400 minutes per month.

In addition to basic voice services, MGTS also provides its residential and corporate subscribers with digital telecommunication, Internet and VPN deployment services, rental of high-speed communication channels, intelligent voice and various other services.

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 communications requirements and enhancing subscriber loyalty. Our advertising and information materials are aimed primarily at the promotion of the MTS brand. Since the beginning of 2011, we promote only the MTS. All fixed-line products are offered and marketed under this brand. However, in new markets, where the introduction of a new brand soon after the introduction of the older brand may strain customer loyalty, we can still use two brands to decrease churn. In addition to

Table of Contents

promoting the MTS brand, we also promote specific product and service offerings such as Wi-Fi and Wi-Max. 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 connection with the long term modernization program of our network based on passive optical network ("PON") technology, we expect to increase our investments in sales and marketing of convergent products, including double and triple-play products. In 2010, we launched several pilot projects based on PON technology which allows us to provide higher quality services than our competitors. In addition, PON technology allows us to provide services that generate a high volume of traffic, such as video security, video social networking and other similar services.

In 2011, MGTS completed its migration to provision of digital services and connection of new subscribers is based on PON technology. Due to this fact, we were able to expand the range of provided services which resulted in an increase in the number of Internet users.

Together with the provision of fast Internet access, MGTS is replacing the old networks of Moscow's educational institutions and transitioning them to PON. MGTS will also provide schools with fire-alarm systems and safety monitoring.

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. Vimpelcom acquired alternative operators Golden Telecom and Corbina Telecom in 2008, and 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 primary DLD/ILD operator. According to Direct INFO, Rostelecom controls over 76% of all fixed line telecommunications services in Russia. 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 in certain parts of Siberia.

Akado Group (formerly Renova Media) comprised of AKADO Stolitsa, a leading provider of pay-TV, broadband Internet and digital telephony in Moscow; Comcor, a Moscow-based fiber optic network operator providing services under the AKADO Telecom brand; and several Internet and pay-TV providers in St. Petersburg, Ekaterinburg and Minsk (Belarus). 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.

Table of Contents

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, 2011:

MTS	9%
MGTS	11%
Vimpelcom	21%
Synterra	6%
Company TransTeleCom (TTK)	5%
Orange	3%
Akado	10%
Rostelecom (incl. RTCOMM)	9%
Other	26%
Total	**100%**

Source: Direct INFO

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, 2011:

Company	Russia
MGTS	12%
Rostelecom	76%
Other	12%
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, 2011, it provided local voice telephony services for approximately 97% 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, 2011, computer penetration of households was 67% in Russia, with 94% of these households having Internet access. The following table sets forth the

Table of Contents

market shares of the primary operators in the residential broadband Internet market in Russia as of December 31, 2011:

Company	Russia
MTS	8%
MGTS	2%
Akado	4%
Vimpelcom	9%
Er-Telecom	9%
Rostelecom (including OJSC «National Cable Networks»)	37%
Other	31%
Total	**100%**

Source: Direct INFO

Pay-TV

According to Direct INFO, as of December 31, 2011, TV penetration was 74% in Russia. The following table sets forth the market shares of the primary operators in the TV market in Russia as of December 31, 2011:

Company	Russia
MTS	11%
Akado	4%
Rostelecom	20%
Tricolor TV	29%
Vimpelcom	1%
Er-Telecom	7%
Other	28%
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.

Table of Contents

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. In particular, we offer several flexible tariff plans customized for various types of residential subscribers, as well as various promotions, such as free installation and bundled service packages offered at a discount.

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 65,000 km, which also allows us to operate an optical transport network using dense wavelength division multeplexing technology.

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 15 switching nodes (13 TDM switches and 2 soft switches) with total capacity of over 700,000 subscribers.

The Moscow region telephone network consists of 10 soft switches with total capacity of around 15,000 suscribers.

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 ATSs 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 987 multiplexers. The

Table of Contents

management of the transport network and digital ATSs 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, 2011, our wireless broadband network in Moscow and the Moscow region included 51 base stations in the 5 GHz frequency band. During 2011, in the 2.4-2.5 GHz frequency band, we continued the construction of the Wi-Max network started by Comstar, which consisted of over 210 base stations as of December 31, 2011. Our radio-relay communication lines included 25 links and it also had 115 Internet hot-spots using Wi-Fi technology as of December 31, 2011.

Russian Regions

As of December 31, 2011, outside of Moscow and the Moscow region, we provide cable Internet access to 6.5 million households and cable TV access to 7.7 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/se?. In 2011, we started to roll-out DVB-C technology for cable TV service.

Traditional fixed line business

PSTN

Our traditional fixed line communications network has an installed capacity of more than 5.044 million numbers, of which 2.2 million is digital exchange, 0.284 million is analog exchange and 2.560 million is NGN exchange capacity. The digital portion of the network is based on the SDH backbone and the transport level of the PDTN. The total length 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, 29 local analog exchanges (cross bar system and step by step), 37 exchanges based on DX-200 (NSN), 50 SG exchanges based on NGN cores (NSN, Huawei technologies and STS), 23 TG product Huawei technologies and STS, 2 IMS cores (Huawei technologies) included 19 MSAN and 136 SG (Media Gateway converter) 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). To provide services with instant dialing (*e.g.,* emergency and information calls), MGTS has two nodes based on MEDIO IN equipment.

Monitoring of the digital network and management of switching equipment is centralized and carried out from MGTS' control centers.

Table of Contents

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 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 is comprised of 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 Sitronics Telecom Solutions, Huawei, Nokia Siemens Networks and NEC for switching equipment; ECI Telecom 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 for broadcasting equipment. All of our equipment is supplied directly 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. Furthermore, our results of operations may be impacted by unexpected adverse weather conditions. In 2010, for example, we were significantly and adversely affected by a sustained heat wave in Moscow and severe wildfires in the surrounding regions. Many of our subscribers left Moscow, which resulted in a substantial decline in the volume of calls made and, in turn, our revenues in the fixed line segment in the third quarter of 2010.

Table of Contents

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;
- 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

Table of Contents

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 Area of Communications, Information Technologies and Mass Media 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;
- 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 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.

Table of Contents

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
- 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;
- failure to comply with Russian law or the terms and conditions of the license;
- failure to provide services for over three months from the start-of-service date set forth in the license; and
- annulment of a frequency allocation if it results in the inability to render communications services.

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.

Table of Contents

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 $80 as of December 31, 2011) 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 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.

Table of Contents

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 October 24, 2005, authorized the Federal Tariff Service to set the following tariffs for the natural monopolies in the communications market:

- provision of access to a local telephone network;
- permanent use of a subscriber's line; and
- 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 National 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; and

Table of Contents

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 25% of traffic. Comstar 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 on April 1, 2011, we and MGTS are 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:

- we and MGTS must develop interconnect rules and procedures in accordance with the requirements set forth by the federal government;
- we and 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; we and 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' and our 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 and us, 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

Table of Contents

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 "SCA"). The SCA was also the main regulatory body in the sphere of communications until the establishment of the NCRC in January 2005.

The NCCIR. The functions of the NCCIR were formerly carried out by the NCRC. Established by a Decree of the 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 had 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 with the NCCIR, which now consists of six members and a chairperson. The NCCIR is now responsible for issuing licenses for telecommunications services and use of radio frequencies, and other functions of the 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 capacity, is also involved in the issuance of radio frequency licenses. In particular, the SCRF determines frequency availability and the 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 monitors use of the frequencies and will continue 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 terminals.

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 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.

Table of Contents

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 things, 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.

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 July 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

Table of Contents

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; and
- technical maintenance and exploitation of telecommunications networks.

Starting from July 5, 2011, lease 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. 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 is planning to determine the specific requirements of a public tender for the sale of frequencies for the development of 3G networks. The tender may be held in the first half of 2012. 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 award 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

Table of Contents

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 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 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 maximum 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; and
- 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; and
- 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 in court.

Table of Contents

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, be certified. The Ministry of Transport and Communications of Ukraine sets the technical standards for equipment to be used in telecommunications networks in Ukraine. Companies that are approved 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.

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.

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 against other players in the telecommunications market.

According to AC&M-Consulting, MTS Ukraine had a 37.7% market share of the wireless communications market in Ukraine as of December 31, 2011. 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

Table of Contents

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 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 to have 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, 2011). 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 consequently regulate their fees for traffic transfer services (rather than interconnect fees for termination of calls on the operators' networks).

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, 2011) 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 with out of court dispute settlement. New amendments to the Telecommunications Law also set forth the methodology for fee determination that can be charged for traffic transfer sevices based largely on a calculation that includes an operator's base cost

Table of Contents

plus profitibality 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 should 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 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.

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.

In February 2006, the NCRC established maximum tariffs for the provision of electric communications channels by operators having a dominant position in 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, the AMC, where competition laws are violated, can find tariffs unfair and injurious to competition. In such cases, the AMC may, inter alia, request the violating telecommunications operator to remedy the situation, in particular, by amending its tariff schedule, 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."

Table of Contents

Licenses

Mobile Operations

The following table shows, as of March 1, 2012, information with respect to the license areas in which we and our subsidiaries and affiliates provide or expect to provide GSM services:

	GSM 900		GSM 1800	
License Region	**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, 2012	MTS OJSC	August 22, 2012
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	Dagtelecom LLC	June 5, 2013		
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, 2012	MTS OJSC	August 22, 2012
Kostroma Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Krasnodar Region	MTS OJSC	May 30, 2012	MTS OJSC	May 30, 2012
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	April 28, 2013	MTS OJSC	April 28, 2013
Nenetsk Autonomous Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Nizhny Novgorod Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013

Table of Contents

	GSM 900		GSM 1800	
License Region	**Licensee**	**Expiry date**	**Licensee**	**Expiry date**
Novgorod Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Orel Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Orenburg Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Penza Region	MTS OJSC	May 6, 2021		
Perm Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Pskov Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Rostov Region	MTS OJSC	July 1, 2015	MTS OJSC	July 1, 2015
Ryazan Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Samara Region	MTS OJSC	December 30, 2012	MTS OJSC	December 30, 2012
Saratov Region	MTS OJSC	July 11, 2012	MTS OJSC	July 11, 2012
Severnaya Osetia-Alania Republic	MTS OJSC	September 1, 2016	MTS OJSC	September 1, 2016
Smolensk Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Stavropol Region	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Tambov Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Tatarstan Republic	MTS OJSC	June 26, 2012	MTS OJSC	June 26, 2012
Tula Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Tver Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Udmurt Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Ulyanovsk Region	MTS OJSC	May 6, 2021	MTS OJSC	December 30, 2013
Vladimir Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Volgograd Region			MTS OJSC	October 4, 2016
Vologda Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Voronezh Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Yaroslavl Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Asian Russia				
Altaisk Region	MTS OJSC	September 8, 2015	MTS OJSC	September 8, 2015
Altai Republic	MTS OJSC	July 19, 2016	MTS OJSC	December 30, 2013
Amur Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Buryatiya Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Chelyabinsk Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Zabaykalsky Region	Sibintertelecom CJSC	June 5, 2014	Sibintertelecom CJSC	June 5, 2014
Zabaykalsky Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Chukotsk Autonomous Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Jewish Autonomous Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Irkutsk Region	MTS OJSC	December 30, 2013	MTS OJSC	April 28, 2013
Kamchatka Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Kemerovo Region	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Khabarovsk Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Khakassiya Republic	MTS OJSC	September 13, 2016	MTS OJSC	September 13, 2016
Khanty Mansiysk Autonomous Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Krasnoyarsk Region	MTS OJSC	May 7, 2013	MTS OJSC	May 7, 2013
Kurgan Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Magadan Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013

Table of Contents

	GSM 900		GSM 1800	
License Region	**Licensee**	**Expiry date**	**Licensee**	**Expiry date**
Novosibirsk Region	MTS OJSC	February 21, 2017	MTS OJSC	February 21, 2017
Omsk Region	MTS OJSC	December 20, 2016	MTS OJSC	December 20, 2016
Primorsky Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Sakha Republic (Yakutia)	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Sakhalin Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Sverdlovsk Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Tomsk Region	MTS OJSC	June 5, 2013	MTS OJSC	June 5, 2013
Tyumen Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Tyva Republic	MTS OJSC	July 19, 2016	MTS OJSC	December 30, 2013
Yamalo-Nenetsk Autonomous Region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Ukraine				
Ukraine	MTS Ukraine PrJSC	December 3, 2013	MTS Ukraine PrJSC	December 3, 2013
Armenia				
Armenia	K-Telecom CJSC	November 4, 2019	K-Telecom CJSC	November 4, 2019
Uzbekistan				
Uzbekistan	Uzdunrobita FE LLS	June 30, 2016	Uzdunrobita FE LLS	June 30, 2016
Belarus				
Belarus[(1)]	Mobile Telesystems LLC	April 30, 2022	Mobile Telesystems LLC	April 30, 2022

(1) This license was initially valid until April 30, 2012, but in February 2012 was extended until April 30, 2022.

IMT-2000/UMTS/CDMA

License Region	Licensee	Expiry date
Russian Federation	MTS OJSC	May 21, 2017
Uzbekistan	Uzdunrobita FE LLC	June 30, 2016
Armenia	K-Telecom CJSC	November 4, 2019
Belarus	Mobile Telesystems LLC	April 30, 2022
Ukraine	MTS Ukraine PrJSC	September 27, 2021

LTE

License Region	Licensee	Expiry date
Moscow, Moscow Region	MTS OJSC	December 29, 2016
Uzbekistan	Uzdunrobita FE LLC	June 30, 2016
Armenia	K-Telecom CJSC	November 4, 2019

Each of our licenses requires service to be started by a specific date. We have met this target or received extensions to these dates in those regional license areas in which we have not commenced operations. Neither the government nor other parties have taken or attempted to take legal actions to suspend, terminate or challenge the legality of any of our licenses (except for Turkmenistan, see "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Turkmenistan."). We have not received any notice of violation of any of our licenses, and we believe that we are in compliance with all material terms of our licenses.

Table of Contents

Fixed Line Operations

The following table shows, as of March 1, 2012, information with respect to our fixed line licenses:

Licensee	License Region(s)	License number	Expiry Date
	International, national, intra-zonal and local communications services		
MGTS	Moscow	No. 30000	December 11, 2013
MGTS	Moscow	No. 73888	July 28, 2015
MTS OJSC	Moscow	No. 94370	March 30, 2017
MTS OJSC	Russian Federation	No. 87176	February 16, 2013
MTS OJSC	Moscow Region	No. 94371	March 30, 2017
MTS OJSC	Moscow	No. 87181	February 16, 2016
MTS OJSC	Moscow Region	No. 87182	November 21, 2015
MTS OJSC	Rostov Region	No. 61088	August 1, 2013
MTS OJSC	Severnaya Osetia-Alania Republic	No. 61089	August 1, 2013
MTS OJSC	Krasnodar Region	No. 61090	August 1, 2013
MTS OJSC	Bashkortostan Republic	No. 77972	November 21, 2015
MTS OJSC	Astrakhan Region	No. 65672	January 19, 2014
MTS OJSC	Kemerovo Region	No. 65673	January 19, 2014
MTS OJSC	Arkhangelsk Region	No. 65677	January 19, 2014
MTS OJSC	Vologda Region	No. 65678	January 19, 2014
MTS OJSC	Kaliningrad Region	No. 65679	January 19, 2014
MTS OJSC	Karelia Republic	No. 65680	January 19, 2014
MTS OJSC	Murmansk Region	No. 65681	January 19, 2014
MTS OJSC	Novgorod Region	No. 65682	January 19, 2014
MTS OJSC	St. Petersburg	No. 65684	January 19, 2014
MTS OJSC	Komi Republic	No. 65685	January 19, 2014
MTS OJSC	Volgograd Region	No. 66352	March 4, 2014
MTS OJSC	Omsk Region	No. 90203	October 4, 2016
MTS OJSC	Khakassiya Republic	No. 75296	May 6, 2015
MTS OJSC	Tomsk Region	No. 56547	February 27, 2013
MTS OJSC	Altai Region	No. 56548	February 27, 2013
MTS OJSC	Krasnoyarsk Region	No. 56549	February 27, 2013
MTS OJSC	Novosibirsk Region	No. 56550	February 27, 2013
MTS OJSC	Khakassiya Republic	No. 88183	June 6, 2016
MTS OJSC	Kaluga Region	No. 87186	July 3, 2015
MTS OJSC	Tyumen Region	No. 87189	August 31, 2012
MTS OJSC	Volgograd Region	No. 90196	November 17, 2016
MTS OJSC	Irkutsk Region	No. 90208	October 24, 2016
MTS OJSC	Sakhalin Region	No. 90197	October 24, 2016
MTS OJSC	Primorsky Region	No. 90198	October 24, 2016
MTS OJSC	Bashkortostan Republic	No. 77981	September 8, 2015
MTS OJSC	Bashkortostan Republic	No. 92587	March 5, 2017
MTS OJSC	Kemerovo Region	No. 64842	December 26, 2013
MTS OJSC	Omsk Region	No. 90201	October 4, 2016
MTS OJSC	Udmurt Republic	No. 90202	October 4, 2016
MTS OJSC	Ryazan Region	No. 75034	July 3, 2015
MTS OJSC	Voronezh Region, Orel Region	No. 49876	October 24, 2012
MTS OJSC	Lipetsk Region, Kursk Region, Bryansk Region, Belgorod Region	No. 49877	February 7, 2013
MTS OJSC	Severnaya Osetia-Alania Republic	No. 51207	June 5, 2012

Table of Contents

Licensee	License Region(s)	License number	Expiry Date
MTS OJSC	Dagestan Republic	No. 87178	June 5, 2012
MTS OJSC	Tver Region	No. 56551	February 27, 2013
MTS OJSC	Smolensk Region	No. 56552	February 27, 2013
MTS OJSC	Buryatiya Republic	No. 58061	April 18, 2013
MTS OJSC	Saratov Region	No. 58062	April 18, 2013
MTS OJSC	Zabaykalsky Region	No. 75297	May 6, 2015
MTS OJSC	Vologda Region, Pskov Region, Novgorod Region, Murmansk Region, Karelia Republic, Arkhangelsk Region, Leningrad Region, St. Petersburg	No. 94373	April 17, 2017
MTS OJSC	Kaliningrad Region	No. 33926	December 17, 2012
MTS OJSC	Krasnoyarsk Region	No. 90204	October 24, 2016
MTS OJSC	Yaroslavl Region	No. 90185	October 24, 2016
MTS OJSC	Ivanovo Region	No. 90212	October 24, 2016
MTS OJSC	Astrakhan Region	No. 90199	October 24, 2016
MTS OJSC	Rostov Region	No. 90205	October 24, 2016
MTS OJSC	Krasnodar Region	No. 90213	October 24, 2016
MTS OJSC	Chelyabinsk Region	No. 90190	October 24, 2016
MTS OJSC	Perm Region	No. 90206	October 24, 2016
MTS OJSC	Kurgan Region	No. 90214	October 24, 2016
MTS OJSC	Khanty Mansiysk Autonomous Region	No. 90215	October 24, 2016
MTS OJSC	Tomsk Region	No. 90189	October 24, 2016
MTS OJSC	Novosibirsk Region	No. 90209	October 24, 2016
MTS OJSC	Altai Region	No. 90191	October 24, 2016
MTS OJSC	Samara Region	No. 90210	October 24, 2016
MTS OJSC	Orenburg Region	No. 90192	October 24, 2016
MTS OJSC	Tatarstan Republic	No. 90207	October 24, 2016
MTS OJSC	Nizhny Novgorod Region	No. 90193	October 24, 2016
MTS OJSC	Kirov Region	No. 90188	October 24, 2016
MTS OJSC	Komi Republic	No. 90187	October 24, 2016
MTS OJSC	Sakha Republic (Yakutia)	No. 90186	October 24, 2016
MTS OJSC	Khabarovsk Region	No. 90194	October 24, 2016
MTS OJSC	Amur Region	No. 90195	October 24, 2016
Comstar Regions	Ryazan Region	No. 79714	October 23, 2015
Comstar Regions	Tver Region	No. 71081	November 24, 2014
Comstar Regions	Kaluga Region	No. 71078	November 24, 2014
Comstar Regions	Ivanovo Region	No. 71079	November 24, 2014
Comstar Regions	Smolensk Region	No. 71080	November 24, 2014
Comstar Regions	Tambov Region	No. 71705	December 18, 2014
Comstar Regions	Orel Region	No. 71715	December 18, 2014
Comstar Regions	Kursk Region	No. 71718	December 18, 2014
Comstar Regions	Samara Region	No. 72419	December 31, 2014
MGTS	Moscow	No. 60094	July 10, 2013
MGTS	Moscow Region	No. 66707	April 17, 2014
MGTS	Moscow Region	No. 66708	April 17, 2014
Comstar Regions	Ulyanovsk Region	No. 71089	November 24, 2014
Comstar Regions	Tambov Region	No. 71706	December 18, 2014

Table of Contents

Licensee	License Region(s)	License number	Expiry Date
Comstar Regions	Sverdlovsk Region	No. 84299	April 28, 2016
Comstar Regions	Sverdlovsk Region	No. 82418	March 15, 2016
Comstar Regions	Tyumen Region, Yamalo Nenetskiy Autonomous Region, Khanty Mansiysky Autonomous Region-Yugra	No. 81886	December 1, 2015
Comstar Regions	Tyumen Region, Yamalo Nenetskiy Autonomous Region, Khanty Mansiysky Autonomous Region-Yugra	No. 81893	December 1, 2015
Comstar Regions	Saratov Region	No. 80565	October 19, 2015
Comstar Regions	Ulyanovsk Region	No. 82807	December 15, 2015
Comstar Regions	Nizhniy Novgorod Region	No. 82806	December 15, 2015
Comstar Regions	Chelyabinsk Region	No. 82802	December 15, 2015
Comstar Regions	Irkutsk Region	No. 82801	December 15, 2015
Comstar Regions	Perm Region	No. 82799	December 15, 2015
Comstar Regions	Yaroslavl Region	No. 86886	May 6, 2016
Comstar Regions	The Udmurt Republic	No. 89706	July 28, 2016
Comstar Regions	Penza Region	No. 94385	March 14, 2017
Comstar Regions	Penza Region	No. 94388	March 14, 2017
Comstar Regions	Leningrad Region	No. 93879	December 7, 2016
	Telematic Services		
MTS OJSC	Kamchatka Region, Irkutsk Region, Jewish Autonomous Region, Chukotsk Autonomous Region	No. 78184	August 13, 2015
MTS OJSC	Mari El Republic	No. 77976	September 14, 2015
MTS OJSC	Volgograd Region	No. 75029	May 30, 2015
MTS OJSC	Primorsky Region	No. 79704	December 21, 2015
MTS OJSC	Sakhalin region, Magadan region, Kamchatka region, Buryatiya Republic	No. 75027	June 17, 2015
MTS OJSC	Zabaykalsky Region	No. 67990	June 5, 2014
MTS OJSC	Stavropol Region	No. 73258	May 26, 2015
MTS OJSC	Samara Region	No. 73944	May 26, 2015
MTS OJSC	Saratov Region	No. 73941	May 31, 2015
MTS OJSC	Ulyanovsk Region	No. 73940	May 31, 2015
MTS OJSC	Kemerovo Region	No. 73007	May 31, 2015
MTS OJSC	Astrakhan Region	No. 75713	July 15, 2015
MTS OJSC	Adygeya Republic	No. 75711	July 15, 2015
MTS OJSC	Kalmykia Republic	No. 75709	July 28, 2015
MTS OJSC	Chechen Republic	No. 54980	December 6, 2012
MTS OJSC	Krasnoyarsk Region	No. 58746	May 7, 2013
MTS OJSC	Tyva Republic	No. 75705	July 28, 2015
MTS OJSC	Krasnodar Region	No. 75701	July 15, 2015
MTS OJSC	Severnaya Osetia-Alania Republic, Karachaevo-Cherkesia Republic, Kabardino-Balkar Republic, Ingushetia Republic, Dagestan Republic	No. 77982	September 14, 2015

