

MOBILE TELESYSTEMS OJSC  
Form 20-F  
April 23, 2012

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**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)

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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,<br>EACH REPRESENTING 2 SHARES OF COMMON STOCK<br>COMMON STOCK, PAR VALUE 0.10 RUSSIAN RUBLES PER<br>SHARE | NEW YORK STOCK EXCHANGE<br><br>NEW YORK STOCK EXCHANGE <sup>(1)</sup> |

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.  Yes  No

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

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

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

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

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

Large accelerated filer  Accelerated Filer  Non-accelerated filer

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

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

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

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

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

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

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

our liquidity, capital resources and capital expenditures;

our payment of dividends;

our capital structure, including our indebtedness amounts;

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

our ability to achieve the anticipated levels of profitability;

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

our ability to obtain and maintain interconnect agreements;

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

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

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

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

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

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

growth in demand for our services;

changes in consumer preferences or demand for our products;

availability of external financing on commercially acceptable terms;

the developments of our markets;

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

the impact of regulatory initiatives;

the rapid technological changes in our industry;

cost and synergy of our recent acquisitions;

the acceptance of new products and services by customers;

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

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

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

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

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



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**PART I**

**Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**A. Selected Financial Data**

The selected consolidated financial data for the years ended December 31, 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

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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,<br>other than<br>industry and<br>operating data) | 2008 (restated,<br>other than<br>industry and<br>operating data) | 2009 (restated,<br>other than<br>industry and<br>operating data) | 2010              | 2011              |
| (Amounts in thousands of U.S. dollars,<br>except share and per share amounts,<br>industry and operating data and ratios) |  |  |  |                   |                   |
| <b>Consolidated statements of operations data:</b>   |  |  |  |                   |                   |
| 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           |
| <b>Total net operating revenues</b>  | <b>9,723,906</b>   | <b>11,992,623</b>  | <b>9,867,253</b>   | <b>11,293,236</b> | <b>12,318,688</b> |
| <b>Operating expenses:</b>   |  |  |  |                   |                   |
| 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 <sup>(1)</sup>   | 2,066,208  | 2,621,506  | 2,351,935  | 2,719,027         | 2,760,251         |
| <b>Net operating income</b>  | <b>3,184,928</b>   | <b>3,627,246</b>   | <b>2,555,885</b>   | <b>2,734,559</b>  | <b>2,808,885</b>  |
| Currency exchange and transaction (gain)/loss  | (161,856)  | 561,963  | 252,694  | (20,238)          | 158,066           |

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|  | Years Ended December 31,   |  |  |               |               |
|--|--|--|--|---------------|---------------|
|  | 2007 (restated,<br>other than<br>industry and<br>operating data) | 2008 (restated,<br>other than<br>industry and<br>operating data) | 2009 (restated,<br>other than<br>industry and<br>operating data) | 2010          | 2011          |
| (Amounts in thousands of U.S. dollars,<br>except share and per share amounts,<br>industry and operating data and ratios) |  |  |  |               |               |
| <b>Other (income) expenses:</b>  |  |  |  |               |               |
| 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 <sup>(2)</sup>  | \$ 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 |

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|   | Years Ended December 31,   |  |  |              |              |
|---|--|--|--|--------------|--------------|
|   | 2007 (restated,<br>other than<br>industry and<br>operating data)   | 2008 (restated,<br>other than<br>industry and<br>operating data) | 2009 (restated,<br>other than<br>industry and<br>operating data) | 2010         | 2011         |
|   | (Amounts in thousands of U.S. dollars,<br>except share and per share amounts,<br>industry and operating data and ratios) |  |  |              |              |
| <b>Consolidated statement of cash flows data:</b>                       |  |  |  |              |              |
| 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) <sup>(3)</sup>                          | (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)    |
| <b>Consolidated statement of financial position (end of period):</b>    |  |  |  |              |              |
| 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) <sup>(4)</sup>                    | 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)    |
| <b>Financial ratios (end of period):</b>                                |  |  |  |              |              |
| Total debt/total capitalization <sup>(5)</sup>                          | 35.2%  | 46.5%  | 65.7%  | 63.3%        | 70.9%        |
| <b>Mobile industry and operating data:<sup>(6)</sup></b>                |  |  |  |              |              |
| 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) <sup>(7)</sup>  | 57,426   | 64,628   | 69,342   | 71,442       | 69,954       |
| Mobile subscribers in Ukraine (end of period, thousands) <sup>(7)</sup> | 20,004   | 18,115   | 17,564   | 18,240       | 19,223       |

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|  | Years Ended December 31,   |   |   |       |       |
|--|--|---|---|-------|-------|
|  | 2007 (restated,<br>other than<br>industry and<br>operating<br>data)  | 2008 (restated,<br>other than<br>industry and<br>operating<br>data) | 2009 (restated,<br>other than<br>industry and<br>operating<br>data) | 2010  | 2011  |
|  | (Amounts in thousands of U.S. dollars,<br>except share and per share amounts,<br>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) <sup>(8)</sup>  | 157  | 208   | 213   | 234   | 269   |
| Average monthly usage per subscriber in Ukraine (minutes) <sup>(8)</sup> | 154  | 279   | 462   | 535   | 580   |
| Average monthly service revenue per subscriber in Russia <sup>(9)</sup>  | \$ 9   | \$ 11   | \$ 8  | \$ 8  | \$ 9  |
| Average monthly service revenue per subscriber in Ukraine <sup>(9)</sup> | \$ 7   | \$ 7  | \$ 5  | \$ 5  | \$ 5  |
| Subscriber acquisition costs in Ukraine <sup>(10)</sup>                  | \$ 12  | \$ 11   | \$ 7  | \$ 8  | \$ 8  |
| Churn in Russia <sup>(11)</sup>  | 23.1%  | 27.0%   | 38.3%   | 45.9% | 47.6% |
| Churn in Ukraine <sup>(11)</sup>   | 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



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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

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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.



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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

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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.

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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

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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 Syvazinvest, 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

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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

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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

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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.



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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

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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;

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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

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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.

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***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.

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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.

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***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

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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



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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.

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***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

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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."

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

***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

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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.

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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

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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

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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.



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***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."

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***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

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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

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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

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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.

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***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

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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



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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

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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

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

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

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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

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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, BCTI 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

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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.

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***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,

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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).



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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

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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.

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***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

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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.

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

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

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

the effective parent gives obligatory directions to the effective subsidiary.

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

***Shareholder rights provisions under Russian law could impose additional obligations and costs on us.***

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).

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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 Sibintelecom 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.

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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.

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***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



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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.

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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

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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.

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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);

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

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

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

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

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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

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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



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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.

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***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."

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***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 depository, 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 depository may be established in the near future. It is yet unclear how this legislation will be implemented, when the central depository 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.

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**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.

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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.

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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](http://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

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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

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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 <sup>(1)</sup><br>(in thousands) |
|--------|--|
| 2007   | 82.0   |
| 2008   | 91.3   |
| 2009   | 97.8   |
| 2010   | 103.3  |
| 2011   | 101.1 <sup>(2)</sup>                         |

(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.



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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

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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."

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*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

## Edgar Filing: MOBILE TELESYSTEMS OJSC - Form 20-F

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

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

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*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.

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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, Gyumri 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 Gyumri 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

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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.

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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.



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*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 Android 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.

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*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.

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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.

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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 <sup>(1)</sup> | 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:

| Operator  | As of December 31,    |      |      |
|-----------|-----------------------|------|------|
|           | 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,

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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,<br>2009  | December 31,<br>2010 | December 31,<br>2011 |
|--------------------------------|-----------------------|----------------------|----------------------|
|                                | (amounts in millions) |                      |                      |
| Kyivstar                       | 22.0                  | 24.4 <sup>(1)</sup>  | 24.8                 |
| MTS Ukraine                    | 17.6 <sup>(2)</sup>   | 18.2 <sup>(2)</sup>  | 19.5 <sup>(2)</sup>  |
| Astelit                        | 7.8 <sup>(3)</sup>    | 6.1 <sup>(3)</sup>   | 7.0 <sup>(3)</sup>   |
| URS (Vimpelcom) <sup>(1)</sup> | 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.

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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,<br>2009  | December 31,<br>2010 | December 31,<br>2011 |
|-----------------------------------|-----------------------|----------------------|----------------------|
|                                   | (amounts in millions) |                      |                      |
| MTS-Uzbekistan <sup>(1)</sup>     | 7.1                   | 8.8                  | 9.3                  |
| Unitel (Vimpelcom) <sup>(2)</sup> | 3.5                   | 4.8                  | 6.4                  |
| Ucell (Coscom) <sup>(3)</sup>     | 5.1                   | 6.8                  | 7.7                  |
| Others <sup>(1)</sup>             | 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.

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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,<br>2009 | December 31,<br>2010 | December 31,<br>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 |
| <b>Russia</b>          |                 |      |      |
| Prepaid                | 79%             | 81%  | 77%  |
| Contract and corporate | 21%             | 19%  | 23%  |
| <b>Ukraine</b>         |                 |      |      |
| 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)

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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.



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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.

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***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 25<sup>th</sup> 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.

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***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

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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.

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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  $2 \times 11.4$  MHz of spectrum in the GSM 900 frequency band and  $2 \times 24.6$  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  $2 \times 9.6$  MHz of spectrum in the GSM 900 frequency band (including  $2 \times 1.6$  MHz in the E-GSM band) and  $2 \times 18.2$  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  $2 \times 15$  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  $2 \times 4.0$  MHz of spectrum in the Crimea Autonomous Republic to  $2 \times 5.8$  MHz in the Nikolaev, Lugansk, Chernovtsy and Kirovograd regions and in Kiev. We also have been allocated frequencies spanning from  $2 \times 20.0$  MHz in the Kiev region to  $2 \times 26.6$  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  $3 \times 1.25$  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

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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

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"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.

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***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.



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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.

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

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

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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.

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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.

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*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.



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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.

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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.

| <b>Traditional fixed line business</b>                  | <b>December 31,<br/>2010</b> | <b>December 31,<br/>2011</b> |
|---|------------------------------|------------------------------|
| Installed telephone lines (000s)                        | 4,903                        | 5,100                        |
| <i>Residential</i>                                      |                              |                              |
| Number of subscribers (000s) <sup>(1)</sup>             | 3,615                        | 3,610                        |
| CPP traffic (millions of minutes)                       | 1,993                        | 1,832                        |
| ARPU (RUB)  | 352                          | 371                          |
| ARPU (USD)  | 11.6                         | 12.7                         |
| <i>Corporate<sup>(2)</sup></i>                          |                              |                              |
| 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                        |
| <i>Operators</i>  |                              |                              |
| 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.



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

| MGTS Regulated Tariffs  | February 1,<br>2008 | March 1,<br>2009 | February 1,<br>2010 | January 1,<br>2011 | March 1,<br>2012 |
|---|---------------------|------------------|---------------------|--------------------|------------------|
| <i>Residential</i> <sup>(1)</sup>   |                     |                  |                     |                    |                  |
| 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 <sup>(2)</sup>           |                     |                  |                     |                    |                  |
| 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             |
| <i>Corporate (non-governmental)</i> <sup>(1)</sup>                            |                     |                  |                     |                    |                  |
| 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 <sup>(2)</sup>           |                     |                  |                     |                    |                  |
| 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             |
| <i>Corporate (governmental and state-funded organizations)</i> <sup>(1)</sup> |                     |                  |                     |                    |                  |
| 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             |

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| MGTS Regulated Tariffs   | February 1,<br>2008 | March 1,<br>2009 | February 1,<br>2010 | January 1,<br>2011 | March 1,<br>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 minute <sup>(2)</sup> |                     |                  |                     |                    |                  |
| 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

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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%         |
| <b>Total</b>               | <b>100%</b> |

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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%         |
| <b>Total</b> | <b>100%</b> |

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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

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

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

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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:

| <b>Company</b> | <b>Russia</b> |
|----------------|---------------|
| MTS            | 11%           |
| Akado          | 4%            |
| Rostelecom     | 20%           |
| Tricolor TV    | 29%           |
| Vimpelcom      | 1%            |
| Er-Telecom     | 7%            |
| Other          | 28%           |
| <b>Total</b>   | <b>100%</b>   |

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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.

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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 multiplexing 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 subscribers.

All of our PSTN switching centers are connected to a digital transport network, which uses SDH technology and covers the entire territory of Moscow and most of the Moscow region. The network ensures the functioning of our digital ATs and their connectivity with analog and digital equipment of PSTNs of other operators. The digital transport network includes a trunk core STM-64, with connected half-rings STM-16 and STM-4. Multiplexers of access level are connected to trunk nodes by means of fiber-optic lines that organize streams STM-4 and STM-1. There are 987 multiplexers. The

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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.

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*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.



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**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



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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.



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***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.

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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.

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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



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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

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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.

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**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

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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

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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;

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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.

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***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

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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 services based largely on a calculation that includes an operator's base cost



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plus profitability 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."

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**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:

| License Region                        | GSM 900        |                   | GSM 1800 |                   |
|---------------------------------------|----------------|-------------------|----------|-------------------|
|                                       | Licensee       | Expiry date       | Licensee | Expiry date       |
| <b>Moscow License Area</b>            |                |                   |          |                   |
| Moscow                                | MTS OJSC       | April 28, 2013    | MTS OJSC | April 28, 2013    |
| Moscow Region                         | MTS OJSC       | April 28, 2013    | MTS OJSC | April 28, 2013    |
| <b>St. Petersburg License Area</b>    |                |                   |          |                   |
| St. Petersburg                        | MTS OJSC       | April 28, 2013    | MTS OJSC | April 28, 2013    |
| Leningrad Region                      | MTS OJSC       | April 28, 2013    | MTS OJSC | April 28, 2013    |
| <b>Russian Regional License Areas</b> |                |                   |          |                   |
| <b>European Russia</b>                |                |                   |          |                   |
| 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                      |                | 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                    |                | December 30, 2013 | MTS OJSC | December 30, 2013 |
| Chechen Republic                      |                |                   | MTS OJSC | April 28, 2016    |
| Dagestan Republic                     | Dagtelecom LLC | June 5, 2013      |          |                   |
| Dagestan Republic                     |                | December 30, 2013 | MTS OJSC | December 30, 2013 |
| Ivanovo Region                        | MTS OJSC       | April 28, 2013    | MTS OJSC | April 28, 2013    |
| Ingushetia Republic                   |                | 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                     |                | January 25, 2016  | MTS OJSC | December 30, 2013 |
| Kaluga Region                         | MTS OJSC       | April 28, 2013    | MTS OJSC | April 28, 2013    |
| Karachaevo-Cherkesia Republic         |                | 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                     |                | December 30, 2013 | MTS OJSC | December 30, 2013 |
| Murmansk Region                       | MTS OJSC       | April 28, 2013    | MTS OJSC | April 28, 2013    |
| Nenets 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    |

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| License Region                    | GSM 900              |                   | GSM 1800             |                   |
|-----------------------------------|----------------------|-------------------|----------------------|-------------------|
|                                   | 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                     |                      | December 30,      |                      | December 30,      |
|                                   | MTS OJSC             | 2012              | MTS OJSC             | 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                  |                      | December 30,      |                      | December 30,      |
|                                   | MTS OJSC             | 2013              | MTS OJSC             | 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                  |                      |                   |                      | December 30,      |
|                                   | MTS OJSC             | May 6, 2021       | MTS OJSC             | 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    |
| <b>Asian Russia</b>               |                      |                   |                      |                   |
| Altai Region                      | MTS OJSC             | September 8, 2015 | MTS OJSC             | September 8, 2015 |
| Altai Republic                    |                      |                   |                      | December 30,      |
|                                   | MTS OJSC             | July 19, 2016     | MTS OJSC             | 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                    |                      | December 30,      |                      |                   |
|                                   | MTS OJSC             | 2013              | MTS OJSC             | April 28, 2013    |
| Kamchatka Region                  | MTS OJSC             | April 28, 2013    | MTS OJSC             | April 28, 2013    |
| Kemerovo Region                   |                      | December 30,      |                      | December 30,      |
|                                   | MTS OJSC             | 2013              | MTS OJSC             | 2013              |
| Khabarovsk Region                 | MTS OJSC             | April 28, 2013    | MTS OJSC             | April 28, 2013    |
| Khakassiya Republic               |                      | September 13,     |                      | September 13,     |
|                                   | MTS OJSC             | 2016              | MTS OJSC             | 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    |



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| License Region                   | GSM 900                |                   | GSM 1800               |                   |
|----------------------------------|------------------------|-------------------|------------------------|-------------------|
|                                  | Licensee               | Expiry date       | Licensee               | Expiry date       |
| Novosibirsk Region               | MTS OJSC               | February 21, 2017 | MTS OJSC               | February 21, 2017 |
| Omsk Region                      |                        | 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                    |                        | July 19, 2016     | MTS OJSC               | December 30, 2013 |
| Yamalo-Nenetsk Autonomous Region | MTS OJSC               | April 28, 2013    | MTS OJSC               | April 28, 2013    |
| <b>Ukraine</b>                   |                        |                   |                        |                   |
| Ukraine                          | MTS Ukraine PrJSC      | December 3, 2013  | MTS Ukraine PrJSC      | December 3, 2013  |
| <b>Armenia</b>                   |                        |                   |                        |                   |
| Armenia                          | K-Telecom CJSC         | November 4, 2019  | K-Telecom CJSC         | November 4, 2019  |
| <b>Uzbekistan</b>                |                        |                   |                        |                   |
| Uzbekistan                       | Uzdunrobita FE LLS     | June 30, 2016     | Uzdunrobita FE LLS     | June 30, 2016     |
| <b>Belarus</b>                   |                        |                   |                        |                   |
| Belarus <sup>(1)</sup>           | 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.

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**Fixed Line Operations**

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

| <b>Licensee</b>   | <b>License Region(s)</b>                                      | <b>License number</b> | <b>Expiry Date</b> |
|---|---|-----------------------|--------------------|
| <b>International, national, intra-zonal and local communications services</b> |   |                       |                    |
| 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       |

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| 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 |

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|-----------------|---|----------------|-------------------|
| 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 |



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| 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   |

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| 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     |

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| 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  |
| <b>Data Transmission Services</b> |  |                |                    |
| 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      |

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| 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 |
| <b>Data Transmission Services for Voice</b> |   |                |                   |
| 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 |

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| <b>Licensee</b>                                     | <b>License Region(s)</b>  | <b>License number</b> | <b>Expiry Date</b> |
|---|---|-----------------------|--------------------|
| 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  |
| <b>Mobile Radio Services</b>                        |   |                       |                    |
| 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  |
| <b>Telecommunications Services for Cablecasting</b> |   |                       |                    |
| MTS OJSC  | Russian Federation  | No. 71222             | November 24, 2014  |
| <b>Telecommunications Services for Broadcasting</b> |   |                       |                    |
| 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 |
|--|-------------------|--------------------|--------------------------------------|
| Sibintelecom                             | 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 <sup>(1)</sup>               | Consolidated      | 100.0%             | Luxembourg                           |
| Uzdunrobota                              | Consolidated      | 100.0%             | Uzbekistan                           |
| BCTI                                     | Consolidated      | 100.0%             | USA                                  |
| MTS Bermuda <sup>(2)</sup>               | Consolidated      | 100.0%             | Bermuda                              |
| MTS International Funding <sup>(3)</sup> | 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'



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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<br>GSM-900 | Base stations<br>GSM-1800 | Base stations<br>UMTS-2100 | Base station<br>controllers* | Switches* | Media<br>gateways |
|---------------------|--------------------------|---------------------------|----------------------------|------------------------------|-----------|-------------------|
| <b>Russia</b>       | 20951                    | 13991                     | 21670                      | 908                          | 175       | 124               |
| <b>Ukraine</b>      | 5376                     | 8745                      |                            | 352                          | 43        | 4                 |
| <b>Uzbekistan</b>   | 770                      | 1960                      | 805                        | 67                           | 35        | 53                |
| <b>Turkmenistan</b> | 630                      | 521                       | 42                         | 15                           | 3         | 8                 |
| <b>Armenia</b>      | 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.*



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**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.

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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) |               |               |
| <b>Net operating revenues</b>      |                                |               |               |
| 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 <sup>(1)</sup>        | \$ (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.

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

|                                  | At December 31, |              |              |
|----------------------------------|-----------------|--------------|--------------|
|                                  | 2009            | 2010         | 2011         |
|                                  | (in millions)   |              |              |
| <b>Subscribers<sup>(1)</sup></b> |                 |              |              |
| Russia                           | 69.3            | 71.4         | 70.0         |
| Ukraine <sup>(2)</sup>           | 17.6            | 18.2         | 19.5         |
| Uzbekistan                       | 7.1             | 8.8          | 9.3          |
| Armenia                          | 2.1             | 2.5          | 2.4          |
| Turkmenistan <sup>(3)</sup>      | 1.8             | 2.4          | n/a          |
| <b>Total consolidated</b>        | <b>97.8</b>     | <b>103.3</b> | <b>101.1</b> |
| 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  |
| <b>Subscriber Churn</b> |                         |       |       |
| 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

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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   |
| <b>Average monthly service revenue per subscriber</b> |                         |        |        |
| Russia  | \$ 7.8                  | \$ 8.3 | \$ 9.3 |
| Ukraine   | \$ 4.7                  | \$ 4.8 | \$ 4.9 |
| <b>Average monthly minutes of use per subscriber</b>  |                         |        |        |
| 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.

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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.

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*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.

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***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."

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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 |
| <b>SAC per Gross New Subscriber</b> |                         |       |      |
| 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.

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***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:

| <b>Year</b> | <b>Inflation rate</b> |
|-------------|-----------------------|
| 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:

| <b>Year</b> | <b>Inflation rate</b> |
|-------------|-----------------------|
| 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.

| <b>Company</b> | <b>Type</b>                     | <b>Date of acquisition</b> | <b>Stake acquired</b> | <b>Purchase price (in millions of U.S. dollars)<sup>(1)</sup></b> |
|----------------|---------------------------------|----------------------------|-----------------------|---|
| <b>2009</b>    |                                 |                            |                       |   |
| 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  |



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| Company                  | Type   | Date of acquisition | Stake acquired | Purchase price<br>(in millions of U.S. dollars) <sup>(1)</sup> |
|--------------------------|--|---------------------|----------------|--|
| Comstar <sup>(2)</sup>   | Fixed line operator  | October 2009        | 50.91%         | 1,322.3 <sup>(3)</sup>   |
| Teleforum                | Mobile phone retail chain  | October 2009        | 100.0%         | 2.2  |
| Evrotel                  | Fixed line operator  | December 2009       | 100.0%         | 90.0   |
|                          |  |                     |                | <b>\$ 1,688.1</b>  |
| <b>2010</b>              |  |                     |                |  |
| 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 <sup>(3)</sup> | 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   |
|                          |  |                     |                | <b>\$ 588.6</b>  |
| <b>2011</b>              |  |                     |                |  |
| 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 <sup>(4)</sup>      | Fixed line operator  | December 2011       | 29%            | 667.8  |
|                          |  |                     |                | <b>\$ 890.5</b>  |

(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



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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:

|  | <b>Year Ended December 31,</b> |               |               |
|--|--------------------------------|---------------|---------------|
|  | <b>2009</b>                    | <b>2010</b>   | <b>2011</b>   |
| <b>(in thousands of U.S. dollars)</b>  |                                |               |               |
| <b>Net operating revenues</b>  |                                |               |               |
| 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 <sup>(1)</sup>  | (43,857)                       | (58,899)      | (99,177)      |
| Net operating revenues as reported   | \$ 9,867,253                   | \$ 11,293,236 | \$ 12,318,688 |
| <b>Costs of services, excluding depreciation and amortization shown separately below, and cost of handsets and accessories</b> |                                |               |               |
| 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 <sup>(1)</sup>  | (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  |
| <b>Sundry operating expenses<sup>(2)</sup></b>   |                                |               |               |
| 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  |
| <b>Sales and marketing expenses</b>  |                                |               |               |
| 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    |
| <b>Depreciation and amortization expenses</b>  |                                |               |               |
| 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  |
| <b>Operating Income</b>  |                                |               |               |
| Russia   | \$ 2,353,380                   | \$ 2,673,617  | \$ 2,774,422  |
| Ukraine  | 120,248                        | 144,473       | 203,609       |

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|                                     |                     |                     |                     |
|-------------------------------------|---------------------|---------------------|---------------------|
| Other                               | 82,257              | (84,820)            | (168,572)           |
| Eliminations                        |                     | 1,289               | (574)               |
| <b>Operating income as reported</b> | <b>\$ 2,555,885</b> | <b>\$ 2,734,559</b> | <b>\$ 2,808,885</b> |

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(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.

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*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 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

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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.

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*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

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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.

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***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

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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.

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*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

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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.

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**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

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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.

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

(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

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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 statements 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.



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*Bank loans*

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

|  | <b>Maturity</b> | <b>Interest rate (actual at December 31, 2011)</b> | <b>Amount outstanding at December 31, 2011 (in thousands of U.S. dollars)</b> |
|--|-----------------|--|---|
| <b>USD-denominated</b>   |                 |  |   |
| Calyon, ING Bank N.V., Nordea Bank AB, Raiffeisen Zenralbank Osterreich AG | 2012 - 2020     | LIBOR+1.15% (1.96%)                                | 580,742   |
| Skandinaviska 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  |
| <b>EUR-denominated</b>   |                 |  |   |
| 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  |
| <b>RUB-denominated</b>   |                 |  |   |
| Sberbank <sup>(1)</sup>  | 2015 - 2017     | 8.50%  | 3,105,967   |
| Bank of Moscow <sup>(2)</sup>  | 2013            | 7.8%   | 434,835   |
| Gazprombank <sup>(3)</sup>   | 2013 - 2015     | 8.75%  | 472,107   |
| Other  | 2012 - 2023     | various  | 25,057  |
|  |                 |  | \$ 4,037,966  |
| <b>Other</b>   |                 |  |   |
| Debt-Related Parties <sup>(4)</sup>  | 2012            | various  | 6,799   |
|  |                 |  | \$ 6,799  |
| Total bank loans   |                 |  | \$ 5,341,006  |
| Less: current portion  |                 |  | (283,025)   |
| <b>Total bank loans, long-term</b>   |                 |  | <b>\$ 5,057,981</b>   |

(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)

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

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- (3) On February 28, 2012, subsequent to the statement of financial position date, we voluntarily 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<br>(in thousands of U.S.<br>dollars) | Bank Loans<br>(in thousands of U.S.<br>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                                       |
| <b>Total</b>                                | <b>\$ 3,361,882</b>                        | <b>\$ 5,341,006</b>                             |

On February 28, 2012, subsequent to the statement of financial position date, we voluntarily 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 voluntarily 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.

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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)   |                          |                |                |
| <b>Cash flows:</b>   |                          |                |                |
| 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     |
| <b>Cash outlays for:</b>   |                          |                |                |
| Capital expenditures <sup>(1)</sup>  | \$ (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<br>December 31, 2010 | Year Ended<br>December 31, 2011 |
|---|---------------------------------|---------------------------------|
| <b>Net cash provided by operating activities</b>    | <b>3,617.2</b>                  | <b>3,849.0</b>                  |
| <b>(in millions of U.S. dollars)</b>                |                                 |                                 |
| 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)                         |
| <b>Free cash flow</b>                               | <b>1,528.6</b>                  | <b>1,026.4</b>                  |

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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.

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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 estimates 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,

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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.

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**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



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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.

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**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 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                 |                  |                  |                      | Total             |
|---|--|------------------|------------------|----------------------|-------------------|
|   | Less than<br>1 year                    | 1 - 3 years      | 3 - 5 years      | More than<br>5 years |                   |
|   | (amounts in thousands of U.S. dollars) |                  |                  |                      |                   |
| <b>Contractual Obligations:<sup>(1)</sup></b> |  |                  |                  |                      |                   |
| Long-Term Principal Debt Obligations          | 1,148,905                              | 2,032,223        | 3,151,565        | 2,370,195            | 8,702,888         |
| Interest Payments <sup>(2)</sup>              | 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 <sup>(3)</sup>           | 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            |
| <b>Total</b>                                  | <b>2,677,310</b>                       | <b>3,217,375</b> | <b>3,882,091</b> | <b>2,882,850</b>     | <b>12,659,626</b> |

(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:

| <b>Name</b>                           | <b>Year of Birth</b> | <b>Position</b>   |
|---------------------------------------|----------------------|---|
| 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 <sup>(1)</sup>    | 1964                 | Non-Executive Independent Director  |
| Stanley P. Miller <sup>(1)(2)</sup>   | 1958                 | Non-Executive Independent Director  |
| Paul J. Ostling <sup>(1)(2)</sup>     | 1948                 | Non-Executive Independent Director  |
| Felix V. Evtushenkov                  | 1978                 | Non-Executive Director  |
| Mikhail V. Shamolin                   | 1970                 | Non-Executive Director  |
| Andrei A. Dubovskov <sup>(3)</sup>    | 1966                 | Executive Director, President and Chief Executive Officer ("CEO")                 |
| Alexey V. Kornya <sup>(3)(4)</sup>    | 1975                 | Vice President Chief Financial Officer ("CFO")                                    |
| Andrei E. Ushatskiy <sup>(3)</sup>    | 1974                 | Vice President Chief Technology Officer   |
| Frederic Vanoosthuyze <sup>(3)</sup>  | 1973                 | Vice President Information Technology   |
| Alexander V. Popovskiy <sup>(3)</sup> | 1977                 | Vice President Chief Operating Officer ("COO")                                    |
| Vasil I. Latsanych <sup>(3)</sup>     | 1972                 | Vice President Marketing  |
| Nataliya L. Bereza <sup>(3)</sup>     | 1975                 | Vice President Human Resources  |
| Oleg Y. Raspopov <sup>(3)</sup>       | 1966                 | Vice President Director of "MTS Foreign Subsidiaries" Business Unit               |
| Dr. Michael Hecker <sup>(3)</sup>     | 1970                 | Vice President Strategy, Mergers and Acquisitions (M&A) and Corporate Development |
| Ruslan S. Ibragimov <sup>(3)(4)</sup> | 1963                 | Vice President Corporate and Legal Matters  |
| Vadim E. Savchenko <sup>(3)</sup>     | 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

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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 Neftgaz 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

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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

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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 Gazpromenergосervice.

**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.

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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.



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**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.

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**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.mtsghsm.com/information/corporate\\_governance/](http://www.mtsghsm.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.

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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.

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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                                   | %( <sup>1</sup> ) |
| 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 <sup>(1)</sup>   | 636,224,752                              | 31.99%     |
| Sistema Holding Limited  | 193,509,500                              | 9.73%      |
| STA <sup>(2)</sup>   | 220,467,234                              | 11.08%     |
| ADR holders <sup>(3)</sup>   | 777,396,505                              | 39.09%     |
| Other Public Float (including our directors and executive officers) <sup>(4)</sup> | 161,321,186                              | 8.11%      |
| Total <sup>(5)</sup>   | 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

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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.

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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.

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***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 Finexkort***

In December 2008, we purchased promissory notes issued by Alt and Delfa, both related parties of Sistema, and Finexkort, 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



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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.

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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,

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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).

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.

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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 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.

**Euroset**

On April 20, 2009, we filed a lawsuit against Euroset Retail seeking RUB 272.3 million (\$8.2 million as of April 30, 2009) for breach of contract in relation to iPhone shipments. We entered into a settlement agreement with Euroset Retail, which was approved by the court on November 25, 2009, thus dismissing the case. Under this settlement agreement, Euroset Retail undertook to repay the principal amount of RUB 269.1 million (\$9.0 million as of November 30, 2009) in equal installments over a 24 month period. On April 24, 2009, we filed a lawsuit against Torgoviy Dom Euroset ("TD Euroset") seeking recovery of RUB 322.6 million (\$9.7 million as of April 30, 2009) for collected subscriber payments not transferred to us in accordance with an agency contract. We entered into a settlement agreement with TD Euroset, which was approved by the court on December 21, 2009, thus dismissing the case. Under this settlement agreement, TD Euroset undertook to repay the principal amount, excluding the offset payments, in equal installments over a 24 month period.

On April 21, 2009, TD Euroset filed two claims against us, seeking (i) payment of RUB 354.6 million (\$10.7 million as of April 30, 2009) in dealer commission bonuses and (ii) payment of RUB 144.5 million (\$4.3 million as of April 30, 2009) in general dealer commissions. We entered into a settlement agreement with TD Euroset relating to the claim (i) described above, which was approved by the court on December 30, 2009, thus dismissing the case. Under this settlement agreement, all relevant obligations of the parties were extinguished through offset. On July 13, 2009, the court dismissed the case relating to claim (ii) described above, and on November 24, 2009, we entered into a settlement agreement with TD Euroset, whereby the parties confirmed that all the disputed obligations would be extinguished through offset.

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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."

**Beta Link**

On February 25, 2009, we filed a lawsuit against Beta Link seeking recovery of RUB 840.7 million (\$25.3 million as of April 30, 2009) for breach of a loan agreement. On July 30, 2009, the court ruled in our favor, ordering Beta Link to pay to us RUB 836.7 million (\$26.3 million as of July 31, 2009).

In March and April 2009, we filed three additional lawsuits against Beta Link seeking damages amounting in aggregate to RUB 95.7 million (\$2.9 million as of April 30, 2009) for breach of three contracts in relation to iPhone shipments. In June and July 2009, the court ruled in our favor in all three cases, ordering Beta Link to pay the aggregate amount of RUB 99.7 million (\$3.1 million as of July 31, 2009) to us.

All of the abovementioned claims were brought in the Moscow Arbitrazh Court.

On August 12, 2009, Beta Link filed a claim against us, seeking payment of (i) RUB 238.5 million (\$7.9 million as of December 31, 2009) in dealer commission, (ii) \$10.0 million in penalties for breach of a dealer agreement and (iii) \$2.7 million of unrealized potential benefits. On December 11, 2009, the Moscow Arbitrazh Court ruled in favor of Beta Link and ordered us to pay RUB 118.6 million (\$3.9 million as of December 31, 2009) and \$10.0 million in penalties. We appealed this ruling, and the appellate court ruled in our favor on March 23, 2010, denying Beta Link's claim in full. Beta Link in return, filed a further appeal against MTS. On July 22, 2010, Beta Link withdrew its appeal and the case was dismissed.

Beta Link is currently bankrupt and we are a party to the bankruptcy proceedings as its creditor. In November and December 2009, the Moscow Arbitrazh Court ordered that our claims, in the aggregate amount of RUB 986.5 million (\$32.6 million as of December 31, 2009), be included into Beta Link's register of creditors' claims. On February 18, 2010, the Moscow Arbitrazh Court found Beta Link bankrupt and initiated liquidation proceedings. On April 7, 2011, the Moscow Arbitrazh Court prolonged liquidation proceedings until June 2, 2011, and postponed them again until August 23, 2012.

**Turkmenistan**

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, BCTI 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

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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, the 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 ("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 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 ICSID. On October 5, 2011, the claim was registered by the ICSID Secretariat.

**Tax Audits and Claims**

In the ordinary course of business, we may be party to various tax proceedings, and subject to tax claims, some of which relate to the developing markets and evolving fiscal and regulatory environments in which we operate. In the opinion of management, our liability, if any, in all pending tax proceedings or tax claims will not have a material effect on our financial condition, results of operations or liquidity. We believe that we have adequately provided for tax liabilities in the accompanying consolidated 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 also Note 27 to our audited consolidated financial statements.

In October 2009, the Russian tax authorities completed a tax audit of our subsidiary, Sibintertelecom, for the years ended December 31, 2006, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed RUB 174.5 million (approximately \$5.8 million as of December 31, 2010) of additional taxes, penalties and fines against Sibintertelecom. We appealed this assessment to the Federal Tax Service, and, further to its refusal to grant the appeal, to the Moscow Arbitrazh Court. In November 2010, the Moscow Arbitrazh Court issued a ruling to grant our claim, which was subsequently confirmed by the Ninth Arbitrazh Appeal Court on February 24, 2011. However, the Russian tax authorities appealed the decision of the Ninth Arbitrazh Appeal Court in the Federal Arbitrazh Court of Moscow District, which confirmed previously issued rulings in our favor in June 2011.

In December 2010, the Russian tax authorities completed a tax audit of MTS OJSC for the years ended December 31, 2007 and 2008. Based on the results of this audit, the Russian tax authorities

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determined that RUB 353.9 million (\$11.6 million as of December 31, 2010) in additional taxes, penalties and fines were payable by us. The resolution did not come into force as we prepared and filed a petition with the Federal Tax Service to declare the tax authorities' resolution to be invalid. In September 2011, the Federal Tax Service partially satisfied our petition, decreasing the amount of additional taxes, penalties and fines payable by us by RUB 173.9 million (\$5.4 million as of December 31, 2011). We filed an appeal for RUB 84.2 million (\$2.6 million as of December 31, 2011) of the remaining RUB 180.0 million (\$5.6 million as of December 31, 2011) with the Moscow Arbitrazh Court. A hearing is scheduled for April 26, 2012.

In February 2012, the Russian tax authorities completed a tax audit of MGTS for the years ended December 31, 2007 and 2008. Based on the results of their audit, the Russian tax authorities assessed RUB 258.1 million (\$8.0 million as of December 31, 2011) in additional taxes, penalties and fines payable by us. In February 2012, MGTS challenged the tax authorities' decision with higher authorities within the Federal Tax Service.

Generally, according to Russian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2011, the tax declarations of MTS OJSC and its Russian subsidiaries for the preceding three fiscal years were open for further review.

**Antimonopoly Proceedings**

In December 2009, Rostelecom petitioned FAS to investigate the concerted actions of MGTS and Comstar in relation to the intercity and international communications services markets. According to Rostelecom, MGTS and Comstar activities resulted in the restriction of competition and impeding access to the intercity and international communications services markets for other operators, including Rostelecom. On June 3, 2010, FAS dismissed the petition, finding Rostelecom's claim to be without merit.

In October 2010, FAS determined 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 RUB 21.9 million (\$0.8 million as of March 28, 2011) which represents 1.0% of the revenues we derived from roaming services in CIS countries in 2009. We paid the fine imposed by FAS on March 28, 2011.

On November 23, 2010, FAS ordered us to reduce tariffs we charge for national and international roaming telecommunications services in the CIS and further required us to inform our subscribers about the payment procedures for roaming services. We executed the FAS order to reduce such tariffs by December 25, 2010 and the FAS order to inform our subscribers about the roaming payment procedures by March 30, 2011.

