MOBILE TELESYSTEMS OJSC
Form 20-F
April 23, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

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

or

ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011**

or

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

or

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

Date of event requiring this shell company report

Commission file number 333-12032

MOBILE TELESYSTEMS OJSC

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

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

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

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

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

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

NONE
(Title of Class)

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

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report 1,988,916,837 ordinary shares, par value 0.10 Russian rubles each and 388,698,252 American Depositary Shares as of December 31, 2011.

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

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

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

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

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

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

Large accelerated filer ý	Accelerated Filer o	Non-accelerated filer o

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

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

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

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

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

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

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

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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.

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

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

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

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

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

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

(3) Capital expenditures include purchases of property, plant and equipment and intangible assets.

(4) Includes notes payable, bank loans, capital lease obligations and other debt.

(5) Calculated as book value of total debt divided by the sum of the book values of total shareholders' equity and total debt at the end of the relevant period. See footnote 4 above for the definition of "total debt."

(6) Source: AC&M-Consulting and our data. Operating data is presented for mobile operations only. None of this data is derived from our audited consolidated financial statements.

(7) We define a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of prepaid tariffs) or whose account does not have a negative balance for more than this period.

(8) Average monthly minutes of usage per subscriber is calculated by dividing the total number of minutes of usage during a given period by the average number of our subscribers during the period and dividing by the number of months in that period.

(9) We calculate average monthly service revenue per subscriber by dividing our service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of our subscribers during that period and

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 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 Svyazinvest, the government-controlled holding for fixed line telephone companies, which contributed to our loss in the fourth quarter of 2009.

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

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

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

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

In October 2009, we acquired a 50.91% stake in Comstar, a leading fixed line operator in Russia, from Sistema, and subsequently increased our ownership interest to 61.97% (or 64.03% excluding treasury shares) in December 2009 and to 70.97% (or 73.33% excluding treasury shares) in September

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 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 i