MOBILE TELESYSTEMS OJSC
Form 20-F
April 24, 2014

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# Form 20-F

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

**or**

ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013**

**or**

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

**or**

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

**Date of event requiring this shell company report**
**Commission file number 333-12032**

# MOBILE TELESYSTEMS OJSC

(Exact name of Registrant as specified in its charter)

**Not Applicable**
(Translation of Registrant's name into English)

**RUSSIAN FEDERATION**
(Jurisdiction of incorporation or organization)

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

**Joshua B. Tulgan**
**Director, Investor Relations**
**Mobile TeleSystems OJSC**
**5 Vorontsovskaya Street, bldg. 2, 109147 Moscow Russian Federation**
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

**NONE**
(Title of Class)

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

**NONE**
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report 1,198,831,184 ordinary shares, par value 0.10 Russian rubles each and 388,698,252 American Depositary Shares as of December 31, 2013.

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

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

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

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

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

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

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

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

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

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

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

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

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Unless otherwise indicated or unless the context requires otherwise, references in this document to (i) "MTS," "the Group," "we," "us," or "our" refer to Mobile TeleSystems OJSC and its subsidiaries; (ii) "MTS Ukraine" is to MTS Ukraine Private Joint Stock Company (formerly CJSC Ukrainian Mobile Communications), our Ukrainian subsidiary; (iii) "MTS-Uzbekistan" is to Uzdunrobita, our former subsidiary in Uzbekistan, which was deconsolidated in 2013; (iv) "MTS-Turkmenistan" and "BCTI" are to Barash Communication Technologies, Inc., our Turkmenistan subsidiary; (v) "Comstar" or "Comstar-UTS" are to COMSTAR United TeleSystems, our fixed line subsidiary, which was merged into Mobile TeleSystems OJSC in 2011; (vi) "MGTS" is to Moscow City Telephone Network, our Moscow public switched telephone network ("PSTN") fixed line subsidiary; and (vii) "K-Telecom" or "VivaCell-MTS" are to K-Telecom CJSC, our Armenian subsidiary; and (viii) "Sistema" is to Sistema Joint-Stock Financial Corporation, our majority shareholder. We refer to Mobile TeleSystems LLC, our 49% owned equity investee in Belarus, as "MTS Belarus". We refer to MTS-Bank OJSC, our 26.3% owned equity investee as "MTS Bank". As MTS Belarus and MTS Bank are equity investees, our revenues and subscriber data do not include MTS Belarus and MTS Bank.

In 2013, we changed our reporting currency to the Russian Ruble. Previously, we have presented our consolidated financial statements in the U.S. Dollar. The change in the reporting currency is to allow a greater transparency of our financial and operating performance as it more closely reflects the profile of our revenue and operating income, a major portion of which are generated in Russian rubles. In accordance with authoritative guidance, comparative information was restated in Russian rubles.

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

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

| | Rubles per U.S. dollar | | | |
|---|---|---|---|---|
| **Years ended December 31,** | **High** | **Low** | **Average[(1)]** | **Period End** |
| 2009 | 36.43 | 28.67 | 31.72 | 30.24 |
| 2010 | 31.78 | 28.93 | 30.37 | 30.48 |
| 2011 | 32.68 | 27.26 | 29.38 | 32.20 |
| 2012 | 34.04 | 28.95 | 30.97 | 30.37 |
| 2013 | 33.47 | 29.93 | 31.98 | 32.73 |

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

| | Rubles per U.S. dollar | |
|---|---|---|
| | **High** | **Low** |
| July 2013 | 33.32 | 32.31 |
| August 2013 | 33.25 | 32.86 |
| September 2013 | 33.47 | 31.59 |
| October 2013 | 32.48 | 31.66 |
| November 2013 | 33.19 | 32.08 |
| December 2013 | 33.26 | 32.63 |
| January 2014 | 35.24 | 32.66 |
| February 2014 | 36.05 | 34.60 |
| March 2014 | 36.65 | 35.45 |

Source: CBR.

The exchange rate between the ruble and the U.S. dollar published by the CBR for April 24, 2014 was 35.66 rubles per U.S. dollar.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our strategies, future plans, economic outlook, industry trends and potential for future growth;
- our liquidity, capital resources and capital expenditures;
- our payment of dividends;
- our capital structure, including our indebtedness amounts;
- our ability to generate sufficient cash flow to meet our debt service obligations;
- our ability to achieve the anticipated levels of profitability;
- our ability to timely develop and introduce new products and services;
- our ability to obtain and maintain interconnect agreements;
- our ability to secure the necessary spectrum and network infrastructure equipment;
- our ability to meet license requirements and to obtain and maintain licenses and regulatory approvals;
- our ability to maintain adequate customer care and to manage our churn rate; and
- our ability to manage our rapid growth and train additional personnel.

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

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

- growth in demand for our services;
- changes in consumer preferences or demand for our products;
- availability of external financing on commercially acceptable terms;
- the developments of our markets;
- the highly competitive nature of our industry and changes to our business resulting from increased competition;
- the impact of regulatory initiatives;
- the rapid technological changes in our industry;
- cost and synergy of our recent acquisitions;
- the acceptance of new products and services by customers;
- the condition of the economies of Russia, Ukraine and certain other countries of the CIS;
- risks relating to legislation, regulation and taxation in Russia and certain other CIS countries, including laws, regulations, decrees and decisions governing each of the telecommunications industries in the countries where we operate, currency and exchange controls relating to entities in Russia and other countries where we operate and taxation legislation relating to entities in Russia and other countries where we operate, and their official interpretation by governmental and other regulatory bodies and by the courts of Russia and the CIS;
- political stability in Russia, Ukraine and certain other CIS countries; and
- the impact of general business and global economic conditions and other important factors described herein and from time to time in the reports filed by us with the U.S. Securities and Exchange Commission (the "SEC").

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

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## PART I

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

Not applicable.

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

Not applicable.

**Item 3.** ***Key Information***

**A. Selected Financial Data**

The selected consolidated financial data for the years ended December 31, 2011, 2012 and 2013, and as of December 31, 2012 and 2013, are derived from the audited consolidated financial statements, prepared in accordance with U.S. GAAP included elsewhere in this document. The numbers presented in the following table for the years ended December 31, 2009 and 2010 and as of December 31, 2009, 2010 and 2011were derived from our audited consolidated financial statements presented in U.S. dollars and not included in this document and restated in Russian rubles using average monthly exchange rates and period end exchange rates between the U.S. dollars and the Russian rubles based on data published by the CBR, except for data derived from statement of cash flows. Cash flows data for the years ended December 31, 2009 and 2010 were restated in Russian rubles using average annual rates between the U.S. dollar and the Russian ruble based on data published by the CBR. Our results of operations for all periods presented in the following table exclude financial data of Uzdunrobita, our former subsidiary in Uzbekistan. The results of operations of Uzdunrobita are reported as discontinued operations in our audited consolidated financial statements for the years ended December 31, 2011, 2012 and 2013, and as of December 31, 2012 and 2013.

Our results of operations are affected by acquisitions. Results of operations of acquired businesses are included in our audited consolidated financial statements from their respective dates of acquisition, other than with respect to our acquisition of certain subsidiaries of Sistema, as further described below.

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

In June 2010, we acquired a 15% ownership interest in TS-Retail OJSC ("TS-Retail") from Sistema for RUB 31 consequently increasing our effective ownership interest in TS-Retail to 49.6%. We subsequently increased our effective ownership interest in TS-Retail to 50.95%, which was achieved through a voluntary tender offer to purchase Comstar's shares in September 2010.

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

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In December 2010, we acquired a 100% ownership stake in Sistema Telecom, a subsidiary of Sistema which owns the egg-shaped logos each of the telecommunications companies operating within the Sistema group uses, including us, and a 45% ownership stake in TS-Retail, from Sistema for RUB 11.59 billion. As a result of this acquisition and the completion of our merger with Comstar on April 1, 2011, we currently own a 100% stake in TS-Retail.

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

The selected financial data should be read in conjunction with our audited consolidated financial statements, included elsewhere in this document, "Item 3. Key Information  D. Risk Factors" and "Item 5. Operating and Financial Review and Prospects." Certain industry and operating data are also provided below. The numbers presented in the following table for the years ended December 31, 2009 and 2010 and as of December 31, 2009, 2010 and 2011were derived from our audited consolidated financial statements presented in U.S. dollars and not included in this document and restated into Russian rubles using average monthly exchange rates and period end exchange rates between the U.S. dollar and the Russian ruble based on data published by the CBR, except for data derived from statement of cash flows. Cash flows data for the years ended December 31, 2009 and 2010 were restated in Russian rubles using average annual rates between the U.S. dollar and the Russian ruble based on data published by the CBR:

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 (restated, other than industry and operating data) | 2010 | 2011 | 2012 | 2013 |
| | (Amounts in millions of Russian Rubles, except share and per share amounts, industry and operating data and ratios) | | | | |
| **Consolidated statements of operations data:** | | | | | |
| Services revenue and connection fees | 287,726 | 308,007 | 322,546 | 349,338 | 371,950 |
| Sales of handsets and accessories | 11,042 | 21,542 | 26,025 | 28,902 | 26,493 |
| Total net operating revenues | 297,768 | 329,549 | 348,571 | 378,240 | 398,443 |
| **Operating expenses:** | | | | | |
| Cost of services, excluding depreciation and amortization shown separately below | 61,002 | 66,067 | 74,753 | 83,051 | 83,777 |
| Cost of handsets and accessories | 11,466 | 22,001 | 26,286 | 25,042 | 22,636 |
| Sales and marketing expenses | 22,249 | 25,143 | 24,800 | 21,667 | 22,861 |
| Depreciation and amortization expense | 55,532 | 57,197 | 63,932 | 67,910 | 73,253 |
| Sundry operating expenses[(1)] | 69,392 | 75,973 | 78,505 | 86,776 | 94,158 |
| Net operating income | 79,126 | 83,169 | 80,295 | 93,794 | 101,758 |
| Currency exchange and transaction loss/(gain) | 6,903 | (877) | 4,403 | (3,952) | 5,473 |

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| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 (restated, other than industry and operating data) | 2010 | 2011 | 2012 | 2013 |
| | (Amounts in millions of Russian Rubles, except share and per share amounts, industry and operating data and ratios) | | | | |
| **Other (income) expenses:** | | | | | |
| Interest income | (3,190) | (2,554) | (1,850) | (2,588) | (2,793) |
| Interest expense, net of capitalized interest | 17,812 | 23,578 | 19,333 | 17,673 | 15,498 |
| Equity in net income of associates | (1,907) | (2,147) | (1,430) | (869) | (2,472) |
| Impairment of investments | 10,856 | | | | |
| Change in fair value of derivatives | 160 | | | | |
| Other expenses, net | 942 | 1,983 | 180 | 688 | (10,636) |
| Total other expenses/(income), net | 24,672 | 20,860 | 16,233 | 14,904 | (403) |
| Income from continuing operations before provision for income taxes and noncontrolling interests | 45,003 | 58,934 | 59,659 | 82,842 | 96,688 |
| Provision for income taxes | 15,938 | 15,660 | 15,526 | 19,384 | 19,633 |
| Net income from continuing operations | 29,065 | 43,243 | 44,133 | 63,458 | 77,055 |
| Net income/(loss) from discontinued operations | 3,649 | 3,580 | 1,806 | (32,846) | 3,733 |
| Net (loss)/ income attributable to the noncontrolling interest | (394) | 5,080 | 3,624 | 970 | 949 |
| Net income attributable to the Group | 33,108 | 41,773 | 42,315 | 29,642 | 79,839 |
| Dividends declared[(2)] | 39,405 | 30,697 | 30,046 | 30,397 | 40,956 |
| Earnings per share, basic and diluted, RUB | 17.56 | 21.79 | 21.5 | 14.9 | 40.1 |
| Earnings per share from continuing operations, basic and diluted, RUB | 15.62 | 19.92 | 20.6 | 31.4 | 38.3 |
| Earnings/(loss) per share from discontinued operations, basic and diluted, RUB | 1.93 | 1.87 | 0.9 | (16.5) | 1.9 |
| Annual Dividends declared per share, rubles | 20.15 | 15.40 | 14.54 | 14.71 | 14.6 |
| Semi annual Dividends declared per share, rubles | | | | | 5.2 |
| Number of common shares outstanding | 1,916,869,262 | 1,916,869,262 | 1,988,916,837 | 1,988,919,177 | 1,988,831,184 |
| Weighted average number of common shares outstanding basic | 1,885,750,147 | 1,916,869,262 | 1,970,953,129 | 1,988,918,528 | 1,988,849,281 |
| Weighted average number of common shares outstanding diluted | 1,885,750,147 | 1,916,869,262 | 1,970,953,129 | 1,988,918,528 | 1,988,849,281 |
| **Consolidated statement of cash flows data:** | | | | | |
| Cash provided by operating activities | 113,957 | 109,851 | 113,562 | 132,123 | 159,377 |
| Cash used in investing activities | (72,253) | (66,254) | (77,210) | (93,367) | (96,671) |
| (of which capital expenditures)[(3)] | (73,861) | (80,391) | (72,802) | (87,783) | (81,575) |
| Cash provided by/(used in) financing activities | 4,154 | (92,214) | (5,630) | (75,346) | (55,145) |

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| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 (restated, other than industry and operating data) | 2010 | 2011 | 2012 | 2013 |
| | (Amounts in millions of Russian Rubles, except share and per share amounts, industry and operating data and ratios) | | | | |
| **Consolidated statement of financial position (end of period):** | | | | | |
| Cash, cash equivalents and short-term investments | 82,732 | 38,440 | 62,366 | 26,048 | 45,245 |
| Property, plant and equipment, net | 234,411 | 242,957 | 265,376 | 271,781 | 270,660 |
| Total assets | 476,784 | 441,246 | 493,474 | 454,978 | 485,524 |
| Total debt (long-term and short-term)[4] | 252,546 | 218,233 | 280,596 | 232,105 | 219,148 |
| Total shareholders' equity | 132,037 | 126,686 | 114,960 | 113,991 | 156,053 |
| Common stock less treasury stock | (25,884) | (25,884) | (24,255) | (24,255) | (24,275) |
| **Financial ratios (end of period):** | | | | | |
| Total debt/total capitalization[5] | 65.7% | 63.3% | 70.9% | 67.1% | 58.4% |
| **Mobile industry and operating data:[6]** | | | | | |
| Mobile penetration in Russia (end of period) | 143% | 151% | 157% | 161% | 170% |
| Mobile penetration in Ukraine (end of period) | 121% | 118% | 118% | 126% | 133% |
| Mobile subscribers in Russia (end of period, thousands)[7] | 69,342 | 71,442 | 69,954 | 71,227 | 75,322 |
| Mobile subscribers in Ukraine (end of period, thousands)[7] | 17,564 | 18,240 | 19,223 | 20,709 | 22,661 |
| Overall market share in Russia (end of period) | 33% | 33% | 31% | 31% | 31% |
| Overall market share in Ukraine (end of period) | 32% | 34% | 36% | 36% | 37% |
| Average monthly usage per subscriber in Russia (minutes)[8] | 213 | 234 | 269 | 304 | 327 |
| Average monthly usage per subscriber in Ukraine (minutes)[8] | 462 | 535 | 580 | 597 | 574 |
| Average monthly service revenue per subscriber in Russia[9], rubles | 248 | 253 | 273 | 297 | 308 |
| Average monthly service revenue per subscriber in Ukraine[9], rubles | 159 | 146 | 143 | 153 | 150 |
| Subscriber acquisition costs in Ukraine[10],rubles | 222 | 244 | 241 | 236 | 218 |
| Churn in Russia[11] | 38.3% | 45.9% | 47.6% | 42.4% | 36.3% |
| Churn in Ukraine[11] | 40.0% | 31.0% | 30.7% | 30.5% | 26.1% |

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

(2) Dividends declared in each of the years ended December 31, 2009, 2010, 2011, 2012 and 2013 were, in each case, in respect of the prior fiscal year (*i.e.*, in respect of each of the years ended December 31, 2008, 2009, 2010, 2011 and 2012, respectively). In addition, in 2013 the Group declared semi-annual dividends in amount of RUB 10.786 million. Includes dividends on treasury shares of RUB 1.421 million, RUB 1.086 million, RUB 1.127 million, RUB 1.140 million, RUB 1.133 million and RUB 405 million in respect of the years ended December 31, 2008, 2009, 2010, 2011, 2012 and 2013, respectively. At a meeting held on April 11, 2014, the Board recommended that an annual general meeting of shareholders approve annual dividends of RUB 18.6 per ordinary MTS share (RUB 37.2 per ADS), or a total of approximately RUB 38billion,based on the full-year 2013 financial results.