In June 2011, the FAS subdivision in the Republic of Tatarstan determined that we, Vimpelcom, MegaFon and CJSC Smarts violated antimonopoly laws on competition by charging our subscribers higher fees for calls to fixed operators than for calls to other cellular operators. We appealed this decision in the Tatarstan Arbitrazh Court, which confirmed the FAS decision on January 18, 2012. We appealed this decision on March 5, 2012, and the hearing is scheduled for April 27, 2012.

In October 2011, the FAS subdivision in the Republic of Bashkortostan decided that the agreement on social and economic development in the field of telecommunications between us and the Bashkortostan Ministry of Communications and Mass Media, signed in February 2011, violates antimonopoly laws on competition as certain provisions of this agreement may constrain competition on the Bashkortostan telecommunications market. In December 2011, we appealed this decision in the Bashkortostan Arbitrazh Court, which ruled in our favor in March 2012.

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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.

In December 2011, the AMC of Ukraine launched an investigation of our actions suspecting violation of antimonopoly laws in respect to pricing of international roaming. The Investigation is currently in progress.

**8.A.8. Dividend Distribution Policy**

On May 15, 2007, the Board of Directors approved a dividend policy, whereby we will aim to make dividend payments to our shareholders in the amount of at least 50% of our annual net income under U.S. GAAP. The dividend amount could vary depending on a number of factors, including the outlook for earnings growth, capital expenditure requirements, cash flow from operations, potential acquisition opportunities, availability of external financing or refinancing as well as our debt position.

Annual dividend payments, if any, must be recommended by our Board of Directors and approved by the Annual General Meeting of Shareholders. 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. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the dollar.

**B. Significant Changes**

On February 28, 2012, subsequent to the statement of financial position date, we voluntarily repaid the full amount due under credit facilities of Gazprombank with an original maturity in 2013-2015. The amount repaid totaled \$472.1 million (stated at December 31, 2011 exchange rate).

On March 16, 2012, subsequent to the statement of financial position date, we voluntarily repaid \$310.6 million from \$434.8 million outstanding under credit facility of Bank of Moscow with the original maturity in 2013 (both amounts are stated at December 31, 2011 exchange rate).

**Item 9. Offer and Listing Details**

(Only Items 9.A.4 and 9.C are applicable.)

**A.4. Market Price Information**

Our ADS, each representing two ordinary shares, have been listed on the NYSE since July 6, 2000 under the symbol "MBT." Our ordinary shares have been listed on the Open Joint Stock Company "MICEX-RTS" since December 2003. In addition, we issued additional ordinary shares in connection with our merger with Comstar, which have been listed on MICEX-RTS since May 2011. The shares of the additional issuance became fully fungible with our previously issued ordinary shares in July 2011.



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Set forth below, for the periods indicated, are the high and low closing prices per ADS as reported by the NYSE and the high and low closing prices per ordinary share as reported by the MICEX-RTS.

|  | ADS High | ADS Low  | Ordinary Share High | Ordinary Share Low |
|--|----------|----------|---------------------|--------------------|
| <b>Monthly High and Low</b>              |          |          |                     |                    |
| March 2012                               | \$ 19.06 | \$ 17.60 | 239.8 RUB           | 221.0 RUB          |
| February 2012                            | \$ 18.40 | \$ 16.79 | 224.9 RUB           | 212.7 RUB          |
| January 2012                             | \$ 16.78 | \$ 14.94 | 219.5 RUB           | 186.0 RUB          |
| December 2011                            | \$ 16.63 | \$ 14.20 | 213.0 RUB           | 177.5 RUB          |
| November 2011                            | \$ 17.28 | \$ 13.34 | 212.0 RUB           | 181.1 RUB          |
| October 2011                             | \$ 15.01 | \$ 11.91 | 194.9 RUB           | 169.5 RUB          |
| <b>Quarterly High and Low</b>            |          |          |                     |                    |
| First Quarter 2012                       | \$ 19.06 | \$ 14.94 | 239.8 RUB           | 186.0 RUB          |
| Fourth Quarter 2011                      | \$ 17.28 | \$ 11.91 | 213.0 RUB           | 169.5 RUB          |
| Third Quarter 2011                       | \$ 19.14 | \$ 12.30 | 244.0 RUB           | 177.1 RUB          |
| Second Quarter 2011                      | \$ 21.54 | \$ 18.68 | 261.7 RUB           | 228.5 RUB          |
| First Quarter 2011                       | \$ 21.54 | \$ 18.48 | 263.0 RUB           | 243.9 RUB          |
| Fourth Quarter 2010                      | \$ 23.33 | \$ 19.81 | 261.0 RUB           | 249.1 RUB          |
| Third Quarter 2010                       | \$ 23.11 | \$ 19.21 | 258.8 RUB           | 227.5 RUB          |
| Second Quarter 2010                      | \$ 23.55 | \$ 18.43 | 273.5 RUB           | 217.6 RUB          |
| First Quarter 2010                       | \$ 23.23 | \$ 17.84 | 255.6 RUB           | 225.6 RUB          |
| <b>Annual High and Low<sup>(1)</sup></b> |          |          |                     |                    |
| 2011                                     | \$ 21.54 | \$ 11.91 | 263.0 RUB           | 169.5 RUB          |
| 2010                                     | \$ 23.55 | \$ 17.84 | 273.5 RUB           | 217.6 RUB          |
| 2009                                     | \$ 21.82 | \$ 7.44  | 231.6 RUB           | 104.8 RUB          |
| 2008                                     | \$ 40.76 | \$ 8.67  | 379.8 RUB           | 92.9 RUB           |
| 2007                                     | \$ 40.85 | \$ 18.32 | 378.0 RUB           | 217.7 RUB          |

(1) Effective May 3, 2010, the ratio of our ADRs changed from 1 ADR per 5 common shares to 1 ADR per 2 common shares. The ADS prices set forth in the table above reflect the new share: ADR ratio for all periods.

**C. Markets**

Our common stock has been listed on the Moscow Interbank Currency Exchange (currently MICEX-RTS) since December 2003. ADSs, each representing two shares of our common stock, have been listed on the New York Stock Exchange under the symbol "MBT" since July 6, 2000. Our U.S. dollar-denominated notes due in 2012 are listed on the Luxembourg Stock Exchange and our U.S. dollar-denominated notes due in 2020 are listed on the Irish Stock Exchange. Our ruble-denominated notes are listed on the Moscow Interbank Currency Exchange.

**Item 10. Additional Information****A. Share Capital**

Not applicable.

**B. Charter and Certain Requirements of Russian Legislation**

We describe below material provisions of our charter and certain requirements of Russian legislation. In addition to this description, we urge you to review our charter to learn its complete terms.

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**Our Purpose**

Article 2.1 of our charter provides that our principal purpose is to obtain profits through the planning, marketing and operation of a radiotelephone mobile cellular network on our license territories.

We are registered with the Ministry of Taxes and Duties of the Russian Federation under the state registration number 1027700149124.

**General Matters**

Pursuant to our charter, we have the right to issue registered common stock, preferred stock and other securities provided for by legal acts of the Russian Federation with respect to securities. Our capital stock currently consists of 2,066,413,562 common shares, each with a nominal value of 0.10 rubles, all of which are issued and fully paid. Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. We are also authorized to issue an additional 100,000,000 common shares with a nominal value of 0.10 rubles each. No preferred shares are authorized or outstanding. Preferred stock may only be issued if corresponding amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders. We have issued only common stock. The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our charter capital. We refer to such shares as treasury shares for the purposes hereof. Russian legislation does not allow for the voting of such treasury shares. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (*i.e.*, they are considered outstanding shares), and our subsidiaries holding such shares are able to vote and dispose of such shares without any further corporate actions by our shareholders or board of directors. As of April 1, 2012, we had no treasury shares and our wholly owned subsidiaries held a total of 77,494,385 shares, of which approximately 87.7% were held in form of ADSs. See "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders." In our consolidated financial statements prepared in accordance with U.S. GAAP, these shares are considered treasury shares (*i.e.*, they are considered not outstanding).

As of the date of this document, we had more than ten thousand shareholders for purposes of the Joint Stock Companies Law.

**Rights Attaching to Shares**

Holders of our common stock have the right to vote at all shareholders' meetings. As required by the Joint Stock Companies Law and our charter, all shares of our common stock have the same nominal value and grant identical rights to their holders. Each fully paid share of common stock, except for treasury shares, gives its holder the right to:

freely transfer the shares without our consent and the consent of other shareholders;

receive dividends;

participate in shareholders' meetings and vote on all matters within shareholders' competence;

transfer voting rights to a representative on the basis of a power of attorney;

participate in the election and dismissal of members of the board of directors and review commission;

exercise its pre-emptive right in certain circumstances, as determined by the Joint Stock Companies Law;

if holding, alone or with other holders, 1% or more of the voting shares, file a lawsuit against a member of the Board of Directors or member of any executive body of the company (including

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the company's CEO and/or the company's managing organization) to reimburse damages suffered by the company as the result of their fault;

if holding, alone or with other holders, more than 1% of the voting shares, demand from the holder of register of shareholders to provide information on shareholders of the company and shares held by such shareholders;

if holding, alone or with other holders, 2% or more of the voting stock, within 100 days after the end of our fiscal year, make proposals for the agenda of the annual shareholders' meeting and nominate candidates to the board of directors, the counting commission and the review commission;

if holding, alone or with other holders, 10% or more of the voting stock, demand from the board of directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the review commission or an independent auditor, and file a lawsuit against the company to convene an extraordinary shareholders' meeting if the board of directors fails to take a decision to convene an extraordinary shareholders' meeting or decides against convening such meeting;

demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:

any reorganization;

the conclusion of a major transaction, as defined under Russian law (*i.e.*, involving assets having value of more than 50% of the balance sheet value of the assets calculated under Russian Accounting Standards ("RAS")); and

any amendment of our charter or approval of a restated version of our charter in a manner that restricts the holder's rights;

upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;

have free access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have access to accounting documents and minutes of the management board meetings; and

exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of shareholders' meeting approved in accordance with its competence.

**Pre-emptive Rights**

The Joint Stock Companies Law and our charter provide existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in the amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares, in an amount proportionate to their existing shareholdings, during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a closed subscription to the existing shareholders provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed in an amount proportionate to their existing shareholdings. We must provide shareholders with written notice of their pre-emptive right to purchase shares and the period during which shareholders can exercise their pre-emptive rights. Such period may not be less than 20 or, under certain circumstances, 45 days. We cannot sell the shares or securities convertible into shares which are subject to the pre-emptive rights during this period.



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**Dividends**

The Joint Stock Companies Law and our charter set forth the procedure for determining the quarterly and annual dividends that we may distribute to our shareholders. We may declare dividends based on our first quarter, six month, nine month or annual results. Dividends are recommended to a shareholders' meeting by a majority vote of the board of directors and approved by the shareholders by a majority vote. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the respective quarter at the extraordinary shareholders' meeting; and a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends shall be paid up within 60 days after the decision to make the payment has been adopted, unless the shareholders' decision provides for a lesser term. Dividends are distributed to holders of our shares as of the record date for the shareholders' meeting approving the dividends. See " General Shareholders' Meetings Notice and Participation" below.

The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under RAS as long as the following conditions have been met:

the charter capital of the company has been paid in full;

the value of the company's net assets on the date of the adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) 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;

the company has repurchased all shares from shareholders having the right to demand repurchase; and

the company is not, and would not become, insolvent as the result of the proposed dividend payment.

**Distributions to Shareholders on Liquidation**

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter allows us to be liquidated:

by a three-quarters majority vote of a shareholders' meeting; or

by a court order.

Following a decision to liquidate us, the right to manage our affairs would pass to a liquidation commission appointed by a shareholders' meeting. In the event of an involuntary liquidation, the court may assign the duty to liquidate the company to its shareholders. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code of the Russian Federation gives creditors the following order of priority during liquidation:

individuals owed compensation for injuries, deaths or moral damages;

employees and authors of intellectual property;

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federal and local governmental entities claiming taxes and similar payments to the federal and local budgets and to non-budgetary funds; and

other creditors in accordance with Russian legislation.

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Claims of creditors in obligations secured by a pledge of the company's property ("secured claims") are satisfied out of the proceeds of sale of the pledged property prior to claims of any other creditors except for the creditors of the first and second priorities described above, provided that claims of such creditors arose before the pledge agreements in respect of the company's property were made. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the fourth priority creditors as described above.

The Federal Law on Insolvency (Bankruptcy), however, provides for a different order of priority for creditors' claims in the event of bankruptcy.

The remaining assets of a company are distributed among shareholders in the following order of priority:

payments to repurchase shares from shareholders having the right to demand repurchase;

payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by the company's charter, if any; and

payments to holders of common and preferred shares.

**Liability of Shareholders**

The Civil Code of the Russian Federation and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investments. This may not be the case, however, when one company is capable of determining decisions made by another company. The company capable of determining such decisions is called an "effective parent." The company whose decisions are capable of being so determined is called 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 such persons; and

the effective parent gives binding instructions to the effective subsidiary.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, a shareholder will not be personally liable for our debts or those of our effective subsidiaries unless such shareholder controls our business and the conditions set forth above are met.

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 omission of an effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency of this effective subsidiary. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as 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 that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

**Alteration of Capital**

*Charter Capital Increase*

We may increase our charter capital by:

issuing new shares; or

increasing the nominal value of previously issued shares.



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A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of common shares or securities convertible into common shares constituting 25% or more of the number of issued common shares, requires a three-quarters majority vote of a shareholders' meeting. Otherwise, a decision to increase the charter capital by increasing the nominal value of issued shares requires a majority vote of a shareholders' meeting. In certain circumstances provided in our charter, a decision to increase the charter capital may be taken by our board of directors. In addition, the issuance of shares above the number provided in our charter necessitates a charter amendment, which requires a three-quarters affirmative vote of a shareholders' meeting.

The Joint Stock Companies Law requires that the value of newly issued shares be determined by the board of directors based on their market value but not less than their nominal value. The price of newly issued shares for existing shareholders exercising their pre-emptive right to purchase shares could be less than the price paid by third parties, but not less than 90% of the price paid by third parties. Fees paid to intermediaries may not exceed 10% of the shares placement price. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures require:

prior registration of a share issuance with the FSFM;

public disclosure of information relating to the share issuance; and

following the placement of the shares, registration and public disclosure of the results of the placement of shares.

***Charter Capital Decrease; Share Buy-Backs***

The Joint Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for an open joint stock company. The Joint Stock Companies Law and our charter require that any decision to reduce our charter capital through the repurchase and cancellation of shares, be made by a majority vote of a shareholders' meeting and through reduction of the nominal value of shares, by a three-quarter majority vote of a shareholders' meeting. Additionally, within 3 days of a decision to reduce our charter capital, we must notify the federal executive body in charge of the state registration of legal entities on the decision taken and publish within the same 3-day period a notice regarding the charter capital reduction, as well as a second notice one month after the first notice is published. Our creditors, whose claims arose before the decision on the charter capital decrease was taken, would then have the right to demand in court, within 30 days of the second publication of the notice, early termination or settlement of relevant obligations by us, as well as compensation for damages.

The Joint Stock Companies Law and our charter allow our shareholders or the board of directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares pursuant to a board decision must be resold at the market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital. Repurchased shares do not bear voting rights.

Shares repurchased pursuant to a decision of our shareholders' meeting to decrease the overall number of shares are cancelled at their redemption.

The Joint Stock Companies Law allows us to repurchase our shares only if, at the time of repurchase:

our charter capital is paid in full;

we are not and would not become, as a result of the repurchase, insolvent;

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the value of our net assets at the time of repurchase of our shares is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and par value of our issued and outstanding preferred shares; and

we have repurchased all shares from shareholders having the right to demand repurchase of their shares in accordance with Russian law, as described immediately below.

Our subsidiaries are not restricted from purchasing our shares, and our subsidiaries can vote these shares.

The Joint Stock Companies Law and our charter provide that our shareholders may demand repurchase of all or some of their shares as long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

reorganization;

conclusion of a major transaction, as defined under Russian law (*i.e.*, involving assets having value of more than 50% of the balance sheet value of the assets calculated under RAS); or

amendment of our charter or approval of a restated version of our charter in a manner which restricts shareholders' rights.

We may spend up to 10% of our net assets calculated under RAS on the date of the adoption of the decision which gives rise to a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis. Repurchase of the shares is at a price agreed on by the board of directors, but shall not be less than the market price.

### **Registration and Transfer of Shares**

Russian legislation requires that a joint stock company maintains a register of its shareholders. Ownership of our registered shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from our register certifying the number of shares that such shareholder holds. Since May 10, 2000, Registrar NIKoil OJSC has maintained our register of shareholders.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a depository if shares are held by a depository. The registrar or depository may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed, except in certain instances provided for by Russian legislation, and may be challenged in court.

### **Reserve Fund**

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 15% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 15% requirement.

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**Disclosure of Information**

Russian securities regulations require us to make the following periodic public disclosures and filings:

posting on our website quarterly reports, containing information about us, our shareholders and depositary, the structure of our management bodies, the members of the board of directors, our branches and representative offices, our shares, bank accounts and auditors, important developments during the reporting quarter, and other information about our financial and business;

publishing any information (including inside information) concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on share issuances, certain corporate events, such as mandatory or voluntary tender offers, record dates, certain changes in ownership and shareholding, filing of any material claim against us, obtainment or revocation of material licenses, entry into certain transactions, as well as shareholder and certain board of directors' resolutions and certain information regarding our material subsidiaries;

disclosing information on various stages of share placement, issuance and registration through publication of certain data as required by the securities regulations;

disclosing our charter and internal corporate governance documents on our website;

disclosing our annual report and annual financial statements prepared in accordance with RAS;

posting on our website a list of our affiliated companies and individuals on a quarterly basis and in case of any changes;

posting on our website a List of inside information; and

other information as required by applicable Russian securities legislation.

**General Shareholders' Meetings**

*Procedure*

The powers of a shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. A shareholders' meeting may not decide on issues that are not included in the list of its competence by the Joint Stock Companies Law. Among the issues which the shareholders have the power to decide are:

charter amendments;

reorganization or liquidation;

election and removal of members of the board of directors;

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determination of the amount of compensation for members of the board of directors;

determination of the number, nominal value, class/type of authorized shares and the rights granted by such shares;

changes in our charter capital;

appointment and removal of our external auditor and of the members of our review commission and counting commission;

approval of certain interested party transactions and major transactions;

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participation in holding companies, commercial or industrial groups, or other associations of commercial entities;

approval of certain internal documents and corporate records;

distribution of profits and losses, including approval of dividends;

redemption by the company of issued shares in cases provided by the Joint Stock Companies Law; and

other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per share of common stock, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a shareholders' meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a shareholders' meeting to approve the following:

charter amendments;

reorganization or liquidation;

major transactions involving assets in excess of 50% of the balance sheet value of the company's assets calculated under RAS;

the number, nominal value, and category (type) of authorized shares and the rights granted by such shares;

repurchase by the company of its issued shares;

any issuance of shares or securities convertible into shares of common stock by closed subscription;

issuance by open subscription of shares of common stock or securities convertible into common stock, in each case, constituting 25% or more of the number of issued and outstanding shares of common stock; or

reduction of the charter capital through reduction of the nominal value of shares.

The quorum requirement for our shareholders' meetings is met if holders of shares (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in case of an annual shareholders' meeting must) be scheduled and the quorum requirement is satisfied if holders of shares (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

election of the members of the board of directors;

approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;

approval of distribution of profits, including approval of dividends, and losses, if any;

appointment of an independent auditor; and

appointment of the members of the review commission.

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A shareholder or group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for the board of directors, counting commission and review commission. Any agenda proposals or nominations must be provided to the company no later than 100 calendar days after the preceding financial year end.

Extraordinary shareholders' meetings may be called by the board of directors on its own initiative, or at the request of the review commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request. The decision by the board of directors to call or reject the call for an extraordinary shareholders' meeting shall be sent to the party that requested the meeting within three days after such a decision was made.

A general meeting of shareholders may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general meeting of shareholders through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general meeting of the shareholders by absentee ballot contemplates the determination of collecting shareholders' opinions on issues of the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

election of the members of the board of directors;

election of the review commission;

approval of a company's independent auditor; and

approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distribution of profits, including approval of annual dividends and losses, if any.

***Notice and Participation***

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of a meeting or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

If a nominal holder of the shares registers in the register of shareholders, then a notification of the shareholders' meeting shall be sent to the nominal holder. The nominal holder must notify its clients in accordance with Russian legislation or an agreement with the client.

The list of shareholders entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our shareholders register on the date established by the board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary shareholders' meeting to elect the board of directors, not later than 85 days before the date of the meeting).

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The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

by personally participating in the discussion of agenda items and voting thereon;

by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;

by submitting a written ballot reflecting the shareholders' voting on the agenda items; or

by delegating the right to submit such written ballot to an authorized representative.

**Board of Directors**

Our charter provides that our entire board of directors is up for election at each annual general shareholders' meeting. Our board of directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons to be elected to our board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter or a decision of the shareholders' meeting. Our charter provides that our board of directors consists of at least seven members, which number may be increased pursuant to a decision of the general meeting of shareholders. Currently, our board of directors consists of nine members.

The Joint Stock Companies Law prohibits a board of directors from acting on issues that fall within the competence of the general shareholders' meeting. Our board of directors has the power to perform the general management of the company, and to decide, among others, the following issues:

determination of our business priorities;

approval of our annual plans, including financial plans;

convening annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;

approval of the agenda for the shareholders' meeting and determination of the record date for shareholders entitled to participate in a shareholders' meeting;

placement of our bonds and other securities in cases specified in the Joint Stock Companies Law;

determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;



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repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;

appointment and removal of our President and the members of our management board;

recommendations on the amount of the dividend and the payment procedure thereof;

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recommendations on the amount of remuneration and compensation to be paid to the members of our review commission and on the fees payable for the services of an independent auditor;

use of our reserve fund and other funds;

approval of our internal documents, except for those documents whose approval falls within the competence of our shareholders or the president;

creation and liquidation of branches and representative offices;

approval of major and interested party transactions in certain cases provided for by the Joint Stock Companies Law;

increasing our charter capital by issuing additional shares within the limits of the authorized charter capital, except in certain circumstances specified in our charter;

approval of our share registrar and the terms of the agreement with it; and

other issues, as provided for by the Joint Stock Companies Law and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described therein. A board meeting is considered duly assembled and legally competent to act when a majority of elected directors is present.

Our internal regulation "On the Board of Directors of OJSC Mobile TeleSystems," or the Regulation, was approved by the annual shareholders' meeting on June 25, 2009. In accordance with clause 2.2 of the Regulation, the members of the board of directors have the right to:

receive information regarding our operations;

propose issues to be discussed by the board of directors;

review the minutes of the board of directors meetings;

request to include in the minutes of the meetings their personal opinion concerning issues on the agenda and decisions made with respect thereto; and

receive a remuneration and/or compensation of expenses related to the execution of their duties as members of the board of directors in accordance with decisions of the general shareholders' meeting.

In accordance with clause 2.3 of the Regulation, the members of the board of directors must:

act in our interests;

execute their duties in a confident and scrupulous manner;

act within their rights and in accordance with the purposes of the board of directors;

not distribute confidential information concerning us and protect such information from unlawful and improper use and publishing, and not use such confidential information in their own or third parties' commercial purposes;

participate in the work of the board of directors;

participate in the voting process during the board of directors meetings;

complete the tasks assigned by the board of directors;

evaluate the risks and consequences of the decisions made;

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inform us on a timely basis about their participation in the management of other companies and changes in such participation;

restrain from voting on issues of personal interest;

inform the board of directors about future deals in which they may have a personal interest;

disclose information about the holding, disposal or acquisition of our shares and other securities;

restrain from actions, which could lead to a conflict between their personal and our interests; and

perform other responsibilities as provided by our charter and the Regulation.

**Interested Party Transactions**

Under the Joint Stock Companies Law, certain transactions defined as "interested party transactions" require approval by disinterested directors or shareholders of the company. "Interested party transactions" include transactions involving a member of the board of directors or member of any executive body of the company (including the company's chief executive office and/or the company's managing organization), any person that owns, together with any affiliates, at least 20% of a company's issued voting shares or any person who is able to direct the actions of the company, if that person and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters and/or their affiliates, is/are:

a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;

the owner of at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or

a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of the board of directors or of any management body of a management organization of such a company.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders (holders of voting shares) be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision to approve the transaction was not, a general director/president, a member of any executive body or an affiliate of the company, or a member of the board of directors or any management body of the company's management organization. Additionally, such person's spouse, parents, children, adoptive parents or children, brothers or sisters may not, and within the year preceding the date of the decision to approve the transaction did not, occupy positions in the executive bodies of the company or positions on the board of directors or of any management body of the company's management organization. For companies with 1,000 or fewer shareholders, an interested party transaction must be adopted by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company's assets determined under RAS;



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the transaction or a number of interrelated transactions involves the issuance, by subscription, of voting shares or securities convertible into voting shares, or a secondary market sale of such securities, in an amount exceeding 2% of the company's issued voting stock;

the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or

all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required, until the next annual shareholders' meeting, for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

the company has only one shareholder that simultaneously performs the functions of the executive body of the company;

all shareholders of the company are deemed interested in such transactions;

the transactions arise from the shareholders executing their preemptive rights to purchase newly issued shares of the company;

the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;

merger transactions; or

the transactions that are mandatory for the company pursuant to Russian law and must be concluded on the basis of fixed prices and tariffs adopted by a competent state body.

**Major Transactions**

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a number of interrelated transactions, involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly) of property having a value of 25% or more of the balance sheet value of the assets of a company determined under RAS, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement of common stock, or securities convertible into common stock. Major transactions involving assets having a value ranging from 25% to 50% of the balance sheet value of the assets of a company determined under RAS require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders' meeting. Major transactions involving assets having a value in excess of 50% of the balance sheet value of the assets of a company determined under RAS require a three-quarters majority vote of a shareholders' meeting.

**Change in Control**

***Anti-takeover Protection***

Russian legislation requires the following:

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A person intending to acquire more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates), will be entitled to make a public tender offer to other holders of such shares or securities convertible into such shares.

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A person that has acquired more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares, at the price which is not less than the price determined based on a weighted average market price of the shares over the six month period before the filing of the offer with the FSFM as described below, if the shares are publicly traded, or on a price supplied by an independent appraiser if the shares have no or insufficient trading history. The public tender offer price may not be less than the highest price at which the offeror or its affiliated persons purchased or undertook to purchase the relevant securities over the six month period before the offer was sent to the company. From the moment of acquisition of more than 30% (or 50% and 75% in cases referred to in the next sentence) of the shares until the date the offer was sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). These rules also apply to acquisitions resulting in a person or a group of persons owning more than 50% and 75% of a company's issued ordinary shares and voting preferred shares.

A person that as a result of an offer described in either of the preceding paragraphs becomes (individually or with its affiliates) the owner of more than 95% of the company's ordinary shares and voting preferred shares, must buy out the remaining shares of the company as well as other securities convertible into such shares upon request of the holders of such shares or other securities, and may require such holders to sell such shares and other securities, at the price determined in the manner described in the preceding paragraph but not less than the highest price of the preceding acquisitions by the offeror.

An offer of the kind described in either of the preceding three paragraphs must be accompanied by a bank guarantee of payment. If the company is publicly traded, prior notice of the offer must be filed with the FSFM; otherwise, notice must be filed with the FSFM no later than the date of the offer. The FSFM may order amendments to the terms of the offer (including price) in order to bring them into compliance with the rules.

Once such an offer has been made, competing offers for the same securities can be made by third parties and, in certain circumstances, acceptance of the initial offer may be withdrawn by the security holders who choose to accept such competing offer. From the making of such an offer until 20 days after its expiry (which period may in certain cases exceed 100 days) the company's shareholders' meeting will have the sole power to make decisions on charter capital increase, issuance of securities, approval of certain major transactions, and on certain other significant matters.

The above rules may be supplemented through FSFM rulemaking, which may result in a wider, narrower or more specific interpretation of these rules by the government and judicial authorities, as well as by market participants.

**Approval of FAS**

Pursuant to the Federal Law on Competition, FAS must approve in advance acquisitions of voting capital stock of a joint stock company involving (1) companies with a combined value of assets or combined annual revenues under RAS exceeding a certain threshold, or (2) companies registered as having more than a 35% share of a certain commodity market or otherwise occupying a dominant position on the market, and which would result in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount. See



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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."

**Strategic Industries Law**

Pursuant to the Strategic Foreign Investment Law, investments resulting in a foreign entity or a group of entities receiving control over a company with strategic importance for the national defense and security of the Russian Federation (a "Strategic Company") require prior approval from the state authorities. The procedure for issuing such consent involves a special governmental commission on control of foreign investments ("Governmental Commission"), which was established by the Resolution of the Government of Russia dated July 6, 2008 as the body responsible for granting such consents, and FAS, which is authorized to process applications for consent from foreign investors. "Control" means an ability to determine, directly or indirectly, decisions taken by a Strategic Company, whether through voting at the general shareholders' (participants') meeting of the Strategic Company, participating in the board of directors or management bodies of the Strategic Company, or acting as the external management organization of the Strategic Company, or otherwise. As a result, "control" will generally be deemed to exist if an entity or a group of entities acquires more than 50% of the shares (or participation interest in share capital) of a Strategic Company, or if through contract or securities with voting rights it is able to appoint more than 50% of the members of the board of directors or of the management board of a Strategic Company.

Furthermore, if a foreign entity or group of entities holding securities of a Strategic Company or other entity that exercises control over this company becomes a direct or indirect holder of voting shares in an amount that is considered to give it direct or indirect control over this company in accordance with the Strategic Foreign Investment Law due to a change in allocation of voting shares pursuant to the procedures provided by Russian law (*e.g.*, as a result of a buy-back of its shares by the relevant company), then such entity or group of entities will have to apply for state approval of its control within three months after it received such control.

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.

On April 8, 2009, MTS OJSC 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.

See also "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties It is not yet clear how the new Strategic Foreign Investment Law will affect us and our foreign shareholders."

**Disclosure of Ownership**

Under Russian law, a person acquiring, directly or indirectly, 5% or more of our common shares is required to notify us and the FSFM of, and we must then publicly disclose, such acquisition, as well as any subsequent acquisitions or disposals resulting in the crossing of 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95% thresholds of our outstanding common shares by such person.

A holder of more than 5% of our common shares is required to file with us and the FSFM information about its controlling shareholder (if any) or notify us and the FSFM about the absence of any such controlling shareholders.

Our subsidiaries are required to notify us and the FSFM about the acquisition of our common shares. We are required to publicly disclose the acquisition of our common shares by our subsidiaries.

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**Notification of Foreign Ownership**

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. However, the procedure for notifying the Russian tax authorities by foreign companies that are not registered with such tax authorities at the time of their share acquisition remains unclear.

**C. Material Contracts**

The following is a description of contracts that we and/or our subsidiaries are a party to and that are or may be material to our business.

**Eurobonds**

On June 22, 2010, we issued U.S. dollar-denominated Loan Participation Notes in the amount of \$750 million with an annual interest rate of 8.625% and a maturity in June 2020. The proceeds will be used to refinance certain existing debt obligations. The notes were issued by MTS International Funding Limited, a private company organized and existing as a private limited company under the laws of Ireland, and are listed on the Irish Stock Exchange. Proceeds were on-lent to us pursuant to a loan agreement between us and MTS International Funding Limited.

We completed a \$400.0 million notes offering through Mobile TeleSystems Finance S.A. on October 14, 2003. The 8.375% notes were issued under an indenture dated October 14, 2003. Interest on the notes is payable in arrears on April 14 and October 14 of each year, commencing on April 14, 2003. These notes are guaranteed by us and matured on October 14, 2010. They are listed on the Luxembourg Stock Exchange. The net proceeds from this offering of \$395.4 million were used for general corporate purposes, including dividend payments, capital expenditures and repayment of existing indebtedness incurred in connection with our acquisitions of mobile operators in Russia and Ukraine. The notes were fully redeemed in October 2010.

We completed a \$400.0 million notes offering through Mobile TeleSystems Finance S.A. on January 28, 2005. The 8.00% notes were issued under an indenture dated January 28, 2005. Interest on the notes is payable in arrears on January 28 and July 28 of each year, commencing on July 28, 2005. These notes are guaranteed by us and mature on January 28, 2012. They are listed on the Luxembourg Stock Exchange. The net proceeds from this offering of \$398.9 million were used to repay a \$140 million loan we received from Credit Suisse First Boston International in October 2004 for general corporate purposes. We used the remaining net proceeds from the offering for general corporate purposes, including acquisitions and increasing our interests in certain of our subsidiaries. The notes were fully redeemed in January 2012.

Each of the loan agreements relating to our notes due 2020 and indentures relating to our notes due 2012 sets forth various occurrences, each of which would constitute an event of default. If an event of default, other than an event of default arising from events of bankruptcy, insolvency or bankruptcy-related reorganization, occurs and is continuing, either the lender (in the case of our notes due 2020), the trustee or the holders of at least 25% in principal amount of the outstanding notes may accelerate the maturity of all of the notes. After acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding notes may, under circumstances set forth in the indentures with respect to our notes due 2012, rescind the acceleration if all events of default, other than the nonpayment of principal of the notes which have become due solely because of the acceleration, have been cured or waived as provided in the indenture. If an event of default arising from events of our bankruptcy, insolvency or bankruptcy-related reorganization occurs and is continuing, then the principal of, and accrued interest on, all of the notes

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will automatically become immediately due and payable without any declaration or other act on the part of the lender (in the case of our notes due 2020), holders of notes or the trustee.

On November 11, 2010, an international arbitration tribunal constituted under the rules of the LCIA rendered an award with regards to the arbitration commenced by Nomihold Securities Inc. in January 2007. The award requires our subsidiary, MTS Finance, to honor Nomihold's option to sell MTS Finance the remaining 49% stake in Tarino Limited for \$170 million, plus \$5.9 million in damages and \$34.9 million in interest and other costs, and 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, we have obtained consents from the noteholders of MTS Finance and MTS International Funding to: (1) waive certain defaults and events of default which might arise under the loan agreements as a result of 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.

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 indentures relating to our outstanding notes due in 2012 contain 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.

In addition, if we experience certain types of mergers, consolidations or other changes 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 also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's.

If we fail to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable. Pursuant to the guarantees contained in each indenture with respect to our notes due 2012, we fully and unconditionally guaranteed all payments of principal and interest on the notes. These guarantees are our general unsecured obligation, senior to all our existing and future subordinated obligations, equal to all our existing and future unsecured obligations, and effectively junior to all our existing and future secured obligations and all existing and future obligations of our subsidiaries.

**Syndicated Loans**

In 2006, we entered into a syndicated U.S. dollar-denominated bank loan facility agreement with a number of international financial institutions (The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bayerische Landesbank, HSBC Bank plc, ING Bank N.V., Raiffeisen Zentralbank Oesterreich AG, and Sumitomo Mitsui Banking Corporation Europe Limited). This facility allowed us to borrow up to \$1,330.0 million which was available in two tranches of \$630.0 million and \$700.0 million. The proceeds were used by OJSC MTS for general corporate purposes, including acquisitions and refinancing of existing indebtedness. The first tranche bears interest of LIBOR+0.80% per annum and matured in 2009. The second tranche bears interest of LIBOR+1.00% per annum within the first three years and LIBOR + 1.15% per annum thereafter, matures in April 2011 and is repayable in 13 equal quarterly installments, commencing in April 2008. An arrangement fee of 0.10% of the original facility amount and agency fee of \$0.05 million per annum should be paid in accordance with the agreement. The commitment fee is 0.40% per annum on the undrawn facility in respect of the second tranche. The debt issuance costs in respect of this loan of \$13.4 million were capitalized. The first tranche was fully repaid by us on May 20, 2009. We fully repaid the second tranche on October 21, 2010.

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On May 18, 2009, we signed a new syndicated loan facility agreement to refinance the first tranche of the above mentioned syndicated loan facility in the amount of \$630.0 million with a number of financial institutions (ABN AMRO Bank N.V., Absolut Bank (ZAO), Banc of America Securities Limited, Bank of China (ELUOSI), Bank of China (UK) Limited, Joint-Stock company Banque Societe Generale Vostok, Bayerische Landesbank, BNP Paribas, Credit Suisse International, Export Development Canada, HSBC Bank plc, ING Bank N.V., J.P. Morgan plc, Societe Generale Corporate and Investment Banking Paris, UniCredit Bank Austria AG, WestLB AG, London Branch, ZAO UniCredit Bank). Part of the funds borrowed (not used to refinance the above mentioned syndicated loan of 2006) are to be used for our general corporate purposes. The facility is available in two tranches of \$360.0 million and €238.1 million bearing interest of LIBOR+6.5% per annum and EURIBOR+6.5% per annum, respectively. Both tranches mature on May 18, 2012 and are repayable in three equal installments on May 18, 2011, November 18, 2011 and May 18, 2012. We paid and capitalized arrangement and management fees in the total amount of \$14.6 million and €7.3 million under the agreement. Additionally, we were required to pay an agency fee at times set forth in a separate fee letter and in an amount equal to the greater of \$1,500 per lender based on the number of lenders as at the relevant payment date and \$25,000. As of December 31, 2009, the balance outstanding under the facility amounted to \$701.6 million. On February 24, 2010, we voluntarily repaid the full amount outstanding under the facility.

**ING Bank Evrazia revolving credit facility**

In July 2011, we signed a credit facility agreement with ING Bank Evrazia. The facility is a revolving credit line, which allows us to borrow up to RUB 2.5 billion (\$77.6 million as of December 31, 2011). The funds are to be used for the financing of our working capital and are available till July 2012. The facility can be drawn in RUB, EUR or USD. The interest rate is MosPrime, EURIBOR or LIBOR + 1.25%, depending on the currency of the drawn funds. The repayment period is to be agreed with the bank, but cannot exceed 3 months and extend beyond the final maturity date, which is July 2012. The arrangement fee paid under the agreement is RUB 6.2 million (\$224,009 as of the date of capitalization). As of December 31, 2011, we have not made use of the facility.

**Gazprombank credit facility**

In July 2011, we entered into a credit facility agreement with Gazprombank in the total amount of RUB 2,450 million (\$76.1 million as of December 31, 2011). The funds from the facility are to be used for financing of our operating activities. The facility is available till July 2013 and bears an interest rate of MosPrime + 1.425%. Any drawn amount should be repaid within 180 days from the drawing date, but before the final maturity date. We are to pay additional interest of 0.15% p.a. on the drawn amount as a fee for credit account maintenance. As of December 31, 2011, we have not made use of the facility.

