

# MTS OJSC Annual Report

2012



**MTS**

a step ahead

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## MTS OJSC is the leading telecommunications operator in Russia and CIS.

MTS OJSC helps people communicate and get information in all regions of Russia, Ukraine, Belarus, Turkmenistan and Armenia.

MTS OJSC is successfully achieving the objective of strengthening leadership and maintaining high business efficiency. The key areas of "3i" Development Strategy of MTS Group have been formulated as development of infrastructure and building new networks, the use of "intelligent grids" and active development of Internet services to create additional value; bringing together capabilities of mobile and fixed businesses of MTS, introduction of converged services, development of innovations to provide subscribers a broad portfolio of exclusive devices and services.

### Disclaimer

Some statements in this Annual Report may contain projections or forecasts regarding future events or future financial performance of the Company, as defined in the provisions of the US Securities Act of 1995. Such statements contain such terms as "expect", "estimate", "intend", "will", "could" or other similar expressions. We wish to caution you that these statements are only predictions, and that actual events or results may differ. We shall not be obliged and do not intend to review these statements for reconciliation with actual results. We refer you to the documents MTS files to the U.S. Securities and Exchange Commission, and Form 20-F in particular. These documents contain and identify important factors, including those contained in the Risk Factors section of the Form 20-F. These factors could cause the actual results to differ from the projections and forecasts. They include: gravity and duration of the current economic situation period, including high volatility of refinancing rates and exchange rates, prices of goods and shares and financial assets value, impact of government programs of Russia, USA and other countries on restoring liquidity and stimulation of national and world economy, our opportunity to maintain current credit rating and impact on the cost of financing and competitive position and if the latter is decreased, strategic activity including acquisitions and alienations and successful integration of acquired businesses, potential fluctuations in quarterly results, our competitive environment, dependence on development of new services and tariff structures, rapid technological and market changes, strategy, risks associated with the telecommunication infrastructure, government regulation of telecommunication industry and other risks associated with operating in Russia and the CIS, fluctuations of stock quotes, financial risk management and other arising risk factors.

In this Annual Report terms "MTS", "Company", and "Group" shall mean the aggregate of companies consisting of MTS OJSC and its subsidiaries; MTS OJSC shall mean Mobile TeleSystems Open Joint Stock Company. The indicators contained in this Annual Report are as of 31.12.2012, except where other periods or dates are expressly indicated.

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1993

2000

2001

2006

2010

2011

Establishment  
of MTS



1 million  
subscribers



1 million  
subscribers



Rebranding



Brand value  
9.7 BUSD



Brand value  
10.9 BUSD



# MTS. Just facts: 1993–2013

**October 28,  
2013**

Marks the 20th  
anniversary  
of MTS

20

**108 million**  
subscribers

Accounting  
for 1.5%  
of the total  
world  
population



**USD 8.1 billion**

Value of MTS brand  
in the global ranking  
by Brandz™



**65,000**

More than 65,000 employees



**42 Mbit/s**

Maximum data rate in 3G  
network of MTS



Ability to  
download  
your favorite  
movies in  
less than  
2 minutes

**28,500**  
stations

More than  
28.5 thousand  
3G base  
stations  
in MTS  
network



**1620 TB**

Daily traffic passing through  
data networks of the  
Company

More than  
1.12 bln copies  
of L.N. Tolstoy's  
novel "War and  
peace"



**4500**

branded outlets  
of MTS

by the end  
of the year



**140,000 km**

Total length of backbone  
networks of MTS will  
be 140,000 km with  
capacity of up  
to 400 GB/s

Three turns  
around  
the Earth



**16,300,000**

smartphone owners among  
MTS subscribers



MTS comes  
to Belarus



MTS comes  
to Ukraine



MTS comes to  
Turkmenistan



MTS comes  
to Armenia



MTS comes  
to India



**Still moving forward!**

2002

2003

2005

2007

2009

2013





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## 01

# Main Outcomes of 2012

## Financial indicators

Consolidated revenue

**12.4 BUSD** ▲

0.9% growth vs 2011

OIBDA

**5.3 BUSD** ▲

3.0% growth vs 2011

OIBDA margin

**42.6%** ▲

0.8 p.p. vs 2011

Net profit

**1.0 BUSD**

Net profit margin

**8.1%**

## Non-financial indicators

High rates of construction of 3G base stations.

**28,500 3G base stations installed in 2012** ▲

**68% growth vs 2011**

Length of fiber-optic communication lines of MTS increased to

**142.000 km** ▲

**21% growth vs 2011**

**MTS is a constant leader in absolute revenue and OIBDA among the "Big Three" operators in Russia**

At the end of 2012 MTS outlet chain consisted of 4462 stores

**315 new stores opened under MTS brand**

**Based on 2012, MTS is the leader among the "Big Three" operators in Russian in terms of subscriber base growth**

## 02

# Historical reference

MTS OJSC was established as Mobile TeleSystems Closed Joint-Stock Company by Moscow City Telephone Network Open Joint Stock Company (MGTS), Deutsche Telekom (DeTeMobil), Siemens and several other shareholders in October 1993. Four Russian companies owned 53% of the stock, while two German companies had 47%. At the end of 1996, AFK Sistema OJSC bought out the Russian shareholders' stake and DeTeMobil bought the remaining stake from Siemens.

In 2000, Mobile TeleSystems CJSC and Russian Telephone Company CJSC merged to form Mobile TeleSystems Open Joint Stock Company. The same year, the Company entered the world stock markets. Since June 30<sup>th</sup>, 2000, the stocks of MTS OJSC have been trading on the New York

Stock Exchange as American Depositary Shares (index MBT).

The core business of MTS is the provision of mobile communication services. The objective of the Company's business is earning profit through planning, marketing and operating cellular mobile communication network across the territories specified in the licenses issued by the Ministry of Communications of the Russian Federation.

MTS OJSC is the largest mobile operator in Russia, Central and Eastern Europe in terms of customer base. The services provided by MTS OJSC are available in all Russian regions, including Moscow, St. Petersburg, Nizhny Novgorod, Krasnodar, Perm, Novosibirsk, Khabarovsk and many other cities. A cell phone is no longer a piece of luxury and has become an integral part of social and business life of many people. As of December 31<sup>st</sup> 2012, MTS is providing services to 101 million users in numerous regions and countries.

Apart from building own networks, MTS acquires local mobile operators to develop their business and incorporate them into its integrated federal mobile communications network.



In 2009, MTS OJSC acquired the controlling stake in COMSTAR-UTS OJSC, one of the lead fixed operators, and Eurotel OJSC, a backbone provider, thus obtaining the possibility to provide data services using wireline and wireless technologies.

Today MTS OJSC is the central Company of MTS Group, which also includes the subsidiaries and affiliates of MTS OJSC. MTS Group provides integrated mobile and fixed telephony services, long distance and international communication services, cable television, data transmission based on wireless and wireline solutions including fiber access technologies and mobile networks of the third and fourth generations. Subsidiaries of MTS

OJSC in CIS in 2012 were conducting their activities on the territory of Ukraine, Uzbekistan\*, Turkmenistan\*\*, Armenia, as well as Belarus.

We are proud of our significant contribution to the development of telecommunications in Russia and other countries of the world.

\* MTS activities in Uzbekistan were suspended in July 2012.

\*\* MTS network in Turkmenistan was successfully restarted in August 2012, 100% of MTS OJSC base station in this market were put into operation again.



a step ahead

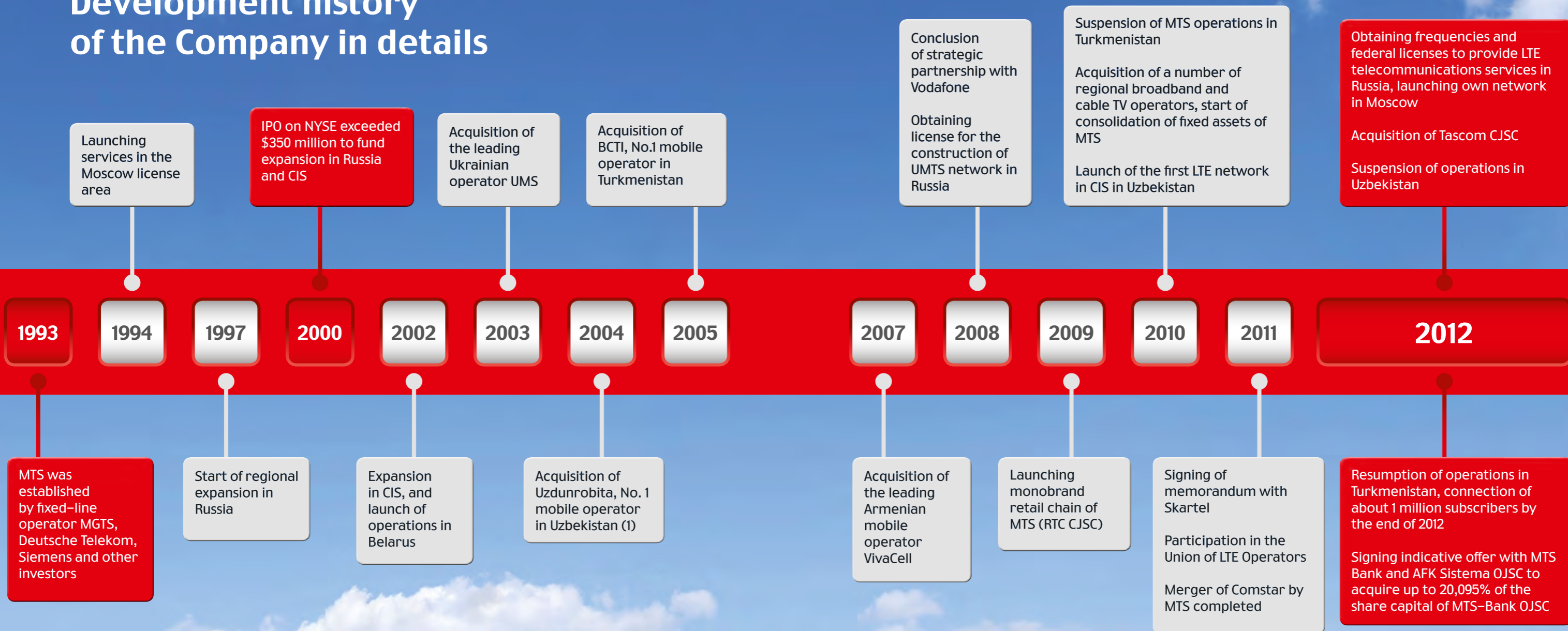


About

02

Historical reference

## Development history of the Company in details



03

# President's address to Shareholders

DEAR SHAREHOLDERS,

2012 was another year of MTS leadership: we are well ahead of the competitors in key financial indicators, maintaining positive dynamics in all business areas.

We are observing steady high growth of performance indicators in our core markets – Russia and Ukraine. We continue to see the growth of the Group in the markets of our presence in other countries, resulting from steady increase in the use of voice services and active spread of products and services in data segment.

In 2012, revenue of the Group increased by 1% to U.S. \$ 12.4 billion.

We achieved growth of this indicator, despite the significant depreciation of the Russian ruble, which is the currency of the major part of the Group's revenue, with respect to the U.S. dollar, as well as despite suspension of operations in Uzbekistan that happened in the middle of the year, impacting negatively total revenues.

In 2012, adjusted OIBDA of MTS group increased by 3% to U.S. \$ 5.3 billion. Throughout the year, the Group has demonstrated outrunning growth of adjusted OIBDA as compared to revenue, despite the suspension of operations in Uzbekistan, where OIBDA margin previously was higher than in other regions. **Adjusted OIBDA margin on the basis of 2012 reached 42.6%, exceeding the projected figures.**

**Adjusted net profit of MTS 2012 reached U.S. \$2 billion, which is 38% higher than in 2011.** With account to write-offs associated with suspension of operations in Uzbekistan, net profit indicated in financial statements is 30% lower than the in the previous year and amounts to around U.S. \$1 billion.

MTS business continues to generate high volumes of cash. Despite the low ruble exchange rate, **operating cash flows increased in 2012 by 10% to more than U.S. \$ 4.2 billion. Free cash flow reached about U.S. \$ 1.3 billion, an increase of 25% as compared to 2011.** Debt is at controllable level. In 2013–2014, there are no material payments expected on major financial instruments.



President of MTS OJSC  
A.A. Dubovskov

**Annual capital expenditure of the Group** in connection with the active deployment of 3G networks and the start of construction of LTE network slightly exceeded the projected level and **amounted to U.S. \$2.9 billion (around 23% of the revenue)**. In 2012, we continued to expand 3G-network, reaching 28,500 base stations; with

that, more than 90% of facilities are connected via IP channels. We invested in the deployment of backbone, zonal and urban fiber-optic networks in the regions, as well as in implementation of our GPON project in Moscow, bringing the total length of the fiber optic network of MTS Group in Russia to 142,000 km.

**In Russia in 2012, total revenue of MTS increased in ruble terms by 8% to 338 billion rubles**, supported by growth in service consumption in all segments, including increased use of fixed and mobile data transmission services by subscribers.

**OIBDA in Russia in 2012 increased by 11% and amounted to 148 billion rubles.** Improvement in OIBDA resulted, in particular, from the cost control efforts made by the Company, and effective policy of interaction with dealers.

**MTS revenues from mobile business in Russia in 2012 increased by 9% in ruble terms and amounted 283.6 billion rubles.** Revenue growth in the Russian market is connected, among other factors, with the increased use of services through tariff proposals, stimulating communication within MTS network. Promotion of these tariffs helped to improve customer loyalty, reduce churn and improve interconnection settlements balance. The increase in income was also positively influenced by active acquisition and retention of high-yield subscribers, increase in demand for data services and other value-added services, including due to increase in smartphone sales in own retail network.

We reduced the annual churn rate from 47.6% in 2011 to 42.4% in 2012, and managed to achieve the absolute leadership on this indicator in Russia.

At the same time we increased average revenue per user (ARPU) by 9% in 2012.

**Revenue from the provision of value-added services grew by more than a quarter over the year.** Throughout 2012 we have constantly increased the volume of retail sales of smartphones and tablets that contribute to rapid development of the data transmission segment.

In 2012, we expanded our retail network by more than 300 outlets, providing services both in densely populated areas with developed infrastructure, and in areas where the access to services was limited. To promote sales in our outlets, we were actively using credit products launched together with MTS-Bank and other financial institutions.

**MTS revenue from the provision of fixed-line services in Russia in 2012 grew by 6% to 61.8 billion rubles** due to the expansion of network infrastructure and development of new marketing offers, including Internet access offers for corporate clients. Based on the results of the year, MGTS has connected 200,000 households in Moscow to GPON digital network; technical ability to connect to GPON is provided in more than one million households. Access to the Internet at speeds up to 200 Mbit/s has been provided to more than 80,000 active subscribers already by the end of 2012. In 2013, we intend to significantly expand GPON network and increase the number of broadband subscribers, as well as launch a platform to deliver converged services, including home security and maintenance products and services.

In July 2012, we completed digitization of our own television networks, replacing analog broadcasting stations with digital equipment. We are ready to offer our customers access to diverse content of around 140 channels, including HD channels, as well as interactive services such as video-on-demand. Over the next 15 months we plan

to switch 3,000,000 households across Russia to digital platform.

**MTS revenues from operations in Ukraine were up by 6% in 2012, amounting to 9.7 billion hryvnia.** We have achieved significant growth in revenues from data transmission due to growing demand for these services, even despite the lack of possibility to build UMTS (3G) or LTE networks in Ukraine. **OIBDA for MTS-Ukraine in 2012 amounted to 4.9 billion hryvnia. OIBDA margin reached 50.8%, which is an increase of 2.8% over the previous year.**

**MTS revenues in Armenia over the past year rose by 4% to 77.6 billion drams.** In 2012, promotion of on-net tariffs resulted in increase in MOU (average monthly traffic per subscriber) by 10%. Focusing on attracting more high-yield customers, we managed to increase ARPU by 5% and significantly reduce customer churn as compared to the previous year — to 34.7% from 39.1%. **MTS OIBDA in Armenia has increased in 2012 to 44.4 billion drams.**

In August 2012, we resumed operations in Turkmenistan, providing the opportunity to restore SIM-cards for our former clients. A month later, we started to connect new subscribers. **At the end of 2012 we were serving 1,440,000 subscribers in Turkmenistan. Our revenues in Turkmenistan in less than six months amounted to U.S. \$ 10.6 million** with minimal capital expenditures on resumption of network operation.

In 2013, we plan to increase revenue of the Group's by 5–7% in local currencies.

The key growth drivers will be:

- Increased use of voice services through tariff plans designed to promote on-net communication and increase customer loyalty;
- Increased sales of mobile phones, smartphones, tablets and other devices in the retail chain of MTS;
- Growth in data revenues through expansion of networks, including launch of LTE networks, in around 20 regions with high economic potential.

**We expect that macroeconomic factors, changes in revenue structure of the Group and improvement of competitive environment will allow us to maintain the level of OIBDA margin in 2013 within the range of 41–42%.**

We continue to believe that the current situation gives us the opportunity to dynamically grow our market, maintain high level of profitability, increase the amount of cash flow and ensure high ROI potential.

President of MTS OJSC  
A.A. Dubovskov





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04

## Company's position in mobile communications market

As of December 31, 2012, MTS OJSC held licenses for all 83 regions of the Russian Federation. Subsidiaries of MTS OJSC in the CIS operate in Ukraine (Pr JSC MTS UKRAINE), Republic of Armenia (K-Telecom CJSC), Republic of Turkmenistan (BE MTS-Turkmenistan) and Republic of Belarus (MTS Joint LLC).

The total population of the licensed area of MTS exceeds 200 million.

In Russia mobile services are provided by three federal operators — MTS OJSC, MegaFon OJSC and Vimpelcom OJSC as well as several dozens smaller regional telecom companies operating under different cellular communications standards: GSM, NMT 450 and CDMA-1x, UMTS (3G). According to AC&M, as of December 31, 2012, mobile penetration in Russia reached 161.3%, and the total number of subscribers reached 230.5

million. With that, MTS OJSC holds the leading position in Russia in terms of subscriber base, with 30.7% market share, MegaFon OJSC and Vimpelcom OJSC market shares amount to 27.1% and 25.1% respectively. MTS OJSC and its subsidiaries and affiliated companies in Russia collectively had 70.0 million customers as of December 31, 2012.

Russia's largest mobile communication markets (by the number of customers) are Moscow and Moscow Region and St. Petersburg and Leningrad Region. According to AC&M, mobile penetration in Moscow and the Moscow Region was 201.10 at December 31, 2012. The total number of customers of all operators in Moscow and Moscow Region is estimated at 37.4 million, with the share of MTS OJSC reaching 37.6%.

Mobile penetration in St. Petersburg and Leningrad Region, according to AC&M, was 205.6% as of December 31, 2012, with total number of customers of 13.6 million. MTS market share is recorded at 28.0%.

The most important regional market (apart from Moscow and St. Petersburg) is the Krasnodar Territory (including Republic of Adygeya),



where the number of mobile subscribers as of December 31, 2012 exceeded 9.8 million according to AC&M. In addition, there are 4 regions of the Russian Federation where the number of subscribers of telecom operators exceeded 5 million: Republic of Tatarstan, Republic of Bashkortostan, Samara Region, Chelyabinsk Region, while in Rostov Region and in Sverdlovsk Region the number of subscribers reached 6.1 and 7.2 million accordingly.

As of Q4 2012, the number of subscribers of subsidiaries and affiliates of MTS OJSC in the CIS countries is as follows: 20.7 million (including CDMA) in Ukraine (Pr JSC MTS UKRAINE); 1.4 million in Turkmenistan (Barash Communication Technologies, inc.), 2.4 million in the Republic of Armenia (K-Telecom CJSC), 5.2 million in the Republic of Belarus (MTS JLLC, not consolidated into financial statements of the MTS Group).



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## Company outlook

For MTS OJSC, the year 2012 was marked by leadership in all areas of telecommunications sector in the markets of Company's presence. Longstanding leadership is the result of a consistent development of the Company in a highly competitive environment and continuous improvement of products and services offered by MTS OJSC to its subscribers. Strengthening positions on existing markets and the development of new active – that's the most important elements of the success of "MTS".

In 2012, the consolidated revenue of MTS Group has grown by 1% YoY. Free cash flow of the Company in 2012 was U.S. \$ 1.284 billion, which is 25% higher than in 2011. Operating cash flow increased by 10% over the same period to U.S. \$ 4.237 billion, adjusted OIBDA margin of the Group for the full 2012 exceeded our projections and amounted to 42.6%. Russia remains the core market of the Company. On the mobile market, which is traditional for MTS, an increase in revenue was observed due to growth in MOU and ARPU. MOU in 2012 grew by 13% as compared to 2011 and was 304 minutes. ARPU increased as compared to Q4 2011 by 8% to 306 rubles, ARPU for the full 2012 was 297 rubles, which is an increase of 9%; with that, churn level for the full 2012 decreased by 5.2 percentage points to 42.4%.

It should be noted that revenue growth for the full 2012 in dollar terms was affected by depreciation of Russian ruble against U.S. dollar by 6%, and by suspension of activities in Uzbekistan in July 2012. Conversely, Company's network in Turkmenistan, was successfully relaunched in August 2012, 100% of base stations of MTS OJSC in this market were again put into operation.

In Ukraine, revenue in local currency in the fourth quarter of 2012 increased compared to the same period of the last year by 4% to 2.397 billion hryvnia, OIBDA grew by 5% to 1.2 billion hryvnia. OIBDA margin increased by 0.5 percentage points to 50.1% over the same period. At the end of 2012, OIBDA margins increased by 2.8 percentage points as compared to the same figure at the end of 2011, and amounted to 50.8%.

MOU in Ukraine was 597 minutes; that confirms the potential for growth of use of mobile services in Russia as well, where this potential is realized through "Super MTS" tariff, which offers extremely attractive terms for on-net calls and improves customer loyalty.

In the Ukrainian market, the Company is actively working with mobile data segment. promoting tariff "Super Internet" that focuses on active web users. For regional customers, tariff plan "Internet for 1 kopeck" has been designed.

Activities of MTS OJSC in the Uzbek market have been suspended since July 2012 due to withdrawal of licenses, while the Company's network in Turkmenistan was successfully relaunched in August 2012, and 100% of base stations of MTS OJSC in this market were again put into operation.

The major driver of revenue growth of the Company in key markets is active promotion of consumption in main markets, and the key objective in the context of saturated mobile market is the retention of subscribers.

2012 was the year of rapid growth of mobile devices with Internet access, in particular, smartphones; subscribers are becoming more mobile and need easy access to the Internet at any point of presence. Spread of mobile devices with permanent web access contributes to the increase of data market revenues, and in Russia in 2012 these revenues were up by 34%. Absolute priority of the Company is the active development of mobile Internet and related products and services. For this purpose, MTS OJSC continues to build 3G and 4G infrastructure, which will ensure not only the best customer experience for subscribers of the Company, but support continued high growth of data services.

Another priority area of development of MTS OJSC is fixed-line business, where revenues increased in Russia by almost 6% in 2012. Integration with fixed business is on the way, convergent offers are developed actively; in particular, in the 1st quarter of 2013 the Company starts to issue a single bill for mobile users and fixed-line users. Convergence is an essential element in reducing churn and fighting for customer loyalty.

As to mergers and acquisitions, MTS OJSC is active in the market of regional fixed broadband and cable TV operators. In particular, during 2012, the Company acquired 100% of Pilot LLC, TVKiK LLC and Zheleznogorsk City Telephone Communications CSJC ("ZhelGorTeleCom"), providing cable TV services and fixed broadband Internet access in Kursk region. Considerable experience and financial resources allow MTS OJSC to continuously monitor the market and watch the possible acquisition targets, including those outside the traditional markets of its presence. Thus, further expansion of the scope of Company's business through subsequent acquisition of operators is quite possible.

### The highest BS

Russian Federation, Republic of Kabardino-Balkaria, Elbrus district, Elbrus, cable way station Mir, 3447 meters above sea level.



The retail chain of MTS OJSC, being constantly growing and rapidly developing part of the Company's business, is worth mentioning separately. At the end of Q4 2012, MTS retail chain consists of 4,462 outlets, including 1,573 franchised. In the future, the number of franchised outlets should grow to 2,600. In 2013, MTS OJSC will focus on optimization of business processes of retail chain and improvement of efficiency of outlets. Through its chain of retail outlets, the Company not only sells phones and contracts, but also telecommunication gadgets (smartphones, modems, tablets), as well as own financial services. In Q4 2012 the share of smartphones in total sales increased to 29%, and sales of equipment and accessories demonstrated 34% growth compared to the same period of the last year, due to network expansion, growth in sales of smartphone in high-price segment, tablet computers and development of online sales.

A solid foundation of the Company's business is the well-developed infrastructure. In 2012, MTS has built 28,500 base stations of the third generation, modernization of 3G base stations to support LTE standard has been completed in the Moscow region; the project on reconstruction of fixed networks in Moscow based on GPON technology is in progress, providing subscribers with access to the Internet at speeds of 100 Mbps or more. Currently connection ability has been provided for one million of households, 200,000 subscribers are already connected to GPON, modernization of fixed networks in the regions continues. MTS OJSC will certainly continue to invest in the construction of network infrastructure, including 3G and LTE, as well as in transport infrastructure. So, as of December 31, 2012, 1,485 base stations LTE are up and running as a part of the mobile network of MTS OJSC.

In addition to traditional activities in the field of mobile and fixed communications, the Company develops such businesses as financial services, telematic services (machine-to-machine), and development of cloud computing. MTS OJSC plans to enter the SaaS (Software as a Service) market, and is already implementing pilot projects for this purpose. In the financial area, MTS OJSC issues bank card "MTS-Money" and provides loans through its retail chain and MTS-Bank; in respect of which an indicative offer to acquire up to 25.095% of the share capital was signed by MTS OJSC with "MTS Bank" and JSFC Sistema\*. More than 1.3 million users have become owners of bank cards "MTS Money." In the future, the Company plans to launch such promising products as loans advanced to the mobile account, virtual cards, SIM-card with NFC technology (SIM-card incorporating emulated bank card), combining mobile and a bank accounts etc. Telematics solutions in the field of healthcare, transportation, security and utilities are also the areas actively considered by the Company.

We set ambitious targets and confidently achieve our goals, we love what we do, and so we are always go one step ahead.

\* On April 3, 2013 MTS OJSC announced closing the transaction on acquisition of 25,095% interest in MTS Bank OJSC. The transaction was concluded through acquisition of additional issue of MTS Bank OJSC ordinary registered shares.



## 06

# Company Development Strategy

Development trends and directions of MTS OJSC are set by the «3i» Strategy – "Integration, Internet, Innovation". The main focus of the strategy, in addition to the development of 3G infrastructure and most rapid deployment of LTE network in the context of rapidly growing demand from customers for high-speed Internet access, includes ongoing strategic consolidation of the business, active development of own financial services, etc.

For example, on the Moscow market LTE TDD network has been already deployed, further improvement of Moscow LTE network based on GPON is in progress, financial products are promoted in the chain of retail outlets the Company, including "MTS Money" card etc.

Significant investments are needed to achieve these goals, including investments in infrastructure, through which competitive strength of the Company will increase considerably in the long term. Successful development of the Company in future starts today, with active development of adjacent business areas, such as financial services, telematics and M2M services, construction of infrastructure, both mobile, for third and fourth generation networks, and fixed, for example, based on GPON in Moscow etc. MTS OJSC is always acting proactively, creating new points of business growth and building strong, long-term relationships with its subscribers. To be a step ahead, not only today, but tomorrow – this is the key principle of the Company, defining the approach of MTS OJSC to business. Development of innovative products, data, continuous expansion of 3G network, sale of modern high-tech devices such as smart phones and modems, systematic development of fixed broadband and pay-TV, as well as wide range of modern financial services are areas of strategic interests of the Company. Being active in the business area, the Company is constantly working to improve operational efficiency and drive down costs.

## 3i: MTS Strategy

### Strategic direction

#### Integration

New channels and points of contact with customers

#### Internet

More effective channels for additional value

#### Innovations

Differentiation of products and services

### Tactics

- Continuous customer experience for all segments
- Rapid deployment of broadband access infrastructure (fixed network / 3G / LTE)
- Integrated sales channels

- Improved quality of connection
- Convincing experience of Internet users
- Best-in-class content applications and services

- Exclusive device
- Cutting-edge products and services for all customer segments
- Continuous user experience at home, at work and on the move.

### Key benefits

User lifetime value is increasing

Generating shareholder returns



In 2012, MTS OJSC systematically implemented the investment program; annual capital expenditures were U.S. \$2.9 billion or 23% of revenues. The Company continued to build third-generation networks, having built more than 28,000 3G base stations, over 80% of them provide HSPA+ Internet access at speeds up to 21 Mbit/s. The company has also invested in the development of fixed networks in the regions and in GPON project in Moscow, the total length of fiber-optic networks of MTS OJSC has exceeded 140,000 km.

3i Strategy uses individual approach to each geographical segment of presence, using a special approach called regionalization. Through regionalization, the distribution of resources between regions takes into account specifics of each market. MTS OJSC effectively applies

regionalization approach in its business, and regionalization is the Company's key to be able to successfully withstand the constant competitive pressure in all areas of presence. Given the range of features of a particular geographical area of business, MTS OJSC gets opportunity to fully realize the existing business potential and to be successful in the struggle for new customers, for increasing their loyalty and to permanently reduce churn rates.