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

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

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

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

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

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

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

(10) In Ukraine, subscriber acquisition costs are calculated as total sales and marketing expenses, handset subsidies and cost of sim cards and vouchers for a given period divided by the total number of gross subscribers added during that period. In Russia, it is impracticable to calculate subscriber acquisition costs for the period as we now have the mobile and fixed line parts of the business combined in one reportable segment, "Russia."

(11) We define our churn as the total number of subscribers who cease to be a subscriber (see footnote 7 above for the definition of a "subscriber") during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber's request), expressed as a percentage of the average number of our subscribers during that period.

## B. Capitalization and Indebtedness

Not applicable.

## C. Reasons for the Offer and Use of Proceeds

Not applicable.

## D. Risk Factors

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

### Risks Relating to Business Operations in Emerging Markets

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

Investors in emerging markets such as the Russian Federation, Armenia, Ukraine, Turkmenistan, Kyrgyzstan, Uzbekistan and other CIS countries should be aware that these markets are subject to greater risk than more developed markets, including in some cases, significant legal, economic, tax and political risks. Investors should also note that emerging economies such as the economies of the Russian Federation and Ukraine are subject to rapid change and that the information set out herein may become outdated relatively quickly.

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Global financial or economic crises or even financial turmoil in any large emerging market country tend to adversely affect prices in equity markets of most or all emerging market countries as investors move their money to more stable, developed markets. Beginning in the second half of 2008, the Russian equity markets have been highly volatile, principally due to the impact of the global financial and economic crisis on the Russian economy as well as the current crisis in Ukraine. Such volatility has caused market regulators to temporarily suspend trading on the Moscow Interbank Currency Exchange ("MICEX") and the Russian Trading System ("RTS") multiple times. MICEX and RTS stock market indices have experienced significant overall declines since their peaks in May 2008, including an over ten percent fall during the first three months of 2014 in response to the current crisis in Ukraine and deepening concerns over the strength of the Russian economy. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies due to, *inter alia*, geopolitical disputes such as the current crisis in Ukraine, could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as funding sources are withdrawn. Furthermore, in doing business in various countries of the CIS, we face risks similar to (and sometimes greater than) those that we face in Russia and Ukraine. For example, see " Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations," and " The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations." Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in our securities.

**Risks Relating to Our Business**

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

The telecommunications industry is subject to rapid and significant changes in technology and is characterized by the continuous introduction of new products and services. The mobile telecommunications industry in Russia is also experiencing significant technological change, as evidenced by the introduction in recent years of new standards for radio telecommunications, such as Wi-Fi, Worldwide Inter-operability for Microwave Access ("Wi-Max"), Enhanced Data Rates for Global Evolution ("EDGE"), Universal Mobile Telecommunications System ("UMTS"), and Long Term Evolution ("LTE"), as well as ongoing improvements in the capacity and quality of communications, shorter development cycles for new products and enhancements and changes in customer requirements and preferences. Such continuing technological advances make it difficult to predict the extent of the future competition we may face and it is possible that existing, proposed or as yet undeveloped technologies will become dominant in the future and render the technologies we use less profitable or even obsolete. New products and services that are more commercially effective than our products and services may also be developed. Furthermore, we may not be successful in responding in a timely and cost-effective way to keep up with these developments. Changing our products or services in response to market demand may require the adoption of new technologies that could render many of the technologies that we are currently implementing less competitive or obsolete. To respond successfully to technological advances and emerging industry standards, we may require substantial capital expenditures and access to related or enabling technologies in order to integrate the new technology with our existing technology.

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

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

Our principal wireless competitors in Russia are Open Joint Stock Company "Vimpel Communications," or "Vimpelcom", and Open Joint Stock Company MegaFon ("MegaFon"). We also face competition from several regional operators and Tele2 Russia which is undergoing a reorganization (as described further below) that may lead to the creation of the fourth federal operator in the course of 2015.

In addition, on April 1, 2011, the Russian government completed the reorganization of state-controlled telecommunications companies Svyazinvest Telecommunications Investment Joint Stock Company ("Svyazinvest"), and Open Joint Stock Company Long-Distance and International Telecommunications Rostelecom ("Rostelecom"). As a result, Rostelecom is currently the largest fixed-line operator and fourth largest mobile operator in Russia.

In October 2010, Sistema and Svyazinvest entered into an exchange transaction, upon completion of which, Svyazinvest obtained control over 100% of the share capital in Sky Link, Sistema acquired the 23.33% stake in MGTS controlled by Svyazinvest and Comstar transferred 25% plus 1 share in Svyazinvest to Rostelecom for cash consideration of 26 billion rubles. Sky Link is a Moscow-based code division multiple access ("CDMA") operator holding GSM licenses for a majority of Russian regions. In July 2012, Rostelecom acquired 100% of Sky Link which at the time of this acquisition held licenses in 76 Russian regions covering more than 90% of the total Russian population. In addition, Rostelecom won tenders for 39 out of 40 licenses to provide fourth-generation ("4G") wireless services within the 2.3-2.4 GHz frequency band and in November 2011 received permission from the Ministry of Defense to use the allotted frequencies for the creation of a 4G network.

On April 4, 2013, the Federal Antimonopoly Service approved a transaction for Airport Alliance, a member of VTB Group, to acquire 100% of Tele2 Russia, which was later completed. Subsequently, VTB Bank sold 50% of Tele2 Russia to a consortium of private investors, including affiliates of Bank "Rossiya", whose main shareholder is Mr. Yury Kovalchuk, and also entities linked to Mr. Alexey Mordashov. Both of these individuals are reputedly among Russia's most successful and influential businessmen. On December, 30, 2013 shareholders of Rostelecom approved a reorganization plan which led to the spin-out of its mobile business into RT-Mobile Ltd. It is reported that RT-Mobile Ltd's business has been contributed as capital for a new joint venture concluded between Rostelecom and Tele2 Russia, under the name of "T2 Rus Holding". During the first stage of integration, seven subsidiaries of Rostelecom will become part of T2 Rus Holding, while under the second stage Rostelecom will contribute 100% of RT-Mobile into the joint venture's equity capital and consequently will acquire a 45% share in it. The second stage of the transaction is planned to be completed by the end of 2014. In 2014, T2 Rus Holding will be reorganized into T2 RTK Holding and is scheduled to start operations under the Tele2 brand in more than 60 regions of Russia. Therefore T2 RTK Holding may become one of the key players in the mobile telecommunications market in Russia, which may materially adversely affect our business, financial condition and results of operations.

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

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

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

Competition in the Ukrainian wireless telecommunications market has significantly intensified over the last several years and may further intensify as a result of the current political crisis. See "  Political and Social Risks  Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations," and "  A deterioration in relations between Russia and other former Soviet republics and/or the United States and the European Union could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs."

In October 2010, the Antimonopoly Committee of Ukraine (the "AMC"), approved the merger of Kyivstar, our primary mobile competitor in Ukraine, with URS and Golden Telecom Ukraine, a Ukrainian mobile operator controlled by Vimpelcom, in connection with Vimpelcom's restructuring. On September 4, 2013, Golden Telecom ceased to provide mobile telecommunication services in Ukraine, and its subscribers were invited to re-connect to Kyivstar. It is not clear how the Vimpelcom restructuring in Ukraine will affect our operations. Aggressive pricing by our competitors in Ukraine, driven primarily by Astelit, has driven down the price per minute levels in recent years for mobile communication, which in conjunction with the economic crisis in Ukraine has contributed to the slowdown in the growth rate of the Ukrainian wireless telecommunications market. Presently, the controlled rise of prices, monetization of services, the customer experience of our services and value for money are the most important drivers for the competitive situation in Ukraine. However, we may face additional competition from other European telecommunication companies in the future in the event that Ukraine enters into cooperation agreements with or accedes into the European Union and is required to liberalize access to its telecoms markets for other European operators. These factors may adversely affect our own business, financial condition and results of operations.

The competitive situation for our services in Ukraine may also be influenced by the expected introduction of a mobile number portability ("MNP") service from July 1, 2014 (however due to technical delays by the company responsible for administrating the ported numbers data base, the MNP launch is likely to be postponed until the end of 2014), and also by the sale by the SKM company of Trimob (the only operator in Ukraine with a UMTS license). Similar provisions regarding MNP are already in force in Russia, see also "  Legal Risks and Uncertainties  Regulatory changes in Russia, including the reduction of settlement rate, the mobile number portability principle and others may have a material adverse effect on our financial condition and results of operations."

In Belarus, we face increasing competition and aggressive pricing from Best CJSC, a subsidiary of System Capital Management and Turkcell Iletisim Hizmetleri A.S. ("Turkcell") operating in Belarus under the "life:)" brand. Additionally, in 2011, the government of Belarus announced its intention to hold a public tender to privatize a 51% ownership interest in MTS Belarus with an opening price of $1.0 billion (RUB 29.4 billion). The public tender was scheduled to be held on December 23, 2011, but was cancelled due to a lack of bidders, and is now expected to be held by the State Property Committee of Belarus in 2014 with subsequent reduction in price. The terms of share disposal have not yet been determined, although it may be conducted either through a public tender or by entering into a direct contract with a particular purchaser. If we are unable to acquire this ownership interest at a commercially reasonable price, or if it is acquired by one of our competitors, it may impact our competitive position and results of operations in Belarus.

We also face competition in Armenia. In 2009, France Telecom operating under the Orange brand entered the Armenian telecommunications market and began offering voice and data transmission services, as well as mobile phones at highly competitive prices. By the end of 2013, Orange had a market share of 16.6% and continued to pursue its strategy of providing telecommunication services (voice and internet) at highly competitive prices.

Following the resumption of our operations in Turkmenistan we continue to face price competition from our main competitor Altyn Asyr on international roaming rates and also capacity restrictions that impact on the development of our third-generation "3G" mobile data network in Turkmenistan. MTS-Turkmenistan is required to route both international traffic signals as well as domestic traffic signals entirely through the telecommunications network infrastructure of the state owned telecom operator Turkmentelekom. However, in spite of our further requests for additional network capacity in accordance with our interconnection agreements with Turkmentelekom, there has not been a corresponding increase in capacity made available to us to accommodate the volume of MTS-Turkmenistan's traffic signals. In addition, Turkmentelekom may also refuse to lease communication lines needed for the day-to-day operation of MTS-Turkmenistan's 3G network. As a result, the data service of MTS-Turkmenistan could become less attractive for the subscribers, which could adversely affect the results of our operations in Turkmenistan.

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

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

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits, along with various other anti-corruption laws. We may also be subject to the UK Bribery Act. The UK Bribery Act is broader in scope than the FCPA in that it directly addresses commercial

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bribery in addition to bribery of government officials and it does not recognize certain exceptions, notably facilitation payments that are permitted by the FCPA.

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

As previously disclosed, in March 2014, we received requests for the provision of information from the United States Securities and Exchange Commission and the United States Department of Justice relating to an investigation of the Group's former subsidiary in Uzbekistan. See also Note 4 to our audited consolidated financial statements. As the aforementioned US government investigations are at an early stage, we cannot predict the outcome of the investigations, including any fines or penalties that may be imposed, and such fines or penalties could be significant. Any investigation of any potential violations of the FCPA, the UK Bribery Act or other anti-corruption laws by US, UK or foreign authorities could have an adverse impact on our business, financial condition and results of operations.

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

We are controlled by Sistema, which owns 51.46% of our total charter capital (53.47% excluding treasury shares). If not otherwise required by Russian law and/or our charter, resolutions at a shareholders' meeting are adopted by a simple majority in a meeting at which shareholders holding more than half of the issued share capital are present or represented. Accordingly, Sistema has the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as it holds, either directly or indirectly, a majority of our shares, Sistema will control the appointment of a majority of directors and removal of all directors. Sistema is also able to control or significantly influence the outcome of any vote on matters which require three-quarters majority vote of a shareholders' meeting, such as amendments to the charter, proposed reorganizations substantial asset sales, and other major corporate transactions, among other things. Thus, Sistema can take actions that may conflict with the interests of other security holders. In addition, under certain circumstances, a disposition by Sistema of its controlling stake in our company could harm our business. See also " Risks Relating to Our Financial Condition If a change in control occurs, our noteholders and other debt holders may require us to redeem notes or other debt, which could have a material adverse effect on our financial condition and results of operations."

Sistema has a significant amount of outstanding debt. As of December 31, 2013, Sistema had consolidated indebtedness of approximately $41 million (RUB 1,342 million) of short-term debt, $2.47 billion (RUB 80,841 million) comprising the short-term portion of its long-term debt, and $10.8 billion (RUB 353 billion) of long-term debt (net of the short-term portion). At the corporate level, Sistema had $8.99 million (RUB 291 million) of short-term debt, $574.5 million (RUB 18,803 million) comprising the short-term portion of its long-term debt, and $991.1 million (RUB 32,438 million) of long-term debt (net of the short-term portion). Therefore, Sistema will require significant funds to meet its obligations, which may come in part from dividends paid by its subsidiaries, including us.

Sistema voted in favor of declaring dividends of RUB 39,405 million in 2009 for 2008, RUB 30,697 million in 2010 for 2009, RUB 30,046 million in 2011 for 2010, RUB 30,397 million in 2012 for 2011 and RUB 40,956 million in 2013 for 2012 and half-year 2013. Annual dividends are calculated at the exchange rate on the date when dividends are declared at the Annual General Meeting of Shareholders. The indentures relating to our outstanding notes and other debt do not restrict our ability to pay dividends. As a result of paying dividends, our reliance on external sources of financing may increase, our credit rating may decrease, and our cash flow and ability to repay our debt obligations, or make capital expenditures, investments and acquisitions could be materially adversely affected. Furthermore, our credit ratings can be and have been affected in the past by Sistema's activity and credit ratings.

***Failure to effectively implement our geographic expansion strategy as well as difficulties with operational management of the acquired businesses could hamper our continued growth and profitability.***

Our continued growth depends, in part, on our ability to identify attractive opportunities in markets that will grow and on our ability to manage the operations of acquired or newly established businesses. Our strategy contemplates the acquisition of additional operations within the CIS in both the mobile and fixed broadband segments. These acquisitions may occur in countries that represent new operating environments for us and, in many instances, may be located a great distance from our corporate headquarters in Russia. We therefore may have less control over their activities. We may also face uncertainties with respect to the operational and financial needs of these businesses, and may, in the course of our acquisitions, incur additional debt to finance the acquisitions and/or take on substantial existing debt of the acquired companies. In addition, we anticipate that the countries into which we may expand will be emerging markets and, as with countries of our current presence, subject to greater political, economic, social and legal risks than more developed markets.

For example, see " Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations," and " The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations."