Table of Contents

Licensee	License Region(s)	License number	Expiry Date
MTS OJSC	Mordovia Republic, Chuvashia Republic	No. 77978	September 14, 2015
MTS OJSC	Rostov Region	No. 77973	October 26, 2015
MTS OJSC	Komi Republic, Perm Region, Orenburg Region, Orel Region, Nizhny Novgorod Region, Lipetsk Region, Moscow, Kostroma Region, Smolensk Region, Kirov Region, Kaluga Region, Ivanovo Region, Bryansk Region, Belgorod Region, Moscow Region, Kursk Region, Voronezh Region, Tyumen Region, Sverdlovsk Region, Omsk Region, Kurgan Region, Khanty Mansiysk Autonomous Region, Chelyabinsk Region, Pskov Region, Yaroslavl Region, Ryazan Region, Vladimir Region, Udmurt Republic, Tver Region, Tula Region, Tambov Region, Yamalo-Nenetsk Autonomous Region, Amur Region	No. 80186	February 15, 2016
MTS OJSC	Bashkortostan Republic	No. 86010	June 21, 2016
MTS OJSC	Khabarovsk Region	No. 75033	June 17, 2015
MTS OJSC	Novosibirsk Region	No. 82395	April 13, 2016
MTS OJSC	Khakassiya Republic	No. 75000	June 17, 2015
MTS OJSC	Tomsk Region	No. 75032	June 17, 2015
MTS OJSC	Sakha Republic (Yakutia)	No. 75031	July 15, 2015
MTS OJSC	Tatarstan Republic	No. 75697	July 15, 2015
MTS OJSC	Vologda Region, Novgorod Region, Nenetsk Autonomous Region, Murmansk Region, Karelia Republic, Kaliningrad Region, Arkhangelsk Region, Leningrad Region, St. Petersburg	No. 90184	October 4, 2016
MTS OJSC	Altai Region	No. 91422	December 1, 2016
MTS OJSC	Altai Republic	No. 49807	May 22, 2012
MTS OJSC	Penza Region	No. 74091	April 1, 2015
MGTS	Moscow, Moscow Region	No. 90226	December 11, 2016
	Leased Communications Circuits		
MTS OJSC	Rostov Region	No. 59529	October 2, 2013
MTS OJSC	Mari El Republic	No. 77975	October 5, 2015
MTS OJSC	Zabaykalsky Region, Sakha Republic (Yakutia), Khabarovsk Region	No. 78822	November 21, 2015
MTS OJSC	Magadan Region	No. 96042	May 21, 2017
MTS OJSC	Irkutsk Region	No. 96040	May 21, 2017
MTS OJSC	Koryakski Autonomous Region, Kamchatka Region	No. 96043	May 21, 2017
MTS OJSC	Sakhalin Region	No. 76588	August 25, 2015

Table of Contents

Licensee	License Region(s)	License number	Expiry Date
MTS OJSC	Buryatiya Republic	No. 76589	August 25, 2015
MTS OJSC	Primorsky Region	No. 73005	May 10, 2015
MTS OJSC	Tver Region, Kostroma Region, Komi Republic, Moscow Region, Moscow	No. 61473	November 24, 2013
MTS OJSC	Penza Region	No. 81729	December 1, 2015
MTS OJSC	Aginski-Buryat Autonomous District	No. 81728	December 1, 2015
MTS OJSC	Ulyanovsk Region, Saratov Region, Samara Region	No. 73942	May 31, 2015
MTS OJSC	Stavropol Region, Astrakhan Region	No. 73259	May 31, 2015
MTS OJSC	Dagestan Republic	No. 96041	May 21, 2017
MTS OJSC	Volgograd Region, Karachaevo-Cherkesia Republic, Kabardino-Balkar Republic, Ingushetia Republic	No. 58060	April 18, 2013
MTS OJSC	Krasnoyarsk Region	No. 58748	May 7, 2013
MTS OJSC	Bashkortostan Republic	No. 58750	May 7, 2013
MTS OJSC	Tatarstan Republic	No. 58751	May 7, 2013
MTS OJSC	Tomsk Region, Kemerovo Region	No. 58752	May 7, 2013
MTS OJSC	Severnaya Osetia-Alania Republic, Kalmykia Republic	No. 58753	May 7, 2013
MTS OJSC	Chuvashia Republic	No. 75707	July 28, 2015
MTS OJSC	Tyva Republic	No. 75706	July 28, 2015
MTS OJSC	Vladimir Region, Tula Region, Smolensk Region, Ryazan Region, Pskov Region, Kaluga Region	No. 77974	October 7, 2015
MTS OJSC	Yaroslavl Region, Nizhny Novgorod Region, Kirov Region, Ivanovo Region	No. 77977	October 13, 2015
MTS OJSC	Krasnodar Region, Adygeya Republic	No. 75703	July 15, 2015
MTS OJSC	Russian Federation	No. 94560	December 29, 2016
MTS OJSC	Yamalo-Nenetsk Autonomous Region, Tyumen Region, Sverdlovsk Region, Kurgan Region, Khanty Mansiysk Autonomous Region, Chelyabinsk Region, Amur Region, Udmurt Republic, Tambov Region, Perm Region, Orenburg Region	No. 82394	April 13, 2016
MTS OJSC	Mordovia Republic	No. 78823	December 23, 2015
MTS OJSC	Novosibirsk Region, Altai Republic, Altai Region	No. 76586	July 28, 2015
MTS OJSC	Khakassiya Republic	No. 74998	June 17, 2015
MTS OJSC	Kaliningrad Region	No. 92589	March 1, 2017
MTS OJSC	Vologda Region, Novgorod Region, Yamalo-Nenetsk Autonomous region, Murmansk Region, Karelia Republic, Arkhangelsk Region, Leningrad Region, St. Petersburg	No. 92586	March 1, 2017

Table of Contents

Licensee	License Region(s)	License number	Expiry Date
MTS OJSC	Omsk Region	No. 91421	December 27, 2016
MTS OJSC	Chukotsk Autonomous Region	No. 68959	August 6, 2014
MTS OJSC	Voronezh Region, Orel Region, Lipetsk Region, Kursk Region, Bryansk Region, Belgorod Region	No. 68431	July 2, 2014
MGTS	Moscow	No. 29336	December 11, 2013
	Data Transmission Services		
MTS OJSC	Kamchatka Region, Irkutsk Region, Jewish Autonomous Region, Chukotsk Autonomous Region	No. 78185	August 13, 2015
MTS OJSC	Zabaykalsky Region	No. 67991	June 5, 2014
MTS OJSC	Mari El Republic	No. 77971	September 14, 2015
MTS OJSC	Altai Region	No. 60113	October 31, 2013
MTS OJSC	Volgograd Region	No. 74996	June 30, 2015
MTS OJSC	Sakhalin Region, Magadan Region, Kamchatka Region, Buryatiya Republic	No. 75026	June 17, 2015
MTS OJSC	Primorsky Region	No. 79703	December 21, 2015
MTS OJSC	Stavropol Region	No. 73856	May 26, 2015
MTS OJSC	Samara Region	No. 73943	May 26, 2015
MTS OJSC	Kemerovo Region	No. 73006	May 31, 2015
MTS OJSC	Saratov Region	No. 73939	May 31, 2015
MTS OJSC	Ulyanovsk Region	No. 73938	May 31, 2015
MTS OJSC	Astrakhan Region	No. 75712	July 15, 2015
MTS OJSC	Adygeya Republic	No. 75710	July 15, 2015
MTS OJSC	Chechen Republic	No. 54981	December 6, 2012
MTS OJSC	Krasnoyarsk Region	No. 58747	May 7, 2013
MTS OJSC	Kalmykia Republic	No. 75708	July 28, 2015
MTS OJSC	Tyva Republic	No. 75704	July 28, 2015
MTS OJSC	Krasnodar Region	No. 75702	July 15, 2015
MTS OJSC	Mordovia Republic, Chuvashia Republic	No. 77979	September 14, 2015
MTS OJSC	Severnaya Osetia-Alania Republic, Karachaevo-Cherkesia Republic, Kabardino-Balkar Republic, Ingushetia Republic, Dagestan Republic	No. 77980	September 14, 2015
MTS OJSC	Rostov Region	No. 82396	April 3, 2016
MTS OJSC	Bashkortostan Republic	No. 75001	June 30, 2015
MTS OJSC	Khabarovsk Region	No. 75028	May 31, 2015
MTS OJSC	Altai Republic	No. 75700	July 15, 2015
MTS OJSC	Novosibirsk Region	No. 75699	July 15, 2015
MTS OJSC	Khakassiya Republic	No. 74999	June 17, 2015
MTS OJSC	Tomsk Region	No. 74997	June 17, 2015
MTS OJSC	Sakha Republic (Yakutia)	No. 75030	June 17, 2015
MTS OJSC	Tatarstan Republic	No. 75698	July 15, 2015

Table of Contents

Licensee	License Region(s)	License number	Expiry Date
MTS OJSC	Yamalo-Nenetsk Autonomous Region, Tyumen Region, Sverdlovsk Region, Omsk Region, Kurgan Region, Khanty Mansiysk Autonomous Region, Chelyabinsk Region, Perm Region	No. 93682	April 17, 2017
MTS OJSC	Orenburg Region	No. 93684	April 17, 2017
MTS OJSC	Udmurt Republic, Nizhny Novgorod Region, Kirov Region	No. 93685	April 17, 2017
MTS OJSC	Moscow, Moscow Region	No. 93680	April 17, 2017
MTS OJSC	Amur Region	No. 93681	April 17, 2017
MTS OJSC	Voronezh Region, Orel Region, Lipetsk Region, Kursk Region, Bryansk Region, Belgorod Region	No. 93686	April 17, 2017
MTS OJSC	Yaroslavl Region, Vladimir Region, Tver Region, Tula Region, Tambov Region, Smolensk Region, Ryazan Region, Kostroma Region, Kaluga Region, Ivanovo Region	No. 96687	April 17, 2017
MTS OJSC	Vologda Region, Pskov Region, Novgorod Region, Nenetsk Autonomous Region, Murmansk Region, Komi Republic, Karelia Republic, Kaliningrad Region, Arkhangelsk Region, Leningrad Region, St. Petersburg,	No. 93683	April 17, 2017
MTS OJSC	Penza Region	No. 74182	April 1, 2015
MGTS	Moscow Region	No. 66706	April 17, 2014
MGTS	Moscow	No. 61511	December 11, 2013
MGTS	Moscow	No. 79706	February 16, 2016
	Data Transmission Services for Voice		
MTS OJSC	Kaluga Region	No. 87185	October 26, 2015
MTS OJSC	Yaroslavl Region	No. 87179	March 15, 2016
MTS OJSC	Rostov Region	No. 87180	February 16, 2016
MTS OJSC	Ivanovo Region	No. 87183	October 31, 2015
MTS OJSC	Moscow Region	No. 87184	October 26, 2015
MTS OJSC	Moscow	No. 94372	March 30, 2017
MTS OJSC	Sakhalin Region, Primorsky Region, Irkutsk Region	No. 80184	December 12, 2015
MTS OJSC	Voronezh Region, Orel Region, Lipetsk Region, Kursk Region, Bryansk Region, Belgorod Region	No. 76587	July 28, 2015
MTS OJSC	Bashkortostan Republic	No. 82398	April 11, 2016
Comstar Regions	Nizhny Novgorod Region	No. 70501	February 17, 2013
Comstar Regions	Samara Region	No. 72422	December 31, 2014
Comstar Regions	Udmurt Republic	No. 70556	February 07, 2013

Table of Contents

Licensee	License Region(s)	License number	Expiry Date
Comstar Regions	Yamalo-Nenetsk Autonomous Region, Khanty Mansiysk Autonomous Region, Tyumen Region	No. 81889	December 01, 2015
Comstar Regions	Perm Region	No. 70515	February 22, 2015
Comstar Regions	Sverdlovsk Region	No. 82416	March 15, 2016
Comstar Regions	Ryazan Region	No. 92022	December 08, 2016
Comstar Regions	Tver Region	No. 71093	November 24, 2014
Comstar Regions	Smolensk Region	No. 71094	November 24, 2014
Comstar Regions	Tambov Region	No. 71708	December 18, 2014
Comstar Regions	Astrakhan Region	No. 71703	December 18, 2014
Comstar Regions	Volgograd Region	No. 70460	August 31, 2012
Comstar Regions	Krasnodar Region	No. 70490	August 31, 2012
Comstar Regions	Leningrad Region	No. 86882	May 16, 2016
Comstar Regions	St. Petersburg	No. 72755	January 28, 2015
Comstar Regions	Arkhangelsk Region	No. 72753	January 28, 2015
Comstar Regions	Novgorod Region	No. 72748	January 28, 2015
Comstar Regions	Kemerovo Region	No. 71724	December 18, 2014
Comstar Regions	Krasnoyarsk Region	No. 71723	December 18, 2014
Comstar Regions	Novosibirsk Region	No. 71721	December 18, 2014
Comstar Regions	Omsk Region	No. 71722	December 18, 2014
Comstar Regions	Vologda Region	No. 72749	January 28, 2015
Comstar Regions	Saratov Region	No. 80566	October 19, 2015
Comstar Regions	Chelyabinsk Region	No. 81891	December 15, 2015
Comstar Regions	Penza Region	No. 94384	March 01, 2017
Comstar Regions	Kirov Region	No. 93878	December 07, 2016
Comstar Regions	Irkutsk Region	No. 93880	December 07, 2016
	Mobile Radio Services		
Comstar Regions	Rostov Region	No. 70524	August 31, 2012
Comstar Regions	Tyumen Region, Yamalo Nenetskiy Autonomous Region, Khanty Mansiysky Autonomous Region-Yugra	No. 82793	December 15, 2015
	Telecommunications Services for Cablecasting		
MTS OJSC	Russian Federation	No. 71222	November 24, 2014
	Telecommunications Services for Broadcasting		
Comstar Regions	Tver	No. 85267	December 27, 2012
Comstar Regions	Severodvinsk	No. 89469	August 1, 2014
Comstar Regions	Kaluga	No. 85261	June 13, 2013
Comstar Regions	Nizhniy Novgorod	No. 85261	June 26, 2013
Comstar Regions	Arkhangelsk	No. 85263	November 4, 2014
Comstar Regions	Koryazhma	No. 85263	November 4, 2014
Comstar Regions	Rostov-on-Don	No. 85264	September 27, 2013
Comstar Regions	Yekaterinburg	No. 85265	September 29, 2013
Comstar Regions	Taganrog	No. 86478	March 30, 2014
Comstar Regions	Astrakhan	No. 86479	August 30, 2014
Comstar Regions	Nizhniy Tagil, Sverdlovsk Region	No. 90643	July 19, 2012
Comstar Regions	Izhevsk	No. 94936	July 19, 2012
Comstar Regions	Ivanovo	No. 94937	September 29, 2015

Table of Contents

C. Organizational Structure

The table below presents our significant subsidiaries and investees, the places of incorporation and our effective ownership interests therein as of December 31, 2011.

Subsidiary	Accounting Method	Ownership Interest	Place of Incorporation/ Organization
Sibintertelecom	Consolidated	100.0%	Russia
Russian Telephone Company	Consolidated	100.0%	Russia
Comstar Regions	Consolidated	100.0%	Russia
Sistema Telecom	Consolidated	100.0%	Russia
Infocentr	Consolidated	100.0%	Russia
Inteleca Group	Consolidated	100.0%	Russia
Altair	Consolidated	100.0%	Russia
Teleradiokompania "TVT"	Consolidated	100.0%	Russia
TS-Retail	Consolidated	100.0%	Russia
Metro-Telecom	Consolidated	95.0%	Russia
MGTS	Consolidated	94.1%	Russia
MTS Ukraine	Consolidated	100.0%	Ukraine
MTS Finance(1)	Consolidated	100.0%	Luxembourg
Uzdunrobita	Consolidated	100.0%	Uzbekistan
BCTI	Consolidated	100.0%	USA
MTS Bermuda(2)	Consolidated	100.0%	Bermuda
MTS International Funding(3)	Consolidated	VIE	Ireland
K-Telecom	Consolidated	80.0%	Armenia
MTS Belarus	Equity	49.0%	Belarus
IntellectTelecom	Equity	47.0%	Russia

(1) Represents beneficial ownership interest.

(2) A wholly owned subsidiary established to repurchase our ADSs.

(3) A private limited company organized and existing under the laws of Ireland for the sole purpose of financing a loan to MTS. The company is a variable interest entity of the Group.

See also Note 2 to our audited consolidated financial statements.

D. Property, Plant and Equipment

Property, Plant and Equipment

We own and occupy premises in Moscow at 4 Marksistskaya Street Bldgs. 1-4, 34 Marksistskaya Street Bldg. 10, 1/3 Vorontsovskaya Street Bldgs. 2 and 2a, 5 Vorontsovskaya Street Bldgs. 1 and 2, 13/14 Vorontsovskaya Street Bldg. 4, 8 Vorontsovskaya Street Bldg. 4, 12/12 Pankratievsky Pereulok, 2/10 Perviy Golutvinskiy Pereulok Bldg. 2, 4 Perviy Golutvinskiy Pereulok Bldg. 1, 9 Magnitogorskaya Street, 6 Vtoroy Vyazovskiy Proezd, 2A Konstantina Simonova Street, 19 Dmitrovskoye shosse Bldg. 2, 103 Prospect Mira, 42 Profsoyuznaya Street Bldg. 1, 24/2 Malaya Dmitrovka Street, Sheremetyevo Airport, 58\1 Ryazanskiy prospect, 60 Varshavskoe shosse, 27 Smolenskaya-Sennaya square Bldg 2, 27 Smolenskaya-Sennaya square Bldg 3, 6 Ostrovitjanova Street, 2 Mozhayskoe shosse, 12/3 Petrovsky Blvd., 27/2 Smolenskaya-Sennaya square, 25/1 Bolshaya Ordynka, and 25/2 Bolshaya Ordynka, which we use for administration, sales and other service centers as well as operation of mobile switching centers.

We also lease buildings in Moscow for similar purposes, including marketing and sales and other service centers. In addition, through our subsidiary MGTS, we own approximately 238 buildings located throughout Moscow, which serve as sales and customer service offices and house MGTS'

Table of Contents

telecommunication equipment. We also own office buildings in some of our regional license areas and in Ukraine, and we lease office space on an as-needed basis. We believe that our properties are adequate for our current needs and additional space is available to us if and when it is needed.

The primary elements of our network are base stations, base station controllers, transcoders and mobile switching centers. GSM and 3G technologies are based on an "open architecture," which means that equipment from one supplier can be combined with that of another supplier to expand the network. Thus, there are no technical limitations to using equipment from other suppliers.

The table below sets forth certain information on our network equipment as of December 31, 2011.

	Base stations GSM-900	Base stations GSM-1800	Base stations UMTS-2100	Base station controllers*	Switches*	Media gateways
Russia	20951	13991	21670	908	175	124
Ukraine	5376	8745		352	43	4
Uzbekistan	770	1960	805	67	35	53
Turkmenistan	630	521	42	15	3	8
Armenia	819	82	743	32	6	6

(*) Includes 3G equipment.

Item 4A. ***Unresolved Staff Comments***

None.

Item 5. ***Operating and Financial Review and Prospects***

The following discussion of our financial condition and results of operations is intended to help the reader understand us, our operations and our present business environment and should be read in conjunction with our consolidated financial statements, related notes and other information included elsewhere in this document. In particular, we refer you to the risks discussed in "Item 3. Key Information D. Risk Factors" for information regarding governmental, economic, fiscal, monetary or political policies or factors that could materially adversely affect our operations or your investment in our shares and ADSs. In addition, this section contains forward-looking statements that involve risk and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Item 3. Key Information D. Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements." Our reporting currency is the U.S. dollar and our consolidated financial statements have been prepared in accordance with U.S. GAAP.

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. As a result, assets of these companies have been recorded at book value as if these companies have been owned by us since the beginning of the periods presented. Accordingly, the financial data presented below for the years ended December 31, 2008 and 2009, the financial years preceding the acquisition, have been restated to include the financial position and results of operations of the companies acquired from Sistema as if the acquisition 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. See Notes 2 and 3 to our audited consolidated financial statements.

Table of Contents

A. Operating Results

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 mobile operator in Russia, Uzbekistan, and Armenia and the second largest in Ukraine in terms of mobile subscribers. As of December 31, 2011, we had a mobile subscriber base of approximately 101.14 million.

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, 2011, according to Direct INFO.

Our revenues for the year ended December 31, 2011, were $12,318.7 million, an increase of 9.1% from the year ended December 31, 2010. Our net income for the year ended December 31, 2011, was $1,444.0 million, an increase of 4.6% from the year ended December 31, 2010. Our revenues historically have increased through organic growth, as well as through acquisitions.

The acquisition of Comstar in 2009 and the subsequent merger have provided us access to important growth markets in corporate and residential broadband in furtherance of our strategy to develop convergent telecommunications services and evolve into an integrated telecommunications operator.

We also aggressively expanded our proprietary retail and distribution network over the course of 2009, 2010 and 2011, both organically and through the acquisition of several national and regional retail chains. See "Item 4. Information on Our Company B. Business Overview Mobile Operations Sales and Marketing Sales and Distribution" and " Acquisitions."

We require significant funds to support our subscriber growth, primarily for increasing network capacity, maintaining and modernizing our mobile and fixed line networks, developing our network in the regions and continuing the build-out of our 3G and broadband Internet networks.

Our cash outlays for capital expenditures (consisting of purchases of property, plant and equipment and intangible assets) for the years ended December 31, 2009, 2010 and 2011 were $2,328.3 million, $2,647.1 million and $2,584.5 million, respectively.

We have financed our cash requirements through our operating cash flows and borrowings. Net cash provided by operating activities for the years ended December 31, 2009, 2010 and 2011 was $3,592.2 million, $3,617.2 and $3,849.0 million, respectively.

Our borrowings consist of notes and bank loans. Since 2001, we have raised a total of $2.5 billion through seven U.S. dollar-denominated unsecured bond offerings in the international capital markets, as well as ruble-denominated bonds totaling RUB 86 billion (equivalent in aggregate to $2.7 billion as of December 31, 2011). Our bank loans consist of U.S. dollar, euro and ruble-denominated borrowings totaling approximately $5.3 billion as of December 31, 2011.

We repaid approximately $358.0 million of indebtedness in 2011. As of December 31, 2011, the total amount available to us under our credit facilities amounted to $1,321.3 million. We had total indebtedness of approximately $8.7 billion as of December 31, 2011, including capital lease obligations, compared to approximately $7.2 billion as of December 31, 2010.

Our total interest expense for the years ended December 31, 2010 and 2011 was $777.3 million and $656.9 million, net of amounts capitalized, respectively. See Note 16 to our audited consolidated financial statements for a description of our indebtedness.