**EKN Supported facility agreement**

In November 2009, we signed a credit facility agreement with Calyon, ING Bank N.V., Nordea Bank AB, Raiffeisen Zenralbank Oesterreich AG for \$1,074.4 million. The facility is available in two tranches of \$428.9 million and \$645.5 million bearing interest rate of LIBOR +1.15%. The funds from the facility (firstly drawn in November 2011) are used to buy telecommunication equipment from Ericsson AB. The first tranche is repayable in sixteen semi-annual equal installments, commencing from December 2011, and matures in June 2019. The second tranche is repayable in seventeen semi-annual equal installments, commencing from September 2012, and matures in September 2020. We paid and capitalized arrangement fees and EKN insurance fees in the total amount of \$2.2 million and \$41.1 million under the agreement. Additionally, we are required to pay an agency fee of \$10,000 on

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each anniversary of the signing date of the agreement for so long as the facility remains outstanding as well as commitment fee of 0.4% per annum on the undrawn facility amount (\$468.7 million as of December 31, 2011). As of December 31, 2011, the balance outstanding under the facility amounted to \$580.7 million.

**Sberbank Loan Agreements**

In September 2011, we entered into a revolving credit line facility in the amount of RUB 10.0 billion (\$313.7 million as of September 30, 2011). The funds under the facility are available till September 30, 2014 and cannot be drawn for more than 91 days. We intend to use the facility to finance our working capital when needed. The facility bears an interest rate of MosPrime +1.325% as published by Thomson Reuters and HBA. In case the specified rate is unavailable for more than two days the fixed rate of 9.825% is set for the facility. The arrangement fee for the facility amounted to RUB 30 million (\$0.9 million as of the date of capitalization). The commitment fee is set at 0.1% per annum from the undrawn facility amount. The early redemption fee is 0.75% per annum from the repaid amount. As of December 31, 2011, we have not made use of the facility.

In December 2010, we entered into two non-revolving credit line facilities in the amount of RUB 60.0 billion (\$1,944.2 million as of December 13, 2010) and RUB 40.0 billion (\$1,296.2 million as of December 13, 2010), respectively. The funds from the RUB 60.0 billion line of credit were used largely to refinance 2009 Sberbank loans in the aggregate amount of RUB 53.0 (\$1,717.4 million as of December 13, 2010) billion which were fully repaid on December 13, 2010. The funds from the RUB 40.0 billion line of credit drawn in July and November 2011 were used to finance our 3G investments, as well as for the purchase of Sistema-Inventure CJSC, which directly owns 29% of ordinary shares in MGTS. Both lines of credit initially carried an annual interest rate of 8.95% with quarterly payments over a 7-year term. The interest rate is fixed for the period until March 20, 2011 and for the period from December 21, 2013 until the final maturity date in December 2017. The interest rate for the period from March 21, 2011 to December 20, 2013 depends on the average quarterly credit turnover on accounts of MGTS, MTS Ukraine and us. If the average credit turnover on accounts of MGTS and Comstar exceeds RUB 22.0 billion (\$683.3 million as of December 31, 2011) and the average credit turnover on accounts of MTS Ukraine exceeds RUB 750.0 million (\$23.3 million as of December 31, 2011), the interest rate shall remain unchanged. If the average credit turnover on accounts of MGTS, MTS Ukraine and us is below the above stated limits, the interest rate shall be increased by 1%. In addition, Sberbank is entitled to increase or decrease the interest rate for these lines of credit proportionally to the fluctuations of the CBR refinancing rate. In August 2011, the interest rate was decreased from 8.95% to 8.50%, it is valid for both credit lines starting from August 17, 2011. The amount of debt issuance cost capitalized by us is equal to RUB 400.0 million (\$13.1 million as of the date of capitalization). A commitment fee of 0.5% p.a. is payable on the undrawn amounts of the loans on a quarterly basis through the end of the availability period. The fee on early redemption of the loans is set at 0.75%. As of December 31, 2011, the total amount outstanding under these loans amounted to RUB 100 billion (\$3,106.0 million as of December 31, 2011).

In September 2009, we entered into two loan agreements with Sberbank in the amount of RUB 22 billion (\$731.1 million as of September 30, 2009) and RUB 25.0 billion (\$830.8 million as of September 30, 2009), respectively. The funds were used for our investment programs, including for financing our acquisition of a 50.91% stake in Comstar. Both loans bear interest of 16% and are repayable in 7 equal semiannual installments, commencing March 27, 2012. The interest rate is fixed until March 27, 2010; for the subsequent periods (quarters), the rate will be determined as a total of the base rate (16%) plus rate A or rate B. Rate A depends on the average daily bank account balance we maintain with Sberbank for the interest period. If the average daily bank account balance falls below RUB 1.0 billion (\$33.2 million as of September 30, 2009), rate A will be set at 0.5%. However,

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rate A will not apply, and no extra interest will be charged, if the average daily bank account balance is equal to or exceeds RUB 1.0 billion (\$33.2 million as of September 30, 2009). Rate B depends on the average daily bank account balance maintained by our subsidiary, CJSC Russian Telephone Company, with Sberbank for the interest period. If the average daily bank account balance falls below RUB 0.5 billion (\$16.6 million as of September 30, 2009), rate B will be set at 0.5%. However, rate B will not apply, and no extra interest will be charged, if the average daily bank account balance is equal to or exceeds RUB 1.0 billion (\$33.2 million as of September 30, 2009). Additionally, we have to pay a commission of 0.25% on the outstanding amounts under the agreements for services related to maintenance of the loan accounts. The agreement for RUB 25 billion (\$830.8 million as of September 30, 2009) is secured by pledge of equipment with a net book value of RUB 30 billion or approximately \$996.9 million as of September 30, 2009 (assigned pledge value of RUB 21 billion, or approximately \$697.9 million as of September 30, 2009) as well as 50.18% stake in Comstar. Related debt issuance cost capitalized by us totaled RUB 1,034.6 million (\$33.6 million at the date of capitalization). During 2009 and 2010, we negotiated a reduction in the interest rates from 16% to 9.25%, which led to the immediate write-off of an unamortized debt issuance cost in the amount of \$26.7 million. On December 13, 2010, we repaid the full outstanding amount of the loans in the amount of RUB 47.0 billion (\$1,523.0 million as of December 13, 2010) to be able to make use of the RUB 60.0 billion (\$1,944.2 million as of December 13, 2010) line of credit described above.

Comstar entered into a non-revolving credit line facility with Sberbank in the amount of RUB 26.0 billion in 2007. In June 2007, Comstar drew down approximately RUB 17.4 billion (equivalent of \$675.0 million as of the date of transaction) under this facility and used the proceeds to repay a \$675.0 million loan from ABN Amro and Morgan Stanley. In November 2007, Comstar drew down an additional RUB 4.1 billion (equivalent of \$167.4 million as of the date of transaction) under the facility to finance the acquisition of a 100% stake in DTN. In December 2008, Comstar drew the remaining RUB 4.5 billion to finance the acquisition of Stream TV. Accordingly, as of December 31, 2008 the facility was fully drawn. The facility originally bore interest at 7.6% per annum, which can be increased by Sberbank in conjunction with, but not exclusively, increases in CBR refinancing rate. The interest rate was increased to 9.5% per annum effective June 28, 2008 and further to 13.35% effective January 1, 2009. Interest is paid monthly. The facility is repayable in equal quarterly installments from September 2009 until June 2012 and is secured by pledge of a 25% plus one share stake in Svyazinvest. As of December 31, 2009, the balance payable under this facility amounted to \$859.7 million. In September 2010, Comstar fully repaid its Sberbank loan out of the proceeds received from the sale of 25% plus 1 share ownership stake in Svyazinvest to Rostelecom.

**Comstar Acquisition Agreement**

Pursuant to an Agreement dated October 12, 2009 between Sistema, ECU GEST HOLDING S.A., Sistema Telecom LLC and Telekoms Operator LLC, we acquired a 50.91% stake in Comstar, a leading fixed line operator in Russia, from Sistema. Under the terms of the agreement, our wholly owned subsidiary, Telekoms Operator LLC, purchased Sistema's 50.91% stake in Comstar for RUB 39.15 billion (\$1.32 billion as of October 12, 2009, the date of the acquisition).

**D. Exchange Controls**

The Federal Law on Currency Regulation and Currency Control which came into effect on June 18, 2004 sets forth certain restrictions on settlements between residents of Russia with respect to operations involving foreign securities (including ADSs), including requirements for settlement in Russian rubles.

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**Repatriation of Export Proceeds**

Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions concerning, in particular, certain types of secured financing).

**Restrictions on the remittance of dividends, interest or other payments to non-residents**

The Federal Law on Foreign Investments in the Russian Federation of July 9, 1999 specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect your ability to do so.

Currently, ruble dividends on common shares may be converted into U.S. dollars without restriction. However, the ability to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing 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.

**E. Taxation**

**Certain Russian Tax Consequences**

The following discussion describes the material Russian corporate income tax and personal income tax consequences to you if you are a U.S. holder of ADSs and a resident of the United States for purposes of the United States Russia income tax treaty and are fully eligible for benefits under the United States Russia income tax treaty. Subject to certain provisions of the United States Russia income tax treaty relating to limitations on benefits, a U.S. resident under the treaty is generally defined as a person liable, under the laws of the United States, to U.S. tax (other than taxes with respect to only of income from sources in the United States or capital situated therein) by reason of your domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a partnership, trust or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income). The treaty provides for a procedure to resolve matters where a resident of the United States qualifies as a Russian tax resident under Russian domestic rules. The treaty also provides for the non-application of treaty benefits to certain types of entities.

Additionally, the benefits under the United States Russia income tax treaty discussed in this document generally are not available to U.S. persons who hold ADSs in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the United States Russia income tax treaty. Subject to certain exceptions, a U.S. person's permanent establishment under the United States Russia income tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office and a factory). Under certain circumstances, a U.S. person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the U.S. person. This summary does not address the treatment of holders described in this paragraph.

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Treaty benefits may be potentially available to U.S. tax residents that are not subject to limitations on treaty benefits under the treaty, do not operate through a permanent establishment in Russia and are foreign legal entities (*i.e.*, a legal entity or organization in each case not organized under Russian law) or individuals not considered Russian tax residents under Russian law. Under current Russian law, the Russian tax residency for individuals is generally determined based on the number of days a person spends in Russia in a 12-month period. While the current version of the law specifies that an individual present in Russia for an aggregate period of 183 days in any consecutive 12-month period will be considered as a tax resident, exactly how to apply the 12-month rule is the subject of debate and is not entirely clear. The Ministry of Finance of the Russian Federation has issued several letters implying that the final tax status of an individual taxpayer shall still be defined for a whole calendar year by counting the days spent in Russia within the relevant calendar year. Accordingly, the approach used, in practice, to determine the tax residence of an individual for a given tax year (calendar year) remains the same as under the previous legislation *i.e.*, to be considered a Russian tax resident, the taxpayer should spend at least 183 days in Russia in a calendar year.

The following discussion is based on:

Russian tax legislation; and

the United States Russia income tax treaty (and judicial and administrative interpretations thereof by the Russian authorities);

all as in effect on the date of this document. All of the foregoing is subject to change, possibly on a retroactive basis, after the date of this document. This discussion is also based, in part, on representations of the depositary, and assumes that each obligation in the deposit agreement and any related agreements will be performed in accordance with its terms. The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations.

The following discussion is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential Russian corporate income and personal income tax consequences to you of ownership of ADSs. We urge you to consult your own tax adviser regarding the specific Russian tax consequences of the ownership and disposition of ADSs under your own particular factual circumstances.

***Specific uncertainties associated with the tax treatment of ADS holders***

The Russian tax rules in relation to ADS holders (that would affect U.S. holders) are characterized by significant uncertainties and limited interpretive guidance. Russian tax authorities have provided limited guidance regarding the treatment of ADS arrangements, and there can be no certainty as to how the Russian tax authorities will ultimately treat those arrangements. In a number of clarifications, the Russian Ministry of Finance stated that ADS holders must be treated as the beneficial owners of income from the underlying shares for purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares. However, double tax treaty relief is available only if the tax treaty residence of the holder is duly confirmed. It is currently unclear whether depositories will be willing or able to provide residency certificates for ADS holders or implement procedures for holders to benefit from applicable tax treaties. Thus, while a U.S. holder may technically be entitled to benefit from the provisions of the United States Russia income tax treaty, in practice such relief may be difficult or impossible to obtain.

If the Russian tax authorities were not to treat U.S. holders as the beneficial owners of income from the underlying shares, then the benefits discussed below regarding the United States Russia income tax treaty would not be available to U.S. holders. Russian tax law and procedures are also not well developed, and local tax inspectors have considerable autonomy and often interpret tax rules



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without regard to the rule of law. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets.

***Taxation of Dividends***

Dividends paid to U.S. holders generally will be subject to Russian withholding tax at a 15% rate. The tax burden may be reduced to 5% or 10% under the United States Russia income tax treaty for eligible U.S. holders; a 5% rate may potentially apply for U.S. holders who are legal entities owning 10% or more of the company's voting shares, and a 10% rate applies to dividends paid to eligible U.S. holders in other cases, including dividend payments to individuals and legal entities owning less than 10% of the company's voting shares. See also " United States Russia Income Tax Treaty Procedures."

Notwithstanding the foregoing, treaty relief may not be available to U.S. holders of ADSs. In a number of clarifications, the Ministry of Finance expressed an opinion that ADS holders (rather than the depository) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying ordinary shares, provided that the tax residencies of the ADS holders are duly confirmed and information on the number of shares and data on the beneficiaries is available in the appropriate form. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of tax treaty beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts would ultimately treat the ADS holders in this regard. Moreover, from a practical perspective, it may not be possible for the depository to collect residence confirmations from all ADS holders and submit such information to us and, in addition, we may be unaware of the exact amount of income payable to each holder.

Therefore, with respect to legal entities or organizations who are U.S. holders, we may be obligated to withhold income tax at a rate of 15% from dividend payments made to the depository, unless prior to making such dividend payments to the depository, we are provided with confirmation that U.S. holders are beneficial owners of dividends within the meaning of the United States Russia income tax treaty and all administrative requirements for claiming treaty benefits are met. Although non-resident holders of ADSs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time consuming and no assurance can be given that the Russian tax authorities will grant a refund. See " United States Russia Income Tax Treaty Procedures."

With respect to individuals who are U.S. holders of ADSs and who are Russian tax non-residents, we may also be obligated to withhold income tax at the rate of 15% from dividend payments made to the depository. Where withholding of personal income tax is not performed, individuals who are U.S. holders of ADSs will then be required to submit an annual personal tax return to the Russian tax authorities and pay Russian income tax at a rate of 15% as under Russian law an individual should report on his or her tax liabilities in case the relevant tax was due but not withheld by a tax agent from the relevant payment. When submitting the tax return, individuals who are U.S. holders may claim an application of the reduced rates of withholding tax established by the relevant treaty, provided that the procedures described in " United States Russia Income Tax Treaty Procedures" are complied with. Obtaining the respective approvals from the tax authorities may be time-consuming and burdensome.

If the appropriate documentation has not been provided to us before the start of the payment of dividends by us (*i.e.*, before the second half of August) date, we will withhold tax at the full rate, and U.S. holders that are legal entities qualifying for a reduced rate under the United States Russia income tax treaty then may file claims for refund within three years with the Russian tax authorities.

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For individuals claiming treaty relief, the documents substantiating the right for treaty benefits should be submitted to the Russian tax authorities within one year after the end of the year to which these benefits relate. In practice, where withholding is performed, the tax authorities may refuse to refund or credit the 15% tax withheld from payment of dividends to the depositary and, therefore, it is possible that individuals who are U.S. holders may be subject to up to a 30% effective tax rate (general tax rate for Russian tax non-residents) on their share of dividends.

*Taxation of Capital Gains*

*Legal entities and Organizations*

Generally, capital gains arising from the sale, exchange or other disposition of securities by legal entities or organizations that are non-resident holders should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. If more than 50% of our assets were to consist of immovable property located in Russia, legal entities or organizations that are non-resident holders of the securities should be subject to a 20% withholding tax on the gross proceeds from the sale, exchange or other disposition of securities, the difference between the sales, exchange or other disposition price and the acquisition costs of the ADSs, determined in accordance with Russian tax deductibility rules. The corporate income tax decreased from 24% to 20% starting from January 1, 2009.

However, an exemption applies if immovable property located in Russia constitutes more than 50% of our assets and the securities are traded on a foreign stock exchange. In that case, the proceeds from the sale of securities on that foreign stock exchange shall not be deemed to be income from sources in Russia, and accordingly, will not be subject to taxation in Russia. The determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia does not currently and will not constitute more than 50% of our assets as at the date of the sale of ADSs by non-residents.

Where the ADSs are sold by legal entities or organizations to persons other than a Russian company or a foreign company or an organization with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Under the United States Russia income tax treaty, capital gains from the sale of shares and/or ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term "fixed assets" is used in the Russian version of the treaty) were to consist of immovable property located in Russia.

*Individuals*

The taxation of the income of tax non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of securities outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However, Russian tax law gives no clear indication as to how the place of sale of securities should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in Russia or out of Russia.

The sale, exchange or other disposal of the shares and ADSs by non-resident individual holders in Russia will be considered Russian source income and will be subject to tax at a rate of 30% on the difference between the sales price and the acquisition costs of such securities, as well as other

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documented expenses, such as depositary expenses and broker fees, among others, defined by the tax rules.

Under Russian law, the acquisition costs and related expenses can be deducted at the source of payment if the sale was made by a non-resident holder through a licensed Russian broker, trust manager or other person that carries out operations under agency or commission agreements, or other agreements in favor of a taxpayer. Such party (as defined above) should also act as a tax agent and withhold the applicable tax. Such tax agent will be required to report to the Russian tax authorities the amount of income realized by the non-resident individual and tax withheld upon the sale of the securities.

Otherwise, if the sale is made to individuals but not through a tax agent, generally no withholding needs to be made and the non-resident holder will have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses (which includes filing of support documentation). Although Russian tax law imposes tax agent responsibility only on professional trustees, brokers or dealers, in practice, the tax authorities may require Russian legal entities and organizations or foreign companies with any registered presence in Russia that are not professional trustees, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

Under the United States - Russia income tax treaty, capital gains from the sale of the ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term "fixed assets" is used in the Russian version of the United States - Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50% threshold is not met, individuals who are U.S. holders may seek to obtain the benefit of the United States - Russia income tax treaty in relation to capital gains resulting from the sale, exchange or other disposition of the ADSs.

In order to apply the provisions of relevant double tax treaties, the individual holders should receive clearance from the Russian tax authorities as described below. See " United States - Russia Income Tax Treaty Procedures" below.

***United States - Russia Income Tax Treaty Procedures***

The Russian Tax Code does not contain a requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident legal entity or organization seeking to obtain relief from or reduction of Russian withholding tax under a tax treaty must provide to a Russian company or foreign company or organization acting through its Russian registered presence, which is a tax agent (*i.e.*, the entity paying income to a non-resident) a confirmation of its tax treaty residence that complies with the applicable requirements and a Russian translation attached to it in advance of receiving the relevant income. The tax residency confirmation needs to be renewed on an annual basis and provided to the payer of income before the first payment of income in each calendar year.

A U.S. holder may obtain the appropriate certification by mailing completed forms, together with the holder's name, taxpayer identification number, the tax period for which certification is required, and other applicable information, to the United States Internal Revenue Service. The procedures for obtaining certification are described in greater detail in the instructions to Internal Revenue Service Form 8802. As obtaining the required certification from the Internal Revenue Service may take at least six to eight weeks, U.S. holders should apply for such certification as soon as possible.

In accordance with the Russian Tax Code, to rely on tax treaty benefits, a non-resident holder who is an individual must present to the tax authorities an official document confirming his residency in the home country issued by the competent authorities in his/her country of residence and also other

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supporting documentation including a statement confirming the income received and the tax paid in the home country, also confirmed by the relevant foreign tax authorities, duly translated and apostilled or pass through a consular legalization. Technically, such a requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore, advance relief from or reduction of withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before any payments are made to individuals. A non-resident holder which is an individual may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received and the tax was withheld.

If a non-resident holder which is a legal entity or organization does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require (i) apostilled or legalized confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts under which the foreign entity received income, as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to combine requirements (i) and (ii) specified above). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in a foreign language. The refund of the tax withheld should be granted within one month of the filing of the above set of documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

The procedures referred to above may be more complicated with respect to ADSs and no assurance can be given that we will be able to apply the respective double tax treaties when paying dividends to non-resident holders or that ADS holders would be successful in receiving relevant tax refunds.

Neither the depositary nor us has or will have any obligation to assist an ADS holder with the completion and filing of any tax forms.

***Stamp Duties***

No Russian stamp duty will be payable by the holders of ADSs upon carrying out of transactions with the securities as discussed above (*i.e.*, on a purchase of the securities, sale of the securities, etc.).

**Certain United States Federal Income Tax Consequences**

The following is a general description of certain material United States federal income tax consequences that apply to you if you are, for United States federal income tax purposes, a beneficial owner of ADSs that is an individual who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which is subject to U.S. federal income tax regardless of its source, or a trust, if a United States court can exercise primary supervision over the administration of the trust and one or more United States persons can control all substantial trust decisions, or if the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person (in each case, a "U.S. Holder"). This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service ("IRS"), all as publicly available and in effect as of the date of this document. These authorities are subject to

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differing interpretations and may change, possibly retroactively, resulting in U.S. federal income tax consequences different from those discussed below. No ruling has been or will be sought from the IRS with respect to the matters discussed below, and there can be no assurance that the IRS will not take a contrary position regarding the tax consequences of the acquisition, ownership or disposition of ADSs, or that any such contrary position would not be sustained by a court. If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is an owner of ADSs, the United States federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Accordingly, partnerships that hold ADSs and partners in such partnerships are urged to consult their tax advisors regarding the specific U.S. federal income tax consequences to them. The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

an insurance company;

a tax-exempt organization;

a financial institution;

a person subject to the alternative minimum tax;

a person who is a broker-dealer in securities or a trader subject to a mark-to-market election;

an S corporation;

a person holding ADSs through a partnership or other pass-through entity;

an expatriate subject to section 877 of the Code;

an owner of, directly, indirectly or by attribution, 10% or more of the outstanding shares of our common stock; or

an owner holding ADSs as part of a hedge, straddle, synthetic security or conversion transaction.

In addition, this summary is limited to U.S. Holders holding ADSs as "capital assets" within the meaning of Section 1221 of the Code and whose functional currency is the U.S. dollar. The discussion below does not address the effect of the recently enacted Medicare tax on "net investment income" or of any United States state or local tax law or foreign tax law. This discussion also does not address any tax consequences relating to the direct ownership of ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. For purposes of applying United States federal income tax law, we believe, and the following discussion assumes, that a holder of an ADS should be treated as the owner of the underlying shares of common stock represented by that ADS, although this matter is not free from doubt.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the shares underlying the ADS may be taking actions that are inconsistent with the beneficial ownership of the underlying shares. Accordingly, the analysis of the creditability of Russian withholding taxes described below and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders (discussed below) could be affected by actions taken by intermediaries in the chain of ownership between the holder of ADSs and our company if as a result of such actions the holders of ADSs are not properly treated as beneficial owners of underlying shares and future actions that may be taken by the U.S. Treasury. The remainder of this discussion assumes that a holder of an ADS will be treated as the beneficial owner of the underlying shares of common stock represented by such ADS for United States federal income tax purposes.



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*Taxation of Distributions on ADSs*

Subject to the passive foreign investment company rules described below, for United States federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, paid by us with respect to ADSs will be treated as a taxable foreign source dividend on the date of actual or constructive receipt by the depository to the extent of our current and accumulated earnings and profits, computed in accordance with United States federal income tax principles. For taxable years beginning before January 1, 2013, if you are a non-corporate U.S. Holder such dividends may be "qualified dividend income" that is taxed at the lower applicable capital gains rate provided that certain conditions are satisfied, including (1) certain holding period requirements are satisfied, (2) either (a) our ADSs continue to be listed on the New York Stock Exchange (or other national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934, as amended, or the Nasdaq Stock Market) or (b) we are eligible for the benefits of the United States Russia income tax treaty, and (3) we are not, for the taxable year in which the dividend was paid, or in the preceding taxable year, a "passive foreign investment company" with respect to your ADSs (as discussed below). Distributions with respect to ADSs in excess of our current and accumulated earnings and profits will be applied against and will reduce your tax basis in such ADSs and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such ADSs. You should be aware that we do not intend to calculate our earnings and profits for United States federal income tax purposes and, unless we make such calculations, you should assume that any distributions with respect to ADSs generally will be treated as a dividend, even if such distributions would otherwise be treated as a return of capital or as capital gain pursuant to the rules described above. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on ADSs, which is generally available for dividends paid by U.S. corporations. U.S. Holders are strongly urged to consult their tax advisors as to the U.S. federal income tax treatment of any distribution received with respect to ADSs.

The amount of any distribution paid in rubles will equal the U.S. dollar value of such rubles, calculated using the exchange rate in effect on the date of actual or constructive receipt by the depository, regardless of whether the payment is actually converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange rate fluctuations during the period from the date of receipt by the depository to the date the rubles are converted into U.S. dollars will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes. Additionally, you may be required to recognize foreign currency gain or loss on the receipt of a refund of Russian withholding tax pursuant to the United States Russia income tax treaty to the extent the United States dollar value of the refund differs from the dollar equivalent of that amount on the date of receipt of the underlying distribution.

Russian withholding tax at the rate applicable to you under the United States Russia income tax treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, may be eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States Russia income tax treaty, you may not be entitled to credits for the excess amount, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will generally be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends.

The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For United States foreign tax credit purposes, a dividend distribution with respect to the ADSs will be treated as foreign source "passive category income" but could, in the case of certain

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U.S. Holders, constitute "general category income." The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your tax advisors with respect to those rules.

***Taxation on Sale or Other Taxable Disposition of ADSs***

Subject to the passive foreign investment company rules described below, the sale or other taxable disposition of ADSs will generally result in the recognition of gain or loss in an amount equal to the difference between the amount realized on the sale or other taxable disposition and your adjusted basis in such ADSs. That gain or loss will be capital gain or loss and will be long-term capital gain or loss if you have held the ADSs for more than one year. If you are a non-corporate U.S. Holder, such recognized long-term capital gain is generally subject to a reduced rate of United States federal income tax. Limitations may apply to your ability to offset capital losses against ordinary income.

Gain or loss recognized on the sale of ADSs will generally be treated as U.S. source income or loss for foreign tax credit purposes. The use of any foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. You are strongly urged to consult your tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of ADSs.

***Passive Foreign Investment Company Considerations***

A non-U.S. corporation generally will be a passive foreign investment company (a "PFIC"), in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through" rules, either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income.

We do not believe that we were a PFIC for the year ended December 31, 2011. However, our possible status as a PFIC must be determined annually and may be dependent in part on the market price of our ADSs, which may be volatile. Therefore, our possible status as a PFIC may be subject to change. Thus there can be no assurance that we will not be treated as a PFIC in our current taxable year or in the future. If we were to be treated as a PFIC, U.S. Holders generally would be required to pay additional taxes on certain distributions and gains on sales or other dispositions (including pledges) of the ADSs, at tax rates that may be higher than those otherwise applicable. You should consult your tax advisors regarding the application of the PFIC rules to your investment in the ADSs.

***Information Reporting and Backup Withholding***

Dividend payments with respect to ADSs and proceeds from the sale or exchange of ADSs may be subject to information reporting to the IRS and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.



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***Additional Reporting Requirements***

Certain U.S. Holders who are individuals may be required to report information relating to an interest in the ADSs, subject to certain exceptions (including an exception for ADSs held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of this requirement on their ownership and disposition of the ADSs.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

The documents that are exhibits to or incorporated by reference in this document can be read at the U.S. Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or, from outside the United States, at 1-202-942-8090. Copies may also be obtained from the SEC website at [www.sec.gov](http://www.sec.gov). Information about Mobile TeleSystems OJSC is also available on the Internet at [www.mtsgsm.com](http://www.mtsgsm.com). Information included in our website does not form part of this document.

**I. Subsidiary Information**

Not applicable.

**Item 11. *Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to market risk from changes in interest rates and foreign currency exchange rates. We are subject to market risk deriving from changes in interest rates, which may affect the cost of our financing. Foreign exchange risks exist to the extent our revenues, costs and debt obligations are denominated in currencies other than the functional currency in the countries of our operations.

***Interest Rate Risk***

We are exposed to variability in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate notes. As of December 31, 2011, \$1,286.6 million, or 14.8% of our total indebtedness, including capital leases, was variable interest rate debt, while \$7,421.8 million, or 85.2% of our total indebtedness, including capital leases, was fixed interest rate debt.

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The table below presents principal cash flows and related weighted average interest rates for indebtedness by contractual maturity dates as of December 31, 2011.

**Contractual Maturity Date as of December 31, 2011.**

| Indebtedness   | Currency | 2012           | 2013           | 2014           | 2015           | 2016           | Thereafter     | Total            | Annual interest rate (Actual interest rate at December 31, 2011) |
|--|----------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|--|
| (amounts in thousands of U.S. dollars)               |          |                |                |                |                |                |                |                  |  |
| <b>Variable debt</b>                                 |          |                |                |                |                |                |                |                  |  |
| Citibank International plc and ING Bank N.V.         | USD      | 19,741         | 19,741         | 12,021         |                |                |                | 51,503           | 1.11%  |
| HSBC Bank plc and ING BHF BANK AG                    | USD      | 21,799         | 18,889         |                |                |                |                | 40,688           | 1.23%  |
| EBRD   | USD      | 18,462         | 18,462         | 9,230          |                |                |                | 46,154           | 3.91%  |
| Commerzbank AG, ING Bank AG and HSBC Bank plc        | USD      | 14,790         | 14,790         | 6,915          |                |                |                | 36,495           | 1.11%  |
| HSBC Bank plc, ING Bank AG and Bayerische Landesbank | USD      | 16,609         | 16,609         | 8,726          | 1,017          |                |                | 42,961           | 1.11%  |
| EBRD   | USD      | 14,872         | 14,872         | 7,435          |                |                |                | 37,179           | 2.32%  |
| Calyon, ING N.V., Reiffeisen Zentralbank Oesterreich | USD      | 62,010         | 74,186         | 74,186         | 74,186         | 74,186         | 221,988        | 580,742          | 1.96%  |
| ABN AMRO N.V.  | USD      | 6,287          | 6,287          |                |                |                |                | 12,574           | 1.16%  |
| ABN AMRO N.V.  | EUR      | 4,479          | 4,479          |                |                |                |                | 8,958            | 1.97%  |
| LBBW   | EUR      | 6,036          | 6,036          | 6,036          | 6,036          | 6,036          | 6,035          | 36,215           | 2.37%  |
| BNP Paribas  | EUR      | 8,963          | 8,963          | 8,963          | 8,963          | 8,963          | 19,218         | 64,033           | 3.27%  |
| Bank of China  | EUR      | 23,362         | 23,362         | 23,362         | 23,362         | 23,364         |                | 116,812          | 3.57%  |
| VTB  | EUR      | 998            |                |                |                |                |                | 998              | 6.5%   |
| Intracom   | EUR/AMD  | 6,799          |                |                |                |                |                | 6,799            | 4.11%  |
| Skandinaviska Enskilda Banken AB                     | USD      | 31,656         | 31,656         | 31,656         | 31,656         | 29,242         | 13,536         | 169,402          | 1.03%  |
| Skandinaviska Enskilda Banken AB                     | USD      | 5,851          | 5,851          | 5,851          | 5,851          | 5,851          | 5,850          | 35,105           | 2.61%  |
| <b>Total variable debt</b>                           |          | <b>262,714</b> | <b>264,183</b> | <b>194,381</b> | <b>151,071</b> | <b>147,642</b> | <b>266,627</b> | <b>1,286,618</b> |  |
| <b>Weighted average interest rate</b>                |          | <b>2.06%</b>   | <b>2.06%</b>   | <b>2.09%</b>   | <b>2.09%</b>   | <b>2.07%</b>   | <b>2.03%</b>   | <b>2.06%</b>     |  |
| <b>Fixed-rate notes</b>                              |          |                |                |                |                |                |                |                  |  |
| 7.00% notes due 2013                                 | USD      |                | 13,318         |                |                |                |                | 13,318           | 7.00%  |
| 7.75% notes due 2015                                 | USD      |                |                |                | 234,705        |                |                | 234,705          | 7.75%  |
| 8.00% notes due 2012                                 | USD      | 399,985        |                |                |                |                |                | 399,985          | 8.00%  |
| 8.00% notes due 2013                                 | RUB      |                | 298,499        |                |                |                |                | 298,499          | 8.00%  |
| 8.15% notes due 2015                                 | RUB      |                |                |                | 465,895        |                |                | 465,895          | 8.15%  |
| 8.625% notes due 2020                                | USD      |                |                |                |                |                | 750,000        | 750,000          | 8.63%  |
| 8.70% notes due 2017                                 | RUB      |                |                |                |                |                | 310,597        | 310,597          | 8.70%  |
| 14.25% notes due 2012                                | RUB      | 465,895        |                |                |                |                |                | 465,895          | 14.25%   |
| 7.60% notes due 2014                                 | RUB      |                |                | 422,988        |                |                |                | 422,988          | 7.60%  |
| <b>Fixed-rate bank loans</b>                         |          |                |                |                |                |                |                |                  |  |
| Gazprombank  | RUB      |                | 78,684         | 314,738        | 78,685         |                |                | 472,107          | 8.75%  |
| Sberbank   | RUB      |                |                |                | 1,035,322      | 1,035,322      | 1,035,323      | 3,105,966        | 8.50%  |
| Bank of Moscow                                       | RUB      |                | 434,835        |                |                |                |                | 434,835          | 7.80%  |
| Compulink  | RUB      | 11,644         | 4,865          |                |                |                |                | 16,509           | 0.00%  |
| Ekvant   | RUB      | 4,589          | 1,235          | 1,235          | 1,235          | 1,235          | 7,410          | 16,939           | 0.00%  |
| CISCO  | RUB      | 4,062          | 522            |                |                |                |                | 4,584            | 11.25%   |
| Other  | Various  | 16             | 691            | 2,049          | 233            | 220            | 238            | 3,447            | various  |

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|                  |         |         |         |           |           |           |           |
|------------------|---------|---------|---------|-----------|-----------|-----------|-----------|
| Total fixed debt | 886,191 | 832,649 | 741,010 | 1,816,075 | 1,036,777 | 2,103,568 | 7,416,270 |
|------------------|---------|---------|---------|-----------|-----------|-----------|-----------|

|                                |       |       |       |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Weighted average interest rate | 8.67% | 8.34% | 8.40% | 7.32% | 8.53% | 8.54% | 8.30% |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|

We would have experienced an additional interest expense of approximately \$12.3 million on an annual basis as a result of a hypothetical increase in the LIBOR/EURIBOR by 1% over the current

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rate as of December 31, 2011. We would have experienced an additional interest expense of approximately \$7.6 million on an annual basis as a result of a hypothetical increase in the LIBOR/EURIBOR by 1% over the current rate as of December 31, 2010. We would have experienced an additional interest expense of approximately \$26.5 million on an annual basis as a result of a hypothetical increase in the LIBOR/EURIBOR/CBR Refinancing Rate by 1% over the current rate as of December 31, 2009. The increase by 61.8% in an additional interest expense is primarily attributable to the LIBOR/EURIBOR fluctuations and change in our debt structure during the year ended December 31, 2011. In addition, the 8.5% interest rate set for our Sberbank facilities due 2017 totaling RUB 100.0 billion (equivalent of \$3,105.9 million as of December 31, 2011) is dependent on the average daily bank account balance maintained by MGTS, MTS Ukraine and us with Sberbank. In case we fail to maintain an average daily bank account balance in any three month period at the minimum levels established, the rate will be increased by 1%. Such rate increase would cause our interest expense to increase by approximately \$31.1 million on an annual basis. The fair value of our publicly traded fixed-rate notes as of December 31, 2011, ranged from 95.0% to 107.3% of the notional amount. As of December 31, 2011, the difference between the carrying value and the fair value of other fixed rate debt, including capital lease obligations, was immaterial. For details of our fixed-rate debt, refer to Note 16 of our audited consolidated financial statements. The fair value of variable rate debt approximates its carrying value.

We use derivative financial instruments to reduce our exposure to adverse fluctuations in interest rates. We primarily focus on reducing risk caused by the fluctuations in interest rates for our variable-rate long-term debt. According to our policy, we have entered into various variable-to-fixed interest rate swap agreements. The table below presents a summary of our variable-to-fixed interest rate swap agreements.

| Type of derivative   | Maturity                      | Notional amount (at inception)<br>(amounts in millions of U.S. dollars) | Mark to Market Value as of December 31, 2011<br>(amounts in millions of U.S. dollars) |
|--|-------------------------------|---|---|
| <b>Variable-to-fixed Interest Rate Swap Agreements</b>   |                               |   |   |
| Swap agreements with ING Bank N.V. to pay a fixed rates of 2.09% to 4.41% and receive a variable interest rate of 6m LIBOR | November 2013 - February 2015 | 222.2   | (4.3)   |
| Swap agreements with HSBC bank Plc to pay a fixed rates of 2.18% to 4.14% and receive a variable interest rate of 6m LIBOR | October 2013 - September 2014 | 285.5   | (2.2)   |
| Swap agreement with HSBC bank Plc to pay a fixed rate of 3.29% and receive a variable interest rate of 6m EURIBOR          | October 2013                  | 37.2  | (0.2)   |
| Swap agreement with Rabobank to pay a fixed rate of 4.16% and receive a variable interest rate of 6m LIBOR                 | April 2014                    | 86.1  | (1.8)   |
| Swap agreement with Citibank N.A. to pay fixed rate of 4.29% and receive a variable interest rate of 6m LIBOR              | September 2013                | 53.5  | (0.8)   |
| Swap agreement with ABN AMRO N.V. to pay fixed rate of 2.08% and receive a variable interest rate of 6m LIBOR              | April 2013                    | 21.1  | (0.1)   |
| Swap agreement with Calyon to pay fixed rate of 2.07% and receive a variable interest rate of 6m LIBOR                     | October 2013                  | 28.3  | (0.2)   |
| Swap agreement with Calyon to pay fixed rate of 2.40% and receive a variable interest rate of 3m LIBOR                     | May 2012                      | 295.0   | (0.9)   |
| Swap agreement with Calyon to pay fixed rate of 2.12% and receive a variable interest rate of 3m EURIBOR                   | May 2012                      | 307.7   | (0.4)   |
| Swap agreement with Societe General Vostok to pay fixed rate of 2.40% and receive a variable interest rate of 6m LIBOR     | June 2014                     | 166.7   | (1.9)   |

We have also entered into several cross-currency interest rate swap agreements. These contracts, which hedge the risk of both interest rate and currency fluctuations, assume periodical exchanges of both principal and interest payments from ruble-denominated amounts to U.S. dollar-and

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euro-denominated amounts, to be exchanged at specified rates. The rates were determined with reference to the market spot rates 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. All of our cross-currency interest rate swaps agreements matured in 2011.