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

***Acquisitions and mergers may pose significant risks to our business.***

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

Prior to 2009, most of our acquisitions were of regional operators with a focus on expanding our network and subscriber footprint. In 2011 and 2012, our acquisitions focus shifted to acquiring a minority stake in a subsidiary company of Multiregion JSC and other regional cable TV and broadband providers in furtherance of our strategy to become a provider of integrated telecommunications services. In 2010, we also acquired Sistema Telecom in order to obtain full control over our logos.

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These and other business combinations entail a number of risks that could materially and adversely affect our business, financial condition, results of operations and prospects, including the following:

- incorrect assessment of the value of any acquired target;
- assumption of the acquired target's liabilities and contingencies;
- failure to realize any of the anticipated benefits or synergies from any acquisitions or investments we complete;
- problems integrating the acquired businesses, technologies or products into our operations;
- incurrence of debt to finance acquisitions and higher debt service costs related thereto;
- difficulties in retaining business relationships with suppliers and customers of the acquired company;
- risks associated with businesses and markets in which we lack experience, including political, economic, social, legal and regulatory risks and uncertainties;
- more onerous government regulation;
- potential loss of key employees of the acquired company;
- potential write-offs of acquired assets; and
- lawsuits arising out of disputes over ownership of acquired assets and/or the enforcement of indemnities relating to the title to such assets.

In 2009, for example, we had write downs of $349.4 million (RUB 11,084 million) related to Comstar's investment in Svyazinvest, the government-controlled holding for fixed line telephone companies, which contributed to our loss in the fourth quarter of 2009.

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

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

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

We may also be involved in various litigation to protect our title or other rights related to acquired businesses and incur some unpredicted loss. For example, in December 2005, we acquired a 51% stake in Tarino Limited from Nomihold Securities Inc. for $150.0 million (RUB 4,322 million) in cash and entered into a put and call option agreement for the remaining 49% interest for a price of $170 million

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(RUB 4,898 million) as we believed, that at that time it was the indirect owner of Bitel, a Kyrgyz company holding GSM 900/1800 license for the entire territory of Kyrgyzstan. In the same year, following a decision of the Kyrgyz Supreme Court, Bitel's offices were seized by a third party and we lost operational control over Bitel. In 2007, Nomihold Securities Inc. exercised the put option for the remaining stake in Bitel. During 2005-2013 we wrote down more than $320 million (RUB 8,798 million) relating to the loss of Bitel and other litigation with Nomihold Securities Inc. During the same period we also had other litigation in various jurisdictions to defend our rights relating to Bitel and its assets. In June 2013, an agreement was reached between Nomihold and other associated parties to settle all the claims arising in relation to Bitel and its assets, pursuant to which all proceedings between all the parties involved in such litigation were discontinued and waived and we received a total payment in cash in the amount of $150 million (RUB 4,909 million). The settlement also fully discharged all our outstanding obligations to Nomihold Securities Inc. As a result of the settlement, we released a provision relating to the exercise the put option for acquisition of the remaining stake in Bitel plus damages, interest and other cost that have been provided for in relation to the dispute with Nomihold. See also Note 27 to our audited consolidated financial statements. In addition, a merger, as well as any corporate reorganization and any business combination that constitutes a "major transaction" under Russian law, would trigger the right of our shareholders who abstain from voting on or vote against such reorganization or transaction to sell, and our obligation to buy, their shares in an amount representing up to 10% of our net assets as calculated under Russian Accounting Standards. See "  Legal Risks and Uncertainties  Shareholder rights provisions under Russian law could impose additional obligations and costs on us, which could have a material adverse effect on our business, financial condition, results of operations and prospects."

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

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

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

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

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

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

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

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

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

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

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

Mobile penetration in Russia and Ukraine reached 170.0% and 133.1%, respectively, as of December, 31, 2013, according to AC&M-Consulting. Until recently, customer growth has been the principal source of revenue growth. Currently, however, increasing competition, market saturation and technological development lead to the increased importance of data services in the Russian market and, to a lesser extent, the markets of other CIS countries. As a result, data services became the key driver of our revenue growth and, therefore, we will need to continue to develop new competitive services, including value-added, 3G, LTE, and others, as well as consider vertical integration opportunities through the development or acquisition of dealers in order to provide us with sources of revenue in addition to standard voice services. Our inability to develop additional sources of revenue could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Following the restructuring of the Euroset Group, the largest mobile handset retailer and leading dealer for major mobile network operators in Russia, as a result of which MegaFon and Vimpelcom acquired equal shares of 50%, we have been working on developing our proprietary distribution network, have signed an additional agreement with Svyaznoy and have been working to increase our relationship with small regional dealers. If we are not successful in expanding and sustaining our proprietary network and maintaining and further developing our distribution network of national, regional and local retailers, our subscriber growth rate, market share and revenues may decrease, which would have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, our ability to attract new customers through Euroset outlets is limited. If competitors continue to expand their footprint in Russia through the acquisition of Svyaznoy's operations, our opportunities for marketing our services through its outlets may be restricted. See "Item 4. Information on Our Company B. Business Overview Mobile Operations Sales and Marketing Sales and Distribution."

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

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

In Ukraine, the government completed the privatization of Ukrtelecom, which, according to its public disclosure, has a 71% share of the local telephony market and an 83% share of the domestic and international long distance market in Ukraine. The auction to privatize Ukrtelecom was held by the State Property Fund of Ukraine in December 2010. On March 11, 2011, following the completion of an independent appraisal required by Ukrainian law, the State Property Fund of Ukraine and ESU LLC, a wholly owned subsidiary of European Privatization & Investment Corporation ("EPIC"), signed an agreement for the sale of a 92.8% stake in Ukrtelecom to ESU LLC. On May 11, 2011, the ownership stake was transferred to ESU LLC upon the payment of a purchase price amounting to 10,575.1 million hryvnia (RUB 36,979.8 million as of May 11, 2011) and the fulfillment of certain requirements under Ukrainian law. It is currently unclear how the privatizations of Ukrtelecom will affect our interconnect arrangements and costs, but there is a chance that our ability to interconnect cost-effectively with other telecommunications operators could be hampered.

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Although Russian legislation requires that operators of public switched telephone networks that are deemed to be "substantial position" operators who cannot refuse to provide interconnects or discriminate against one operator over another, we believe that in practice, some operators attempt to impede wireless operators by delaying interconnect applications and establishing technical conditions for interconnecting that can be met only by certain operators.

Any difficulties or delays in interconnecting cost-effectively with other networks could hinder our ability to provide services at competitive prices or at all, causing us to lose market share and revenues, which would have a material adverse effect on our business and results of operations. See also " If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

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

***Governmental regulation of SMP operators in Ukraine could adversely affect our results of operations.***

On June 24, 2010, MTS Ukraine and its competitors, including Kyivstar, Golden Telecom Ukraine, URS, Ukrtelecom, Astelit, Intertelecom and PEOPLENet, were declared by the AMC to have a dominant position on the network interconnect market. As a result, the interconnect fees charged by us and our competitors for terminating calls connecting to any of our respective networks became subject to regulation by the National Commission for the Regulation on Communications (the "NCRC"), which since November 23, 2011 has been succeeded by the National Commission for the State Regulation of Communications and Informatization (the "NCCIR"). See "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Competition" for additional information.

In 2011, the NCRC announced its intent to change the telecommunications regulations in Ukraine to regulate the interconnect rates of only those operators deemed by the AMC to have "significant market power." Kyivstar and MTS Ukraine are the largest mobile cellular operators in Ukraine with market shares of 43% and 37%, as of December 31, 2013, respectively, according to AC&M-Consulting.

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

On September 22 2011, the NCRC proposed a draft law on regulating SMP operators which called for, among other things, non-discriminatory access to their infrastructure for the wholesale market and for regulating the retail market. Under the proposed law, the NCRC may place an obligation on SMP operators to separate the accounting of revenues and costs for different services, to calculate the cost of their services according to NCRC rules and to price the services in accordance with NCRC's rules. The draft law was not adopted and as of January 31, 2014 is being amended. The NCCIR has assumed the NCRC's powers to consider interconnect rates and may reduce the interconnect rates that we

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charge, which, in turn, may have a material adverse effect on our financial condition and results of operations.

In June 2012, the definition of SMP was changed by an amendment to the Telecommunications Law which came into effect on January 8, 2013. From this date qualification as a SMP has been assessed with reference to the market as defined by NCCIR (and not only by reference to the traffic termination market). Criteria *i.e.* the SMP market share remained the same as in previous version of the Telecommunications Law. See also " Legal Risks and Uncertainties Changes in Ukrainian telecommunications legislation have caused uncertainty in relation to the regulation of the Ukrainian telecommunications industry and may adversely affect our business, financial condition and results of operations."

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

In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MegaFon, Vimpelcom and us a license to provide 3G services in the Russian Federation. In July 2012 these three companies and Rostelecom were awarded licenses to provide 4G services. The 3G license allows us to provide mobile radio telephone services using the International Mobile Telecommunications-2000 ("IMT-2000/UMTS") standard. The 4G license allows us to provide services using the LTE standard. 4G wireless services are expected to provide faster, higher quality data transfer and streaming capabilities as compared to 2G and 3G and may pose additional competition for 3G providers. Historically, mobile operators that have developed 3G and 4G networks have experienced various difficulties and challenges, including a limited supply of compatible handsets, limited international roaming capabilities, as well as 3G and 4G software and network-related problems. We may experience similar problems or encounter new difficulties when developing our 3G and 4G networks and may be unable to fully resolve them. For example, we cannot be certain that:

- we will be able to build-out our 4G network in a timely manner or within the time frame stipulated by the license terms;
- our 3G and 4G network and services will deliver the quality and level of service that our customers demand or prefer;
- we will be able to provide all contemplated 3G and 4G services at reasonable prices and within a reasonable timeframe;
- manufacturers and content providers will develop and offer products and services for our 3G and 4G network on a timely basis;
- there will be sufficient demand for 3G and 4G services in the markets where we operate;
- our 3G and 4G network will be commercially viable in all of the locations we are required to operate pursuant to our 3G and 4G licenses;
- our competitors will not offer similar services at lower prices; and
- changes in governmental policies, rules, regulations or practices will not affect our network rollout or our business operations.

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

In addition, Russian military authorities also use frequencies in the 3G and 4G spectrum, which may limit the availability of 3G and 4G frequencies for commercial use in certain areas. During the construction of our 3G and 4G network, there is also a risk that the frequencies assigned to us for commercial use may overlap with frequencies used by the Russian military. For example, conflicts over

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the availability of frequency reserved for military use in Moscow caused delay in the commercial launch of 3G services in Moscow by all 3G license holders, although some of these frequencies were cleared for commercial use in 2009. If additional overlap were to occur, it could cause problems or delays in the development and operation of our 3G and 4G network in Russia.

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

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

In December 2013, the State Commission for Radio frequencies introduced several modifications to the conditions of using the frequency band for 3G and 4G. These modifications included the principle of technological neutrality for frequency bands 900 MHz (UMTS) and 1800 MHz (LTE), but also imposed additional obligations for network operators. Pursuant to these modifications, 3G and 4G operators will now be able to use bands in the frequency range as supplementary frequencies for GSM, UMTS and LTE coverage. However, in the event that we receive new bandwidth allocation, and also as a result of the renewal of the current decisions of State Commission for Radio Frequencies, we are obliged to provide network coverage to settlements with lower subscriber numbers, where the commercial rationale for doing so may otherwise be limited. Such changes lead to additional costs for the construction of our 3G and 4G wireless network and consequently may adversely affect our business, financial condition and results of operations.

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

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

In September 2011, the Russian government announced its intention to auction frequencies for LTE use on a national level in 2012. Additionally, outside of the auction process, the State Radio Frequencies Commission granted Scartel (operating the Yota retail brand) a paired range of LTE frequencies (2x30 MHz), in the 2.5-2.7 GHz band for use on the whole territory of Russia in exchange for 4G frequencies held by Scartel for Wi-Max technology with a total width of 70MHz. Four sets of frequencies in the 791-862 MHz band were planned to be sold during the auction in 2012, after which the winners of the frequencies would receive frequencies in the 2.5-2.7 GHz band. The remaining frequencies 40 MHz of the 2.5-2.7 GHz band were allocated evenly during the tender among four major market participants (us, Vimpelcom, MegaFon and Rostelecom).

Initially it was planned that all operators would receive equal access to the Scartel infrastructure, which would allow each operator to reduce its 4G/LTE network development costs. In March 2011, we, MegaFon, Vimpelcom and Rostelecom signed a non-binding memorandum of understanding with Scartel, according to which we, MegaFon, Vimpelcom and Rostelecom were to receive access to Scartel's 4G network infrastructure (which was yet to be built) and were to receive options to purchase

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shares in Scartel in 2014 at a price determined by an independent appraisal. MTS considered a preliminary value assessment of Scartel to be unduly high.

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

On October 1, 2013, MegaFon acquired Maxiten Co Limited, which in turn owned 100% of the shares in Scartel and Yota Ltd. from Garsdale. The transaction was approved by the general shareholders meeting of MegaFon and by the Federal Antimonopoly Service ("FAS"). At present, MegaFon holds 4G/LTE network through Scartel as well as controlling the continuous spectrum of frequencies 2 x 40 MHz in the band of LTE FDD 2600 MHz. As a result of this transaction, MegaFon obtained a competitive advantage in terms of LTE network development costs and may also obtain an advantage in LTE network performance. For example, in February, 2014, MegaFon launched LTE Advanced network in Moscow using LTE FDD 2600 MHz band and announced plans of further roll-out of its LTE Advanced network in the 15 largest cities in Russia. In addition, MegaFon will have an opportunity to consolidate financial and operational indicators of Scartel/Yota which will increase its formal market share in the mobile communications market.

According to the decision of State Commission for Radio Frequencies as of March, 16, 2012 all telecommunication operators excluding MegaFon and Rostelecom are not permitted to get LTE frequencies in the Krasnodarsky Region until the end of 2016. On April 11, 2013, we filed an application with the State Commission for Radio Frequencies to amend this decision and requested a postponement of the introduction of such restrictions until the end of 2014; however, the consideration of our application was postponed for the duration of the Olympic Games. Currently we are appealing a case against actions and inactions of State Commission for Radio Frequencies in the Arbitrazh Court of Moscow. The next court session is scheduled for June 3, 2014 as well as the next meeting of the State Commission for Radio Frequencies. Our inability to develop an LTE network in the Krasnodarsky Region until 2016 may have an adverse effect on our business, financial condition and results of operations.

On September 18, 2013, the mobile operator Altyn Asyr, our major competitor in Turkmenistan, brought into operation a 4G network using LTE technology. At the moment MTS-Turkmenistan does not have a 4G-license which may lead to the loss of revenues from its data service which could have a material adverse effect on the results of our operations.

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

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

In September 2009, the NCRC announced plans to launch a tender for a single 3G/UMTS mobile services license in Ukraine with the starting price set at 400 million hryvnia (equivalent to RUB 1,515.1 million at December 31, 2009). However, the NCRC canceled the planned tender in November

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2009 following a decision by the President of Ukraine to put the tender and conversion of the radio frequencies on hold. Following the election of Viktor Yanukovich as Ukraine's President in February 2010, a tender for a 3G/UMTS license in Ukraine was expected in 2012 after the planned sale of Trimob, (formerly known as Utel), a subsidiary of Ukrtelecom, which is the only UMTS license holder in Ukraine. Trimob was expected to be sold by the end of 2012, subject to approval by the AMC and certain other regulatory bodies, but to date there have been no announcements regarding the progress of the sale of Trimob. A sale of Trimob to one of our competitors would provide that competitor with a significant advantage over us and would adversely affect our competitiveness in Ukraine, as well as our business, financial condition and results of operations.