Table of Contents

Our reporting currency is the U.S. dollar. Our and our subsidiaries' functional currencies are the ruble in Russia, the hryvnia in Ukraine, the U.S. dollar in Uzbekistan, the manat in Turkmenistan and the dram in Armenia. See " Certain Factors Affecting our Financial Position and Results of Operations Currency Fluctuation" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

Segments

We have two reportable segments and four operating segments.

We align our business into two reportable segments, Russia and Ukraine, to effectively manage both the mobile and the fixed line operations as an integrated business and to respond to the demands of our customers. The "Other" category does not constitute either an operating segment or a reportable segment. Rather, it includes the results of a number of other operating segments that do not meet the quantitative thresholds for separate reporting, such as Uzbekistan, Armenia, and corporate headquarters expenses. See also Note 26 to our audited consolidated financial statements for segment information.

We manage our operations separately in each country where we operate due to the different economic and regulatory environments, which require us to separately and specifically tailor our marketing and investment strategies. Our management evaluates our performance based on the operating results in each country. Thus, we currently have four operating segments that correspond to our countries of operation and business activities: (1) Russia, (2) Ukraine, (3) Uzbekistan, and (4) Armenia, which include our mobile and fixed line communications operations in Russia, Ukraine, Uzbekistan and Armenia, respectively.

The net operating revenues of our reportable segments for the years ended December 31, 2009, 2010 and 2011 were as follows:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands of U.S. dollars)		
Net operating revenues			
Russia	$ 8,074,816	$ 9,414,933	$ 10,632,278
Ukraine	$ 1,048,751	$ 1,072,830	$ 1,142,557
Other	$ 787,543	$ 864,372	$ 643,030
Eliminations[1]	$ (43,857)	$ (58,899)	$ (99,177)
Net operating revenues as reported	$ 9,867,253	$ 11,293,236	$ 12,318,688

(1) Represents the eliminations of intercompany transactions and results, which are primarily related to interconnect and roaming arrangements.

Certain Operating Data

Below we provide certain operating data not included in our financial statements that we believe is useful for evaluating our business and results. The data focuses primarily on our mobile operations, particularly in Russia and Ukraine, which comprise the most significant share of our revenue in the periods presented, and is among the information routinely reviewed by our management as part of their regular evaluation of our performance.

Table of Contents

Mobile Subscriber Data

The following table shows our mobile subscribers by country as of the dates indicated:

	At December 31,		
	2009	2010	2011
	(in millions)		
Subscribers[1]			
Russia	69.3	71.4	70.0
Ukraine[2]	17.6	18.2	19.5
Uzbekistan	7.1	8.8	9.3
Armenia	2.1	2.5	2.4
Turkmenistan[3]	1.8	2.4	n/a
Total consolidated	97.8	103.3	101.1
MTS Belarus (unconsolidated)	4.6	4.7	4.9

(1) 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 pre-paid tariffs) or whose account does not have a negative balance for more than this period.

(2) Including CDMA subscribers starting 2011.

(3) We do not present subscribers for 2011 as our operations in Turkmenistan have been terminated.

We had approximately 69.95 million subscribers in Russia as of December 31, 2011, and a leading 30.7% market share of total mobile cellular subscribers in Russia, according to AC&M-Consulting. Overall penetration in Russia was at approximately 156.8%, according to AC&M-Consulting. We had approximately 19.51 million subscribers in Ukraine as of December 31, 2011 and, according to AC&M-Consulting, a 35.8% market share of total mobile cellular subscribers in Ukraine. In addition, as of December 31, 2011, we had approximately 9.30 million subscribers in Uzbekistan and 2.38 million subscribers in Armenia, representing a 39.2% and 63.9% market share, respectively, according to AC&M-Consulting and our estimates. For a description of our fixed line subscriber base, see "Item 4. Information on Our Company B. Business Overview Fixed Line Operations."

Mobile churn rate

We define mobile churn as the total number of subscribers who cease to be 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. We view the subscriber churn as a measure of market competition and customer dynamics. The following table shows our Russian and Ukrainian subscriber churn for the periods indicated.

	Year Ended December 31,		
	2009	2010	2011
Subscriber Churn			
Russia	38.3%	45.9%	47.6%
Ukraine	40.0%	31.0%	30.7%

The churn rate is highly dependent on competition in our license areas and those subscribers who migrate as a result of such competition. Our churn rate in Russia increased by 1.7% in 2011, as compared to 2010, as our mobile subscribers became more price sensitive and more likely to switch tariffs and switch to operators with lower-priced tariff plans and offers. In addition, due to the financial distress experienced by several mobile retailers in Russia, many increased their sales efforts in 2010 and

Table of Contents

2011 to stimulate revenue earned from subscription fees, which we believe led to a decline in the quality of new subscribers.

The churn rate in Ukraine remained stable at 30.7% and 31.0% in the years ended December 31, 2011 and 2010 respectively. It remains high due to the competitive environment among mobile operators in Ukraine, which has significantly intensified in recent years.

Mobile ARPU

We calculate mobile 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. The following table shows our average monthly service revenue per Russian and Ukrainian subscriber based on our current calculation methodology and average monthly minutes of use per Russian and Ukrainian subscriber for the periods indicated.

	Year Ended December 31,		
	2009	**2010**	**2011**
Average monthly service revenue per subscriber			
Russia	$ 7.8	$ 8.3	$ 9.3
Ukraine	$ 4.7	$ 4.8	$ 4.9
Average monthly minutes of use per subscriber			
Russia	213	234	269
Ukraine	462	535	580

Average monthly service revenue per subscriber in Russia increased to RUB 272.6 ($9.3) for the year ended December 31, 2011, from RUB 252.8 ($8.3) for the year ended December 31, 2010. This increase was coupled with a stable subscriber base in 2011, and was caused by inflation and an increase in the disposable income of the general population. Average monthly minutes of use per subscriber in Russia increased from 234 minutes in 2010 to 269 minutes in 2011 mainly due to marketing campaigns and tariff promotions aimed at increasing voice traffic.

In Ukraine, average monthly service revenue per subscriber remained stable at UAH 38.8 ($4.9 in 2011; $4.8 in 2010). The average monthly minutes of use per subscriber increased from 462 minutes in 2009 to 535 minutes in 2010 and to 580 minutes in 2011 due to the introduction of a wide range of attractive tariffs aimed at stimulating traffic, such as inexpensive intra-network rates, as well as the increased use by subscribers of tariffs that include a flat amount of minutes per month.

Revenues

Our principal sources of revenue are:

- mobile service revenues, which include usage and interconnect fees, value-added services fees, monthly subscription fees, roaming fees and connection fees;
- fixed service revenues from individual and corporate subscribers, which include monthly subscription fees, traffic charges, connection fees, revenues from broadband Internet connection and data transmission services, revenues from pay-TV and from sales of end-user telecommunications equipment. Fixed service revenues also include revenues received from operators, which are comprised of revenues from the renting out of channels and traffic charges and revenues from the renting out of telecommunications infrastructure; and
- revenues from sales of handsets and accessories.

Table of Contents

Our mobile service subscriber tariffs in Russia and Ukraine are not currently regulated by any organization or governmental authority. The interconnect fees we charge to other operators for terminating calls interconnecting to our mobile network are not regulated in Russia, but are regulated in Ukraine. 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" " 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" and " 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."

Certain of our fixed service tariffs are regulated, including tariffs charged by Moscow incumbent operator MGTS for installation fees, monthly subscription fees and local call charges, as well as interconnect and traffic transit tariffs. The interconnect tariffs charged by us are also regulated by the Federal Agency on Communications.

Service revenues

Usage fees include amounts charged directly to our subscribers, both for their usage of our network and for their usage of other operators' GSM networks when roaming outside of our service area. We generally bill our subscribers for all outgoing calls. Since July 2006, pursuant to an amendment to the Federal Law on Communications, mobile operators in Russia have been prohibited from charging their subscribers for incoming calls.

The prices for outgoing calls to other cellular operators and to the public service telephone network are usually higher than charges for outgoing calls within our network. The usage fees charged for a call originating on our network depend on a number of factors, including the subscriber's tariff plan, call duration, the time of day when the call was placed and the call destination. Usage fees as a percentage of our total revenues were 37.3% in 2009, 35.5% in 2010 and 31.5% in 2011. Usage fees as a percentage of our total revenues have been decreasing largely due to the increase in revenues from value-added services as a percentage of our total revenues.

Interconnect fees, which are fees for connecting users of other operators' fixed line and wireless networks to our network, comprised 10.7%, 10.2% and 10.8% of our total revenues in 2009, 2010 and 2011, respectively. The steady growth of our revenues was accompanied by the growth in traffic volumes from our competitors. We expect that interconnect revenues in absolute terms will increase due to the growth in traffic volumes from our competitors.

Value-added services as a percentage of our total revenues comprised 14.1% in 2009, 15.2% in 2010 and 18.2% in 2011. We offer our subscribers an array of value-added services. The increase in 2011 in revenue from value-added services was due to an increase in data traffic, resulting from active marketing initiatives, expansion of mobile internet penetration and overall improvement of the quality of these services.

Monthly subscription fees consist of fixed monthly charges for network access and access to additional services. Monthly subscription fees as a percentage of our total revenues represented 9.2% in 2009, 7.3% in 2010 and 7.4% in 2011, respectively. The fluctuations of the monthly subscription fees as a percentage of our total revenues corresponds to the change in the share of subscribers with monthly subscription fees in the subscriber mix from year to year and the subscription-based services we offer. Many of our monthly subscription fee-based tariff plans also include a usage fee-based component for minutes used over a certain number of pre-paid minutes. The percentage of our total revenues represented by usage fees as compared to monthly subscription fees will continue to be affected by changes in our tariff plans, as well as the relative product mix between usage fee-based tariff plans versus monthly subscription fee-based tariff plans.

Table of Contents

Roaming fees for guest subscribers include amounts charged to other cellular operators for their subscribers *i.e.*, guest roamers, utilizing our network while traveling in our service area. We bill other cellular operators for calls of guest roamers carried on our network. Roaming fees for guest subscribers as a percentage of our total revenues represented 1.2% in 2009, 1.0% in 2010 and 0.8% in 2011. We generally expect that roaming fees will continue to decline as a percentage of our total revenues due to the large increase of revenues from our value-added services. In addition, roaming tariffs between mobile operators have a tendency to decrease relative to the increase in the total number of mobile users. We may also be pressured or required to lower our roaming tariffs by FAS. See "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation."

Roaming fees for our own subscribers include amounts charged to our subscribers while traveling out of our service area. Roaming fees for own subscribers as a percentage of our total revenues represented 8.1% in 2009, 8.6% in 2010 and 8.4% in 2011. The decline in 2011 is mainly attributable to the increase in revenues from our value-added services, which grew faster than our revenue from roaming fees.

Connection fees consist of charges incurred by subscribers for the initial connection to our network and sign-up for value-added services. We defer connection fees and recognize them as revenues over the estimated average subscriber life in our network as described in Note 18 to our audited consolidated financial statements. Connection fees represented 0.5%, 0.4%, 0.3% of our total revenues in 2009, 2010, and 2011, respectively. We expect connection fee revenues to remain at a low level as a percentage of our total revenues.

Fixed service revenues which consist primarily of fixed line telephony services, broadband internet and pay-TV services, comprised 14.6%, 14.9% and 14.9% of our total revenues in 2009, 2010 and 2011, respectively. The continued growth of our revenues was accompanied by an increase in regulated tariffs and acquisitions of several regional operators. We expect that fixed service revenues in absolute terms will grow due to the further increase in regulated tariffs caused by inflation and future acquisitions.

Sales of Handsets and Accessories

During 2009 we significantly expanded our retail network through acquisitions of national and regional dealer chains. During 2010 and 2011, our retail network grew through organic expansion. As a result of the establishment of new points of sale and the overall expansion of retail activities in 2010 and 2011, revenue from the sale of handsets and accessories as a percentage of total revenue increased to 7.2% in 2011 compared to 6.3% in 2010 and 3.6% in 2009.

In August 2008, we signed an agreement with Apple Sales International and launched iPhone 3G sales in October 2008. Under the agreement, we have committed to purchasing a certain quantity of iPhone 3G handsets over 2009, 2010 and 2011. The purchase agreement with Apple Sales International expired on March 31, 2012, and we intend to negotiate an extension of this agreement. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Financial Condition Our failure to fulfill our iPhone handset purchase commitment under our agreement with Apple Sales International could have a material adverse effect on our financial condition and results of operations," " Tabular Disclosure of Contractual Obligations" and Note 27 to our audited consolidated financial statements.

We expect that sales of handsets and accessories will decrease as a percentage of total revenue due to our reduction of wholesales to third-party retailers as we intend to maintain a strong gross margin and wholesales to third-party retailers generally do not contribute to a strong gross margin. We do not subsidize handset sales in Russia. In Ukraine, we subsidize handsets for some of our contract subscribers as well as modems for GSM and CDMA users. See " Cost of Handsets and Accessories" below.

Table of Contents

Cost of Services

Interconnect and Line Rental. Interconnect and line rental charges include charges payable to other operators for access to, and use of their networks, which are necessary in the course of providing service to our subscribers. Interconnect charges as a percentage of our total revenues represented 11.5% in 2009, 11.5% in 2010 and 12.3% in 2011. Line rental charges as a percentage of our total revenues represented 1.7% in 2009, 1.6% in 2010 and 1.9% in 2011.

We expect that interconnect expenses payable by us to other operators for termination of traffic generated by our subscribers will increase. Primarily, this increase will likely be attributable to the growth in the volume of traffic resulting from our efforts to encourage greater voice usage through the introduction of new tariff plans and services, which may be supported by marketing campaigns.

We expect line rental costs to increase based on the number of base stations, base station controllers, the number and capacity of rented lines.

Roaming Expenses. Roaming expenses consist of amounts charged by other cellular operators under agreements for roaming services provided to our subscribers while outside our service area. Roaming expenses as a percentage of our total revenues represented 1.9% in 2009, 1.7% in 2010 and 1.4% in 2011.

Cost of Handsets and Accessories

This type of expense includes primarily the cost of handsets and accessories sold to subscribers, and the cost of SIM cards provided to our customers. Cost of handsets, accessories sold and SIM-cards provided to customers as a percentage of our total revenues represented 3.8% in 2009, 6.4% in 2010 and 7.3% in 2011. The increase in 2010 and 2011 was primarily attributable to the expansion of our proprietary retail network. We do not subsidize handset sales other than in Ukraine, where we subsidize handsets on a limited basis to contract subscribers as well as modems for CDMA users. In the years ended December 31, 2009, 2010, and 2011 we provided net handset subsidies in Ukraine totaling $15.6 million, $12.8 million, and $8.6 million, respectively.

Generally, we provide SIM cards to our customers free of charge. The cost of SIM cards amounted to $77.1 million in 2009, $71.9 million in 2010 and $57.1 million in 2011.

Sales and Marketing Expenses

Our sales and marketing expenses primarily consist of:

- expenses for advertising and promotion; and
- dealer commissions on new connections and cash collected from subscribers.

Sales and marketing expenses reflect, among other things, advertising, promotions and other costs associated with the expansion of services in our license areas. These expenses have generally increased in prior years as subscriber numbers, market saturation and market competition have increased, as well as in connection with the further development of our brand and introduction of new value-added services. Although we generally expect that our sales and marketing expenses will continue to increase, we retain some degree of flexibility to increase or decrease these expenses in any given period based on our requirements, strategy and the general economic environment. We also expect to experience certain efficiencies and savings in these costs as we further develop our retail network operations

Mobile dealer commissions and mobile SAC in Russia and Ukraine

For the structure of our dealer commissions in Russia and Ukraine please see "Item 4. Information on Our Company B. Business Overview Mobile Operations Sales and Marketing Sales and Distribution."

Table of Contents

We measure subscriber acquisition costs ("SAC") to monitor the cost-effectiveness of our sales and marketing expenses. We define SAC as total sales and marketing expenses for a given period. SAC per gross additional subscriber is calculated by dividing SAC during a given period by the total number of gross subscribers added during the period. The following table shows SAC in Russia and Ukraine for the periods indicated:

	Year Ended December 31,		
	2009	2010	2011
SAC per Gross New Subscriber			
Russia	$ 18	$ 19	n/a*
Ukraine	$ 7	$ 8	$ 8

* Since completion of the merger with Comstar in 2011, we ceased calculating SAC per Gross New Subscriber, as separation of mobile sales and marketing expenses in Russia has become impracticable.

SAC in Ukraine remained relatively stable in U.S. dollar terms in 2011 as compared to 2010.

Sundry Operating Expenses

Our sundry operating expenses consist primarily of:

- employee salaries and bonuses;
- social contributions payable to state funds;
- general and administrative expenses;
- taxes other than income taxes, *e.g.*, property taxes;
- office maintenance expenses;
- network repair and maintenance;
- rental of premises;
- provision for doubtful accounts;
- long-lived assets and goodwill impairment loss; and
- other operating expenses.

Sundry operating expenses as a percentage of our total revenues represented 23.0% in 2009, 22.9% in 2010 and 22.4% in 2011. Sundry operating expenses as a percentage of revenue are expected to decrease over time as a result of our cost reduction programs and continued improvement of operating efficiency.

Provision for Doubtful Accounts

Our expense for provision for doubtful accounts for 2011 remained stable and amounted to $111.3 million, or 0.9% of our total revenues and $111.1 million, or 1.0% of our total revenues, for 2010.

Depreciation of Property, Network Equipment and Amortization of Intangible Assets

Our expense for depreciation of property, network equipment and amortization of intangible assets as a percentage of our total revenues increased to 19.0% for the year ended December 31, 2011 as compared to 17.7% of our total revenues for the year ended December 31, 2010. This increase was in line with our expectations, and we expect further increases in connection with our ongoing network development and modernization program and the build-out associated with our regional networks.

Table of Contents

Interest Expense

Our interest expense for 2011 decreased by $120.4 million or 15.5% compared to 2010 and amounted to $656.9 million. We expect interest expense to increase, which is principally associated with external debt incurred by us to finance our network development and modernization programs, as well as increased borrowing costs due to the current global market and economic conditions.

Provision for Income Taxes

Taxation on income of Russian companies is regulated by a number of laws, government decrees and implementation instructions.

The income tax base for Russian companies is defined as income received from sales of goods and services reduced by the amount of business expenses incurred in such operations with certain exceptions.

Effective January 1, 2009, the statutory income tax rate in Russia was reduced from 24% to 20%. Effective April 1, 2011, the statutory income tax rate in Ukraine was reduced from 25% to 23%. Subsequently, the rate in Ukraine will decrease to 21% in 2012, to 19% in 2013 and to 16% in 2014. The effective tax rate applicable to our consolidated group in the year ended December 31, 2011 was 25.3%. The effective tax rate differs from the statutory rate as a result of adjustments to the reserve for uncertain tax positions, adjustments to the deferred tax asset valuation allowance and other nondeductible items.

Certain Factors Affecting our Financial Position and Results of Operations

Currency Fluctuation

A majority 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, depreciation 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 our financial ratios or timely fund cash payments on our indebtedness.

In addition, a decline in the value of our functional currencies against the U.S. dollar will result in revenue decrease in U.S. dollar terms, and would be reflected in our audited consolidated financial statements. The Group's and our subsidiaries' functional currencies are the ruble in Russia, the hryvnia in Ukraine, the U.S. dollar in Uzbekistan, the manat in Turkmenistan and the dram in Armenia. During 2010, the U.S. dollar fluctuated against the ruble. As a result, the average exchange rate of the U.S. dollar against the ruble in 2010 decreased by 4.3% as compared to 2009, which resulted in an overall increase in our revenues and operating costs in our audited consolidated financial statements for 2010. In 2011, the U.S. dollar continued to fluctuate against the ruble and the average exchange rate of the U.S. dollar against the ruble in 2011 decreased by 3.3% as compared to 2010. This change resulted in an overall increase in our revenues and operating costs in our audited consolidated financial statements for the year ended December 31, 2011. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Financial Condition Ruble depreciation 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 will affect the value of dividends received by holders of ADSs" and " 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."

Table of Contents

Inflation

Our financial position and results of operations as reflected in our audited consolidated financial statements included elsewhere in this document have been influenced by inflation.

The Russian economy has been characterized by high rates of inflation:

Year	Inflation rate
2006	9.0%
2007	11.9%
2008	13.3%
2009	8.8%
2010	8.8%
2011	6.1%

Source: Federal State Statistics Service

The Ukrainian economy has also been characterized by high rates of inflation:

Year	Inflation rate
2006	9.1%
2007	12.8%
2008	25.2%
2009	15.9%
2010	9.4%
2011	8.0%

Source: State Statistics Committee of Ukraine

Inflation rates in Uzbekistan and Armenia in 2011 were estimated at 8% and 4.8%, respectively.

We expect inflation-driven increases in costs to put pressure on our margins. While we could seek to raise our tariffs to compensate for such increase in costs, competitive pressures may not permit increases that are sufficient to preserve operating margins. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Financial Condition Inflation could increase our costs and adversely affect our results of operations."

Acquisitions

Our results of operations for the periods presented are significantly affected by acquisitions. Except with respect to Comstar and other subsidiaries acquired from Sistema, results of operations of acquired businesses are included in our audited consolidated financial statements for the periods after their respective dates of acquisition. See "Item 3. Key Information A. Selected Financial Data."

Below is a list of our major acquisitions during 2009, 2010 and 2011.

Company	Type	Date of acquisition	Stake acquired	Purchase price (in millions of U.S. dollars)[1]
2009				
Dagtelecom	Dagestan region mobile operator	January 2009	25.01%	38.8
Telefon.ru	Mobile phone retail chain	February 2009	100.0%	60.0
Eldorado	Mobile phone retail chain	March 2009	100.0%	17.9
Stream-TV	Digital television company	March 2009	100.0%	117.2
Kolorit	Outdoor advertising services	September 2009	100.0%	39.7

Table of Contents

Company	Type	Date of acquisition	Stake acquired	Purchase price (in millions of U.S. dollars)[1]
Comstar[2]	Fixed line operator	October 2009	50.91%	1,322.3[3]
Teleforum	Mobile phone retail chain	October 2009	100.0%	2.2
Evrotel	Fixed line operator	December 2009	100.0%	90.0
				$ 1,688.1
2010				
Tenzor Telecom	Fixed line operator	February 2010	100%	6.2
Penza Telecom	Fixed line operator	June 2010	100%	19.3
SWEET-COM	Holder of licenses for provision of telematics communications and data transmission services	June 2010	25.1%	8.5
TS-Retail[3]	Mobile phone retail chain	June 2010	15%	0.0
Multiregion	Fixed line operator	July 2010	100%	123.6
Metro-Telecom	Optical fiber network provider	August 2010	95%	11.0
Sistema Telecom	Holder of MTS' trademark	December 2010	100%	379.0
NMSK	Fixed line operator	December 2010	100%	23.2
Lanck Telecom	Fixed line operator	December 2010	100%	17.8
				$ 588.6
2011				
Infocentr	Optical fiber network provider	April 2011	100%	15.4
Inteleca Group	Optical fiber network provider	April 2011	100%	19.2
Altair	Fixed line operator	August 2011	100%	25.6
Teleradiokompania "TVT"	Fixed line operator	October 2011	100%	162.5
MGTS[4]	Fixed line operator	December 2011	29%	667.8
				$ 890.5

(1) Excluding debt assumed.