Summing the results of 2012, it should be noted that the stable profitability of the Company enables MTS OJSC to perform its dividend obligations to its shareholders. Thus, dividends of shareholders of the Company in 2011 amounted to 30.4 billion rubles, which indicates the high potential of MTS OJSC and the Company's ability to generate stable positive cash flow.

MTS OJSC again and again confirms its status of telecommunications leader: the subscriber base of the Company is 101.02 million, revenues grew by 1% compared with 2011 and amounted to U.S. \$12,435.7 million. OIBDA growth was 3%, reaching U.S. \$ 5,300.1 million year-on-year. In addition to the success reflected in the figures in the Company's statements, MTS OJSC is a recognized leader of numerous international and Russian rankings. For the fifth consecutive year, MTS OJSC is the only Russian telecommunications brand included in the BRANDZ™ Top 100 most valuable brands ranking, published by Financial Times and the leading global research agency Millward Brown.

MTS OJSC is the only Russian company included in the international ranking "Most successful companies" by Hay Group, and is the best employer among Russian companies according to HeadHunter, PwC and Vedomosti (2nd place).

The Company now is a seven-time winner of the annual ranking "Trusted Brand" in the category "Mobile Operator", winner of the international procurement competition "Procurement Leaders Awards", four-time winner of the All-Russian "Procurement transparency Rating" of the "National Association of Electronic Commerce", the Ministry of Economic Development, the Federal Antimonopoly Service and the Chamber of Accounts of the Russian Federation, three-time winner of Grand Prix Award of the Association of Managers of Russia "PEOPLE INVESTOR-2012". In addition, MTS OJSC

is the leader of "TOP-1000 Russian Managers" rating of the Association of Managers of Russia and Kommersant Publishing House in the category "Communications Industry", winner of the National Award for his contribution to the development of the Russian segment of the Internet ("Runet Awards 2012") in the category "Safe Runet" and winner of the award in the field of multi-channel and digital TV "Big Digit".

General economic trends point to gradual recovery, in particular, the situation with oil prices suggests a stable prospects for further recovery of the Russian economy in 2013. The Company favorably estimates the growth potential of voice traffic and MOU, which can amount to several tens of percent over the next 5 years. Internet traffic is expected to continue to grow on mobile and fixed networks, with mobile access to the Internet remaining one of the key growth drivers.

MTS OJSC in 2013 expects increase revenues of the Company by 5–7% in local currencies. OIBDA margin is expected to be at 41–42% CAPEX forecast is 20% of the revenues. It total, in the period from 2013 to 2015. cumulative CAPEX is projected at 18–19% of the revenues of the Company. Certainly, in 2013 MTS OJSC will continue gaining and maintaining leadership in the areas of strategic importance, such as Internet access and full range of data services on the third and fourth generation networks, active construction of infrastructure and development of financial services will continue. Subscribers of MTS OJSC will have at their disposal the best of modern telecommunications, and even more — as the Company is continuously looking for new points of growth. All of this will ensure the stable development of MTS OJSC and will make the Company attractive for customers and for shareholders.

**MTS**

a step ahead



Business review

**07**

Report of the board of directors

**07**

# Report of the board of directors

## on development of the company in 2012

The year 2012 is worth to be considered as efficient for MTS OJSC; this is the year of steady leadership, year of tough competition and deserved victories of the Company. "3i Strategy" – "Integration, Internet", Innovation", continues to play the role of the main development tool of the Company, defining and contributing to achievement of its key objectives.

In line with 3i Strategy, MTS OJSC is accelerating the development of 3G networks, and carries out fastest possible rollout of LTE network, complying with the most advanced mobile communication and data transmission standard. LTE TDD network for modem users is being developed in Moscow, in some regions MVNO is launched based on LTE network of Yota. Close attention is paid to the development of fixed networks; in particular, in

Moscow, which is the most important market for the Company, network is built based on GPON technology, providing high-speed Internet connection of 100 Mbps or more.

Dividend liabilities of the Company to shareholders are being fulfilled, MTS OJSC continues to demonstrate high profitability, dividends for the year 2011 amounted to 30.4 billion rubles. Effective and well-coordinated work of all business components of OJSC MTS, as well as ongoing efforts to reduce costs and increase profitability allow to maintain this trend in future. Throughout 2012, strengthening of leadership positions of MTS OJSC continued: the Company's revenues increased by 1% compared to 2011 and amounted to 12,435.7 million. The subscriber base reached 101.02 million, OIBDA grew 3% year-on-year to 5,300.1 million U.S. dollars. Good performance results are supported not only by active work of the Company in telecommunications business, but also efforts to improve the overall efficiency of MTS OJSC.

Construction of infrastructure of the Company continues, the share of capital expenditures in the revenue reached 23,3%, or U.S. \$ 2,902.8

billion. As a result, by the end of 2012, 3G Network of MTS OJSC consisted of about 28,500 base stations and covered more than 14,000 localities across Russia. The total length of own fiber-optic lines of the Company amounted to about 142,000 km.

In 2012, the Company performed commercial launch of LTE network in Moscow region; the relevant equipment is available to subscribers – a portable LTE-modem with WiFi module, and USB-modems. The company aims to remain at the forefront of the development of 4G networks in the areas of presence.

In Moscow and the Moscow region, the most important markets for the Company's business, the deployment of high-speed network based on GPON technology is carried out on the basis of MGTS network. 1 million households have been reached, nearly 200,000 clients are connected, receiving the most advanced communications services and Internet access at speeds of 100 Mbps or more. Modernization of fixed networks in the regions of the Russian Federation continues.

Own retail chain of the Company is being developed as well. By the end of 2012, the chain consisted of 4,462 outlets, including 1,573 franchised.

Penetration of smartphones as a percentage of the total number of devices registered on the network in 2012 was 22.9%, which confirms the global trend, and their share in the sales of retail chain of the Company increased to 29%. In 2013,

the share of smartphones in the base of MTS OJSC is projected at 32%. Acquisitions of regional fixed-line and pay-TV operators continued in 2012 as well. In general, MTS OJSC continues to work actively towards business consolidation, maintaining high rates of increasing the number of broadband-enabled households and growth in the number of active users of fixed broadband and pay-TV. And, of course, the Company is proud of the fact that it remains for the fifth consecutive year the only telecommunications Russian brand included in the BRANDZ™ Top 100 most valuable brands ranking, published by Financial Times and the leading global research agency Millward Brown, published by Financial Times and the leading global research agency Millward Brown.

To summarize, it remains to say that in 2013 MTS OJSC will continue providing the most advanced telecommunication services both on mobile and fixed networks, ensuring the best customer experience for its customers and maximizing the added value for the shareholders. The Company has all that it takes to achieve this: the best strategy, the best staff and the most advanced technology. MTS OJSC still stays one step ahead.

**Chairman  
of MTS OJSC Board of Directors  
Ron Sommer**

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# Highlights

17 January

Commercial launch of the Russia's first 3G network in 900 MHz band in Moscow and Moscow region.

01 February

Obtaining license for the provision of mobile radio communications services in LTE TDD (time-division duplexing) standard in 2595–2620 MHz band in Moscow and Moscow region.

28 February

Signing with HTC Corporation, a global manufacturer of mobile devices, the first in Eastern Europe direct agreement on cooperation in the field of procurement, marketing, and promotion of HTC products in the countries of presence of MTS Group

29 May

Acquisition of 100% of the share capital of Tascom OJSC, one of the market leaders in the provision of telecommunications services to government agencies and corporate clients. The deal amounted to U.S. \$ 38.3 million.

13 July

Obtaining frequencies and federal license to provide LTE telecommunications services using FDD technology (using different frequency bands for transmitting and sending channels) in Russia.

17 July

Suspension and subsequent revocation of telecommunication license of Uzdurobita LLC, 100% subsidiary of MTS in Uzbekistan.

26 July

Resumption of activities in Turkmenistan.

01 September

Launch of LTE TDD network in Moscow region.

01 October

Start of SIM-cards sales for all subscribers in Turkmenistan and launch of new tariffs.

25 October

Signing indicative offer with MTS Bank and JSFC Sistema to acquire up to 25,095% of the share capital of MTS-Bank OJSC.

30 October

Completion of the project of integrated reconstruction of mobile networks in Moscow region. Investments in modernization of equipment exceeded U.S. \$50 million.

09 November

Tashkent city court determined the amount of financial claims to Uzdurobita in the amount of U.S. \$ 600 million

18 December

Entering fixed broadband Internet and pay-TV market in over 20 new Russian cities: MTS built new urban networks in Amur Region, Astrakhan Region, Voronezh Region, Nizhny Novgorod Region, Penza Region, Tver Region and Tula Region, Yamal–Nenets Autonomous District, Perm Region and other regions.

## 09

# Company's operating results 2012

The mobile communications market in Russia has been developing at a very high rate for a long time. The rapid development was determined by the continuous expansion of target segments and by involvement of wider sections of population as well as by the decrease of price levels, both for services and terminal equipment. A trend for a slower customer base growth in mobile networks appeared for the first time in 2005 and continued in the subsequent years. The slowdown of customer base growth rates can be attributed to gradual market saturation and operators' focus on the "quality" of the customer base. Therefore, marketing efforts of operators shift from acquisition of new customers to ensuring customer loyalty, enhancing the profitability of existing customers and acquisition of customers from competitor companies.

According to 2012 results, mobile penetration level reached 161.3% and this places Russia among the most developed global telecommunication markets. Being one of the leading players in the Russian and CIS telecommunications market, MTS strives to use the existing growth potential in all industry segments that demonstrate the most dynamic development.

In mobile telephony, which is the Company's traditional segment of business, the most important growth factors are increased general level of use of telecom services and more active use of higher-revenue VAS. As the main consumer promotion tools, MTS uses targeted tariff offers and a wide range of VAS. Some markets of the Company's presence still have a potential for organic growth through increase of the customer base, and in this respect MTS concentrates on gaining leadership in acquisition of new customers. In Russian market, which is quite saturated in terms of penetration, the company's focus is to retain the existing subscribers and to reduce churn through attractive tariff offers, improvement of customer experience. MTS OJSC intends to further strengthen its position, leveraging and developing factors that determine operator's competitiveness in the market. The factors supporting competitive strength of the Company include: network coverage and on-net roaming coverage, traditional high quality of communication services, competitive tariff offers that take into account customer needs and additional services, developed subscriber service network.

Merger of one of the leading fixed operators, COMSTAR-UTS OJSC, and backbone network provider Evrotel OJSC with MTS OJSC strengthened our market positions and enabled us to expand the range of services provided to the customers.

Qualitative growth in the use of mobile data services will be based on the development of 3G network, which operates in all federal districts of Russia, in Uzbekistan, Armenia, Belarus. Launch of 3G network in Turkmenistan is scheduled to 2013.

Moreover, MTS OJSC is actively extending its own chain of sales and customer care offices that allow selling unique products and services of the Company and provide high-quality customer support, positively affecting awareness of MTS brand.

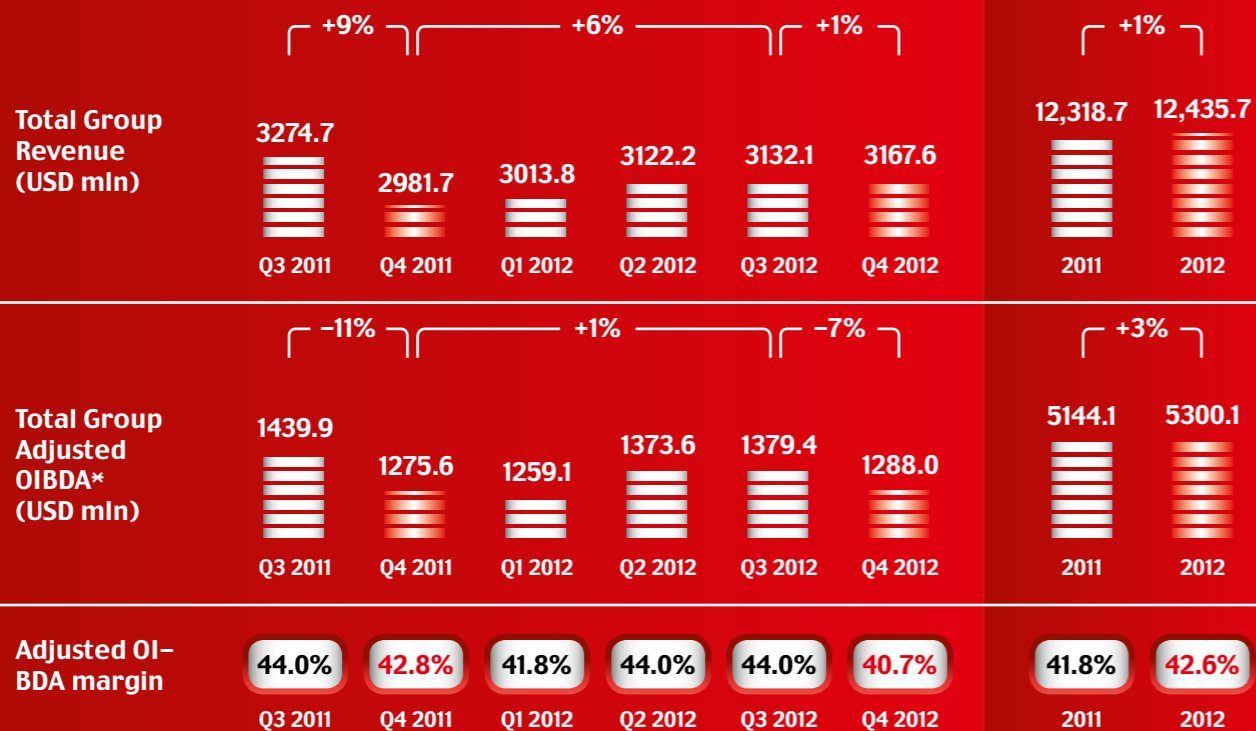
All these factors allow the Company to gradually increase its revenue, both through the growth of customer base and through more intensive use of services.

In addition to the above, the Company monitors opportunities of inorganic growth both in the markets of presence and beyond. MTS OJSC has an adequate experience in the integration of acquired companies that allows to incorporate them effectively into the business structure and to gain a positive economic effect in the quickest possible way.



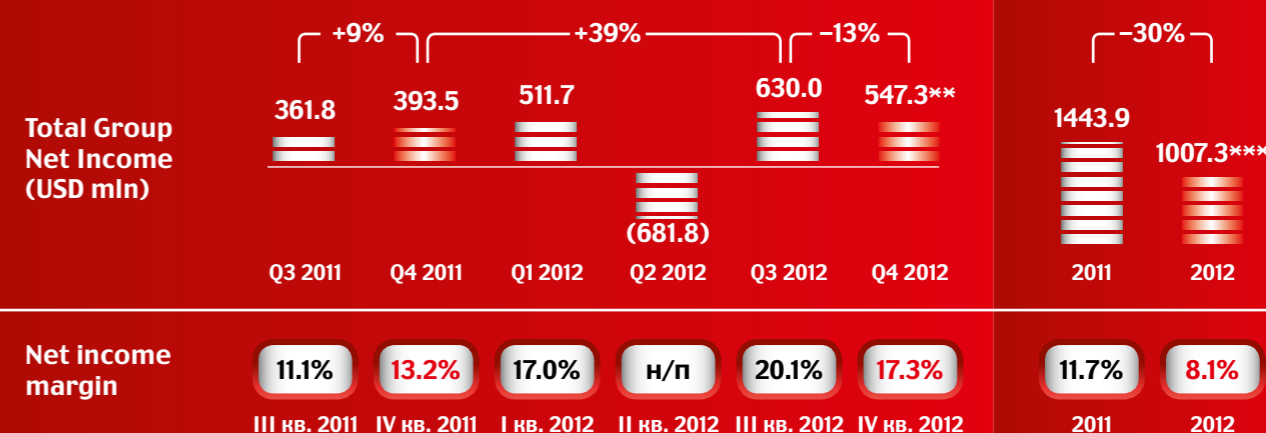
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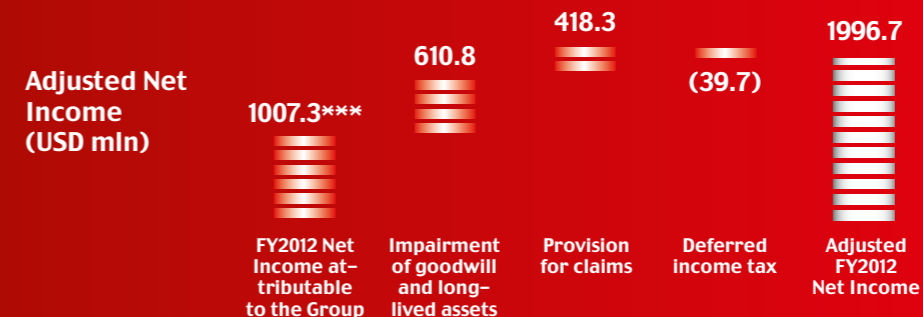
**Business review****09****Company's operating results 2012****Group financial highlights: Revenue and OIBDA**

- Positive FY 2012 revenue dynamics due to improvement in wireless and wireline subscriber base, growth in sales of handsets and data products
- Underlying revenue growth mitigated by a 6% decline in the ruble versus the US dollar and the suspension of operations in Uzbekistan in July 2012
- Higher year-over-year adjusted OIBDA margin in 2012 due to improved sales & marketing expenses, sustained general & administrative cost controls and increased consumption of higher-margin data services

\* Adjusted OIBDA represents operating income before depreciation and amortization, impairment of long-lived and other assets and provision for claims in Uzbekistan  
For further information, please see the Appendix for definitions and reconciliations

**Group financial highlights: Net Income**

- Year-over-year decrease in net income impacted by the suspension of operations in Uzbekistan in July 2012



- Strong growth in adjusted net income attributable to growth in service revenues, OIBDA cost optimization, improvements in debt portfolio and stable costs below OIBDA

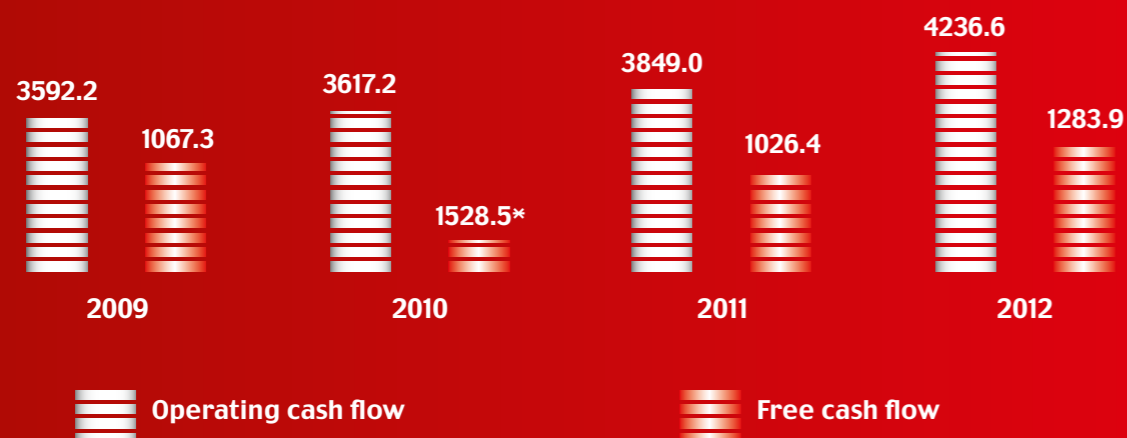
\* Includes a non-cash impairment for goodwill and long-lived assets of \$579 mln and provision for claims in Uzbekistan of \$500 mln resulting from the suspension of operations in July 2012

\*\* Includes a non-cash impairment for goodwill and long-lived assets of \$31.9 mln and a gain from the reversal of provision for claims in Uzbekistan of \$81.7 mln resulting from the suspension of operations in July 2012

\*\*\* Includes a non-cash impairment for goodwill and long-lived assets of \$610.8 mln and provision for claims in Uzbekistan of \$418.3 mln resulting from the suspension of operations in July 2012

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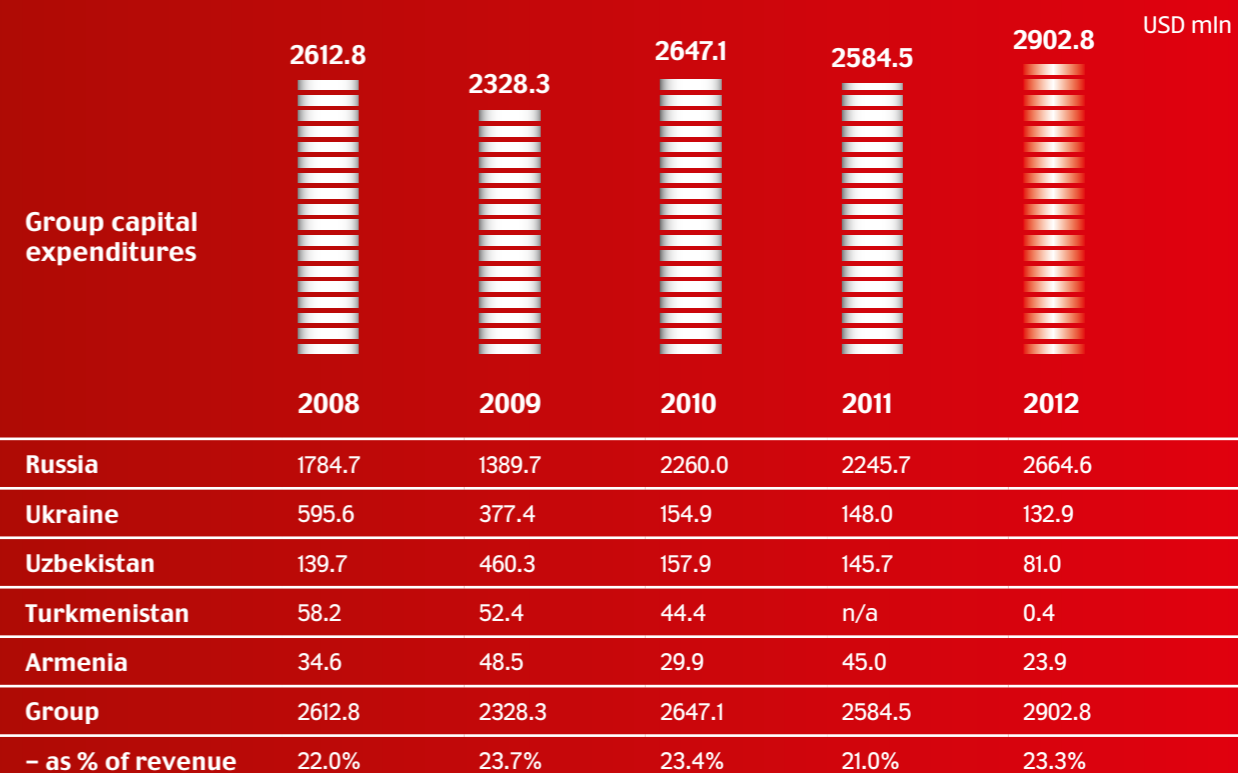
**Business review****09****Company's operating results 2012****Operating and Free Cash Flow (USD mln)**

Core business continues to generate high cash flow

- Operating cash flow increased 10% in 2012
- Free cash flow\*\* grew 25% year-over-year to \$1.3 bln despite higher CAPEX spending and on-going M&A activity

\* Includes the sale of Svyazinvest stake for 26 bln rubles

\*\* See reconciliations of net debt and free cash flow to consolidated financial statements in the appendix; certain figures, like Free Cash Flow, are subject to currency volatility between the US dollar and currencies of those markets where MTS operates.

**Group capital expenditures (USD mln)**

- MTS continues investments to improve its wireless and fixed-line networks throughout Russia
- Continuation of 3G network build-out in Russia with a total of over 28 500 3G base stations
- Upgrade of 3G base stations to support LTE standard in the Moscow region
- Continuation of roll-out of GPON project in Moscow with a total of 200 000 households connected and one million households passed
- Continued modernization of regional fixed-line networks

## Dynamics of the Group's Customer Base Growth

Subscriber base (M)	2011	2012	% change
Russia:			
– mobile communication	69.95	71.23	1.8%
– covered households (K)	11,433	11,723	2.5%
– fixed Internet (K)	2,152	2,313	7.5%
– Pay TV, (K)	2,987	2,938	–1.6%
Ukraine*	19.51	20.71	6.2%
Turkmenistan	–	1.44	,
Armenia	2.38	2.41	1.3%
Belarus**	4.93	5.23	6.1%
<b>Total (mobile communication)</b>	<b>96.77</b>	<b>101.02</b>	<b>4.4%</b>

- The number of customers of MTS Group exceeded 101 million at the end of 2012.
- In Russia MTS is focused on attracting quality subscribers and reducing churn through sales management via its own monobrand retail

chain and through changing dealer motivation policy

- The number of broadband pay-TV subscribers is given with account to reclassification of the subscriber base of acquired assets in accordance with methodology of MTS

\* Including CDMA network subscribers

\*\* MTS OJSC owns 49% of shares in MTS JLLC in Belarus and does not consolidate the Company's results with financial statements of the Group

## Russia

The Russian telecommunications market is characterized by rapid growth of customer base and revenues. According to AC&M data, at the end of 2012 the penetration (in SIM cards) was 161.3% or 230.5 million customers. The highest penetration levels were observed in Moscow and St. Petersburg where they exceeded 201.0% and 205.6%, respectively.

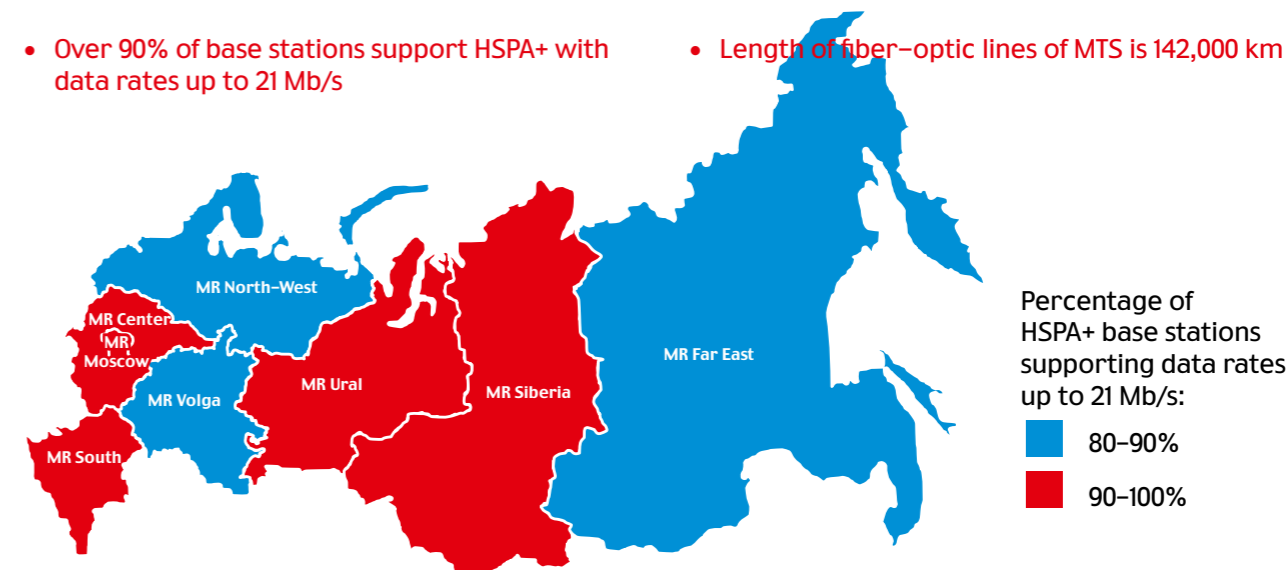
According to AC&M, the share of MTS subscribers in Moscow is 37.6%, in St. Petersburg — 28.0% and in Russia as a whole – 29.7%.

To retain its lead in the market the Company continuously strives to provide to its customers not only high-quality services, but also cost-efficient tariffs, and makes efforts to improve communication quality, extend network coverage and upgrade customer care level.

Furthermore, we shall highlight the prospects offered by own monobrand retail chain of the Company, actively developed in Russia in 2009–2010. Presence of own sales channel allows increasing the number of subscriptions, controlling their quality and reducing churn.