The Ukrainian government has previously indicated that funds required for the conversion of the remaining UMTS frequencies have not been provided in Ukraine's 2013 State Budget. Therefore, there is a possibility of additional UMTS frequency spectrum being made available in 2014 as a means of generating revenue to tackle the problem with the state budget deficit. Nevertheless, if we do not acquire Trimob and we are unable to acquire a UMTS license when an auction is ultimately held, and our competitors do, those competitors would have an advantage over us.

Our ability to win a competitive tender for a 3G/UMTS license in Ukraine may require us to pay a significant amount for the license as well as incur significant costs in building out the 3G network, and we may not be able to recoup these costs through our service revenues. The listed potential price for one license is around 1 bln hryvnias. If we do not obtain a 3G/UMTS license, the award of the license to one of our competitors would increase the competition we face in the provision of both GSM and 3G services in Ukraine and inhibit our expansion efforts. Either of the foregoing may have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

While we maintain back-up systems for our telecommunications equipment, network management, operations and maintenance systems, these systems may not ensure recovery in the event of a network failure. In particular, in the event of extensive software and/or hardware failures, significant disruptions to our systems could occur, leading to our inability to provide services. The quality of our services in roaming (including roaming between networks) also depends *inter alia* on the network quality of our roaming partners which is out of our control. Disruptions in our provision of services could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

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

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

Each of our mobile licenses requires service to be offered by a specific date and some contain further requirements as to network capacity and territorial coverage to be reached by specified dates. In addition, all of our mobile licenses require us to comply with various telecommunications regulations relating to the use of radio frequencies and numbering capacity allocated to us, network construction, interconnect rules and technical requirements relating to compliance with law enforcement authorities' requests, among others. The license requirements applicable to our fixed line businesses include participation in a federal communications network, adherence to technical standards, investment in network infrastructure, employment of Russian technical personnel and the provision of certain services to the federal government and PSTN subscribers at regulated tariffs, among others. If we fail to comply with the requirements of Russian, Ukrainian or other applicable legislation or we fail to meet any terms of our licenses, our licenses and other authorizations necessary for our operations may be suspended or terminated which could significantly limit our operations. In addition to the impact on our operations, the suspension or loss of certain licenses could also cause an event of default under certain of our debt obligations and certain of our debt to be accelerated. A suspension or termination of our licenses or other necessary governmental authorizations could therefore have a material adverse effect on our business and results of operations.

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

Our telecommunications licenses expire in various years from 2014 to 2022. These licenses may be renewed upon application to the relevant governmental authorities. Government officials in Russia and the other CIS countries in which we operate consider the compliance with license requirements as well as the conditions of using the allocated frequency range when deciding whether to renew a license. License renewals may be subject to additional conditions, such as payment obligations or the mandatory modernization of our network.

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

The current license to construct and maintain the telecommunication network and provide services with them was granted to MTS Ukraine on July 20, 2010 and terminated on December 3, 2013. On October 15, 2013, the NCCIR refused to renew the current license and recommended that MTS Ukraine receive a new license to provide operations in telecommunications sphere. Receiving a new license involves additional costs in comparison with the renewal of the current one and MTS Ukraine filed a lawsuit against NCCIR seeking to declare the failure to renew the license as unlawful. On November 19, 2013, the claims of MTS Ukraine were satisfied and the license term was renewed until January 2019.

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

Until recently, telecommunications operators carried out activities and received licenses in Crimea in compliance with Ukrainian legislation. However, following the referendum in Crimea on March 16, 2014 in favor of joining the Russian Federation and consequent developments in the region to date, various countries recognize Crimean secession whereas others do not, therefore, our licensing status in Crimea, as well as the ability to receive continuous cash flow is subject to uncertainty. See also " Political and Social Risks Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations," and

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

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

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

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

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

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

In late 2012, Russian network operators accepted that from 2014 the fees for frequency spectrum usage would be calculated based on the total frequency band allocated to each operator in each region with such frequency spectrum usage determined with reference to the decision of State Commission for Radio Frequencies, frequency allocation decisions or to the license conditions. It is expected that fees will increase up to 10% pursuant to the new approach. The application of the new fees is expected in the first half of 2014.

Similarly, in April 2010, the Cabinet of Ministers of Ukraine significantly increased the fees for frequency spectrum usage in Ukraine for cellular communications. Furthermore, according to the Tax Code of Ukraine, the fees payable for frequency usage shall be determined based in part on the rate of inflation and reviewed annually effective January 1, 2011. Accordingly, the fees for frequency usage were increased by 8.9% in 2012 as compared to 2011, by 8% in 2013 as compared to 2012, and are doubled from April 1, 2014 as compared to 2013.

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

Developing and maintaining awareness of our brands is critical to informing and educating the public about our current and future services and is an important element in attracting new subscribers. We believe that the importance of brand recognition is increasing as our markets become more competitive. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful products and services at competitive prices. Brand promotion activities may not yield increased operating revenues, and even if they do, such operating revenues may not offset the operating expenses we incur in building our brands.

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Furthermore, our ability to attract new subscribers and retain existing subscribers depends, in part, on our ability to maintain what we believe to be our favorable brand image. Negative publicity or rumors regarding our company, our shareholders and affiliates or our services could negatively affect this brand image, which could lead to loss of market share and revenues. Our failure to successfully and efficiently promote and maintain our brands may limit our ability to attract new subscribers and retain our existing subscribers and materially adversely affect our business and results of operations.

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

We have purchased interests in various telecommunications companies from Sistema and entered into arrangements with subsidiaries and affiliates of Sistema for the provision of advertising services (Open Joint Stock Company Advertising Agency Maxima ("Maxima"), IT services and hardware purchases (LLC Sitronics IT, Closed Joint Stock Company Sitronics Telecom Solutions, LLC Sitronics Smart Technologies and NVision Group), banking services (MTS Bank, formerly Moscow Bank of Reconstruction and Development ("MBRD")), telecommunication services (LLC Stream), medical services (Closed Joint Stock Company Medsi Group), the purchase of a new billing system (Open Joint Stock Company Sitronics), maintenance of the residential and commercial real estate (Closed Joint Stock Company City-Telecom). Related party transactions with Sistema and other companies within the Sistema group may present conflicts of interest, potentially resulting in the conclusion of transactions on terms not determined by market forces. See "Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions."

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

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

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

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

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

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

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

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

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

In February 2014, the Russian Government approved a "Development of competition in telecommunications" roadmap, which provides for the preparation of a report on realization of the MVNO business model. This report is expected to be presented to the Government in the second quarter of 2014.

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

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

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

In October 2010, FAS found that we, Vimpelcom and MegaFon violated antimonopoly laws on competition relating to our pricing for roaming services. As a result, FAS imposed an administrative fine on us in the amount of RUB 21.9 million which represents 1.0% of the revenues we derived from roaming services in CIS countries in 2009. We paid the fine imposed on us by FAS on March 28, 2011.

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

In November 2012, FAS began an investigation of the contractual relationship between operators and content providers and in December 2012 issued a warning to us and Vimpelcom requesting each of us to cease the violation of antimonopoly laws, particularly relating, to solicitation of services to the subscribers. We and Vimpelcom complied with the requirements and on February 7, 2013, FAS closed the case.

In October 2013, the FAS regional office in the Pskov Region began an investigation in relation to an alleged violation by us, Vimpelcom and Megafon of antimonopoly law by coordinating pricing of the mobile data services on the territory of Pskov Region. The investigation was terminated in December 2013 due to the absence of breach of antimonopoly law of mobile operators.

If FAS finds our actions insufficient to rectify past violations or antimonopoly laws or issues new warnings and requests in the future, *inter alia*, in other regions, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

Under Russian legislation, FAS may categorize a company controlling between 35%-50% or over 50% of a market or otherwise able to control market conditions as a dominant force in such market. Moreover, recent amendments to Russian antimonopoly regulations made it possible that any three companies collectively holding a market share of over 50% or five companies collectively holding a market share of over 70%, and in each case over 8% individually, can be found to have a dominant position on a certain market. However, in some cases a company could be categorized as dominant even if its share of the corresponding market is less that 35%. Companies controlling over 35% or otherwise occupying a dominant position on the market are listed by FAS in a special register and may become subject to monitoring and reporting requirements with respect to such markets. Current Russian legislation does not clearly define "market" in terms of the types of services or the geographic area. One of our subsidiaries, MGTS, is categorized by the Federal Tariff Service as a natural monopoly in the Moscow telecommunications market. As a result, MGTS' tariffs are subject to regulation by the Federal Tariff Service. Another of our subsidiaries, Comstar-regions, operating in Khanty-Mansiysk Autonomous District among others, is categorized as a natural monopoly in the public telecommunications market. See " MGTS is subject to extensive regulation of tariffs, and these tariffs may not fully compensate us for the cost of providing required services."

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

In case we are found to have dominant position we can be subject to penalties and turn-over based fine may be imposed on us in relation to certain violations of antimonopoly law. The level of fine is from 1% to 15% of revenue on the market where the violation was conducted, with 8% being the base level of the fine.

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

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

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

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

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

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

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

As the PSTN operator in Moscow, MGTS is considered to be a company holding a dominant position as well as a natural monopoly in the Moscow telecommunications market under Russian

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

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

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

The Russian government has stated its intention to monitor the pricing of roaming services and several draft laws have been submitted for consideration to the State Duma, which are intended to change the regulation of so-called "national" (between networks) and "intra-network" (within network) roaming in Russia by introducing a flat national roaming tariff and eliminating intra-network roaming tariffs for incoming calls. It is not clear whether this legislation will be adopted. However, if the new legislation is adopted, we believe that our revenues from the provision of roaming services would decline considerably, which could have a material adverse effect on our financial condition and results of operations. After an investigation by FAS of our and other telecommunications operators activities in this area in 2010, an administrative fine in the amount of RUB 21.9 million was imposed on us due to the violation of antimonopoly laws relating to our pricing for roaming services. See also " A finding by FAS that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operation."

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

In Ukraine a draft law is being considered which will enable each mobile communications subscriber to register the user terminal free-of-charge on a database maintained by the operator, chiefly to prevent their unlawful use. Aimed at discouraging theft, the draft law will obligate operators to suspend or block the traffic transmission of the terminal upon the application of subscriber. It is still unclear if and when this regulation will be adopted. A similar draft law was rejected by the Russian State Duma. If this regulation is adopted in the future, we may be required to develop a system to monitor IMEI numbers, and we may need to establish and maintain a database of IMEI numbers, which would necessitate the expenditure of significant technical and financial resources.

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

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

***We may be required to make significant investments beyond those that are currently planned to preserve our competitive advantage in response to the rapid evolution of fixed network technology (*****inter alia** ***our subsidiaries, for example MGTS).***

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

MGTS invested approximately RUB 1.5 billion in 2010, RUB 1.328 billion in 2011, RUB 9.232 billion in 2012 and RUB 13.547 billion in 2013 to upgrade its infrastructure. If MGTS is not able to upgrade its network in a timely manner or if it is required to make significant investments beyond those that are currently planned, our business, financial condition, results of operations and prospects could be materially adversely affected.

***Our intellectual property rights are costly and difficult to protect.***

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

A special court for intellectual property began operating in July 2013 as a new body in the system of Arbitrazh court for dealing with cases relating to protection of intellectual property. It is too early to say how it will influence the quality of protection of intellectual property rights in Russia.

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

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In August 2012, we received a claim on behalf of MTS LLC (Simferopol, Ukraine) regarding the invalidation of international registrations of our four trademarks within the territory of Ukraine (the word "MTS" written in Russian and English both in color and black and white). The decision of Kiev City Commercial Court dated July 16, 2013, refused all claims of MTS LLC. Subsequently, MTS LLC filed an appeal of the court decision which was ultimately refused by the Kiev Appellate Commercial court on December 2, 2013. Our inability to protect our rights to these trademarks could have a material adverse effect on our business and results of operations.

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

We have completed implementation of a new billing system in Russia and Belarus. We have also completed the transfer of our individual subscribers in Ukraine to a new billing system and commenced transferring B2B-subscribers to the new system. We may face difficulties and delays in implementing the new billing system in newly acquired companies. In Ukraine it is still necessary for us to run both the old and new billing systems simultaneously during the transition period, creating additional burdens on our technical support staff. We may also experience technical problems with the new billing system during the transition period. In addition, the introduction of new services by our subsidiaries, including pay-TV services, may result in increased complexity and prolong the duration of the upgrade of our billing system. These factors may increase our operational risks and expenses and inconvenience subscribers in the short term. In addition, we are also currently optimizing our information technology infrastructure, which may result in temporary technical disruptions. The failure or breakdown of key components of our infrastructure in the future, including our billing system and its susceptibility to fraud, could have a material adverse effect on our business and results of operations.

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

Although we make efforts to protect confidential information, breaches of security and leaks of confidential information, including information relating to our subscribers, may negatively impact our reputation and our brand image and result in a loss of market share or otherwise have a material adverse effect on our business, financial condition and results of operations. For example, in January 2003, part of our database of subscribers, containing private subscriber information, was illegally copied and stolen. In addition, in May 2003, certain subscriber databases of several operators in the North-West Region, including those of us, MegaFon, Delta Telecom and two other operators, were stolen. In each case, the stolen databases were thereafter available for sale in Russia. Despite the measures taken, we cannot completely exclude the possibility of such incidents in the future. See also " Legal Risks and Uncertainties Our failure to comply with new personal data protection laws and with the regulations of state authorities regarding information security in the telecommunications networks in Russia may have a material adverse effect on our business, financial condition and results of operations."

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

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

Under the draft law on "Defending against negative electromagnetic emissions from base stations of mobile network" which was proposed in Ukraine in December 2013, a mobile phone base station is classified as a potentially hazardous object. The installation of base stations would need to be made taking into account an environmental impact assessment at the expense of operators and a base station's operations could be terminated if a hazardous effect on health was established. If this draft law is adopted in the future it may lead to an increase in the costs of deploying base stations and increase the maintenance costs of MTS Ukraine.

**Risks Relating to Our Financial Condition**

***We may be adversely affected by the current economic environment.***

As a result of the credit market crisis (including uncertainties with respect to financial institutions and the global capital markets), decreased prices for major export commodities (including oil and metals) and other macro-economic challenges currently affecting many of the economies in which we operate, our subscribers' disposable incomes and our vendors' cash flows may be adversely impacted. Consequently, subscribers may modify or decrease their usage of our services or fail to pay the outstanding balances on their accounts, and vendors may significantly increase their prices, eliminate vendor financing or reduce their output.

We may also experience increases in accounts receivable and bad debt among corporate subscribers, some of whom may face liquidity problems and potential bankruptcy, as well as the potential bankruptcy of our corporate partners. For example, in 2008, we extended a short-term loan to Closed Joint Stock Company "Beta Link," or Beta Link, mobile handset retailer and MTS dealer, for $28.2 million (RUB 700.9 million). Beta Link subsequently filed for bankruptcy in March 2009, and we believe it is unlikely that we will be able to recover the loan amount or accounts receivable due from Beta Link.

At the end of 2011, inflation in Belarus increased by 108.7% followed by the local currency depreciation which resulted in a decline of purchasing power. At the end of 2012 and 2013, inflation amounted to 21.8% and 16.5%, correspondingly.

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

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

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

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

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

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

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

We have a substantial amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with our notes and bank loans. As of December 31, 2013, our consolidated total debt, including capital lease obligations, was RUB 219,148 million. Our interest expense for the year ended December 31, 2013 was RUB 15,498 million, net of amounts capitalized.

Our ability to service, repay and refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we may default under the terms of our indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, potentially causing cross-defaults under and acceleration of our other indebtedness. Furthermore, as of December 31, 2013, approximately 16.1% of the debt we have incurred is at floating rates of interest linked to indices, such as LIBOR and EURIBOR, and we have hedged the interest rate risk with respect to approximately 73.1% of our floating interest rate debt. As a result, our interest payment costs can increase if such indices rise.