(2) In December 2009, in a series of transactions, we acquired an additional 14.2% stake in MGTS in exchange for 31,816,462 ordinary MTS shares and $7.3 million in cash. The MGTS stake was held by a wholly owned subsidiary of Comstar. Simultaneously, we received shares representing 11.06% of the total shares outstanding Comstar from MGTS Finance S.A., a wholly owned subsidiary of MGTS. We paid Comstar cash consideration of $8.3 million. As a result of these transactions, our ownership stake in Comstar increased to 61.97% as of December 31, 2009. We further increased our ownership stake in Comstar to 70.97% in September 2010 through a voluntary tender offer. See Note 3 to our audited consolidated financial statements.

(3) In June 2010, we increased our direct ownership in TS-Retail OJSC from 25% to 40% for a nominal sum of $1. 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 December 2010, as a result of the acquisition of Sistema Telecom, we acquired an additional 45% stake in TS-Retail, thereby increasing our effective ownership interest to 96.0%. In 2011, as a result of our merger with Comstar, we increased our ownership interest in TS-Retail to 100%.

(4) MTS acquired 29% of MGTS ordinary shares as part of its acquisition of a 100% stake in CJSC Sistema-Inventure, which directly owned 29% of the ordinary shares of MGTS.

Results of Operations

Formerly, we had three reportable segments: Russia Mobile, Russia Fixed and Ukraine Mobile. Following our merger with Comstar in 2011 and its complete integration into us, the fixed line business became an inseparable part of the core mobile business. Both the mobile and the fixed line services are now provided through one integrated business unit. This has affected our presentation of information

Table of Contents

about segments, as our Board and management have identified two reportable segments: Russia and Ukraine. See " Segments."

Headquarters expenses are not allocated to any reportable segments and are included in other countries and business activities results of operations ("Other"). See Note 26 to our audited consolidated financial statements for additional information.

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

Financial information by reportable segments is presented below:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands of U.S. dollars)		
Net operating revenues			
Russia	$ 8,074,816	$ 9,414,933	$ 10,632,278
Ukraine	1,048,751	1,072,830	1,142,557
Other	787,543	864,372	643,030
Eliminations[1]	(43,857)	(58,899)	(99,177)
Net operating revenues as reported	$ 9,867,253	$ 11,293,236	$ 12,318,688
Costs of services, excluding depreciation and amortization shown separately below, and cost of handsets and accessories			
Russia	$ 1,935,762	$ 2,571,484	$ 3,173,769
Ukraine	332,807	313,742	320,862
Other	156,793	156,617	132,745
Eliminations[1]	(38,587)	(53,272)	(91,250)
Cost of services and cost of handsets and accessories as reported	$ 2,386,775	$ 2,988,570	$ 3,536,126
Sundry operating expenses[2]			
Russia	$ 1,897,443	$ 2,046,999	$ 2,182,519
Ukraine	151,061	178,536	197,315
Other	303,460	494,989	380,616
Eliminations	(29)	(1,497)	(199)
Sundry operating expenses as reported	$ 2,351,935	$ 2,719,027	$ 2,760,251
Sales and marketing expenses			
Russia	$ 582,673	$ 704,108	$ 749,546
Ukraine	92,598	81,925	76,062
Other	58,451	69,971	59,768
Eliminations	(5,239)	(5,420)	(7,154)
Sales and marketing expenses as reported	$ 728,483	$ 850,584	$ 878,222
Depreciation and amortization expenses			
Russia	$ 1,305,556	$ 1,418,727	$ 1,752,022
Ukraine	352,037	354,154	344,709
Other	186,581	227,615	238,473
Depreciation and amortization as reported	$ 1,844,174	$ 2,000,496	$ 2,335,204
Operating Income			
Russia	$ 2,353,380	$ 2,673,617	$ 2,774,422
Ukraine	120,248	144,473	203,609

Other	82,257	(84,820)	(168,572)
Eliminations		1,289	(574)
Operating income as reported	$ 2,555,885	$ 2,734,559	$ 2,808,885

(1) Represents the elimination of inter-company transaction results, primarily interconnect and roaming arrangements.

(2) For the purposes of this analysis "Sundry operating expenses" consist of general and administrative expenses, provision for doubtful accounts, impairment of long-lived assets and goodwill and other operating expenses.

Table of Contents

Year Ended December 31, 2011 compared to Year Ended December 31, 2010

Revenues and cost of services and cost of handsets and accessories

Consolidated revenues for the year ended December 31, 2011, increased by $1,025.5 million, or 9.1%, to $12,318.7 million from $11,293.2 million for the year ended December 31, 2010. The dominant reason for the growth of our consolidated revenues for the year ended December 31, 2011, was the large increase in the usage of value-added services by our subscribers, which was mainly attributable to the increase of data traffic due to our active promotion of value-added services, the increase of mobile Internet penetration, active 3G network expansion and the consequent improvement of the quality of value-added services. The increase of our consolidated revenues for the year ended December 31, 2011, was also helped by the growth of interconnect revenues, fixed revenues, sales of handsets and accessories. The growth of our interconnect revenues was supported by the overall increase in the volume of traffic from our competitors. The growth of fixed revenues was attributable to the regulatory price increase and the acquisitions of various regional operators throughout the year. The increase in sales of handsets and accessories was stimulated by the continued expansion of our retail operations. Our consolidated mobile subscriber base, excluding subscribers in Turkmenistan, remained stable and amounted to 101.1 million as of December 31, 2011. In Armenia and Uzbekistan, our revenues decreased in functional currency terms mainly due to the highly competitive environment in these countries.

Consolidated cost of services and cost of handsets and accessories for the year ended December 31, 2011, increased by 18.3% to $3,536.1 million from $2,988.6 million for the year ended December 31, 2010. Our consolidated cost of services and cost of handsets and accessories as a percentage of our total revenues in the year ended December 31, 2011, increased to 28.7% as compared to 26.5% in the year ended December 31, 2010, due to the expansion of our retail operations, which generally have lower margins than our communications service operations. The cost of value-added services as a percentage of our total revenues in the year ended December 31, 2011, increased to 3.1% as compared to 2.5% in the year ended December 31, 2010, which corresponds to the increase in value-added services revenues. Interconnect expenses as a percentage of our total revenues in the year ended December 31, 2011, increased to 12.3%, as compared to 11.5% in the year ended December 31, 2010, due to an increase in outgoing traffic volumes.

Russia revenues for the year ended December 31, 2011, increased by 12.9% to $10,632.3 million from $9,414.9 million for the year ended December 31, 2010. The increase in Russia revenues in the year ended December 31, 2011, was primarily due to the growth of revenues from value-added services, fixed revenues, interconnect revenues, sales of handsets and accessories. The increase in Russia revenues for the year ended December 31, 2011, as compared to the year ended December 31, 2010, is also partially attributable to the appreciation of the Russian ruble, our functional currency in Russia, against the U.S. dollar. Revenues from value-added services as a percentage of Russia revenues in the year ended December 31, 2011, grew to 17.2% as compared to 14.3% in the year ended December 31, 2010, due to the increase in data traffic volumes attributable to the introduction of new marketing initiatives aimed at stimulating greater usage of value-added services among our subscribers and the overall improvement of quality of these services. Interconnect revenues as a percentage of Russia revenues in the year ended December 31, 2011, grew to 10.4%, as compared to 9.5% in the year ended December 31, 2010, due to the growth in the volume of traffic from our competitors. Our continued expansion of our monobrand retail chain in 2011 caused sales of handsets and accessories to increase as a percentage of Russia revenues to 8.2% in the year ended December 31, 2011, from 7.5% in the year ended December 31, 2010. The increase in fixed revenues was primarily due to the continued growth in domestic and international long distance and "calling party pays" traffic volumes, growth in the broadband Internet business and the regulatory price increase for residential and corporate voice services.

Table of Contents

Russia cost of services and cost of handsets and accessories for the year ended December 31, 2011, increased by 23.4% to $3,173.8 million from $2,571.5 million for the year ended December 31, 2010. The growth was primarily due to the increase in outgoing traffic volumes, cost of handsets and accessories and cost of value-added services. Interconnect expenses increased to $1,347.0 million or 12.7% of Russia revenues in the year ended December 31, 2011, from $1,083.4 million or 11.5% of Russia revenues in the year ended December 31, 2010, mainly due to the growth in outgoing network traffic. Cost of handsets and accessories sold and SIM-cards provided to customers as a percentage of Russia revenues in the year ended December 31, 2011, increased to 8.1% as compared to 7.3% in the year ended December 31, 2010, mainly due to to the continued expansion of our retail business in 2011. Active promotion of value-added services during the year ended December 31, 2011, resulted in an increase of value-added services cost as a percentage of Russia revenues in the year ended December 31, 2011, to 3.1% as compared to 2.5% in the year ended December 31, 2010.

Ukraine revenues increased by 6.5% to $1,142.6 million in the year ended December 31, 2011, from $1,072.8 million in the year ended December 31, 2010, primarily due to the growth in usage of value-added services by our subscribers and the increase in the number of our subscribers by 7.1% to 19.5 million from 18.2 million. Value-added services revenues increased by 23.6% to $303.1 million in the year ended December 31, 2011, from $245.2 million in the year ended December 31, 2010, due to the active promotion of these services among our subscribers. Value-added services revenues as a percentage of Ukraine revenues in the year ended December 31, 2011, grew to 26.5%, as compared to 22.9% in the year ended December 31, 2010.

Ukraine cost of services and cost of handsets and accessories increased insignificantly by 2.3% to $320.9 million in the year ended December 31, 2011, from $313.7 million in the year ended December 31, 2010. The increase occurred primarily due to an increase in regular payments for radio frequencies and growth of electricity tariffs regulated by the government by $11.5 million to $64.4 million in the year ended December 31, 2011, from $52.9 million in the year ended December 31, 2010, and to 5.6% from 4.9%, respectively, as a percentage of Ukraine revenues. This was partially offset by a decrease in interconnect expenses as a percentage of Ukraine revenues to 13.9% for the year ended December 31, 2011, from 15.2% for the year ended December 31, 2010, due to the decrease in interconnect rates charged by Kyivstar. Ukraine cost of services and cost of handsets and accessories as a percentage of Ukraine revenues decreased to 28.1% for the year ended December 31, 2011, from 29.2% for the year ended December 31, 2010.

Other countries and business activities revenues for the year ended December 31, 2011, decreased by 25.6% to $643.0 million from $864.4 million for the year ended December 31, 2010. The decline was primarily caused by us ceasing to provide mobile telecommunications services in Turkmenistan at the end of 2010. In functional currency terms, we experienced a decrease in revenues in the year ended December 31, 2011, as compared to the year ended December 31, 2010, by approximately 1.6% in Uzbekistan and 3.4% in Armenia. While the subscriber base in Uzbekistan grew by 5.8% to 9.3 million as of December 31, 2011, from 8.8 million as of December 31, 2010, and traffic volume increased overall, these increases were offset by a decrease in tariffs as a response to our competitors' actions and the subscribers' migration to low cost tariff plans. The subscriber base in Armenia decreased by 3.4% to 2.4 million as of December 31, 2011, from 2.5 million as of December 31, 2010.

Other countries and business activities cost of services and cost of handsets and accessories for the year ended December 31, 2011, decreased to $132.7 million from $156.6 million for the year ended December 31, 2010. The decline was primarily caused by us ceasing to provide mobile telecommunications services in Turkmenistan at the end of 2010.

Table of Contents

Sundry operating expenses

Consolidated sundry operating expenses for the year ended December 31, 2011, increased by 1.5% to $2,760.3 million from $2,719.0 million for the year ended December 31, 2010. The increase of $41.3 million in sundry operating expenses was partly attributable to a general increase in expenses caused by the growth in our operations, as well as the appreciation of the functional currencies, in countries in which we operate, against the U.S. dollar. Sundry operating expenses as a percentage of our total revenues decreased to 22.4% in the year ended December 31, 2011, from 24.1% in the year ended December 31, 2010. This decrease was mainly attributable to the decrease in salary expenses and related social contributions as a percentage of our revenues to 10.0% for the year ended December 31, 2011 from 10.4% for the year ended December 31, 2010, due to our cost reduction programs and improvements in operational efficiencies. Moreover, sundry operating expenses for the year ended December 31, 2010, were adversely affected by the impairment of our assets in Turkmenistan which contributed an additional 1.2% to sundry operating expense margin.

Russia sundry operating expenses for the year ended December 31, 2011, increased by 6.6% to $2,182.5 million from $2,047.0 million for the year ended December 31, 2010. Russia sundry operating expenses as a percentage of Russia revenues decreased to 20.5% for the year ended December 31, 2011, from 21.7% for the year ended December 31, 2010. The decrease of Russia sundry operating expenses as a percentage of Russia revenues was mainly attributable to a decrease in the percentage of salary expenses and related social contributions to 9.0% for the year ended December 31, 2011, from 10.1% for the year ended December 31, 2010, due to our cost reduction programs and improvements in operational efficiencies.

Ukraine sundry operating expenses for the year ended December 31, 2011, increased by 10.5% to $197.3 million from $178.5 million for the year ended December 31, 2010. Ukraine sundry operating expenses as a percentage of Ukraine revenues increased to 17.3% for the year ended December 31, 2011, from 16.6% for the year ended December 31, 2010. The increase is primarily attributable to the VAT-related changes in Ukrainian tax legislation.

Other countries and business activities sundry operating expenses for the year ended December 31, 2011, decreased by 23.1% to $380.7 million from $495.0 million for the year ended December 31, 2010. This decrease was primarily attributable to the termination of our operations in Turkmenistan and subsequent decline in sundry operating expenses by $190.2 million for the year ended December 31, 2011, including the impairment of assets in the amount of $137.8 million. The decrease was partially offset by the growth in sundry operating expenses of our corporate headquarters by $75.8 million due to the merger with Comstar, as sundry operating expenses of the former Comstar Headquarters are now included in other countries and business activities results of operations for the year ended December 31, 2011. Other countries and business activities sundry operating expenses as a percentage of other countries and business activities revenues increased to 59.2% for the year ended December 31, 2011, from 57.3% for the year ended December 31, 2010. This increase is mainly attributable to the merger with Comstar.

Sales and marketing expenses

Consolidated sales and marketing expenses for the year ended December 31, 2011, increased by 3.2%, or $27.6 million, to $878.2 million from $850.6 million for the year ended December 31, 2010. This growth was mainly attributable to the increase in commissions payable to dealers while dealers' commissions as a percentage of our revenues remained stable at 4.7% for the years ended December 31, 2011 and 2010. This resulted from the fact that dealers acquired subscribers with a higher ARPU, while our subscriber base remained stable. Advertising and promotion expenses decreased by 4.5%, or $14.6 million, to $305.2 million for the year ended December 31, 2011, from $319.7 million for the year ended December 31, 2010, which was primarily attributable to our cost

Table of Contents

optimization efforts. Sales and marketing expenses as a percentage of our total revenues decreased to 7.1% for the year ended December 31, 2011, as compared to 7.5% for the year ended December 31, 2010.

Russia sales and marketing expenses for the year ended December 31, 2011, increased to $749.5 million, or 7.0% of Russia revenue, from $704.1 million, or 7.5% of Russia revenue, for the year ended December 31, 2010. The increase in sales and marketing expenses by 6.4% was due to the appreciation of the ruble and the increase of dealers commissions. Dealer commissions as a percentage of Russia revenues decreased to 4.7% for the year ended December 31, 2011, from 4.9% for the year ended December 31, 2010. Advertising and marketing expenses as a percentage of Russia revenues decreased to 2.3% for the year ended December 31, 2011, as compared to 2.6% for the year ended December 31, 2010.

Ukraine sales and marketing expenses for the year ended December 31, 2011, decreased to $76.1 million, or 6.7% of Ukraine revenues, from $81.9 million, or 7.6% of Ukraine revenues, for the year ended December 31, 2010. The decrease in sales and marketing expenses by $5.8 million and as a percentage of Ukraine revenues was primarily attributable to the reduction of advertising and promotion expenses as a result of our cost optimization efforts.

Other countries and business activities sales and marketing expenses for the year ended December 31, 2011, decreased by 14.6% to $59.8 million from $70.0 million for the year ended December 31, 2010. This decrease was mainly attributable to the reduction of advertising and promotion expenses as a result of our cost optimization efforts. As a percentage of other countries and business activities total revenues, other countries and business activities sales and marketing expenses increased to 9.3% for the year ended December 31, 2011, from 8.1% for the year ended December 31, 2010. The increase was mainly attributable to the termination of our operations in Turkmenistan.

Depreciation and amortization expenses

Consolidated depreciation and amortization of property, network equipment, telephone numbering capacity, license costs and other intangible assets for the year ended December 31, 2011, increased by 16.7% to $2,335.2 million from $2,000.5 million for the year ended December 31, 2010. The increase was due to our increased asset base resulting from the continued expansion of our network through build-outs, as well as due to the decrease of the estimated useful life of certain equipment which we intend to replace. Depreciation and amortization expenses as a percentage of our total revenues increased to 19.0% for the year ended December 31, 2011, from 17.7% for the year ended December 31, 2010, due to reasons described below.

Russia depreciation and amortization for the year ended December 31, 2011, increased by 23.5% to $1,752.0 million from $1,418.7 million for the year ended December 31, 2010, mainly as a result of the build-out of our 3G networks and acquisition of fixed line operators. Depreciation and amortization expenses as a percentage of total revenues increased to 16.5% for the year ended December 31, 2011, from 15.1% for the year ended December 31, 2010.

Ukraine depreciation and amortization for the year ended December 31, 2011, was $344.7 million, or 30.2% of Ukraine revenues, and $354.2 million, or 33.0% of Ukraine revenues, for the year ended December 31, 2010. Depreciation and amortization expense as percentage of Ukraine revenues decreased due to the growth of our revenues from value-added services.

Table of Contents

Other countries and business activities depreciation and amortization for the year ended December 31, 2011, increased by 4.8% to $238.5 million from $227.6 million for the year ended December 31, 2010, and increased as a percentage of other countries and business activities total revenues to 37.1% from 26.3%, respectively. Growth in other countries and business activities depreciation and amortization expense as a percentage of other countries and business activities total revenues was primarily attributable to the termination of our operations in Turkmenistan and the overall growth of the depreciation expenses in Uzbekistan, where we continued the expansion of our network.

Operating Income

Consolidated operating income increased by 2.7% to $2,808.9 million for the year ended December 31, 2011, from $2,734.6 million for the year ended December 31, 2010. Operating income as a percentage of our total revenues decreased to 22.8% for the year ended December 31, 2011, compared to 24.2% for the year ended December 31, 2010. The increase of operating income in absolute terms by $74.3 million was mainly driven by the growth of our consolidated revenues due to the factors described above. Moreover, the impairment of our assets in Turkmenistan adversely affected our operating income for the year ended December 31, 2010. The decrease in operating income margin for the year ended December 31, 2011, was primarily due to an increase in depreciation and amortization, cost of services and cost of handsets and accessories as a percentage of our total revenues.

Russia operating income for the year ended December 31, 2011, increased by 3.8% to $2,774.4 million from $2,673.6 million for the year ended December 31, 2010. Russia operating income decreased as a percentage of Russia revenues to 26.1% for the year ended December 31, 2011, from 28.1% for the year ended December 31, 2010, mainly due to the increase in depreciation and amortization expenses as a percentage of Russia revenues to 16.5% for the year ended December 31, 2011, from 15.1% for the year ended December 31, 2010. The decrease was also accelerated by the expansion of our retail network with its historically lower margins on sales of handsets and accessories, and a slight increase in cost of services as a percentage of our Russia revenues to 21.7% for the year ended December 31, 2011, from 20.0% for the year ended December 31, 2010, due to the reasons described above. The increase of cost of services and cost of handsets and accessories was offset by a decrease in sales and marketing and sundry operating expenses as a percentage of Russia revenues to 27.6% for the year ended December 31, 2011, from 29.2% for the year ended December 31, 2010, due to cost reduction programs and improvements in operational efficiencies.

Ukraine operating income for the year ended December 31, 2011, increased by 40.9% to $203.6 million from $144.5 million for the year ended December 31, 2010. Ukraine operating income increased as a percentage of Ukraine revenues to 17.8% for the year ended December 31, 2011, from 13.5% for the year ended December 31, 2010. These increases were largely due to the growth in Ukraine revenues and the simultaneous decline of interconnect expense as a percentage of Ukraine revenues due to a decrease in interconnect rates charged by Kyivstar. We also experienced a decrease of sales and marketing expenses as a percentage of Ukraine revenues to 6.7% for the year ended December 31, 2011, from 7.6% for the year ended December 31, 2010, which resulted from our cost optimization efforts. Depreciation and amortization expenses also declined as a percentage of our Ukraine revenues to 30.2% for the year ended December 31, 2011, from 33.0% for the year ended December 31, 2010.

Other countries and business activities operating loss for the year ended December 31, 2011, amounted to $168.6 million, while other countries and business activities' operating loss for the year ended December 31, 2010, was $84.8 million. The increase in loss resulted from growth in sundry operating expenses of our corporate headquarters due to the reasons described above and the increase in depreciation and amortization expense as a percentage of other countries and business activities

Table of Contents

revenues to 37.1% for the year ended December 31, 2011, from 26.3% for the year ended December 31, 2010. This was primarily attributable to the termination of our operations in Turkmenistan and the increase in depreciation expenses in Uzbekistan where we continued to expand our network while our revenues decreased due to the factors described above.

Currency exchange and transaction gains/losses

Consolidated currency exchange and transaction losses for the year ended December 31, 2011, were $158.1 million, compared to gains of $20.2 million for the year ended December 31, 2010. We conduct our operations within the Russian Federation, Ukraine, Uzbekistan and Armenia, and we are therefore subject to currency fluctuations. The local currencies of these countries fluctuated significantly against the U.S. dollar and euro during the years ended December 31, 2011 and 2010, and the currency exchange and transaction losses we incurred were primarily due to the translation effect of our U.S. dollar and euro-denominated debt as of December 31, 2011 and 2010. The losses recognized in 2011 as compared to gains recorded in 2010 were mainly due to the depreciation of the Russian ruble and the Uzbek sum against the U.S. dollar and euro during the year ended December 31, 2011, as compared to 2010.

Interest expense

Consolidated interest expense for the year ended December 31, 2011, decreased by $120.4 million, or 15.5%, to $656.9 million from $777.3 million for the year ended December 31, 2010. The decrease in the amount of $60.7 million is due to the decline in amortization of our debt issuance costs. In 2010, the amortization of debt issuance costs was affected by the voluntary repayment of approximately $1.4 billion of our debt balance outstanding as of December 31, 2010, before the due date, which resulted in an immediate write-off of the related debt issuance cost in a total amount of $24.3 million. Additionally, in 2010, we renegotiated the interest rates and maturities of several credit facilities, which led to a significant modification of the related debt agreements and the consequent write-off of capitalized issuance costs totaling $26.4 million. None of the amendments to our credit facilities agreements in 2011 were considered to be substantial, so that no additional expense occurred. The hedging activities in 2011 resulted in an interest expense decrease in the amount of $19.2 million as compared to 2010. The extension of our construction activities in 2011 allowed us to capitalize $8.4 million more interest expense than in 2010. The remaining decrease was due to the decrease in our weighted average interest rate in 2011. See Note 16 to our consolidated financial statements for more information.

Equity in net income of associates

Consolidated equity in net income of associates for the year ended December 31, 2011, decreased by $21.2 million, or 30.0%, to a gain of $49.4 million, compared to a gain of $70.6 million for the year ended December 31, 2010. The decline is attributable to the significant depreciation of the Belarusian ruble against the U.S. dollar and subsequent decline in revenues of our equity investee in Belarus during the year ended December 31, 2011.