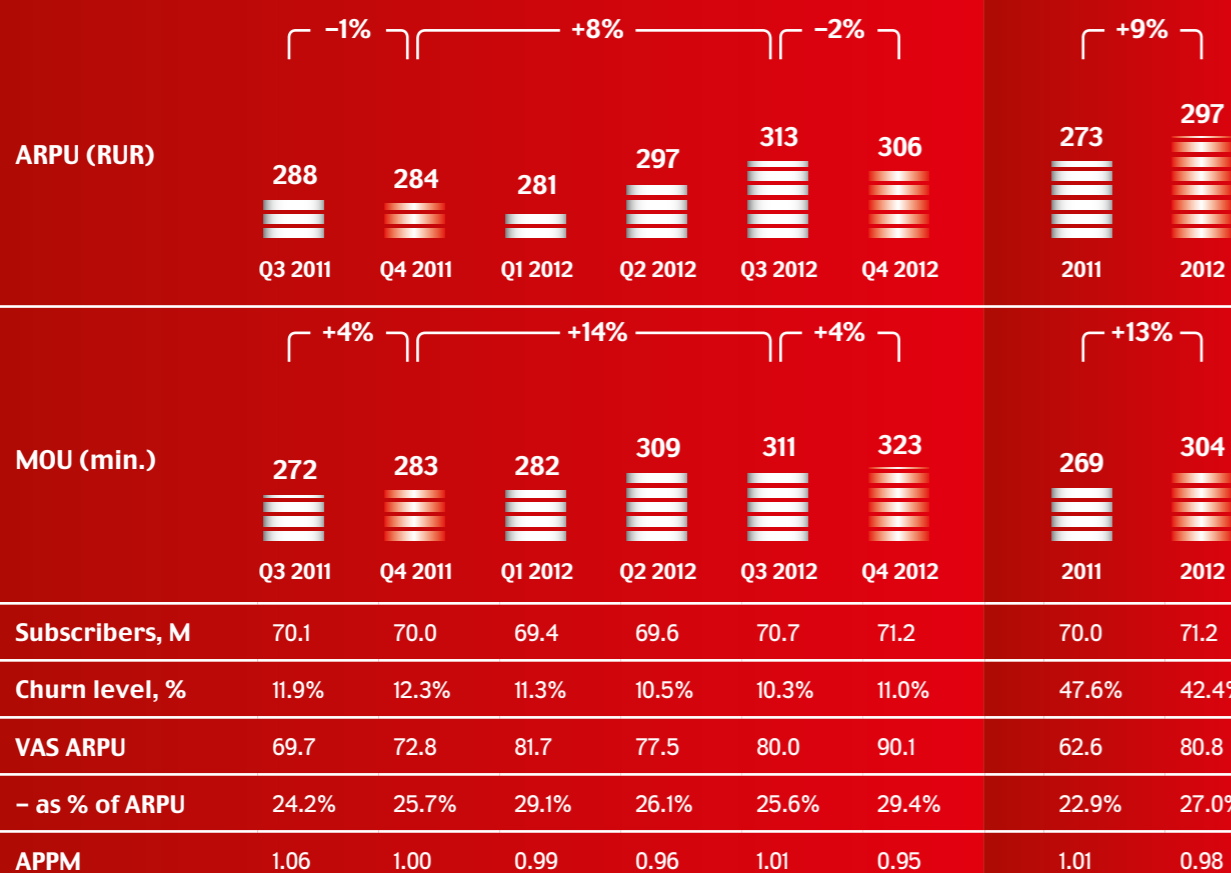
### Network development in Russia

- MTS network consists of 41,700 2G base stations
- The Company has built over 28,500 3G base stations in 14,000 localities of Russia
- Over 90% of base stations support HSPA+ with data rates up to 21 Mb/s
- In 40 Russian cities (with population over 10,000) data rates of around 42 Mb/s are available through the use of Dual Carrier technology
- Length of fiber-optic lines of MTS is 142,000 km

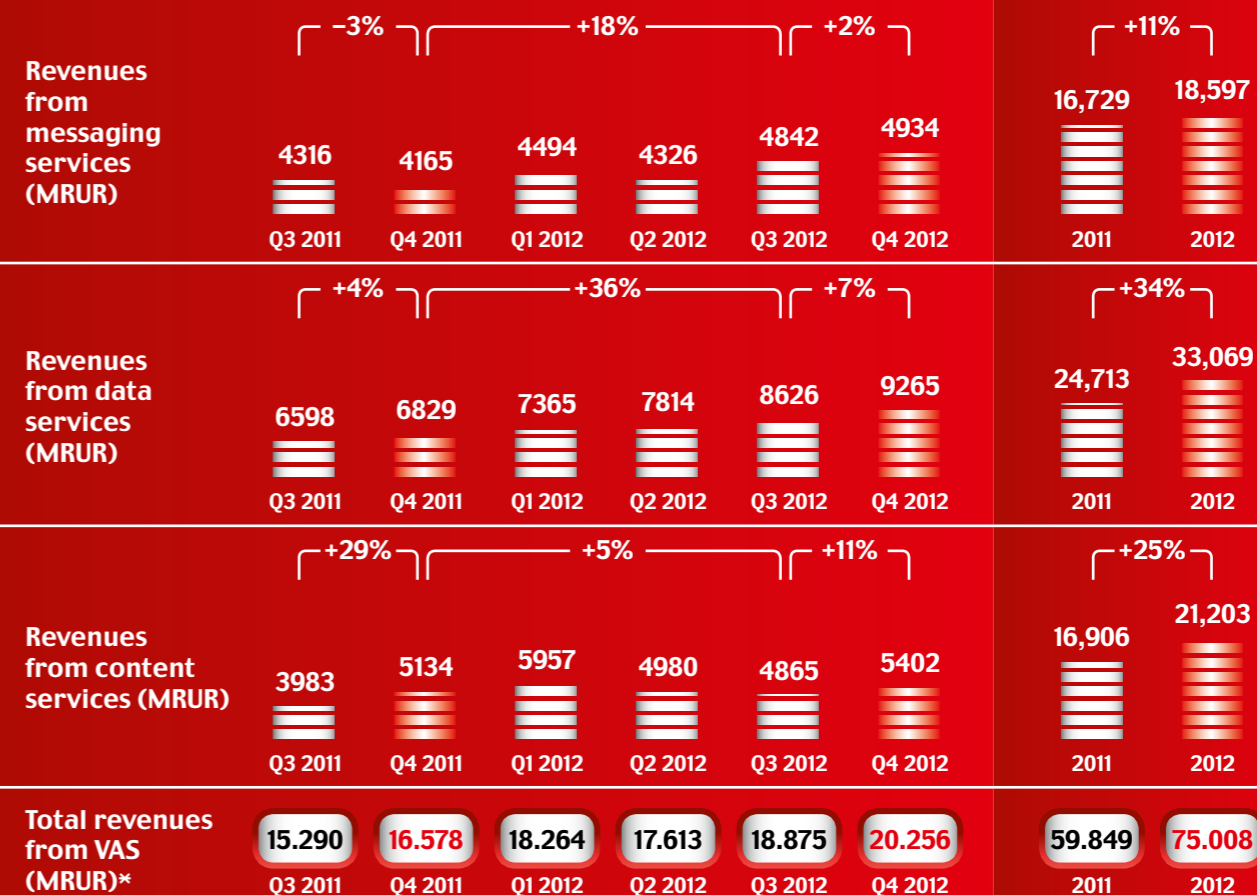


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**Business review****09****Company's operating results 2012****Russia: mobile business operating indicators**

- ARPU growth as a result of promotion of voice and data services
- MOU growth as a result of promotion of voice services, increase of loyalty, improvement of subscribers base quality
- Reduction of annual churn by changing dealer incentives policy in Q4 2011 and promotion of tariffs aimed at churn reduction
- Record low churn, leadership in MOU and ARPU growth

**Russia: mobile business operating indicators**

- **Key Initiatives**
  - Launching "MTS Tablet" tariff plan
  - Launching tariff plan with unlimited Internet access for smartphones – "BIT+Mobile TV"
  - Joint project of MTS and HTC to promote consumption of data services when buying HTC smartphone
- Consistent increase of revenues from content services through launching content projects from MTS
- Leadership in Russia in terms of growth of absolute income from data services in Q4 2012, year-on-year

\* Excluding SMS and data packages included in bundled tariff offers



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Company's operating results 2012

## Russia: fixed business operating indicators



- ARPU dynamics are determined by competitive environment in Russian broadband market

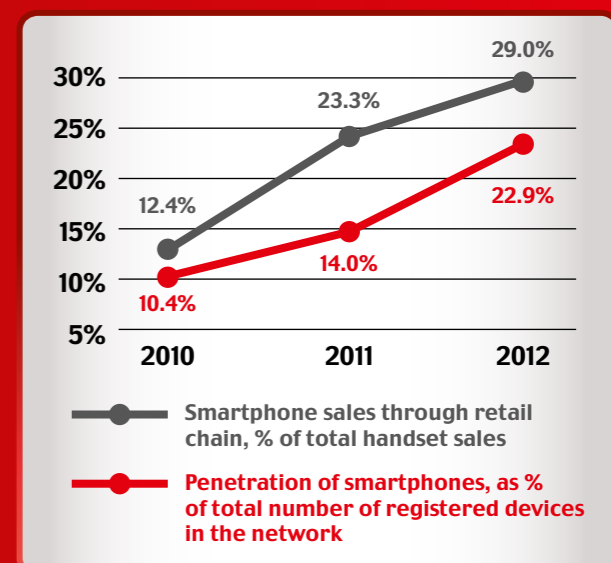
- ARPU growth of corporate users during the year is the result of network expansion and acquisition of high-yield subscribers through M&A

## Development of MTS retail chain

### Retail chain development, 2009–2012



### Sales and the penetration of smartphones\*, 2010–2012



- At the end of Q4 2012 – 4,462 outlets, including 1,573 franchised stores
- In 2013, MTS will focus on optimization of business processes in retail chain and improvement of efficiency of sales outlets
- In Q4 2012, the share of smartphones in total sales increased to 29%

- In Q4 2012, sales of equipment and accessories showed 34% growth YoY, due to network expansion, growth of smartphone sales in high-price segment, tablet computers and development of online sales
- In Q4 2012, equipment sales are traditionally high due to seasonal factors

\* MTS defines a smartphone as a device with OS IOS, Android, Windows, Blackberry OS, Symbian, Linux or Bada.

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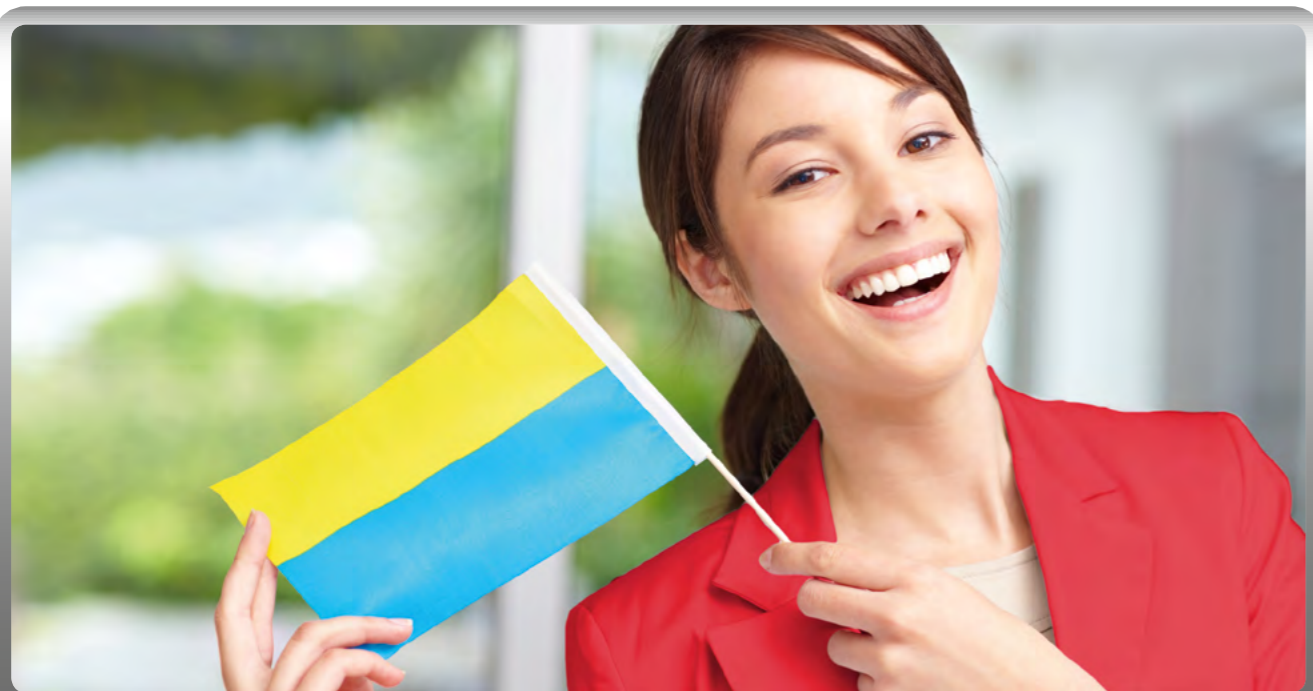
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Company's operating results 2012

**Ukraine**

Reduction of customer growth rates in the Ukrainian telecommunications market is related to the gradual saturation of the market and the operators' focus on the customer base quality. According to ACM Consulting, at the end of 2012 service penetration in the country was 126.1% or 57.4 million customers, and MTS OJSC had 20.7 million customers (including CDMA) or 35.6% of the market in the Ukraine as of the year end. The number of customers of Kievstar, MTS main competitor, at the end of the year was 24.8 million.

MTS OJSC provides and actively improves MTS Connect 3G services based on CDMA 2000 1x EVDO

Rev.A, offering high-speed mobile Internet access to its subscribers. In April 2010, MTS launched MTS Connect service for PrP subscribers. In addition, to improve its market positions, the Company continues implementation of the program aimed at regional customization of tariff plans that will be tailored as close as possible to customer profiles in certain territories.

The Company provides GSM 900/1800 and CDMA 450 services throughout the whole country. The number of CDMA subscribers as of the year end makes around 285 K.

**Ukraine: operating indicators**

ARPU (UAH)	<div> <div>-7%</div> <div>-3%</div> <div>-14%</div> </div>						<div> <div>stable</div> </div>	
	42	39	37	40	44	38	39	39
	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2011	2012
MOU (min)	<div> <div>+1%</div> <div>+2%</div> <div>-1%</div> </div>						<div> <div>+3%</div> </div>	
	586	592	601	611	610	602	580	597
	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2011	2012
Subscribers,* M	19.3	19.5	19.4	19.6	20.1	20.7	19.5	20.7
Churn level, %	8.1%	8.1%	8.5%	7.7%	9.0%	5.8%	30.7%	30.5%
VAS ARPU (UAH)	11.5	11.8	11.8	11.1	11.8	16.3	11.3	12.6
- as % of ARPU	27.1%	30.5%	31.9%	27.6%	26.9%	42.7%	29.2%	32.1%
SAC (UAH)	64.5	60.4	64.7	61.7	56.7	60.4	65.3	60.5
APPM	0.072	0.065	0.062	0.066	0.072	0.063	0.067	0.066

- Decline in ARPU in Q4 YoY due to the seasonal reduction in consumption of roaming services
- MOU remains at a consistently high level of Q3 2012

- Reduction of churn due to higher customer loyalty and focus on attracting high-yield subscribers
- Record low churn – result of customer loyalty

\* including CDMA subscribers

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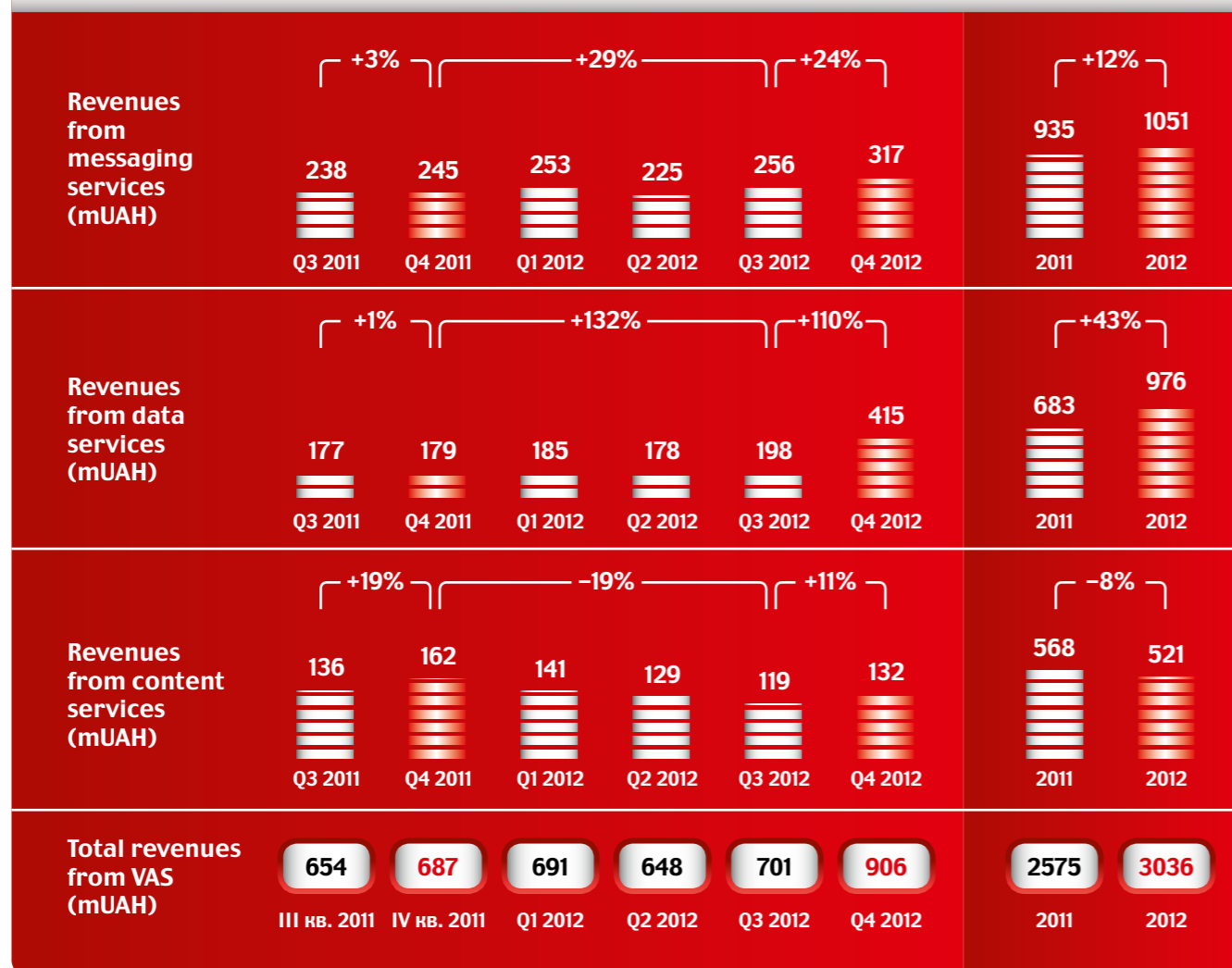
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Business review

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Company's operating results 2012

**Ukraine: operating indicators**• **Key initiatives in Q4 2012:**

- Launch of "Super Internet" data tariff
- Launch of new tariff plan for Blackberry users
- Launch of regional tariff plan "Internet for a kopeck"

- Increase of data and messaging revenues due to the reclassification of revenues from bundled offers

**Armenia**

In September 2007 the Company acquired the major Armenian operator offering mobile GSM 900/1800 services under the VivaCell trade mark. In Q3 2008 VivaCell brand was changed to VivaCell-MTS co-brand. Change in the visual image of the brand was the first step of comprehensive rebranding process of K-Telecom, which covered all aspects of customer relations: innovative tariffs and services as well as new user-friendly customer care formats complying with global standards, applicable within MTS Group became available to VivaCell-MTS customers.

According to the Company's estimates, service penetration in the country as of December 31,

2012 reached 118.4%, which amounts to approximately 3.8 million customers. The number of MTS OJSC customers in Armenia as of the year end was 2.4 million (63.5% of the market).

VivaCell-MTS in Armenia offers GSM 900/1800 and UMTS services, and launched LTE network in December 2010.

Despite tough competition in the Armenian telecommunications market and presence of Orange (international operator), K-Telecom (VivaCell-MTS) has retained its leadership.

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Company's operating results 2012

**Armenia: operating indicators**

- Annual ARPU growth reflects the company's efforts to attract high-yield subscribers
- High MOU through tariffs aimed at growth of consumption of voice services
- Growth of loyalty and attractive tariff offers allowed to reduce churn level nearly by half in Q4 2012 year-on-year
- Record low churn rate is a result of customer loyalty

**Turkmenistan**

On August 30, 2012 the Company resumed operations in Turkmenistan, and from October 1, 2012 started to connect new subscribers. We are pleased to note that MTS services are popular and are in high demand. As of December 31, 2012 more than 1.4 million subscribers were registered in MTS-Turkmenistan network. According

to expert estimates, the market share of MTS was 32%, with penetration 86%.

In 2013, MTS plans to roll-out 3G network in Turkmenistan, and during 2012 – 2015 to invest more than U.S. \$ 40 million in network development in the country.



## Information for Shareholders and Investors

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## Corporate governance

Owing to the existing highly effective corporate governance system of the Company, MTS is able not only to balance the interests of shareholders and management, but also to effect cooperation between them based on trust and a high culture of business relationships and ethical norms, which is clearly evidenced by impeccable business reputation of the Company in business circles.

The principal features of corporate governance for MTS OJSC are:

- comprehensive protection of the rights and interests of shareholders;
- transparency (disclosure) of relevant financial information and information on the Company's activities;
- ability to monitor the activities of the Company's Management Board;
- independence of the Board of Directors in defining the Company's strategy and approving business plans and important business decisions;
- centralization of decision-making on key issues relating to the Company's activities.

The Company aspires to meet international standards of corporate governance. We comply with the Code of Ethics and Code of Corporate Conduct, which set out a number of important principles aimed at both directors and executives of the Company (detailed information on compliance with the Code of Corporate Conduct

is set out in the Annex 1, placed on MTS website at [http://www.company.mts.ru/comp/ir/control/data/annual\\_reports/47/](http://www.company.mts.ru/comp/ir/control/data/annual_reports/47/)). MTS fully complies with statutory requirements regarding prescribed procedures for major and related-party transactions (detailed information on compliance with transaction approval procedures is set out in the Annex 2, placed on MTS website at [http://www.company.mts.ru/comp/ir/control/data/annual\\_reports/47/](http://www.company.mts.ru/comp/ir/control/data/annual_reports/47/)).

The Company has corporate bylaws governing the activities of management and control bodies. These regulations can be found at [http://www.mtsgsm.com/information/corporate\\_governance/](http://www.mtsgsm.com/information/corporate_governance/).

MTS OJSC follows a common corporate policy towards its subsidiaries and affiliated companies, and other entities where the Company is a participant, founder or member. All related-party transactions were made on arm's length basis.

The Company constantly strives to improve corporate governance, leveraging experience

of other companies, monitoring recent legislative changes and best standards in this area, and adjusting corporate governance system accordingly. To improve corporate governance system, during the reporting year new revision of the Charter of MTS OJSC and Regulations on the Board of Directors of MTS OJSC were approved. The need to approve new revisions of these documents was caused by changes in the legislation on stock companies.

MTS OJSC discloses information in the form of: Annual Report, quarterly reports, lists of affiliates, statements of material facts and messages on other events to be disclosed in the securities market, in Russia and abroad, prospectus and annual financial statements and other information required to be disclosed by stock companies.

To ensure information transparency, the Company adopted the Regulations on Information Policy, placed on MTS OJSC website at: [http://www.mtsgsm.com/information/corporate\\_governance/statutes/policy\\_statement/](http://www.mtsgsm.com/information/corporate_governance/statutes/policy_statement/).

### Corporate governance structure

The supreme management body of the Company is the **General Shareholders Meeting**.

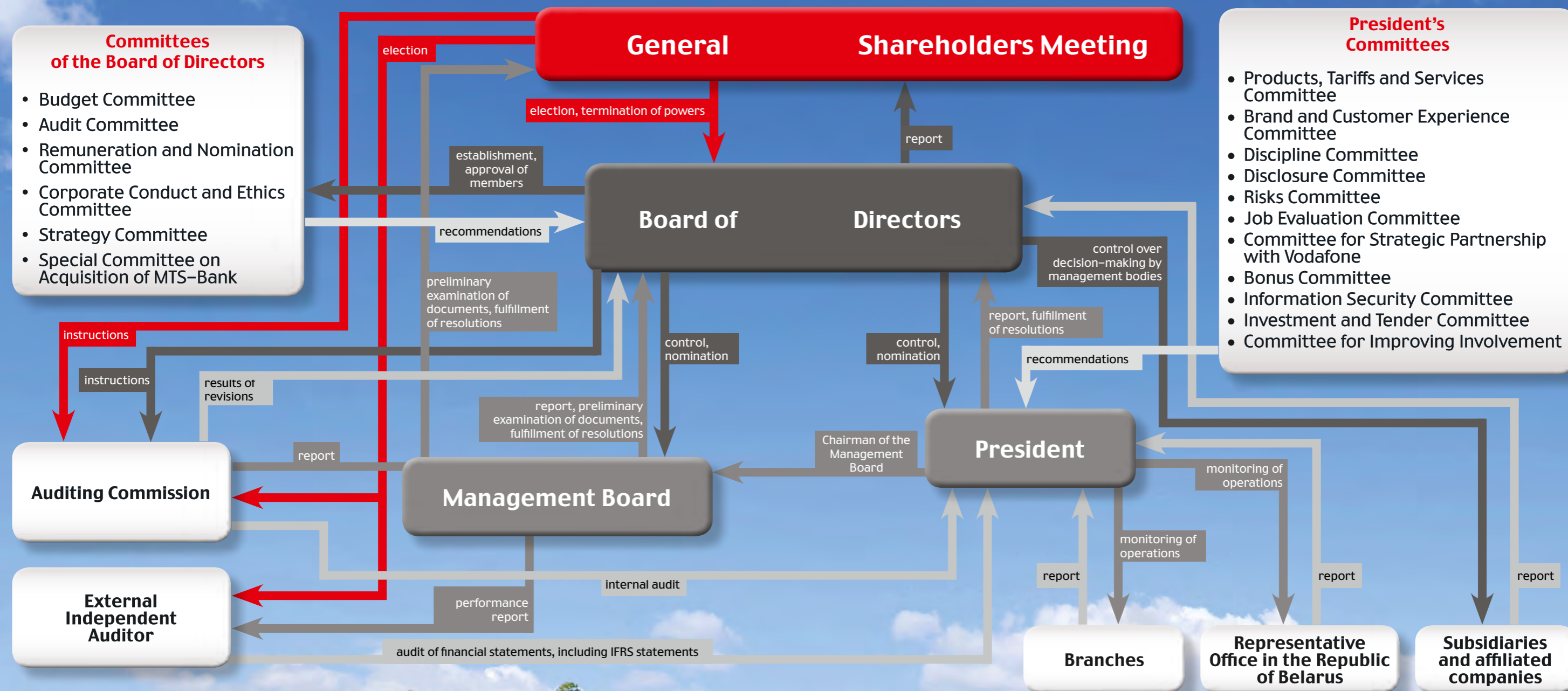
The **Board of Directors** carries out overall management of activities and defines development strategy of the Company.

Management bodies of the Company, namely **Management Board** (collegial executive body of

the Company) and the **President** (sole executive body), are responsible for management of daily operations of the Company.

In compliance with the requirements of the Russian law, the independent **Auditor** and the **Auditing Commission** exercise control over financing and economic activities of the Company.

## MTS OJSC Corporate Governance Structure in 2013





## General Shareholders meeting

The General Shareholders Meeting is the supreme management body of the Company and executes its activities in compliance with the provisions of the Company's Charter, internal regulations of the Company and requirements of the Russian Federation legislation.

The Company's shareholders participate in the management of the Company by making decisions at the general shareholders meeting. Shareholders can considerably influence the business through voting. In particular, the powers of the general shareholders meeting include approval of the annual report and accounting statements, profit distribution, including payment of dividends, election of the Company's key management and control bodies, approval of major and related-party transactions, some other important issues.

The procedure of holding a General Shareholders Meeting is aimed at observance of the shareholders' rights and meets all requirements of the Russian legislation.

Shareholders that own at least 2% of the Company's voting shares are entitled to offer proposals for the General Shareholders Meeting agenda and to nominate candidates for the management and control bodies of the Company. Proposals for the Annual General Shareholders Meeting agenda are accepted by the Company in writing

not later than 100 days after financial year end. Proposals received from shareholders are considered by the Board of Directors of the Company, and if proposals comply with legislative requirements, they are included into the agenda of the general shareholders meeting.

The notice on holding a General Shareholders Meeting is forwarded to all shareholders (nominal holders registered in the shareholders register) at least 30 days prior to the Meeting. In addition, text of the notice is also published in mass media ("Rossiyskaya Gazeta" or "Vedomosti"). Information and materials for the meeting are provided to shareholders in Russian and English languages and are also published on the official website of MTS OJSC in the Internet\*. Together with the notice on the forthcoming meeting, shareholders receive voting bulletins. The bulletin may be filled in by the shareholder in advance and sent by mail to the Company's address specified in it. In this case the shareholder's vote will be taken into account when summarizing voting results. Owners of depositary receipts of the Company are able to vote on issues of the shareholders meeting agenda through voting via proxy procedure at ADR depository of MTS OJSC – JP Morgan Chase Bank, National Association

Besides, each shareholder may also personally (or via an authorized representative) attend

\* Minutes of the shareholders meeting can be found at: [http://www.mtsgsm.com/information/corporate\\_governance/shareholders/](http://www.mtsgsm.com/information/corporate_governance/shareholders/).

Materials for the shareholders meetings can be found at: [http://www.mtsgsm.com/information/corporate\\_governance/shareholders/](http://www.mtsgsm.com/information/corporate_governance/shareholders/).

General Shareholders Meetings and vote on agenda issues directly at the meeting.

In 2012 the annual general shareholders meeting was held (June 27, 2012)

**The agenda of the Annual General Shareholders Meeting included the following items:**

- Approval of MTS OJSC Annual Report, MTS OJSC Annual Financial Statements, including MTS OJSC Profit & Loss Report, distribution of MTS OJSC profit and losses based on FY 2011 results (including payment of dividends).