We may not be able to generate sufficient cash flow or access international capital markets or incur additional indebtedness to enable us to service or repay our indebtedness or to fund our other liquidity needs. We may be required to refinance all or a portion of our indebtedness on or before maturity for a number of reasons; for example, the terms of some of our loan agreements may require us to prepay the loan in certain circumstances, such as a deterioration in our credit rating, we are delisted or our retained earnings drop below a certain level. This, in turn, may force us to sell assets, reduce or delay capital expenditures or seek additional capital. Refinancing or additional financing may not be available on commercially reasonable terms or at all, and we may not be able to sell our assets

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or, if sold, the proceeds therefrom may not be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would materially adversely affect our business, financial condition, results of operations and prospects. See "Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources."

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

Over the past two decades, the ruble has fluctuated, at times substantially over short periods of time, against the U.S. dollar. In particular, it significantly depreciated against the U.S. dollar in 2008-2009 as a result of the ongoing global financial downturn and in 2014 as well. For example, on December 31, 2008, the official exchange rate published by the Central Bank of Russia ("CBR") was 29.38 rubles per one U.S. dollar, as compared to 24.55 rubles per one U.S. dollar on December 31, 2007. The ruble continued to depreciate against the U.S. dollar reaching 30.37 rubles per one U.S. dollar on December 31, 2012. As of December 31, 2013 the exchange rate was 32.73 rubles per one U.S. dollar whereas on April 15, 2014 it increased to 35.99 rubles per one U.S. dollar.

The ruble has also depreciated against the euro. On December 31, 2012, the official exchange rate was 40.23 rubles per one euro, as compared to 41.67 rubles per one euro on December 31, 2011. As of December, 31, 2013 the exchange rate was 44.97 rubles per one euro whereas on April 15, 2014 it increased to 49.82 rubles per one euro. See also " Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble could adversely impact our revenues reported in Russian rubles as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our costs in terms of the Russian ruble and local currencies."

Currently, the Russian foreign currency market is regulated by legislation, which is aimed at liberalization of currency regulation and lowering of administrative barriers. This legislation provides a general framework and a set of rules, within which both the Russian government and the CBR are authorized to propose various regulations, which result in uncertainty for us in carrying out importation of equipment. The CBR from time to time has imposed various currency-trading restrictions in attempts to support the ruble. However, from 2015, the CBR is planning to let the ruble rate to float freely and intervene only by using its available foreign currency reserves in extreme cases only. The stability of the ruble will depend on many political and economic factors. These include the ability of the government to finance the state budget without recourse to monetary emissions, to control the level of interest rates and inflation. Furthermore, changes in foreign currency regulation may affect our ability to fund payments denominated in foreign currency and result in us entering into supplementary agreements with our foreign counterparts.

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

We also anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and will be converted into U.S. dollars by

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the depositary and distributed to holders of the ADSs. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. Depreciation of the ruble against the U.S. dollar could therefore materially adversely affect our financial condition, results of operations and prospects and the value of the ADSs. See also "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

***Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble could adversely impact our revenues reported in Russian rubles as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our costs in terms of the Russian ruble and local currencies.***

A significant portion of our expenditures and liabilities, including capital expenditures and borrowings (including our U.S. dollar denominated notes), are either denominated in, or closely linked to, the U.S. dollar and/or euro, while substantially all of our revenues are denominated in local currencies of the countries where we operate. As a result, the devaluation of local currencies against the Russian ruble can adversely affect our revenues reported in Russian rubles and increase our costs in terms of local currencies. At the same time if the Russian ruble and local currencies decline against the U.S. dollar and/or euro and price increases cannot keep pace, we could have difficulty repaying or refinancing our U.S. dollar and/or euro-denominated indebtedness, including our U.S. dollar denominated notes. In addition, local regulatory restrictions on the sale of hard currency in particular CIS countries (for example, Belarus) may delay our ability to purchase equipment and services necessary for network expansion which, in turn, may cause difficulty in expanding our subscriber base in that country. Further, a portion of our cash balances is held in jurisdictions outside Russia, and as a result of exchange controls in those jurisdictions, these cash balances may not always be readily available for our use.

The Ukrainian hryvnia experienced significant volatility over the last quarter of 2008 and in 2009, with the official exchange rate falling from 4.86 hryvnias per one U.S. dollar as of October 1, 2008 to 7.70 hryvnias and 7.97 hryvnias per one U.S. dollar as of December 31, 2008, and 2009, respectively. The official exchange rate stabilized in the last three years and was 7.99 hryvnias per U.S. dollar as of each of December 31, 2011 and 2012. During this period the exchange rate was supported actively by currency interventions of the National Bank. Since then, Ukraine's continued economic crisis combined with political unrest and events in Crimea has led to the weakening of the hryvnia, with it rising from 7.99 hryvnias per U.S. Dollar on December 31, 2013 to a high of 12.39 hryvnias per U.S. dollar on April 15, 2014 reflecting capital outflow in response to international ratings agencies' downgrade of Ukraine's sovereign rating and to the continuing political instability in Ukraine. In February 2014, Standard & Poor's lowered Ukrainian long-term sovereign credit rating to CCC with a negative outlook. See also " Political and Social Risks Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

The Belarusian ruble experienced significant volatility in 2011, with the official exchange rate falling from 3,000 rubles per one U.S. dollar as of January 1, 2011 to 4,970 rubles per one U.S. dollar as of June 1, 2011 and to 8,570 rubles per one U.S. dollar as of December 31, 2012. On May 23, 2011, the National Bank of the Republic of Belarus announced the significant devaluation of the Belarusian ruble against major foreign currencies to stabilize the situation on the foreign currency exchange market. As of April 15, 2014 the official exchange rate of the Belarusian ruble amounted 9,930 Belarusian rubles per one U.S. dollar.

Furthermore, the three-year cumulative inflation rate for Belarus exceeded 100 percent as of September 30, 2011 and continues to exceed 100 percent, thereby meeting the quantitative requirement under U.S. GAAP for its economy to be considered highly inflationary, and we have accordingly accounted for this in our financial statements. The continued devaluation of the Belarusian ruble and

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the highly inflationary economy may adversely affect our revenues from this market. See also "  Inflation could increase our costs and adversely affect our results of operations," "Item 11. Quantitative and Qualitative Disclosures about Market Risk  Foreign Currency Risk" and Note 2 to our audited consolidated financial statements.

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

We will need to make significant capital expenditures, particularly in connection with the development, construction and maintenance of, and the purchasing of software for our mobile and fixed line networks. We spent RUB 72,802 million in 2011, RUB 87,783 million in 2012 and RUB 81,575 million in 2013, for the fulfillment of our capital spending plans. In addition, the acquisition of 3G and 4G licenses and frequency allocations and the build-out of our 3G, 4G and broadband Internet networks will require additional capital expenditures. However, future financings and cash flow from our operations may not be sufficient to meet our planned needs in the event of various unanticipated potential developments, including the following:

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

On March 21, 2014 the United States and European Union announced sanctions applying to a number of Russian and Ukrainian individuals and associated institutions which were considered to have contributed to the situation in Ukraine and Crimea. Sanctions may be extended and our ability to gain external funding may be affected. See also "  Political and Social Risks  Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

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

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

The Russian and Ukrainian economies have been characterized by high rates of inflation. According to the Federal Statistics Service, inflation reached 6.6% and 6.5% in Russia in 2012 and 2013, respectively. In Ukraine, deflation amounted to 0.2% in 2012, as compared to inflation of 0.5% in 2013, according to the State Statistics Committee of Ukraine (calculated on a December to December basis). Inflation in 2014 is expected to be in the range of 12-14% due to currency devaluation and significant increases in utility tariffs. As we tend to experience inflation-driven increases in certain of our costs, which are sensitive to rises in the general price level in Russia and Ukraine, our costs will rise. In addition, media inflation in Russia continues to be very high and shows little sign of slowing, which may lead to higher marketing expenditures by us in order to remain competitive. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia and Ukraine could increase our costs and decrease our operating margins. See also "Item 5. Operating and Financial Review and Prospects A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Inflation."

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

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

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

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

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

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

In addition, Sistema, which owns 51.46% of our total charter capital (53.47% excluding treasury shares) and consolidates our results in its financial statements, is subject to various covenants in its credit facilities. These covenants impose restrictions on Sistema and its restricted subsidiaries (including us) with respect to, *inter alia*, incurrence of indebtedness, creation of liens and disposal of assets. In the indentures, Sistema undertakes that it will not, and will not permit its restricted subsidiaries (including us) to, incur indebtedness unless a certain debt/EBITDA (as defined therein) ratio is met. In addition to us, Sistema has various other businesses that require capital and, therefore, the consolidated Sistema group's capacity to incur indebtedness otherwise available to us could be diverted to its other businesses. Sistema may also enter into other agreements in the future that may further restrict it and its restricted subsidiaries (including us) from engaging in these and other activities. We expect Sistema to exercise its control over us in order for Sistema, as a consolidated group, to meet its obligations under its current and future financings and other agreements, which could materially limit our ability to obtain additional financing required for the implementation of our business strategy. The inability to implement our business strategy may have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

  - a contribution by Sistema of all or part of its ownership interest in us into a partnership, joint venture or other indirect holding vehicle as long as any other person who is an owner

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of or party interested in that partnership, joint venture or other indirect holding vehicle does not acquire beneficial ownership of or control over more than 50% of our issued shares, does not acquire ownership of or control over more than 50% of the voting interests in our share capital and does not obtain the power to elect not less than half of our directors.

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

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

**Risks Relating to Our Countries of Operation Economic Risks**

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

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

While the economies of Russia and the other CIS countries where we operate have experienced positive trends in recent years, there has been a slowdown in the growth of gross domestic product in Russia. In 2013 the growth of GDP was 1.3% in comparison with 3.4% in 2012 according to Federal State Statistics service. A financial downturn, as well as any future economic downturns or slowturns in Russia or the other CIS countries where we operate could lead to decreased demand for our services, decreased revenues and negatively affect our liquidity and ability to obtain debt financing, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

***The Russian banking system remains underdeveloped, the number of creditworthy banks in Russia is limited and another banking crisis could place severe liquidity constraints on our business.***

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

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

The recent disruptions in the global markets have generally led to reduced liquidity and increased cost of funding in Russia. Borrowers have generally experienced a reduction in available financing both in the inter-bank and short-term funding market, as well as in the longer term capital markets and bank finance instruments. The non-availability of funding to the banking sector in the Russian Federation has also negatively affected the anticipated growth rate of the Russian Federation. In December 2008, Standard & Poor's lowered Russia's long-term sovereign credit rating to BBB and maintained its negative outlook (as well as Fitch Ratings), citing the "rapid depletion" of Russia's financial reserves. In December 2009, Standard & Poor's changed its outlook on Russia's long-term sovereign credit rating to stable and the same was done by Fitch Ratings in January, 2010. In March 2014 both Standard & Poor's and Fitch Ratings revised the outlook from stable to negative and affirmed the Issuer Default Ratings (IDRs) at BBB. The revision reflects the potential impact of sanctions on Russia's economy and business environment caused by the referendum held in Crimea on March 16, 2014 in favor of joining the Russian Federation and consequent developments in the region. See also " Political and Social Risks Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

The Russian government and the CBR provide financial support only to a limited number of banks, which may result in the liquidation of other banks and financial institutions. Beginning from November 2014, the CBR revoked the licenses of a number of Russian banks for reasons associated with implementing high-risk lending policies, loss of liquidity and non-compliance with anti-money laundering legislation. A combination of these factors may result in a significant deterioration in the financial fundamentals of Russian banks, notably liquidity, asset quality and profitability.

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

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

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

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

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

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

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

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**Political and Social Risks**

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

Since 1991, Russia has sought to transform from a one-party state with a centrally planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. Furthermore, recent parliamentary elections held in December 2011 and presidential elections held in March 2012 led to some political demonstrations in a few Russian cities. New protests may occur in the future. Other countries where we operate may pose similar challenges. For example, mass protests and armed conflicts in Ukraine from November 2013 as well as the referendum in Crimea in favor of joining the Russian Federation and consequent developments in the region contribute to political tension and uncertainty in Ukraine, see also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations." Current and future changes in the Russian and other CIS governments, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs. A deterioration of the socio-political situation in Russia could also trigger an event of default under some of our loan agreements.

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

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

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

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In Ukraine, tensions between certain regional authorities and the central government were ignited following the November 2004 presidential elections. Amid the mass demonstrations and strikes that took place throughout Ukraine to protest the election process and results, the conference of the representatives of the regional authorities in eastern Ukraine decided to conduct a referendum on creating an autonomous region, separate from Ukraine. Later the regional authorities ultimately backed down from this intention, and tensions in Ukraine subsided. See also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

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

Relations between Russia and certain other former Soviet republics are or have in the past been strained. For example, in August 2008, an armed conflict erupted between Russia and Georgia over the self-appointed republics South Ossetia and Abkhazia, culminating in Russia's recognition of their independence from Georgia. The political and economic relationships between Ukraine and Russia have also been strained in recent years, culminating in the current geopolitical crisis with respect to Crimea. If disputes with Ukraine were to disrupt or reduce the flow of Russia's trade with Ukraine, the Ukrainian economy could be materially adversely affected which in turn could have a material adverse effect on our operations in Ukraine and, consequently, on our financial condition, results of operations and prospects. See also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

The conflicts between Russia and other former Soviet republics have, in some instances, also strained Russia's relationship with the United States and the European Union which, at times, has negatively impacted Russia's financial markets. For example, during the course of March 2014, a number of Russian, Ukrainian and Crimean governmental officials and individuals (including representatives of the Russian Parliament), several Russian businessmen and a Russian bank were designated as "Specially Designated Persons" by the U.S. Department of the Treasury, Office of Foreign Assets Control ("OFAC") pursuant to three executive orders signed by the President of the United States. The first and second executive orders (Nos. 13660 and 13661) targeted former Ukrainian officials and current Russian Federation officials, as well as persons who operate in the arms or related sectors in the Russian Federation. The third executive order (No. 13662) significantly expanded the scope of the prior two executive orders by providing OFAC the authority to block the property of designated persons who operate in certain sectors of Russia's economy, including financial services, energy, metals and mining, engineering, defense and related sectors, although no such persons have been designated as a Specially Designated Person pursuant to this third, and much more expansive, order. The Council of the EU introduced a similar list of persons that are subject to EU sanctions with the exception of Russian businessmen and the Russian bank.

There is still significant uncertainty regarding the extent or timing of any further political or economic sanctions, or the ultimate impact of the Ukrainian crisis on Russia's relationship with Ukraine, the United States or the European Union. Any further sanctions may have a negative effect on the Russian economy, the financial condition of our partners and suppliers, our ability to conduct trade and financial transactions, our ability to obtain financing on commercially reasonable terms, and the level and volatility of the trading price of our shares and ADSs. Any of the foregoing circumstances could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

See also " Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations," and " The inability of our subsidiaries in the

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countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations" and " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

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

Economic crisis, deterioration of key aspects of the economy and the lack of investment social infrastructure, has, amongst other things, led to the instability of the political situation in Ukraine where we have significant operations. Furthermore, the refusal of the Ukrainian Government to enter into an association agreement with the European Union in November, 2013 incited mass protests in Kiev and other regions of the country. These protests caused, amongst other things, a downgrade of Ukraine's international ratings and significant depreciation of the national currency, see " Risks Relating to our Financial Condition Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble could adversely impact our revenues reported in Russian rubles as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our costs in terms of the Russian ruble and local currencies."