Other expenses (income), net

Consolidated other expenses for the year ended December 31, 2011, decreased to $6.6 million, as compared to $66.9 million for the year ended December 31, 2010. This decrease was primarily attributable to accrued damages plus interest relating to the dispute with Nomihold in the year ended December 31, 2010, as described in Note 16 to our consolidated financial statements.

Table of Contents

Provision for income taxes

Consolidated provision for income taxes for the year ended December 31, 2011, increased by 2.8% to $531.6 million from $517.2 million for the year ended December 31, 2010. The effective tax rate increased slightly to 25.3% in the year ended December 31, 2011, from 25.0% in the year ended December 31, 2010.

Net income attributable to the non-controlling interest

Net income attributable to the non-controlling interest for the year ended December 31, 2011, amounted to $123.8 million compared to net income attributable to the non-controlling interest of $167.8 million for the year ended December 31, 2010. The decline in net income attributable to the non-controlling interest resulted from the increase of our ownership interest in MGTS during the year ended December 31, 2011, from 51.3% to 94.1%.

Net income attributable to the Group

Net income attributable to the Group for the year ended December 31, 2011, increased by $63.3 million, or 4.6%, to $1,443.9 million, compared to $1,380.6 million for the year ended December 31, 2010. Net income as a percentage of revenues was 11.7% in the year ended December 31, 2011, and 12.2% in the year ended December 31, 2010. Net income attributable to the Group for the year ended December 31, 2011, as compared to the year ended December 31, 2010, increased mainly due to the effect of the loss from the impairment of our assets in Turkmenistan recognized in the year ended December 31, 2010.

Year Ended December 31, 2010 compared to Year Ended December 31, 2009

Revenues and cost of services and cost of handsets and accessories

Consolidated revenues for the year ended December 31, 2010, increased by $1,426.0 million, or 14.5%, to $11,293.2 million from $9,867.3 million for the year ended December 31, 2009. In functional currency terms, our consolidated revenues increased in all countries in which we operate, other than in Armenia, in 2010 compared to 2009 mainly due to increased usage of value-added services, increased traffic on our mobile networks and as a result of the expansion of our retail business in Russia. Our consolidated mobile subscriber base grew by 5.7% to approximately 103.35 million as of December 31, 2010, from approximately 97.8 million as of December 31, 2009. The growth in our subscriber base was mainly attributable to our sales and marketing efforts and the expansion of our network. In Armenia, our consolidated revenues decreased in functional currency terms mainly due to the highly competitive environment in Armenia.

Consolidated cost of services and cost of handsets and accessories for the year ended December 31, 2010, increased by 25.2% to $2,988.6 million from $2,386.8 million for the year ended December 31, 2009. In functional currency terms, our consolidated cost of services and cost of handsets and accessories increased in all countries in which we operate, other than in Armenia, largely due to the same factors described above that caused our consolidated revenues to increase in functional currency terms. Our consolidated cost of services and cost of handsets and accessories as a percentage of our total revenues in the year ended December 31, 2010, increased to 26.5% as compared to 24.2% in the year ended December 31, 2009, mainly due to the expansion of our retail operations, which generally have lower margins than our communications service operations.

Russia revenues for the year ended December 31, 2010, increased by 16.6% to $9,414.9 million from $8,074.8 million for the year ended December 31, 2009. The increase in Russia revenues in the year ended December 31, 2010, was primarily due to the growth of roaming revenues, revenues from value-added services, sales of handsets and accessories, and fixed revenues. Roaming revenues increased

Table of Contents

by 20.0% in the year ended December 31, 2010, as compared to the year ended December 31, 2009, primarily due to the growth of roaming activity as a result of an economic recovery and increase in number of subscribers by 3.1% to 71.4 million as of December 31, 2010, from 69.3 million as of December 31, 2009. Revenues from value-added services as a percentage of Russia revenues in the year ended December 31, 2010, grew to 17.3% as compared to 16.3% in the year ended December 31, 2009, due to the introduction of new marketing initiatives aimed at stimulating greater usage of value-added services among our subscribers. Our continued expansion of our monobrand retail chain in 2010 caused sales of handsets and accessories to increase as a percentage of Russia revenues to 7.5% in the year ended December 31, 2010, from 4.3% in the year ended December 31, 2009. The increase in fixed revenues was primarily caused by continued growth in domestic and international long distance and "calling party pays" traffic volumes, growth in the broadband Internet business and a regulatory price increase for residential and corporate voice services.

Russia cost of services and cost of handsets and accessories for the year ended December 31, 2010, increased by 34.5% to $2,571.5 million from $1,935.8 million for the year ended December 31, 2009. The growth was primarily due to the increase in the number of subscribers, traffic volume, cost of handsets and accessories, and a rise in utility and energy costs due to the increase in state regulated tariffs. Interconnect expenses increased to $1,083.4 million or 11.5% of Russia revenues in the year ended December 31, 2010, from $874.0 million or 10.8% of Russia revenues in the year ended December 31, 2009, mainly due to the growth in outgoing network traffic. Cost of handsets, accessories sold and SIM-cards provided to customers as a percentage of Russia revenues in the year ended December 31, 2010, increased to 7.3% as compared to 4.1% in the year ended December 31, 2009, mainly due to the continued expansion of our retail business in 2010.

Ukraine revenues increased by 2.3% to $1,072.8 million in the year ended December 31, 2010, from $1,048.8 million in the year ended December 31, 2009, primarily due to growth in the number of our subscribers by 3.6% to 18.2 million from 17.6 million.

Ukraine cost of services and cost of handsets and accessories decreased by 5.7% to $313.7 million in the year ended December 31, 2010, from $332.8 million in the year ended December 31, 2009. The decline occurred primarily due to a decrease in interconnect expenses by $30.2 million to $163.2 million in the year ended December 31, 2010, from $193.4 million in the year ended December 31, 2009, and to 15.2% from 18.4%, respectively, as a percentage of Ukraine revenues. The decrease in interconnect expenses resulted from a reduction of interconnect rates with Kyivstar, which was partially offset by an increase in the cost of providing value-added services to 3.5% from 2.8% of total Ukraine revenues.

Other countries and business activities revenues for the year ended December 31, 2010, increased by 9.8% to $864.4 million from $787.5 million for the year ended December 31, 2009. In functional currency terms, the increase in revenues in 2010 as compared to 2009 was approximately 19.8% in Uzbekistan and 29.1% in Turkmenistan. In Armenia, in functional currency terms we experienced a decrease in revenues of 3.7%. Our subscriber base in Turkmenistan increased by 37.6% during the year ended December 31, 2010, which led to increased traffic volume. Our subscriber base grew by 23.7% in Uzbekistan during the year ended December 31, 2010, and our revenues generally increased in line with this growth. Our subscriber base in Armenia grew by 18.7% during 2010 as compared to 2009 which was diluted by a decrease in tariffs as a response to our competitors' actions in Armenia.

Other countries and business activities cost of services and cost of handsets and accessories for the year ended December 31, 2010, remained stable as compared to the year ended December 31, 2009, and equaled $156.6 million for the year ended December 31, 2010, and $156.8 million for the year ended December 31, 2009. As a percentage of other countries and business activities total revenues, these costs decreased to 18.1% for the year ended December 31, 2010, from 19.9% for the year ended December 31, 2009, primarily due to effective cost control.

Table of Contents

Sundry operating expenses

Consolidated sundry operating expenses for the year ended December 31, 2010, increased by 15.6% to $2,719.0 million from $2,351.9 million for the year ended December 31, 2009. The increase of $367.1 million in sundry operating expenses was attributable in part to the acquisition of Multiregion, the impairment of our business in Turkmenistan, as well as the appreciation of the functional currencies in countries in which we operate against the U.S. dollar. Sundry operating expenses as a percentage of our total revenues increased to 24.2% in the year ended December 31, 2010, from 23.8% in the year ended December 31, 2009. This increase was mainly attributable to growth in salary expenses and related social contributions as well as rent expense due to the expansion of our retail network and a corresponding increase in employees. Salary expenses and related social contributions as a percentage of our total revenues grew to 10.4% for the year ended December 31, 2010, from 10.2% for the year ended December 31, 2009. Similarly, our rent expenses increased due to our retail network expansion. Rent expenses as a percentage of our total revenues grew to 3.0% for the year ended December 31, 2010, from 2.9% for the year ended December 31, 2009. The increase was also attributable to the increase in loss from impairment as a percentage of our total revenues to 1.1% for the year ended December 31, 2010, from 0.8% for the year ended December 31, 2009, due to the impairment of long-lived assets in Turkmenistan.

Russia sundry operating expenses for the year ended December 31, 2010, increased by 7.9% to $2,047.0 million from $1,897.4 million for the year ended December 31, 2009. Russia sundry operating expenses as a percentage of Russia revenues decreased to 21.7% for the year ended December 31, 2010, from 23.5% for the year ended December 31, 2009. The increase in Russia sundry operating expenses was mainly attributable to the acquisition of Multiregion, as well as the increase in consulting expenses paid in connection with the sale of our stake in Svyazinvest. The decrease of Russia sundry operating expenses as a percentage of Russia revenues was primarily caused by the release of tax reserves, except for the income tax reserves, relating to our retail business, by the reduction in the number of top managers in connection with the merger of MTS and Comstar, by the cost-reduction programs and by the improvements in operational efficiencies in the regions through the integration of our regional pay-TV operations.

Ukraine sundry operating expenses for the year ended December 31, 2010, increased by 18.2% to $178.5 million from $151.1 million for the year ended December 31, 2009. Ukraine sundry operating expenses as a percentage of Ukraine revenues increased to 16.6% for the year ended December 31, 2010, from 14.4% for the year ended December 31, 2009. These expenses increased primarily due to increases in salary expenses and related social contributions, repair and maintenance expenses and billing and data processing expenses.

Other countries and business activities sundry operating expenses for the year ended December 31, 2010, increased by 63.1% to $495.0 million from $304.3 million for the year ended December 31, 2009. Other countries and business activities sundry operating expenses as a percentage of other countries and business activities total revenues increased to 57.3% for the year ended December 31, 2010, from 38.5% for the year ended December 31, 2009. This increase was primarily attributable to the impairment of long-lived assets in Turkmenistan.

Sales and marketing expenses

Consolidated sales and marketing expenses for the year ended December 31, 2010, increased by 16.8%, or $122.1 million, to $850.6 million from $728.5 million for the year ended December 31, 2009. This increase was mainly due to the increase in commissions payable to dealers as a result of an overall increase in the commission rates. Advertising and promotion expenses decreased, which was primarily attributable to our cost optimization efforts. Sales and marketing expenses as a percentage of our total revenues remained stable at 7.5% for the years ended December 31, 2010 and 2009.

Table of Contents

Russia sales and marketing expenses for the year ended December 31, 2010, increased to $704.1 million, or 7.5% of Russia revenue, from $582.7 million, or 7.2% of Russia revenue, for the year ended December 31, 2009. The increase in sales and marketing expenses by 20.8% was due to appreciation of the ruble and an increase of dealer commission rates. The increase was partially offset by a decrease of advertising and marketing expenses. Dealer commissions as a percentage of Russia revenues increased to 4.9% for the year ended December 31, 2010, from 4.2% for the year ended December 31, 2009. Advertising and marketing expenses as a percentage of Russia revenues decreased to 2.6% for the year ended December 31, 2010, as compared to 3.1% for the year ended December 31, 2009.

Ukraine sales and marketing expenses for the year ended December 31, 2010, decreased to $81.9 million, or 7.6% of Ukraine revenues, from $92.6 million, or 8.8% of Ukraine revenues, for the year ended December 31, 2009. The decrease in sales and marketing expenses by $10.7 million and as a percentage of Ukraine revenues was primarily due to the reduction of dealer commissions as a result of a decrease in revenue sharing rates.

Other countries and business activities sales and marketing expenses for the year ended December 31, 2010, increased by 19.7% to $70.0 million from $58.5 million for the year ended December 31, 2009. As a percentage of other countries and business activities total revenues, other countries and business activities sales and marketing expenses increased to 8.1% for the year ended December 31, 2010, from 7.4% for the year ended December 31, 2009. The increase was mainly attributable to growth in expenses related to the MTS Bonus loyalty program.

Depreciation and amortization expenses

Consolidated depreciation and amortization of property, network equipment, telephone numbering capacity, license costs and other intangible assets for the year ended December 31, 2010, increased by 8.5% to $2,000.5 million from $1,844.2 million for the year ended December 31, 2009. The increase was due to our increased asset base resulting from the continued expansion of our network through build-outs, as well as due to accelerated depreciation of certain equipment. Depreciation and amortization expenses as a percentage of our total revenues decreased to 17.7% for the year ended December 31, 2010, from 18.7% for the year ended December 31, 2009, due to reasons described below.

Russia depreciation and amortization for the year ended December 31, 2010, increased by 8.7% to $1,418.7 million from $1,305.6 million for the year ended December 31, 2009 mainly as a result of the build-out of our 3G networks. Depreciation and amortization expenses as a percentage of Russia revenues decreased to 15.1% for the year ended December 31, 2010, from 16.2% for the year ended December 31, 2009. The decrease was mainly due to the fact that a substantial portion of Russia capital expenditure took place in December 2010, such that the recognition of depreciation and amortization expense for the newly acquired assets started only at the end of 2010.

Ukraine depreciation and amortization for the year ended December 31, 2010, was $354.2 million, or 33.0% of Ukraine revenues, and $352.0 million, or 33.6% of Ukraine revenues, for the year ended December 31, 2009. Depreciation and amortization expense as percentage of Ukraine revenues decreased as our 2009 revenues were affected by the global economic crisis.

Other countries and business activities depreciation and amortization for the year ended December 31, 2010, increased by 22.0% to $227.6 million from $186.6 million for the year ended December 31, 2009, and increased as a percentage of other countries and business activities total revenues to 26.3% from 23.8%. Growth in other countries and business activities depreciation and amortization expense as a percentage of other countries and business activities total revenues was primarily attributable to our operations in Uzbekistan, where we continued expansion of our network.

Table of Contents

Operating Income

Consolidated operating income increased by 7.0% to $2,734.6 million for the year ended December 31, 2010, from $2,555.9 million for the year ended December 31, 2009. Operating income as a percentage of our total revenues decreased to 24.2% for the year ended December 31, 2010, compared to 25.9% for the year ended December 31, 2009. The decrease of operating income by $178.7 million was mainly due to the impairment of our assets in Turkmenistan combined with the other factors described above. The decrease in the operating income margin was due to an increase in salaries and social contributions, rent expenses, dealer commissions, provision for obsolescence and impairment of long-lived assets as a percentage of our total revenues.

Russia operating income for the year ended December 31, 2010, increased by 13.6% to $2,673.6 million from $2,353.4 million for the year ended December 31, 2009. Russia operating income decreased as a percentage of Russia revenues to 28.4% for the year ended December 31, 2010, from 29.1% for the year ended December 31, 2009, mainly due to the expansion of our retail network, which resulted in an increase in salaries and social contributions, rent, provision for obsolescence, accelerated by historically lower margins on sales of handsets and accessories. This decrease was offset by a decrease in impairment of long-lived assets, the release of a VAT provision relating to our retail business and depreciation and amortization expenses. The decrease in Russia operating income margin was also attributable to higher sales and marketing costs. In addition, our operating income was affected by the appreciation of the Russian ruble against the U.S. dollar.

Ukraine operating income for the year ended December 31, 2010, increased by 20.1% to $144.5 million from $120.2 million for the year ended December 31, 2009. Ukraine operating income increased as a percentage of Ukraine revenues to 13.5% for the year ended December 31, 2010, from 11.5% for the year ended December 31, 2009. These increases were largely due to the decrease in sales and marketing expenses, as well as interconnect expenses due to a decrease in interconnect rates with Kyivstar.

Other countries and business activities operating loss for the year ended December 31, 2010 amounted to $84.8 million. The loss resulted from impairment of our assets in Turkmenistan. The effect of the impairment on the operating results of other countries and business activities amounted to $137.8 million.

Currency exchange and transaction gains/losses

Consolidated currency exchange and transaction gains for the year ended December 31, 2010, were $20.2 million, compared to losses of $252.7 million for the year ended December 31, 2009. We conduct our operations within the Russian Federation, Ukraine, Uzbekistan, Turkmenistan and Armenia, and we are therefore subject to currency fluctuations. The local currencies of these countries fluctuated significantly against the U.S. dollar and euro during the years ended December 31, 2010 and 2009, and the currency exchange and transaction gains we incurred were primarily due to the translation effect of our U.S. dollar and euro-denominated debt as of December 31, 2010 and 2009. The gains recognized in 2010 as compared to losses recorded in 2009 were mainly due to the appreciation of the Russian ruble and the Armenian dram against the U.S. dollar and euro during the year ended December 31, 2010, as compared to 2009.

Interest expense

Consolidated interest expense for the year ended December 31, 2010, increased by $205.4 million, or 35.9% to $777.3 million from $571.9 million for the year ended December 31, 2009. In 2010, we voluntarily repaid approximately $1.4 billion of our debt balance outstanding as of December 31, 2009 before the due date, and this resulted in an immediate write-off of the related debt issuance cost in a total amount of $24.3 million. During 2010, we renegotiated the interest rates and maturities of several

Table of Contents

credit facilities, which led to a significant modification of the related debt agreements and the consequent write-off of capitalized issuance costs totaling $26.4 million. The remaining increase is due to the increase in our average balance of indebtedness in 2010.

Impairment of investments

There was no consolidated impairment of investments loss in the year ended December 31, 2010. The consolidated impairment of investments loss for the year ended December 31, 2009, included write offs of investments in Svyazinvest.

Equity in net income of associates

Consolidated equity in net income of associates for the year ended December 31, 2010, increased by $10.3 million, or 17.1% to a gain of $70.6 million, compared to a gain of $60.3 million for the year ended December 31, 2009. Consolidated equity in net income of associates for the year ended December 31, 2009, was affected by a write-off of our investment in Coral/Sistema Strategic Fund.

Other expenses (income), net

Consolidated other expenses for the year ended December 31, 2010, increased to $66.9 million, as compared to $23.3 million for the year ended December 31, 2009. This increase was primarily attributable to accrued damages plus interest relating to the dispute with Nomihold.

Provision for income taxes

Consolidated provision for income taxes for the year ended December 31, 2010, increased by 2.4% to $517.2 million from $505.0 million for the year ended December 31, 2009. The effective tax rate decreased to 25.0% in the year ended December 31, 2010, from 33.7% in the year ended December 31, 2009. The high effective tax rate in 2009 was caused by the changes in the valuation allowance against tax loss carry-forwards of MGTS Finance S.A. and valuation of investment in Svyazinvest, recognition of deferred tax liability related to potential earnings distributions from/to our subsidiaries, the effect of the disposal of treasury stock by Comstar, and other nondeductible items which took place in 2009.

Net income attributable to the non-controlling interest

Net income attributable to the non-controlling interest for the year ended December 31, 2010, amounted to $167.8 million compared to $20.1 million loss for the year ended December 31, 2009. Net loss attributable to the non-controlling interest for the year ended December 31, 2009, was the result of a decrease in the net income of Comstar due to the impairment of its investment in Svyazinvest, as well as the foreign exchange and transactions losses incurred on the note payable to Access.

Net income attributable to the Group

Net income attributable to the Group for the year ended December 31, 2010, increased by $366.4 million, or 36.1%, to $1,380.6 million, compared to $1,014.2 million for the year ended December 31, 2009. Net income as a percentage of revenues was 12.2% in the year ended December 31, 2010, and 10.3% in the year ended December 31, 2009. Net income attributable to the Group for the year ended December 31, 2010, as compared to the year ended December 31, 2009, increased mainly due to currency exchange rates and transaction gains resulting from appreciation of the Russian ruble against the U.S. dollar and euro, and a decrease in write-offs of investments.

Table of Contents

B. Liquidity and Capital Resources

Our borrowings consist of notes and bank loans. Since 2001, we have raised a total of $2.5 billion through seven U.S. dollar-denominated unsecured bond offerings in the international capital markets, as well as ruble-denominated bonds totaling RUB 86 billion (equivalent in aggregate to $2.7 billion as of December 31, 2011). Our bank loans consist of U.S. dollar-, euro- and ruble-denominated borrowings totaling approximately $5.3 billion as of December 31, 2011. We repaid approximately $358.0 million of indebtedness in 2011. As of December 31, 2011, the total amount available to us under our credit facilities amounted to $1,321.3 million. We had total indebtedness of approximately $8.7 billion as of December 31, 2011, including capital lease obligations, compared to approximately $7.2 billion as of December 31, 2010. Our total interest expense for the years ended December 31, 2010 and 2011, was $777.3 million and $656.9 million, net of amounts capitalized, respectively. See Note 16 to our audited consolidated financial statements for a description of our indebtedness.

Capital Requirements

We need capital to finance the following:

- capital expenditures, consisting of purchases of property, plant and equipment and intangible assets;
- acquisitions;
- repayment of debt and related interest payments;
- changes in working capital; and
- general corporate activities, including dividends.

We anticipate that capital expenditures, acquisitions, repayment of long-term debt and dividends will represent the most significant uses of funds for several years to come.

Our cash outlays for capital expenditures in 2009, 2010 and 2011 were $2,328.3 million, $2,647.1 million and $2,584.5 million, respectively. We expect to continue to finance most of our capital expenditure needs through our operating cash flows, and to the extent required, to incur additional indebtedness through borrowings or additional capital raising activities. Historically, a significant portion of our capital expenditures have been related to the installation and build-out of our network and expansion into new license areas. We expect that capital expenditures will remain a large portion of our cash outflows in connection with the continued installation and build-out of our network. We expect our total capital expenditures in 2012 to be approximately 20-22% of our total 2012 revenue. These investments are required to support the growth in our subscriber base (*i.e.,* to improve network capacity), to maintain and modernize our mobile and fixed line networks, to develop our network in the regions and to continue the build-out of our 3G and backbone networks as well as the development of our proprietary retail chain in Russia. We expect that the development of our 3G network and modernization of our fixed line networks will be among our most significant capital expenditures and require considerable management resources. See "Item 4. Information on Our Company B. Business Overview Mobile Operations Services Offered 3G Technology" for additional information. Our actual capital expenditures may vary significantly from our estimates.

In addition to capital expenditures, $1,616.4 million, $934.9 million and $1,083.6 million (net of cash acquired) in 2009, 2010 and 2011, respectively, were spent to acquire businesses. Part of the consideration was paid in connection with our acquisition of Comstar and MGTS. See "Item 3. Key Information A. Selected Financial Data" and Note 3 to our audited consolidated financial statements. We used cash provided by operating activities as well as external credit facilities to finance our capital expenditures and acquisitions. We plan to finance future acquisitions through operating cash flows and

Table of Contents

additional borrowings. We may continue to expand our business through acquisitions. Our cash requirements relating to potential acquisitions can vary significantly based on market opportunities.

We expect to refinance our existing debt when it becomes due. Of our notes outstanding as of December 31, 2011, $865.9 million are due in 2012, $311.8 million are due in 2013 and $423.0 million are due in 2014. Of our bank loans outstanding as of December 31, 2011, $283.0 million is due in 2012, $785.0 million is due in 2013 and $512.4 million is due in 2014. We generally use the proceeds from our financing activities for our corporate purposes and refinancing existing indebtedness.