- Approval of new revision of the Charter of MTS OHSC

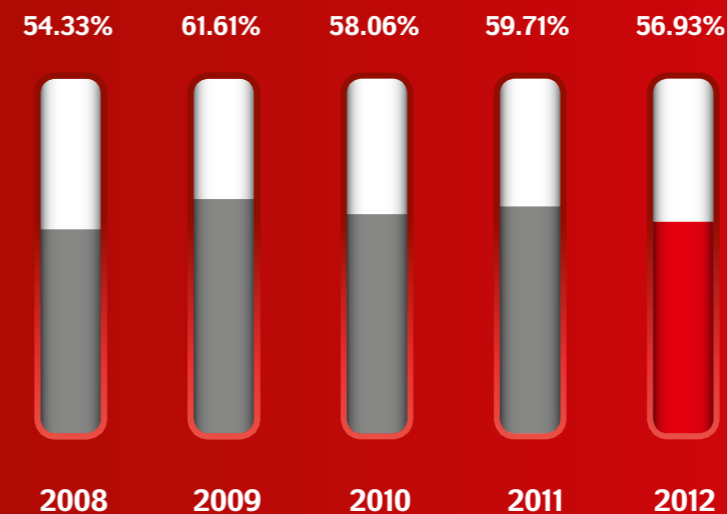
- Approval of new revision of Regulations on the Board of Directors

- Election of members of MTS OJSC Board of Directors.

- Election of members of MTS OJSC Auditing Commission.

- Approval of MTS OJSC auditor.

## Statistics of shareholders participation in the Annual General Meeting of Shareholders for 5 years





## Board of Directors

MTS OJSC Board of Directors is a key element of the Company's corporate governance system. The Board of Directors represents the interests of shareholders and is responsible for increasing business value by organizing efficient management. The Board of Directors of the Company carries out overall management of activities of the Company, except for issues within the competence of the General Shareholders Meeting.

### The main objectives of the Board of Directors are:

- development and analysis of the general corporate strategy and control over its implementation;
- ensuring monitoring and assessment of performance of executive bodies and top executives of the Company;
- increasing capitalization of the Company, strengthening its market positions, achieving and retaining the Company's competitive strength;
- maintaining good financial standing, increasing income and profitability;
- protection of rights and legitimate interests of shareholders of the Company.

Members of the Board of Directors of the Company are elected by the General Shareholders Meeting for a term lasting until the next Annual General Shareholders Meeting. The members of the Board of Directors are elected by cumulative voting at General Shareholders Meeting.

Resolutions of the Company's Board of Directors are adopted by majority vote of directors attending the meeting, unless otherwise provided for by the Charter and law. Each member of the Board of Directors has only one vote in making decisions at the Board of Directors meeting.

Meetings of the Board of Directors are held on a regular basis.

A meeting of the Board of Directors is convened by the Chairman of the Board of Directors, at his own discretion, or at the request of a member of the Board of Directors or Auditing Commission, Auditor of the Company, President of the Company and other persons specified by the Federal Law "On Joint-Stock Companies" and the Company's Charter.

The Chairman of the Board of Directors organizes and manages the Board of Directors' activities in accordance with the approved meetings schedule.

Notice of the meeting, together with attached materials, is sent to each member of the Board of Directors at least 10 calendar days prior the meeting.

Extraordinary meeting is called within 15 days following the request to hold such meeting.

Over the past 3 years MTS completely abandoned paper documents when considering the materials at the meetings of the Board of Directors. Board members are provided with notebooks where they can review the agenda of

the meeting and all the necessary materials in interactive presentation format. Thus, the Company reduced costs and time to prepare hand-outs, and increased convenience and flexibility of working with information.

### Informing the newly elected members of the Board of Directors about activities of the Company.

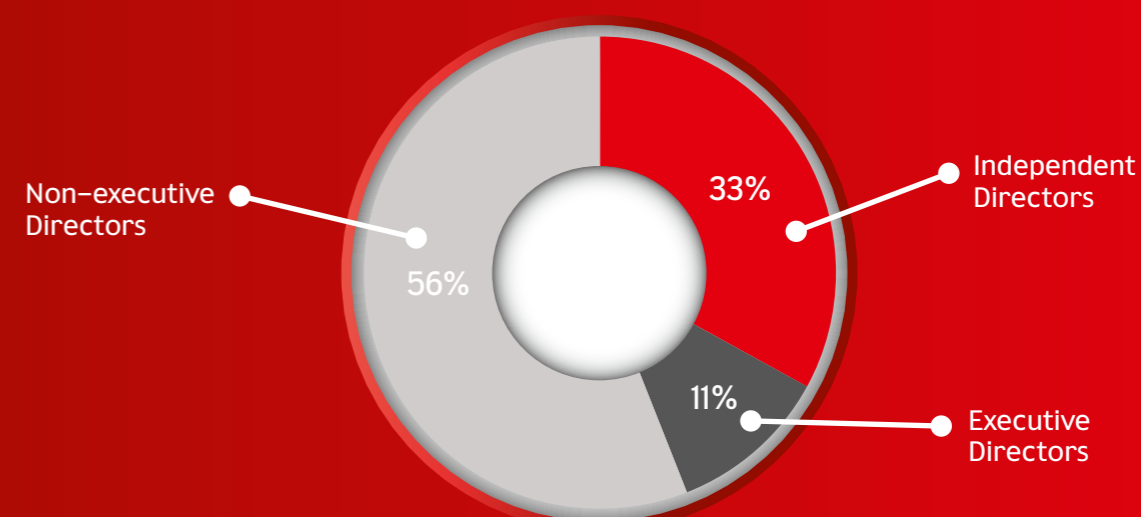
In accordance with the best corporate governance practices, always followed by MTS OJSC, for newly elected members of the Board of Directors an introductory (information) course is conducted in interactive presentation format, in Russian and English.

This course allows to briefly introduce the history of the Company, work of the Board of Directors, main documents regulating the activities of the Company, annual financial statements, development strategy, governance structure of the

Company, etc. to the new members of the Board of Directors.

The presentation is attended by the President, management of the Company and Secretary of the Board of Directors. Members of the Board of Directors are offered the possibility to hold individual meetings with senior functional management of the Company, where members of the Board of Directors may obtain all the information which is necessary for their work.

## Membership of the Board of Directors





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Information for shareholders  
and investors

10

Corporate governance

## Members of the Board of Directors

MTS OJSC Board of Directors consists of nine (9) members.

In accordance with the global corporate governance standards and provisions of the Company's corporate documents, the Company is interested that the Board of Directors includes at least three independent directors. Criteria of independence of a member of the Board of Directors are set forth in the Regulations of MTS OJSC Board of Directors (these regulations can be found at: [http://www.mtsgsm.com/information/corporate\\_governance/statutes/](http://www.mtsgsm.com/information/corporate_governance/statutes/)) and are in line with the best global corporate governance practice.

Currently, three independent directors are members of the Board of Directors. The presence of independent directors ensures reasonable balance between all stakeholders: the Company itself, its shareholders and other stakeholders.

**The Board of Directors was elected at the Annual General Meeting of Shareholders of MTS OJSC held on June 27, 2012, with a term of office commencing upon election and lasting through 2012.**



### Chairman of the Board of Directors

**Ron Sommer**

Born in 1949.

In 1980 Mr. Sommer joined the Sony Group as Managing Director of its German subsidiary, in 1986 he became Chairman of the Management Board of Sony Deutschland; in 1990 Mr. Sommer was appointed Director and Chief Operating Officer of Sony Corporation in the USA. In 1993 he joined Sony Europe in the same function.

From May 1995 to July 2002, Mr. Sommer was Chairman of the Management Board of Deutsche Telekom AG.

In 2003 Mr. Sommer was elected Chairman of the International Advisory Board at AFK Sistema OJSC.

In 2005 Mr. Sommer joined the Board of Directors of AFK Sistema OJSC as independent director, and also performed duties of Chairman of the Committee for Investor Relations. In the period from 2009 to 2011 Mr. Sommer was appointed the First Vice President of AFK Sistema OJSC, Head of the Telecommunication Assets Business Unit and also the member of the Management Board.

Mr. Sommer conducts extensive activities in the corporate governance being a member of the Board of Directors of the Tata Consultancy Services, Munich Reinsurance, SISTEMA SHYAM TELESERVICES Limited and other companies, and also member of the International Advisory Council of Blackstone Group.

The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



### Deputy Chairman of the Board of Directors

**Alexey Nikolayevich  
Buyanov**

Born in 1969.

Mr. Buyanov graduated from the Moscow Physical-Technical Institute (MFTI).

From 1992 to 1994, he was an intern investigator with the Institute for Problems in Mechanics (IPM) of the Russian Academy of Sciences. He started work at AFK Sistema OJSC in 1994, and from 1994–1995 held various positions in Sistema's Property Complex. In 1995 he was appointed head of department at Sistema-Invest and later Vice President of Sistema-Invest.

In 1997 he was appointed First Vice President of Sistema-Invest. From 1998 to 2002, he served as Vice President of MTS OJSC. In July 2002 he was appointed Vice President of AFK Sistema OJSC to run the department for financial restructuring. Currently, he is Senior Vice President of AFK Sistema OJSC, heading the financial and investment complex, the member of the Management Board.

Mr. Buyanov is a member of the Board of Directors of Sistema Holdings Ltd., ECU GEST HOLDING S.A., SISTEMA SHYAM TELESERVICES LIMITED and a number of Russian companies.

The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



### Deputy Chairman of the Board of Directors

**Anton Vladimirovich  
Abugov**

Born in 1976.

Mr. Abugov graduated from the Academy of National Economy under the Government of the Russian Federation.

In 1995 he was involved in developing the infrastructure and a regulatory framework for the stock market in Russia. Between 1995 and 2002 Mr. Abugov was Director of Corporate Finance at United Financial Group, seeing through a number of major fundraising, strategic consultancy, and merger and acquisition projects in various industries in Russia and Eastern Europe.

In 1999 he was an advisor to RAO UES of Russia. From 2003 to 2006, he was in charge of the Corporate Finance Department at AKB Rosbank OJSC. Currently he has been serving as Sistema's First Vice President and Head of Strategy and Development, the member of the Management Board.

Mr. Abugov is a member of the Board of Directors of Oil Company Russneft OJSC, Bashneft OJSC and other companies.

The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



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Information for shareholders  
and investors

10

Corporate governance



**Member of the Board  
of Directors**

**Andrey Anatolyevich  
Dubovskov**

Born in 1966.

In 1993 graduated from the All-Russian State Institute of Cinematography named after S.A. Gerasimov, with degree in stage directing.

Headed the business unit MTS Ukraine from January 2008. In November 2007 started his work in MTS Ukraine as the first deputy general director. In 2006–2007 was the director of macroregion MTS Ural, from 2004 to 2006 was the MTS branch director in Nizhny Novgorod. From 2002 to 2004 was the general director of the company of the Tele2 Group in Nizhny Novgorod.

Before March 2011 was the General Director of PrJSC MTS Ukraine. Since March 05, 2011 – the President of MTS OJSC, the Chairman of the MTS OJSC Management Board.

Mr. A.A. Dubovskov has a vast experience of working in telecommunications companies: having started his work in 1993, he occupied several management positions in such companies as Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Communications, CJSC 800 and other companies in Moscow, Almaty, Nizhny Novgorod, Ekaterinburg, Perm and Kiev.

Currently is the member of the management bodies of JLLC Mobile TeleSystems, PrJSC MTS Ukraine, International Cell Holding LTD., Russian Telephone Company CJSC, MGTS

During the reporting year owned common registered shares of MTS OJSC in the amount of 15,620 shares.



**Member of the Board  
of Directors**

**Stanley Miller**

**Non-executive Independent  
Director of MTS OJSC**

Born in 1958.

Mr. Miller received a degree in law and administration from the University of South Africa and a degree in human resources management from the Institute of Administration and Commerce in Cape Town, South Africa. He has also completed several business management programs, including the Proteus Leadership program at the London Business School.

From 1998 to 2011, he served in a number of top leadership positions at KPN (the Netherlands), including the CEO of KPN Mobile International, the CEO and Chairman of the Supervisory Board of E-Plus, the CEO and the Chairman of the Board of Directors of BASE in Belgium. From 1991 to 1997, Mr. Miller headed operating and corporate governance at NetHold Group companies, including he served as the CEO of Telepiu, Italy. Prior to that, he served as the CEO of Electronic Media Network in South Africa and the Netherlands.

Mr. Miller is a member of the Board of Directors of AINMT (AB) Sweden, the executive director of Leaderman – SA Lux, Leaderman – NV Belgium. ULS BVBA Belgium, Milvest BVBA Belgium.

The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



**Member of the Board  
of Directors**

**Paul James Ostling**

**Non-executive Independent  
Director of MTS OJSC**

Born in 1948.

Mr. Ostling holds a law degree from the Fordham University School of Law and a B.S. in Mathematics and Philosophy from Fordham University. He has 30 years of managerial experience.

From 2003 to 2007 he was the Chief Operating Officer (COO) of Ernst & Young. Prior to that he held a number of other management positions at Ernst & Young: 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.

Mr. Ostling began his career at Chadbourne & Parke as an Associate Attorney Litigation and Corporate Matters.

From 2004 to 2008, Mr. Ostling was the Chairman of the Audit Commission of United Services Organization. From 2003 to 2007, he was a board member of Transatlantic Business Dialogue (TABD), and co-chairman of the Ukrainian Advisory Council with responsibility for foreign investments. Mr. Ostling is also the Chairman of the Business Council for International Understanding (BCIU).

From 2007 to 2009, Mr. Ostling was the CEO of KUNGUR Oilfield Equipment & Services.

Since 2007 Mr. Ostling has been Deputy Chairman of the Board of Directors of Cool nrg. PTY, in the period of 2007–2012 – the member of the Board of Directors of Promsvyazbank OJSC, since 2008–2010 – the member of the Board of Directors of United Chemical Company URALCHEM OJSC, since 2011 – the member of the Board of Directors of Uralkali OJSC, since 2011–2012 – the member of the Board of Directors of East Line – Domodedovo (DME Limited).

Member of the Board of Directors of MTS OJSC from June 2007 to February 2013.

The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



**Member  
of the Board  
of Directors**

**Vsevolod  
Valerievich  
Rozanov**

Born in 1971.

Graduated from Moscow State University with a degree in economics.

Has extensive experience in management, economics and finance. In 1993–2001, held various consulting positions at Bain & Company in Moscow, London and Stockholm. From 2002 to 2004, he was Deputy General Director for Economy & Finance of MTU–Inform CJSC, from 2004 to 2006 – Deputy General Director for Economy & Finance of COMSTAR–United TeleSystems OJSC. From 2006 to 2008 – Vice President, Finance and Investment of MTS OJSC. From 2008 – President of Sistema Shyam TeleServices Ltd. (India).

Member of the Board of Directors of MTS OJSC since June 2012.

During the reporting year owned common registered shares of MTS OJSC in the amount of 72,792 shares.



### Member of the Board of Directors

**Gregor Harter**

Non-executive Independent Director of MTS OJSC

Born in 1961.

Graduated from the Technical University of Karlsruhe (Germany) with a degree in computer science.

In the period from 1993 to 2011, Mr. Harter served as Vice President of Booz & Company GmbH (Germany). He previously worked at well-known international companies in the field of telecommunications and high-tech, in particular, held senior positions at Coopers & Lybrand, DaimlerChrysler, IBM.

Now he is independent business consultant in telecommunications field.

From 2010 to 2012 – Member of the Board of Directors of Sitronics OJSC.

Member of the Board of Directors of MTS OJSC from June 2012 to February 2013

The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



### Member of the Board of Directors

**Mikhail Valeryevich Shamolin**

Born in 1970.

Mr. Shamolin graduated from Moscow Automobile and Road Institute in 1992. In 1993 he got the second degree from the Russian Academy of Government Service under the President of the Russian Federation. From 1996 to 1997, he studied at Wharton Business School, where he completed finance and management course for top managers.

Prior to joining MTS, Mr. Shamolin served at Interpipe Corp. in Ukraine as Managing Director of the Ferroalloys Division. From 1998 to 2004, he was employed with the international consulting company McKinsey&Co.

Mr. Shamolin was invited to join MTS OJSC in July 2005 as Vice President of Sales and Customer Service. On August 15, 2006 he was transferred to the position of Vice President and Director of MTS Russia Business Unit. On May 29, 2008 he was appointed President and CEO of the Company.

The powers of MTS OJSC M.V. Shamolin were terminated early by resolution of MTS OJSC Board of Director on March 04, 2012.

Since March 10, 2011, Mr. Shamolin has been serving as the President and the Chairman of the Board of Directors of AFK Sistema OJSC.

Member of the Board of Directors of MTS OJSC from June 2007 to February 2013.

Mr. Shamolin is the member of the Board of Directors of AFK Sistema OJSC, Chairman of the Board of Directors of Russneft OJSC and other companies.

### Members of the Company's Board of Directors prior to the Annual General Meeting of Shareholders in 2012:

- Ron Sommer (Chairman),
- Alexey Nikolayevich Buyanov (Deputy Chairman)
- Anton Vladimirovich Abugov
- Charles Dunstone
- Dubovskov Andrey Anatolyevich
- Yevtoushenkov Felix Vladimirovich
- Stanley Miller
- Paul James Ostling
- Mikhail Valerievich Shamolin

The changes in membership of the Board of Directors of MTS OJSC were related to compliance with the requirement of Federal Law No. 208-FZ of December 26, 1995, "On Joint-Stock Companies" of mandatory election of a company's board of directors at its annual general meeting of shareholders.

### Additional Information:

On February 14, 2013, an extraordinary General Meeting of Shareholders of MTS OJSC was held, which elected a new membership of the Board of Directors. The powers of the new Board of Directors will last until the annual general meeting of shareholders of MTS OJSC.

### Current members of the Board of Directors of MTS OJSC:

- Ron Sommer (Chairman),
- Anton Vladimirovich Abugov (Deputy Chairman)
- Alexey Nikolayevich Buyanov (Deputy Chairman)
- Alexander Yevgenievich Gorbunov
- Dubovskov Andrey Anatolyevich
- Michelle Comb

- Stanley Miller
- Vsevolod Valerievich Rozanov
- Thomas Holtrop

Over the past year 2012, the Board of Directors held 14 meetings; 9 meetings in praesentia and 5 in the form of absentee voting.

### Directors' attendance at Board meetings in 2012

Director	Meetings	
	in praesentia	in absentia
Ron Sommer <sup>1</sup>	9	5
Alexey Nikolayevich Buyanov <sup>1</sup>	7	5
Anton Vladimirovich Abugov <sup>1</sup>	8	5
Charles Dunstone <sup>2</sup>	4	1
Andrey Anatolyevich Dubovskov <sup>1</sup>	9	5
Yevtoushenkov Felix Vladimirovich <sup>2</sup>	4	1
Stanley Miller <sup>1</sup>	9	5
Paul Ostling <sup>1</sup>	6	4
Vsevolod Valerievich Rozanov	5	4
Gregor Harter	5	4
Mikhail Valerievich Shamolin <sup>1</sup>	4	5

<sup>1</sup> Member of the Board of Directors elected at the Annual General Shareholders Meeting on June 27, 2012.

<sup>2</sup> Not a member of the Board of Directors elected at the Annual General Shareholders Meeting on June 27, 2012.

Average rate of Board of Directors member's participation in meetings

**92%**

Over 90% of Company Board of Directors meetings took place with 100% participation of Board members



### Secretary of Board of Directors

The main objective of the Secretary of MTS OJSC Board of Directors is to ensure that the Company's management bodies comply with the requirements of law and the Company's bylaws guaranteeing

that the rights and interests of its shareholders are exercised.

The regulatory basis for the Secretary of MTS OJSC Board of Directors to perform his functions is, in addition to the Charter, the Regulations of MTS OJSC Board of Directors approved at the Annual General Meeting of MTS OJSC Shareholders on June 27, 2012.

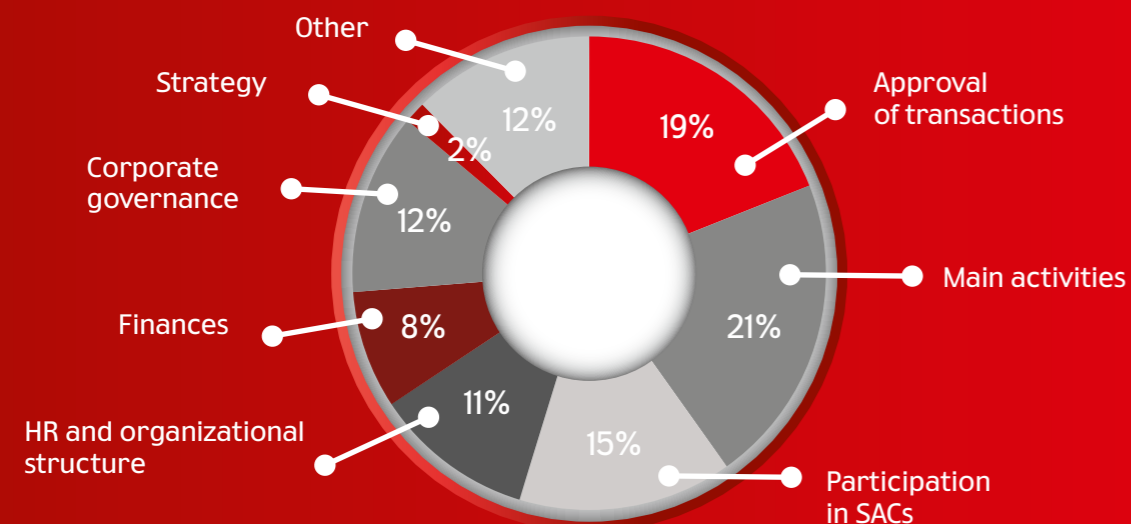
Since 2005 and until now the powers of the Secretary of MTS OJSC Board of Directors have been performed by Maxim Alexandrovich Kalinin, the Director of Corporate Governance, MTS OJSC.

In 2012, MTS OJSC Corporate Governance Director Maxim Kalinin ranked among TOP-25 Best Corporate Governance Directors – Corporate Secretaries under VII National Award “Director of the Year”.

### About the Award

The National Award “Director of the Year” is a public award for achievements in corporate governance. The award was established by the Association of Independent Directors under the auspices of PwC. It has been organized each year since 2006. Since 2009 the partner of the National Award “Director of the Year” is the Russian Union of Industrialists and Entrepreneurs (RSPP).

### Structure of the issues considered at the meetings of the Board of Directors in 2012



### Information on remuneration of members of Board of Directors

Terms and procedure of payment of remuneration to members of the Board of Directors of MTS OJSC is set out in the Regulations of Remunerations and Compensations Payable to the Members of the Board of Directors of MTS OJSC, a document approved by the General Meeting of MTS OJSC Shareholders (the Regulations can be found at: [http://www.mtsgsm.com/information/corporate\\_governance/statutes/](http://www.mtsgsm.com/information/corporate_governance/statutes/)).

Remunerations for the performance of duties as members of MTS OJSC Board of Directors are paid by the Company to the Board members who are independent directors, as well to those members of the Board of Directors who are neither employed with the Company nor are members of management bodies of the companies being a part of the Group.

In accordance with the Regulations, members of the Board of Directors of MTS OJSC, during their term of office, receive remuneration and are compensated for expenses associated with their duties as members of the Board of Directors. Compensation is paid for actually incurred and documented costs of travel to and from the destination, accommodation expenses, communication services fees, and other documented expenses. Besides, the members of the Board of Directors are compensated other expenses in the amount to a maximum of \$200,000 per annum.

**Remuneration is paid to Members of the Board of Directors of the Company in three forms:**

- **Basic remuneration**

The basic remuneration is paid in money for the performance of duties as member of the

Company's Board of Directors during the corporate year and does not depend on the number of meetings the Director attended.

The basic remuneration of each Director and the Chairman of the Board of Directors is \$250,000 and \$275,000, respectively, during a corporate year, and may be changed by special decision of the general shareholders meeting of the Company based on the Company's performance for the reporting year.

In case of early termination of powers of a Board member, and election of a Board members at extraordinary general shareholders meeting of the Company, the basic remuneration is paid in the amount proportional to the actual term of powers of the Director and determined as a product of the basic remuneration and the amount equal to the ratio of the actual term of powers and the duration of the corporate year that is deemed to be equal to 365 days.

The basic remuneration is paid by the Company quarterly at least with 30 days after the quarter end, on the basis of an office memo that must be provided by the Corporate Secretary of the Company (a person performing the duties of Corporate Secretary), and an extract from the minutes of the general shareholders meeting of the Company regarding the election of members of the Board of Directors. The amount of quarterly remuneration is equal to ¼ of the basic remuneration, and if the powers of a Board member arise after the beginning of the reporting period, to the part of the quarterly payment pro rata to the actual period of office.

- **Remuneration for performing additional duties:**

Members of the Board of Directors receive additional remuneration for performing duties

associated with work on committees of the Board of Directors:

– for work in mandatory committees of the Board of Directors: as Committee Chairman – \$25,000 per annum, as Committee member – \$15,000 per annum (for participation in each of committees);

– for work in other committees of the Board of Directors: as Committee Chairman – \$10,000 per annum, as Committee member – \$5,000 per annum (for participation in each of committees);

– for work on ad hoc committees of the Board of Directors: as Committee Chairman – \$25,000 per annum, as Committee member – \$20,000 per annum (for participation in each of committees).

The remuneration for performing additional duties is paid by the Company quarterly, in equal installments, not later than 30 days after the quarter end, based on memo that must be provided by the Corporate Secretary of the Company (a person performing the duties of Corporate Secretary) and contain the number of Committees of the Board of Directors in which each of Directors participates, and an abstract from the minutes of the Board meeting that reflects the allocation of responsibilities between members of committees of the Board of Directors. In case of early termination of powers, the remuneration is paid in the amount proportional to the actual period of office of the Director during the corporate year.

#### • Performance-based annual bonus

Members of the Board of Directors receive a performance-based annual bonus depending on the Company's capitalization value where there is profit under the U.S. GAAP standards.

The amount of the bonus is determined using the following formula:

$$S = (\$175\,000 \times K / P1) \times P2,$$

where: S is the bonus amount;

K is the number of full months between general shareholders' meetings of the Company at which an independent director is reelected, divided into 12 (K = 1, if an independent director was not reelected during the corporate year);

P1 is the weighted average price of one (1) ADR of the Company for 100 days before the date of election of an independent director; and

P2 is the weighted average price of one (1) ADR of the Company for 100 days before the date of termination of powers of an independent director.

Herewith, the maximum performance-based annual bonus payable to Directors may not exceed \$200 000. In case of early termination of powers of a director, the maximum bonus payable to the member of the Board of Directors may not exceed K x \$ 200 000.

The performance-based annual bonus is paid by the Company based on the Regulations and the office memo of the Corporate Secretary approved by the Vice President of Finance and Investments of the Company, at least within 45 days after the date of the annual general shareholders' meeting.

Total amount of remuneration  
paid to the members of the Board  
of Directors in 2012

37667794 RUR

### Liability insurance of Directors, officers and companies of MTS Group

Insurance period	Insurance coverage (limit of liability)
September 2006 – September 2007	USD 100 million
October 2007 – October 2008	USD 195 million
October 2008 – October 2009	USD 250 million
October 2009 – October 2010	USD 250 million
October 2010 – October 2011	USD 250 million
October 2011 – October 2012	USD 250 million
October 2012 – October 2013	USD 250 million

### D&O policy purpose

To provide protection of the members of the Board of Directors, the Management Board and management of MTS OJSC (hereinafter – the “Officers”) in the following cases:

- Recovery of Officers' losses in connection with suits or claims filed against them for their actions/failures to act in the course of performance of their job duties;
- Compensation of attorney fees and legal defence costs incurred by Officers in connection with the above suits or claims;
- Recovery of damage caused to claimants by Officers' actions/failures to act (in case the claim has been satisfied by court);
- Recovery of MTS OJSC losses on claims related to securities (excluding claims related to IPO of American depositary receipts).

### Evaluation of performance of the Board of Directors

In accordance with the best international and Russian corporate governance practices and the provisions of MTS OJSC Code of Corporate Governance, MTS OJSC conducts the assessment of performance of the Board of Directors (hereinafter, “the Assessment”) for the second year.

In 2012, the performance of the Board of Directors was assessed based on the existing assessment system using questionnaire survey method. In the course of questioning, members of the Board of Directors were asked more than 30 questions, opinion was given using four-point grading scale. The questions dealt mainly with the work procedure, planning and organization of activities of the Board of Directors and Committees.

Based on the results of questionnaires, a summary was prepared containing the results with respect to all analyzed criteria; priority areas for improvement were identified, and action plan was developed to improve standards and procedures of MTS OJSC Board of Directors and Committees.

The Report on Assessment of the Board of Directors' Performance was approved by the Committee for Corporate Conduct & Ethics at the MTS OJSC Board of Directors.

## Committees of Board of Directors

The Committees of the Board of Directors are consultative–advisory bodies and are designed to solve issues in especially important aspects of the Company’s business. Their activity is controlled by the Regulations on Committees of the Company’s Board of Directors. Meetings of the Committees are held separately from the meetings of the Board of Directors.