On January 28, 2014, the Ukrainian government resigned and a new government was formed and on March 16, 2014, a referendum in favor of joining the Russian Federation was held in Crimea. These events have resulted in heightened tensions between Ukraine and the Russian Federation and have created legal uncertainties in the affected regions which may impact our business. Furthermore, should tensions between the Russian Federation and Ukraine continue or increase, or should the economic and political situation in Ukraine become further destabilized, our business interests in Ukraine, Crimea and other impacted regions may be adversely affected or targeted.

The continued impact of these events and any continuing or escalating military action, public protests, unrest, political instability or further sanctions could have a further adverse effect on our business in Ukraine, our financial condition and reputation. See also " A deterioration in relations between Russia and other former Soviet republics and/or the United States and the European Union could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs."

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

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

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

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

**Legal Risks and Uncertainties**

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

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

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

- the lack of judicial and administrative guidance on interpreting certain legislation as well as conflicting interpretations of supreme general jurisdiction and arbitrazh courts;

- the relative inexperience of judges and courts in interpreting certain aspects of legislation;

- the lack of an independent judiciary;

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

- poorly developed bankruptcy and liquidation procedures and court practice that create possibilities of abuse.

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

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***The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations.***

If we are unable to protect our business entities in the countries in which we operate from the withdrawal or suspension or regulatory scrutiny, this may adversely affect our business, financial condition and results of operations. For example, in June 2012, the authorities of the Republic of Uzbekistan began audits of the financial and operating activities of MTS' wholly-owned subsidiary Uzdunrobita. On July 17, 2012 Uzdunrobita suspended its services in Uzbekistan upon receipt of an order from the State Agency for Communications and Information of Uzbekistan ("SACI") on the temporary suspension of the operating license of Uzdunrobita for a period of 10 business days; this suspension was subsequently extended to three months.

On August 6-7, 2012, fourteen regional antimonopoly departments of the Republic of Uzbekistan simultaneously held hearings and declared that Uzdunrobita had violated antimonopoly laws, consumer protection laws and laws governing advertisements. In total, the claims of the regional antimonopoly departments against Uzdunrobita amounted to approximately $80.0 million (RUB 2,558 million). This amount was subsequently reduced by the superior antimonopoly regulator to $13.0 million (RUB 416 million) in aggregate. The disputes with the antimonopoly authorities were dismissed further to payments made by Uzdunrobita under the Appeal Decision (as defined below).

On August 13, 2012, the Tashkent Economic Court granted a petition filed by the SACI to terminate all operating licenses of Uzdunrobita. This decision was subsequently upheld by the appellate and cassation courts on August 27, 2012 and April 4, 2013, respectively.

Notwithstanding the fact that a tax audit of Uzdunrobita's operations for the period of 2007-2010 had been completed in February 2012 and had not revealed any serious violations, Uzdunrobita was assessed pursuant to subsequent additional tax audits into alleged licensing regulation violations, income and other taxes to be liable for approximately $900.0 million (RUB 28,776 million). This amount was subsequently reduced to $669.0 million (RUB 21,390 million) in aggregate. All tax disputes are now closed.

During September-October 2012, $6.4 million (RUB 201 million) from Uzdunrobita's bank accounts were withdrawn by the Uzbek state tax authorities to settle its alleged liabilities under these claims.

On September 17, 2012, the Tashkent City Criminal Court issued a ruling to confiscate all assets of Uzdunrobita in connection with a criminal court judgment against four employees of Uzdunrobita. Previously, Uzbek law enforcement bodies arrested all of Uzdunrobita's assets, including cash held in local bank accounts.

On November 8, 2012, the Appellate division of the Tashkent City Criminal Court allowed Uzdunrobita's appeal challenging the decision of the Tashkent City Criminal Court dated September 17, 2012 and determined that the total amount of damages incurred by the state was to be compensated by Uzdunrobita. This amount of damages was calculated and determined on the basis of all the aforementioned claims against Uzdunrobita and amounted to $587 million (RUB 18,375 million) payable in equal installments over eight months (the "Appeal Decision").

In accordance with the applicable Uzbek laws, Uzdunrobita petitioned the Deputy General Prosecutor to appeal the Appeal Decision in the Supreme Court of Uzbekistan and grant a stay to enforce the Appeal Decision. However, such petitions were rejected by the General Prosecutor's Office on January 8, 2013.

Further to such rejection, Uzdunrobita immediately filed similar requests to the Chairman of the Supreme Court of Uzbekistan. However, on January 23, 2013, Uzdunrobita was notified that the matter had been submitted by the Supreme Court for consideration by the Chairman of the Tashkent City

Court. On May 2, 2013, the Chairman of the Tashkent City Court rejected Uzdunrobita's petition. In order to comply with the Appeal Decision, Uzdunrobita then paid two scheduled installments in November and December 2012 totaling $147.5 million (RUB 4,583.4 million). On January 14, 2013, further to its partial payment of the third installment due in January 2013 totaling $15.9 million (RUB 481 million) and constituting the remaining amount of cash held in its bank accounts, Uzdunrobita filed a petition for voluntary bankruptcy to the Tashkent Economic Court on the grounds of its inability to meet further obligations pursuant the Appeal Decision. The court initiated bankruptcy proceedings and appointed an external temporary supervisor over Uzdunrobita with the further bankruptcy hearing took place on April 22, 2013.

On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita bankrupt and initiated a six month liquidation period which, following its extension, we currently believe to be still in place. In accordance with the terms of local liquidation procedures, Uzdunrobita's CEO was relieved from his duties and all oversight and governance over Uzdubrobita was transferred to the liquidation administrator. As a result, the Group had lost control over its subsidiary and deconsolidated Uzdunrobita.

During July 1-31, 2013, two rounds of auctions were set and held in relation to the sale of assets of Uzdunrobita and all of its branches. All auctions were recognized as having failed due to the absence of any applications by any interested bidders.

As far as we understand, Uzdunrobita's (including its branches') assets have been transferred to the balances of municipal bodies of Uzbekistan under the supervision of employees from Uztelecom, the national telecom operator.

We believe that the claims of the Uzbek state authorities against Uzdunrobita and which resulted in the initiation of its bankruptcy are unfounded. The Group reserves all of its rights to pursue all available legal options in Uzbekistan and internationally to defend its legal rights and protect its investments and to fully recover damages or obtain other relief including from any party involved in depriving MTS of its business and assets in Uzbekistan.

We filed a claim against the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes (ICSID), part of the World Bank Group, in Washington, D.C. which was registered on November 15, 2012. The tribunal was formed on August 29, 2013 and the first procedural hearings took place in November 2013. See also "Political and Social Risks  A deterioration in relations between Russia and other former Soviet republics and/or the United States and the European Union could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs" and "  Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

***The inability of MTS Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations.***

In December 2010, the Group suspended its operations in Turkmenistan following notification by the Ministry of Communications of Turkmenistan of a decision to suspend licenses held by BCTI, the Group's wholly-owned subsidiary in Turkmenistan, for a period of one month starting from December 21, 2010. On January 21, 2011, the period of license suspension expired, however, permission to resume operations was not granted.

The Group operated in Turkmenistan under a trilateral agreement signed in November 2005 by BCTI, MTS OJSC and the Ministry of Communications of Turkmenistan valid for a period of five years with a possibility to extend its term. In accordance with certain provisions of this agreement, BCTI

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shared net profits derived from its operations in the country with the Ministry of Communications of Turkmenistan.

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

We initiated a number of proceedings against Turkmenistan government authorities and state-owned telecom operators to defend our legal rights. At this time, we were also negotiating to settle the disputes on an amicable basis. On May 24, 2012 we concluded an agreement with the state-owned telecom operator Turkmentelekom relating to our terms of operations in Turkmenistan which resulted from negotiations between the Turkmenistan government and ministries. The agreement has a five year term and can be extended for next five years provided certain terms and conditions are satisfied. Under this agreement we are obliged to pay Turkmentelekom a monthly amount calculated as 30% of our net profit in Turkmenistan based on accounting rules of Turkmenistan. We also received GSM and 3G licenses for a term of three years (with possibility of prolongation), signed several agreements with the state-owned telecom operators regarding the cooperation upon infrastructure that allows us to restart the network and started to provide services to subscribers.

On July 25, 2012, we, our subsidiary BCTI, the republic of Turkmenistan, the Ministry of Communications of Turkmenistan, the state-owned company Turkmentelecom and mobile operator Altyn Asyr signed a settlement agreement (including the dismissal of all international lawsuits) concerning the suspension of our operations in Turkmenistan in December 2010.

In August 2012, we restarted our mobile communication network in Turkmenistan and resumed providing services for subscribers who had not canceled their contracts. Since October 1, 2012 we resumed our operations in Turkmenistan entirely and started entering into contracts with new subscribers.

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

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

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

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

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Courts have, on rare occasions, ordered the involuntary liquidation of a company for having net assets less than the minimum charter capital required by law, even if the company had continued to fulfill its obligations and had net assets in excess of the minimum charter capital at the time of liquidation.

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

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

***Insufficient adherence to the independence and competitiveness of the judicial process, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of our securities from obtaining effective redress in a court proceeding.***

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

These uncertainties also extend to property rights. For example, during Russia and Ukraine's transformation from centrally planned economies to market economies, legislation has been enacted in both countries to protect private property against uncompensated expropriation and nationalization. However, there is a risk that due to the lack of experience in enforcing these provisions and due to political factors, these protections would not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

In addition, the Russian tax authorities have aggressively brought tax evasion claims relating to Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

***The level of development of corporate and securities laws and regulations in Russia could limit our ability to attract future investment.***

The regulation and supervision of the securities market, financial intermediaries and issuers are less developed in Russia than, for example, in the United States and Western Europe. Securities laws, including those relating to corporate governance, insider trading, disclosure and reporting requirements, are relatively new, while other laws concerning anti-fraud and directors' and officers' liabilities remain underdeveloped. The Russian securities market is regulated by the CBR and FAS where the latter oversees anti-monopoly matters and advertisement relating to securities.

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

***There is little minority shareholder protection in Russia.***

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

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

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

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

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

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

- the effective parent gives obligatory directions to the effective subsidiary.

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

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

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

- decisions with respect to a reorganization;
- the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth more than 50% of the gross book value of our assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of our charter in a manner that limits shareholder rights
- decisions on delisting shares or convertible securities of the company from a stock exchange.

For example, from 2004 through March 31, 2013, we merged over 45 of our wholly owned subsidiaries into MTS. Following the approval of the first of the series of mergers we repurchased shares from investors who voted against or abstained from voting on the merger in the amount of 11.1 billion rubles ($446.3 million as of the date of repurchase). Also, on March 10, 2011, we completed a share buyback as part of the reorganization of MTS involving a merger with Comstar, Dagtelecom and Evrotel. Specifically, a total of 8,000 MTS ordinary shares representing 0.0004% of our issued share capital were repurchased for RUB 1.96 million ($67,000 as of the date of repurchase). In addition, a total of 22,483,791 Comstar ordinary shares representing 5.3809% of ssued share capital were repurchased for RUB 4.8 billion ($161.3 million as of the date of repurchase). Also as a part of our reorganization during 2013 a total of 90,881 MTS ordinary shares representing 0.004% of our issued share capital were repurchased for RUB 19.7 million (approximately $650,000 as of March 31, 2013).

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

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

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

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considered to be strategically important due to our offering of services involving the use of cryptographic technologies.

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

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

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

***Regulatory changes in Russia, including the reduction of settlement rate, the mobile number portability principle and others may have a material adverse effect on our financial condition and results of operations.***

Following an amendment to the Federal Law on Communications, which became effective July 1, 2006, fixed line operators began charging their subscribers for calls to mobile phone users and started to transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is established by the regulator and is known as the "settlement rate." The Ministry of Communications and Mass Media is considering altering the approach to inter-carrier settlements in Russia and the subsequent lowering of the settlement rate. Any reduction of the settlement rate by the regulator could have a negative impact on our average monthly service revenues per subscriber and margins. In September 2013, a commission on telecommunications with the Government of Russia supported the proposal of the Ministry of Communications and Mass Media to simplify the process of traffic transmission within one sub-federal region. The Ministry of Communications and Mass Media is expected to present certain suggestions to the government in the second quarter of 2014. The exact changes to the current regulations may be significant, including the regulation of interconnect leading to operators' inability to determine the autonomous pricing of interconnect rates.

In January 2013, the Ministry of Communications and Mass Media held open discussions as part of its efforts to develop a revamped version of the Federal Law on Communications. Ministry officials propose to amend the law in order to minimize operators' expenditures on infrastructure development by introducing unified licenses for communications, without linking them to certain technologies and other similar means. Frequencies are proposed to be granted on the basis of auctions instead of competitive selection.

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

There are various difficulties that we face in implementing MNP principle including difficulties in applying established customer practices. The implementation of the MNP principle may therefore lead to the interference of antimonopoly authorities and legal actions. For example, MegaFon filed a claim against us after winning a contract on rendering services to the members of the Council of the Federation. The claim is under consideration of FAS. The first meeting was held on April 7, 2014 and the forthcoming is scheduled on April 24, 2014.

From March 1, 2014, if an operator fails to pass a subscriber's number to another operator it will be obliged to render the services free of charge. The duration of any free of charge services will start from the planned date of passing the number until the effective date of the transfer. This initiative came into force on March 1, 2014 and placed additional responsibility on the operators whilst exposing operators to the risk that certain subscribers may seek to improperly take advantage of this system by engineering delays in the MNP process. Starting from April 8, 2014, the operators are obliged to pass a subscriber's number to another operator no later than the eighth day from the individual subscriber's application date and on the twenty ninth day in case the subscriber is a legal entity, unless otherwise indicated in the subscriber's application.

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

Moreover, recently a draft law regulating the equipment used in telecommunications network was introduced for consideration by the State Duma of the Russian Federation. This draft law would require us to use telecommunications equipment produced by Russian companies (i.e. those which are tax residents of the Russian Federation). The software in such equipment should have open source code. The draft law permits the use of foreign equipment in case there is no similar equipment produced by Russian companies. It is not yet clear how the restrictions can be applied since there are no Russian producers of much of this equipment. If this draft law is adopted, we could encounter severe difficulties in our operations.

The draft version of the Rules of rendering the telephone communications services which was set for discussion on March 12, 2014, includes several amendments. These include an obligation for operators to inform the subscribers of any changes in tariff plans via sms, the inability of operators to charge subscribers for switching to another tariff plan as well as the possibility of subscribers to demand back the advance payments made without termination of contract. In case the draft version of the Rules is adopted it could materially adversely affect our revenues.

Currently the Russian Civil Code is undergoing the process of substantial revisions with new provisions being introduced relating to a number of spheres including basic principles of civil law, securities, property, legal entities, transactions and their invalidation, security and a number of others. At present, the potential interpretation of these amendments by state authorities (including the courts), along with their impact on our activities are unknown.

Russian companies are obliged to pay various and significant taxes including income tax, VAT, real estate tax, excise tax, payroll tax and others. Along with tax liabilities there are different obligatory non-tax payments. These include payments into Universal Service Fund, which currently amounts to 1.2% of our annual revenue on telecommunications services. Furthermore, potential regulatory changes that may be enacted in the future, such as the introduction of new rules regulating MVNOs, new rules concerning our pricing policy and others, could weaken our competitive position in the mobile telecommunications market. Changes in tax laws and non-tax regulations may lead to the growth of our tax burden and may as a result, materially adversely affect our financial condition and results of operations.