Sistema, which currently controls 50.8% of our total charter capital (52.8% excluding treasury shares) and consolidates our results in its financial statements, has a significant amount of outstanding debt and requires funds for debt service. These funds may come, in part, from dividends paid by its subsidiaries, including us. Our shareholders approved cash dividends in the amount of $1,265.5 million (including dividends on treasury shares of $45.6 million) for the year 2008, of which $1.1 million remained payable as of December 31, 2009, $991.2 million (including dividends on treasury shares of $38.0 million) for 2009, of which $0.6 million remained payable as of December 31, 2010, and $1,066.8 million (including dividends on treasury shares of $40.0 million) for 2010. Dividends payable as of December 31, 2011, amounted to $0.2 million.

On April 12, 2012, our Board of Directors recommended that the Annual General Meeting of Shareholders approve annual dividends of RUB 14.71 per ordinary MTS share (approximately $1.01 per ADS as of March 23, 2012) for the 2011 fiscal year, amounting to a total of RUB 30.4 billion (approximately $1.04 billion as of March 23, 2012).

We generally intend to finance our dividend requirements through operating cash flows, and accordingly, our payment of dividends may make us more reliant on external sources of capital to finance our capital expenditures and acquisitions.

Capital Resources

We plan to finance our capital requirements through a mix of operating cash flows and financing activities, as described above. Our major sources of cash have been cash provided by operations and the proceeds of our U.S. dollar-denominated and ruble-denominated note issuances and loans. We expect that these sources will continue to be our principal sources of cash in the future.

The availability of financing is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We cannot assure you that we will be able to continue to obtain large amounts of financing in the future through debt or equity offerings, bank financings or otherwise.

Table of Contents

As of December 31, 2011, our outstanding indebtedness consisted of the following notes and bank loans:

Notes

As of December 31, 2011, our notes consisted of the following:

	Currency	Annual interest rate (actual rate at December 31, 2011)	Amount (in thousands of U.S. dollars)
MTS International Funding Notes due 2020	USD	8.625%	750,000
MTS Finance Notes due 2012[1]	USD	8.00%	400,000
MTS OJSC Notes due 2013	RUB	7.00%	13,318
MTS OJSC Notes due 2014[2]	RUB	7.6%	422,988
MTS OJSC Notes due 2015	RUB	7.75%	234,097
MTS OJSC Notes due 2016[3]	RUB	14.25%	465,895
MTS OJSC Notes due 2017	RUB	8.70%	310,597
MTS OJSC Notes due 2018[3]	RUB	8.00%	298,499
MTS OJSC Notes due 2020[3]	RUB	8.15%	465,895
Plus/less: unamortized premium/(discount)			593
Total notes			3,361,882
Less: current portion			(865,880)
Total notes, long-term			2,496,002

(1) Fully repaid on January 25, 2012.

(2) In May 2011, we announced a new coupon rate of 7.6% for our ruble denominated Notes due 2014. In addition, we repurchased these notes from the eligible noteholders for a total amount of RUB 1.1 billion (approximately $39.3 million as of May 19, 2011). The new coupon rate is valid until these notes mature.

(3) We are unconditionally obligated to repurchase these notes at par value plus accrued interest at the option of the noteholders subsequent to the announcement of the sequential coupon. The dates of the announcement for each particular note issue are listed below. For additional information, see Note 16 to our audited consolidated financial statements.

The dates on which the new coupon will be announced for each note issue are as follows:

MTS OJSC Notes due 2016	June 2012
MTS OJSC Notes due 2018	June 2013
MTS OJSC Notes due 2020	November 2015

Subject to certain exceptions and qualifications, the indentures governing our U.S. dollar-denominated notes due 2020 and 2012 contain covenants limiting our ability to incur debt, create liens, sell or transfer lease properties, enter into loan transactions with affiliates, merge or consolidate or convey our properties and assets to another person, as well as our ability to sell or transfer any of our GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if we experience a change in control, noteholders will have the right to require us to redeem the notes at 101% of their principal amount, plus accrued interest. We are required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. We are also prohibited from having any judgment, decree or order for payment of money in an amount exceeding $10.0 million for MTS Finance Notes and $15.0 million for MTS International Funding

Table of Contents

Notes unsatisfied for more than 60 days without being appealed, discharged or waived. If we fail to comply with these and the other covenants contained in the indentures, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

On November 11, 2010, an international arbitration tribunal constituted under the rules of the LCIA rendered an award with regards to arbitration commenced by Nomihold Securities Inc. ("Nomihold") in January 2007. The award requires our subsidiary, MTS Finance, to honor Nomihold's option to sell to MTS Finance the remaining 49% stake in Tarino Limited ("Tarino") for $170 million, plus $5.9 million in damages and $34.9 million in interest and other costs to compensate it for related costs. MTS Finance applied to the arbitration tribunal for correction of the award, however the application was rejected and the award became final on January 5, 2011. In connection with the above mentioned restriction concerning the unsatisfied liability arising from any judgment against us, prior to the date these consolidated financial stvatements were issued, we obtained consents from the noteholders of MTS Finance Notes due 2012 and MTS International Notes due 2020 and from the banks to (1) waive certain defaults and events of default which might arise under the loan agreements as a result of and in connection with the award, and (2) agree on certain amendments to the loan agreements to avoid possible future events of default which may arise as a result of the award. Our ruble-denominated notes contain certain covenants limiting our ability to delist the notes from the quotation lists and delay coupon payments.

We may from time to time seek to repurchase or redeem our outstanding notes through cash purchases and/or exchanges for new debt securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on market conditions, our liquidity requirements, contractual restrictions and other factors.

We were in compliance with all our note covenants as of December 31, 2011.

Table of Contents

Bank loans

As of December 31, 2011, our loans from banks and other financial institutions consisted of the following:

	Maturity	Interest rate (actual at December 31, 2011)	Amount outstanding at December 31, 2011 (in thousands of U.S. dollars)
USD-denominated			
Calyon, ING Bank N.V., Nordea Bank AB, Raiffeisen Zenralbank Osterreich AG	2012 - 2020	LIBOR+1.15% (1.96%)	580,742
Skandinavska Enskilda Banken AB	2012 - 2017	LIBOR+0.23% - 1.8% (1.03% - 2.61%)	204,507
EBRD	2012 - 2014	LIBOR+1.51% - 3.1% (2.32% - 3.91%)	83,333
HSBC Bank plc and ING BHF Bank AG	2012 - 2014	LIBOR+0.3% (1.11%)	51,503
HSBC Bank plc, ING Bank and Bayerische Landesbank	2012 - 2015	LIBOR+0.3% (1.11%)	42,961
Citibank International plc and ING Bank N.V.	2012 - 2013	LIBOR+0.43% (1.23%)	40,688
Commerzbank AG, ING Bank AG and HSBC Bank plc	2012 - 2014	LIBOR+0.3% (1.11%)	36,495
ABN AMRO Bank N.V.	2012 - 2013	LIBOR+0.35% (1.16%)	12,574
Other	2012 - 2013	various	9,356
			$ 1,062,159
EUR-denominated			
Credit Agricole Corporate Bank and BNP Paribas	2012 - 2018	EURIBOR+1.65% (3.27%)	64,033
LBBW	2012 - 2017	EURIBOR+0.75% (2.37%)	36,215
Bank of China	2012 - 2016	EURIBOR+1.95% (3.57%)	116,812
ABN AMRO Bank N.V.	2012 - 2013	EURIBOR+0.35% (1.97%)	8,958
Other	2012 - 2013	various	8,064
			$ 234,082
RUB-denominated			
Sberbank[(1)]	2015 - 2017	8.50%	3,105,967
Bank of Moscow[(2)]	2013	7.8%	434,835
Gazprombank[(3)]	2013 - 2015	8.75%	472,107
Other	2012 - 2023	various	25,057
			$ 4,037,966
Other			
Debt-Related Parties[(4)]	2012	various	6,799
			$ 6,799
Total bank loans			$ 5,341,006
Less: current portion			(283,025)
Total bank loans, long-term			$ 5,057,981

(1) Each of our ruble-denominated Sberbank loan facilities provides that Sberbank may unilaterally change the interest rate including, without limitation, in the event of an increase in the CBR refinance rate. An increase in the interest rate is subject to a minimum 60-day prior notice from Sberbank, and a decrease in the interest rate is subject to a 30-day notice.

(2)

On March 16, 2012, subsequent to the statement of financial position date, we voluntary repaid $310.6 from $434.8 million outstanding under the credit facility of Bank of Moscow with an original maturity in 2013.

Table of Contents

(3) On February 28, 2012, subsequent to the statement of financial position date, we voluntary repaid the full amount due under credit facilities of Gazprombank drawn by us in December 2009 and December 2010 with an original maturity in 2013-2015.

(4) A vendor financing agreement between K-Telecom and Intracom, a related party, with total outstanding amount as of December 31, 2011 of $6.8 million is secured by the telecommunication equipment and other assets supplied under the agreement with carrying value of $2.0 million.

See also Note 16 to our audited consolidated financial statements.

Our loans are subject to certain restrictive covenants, including, but not limited to, negative pledges, certain financial ratios, limitations on dispositions of assets and limitations on transactions with associates, requirements to maintain ownership in certain subsidiaries, maintain certain contracts or licenses, maintain assets of certain value and to maintain a certain level of deposits in accounts at our creditor banks. In addition, there are restrictions on the granting of loans and guarantees and the incurrence of debt the purpose of which is to facilitate us paying or making any dividend or other payment or distribution of any kind on or in respect of any of our shares or to undertake any form of capital reduction. Most of the loans also include an event of default involving an unsatisfied judgment against us in excess of $10.0 million for a period of over 60 consecutive calendar days. We have obtained the waivers for all facility agreements except for the credit facility of Barclays, where such event of default was in place, to ensure that any events relating to the dispute with Nomihold described above will not be treated as an event of default. We fully repaid the outstanding amount of debt to Barclays on February 2, 2011. We were in compliance with our loan covenants as of December 31, 2011.

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

Payments due in the year ended December 31,	**Notes**	**Bank Loans**
	(in thousands of U.S. dollars)	
2012	$ 865,880	$ 283,025
2013	311,817	785,015
2014	422,988	512,403
2015	700,600	1,266,546
2016		1,184,419
Thereafter	1,060,597	1,309,598
Total	$ 3,361,882	$ 5,341,006

On February 28, 2012, subsequent to the statement of financial position date, we voluntary repaid the full amount due under credit facilities of Gazprombank drawn by us in December 2009 and December 2010 with an original maturity in 2013-2015. In the maturity schedule presented above, the principal outstanding as of December 31, 2011, under these facilities and totaling $472.1 million is included in payments due in the years ended December 31, 2013, 2014 and 2015, in the amounts of $78.7, $314.7 and $78.7 million, respectively, in accordance with their original maturity.

On March 16, 2012, subsequent to the statement of financial position date, we voluntary repaid $310.6 million from $434.8 million outstanding under the credit facility agreement of Bank of Moscow with an original maturity in 2013 (respectively included as maturing in 2013 in the maturity schedule presented above).

In addition, we had capital lease obligations in the amount of $19.8 million and $12.3 million as of December 31, 2010 and 2011, respectively. The terms of our material debt obligations are described in Note 16 to our audited consolidated financial statements.

Table of Contents

Subsequent to December 31, 2011, we repaid approximately $1,308.7 million (based on the ruble and Euro exchange rates as of the payment dates) in short-term and long-term indebtedness.

In addition, Sistema, which currently controls 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 certain of its credit facilities which impose restrictions on Sistema and its restricted subsidiaries, including us, with respect to, among others, incurrence of indebtedness and liens. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Financial Condition Indentures relating to 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."

Consolidated Cash Flow Summary

A summary of our cash flows and cash outlays for capital expenditures and acquisitions of subsidiaries follows:

	Years Ended December 31,		
	2009	2010	2011
	(in thousands of U.S. dollars)		
Cash flows:			
Net cash provided by operating activities	$ 3,592,230	$ 3,617,170	$ 3,849,005
Net cash used in investing activities	(2,372,171)	(2,181,627)	(2,555,039)
Net cash provided by/(used in) financing activities	130,949	(3,036,442)	(270,308)
Effect of exchange rate changes on cash and cash equivalents	42,015	(417)	(100,526)
Net increase/(decrease) in cash	$ 1,393,023	$ (1,601,316)	$ 923,132
Cash outlays for:			
Capital expenditures[(1)]	$ (2,328,309)	$ (2,647,117)	$ (2,584,466)
Acquisition of subsidiaries, net of cash acquired	$ (270,540)	$ (195,106)	$ (219,474)
Cash payments for the acquisition of subsidiaries from related party and non-controlling interests	$ (1,345,820)	$ (739,756)	$ (864,081)

(1) Includes acquisitions of property, plant and equipment and intangible assets.

For the year ended December 31, 2011, net cash provided by operating activities was $3,849.0 million, an increase of 6.4% from the year ended December 31, 2010. This increase was primarily attributable to an increase in total revenues due to the increased usage of mobile services by our subscribers.

	Year Ended December 31, 2010	Year Ended December 31, 2011
Net cash provided by operating activities	**3,617.2**	**3,849.0**
(in millions of U.S. dollars)		
Less:		
Purchases of property, plant and equipment	(1,914.3)	(2,239.8)
Purchases of intangible assets	(732.8)	(344.7)
Proceeds from sale of property, plant and equipment	6.8	22.6
Proceeds from / (purchases of) other investments	749.7	(44.2)
Investments in and advances to associates	(2.9)	3.0
Acquisition of subsidiaries, net of cash acquired	(195.1)	(219.5)
Free cash flow	**1,528.6**	**1,026.4**

Table of Contents

Net cash used in investing activities in the year ended December 31, 2011 was $2,555.0 million, an increase of 17.1% from the year ended December 31, 2010. The increase was mainly due to the decrease of proceeds from the sale of other investments, which in 2010 included a one-off effect from the sale of shares in Svyazinvest in the amount of $843.2 million. Net cash used on purchases of property, plant and equipment and intangible assets in the year ended December 31, 2011, decreased by $62.7 million. The cash inflow relating to short term investments in the form of deposits and loans increased by $359.7 million.

Net cash used in financing activities in the year ended December 31, 2011 was $270.3 million, compared to $3,036.4 million used in the year ended December 31, 2010. The change was due to a significant decrease in proceeds from loans and issuance of notes (by $2,127.8 million), coupled with the increase in cash payments made for the acquisition of non-controlling interest in existing subsidiaries (by $124.3 million) and dividends paid (by $264.0 million), partially offset by the lower amount of loan principal and notes paid (by $5,284.0 million) during the year.

For the year ended December 31, 2010, net cash provided by operating activities was $3,617.2 million, an increase of 0.7% from the year ended December 31, 2009. This increase was primarily attributable to an increase in total revenues due to the growth of our subscriber base and the resulting increased usage of mobile services by our subscribers.

Net cash used in investing activities in the year ended December 31, 2010 was $2,181.6 million, a decrease of 8.0% from the year ended December 31, 2009. The change was mainly due to a decrease in cash spent on the acquisition of subsidiaries. Net cash used on purchases of property, plant and equipment and intangible assets in the year ended December 31, 2010 increased by $318.8 million. The cash outflow relating to short term and other investments in the form of deposits and loans also increased by $267.2 million. The effect of higher investing was partially offset by cash inflow from the sale of shares in Svyazinvest, which amounted to $843.2 million.

Net cash used in financing activities in the year ended December 31, 2010 was $3,036.4 million, compared to $130.9 million provided in the year ended December 31, 2009. The change was due to a significant increase in loan principal and notes paid during the year (by $3,904.3 million), partially offset by lower cash payments made for the acquisition of subsidiaries from related parties (by $606.1 million).

Liquidity

As of December 31, 2011, we had total cash and cash equivalents of $1,850.8 million ($1,234.2 million in rubles, $423.5 million in U.S. dollars, $28.4 million in euros, $10.9 million in Ukrainian hryvnias, $150.5 million in Uzbek soms, $1.5 million in Turkmenistan manat, $1.6 million in Armenian dram and $0.1 million in other foreign currencies). In addition, as of December 31, 2011, we had short-term investments of $86.2 million, mostly in deposits in various banks. We also had $1,321.3 million available under existing credit facilities as of December 31, 2011. For a description of our outstanding external financing, see Note 16 to our audited consolidated financial statements.

As of December 31, 2011, we had a working capital surplus of $272.8 million compared to a deficit of $38.5 million as of December 31, 2010. The increase in working capital was mainly attributable to an increase in our total cash and cash equivalents by $923.1 million, increase in other current assets by $23.0 million, trade and VAT receivables by $65.7 and $26.3 million, respectively, and the decrease in accrued expenses and other liabilities by $146.0 million and $26.8 million, respectively, partially offset by an increase of the current debt balance by $400.7 million, by an increase of the trade accounts payable balance by $170.1 million, the decrease in the short term investments by $247.4 million, the decrease in inventories by $28.9 million and the decrease in the current deferred tax asset by $45.0 million.

Table of Contents

We expect to repay all long-term debts as they become due from our operating cash flows or through re-financings. We believe that our working capital, together with our plans for external financing, will provide us with sufficient funds for our present requirements.

Russian law requires that dividends can only be paid in an amount not exceeding net profits as determined under Russian accounting standards, denominated in rubles, after certain deductions. In addition, dividends may only be paid if the value of the company's net assets is not less than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred stock of the company, if any, as determined under Russian accounting standards. Our net income under Russian accounting standards for the years ended December 31, 2009, 2010 and 2011 that was distributable under Russian legislation amounted to $1,055.4 million, $903.2 million and $1,731.6 million, respectively.

Credit Rating Discussion

Our credit ratings impact our ability to obtain short- and long-term financing, and the cost of such financing, and credit rating downgrades may require us to prepay certain loans. In determining our credit ratings, the rating agencies consider a number of factors, including our operating cash flows, total debt outstanding, commitments, interest requirements, liquidity needs and availability of liquidity. Other factors considered may include our business strategy, the condition of our industry and our position within the industry and the strategy, activity and/or credit rating of Sistema. Although we understand that these and other factors are among those considered by the rating agencies, each agency might calculate and weigh each factor differently. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Our controlling shareholder has the ability to take actions that may conflict with the interests of holders of our securities."

Critical Accounting Policies and Estimates

Our significant accounting policies are disclosed in Note 2 to our audited consolidated financial statements. Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe our most critical accounting policies and estimated are those discussed below.

Management estimates

The preparation of our audited consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Our significant estimates include the allowance for doubtful accounts, allowance for inventory obsolescence, valuation of assets acquired and liabilities assumed in business combinations, income tax benefits, the recoverability of goodwill, intangible assets and other long-lived assets, certain accrued liabilities and valuation of financial instruments.

Useful Lives of Property Plant and Equipment

We calculate depreciation expense for property, plant and equipment on a straight-line basis over their estimated useful lives. We establish useful lives for each category of property, plant and equipment based on our assessment of the use of the assets and anticipated technology evolution. We review and revise if appropriate the assumptions used in the determination of useful lives of property,

Table of Contents

plant and equipment at least on an annual basis. With regard to certain equipment, we cannot predict with certainty how and when developing technology will require us to replace such equipment.

Impairment of Long-lived Assets

We periodically evaluate the recoverability of the carrying amount of our long-lived assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, we compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, we record impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Impairment of property, plant and equipment and intangible assets amounted to $75.1 million, $127.9 million and $19.0 for the years ended December 31, 2009, 2010 and 2011, respectively. See also Note 2 to our audited consolidated financial statements.

Investments impairment

Management periodically assesses the recoverability of the carrying values of investments and, if necessary, records impairment losses to write the investments down to fair value. In 2009, we recorded an impairment loss of $349.4 million relating to Comstar's investment in Svyazinvest and a $21.2 million loss relating to our investment in Tammaron Ltd. See Notes 14 to our audited consolidated financial statements.

Impairment of Goodwill

Goodwill represents an excess of the consideration paid over the fair market value of net identifiable assets acquired in a purchase business combination and is not amortized. Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. We determine whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with the authoritative guidance on intangibles, and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If an impairment of goodwill has occurred, we recognize a loss for the difference between the carrying amount and the implied fair value of goodwill. As of December 31, 2011, the fair value was significantly in excess of the carrying value for all reporting units with the exception of Uzbekistan and Armenia and the carrying value of goodwill attributable to these reporting units is less than 2% of our total assets. See Note 11 to our audited consolidated financial statements.

Taxation

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. While most of our tax declarations have been inspected without significant penalties, these inspections do not eliminate the possibility of re-inspection.

We believe that we have adequately provided for tax liabilities in our financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. See Note 27 to our audited consolidated financial statements.

We recognize deferred tax assets and liabilities for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and for the loss or tax credit carry-forwards using enacted tax rates expected to be in effect at the time these differences are realized. We record valuation allowances for deferred tax assets when it is likely that these assets will not be realized.

Table of Contents

New Accounting Pronouncements

There were no accounting pronouncements during the year ended December 31, 2011, that had or may have a material impact on our financial position, operating results and disclosures. See Note 2 to our audited consolidated financial statements.

C. Research and Development, Patents and Licenses, etc.

Not applicable.

D. Trend Information

Sales

In 2011, our revenues in Russia and Ukraine increased by 12.9% and 6.5%, respectively. Our mobile subscriber base remained stable and amounted to approximately 101.1 million subscribers as of December 31, 2011. We expect our consolidated subscriber base to grow in 2012 as a result of continued marketing and advertising activity. We anticipate our consolidated revenues will increase in 2012 based on growth in voice and data usage, increase in regulated tariffs for MGTS voice services that took effect from March 1, 2012, and the development of our broadband business in the regions. However, foreign exchange volatility could have a negative effect on our U.S. dollar-denominated revenues in 2012.

Average monthly service revenue per subscriber in Russia increased to $9.3 for the year ended December 31, 2011, from $8.3 for the year ended December 31, 2010. Average monthly minutes of use per subscriber in Russia increased to 269 minutes in 2011 from 234 minutes in 2010 mainly due to marketing campaigns and tariff promotions aimed at increasing voice traffic. We expect average monthly service revenue per subscriber in Russia to increase in 2012 as subscribers adapt to the new conditions following the impact of the economic slowdown during which they migrated to cheaper tariffs and decreased their usage of premium services. We also believe that average monthly minutes of use per subscriber will continue to grow due to our efforts aimed at stimulating on-net traffic.

In Ukraine, our subscriber base increased to approximately 19.5 million subscribers as of December 31, 2011, from 18.2 million subscribers as of December 31, 2010. In Ukraine, average monthly service revenue per subscriber increased slightly to UAH 38.8 ($4.9 in 2011; $4.8 in 2010). The average monthly minutes of use per subscriber increased from 535 minutes in 2010 to 580 minutes in 2011 due to the introduction and promotion of a wide range of attractive tariffs aimed at stimulating traffic, such as inexpensive on-net calling rates. In 2012, we expect revenues to increase mainly due to robust customer growth. We expect the average monthly minutes of use per subscriber will remain stable in 2012. We expect MTS Ukraine's subscriber base to increase in 2012 due to an attractive price to value ratio, a policy of regionalization and the ongoing development of new customer segments.