As of December 31, 2011, approximately 21.6% of our variable interest rate debt was hedged against interest rate risks. We continue to consider other financial instruments available to us to mitigate exposure to interest rate fluctuations. We do not enter into derivative financial instruments for trading purposes.

**Foreign Currency Risk**

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on data published by the CBR. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

| Years ended December 31, | Rubles per U.S. dollar |       |                        | Period End |
|--------------------------|------------------------|-------|------------------------|------------|
|                          | High                   | Low   | Average <sup>(1)</sup> |            |
| 2007                     | 26.58                  | 24.27 | 25.49                  | 24.55      |
| 2008                     | 29.38                  | 23.13 | 24.86                  | 29.38      |
| 2009                     | 36.43                  | 28.67 | 31.72                  | 30.24      |
| 2010                     | 31.78                  | 28.93 | 30.37                  | 30.48      |
| 2011                     | 32.68                  | 27.26 | 29.38                  | 32.20      |

(1)

The average of the exchange rates on the last business day of each full month during the relevant period.

|                | Rubles per U.S. dollar |       |
|----------------|------------------------|-------|
|                | High                   | Low   |
| July 2011      | 28.38                  | 27.44 |
| August 2011    | 29.45                  | 27.52 |
| September 2011 | 32.46                  | 28.89 |
| October 2011   | 32.68                  | 29.90 |
| November 2011  | 31.58                  | 30.10 |
| December 2011  | 32.20                  | 30.81 |
| January 2012   | 31.93                  | 30.36 |
| February 2012  | 30.41                  | 28.95 |
| March 2012     | 29.67                  | 28.95 |

Source: CBR.

The exchange rate between the ruble and the U.S. dollar quoted by the CBR for April 20, 2012 was 29.51 rubles per U.S. dollar.

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The following tables show, for the periods indicated, certain information regarding the exchange rate between the hryvnia and the U.S. dollar, based on data published by the National Bank of Ukraine. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

| Years ended December 31, | Hryvnias per U.S. dollar |      |                        |            |
|--------------------------|--------------------------|------|------------------------|------------|
|                          | High                     | Low  | Average <sup>(1)</sup> | Period End |
| 2007                     | 5.05                     | 5.05 | 5.05                   | 5.05       |
| 2008                     | 7.88                     | 4.84 | 5.27                   | 7.70       |
| 2009                     | 8.01                     | 7.61 | 7.81                   | 7.99       |
| 2010                     | 8.01                     | 7.89 | 7.94                   | 7.96       |
| 2011                     | 7.99                     | 7.93 | 7.97                   | 7.99       |

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

|                | Hryvnias per U.S. dollar |      |
|----------------|--------------------------|------|
|                | High                     | Low  |
| July 2011      | 7.97                     | 7.97 |
| August 2011    | 7.97                     | 7.97 |
| September 2011 | 7.97                     | 7.97 |
| October 2011   | 7.98                     | 7.97 |
| November 2011  | 7.99                     | 7.98 |
| December 2011  | 7.99                     | 7.99 |
| January 2012   | 7.99                     | 7.99 |
| February 2012  | 7.99                     | 7.99 |
| March 2012     | 7.99                     | 7.98 |

Source: National Bank of Ukraine.

The exchange rate between the hryvnia and the U.S. dollar quoted by the National Bank of Ukraine for April 20, 2012 was 7.99 hryvnias per U.S. dollar.

We have exposure to fluctuations in the value of the U.S. dollar, which is our reporting currency, relative to the Russian ruble, Ukrainian hryvnia and Armenian dram, which are the functional currencies in our countries of operation. As a result, we may face translation losses, increased debt service payments and increased capital expenditures and operating costs should these currencies depreciate against the U.S. dollar.

In 2009, we entered into two foreign currency option agreements to manage our exposure to changes in currency exchange rates related to our U.S. dollar-denominated debt obligations. Under the agreements, we have put and call option rights to acquire \$80.0 million of U.S. dollars at rates within a range specified in the contracts. The first option agreement to acquire \$40.0 million expired in 2010 and was not exercised, whereas the second option agreement to acquire \$40.0 million expired unexercised in April 2011. In 2010, we additionally entered into foreign currency option agreements to manage our exposure to changes in currency exchange rates related to our U.S. dollar-denominated eurobonds. Under these agreements, we had put and call option rights to acquire \$250.0 million at rates within a range specified in the contracts. These contracts were not designated for hedge accounting purposes and expired unexercised in January 2012.

The translation risk arises when we translate the functional currencies in our countries of operation into U.S. dollars for inclusion in our audited consolidated financial statements. A depreciation in the value of these functional currencies against the U.S. dollar will result in a translation loss.

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A significant part of our capital expenditures, borrowings and certain operating costs (roaming expenses, cost of customer equipment and other costs) are either denominated in U.S. dollars or tightly linked to the U.S. dollar exchange rate, and our U.S. dollar-denominated debt represents our primary future risk of exchange loss in U.S. dollar terms. A decline in the value of the ruble, hryvnia, som, manat or dram versus the U.S. dollar would result in currency remeasurement losses as the amount of these currencies required to repay U.S. dollar-denominated debt increases. In addition, if any of the ruble, hryvnia, som, manat or dram declines against the U.S. dollar and tariffs cannot be maintained for competitive or other reasons, our revenues and operating margins could be materially adversely affected and we could have difficulty repaying or refinancing our U.S. dollar-denominated indebtedness and financing our capital expenditures and operating costs.

A portion of our capital expenditures, borrowings and certain operating costs (roaming expenses, costs of customer equipment and other costs) are also denominated in euros. We currently do not hedge against the risk of decline in the ruble, hryvnia, som, manat or dram against the euro because settlements denominated in euros are not significant.

We would experience a currency exchange loss of \$362.9 million on our U.S. dollar-denominated net monetary liabilities as a result of a hypothetical 20.0% increase in the ruble/hryvnia/som/manat/dram to U.S. dollar exchange rate at December 31, 2011. We would experience a currency exchange loss of \$20.8 million in the fair value of our euro-denominated net monetary liabilities as a result of a hypothetical 20.0% increase in the ruble/hryvnia/som/manat/dram to euro exchange rate at December 31, 2011. We are unable to estimate future loss of earnings as a result of such changes.

**Item 12. Description of Securities Other Than Equity Securities**

(Only Item 12.D.3-4 are applicable.)

**D. American Depositary Shares**

3.

**Fees and charges that a holder of American Depositary Receipts may have to pay, either directly or indirectly.**

| <b>Category</b>                                      | <b>Depositary Actions</b>  | <b>Associated Fee</b>                         |
|--|--|---|
| (a) Depositing or substituting the underlying shares | Each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock split declared by the Company, or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or the deposited securities | \$5.00 for each 100 ADSs (or portion thereof) |

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| Category   | Depository Actions  | Associated Fee   |
|--|---|--|
| (b) Receiving or distributing dividends  | Distribution of stock dividends   | \$5.00 for each 100 ADSs (or portion thereof)  |
| (c) Selling or exercising rights   | Distribution of cash  | \$0.02 or less per ADS (or portion thereof)  |
|  | Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities                    | \$5.00 for each 100 ADSs (or portion thereof)  |
| (d) Withdrawing an underlying security   | Acceptance of ADRs surrendered for withdrawal of deposited securities or cancellation or reduction of ADSs for any other reason   | \$5.00 for each 100 ADSs (or portion thereof)  |
| (e) Transferring, splitting or grouping receipts                               | Transfers, combining or grouping of depository receipts   | \$1.50 per ADS   |
| (f) General depository services, particularly those charged on an annual basis | Other services performed by the depository in administering the ADRs  | \$0.02 per ADS (or portion thereof) per calendar year which may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADSs as of the record date or record dates set by the depository during each calendar year and shall be payable at the sole discretion of the depository by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions |
|  | Custodian and share register related issues, including, without limitation, any inspections of the share register maintained by the Russian share registrar or other confirmation of holdings of deposited securities | \$0.01 or less per ADS (or portion thereof) per year which fee shall be assessed against holders of record as of the date set by the depository not more often than once each calendar year  |



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| <b>Category</b>                | <b>Depository Actions</b>   | <b>Associated Fee</b>   |
|--------------------------------|---|---|
| (g) Expenses of the depository | <p>Certain fees and expenses incurred by the depository bank and certain taxes and governmental charges in connection with:</p> <p>compliance with foreign exchange control regulations or any law or regulation relating to foreign investment;</p> <p>depository or its custodian's compliance with applicable law, rule or regulation;</p> <p>stock transfer or other taxes and other governmental charges;</p> <p>cable, telex, facsimile transmission or delivery charges;</p> <p>if applicable, transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities (which are payable by persons depositing shares or holders withdrawing deposited securities);</p> <p>expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency);</p> <p>any other charge payable by depository or its agents including, without limitation, the custodian, or the agents of the depository's agents in connection with the servicing of the shares or other deposited securities</p> | <p>Charges to be assessed against holders as of the record date or dates set by the depository and payable at the sole discretion of the depository by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions</p> |

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**4. All fees and other direct and indirect payments made by the depositary to the foreign issuer of the deposited securities.**

The Depositary has agreed to reimburse to us or pay on our behalf certain reasonable expenses related to our ADS program and incurred by us in connection with the program (such as NYSE listing fees, legal and accounting fees incurred with preparation of Form 20-F and ongoing SEC compliance and listing requirements, investor relations expenses, among others). The Depositary has covered all such expenses incurred by us during 2011 in the amount of \$6.45 million. The amounts the Depositary reimbursed or paid are not perforce related to the fees collected by the depositary from ADS holders.

As part of its service to us, the Depositary has agreed to waive fees for the standard costs associated with the administration of our ADS program, associated operating expenses and investor relations advice estimated to total \$0.2 million.

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**PART II**

**Item 13. *Defaults, Dividend Arrearages and Delinquencies***

None.

**Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds***

None.

**Item 15. *Controls and Procedures***

(a)

*Disclosure Controls and Procedures.*

As of the end of the period covered by this Annual Report on Form 20-F, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934).

Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective, as of December 31, 2011, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions about required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

(b)

*Management's annual report on internal control over financial reporting.*

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2011, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO") in Internal Control Integrated Framework. As a result of management's evaluation of our internal control over financial reporting, management concluded that our internal control over financial reporting as of December 31, 2011 was effective.

Management excluded from its assessment the internal control over financial reporting at Open Joint-Stock Company "Television and radio broadcasting company "TVT" which was acquired in October 2011 and whose financial statements constitute \$175.6 million and \$183.4 million of net assets and total assets, respectively, \$6.3 million of revenues and \$0.2 million of net loss attributable to the Group in the consolidated financial statements as of and for year ended December 31, 2011. Such exclusion was in accordance with the Securities and Exchange Commission's guidance that an assessment of a recently acquired business may be omitted in management's report on internal controls over financial reporting ("ICFR") in the year of acquisition.

There were no changes in our internal control over financial reporting during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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The effectiveness of our internal control over financial reporting as of December 31, 2011, has been audited and assessed as effective by independent registered public accounting firm ZAO Deloitte & Touche CIS who has also audited and reported on our consolidated financial statements.

(c) *Attestation Report of Independent Registered Public Accounting Firm.*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Mobile TeleSystems OJSC:

We have audited the internal control over financial reporting of Mobile TeleSystems OJSC, a Russian Open Joint-Stock Company, and subsidiaries (the "Group") as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Annual Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Open Joint-Stock Company "Television and radio broadcasting company "TVT"" which was acquired in October 2011 and whose financial statements constitute \$175.6 million and \$183.4 million of net assets and total assets, respectively, \$6.3 million of revenues and \$0.2 million of net loss attributable to the Group in the consolidated financial statements as of and for year ended December 31, 2011. Accordingly, our audit did not include the internal control over financial reporting at TVT. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the

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risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011 of the Group and our report dated March 6, 2012 expressed an unqualified opinion on those financial statements.

/s/ ZAO Deloitte & Touche CIS  
Moscow, Russia  
March 6, 2012

(d)

*Changes in internal control over financial reporting.*

Management has evaluated, with the participation of our CEO and CFO, whether any changes in our internal control over financial reporting that occurred during the period covered by this annual report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, management has concluded that no such changes have occurred.

**Item 16A. *Audit Committee Financial Expert***

Our Board of Directors has determined that Paul J. Ostling is an "audit committee financial expert" as defined in Item 16A of Form 20-F. Mr. Ostling is "independent" as defined in Rule 10A-3 under the Exchange Act and current New York Stock Exchange listing rules applicable to us. For a description of Mr. Ostling's experience, please see "Item 6. Directors, Senior Management and Employees - A. Directors and Senior Management - Key Biographies."

**Item 16B. *Code of Ethics***

We have adopted a Code of Ethics that applies to our senior officers, including our principal executive officer, principal financial officer and principal accounting officer.

The current version of our Code of Ethics was adopted on December 15, 2011. Whereas we formerly had two codes of ethics - one applicable to senior officers (including our principal executive officer, principal financial officer and principal accounting officer) and one more generally applicable to all employees - the current Code of Ethics applies to all of our officers, directors and employees. The new Code of Ethics did not substantively alter any of its requirements as compared with the code of ethics that was in effect prior to the approval of the new Code of Ethics.

A copy of our Code of Ethics is available on our website at [www.mtsdsm.com](http://www.mtsdsm.com).

**Item 16C. *Principal Accountant Fees and Services***

ZAO Deloitte & Touche CIS has served as our Independent Registered Public Accounting Firm for each of the fiscal years in the two-year period ended December 31, 2010 and 2011, respectively, for which audited financial statements appear in this Annual Report on Form 20-F. The following table

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presents the aggregate fees billed for professional services and other services by ZAO Deloitte & Touche CIS and its affiliates in 2010 and 2011, respectively.

|                    | Year ended<br>December 31, |                   |
|--------------------|----------------------------|-------------------|
|                    | 2010                       | 2011              |
|                    | (in thousands)             |                   |
| Audit Fees         | \$ 4,809.7                 | \$ 4,110.4        |
| Audit-Related Fees | 479.1                      | 122.5             |
| Tax Fees           | 48.7                       | 31.6              |
| All Other Fees     |                            | 68.7              |
| <b>Total</b>       | <b>\$ 5,337.5</b>          | <b>\$ 4,333.2</b> |

**Audit Fees**

The Audit Fees for the years ended December 31, 2010 and 2011 were for the reviews and integrated audits of our consolidated financial statements prepared in accordance with U.S. GAAP, reviews and audits of the financial statements of our public subsidiaries prepared in accordance with U.S. GAAP, statutory audits and services associated with the documents issued in connection with securities offerings. Integrated audits include all services necessary to form an opinion on our consolidated financial statements and to report on our internal controls over financial reporting.

**Audit-Related Fees**

The Audit-Related Fees for the years ended December 31, 2010 and 2011 mainly included fees for agreed-upon procedures related to audited financial statements, attestation dry runs and due diligence related to acquisitions.

**Tax Fees**

The Tax Fees for the years ended December 31, 2010 and 2011, respectively, include the fees principally related to tax compliance services.

**All Other Fees**

All Other Fees for the year ended December 31, 2011, primarily relate to benchmarking of accounts receivable ratios, indices and internal procedures against industry best practice.

**Audit Committee Pre-Approval Policies and Procedures**

The Sarbanes-Oxley Act of 2002 required us to implement a pre-approval process for all engagements with our independent public accountants. In compliance with Sarbanes-Oxley requirements pertaining to auditor independence, our Audit Committee pre-approves the engagement terms and fees of ZAO Deloitte & Touche CIS and its affiliates for all audit and non-audit services, including tax services. Our Audit Committee pre-approved the engagement terms and fees of ZAO Deloitte & Touche CIS and its affiliates for all services performed for the fiscal year ended December 31, 2011.

**Item 16D. Exemption from the Listing Standards for Audit Committees**

Not Applicable.

Table of Contents**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

On September 5, 2006, our Board of Directors authorized a share repurchase program, allowing our wholly-owned subsidiary MTS-Bermuda to repurchase ADSs representing up to 10% of our total outstanding shares over a period of twelve months ending August 31, 2007. On September 4, 2007, the Board of Directors extended the program through August 31, 2008, and on July 31, 2008, the Board of Directors further extended the program through September 1, 2009. The purchases may be made through the open market and private block transactions pursuant to Rule 10b5-1 plans, privately negotiated transactions or other means in accordance with the requirements of the Securities and Exchange Commission as well as other applicable legal requirements and factors. The share repurchase program does not obligate us to acquire a particular number of ADSs, and the program may be suspended or discontinued at our sole discretion. The repurchases could be funded through our own cash flows, commercial paper program or potentially through existing credit facilities. The execution of the program will depend on an on-going assessment of market conditions, and the program may be extended at any time. During the years ended December 31, 2008, 2007 and 2006, we repurchased through MTS-Bermuda 39,431,500, 17,402,835 and 11,161,000 of our shares in the form of ADSs at an average prices of \$78.5, \$73.1 and \$49.2 per ADS for a total amounts of \$619.1 million, \$254.4 million and \$110.0 million, respectively.

The following table sets forth, for each month in 2008 and for the year as a whole, the total number of our ADSs repurchased by MTS-Bermuda pursuant to the share repurchase plan described above, the average price paid per ADS, the number of ADSs that were purchased as part of the publicly announced share repurchase plan and the maximum number of ADSs that, at that date, remained eligible for purchases under such plan.

| Period           | Total Number of ADSs Purchased <sup>(1)</sup> | Average Price Paid per ADS | Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of shares that May Yet Be Purchased Under the Plan |
|------------------|---|----------------------------|--|---|
| <b>2008</b>      |   |                            |  |   |
| January 1 - 31   | 2,706,400                                     | 85.9                       | 8,419,167  | 194,731,730   |
| February 1 - 28  | 1,975,500                                     | 80.2                       | 10,394,667   | 193,743,980   |
| March 1 - 31     | 404,400                                       | 79.2                       | 10,799,067   | 193,541,780   |
| April 1 - 30     |   |                            | 10,799,067   | 193,541,780   |
| May 1 - 31       |   |                            | 10,799,067   | 193,541,780   |
| June 1 - 30      |   |                            | 10,799,067   | 193,541,780   |
| July 1 - 31      | 2,068,300                                     | 70.2                       | 12,867,367   | 192,647,356   |
| August 1 - 31    | 731,700                                       | 69.7                       | 13,599,067   | 192,281,506   |
| September 1 - 30 |   |                            | 13,599,067   | 189,114,417   |
| October 1 - 31   |   |                            | 13,599,067   | 188,505,280   |
| November 1 - 30  |   |                            | 13,599,067   | 188,505,280   |
| December 1 - 31  |   |                            | 13,599,067   | 188,505,280   |
| Total            | 7,886,300                                     | 78.5                       | 13,599,067   | 188,505,280   |

(1)

All purchases were made pursuant to the publicly announced share repurchase plan described above in the open market and privately negotiated transactions effected on the New York Stock Exchange.

In addition, following the approval of the merger of our two subsidiaries into MTS at the general shareholders meeting in June 2008, we repurchased 37,762,257 of our ordinary shares from investors who voted against or abstained from voting on the merger for a total amount of RUB 11.1 billion (\$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. See "Item 3. Key Information D. Risk Factors Legal

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Risks and Uncertainties Shareholder rights provisions under Russian law could impose additional obligations and costs on us."

We did not repurchase any ADSs in the year ended December 31, 2009, 2010 and 2011.

A total of 8,000 MTS ordinary shares representing 0.0004% of our issued share capital were repurchased for RUB 1.96 million (\$70,000 as of March 31, 2011) as a part of our reorganization during 2011. See "Item 3. Key information A. Selected Financial Data."

See also "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders."

**Item 16F. *Change in Registrant's Certifying Accountant***

Not applicable.

**Item 16G. *Corporate Governance***

We are a company organized under the laws of the Russian Federation and qualify as a foreign private issuer as such term is defined in Rule 3b-4 of the Exchange Act. In accordance with the NYSE corporate governance rules, listed companies that are foreign private issuers are permitted in some circumstances to follow home country practice in lieu of the provisions of the corporate governance rules contained in Section 303A of the NYSE Listed Company Manual that are applicable to U.S. companies. In addition, foreign private issuers listed on the NYSE must disclose any significant ways in which their corporate governance practices differ from those followed by U.S. companies listed on the NYSE. With regard to our corporate governance practices, these differences can be summarized as follows:

For U.S. companies, the NYSE standards require that a majority of directors be independent, as determined by the board. Russian law does not require that a majority of our directors be independent. Of our nine directors, three have been determined by the board to be independent in accordance with the independence standards set forth in SEC Rule 10A-3 and Section 303A.02 of the NYSE Listed Company Manual.

For U.S. companies, the NYSE standards require that the audit committee have a minimum of three members. Russian law does not contain such a requirement. Our audit committee is comprised of two members.

For U.S. companies, the NYSE standards require that non-management directors meet at regularly scheduled executive sessions without management. Russian law does not contain such a requirement. However, our audit committee and remuneration and nomination committee are comprised of independent directors, who meet on a regular basis in connection with their work on these committees.

For U.S. companies, the NYSE standards require that listed companies have a nominating/corporate governance committee and a compensation committee, each composed entirely of independent directors and having a written charter specifying the committee's purpose and responsibilities, as well as annual performance evaluations of the committee.

We do not currently have a nominating/corporate governance committee. We have a corporate conduct and ethics committee comprised of directors and members of management that is responsible for developing and implementing standards for corporate governance and ethics and making recommendations to the Board of Directors on developing our strategy in the area of corporate governance and ethics. This committee is also responsible for conducting annual performance evaluations of the Board of Directors.



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We have a remuneration and nomination committee comprised of three independent directors. This committee functions pursuant to bylaws approved by the Board of Directors specifying the committee's purpose, duties and responsibilities. The committee is primarily responsible for recommending appointments to key managerial posts, developing a set of requirements and criteria for directors and management executives and developing a remuneration structure and compensation levels for the Board of Directors, the audit committee and management executives (including the CEO).

For U.S. companies, the NYSE standards require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions. Under Russian law, such approval from shareholders is not required, and our equity compensation plans and material revisions thereto are currently approved by the Board of Directors.

For U.S. companies, the NYSE standards require the adoption and disclosure of corporate governance guidelines addressing certain subjects. Our corporate governance guidelines are consistent with what is required under Russian law and are set forth in our Charter, in the bylaw on our Board of Directors and in the bylaws of our various committees.

In accordance with the corporate governance rules of the NYSE applicable to foreign private issuers, we also disclose these differences between our corporate governance practices and those required by the NYSE of listed U.S. companies on our Internet website at [www.mtsdsm.com](http://www.mtsdsm.com).

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**PART III**

**Item 17. *Financial Statements***

See instead Item 18.

**Item 18. *Financial Statements***

The following financial statements, together with the report of ZAO Deloitte & Touche CIS, are filed as part of this annual report on Form 20-F.

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| <u>Consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009</u>                      | <u>F-5</u>  |
| <u>Consolidated statements of changes in shareholders' equity for the years ended December 31, 2011, 2010 and 2009</u> | <u>F-6</u>  |
| <u>Consolidated statements of cash flows for the years ended December 31, 2011, 2010 and 2009</u>                      | <u>F-9</u>  |
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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**  
**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

|   | Balance at<br>Beginning of<br>Period | Charged to<br>Costs and<br>Expenses | Deductions<br>and Other<br>Adjustments <sup>(1)</sup> | Balance at<br>End of<br>Period |
|---|--------------------------------------|-------------------------------------|---|--------------------------------|
| (in thousands)                              |                                      |                                     |   |                                |
| <b>Year Ended December 31, 2011</b>         |                                      |                                     |   |                                |
| Allowance for doubtful accounts             | \$ 120,468                           | \$ 101,967                          | \$ (125,474)  | \$ 96,961                      |
| Valuation allowance for deferred tax assets | 165,994                              |                                     | (2,919)   | 163,075                        |
| <b>Year Ended December 31, 2010</b>         |                                      |                                     |   |                                |
| Allowance for doubtful accounts             | \$ 97,653                            | \$ 123,352                          | \$ (100,537)  | \$ 120,468                     |
| Valuation allowance for deferred tax assets | 182,308                              |                                     | (16,314)  | 165,994                        |
| <b>Year Ended December 31, 2009</b>         |                                      |                                     |   |                                |
| Allowance for doubtful accounts             | \$ 69,603                            | \$ 105,260                          | \$ (77,210)   | \$ 97,653                      |
| Valuation allowance for deferred tax assets | 26,744                               | 78,761                              | 76,803  | 182,308                        |

(1) Includes the impact of foreign currency translation adjustments.

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#### **Item 19. Exhibits**

| <b>Exhibits No.</b> | <b>Description</b>   |
|---------------------|--|
| 1.1                 | Charter of Mobile TeleSystems OJSC, restated version no. 9, as approved by the General Meeting of Shareholders of Mobile TeleSystems OJSC held on June 27, 2011.*  |
| 2.1                 | Deposit Agreement, dated as of July 6, 2000, by and among, MTS, Morgan Guaranty Trust Company of New York (as depositary), and holders of ADRs is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.   |
| 2.2                 | Amendment No. 1 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(2) to Form F-6 (Registration No 333-12008).  |
| 2.3                 | Amendment No. 2 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(3) to Form F-6 (Registration No. 333-121240).  |
| 2.4                 | Amendment No. 3 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(4) to Form F-6 (Registration No. 333-145190).  |
| 2.5                 | Amendment No. 4 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(5) to Form F-6 (Registration No. 333-166178).  |
| 4.1                 | Indenture dated as of January 28, 2005 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.3 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004, on Form 20-F.  |
| 4.2                 | Indenture dated as of October 14, 2003 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.  |
| 4.3                 | Loan Agreement between Mobile Telesystems Open Joint-Stock Company and MTS International Funding Limited dated June 21, 2010 is incorporated herein by reference to Exhibit 4.3 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009, on Form 20-F.   |
| 4.4                 | Non-Revolver Credit Facility Agreement No. 9656 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated September 2009 (English Translation) is incorporated herein by reference to Exhibit 4.4 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009, on Form 20-F. |
| 4.5                 | Non-Revolver Credit Facility Agreement No. 9657 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated September 2009 (English Translation) is incorporated herein by reference to Exhibit 4.5 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009, on Form 20-F. |
| 4.6                 | Non-Revolver Credit Facility Agreement No. 9463 between Joint Stock Commercial Savings Bank of the Russian Federation and OAO "COMSTAR Integrated TeleSystems" dated June 8, 2007 (English Translation) is incorporated herein by reference to Exhibit 4.6 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009, on Form 20-F.          |

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| <b>Exhibits No.</b> | <b>Description</b>  |
|---------------------|---|
| 4.7                 | Non-Revolving Credit Facility Agreement No. 5361 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated December 13, 2010 (English Translation) is incorporated herein by reference to Exhibit 4.7 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010, on Form 20-F.  |
| 4.8                 | Revolving Credit Facility Agreement No. 5455 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated September 30, 2011 (English Translation).  |
| 4.9                 | Revolving Credit Facility Agreement No. 2011/83-1 between ING Bank (EURASIA) ZAO (Closed Joint Stock Company) and Mobile TeleSystems Open Joint Stock Company dated July 06, 2011.  |
| 4.10                | Revolving Credit Facility Agreement No. 207/11-P between Gazprombank (Open Joint-Stock Company) and Mobile TeleSystems Open Joint Stock Company dated July 29, 2011 (English Translation).  |
| 4.11                | Facility Agreement for Mobile TeleSystems Open Joint Stock Company arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bayerische Landesbank, HSBC Bank plc, ING Bank N.V., Raiffeisen Bank Oesterreich AG and Sumitomo Mitsui Banking Corporation Europe Limited as Mandated Lead Arrangers and ING Bank N.V., London Branch acting as Agent dated April 21, 2006 is incorporated herein by reference to Exhibit 4.46 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005, on Form 20-F.   |
| 4.12                | Facility Agreement for Mobile TeleSystems Open Joint Stock Company arranged by ABN AMRO Bank N.V., Absolut Bank (ZAO), Banc of America Securities Limited, Bank of China (Eluosi), Bank of China (UK) Limited, Joint-Stock Company Banque Societe Generale Vostok, Bayerische Landesbank, BNP Paribas, Credit Suisse International, Export Development Canada, HSBC Bank PLC, ING Bank N.V., J.P. Morgan PLC, Societe Generale Corporate and Investment Banking Paris, Unicredit Bank Austria AG, WestLB AG London Branch and ZAO Unicredit Bank as Mandated Lead Arrangers and ING Bank N.V., London Branch acting as Agent dated May 18, 2009 is incorporated herein by reference to Exhibit 4.5 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F. |
| 4.13                | Agreement for the acquisition of 155,310,126 shares of Joint Stock Company COMSTAR United TeleSystems and 6,715,140,080 shares of Closed Joint Stock Company United TeleSystems dated October 12, 2009 is incorporated herein by reference to Exhibit 4.9 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009, on Form 20-F.  |
| 4.14                | MTS License No. 82397 for provision of mobile radiotelephone communication services in the 1800 MHz band in the territory of the Chechen Republic (English translation) is incorporated herein by reference to Exhibit 4.11 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010, on Form 20-F.  |
| 4.15                | MTS License No. 80185 for provision of mobile radiotelephone communication services in the 900 MHz band in the territory of the Republic of Kalmykia (English translation) is incorporated herein by reference to Exhibit 4.12 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010, on Form 20-F.   |

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| <b>Exhibits No.</b> | <b>Description</b>   |
|---------------------|--|
| 4.16                | MTS License No. 75002 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Rostov Region (English translation) is incorporated herein by reference to Exhibit 4.13 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010, on Form 20-F.  |
| 4.17                | MTS License No. 76585 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the Altai Territory (English translation) is incorporated herein by reference to Exhibit 4.14 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010, on Form 20-F.   |
| 4.18                | MTS License No. 61443 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the Republic of Buryatiya, Sakha (Yakutia), Khabarovsk, Primorsky, Kamchatka, Zabaykalsky, Chukotsk, Jewish Autonomous Region, Amur, Irkutsk, Magadan, Sakhalin (English translation) is incorporated herein by reference to Exhibit 4.12 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F. |
| 4.19                | MTS License No. 58749 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of Krasnoyarsk region (English translation) is incorporated herein by reference to Exhibit 4.14 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F.   |
| 4.20                | MTS License No. 50789 for provision of mobile radiotelephone communication services using IMT-2000/UMTS mobile radiotelephone networks in the Russian Federation (English translation) is incorporated herein by reference to Exhibit 4.53 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F.  |
| 4.21                | MTS Ukraine License No. 720189 for provision of communication services using the NMT-450, GSM-900, PSN and DCS-1800 networks (English translation) is incorporated herein by reference to Exhibit 4.54 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F.  |
| 4.22                | MTS Ukraine License No. 120375 for provision of communication services using the CDMA-450 network (English translation) is incorporated herein by reference to Exhibit 4.55 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F.   |
| 4.23                | MTS License No. 46008 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Novosibirsk region (English translation) is incorporated herein by reference to Exhibit 4.42 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.24                | MTS License No. 49808 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Tatarstan Republic (English translation) is incorporated herein by reference to Exhibit 4.43 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |

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| <b>Exhibits No.</b> | <b>Description</b>   |
|---------------------|--|
| 4.25                | MTS License No. 49809 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Bashkortostan Republic (English translation) is incorporated herein by reference to Exhibit 4.44 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.26                | MTS License No. 49810 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Krasnodar region (English translation) is incorporated herein by reference to Exhibit 4.45 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.27                | MTS License No. 56081 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territories of the Karelia Republic, the Nenets Autonomous District; the Arkhangelsk, Vologodsk, Kaliningrad, Leningrad, Murmansk, Novgorod, and Pskov regions and city of St. Petersburg (English translation) is incorporated herein by reference to Exhibit 4.46 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F. |
| 4.28                | MTS License No. 56082 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the city of Moscow and the Moscow region (English translation) is incorporated herein by reference to Exhibit 4.47 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.29                | MTS License No. 56112 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Belgorod, Bryansk, Vladimir, Voronezh, Ivanov, Kaluga, Kostroma, Kursk, Liptsk, Nizhny Novgorod, Orel, Ryazan, Smolensk, Tambov, Tver, Tula, and Yaroslavl regions (English translation) is incorporated herein by reference to Exhibit 4.48 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.       |
| 4.30                | MTS License No. 56113 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Udmurt Republic, Perm Territory; Khanty-Mansyisk-Ugra and Yamalo-Nenets Autonomous Districts, the Sverdlovsk, Kirov, Chelyabinsk, Kurgan, Orenburg, and Tyumen regions (English translation) is incorporated herein by reference to Exhibit 4.49 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.31                | MTS License No. 765 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Armenia Republic (English translation) is incorporated herein by reference to Exhibit 4.50 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.32                | MTS License No. 86436 for provision of mobile radiotelephone communication services in the 900 MHz band in the territory of the Penza Region (English translation) is incorporated herein by reference to Exhibit 4.29 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010, on Form 20-F.  |

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| <b>Exhibits No.</b> | <b>Description</b>   |
|---------------------|--|
| 4.33                | MTS License No. 86435 for provision of mobile radiotelephone communication services in the 900 MHz band in the territory of the Ulyanovsk Region (English translation) is incorporated herein by reference to Exhibit 4.30 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010, on Form 20-F.  |
| 4.34                | MTS License No. 94561 for provision of wireless telecommunications services in the LTE TDD (time-division duplexing) standard in the 2595-2620 MHz range in the territory of Moscow and the Moscow Region (English translation).   |
| 4.35                | MTS License No. 94560 for provision of leased communications circuits services in the territory of the Russian Federation (English translation).   |
| 8.1                 | List of Subsidiaries of Mobile TeleSystems OJSC.   |
| 12.1                | Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 12.2                | Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 13.1                | Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 13.2                | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101                 | The following financial statements from the Annual Report on Form 20-F of Mobile TeleSystems OJSC for the year ended December 31, 2011, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated statements of financial position, (ii) consolidated statements of operations, (iii) consolidated statements of changes in shareholders' equity, (iv) consolidated statements of cash flows and (v) notes to the consolidated financial statements.** |

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Approved at the Annual General Meeting of Shareholders on June 27, 2011, and became effective upon registration with the Federal Tax Service on July 28, 2011.

\*\*

Users of this data are advised that, pursuant to Rule 406T of Regulation S-T, XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.



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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 23, 2012

MOBILE TELESYSTEMS OJSC

By: /s/ Andrei A. Dubovskov

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Name: Andrei A. Dubovskov  
Title: President and Chief Executive Officer

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Mobile TeleSystems OJSC

We have audited the accompanying consolidated statements of financial position of Mobile TeleSystems OJSC and subsidiaries (the "Group") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mobile TeleSystems OJSC and subsidiaries as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2011 based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2012 expressed an unqualified opinion on the Group's internal control over financial reporting.