To improve the performance of the Board of Directors and further improvement of corporate governance, the previously established committees continued their work in the reporting year, i.e. the Budget Committee, the Audit Committee, the Remuneration & Nomination Committee, the Committee for Corporate Conduct & Ethics and the Strategy Committee

Also, in connection with the need to monitor the transaction under the project of acquisition of stakes in the share capital of MTS–Bank OJSC by MTS OJSC/ subsidiary of MTS OJSC, on June 27, 2012 the Special Independent Directors Committee of the Board of Directors of MTS OJSC was established for the project of participation in MTS–Bank OJSC.

Please find below the information on membership of committees of the Board of Directors of MTS OJSC as of December 31, 2012.

### Membership of Committees of MTS OJSC Board of Directors before the Annual General Shareholders’ Meeting in 2012:

- **Budget Committee:** A.N. Buyanov (Chairman), C. Dunstone, F.V. Yevtoushenkov, R. Sommer
- **Audit Committee:** P. Ostling (Chairman), S. Miller
- **Remuneration & Nomination Committee:** P. Ostling (Chairman), C. Dunstone, S. Miller
- **Committee for Corporate Conduct and Ethics:** A.N. Buyanov (Chairman), S. Miller, F.V. Yevtoushenkov, A.A. Dubovskov
- **Strategy Committee:** R. Sommer (Chairman), A.V. Abugov, F.V. Yevtoushenkov, S. Miller, M. Hecker, A.A. Dubovskov.

## Membership of committees of the Board of Directors of MTS OJSC as of December 31, 2012

### Board of Directors of MTS OJSC

#### Budget Committee

1. A.N. Buyanov – Chairman
  2. A. V. Kornya
  3. V. V. Rozanov
  4. R. Sommer
- V.S. Travkov – Secretary

#### Audit Committee

1. P. Ostling – Chairman
  2. S. Miller
  3. G. Harter
- V.Yu. Charlesworth – Secretary

#### Strategy Committee

1. R. Sommer – Chairman
  2. A.V. Abugov
  3. A.E. Gorbunov
  4. S. Miller
  5. M. Hecker
  6. A.A. Dubovskov
- A.S. Babin – Secretary

#### Remuneration and Nomination Committee

1. P. Ostling – Chairman
  2. S. Miller
  3. V.V. Rozanov
- N.A. Sirenko – Secretary

#### Corporate Conduct and Ethics Committee

1. A.N. Buyanov – Chairman
  2. S. Miller
  3. A.A. Dubovskov
  4. V.V. Rozanov
- M.A. Kalinin – Secretary

#### Ad Hoc Independent Directors Committee for the project of acquiring MTS–Bank OJSC

1. P. Ostling – Chairman
  2. S. Miller
  3. G. Harter
- G.A. Suzdaltsev – Secretary



## Powers of Committees and their activities during reporting year:

### Budget Committee

The Budget Committee is an auxiliary body of MTS OJSC Board of Directors serving to develop recommendations to the Board of Directors in reviewing issues related to preparation, approval, adjustment of MTS budgets, long-term business plans and investment plans of MTS OJSC, and overseeing their implementation.

During the reporting period the Budget Committee reviewed and made decisions on such issues as:

- Additional CAPEX funding MTS 2012
- Draft budget 2013 of MTS OJSC
- On the redemption of stakes of minority shareholders of MGTS
- Forecast of CAPEX budget implementation for MTS Group in 2012.
- and other.

### Audit Committee

The main function of the Audit Committee is to monitor accounting and the preparation and auditing of financial reports of MTS OJSC and its subsidiaries.

During the reporting period the Committee considered and made decisions on the following issues:

- Discussion of the draft report on MTS OJSC financial and operating results in Q4 2011 and 2011;

- Discussion of the financial results (Deloitte review for 2011);
- Selection of an auditor to carry out audit in 2012;
- Review and approval of the results of the assessment of risk management and internal control systems in 2011 ;
- Discussion and pre-approval of the Annual Report according to the Form 20-F;
- Discussion of the draft report on financial and operating results of MTS for Q1 2012;
- and other.

### Remuneration & Nomination Committee

The main function of the Remuneration & Nomination Committee is to prepare recommendation for MTS OJSC Board of Directors regarding the Company's priorities relating to the development and implementation of human resources policy and development strategy in human resources and remuneration.

During the reporting period the Committee considered and made decisions on the following issues:

- Approval of KPIs and individual objectives of MTS President and top management for 2013;
- Discussing the HR Strategy and key HR initiatives for 2012;
- Pre-approval of candidates nominated for the Company's Board of Directors and Auditing Commission;

- Preliminary discussion and recommendation to the Board of Directors on contracts with the members of the Management Board;
- and other.

### Corporate Conduct & Ethics Committee

The main function of the Corporate Conduct and Ethics Committee is to prepare recommendations to the Board of Directors regarding priority areas of activity of the Company in developing and implementing corporate conduct (governance) and ethics standards, and also to prepare recommendations regarding the Company's development strategy in the area of corporate conduct (governance) and ethics.

During the reporting period no substantial breaches of corporate conduct rules or ethics were identified in the operation of the MTS Single Hotline.

During the reporting period the Committee considered and made decisions on the following issues:

- Review of the Report on Evaluation of Performance of MTS OJSC Board of Directors;
- Pre-consideration of candidates to be nominated to the Boards of Directors and Auditing Commissions of foreign subsidiaries;
- and other

### Strategy Committee

The main function of the Strategy Committee is strategic development of the Company and drawing up recommendations on other priority areas of the Company's development.

During the reporting period the Committee considered and made decisions on the following issues:

- GPON development strategy in Moscow;
- Status of LTE development;
- Development of digital strategy
- and other.

### Ad Hoc Independent Directors Committee for the project for acquisition of MTS-Bank OJSC

The main function of the Ad Hoc Independent Directors Committee for the project for acquisition of MTS-Bank OJSC is analysis of terms of the transaction and the associated risks, development of opinions on advisability of the transaction, drawing up recommendations to the Board of Directors regarding approval of the transaction, interaction with consultants in respect of the transaction and other matters.

During the reporting period the Committee reviewed and made decisions on such issues as:

- Appointment of advisors for the transaction;
- Proposed transaction structure;
- Information on the project implementation status;
- Information on the results of negotiations;
- and other

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and investors

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Corporate governance

## Sole executive body of Company: President

In accordance with MTS OJSC Charter, the President of the Company is vested with full authority for day-to-day management of the Company's activities and addressing relevant issues that are not within the competence of the Company's General Shareholders Meeting, Board of Directors and Management Board.

The goal of MTS OJSC President is to ensure MTS OJSC profitability and competitive advantage, its economic and financial stability, as well as shareholder rights and social protection of the Company's employees.

The President represents the point of view of Executive Bodies at meetings of the Board of Directors and General Shareholders Meetings.

The President heads the Management Board of the Company and organizes its work.

The President of the Company is elected by majority of votes of elected members of the Board of Directors. With that, the votes of directors who left the Board are not taken into account.

The President of the Company is subordinate to the General Shareholders Meeting and the Board of Directors of the Company.

The Regulations on the MTS OJSC President were approved by the Annual General Meeting of MTS OJSC Shareholders on June 23, 2006 (you can study these Regulations at: [http://www.mtsgsm.com/information/corporate\\_governance/statutes/](http://www.mtsgsm.com/information/corporate_governance/statutes/)).

During 2012 (since March 05, 2012) the functions of the Sole Executive Body (President) of MTS OJSC were performed by Andrey Anatolyevich Dubovskov elected by the resolution of the Board of Directors of MTS OJSC on March 04, 2011 for the term of 3 (three) years.

### MTS OJSC President

#### Andrey Anatolyevich Dubovskov

Born in 1966.

In 1993 graduated from the All-Russian State Institute of Cinematography named after S.A. Gerasimov, with degree in stage directing.

Headed the business unit MTS Ukraine from January 2008. In November 2007 started his work in MTS Ukraine as the first deputy general director. In 2006–2007 was the director of macroregion MTS Ural, from 2004 to 2006 was the MTS branch director in Nizhny Novgorod. From 2002 to 2004 was the general director of the company of the Tele2 Group in Nizhny Novgorod.

Before March 2011 was the General Director of PrJSC MTS Ukraine. Since March 05, 2011 – the President of MTS OJSC, the Chairman of the MTS OJSC Management Board.

Mr. A.A. Dubovskov has a vast experience of working in telecommunications companies: having started his work in 1993, he occupied several management positions in such companies as Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Communications, CJSC 800 and other companies in Moscow, Almaty, Nizhny Novgorod, Ekaterinburg, Perm and Kiev.

Currently is the member of the management bodies of JLLC Mobile TeleSystems, PrJSC MTS Ukraine, International Cell Holding LTD., Russian Telephone Company CJSC, MGTS

During the reporting year owned common registered shares of MTS OJSC in the amount of 15,620 shares.





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Corporate governance

## Collegial executive body: Management Board

The implementation of the selected strategy and specific resolutions of the Board of Directors is delegated to the President (Sole Executive Body) and the Management Board (Collegial Executive Body) that are responsible for the fulfillment of resolutions of the Board of Directors within their terms of reference.



The President (Chairman of the Management Board) and the Management Board act on the basis of the Federal Law "On Joint-Stock Companies", MTS OJSC Charter and Regulations of MTS OJSC Management Board that were approved by the Annual General Meeting of MTS OJSC Shareholders on June 15, 2009 (the Regulations can be found at [http://www.mtsgsm.com/information/corporate\\_governance/statutes/](http://www.mtsgsm.com/information/corporate_governance/statutes/)).

Number of members and composition of the Management Board is approved by the Board of Directors at the suggestion of the President of the Company for a period determined by the Board of Directors of the Company in establishing the Management Board. The term of office of the Management Board may not exceed the term of office of the current President of the Company. Members of the Management Board may be elected an unlimited number of times.

The Management Board carries out its activities by means of meetings and resolutions.

Meetings of the Management Board are held on a planned basis. Meetings of the Management Board are convened by the Chairman of the Management Board, or on request of any member of the Management Board, Board of Directors, Auditing Commission or the auditor of the Company. A resolution of the Company's Management Board, within its competence, may be taken via absentee voting (questioning).

### Members of the Management Board in 2012:

Members of the Management Board were elected by the resolution of the Board of Directors (Minutes No. 178 dated March 15, 2011).



Chairman  
of the Management Board,  
President

**Andrey Anatolyevich  
Dubovskov**

Born in 1966.

In 1993 graduated from the All-Russian State Institute of Cinematography named after S.A. Gerasimov, with degree in stage directing.

Headed the business unit MTS Ukraine from January 2008. In November 2007 started his work in MTS Ukraine as the first deputy general director. In 2006–2007 was the director of macroregion MTS Ural, from 2004 to 2006 was the MTS branch director in Nizhny Novgorod. From 2002 to 2004 was the general director of the company of the Tele2 Group in Nizhny Novgorod.

Before March 2011 was the General Director of PrJSC MTS Ukraine. Since March 05, 2011 – the President of MTS OJSC, the Chairman of the MTS OJSC Management Board.

Mr. A.A. Dubovskov has a vast experience of working in telecommunications companies: having started his work in 1993, he occupied several management positions in such companies as Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Communications, CJSC 800 and other companies in Moscow, Almaty, Nizhny Novgorod, Ekaterinburg, Perm and Kiev.

Currently is the member of the management bodies of JLLC Mobile TeleSystems, PrJSC MTS Ukraine, International Cell Holding LTD., Russian Telephone Company CJSC, MGTS

During the reporting year owned common registered shares of MTS OJSC in the amount of 15,620 shares.



Vice President,  
HR Management

**Nataliya Lyubomirovna  
Bereza**

Nataliya has more than 10 years of experience in HR management.

In 1997 Nataliya graduated from the Kiev State Linguistics University, is certified under international HR programs: Society for Human Resource Management, GPHR, WorldatWork Association, GRPA (remuneration system management).

From September 2007 to July 2012 Nataliya Bereza held the position of HR Director in the Business Unit MTS Ukraine. Before coming to MTS, Nataliya worked for four years in Kraft Foods Ukraine and for over two years – in British American Tobacco in Ukraine, holding different HR management positions. Nataliya Bereza is a member of different professional HR management associations, including European Business Association and American Chamber of Commerce in Ukraine. Nataliya joined MTS team in 2006 as the manager of HR training and development function.

From July 2012 to December 2012 she was the Vice President, HR Management of MTS OJSC, member of the Management Board of MTS OJSC.

The member of the Management Board held no shares of MTS OJSC during the reporting year.

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**Information for shareholders  
and investors****10****Corporate governance****Vice President  
for Information Technology****Frederic  
Vanoosthuyze**

Born in 1973 in Belgium.

Mr. Vanoosthuyze graduated from Institut Supérieur Industriel Liegeois (Belgium) in 1995 with Engineering degree in Electronics and Communications, and in 1999 graduated from University of Mons (Belgium) with Engineering degree in Computer Science and management. He also received Executive Master degree in IT governance at the Solvay Business School in 2006.

He joined MTS OJSC in February 2011 as Vice President for Information Technology.

Mr. Vanoosthuyze started his career at Siemens Atea (Belgium); subsequently he was employed with Alcatel Bell (Belgium) and KPN Group Belgium NV/SA Orange/BASE (Belgium). He served at Millicom International Cellular SA (Luxemburg) as Millicom Group Chief IT Officer from 2006.

Mr. Vanoosthuyze is a member of management bodies of MTS UKRAINE PrJSC, OJSC Intellect Telecom.

The member of the Management Board held no shares of MTS OJSC during the reporting year.

**General Director  
of PrJSC MTS Ukraine****Ivan Alexandrovich  
Zolochovski**

Born in 1972.

In 1993 graduated from the Physics Faculty of St. Petersburg Pedagogical Institute named after A. I. Herzen, in 2001 from Open University of Great Britain with degree in management. Completed presidential program training in Engineering-Economic Academy, majored in Management and Marketing.

Held position of Sales Director in St. Petersburg company BCC from 2001 to 2005. From 1998 to 2001 – Director, Division of Corporate and Market Sales of St. Petersburg company Nienschantz. Until 1998 worked in Tranzas Group as the Director of Sales and Marketing.

In June 2005 was nominated as the Director of MTS OJSC branch Macroregion North-West, where he was responsible for operational management of mobile and fixed business of MTS in all regions of North-West Federal District – Republic of Karelia, Republic Komi, Arkhangelsk Region, Vologda Region, Kaliningrad Region, Leningrad Region, Murmansk Region, Novgorod Region, Pskov Region, St. Petersburg, Nenets Autonomous District.

Joined MTS in January 2005 for the job of the MTS branch manager in Tula.

In September 2011 was nominated as the General Director of PrJSC MTS Ukraine.

In October 2011 was elected the member of the Management Board of MTS OJSC.

The member of the Management Board of MTS OJSC held no shares of MTS OJSC during the reporting year.

**Vice President,  
Corporate and Legal Matters****Ruslan Sultanovich  
Ibragimov**

Born in 1963.

Mr. Ibragimov graduated with degree in law from the Moscow State University in 1986, where he continued to post-graduate studies. Cand. Cs. (Law).

Mr. Ibragimov joined MTS OJSC in 2006 as Director of the Legal Department, and in February 2007 was appointed to the position of Director for Legal Matters. In February 2007 he headed the Legal Block.

From 2008 – Vice President, Corporate and Legal Matters of MTS OJSC.

Prior to joining MTS OJSC, he worked at the Moscow college of lawyers Ibragimov, Kagan, and Partners. From 1997 to 2002 held the position of director-partner; Deputy General Director, Head of Tax and Legal Consultation Department at Top-Audit. From 1992 to 1996 he headed legal services in several commercial banks. He is a member of the Management Board and Vice-President of the Non-profit Organization Russian Corporate Counsel Association (RCCA), member of the Non-profit Partnership for Promoting Competition and Non-profit Partnership Promoting Competition in CIS Countries, member of the All-Russian public organization "Association of Lawyers of Russia", senior director of the Association of Independent Directors.

The member of the Management Board held 19,824 registered common shares of MTS OJSC during the reporting period.

**Vice president,  
Finance and Investment****Alexey Valeryevich  
Kornya**

Born in 1975.

Mr. Kornya graduated from the Saint Petersburg State University of Economics and Finance in 1998.

Mr. Kornya joined MTS OJSC in July 2004 as the Chief Financial Officer of MTS OJSC Ural Macro Region. In October 2004 he occupied the position of Director of the Financial Planning and Analysis Department, the Financial Block, MTS Group CC, in March 2007 he was appointed Director of Controlling, Finance and Investment Block.

Since August 2008, he has been heading Finance and Investment Block. He served as MTS OJSC Deputy Vice President for Finance and Investment, Acting Vice President for Finance and Investment until the end of 2009.

He has been Vice president of Finance and Investment since 2011.

Prior to joining MTS OJSC, from 2000 to 2004 Mr. Kornya was employed at Severo-Zapadny Telecom OJSC in Saint Petersburg, Petrozavodsk. Prior to that, he served as an auditor at the Audit Department of PricewaterhouseCoopers CJSC in Saint Petersburg.

Mr. Kornya is member of management bodies of Mobile TeleSystems JLLC, MTS UKRAINE PrJSC, International Cell Holding Ltd., Russian Telephone Company CJSC, etc.

The member of the Management Board held no shares of MTS OJSC during the reporting year.



Vice President, Marketing

**Vasiliy Igorevich  
Latsanich**

Born in 1972.

Graduated from the Higher State Institute named after N. Lysenko in 1995 (Ukraine, Lvov).

From 1996 to 2001 Vasiliy occupied several positions in Coca-Cola Ukraine Ltd, Coca-Cola Bottlers Siberia in Russia and Ukraine in the sphere of marketing and general management. In 2001–2005 was the Director of the Marketing Department in PrJSC MTS Ukraine, in October 2005 he was nominated as Marketing Director of PrJSC MTS Ukraine.

Since 2011 Vasiliy Latsanich is the co-chairman of the Telecom Committee at the American Chamber of Commerce in Ukraine.

Headed PrJSC MTS Ukraine since March 2012.

From September 2012 – Vice President, Marketing, MTS OJSC, member of the Management Board of MTS OJSC.

Mr. Latsanich is the member of the management bodies of PrJSC MTS Ukraine, Stream LLC, MGTS OJSC, Russian Telephone Company CJSC.

The member of the Management Board held no shares of MTS OJSC during the reporting year.


Director of the  
macro-region Moscow

**Konstantin Viktorovich  
Markov**

Born on May 15, 1975 in Moscow.

In 1997 graduated from the Finance Academy at the Russian Federation Government. In 2000 took Ph.D. degree in Economics. In 2003 received MBA from Richard Ivey School of Business, Canada. Also has ACCA and CFA certificates.

In 1994 – 1996 worked in the Moscow representative office of Deloitte and Touche, in 1996 – 2000 – in PricewaterhouseCoopers. In 2001 – 2004 headed the Treasury Office in the company – communications provider in Russia. In 2004 – 2005 was the general director of a GSM operator in Kazakhstan – LLP KaR-Tel. From 2006 to 2008 headed the macro-region Centre, MTS OJSC. Since 2009 and until now is the director of the macro-region Moscow, MTS OJSC.

In October 2012 was elected the member of the Management Board, MTS OJSC.

Mr. Markov is the member of the management bodies of MGTS OJSC, CJSC City-telecom and other companies.

The member of the Management Board held 14,395 registered common shares of MTS OJSC during the reporting period.


Vice President,  
Chief Operating Officer

**Alexander Valeryevich  
Popovsky**

Born in 1977.

Mr. Popovsky graduated from the Vyatka State Technological University in 1999 with a degree in computing machinery, systems and networks (system engineer), and completed post-graduate studies (systems analysis) in the same university in 2002. In 2005 he took Cand. Sc. degree at the Moscow Aeronautical Institute, and participated in Executive MBA program in London Business School.

From 1999 to 2001 he served as manager of telecommunication network transmission section of KirovElectrosviaz JSC. In April 2001 he joined MTS OJSC as the Director of MTS OJSC Branch in Kirov. In July 2004 he became the Director of MTS OJSC Branch Volga Region-Northwest. In June 2007 he was appointed to the office of Director of MTS OJSC Macro Region South.

In 2008 he was appointed to the position of Director of MTS Russia Business Unit.

Since March 2012, he has been Vice President, Director of MTS Russia Business Unit. Since July 2012 – Vice President, Chief Operating Officer of MTS OJSC

Mr. Popovsky is a member of management bodies of MGTS OJSC, Intellect Telecom OJSC, Russian Telephone Company CJSC etc.

The member of the Management Board held 20,717 registered common shares of MTS OJSC during the reporting period.


Vice President,  
Director of MTS – Foreign  
Subsidiaries Business Unit

**Oleg Yuryevich  
Raspopov**

Born in 1966.

Mr. Raspopov graduated with degree in law from the Academy of the RF Ministry of Taxation in 2003, and graduated with degree in economics from the Academy of Finance under the Government of the RF in 2006.

He was Vice President, Director of MTS – Foreign Subsidiaries Business Unit from January 2008 to February 2013.

Mr. Raspopov joined MTS OJSC in June 2006 as Director of the External Resources Management Department. In March 2007 he was appointed acting Vice President, Director of MTS–Foreign Subsidiaries Business Unit.

Prior to joining MTS OJSC, since November 2004 he had been heading Insurance Broker–Energozashchita OJSC, which he established. From 2002 to 2004 he held the position of assistant of the Chief Financial Officer of RAO UES of Russia OJSC. From 2001 to 2002 served as lawyer at Gas-promenergосervice CJSC.

Mr. Raspopov is a member of management bodies of International Cell Holding Ltd, Mobile TeleSystems JLLC, FI Uzdurobita LLC, etc.

The member of the Management Board held no shares of MTS OJSC during the reporting year.



Vice President,  
Sales and Service

**Vadim Eduardovich  
Savchenko**

Born in 1974.

Graduated from the Law Faculty of the Humanitarian University of Ekaterinburg, and Kiev National Economic University named after Vadim Hetman, with major in corporate economics.

Vadim gained vast experience in sales – from sales coordinator to branch director – working in such companies as LLC PEPSI INTERNATIONAL BOTTLERS, CJSC JTI and OJSC Vienna. From 2005 to 2007 worked as the Director of Partnership Relations Department, Macroregion Ural, MTS OJSC. In the period from 2007 to 2008 Vadim Savchenko held the position of the Ural branch Director, OJSC TS-retail.

In the period from November 2008 to July 2011 Vadim held the position of Sales and Subscriber Service Director of the Business Unit PrJSC MTS Ukraine. Since July 2011 – Vice President of MTS OJSC, Sales and Service, member of the Management Board of MTS OJSC.

Mr. Savchenko is the member of the management bodies of PrJSC MTS UKRAINE, Russian Telephone Company CJSC and other companies.

The member of the Management Board held no shares of MTS OJSC during the reporting year.



Vice President,  
Chief Technology Officer

**Andrey Eduardovich  
Ushatsky**

Born in 1974.

Mr. Ushatsky graduated from the Moscow Power Engineering Institute in 1997. From 2002 to 2004 completed an MBA program for managers at the Academy of National Economy of the Government of the Russian Federation.

He joined MTS OJSC in 1996, first in the position of a specialist of the Macrowave Link Service and, thereafter, he headed the Network Operation Service and the Network Operation Department and served as Deputy Director of the MTS Russia Business Unit.

Mr. Ushatsky was appointed Vice President, Chief Technology Officer of MTS OJSC in April 2009.

Mr. Ushatsky is a member of management bodies of Intellect Telecom OJSC, METRO-TELECOM CJSC.

The member of the Management Board held 14,000 registered common shares of MTS OJSC during the reporting period.



Vice President,  
Strategy, M&A and  
Corporate Development

**Michael  
Hecker**

Born in 1970.

Mr. Hecker is a graduate in administration and international politics from Pierre Mendez France University of Grenoble (France) and a graduate in law and modern history from Goettingen University (Germany), where he also earned a PhD in the history of constitutional law.

He joined MTS OJSC in May 2006 as the Director of Strategic Projects.

Since 2008 he has been the MTS OJSC Vice President of Strategy, M&A and Corporate Development.

Prior to joining MTS OJSC, Mr. Hecker worked at A.T. Kearney Europe, where he was involved in strategy, marketing, and finance projects for telecommunications companies and consumer-goods manufacturers. Prior to that he served as a junior associate lawyer in Berlin and Brandenburg (Germany).

Mr. Hecker is a member of management bodies of MTS UKRAINE PrJSC, Russian Telephone Company CJSC, MFB MeinFernbus GmbH etc.

The member of the Management Board held no shares of MTS OJSC during the reporting year.

Over the past year 2012, the Management Board of MTS OJSC held 29 meetings: 25 meetings in praesentia and 4 in the form of absentee voting.

### Participation of members of the Management Board in meetings of the Board in 2012

Member of the Board	Meetings	
	in praesentia	in absentia
A.A. Dubovskov	25	4
N.L. Bereza <sup>1</sup>	19	4
F. Vanoosthuyze	19	3
I.A. Zolochovsky	19	4
R.S. Ibragimov	15	4
A.V. Kornya	20	4
V.I. Latsanych	21	4
K.V. Markov	18	3
A.V. Popovskiy	15	4
O. Yu. Raspopov <sup>2</sup>	18	4
V.E. Savchenko	19	3
A.E. Ushatskiy	21	4
M. Hecker	16	3

<sup>1</sup> Member of the Board of MTS OJSC until December 19, 2012

<sup>2</sup> Member of the Board of MTS OJSC until February 14, 2013

Average percentage  
of participation of  
members of the  
Management Board  
in Board meetings

**78**%

### Secretary of the Management Board of MTS OJSC:

This function is performed by Olga Alexandrovna Oleynik, Director of Administrative Control Department, MTS OJSC.



## Remunerations and compensations payable to the members of the Management Board

The Company concludes a contract with each member of the Management Board providing for additional employment terms, the procedure for determining the amount of remuneration, conditions for the compensation for expenses related to the performance of Management Board member's duties, and procedure for contract termination. On behalf of the Company, the contract is signed by the Chairman of the Board of Directors of the Company or a person duly authorized by

the Board of Directors. The Board of Directors may terminate the contract with the member of the Management Board of the Company at any time. The terms and conditions of the contract are approved by the Board of Directors of the Company.

Total remuneration paid to the members of the Management Board in 2012 was

307205134.38 RUR

## Bodies supervising financial and economic activities

The bodies supervising financial and economic activities of MTS OJSC are structured as follows:

### MTS OJSC Auditing Commission

On June 27, 2012, the Annual General Meeting of MTS OJSC Shareholders elected the following persons as members of the Auditing Commission:

1. Vasily Vasilyevich Platoshin, citizen of the Russian Federation, b. 1965, Chief Accountant, Managing Director of Finance and Investment Complex, AFK Sistema OJSC;

2. Mamonov Maxim, citizen of the Russian Federation, b. 1978, holds the position of Managing

Director for Internal Control, Department of Control and Projects Support of AFK Sistema OJSC..

3. Alexander Sergeevich Obermeister, citizen of the Russian Federation, b. 1978, Director of Planning and Management Reporting, AFK Sistema OJSC.

The Auditing Commission is independent from officers of the Company's management bodies

and is accountable only to the General Meeting of Shareholders of the Company.

Based on the results of its work, the Auditing Commission presented its findings on the financial statements of MTS OJSC for 2012. According to the Auditing Commission, the audit provided sufficient grounds to express the opinion that the financial and economic activities of MTS OJSC

### Auditor of MTS OJSC

On June 27, 2012, the Annual General Meeting of Shareholders of MTS OJSC approved Closed Joint Stock Company Deloitte & Touche CIS as the Company's auditor (location: 5 Le-snaya St., Moscow, Russian Federation 125047, primary state registration number (OGRN) 1027700425444, Certificate of Membership in Self-Regulating Auditor Organization "Non-profit Partnership "Auditor Chamber of Russia" No. 3026 of May 20, 2009.

Deloitte CIS is one of the leading auditing and advisory firms that provides auditing, tax, consulting, corporate finance, risk management, tax and legal consulting services, using the experience of approximately 3,000 employees in 17 offices in 11 countries of the region. Deloitte CIS is a part of the international association of firms Deloitte Touche Tohmatsu Limited that is one of the global leaders in the provision of professional services, with over 200,000 employees in more than 150 countries of the world.

Deloitte has received international recognition and numerous awards for its high quality of service and unique corporate culture.

during the reporting year were carried out in all material respects in accordance with current legislation, and that this Report and annual financial statements of MTS OJSC for 2012 fairly present the Company's financial condition as at December 31, 2012, and the results of its financial and economic activities for the period from January 1 through December 31, 2012.

The work performed by the Auditor in the reporting year:

- Audit of MTS' 2012 Annual Financial Statements prepared under Russian accounting standards;
- Integrated audit of MTS Group' and subsidiaries' US GAAP Consolidated Financial Statements 2012 and audit of the effectiveness of internal control over financial reporting for the year 2012.

Based on the audit the Auditor of MTS OJSC expressed the opinion that the financial statements of MTS OJSC prepared in accordance with the Russian Accounting Standards were fairly presented and accounting procedures and statements were consistent with the laws of the Russian Federation, and the opinion was also expressed about fair presentation of the consolidated financial statements prepared in accordance with US GAAP requirements.

The Auditor's fee is approved by MTS OJSC Board of Directors and was, based on 2012 results, RUB 112,408,000 including works on audit of compliance with Sarbanes-Oxley Act requirements (exclusive of the value added tax and on-costs).