Our subscriber base in Uzbekistan and Armenia grew by 0.4 million to 11.7 million subscribers in 2011, compared to approximately 11.3 million subscribers in 2010. Of these countries, Uzbekistan had the largest subscriber base, with approximately 9.3 million subscribers as of December 31, 2011, as well as the most significant growth, with a 0.5 million increase in its subscriber base in 2011 compared to 2010. We expect that our subscriber base will continue to grow in Uzbekistan, which has low penetration rates relative to Russia and Ukraine. However, the rate of growth may be impacted by continued macroeconomic volatility and increasingly competitive operating environments. The average monthly service revenue per subscriber decreased from $4.7 in 2010 to $4.0 in 2011 for Uzbekistan, and from 2,812.3 dram ($7.5) to 2,541.3 dram ($6.8) in Armenia, as rising penetration often leads to the addition of lower-value subscribers to the network. The decrease was mainly attributable to a decline in tariffs. We expect the average monthly service revenue per subscriber in Uzbekistan and Armenia to continue declining mainly due to the growth of competition on these markets which may, in turn, lead

Table of Contents

to decreasing tariffs, the addition of lower-value mass market subscribers, as well as increasing market penetration and multiple SIM-card usage per person.

Russia and Ukraine are the two largest markets for us, both in terms of subscribers and revenue. In 2011, the underlying developments within these markets remained generally positive and included high mobile penetration, strong demand for mobile services, generally positive usage trends and increased consumption of data services and value-added services. In 2011, business activity increased in Russia and Ukraine, the unemployment rate declined, consumption and spending grew and the ruble appreciated against the U.S. dollar. We expect these macroeconomic trends in Russia and Ukraine to continue throughout 2012.

We expect a challenging operating environment in 2012 due to continued macroeconomic and market volatility in the countries where we operate, increasing competition and significant changes in the mobile retail market in Russia. We also experienced significant exchange rate volatility and depreciation of local currencies in the countries where we operate against the U.S. dollar. The volatility and devaluation of local currencies against the U.S. dollar and/or euro may adversely affect our revenues reported in U.S. dollars and increase our costs, including our non-cash foreign exchange loss due to the translation of our U.S. dollar- and euro- denominated debt. For further information on these risks, see " A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Currency Fluctuation," and "Item 3. Key Information D. Risk Factors Risks Relating to Our Financial Condition Inflation could increase our costs and adversely affect our results of operations."

However, considering current macroeconomic conditions, our management believes that we will experience medium- and long-term growth and efficiency. Due to the fact that the Russian and the Ukrainian markets are highly penetrated, we believe the next wave of revenue growth for the overall market is likely to come from customers' increasing use of data, content and other value-added services.

Churn

We define churn as the total number of subscribers who cease to be a subscriber during the period (whether involuntarily due to non-payment or voluntarily), expressed as a percentage of the average number of our subscribers during that period.

A vast majority of our subscribers are pre-paid subscribers with no contractual commitment to us. As a result, these subscribers have unfettered freedom to migrate between operators at their convenience. This freedom, combined with the relative ease with which subscribers can obtain SIM-cards, contributes to churn and increasing penetration levels in the markets where we operate.

The churn rate is highly dependent on competition in our license areas and those subscribers who migrate as a result of such competition. Our churn rate in Russia slightly increased to 47.6% during the year ended December 31, 2011, as compared to 45.9% for the year ended December 31, 2010, as consumers became more price sensitive and more likely to switch tariffs and operators for lower-priced tariff plans and offers due to the competitive environment. We expect that the development and expansion of our proprietary monobrand retail network in Russia will enable us to reduce our churn rate in 2012, stimulate value-added services usage and promote subscriber loyalty through superior customer service.

The churn rate in Ukraine decreased to 30.7% for the year ended December 31, 2011, from 31.0% for the year ended December 31, 2010. This decrease was achieved by adjusting and changing our tariffs in response to changes in the market and economic environment and focusing on subscriber base management.

Table of Contents

E. Off-balance Sheet Arrangements

We believe that our existing off-balance sheet arrangements do not have and are not reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Obligations under derivative contracts

Cash flow hedging

In 2007, 2008 and 2009, we entered into variable-to-fixed interest rate swap agreements to manage the exposure to changes in variable interest rate related to debt obligations. The instruments qualify for cash flow hedge accounting under U.S. GAAP requirements. Each interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective hedges. Interest rate swap contracts outstanding as of December 31, 2011, mature in 2012-2015.

In 2009, we entered into several cross-currency interest rate swap agreements with various banks. These contracts hedge the risk of both interest rate and currency fluctuations and assume periodical exchanges of both principal and interest payments from ruble-denominated amounts to U.S. dollar- and euro-denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. These contracts also include an interest rate swap of a fixed U.S. dollar- and euro-denominated interest rate to a fixed ruble-denominated interest rate. The instruments are qualified for cash flow hedge accounting under the U.S. GAAP requirements. Each cross-currency interest swap matches the interest and principal payments of the underlying debt allowing for highly effective hedges. Our cross-currency interest rate swap contracts outstanding as of December 31, 2010, matured in 2011.

Derivative instruments not designated as hedges

Foreign currency contracts

In 2009 and 2010, we entered into foreign currency option agreements with HSBC and BNP Paribas to manage our exposure to changes in currency exchange rates related to our U.S. dollar-denominated debt obligations. According to the agreements, we have put and call option rights to acquire $330.0 million in U.S. dollars at rates within a range specified in contracts. These contracts were not designated for hedge accounting purposes. These currency option agreements matured in 2011 and 2012.

Option agreements

On December 23, 2010, simultaneously with the meeting of MTS' shareholders, the meeting of Comstar-UTS' shareholders approved the reorganization of Comstar-UTS through the statutory merger into MTS OJSC. In accordance with Russian legislation, shareholders who voted against or did not vote have the right to sell their shares back to us for cash at a price set by our Boards of Directors, subject to the statutory limit of 10% of our net asset value under Russian Accounting Standards. Eligible shareholders must file a buyout demand no later within no later than 45 (forty five) days after the adoption of the resolution on reorganization. The buy-out of shares shall be carried out within 30 days after the expiry of the period set for the buyout demand being made. The fair value of our liability under the put option as of December 31, 2010, was estimated at $11.6 million using an option pricing model. The put option was exercised in 2011.

Table of Contents

F. Tabular Disclosure of Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, capital lease obligations (including interest) and certain committed obligations. The following table summarizes our future obligations under these contracts due by the periods indicated as of December 31, 2011:

	Payments due by period				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(amounts in thousands of U.S. dollars)				
Contractual Obligations:[1]					
Long-Term Principal Debt Obligations	1,148,905	2,032,223	3,151,565	2,370,195	8,702,888
Interest Payments[2]	636,377	1,011,562	694,356	347,409	2,689,704
Capital Lease Obligations	9,825	9,898	71	0	19,794
Operating Lease Obligations	249,334	117,897	28,439	74,525	470,195
Purchase Obligations[3]	607,288	38,985	23	153	646,449
Asset retirement obligation				69,717	69,717
Retirement and post-retirement obligation	2,386	6,810	7,637	20,851	37,684
Payments related to business acquisitions	6,857				6,857
Uncertain Income Tax Position	16,338				16,338
Total	2,677,310	3,217,375	3,882,091	2,882,850	12,659,626

(1) Debt payments could be accelerated upon violation of covenants in our debt agreements.

(2) Interest payments are calculated based on indebtedness as of December 31, 2011, scheduled maturities for the debt and interest rates effective as of December 31, 2011. We calculate interest payments on ruble-denominated bonds until the dates of their respective put options, as described in Note 16 to our audited consolidated financial statements. Payments under interest rate swap agreements are excluded from the table as their amount and timing cannot be reasonably estimated.

(3) Includes future payments under purchase agreements to acquire property, plant and equipment, intangible assets, costs related thereto, inventory and services. In August 2008, we entered into an agreement with Apple Sales International to buy 1.5 million iPhone handsets at list prices at the dates of respective purchases over the three year period. As of December 31, 2011, we made 28.6% of our total purchase installment contemplated by the agreement. The amounts in the table do not include our obligation, if any, to purchase iPhones under our agreement with Apple as we are unable to reasonably estimate the amount and timing of such obligation. We plan to finance our capital commitments through operating cash flow and additional borrowings.

Table of Contents

Item 6. ***Directors, Senior Management and Employees***

A. Directors and Senior Management Key Biographies

Key Biographies

Our directors and executive officers, their dates of birth and positions as of the date of this document were as follows:

Name	Year of Birth	Position
Ron Sommer	1949	Chairman of the Board, Non-Executive Director
Alexei N. Buyanov	1969	Deputy Chairman of the Board, Non-Executive Director
Anton V. Abugov	1976	Non-Executive Director
Charles W. Dunstone[(1)]	1964	Non-Executive Independent Director
Stanley P. Miller[(1)(2)]	1958	Non-Executive Independent Director
Paul J. Ostling[(1)(2)]	1948	Non-Executive Independent Director
Felix V. Evtushenkov	1978	Non-Executive Director
Mikhail V. Shamolin	1970	Non-Executive Director
Andrei A. Dubovskov[(3)]	1966	Executive Director, President and Chief Executive Officer ("CEO")
Alexey V. Kornya[(3)(4)]	1975	Vice President Chief Financial Officer ("CFO")
Andrei E. Ushatskiy[(3)]	1974	Vice President Chief Technology Officer
Frederic Vanoosthuyze[(3)]	1973	Vice President Information Technology
Alexander V. Popovskiy[(3)]	1977	Vice President Chief Operating Officer ("COO")
Vasil I. Latsanych[(3)]	1972	Vice President Marketing
Nataliya L. Bereza[(3)]	1975	Vice President Human Resources
Oleg Y. Raspopov[(3)]	1966	Vice President Director of "MTS Foreign Subsidiaries" Business Unit
Dr. Michael Hecker[(3)]	1970	Vice President Strategy, Mergers and Acquisitions (M&A) and Corporate Development
Ruslan S. Ibragimov[(3)(4)]	1963	Vice President Corporate and Legal Matters
Vadim E. Savchenko[(3)]	1974	Vice President Sales and Customer Service
Valery V. Shorzhin	1963	Director, Procurement Management

(1) Member of the Remuneration and Nomination Committee.

(2) Member of Audit Committee.

(3) Member of Management Board.

(4) Member of Disclosure Committee.

Ron Sommer has served as Chairman of our Board of Directors since June 2009. Mr. Sommer has served as First Vice President Head of Telecommunications Assets Operating Unit of Sistema since May 2009 till 2011. He is currently a member of the Board of Directors of Sistema and serves as Chairman of the Board of Directors of various Sistema-affiliated companies, including Sistema Shyam Teleservices Ltd. He is also a member of the Board of Directors of Tata Consultancy Services, a member of the Supervisory Board of Munich Reinsurance, and a member of the International Advisory Board of The Blackstone Group. In 2009, he served as Chairman of the Board of Directors of Comstar. Between May 1995 and July 2002, he was CEO of Deutsche Telekom AG. From 1980 to 1995, he held a number of positions with Sony Corporation, including as CEO of Sony Deutschland, COO of Sony Corporation of America and COO of Sony Europe.

Alexei N. Buyanov has served as one of our Directors since June 2003 and as Deputy Chairman of the Board since June 2009. He served as Chairman of our Board of Directors from June 2007 until

Table of Contents

February 2008. Mr. Buyanov has served as Senior Vice President and Chief of the Finance and Investments Department of Sistema since April 2005. From 2002 to 2005, he served as First Vice President of Sistema. From 1998 to 2002, he served as our Vice President for Investments and Securities. He also serves on the Board of Directors of various other companies affiliated with Sistema, including MFB, ANK Bashneft, Ecu Gest Holding S.A. and MBRD (as Chairman of the Board of Directors).

Anton V. Abugov has served as one of our Directors since June 2008. In addition, Mr. Abugov serves on the Board of Directors of various other companies affiliated with Sistema, including ANK Bashneft, Bashkirenergo and NK RussNeft. Since 2006, Mr. Abugov has served as First Vice President and Head of Strategy and Development at Sistema. He is also a member of the Strategy Committee and the Investor Relations Committee at Sistema and is a member of our Strategy Committee. Between 2003 and 2006, he was Managing Director of AKB Rosbank and head of its Corporate Finance Department. Between 1997 and 2006, he was a Strategy Consultant at the TAIF Group of Companies. From 1995 to 2002, he worked for the United Financial Group ("UFG") in different positions, including head of corporate finance from 1999 to 2002.

Charles W. Dunstone has served as one of our Directors since June 24, 2010. Mr. Dunstone is the founder of Carphone Warehouse, one of the largest mobile phone retailers in Europe, where he served as CEO from 1989 to 2010. He was also the founder of TalkTalk Telecom Group PLC (a company formerly part of Carphone Warehouse until the two companies split in March 2010), a provider of residential fixed line telephone and broadband services, where he served as CEO from 2003 to 2010. Mr. Dunstone currently serves as Director General at Royal Parks Foundation and the Fulwood Academy; Chairman of the Board of Directors of Jensen International Automotive Limited; member of the Board of Directors of Daily Mail and General Trust, Allied Developments LTD., Clareville Capital Partners LLP, Best Buy Europe Distributions Limited, TalkTalk Group Limited, Carphone Warehouse Resources Limited, TalkTalk TelecomGroup PLC and other organizations.

Stanley P. Miller has served as one of our Directors since June 24, 2010. From 1998 to 2010, Mr. Miller served as CEO at KPN, Netherlands (since 2005, KPN Mobile International). From 2005 to 2010, he served as CEO and Chairman of the Supervisory Board at E-Plus, a subsidiary of KPN and the third largest provider of mobile telephony services in Germany. From 2001 to 2010, Mr. Miller was CEO and Chairman of the Board at BASE, Belgium, a subsidiary of KPN and the third largest provider of mobile telephony services in Belgium operating under the Simyo and Ortel Mobile brands. From 1998 to 2010, he served as a member of the Board of Directors of Hutchison 3G UK Ltd, IP Global Net NV and VESTA Technologies. Mr. Miller also serves as the Chairman of the Board of Directors of AINMT (AB) Sweden, KPN Royal N.V., E-Plus GmbH Germany, Arrow Creek Investments 75 (PTY) LTD South Africa.

Paul J. Ostling has served as one of our Directors since June 2007. Prior to joining us, Mr. Ostling served as the Global COO at Ernst & Young from 2003 to 2007. From 1977 to 2007, he held a number of positions at Ernst & Young, including Global Executive Partner from 1994 to 2003; Vice Chairman and National Director of Human Resources from 1985 to 1994; and Associate and Assistant General Counsel from 1977 to 1985. Between 2007 and 2009, Mr. Ostling was the CEO of KUNGUR Oilfield Equipment & Services. Mr. Ostling currently serves as the General Director of Phoenix Neftegaz Service. In addition, he serves as a member of the Boards of Directors of Innolume GmbH, East Line Domodedovo (DME Limited) and OJSC Uralkali, the Vice-Chairman of the Business Council for International Understanding, Chairman of the Board of Directors of Imagine Entertainment Music and the Deputy Chairman of the Board of Directors of Cool NRG.

Felix V. Evtushenkov has served as one of our Directors since June 2011. From 1999 to 2000, he was Executive Director of the industrial department of Sistema. From 2000 to 2003, Mr. Evtushenkov held a number of positions at Sistema-Hals. He headed Sistema-Hals from 2003 to 2008. In June 2008, he

Table of Contents

became Chairman of the Board of Directors of Sistema-Hals. In July 2008 he became Vice President of Sistema and Head of Consumer Assets Business Unit. In April 2011, Mr. Evtushenkov was appointed First Vice President of Sistema, Head of Core Assets Business Unit.

Mikhail V. Shamolin has served as one of our Directors since October 2008. Since March 2011, Mr. Shamolin has also served as President of Sistema. He served as our President and CEO from May 2008 to March 2011. From August 2006 to May 2008, Mr. Shamolin served as our Vice President Director of MTS Russia Business Unit. From July 2005 to August 2006, he served as our Vice President Sales and Customer Service. From 2004 to 2005, Mr. Shamolin worked at Interpipe Corp. (Ukraine) as Managing Director of the Ferroalloys Division. From 1998 to 2004, he held various consulting positions at McKinsey & Co. Mr. Shamolin has served on the board of the GSM Association since July 2008.

Andrei A. Dubovskov has served as our President and CEO since March 2011. From April 2008 to March 2011, he served as the General Director of MTS Ukraine. From March 2006 to December 2007, Mr. Dubovskov served as Director of Ural macro-region. From January 2005 to March 2006, he served as the Director of one of our subsidiaries in Nizhniy Novgorod. Prior to joining us, Mr. Dubovskov served as the General Director of various telecommunications companies from 1998 to 2005.

Alexey V. Kornya has served as our Vice President CFO since June 2010. Prior to that, he served as our Acting Vice President Finance and Investments from August 2008. Mr. Kornya serves as our Chief Financial Officer. He is a member of our Management Board and a member of the Management Board of RTC and a member of the Board of Directors of SOOO CJSC. He is also a member of the Supervisory Board at MTS Ukraine. From March 2007 to December 2009, he served as our Chief Financial Controller. He served as our Financial Planning and Analysis Director from November 2004 to March 2007 and as CFO of our Urals Macro-Region branch from July 2004 to November 2004.

Andrei E. Ushatsky has served as our Vice President Chief Technology Officer since April 2009. Mr. Ushatsky joined us in 1996 and has served in various technology-related positions, most recently as the Deputy Head of MTS Russia for Technology.

Frederic Vanoosthuyze has served as our Vice President Information Technology since February 2010. Prior to joining us, Mr. Vanoosthuyze served as Group Chief Information Officer at Millicom International Cellular S.A. (Luxembourg) from 2006 to 2009. From 1995 to 2006, he held various positions at Siemens Atea, Alcatel Bell and KPN Group Belgium.

Alexander V. Popovskiy has served as our Vice President COO since July 2011. From August 2008 to July 2011, he served as the Director of MTS Russia Business Unit. From June 2007 to August 2008, Mr. Popovskiy served as the head of the South macro-region, and from July 2004 to June 2007, he served as the head of the Povolzhye North-West macro-region. He joined us in April 2001 as director of operations in the town of Kirov.

Vasil I. Latsanych has served as our Vice President Marketing since September 2011. He served as Acting Head MTS Ukraine since March 2011 until September 2011. From October 2005 to March 2011, Mr. Latsanych served as Marketing Director of MTS Ukraine. Prior to joining us, Mr. Latsanych served as Marketing Director at Coca-Cola Bottlers Siberia and Coca-Cola Krasnoyarsk. From 1996 to 1999, Mr. Latsanych held various management positions at Coca-Cola Amatil Ukraine Ltd and Coca-Cola Beverages Ukraine.

Nataliya L. Bereza has served as our Vice President Human Resources since July 2011. Ms. Bereza was appointed to the position of the Director of Human Resources of MTS Ukraine in 2007. She joined MTS in September 2006 when she headed the personnel training and development function. Prior to joining MTS Ukraine, Ms. Bereza worked for four years at Kraft Foods (Ukraine) and more than two years in the British American Tobacco (Ukraine), where she occupied various positions in the field of human resources. She is a member of a number of professional associations in

Table of Contents

the area of human resources management, including the European Business Association and the American Chamber of Commerce in Ukraine.

Oleg Y. Raspopov has served as our Vice President Director of "MTS Foreign Subsidiaries" Business Unit since January 2008. From June 2006 to March 2007, Mr. Raspopov served as our Director for managing of external resources. From April 2007 to December 2007, he served as our acting Vice President Director of "MTS Foreign Subsidiaries" Business Unit. In 2004, he founded and managed the insurance brokerage house Energoprotection. From 2002 to 2004, Mr. Raspopov served as an Advisor to the CFO of RAO UES of Russia and as member of the board of directors of several companies affiliated with RAO UES, such as Ren-TV and LEADER Insurance Co. From 2001 to 2002, he worked as a lawyer at Gazpromenergoservice.

Dr. Michael Hecker has served as our Vice President Strategy, M&A and Corporate Development since January 2010. From April 2008 to January 2010, Dr. Hecker served as our Vice President Strategy and Corporate Development. From May 2006 to April 2008, he served as the Head of our Strategy Department and the Director for Strategic Projects. Prior to joining us, Dr. Hecker worked at A.T. Kearney Europe from 2000 to 2006 where he held several consulting positions.

Ruslan S. Ibragimov has served as our Vice President Corporate and Legal Matters since January 2008. From February 2007 to January 2008, Mr. Ibragimov served as our Director Chief Legal Counsel. He joined us in June 2006 and initially served as the Director for legal matters, as well as headed our Legal Department. Prior to joining us, Mr. Ibragimov was a member of the law firm Ibragimov, Kagan and Partners from July 2002 to June 2006. From 1997 to 2002, he served as Deputy General Director and Senior Partner at RSM Top-Audit, a tax and legal consulting firm. From 1992 to 1996, Mr. Ibragimov headed legal departments at various commercial banks.

Vadim E. Savchenko has served as our Vice President Sales and Customer Service since July 2011. In November 2008, Mr. Savchenko became the Director of Sales at MTS Ukraine. Mr. Savchenko first joined MTS in 2005, when he assumed the position of the director of the department in charge of partner relations at macro-region "Ural" until 2007. From 2007 to 2008 he was the director of the Urals branch of OJSC "HARDWARE-Retail." Mr. Savchenko has over 15 years of operational experience in sales from the coordinator of the sales department to the director of a branch in such companies as Pepsi International Bottlers LLC, Joint Stock Company "JTI" and OJSC "Vienna."

Valery V. Shorzhin has served as Director for Procurement Management, Member of the Management Board at MTS since March 2011 till October 2011. He had also been a Member of the MTS Management Board between 2009 and 2010. From 2008 to 2011, he served as Director of Information Technology. Prior to joining MTS, Mr. Shorzhin held the positions of Technical Director and Director for IT and Information Management of Farlep-Invest in Ukraine from December 2006. From 2003 to 2006, he held various information technology management positions at Sovintel.

Our directors were elected at the annual general shareholders' meeting on June 27, 2011 and will serve until their terms expire at the next annual shareholders' meeting, which will take place on June 27, 2012. The business address of each of our directors is 4 Marksistkaya Street, Moscow 109147, Russian Federation.

B. Compensation of Directors and Senior Management

Our officers and directors were paid during 2011 an aggregate amount of approximately $21.5 million for services in all capacities provided to us; this amount comprised $12.2 million in base salaries and $9.3 million in bonuses paid pursuant to a bonus plan and in other monetary compensations for the management and directors. Bonuses are awarded annually based on our financial performance.

Table of Contents

Our management and directors are also entitled to monetary remuneration based on the quoted prices of our ADS on the NYSE. Related compensation accrued in 2011 amounted to $16.0 million. For additional information, see Note 2 to our audited consolidated financial statements.

In 2009, we amended our Regulation on Remuneration and Compensation of the Members of the Board of Directors to provide that only independent non-executive directors receive compensation. Members of the Board of Directors who are independent non-executive directors receive annual base compensation of $250,000 (or $275,000 in the case of an independent non-executive director who serves as Chairman of the Board of Directors).

Independent non-executive directors who also serve on Board committees receive additional compensation as follows. Members of the Strategy Committee, Remuneration and Nomination Committee, Audit Committee and Committee for Corporate Conduct and Ethics receive additional annual compensation of $15,000, and a director serving as Chairman of the foregoing committees receives additional annual compensation of $25,000. Members of special committees of the Board of Directors, which are committees established for undertaking preliminary consideration and making recommendations to the full Board in relation to certain assigned matters, receive additional annual compensation of $20,000, and a director serving as Chairman of a special committee receives additional annual compensation of $25,000. Members of all other Board committees receive additional annual compensation of $5,000 and a director serving as Chairman of any other Board committee receives additional annual compensation of $10,000.