/s/ ZAO Deloitte & Touche CIS

Moscow, Russia  
March 6, 2012, except for Note 28,  
as to which the date is April 23, 2012

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2011 AND 2010**

(Amounts in thousands of U.S. Dollars, except share and per share amounts)

|  | December 31,         |                      |
|--|----------------------|----------------------|
|  | 2011                 | 2010                 |
| <b>CURRENT ASSETS:</b>   |                      |                      |
| Cash and cash equivalents (Note 5)   | \$ 1,850,826         | \$ 927,694           |
| Short-term investments (Note 6)  | 86,242               | 333,594              |
| Trade receivables, net (Note 7)  | 863,808              | 798,102              |
| Accounts receivable, related parties (Note 22)   | 4,488                | 2,673                |
| Inventory and spare parts (Note 8)   | 291,075              | 319,956              |
| Prepaid expenses, including related party amounts of \$3,031 and \$26,722  | 234,730              | 232,352              |
| Deferred tax assets (Note 21)  | 189,622              | 234,658              |
| VAT receivable   | 191,039              | 164,761              |
| Other current assets, including assets held for sale of \$2,188 and \$10,430   | 125,818              | 102,813              |
| <b>Total current assets</b>  | <b>3,837,648</b>     | <b>3,116,603</b>     |
| <b>PROPERTY, PLANT AND EQUIPMENT</b> , net of accumulated depreciation of \$7,023,556 and \$6,196,117 (Note 9), including advances given to related parties of \$28,889 and \$96,138 | 8,205,352            | 7,971,830            |
| <b>LICENSES</b> , net of accumulated amortization of \$231,006 and \$384,405 (Notes 3 and 10)  | 227,511              | 294,728              |
| <b>GOODWILL</b> (Notes 3 and 11)   | 1,118,530            | 981,335              |
| <b>OTHER INTANGIBLE ASSETS</b> , net of accumulated amortization of \$1,537,088 and \$1,516,949 (Notes 3 and 12), including prepayments to related parties of \$28,742 and \$48,425  | 1,362,287            | 1,541,638            |
| <b>DEBT ISSUANCE COSTS</b> , net of accumulated amortization of \$217,755 and \$191,453  | 140,579              | 104,818              |
| <b>INVESTMENTS IN AND ADVANCES TO ASSOCIATES</b> (Note 13)   | 188,047              | 241,792              |
| <b>OTHER INVESTMENTS</b> , including related party amounts of \$121,407 and \$125,721 (Note 15)  | 123,442              | 128,582              |
| <b>OTHER NON-CURRENT ASSETS</b> , including restricted cash of \$2,152 and \$4,719, deferred tax assets of \$62,102 and \$81,816 (Note 21)   | 114,833              | 96,716               |
| <b>Total assets</b>  | <b>\$ 15,318,229</b> | <b>\$ 14,478,042</b> |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)****AS OF DECEMBER 31, 2011 AND 2010****(Amounts in thousands of U.S. Dollars, except share and per share amounts)**

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2011              | 2010              |
| <b>CURRENT LIABILITIES:</b>  |                   |                   |
| Accounts payable, related parties (Note 22)  | \$ 56,982         | \$ 52,984         |
| Trade accounts payable   | 799,128           | 629,077           |
| Subscriber prepayments and deposits  | 529,231           | 523,464           |
| Debt, current portion (Note 16), including related party amounts of \$6,799 and \$7,558  | 283,025           | 256,052           |
| Notes payable, current portion (Note 16)   | 865,880           | 492,176           |
| Deferred connection fees, current portion (Note 18)  | 49,868            | 49,212            |
| Capital lease obligation, current portion  | 6,786             | 8,882             |
| Income tax payable   | 27,095            | 26,071            |
| Accrued liabilities (Note 20)  | 653,870           | 799,804           |
| Bitel liability (Note 27)  | 213,152           | 210,760           |
| Other payables   | 79,818            | 106,659           |
| <b>Total current liabilities</b>   | <b>3,564,835</b>  | <b>3,155,141</b>  |
| <b>LONG-TERM LIABILITIES:</b>  |                   |                   |
| Notes payable, net of current portion (Note 16)  | 2,496,002         | 2,830,676         |
| Debt, net of current portion (Note 16), including related party amounts of \$nil and \$7,005   | 5,057,981         | 3,561,953         |
| Capital lease obligation, net of current portion   | 5,529             | 10,873            |
| Deferred connection fees, net of current portion (Note 18)   | 79,556            | 106,076           |
| Deferred taxes (Note 21)   | 227,928           | 292,070           |
| Retirement and post-retirement obligations   | 37,597            | 42,430            |
| Property, plant and equipment contributions  | 86,072            | 88,859            |
| Other long-term liabilities  | 111,503           | 146,217           |
| <b>Total long-term liabilities</b>   | <b>8,102,168</b>  | <b>7,079,154</b>  |
| <b>Total liabilities</b>   | <b>11,667,003</b> | <b>10,234,295</b> |
| <b>COMMITMENTS AND CONTINGENCIES (Note 27)</b>   |                   |                   |
| <b>Redeemable noncontrolling interest (Note 24)</b>  | <b>80,603</b>     | <b>86,944</b>     |
| <b>SHAREHOLDERS' EQUITY:</b>   |                   |                   |
| Common stock (2,096,975,792 shares with a par value of 0.1 rubles authorized and 2,066,413,562 shares issued as of December 31, 2011 and 2,096,975,792 shares with a par value of 0.1 rubles authorized and 1,993,326,138 shares issued as of December 31, 2010, 777,396,505 of which are in the form of ADS as of December 31, 2011 and 2010) (Note 23) | 50,814            | 50,558            |
| Treasury stock (77,496,725 and 76,456,876 common shares at cost as of December 31, 2011 and 2010)  | (992,141)         | (1,054,926)       |
| Additional paid-in capital   | 92,720            |                   |
| Accumulated other comprehensive loss   | (963,992)         | (771,957)         |
| Retained earnings  | 5,294,651         | 4,901,140         |
| Nonredeemable noncontrolling interest  | 88,571            | 1,031,988         |
| <b>Total shareholders' equity</b>  | <b>3,570,623</b>  | <b>4,156,803</b>  |

|   |                      |                      |
|---|----------------------|----------------------|
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 15,318,229</b> | <b>\$ 14,478,042</b> |
|---|----------------------|----------------------|

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009****(Amounts in thousands of U.S. Dollars, except share and per share amounts)**

|   | Years ended December 31, |                   |                  |
|---|--------------------------|-------------------|------------------|
|   | 2011                     | 2010              | 2009             |
| <b>NET OPERATING REVENUES</b>   |                          |                   |                  |
| Services revenue and connection fees (including related party amounts of \$13,481, \$52,257 and \$72,149, respectively)   | \$ 11,430,377            | \$ 10,586,068     | \$ 9,513,353     |
| Sales of handsets and accessories   | 888,311                  | 707,168           | 353,900          |
| <b>Total net operating revenues</b>   | <b>12,318,688</b>        | <b>11,293,236</b> | <b>9,867,253</b> |
| <b>OPERATING EXPENSES</b>   |                          |                   |                  |
| Cost of services, excluding depreciation and amortization shown separately below (including related party amounts of \$15,878, \$43,620 and \$50,389, respectively) | 2,633,434                | 2,260,888         | 2,011,332        |
| Cost of handsets and accessories  | 902,692                  | 727,682           | 375,444          |
| General and administrative expenses (including related party amounts of \$62,717, \$83,305 and \$66,677, respectively) (Note 25)                                    | 2,436,252                | 2,274,421         | 1,992,991        |
| Provision for doubtful accounts   | 111,307                  | 122,550           | 110,766          |
| Impairment of long-lived assets (Note 2, 4)   | 19,015                   | 127,875           | 75,064           |
| Sales and marketing expenses (including related party amounts of \$83,183, \$135,622 and \$127,106, respectively)   | 878,222                  | 850,584           | 728,483          |
| Depreciation and amortization expense   | 2,335,204                | 2,000,496         | 1,844,174        |
| Other operating expenses (including related party amounts of \$538, \$9,796 and \$12,207, respectively)   | 193,677                  | 194,181           | 173,114          |
| <b>Net operating income</b>   | <b>2,808,885</b>         | <b>2,734,559</b>  | <b>2,555,885</b> |
| <b>CURRENCY EXCHANGE AND TRANSACTION LOSS/(GAIN)</b>  | <b>158,066</b>           | <b>(20,238)</b>   | <b>252,694</b>   |
| <b>OTHER EXPENSES/(INCOME)</b>  |                          |                   |                  |
| Interest income (including related party amounts of \$19,079, \$21,640 and \$53,940)  | (62,559)                 | (84,396)          | (104,566)        |
| Interest expense, net of capitalized interest (including related party amounts of \$423, \$608 and \$3,613)   | 656,898                  | 777,287           | 571,901          |
| Equity in net income of associates (Note 13)  | (49,443)                 | (70,649)          | (60,313)         |
| Change in fair value of derivatives (Note 19)   |                          |                   | 5,420            |
| Impairment of investments (including related party amounts of \$nil, \$nil and \$349,370) (Notes 14)  |                          |                   | 368,355          |
| Other expenses, net   | 6,571                    | 66,924            | 23,254           |
| <b>Total other expenses, net</b>  | <b>551,467</b>           | <b>689,166</b>    | <b>804,051</b>   |
| <b>Income before provision for income taxes and noncontrolling interests</b>  | <b>2,099,352</b>         | <b>2,065,631</b>  | <b>1,499,140</b> |
| PROVISION FOR INCOME TAXES (Note 21)  | 531,620                  | 517,188           | 505,047          |
| <b>NET INCOME</b>   | <b>1,567,732</b>         | <b>1,548,443</b>  | <b>994,093</b>   |
| <b>NET INCOME/(LOSS) ATTRIBUTABLE TO THE NONCONTROLLING INTEREST</b>  | <b>123,788</b>           | <b>167,812</b>    | <b>(20,110)</b>  |
| <b>NET INCOME ATTRIBUTABLE TO THE GROUP</b>   | <b>1,443,944</b>         | <b>1,380,631</b>  | <b>1,014,203</b> |
| Weighted average number of common shares outstanding basic and diluted  | 1,970,953,129            | 1,916,869,262     | 1,885,750,147    |
| Earnings per share, basic and diluted   | \$ 0.73                  | \$ 0.72           | \$ 0.54          |

The accompanying notes are an integral part of these consolidated financial statements.



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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in thousands of U.S. Dollars, except share amounts)

|  | Common stock         |                  | Treasury stock       |                      | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>(loss) | Retained<br>earnings | Total equity<br>attributable<br>to<br>the Group | Non-<br>redeemable<br>noncontrolling<br>interest | Total<br>equity     | Redeemable<br>noncontrolling<br>interest |
|--|----------------------|------------------|----------------------|----------------------|----------------------------------|---|----------------------|---|--|---------------------|--|
|  | Shares               | Amount           | Shares               | Amount               |                                  |   |                      |   |  |                     |  |
| <b>Balances at<br/>January 1,<br/>2009</b>                                       | <b>1,993,326,138</b> | <b>\$ 50,558</b> | <b>(108,273,338)</b> | <b>\$(1,426,753)</b> | <b>\$ 1,077,107</b>              | <b>\$(445,772)</b>                              | <b>\$ 5,624,939</b>  | <b>\$ 4,880,079</b>                             | <b>\$1,314,784</b>                               | <b>\$ 6,194,863</b> | <b>\$ 145,748</b>                        |
| <b>Comprehensive<br/>income/(loss):</b>  |                      |                  |                      |                      |                                  |   |                      |   |  |                     |  |
| Net<br>income/(loss)   |                      |                  |                      |                      |                                  |   | 1,014,203            | 1,014,203                                       | (24,469)   | 989,734             | 4,359                                    |
| Currency<br>translation<br>adjustment, net<br>of tax of \$7,910                  |                      |                  |                      |                      |                                  | (196,819)                                       |                      | (196,819)                                       | (29,478)   | (226,297)           | (4,399)                                  |
| Change in fair<br>value of<br>derivatives, net<br>of tax of \$5,895<br>(Note 19) |                      |                  |                      |                      |                                  | (23,579)  |                      | (23,579)  |  | (23,579)            |  |
| Unrecognized<br>actuarial gains,<br>net of tax of \$nil                          |                      |                  |                      |                      |                                  | 1,003   |                      | 1,003   | 1,808  | 2,811               |  |
| <b>Total<br/>comprehensive<br/>income/(loss)</b>                                 |                      |                  |                      |                      |                                  |   |                      | <b>794,808</b>                                  | <b>(52,139)</b>                                  | <b>742,669</b>      |  |
| Dividends<br>declared MTS  |                      |                  |                      |                      |                                  |   | (1,221,381)          | (1,221,381)                                     | (1,005)  | (1,222,386)         |  |
| Dividends<br>Metro-Telecom   |                      |                  |                      |                      |                                  |   | (4,371)              | (4,371)   | (231)  | (4,602)             |  |
| Accrued<br>compensation<br>costs   |                      |                  |                      |                      |                                  | 1,173   |                      | 1,173   |  | 1,173               |  |
| Acquisition of<br>Comstar-UTS  |                      |                  |                      |                      |                                  | (1,066,145)                                     | (256,113)            | (1,322,258)                                     |  | (1,322,258)         |  |
| Legal<br>acquisition of<br>Stream-TV<br>(Note 3)                                 |                      |                  |                      |                      |                                  | (1,616)   | 43                   | (1,573)   | (1,470)  | (3,043)             |  |
| Dividends paid<br>to<br>noncontrolling<br>interest of<br>K-Telecom               |                      |                  |                      |                      |                                  |   |                      |   |  |                     | (12,503)                                 |
| Change in fair<br>value of<br>noncontrolling<br>interest of<br>K-Telecom         |                      |                  |                      |                      |                                  |   |                      | 7,495   | 7,495  | 7,495               | (7,495)                                  |
| Effect of<br>acquisition of<br>Sistema<br>Telecom                                |                      |                  |                      |                      |                                  |   |                      | (12,402)  | (12,402)   | (12,402)            |  |

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|  |            |         |          |          |          |         |           |          |          |
|--|------------|---------|----------|----------|----------|---------|-----------|----------|----------|
| Increase in ownership in subsidiaries (Note 3) | 31,816,462 | 371,827 | (10,519) | (83,298) | (54,908) | 223,102 | (238,900) | (15,798) | (43,449) |
|--|------------|---------|----------|----------|----------|---------|-----------|----------|----------|

|                                      |                      |                  |                     |                      |                     |                     |                     |                     |                     |                  |
|--------------------------------------|----------------------|------------------|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------------|
| <b>Balances at December 31, 2009</b> | <b>1,993,326,138</b> | <b>\$ 50,558</b> | <b>(76,456,876)</b> | <b>\$(1,054,926)</b> | <b>\$ (748,422)</b> | <b>\$ 5,097,462</b> | <b>\$ 3,344,672</b> | <b>\$ 1,021,039</b> | <b>\$ 4,365,711</b> | <b>\$ 82,261</b> |
|--------------------------------------|----------------------|------------------|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------------|

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

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in thousands of U.S. Dollars, except share amounts)

|   | Common stock  |           | Treasury stock |               | Accumulated<br>Additional other<br>paid-in capital | Retained<br>earnings | Total equity<br>attributable<br>to the Group | Non-<br>redeemable<br>noncontrolling<br>interest | Total<br>equity  | Redeemable<br>noncontrolling<br>interest |
|---|---------------|-----------|----------------|---------------|--|----------------------|--|--|------------------|--|
|   | Shares        | Amount    | Shares         | Amount        |  |                      |  |  |                  |  |
| <b>Balances at<br/>December 31,<br/>2009</b>  | 1,993,326,138 | \$ 50,558 | (76,456,876)   | \$(1,054,926) | \$ (748,422)                                       | \$5,097,462          | \$ 3,344,672                                 | \$ 1,021,039                                     | \$4,365,711      | \$ 82,261                                |
| <b>Comprehensive<br/>income/(loss):</b>   |               |           |                |               |  |                      |  |  |                  |  |
| Net income  |               |           |                |               |  | 1,380,631            | 1,380,631                                    | 161,214  | 1,541,845        | 6,598                                    |
| Currency<br>translation<br>adjustment, net<br>of tax of \$7,528                       |               |           |                |               | (45,257)   |                      | (45,257)                                     | (8,348)  | (53,605)         | 940                                      |
| Change in fair<br>value of<br>derivatives, net<br>of tax of<br>\$(6,357)<br>(Note 19) |               |           |                |               | 25,428   |                      | 25,428                                       |  | 25,428           |  |
| Unrecognized<br>actuarial losses,<br>net of tax of \$nil                              |               |           |                |               | (3,706)  |                      | (3,706)                                      | (3,445)  | (7,151)          |  |
| <b>Total<br/>comprehensive<br/>income</b>   |               |           |                |               |  |                      | <b>1,357,096</b>                             | <b>149,421</b>                                   | <b>1,506,517</b> |  |
| Dividends<br>declared MTS   |               |           |                |               |  | (953,192)            | (953,192)                                    | (11,552)   | (964,744)        | (14,973)                                 |
| Dividends<br>Metro-Telecom  |               |           |                |               |  | (11,115)             | (11,115)                                     |  | (11,115)         |  |
| Gain on transfer<br>of asset from<br>Sistema  |               |           |                |               |  | 2,603                | 2,603  | 1,463  | 4,066            |  |
| Accrued<br>compensation<br>costs  |               |           |                |               |  | 614                  | 614  |  | 614              |  |
| Change in fair<br>value of<br>noncontrolling<br>interest of<br>K-Telecom              |               |           |                |               |  | (12,118)             | (12,118)                                     |  | (12,118)         | 12,118                                   |
| Acquisition of<br>Metro-Telecom   |               |           |                |               |  | (11,070)             | (11,070)                                     |  | (11,070)         |  |
| Acquisition of<br>Sistema<br>Telecom  |               |           |                |               |  | (439,455)            | (439,455)                                    |  | (439,455)        |  |
| Acquisition of<br>Multiregion   |               |           |                |               |  |                      |  | 24,244   | 24,244           |  |
| Recognition of<br>put option in<br>Comstar-UTS  |               |           |                |               |  | (11,636)             | (11,636)                                     |  | (11,636)         |  |
| Increase in<br>ownership in   |               |           |                |               |  | (141,584)            | (141,584)                                    | (152,627)  | (294,211)        |  |

subsidiaries  
(Note 3)

**Balances at  
December 31,  
2010**

**1,993,326,138 \$ 50,558 (76,456,876) \$(1,054,926) \$ (771,957) \$4,901,140 \$ 3,124,815 \$ 1,031,988 \$4,156,803 \$ 86,944**

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

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in thousands of U.S. Dollars, except share amounts)

|  | Common stock         |                  | Treasury stock      |                      | Additional paid-in capital | Accumulated other comprehensive income/(loss) | Retained earnings   | Total equity attributable to the Group | Non-redeemable noncontrolling interest | Redeemable noncontrolling equity interest |                  |
|--|----------------------|------------------|---------------------|----------------------|----------------------------|---|---------------------|--|--|---|------------------|
|  | Shares               | Amount           | Shares              | Amount               |                            |   |                     |  |  | Total                                     | Interest         |
| <b>Balances at December 31, 2010</b>                                   | <b>1,993,326,138</b> | <b>\$ 50,558</b> | <b>(76,456,876)</b> | <b>\$(1,054,926)</b> |                            | <b>\$ (771,957)</b>                           | <b>\$ 4,901,140</b> | <b>\$ 3,124,815</b>                    | <b>\$ 1,031,988</b>                    | <b>\$ 4,156,803</b>                       | <b>\$ 86,944</b> |
| <b>Comprehensive income/(loss):</b>                                    |                      |                  |                     |                      |                            |   |                     |  |  |   |                  |
| Net income   |                      |                  |                     |                      |                            |   | 1,443,944           | 1,443,944                              | 116,544                                | 1,560,488                                 | 7,244            |
| Currency translation adjustment, net of tax of \$(13,988)              |                      |                  |                     |                      |                            | (137,290)                                     |                     | (137,290)                              | 30,787                                 | (106,503)                                 | (1,789)          |
| Change in fair value of derivatives, net of tax of \$(1,841) (Note 19) |                      |                  |                     |                      |                            | 7,364   |                     | 7,364                                  |  | 7,364                                     |                  |
| Unrecognized actuarial gains, net of tax of \$nil                      |                      |                  |                     |                      |                            | 5,940   |                     | 5,940                                  | 464                                    | 6,404                                     |                  |
| <b>Total comprehensive income</b>                                      |                      |                  |                     |                      |                            |   |                     | <b>1,319,958</b>                       | <b>147,795</b>                         | <b>1,467,753</b>                          |                  |
| Dividends declared MTS   |                      |                  |                     |                      |                            |   | (1,026,747)         | (1,026,747)                            |  | (1,026,747)                               |                  |
| Dividends to noncontrolling interest                                   |                      |                  |                     |                      |                            |   |                     |  | (203,273)                              | (203,273)                                 | (5,741)          |
| Change in fair value of noncontrolling interest of K-Telecom           |                      |                  |                     |                      |                            |   | 6,055               | 6,055                                  |  | 6,055                                     | (6,055)          |
| Acquisition of own stock   |                      |                  | (8,000)             | (70)                 |                            |   |                     | (70)                                   |  | (70)                                      |                  |
| Exercise of put option in Comstar-UTS                                  |                      |                  |                     |                      |                            |   | 11,636              | 11,636                                 |  | 11,636                                    |                  |
| Comstar-UTS merger (Note 3)  | 73,087,424           | 256              | (1,031,849)         | 62,855               | 366,298                    | (24,645)                                      |                     | 404,764                                | (393,817)                              | 10,947                                    |                  |
| Acquisition of noncontrolling interest in Comstar-UTS                  |                      |                  |                     |                      |                            | (4,760)                                       | (41,377)            | (46,137)                               | (119,340)                              | (165,477)                                 |                  |
| Acquisition of noncontrolling interest in MGTS (Note 3)                |                      |                  |                     |                      | (272,840)                  | (38,644)                                      |                     | (311,484)                              | (356,330)                              | (667,814)                                 |                  |
|  |                      |                  |                     |                      | (738)                      |   |                     | (738)                                  | (18,452)                               | (19,190)                                  |                  |

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Increase in  
ownership in  
subsidiaries  
(Note 3)

|  |                      |                  |                     |                     |                  |                    |                     |                     |                  |                     |                  |
|--|----------------------|------------------|---------------------|---------------------|------------------|--------------------|---------------------|---------------------|------------------|---------------------|------------------|
| <b>Balances at<br/>December 31,<br/>2011</b> | <b>2,066,413,562</b> | <b>\$ 50,814</b> | <b>(77,496,725)</b> | <b>\$ (992,141)</b> | <b>\$ 92,720</b> | <b>\$(963,992)</b> | <b>\$ 5,294,651</b> | <b>\$ 3,482,052</b> | <b>\$ 88,571</b> | <b>\$ 3,570,623</b> | <b>\$ 80,603</b> |
|--|----------------------|------------------|---------------------|---------------------|------------------|--------------------|---------------------|---------------------|------------------|---------------------|------------------|

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

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Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009****(Amounts in thousands of U.S. Dollars)**

|  | Years ended December 31, |                    |                    |
|--|--------------------------|--------------------|--------------------|
|  | 2011                     | 2010               | 2009               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                          |                    |                    |
| Net income   | \$ 1,567,732             | \$ 1,548,443       | \$ 994,093         |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                          |                    |                    |
| Depreciation and amortization  | 2,335,204                | 2,000,496          | 1,844,174          |
| Currency exchange and transaction loss/(gain)  | 130,467                  | (98,706)           | 212,510            |
| Impairment of investments  |                          |                    | 368,355            |
| Impairment of long-lived assets  | 19,015                   | 127,875            | 75,064             |
| Debt issuance cost amortization  | 28,502                   | 89,244             | 36,892             |
| Amortization of deferred connection fees   | (96,676)                 | (95,706)           | (67,057)           |
| Equity in net income of associates   | (49,443)                 | (70,649)           | (60,313)           |
| Provision for doubtful accounts  | 111,307                  | 122,550            | 110,766            |
| Inventory obsolescence expense and other provisions                                      | 30,160                   | 27,825             | 12,225             |
| Deferred tax loss/(benefit)  | 11,548                   | (45,448)           | 101,524            |
| Write-off of non-recoverable VAT receivable  | 4,535                    | 2,534              | 9,652              |
| Change in fair value of derivatives  |                          |                    | 5,420              |
| Other non-cash items   | (13,839)                 | 57,021             | 6,265              |
| <b>Changes in operating assets and liabilities:</b>                                      |                          |                    |                    |
| Increase in accounts receivable  | (212,222)                | (301,764)          | (216,654)          |
| Increase in inventory  | (15,356)                 | (105,859)          | (111,998)          |
| (Increase)/decrease in prepaid expenses and other current assets                         | (37,715)                 | 141,976            | 14,299             |
| (Increase)/decrease in VAT receivable  | (38,087)                 | (53,265)           | 8,914              |
| Increase in trade accounts payable, accrued liabilities and other current liabilities    | 31,545                   | 222,630            | 222,744            |
| Dividends received   | 42,328                   | 47,973             | 25,355             |
| <b>Net cash provided by operating activities</b>   | <b>3,849,005</b>         | <b>3,617,170</b>   | <b>3,592,230</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                          |                    |                    |
| Acquisition of subsidiaries, net of cash acquired  | (219,474)                | (195,106)          | (270,540)          |
| Purchases of property, plant and equipment   | (2,239,787)              | (1,914,331)        | (1,942,402)        |
| Purchases of intangible assets   | (344,679)                | (732,786)          | (385,907)          |
| Proceeds from sale of property, plant and equipment and assets held for sale             | 22,554                   | 6,790              | 28,606             |
| Purchases of short-term investments  | (522,969)                | (672,286)          | (513,933)          |
| Proceeds from sale of short-term investments   | 787,957                  | 577,623            | 649,483            |
| Purchase of other investments  | (51,694)                 | (109,448)          | (613)              |
| Proceeds from sale of shares in Svyazinvest  |                          | 843,158            |                    |
| Proceeds from sales of other investments   | 7,485                    | 15,989             | 44,003             |
| Investments in and advances to/from associates   | 3,000                    | (2,900)            | 1,950              |
| Decrease in restricted cash  | 2,568                    | 1,670              | 17,182             |
| <b>Net cash used in investing activities</b>   | <b>(2,555,039)</b>       | <b>(2,181,627)</b> | <b>(2,372,171)</b> |

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



Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

(Amounts in thousands of U.S. Dollars)

|  | Years ended December 31, |                    |                     |
|--|--------------------------|--------------------|---------------------|
|  | 2011                     | 2010               | 2009                |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                          |                    |                     |
| Cash payments for the acquisitions of subsidiaries from related parties and non-controlling interests (Note 3) | (864,081)                | (739,756)          | (1,345,820)         |
| Contingent consideration paid on acquisition of subsidiaries   | (13,532)                 |                    |                     |
| Proceeds from issuance of notes  | 228,333                  | 1,560,028          | 1,003,226           |
| Repurchase of common stock   | (67)                     |                    |                     |
| Proceeds from issuance of common stock   | 13,442                   |                    |                     |
| Repayment of notes   | (49,409)                 | (862,403)          | (9,182)             |
| Notes and debt issuance cost   | (70,774)                 | (65,697)           | (105,137)           |
| Capital lease obligation principal paid  | (9,348)                  | (12,841)           | (15,592)            |
| Dividends paid   | (1,239,828)              | (975,822)          | (1,266,102)         |
| Proceeds from loans  | 2,043,521                | 2,839,644          | 3,598,100           |
| Loan principal paid  | (308,565)                | (4,779,595)        | (1,728,544)         |
| <b>Net cash (used in)/provided by financing activities</b>   | <b>(270,308)</b>         | <b>(3,036,442)</b> | <b>130,949</b>      |
| Effect of exchange rate changes on cash and cash equivalents   | (100,526)                | (417)              | 42,015              |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | <b>923,132</b>           | <b>(1,601,316)</b> | <b>1,393,023</b>    |
| <b>CASH AND CASH EQUIVALENTS, beginning of the year</b>  | <b>927,694</b>           | <b>2,529,010</b>   | <b>1,135,987</b>    |
| <b>CASH AND CASH EQUIVALENTS, end of the year</b>  | <b>\$ 1,850,826</b>      | <b>\$ 927,694</b>  | <b>\$ 2,529,010</b> |
| <b>SUPPLEMENTAL INFORMATION:</b>   |                          |                    |                     |
| Income taxes paid  | \$ 511,961               | \$ 400,116         | \$ 432,066          |
| Interest paid  | 633,116                  | 671,354            | 510,784             |
| <b>Non-cash investing and financing activities:</b>  |                          |                    |                     |
| Contributed property, plant and equipment  | \$ 6,110                 | \$ 2,814           | \$ 3,213            |
| Additions to network equipment and software under capital lease  |                          |                    | 830                 |
| Equipment acquired through vendor financing  |                          |                    | 27,983              |
| Amounts owed for capital expenditures  | 229,064                  | 180,528            | 236,364             |
| Payable related to business acquisitions   | 6,857                    | 23,281             | 37,985              |

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

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**1. DESCRIPTION OF BUSINESS**

**Business of the Group** Open Joint-Stock Company Mobile TeleSystems ("MTS OJSC", or "the Company") was incorporated on March 1, 2000, through the merger of MTS CJSC and RTC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow license area in 1994 and then began expanding through Russia and the CIS.

In these notes, "MTS" or the "Group" refers to Mobile TeleSystems OJSC and its subsidiaries.

The Group provides a wide range of telecommunications services, including voice and data transmission, internet access, various value added services through wireless and fixed lines as well as selling equipment and accessories. The Group's principal operations are located in Russia, Ukraine, Uzbekistan and Armenia.

MTS completed its initial public offering in 2000 and listed its shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol "MBT". Since 2003 common shares of MTS OJSC have been traded on the Open Joint Stock Company "MICEX-RTS" ("MICEX-RTS").

In 2009, the Group started to expand its own retail network, operated by Russian Telephone Company CJSC ("RTC"), a wholly owned subsidiary of MTS OJSC. During 2009 and 2010 the Group, following this strategy, acquired a number of Russian federal and regional mobile retailer operators (Note 3).

In 2009 through a series of transactions the Group acquired a 61.97% stake in Open Joint-Stock Company Comstar United TeleSystems ("Comstar-UTS"), a provider of fixed line telecommunication services in Russia and the CIS, from Joint-Stock Financial Corporation Sistema ("Sistema"). The acquisition of Comstar-UTS provided access to important growth markets in commercial and residential broadband which gave rise to the development of convergent telecommunication services (Note 3).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS**

**Accounting principles** The Group's entities maintain accounting books and records in local currencies of their domicile in accordance with the requirements of respective accounting and tax legislation. The accompanying consolidated financial statements have been prepared in order to present MTS financial position and its results of operations and cash flows in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and are expressed in terms of U.S. Dollars.

The accompanying consolidated financial statements differ from the financial statements used for statutory purposes in that they reflect certain adjustments, not recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, acquisition accounting, depreciation and valuation of property, plant and equipment, intangible assets and investments.

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**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

***Basis of consolidation*** Wholly-owned and majority-owned subsidiaries where the Group has operating and financial control are consolidated. All intercompany accounts and transactions are eliminated upon consolidation. Those ventures where the Group exercises significant influence but does not have operating and financial control are accounted for using the equity method. Investments in which the Group does not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method and included in other investments in the consolidated statements of financial position. The Group's share in the net income of unconsolidated associates is included in other income in the accompanying consolidated statements of operations and disclosed in Note 13. Results of operations of subsidiaries acquired are included in the consolidated statements of operations from the date of their acquisition.

For entities where (1) the total equity investment at risk is sufficient to enable the entity to finance its activities without additional support and (2) the equity holders bear the economic residual risks and returns of the entity and have the power to direct the activities of the entity that most significantly affect its economic performance, the Group consolidates those entities it controls either through a majority voting interest or otherwise. For entities that do not meet these criteria, commonly known as variable interest entities ("VIEs"), the Group consolidates those entities where the Group has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009****(Amounts in thousands of U.S. Dollars, unless otherwise stated)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

As of December 31, 2011 and 2010, the Company had investments in the following significant legal entities:

|   | Accounting<br>method | December 31, |        |
|---|----------------------|--------------|--------|
|   |                      | 2011         | 2010   |
| Barash Communications Technologies, Inc. ("BCTI")       | Consolidated         | 100.0%       | 100.0% |
| Comstar-Regions   | Consolidated         | 100.0%       | 73.3%  |
| MTS Bermuda <sup>(1)</sup>                              | Consolidated         | 100.0%       | 100.0% |
| MTS Finance <sup>(2)</sup>                              | Consolidated         | 100.0%       | 100.0% |
| MTS Ukraine <sup>(3)</sup>                              | Consolidated         | 100.0%       | 100.0% |
| Multiregion <sup>(4)</sup>                              | Consolidated         |              | 100.0% |
| RTC   | Consolidated         | 100.0%       | 100.0% |
| Sibintertelecom   | Consolidated         | 100.0%       | 100.0% |
| TVT   | Consolidated         | 100.0%       |        |
| Infocentr   | Consolidated         | 100.0%       |        |
| Inteleca Group  | Consolidated         | 100.0%       |        |
| Altair  | Consolidated         | 100.0%       |        |
| Sistema Telecom   | Consolidated         | 100.0%       | 100.0% |
| TS-Retail   | Consolidated         | 100.0%       | 96.0%  |
| Uzdunrobita   | Consolidated         | 100.0%       | 100.0% |
| Metro-Telecom   | Consolidated         | 95.0%        | 95.0%  |
| Moscow City Telephone Network ("MGTS")                  | Consolidated         | 94.1%        | 51.3%  |
| K-Telecom   | Consolidated         | 80.0%        | 80.0%  |
| MTS International Funding Limited ("MTS International") | Consolidated         | VIE          | VIE    |
| Comstar-UTS <sup>(5)</sup>                              | Consolidated         |              | 73.3%  |
| Dagtelecom <sup>(5)</sup>                               | Consolidated         |              | 100.0% |
| Evrotel <sup>(5)</sup>                                  | Consolidated         |              | 100.0% |
| Intellect Telecom                                       | Equity               | 47.0%        | 22.5%  |
| MTS Belarus   | Equity               | 49.0%        | 49.0%  |

- (1) A wholly-owned subsidiary established to repurchase the Company's ADSs.
- (2) Represents beneficial ownership.
- (3) Legal entity Ukrainian Mobile Communications was renamed to MTS Ukraine in 2010.
- (4) Merged with Comstar-Regions on December 6, 2011.
- (5) Merged with MTS OJSC on April 1, 2011.

The Group consolidates MTS International, a private company organized and existing as a private limited company under the laws of Ireland, which qualified as a variable interest entity under Financial Accounting Standards Board Accounting Standards Codification ("ASC")

810, Consolidation. The Group is the primary beneficiary of MTS International. MTS International was established for the

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

purpose of raising capital through the issuance of debt securities on the Irish Stock Exchange followed by transferring the proceeds through a loan facility to the Group. In 2010, MTS International issued \$750.0 million 8.625% notes due in 2020 (Note 16). Total liabilities of the consolidated variable interest entity amounted to \$751.6 million as of December 31, 2011 and 2010.

**Functional currency translation methodology** As of December 31, 2011, the functional currencies of Group entities were as follows:

For entities incorporated in the Russian Federation, MTS Bermuda, MTS Finance and MTS International the Russian ruble ("RUB");

For MTS Ukraine the Ukrainian hryvnia;

For the Turkmen branch of BCTI the Turkmenian manat;

For K-Telecom the Armenian dram;

For MTS Belarus the Belarusian ruble / U.S. Dollar ("USD");

For Uzdurobita and other entities the U.S. Dollar.

Until October 1, 2011, the functional currency for MTS Belarus, the Group's equity investee, was the local country currency. However, 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. The Group reevaluated the functional currency criteria under ASC 830 Foreign Currency Matters, and determined that, starting October 1, 2011, the functional currency of MTS Belarus was the U.S. Dollar. The impact of the change in functional currency of MTS Belarus on the Group's consolidated financial statements was an increase in the carrying value of investments and advances in associates by \$88.8 million as of October 1, 2011.

The Group's reporting currency is U.S. Dollars. Remeasurement of the financial statements into functional currencies, where applicable, and translation of financial statements into U.S. Dollars has been performed as follows:

For entities whose records are not maintained in their functional currencies, monetary assets and liabilities have been remeasured at the period-end exchange rates. Non-monetary assets and liabilities have been remeasured at historical rates. Revenues, expenses and cash flows have been remeasured at average rates. Remeasurement differences resulting from the use of these rates have been accounted for as currency exchange and transaction gains and losses in the accompanying consolidated statements of operations.

For entities whose records are maintained in their functional currency, which is other than the reporting currency, all year-end assets and liabilities have been translated into U.S. Dollars at the period-end exchange rate. Revenues and expenses have been translated at the average exchange rate for the period. Translation differences resulting from the use of these rates are reported as a component of other comprehensive income.



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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

**Management estimates** The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include the allowance for doubtful accounts and inventory obsolescence, valuation allowance for deferred tax assets for which it is more likely than not the assets will not be realized, the valuation of assets acquired and liabilities assumed in business combinations and income tax benefits, the recoverability of investments and the valuation of goodwill, intangible assets, other long-lived assets, certain accrued liabilities and financial instruments.

**Cash and cash equivalents** Cash and cash equivalents represent cash on hand and in bank accounts and short-term investments, including term deposits, having original maturities of less than three months.

**Short-term investments and loans** Short-term investments generally represent investments in promissory notes, loans and time deposits which have original maturities in excess of three months and are repayable in less than twelve months. These investments are being accounted for at amortized cost.

**Long-term investments and loans** Long-term financial instruments consist primarily of long-term investments and loans and long-term debt. Since quoted market price are not readily available for all of its long-term investments and loans, the Group estimates their fair values based on the use of estimates incorporating various unobservable market inputs.

**Property, plant and equipment** Property, plant and equipment, including improvements are stated at cost. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life. Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

**Accounts receivable** Accounts receivable are stated net of allowance for doubtful accounts. Concentrations of credit risk with respect to trade receivables are limited due to a highly diversified customer base, which includes a large number of individuals, private businesses and state-financed institutions.

**Provision for doubtful accounts** The Group provides an allowance for doubtful accounts based on management's periodic review for recoverability of accounts receivable, advances given, loans and other receivables. Such allowance reflects either specific cases, collection trends or estimates based on evidence of collectability. For changes in the provision for doubtful accounts receivable see Note 7.

**Inventory and spare parts** Inventory is stated at the lower of cost or market value. Inventory cost is determined using the weighted average cost method. Handsets and accessories held for sale are



**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

expensed when sold. The Group periodically assesses its inventories for obsolete and slow-moving stock.

**Value-added tax ("VAT")** Value-added tax related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed from the state, subject to certain restrictions, against VAT related to sales.

**Asset retirement obligations** The Group calculates asset retirement obligations and an associated asset retirement cost when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group recorded the present value of asset retirement obligations as other long-term liabilities in the consolidated statement of financial position.

**License costs** License costs are being amortized during the initial license period without consideration of possible future renewals, subject to periodic review for impairment, on a straight-line basis over the period of validity, which varies from three to fifteen years.

**Goodwill** For acquisitions before January 1, 2009 goodwill represents an excess of the consideration paid over the fair market value of net identifiable assets acquired in purchase business combinations and is not amortized. For the acquisitions after January 1, 2009 goodwill is determined as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. The Group determines whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with the authoritative guidance on intangible assets, and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If an impairment of goodwill has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill.

**Impairment of long-lived assets** The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When the undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, 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 \$19.0 million, \$127.9 million and \$75.1 million for the years ended December 31, 2011, 2010 and 2009, respectively. An impairment loss in the amount of \$119.6 million for the year ended December 31, 2010 was recognized as a result of license suspension from the Group's subsidiary in Turkmenistan (Note 4).

**Subscriber prepayments** The Group requires the majority of its customers to pay in advance for telecommunications services. All amounts received in advance of services provided are recorded as a

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subscriber prepayment liability and are not recorded as revenues until the related services have been provided to the subscriber.

**Treasury stock** Shares of common stock repurchased by the Group are recorded at cost as treasury stock and reduce the shareholders' equity in the Group's consolidated financial statements.

**Revenue recognition** Revenue includes all revenues from the ordinary business activities of the Group. Revenues are recorded net of value-added tax. They are recognized in the accounting period in which they are earned in accordance with the realization principle.

Revenues derived from wireless, local telephone, long distance, data and video services are recognized when services are provided. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or period of time (monthly subscription fees).

The content revenue is presented net of related costs when the Group acts as an agent of the content providers while the gross revenue and related costs are recorded when the Group is a primary obligor in the arrangement.

Upfront fees received for connection of new subscribers, installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the estimated average subscriber life, as follows:

|   |             |
|---|-------------|
| Mobile subscribers                                    | 1 - 5 years |
| Residential wireline voice phone subscribers          | 15 years    |
| Residential subscribers of broadband internet service | 1 year      |
| Other fixed line subscribers                          | 3 - 5 years |

The Group calculates an average life of mobile subscribers for each region in which it operates and amortizes regional connection fees.

**Customer incentives** Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (free minutes and discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both accounts receivable and revenue. However, if the sales incentive is a free product or service delivered at the time of sale, the cost of the free product or service is classified as an expense. In particular, the Group sells handsets at prices below cost to contract subscribers. Such subsidies are recognized in the cost of handsets and accessories when the sale is recorded.