***The failure of our subsidiaries that are subject to regulations as natural monopolies to comply with the requirements of the Federal Law No. 223 "On Procurement Process", inter alia, in case of collective tendering can lead to penalties on our subsidiaries.***

One of our subsidiaries, MGTS, is categorized by the Federal Tariff Service as a natural monopoly in the Moscow telecommunications market. Another our subsidiary, Comstar-regions, operating in Khanty-Mansiysk Autonomous District is also categorized as a natural monopoly in the public telecommunications market of this Region. According to the Federal Law No.223 "On Procurement Process" which came into legal force on July, 18, 2011 with recent amendments dated December 28, 2013, natural monopolies are obliged to conduct the procurement process in accordance with the principles of transparency and non-discrimination of competition. If our subsidiaries that are under additional regulations as natural monopolies are found failing to comply with the law on procurement process, *inter alia* in case of collective tendering with us, our subsidiaries can be subject to penalties.

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

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

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

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

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

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

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

In November 2012, NCCIR issued the statements regarding MNP, which enables the subscribers to retain their telephone number after switching from one operator of mobile communications to another. MNP law came into legal force on July, 5, 2013 with the beginning of switching to other operators from December, 20, 2013. However, on December, 30, 2013 a resolution that postponed the beginning of service provision to July, 2014 came to legal force. The approval of MNP services may lead to an increase in our costs caused by the necessity of infrastructure improvement and also lead to the intensification of competition.

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

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

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

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

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

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

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

On July 14, 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax penalties to be extended beyond the three-year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax audit. Additionally, according to amendments to the Tax Code of the Russian Federation, effective January 1, 2007, the three-year statute of limitations may be extended if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed" or "hindered" or "created insurmountable obstacles" in respect of a tax audit and to ultimately seek review and possibly apply penalties beyond the three-year terms. According to Presidium of High Arbitrazh Court Resolution # 4134/11 of September 27, 2011, the statute of limitations for tax penalties is calculated starting from the day immediately following the expiration of the tax period when the violation was committed.

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

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

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

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within the group (*e.g.* corporate restructurings). We are now considering creating a consolidated taxpaying group of taxpayers in 2015.

In addition, intercompany dividends are subject to a withholding tax of 0% or 9% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules), if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties), if being distributed to foreign companies. Recent amendments to the Tax code effective from January 2014, have introduced a new increased withholding tax rate of 30% for dividends to be applied where particular information have not been provided to the custodian regarding the holders of securities held in a foreign nominee holder, foreign authorized holder or depositary program custody accounts. If the receiving company itself pays a dividend, it may offset tax withheld against its own withholding liability for the onward dividend, although not against any withholding made on a distribution to a foreign company. The above changes and potential difficulties they create related to tax reimbursement and reduced rate application may affect the investment prospects of the Russian companies.

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

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

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

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

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

Based on the results of their audit in August 2012, the tax authorities of Uzbekistan assessed $669 million (RUB 21,390 million) in additional taxes, penalties and fines payable by Uzdunrobita. Afterwards all tax disputes were closed, and the total amount of damages incurred by the state was calculated on the basis of all claims against Uzdunrobita which amounted to $587 million (RUB 18,375 million). After paying two scheduled installments totaling $147.5 million (RUB 4,583.4 million) and making partial payment of the third installment amounting totaling $15.9 million (RUB 481 million) and constituting the remaining amount of cash held in its bank accounts, Uzdunrobita filed a petition for voluntary bankruptcy to the Tashkent Economic Court on the grounds of its inability to meet further obligations. As of the date of this document, we have no official documents indicating the end of liquidation procedure. However, bankruptcy proceedings in respect of 9 out of 15 branches were completed by the end of 2013. See also " Legal Risks and Uncertainties The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations," and "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Tax Audits and Claims."

***Russian anti-offshore policy may have adverse impact on our business, financial condition and results of operations***

The President of the Russian Federation in his speech to the Federal Assembly of the Russian Federation on December 12, 2013 made certain proposals concerning deoffshorization of the Russian economy. The Russian Federation like a number of other countries in the world is actively involved in a discussion of measures against tax evasion by the use of low tax jurisdictions as well as aggressive tax planning structures. Initiatives such as the incorporation into Russian law of the concept of beneficial ownership, tax residency of legal entities, definition of offshore companies, "controlled foreign companies" rules, conclusion of multilateral agreements for exchange of information between tax authorities of different countries have already been raised by the Government in the Main Directions of Russian Tax Policy for 2014 and the planned period of 2015-2016.

The Deputy Finance Minister has declared that in the near future the Government will submit to the Russian State Duma the draft law on ratification of the multilateral Convention on Mutual Administrative Assistance in Tax Matters developed by the Council of Europe and the OECD, which the Russian Federation signed in 2011. Ratification of this Convention will enable the Russian Federation to receive tax information from all participating countries which include, among others, a number of offshore jurisdictions.

No assurance can currently be given as to whether and when the above legislative initiatives and proposals will be enacted (if at all), their exact nature, their potential interpretation by the Russian tax authorities and the possible impact on our counterparties which may be registered in off-shore jurisdictions. In case the impact of legislative initiatives is significant for some of our counterparties it may lead to potential influence on our results of operations.

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

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

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

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

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

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

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

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

The changes introduced into the new Tax Code of the Ukraine during 2012 created a duty to pay advance installments on tax on profits on a monthly basis and retained the duty to pay advance installments on dividend payments. Before 2013, tax on profits charged for the accounting period was reduced by the amount of advance installments made on dividend payments. In 2013 such reductions were not taken into account and we were obliged to pay the new monthly advance installment on the tax on profits as well as the advance installments on the dividend payments, which increased our tax expenses. However, following a new law issued on July, 31, 2013 it became possible to reduce the tax on profits by the amount of advance installments on dividend payments but commencing March, 1, 2014 when the 2013 tax return is filed.

On March 27, 2014, the Act on Finance Crisis Prevention was passed in Ukraine. Several provisions in the Tax Code have been changed by the act which may affect our business in Ukraine, in particular, doubling of the fees for frequency usage, and the introduction of a 0.5% tax rate applying to foreign currency purchases.

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

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

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

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

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

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

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

- extend the list of related parties;

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

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

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

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

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

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

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

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

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

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

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

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

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

**Risks Relating to the Shares and ADSs and the Trading Market**

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

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

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

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

***Recent Russian legislation requires the disclosure of information about ownership of the ADSs, including in some cases beneficial ownership of the ADSs, and a failure to provide such disclosure may restrict your ability to vote.***

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

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

Furthermore, the legislation stipulates that the issuer, CBR, Russian courts and pretrial investigation agencies may request such lists of depositary receipt holders from the holder of depositary program depo account. The holder of depositary program depo account shall take all reasonable measures in order to provide such information. In case of non-compliance with the above requirements, the CBR may suspend, or impose limitations on, transactions with securities held in the relevant accounts of Russian custodians for a period of up to six months. As a result, the shares underlying the ADSs may be blocked and it may be impossible to deposit or withdraw the shares into or from the depositary program. Overall, there is lack of practice and official interpretation in relation to the new rules related to shares underlying ADSs as well as uncertainties with respect to exercise of certain rights attaching to shares underlying ADS holders in view of the new rules which could complicate the exercise of right to, and the ability to derive benefits from, the shares represented by ADSs.

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

The market price of our ADSs experienced, and may continue to experience, significant volatility. The closing price of our ADSs on the New York Stock Exchange ranged from a low of $18.60 to a high of $54.54 per ADS in 2009, a low of $17.84 to a high of $23.55 per ADS in 2010 and a low of $11.41 to a high of $21.86 per ADS in 2011, and a low of $15.69 to a high of $20.07 per ADS in 2012, in 2013, a low of $17.78 per ADS to a high of $23.78 per ADS. On May 3, 2010, the ADS to ordinary share ratio was changed from five ordinary share for one ADS to two ordinary shares for one ADS.

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

- periods of regional or global macroeconomic instability;
- announcements of technological or competitive developments;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates or other material comments by securities analysts relating to us, our competitors or our industry in general;
- announcements by other companies in our industry relating to their operations, strategic initiatives, financial condition or financial performance or to our industry in general;
- announcements of acquisitions or consolidations involving industry competitors or industry suppliers;
- sales or perceived sales of additional ordinary shares or ADSs by us or our significant shareholders; and
- impact and development of any lawsuit, currently pending or threatened, or that may be instituted in the future.

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

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

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

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

return voting instructions to the depositary in a timely manner. ADSs for which the depositary does not receive timely voting instructions will not be voted. We cannot provide any assurance that holders and beneficial owners of ADSs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the depositary, (ii) receive notice to enable the timely cancellation of ADSs in respect of shareholder actions or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

Amendments to the Federal Law on Securities Market provide for new restrictions in relation to voting of shares represented by ADSs. See also " Recent Russian legislation requires the disclosure of information about ownership of the ADSs, including in some cases beneficial ownership of the ADSs, and a failure to provide such disclosure may restrict your ability to vote."

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

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

***ADS holders may be subject to Russian regulatory restrictions.***

Prior to the amendments to the Russian securities laws introduced in 2011, a depositary bank could be considered the owner of the shares underlying the ADS, and as such could be subject to the mandatory public tender offer rules, anti-monopoly clearance rules, governmental consents or reporting requirements in respect of acquisition of shares and other limitations contemplated by Russian law. The amendments to the Russian securities laws introduced in 2011 provide that a depositary bank is not an owner of underlying shares, and as such, these requirements should apply to ADS holders.

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

Under Russian law, dividends paid to a non-resident holder of the shares generally will be subject to Russian withholding tax at a rate of 15%. This tax may potentially be reduced to 5% or 10% for legal entities and organizations and to 10% for individuals under the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital (the "United States Russia income tax treaty") provided a number of conditions are satisfied. However, the Russian tax rules on the application of double tax treaty benefits to individuals are unclear and there is no certainty that advance clearance would be possible. Furthermore, recent amendments to the Tax Code have introduced new rules in relation to dividend payment to holders of ADSs which establish certain requirements to the information to be provided to the custodian acting as the tax agent in order for him to be able to utilize the basic 15% or a reduced 10% withholding tax rate. In the absence of such information the custodian is required to use an increased 30% withholding tax rate. Such information includes at a minimum information regarding the number of securities held in a specific tax jurisdiction. The amendments also provide for a simplified tax refund process with the tax agent available to ADS holders where an increased level of tax was withheld. However, the process of collection of such information and its transfer from the depositary to the custodian as well as the process of the expedited refund are not tested at this point and it is not clear how they will work in practice. In addition to that the same amendments have restricted the possibility of using the 5% reduced rate under the United States Russia income tax treaty for advance withholding which make it possible to utilise it only by way of later reimbursement with the Russian tax authorities. Further to the above we note that the custodian may be obliged to withhold tax at standard non-treaty rates or at a higher rate when paying out dividends, and U.S. ADS holders may be unable to benefit from the United States Russia income tax treaty. See also "Item 10. Additional Information E. Taxation" for additional information.

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

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

The taxation of income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law does not give a definition of how the "source of income" should be determined with respect to the sale of securities, other than that income from the sale of securities "in Russia" should be considered as Russian source income. As there is no further definition of what should be considered to be a sale "in Russia," the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares or other similar criteria.

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

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

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, the central registration system in Russia is under development. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however registrars generally have relatively low levels of capitalization and inadequate insurance coverage.

On December 7, 2011 amendments to the relevant legislation were adopted, substantially reforming the registration system by introducing the CSD. In the course of this reform of the share keeping system, numerous different depositaries with accounts in the registers of companies are

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expected to be replaced by a single central depositary, whose primary function would be the custody of shares in all major companies. These changes became effective on January 1, 2012 and are currently being implemented. On November 6, 2012, FSFM officially appointed the National Settlement Depositary as the central depositary. Since the central depositary opened its account in MTS register in March 2013, all the other custodians are restricted from opening their accounts in the register. Currently the central depositary is the only custodian with an account in MTS' register and other custodians hold custodial accounts with the central depositary.

In addition, certain amendments to the Civil Code entered into force on October 1, 2013 regarding the transfer and restitution of securities that are aimed at protection of rights of security holders.

It is however unclear how these new provisions will be applied and during the initial stage of development of a central share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the depositary, under the terms of the deposit agreement, will not be liable for the unavailability of our shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares.

In addition on July 6, 2012 a central depositary was introduced in Ukraine. Such central depositary is to hold the shares of all joint stock companies in Ukraine. The methods of dividend payments was also changed: according to the new rules the joint-stock company transfers dividends to the CSD through the operating account at the special processing center in order to enable the central depositary make the onward transfer to the parties eligible to receive dividends. The changes came into force on October 12, 2013 and could affect the timing of dividend payouts.

See also "  Recent Russian legislation requires the disclosure of information about ownership of the ADSs, including in some cases beneficial ownership of the ADSs, and a failure to provide such disclosure may restrict your ability to vote."

***Foreign judgments may not be enforceable against us.***

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

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

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awards against Russian companies in favor of foreign investors and Russian courts' inability to enforce such orders and corruption.

**Other Risks**

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

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

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

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

**Item 4.** ***Information on Our Company***

**A. History and Development**

Mobile TeleSystems CJSC ("MTS CJSC") our predecessor, was formed in 1993. The founding shareholders included MGTS and three other Russian telecommunications companies, which collectively held 53% of our original share capital, and two German companies, Siemens AG and T-Mobile Deutschland GmbH, an affiliate of Deutsche Telekom AG, which collectively held the remaining 47%. Sistema currently owns 51.46% of our share capital (53.46% excluding treasury shares). See "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders."

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

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

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

In September 2001, we won a tender held by the Telecommunications Ministry of the Belarus Republic to form a joint venture with a GSM 900/1800 license to operate in Belarus. On June 26, 2002, MTS Belarus received all of the governmental approvals and licenses required to commence operations in Belarus and it began operations on June 27, 2002. In 2003 through a number of purchases we acquired a 100% stake in MTS Ukraine for RUB 11,872 million. Since July 2007, we have operated under the MTS brand in Ukraine.

In August 2004, we acquired a 74% stake in Uzdunrobita, the largest wireless operator in Uzbekistan, for $126.4 million (RUB 3,693 million) in cash. We acquired the remaining 26% stake in June 2007 pursuant to a put option agreement for $250.0 million (RUB 6,481 million) in cash. In May 2006, we started operations under the MTS brand in Uzbekistan. In July 2012, we suspended providing services in Uzbekistan per the order from the State Agency for Communications and Information ("SACI") of Uzbekistan on the temporary suspension of the operating license of Uzdunrobita for a period of 10 business days which was subsequently extended to three months. On August 13, 2012, the Tashkent Economic Court granted the petition of the SACI to withdraw all operating licenses of Uzdunrobita. Simultaneously various Uzbek government agencies claimed multiple violations by Uzdunrobita, which having passed through numerous court hearings resulted in heavy penalties which Uzdunrobita has been unable to satisfy. Uzdunrobita has submitted its application initiating self-bankruptcy procedures to relevant Uzbek court. On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita bankrupt and initiated six month liquidation procedures, which we understand to be still in place following several extensions. As a result, we lost control over the subsidiary and deconsolidated Uzdunrobita. We are procuring efforts to resolve the dispute under international laws. Please see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of our subsidiaries in the countries in which we present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations" regarding recent suspension of our services in Uzbekistan and "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Uzbekistan."

In two separate purchases in June and November 2005, we acquired 100% of BCTI, the leading wireless operator in Turkmenistan, for $46.7 million (RUB 1,343 million) in cash. Since October 2006, we have operated under the MTS brand in Turkmenistan. On December 21, 2010, the Ministry of Communication of Turkmenistan suspended our primary operating license and we ceased providing mobile telecommunications services in Turkmenistan. In August 2012, we restarted our mobile communication operations in Turkmenistan and resumed providing services for subscribers who did not cancel their contracts. Since October 1, 2012, we resumed our operations in Turkmenistan entirely and started entering into contracts with new subscribers. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations."