Independent non-executive members of the Board of Directors are also eligible for an annual bonus of up to a maximum of $200,000 based on our performance and average ADR price over a specified period.

The aggregate amount of compensation received by an independent non-executive director (including annual base compensation, bonus and additional compensation for serving as a Board committee member) should not exceed $500,000. In the event of early termination of a director, such director receives a pro rata share of the base, committee and bonus compensation based on the amount of time the director served on our Board.

We provide all of our directors with professional liability insurance and reimburse them for all documented expenses incurred in connection with their attendance at Board meetings and other expenses of up to $200,000.

C. Board Practices

Board of Directors

Members of our Board of Directors are elected by a majority vote of shareholders at the annual shareholders' meeting using a cumulative voting system. Directors are typically elected by the annual meeting of shareholders for one year until the next annual meeting of shareholders and may be re-elected an unlimited number of times. The Joint Stock Companies Law requires that companies with more than 10,000 holders of voting shares have a board of directors consisting of not less than nine members. Our Board currently consists of nine members. The Board has the authority to make overall management decisions for us, except those matters reserved to the shareholders. It must meet at least once a month, though it may meet more often at its election. The members of our Board have entered into service contracts with us. Other than their entitlement to a pro rata share of their annual compensation and, in the case of independent directors, a pro rata share of their bonus, these contracts do not provide for benefits upon termination of their employment. See " B. Compensation of Directors and Senior Management" for a description of the pro rata payments.

Table of Contents

Audit Committee

Our Audit Committee consists of two members appointed by the Board of Directors. The current members are Stanley Miller and Paul Ostling, both of whom are independent members of the Board of Directors. Mr. Ostling serves as Chairman of the Audit Committee. The Audit Committee is primarily responsible for the integrity of our financial statements; overseeing our internal control system; overseeing our accounting and financial reporting processes and the internal and external audits of our financial statements; recommending the appointment and compensation of the independent auditors to the Board of Directors; overseeing the performance of the auditors; reviewing issues raised by the auditors, management and/or Board of Directors and, as required, making recommendations to the Board of Directors; and resolving matters arising during the course of audits.

According to the bylaws, the Audit Committee shall convene with our external auditors at least four times a year, but may convene more frequently if the Audit Committee chooses to do so.

Remuneration and Nomination Committee

Our Remuneration and Nomination Committee consists of three members appointed by the Board of Directors. The current members are Charles Dunstone, Stanley Miller and Paul Ostling, who serves as Chairman of the Remuneration and Nomination Committee. The Remuneration and Nomination Committee is primarily responsible for developing a remuneration structure and compensation levels for management executives.

According to the bylaws, the Remuneration and Nomination Committee shall be convened by the Chairman of the Remuneration and Nomination Committee, at his sole discretion, or at the suggestion of any member of this committee, a member of the Board of Directors or our President.

President

Our President is elected by the Board of Directors for a term of three years and can be reelected for an unlimited number of terms. The rights, obligations and the times and amounts of payment for the President's services are determined by a contract between him and us, as represented by our Chairman or by a person authorized by our Board of Directors. The President is responsible for day-to-day management of our activities, except for matters reserved to our shareholders or the Board of Directors and the Management Board. The President reports to the shareholders' meeting and to the Board of Directors and is responsible for carrying out decisions made by the shareholders and by the Board of Directors and the Management Board. On March 4, 2011, Andrei A. Dubovskov was elected as our President and CEO, starting from March 5, 2011, by the Board of Directors for a term of three years.

Management Board

In October 2006, we revised our charter to establish a new governing body called the Management Board. The Management Board is an executive body which oversees certain aspects of our ongoing activities. The Management Board can consist of up to 15 members with each member being nominated by the President and approved by the Board of Directors. The Management Board is formed for a period of time determined by the Board of Directors, but the duration of the Management Board's term cannot exceed that of the President, who is elected by the Board of Directors for a term of up to three years. The Chairman of the Management Board is the President. Currently, our Management Board consists of 13 members.

Table of Contents

Disclosure Committee

In April 2007, we established an advisory body called the Disclosure Committee. The Disclosure Committee supervises our compliance with disclosure standards in connection with all public information regarding us. These disclosure standards are based on principles of timeliness, accuracy and completeness. Members of the Disclosure Committee may be nominated by various divisions of MTS, willing to have representatives in the Disclosure Committee. Members are appointed by the President. Alexey Kornya, our CFO, is the Chairman of the Disclosure Committee. Currently, our Disclosure Committee consists of eight members, two of whom are officers of the company.

Information Security Committee

In July 2010, we created a new advisory body called the Information Security Committee. The Information Security Committee coordinates our activities in respect of trade secrets and data privacy protection. The Committee also supervises the compliance of our information systems and internal procedures with applicable legal requirements concerning data privacy protection. The Information Security Committee consists of 11 members. The Chairman of the Information Security Committee is the Vice President Chief Security Officer.

Review Commission

Our Review Commission supervises our financial and operational activities. Members of the Review Commission are nominated and elected by our shareholders at annual meetings of shareholders. A director may not simultaneously be a member of the Review Commission. As of the date of this document, our Review Commission has three members:

- Vassily V. Platoshin, who holds the position of Chief Accountant and Managing Director of the Finance and Investment Complex at Sistema;
- Aleksandr S. Obermeister, who holds the position of Director of Planning and Management Accounting in Finance and Investment Complex at Sistema; and
- Natalia V. Demeshkina, who holds the position of Managing Director of the Internal Audit of Sistema.

The members of our Review Commission serve until their terms expire at the next annual shareholders' meeting, which will take place in June 2012.

Corporate Governance

We are required under the New York Stock Exchange listing rules to disclose any significant differences between the corporate governance practices that we follow under Russian law and applicable listing standards and those followed by U.S. domestic companies under New York Stock Exchange listing standards. This disclosure is posted on our website (http://www.mtsgsm.com/information/corporate_governance/). See also "Item 16G. Corporate Governance."

D. Employees

At December 31, 2011, we had 58,052 employees. Of our 52,300 employees in Russia, we estimate that 599 were executives; 15,587 were technical and maintenance employees; 26,213 were sales, marketing and customer service staff; and 9,901 were administration and finance staff. In addition, of the 52,300 employees in Russia, we estimate that 15,643 were employed in our retail unit.

Table of Contents

As of December 31, 2011, 3,063 of our employees worked in Ukraine. Of these employees, we estimate that 25 were executives; 1,057 were technical and maintenance employees; 1,239 were sales, marketing and customer service staff; and 742 were administration and finance staff.

As of December 31, 2011, 1,419 of our employees worked in Uzbekistan. Of these employees, we estimate that 52 were executives; 374 were technical and maintenance employees; 519 were sales, marketing and customer service staff; and 474 were administration and finance staff.

As of December 31, 2011, 70 of our employees worked in Turkmenistan. Of these employees, we estimate that 12 were executives; 22 were technical and maintenance employees; 3 were sales, marketing and customer service staff; and 33 were administration and finance staff. Since our primary operating license in Turkmenistan was suspended on December 21, 2010, the number of our employees in Turkmenistan decreased significantly. For more information, see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of Barash Communication Technologies, Inc. to resume its 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."

As of December 31, 2011, 1,200 of our employees worked in Armenia. Of these employees, we estimate that 11 were executives; 160 were technical and maintenance employees; 663 were sales, marketing and customer service staff; and 366 were administration and finance staff.

The following chart sets forth the number of our employees at December 31, 2009, 2010 and 2011:

	At December 31,		
	2009	**2010**	**2011**
Russia	47,435	52,561	52,300
Ukraine	3,061	3,051	3,063
Uzbekistan	1,324	1,363	1,419
Turkmenistan	760	904	70
Armenia	1,203	1,193	1,200
Total	53,783	59,072	58,052

Our employees are not unionized, except for 5,830 employees of MGTS, who are members of trade unions. We have not experienced any work stoppages and we consider our relations with employees to be strong.

E. Share Ownership

As of April 1, 2012, our directors, senior management and employees owned less than 1% of our outstanding common stock.

Table of Contents

The following table sets forth information with respect to the beneficial ownership of our common stock as of April 1, 2012, by our current directors and executive officers. All shares of common stock have the same voting rights.

Directors and Executive officers	Beneficial ownership as of April 1, 2012 Number	% [1]
Andrei A. Dubovskov, Executive Director, President and CEO	15,620	0.00079%
Alexander V. Popovskiy, COO	20,717	0.00104%
Ruslan S. Ibragimov, Vice President Corporate and Legal Matters	19,824	0.00100%
Andrei E. Ushatsky, Vice President Chief Technology Officer	14,000	0.00070%
Konstantin V. Markov	14,395	0.00072%
Total	84,556	0.00425%

(1) Percentage of beneficial ownership of each named director and executive officer is based on 1,988,919,177 ordinary shares outstanding as of April 1, 2012.

Item 7. ***Major Shareholders and Related Party Transactions***

A. Major Shareholders

The following table sets forth, as of April 1, 2012, certain information regarding the beneficial ownership of our outstanding common stock. All shares of common stock have the same voting rights.

Name	Beneficial ownership as of March 1, 2012 Number	Percentage
Sistema[1]	636,224,752	31.99%
Sistema Holding Limited	193,509,500	9.73%
STA[2]	220,467,234	11.08%
ADR holders[3]	777,396,505	39.09%
Other Public Float (including our directors and executive officers)[4]	161,321,186	8.11%
Total[5]	1,988,919,177	100.0%

(1) Vladimir P. Evtushenkov has a controlling interest in Sistema, and would be considered under U.S. securities laws as the beneficial owner of our shares held by Sistema, Sistema Holding Limited, and Sistema Telecom Activy ("STA"). Mr. Evtushenkov is also the chairman of the board of directors of Sistema.

(2) STA is a limited liability company formed under the laws of Russia. Sistema owns 100% of STA, which became a holder of our 11.1% beneficial ownership after VAST LLC ("VAST") and Invest-Svyaz CJSC, the previous beneficial owners of this ownership interest, were merged into STA in 2010 and 2011, respectively.

(3) Excludes treasury shares held in the form of ADSs, as described below. As of March 1, 2012, the total number of ADSs outstanding (including 33,997,667 ADSs held by our wholly owned subsidiary, MTS-Bermuda Ltd., which are excluded from the table above) was 388,698,252, representing underlying ownership of 777,396,505 shares, or approximately 39.1% of our outstanding common stock. Of these ADSs, approximately 63.0% were held by U.S. investors as of April 6, 2012. The shares underlying the ADSs are deposited with JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York and the local custodian is ING Eurasia.

(4) We believe that our directors and executive officers as a group own less than 1% of our shares.

(5) Excludes treasury shares, as described below.

As a result of our merger with Comstar, our subsidiary, MGTS, owned 9,496,163 of our ordinary shares as of March 1, 2012. We did not undertake any repurchases of ADSs in the years ended December 31, 2009, 2010 and 2011. A total of 8,000 MTS ordinary shares representing 0.0004% of our

Table of Contents

issued share capital were repurchased for RUB 1.96 million ($70,000 as of March 31, 2011) as part of our reorganization during 2011. See "Item 3. Key information A. Selected Financial Data."

Furthermore, consideration for our acquisition of an additional stake in Comstar in December 2009 comprised cash and 31,816,462 MTS shares.

As of April 1, 2012, we held a total of 77,494,385 shares, of which approximately 87.7% were held in the form of ADSs. These shares are excluded from the total number of shares presented in the table above.

The increase in our treasury shares increased Sistema's effective ownership in us from 52.8% at December 31, 2005 to 54.8% at December 31, 2009. As of December 31, 2011, Sistema's effective ownership in us was 52.8%.

B. Related Party Transactions

Transactions with Sistema and its Affiliates

During 2010, Sky Link, Sistema-Hals, City Hals, a subsidiary of Sistema-Hals, and Svyazinvest ceased to be related to us. Transactions with these companies and their subsidiaries which took place prior to the dates when they became unrelated are disclosed as transactions with related parties.

Sistema Holding Limited

In October 2011, Sistema Holding Limited acquired 4,311,019 of our ADSs in a series of purchases.

Sistema

In November 2009, Sistema issued a promissory note to us as repayment of accrued interest and principal under a loan we had provided to Sistema-Hals, an affiliate of Sistema. The promissory note has an interest rate of 0% and is repayable in 2017. As of December 31, 2011 the amount receivable from Sistema under the promissory note was $19.2 million, and such amount was included under the line item "other investments" in our audited consolidated financial statements.

In June 2010, we accepted a promissory note from Sistema in exchange for a promissory note of Sky Link. The note is interest free and was repaid upon demand in the year ended December 31, 2011.

Svyazinvest

We have entered into various agreements with Svyazinvest and its subsidiaries relating to the provision of interconnect and other services. In connection therewith, during the years ended December 31, 2009 and 2010, we incurred expenses of $29.0 million and $29.2 million, respectively, payable to Svyazinvest, and accrued revenues of $33.9 million and $43.2 million, respectively, from Svyazinvest. During the year ended December 31, 2010, Svyazinvest ceased to be related to us.

Moscow Bank of Reconstruction and Development

We maintain certain number of deposit and loan agreements, with MBRD, a subsidiary of Sistema. As of December 31, 2009, 2010 and 2011, we had cash positions at MBRD in the amount of $963.6 million, $378.7 million and $311.5 million in current accounts, respectively. The interest accrued on the deposits and cash on current accounts for the years ended December 31, 2009, 2010, and 2011, amounted to $25.1 million, $19.7 million and $14.9 million, respectively, and was included as a component of the line item "interest income" in our audited consolidated financial statements.

Table of Contents

Loans payable by us to MBRD amounted to $1.2 million, $0.3 million and $nil as of December 31, 2009, 2010 and 2011, respectively. The interest expense on these loans for the years ended December 31, 2009, 2010, and 2011 amounted to $0.8 million, $nil and $nil, respectively.

In February 2012, MBRD announced its renaming into MTS Bank.

Maxima Advertising Agency

We have contracts for advertising services with Maxima, a subsidiary of Sistema, pursuant to which we incurred expenses of $102.0 million, $76.2 million and $81.9 million for services provided in the years ended December 31, 2009, 2010 and 2011, respectively.

Mediaplanning

We have contracts for advertising services with Mediaplanning, a subsidiary of Sistema, pursuant to which we incurred expenses of $23.8 million, $59.2 million and $1.0 million for services provided in the years ended December 31, 2009, 2010 and 2011, respectively. In the year ended December 31, 2011, we ceased our relationship with this contractor.

Mezhregion Tranzit Telecom (MTT)

During the years ended December 31, 2009, 2010 and 2011, we had interconnect and line rental agreements with MTT, an affiliate of Sistema. Revenues accrued thereunder from MTT for the years ended December 31, 2009, 2010 and 2011 amounted to $11.5 million, $nil and $nil, respectively, and expenses incurred to MTT for the years ended December 31, 2009, 2010 and 2011, amounted to $18.1 million, $nil and $nil, respectively. During the year ended December 31, 2009, MTT ceased to be related to us.

Sitronics

During the years ended December 31, 2009, 2010 and 2011, we purchased telecommunication equipment, software and billing systems from Sitronics, a subsidiary of Sistema, and its subsidiaries, for approximately $190.1 million, $272.6 million and $503.2 million, respectively. In addition, during the years ended December 31, 2009, 2010 and 2011, we purchased SIM cards and prepaid phone cards from Sitronics Smart Technologies, a subsidiary of Sitronics, for approximately $32.4 million, $29.9 million and $79.5 million, respectively, and we incurred expenses of $52.2 million, $56.6 million and $48.0 million, respectively, to Sitronics under an IT consulting agreement. As of December 31, 2009, 2010 and 2011, advances made by us to Sitronics and its subsidiaries amounted to $23.7 million, $144.6 million and $57.6 million, respectively.

Sistema Mass Media ("SMM")

During the year ended December 31, 2009, we had various loans and promissory notes payable to SMM, a subsidiary of Sistema. As of December 31, 2009, these loans and promissory notes were repaid in full. Interest expense on the loans and promissory notes for the year ended December 31, 2009, amounted to $1.4 million.

City Hals

During the years ended December 31, 2009 and 2010, City Hals, a subsidiary of Sistema, provided rent, repair, maintenance and cleaning services to us, for which we incurred expenses to City Hals of approximately $10.0 million and $9.5 million, respectively. During the year ended December 31, 2010, City Hals ceased to be related to us.

Table of Contents

Invest-Svyaz-Holding

We entered into several agreements with Invest-Svyaz-Holding, a subsidiary of Sistema, for the leasing of network equipment and billing system. The leases were recorded as capital leases in compliance with authoritative guidance on leases. The value of leased assets is insignificant.

Alt, Delfa and Finexcort

In December 2008, we purchased promissory notes issued by Alt and Delfa, both related parties of Sistema, and Finexcort, a subsidiary of Sistema. As of December 31, 2008, the total amount of $221.2 million was included under the line item "short-term investments" in our audited consolidated financial statements in respect of these promissory notes. These promissory notes, together with interest accrued, were redeemed and paid in full in the first quarter of 2009.

AB Safety

During the years ended December 31, 2009, 2010 and 2011, we paid $5.6 million, $9.3 million and $10.1 million, respectively, to AB Safety, an affiliate of Sistema, for the provision of security services.

Sky Link and subsidiaries

During the years ended December 31, 2009 and 2010, we accrued revenues from interconnect agreements with Sky Link, an affiliate of Sistema, and its subsidiaries, amounting to $9.9 million and $7.4 million, respectively.

During the years ended December 31, 2008 and 2009, Sky Link paid $3.4 million and $14.3 million, respectively, to us in respect of outstanding indebtedness which resulted in the partial reversal of a provision for uncollectable loan recorded in 2007 and the recognition of a gain of $4.3 million in our audited consolidated financial statements for the year ended December 31, 2009. As a result of such payments, the amount recorded in our audited consolidated financial statements under the line item "short-term investments" reflecting outstanding loan amount payable by Sky Link was reduced from $10.5 million as of December 31, 2008 to $nil as of December 31, 2009. During the year ended December 31, 2010, Sky Link and its subsidiaries ceased to be related to us.

Sistema-Hals

In October 2008, we entered into an agreement for the construction of an aerial system in the Moscow metro with Sistema-Hals, an affiliate of Sistema. As of December 31, 2008 and 2009, advances given to Sistema-Hals under this agreement amounted to $11.7 million and $6.7 million, respectively, which was included under the line item "property, plant and equipment" in our audited consolidated financial statements.

MGTS entered into a series of agreements with Sistema-Hals in connection with the reconstruction and development of buildings housing MGTS's automatic telephone exchanges. As of December 31, 2008 and 2009, as a result of work performed under such agreements, MGTS recorded a liability of $36.8 million and $38.3 million, respectively, payable to Sistema-Hals.

The amount of $16.7 million was recorded in our audited consolidated financial statements for the year ended December 31, 2008, under the line item "short-term investments" reflecting an outstanding loan between us and Sistema-Hals with an interest rate of 11.0% and maturing in December 2009. In November 2009, the outstanding principal amount and all accrued interest under such loan were deemed satisfied in full by the issuance to us by Sistema of $20.4 million of promissory notes maturing in 2017 with an interest rate of 0%, and the amount recorded in our audited consolidated financial statements for the year ended December 31, 2009, under the line item "short-term investment" in

Table of Contents

respect of Sistema-Hals was reduced to $nil. During the year ended December 31, 2010, Sistema-Hals ceased to be related to us.

Coral/Sistema Strategic Fund

In the years ended December 31, 2007 and 2008, we purchased an equity interest in a strategic fund organized by Sistema, as General Partner, in order to invest in various projects in the telecommunications and high-technology area. The fund is organized in the form of a limited partnership. We exercised significant influence over Coral and therefore the investment was accounted for using the equity method.

As of December 31, 2009, we determined that the investment was fully impaired. Consequently, the carrying value of the investment was written off in the amount of $7.4 million and recorded in "equity in net income/loss of associates" in our audited consolidated statement of operations for the year ended December 31, 2009. As of December 31, 2009, we did not have any further commitment to invest in Coral.

Sistema-Inventure

In the year ended December 31, 2010, in connection with the sale of a 25% plus one share stake in Svyazinvest, we incurred consultancy fees for Sistema-Inventure, a subsidiary of Sistema, in the amount of RUB 291.2 million ($9.6 million at average rate for September 2010). In December 2011, we acquired a 100% stake in Sistema-Inventure, which directly owns 29% of the ordinary shares of MGTS.

Investments in certain subsidiaries and affiliates of Sistema

As of December 31, 2009, 2010 and 2011, we held investments in the share capital of certain subsidiaries and affiliates of Sistema amounting to $10.5 million, $9.8 million and $9.5 million, respectively, which, individually, were and are immaterial. Our main investments are in MBRD, in which we hold 1.8%, and SMM, in which we hold 3.14%, and the value of such investments as of December 31, 2009, 2010 and 2011, amounted to $5.2 million, $5.2 million and $4.9 million for MBRD, and $3.9 million, $3.8 million and $3.6 million for SMM.

Transactions with equity investees

MTS Belarus

During the years ended December 31, 2009, 2010 and 2011, we accrued revenues from roaming agreements with MTS Belarus, our associate company, amounting to $nil, $2.6 million and $6.5, respectively. At the same time, during the years ended December 31, 2009, 2010 and 2011 we incurred roaming expenses with MTS Belarus amounting to $nil, $5.5 million and $10.5 million, respectively.

Intellect Telecom

During the year ended December 31, 2009, we provided loans with an interest rate of 11.0%, and maturity date in 2012, to Intellect Telecom, our associate company. As of December 31, 2010, these loans had been fully repaid prior to the maturity date. As of December 31, 2009 and 2010, the amounts outstanding under the loans were $12.8 million and $nil million, respectively.

Transactions with affiliated individuals

Mr Pierre Fattouche and Mr Moussa Fattouche

In December 2010, we granted a $90.0 million loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche, the holders of a 20% noncontrolling stake in K-Telecom, our subsidiary in Armenia.

Table of Contents

Simultaneously, we signed an amendment to the put and call option agreement for the remaining 20% stake. According to the amendment, the call exercise price shall be reduced by deducting any outstanding balance on the loan amount and all accrued and unpaid interest and any other sums due and outstanding under the loan agreement at the time of exercise. Interest accrued on the loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche for the years ended December 31, 2010 and 2011, amounted to $0.4 million and $4.1 million, respectively, and was included under the line item "interest income" in our consolidated statements of operations.

Accounts receivable and accounts payable

We had total accounts receivable of $4.5 million, $2.7 million and $16.7 million from, and total accounts payable of $57.0 million, $53.0 million and $80.5 million to, related parties as of December 31, 2011, 2010 and 2009, respectively. We do not have the intent or ability to offset the outstanding accounts payable and/or accounts receivable with related parties under the term of existing agreements with them. See Note 22 to our audited consolidated financial statements for details of our accounts payable and accounts receivable.

C. Interests of Experts and Counsel

Not applicable.

Item 8. ***Financial Information***

A. Consolidated Statements and Other Financial Information

8.A.1-3. See Item 18.

8.A.4-6. Not applicable.

8.A.7. Litigation

Bitel

In December 2005, our wholly owned subsidiary MTS Finance acquired a 51.0% stake in Tarino, from 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, 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 LCIA in order to compel MTS Finance to purchase the Option Shares. Nomihold sought specific performance of the put option,

Table of Contents

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 intere