**Prepaid cards** The Group sells prepaid cards to subscribers, separately from the handset. Prepaid cards, used as a method of cash collection, are accounted for as customer advances. These cards allow subscribers to make a predetermined allotment of wireless phone calls and/or take advantage of other services offered by the Group, such as short messages and value-added services. Revenue from the sale

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

of prepaid cards is deferred until the service is rendered to the customer uses the airtime or the card expires.

**Roaming discounts** The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependant on the volume of inter operator roaming traffic. The Group accounts for rebates received from and granted to roaming partners in accordance with the authoritative guidance on customer payments and incentives. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information. The Group accounts for discounts received as a reduction of roaming expenses and rebates granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statement of financial position.

**Sales and marketing expenses** Sales and marketing expenses consist primarily of dealers' commissions and advertising costs. Dealers' commissions are linked to revenues received during the six-month period from the date a new subscriber is activated by a dealer. MTS expenses these costs as incurred. Advertising costs for the years ended December 31, 2011, 2010 and 2009, were \$305.2 million, \$319.7 million and \$321.0 million, respectively.

**Retirement benefit and social security costs** The Group contributes to the local state pension and social funds, on behalf of all its employees.

In Russia all social contributions paid during the year ended December 31, 2011 are represented by payments to governmental social funds, including the Pension Fund of the Russian Federation, the Social Security Fund of the Russian Federation and the Medical Insurance Fund of the Russian Federation.

A direct contribution to those funds replaced payments of unified social tax ("UST") with the UST being abolished effective January 1, 2010. The contributions are expensed as incurred. The amount of social contributions recognized by the Group in Russia amounted to \$200.0 million, \$127.6 million and \$96.3 million in 2011, 2010 and 2009, respectively.

MGTS, a subsidiary of the Group, has historically offered its employees certain benefits upon and after retirement. The cost of such benefits includes interest costs, current service costs, amortization of prior service costs, net actuarial loss. The expense is recognized during an employee's years of active service with MGTS. The recognition of expense for retirement pension plans is impacted by estimates made by management such as discount rates used to value certain liabilities, expected return on assets, future rates of compensation increase and other related assumptions. The Group accounts for pension plans in accordance with the requirements of the Financial Accounting Standards Board ("FASB") authoritative guidance on retirement benefits.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

In Ukraine, Uzbekistan, Turkmenistan and Armenia the subsidiaries of the Group are required to contribute a specified percentage of each employee payroll up to a fixed limit to the local pension fund, unemployment and social security funds. Payments to the pension fund in Ukraine amounted to \$62.1 million, \$70.5 million and \$64.9 million for the years ended December 31, 2011, 2010 and 2009, respectively. Amounts contributed to the pension funds in Uzbekistan, Turkmenistan and Armenia were not significant.

**Financial instruments and hedging activities** From time to time, to optimize the structure of business acquisitions and to defer payment of the purchase price, the Group enters into put and call option agreements to acquire the remaining noncontrolling stakes in newly acquired subsidiaries. As these put and call option agreements are not freestanding, the underlying shares of such put and call options are classified as redeemable securities and are accounted for at redemption value which is the fair value of redeemable noncontrolling interests as of the reporting date. The fair value of redeemable noncontrolling interests is measured using the discounted future cash flows techniques, subject to applicable caps. The noncontrolling interest is measured at fair value using the discounted cash flow technique utilizing significant unobservable inputs ("Level 3" significant unobservable inputs of the hierarchy established by the U.S. GAAP guidance). Changes in redemption value of redeemable noncontrolling interests are accounted for in the Group's retained earnings. Redeemable noncontrolling interests are presented as temporary equity in the consolidated statement of financial position.

The Group uses derivative instruments, including swap, forward and option contracts to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them as either other current or other non-current assets or liabilities in the consolidated statement of financial position. The Group reviews its fair value hierarchy classifications quarterly. Changes in significant observable valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities. During the years ended December 31, 2011, 2010 and 2009 no reclassifications occurred. The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments ("Level 2" of the hierarchy established by the U.S. GAAP guidance).

The Group designates derivatives as either fair value hedges or cash flow hedges in case the required criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of operations together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of operations. For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are included in the consolidated statement of operations (Note 19).

Assets and liabilities related to multiple derivative contracts with one counterparty are not offset by the Group.

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The Group does not use financial instruments for trading or speculative purposes.

**Fair value of financial instruments** The fair market value of financial instruments, consisting of cash and cash equivalents, short-term investments, accounts receivable and accounts payable, which are included in current assets and liabilities, approximates the carrying value of these items due to the short term nature of these amounts. The fair value of issued notes as of December 31, 2011, is disclosed in Note 16 and is based on quoted prices in active markets.

Based on current market interest rates available to the Group for long-term borrowings with similar terms and maturities, the Group believes the fair value of other fixed rate debt including capital lease obligations and the fair value of variable rate debt approximated its carrying value as of December 31, 2011.

Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities;

Level 3 No observable pricing inputs in the market.

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

**Stock-based compensation** The Group accounts for stock-based compensation under the authoritative guidance on share based compensation. Under the provisions of this guidance companies must calculate and record the cost of equity instruments, such as stock options awarded to employees for services received, in the statements of operation. The cost of the equity instruments is to be measured based on the fair value of the instruments on the date they are granted (with certain exceptions) and recognized over the period during which the employees are required to provide services in exchange for equity instruments. Compensation cost related to phantom stock options granted to our employees recognized in the Group's consolidated statement of operations as of December 31, 2011, 2010 and 2009 amounted to \$16.0 million, \$7.8 million, \$(0.3) million, respectively

**New and adopted accounting pronouncements** In October 2009, the FASB amended the revenue recognition for multiple deliverable arrangements guidance to require the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. This updated guidance is effective prospectively for revenue arrangements entered into or materially modified in

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

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fiscal years beginning on or after June 15, 2010. The adoption of this guidance, effective January 1, 2011, did not have a significant impact on the Group's consolidated financial statements.

In June 2011, the FASB amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one continuous statement or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option under the current guidance that permits the presentation of components of other comprehensive income as part of the statement of changes in stockholders' equity has been eliminated. The amendment becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. This guidance will not have an impact on the Group's consolidated financial statements as it is disclosure-only in nature.

In September 2011, the FASB updated the authoritative guidance on testing goodwill for impairment. The update gives entities carrying out goodwill impairment test an option of performing qualitative assessment before calculating the fair value of a reporting unit. If an entity determines, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The guidance is effective for all entities for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance is not expected to have a significant impact on the Group's consolidated financial statements.

**3. BUSINESS ACQUISITIONS AND DISPOSALS**

***Increase of stake in MGTS*** In December 2011, the Group acquired 29% of the ordinary shares of MGTS from Sistema for RUB 10.56 billion (\$336.3 million as of December 1, 2011). In addition the Group assumed debt in the amount of RUB 10.41 billion (\$331.5 million as of December 1, 2011) due and payable by the end of 2011. MGTS is the Moscow's incumbent fixed line operator initially joined to the Group as a result of Comstar acquisition. Upon completion of the transaction the Group's ownership stake in MGTS increased to 99.01% of ordinary shares and 69.7% of preferred shares, which overall totals 94.1% of MGTS charter capital. The transaction was accounted for directly in equity.

***Acquisitions of controlling interests in regional fixed line operators*** In 2010-2011, as part of its program of regional expansion, the Group acquired controlling interests in a number of alternative fixed-line operators in certain regions of Russia. The purchase price for these acquisitions was paid in cash. The acquisitions were accounted for using the purchase method of accounting.

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The following table summarizes the purchase price allocation for regional fixed line operators acquired during the year ended December 31, 2011:

|                                  | <b>Inteleca<br/>Group</b> | <b>Infocentr</b> | <b>Altair</b>     | <b>TVT</b>      | <b>Total</b> |
|----------------------------------|---------------------------|------------------|-------------------|-----------------|--------------|
| Month of acquisition             | April                     | April            | August            | October         |              |
| Region of operations             | Siber<br>region           | Ural<br>region   | Central<br>region | Volga<br>region |              |
| Ownership interest<br>acquired   | 100%                      | 100%             | 100%              | 100%            |              |
| Current assets                   | \$ 853                    | \$ 2,840         | \$ 3,172          | \$ 7,623        | \$ 14,488    |
| Property, plant and<br>equipment | 10,812                    | 2,585            | 3,739             | 31,664          | 48,800       |
| Goodwill                         | 10,662                    | 14,711           | 12,726            | 147,591         | 185,690      |
| Customer base                    | 2,217                     | 4,820            | 13,025            |                 | 20,062       |
| Other non-current assets         | 22                        | 17               | 1,618             | 1,813           | 3,470        |
| Current liabilities              | (4,491)                   | (8,547)          | (5,542)           | (25,510)        | (44,090)     |
| Non-current liabilities          | (875)                     | (989)            | (3,148)           | (638)           | (5,650)      |
| Consideration paid               | \$ 19,200                 | \$ 15,437        | \$ 25,590         | \$ 162,543      | \$ 222,770   |

The purchase price allocation of TVT was not finalized as of the date of these financial statements as the Group had not completed the valuation of individual assets of the company. The Group's consolidated financial statements reflect the allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed. The excess of the consideration paid over the value of net assets in the amount of \$147.6 million was preliminarily allocated to goodwill and was attributable to the "Russia" segment.

The purchase price allocation of all other acquired fixed-line operators was finalized as of December 31, 2011. The Group's consolidated financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed.

Customer base recognized as a result of the acquisitions is amortized over a period ranging from 8 to 14 years depending on the type of subscribers.

The recognition of goodwill in the amount of \$38.1 million from the acquisitions for which the purchase price allocations are finalized is due to the economic potential of the markets in which the acquired companies operate and synergies arising from the acquisitions. Goodwill is attributable to the "Russia" segment.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

**3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)**

The following table summarizes the purchase price allocation for regional fixed line operators acquired during the year ended December 31, 2010:

|                                  | <b>Tenzor<br/>Telecom</b> | <b>Penza<br/>Telecom</b> | <b>NMSK</b>  | <b>Lanck<br/>Telecom</b> | <b>Total</b> |
|----------------------------------|---------------------------|--------------------------|--------------|--------------------------|--------------|
| Month of acquisition             | February                  | June                     | December     | December                 |              |
| Region of operations             | Central<br>region         | Volga<br>region          | Sibir region | North-West<br>region     |              |
| Ownership interest<br>acquired   | 100%                      | 100%                     | 100%         | 100%                     |              |
| Current assets                   | \$ 711                    | \$ 1,076                 | \$ 2,575     | \$ 1,634                 | \$ 5,996     |
| Property, plant and<br>equipment | 2,191                     | 2,407                    | 10,625       | 10,618                   | 25,841       |
| Goodwill                         | 6,616                     | 7,394                    | 14,113       | 11,119                   | 39,242       |
| Customer base                    |                           | 15,603                   | 5,512        | 6,733                    | 27,848       |
| Other non-current assets         |                           |                          | 124          | 337                      | 461          |
| Current liabilities              | (3,142)                   | (4,369)                  | (8,607)      | (10,936)                 | (27,054)     |
| Non-current liabilities          | (130)                     | (2,779)                  | (944)        | (1,684)                  | (5,537)      |
| Consideration paid               | \$ 6,246                  | \$ 19,332                | \$ 23,398    | \$ 17,821                | \$ 66,797    |

Customer base recognized as a result of the acquisitions is amortized over a period ranging from 8 to 12 years depending on the type of subscribers.

Recognition of goodwill in the amount of \$39.2 million from the acquisitions is due to the economic potential of the markets in which the acquired companies operate and synergies arising from the acquisitions. Goodwill is attributable to the "Russia" segment.

**Acquisition of Sistema Telecom** In December 2010, the Group acquired 100% of Sistema Telecom from Sistema for RUB 11.59 billion (\$378.98 million as of December 27, 2010). The entity's key assets consist of property rights in respect of the group of trademarks, including the distinctive "egg" trademarks of MTS, Comstar-UTS and MGTS, certain promissory notes previously issued by the Group in the amount of RUB 2.00 billion (\$65.50 million) and a 45% stake in TS-Retail. As a result of the acquisition, the Group expects to reduce its operating expenses previously incurred to rent the trademarks and to further optimize the management structure of its retail business.

The acquisition was accounted for as a common control transaction at carrying amount. These consolidated financial statements were retroactively recast to reflect the Group as if Sistema Telecom had been owned since the beginning of the earliest period presented. The transaction was accounted for in a manner similar to the pooling-of-interests method directly in equity.

**Acquisition of Metro-Telecom** In August 2010, the Group acquired a 95% stake in Metro-Telecom from Invest-Svyaz, a wholly-owned subsidiary of Sistema, for RUB 339.35 million (\$11.01 million as of August 27, 2010). The company operates an optical fiber network in the Moscow metro.

The acquisition was accounted for as a common control transaction at carrying amount. These consolidated financial statements were retroactively restated to reflect the Group as if Metro-Telecom had been owned since the beginning of the earliest period presented. The transaction was accounted for in a manner similar to the pooling-of-interests method directly in equity.





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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of U.S. Dollars, unless otherwise stated)

**3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)**

**Acquisition of Multiregion** In July 2010, the Group acquired a 100% stake in Multiregion for cash consideration of \$123.6 million. Multiregion and its subsidiaries is a group of broadband and cable TV providers with a presence in 37 cities of the Russian Federation.

The acquisition was accounted for using the purchase method of accounting. The summary of the purchase price allocation for the acquisition was as follows:

|  |            |
|--|------------|
| Current assets                         | \$ 46,776  |
| Non-current assets                     | 46,732     |
| Customer base                          | 76,376     |
| Goodwill                               | 148,743    |
| Current liabilities                    | (126,780)  |
| Non-current liabilities                | (44,007)   |
| Fair value of noncontrolling interests | (24,244)   |
| Consideration paid                     | \$ 123,596 |

The fair value of noncontrolling interests was determined based on unobservable inputs ("Level 3" of the hierarchy established by the U.S. GAAP guidance). The fair value was measured as the fair value of Multiregion's net assets using the discounted cash flow technique.

The excess of the purchase price over the value of net assets acquired was allocated to goodwill which was assigned to the "Russia" segment and is not deductible for income tax purposes. Goodwill is mainly attributable to the synergies from reduction of internet-traffic and administrative expenses of the Group and expected increase of market share as a result of future capital expenditures to be made by the Group.

In 2011 the Group paid consideration of \$23.96 million for the acquisition of noncontrolling interests in several subsidiaries of Multiregion. The difference between the consideration paid and the fair value of noncontrolling interests was recorded in additional paid-in capital.

**Increase of stake in SWEET-COM** In June 2010, the Group acquired the remaining 25.1% stake in SWEET-COM from private investors for \$8.5 million. As a result of this transaction, the Group's ownership in the subsidiary increased to 100%. The original 74.9% stake was acquired in February 2005. SWEET-COM holds licenses for provision of telematics communications and data transmission services in the Moscow region and the Russian Federation. The transaction was accounted for directly in equity.

**Increase of stake in TS-Retail** In June 2010, the Group increased its direct ownership in TS-Retail from 25% to 40% for a nominal amount of one U.S. Dollar. MTS subsequently increased its effective ownership interest in TS-Retail to 50.95%, which was achieved through a voluntary tender offer to repurchase Comstar-UTS' shares in September 2010. In December 2010, as a result of acquisition of Sistema Telecom, the Group acquired an additional 45% stake in TS-Retail, resulting in the effective ownership interest reaching 96.04%. Following the merger with Comstar-UTS on April 1, 2011 the Group increased its stake in TS-Retail to 100%.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

Upon obtaining control over TS-Retail, the Group accounted for the acquisition as a common control transaction at carrying amount. The transaction was accounted for in a manner similar to the pooling-of-interests method directly in equity.

*Acquisitions of certain retail chains* In 2009, in conjunction with the development of its own retail network, the Group acquired controlling interests in a number of retail chains in Russia. The acquisitions were accounted for using the purchase method of accounting.

The following table summarizes the purchase price allocation of the retail chains acquired as of the acquisition date:

|  | Telefon.ru | Eldorado  | Teleforum | Total     |
|--|------------|-----------|-----------|-----------|
| Month of acquisition                   | February   | March     | October   |           |
| Ownership interest acquired            | 100%       | 100%      | 100%      |           |
| Current assets                         | \$ 48,979  | \$ 2,467  | \$ 2,953  | \$ 54,399 |
| Non-current assets                     | 2,315      | 911       | 745       | 3,971     |
| Brand                                  |            | 374       |           | 374       |
| Goodwill                               | 123,333    | 29,875    | 9,050     | 162,258   |
| Current liabilities                    | (108,701)  | (12,248)  | (3,614)   | (124,563) |
| Non-current liabilities                | (5,926)    | (115)     |           | (6,041)   |
| Fair value of contingent consideration |            | (3,414)   | (6,934)   | (10,348)  |
| Consideration paid                     | \$ 60,000  | \$ 17,850 | \$ 2,200  | \$ 80,050 |

The Group's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed. Goodwill was mainly attributable to the synergies arising from the Group's ability to optimize the dealers' compensation structure and to maintain its subscriber market share in Russia. Goodwill is not deductible for income tax purposes and was assigned to the "Russia" segment. Brand components are amortized over periods of 6 months.

The terms of the individual purchase agreements included the obligation to pay additional consideration as follows:

Up to \$25 million during the period from 12 to 18 months for Telefon.ru;

Up to \$5 million in 12 months for Eldorado; and

Up to \$8.8 million in 12 months for Teleforum.

The additional consideration could be reduced by the amount of tax liability related to the activities prior to the acquisition dates. The Group could also deduct amounts of any potential losses arising from the loss of control on any of Teleforum's outlets from the amount of contingent consideration. The purchase price allocation as of the acquisition date reflected management's estimate of the fair value of the contingent consideration at the acquisition date.

In 2010 the Group paid additional consideration in connection with the acquisition of retail chains in full amounts. The difference between the fair value of contingent consideration and the actual



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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of U.S. Dollars, unless otherwise stated)

**3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)**

amount paid totaling \$41.8 million resulted from events which occurred after the acquisition date and was accounted for as other operating expenses in the consolidated statement of operations.

**Acquisition of Evrotel** In December 2009, the Group acquired a 100% stake in Evrotel, a Russian federal back bone network operator, from a third party. The consideration paid comprised \$90 million. Under the terms of agreement the Group shall pay contingent consideration of up to \$20 million should Evrotel complete the construction of certain fiber-optic lines and the Group retain control over the technical support agreements in relation to the optic cable lines. At the acquisition date the estimated fair value of this contingent consideration was \$20 million.

The acquisition was accounted for using the purchase method of accounting. The purchase price allocation for the acquisition was as follows:

|  |    |          |
|--|----|----------|
| Current assets                         | \$ | 14,300   |
| Non-current assets                     |    | 67,960   |
| Customer base                          |    | 4,726    |
| Goodwill                               |    | 98,542   |
| Liabilities                            |    | (75,528) |
| Fair value of contingent consideration |    | (20,000) |
| Consideration paid                     | \$ | 90,000   |

In 2011 the Group paid a part of the contingent consideration in connection with the acquisition of Evrotel in the amount of \$16.1 million. The remaining part of the contingent consideration in the amount of \$3.9 million was remeasured to its fair value of \$2.4 million as at December 31, 2011. The changes in fair value totaling \$1.5 million resulted from events which occurred after the acquisition date and have consequently been accounted for as other operating expenses in the consolidated statement of operations.

Goodwill is mainly attributable to the synergies from reduction of interconnect and internet-traffic expenses of the Group. Goodwill is not deductible for income tax purposes and was assigned to the "Russia" segment.

**Acquisition of Comstar-UTS** In October 2009, the Group acquired a 50.91% stake in Comstar-UTS, a provider of fixed line communication services in Russia, Ukraine and Armenia, from Sistema. Consideration paid amounted to RUB 39.15 billion (\$1.32 billion as of October 12, 2009) or RUB 184.02 (\$6.21) per global depositary receipt ("GDR").

This acquisition has been accounted for as a common control transaction at carrying amount. The excess of consideration over the carrying value of net assets received has been recorded as a decrease in additional paid-in capital of the Group in the amount of \$1.07 billion and as a decrease in retained earnings in the amount of \$242.7 million.

Further, in December 2009, in a series of transactions, the Group acquired a 14.2% stake in MGTS in exchange for 31,816,462 ordinary MTS OJSC shares (equal to RUB 7.17 billion based on the MICEX price on December 17, 2009, or RUB 225.4 per share, per the terms of the agreement with

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009****(Amounts in thousands of U.S. Dollars, unless otherwise stated)****3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)**

MGTS shareholder), representing 1.6% shares outstanding, previously held in treasury and \$7.3 million in cash. The MGTS stake, represented by 2,462,687 ordinary shares and 11,135,428 preferred shares, were held by a wholly owned subsidiary of Comstar-UTS. Simultaneously, MTS received 46,232,000 shares, representing 11.06% of total shares outstanding, of Comstar-UTS from MGTS Finance S.A., a wholly owned subsidiary of MGTS. In addition, MTS paid Comstar-UTS a cash consideration of \$8.3 million. The transaction was accounted for directly in equity.

In September 2010, through a voluntary tender offer the Group acquired 37,614,087 ordinary shares of Comstar-UTS which represents approximately 9.0% of its issued share capital for a total consideration of RUB 8.28 billion (approximately \$271.89 million as of October 6, 2010). This brought the Group's total ownership stake in Comstar-UTS to 70.97% (or 73.33% excluding treasury shares). The transaction was accounted for directly in equity.

Furthermore, on December 23, 2010 an extraordinary general meeting of the Company's shareholders approved the merger of Comstar-UTS and a number of MTS' subsidiaries into MTS OJSC. The Group redeemed Comstar-UTS shares held and put by non-controlling interest shareholders within the limit set forth by the Russian law at a specified price. The amount redeemed to Comstar shareholders in the first quarter 2011 totaled to \$168.8 million. The remaining 98,853,996 of Comstar-UTS shares held by non-controlling interest shareholders were converted into existing MTS treasury shares as well as newly issued MTS shares at an exchange ratio of 0.825 MTS ordinary shares for each Comstar-UTS ordinary share. As a result, the charter capital of MTS OJSC increased by 73,087,424 ordinary shares to a total of 2,066,413,562 ordinary shares. The merger was completed on April 1, 2011. The transactions were accounted for directly in equity.

**Acquisition of Kolorit Dizayn** In September 2009, the Group acquired a 100% stake in Kolorit Dizayn, a company providing outdoor advertising services in the territory of Uzbekistan, for \$39.7 million in cash.

The acquisition was accounted for using the purchase method of accounting. The summary of the purchase price allocation for the acquisition was as follows:

|                         |    |         |
|-------------------------|----|---------|
| Current assets          | \$ | 993     |
| Non-current assets      |    | 11,788  |
| Brand                   |    | 2,097   |
| Goodwill                |    | 27,109  |
| Current liabilities     |    | (2,098) |
| Non-current liabilities |    | (235)   |
| Consideration paid      | \$ | 39,654  |

Goodwill is mainly attributable to synergies from advertising cost optimization. Goodwill is not deductible for income tax purposes and was assigned to the "Uzbekistan" segment.

**Acquisition of Dagtelecom** In January 2009, Glaxen, the minority shareholder of Dagtelecom, exercised its put option over its 25.5% stake in the company. Consideration payable by the Group on

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the put option agreement comprised \$51.3 million. Payment made by the Group was reduced by \$12.5 million to offset the loan receivable from Glaxen at the date of acquisition. The transaction was accounted for directly in equity.

**Pro forma results of operations (unaudited)** The following unaudited pro forma financial data for the years ended December 31, 2011 and 2010, gives effect to the 2011 acquisitions of Inteleca Group, Infocentr, Altair and TVT as though these business combinations had been completed at the beginning of 2010.

|   | 2011          | 2010          |
|---|---------------|---------------|
| Pro forma:  |               |               |
| Net revenues  | \$ 12,366,057 | \$ 11,359,640 |
| Net operating income                                | 2,821,182     | 2,751,082     |
| Net income  | 1,462,649     | 1,405,790     |
| Earnings per share, basic and diluted, U.S. Dollars | \$ 0.74       | \$ 0.73       |

The pro forma information is based on various assumptions and estimates. The pro forma information is not necessarily indicative of the operating results that would have occurred if the Group acquisitions had been consummated as of January 1, 2010, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual results of operations of these companies are included in the consolidated financial statements of the Group only from the respective dates of acquisition.

The following amounts of revenue and earnings of companies acquired from third parties in 2011 since the acquisition date are included in the consolidated statement of operations for the year ended December 31, 2011:

|                    | 2011 (unaudited) |
|--------------------|------------------|
| Net revenues       | \$ 22,539        |
| Net operating loss | 4,883            |
| Net loss           | 3,353            |

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**4. OPERATIONS IN TURKMENISTAN**

In December 2010 the Group suspended its operations in Turkmenistan following a notice received from the Ministry of Communications of Turkmenistan informing of a decision to suspend licenses held by BCTI, the Group's wholly-owned subsidiary in Turkmenistan, 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 not granted.

The Group conducted operations in Turkmenistan under a trilateral agreement signed in November 2005 by BCTI, MTS OJSC and the Ministry of Communications of Turkmenistan which expired on December 21, 2010, unless extended pursuant to its terms and conditions. In accordance with certain provisions of this 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. Under the terms of the agreement, BCTI shared 20% of its net profit commencing December 21, 2005. The Group at all times believed that the agreement would be extended and approached the Ministry of Communications within the required timeframe to formalize the extension. However, the Ministry of Communications failed to extend the agreement in accordance with its terms.

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

The Group initiated a number of proceedings against Turkmenistan government authorities and state-owned telecom operators to defend its legal rights. On December 21, 2010 BCTI filed three requests for arbitration with the International Court of Arbitration of the International Chamber of Commerce ("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. Later sovereign state Turkmenistan was joined as the respondent in the proceedings against Ministry of Communications of Turkmenistan.

On January 21, 2011 MTS sent a formal notice to the Government of Turkmenistan requesting to resolve the dispute through negotiations and notifying it of MTS' 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 through negotiations and, accordingly, on 1 September 2011 MTS filed a claim against Turkmenistan in the International Centre for the Settlement of Investment Disputes ("ICSID"). On 5 October 2011 the claim was registered by the ICSID Secretariat.

Considering the adverse impact of such circumstances on the Group's ability to conduct operations in Turkmenistan, the Group determined that all of its long-lived assets attributable to Turkmenistan were impaired and recorded an impairment charge of \$119.6 million in the consolidated statement of operations for the year ended December 31, 2010. The Group also assessed the recoverability of the subsidiary's current assets and provided for or wrote down those current assets which were considered



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to be impaired. The total effect of impairment charges on the Group's statement of operations for the year ended December 31, 2010 is as follows:

|                                     |                   |
|-------------------------------------|-------------------|
| Impairment of long-lived assets     | \$ 119,580        |
| Provision for doubtful accounts     | 11,462            |
| General and administrative expenses | 4,280             |
| Other operating expenses            | 2,500             |
|                                     | <b>\$ 137,822</b> |

**5. CASH AND CASH EQUIVALENTS**

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

|  | December 31,        |                   |
|--|---------------------|-------------------|
|  | 2011                | 2010              |
| Ruble current accounts                 | \$ 300,057          | \$ 413,139        |
| Ruble deposit accounts                 | 934,169             | 93,271            |
| U.S. Dollar current accounts           | 321,949             | 215,375           |
| U.S. Dollar deposit accounts           | 101,600             | 28,002            |
| Euro current accounts                  | 25,770              | 17,142            |
| Euro deposit accounts                  | 2,600               | 11,288            |
| Hryvna current accounts                | 10,873              | 9,535             |
| Hryvna deposit accounts                |                     | 35,753            |
| Uzbek som current accounts             | 150,547             | 91,236            |
| Turkmenian manat current accounts      | 1,501               | 10,568            |
| Armenian dram current accounts         | 1,616               | 2,160             |
| Other                                  | 144                 | 225               |
| <b>Total cash and cash equivalents</b> | <b>\$ 1,850,826</b> | <b>\$ 927,694</b> |

**6. SHORT-TERM INVESTMENTS**

Short-term investments as of December 31, 2011 comprised the following:

| Type of investment                    | Annual interest rate | Maturity date          | Amount           |
|---------------------------------------|----------------------|------------------------|------------------|
| Deposits                              | 2.0 - 11.0%          | January - October 2012 | \$ 80,291        |
| Belarusian ruble denominated deposits | 26.0 - 37.0%         | February - April 2012  | \$ 5,933         |
| Other                                 |                      |                        | 18               |
| <b>Total</b>                          |                      |                        | <b>\$ 86,242</b> |

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Short-term investments as of December 31, 2010 comprised the following:

| Type of investment        | Annual interest rate | Maturity date       | Amount            |
|---------------------------|----------------------|---------------------|-------------------|
| Deposits                  | 3.5 - 9.0%           | January - July 2011 | \$ 279,663        |
| Funds in trust management | 9.2%                 | June 2011           | 26,987            |
| Promissory notes          | 5.5 - 7.0%           | April - June 2011   | 26,701            |
| Other                     |                      |                     | 243               |
| <b>Total</b>              |                      |                     | <b>\$ 333,594</b> |

**7. TRADE RECEIVABLES, NET**

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

|                                 | December 31,      |                   |
|---------------------------------|-------------------|-------------------|
|                                 | 2011              | 2010              |
| Subscribers                     | \$ 351,786        | \$ 384,903        |
| Interconnect                    | 112,751           | 120,948           |
| Dealers                         | 106,000           | 108,010           |
| Roaming                         | 283,830           | 224,687           |
| Other                           | 106,402           | 80,022            |
| Allowance for doubtful accounts | (96,961)          | (120,468)         |
| <b>Trade receivables, net</b>   | <b>\$ 863,808</b> | <b>\$ 798,102</b> |

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended December 31, 2011, 2010 and 2009:

|                                 | 2011             | 2010              | 2009             |
|---------------------------------|------------------|-------------------|------------------|
| Balance, beginning of year      | \$ 120,468       | \$ 97,653         | \$ 69,603        |
| Provision for doubtful accounts | 101,967          | 123,352           | 105,260          |
| Accounts receivable written off | (120,673)        | (99,708)          | (76,622)         |
| Currency translation adjustment | (4,801)          | (829)             | (588)            |
| <b>Balance, end of year</b>     | <b>\$ 96,961</b> | <b>\$ 120,468</b> | <b>\$ 97,653</b> |

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009****(Amounts in thousands of U.S. Dollars, unless otherwise stated)****8. INVENTORY AND SPARE PARTS**

Inventory and spare parts as of December 31, 2011 and 2010, comprised the following:

|   | December 31,      |                   |
|---|-------------------|-------------------|
|   | 2011              | 2010              |
| Handsets and accessories                    | \$ 223,764        | \$ 234,166        |
| Spare parts for telecommunication equipment | 28,533            | 34,687            |
| SIM cards and prepaid phone cards           | 10,445            | 21,879            |
| Advertising materials                       | 1,320             | 2,011             |
| Other materials                             | 27,013            | 27,213            |
| <b>Total inventory and spare parts</b>      | <b>\$ 291,075</b> | <b>\$ 319,956</b> |

Obsolescence expense for the years ended December 31, 2011, 2010 and 2009, amounted to \$30.2 million, \$27.8 million and \$4.1 million, respectively, and was included in general and administrative expenses in the accompanying consolidated statements of operations. Spare parts for telecommunication equipment included in inventory are expected to be utilized within the twelve months following the statement of financial position date.

**9. PROPERTY, PLANT AND EQUIPMENT**

The net book value of property, plant and equipment as of December 31, 2011 and 2010, was as follows:

|   | Useful lives,<br>months | December 31,        |                     |
|---|-------------------------|---------------------|---------------------|
|   |                         | 2011                | 2010                |
| Network, base station equipment and related leasehold improvements (including leased assets of \$1.2 million and \$1.2 million) | 60 - 204                | \$ 11,419,352       | \$ 10,631,101       |
| Office equipment, computers and other   | 36 - 60                 | 1,231,907           | 1,102,584           |
| Buildings and related leasehold improvements (including leased assets of \$0.8 million and \$0.8 million)                       | 240 - 600               | 758,898             | 742,263             |
| Vehicles (including leased assets of \$31.5 million and \$33.7 million)   | 36 - 60                 | 87,786              | 81,085              |
| Property, plant and equipment, at cost (including leased assets of \$33.5 million and \$35.7 million)                           |                         | 13,497,943          | 12,557,033          |
| Accumulated depreciation (including leased assets of \$11.4 million and \$5.6 million)  |                         | (7,023,556)         | (6,196,117)         |
| Construction in progress and equipment for installation   |                         | 1,730,965           | 1,610,914           |
| <b>Property, plant and equipment, net</b>   |                         | <b>\$ 8,205,352</b> | <b>\$ 7,971,830</b> |

Depreciation expense during the years ended December 31, 2011, 2010 and 2009, amounted to \$1,811.6 million, \$1,521.6 million and \$1,380.8 million, respectively.

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Depreciation of the assets recorded as capital leases amounted to \$9.5 million, \$2.8 million and \$10.2 million, respectively. Interest expense accrued on capital lease obligations for the years ended December 31, 2011, 2010 and 2009 amounted to \$1.8 million, \$0.5 million and \$1.5 million, respectively.

**10. LICENSES**

In connection with providing telecommunication services, the Group has been issued various licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Ministry, the Group has gained access to various telecommunications licenses through acquisitions. In foreign subsidiaries, the licenses are granted by the local telecommunications authorities.

As of December 31, 2011 and 2010, the recorded values of the Group's telecommunication licenses were as follows:

|                          | <b>December 31,</b> |                   |
|--------------------------|---------------------|-------------------|
|                          | <b>2011</b>         | <b>2010</b>       |
| Russia                   | \$ 20,320           | \$ 229,209        |
| Uzbekistan               | 196,517             | 196,517           |
| Armenia                  | 192,186             | 203,993           |
| Ukraine                  | 49,494              | 49,414            |
| Licenses, at cost        | 458,517             | 679,133           |
| Accumulated amortization | (231,006)           | (384,405)         |
| <b>Licenses, net</b>     | <b>\$ 227,511</b>   | <b>\$ 294,728</b> |

Amortization expense for the years ended December 31, 2011, 2010 and 2009, amounted to \$60.1 million, \$76.3 million and \$78.7 million, respectively.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009****(Amounts in thousands of U.S. Dollars, unless otherwise stated)****10. LICENSES (Continued)**

The Group's operating licenses do not provide for automatic renewal. As of December 31, 2011, all licenses covering the territories of the Russian Federation were renewed. The cost to renew the licenses was not significant. Weighted-average period until the next renewal of licenses in the Russian Federation is two years.

The Group has limited experience with the renewal of its existing licenses covering the territories of the Group's foreign subsidiaries. Licenses for the provision of telecommunication services in MTS Ukraine, Uzdunrobita and K-Telecom are valid until 2013, 2016 and 2019, respectively. The license in Turkmenistan was suspended by the Turkmenistan Ministry of Communications in December 2010 which resulted in cessation of the Group's operational activity in Turkmenistan (Note 4). Management believes that all other licenses required for the Group's operations will be renewed upon expiration, though there is no assurance of such renewals and the Group has limited experience in seeking renewal of such licenses.

Based solely on the cost of amortizable operating licenses existing as of December 31, 2011 and current exchange rates, the estimated future amortization expenses for the five years ending December 31, 2016 and thereafter are as follows:

| <b>Estimated amortization expense in the year ended December 31,</b> |                   |
|--|-------------------|
| 2012   | \$ 36,186         |
| 2013   | 31,016            |
| 2014   | 29,804            |
| 2015   | 29,797            |
| 2016   | 29,791            |
| Thereafter   | 70,917            |
| <b>Total</b>   | <b>\$ 227,511</b> |

The actual amortization expense to be reported in future periods could differ from these estimates as a result of new license acquisitions, changes in useful lives, exchange rates and other relevant factors.

Operating licenses contain a number of requirements and conditions specified by legislation. The requirements generally include targets for service start date, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

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The change in the net carrying amount of goodwill for 2011 and 2010 by reportable segments was as follows:

|                                     | <b>Russia</b>     | <b>Ukraine</b>  | <b>Other</b>      | <b>Total</b>        |
|-------------------------------------|-------------------|-----------------|-------------------|---------------------|
| <b>Balance at January 1, 2010</b>   |                   |                 |                   |                     |
| Gross amount of goodwill            | \$ 598,349        | \$ 5,311        | \$ 248,579        | \$ 852,239          |
| Accumulated impairment loss         | (48,466)          |                 |                   | (48,466)            |
|                                     | <b>549,883</b>    | <b>5,311</b>    | <b>248,579</b>    | <b>803,773</b>      |
| Acquisitions (Note 3)               | 175,307           |                 |                   | 175,307             |
| Currency translation adjustment     | (3,328)           | 16              | 5,567             | 2,255               |
| <b>Balance at December 31, 2010</b> |                   |                 |                   |                     |
| Gross amount of goodwill            | 769,958           | 5,327           | 254,146           | 1,029,431           |
| Accumulated impairment loss         | (48,096)          |                 |                   | (48,096)            |
|                                     | <b>721,862</b>    | <b>5,327</b>    | <b>254,146</b>    | <b>981,335</b>      |
| Acquisitions (Note 3)               | 185,690           |                 |                   | 185,690             |
| Finalization of purchase accounting | 6,945             |                 |                   | 6,945               |
| Currency translation adjustment     | (46,988)          | (19)            | (8,433)           | (55,440)            |
| <b>Balance at December 31, 2011</b> |                   |                 |                   |                     |
| Gross amount of goodwill            | 913,037           | 5,308           | 245,713           | 1,164,058           |
| Accumulated impairment loss         | (45,528)          |                 |                   | (45,528)            |
|                                     | <b>\$ 867,509</b> | <b>\$ 5,308</b> | <b>\$ 245,713</b> | <b>\$ 1,118,530</b> |

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

**12. OTHER INTANGIBLE ASSETS**

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

|   | Useful lives, months | December 31, 2011    |                          |                     | December 31, 2010    |                          |                     |
|---|----------------------|----------------------|--------------------------|---------------------|----------------------|--------------------------|---------------------|
|   |                      | Gross carrying value | Accumulated amortization | Net carrying value  | Gross carrying value | Accumulated amortization | Net carrying value  |
| <b>Amortized intangible assets</b>                  |                      |                      |                          |                     |                      |                          |                     |
| Billing and telecommunication software              | 13 to 240            | \$ 1,668,715         | \$ (1,042,773)           | \$ 625,942          | \$ 1,682,959         | \$ (1,056,324)           | \$ 626,635          |
| Acquired customer base                              | 60 to 372            | 262,156              | (68,741)                 | 193,415             | 343,920              | (111,775)                | 232,145             |
| Rights to use radio frequencies                     | 24 to 180            | 353,776              | (138,546)                | 215,230             | 314,722              | (100,496)                | 214,226             |
| Accounting software                                 | 13 to 60             | 141,084              | (98,672)                 | 42,412              | 118,673              | (87,623)                 | 31,050              |
| Numbering capacity with finite contractual life     | 24 to 120            | 75,803               | (70,979)                 | 4,824               | 90,408               | (79,821)                 | 10,587              |
| Office software                                     | 13 to 120            | 123,452              | (72,752)                 | 50,700              | 84,343               | (50,711)                 | 33,632              |
| Other   | 12 to 120            | 110,913              | (44,625)                 | 66,288              | 95,179               | (30,199)                 | 64,980              |
|   |                      | 2,735,899            | (1,537,088)              | 1,198,811           | 2,730,204            | (1,516,949)              | 1,213,255           |
| Prepayments for intangible assets                   |                      | 84,985               |                          | 84,985              | 273,239              |                          | 273,239             |
| Numbering capacity with indefinite contractual life |                      | 78,491               |                          | 78,491              | 55,144               |                          | 55,144              |
| <b>Total other intangible assets</b>                |                      | <b>\$ 2,899,375</b>  | <b>\$ (1,537,088)</b>    | <b>\$ 1,362,287</b> | <b>\$ 3,058,587</b>  | <b>\$ (1,516,949)</b>    | <b>\$ 1,541,638</b> |

As a result of the limited availability of local telephone numbering capacity in Moscow and the Moscow region, the Group entered into agreements for the use of telephone numbering capacity with other telecommunications operators in the region. The costs of acquired numbering capacity with a finite contractual life are amortized over a period of two to ten years in accordance with the terms of the contracts to acquire such capacity. Numbering capacity with an indefinite contractual life is not amortized.