## Internal Audit Department of MTS OJSC

**Department Head:** Veronica Yuryevna Charlesworth

The Internal Audit Department of MTS OJSC was created in September 2003, and is an independent unit of the Company within the MTS Group's Corporate Center. The Department operates in accordance with its Regulations. The Department is headed by the department head and includes the financial audit division, the operations audit division, the functional IT and technologies audit group, and employees of the department at the Company's macro-regional branches

The Department renders assistance to the Board of Directors and management of MTS OJSC in the performance of their duties for the construction of effective corporate governance system, risk management and internal control system by providing independent and objective assurance and consultations aimed at improvement of activities of MTS OJSC.

**To do this, the department carries out an objective analysis of audit evidences for the purpose of independent assessment and**

**preparation of opinion on reliability and efficiency of systems, processes, operations in the following areas:**

- timely identification of risks and risk analysis;
- reliability of financial and management information;
- preservation of assets;
- compliance with laws and internal policies and procedures;
- implementation of financial and business plans;
- efficient use of resources.

The Internal Audit Department is structurally subordinated to the President of MTS OJSC and functionally subordinated to the Audit Committee of the Board of Directors of MTS OJSC.

## Control Department of MTS OJSC

**Department Head:** Olga Vladimirovna Chernyavskaya

The Control Department was created in June 2006, and is an independent unit of MTS OJSC within the MTS Group's Corporate Center. The Department operates in accordance with its Regulations. The Department is headed by the department head and includes the operations audit division, the administrative control division, the indicators control division and the performance assessment division.

**The Control Department performs the following functions:**

- monitoring procedures related to financial and economic activity (including operations) of MTS OJSC units, analyzing the results of the specified activities;
- monitoring compliance with fiscal and executive discipline at MTS OJSC and monitoring the

implementation of decisions of its management bodies, including its collective management bodies;

- verifying that internal documents and decisions of the management bodies of MTS OJSC are consistent with the Company's financial and business interests;
- monitoring that the Company's agreements with third parties are consistent with MTS' financial and business interests;
- monitoring the effectiveness and transparency of the governance system at MTS OJSC, including revealing abuses by executive bodies and officers of MTS OJSC;
- coordination of activities of units that process messages arriving to the address of the single hot-line, preparation of conclusions;

- preparing opinions on violations brought before the disciplinary commission of MTS OJSC;

- monitoring efficiency of business processes of operations, project activities of the company units;
- monitoring calculation of process performance indicators;
- monitoring fulfillment of instructions and recommendations of collective bodies of MTS OJSC, initiative instructions of the President of MTS OJSC, meetings at the President of MTS OJSC.

The Control Department reports directly to the President of MTS OJSC and in its work coordinates plans, performs functions and exchanges information with other units involved in control of financial and economic activities of the Company

## Internal Control Systems Department of MTS OJSC

**Department Head:** Irina Alexandrovna Cherkasova

The Internal Control Systems Department was created in 2006, and is an independent unit of MTS OJSC within the MTS Group's Corporate Center, Finance and Investment Block. The Department operates in accordance with its Regulations. The Department consists of a head of the department, the development and support division, the certification and testing division and the IT processes control division.

**The Internal Control Systems Department performs the following main functions:**

- Development of effective internal control system in MTS Group;
- Maintaining internal control system of MTS Group up-to-date;

- Identification of risks in terms of reliability of financial reporting; development of risk assessment methods, assessment systems and support for risk-related decisions;

- Monitoring requirements of financial regulators (stock exchange) in terms of disclosure requirements, evaluation of operational efficiency, monitoring changes in certification requirements of the U.S. Securities and Exchange Commission (SEC);

- Implementation of unconditional and accepted requirements of government and supervisory authorities and regulators in terms of requirements for financial reporting internal control system and certification of internal control system (SEC, New York Stock Exchange (NYSE));



- Testing, evaluation and certification of internal control systems at MTS Group.
- Coordination of interaction of external auditors and the functional departments of the company in the course of audit of effectiveness of internal control system of MTS Group.

### Audit Committee of the Board of Directors of MTS OJSC

The Audit Committee of the Board of Directors of MTS OJSC was created in October 2003. It is an advisory body of the Board of Directors that ensures that the Board of Directors is provided with objective information on a number of issues.

The Committee shall consist of at least two members. Members of the Committee may be only members of the Board of Directors. The Audit Committee operates in accordance with its Regulations approved by MTS OJSC Board of Directors.

#### The main duties of the Audit Committee are:

- overseeing the work of the management of MTS OJSC, evaluating its effectiveness, and providing information to the Board of Directors, and formulating relevant recommendations, in the following areas:
  - risk management and internal control systems;
  - financial accounting and preparation of the Company's reports and evaluation of their fair presentation;
  - compliance with requirements applicable to the activities of MTS OJSC;
  - efficiency of implementation of goals and objectives by the Board of Directors.
- overseeing and coordinating activities and plans and evaluating the performance of the internal audit service of MTS OJSC;

The Internal Control Systems Department reports directly to Vice President, Chief Financial Officer of MTS OJSC and is accountable to the Audit Committee of MTS OJSC Board of Directors.

- appointing and determining the qualifications, level of remuneration, and independence of the external auditor; evaluating the quality of services provided by the auditor; reviewing opinions and results of the work of external auditors; providing preliminary approval and confirmation of auditors' services in accordance with applicable requirements of regulators; and formulating relevant recommendations for the Board of Directors and management team;
- providing effective coordination of information exchange between external and internal auditors, maintaining proper independence of auditors, and assisting in addressing factors that diminish their independence;
- ensuring the development and implementation of effective policies and standards relating to risk management, compliance with the Company's requirements and internal controls, and compliance with measures to prevent fraud and abuse, including measures to support procedures for receiving, keeping, and reviewing complaints;
- advising employees of MTS OJSC on accounting, internal controls, and auditing, including whistle-blower initiatives.

## Main components of corporate compliance system in MTS OJSC and the results of its development in 2012

Holding leading positions in the industry, the Company is aware of its high responsibility for transparency, ethics and legality of business. In order to maintain and preserve its high business reputation before the state, shareholders, customers, partners, competitors and the society as a whole, the Company for several years has been actively developing corporate system of compliance with the requirements of the applicable law and ethical business practices ("compliance system").

The company is committed to compliance with anti-corruption laws (anti-corruption laws of the countries in which the Company operates, Foreign Corrupt Practices Act 1977, The Bribery Act 2010) and ethical business conduct in all kinds of business relationships, regardless of the country where the Company conducts its economic activities. The Company has established the principle of rejection of corruption in all forms

and manifestations, both in daily activities and in implementation of strategic projects.

The main documents regulating compliance procedures within MTS are the Code of Business Conduct and Ethics and the Policy "Compliance with anti-corruption laws." In addition, procedures to ensure compliance with anti-corruption laws are contained in regulations of business processes of the Company.

Compliance system in MTS OJSC establishes measures aimed at managing regulatory risk, improving corporate culture, introduction and development of the best corporate governance practices within the Company, as well as responsible business conduct standards, based on the applicable laws, recommendations of regulatory authorities, industry specifics and best practices in this area.

#### The basic principles and elements of compliance system of MTS OJSC are:

- The management of the Company actively demonstrates its commitment to compliance principles, and supports efforts to implement and support operation of corporate compliance system ("tone from the top");
- The Company regularly carries out activities to identify and further update corruption risks, paying particular attention to the risks specific to its operations, regions of presence, as well as potentially vulnerable business processes;

**MTS**

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**Information for shareholders  
and investors****10****Corporate governance**

- The Company develops and implements procedures to combat corruption, reasonably and proportionally corresponding to the level and nature of identified risks;
- The Company implements and supports a program for its employees and members of management bodies to train them in principles and standards of compliance with applicable anti-corruption laws by means of specially developed

training system. Through briefing and training the Company promotes improvement of corporate culture level, awareness of anti-corruption and ethical business practices;

- The Company is monitoring the effectiveness of implemented corruption prevention procedures, monitors compliance, and improves them if necessary;

- The Company has established criteria for determining the need to include anti-corruption clauses in contractual texts, which take into account the level of risk both depending on the category of a counterparty, and the type of relationship established;
- To minimize risks of involvement of the Company in corrupt activities, the Company has developed screening procedures ("due diligence"), both in respect of counterparties – legal entities (including members of joint ventures, companies or associations), and individuals with whom the Company plans to enter into an employment contract or a civil law contract. This procedure shall also apply in cases of acquisition of shares by the Company to participate in any legal entities;
- The Company is developing preliminary control procedure and reporting system and subsequent analysis of transactions involving the highest risk in terms of compliance, including in the field of gift, entertainment expenses, events, corporate social responsibility, procurement, marketing, sales, etc.;
- Within the framework of internal control procedures, the Company performs inspections of discipline of compliance with the established procedures of execution of business processes, including verification of legality of transactions with assets of the Company;
- The Company operates a hotline, which allows, in particular, send anonymous messages. Bona fide informers are provided with Company protection from any form of harassment or discrimination

**In 2012, the Company continued to improve the compliance system:**

- an official was designated, directly subordinated to the President of the Company, responsible for implementation and improvement of compliance system and vested with freedom, authority, resources, and the right at any time and at its discretion make bring issues to the attention of the Audit Committee of the Board of Directors of the Company;
- a staff of experts was formed to monitor compliance with the requirements of applicable anti-corruption laws, as well as to perform operational management of compliance system and its continuous improvement.

In 2012, the Company has paid special attention to the development of a corporate compliance culture, greatly expanded training program; increased frequency of internal communications on compliance matters, including in corporate media.

Implementation of best practices and standards to combat corruption ("adequate procedures") continued to ensure compliance with the requirements of UK Bribery Act.

A new version of Anti-corruption policy of the Company ("Compliance with anti-corruption laws") was developed and introduced, taking into account all changes in the applicable anti-corruption legislation, as well as the current trends in law enforcement practice.

Active introduction of compliance controls and procedures started in subsidiaries and affiliates of MTS.

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# Information for Shareholders and Investors

## Equity capital. Issues of company's shares and bonds

### The equity capital of MTS OJSC

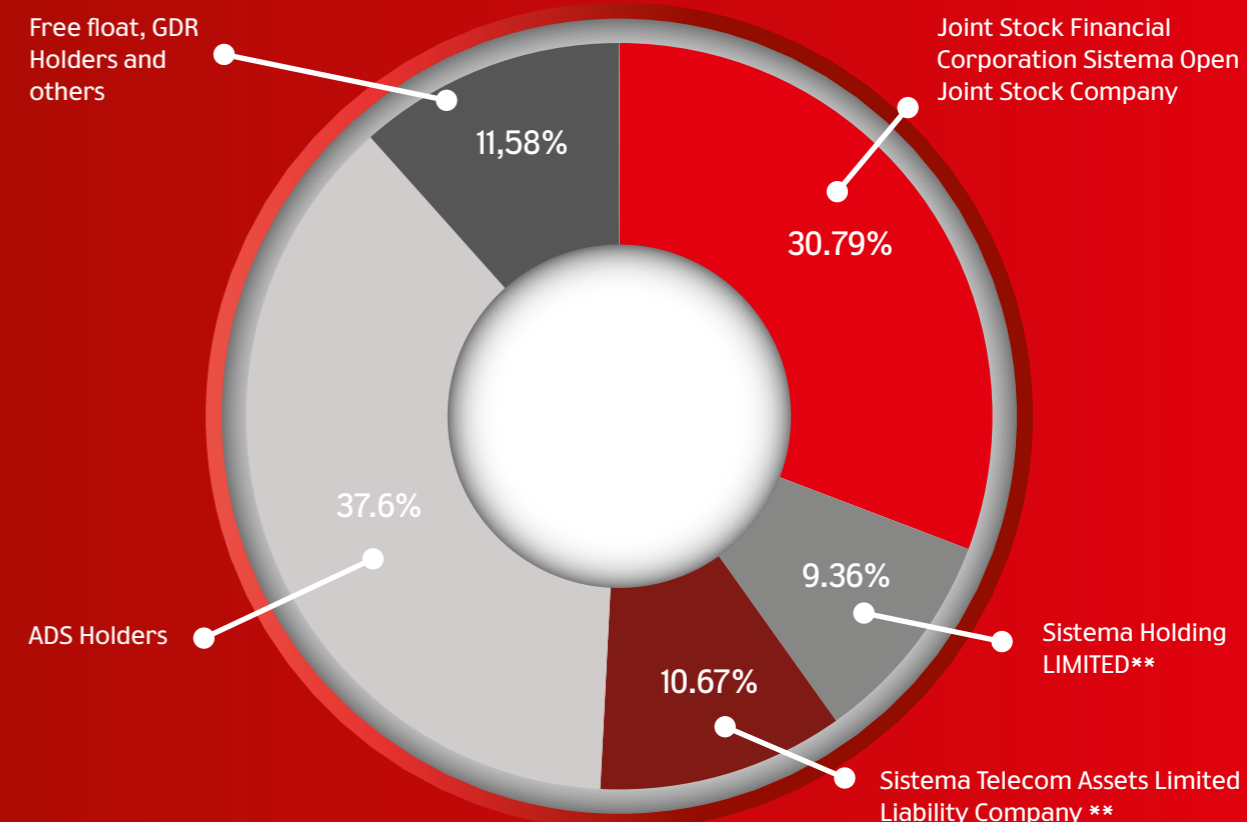
as of December 31, 2012

206641356.20 RUR

Outstanding and authorized shares of MTS OJSC as of December 31, 2012

Categories/classes of shares	Number of shares	Nominal value per share (RUR)
<b>Outstanding shares</b>		
Common shares	2,066,413,562	0.1
Preferred shares	0	0
<b>Authorized shares</b>		
Common shares	100,000,000	0.1
Preferred shares	0	0

### The registered shareholders of MTS OJSC As of December 31, 2012



\* Calculation of shareholders' stakes in MTS OJSC equity capital was carried out without consideration of the following assumptions:

- MGTS OJSC (subsidiary of MTS OJSC) owns 0.46% shares of MTS OJSC;
- MOBILE TELESYSTEMS BERMUDA Ltd. (subsidiary of MTS OJSC) holds 67,995,335 shares of MTS OJSC in the ADS form redeemed in the period of 2006–2008.

\*\* Sistema Holding Limited and Sistema Telecom Assets LLC are affiliated companies of AFK Sistema OJSC.

## Information on Company's securities

MTS successfully places its securities in international capital markets, attracting significant funds and investing them in the development of the company. This section contains information about the and bonds of MTS.

### Ordinary shares

MTS OJSC shares are traded at the leading Russian Stock Exchange (MICEX) and are quoted at the New York Stock Exchange.

At the New York stock exchange the MTS shares are quoted in the form of American Depositary Receipts – ADR. The ratio is 1 ADR to 2 shares.

### Information on stock exchange listings of MTS OJSC shares

Trading floor	Stockticker
NYSE, New York	MBT
MICEX, Moscow	MTSI

### Information on current listings and transaction prices is available in Russian and English at:

- <http://rts.micex.ru/>
- <http://www.nyse.com/about/listed/mbt.html>



### MTS OJSC share prices and volumes at MICEX (RUR), 2012

MICEX	Price (RUR)
Minimum price per share	185.96
Maximum price per share	254.70
Average daily trading volume	1,298,028
Price as of December 28, 2012	246.00



### Price and volume of American depositary receipts of MTS OJSC at NYSE (USD), 2012

NYSE	Price (USD)
Minimum price per share	14.94
Maximum price per share	20.07
Average daily trading volume	2,443,396
Price as of December 31, 2012	18.65

## Credit ratings of MTS issuer\*

Credit agencies Fitch, Moody's and Standard & Poor's assigned the following ratings to debt obligations of the Company:

Moody's	<b>Ba2</b> outlook stable
S&P	<b>BB</b> outlook stable
Fitch Ratings	<b>BB+</b> outlook stable

\* data as of December 31, 2012



## American depositary receipts

On June 30, 2000 MTS successfully placed an issue of American Depositary Receipts (ADR), Level 3, on the New York Stock Exchange (<http://www.nyse.com/about/listed/mbt.html>). MTS OJSC became the second Russian company that implemented the highest level ADR program.

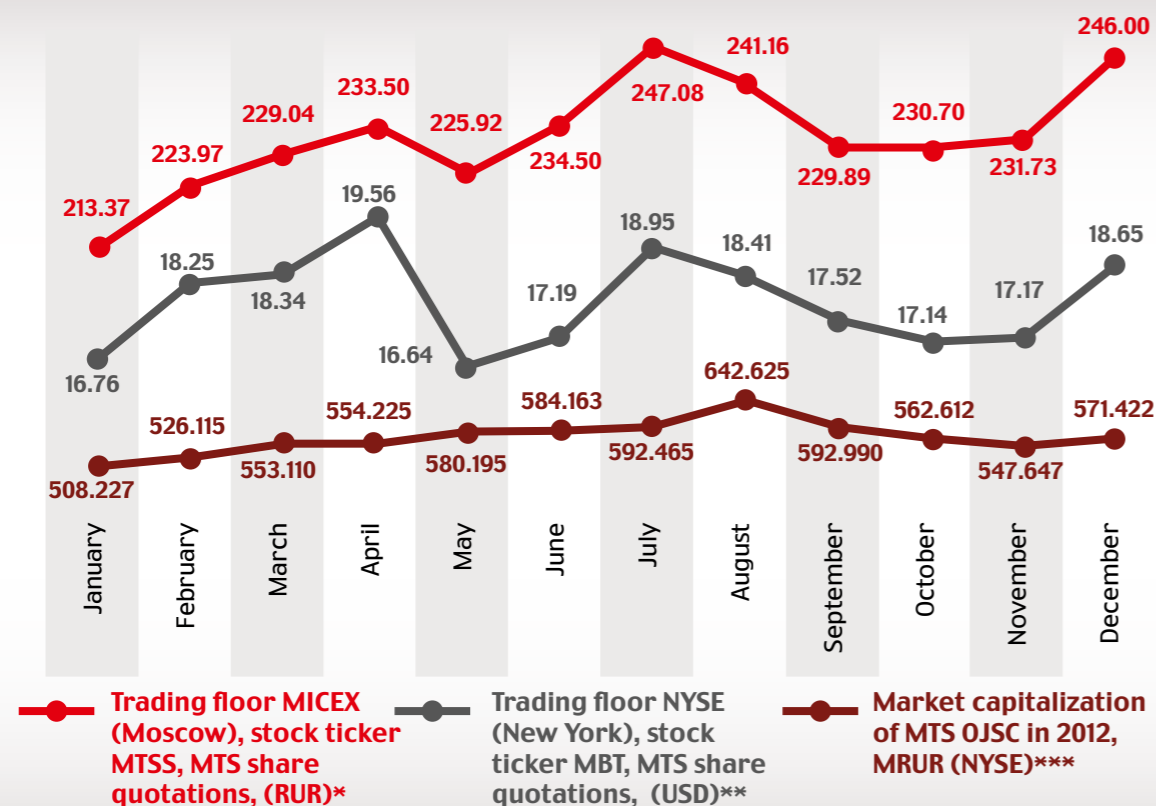
Currently ADRs of the Company are traded on the London Stock Exchange, Frankfurt Stock Exchange, Berlin Stock Exchange and Munich Stock Exchange. Main trading volumes fall on the New York Stock Exchange. Since October 3, 2003, MTS shares have been traded as non-listed securities on the Moscow Interbank Currency Exchange (<http://rts.micex.ru/>). In December 2003 MTS shares were included in the MICEX Quotation

List B. Since October 2010 MTS shares have been traded in the Quotation List A1.

On April 20, 2010 MTS OJSC announced a change of the ratio between ADRs and the Company's common shares starting from May 3, 2010. As a result, ADR to common shares ratio was changed from 1:5 to 1:2. Therefore, the holders of MTS ADRs as registered as of the end of the business day of April 28, 2010, received 1.5 additional ADRs per each ADR they had.

As of December 31, 2012 the total number of ADRs issued for registered common shares was 388,698,253, which equals to 777,396,505 registered common shares.

## Dynamics of MTS OJSC share prices, January 2012 – December 2012



\* Quotations are given as of the last trading day of the month, for MTS shares – weighted average.

\*\* Quotations are given as of the last trading day of the month, for ADR (NYSE) – closing price.

\*\*\* Capitalization is calculated as product of total quantity of MTS OJSC shares and weighted average price of one share calculated at ADR closing prices for shares of MTS OJSC (1 ADR = 2 common registered shares of MTS OJSC) at the New York Stock Exchange, multiplied by USD /RUR exchange rate established by the Central Bank as of the last day of the month.

## Company bond issues

MTS is one of the largest issuers of corporate bonds in Russia. The funds received as a result of the bond issue the Company uses for refinancing of its debt portfolio and for the implementation of the investment program.

### Basic details of bond issues:

Issuer	MTS International Funding Limited
Type of security	Eurobonds (144A/Reg S), secured by the Company
Coupon	8.625% fixed, payable semiannually
Issue price	100%
Currency of issue	US dollar
Amount of issue	750,000,000
Maturity date	June 22, 2020

The first issue of the MTS OJSC ruble denominated bonded loan for 10 billion rubles took place in June 2008. In October 2008 MTS OJSC placed two more issues of bonds for 10 billion rubles each. In May 2009 the ruble denominated bonded loan was issued for 15 billion rubles and in July 2009 one more bonded loan was issued for 15 billion rubles. On November 16, 2010 MTS OJSC placed two more issues of bonds for 10 and 15 billion rubles. The funds received from the bond issues were used for corporate purposes, for optimization of the Company's debt portfolio and implementation of the investment program.

In April of 2012 three bond issues of A, B, C series were placed for the total amount of 35,990,400 RUR by conversion of registered interest-bearing non-certificated inconvertible binds of OJSC

COMSTAR — United TeleSystems into registered interest-bearing non-certificated inconvertible bonds of MTS OJSC.

On May 10, 2012 MTS OJSC set a new coupon rate for the following coupon periods at 7.6% per annum that will be effective until the maturity date of Series 04 bonds.

On January 28, 2012 Eurobonds Mobile TeleSystems Finance SA were redeemed in the amount of U.S. \$ 400 million.

On July 26, 2012, offer of Series 05 bonds has been successfully completed and a new coupon rate was determined for subsequent coupon periods as 8.75% per annum, applicable to maturity.

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 01
Coupon	1–3 coupons — 14.01%, 4–10 coupons — 7% per annum
Issue price	100%
Currency of issue	Ruble
Amount of issue	10,000,000,000
Date of placement	October 23, 2008
Maturity date	October 17, 2013
ISIN Reg No.	RU000A0JQ0D4
Offer	–



Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 02
Coupon	1–3 coupons — 14.01%, 4–14 coupons — 7.75% per annum
Issue price	100%
Currency of issue	Ruble
Amount of issue	10,000,000,000
Date of placement	October 28, 2008
Maturity date	October 20, 2015
ISIN Reg No.	RU000A0JQ0E2
Offer	–

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 03
Coupon	1–4 coupon– 8.7%, 5–10 coupons — 8% per annum, 11–20 coupons — to be specified by the issuer
Issue price	100%
Currency of issue	Ruble
Amount of issue	10,000,000,000
Date of placement	June 24, 2008
Maturity date	June 12, 2018
ISIN Reg No.	RU000A0JPTJ4
Offer	June 20, 2013

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 04
Coupon	1,2 coupons — 16.75% per annum, 3–5 coupons — 7.6% per annum
Issue price	100%
Currency of issue	Ruble
Amount of issue	15 000 000 000
Date of placement	May 19, 2009
Maturity date	May 13, 2014
ISIN Reg No.	RU000A0JQ5E1
Offer	–

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 05
Coupon	1–3 coupons — 14.25% per annum, 4–7 coupons — 8.75% per annum
Issue price	100%
Currency of issue	Ruble
Amount of issue	15 000 000 000
Date of placement	July 28, 2009
Maturity date	July 19, 2016
ISIN Reg No.	RU000A0JQ8Q9
Offer	July 24, 2012

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 07
Coupon	1–14 coupons — 8.7% per annum
Issue price	100%
Currency of issue	Ruble
Amount of issue	10,000,000,000
Date of placement	November 16, 2010
Maturity date	November 07, 2017
ISIN Reg No.	RU000A0JR4H6
Offer	–

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 08
Coupon	1–10 coupons — 8.15% per annum, 11–20 coupons — to be specified by the issuer
Issue price	100%
Currency of issue	Ruble
Amount of issue	15 000 000 000
Date of placement	November 16, 2010
Maturity date	November 03, 2020
ISIN Reg No.	RU000A0JR4J2
Offer	November 12, 2015

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Registered interest-bearing non-certificated inconvertible bonds, Series A
Coupon	10% of the Bond par value for entire trading period .
Issue price	100%
Currency of issue	Ruble
Amount of issue	11 991 600
Date of placement	April 01, 2012
Maturity date	November 29, 2015
State registration No.	4–09–04715–A
Offer	–

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Registered interest-bearing non-certificated inconvertible bonds, Series B
Coupon	8% of the Bond par value for entire trading period.
Issue price	100%
Currency of issue	Ruble
Amount of issue	11 998 800
Date of placement	April 01, 2012
Maturity date	August 21, 2016
State registration No.	4–10–04715–A
Offer	–

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Registered interest-bearing non-certificated inconvertible bonds, Series C
Coupon	5% of the Bond par value for entire trading period.
Issue price	100%
Currency of issue	Ruble
Amount of issue	12,000,000
Date of placement	April 01, 2012
Maturity date	June 28, 2022
State registration No.	4–11–04715–A
Offer	–



## Cooperation with investors and shareholders

One of the key objectives of the Company is maintaining strong trust-based relationships with shareholders and investors based on principles of direct dialog in compliance with the existing legislation and general global practice.

One of the key objectives of the Company is maintaining strong trust-based relationships with shareholders and investors based on principles of direct dialog in compliance with the existing legislation and general global practice.

MTS OJSC do its best to observe interests of investors and shareholders and to establish trust relationships between MTS and its partners through enhanced transparency and openness of the Company's business.

In accordance with the principle of public availability, the Company publishes information on major events at the website of the New York Stock Exchange.

Besides, MTS places data at its official website. The sections "For Investors and Shareholders" (<http://www.mtsgsm.com/information/>) and "Corporate Governance" ([http://www.mtsgsm.com/information/corporate\\_governance/](http://www.mtsgsm.com/information/corporate_governance/)) contain internal corporate documents, annual reports, materials for shareholders' meetings, registrar and auditor details, information on dividend policy, IAS and RAS quarterly financial statements, share and bond quotations. You may find more detailed

information at the official website <http://www.mtsgsm.com/> in "For Investors and Shareholders" and "Corporate Governance" sections.

Maintenance and development of efficient dialog with stock market participants require continuous involvement of the Company's management. MTS representatives regularly participate in international conferences, hold meetings with investors.

Publication of financial results based on quarterly financial statements is accompanied with teleconferences with participation of MTS management. Published financial statements are supported with presentation visuals for better coverage of achieved results and presentation of the company's strategy.

MTS strives to continuously improve cooperation with investors and shareholders, leveraging experience of other companies, tracking recent changes in the legislation and advanced standards in this area.

For information related to the business of MTS, investors may refer to investor and shareholder relations offices.

**Corporate Governance Department, MTS OJSC:**  
Maxim Kalinin (Corporate Governance Director)  
Tel.: +7 (495) 911 6552. Fax: +7 (495) 911 6551.  
E-mail: [kama@mts.ru](mailto:kama@mts.ru).

**Corporate Finance and Investor Relations Department:**  
Josh Tulgan (Department Director)  
Tel.: +7 (495) 223 2025. Fax: +7 (495) 911 6567.  
E-mail: [ir@mts.ru](mailto:ir@mts.ru).

## Dividend policy

The main objective of MTS OJSC as the leading telecommunications group operating in fast-growing markets is to maintain sufficient resources and flexibility to meet its financial and operating requirements. At the same time, the Company continually seeks the ways to create shareholder value both through its commercial and financial strategies, including organic and inorganic development, and through management of the Company's capital.

MTS OJSC uses the practice of annual dividend payments as a part of its policy aimed at enhancing shareholder value. When determining the amount of dividends payable by the Company, the Board of Directors considers a variety of factors, including the prospects for revenue growth, requirements for capital expenses, cash flow from core operations, potential acquisition opportunities, as well as the Company's debt position. Decisions on dividends are proposed by the Board of Directors and later voted upon at an annual general meeting of MTS shareholders in the first half of the year.

MTS aims to return a minimum of 50% of net annual profit (according to US GAAP) to its shareholders through dividend payments, but this may vary depending on any of the above circumstances.

The regulation "On the dividend policy" is placed at the official MTS OJSC website at the address: <http://www.mtsgsm.com/information/dividends/>.

**Report on payment of declared (accrued) dividends for MTS OJSC shares**

**Total amount of dividends accrued for MTS OJSC shares following the results of 2011—30,396,943,497 RUR.**

Dividend amount per share — **14.71 RUR**

Total amount of dividends paid following the results of 2011 — **30,394,539,985.99 RUR.**

The obligation to shareholders to pay dividends was discharged by the Company in full

### Dividend history, 2004–2011

	2004	2005	2006	2007	2008	2009	2010	2011
Total dividend, MRUR	11.5	15.1	19.3	29.6	39.4	30.7	30.0	30.4
As% of net profit*	41	50	60	60	60	75 **	78	72
Per share, RUR	5.8	7.6	9.7	14.8	20.2	15.4	14.5	14.7
Dividend yield***	3.1	4.0	4.0	5.0	11.1	6.2	5.7	6.3

\* As% of net profit of the company according to US GAAP.

\*\* 75% of net profit of the company in 2011 according to US GAAP before a series of one-off write-offs or 99% of net profit of the company in 2011 according to US GAAP.

\*\*\* Calculated based on the share closing price at MICEX as of the date of record.

**MTS**

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Information for shareholders  
and investors

11

Information for Shareholders and Investors

**Financial schedule 2013\*****General meetings of shareholders**

June 25, 2013 Annual general meeting of MTS OJSC shareholders

**Meetings of the Board of Directors**

February 16, 2013

February 14, 2013

March 05, 2013

March 14, 2013.

April 11, 2013

May 23, 2013

MTS OJSC Board of Directors

June 25, 2013

July 25, 2013

September 19, 2013

October 24, 2013

December 19, 2013

**Publication of RAS financial statements**

Q1 2013 Q4 (12 months) 2012

Q2 2013 Q1 (3 months) 2013

Q3 2013 Q2 (6 months) 2013

Q4 2013 Q3 (9 months) 2013

**Publication of IAS financial statements**

Q1 2013 Q4 (12 months) 2012







Q2 2013 Q1 (3 months) 2013

Q3 2013 Q2 (6 months) 2013

Q4 2013 Q3 (9 months) 2013

\* The dates may be adjusted.

**MTS operations as reflected in awards and ratings 2012**

Rating/Contest/ Award	MTS rating/contest/ award nomination	Organizer/ Source
MTS is the most valuable Russian telecommunications brand		
 BRANDZ™ Top 100 most valuable global brands	The only Russian telecommunications brand in the ranking, 85th place	International agency Millward Brown Financial Times newspaper
MTS – the most successful Russian company		
 HayGroup®	High Performing Companies Rating	The only Russian company in the ranking International consulting group Hay Group
MTS – the best employer		
 Премия HR-бренд 2011	"HR-brand 2011" Award	Winner of the All-Russia category "FEDERATION" Recruitment holding HeadHunter
 hh.ru HeadHunter		Recruitment holding HeadHunter
 pwc	Russian Employers Rating	The best employer among Russian companies, 2nd place International consulting group PricewaterhouseCoopers
 ВЕДОМОСТИ THE WALL STREET JOURNAL, the Financial Times		"Vedomosti" newspaper

**MTS**

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Information for shareholders  
and investors

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Information for Shareholders and Investors

**CAREER**ru**hh**ru  
HeadHunter"Employers for  
the Youth" RatingBest employer for the  
youth among Russian  
companies, 2nd place

Youth portal Career.ru

Recruitment holding HeadHunter



Хрустальная Гарнитура™

International  
competition  
CCG Call Center  
Awards 2012  
"Crystal Headset"Winner in categories  
"Best contact center  
to work at", "Best  
customer service call-  
center"Community of professionals Call  
Center GuruNational Association and Guild of  
Contact Centers Managers"Crystal Pyramid  
2012"Winner of the  
nomination "HR-Project  
of the Year"

LBS International Conferences



INTERCOMM-2012

Winner in the category  
"Special View"  
Prize-winner in the  
nomination "Power of  
attraction"Non-profit Partnership  
for promotion of internal  
communications development**Директор  
по персоналу**"Human  
Resources  
Director"  
magazine awardWinner in the  
nomination "Best  
Innovative HR-  
Department Solution.""Human Resources Director"  
magazine  
International Academy for  
Leadership in Business and  
Administration (California, USA)

MTS – best company in the field of procurement

Procurement  
Leaders Awards  
2012Winner of "International  
Partnership Projects»  
(External Collaboration)  
nominationProcurement Leaders Network  
Procurement Leaders magazineNational  
procurement  
transparency  
rankingWinner in the  
category "Corporate  
Customers" (MTS) with  
"High Transparency"  
mark and "223-FZ  
Customers" (MGTS)  
with "Guaranteed  
Transparency" mark"National Association of Electronic  
Commerce Participants" (NAUET)  
Ministry of Economic Development  
Federal Antimonopoly Service  
(FAS)  
Accounts Chamber of the Russian  
Federation

MTS – a socially responsible company

**PEOPLEINVESTOR**  
КОМПАНИИ, ИНВЕСТИРУЮЩИЕ В ЛЮДЕЙ«PEOPLE  
INVESTOR-2012»Grand Prix in the  
category "Community  
Development"

Russian Managers Association

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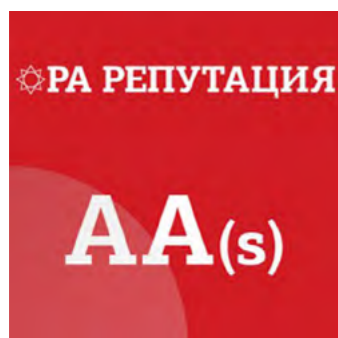
Information for shareholders  
and investors

11

Information for Shareholders and Investors

5th All-Russian  
Annual Study  
"Leaders in  
Corporate Charity  
2012"Prize-winner in the  
nomination "Best  
program promoting  
the development of  
volunteerism in Russia",  
8th place in the ranking

"Vedomosti" newspaper

International consulting group  
PricewaterhouseCoopersNon-commercial partnership of  
grantors "Donors Forum""RuNet Awards  
2012"Prize-winner in the  
nomination "Safe Runet"Federal Agency for Press and Mass  
CommunicationsNational  
Corporate Social  
Responsibility  
RatingRating "AA (s)", which  
indicates a high level  
of social responsibility  
of the company and  
effective CSR strategy

Rating Agency "Reputation"

"Trusted Brand"  
ResearchWinner in the category  
"Mobile Operator"International Publishing House  
Reader's Digest

## External Communications Awards

International  
award in the field  
of public relations  
PROBA-IPRA  
Golden World  
Awards 2012Prize-winner in the  
nomination "PR-project  
of the year"International Public Relations  
Association (IPRA)Russian Public Relations Association  
(RPRA)International communications  
company Ogilvy Public Relations  
WorldwideRating of PR  
creativity  
of Russian  
companiesWinner –  
PR-department of MTSRussian Public Relations Association  
(RPRA)Rating of media  
activity of Russian  
companies in PRMTS PR-department  
ranked among the  
Top-5Russian Public Relations Association  
(RPRA)

## Internal Communications Awards

All-Russian  
Contest "Best  
Corporate Media  
2012"Winner in the  
nomination "Clear  
relevance of the  
concept" (corporate  
magazine)Association of Communications  
and Corporate Media Directors of  
Russia (ACMR)Winner in the  
nomination "Social  
Media" (social network  
MTS Life)

Publishing house "MediaHouse"

Competition "Best  
Intranet Russia –  
2012"Winner in the  
nomination "Best  
implementation of social  
networks principles in  
Intranet system" (social  
network MTS Life)

Global Forum LLC



National Competition  
"Silver Threads  
2012"

Winner in the  
nomination "Best  
Intranet Portal" (MTS  
Portal)  
Special prize "Successful  
matching with target  
audience" (corporate  
magazine)

Academy of Communication and  
Information  
Consulting Group "Brand Project"  
Communication and PR  
technologies Agency "Media News"

#### Awards in the field of MTS products and services



National Award  
"Big Digit"

Winner in the category  
"Marketing promotion  
of telecom operator"  
"Winner in the category  
"Marketing promotion  
of telecom operator"

Cable TV Association of Russia  
Ministry of Telecom & Mass  
Communications of the Russian  
Federation  
Exhibition company "MID'expo"



Contest of  
marketing  
services industry  
"Silver Mercury  
2012"

Winner in the  
nomination "Best  
implementation of  
integrated campaign"  
Winner in the  
nomination "Best unsold  
/ unrealized campaign"

Russian Association of Marketing  
Services



Runet Award  
"Best Gadget"

Winner in the  
nomination "Best  
Operator"

Hi-Tech@Mail.Ru Portal



Runet Award  
"Golden Phone"

Winner in the  
nomination "Operator  
of the Year"

Portals Mobiset.ru, 3DNews Daily  
Digital Digest, iTRate.ru, iXBT.COM  
Resource "Internews"  
Women's magazine "myJane"

#### Achievements in the field of law and corporate governance

ЛУЧШИЕ ЮРИДИЧЕСКИЕ ДЕПАРТАМЕНТЫ  
международный конкурс



КОРПОРАТИВНЫЙ  
ЮРИСТ www.cij.ru

International  
Competition  
"Best Legal  
Department"

Winner in the  
nomination "Telecom"

Specialized legal magazine  
"Corporate Lawyer"

International publishing group  
Wolters Kluwer



АССОЦИАЦИЯ  
ПО ЗАЩИТЕ ПРАВ  
ИНВЕСТИТОРОВ

Competition  
"Russian  
Corporate  
Governance  
Leaders 2012"

Winner in the  
nomination "Company  
with the best dividend  
policy"

Association for Protection of  
Investors' Rights

XV ЕЖЕГОДНЫЙ ФЕДЕРАЛЬНЫЙ КОНКУРС  
ГODOVЫХ ОТЧЕТОВ И КОРПОРАТИВНЫХ САЙТОВ

Best Annual Report in  
"Telecommunications"  
industry

Magazine "Securities Market"

Prize-winner in the  
nomination "Best  
design, graphic design  
and the idea of the  
annual report"

Social network INVESTOR.RU  
FFMS of Russia



XV Annual Report  
Competition

Winner in the  
nomination "Best  
Disclosure of corporate  
governance information  
in the annual report"

Moscow Exchange OJSC



Open contest of  
annual reports  
of joint stock  
companies

Winner of "Transport  
and Communication"  
industry

Winner in the  
nomination "Best  
Debut"

Administration of Krasnodar  
Territory



## Awards of executives of MTS


АССОЦИАЦИЯ  
МЕНЕДЖЕРОВ

XIII Annual  
Ranking "Top  
1000 Russian  
Managers"

Leader in  
"Communications"  
industry

Russian Managers Association  
PH "Kommersant"

Коммерсант


Russian "Top 100  
Headhunters &  
HR Managers"  
ranking

1st place went to  
Nataliya Bereza, Vice  
President, Human  
Resources of MTS

Rodionov Publishing House –  
Format  
Business publications "Profile",  
"Career", "Company"

National Award  
"Media Manager  
of Russia-2012"

The winner was the  
Director of Public  
Relations of MTS Elena  
Kochanovskaya

Publishing house "MediaHouse"  
Professional magazine "Media  
News"  
Guild of Press Publishers  
National Association of  
Broadcasters  
Association of Directors of  
Communications and Corporate  
Media of Russia (ACMR)  
etc.

Professional  
Award in the field  
of information  
security "Silver  
Dagger"

The winner was the  
Director of Information  
Security Department of  
MTS Sergei Pradedov

National Forum of Information  
Security "Infoforum"

Prize "For  
strengthening the  
security of Russia"  
(ZUBR-2012)

Winner was Director of  
Information Security  
Department of MTS  
Sergei Pradedov

XVIII International Forum "Security  
Technologies"

VII National Award  
"Director of the  
Year"

Paul Ostling,  
independent member of  
the Board of Directors  
of MTS, ranked among  
the Top 50 Best  
Independent Directors

Ron Sommer, Chairman  
of the Board of  
Directors of MTS, ranked  
among the Top 25 Best  
Chairmen of the Board  
of Directors

Maksim Kalinin,  
Corporate Governance  
Director of MTS, ranked  
among the Top 25 Best  
Corporate Governance  
Directors – Corporate  
Secretaries

Association of Independent  
Directors

International Consulting Group  
PricewaterhouseCoopers

Russian Union of Industrialists and  
Entrepreneurs (RSPP)

# 12

## Company financial results 2012

In the past several years MTS Group OJSC has transformed from being the leader just in Moscow regional market into a major transnational operator, which provides services to 101.02 million subscribers in various regions and countries (including subscribers of Mobile TeleSystems JLLC in Belarus, whose financial results are not

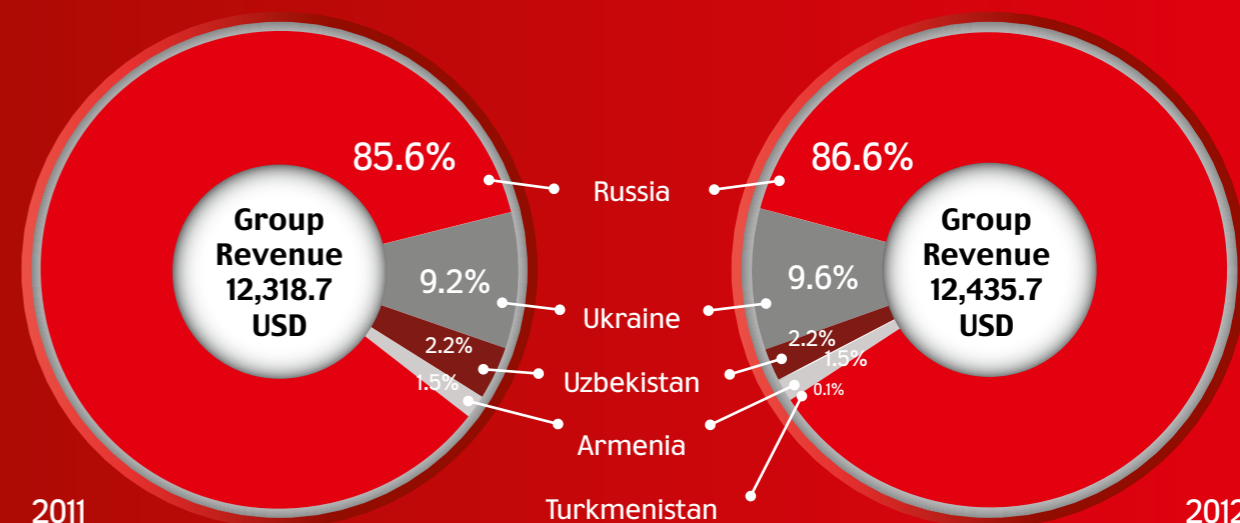
consolidated in the US GAAP financial statements of MTS OJSC)

Below we present the data of consolidated financial statements of MTS Group in 2012 (excluding the financial results of the MTS Group operations in the Republic of Belarus).

### Key financial indicators 2012 (MUSD)

Indicators	Q4 2012	Q4 2011	Q4 2012 vs. Q4 2011	Q3 2012	Change over the quarter	2012	2011	Change over the year
Revenue	3,168	2,982	6%	3,132	1%	12,436	12,319	1%
Adjusted OIBDA	1,288	1,276	1%	1,379	-7%	5,300	5,144	3%
Adjusted OIBDA margin	40.7%	42.8%	2.1 pp	44.0%	-3.3 pp	42.6%	41.8%	0.8 pp
Net OP	806	720	12%	825	-2%	1,996	2,809	-29%
OP margin	25.4%	24.1%	1.3 pp	26.3%	-0.9 pp	16.1%	22.8%	-6.7 pp
Net profit	547	393	39%	630	-13%	1,007	1,444	-30%

### Group Revenue



### Below is the analysis of key operating indicators of MTS Group in 2012 compared with 2011 figures.

Following the results of 2012 the MTS Group demonstrated growth of main financial indicators. Consolidated revenues increased by 1% year over year and amounted to 12.436 BUSD. The main driver of revenue growth was higher consumption of VAS services (+ 440.8 MUSD) as a result of improved quality and active promotion of these services in the market, development of 3G networks and growth of the mobile Internet penetration level. The consolidated revenues growth in 2012 was also supported by growth of revenues from traffic termination (+ 61.7 MUSD), higher revenues from sales of handsets and user equipment (+ 40.2 MUSD). The key growth driver

of traffic termination revenues was the increase of traffic volumes consumed by our competitors. Growth of revenues from sales of telephones and user equipment was stimulated by active expansion of our retail chain. MTS Group revenue from voice services decreased by 362.6 MUSD due to discontinuation of activities in Uzbekistan, as well as focus on promotion of VAS. Also, negative impact on the revenues of the MTS Group in 2012 as compared to 2011 was caused by depreciation of ruble against U.S. dollar by 5.8%, leading to the decrease in the dollar equivalent of revenues in functional currency of approximately 630.9 MUSD. The subscriber base of the company, excluding subscribers in Uzbekistan, as of December 31, 2012 increased to 95.5 million as compared to 91.8 million subscribers as of December 31, 2011.

Consolidated adjusted OIBDA was 5.300 BUSD, which is 3% higher than in the last year. OIBDA margin grew to 42.6% as compared to 41.8% year before. Growth of adjusted OIBDA margin is mainly associated with cost optimization programs (optimization of the number of retail chain staff and marketing departments of MTS, changing patterns of relationships with dealers).

Consolidated operating profit 2012 decreased by 29% as compared to the previous year to 1.996 BUSD. Operating profit margin at the same time also decreased from 22.8% in 2011 to 16.1% in 2012. The negative impact on the operating profit of MTS Group in 2012 was caused by impairment of our assets and accrual of liabilities under lawsuits

brought against Uzdurobita, the subsidiary of MTS Group in Uzbekistan. The effect of the impairment of assets and accrued liabilities under lawsuits in Uzbekistan on operating income 2012 was 1.029 BUSD.

Consolidated net profit for the year decreased by 30% to 1.007 BUSD, mainly due to impairment of assets and accrual of liabilities under lawsuits in Uzbekistan. With that, net profit margin in the period fell to 8.1% vs. 11.7% in 2011.

Cash flow from operations in 2012 increased by 10% to 4.237 BUSD, and free cash flow was 1.284 BUSD.

#### Revenue structure (MUSD)

Region	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2011	2012	Change over the year
Russia	2,555.0	2,604.3	2,670.0	2,757.6	2,838.5	10,632.3	10,870.4	+2%
Ukraine	289.7	277.7	300.1	333.3	299.9	1 142.6	1 210.9	+6%
Uzbekistan	114.9	115.7	132.8	26.0	–	441.0	274.5	–38%
Turkmenistan	–	–	–	1.1	9.5	–	10.6	–
Armenia	49.7	43.0	47.5	53.0	49.3	200.5	192.8	–4%

#### Adjusted OIBDA (MUSD)

Region	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2011	2012	Change over the year
Russia	1,102.8	1,123.9	1,188.1	1,251.4	1,192.7	4,526.4	4,756.4	+5%
Ukraine	143.7	132.6	155.6	177.1	150.2	548.3	615.6	+12%
Uzbekistan	60.7	51.3	72.3	(2.2)	(13.4)	231.4	107.9	–53%
Turkmenistan	(2.3)	(1.5)	(1.7)	(3.3)	3.0	0.3	(3.6)	–130%
Armenia	25.1	29.2	24.7	30.3	26.3	107.1	110.6	3%

#### Adjusted OIBDA MARGIN

Region	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2011	2012
Russia	43.2%	43.2%	44.5%	45.4%	42.0%	42.6%	43.8%
Ukraine	49.6%	47.8%	51.9%	53.1%	50.1%	48.0%	50.8%
Uzbekistan	52.8%	44.3%	54.4%	(8.6%)	–	52.5%	39.3%
Turkmenistan	–	–	–	(291.7%)	31.5%	–	(33.9%)
Armenia	50.5%	68.0%	52.0%	57.2%	53.4%	53.4%	57.4%

#### Summary

- Evolution of strategy and creation of a universal operator in mobile and fixed telecommunications services market pursuant to this strategy
- Successful implementation of the financial strategy with raising additional finance and reducing debt servicing costs
- Retaining leadership in the markets of presence through making sought-after offers to customers and provision of high quality services
- Ensuring growth of revenues from data services while expanding 3G network and launching innovative services
- Implementation of cost control and optimization programs to maintain profitability of company's operations.

Information on consolidated financial and operating results of MTS Group for Q4 2012 and 2012 can be found at: <http://www.mtsghm.com/resources/reports/2012/>.



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Information for shareholders  
and investors

13

Key risk factors

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## Key risk factors

### Macroeconomic risks

We are the operator providing subscribers with tariffed telecommunications services. Our financial condition and operating results, among other things, depend on the ability to pay of the population. Economies of our presence markets are influenced by the global economic downturn and slowdown of the global economy, and also

depend on dynamics of resource prices in the world market. Macroeconomic instability and slowdown of economic growth in the countries where we operate, may lead to a decrease in demand for the provided services, reduce our revenues and performance indicators.

### Financial risks

The considerable part of our expenses, costs and financial obligations, including capital expenses and loans, are denominated in USD and/or EUR, while the large portion of our expenses is denominated in local currencies of the countries of our presence. The situation in the markets of our presence, including stability of the banking system, inflation, change in exchange rates of local currencies against USD and/or EUR, impacts our operating performance and business results.

We plan to expand the infrastructure of our network by increasing coverage and capacity of our existing network in licensed territories, further development of our business in countries of our presence and other countries through acquisitions, usage of new technologies and new licenses. Rate of development of the Company and its financial standing depend on debt financing. Crisis of financial markets may restrict the ability of the Company to raise debt financing.

Contracts related to our bonds and bonds of our controlling shareholder, and also some loan agreements include restrictive provisions that limit our opportunities to raise loans and engage in various activities. Failure to comply with such contractual provisions could have resulted in default and, as a result, in a request to immediately repay the debt, which could have had negative effects for our business.

The system of taxation in the countries where we operate is undergoing constant changes, legislation in this area tends to have ambiguous interpretation. For example, poorly drafted Russian transfer pricing rules may increase the risk of price adjustment by tax authorities and lead to additional tax burden within transfer pricing control. This may complicate tax planning and related business processes, and may also have adverse material impact on our business, financial standing operating results.

### Regulatory and legal risks

Our business in the countries where we operated is regulated by governments, in particular, through licensing and laws. Legislation in the field of communication services is constantly changing. State authorities of the countries of our presence have high degree of discretion in terms of issuing, renewal, suspension and withdrawal of licenses, identification of criteria to classify companies in certain territories as monopolies, companies with dominant and / or a significant position, etc. State authorities may affect our financial standing and operating indicators by issuing appropriate laws and regulations that

govern our operations. Judicial systems in these countries are not always independent and can be subject to economic and political influence.

Being the company whose stock is traded in U.S. stock market, we are subject not only to Russian, but also American anti-corruption legislation (US Foreign Corrupt Practices Act), and potentially under anti-corruption law of Great Britain (UK Bribery Act). If an inconsistency of our actions with these requirements is revealed, this may result in criminal and / or civil law sanctions against us.

### Technological risks

We use radio frequencies distributed by the governments of the countries of our presence. Our network capacity and possibility of its expansion, which, among other things, is important to maintain our market share in terms of subscribers and profits, depends on the possibility of timely prolongation of the right for currently used radio frequencies and receiving new ones.

The ability to continuously provide communications services is one of the basic conditions of licenses and subscription contracts. Technology breakdowns during servicing of our network as a result of system failure, accident or violation of network security may adversely affect the ability to provide services to subscribers and our reputation.



## Competitive environment

Our business, performance indicators and financial position depend on competitive environment in the countries of our presence, demand for our services and efficiency of operations. The telecommunications market is characterized by rapid technological changes and characterized by continuous emergence of new competitive products and services.

Competition is growing in the markets of the countries where the Company operates, also from potential new mobile and fixed operators. Regional markets are at the most active development stage; besides, it is expected that competition in these markets will increase in the coming years (for instance, in part of broadband access services).

We invests in expanding portfolio of value added services and also in building the 3G and 4G communication system, developing wireless and fixed communication services, television and other new competitive services. Our competitive status, financial and performance indicators, among

other things, depend on success in implementation of these initiatives.

Rate of growth of our subscriber base, market share and revenues depend, among other factors, on the ability to expand our retail chain and on independent dealers market structure. Euroset Group, the largest retail trade operator in Russia, since 2012 has been owned in equal proportions by our competitors – VimpelCom OJSC and MegaFon OJSC. Despite the prohibition of discrimination in respect of any operators, contained in the resolution of the Federal Antimonopoly Service, we can not exclude the promotion of services of our competitors detrimentally to our services in the future\*.

\* Details about these and other risks can be found in the section "Item 3 – Key Information – D. Risk Factors" in Form 20-F Annual Report of MTS OJSC (link: <http://www.mtsgsm.com/resources/annual-reports/>), as well as in quarterly reports of MTS OJSC (link: <http://www.company.mts.ru/comp/ir/control/data/quarterly-reports/>)



## Social responsibility

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## Staff and HR policy

### Labor and compensation

As of December 31, 2012 MTS OJSC had 21,619 employees on its payroll list.



At present the Company has a competitive compensation system that consists of fixed and variable parts. Employees of the Company are provided with compensations package and benefits in line with the current labor market practice.

The fixed part of the position salary is determined taking into account the salary ranges established for each grade based on the analysis of the labour market in the region of presence and the Company's policy on positioning in the remuneration market.

The variable part is provided in the form of the incentive system, which establishes clear and transparent principles for setting target bonus amounts and calculating their actual amounts on the basis of key performance indicators and individual tasks set out in evaluation forms of all employees.

In addition to abovementioned incentive system the Company has established a bonus system

for employees engaged in sales and customer care, the basic principle of which is motivation for achieving specific results. The feature of the system is the salary structure with a larger variable portion and different payment frequency. A commission bonus scheme (direct percentage from sales) was introduced for employees of the Company responsible for direct sales.

MTS provides to its employees a wide compensation and benefits package, focused on social protection of workers. In 2012, on the basis of analysis of the existing compensation and benefits package and its comparison with the market, the Company has introduced a new benefit aimed at motivating and retaining employees engaged in customer care services.

Also in 2012, the Company placed emphasis on development and retention of the most effective and talented employees. A special long-term incentive program was developed and implemented for them

**Actions taken in 2011 allowed to:**

- improve effectiveness of labour costs;
- increase the package of compensations and benefits for the employees by strengthening its social component;
- maintain the image of an attractive employer, recruit and retain the best employees.

### Improvement of MTS OJSC organizational structure in 2012

#### 01.01.2012–31.12.2012

Changing of organizational structure and staffing in the Macro-regions and Regions of MTS OJSC as a part of the change of organizational structures and functions of the Corporate Center and implementation of integration project of organizational structure of MTS OJSC and COMSTAR-Regions OJSC

#### Result of changes

- Organizational changes are completed in the following areas:
  - Units working with B2B market;
  - Customer service centers;
  - Single service point;
  - Units of Technical Block.
- Preparations have been made (standardization of staff size, distribution of functions, coordination of proposals) for organizational changes in the following areas:
  - Marketing units;
  - Units working with retail market;
  - Units of Administrative Block;
  - Units of Procurement Block;
  - IT units.



## Units working with B2B market

- Integration of B2B units of COMSTAR–OTS OJSC into the structure of MTS OJSC.
- Integration of sales and service functions of mobile and fixed B2B market.
- Growth of control and optimization of management positions (96 positions / 28%) due to overlapping of manager competences related to sales of fixed and mobile communications. Increase in the span of control from 7.2 to 9.1 / 26%.
- A list of drivers and principles of calculating staff size generated, redistribution of staff between Macro–regions and Regions
- Separation of new the function "Presales" with 90 staff positions / 4% out of the existing staff of units.
- Saving IT costs U.S. \$ 109 thousand / year.

## Customer service centers

- Separation of "website" and "multisite" structures by sharing online functions and support functions.
- Consolidation of all off–line functions processing service requests (MTS, Comstar) in Smolensk (creating temporary sites for processing claims in Nizhny Novgorod and Ryazan before extension of the main site).
- Assigning Nizhny Novgorod site for customer care and sales for MGTS subscribers only.
- Identification of drivers and principles of formation of units based on staff number and functionalities.

## Single service center

- Optimization and standardization of organizational structure of SSC in connection with reorganization and transfer of accounting functions of subsidiaries and affiliates of MTS OJSC.
- Calculation of the number of units responsible for accounting functions, based on staff size drivers and optimization of staff size by 143 positions / 25%.
- Consolidation of units and increase of the span of control from 10 to 11.8 / 18%.

## Technical Block units

- Formation of a dedicated unit (division / department) of the fixed network, definition of the main areas of activity: development and maintenance of fixed access network, subscribing and supporting corporate clients.
- Combining functions of units developing switching subsystem and network platforms in the Switching Subsystem Development Department.
- Abolition of DES Operational and Technical Support Department, redistribution of functions for controlling the commissioning of communication facilities into commercial operation, control over the payment of use of radio frequency spectrum.
- Formation of Technical Department in the region.
- Approval of staff size drivers.
- Optimization of vacant staff positions by 276 positions / 6%.
- Consolidation of units and increase of the span of control from 4.7 to 7/49%.

## Change in organizational structure and staffing in Branches and Communication Service Centers of COMSTAR–Regions OJSC as a part of preparation for legal accession to MTS OJSC

- Organizational changes completed in the following areas:
  - Retail market sales units;
  - Marketing;
  - Financial Block

in 2012, main changes in the organizational structure of MTS OJSC were aimed at creating a chain of command for functions in Macro–regions and Region, as well as at preparation for implementation of legal accession processes of COMSTAR–Regions CJSC to MTS OJSC.

The aim of the organizational changes was the improvement of business manageability (development of model structure, reduction of management levels and increase of span of control, optimization of small structures), increase of the efficiency of the involved issues and approval processes, elimination of duplicate functions.



## Staff development

MTS OJSC has a systematic training model, based on strategic goals of the company and HR management objectives. The training system is also based on the Competences model of MTS Group and requirements for professional knowledge and skills of the employees.

The Company has a Corporate University, which sets the training standards and coordinates the processes in the field of training and development of employees. The Corporate University's objectives also include building the training systems for various subdivisions of the company. The Corporate University mission is to create conditions for improving employee performance and development of the MTS Group business through the provision of high-quality, innovative and system-based training.