Amortization expense for the years ended December 31, 2011, 2010 and 2009 amounted to \$454.0 million, \$399.8 million and \$374.5 million, respectively. Based solely on the cost of amortizable intangible assets existing at December 31, 2011 and current exchange rates, the estimated future amortization expenses for the five years ending December 31, 2016 and thereafter are as follows:

| <b>Estimated amortization expense in the year ended December 31,</b> |            |
|--|------------|
| 2012   | \$ 401,450 |
| 2013   | 290,930    |
| 2014   | 175,260    |
| 2015   | 101,250    |

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|              |                     |
|--------------|---------------------|
| 2016         | 55,160              |
| Thereafter   | 174,761             |
| <b>Total</b> | <b>\$ 1,198,811</b> |

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

**12. OTHER INTANGIBLE ASSETS (Continued)**

The actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives, exchange rates and other relevant factors.

Weighted-average amortization period for billing and telecommunication software acquired during the years ended December 31, 2011 and 2010 is four years.

**13. INVESTMENTS IN AND ADVANCES TO ASSOCIATES**

As of December 31, 2011 and 2010, the Group's investments in and advances to associates comprised the following:

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2011              | 2010              |
| MTS Belarus equity investment                          | \$ 176,659        | \$ 227,130        |
| MTS Belarus loan receivable                            |                   | 3,000             |
| Intellect Telecom equity investment                    | 11,388            | 11,662            |
| <b>Total investments in and advances to associates</b> | <b>\$ 188,047</b> | <b>\$ 241,792</b> |

**MTS Belarus** In April 2008 the Group entered into a credit facility agreement with MTS Belarus valid till March 15, 2009. The facility allowed MTS Belarus to borrow up to \$33.0 million and bore annual interest of 10.0%. In the year ended December 31, 2009 the maturity date was extended to March 15, 2010 and the total allowable amount was increased to \$46.0 million. In the year ended December 31, 2010 the maturity date was prolonged till March 15, 2011. The credit facility was fully paid upon maturity.

The financial position and results of operations of MTS Belarus as of and for the year ended December 31, 2011 and 2010 were as follows:

|                   | (unaudited) |            |
|-------------------|-------------|------------|
|                   | 2011        | 2010       |
| Total assets      | \$ 417,555  | \$ 527,609 |
| Total liabilities | 92,884      | 72,533     |
| Net income        | 107,533     | 145,707    |

**Intellect Telecom** In November 2010 MGTS acquired a 43.8% interest in Intellect Telecom from one of the subsidiaries of Sistema for \$12.4 million. Intellect Telecom is a research and development innovation center in the field of telecommunications. In March 2011 MGTS acquired a further 6.14% interest in Intellect Telecom in exchange for building of a business center in Moscow City with NBV of \$0.8 million, thus increasing its share in Intellect Telecom to 49.95%.

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The financial position and results of operations of Intellect Telecom as of and for the year ended December 31, 2011 and 2010 were as follows:

|                   | (unaudited) |           |
|-------------------|-------------|-----------|
|                   | 2011        | 2010      |
| Total assets      | \$ 19,210   | \$ 25,227 |
| Total liabilities | 3,110       | 34,180    |
| Net loss          | 6,765       | 6,831     |

The Group's share in the total earnings or losses of associates was included in other income in the accompanying consolidated statements of operations. For the years ended December 31, 2011, 2010 and 2009, this share amounted to \$49.4 million, \$70.6 million and \$60.3 million, respectively.

**14. INVESTMENT IN SHARES OF SVYAZINVEST**

In December 2006, as a part of its program of regional expansion, the Group acquired a 25% stake plus one share in Telecommunication Investment Joint Stock Company ("Svyazinvest") from Mustcom Limited for a total consideration of approximately \$1,390.0 million, including cash of \$1,300.0 million and the fair value of a call and put option of \$90.0 million. Svyazinvest is a holding company that holds controlling stakes in seven publicly traded incumbent fixed-line operators ("MRKs") based in all seven Federal districts of Russia, Rostelecom, a publicly traded long-distance fixed-line operator operating a Russia-wide network, and several other entities, the majority of which are non-public.

Based on an analysis of all relevant factors, management determined that the acquisition of 25% plus one share of Svyazinvest does not allow the Group to exercise significant influence over this entity due to its legal structure and certain limitations imposed by Svyazinvest's charter documents. Accordingly, the Group accounted for its investment in Svyazinvest under the cost method.

In November 2009, the Group, Sistema and Svyazinvest ("the Parties") signed a non-binding memorandum of understanding ("MOU"), under which the Parties agreed to enter into a series of transactions which would ultimately result in (i) disposal of the Group's investment in Svyazinvest to a state-controlled enterprise; (ii) noncash extinguishment of the Group's indebtedness to Sberbank (Note 16); (iii) increase in Sistema's ownership in Sky Link to 100% (Note 22) and disposal of this investment to Svyazinvest; and (iv) disposal of 28% of MGTS' common stock owned by Svyazinvest to Sistema.

Based on the estimated fair values of the elements of the assets to be exchanged and liabilities to be extinguished under the MOU and other relevant factors, management conducted an impairment analysis of the Group's investment in Svyazinvest as of December 31, 2009. Based on the MOU, the estimated fair value of the investment, which included significant unobservable inputs (Level 3 of the hierarchy established by the U.S. GAAP guidance), was approximately RUB 26.0 billion (\$859.7 million as of December 31, 2009) compared to a carrying value of RUB 36.5 billion (\$1,205.5 million as of December 31, 2009). As a result, during the year ended December 31, 2009 the Group recorded an impairment loss of RUB 10.5 billion (\$349.4 million).

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In September 2010, the Group completed the sale of its Svyazinvest stake for cash consideration of RUB 26.0 billion and repaid the outstanding debt to Sberbank in the amount of RUB 26.0 billion with proceeds from the sale. In connection with the sale of the 25% plus one share stake in Svyazinvest the Group incurred consultancy fees due to Sistema-Invenchura, a subsidiary of Sistema, in the amount of RUB 291.2 million (\$9.6 million at September 2010 average rate). No gain or loss was recognized upon sale.

**15. OTHER INVESTMENTS**

As of December 31, 2011 and 2010, the Group's other investments comprised the following:

|  | <b>Annual<br/>interest rate</b> | <b>Maturity<br/>date</b> | <b>December 31,</b> |                   |
|--|---------------------------------|--------------------------|---------------------|-------------------|
|  |                                 |                          | <b>2011</b>         | <b>2010</b>       |
| Investments in ordinary shares (Related parties) (Note 22)           |                                 |                          | \$ 9,498            | \$ 9,763          |
| Loan receivable from Mr. P. Fattouche and Mr. M. Fattouche (Note 22) | 6%                              | 2015                     | 92,700              | 91,503            |
| Promissory notes of Sistema (Note 22)                                | 0.0%                            | 2017                     | 19,209              | 20,293            |
| Promissory notes of Sistema (Note 22)                                | 0.0%                            | on demand                |                     | 4,162             |
| Other  |                                 |                          | 2,035               | 2,861             |
| <b>Total other investments</b>                                       |                                 |                          | <b>\$ 123,442</b>   | <b>\$ 128,582</b> |

The Group does not discount promissory notes and loans granted to related parties, interest rates on which are different from market rates. Accordingly, fair value of such notes and loans may be different from their carrying value.

In December 2010 the Group granted a \$90.0 million loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche, the holders of a 20% noncontrolling stake in K-Telecom, the Group's subsidiary in Armenia. Simultaneously, the Group signed an amendment to the put and call option agreement for the remaining 20% stake (Note 24). 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, 2011 and 2010, amounted to \$4.1 million and \$0.4 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations.

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*Notes* As of December 31, 2011 and 2010, the Group's notes consisted of the following:

|   | Currency | Interest rate | 2011                | 2010                |
|---|----------|---------------|---------------------|---------------------|
| MTS International Notes due 2020          | USD      | 8.625%        | \$ 750,000          | \$ 750,000          |
| MTS OJSC Notes due 2020                   | RUB      | 8.15%         | 465,895             | 492,176             |
| MTS OJSC Notes due 2016                   | RUB      | 14.25%        | 465,895             | 492,176             |
| MTS OJSC Notes due 2014                   | RUB      | 7.60%         | 422,988             | 492,176             |
| MTS Finance Notes due 2012 <sup>(1)</sup> | USD      | 8.00%         | 400,000             | 400,000             |
| MTS OJSC Notes due 2017                   | RUB      | 8.70%         | 310,597             | 328,117             |
| MTS OJSC Notes due 2018                   | RUB      | 8.00%         | 298,499             | 315,337             |
| MTS OJSC Notes due 2015                   | RUB      | 7.75%         | 234,097             | 39,823              |
| MTS OJSC Notes due 2013                   | RUB      | 7.00%         | 13,318              | 13,249              |
| Plus: unamortized premium                 |          |               | 608                 |                     |
| Less: unamortized discount                |          |               | (15)                | (202)               |
| Total notes                               |          |               | \$ 3,361,882        | \$ 3,322,852        |
| Less: current portion                     |          |               | (865,880)           | (492,176)           |
| <b>Total notes, long-term</b>             |          |               | <b>\$ 2,496,002</b> | <b>\$ 2,830,676</b> |

(1) Fully repaid on January 25, 2012

The Group has an unconditional obligation to repurchase certain MTS OJSC Notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. The dates of the announcement for each particular note issue are as follows:

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

The notes therefore can be defined as callable obligations under the FASB authoritative guidance on debt, as the holders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons. The FASB authoritative guidance on debt requires callable obligations to be disclosed as maturing in the reporting period, when the demand for repurchase could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The Group discloses the notes as maturing in 2012 (MTS OJSC Notes due 2016), in 2013 (MTS OJSC Notes due 2018) and in 2015 (MTS OJSC Notes due 2020) in the aggregated maturities schedule as these are the reporting periods when the noteholders will have the unilateral right to demand repurchase.

In May 2011 the Group changed the coupon rate for MTS OJSC Notes due 2014 from 16.75% to 7.6%. Following the announcement of new coupon rates the Group repurchased MTS OJSC Notes due 2014 at the request of eligible noteholders in the amount of RUB 1.1 billion (\$39.3 million as of the date of the transaction). The new coupon rate is valid till the final due dates of the notes.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 16. BORROWINGS (Continued)

The fair values of notes based on the market quotes as of December 31, 2011 at the stock exchanges where they are traded were as follows:

|                                  | Stock exchange            | % of par | Fair value          |
|----------------------------------|---------------------------|----------|---------------------|
| MTS International Notes due 2020 | Irish stock exchange      | 107.33   | \$ 804,975          |
| MTS OJSC Notes due 2016          | MICEX                     | 103.60   | 482,667             |
| MTS OJSC Notes due 2020          | MICEX                     | 96.90    | 451,452             |
| MTS OJSC Notes due 2014          | MICEX                     | 97.55    | 412,625             |
| MTS Finance Notes due 2012       | Luxembourg stock exchange | 100.50   | 402,000             |
| MTS OJSC Notes due 2018          | MICEX                     | 101.50   | 303,019             |
| MTS OJSC Notes due 2017          | MICEX                     | 96.15    | 298,639             |
| MTS OJSC Notes due 2015          | MICEX                     | 97.50    | 228,245             |
| MTS OJSC Notes due 2013          | MICEX                     | 95.00    | 12,652              |
| <b>Total notes</b>               |                           |          | <b>\$ 3,396,274</b> |

**Bank loans** As of December 31, 2011 and 2010, the Group's loans from banks and financial institutions consisted of the following:

|  | Maturity                      | Interest rate (actual at December 31, 2011) | December 31,        |                   |
|--|-------------------------------|---|---------------------|-------------------|
|  |                               |   | 2011                | 2010              |
| <b>USD-denominated:</b>  |                               |   |                     |                   |
| Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG | 2012 - 2020                   | LIBOR+1.15% (1.96%)                         | \$ 580,742          | \$                |
| Skandinaviska Enskilda Banken AB   | 2012 - 2017                   | LIBOR+0.23% - 1.8% (1.03% - 2.61%)          | 204,507             | 242,013           |
| EBRD   | 2012 - 2014                   | LIBOR+1.51% - 3.1% (2.32% - 3.91%)          | 83,333              | 116,667           |
| HSBC Bank plc and ING BHF Bank AG  | 2012 - 2014                   | LIBOR+0.3% (1.11%)                          | 51,503              | 71,244            |
| Citibank International plc and ING Bank N.V.                               | 2012 - 2013                   | LIBOR+0.43% (1.23%)                         | 40,688              | 62,486            |
| HSBC Bank plc, ING Bank and Bayerische Landesbank                          | 2012 - 2015                   | LIBOR+0.3% (1.11%)                          | 42,961              | 59,570            |
| Commerzbank AG, ING Bank AG and HSBC Bank plc                              | 2012 - 2014                   | LIBOR+0.3% (1.11%)                          | 36,495              | 51,285            |
| Barclays   | Fully repaid in February 2011 |   |                     | 46,047            |
| ABN AMRO Bank N.V.   | 2012 - 2013                   | LIBOR+0.35% (1.16%)                         | 12,574              | 18,861            |
| Other  | 2012 - 2013                   | Various                                     | 9,356               | 7,569             |
|  |                               |   | <b>\$ 1,062,159</b> | <b>\$ 675,742</b> |



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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 16. BORROWINGS (Continued)

|   | Maturity    | Interest rate (actual at<br>December 31, 2011) | December 31,        |                     |
|---|-------------|--|---------------------|---------------------|
|   |             |  | 2011                | 2010                |
| <b>EUR-denominated:</b>                           |             |  |                     |                     |
| Credit Agricole Corporate Bank and BNP<br>Paribas | 2012 - 2018 | EURIBOR+1.65%<br>(3.27%)                       | \$ 64,033           | \$ 52,159           |
| LBBW  | 2012 - 2017 | EURIBOR+0.75%<br>(2.37%)                       | 36,215              | 43,201              |
| Bank of China                                     | 2012 - 2016 | EURIBOR+1.95%<br>(3.57%)                       | 116,812             | 35,123              |
| ABN AMRO Bank N.V.                                | 2012 - 2013 | EURIBOR+0.35%<br>(1.97%)                       | 8,958               | 13,740              |
| Other   | 2012 - 2013 | Various  | 8,064               | 3,060               |
|   |             |  | <b>\$ 234,082</b>   | <b>\$ 147,283</b>   |
| <b>RUB-denominated:</b>                           |             |  |                     |                     |
| Sberbank  | 2015 - 2017 | 8.50% <sup>(1)</sup>                           | \$ 3,105,967        | \$ 1,968,704        |
| Bank of Moscow                                    | 2013        | 7.80%  | 434,835             | 459,364             |
| Gazprombank                                       | 2013 - 2015 | 8.75%  | 341,656             | 360,929             |
| Gazprombank                                       | 2013 - 2015 | 8.75%  | 130,451             | 137,809             |
| Sberbank  | 2011        |  |                     | 19,234              |
| Other   | 2012 - 2023 | Various  | 25,057              | 34,377              |
|   |             |  | <b>\$ 4,037,966</b> | <b>\$ 2,980,417</b> |
| Debt-related parties                              | 2012        | Various  | 6,799               | 14,563              |
|   |             |  | <b>\$ 6,799</b>     | <b>\$ 14,563</b>    |
| <b>Total bank loans</b>                           |             |  | <b>\$ 5,341,006</b> | <b>\$ 3,818,005</b> |
| Less: current portion                             |             |  | (283,025)           | (256,052)           |
| <b>Total bank loans, long-term</b>                |             |  | <b>\$ 5,057,981</b> | <b>\$ 3,561,953</b> |

(1)

Initially the interest rate on the Sberbank RUB-denominated credit facilities due 2015-2017 of 8.95% was valid till March 2011 and for the period from December 2013 till the final maturity date in December 2017. In August 2011 the interest rate for the period from December 2013 till the final maturity date in December 2017 was decreased by 0.45% to 8.5%. The interest rate for the period from March 2011 till August 16, 2011 depended on the volume of turnovers on the bank accounts of certain entities of the Group and in fact was 8.95%. The interest rate for the period starting from August 17, 2011 till December 2013 also depends on the volume of turnovers on the bank accounts of certain entities of the Group. In case the average volume falls below a certain limit, the interest rate is increased by 1% to 9.5%. In addition, Sberbank is entitled to voluntarily revise the interest rate on the lines as a result of and proportionate to the change in the refinancing rate set by the Central Bank of Russia.

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During 2010 and 2011, the Group renegotiated interest rates and maturities schedules for its several credit facilities. The amendments to the agreements, which resulted in the change in the present value of cash flows under the new terms to the present value of cash flows under the original terms exceeding 10%, were treated as substantial modifications of debt with the immediate write off of the related debt issuance costs capitalized by the Group. In 2010 the Group suffered an additional loss of \$26.7 million as a result of substantial debt modification. None of the amendments to the credit facilities agreements of the Group signed in 2011 were considered to be substantial.

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**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**16. BORROWINGS (Continued)**

***Borrowing costs and interest capitalized*** Borrowing costs include interest incurred on existing indebtedness and debt issuance costs. Interest costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the estimated useful lives of the related assets. The capitalized interest costs for the years ended December 31, 2011, 2010 and 2009 were \$52.3 million, \$43.9 million and \$72.3 million, respectively. Debt issuance costs are capitalized and amortized over the term of the respective borrowings using the effective interest method.

Interest expense net of amounts capitalized and amortization of debt issuance costs, for the years ended December 31, 2011, 2010 and 2009, were \$628.4 million, \$688.0 million and \$535.0 million, respectively.

***Compliance with covenants*** Subject to certain exceptions and qualifications, the indenture governing MTS Finance Notes due 2012 and prospectus governing MTS International Notes due 2020 contain covenants limiting the Group's ability to incur debt, create liens, sell or transfer lease properties, enter into loan transactions with affiliates, merge or consolidate with another person or convey its properties and assets to another person, sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas, be subject to a judgment requiring payment of money in excess of \$10.0 million and \$15.0 million, respectively, which continue unsatisfied for more than 60 days without being appealed, discharged or waived or the execution thereof stayed.

Also, the indentures governing MTS Finance Notes due 2012 and prospectus governing MTS International Notes due 2020 give noteholders the right to require the Group to redeem the notes at 101% of their principal amount, plus accrued interest, if the Group experiences certain types of mergers, consolidations or there is change in control. An event of default under the notes may trigger cross default provisions with debt raised by Sistema, the controlling shareholder of the Group. The Group is required to take all commercially reasonable steps necessary to maintain a rating of the notes assigned by Moody's and Standard & Poor's.

If the Group fails to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

The prospectus governing MTS OJSC Notes contains certain covenants which limit the Group's ability to delist the notes from the quotation lists and delay the coupon payments.

Bank loans of the Group are subject to certain restrictive covenants, including, but not limited to, certain financial ratios, limitations on dispositions of assets and limitations on transactions with associates, requirements to maintain ownership in certain subsidiaries.

Most of the Group's loans also include an event of default consisting in rendering of judgment requiring payment of money in an amount in excess of \$10.0 million and the continuance of any such judgment unsatisfied and in effect for any period of 60 consecutive calendar days without a stay of execution.

On November 11, 2010 an international arbitration tribunal constituted under the rules of the London Court of International Arbitration rendered an award with regards to arbitration commenced by Nomihold Securities Inc. in January 2007. The award requires the Group's subsidiary, MTS Finance,

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to honor Nomihold's option to sell MTS Finance the remaining 49% stake in Tarino Limited for \$170 million, plus \$5.88 million in damages and \$34.0 million in interest to compensate it for related costs. MTS Finance applied to 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 a member of the Group, prior to the date these consolidated financial statements were issued, the Group obtained consents from the noteholders of MTS Finance Notes due 2012 and MTS International Notes due 2020 and from certain banks, except for Barclays Bank (which was fully repaid in February 2011), 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) certain amendments to the loan agreements to avoid possible future events of default which may arise as a result of the award.

The Group was in compliance with all existing notes and bank loans covenants as of December 31, 2011.

**Pledges** The vendor financing agreement between K-Telecom and Intracom, a related party, with total amount as of December 31, 2011 and 2010 of \$6.8 million and \$14.3 million, respectively is secured by the telecommunication equipment and other assets supplied under the agreement with carrying value of \$2.0 million and \$8.2 million, respectively.

**Available credit facilities** As of December 31, 2011, the Group's total available unused credit facilities amounted to \$1,321 million and related to the following credit lines:

|  | <b>Maturity</b> | <b>Interest rate</b>           | <b>Commitment fees</b> | <b>Available till</b>       | <b>Available amount</b> |
|--|-----------------|--------------------------------|------------------------|-----------------------------|-------------------------|
| Calyon, ING Bank N.V. and Nordea Bank AB | 2019/2020       | LIBOR + 1.15%                  | 0.40%                  | December 2012               | \$ 468,710              |
| Credit Agricole (Finnvera)               | 2019            | EURIBOR + 1.65%                | 0.825%                 | June 2012/<br>February 2013 | 388,290                 |
| Sberbank                                 | 2014            | MosPrime 3m+1.325%             | 0.10%                  | September 2014              | 310,597                 |
| ING Bank Eurasia                         | 2012            | MosPrime/LIBOR/EURIBOR + 1.25% |                        | July 2012                   | 77,649                  |
| Gazprombank                              | 2013            | MosPrime + 1.425%              |                        | June 2013                   | 76,096                  |
| <b>Total available credit facilities</b> |                 |                                |                        |                             | <b>\$ 1,321,342</b>     |

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The following table presents the aggregated scheduled maturities of principal on notes and bank loans outstanding for the five years ending December 31, 2016 and thereafter:

|   | Notes               | Bank loans          |
|---|---------------------|---------------------|
| Payments due in the year ended December 31, |                     |                     |
| 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           |
| <b>Total</b>                                | <b>\$ 3,361,882</b> | <b>\$ 5,341,006</b> |

On February 28, 2012, subsequent to the statement of financial position date, the Group voluntarily repaid the full amount due under credit facilities of Gazprombank drawn by MTS OJSC 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 million, \$314.7 million and \$78.7 million, respectively, in accordance with their original maturity.

**17. ASSET RETIREMENT OBLIGATIONS**

As of December 31, 2011 and 2010, the estimated present value of the Group's asset retirement obligations and change in liabilities were as follows:

|  | 2011             | 2010             |
|--|------------------|------------------|
| Balance, beginning of the year             | \$ 78,039        | \$ 88,683        |
| Liabilities incurred in the current period | 9,009            | 4,066            |
| Accretion expense                          | 6,236            | 9,776            |
| Revisions in estimated cash flows          | (19,242)         | (23,813)         |
| Currency translation adjustment            | (4,325)          | (673)            |
| <b>Balance, end of the year</b>            | <b>\$ 69,717</b> | <b>\$ 78,039</b> |

Revisions in estimated cash flows are attributable to the change in the estimated inflation rate.

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Deferred connection fees for the years ended December 31, 2011 and 2010, were as follows:

|   | 2011             | 2010              |
|---|------------------|-------------------|
| Balance at the beginning of the year                        | \$ 155,288       | \$ 163,098        |
| Payments received and deferred during the year              | 76,562           | 89,030            |
| Amounts amortized and recognized as revenue during the year | (96,676)         | (95,706)          |
| Currency translation adjustment                             | (5,750)          | (1,134)           |
| Balance at the end of the year                              | 129,424          | 155,288           |
| Less: current portion                                       | (49,868)         | (49,212)          |
| <b>Non-current portion</b>                                  | <b>\$ 79,556</b> | <b>\$ 106,076</b> |

**19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES****Cash flow hedging**

In 2009, 2008 and 2007 the Group entered into variable-to-fixed interest rate swap agreements to manage the exposure of changes in variable interest rate related to its 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.

The Group entered into interest rate swap agreements designated to manage the exposure of changes in variable interest rate for 21.33% of its USD- and Euro-denominated bank loans outstanding as of December 31, 2011.

Further, in 2009 the Group entered into several cross-currency interest rate swap agreements. These contracts hedged the risk of both interest rate and currency fluctuations and assumed periodic exchanges of both principal and interest payments from RUB-denominated amounts to USD and Euro-denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts matured in 2011.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

The following table presents the fair value of the Group's derivative instruments designated as hedges in the consolidated statements of financial position as of December 31, 2011 and 2010.

|                                    | Statement of financial position location | December 31,       |                    |
|------------------------------------|--|--------------------|--------------------|
|                                    |  | 2011               | 2010               |
| <b>Asset derivatives</b>           |  |                    |                    |
| Interest rate swaps                | Other non-current assets                 | \$ 2,341           | \$ 3,322           |
| <b>Total</b>                       |  | <b>\$ 2,341</b>    | <b>\$ 3,322</b>    |
| <b>Liability derivatives</b>       |  |                    |                    |
| Interest rate swaps                | Other long-term liabilities              | \$ (14,676)        | \$ (31,315)        |
| Interest rate swaps                | Other payables                           | (1,283)            |                    |
| Cross-currency interest rate swaps | Other payables                           |                    | (3,469)            |
| <b>Total</b>                       |  | <b>\$ (15,959)</b> | <b>\$ (34,784)</b> |

The following table presents the effect of the Group's derivative instruments designated as hedges in the consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009. The amounts presented include ineffective portion of derivative instruments and amounts reclassified into earnings from accumulated other comprehensive income.

|                                    | Location of loss recognized            | Year ended December 31, |                    |                    |
|------------------------------------|--|-------------------------|--------------------|--------------------|
|                                    |  | 2011                    | 2010               | 2009               |
| Interest rate swaps                | Interest expense                       | \$ (13,502)             | \$ (32,726)        | \$ (8,392)         |
| Cross-currency interest rate swaps | Currency exchange and transaction loss | (1,862)                 | (37,820)           | (24,299)           |
| <b>Total</b>                       |  | <b>\$ (15,364)</b>      | <b>\$ (70,546)</b> | <b>\$ (32,691)</b> |

The following table presents the amount of ineffective portion of Group's derivative instruments designated as hedges in the consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009.

|                                    | Location of gain/(loss) recognized            | Year ended December 31, |                 |                   |
|------------------------------------|---|-------------------------|-----------------|-------------------|
|                                    |   | 2011                    | 2010            | 2009              |
| Interest rate swaps                | Interest expense                              | \$ 7,978                | \$ 3,541        | \$ (0,976)        |
| Cross-currency interest rate swaps | Currency exchange and transaction gain/(loss) | (1,862)                 | 2,011           | (4,505)           |
| <b>Total</b>                       |   | <b>\$ 6,116</b>         | <b>\$ 5,552</b> | <b>\$ (5,481)</b> |

In February 2011 the Group repaid the full amount due under the Barclays bank credit facility granted in 2005 with an original maturity in 2014. The voluntary prepayment of principal and interest



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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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## 19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

in the amount of \$46.3 million resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and certain credit facility.

In October 2010 the Group repaid the full amount due under the Syndicated Loan Facility granted to MTS OJSC in 2006 with an original maturity in 2011. The voluntary prepayment of principal and interest of \$162.2 million resulted in an immediate termination of the hedging relationship between designated cross-currency interest rate swap agreements and the Syndicated Loan Facility.

In February 2010 the Group repaid the full amount due under the Syndicated Loan Facility granted to MTS OJSC in 2009 with an original maturity in 2011-2012. The voluntary prepayment of principal and interest in the amount of \$707.4 million resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the Syndicated Loan Facility.

After the termination of hedge relationships the amounts accumulated in other comprehensive income and associated with the prepaid debt have been reclassified to earnings, going forward those derivatives are marked to market through earnings. The following table presents the amount of accumulated other comprehensive loss reclassified into earnings (currency exchange and transaction loss and interest expense) during the years ended December 31, 2011, 2010 and 2009 due to termination of hedging relationships.

|                                    | Location of (loss) recognized            | Year ended December 31, |                    |           |
|------------------------------------|--|-------------------------|--------------------|-----------|
|                                    |  | 2011                    | 2010               | 2009      |
| Interest rate swaps                | Interest expense                         | \$ (2,032)              | \$ (12,020)        | \$        |
| Cross-currency interest rate swaps | Currency exchange and transaction (loss) |                         | (3,228)            |           |
| <b>Total</b>                       |  | <b>\$ (2,032)</b>       | <b>\$ (15,248)</b> | <b>\$</b> |

The following table presents the effect of the Group's interest rate swap agreements designated as hedges in accumulated other comprehensive income for the years ended December 31, 2011, 2010 and 2009.

|  | 2011              | 2010               | 2009               |
|--|-------------------|--------------------|--------------------|
| Accumulated derivatives loss, beginning of the year, net of tax of \$3,716, \$10,073, \$4,179, respectively        | \$ (14,865)       | \$ (40,293)        | \$ (16,714)        |
| Fair value adjustments on hedging derivatives, net of tax of \$795, \$9,939, \$7,191, respectively                 | (3,181)           | (39,757)           | (28,764)           |
| Amounts reclassified into earnings during the period, net of tax of \$(2,636), \$(16,296), \$(1,296), respectively | 10,545            | 65,185             | 5,185              |
| <b>Accumulated derivatives loss, end of the year, net of tax of \$1,875, \$3,716, \$10,073</b>                     | <b>\$ (7,501)</b> | <b>\$ (14,865)</b> | <b>\$ (40,293)</b> |

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

As of December 31, 2011, the outstanding hedge instruments were highly effective. Approximately \$9.1 million of net loss is expected to be reclassified into net income during the next twelve months.

Cash inflows and outflows related to hedge instruments were included in cash flows from operating activities in the consolidated statement of cash flows for the years ended December 31, 2011, 2010 and 2009.

**Non-designated derivative instruments**

**Foreign currency options** In 2010 and 2009 the Group entered into foreign currency option agreements to manage the exposure to changes in currency exchange rates related to USD-denominated debt obligations. According to the agreements, the Group has a combination of put and call option rights to acquire \$330.0 million at rates within a range specified in contracts. These contracts were not designated for hedge accounting purposes. These currency option agreements will mature in 2012.

**Buy-out put option** On December 23, 2010, simultaneously with the meeting of MTS' shareholders (Note 1), a meeting of Comstar-UTS' shareholders approved the reorganization of Comstar-UTS through a statutory merger into MTS OJSC. In accordance with Russian legislation, shareholders who voted against or did not vote on the merger have the right to sell their shares back to Comstar-UTS for cash at a price set by the company's Boards of Directors, subject to a statutory limit of 10% of the company's net asset value under Russian Accounting Standards. Eligible shareholders should file a buyout demand within 45 (forty five) days of the adoption of the resolution on reorganization. The buy-out of shares must be carried out within 30 days after the expiry of the period set for the buyout demand being made. The fair value of the Group's liability under the put option as of December 31, 2010 was estimated at \$11.6 million using an option pricing model. The option was exercised in 2011.

The following table presents the fair value of the Group's derivative instruments not designated as hedges in the consolidated statements of financial position as of December 31, 2011 and 2010.

|                               | Statement of financial<br>position location | December 31,  |                    |
|-------------------------------|---|---------------|--------------------|
|                               |   | 2011          | 2010               |
| <b>Asset derivatives:</b>     |   |               |                    |
| Foreign currency options      | Other non-current assets                    | \$            | \$ 247             |
| Foreign currency options      | Other current assets                        | 894           |                    |
| <b>Total</b>                  |   | <b>\$ 894</b> | <b>\$ 247</b>      |
| <b>Liability derivatives:</b> |   |               |                    |
| Foreign currency options      | Other payables                              | \$            | \$ (92)            |
| Buy-out put option            | Other payables                              |               | (11,636)           |
| Foreign currency options      | Other long-term liabilities                 |               | (2,520)            |
| <b>Total</b>                  |   | <b>\$</b>     | <b>\$ (14,248)</b> |



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The following table presents the effect of the Group's derivative instruments not designated as hedges on the consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009.

|                          | Location of gain/(loss) recognized            | Year ended December 31, |                 |                 |
|--------------------------|---|-------------------------|-----------------|-----------------|
|                          |   | 2011                    | 2010            | 2009            |
| Foreign currency options | Currency exchange and transaction gain/(loss) | \$ 3,258                | \$ 1,916        | \$ (4,280)      |
| Purchased call option    | Change in fair value of derivatives           |                         |                 | (5,420)         |
| Currency forward         | Currency exchange and transaction gain        |                         |                 | 12,788          |
| <b>Total</b>             |   | <b>\$ 3,258</b>         | <b>\$ 1,916</b> | <b>\$ 3,088</b> |

**Fair value of derivative instruments**

The Group measured assets and liabilities associated with derivative agreements at fair value Level 2 on a recurring basis and there were no assets and liabilities associated with derivative agreements measured at fair value Level 1 and Level 3 as of December 31, 2011 and 2010 (see Note 2).

The following fair value hierarchy table presents information regarding the Group's assets and liabilities associated with derivative agreements as of December 31, 2011 and 2010:

|  | Significant other<br>observable inputs<br>(Level 2) as of<br>December 31,<br>2011 | Significant other<br>observable inputs<br>(Level 2) as of<br>December 31,<br>2010 |
|--|---|---|
| <i>Assets:</i>                               |   |   |
| Interest rate swap agreements                | \$ 2,341  | 3,322   |
| Currency option agreements                   | 894   | 247   |
| <i>Liabilities:</i>                          |   |   |
| Interest rate swap agreements                | \$ (15,959)   | (31,315)  |
| Buy-out put option                           |   | (11,636)  |
| Cross-currency interest rate swap agreements |   | (3,469)   |
| Currency option agreements                   |   | (2,612)   |

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|                                       | December 31,      |                   |
|---------------------------------------|-------------------|-------------------|
|                                       | 2011              | 2010              |
| Accruals for services                 | \$ 308,457        | \$ 365,447        |
| Accruals for taxes                    | 156,451           | 186,492           |
| Accrued payroll and vacation          | 90,498            | 159,171           |
| Interest payable on debt              | 90,125            | 76,804            |
| Accruals for payments to social funds | 8,339             | 11,890            |
| <b>Total accrued liabilities</b>      | <b>\$ 653,870</b> | <b>\$ 799,804</b> |

**21. INCOME TAX**

Provision for income taxes for the years ended December 31, 2011, 2010 and 2009 was as follows:

| Income before income taxes                   | Year ended December 31, |                     |                     |
|--|-------------------------|---------------------|---------------------|
|  | 2011                    | 2010                | 2009                |
| Russia                                       | \$ 1,807,154            | \$ 1,817,583        | \$ 1,220,730        |
| Other jurisdictions                          | 292,198                 | 248,048             | 278,410             |
| <b>Total</b>                                 | <b>\$ 2,099,352</b>     | <b>\$ 2,065,631</b> | <b>\$ 1,499,140</b> |
| <b>Current income tax expense</b>            |                         |                     |                     |
| Russia                                       | \$ 448,729              | \$ 456,424          | \$ 304,231          |
| Other jurisdictions                          | 71,343                  | 106,212             | 99,292              |
| <b>Total</b>                                 | <b>\$ 520,072</b>       | <b>\$ 562,636</b>   | <b>\$ 403,523</b>   |
| <b>Deferred income tax expense/(benefit)</b> |                         |                     |                     |
| Russia                                       | \$ 1,606                | \$ (35,529)         | \$ 131,485          |
| Other jurisdictions                          | 9,942                   | (9,919)             | (29,961)            |
| <b>Total</b>                                 | <b>\$ 11,548</b>        | <b>\$ (45,448)</b>  | <b>\$ 101,524</b>   |

The statutory income tax rates in jurisdictions in which the Group operates for 2011 were as follows: Russia, Armenia 20.0%, Uzbekistan 3.4%. In the first quarter of 2011 the rate of 25% was applied in Ukraine, since April 1, 2011 the rate was decreased to 23%.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009****(Amounts in thousands of U.S. Dollars, unless otherwise stated)****21. INCOME TAX (Continued)**

The Russian statutory income tax rate reconciled to the Group's effective income tax rate for the years ended December 31, 2011, 2010 and 2009 as follows:

|   | 2011         | 2010         | 2009         |
|---|--------------|--------------|--------------|
| <b>Statutory income tax rate for the year</b> | <b>20.0%</b> | <b>20.0%</b> | <b>20.0%</b> |
| Adjustments:                                  |              |              |              |
| Expenses not deductible for tax purposes      | 2.8          | 3.5          | 4.9          |
| Currency exchange and transaction loss        |              |              | 0.5          |
| Unrecognized tax benefits                     | (0.2)        | 0.1          | (0.2)        |
| Settlements with tax authorities              | (0.5)        | (1.0)        | (2.9)        |
| Different tax rate of foreign subsidiaries    | (0.2)        | (0.5)        | (2.0)        |
| Earnings distribution from subsidiaries       | 2.9          | 0.7          | 6.8          |
| Disposal of treasury stock                    |              |              | (4.1)        |
| Effect of change in tax rate in Ukraine       | 0.8          | 0.7          |              |
| Change in valuation allowance                 | (0.2)        | (0.2)        | 10.3         |
| Comstar corporate reorganization              |              |              | 0.4          |
| Impairment of long-lived assets               |              | 1.3          |              |
| Other   | (0.1)        | 0.4          |              |
| <b>Effective income tax rate</b>              | <b>25.3%</b> | <b>25.0%</b> | <b>33.7%</b> |

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Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009****(Amounts in thousands of U.S. Dollars, unless otherwise stated)****21. INCOME TAX (Continued)**

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

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2011             | 2010             |
| Assets/(liabilities) arising from tax effect of:                |                  |                  |
| <b>Deferred tax assets</b>                                      |                  |                  |
| Depreciation of property, plant and equipment                   | \$ 140,371       | \$ 211,307       |
| Other intangible assets   |                  | 1,346            |
| Deferred connection fees  | 26,063           | 31,522           |
| Subscriber prepayments  | 16,755           | 20,832           |
| Accrued expenses for services                                   | 118,103          | 148,828          |
| Inventory obsolescence  | 13,650           | 5,884            |
| Loss carryforward   | 203,313          | 196,883          |
| Impairment of property, plant and equipment                     | 2,415            | 4,438            |
| Other   | 29,352           | 22,384           |
| Valuation allowance   | (163,075)        | (165,994)        |
| <b>Total deferred tax assets</b>                                | <b>386,947</b>   | <b>477,430</b>   |
| <b>Deferred tax liabilities</b>                                 |                  |                  |
| Licenses acquired   | \$ (35,377)      | \$ (62,606)      |
| Depreciation of property, plant and equipment                   | (136,465)        | (192,679)        |
| Customer base   | (39,272)         | (34,783)         |
| Other intangible assets   | (42,435)         | (41,011)         |
| Debt issuance cost  | (20,975)         | (11,134)         |
| Potential distributions from/to Group's subsidiaries/associates | (88,596)         | (105,821)        |
| Other   | (31)             | (4,992)          |
| <b>Total deferred tax liabilities</b>                           | <b>(363,151)</b> | <b>(453,026)</b> |
| <b>Net deferred tax asset</b>                                   | <b>23,796</b>    | <b>24,404</b>    |
| Net deferred tax asset, current                                 | \$ 189,622       | \$ 234,658       |
| Net deferred tax asset, non-current                             | \$ 62,102        | \$ 81,816        |
| Net deferred tax liability, long-term                           | \$ (227,928)     | \$ (292,070)     |

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The Group has the following significant balances for income tax losses carried forward and related operating losses as of December 31, 2011 and 2010:

| Jurisdiction                        | Period for carry-forward | 2011              |                | 2010              |                |
|-------------------------------------|--------------------------|-------------------|----------------|-------------------|----------------|
|                                     |                          | Operating losses  | Tax losses     | Operating losses  | Tax losses     |
| Luxembourg (MGTS Finance S.A.)      | Unlimited                | \$ 431,461        | 125,124        | \$ 429,186        | 124,464        |
| Russia (Comstar-UTS, RTC and other) | 2012-2021                | 390,945           | 78,189         | 362,096           | 72,419         |
| <b>Total</b>                        |                          | <b>\$ 822,406</b> | <b>203,313</b> | <b>\$ 791,282</b> | <b>196,883</b> |

Management established the following valuation allowances against deferred tax assets where it was more likely than not that some portion of such deferred tax assets will not be realized:

| Valuation allowances                            | 2011              | 2010              |
|---|-------------------|-------------------|
| Sale of investment in Svyazinvest               | \$ 66,596         | \$ 66,887         |
| Operating loss in Luxemburg (MGTS Finance S.A.) | 94,692            | 94,032            |
| Other   | 1,787             | 5,075             |
| <b>Total</b>                                    | <b>\$ 163,075</b> | <b>\$ 165,994</b> |

As of December 31, 2011 and 2010 the Group recognized deferred income tax liabilities of \$52.5 million and \$63.8 million respectively, for income taxes on future dividend distributions from foreign subsidiaries (MTS Ukraine and K-Telecom) which are based on \$1,088.2 million and \$1,309.4 million cumulative undistributed earnings of those foreign subsidiaries in accordance with local statutory accounting regulations (unaudited) because such earnings are intended to be repatriated.

No deferred tax liability was recognized on undistributed earnings of Uzdunrobita as of December 31, 2011 and 2010 as the Group plans to indefinitely reinvest earnings in this entity. As of December 31, 2011 and 2010 the amount of undistributed earnings of Uzdunrobita in accordance with local statutory accounting regulations amounted to \$647.8 million and \$594.6 million, respectively (unaudited) and the related unrecognized deferred tax liability for these earnings in amounted to \$117.0 million and \$106.4 million respectively.

As of December 31, 2011, 2010 and 2009, the Group included accruals for uncertain tax positions in the amount of \$16.3 million, \$14.0 million and \$10.6 million, respectively, as a component of income tax payable.

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

|   | 2011             | 2010             | 2009             |
|---|------------------|------------------|------------------|
| Balance, beginning of the year                              | \$ 13,993        | \$ 10,607        | \$ 12,360        |
| Additions based on tax position related to the current year | 9,149            | 14,590           | 2,094            |
| Additions based on tax positions related to prior years     | 2,647            | 1,504            |                  |
| Additions based on tax of acquired entities                 | 5,129            | 7,587            | 1,521            |
| Reduction in tax positions related to prior years           | (5,213)          | (2,141)          | (1,778)          |
| Settlements with tax authorities                            | (8,323)          | (18,109)         | (3,305)          |
| Currency translation adjustment                             | (1,044)          | (45)             | (285)            |
| <b>Balance, end of the year</b>                             | <b>\$ 16,338</b> | <b>\$ 13,993</b> | <b>\$ 10,607</b> |

Accrued penalties and interest related to unrecognized tax benefits as a component of income tax expense for the years ended December 31, 2011, 2010 and 2009 amounted to a charge of \$0.1 million, charge of \$3.3 million and reversal of (\$0.6) million respectively, and are included in income tax expense in the accompanying consolidated statements of operations. Accrued interest and penalties were included in income tax payable in the accompanying consolidated statements of financial position and totaled \$6.1 million and \$3.3 million as of December 31, 2011 and 2010, respectively. The Group does not expect the unrecognized tax benefits to change significantly over the next twelve months.

**22. RELATED PARTIES**

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

As of December 31, 2011 and 2010, accounts receivable from and accounts payable to related parties were as follows:

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2011             | 2010             |
| <b>Accounts receivable:</b>                       |                  |                  |
| Sitronics, a subsidiary of Sistema                | \$ 2,736         | \$ 1,320         |
| Intellect Telecom, a subsidiary of Sistema        | 359              | 117              |
| Other related parties                             | 1,393            | 1,236            |
| <b>Total accounts receivable, related parties</b> | <b>\$ 4,488</b>  | <b>\$ 2,673</b>  |
| <b>Accounts payable:</b>                          |                  |                  |
| Sitronics, a subsidiary of Sistema                | \$ 42,715        | \$ 37,007        |
| Maxima, a subsidiary of Sistema                   | 11,986           | 8,965            |
| Other related parties                             | 2,281            | 7,012            |
| <b>Total accounts payable, related parties</b>    | <b>\$ 56,982</b> | <b>\$ 52,984</b> |

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

**22. RELATED PARTIES (Continued)****Operating transactions**

For the years ended December 31, 2011, 2010 and 2009, operating transactions with related parties are as follows:

|   | 2011              | 2010              | 2009              |
|---|-------------------|-------------------|-------------------|
| <b>Revenues from related parties:</b>   |                   |                   |                   |
| MTS Belarus (roaming services)  | \$ 6,520          | \$ 2,589          | \$                |
| Sitronics and subsidiaries (fixed line services)  | \$ 4,218          | \$ 3,577          | \$ 3,656          |
| Svyazinvest and subsidiaries (interconnection, commission for provision of DLD/ILD services to the Group's subscribers and other)             | \$                | \$ 33,869         | \$ 43,174         |
| Sky Link and subsidiaries (interconnection and other)   |                   | 7,395             | 9,857             |
| Mezhregion Tranzit Telecom (interconnection, line rental, commission for provision of DLD/ILD services to the Group's subscribers, and other) |                   |                   | 11,465            |
| Other related parties   | 2,743             | 4,827             | 3,997             |
| <b>Total revenues from related parties</b>  | <b>\$ 13,481</b>  | <b>\$ 52,257</b>  | <b>\$ 72,149</b>  |
| <b>Operating expenses incurred on transactions with related parties:</b>  |                   |                   |                   |
| RA Maxima, a subsidiary of Sistema (advertising)  | \$ 81,905         | \$ 76,158         | \$ 102,005        |
| Sitronics, a subsidiary of Sistema (IT consulting)  | 48,023            | 56,610            | 52,211            |
| MTS Belarus, an associated company of the Group   | 10,516            | 5,539             |                   |
| AB Safety, an affiliate of Sistema (security services)  | 10,075            | 9,267             | 5,576             |
| Mediaplanning, a subsidiary of Sistema (advertising)  | 1,005             | 59,171            | 23,782            |
| Svyazinvest and subsidiaries (interconnection and other)  |                   | 29,210            | 28,997            |
| Sistema-Invenchur, (consulting services related to the sale of Svyazinvest shares (Note 14))  |                   | 11,262            |                   |
| City Hals (rent, repair, maintenance and cleaning services)   |                   | 9,542             | 9,988             |
| Mezhregion Tranzit Telecom (interconnection, line rental and other)   |                   |                   | 18,115            |
| Other related parties   | 10,792            | 15,584            | 15,705            |
| <b>Total operating expenses incurred on transactions with related parties</b>   | <b>\$ 162,316</b> | <b>\$ 272,343</b> | <b>\$ 256,379</b> |

In December 2011 the Group acquired 100% of Sistema-Invenchur (see Note 3).

During the year ended December 31, 2010 Sky Link, Sistema-Hals, City Hals, a subsidiary of Sistema-Hals, and Svyazinvest ceased to be related to the Group. 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.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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## FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 22. RELATED PARTIES (Continued)

## Investing and financing transactions

During the years ended December 31, 2011 and 2010 the Group made certain investments in and loans to related parties. Respective balances are summarized as follows:

|   | December 31,      |                   |
|---|-------------------|-------------------|
|   | 2011              | 2010              |
| <b>Loans to, promissory notes and investments in shares of related parties:</b> |                   |                   |
| <b>Other investments (Note 15)</b>  |                   |                   |
| Sistema   | \$ 19,209         | \$ 24,455         |
| Loan receivable from Mr Pierre Fattouche and Mr Moussa Fattouche                | 92,700            | 91,503            |
| <b>Total other investments to related parties</b>                               | <b>\$ 111,909</b> | <b>\$ 115,958</b> |
| <b>Investments in shares (Note 15)</b>  |                   |                   |
| MBRD, a subsidiary of Sistema   | 4,930             | 5,208             |
| Sistema Mass Media, a subsidiary of Sistema                                     | 3,622             | 3,827             |
| Other   | 946               | 728               |
| <b>Total investments in shares of related parties</b>                           | <b>\$ 9,498</b>   | <b>\$ 9,763</b>   |

**Moscow Bank of Reconstruction and Development ("MBRD")** The Group maintains certain bank accounts with MBRD, a subsidiary of Sistema, and had a number of loan and deposit agreements prior to the year ended December 31, 2011. As of December 31, 2011 and 2010, the Group's cash position at MBRD amounted to \$311.5 million and \$378.7 million in current accounts, respectively. Interest accrued on the deposits and cash on current accounts for the years ended December 31, 2011, 2010 and 2009, amounted to \$14.9 million, \$19.7 million and \$25.1 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations.

**Sistema** In November 2009, the Group accepted a promissory note from Sistema as repayment of a loan principle and interest accrued to date under the agreement with Sistema-Hals (Note 15). The note is interest free and is repayable in 2017. As of December 31, 2011 and 2010 the amount receivable of \$19.2 and \$20.3 million was included in other investments in the accompanying consolidated statement of financial position.

In June 2010, the Group accepted a promissory note from Sistema in exchange for promissory note of Sky Link. The note was interest free and was repaid upon demand in the year ended December 31, 2011. As of December 31, 2011 and 2010 the amount receivable of \$nil and \$4.2 million was included in other investments in the accompanying consolidated statement of financial position.

**Investments in ordinary shares** As of December 31, 2011 and 2010 the Group had several investments in shares of subsidiaries and affiliates of Sistema totaling \$9.5 million and \$9.8 million, respectively, included in other investments in the accompanying consolidated statement of financial



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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**22. RELATED PARTIES (Continued)**

position. The main investments are 1.8% of MBRD and 3.14% of Sistema Mass-Media ("SMM"), subsidiaries of Sistema.

**Sky Link and subsidiaries** In 2009, Sky Link, an affiliate of Sistema, repaid the Group \$14.3 million of outstanding indebtedness, which resulted in partial reversal of a provision for uncollectible loans recorded by the Group in 2007 and recognition of a gain of \$4.3 million in the accompanying consolidated statement of operations for the year ended December 31, 2009. In the year ended December 31, 2010, Sky Link and its subsidiaries ceased to be related to the Group.

**Sitronics** During the years ended December 31, 2011, 2010 and 2009, the Group acquired from Sitronics and its subsidiaries telecommunications equipment, software and billing systems (FORIS) for approximately \$503.2 million, \$272.6 million and \$190.1 million, respectively. In addition during the years ended December 31, 2011, 2010 and 2009, the Group purchased SIM cards and prepaid phone cards for approximately \$79.5 million, \$29.9 million and \$32.4 million, respectively, and incurred expenses of \$48.0 million, \$56.6 million and \$52.2 million, respectively, under an IT consulting agreement.

As of December 31, 2011 and 2010 the advances given to Sitronics and its subsidiaries amounted to \$57.6 million and \$144.6 million, respectively. These amounts were included into property, plant and equipment and intangible assets in the accompanying consolidated statements of financial position.

**Maxima Advertising Agency ("Maxima")** During the years ended December 31, 2011, 2010 and 2009, the Group had agreements for advertising services with Maxima, a subsidiary of Sistema. Advertising costs related to Maxima for the years ended December 31, 2011, 2010 and 2009, amounted to \$81.9 million, \$76.2 million and \$102.0 million, respectively.

**Mediaplanning** During the years ended December 31, 2011, 2010 and 2009, the Group entered into a number of agreements to purchase advertising services with Mediaplanning, a subsidiary of Sistema. Related advertising costs recorded for the years ended December 31, 2011, 2010 and 2009 amounted to \$1.0 million, \$59.2 million and \$23.8 million, respectively. In the year ended December 31, 2011, the Group ceased its relationship with this contractor.

**Svyazinvest** The Group has 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, 2010 and 2009, we incurred expenses of \$29.2 million and \$29.0 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 the Group (Note 14).

**23. STOCKHOLDERS' EQUITY**

**Share capital** In April, 2011 as result of the issuance of additional MTS shares for the purposes of conversion of Comstar-UTS shares, the Company's charter capital increased by 73,087,424 ordinary shares to a total of 2,066,413,562 ordinary shares of which 1,988,916,837 were outstanding as of December 31, 2011. The Company's share capital comprises 1,993,326,138 issued common shares with

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1,916,869,262 outstanding as of December 31, 2010. The total shares in treasury stock comprised 77,496,725 and 76,456,876 as of December 31, 2011 and 2010, respectively.

Each ADS initially represented 20 shares of common stock of the Company. Effective January 2005, the ratio was changed to 1 ADS per 5 ordinary shares. Effective May 2010, the ratio was changed to 1 ADS per 2 ordinary shares.

The Company initially issued a total of 17,262,204 ADSs (172,622,040 ADSs recalculated using the ratio effective May 2010), representing 345,244,080 common shares. As of December 31, 2011 the Group repurchased 13,599,067 ADSs.

*Noncontrolling interest* The Group's equity was affected by changes in the respective subsidiaries' ownership interests as follows:

|  | December 31,        |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | 2011                | 2010                | 2009                |
| <b>Net income attributable to the Group</b>  | <b>\$ 1,443,944</b> | <b>\$ 1,380,631</b> | <b>\$ 1,014,203</b> |
| <b>Transfers from the noncontrolling interest</b>  |                     |                     |                     |
| (Decrease)/Increase in own equity due to acquisition of noncontrolling interest in Comstar-UTS         | (41,377)            | (115,350)           | 45,284              |
| Increase in own equity resulted from exchange of MTS shares for noncontrolling interest in Comstar-UTS | 429,409             |                     |                     |
| Increase in own equity due to exercise of the put option on Comstar-UTS shares                         | 11,636              |                     |                     |
| (Decrease)/Increase in own equity due to acquisition of noncontrolling interest in MGTS                | (272,840)           |                     | 269,281             |
| Change in own equity due to acquisition of noncontrolling interest in TS-Retail                        |                     | (15,932)            |                     |
| (Decrease) in own equity due to acquisition of noncontrolling interest in Dagtelecom                   |                     |                     | (7,679)             |
| (Decrease) in own equity due to acquisition of noncontrolling interest in other subsidiaries           | (738)               | (10,302)            | (487)               |
| <b>Net transfers from the noncontrolling interest</b>  | <b>126,090</b>      | <b>(141,584)</b>    | <b>306,399</b>      |
| <b>Net income attributable to the Group and transfers from the noncontrolling interest:</b>            | <b>\$ 1,570,034</b> | <b>\$ 1,239,047</b> | <b>\$ 1,320,602</b> |

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 23. STOCKHOLDERS' EQUITY (Continued)

**Accumulated other comprehensive income** The following table represents accumulated other comprehensive income balance, net of taxes, for the years ended December 31, 2011, 2010 and 2009:

|  | Currency<br>translation<br>adjustment | Unrealized<br>gains/loss on<br>derivatives | Unrecognized<br>actuarial<br>losses | Accumulated<br>other<br>comprehensive<br>income/loss |
|--|---------------------------------------|--|-------------------------------------|--|
| <b>Balance as of January 1, 2009</b>   | (434,320)                             | (16,714)                                   | 5,262                               | (445,772)  |
| Current-period change                  | (280,074)                             | (23,579)                                   | 1,003                               | (302,650)  |
| <b>Balance as of December 31, 2009</b> | (714,394)                             | (40,293)                                   | 6,265                               | (748,422)  |
| Current-period change                  | (45,257)                              | 25,428                                     | (3,706)                             | (23,535)   |
| <b>Balance as of December 31, 2010</b> | (759,651)                             | (14,865)                                   | 2,559                               | (771,957)  |
| Current-period change                  | (205,339)                             | 7,364                                      | 5,940                               | (192,035)  |
| <b>Balance as of December 31, 2011</b> | <b>(964,990)</b>                      | <b>(7,501)</b>                             | <b>8,499</b>                        | <b>(963,992)</b>                                     |

**Dividends** In 2007, the Board of Directors approved a dividend policy, whereby the Group shall aim to make dividend payments to shareholders in the amount of at least 50% of annual net income under U.S. GAAP. The dividend can vary depending on a number of factors, including the outlook for earnings growth, capital expenditure requirements, cash flow from operations, potential acquisition opportunities, as well as the Group's debt position.

Annual dividend payments, if any, must be recommended by the Board of Directors and approved by the shareholders.

In accordance with Russian laws, earnings available for dividends are limited to profits determined in accordance with Russian statutory accounting regulations, denominated in rubles, after certain deductions. The net income of MTS OJSC for the years ended December 31, 2011, 2010 and 2009 that is distributable under Russian legislation totaled RUB 54,675 million (\$1,698.2 million) (unaudited), RUB 27,429 million (\$903.2 million) and 33,480 million (\$1,055.4 million), respectively.

The following table summarizes the Group's declared cash dividends in the years ended December 31, 2011, 2010 and 2009:

|  | 2011         | 2010       | 2009         |
|--|--------------|------------|--------------|
| Dividends declared (including dividends on treasury shares of \$40,006, \$35,063 and \$45,631, respectively) | \$ 1,066,753 | \$ 991,211 | \$ 1,265,544 |
| Dividends, U.S. Dollars per ADS <sup>(1)</sup>   | 1.03         | 0.99       | 3.2          |
| Dividends, U.S. Dollars per share  | 0.516        | 0.497      | 0.647        |

(1)

In 2010 the ratio was changed from 5 to 2 common shares per ADS.

As of December 31, 2011 and 2010, dividends payable were \$0.2 million and \$0.6 million, respectively.

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**23. STOCKHOLDERS' EQUITY (Continued)**

**MGTS' preferred stock** MGTS, a subsidiary of Comstar-UTS, had 15,965,850 preferred shares outstanding at December 31, 2011. MGTS' preferred shares carry guaranteed non-cumulative dividend rights amounting to the higher of (a) 10% of MGTS' net profit as determined under Russian accounting regulations and (b) the dividends paid on common shares. No dividends may be declared on common shares before dividends on preferred shares are declared. If the preferred dividend is not paid in full in any year the preferred shares also obtain voting rights, which will lapse after the first payment of the dividend in full. Otherwise, preferred shares carry no voting rights except on resolutions regarding liquidation or reorganization of MGTS and changes/amendments to MGTS' charter restricting the rights of holders of preferred shares. Such resolutions require the approval of 75% of the preferred shareholders. In the event of liquidation, dividends to preferred shareholders that have been declared but not paid have priority over ordinary shareholders.

In May 2011 MGTS' annual shareholders meeting approved dividends on ordinary and preferred shares totaling RUB 18 961.7 million (approximately \$623.9 million) for 2010. In June 2010 MGTS' general shareholders meeting approved dividend on preferred shares totaling RUB 789.4 million (approximately \$25.4 million) payment for 2009. As of December 31, 2011 and 2010, dividends payable were \$2.1 million and \$1.0 million, respectively.

**24. REDEEMABLE NONCONTROLLING INTEREST**

In September 2007 the Group acquired an 80% stake in International Cell Holding Ltd, the 100% indirect owner of K-Telecom, Armenia's mobile phone operator, and signed a call and put option agreement to acquire the remaining 20% stake. In December 2010 the Group signed an amendment to the put and call option agreement. According to the amended option agreement, the price for the remaining 20% stake option will be determined by an independent investment bank subject to a cap of EUR 200 million. The put option can be exercised during the period from the next business day following the date of settlement of all liabilities under the loan agreement (Note 16) up to December 31, 2016. The call option can be exercised during the period from July 1, 2010 up to December 31, 2016. If both the call notice and the put notice are served on the same day then the put notice shall be deemed exercised in priority to the call notice. The noncontrolling interest was measured at fair value using a discounted cash flow technique and amounted to \$80.6 million and \$86.9 million as of December 31, 2011 and 2010 respectively. The fair value was determined based on unobservable inputs ("Level 3" of the hierarchy established by the U.S. GAAP guidance).

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009****(Amounts in thousands of U.S. Dollars, unless otherwise stated)****25. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the years ended December 31, 2011, 2010 and 2009, comprised the following:

|                                     | <b>2011</b>         | <b>2010</b>         | <b>2009</b>         |
|-------------------------------------|---------------------|---------------------|---------------------|
| Salaries and social contributions   | \$ 1,230,564        | \$ 1,174,482        | \$ 1,004,951        |
| Rent                                | 389,142             | 338,301             | 283,957             |
| General and administrative          | 277,863             | 251,097             | 217,847             |
| Repair and maintenance              | 202,206             | 180,810             | 158,165             |
| Taxes other than income             | 171,778             | 144,322             | 181,716             |
| Billing and data processing         | 62,508              | 75,960              | 64,277              |
| Consulting expenses                 | 58,409              | 61,431              | 59,000              |
| Provision for obsolescence          | 30,160              | 27,825              | 4,113               |
| Insurance                           | 6,533               | 7,456               | 7,612               |
| Business acquisitions related costs | 7,089               | 12,737              | 11,353              |
| <b>Total</b>                        | <b>\$ 2,436,252</b> | <b>\$ 2,274,421</b> | <b>\$ 1,992,991</b> |

**26. SEGMENT INFORMATION**

To reflect the changes in the structure of the internal organization in 2011, the Group combined the Russia Mobile and Russia Fixed segments. Prior period segment presentation has been retrospectively restated for this change. As a result, geographical areas of business activities are now used as a factor in identifying the following reportable segments.

The Group operates primarily within two countries, Russia and Ukraine. The Group aligns its business into two reportable segments to effectively manage both the mobile and the fixed line operations as an integrated business and to respond to the demands of the Group's customers.

The reportable segments consist of (1) Russia, which includes operations throughout the country, and provides a wide range of mobile and fixed line voice and data telecommunications services, including transmission, broadband, pay-TV and various value-added services, i.e. both mobile and fixed line services to customers across multiple regions and (2) Ukraine, which includes operations throughout the country, and currently provides mobile services.

The "Other" category does not constitute either an operating segment or a reportable segment. Rather, it includes both the results of a number of other operating segments that do not meet the quantitative thresholds for separate reporting, such as Uzbekistan and Armenia, and corporate division.

Other unallocated expenses such as interest (income)/expense, impairments and currency exchange and transaction loss/(gain) are shown for purposes of reconciling the Group's segment measure, net operating income, to the Group's consolidated total for each of the three years in the period ended December 31, 2011.

The intercompany eliminations presented below primarily consist of sales transactions between segments conducted under the normal course of operations.

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Financial information by reportable segment is presented below:

|   | December 31,  |               |              |
|---|---------------|---------------|--------------|
|   | 2011          | 2010          | 2009         |
| Net operating revenues from external customers:       |               |               |              |
| Russia  | \$ 10,597,310 | \$ 9,387,797  | \$ 8,064,474 |
| Ukraine   | 1,099,537     | 1,050,639     | 1,025,374    |
| Other   | 621,841       | 854,800       | 777,405      |
|   |               |               |              |
| Total net operating revenues from external customers: | \$ 12,318,688 | \$ 11,293,236 | \$ 9,867,253 |
|   |               |               |              |
| Including revenue from mobile services                | 10,487,988    | 9,606,354     | 8,428,578    |
| Including revenue from fixed line services            | 1,830,700     | 1,686,882     | 1,438,675    |
|   |               |               |              |
| Intersegment operating revenues:                      |               |               |              |
| Russia  | \$ 34,968     | \$ 27,136     | \$ 10,342    |
| Ukraine   | 43,020        | 22,191        | 23,377       |
| Other   | 21,189        | 9,572         | 10,138       |
|   |               |               |              |
| Total intersegment operating revenues:                | \$ 99,177     | \$ 58,899     | \$ 43,857    |
|   |               |               |              |
| Depreciation and amortization expense:                |               |               |              |
| Russia  | \$ 1,752,022  | \$ 1,418,727  | \$ 1,305,556 |
| Ukraine   | 344,709       | 354,154       | 352,037      |
| Other   | 238,473       | 227,615       | 186,581      |
|   |               |               |              |
| Total depreciation and amortization expense           | \$ 2,335,204  | \$ 2,000,496  | \$ 1,844,174 |
|   |               |               |              |
| Operating income:                                     |               |               |              |
| Russia  | \$ 2,774,422  | \$ 2,673,617  | \$ 2,353,380 |
| Ukraine   | 203,609       | 144,473       | 120,248      |
| Other   | (168,572)     | (84,820)      | 82,257       |
| Intercompany eliminations                             | (574)         | 1,289         |              |
|   |               |               |              |
| Net operating income                                  | \$ 2,808,885  | \$ 2,734,559  | \$ 2,555,885 |
|   |               |               |              |
| Net operating income                                  | \$ 2,808,885  | \$ 2,734,559  | \$ 2,555,885 |
| Currency exchange and transaction loss (gain)         | 158,066       | (20,238)      | 252,694      |
| Interest income                                       | (62,559)      | (84,396)      | (104,566)    |
| Interest expense                                      | 656,898       | 777,287       | 571,901      |
| Change in fair value of derivatives                   |               |               | 5,420        |
| Impairment of investments                             |               |               | 368,355      |
| Equity in net income of associates                    | (49,443)      | (70,649)      | (60,313)     |

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|  |              |              |              |
|--|--------------|--------------|--------------|
| Other expense, net   | 6,571        | 66,924       | 23,254       |
| Income before provision for income taxes and noncontrolling interest | \$ 2,099,352 | \$ 2,065,631 | \$ 1,499,140 |

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 26. SEGMENT INFORMATION (Continued)

|   | 2011                 |           | 2010              |
|---|----------------------|-----------|-------------------|
| Additions to long-lived assets:             |                      |           |                   |
| Russia                                      | \$ 2,330,163         | \$        | 2,538,926         |
| Ukraine                                     | 140,354              |           | 117,548           |
| Other                                       | 247,140              |           | 237,256           |
| <b>Total additions to long-lived assets</b> | <b>\$ 2,717,657</b>  | <b>\$</b> | <b>2,893,730</b>  |
| Long-lived assets <sup>(1)</sup> :          |                      |           |                   |
| Russia                                      | \$ 8,617,536         | \$        | 8,207,457         |
| Ukraine                                     | 915,292              |           | 1,130,459         |
| Other                                       | 1,380,852            |           | 1,451,615         |
| <b>Total long-lived assets</b>              | <b>\$ 10,913,680</b> | <b>\$</b> | <b>10,789,531</b> |
| Total assets:                               |                      |           |                   |
| Russia                                      | \$ 12,420,073        | \$        | 11,358,159        |
| Ukraine                                     | 1,244,543            |           | 1,454,415         |
| Other                                       | 1,653,613            |           | 1,665,468         |
| <b>Total assets</b>                         | <b>\$ 15,318,229</b> | <b>\$</b> | <b>14,478,042</b> |

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

## 27. COMMITMENTS AND CONTINGENCIES

**Capital commitments** As of December 31, 2011, the Group had executed purchase agreements of approximately \$560.3 million to acquire property, plant and equipment, intangible assets and costs related thereto.

**Agreement with Apple** In August 2008, the Group entered into an unconditional purchase agreement with Apple Sales International to buy 1.5 million iPhone handsets at list prices at the dates of respective purchases over a three year period. Pursuant to the agreement the Group was also required to incur certain iPhone promotion costs. As of December 31, 2011 the Group made 28.6% of its total purchase installment contemplated by the agreement. The total amount paid for handsets purchased under the agreement for the years ended December 31, 2011, 2010 and 2009 amounted to \$140.8 million, \$79.4 million and \$3.4 million, respectively.

**Operating leases** The Group has entered into non-cancellable agreements to lease space for telecommunications equipment, offices and transmission channels, which expire in various years up to 2060. Rental expenses under the operating leases of \$389.1 million, \$338.3 million and \$278.5 million for the years ended December 31, 2011, 2010 and 2009, respectively, are included in operating expenses in the accompanying consolidated statements of operations. Rental expenses under the operating leases of \$232.0 million, \$182.4 million and



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\$168.7 million for the years ended December 31, 2011, 2010 and 2009, respectively, are included in cost of services in the accompanying consolidated statements of

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operations. Future minimum lease payments due under these leases for the five years ending December 31, 2016 and thereafter are as follows:

| <b>Payments due in the years ended December 31,</b> |                   |
|---|-------------------|
| 2012  | \$ 249,334        |
| 2013  | 49,426            |
| 2014  | 36,639            |
| 2015  | 31,832            |
| 2016  | 28,439            |
| Thereafter  | 74,525            |
| <b>Total</b>  | <b>\$ 470,195</b> |

**Taxation** Russia and the CIS countries currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia and the CIS countries that are more significant than those typically found in countries with more developed tax systems.

Generally, according to Russian and Ukrainian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2011, tax declarations of MTS OJSC and other subsidiaries in Russia and Ukraine for the preceding three fiscal years were open for further review.

In October 2009, the Russian tax authorities completed the tax audit of Sibintertelecom for the years ended December 31, 2006, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed RUB 174.5 million (\$5.8 million as of December 31, 2009) in additional taxes, penalties and fines. The Group won an appeal in the court of original jurisdiction, which recognized the tax authorities' resolution to be invalid. In February 2011 an arbitration appellate court confirmed the decision of the court of original jurisdiction.

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**27. COMMITMENTS AND CONTINGENCIES (Continued)**

In December 2010 the Russian tax authorities completed the tax audit of MTS OJSC for the years ended December 31, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed RUB 353.9 million (\$11.0 million as of December 31, 2011) in additional taxes, penalties and fines were payable by the Group. The resolution did not come into force as the Group prepared and filed a petition with the Federal Tax Service to declare the tax authorities' resolution to be invalid. In September 2011 the Federal Tax Service partially satisfied the Group's petition, decreasing the amount of additional taxes, penalties and fines payable by the Group by RUB 173.9 million (\$5.4 million as of December 31, 2011). The Group filed an appeal for RUB 84.2 million (\$2.6 million as of December 31, 2011) of the remaining RUB 180.0 million (\$5.6 million as of December 31, 2011) with the Moscow Arbitrate Court. A hearing is scheduled for March 12, 2012.

In February 2012, the Russian tax authorities completed tax audit of MGTS for the years ended December 31, 2007 and 2008. Based on the results of their audit, the Russian tax authorities assessed RUB 258.1 million (\$8.0 million as of December 31, 2011) in additional taxes, penalties and fines are payable by the Group. In February 2012 MGTS appealed the tax authorities' decision with the Federal Tax Service.

The Group purchases supplemental software from foreign suppliers of telecommunications equipment in the ordinary course of business. The Group's management believes that customs duties are calculated in compliance with applicable legislation. However there is a risk that the customs authorities may take a different view and impose additional customs duties. As of December 31, 2011 and 2010, no provision was recorded in the consolidated financial statements in respect of such additional duties.

Pricing of revenue and expenses between each of the Group's subsidiaries and various discounts and bonuses to the Group's subscribers in the course of performing its marketing activities might be subject to transfer pricing rules. The Group's management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. As of December 31, 2011 and 2010, no provision was recorded in the consolidated financial statements in respect of such additional claims.

Management believes that it has adequately provided for tax and customs liabilities in the accompanying consolidated financial statements. As of December 31, 2011 and 2010, the provision accrued amounted to \$7.1 million and \$10.0 million, respectively. In addition, the accrual for unrecognized income tax benefits, potential penalties and interest recorded in accordance with the authoritative guidance on income taxes totaled \$16.3 million and \$14.0 million as of December 31, 2011 and 2010, respectively. However, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

**3G license** In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MTS a license to provide 3G services in the Russian Federation. The 3G license was granted subject to certain capital and other commitments. The major conditions are that the Group will have to build a certain number of base stations that support 3G standards, will have to start

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**27. COMMITMENTS AND CONTINGENCIES (Continued)**

providing services in the Russian Federation by a certain date, and will have to build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting the license. Management believes that as of December 31, 2011 the Group is in compliance with these conditions.

**Bitel** In December 2005, 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 the Group did not regain operational control over Bitel's operations in 2005, it accounted for its 51.0% investment in Bitel at cost as at December 31, 2005. The Group appealed the decision of the Kyrgyz Supreme Court in 2006, but the court did not act within the time period permitted for appeal. The Group subsequently sought the review of this dispute over the ownership of Bitel by the Prosecutor General of Kyrgyzstan to determine whether further investigation could be undertaken by the Kyrgyz authorities.

In January 2007, the Prosecutor General of Kyrgyzstan informed the Group that there were no grounds for involvement by the Prosecutor General's office in the dispute and that no legal basis existed for the Group to appeal the decision of the Kyrgyz Supreme Court. Consequently, the Group decided to write off the costs relating to the purchase of the 51.0% stake in Bitel, which was reflected in its annual consolidated financial statements for the year ended December 31, 2006. 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 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 London Court of International Arbitration 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"). An amount of the Award is bearing an interest until Award is satisfied. In addition to the \$170.0 million liability related to this case and accrued in the year ended December 31, 2006, the Group recorded an additional loss in amount of \$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.

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**27. COMMITMENTS AND CONTINGENCIES (Continued)**

On January 26, 2011, Nomihold obtained a freezing order in respect of the Award from the English High Court of Justice which, in part, restricts MTS Finance from dissipating its assets. Additionally, MTS Finance has been granted permission to appeal the Award, but the 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 Luxemburg 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, the Company applied to and obtained from the English Court an order authorizing both payments to be made by the Company on behalf of 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 the Company and MTS Finance ("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 the Company owed obligations to the noteholders as guarantor under the Indenture, the Company decided to make the Direct Payments to the noteholders pursuant to an order of the English Court.

In relation to the obligations under the Intercompany Loan Agreement, the Company and MTS Finance have agreed to refer to arbitration the question of whether under the Intercompany Loan Agreement itself there remains an obligation to make any further payments to MTS Finance in light of the Direct Payment. On February 9, 2012, the Company 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. The Company denies that any further payments are due under the Intercompany Loan Agreement. The arbitration will be conducted under the Rules of the London Court of International Arbitration and it is expected to last between 6 and 12 months.

In addition, three Isle of Man companies affiliated with the Group (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 defendants do not prevail in these lawsuits, the Group 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.

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**27. COMMITMENTS AND CONTINGENCIES (Continued)**

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 \$500 million that Altimo Coöperatief U.A. has lodged with the Isle of Man court. The KFG Companies are proceeding with their counterclaims in the Isle of Man. A trial has been set to commence in May 2013.

In a separate arbitration proceeding initiated against the KFG Companies by Kyrgyzstan Mobitel Investment Company Limited ("KMIC"), under the rules of the London Court of International Arbitration, 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. The Group is not able to predict the outcome of these proceedings or the amount of damages to be paid, if any.

**Other litigation** In the ordinary course of business, the Group is a party to various legal, tax and customs proceedings, and subject to claims, certain of which relate to developing markets and evolving fiscal and regulatory environments in which MTS operates. Management believes that the Group's liability, if any, in all such pending litigation, other legal proceeding or other matters will not have a material effect upon its financial condition, results of operations or liquidity of the Group.

**28. SUBSEQUENT EVENTS**

On February 28, 2012, subsequent to the statement of financial position date, the Group voluntarily repaid the full amount due under credit facilities of Gazprombank with an original maturity in 2013-2015. The amount repaid totaled to \$472.1 million (stated at December 31, 2011 exchange rate).

On March 16, 2012, subsequent to the statement of financial position date, the Group voluntarily repaid \$310.6 million from \$434.8 million outstanding under credit facility of Bank of Moscow with the original maturity in 2013 (both amounts are stated at December 31, 2011 exchange rate).