### The basic goals of Staff Training and Development function:

- Ensuring system-based effective development of employees in competences which are crucial for the Company
- Forming skills, expertise, mindsets required by employees and managers for improving their performance in their current jobs
- Creation of tools for developing the Candidate Pool and Successors for key positions
- Arranging continuity of expertise/unique skills and experience
- Creation of self-training environment, where each manager and each employer is interested in the company's development and involved in

the processes of developing, maintaining and expanding the knowledge and skills in the company

### Staff training and development are carried out using the following forms and methods:

- **Induction training.** The Company conducts uniform, centralized induction training for all new employees, aimed at providing understanding of the Company business, culture and structure, as well as understanding of internal processes and organizational procedures by new employees. For new managers we provide additional programs introducing the Company's internal structure, business processes, and established interaction procedures. For existing employees we conduct team-building activities to enhance corporate spirit and strengthen corporate culture. The heads of Company functional subdivisions carry out training of existing employees according to the rules specified in bylaws. Functional seminars and master classes are conducted for newly implemented processes.
- **Vocational training.** The Company has a system of vocational training aimed at ensuring constant development of expertise and skills of the employees. Standards and contents of training programs, as well as norms for participation of employees in professional conferences, are set in accordance with the requirements for particular positions as well as in accordance with the requirements for professional knowledge of employees. Vocational training is planned based on the business needs of a particular sub-unit. This element of the training system accounts for the major portion of activities and the largest number of employees involved in training. Vocational training for frontline employees is provided



mainly through in-house resources according to uniform standards (taking into account regional differences).

- **Management training for managers.** The basis of this system is the concept of completion of individual training plan, as well as targeted and modular training of managers. Targeted and modular programs are mandatory for selected categories of managers, and individual training plans are created based on annual appraisal of managers' competences. Particular attention is given to train managers in the HR management methods (selection, appraisal, grading, feedback, creation of personalized development plans, mentoring, motivation of employees, etc.) and interaction with subordinates on the basis of uniform corporate standards. The important

objective of management training, apart from establishment of a uniform management approach of managers, is to motivate and to retain managers of the Company. The direction and content of managers training programs are determined based on the Company development strategy, the business objectives of sub-units, and the level of managers' competences according to the appraisal results.

- **Training of Candidate Pool members and the Successors for management positions.** The basis of the candidate pool training system is the individual development plans of each employee included in the Candidate Pool. The training programs are worked out individually based on the appraisal results and the level of competences.



Staff training and development are carried out using the following forms and methods:

- **Self-education.** The Company has provided the conditions for self-education of employees. The internal library of study materials by competences has been created.
- **Full-time training, workshops.** internal resources are actively involved in such trainings and workshops, in-house training programs are developed, and the Academy of Trainer's Excellence for training local trainers has been established;
- **Post-training follow-up.** Conducting follow up workshops on the subjects of completed training to reinforce skills and expertise of employees and to discuss the scope for using the acquired skills and expertise in practice;
- **Remote training.** Distance forms of training are actively used in the company for all types of training. Theory courses are conducted mainly in the distance form. Distance methods are also actively used to evaluate the effectiveness of training: to test the knowledge gained as result of training and to evaluate satisfaction with training programs, practical usefulness of training programs;
- **On-the-job training is deemed the preferred and most effective method.** One of the main objectives of a manager at any level is the professional growth of his or her subordinates. The Company established a mentorship system for all employees: from an intern to an expert;
- **Master classes of the Company's top managers.** The company's top managers actively participate in the training and development of the Company's employees. Master classes of the key managers

of the Company are held on a regular basis to give a message to the employees regarding the main objective of the Company and its strategy as well as to discuss the key projects. When holding master classes the top managers can get the feedback from the employees and discuss the prospective changes in their processes.

In addition, by the end of 2012, the following programs has been implemented in the Company:

- "Talent Management" program was launched for successors for leadership positions, high-potential employees (Hi-Po), specialists with unique expertise (Hi-Pro). For each of the target groups training programs have been developed, including the development of an individual development plan, 360 feedback scoring, master classes, workshops, business lunches with top executives, mentoring programs: training coverage in 2012 was 58,049 people.
- A modular development program for directors of MTS branches and successors to these positions – Academy of Success – has been carried out.
- In total annual workshops were attended by more than 2,000 employees. Master classes captured on video were posted in Remote Personnel Testing and Training System, where they can be virtually attended by the staff.
- Remote Personnel Testing and Training System (SDTO) is being developed. 41 new courses were added to Remote Personnel Testing and Training System, more than 200 new tests of professional knowledge of employees were developed.
- The share of training on data products and services increased to 30%. Information sessions on data strategy for all employees, including in

macro-regions, were held. Data strategy training has been completed by more than 57,000 employees in total.

- Electronic library with 100 business books was launched at corporate website together with publishing house.
- "Share Knowledge" project was started, where the employees who received external vocational training from providers, share the received information with colleagues in seminars / webinars / audio conferences.
- New training system for employees of Sales Block and Customer Service Block and Retail Chain of MTS was identified, depending on the life cycle / functional role of the employee.
- 26 training sessions for trainers were held, as a result of which 140 corporate trainers of MTS Group were trained.

In line with the Company's HR strategy new functional academies were developed and launched:

- **Customer Care School** for the employees engaged in servicing the MTS customers
- **Business Sales Academy** and Marketing Academy for Commercial Block employees
- **The Academy of Trainer Excellence** was introduced for training the MTS Group internal trainers. The objectives of the Academy include professional development of corporate and staff trainers of MTS Group and translation of the single philosophy/policy/training principles of the Company.
- **"Leadership Academy"** for high-potential employees of MTS Group. The key objectives of



the Academy include development of managerial and communication skills of high-potential professionals.

The criteria for sending employees for vocational training are the approved vocational training plans, formed by functional managers based on the annual appraisal results.

Induction training has to be completed by all new employees, and if a new regulation/process is introduced – by all existing employee of the Company.

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# Corporate social responsibility of MTS

We believe that by providing services to millions of customers, it is important to meet the expectations of society and to balance business interests and public interest.

MTS sees CSR as the responsibility for impact of its decisions and activities on society and the environment through transparent and ethical behavior that:

- contributes to sustainable development, promotion of health and social welfare;
- takes into account the expectations of stakeholders;
- integrated in the activities of the Company and implemented by the Company in practice;

- complies with the applicable legislation and is in line with the international conduct norms;
- contributes to information transparency of the Company and improvement of its corporate governance.

One of the MTS OJSC objectives is the integration of this responsibility into all aspects of activities of the Company .

The Company determines and implements its development strategy in accordance with the requirements of the society and consumers, and the main objective of this strategy is the improvement of the quality of life of a human being. By the quality of life MTS OJSC means the combination of social, economic and other criteria that reflect the level and extent of the welfare of a human being achieved in various spheres of life, as a basic precondition for a stable development of the civil society and an individual.

## Principles and strategy of corporate social responsibility

Key principles of socially responsible business of MTS are aimed at ensuring sustainable development of the Company, growth of its well-being of formation of a competitive economy. These principles are formulated taking into account the expectations of all stakeholders, and are enshrined in the Policy "Activities of MTS in the field of corporate social responsibility (CSR)", published

on the official website of the Company at: [www.mts.ru](http://www.mts.ru). It includes also social reports of MTS and major charity projects and CSR Company, information for providing feedback. MTS maintains constant dialogue with the target audience and provides possibility to obtain all the information about its social activities.

Strategy in the field of CSR is based on the business strategy of three "i" – "Integration", "Internet", "Innovations":

### Integration

Long-term programs in the field of support to local communities, development of corporate volunteering and consolidation of people around the idea of the "good cause" and charity.

### Internet

Creating hardware and awareness and education efforts for the safe and beneficial use of Internet and mobile communication by children and adults, protection of subscribers from unwanted content and other risks.

### Innovations

Search and attraction of new ideas for business, support of talented young people, development of intellectual potential of the sector and investment in the future of the country as part of a Open Innovation corporate program.



Today MTS is a true convergent operator. Recently we have acquired Comstar and MGTS companies, and a number of cable TV (CTV) and broadband (BB) Internet operators in various regions of Russia, thus obtaining the opportunity to meet the various demands of our customers – now our offers include mobile telephony, wired and wireless internet, digital TV. Such acquisitions contribute to transformation of MTS from a player focused on voice services into a data-company. Changes were made to strategic CSR plans 2012 in accordance with the new data-strategy of the Company. In particular, a data-component in planned activities was reinforced. Besides, corrections were made to the CSR Policy in line with the requirements of U.S. and UK anti-corruption legislation.

### CSR and charity management

At the stages of strategic planning and in our daily activities, we focus on corporate social responsibility principles. In risk management area compliance with the fundamental CSR principles serves as an effective tool to prevent negative situations and minimize their impact.

The main CSR management body is the Board of Directors of MTS, which approves the strategy of corporate social responsibility and social programs, controlling the consistency and effectiveness of their implementation. Vice-President, Human Resources, and the Department of Corporate Social Responsibility and Internal Communications of HR Block, established in 2012, are responsible for planning, direct implementation and consolidation of CSR activities. Planning and implementation of social initiatives of MTS in the regions is performed by employees of HR Department, appointed by the Directors of macro-regions.

The PR department develops a strategy of MTS Group charity activity and also coordinates all charitable projects of the company. The strategy and the report on results of charitable projects are approved by the Supervisory Board of Charity, which includes the members of the company's management board.

MTS conducts regular monitoring of CSR activities at both the regional and federal levels. All information on corporate social responsibility activities of the Company over the year in Russia and abroad, is consolidated in public Social report of MTS.

We also analyze the effectiveness of implementation of CSR policies based on target key performance indicators established during the planning stage, as reflected in CSR strategy of MTS. Based on the obtained results, the Company evaluates the relevance and completeness of CSR Policy. As a part of this assessment, the need for revision of activities in the area of corporate social responsibility for the next year or adjustment of target values is discussed.

### Responsible business

MTS implements the principle of responsible business. The company plans and carries out its activities in such a way that they contribute to changes in society, improve social climate, decrease social tension and stimulate the development of society. Social responsibility for MTS means active stance and reasonable assistance to the society, the state and a particular person where the Company has the opportunity to provide it.

A key principle of responsible business of MTS is a zero tolerance policy with respect to commercial bribery of public officials, as well as

prohibition of financing of political parties, organizations, movements and associations. MTS does not participate in CSR projects with the purpose of direct or indirect influence at decision-making or reward for making decisions representatives of state bodies, local authorities or other officials; is not involved in the projects in favor of political parties, organizations, movements and associations, is not involved in charitable projects with participation of state-owned companies or government officials, which are confidential and the disclosure of details about which would prejudice the Company or its employees.

### Responsibility of a telecom operator

MTS sees providing all consumers quality, innovative and affordable products and communication services as the main objective. MTS OJSC, as a telecom operator, is responsible for providing high quality services at fair prices, expanding network coverage and developing new affordable and socially significant telecommunication technologies. Accepting this responsibility, MTS OJSC implements specific social initiatives. One of the initiatives is development and offering of socially oriented tariffs, which would meet the requirements of certain socially vulnerable groups. Moreover, MTS permanently improves quality of provided communication services and customer care services, implements loyalty programs and new, more attractive tariff plans for mobile and fixed communication services, as well as for Internet access and pay-TV.

Throughout the reporting period, we have been consistently reducing the cost of call per minute (reduction for the year was 9%), including roaming, as well as the cost of mobile Internet services (the cost of data transmission for Internet users was reduced over the year by almost 46%).

### Equal opportunities

The problem of digital divide is an acute issue in the agenda of Russian society. Insufficient level of Internet penetration and advanced telecommunications services, particularly in the regions of Russia, is a limiting factor for innovative and more dynamic development of the country

The company makes the largest reasonably possible contribution to creation of equal opportunities for everyone through provision of equal access to modern technologies, innovative products and services, which contribute to the fulfillment of personal potential.

In particular, we implemented projects on launching of Internet- and TV-access services in remote districts of Russia, introduced special





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social tariffs and increased access rates without increasing the cost of services.

In 2012, MTS, with the support of Internet Development Fund and the "League of Nation's Health" launched a social educational project "Network for all ages", aimed at increasing Internet literacy and adaptation of older people in the information society. The project allows older people to acquire practical skills of using the Internet for everyday tasks. The training course covers topics such as navigation and search of information in the global network, communication via e-mail, instant messengers and social networking, online banking and e-commerce, government and social services, leisure and multimedia entertainment (photos, video, TV, radio), safety rules. In 2012, the program was launched at multiple sites in Moscow. In the future we plan to hold traveling seminars and regular online literacy classes in social service centers in Moscow and the city libraries. In 2013, the project will be launched in other regions of Russia.

### Innovations

We believe that improvement of life quality can be achieved through large-scale introduction of innovative technologies, products and services. Proliferation of innovations, their use in the day-to-day life contributes to formation of innovative way of thinking, which, in turn, supports the development of the society, contributes to the growth of economy and integration of the country into the world community.

In 2012, we held 2nd contest of youth innovation projects in the field of telecommunications "Telecom Idea". The purpose of the project – to identify and support promising ideas in the field of ICT, which can be in demand in business, innovative start-ups in social and public life, student

and academic communities. Innovative projects at any stage of development are accepted for participation in "Telecom Idea" – from idea to its implementation and operation, including technical solutions and software for communications systems, new services, mobile and web-based services, digital content, marketing and management solutions. In two years, "Telecom Idea" has become a platform for interaction and communication of talented young people interested in innovation in the field of ICT: the contest was attended by more than 350 projects from Russia, Ukraine and Belarus. The winners received prizes from organizers and partners of the competition and the opportunity to implement their projects together with MTS.

### Contribution to economic growth and social welfare

MTS growth strategy is based on significant investment in creation and development of telecommunications infrastructure. Activities of the Company are aimed at strengthening the high-tech segment of the economy and growth of investment attractiveness of the country. MTS supports state initiatives aimed at improving quality of life and welfare of society as a whole and all its citizens individually, and assists the state in implementation of these initiatives.

### Responsibility to the State

The State receives additional funds due to increased tax payments of MTS Group to budgets of different levels; contractors obtain additional funds due to increased orders of MTS Group for products and services, suppliers of capital benefit from increased financing of our investment programs. Activities of MTS Group results in significant financial effect, beneficiaries of which are a wide range of economic agents.

The activities of MTS in all markets of presence are solely based on the applicable law, including in the field of taxation, financial control, sanitary-epidemiological norms, labor law and the applicable anti-corruption laws.

### Social investments

We consider investments in the social sector as a long term investment that will not only contribute to the development of society, but also create the basis for sustainable development of the Company. MTS is committed to ensuring that our business contributes to socio-economic prosperity of the regions of Russia and countries of presence. We provide our customers new opportunities for communication, development, labor and creativity, making their lives more complete and diverse.

### Focus on results

One of the key principles of MTS in the field of social policy is to focus on achievable and measurable results. For the Company, this means a policy of meaningful social investments with predictable results, aimed at addressing the most pressing social issues in the public interest.

### Information transparency

We believe that a necessary condition for effective implementation of social policy is an ongoing dialogue with stakeholders. We inform the community about our activities in accordance

with the Russian law and international regulations established for listed companies. As a basic tool for disclosure of information about social activities of MTS, we use publication of annual social reports at information resources of the Company. We apply international standards in the preparation of non-financial reporting, as well as go through the procedure of its public endorsement.

MTS strategy in the area of social responsibility is based on continuous analysis of current business processes of the Company, the extent to which they correspond to the principles of socially responsible business, planning and implementation of projects that go beyond certain minimum statutory requirements and aimed at enhancing the positive impact of our business on society.

We are constantly striving to improve the effectiveness of our social policy, for which purpose are carefully study the best Russian and international practices in the field of CSR, as well as work with a variety of expertise and investment communities.

The activities of MTS in the field of disclosure are determined by the requirements of the Russian legislation, the U.S. Securities and Exchange Commission, New York Stock Exchange, the Charter and bylaws of the Company. According to the international rating agency Standard&Poor's, MTS has been one of the most transparent companies in Russia and the CIS during the past few years.

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## Charity policy

We believe that charity is one of the components of the Company social responsibility policy. Therefore our activities in this area are governed by the principles similar to the principles of the social policy of MTS OJSC.

- Projects aimed at the improvement of life quality in the society have the highest priority;
- We focus on long-term charity projects that contribute to solving the most acute social problems faced by broad layers of population and corresponding to government social policy priorities;
- We mainly interested in the projects that can be implemented on the largest possible scale in all countries where MTS OJSC operates;
- we implement the projects aimed at creation of equal conditions and opportunities both for the population of remote regions and major cities;
- We believe that modern innovative technologies make significant contribution to improving the quality of life, therefore charity projects, where our technologies, products and services contribute to achieving this objective, are of the highest priority for the Company;
- We believe that charity projects aimed at improving health as well as projects contributing to harmonious development of the young generation will be welcomed by the community to the greatest degree;

- We are open to cooperation with federal and regional authorities, nonprofit organizations and representatives of the business community within the framework of implementation of joint charity programs, which are compliant with the MTS OJSC social policy and charity policy, on equal partnership terms and subject to compliance with legal and other restrictions applicable to the Company.



For two years already Our Company has been successfully implementing the charitable program named “Do good!” ([www.dobroedelo.mts.ru](http://www.dobroedelo.mts.ru)). The purpose of the project is to assist children in need of urgent treatment. Having decided not to spend on corporate souvenirs, the company gave hope for productive and healthy life to children from different corners of Russia.

By 2012 help was provided to more than 30 kids.



Last year within the program “Do good!” we continued active cooperation with partner funds: “Sozidanie”, “Centre of Humanitarian Programs”, “Rusfond” and the fund of Konstantin Khabenskiy:

- MTS regularly donates funds for treatment of children;
- MTS provides high-level protection against fraud to funds with the help of its own internal security service, which inspects applications for donations;
- MTS provides mobile communications;
- MTS helps, if necessary with the medical expertise due to partnership with the insurance company ROSNO with a strong regional network of experts and doctors in the entire Russia.

The program “Do good!” helps to promote charitable movement in Russia, therefore the main objective is to involve employees, business partners and MTS subscribers into the project.



## Code of ethics and corporate conduct of MTS OJSC

The Code of Ethics and Corporate Conduct of MTS OJSC, hereinafter referred to as the Code, is the internal policy of the Company, the purpose of which is to set standards and requirements aimed at prevention of various abuses and facilitating fair and ethical business conduct. The Code specifies various aspects of interaction of MTS OJSC employees with the Company as an employer, corporate conduct standards as well as the rules for interaction of MTS OJSC employees with third parties. The Code is binding on all Company's employees irrespective of their position, and also on the members of the Board of Directors.

**The Code specifies rules and prohibitions in connection with the following aspects of the Company's and employees' activities:**

- Potential conflicts of interests
- Prohibition of any actions breaching anti-corruption laws of the Russian Federation, U.S. Foreign Corrupt Practices Act (FCPA), UK Bribery Act, similar legislation of countries where the Company operates, as well as MTS OJSC bylaws
- Gifts and entertainment events
- Use and protection of confidential information
- Operations with the securities of the company with the use of insider information
- Protection and use of the company's property
- Competition and fair dealing

- Information disclosure
- Observance of existing legislation and internal documents of MTS
- Aspects of MTS OJSC copyright protection and protection of other copyright holders
- Business communication with colleagues and partners
- Accounting and its documenting
- Prohibition of discrimination and any unsuitable conduct at a workplace
- Channels for receiving information on requirements of the Code and also methods to inform the Company on violations of regulations of the Code.

In 2012, in order to train MTS employees on the basics of the Code of Ethics and Corporate Conduct, we developed and implemented a special course with the identical name "Code of Ethics and Corporate Conduct". Throughout the reporting period, more than 10 thousand people listened to the course.

## Environmental protection

Any socially responsible company must run its business, taking into account the possible impact of its activities on the environment. At the core of MTS business is the principle of respect for nature – we aim to have minimal impact on the environment and reduce this impact as much as possible. Solving this task, the Company follows the requirements of environmental legislation and responsible business standards.

Environmental management is carried out by MTS in each Macro-region through responsible units. Responsibility for carrying out the necessary environmental measures is vested in Administrative Block, Department of Real Estate and Office Management Division.

Since the end of 2012, MTS has started implementation of ECO-Telecom project in all offices and subsidiaries in Russia and abroad. The purpose of the project is to encourage our employees to participate in solving social problems in the society, including those aimed at protection of the environment.

As a part of the project, MTS implements "Eco-Office" program, providing for introduction of principles of rational use of energy, office equipment consumables, separate trash collection and environmentally friendly waste disposal, as well as programs promoting respect for the environment. We try to take a broader look at the world around us, think about the conservation of nature and its resources.

An example of our proactive and committed attitude towards environmental issues are such eco-friendly initiatives as collection of waste



batteries (initiative launched in the last year), the days of "Paper-boom" – collection of waste paper in offices of MTS, tightening of the requirements and control over sorting and further processing of solid waste removed from the offices of the Company.

In 2012 MTS launched a federal program of energy efficiency aimed at optimization of power consumption by communication network equipment. The program includes the use of special M2M-modules and telematic services of MTS for online monitoring of power consumption and heat energy consumption by base stations and other components of the network infrastructure. Thanks to innovation technologies, the company was able to build a transparent system of analysis and accounting of power consumption, and implemented a number of cost saving measures, and accordingly save both the funds of the company and valuable natural resources.



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In several regions of Russia and CIS countries the Company uses alternative sources of energy for supplying to mobile network elements – base stations are powered from generators operating on hydrogen fuel elements and solar batteries.

Within the scope of the program for energy efficiency improvement the operator designed lighting systems based on energy-saving bulbs and LED lamps, and also introduced a technology for adjustment of light level depending on outdoor light.

development. Establishing corporate talent pool, Company provides all employees of the Group with the possibility to fully realize their talent and creativity and motivates them with increased salary in proportion to the growth of their responsibility.

We strive to build our relationships with suppliers on long-term and mutually profitable basis. Efficient co-operation with suppliers allows MTS Group to take advantage of new market opportunities, improve quality of services provided to customers, improve technology. The most important aspect of Company's corporate social responsibility is transparency of relationships with suppliers and partners, including in the field of procurement.

The dialogue with the users of MTS OJSC services, company employees, government officials, non-profit organizations and other stakeholders is carried out via various communication channels, the details of which are available on the corporate site at [www.mtsgsm.com](http://www.mtsgsm.com).

Our Company operates in every Russian region, neighbor and foreign countries. We care for social and economic development of these regions and the country as a whole, understanding that high indicators of their development are the key factors contributing to MTS long-term efficient operation. In the regions of presence, MTS actively co-operates both with governmental authorities and with local communities (population, non-governmental organizations and associations, public health authorities, trade unions and mass media).

## Interaction with stakeholders

Presently MTS is one of the leaders in the Russian telecommunication industry. In the present-day world telecommunications are presented in all economic activity processes and virtually are an integral part of any business activity. Telecommunications are information, entertainment, experience sharing and social adaptation tools in social environment.

Running our business, we interact with all stakeholders: shareholders and investors, employees, consumers, partners and suppliers, governmental authorities and local communities. MTS aims at identification of needs and expectations of each of them. As a part of relationships with the above groups, we are seeking to maintain the balance of interests; we establish dialogue and co-operation on the basis of principles of mutual respect, partnership and honesty. Dynamic business development, designing new strategies, development of new products and services, earning profit from operations for our shareholders are impossible unless such co-operation is established.

MTS is a joint stock company, where AFK Sistema OJSC is the main shareholder. Increase in MTS' stock capital value and return on investments of our shareholders are the main objectives of Company. MTS OJSC activities related to disclosure of information and interaction with

shareholders is governed by regulations of the U.S. Securities and Exchange Commission, New York Stock Exchange, Russian legislation, Company Charter and bylaws. We use a strict and thorough approach to preparation of financial statements, which ensures a high level of public information disclosure. All material financial and operating information published by the Company is audited by external auditors. Over the past several years MTS OJSC has been declared one of the most transparent companies in Russia and the CIS (according to the Standard & Poor's evaluations).

We respect and value our customers, and we believe that ongoing development of the business in a competitive environment is only possible subject to maintaining the highest quality of goods and services. Our activities are focused on improving the delivery of services and maintenance, simplifying the interaction with customers.

Our employees are the main driver of Company development. Care for employees is one of the Group main priorities determining the business success in the present-day market. Our Company is constantly working to improve social and labour relations. The main efforts include: safety and health protection of employees, social assistance, opportunities for career and personal

President of MTS OJSC

A.A. Dubovskov

Mobile TeleSystems OJSC  
Chief Accountant

A.V. Dvoretiskikh



## Consumption of power resources

### Information on MTS OJSC consumption of power resources in 2012 (in natural and monetary terms)

Resource	In physical terms	In monetary terms
Power	6,662,258,070.62 W/h	2,330,503,014.18 RUR.
Heat energy	39,905.01 Gcal	41,368,521.90 RUR
Water supply	240,840.19 m <sup>3</sup>	8,225,186.30 RUR
Petrol	3,498,640.57 l	82,717,111.88 RUR
Diesel fuel	4,110,216.63 l	99,885,143.97 RUR



## Glossary

MOU (Minutes Of Usage) – voice traffic volume in minutes.

ARPU (Average Revenue Per User) – average revenue per user

GPON (Gigabit Passive Optical Network) – gigabit passive optical network

3G (3rd Generation) – third generation

4G (4th Generation) – fourth generation

LTE (Long-Term Evolution) – fourth generation standard mobile communications

TDD (Time Division Duplex) – duplex communication with time division

FDD (Frequency Division Duplex) – duplex communication with division of transmission and receipt frequencies.

M2M (Machine-To-Machine) – interaction between machines

SaaS (Software as a Service) – Software as a Service

HSPA + (High Speed Packet Access Plus) – High Speed Packet Access Plus

MVNO (Mobile Virtual Network Operator) – virtual mobile operator

CDMA (Code Division Multiple Access) – code division multiple access

GSM (Global System for Mobile Communications) – global standard for digital mobile communications

Wi-Fi (Wireless Fidelity) – specification for wireless data transmission over radio channels.

UMTS (Universal Mobile Telecommunications System) – Universal Mobile Telecommunications System

VAS (Value Added Services) – services that bring additional income

Broadband – Broadband access

FOL – fiber-optic link

OIBDA (Operating Income Before Depreciation And Amortization) – analytical indicator that means operating income before depreciation and amortization of intangible assets.

CAPEX (CAPital EXpenditure) – capital expenditures

MICEX – Moscow Interbank Currency Exchange, Russia

NYSE – New York Stock Exchange, United States

FFMS – Federal Service for Financial Markets, Russia

SEC – Securities and Exchange Commission (The United States Securities and Exchange Commission), United States

ADR – American Depositary Receipts

IFRS – International Financial Reporting Standards

RAS – Russian Accounting Standards

US GAAP (Generally Accepted Accounting Principles) – a system of financial accounting standards and guidelines used in the U.S.

CSR – Corporate Social Responsibility



## Additional Company details

Information on Company	<p><b>Full corporate name of Company:</b></p> <ul style="list-style-type: none"><li>– in Russian: Открытое акционерное общество «Мобильные ТелеСистемы».</li><li>– in English: Mobile TeleSystems Open Joint Stock Company.</li></ul> <p><b>Abbreviated corporate name of Company:</b></p> <ul style="list-style-type: none"><li>– in Russian: ОАО «МТС» or ОАО «Мобильные ТелеСистемы».</li><li>– in English: MTS OJSC.</li></ul> <p><b>MTS OJSC Location:</b> 4, Marksistskaya Street, 109147, Moscow, Russian Federation <b>Tel.:</b> +7 (495) 911 6555. <b>Fax:</b> +7 (495) 911 6599.</p> <p><b>MTS OJSC Postal Address:</b> Bldg. 5, Cnstr. 2, Vorontsovskaya Street, 109147, Moscow, Russian Federation.</p> <p><b>E-Mail:</b> <a href="mailto:info@mts.ru">info@mts.ru</a>. <b>Website</b> <a href="http://www.mtsgsm.com">http://www.mtsgsm.com</a>.</p>
Information on the Investor Relations Department	<p><b>Location of the Investor Relations Department:</b> Bldg. 5, Cnstr. 2, Vorontsovskaya Street, 109147, Moscow, Russian Federation. <b>Tel.:</b> (495) 223 2025. <b>Fax:</b> (495) 911 6588. <b>E-Mail:</b> <a href="mailto:ir@mts.ru">ir@mts.ru</a>.</p>
Auditor	<p><b>Deloitte &amp; Touche CIS Close Joint Stock Company</b> Certificate of Membership in Non-Profit Partnership “Auditor Chamber of Russia” № 3026. Location: 5, Lesnaya Street, 125047, Moscow, Russian Federation <b>Tel.:</b> (495) 787 06 00. <b>Fax:</b> (495) 787 06 01. <b>Website</b> <a href="http://www.deloitte.com">http://www.deloitte.com</a>.</p>
Registrar	<p><b>Registrar NIKoil OJSC</b> License issued by FFMS of Russia № 10-000-1-00290 (perpetual license). Location: 8, Ivan Franko Street, 121108, Moscow. Telephone: For natural persons: (495) 926-8173. For legal entities: (495) 926-8161. <b>Fax:</b> (495) 926-8178. <b>Website</b> <a href="http://www.rcnikoil.ru">http://www.rcnikoil.ru</a>.</p>
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