In September 2007, we acquired an 80% stake in International Cell Holding Ltd., a 100% indirect owner of K-Telecom, the leading wireless operator in Armenia, for €260.0 million (RUB 9,142 million), and entered into a call and put option agreement initially valid until 2012 (and later extended until 2016) for the remaining 20%. K-Telecom operates in the GSM-900/1800 standard, covering the entire territory of Armenia. It historically operated under the VivaCell brand, and was re-branded as VivaCell-MTS in September 2008.

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

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

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

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

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

In April 2013, MTS, through its wholly-owned subsidiary, acquired a 25.095% stake in MTS Bank for 5.09 billion rubles ($163.5 million as of April 3, 2013) through an additional share issuance by the bank. The transaction was concluded in accordance with the terms of an indicative offer between MTS, MTS Bank and Sistema. MTS and MTS Bank have also concluded a profit-sharing agreement pursuant to which MTS and MTS Bank would realize 70% and 30% of the proceeds from the MTS Dengi (MTS Money) project, respectively. The MTS Dengi project was recently launched by MTS and MTS Bank and is aimed at providing customers throughout Russia with a variety of payment tools, including credit cards, near-field communications-enabled SIM cards and PoS (point-of-sale) credit.

**Capital Expenditures**

We spent in total RUB 81,575 million in 2013 for network development in Russia and the other countries where we operate, which included RUB 67,146 million in cash expenditures on property, plant and equipment, and RUB 14,429 million for the purchase of intangible assets. We expect to spend approximately RUB 90 billion in 2014 for the on-going roll out of Long-Term Evolution ("LTE") networks throughout Russia and enhancements to 3G networks, continued deployment of our Gigabit Passive Optical Network ("GPON") in Moscow and Moscow Region, network improvements and equipment swaps in Ukraine, maintenance capital expenditures in Armenia and build out of 3G networks in Turkmenistan. We plan to finance our capital expenditures primarily through operating cash flows, and to the extent necessary, through additional external financing. The actual amount of our capital expenditures for 2014 may vary depending on subscriber growth, demand and network development, as well as currency volatility, vendor terms and the availability of external financing. The capital expenditure estimate for 2014 excludes expenditures that may be made in connection with acquisitions or new licenses. A breakdown of our capital expenditures in 2013 by country is set forth below. For the first quarter of 2014 and continuing into the second quarter, our principal capital expenditures have related and continue to relate to the build-out of our network and GPON project which we have financed through operating cash flows.

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We spent RUB 6,569 million, RUB 1,937 million and nil in 2011, 2012 and 2013, respectively, for acquisitions of subsidiaries, net of cash acquired.

On December 23, 2010, an extraordinary general meeting of the MTS' shareholders approved the merger of Comstar-UTS into MTS. We redeemed Comstar-UTS shares held and put by non-controlling interest shareholders within the limit set forth by Russian law at a specified price. The consideration paid to Comstar-UTS shareholders in the first quarter of 2011 totaled RUB 4,786 million.

In December 2011, we acquired 29% of the ordinary shares of MGTS from Sistema for RUB 10.6 billion. In addition, we assumed debt in the amount of RUB 10.4 billion due and payable by the end of 2011. See also "Item 5. Operating and Financial Review and Prospects A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Acquisitions" and Note 3 to our audited consolidated financial statements.

***Russia***

We spent RUB 70,910 million in 2013 for network development in Russia, including RUB 58,226 million in cash expenditures on property, plant and equipment, and RUB 12,684 million for the purchase of intangible assets.

***Ukraine***

We spent RUB 8,840 million in 2013 for network development in Ukraine, including RUB 7,281 million in cash expenditures on property, plant and equipment, and RUB 1,559 million for the purchase of intangible assets.

***Turkmenistan***

We spent RUB 732 million in 2013 for network development in Turkmenistan, including RUB 731 million in cash expenditures on property, plant and equipment, and RUB 1 million for the purchase of intangible assets.

***Armenia***

We spent RUB 1,092 million in 2013 for network development in Armenia, including RUB 907 million in cash expenditures on property, plant and equipment, and RUB 185 million for the purchase of intangible assets.

***Belarus***

MTS Belarus spent RUB 2,350 million in 2013 for network development, including RUB 1,525 million in cash expenditures on property, plant and equipment, and RUB 825 million for the purchase of intangible assets. We do not include the capital expenditures of MTS Belarus in our capital expenditures described above as its results are not consolidated in our financial statements.

**B. Business Overview**

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

As of December 31, 2013, we had a mobile subscriber base of approximately 102.4 million (approximately 75.3 million in Russia, 22.7 million in Ukraine, 2.4 million in Armenia, and 2.0 million

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in Turkmenistan), which is an increase of 6,89% compared to December 31, 2012. We are also the largest operator in the Moscow residential broadband market in terms of subscribers, with a 27% market share as of December 31, 2013, according to Direct INFO. Our revenues for the year ended December 31, 2013, were RUB 398,443 million, an increase of 5.3% from the year ended December 31, 2012. Our net income for the year ended December 31, 2013, was RUB 79,839 million, an increase of 169% from the year ended December 31, 2012.

Russia is our principal market, both in terms of subscribers and revenues. For each of the three years ended December 31, 2013, 2012 and 2011, approximately 89% of our revenues came from operations in Russia; approximately 10% of our revenues came from operations in Ukraine; and approximately 1% of our revenues came from operations in other countries, respectively.

As of December 31, 2013, approximately 74% of our mobile subscriber base was in Russia and approximately 22% was in Ukraine. According to AC&M-Consulting, as of December 31, 2013, we had a 31.% and 37% market share of total mobile subscribers in Russia and Ukraine, respectively.

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

| Period | Subscribers(1) (in million) |
|---|---|
| 2009 | 97.8 |
| 2010 | 103.3 |
| 2011 | 101.1(2) |
| 2012 | 95.8(3) |
| 2013 | 102.4(3) |

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

(2) Excludes Turkmenistan subscribers.

(3) Excludes Uzbekistan subscribers.

In 2012 we ceased to provide mobile cellular communications services in Uzbekistan as all operating licenses of our subsidiary, Uzdunrobita, were withdrawn by the State Agency for Communications and Information of Uzbekistan on August 13, 2012. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of our subsidiaries in the coutries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations."

In Turkmenistan, our primary operating license was suspended on December 21, 2010, and we ceased providing mobile telecommunications services in that country for two years. In 2012, our operating license and as a result our operations in Turkmenistan were resumed. Our subscriber base amounted to approximately 2.02 million subscribers as of December 31, 2013. For more information, see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations."

According to AC&M-Consulting, overall mobile cellular penetration in Russia was approximately 170.0% as of December 31, 2013, which is an increase from 161.3% at December 31, 2012. Mobile cellular penetration in Ukraine was approximately 133.1% as of December 31, 2013, which is an increase from 126.1% as of December 31, 2012. According to our estimates, mobile cellular penetration in Armenia was approximately 117.3% as of December 31, 2013, as compared to approximately 118.8% as of December 31, 2012. Mobile penetration in Turkmenistan was approximately 105.4% as of December 31, 2013, which is an increase from 85.9% as of December 31, 2012, according to our estimates.

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Our consolidated mobile subscriber base increased insignificantly in the first two months of 2014. Specifically, according to our estimates at March 1, 2014, we had approximately 103.2 million subscribers, including approximately 75.9 million in Russia, 22.9 million in Ukraine, 2.4 million in Armenia and 2.0 million in Turkmenistan.

As of December 31, 2013, we had mobile licenses to operate and commercial mobile operations throughout the entire territory of Russia with a population of approximately 143 million people, throughout the entire territory of Ukraine with a population of approximately 45 million people, throughout the entire territory of Turkmenistan with a population of approximately 5 million people and throughout the entire territory of Armenia with a population of approximately 3 million people. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Failure to renew our licenses or receive renewed or new licenses with similar terms to our existing licenses could have a material adverse effect on our business and results of operations," and "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Failure to fulfill the terms of our licenses could result in their suspension or termination, which could have a material adverse effect on our business and results of operations."

MTS Belarus had approximately 5.39 million subscribers and a leading market share of 46.7% at December 31, 2013, according to our estimates. At December 31, 2012, according to our estimates, MTS Belarus had approximately 5.23 million subscribers and a leading market share of 46.9%. Belarus, a country with a population of approximately 9.5 million, had a mobile cellular penetration rate of approximately 122% at December 31, 2013, according to our estimates.

In 2011, 2012 and 2013, we significantly expanded our operations in an effort to meet the challenges of our evolving markets and further the goals of our strategy set out in more detail below. Through our acquisition of a controlling stake in Comstar in October 2009, we have become a leading fixed line services provider in Russia.

We have also continued to develop our proprietary sales and distribution network organically.

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

**Business Strategy**

Our key strategic goal is leadership in all markets of presence, delivering the best-in-the-market telecommunication experience to our subscribers, including high-speed Internet access at home and on the go, cable TV entertainment with access to best content portfolio and top quality mobile and fixed voice services. We are at the forefront of LTE development in Russia and CIS and we are focused on building the fastest and most reliable 4G wireless networks and providing the best service to our customers by bringing access to the connected world.

In order to achieve our goals in 2014 we are executing on our new "3D" strategy. Our new strategy envisions three areas of focus: Data, Differentiation, Dividends, and as described below, is a key to sustaining our leadership positions. The "3D" strategy expands and develops our strategic priorities and principles that we formulated in 2013.

**Data:** we provide customers with fast and reliable networks to manage their data-driven lifestyles. We always pioneer and bring the best available technology to our subscribers, such as building high-speed 4G LTE networks which allows us to be one step ahead of ever growing demand for data consumption. Our commercial strategies are focused on increasing data penetration. We ensure customers have the best possible connectivity experience at their homes, workplaces and places in between.

**Differentiation:** as a multiservice operator, we leverage our retail network to engage customers with products and services to enhance their digital lives. We have established Moscow as world-class city in terms of connectivity and network access, and anticipate customer needs through a diverse portfolio of products and services to meet a world beyond communications: banking, finance, cloud computing, TV etc.

**Dividends:** we continuously improve the operational efficiency of MTS. We further develop the organizational capabilities of MTS, constantly work on organizational effectiveness, and keep it responsive to market challenges and customer needs. We sustain high levels of business profitability and aim to enhance shareholder returns.

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

**Current Operations**

We are a provider of wireless and fixed line communications services in Russia, Ukraine, Armenia and Turkmenistan. Prior to withdrawal of all operating licenses of Uzdunrobita on August 13, 2012, by the State Agency for Communications and Information of Uzbekistan, we also provided mobile cellular communications services on the entire territory of Uzbekistan. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations."

***Subsidiaries***

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

**Mobile Operations**

***Services Offered***

*Network Access*

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

*Automatic Roaming*

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

As of December 31, 2013, we had bilateral roaming contracts with 751 wireless operators in 227 countries, including 13 regional operators in Russia. We continually seek to expand our roaming capability and are currently in negotiations with additional operators.

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*Value-Added Services*

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

| | | |
|---|---|---|
| Blackberry | Call Barring | Call Waiting |
| Call Divert/Forwarding | SMS | MMS |
| Caller ID Display and anti-Caller ID Display | Mobile Office | Melody Ring Tones |
| Conference Calling | Voicemail | Missed Call Alert |
| Wi-Fi | Mobile banking | Itemization of Monthly Bills |
| Location-Based Service ("LBS") | Wireless Application Protocol ("WAP") | Information and Directory Service |
| General Packet Radio Service ("GPRS") | MTS-Connect | International Access Service |
| Intelligent call assistant | MTS-Tablet | WEB and WAP portal |
| APN remote access point | SIM-browser | Real IP |
| Fixed Mobile Convergence | Point-to-point transfer | Automatic Customer Care System and Customer Care System via the Internet |
| EDGE | Unstructured Supplementary Services Data ("USSD") | Ring Back Tone |
| E-shop | High-Speed Packet Access + ("HSPA +") | Collect call |
| Personal cabinet (Internet helper) | Dual-carrier High-Speed Downlink Packet Access + ("DC-HSDPA+") | My subscriptions |
| LTE | Mobile TV | SMS Pro (SMS black list, autoreply, forward, storage) |

| | | |
|---|---|---|
| MTS-News (ICB Service) | Black List | Second Memory (Cloud storage) |
| VoD (Video on Demand) | | Virtual Number |

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

*Internet Access*

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

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

*3G Technology*

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

By the end of 2013, we installed 31,561 3G base stations throughout Russia. Together with 3G networks in Belarus, Turkmenistan and Armenia, we operate 35,507 3G base stations. We have also obtained a permit to use the UMTS 900 standard in Moscow Region and Habarovskiy kray. As of December 31, 2013, our UMTS 900 network consisted of 1162 base stations.

In 2010, we began to implement an upgraded version of the HSPA technology known as HSPA+. This technology allows us to provide our subscribers with faster data transmission speeds. We have launched HSPA+ technology which supports up to 21 Mbit per second data transmission speed. We have launched second and third WCDMA frequencies for capacity purposes and activated Dual Carrier technology which supports up to 42 Mbit per second data transmission speed in 15,693 UMTS sites in Russia.

In 2011, we began to develop a 3G femtocell network. Femtocells are small low-power wireless base stations in the licensed 2100 MHz spectrum. They connect to a mobile operator's network using residential DSL or cable broadband connections and can support multiple standard mobile devices. Femtocells deliver a strong signal and high-quality voice service to standard mobile devices in homes, small and large offices, outdoor public spaces, metro hotspots and rural areas. They allow for strong signal performance even in areas where MTS cellular coverage is limited or unavailable. A femtocell network also provides for high speed of data upload and download. The total number of femtocells installed in Russia reached 2,250 by the end of 2013.

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

In October 2007, K-Telecom, our subsidiary in Armenia was allocated frequencies to offer 3G services throughout the entire territory of Armenia. The frequencies were allocated for a 10-year period. In 2009, we commercially launched our 3G network in Armenia. In 2010, we further expanded our 3G network to cover all towns and villages with a population of more than 2,000 people, and, as a result, 98% of inhabited areas are covered with our 3G outdoor services. In 2011, K-Telecom started to provide telecommunications services based on HSPA+ technology in Yerevan, six northern regions and in some southern regions of the country. We plan to extend HSPA+ technology to all regions of the country by the end of the next year. In 2012, we completed the replacement of outdated 2G radio equipment with SingleRAN technology. We are currently implementing an all-IP concept by providing IP interfaces and transmission link for all base station sites, which is the basic approach for future LTE networks.

In Turkmenistan, we currently provide services based on 3G technology in Ashgabat only. 3G services are available only to our corporate clients due to limited external Internet channel bandwidth

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which we lease from the state-controlled telecoms provider. HSPA+ (MIMO) and DC-HSPA services are also available in our 3G network.

In 2013, we started replacing outdated radio access network with SingleRAN technology, while providing IP interfaces and transmission links. In 2014, we plan to significantly expand our 3G network in Turkmenistan launching 3G services in all major cities of the country.

*LTE Technology*

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

In August 2012 we launched LTE services in Kazan based on the MVNO business strategy. In September, 2012 we began offering LTE-based commercial services in Moscow Region where we initially rolled out more than 800 LTE TDD eNodeB's. In December 2013, we had 2002 LTE TDD and the 1231 LTE FDD base stations in Moscow. As of December 31, 2013, we have LTE network in 17 regions of Russia with 5023 eNodeB's in total.

In Yerevan, the capital of Armenia, we commenced a commercial test of the first 4G/LTE network in December 2010. In 2013, we provided full LTE outdoor coverage for two major cities Gyumri and Vanadzor, LTE coverage in Yerevan was also considerably expanded. Circuit Switch Fall Back (CSFB) functionality is available to all our LTE subscribers.

*Other Services*

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

*Strategic Partnership with Vodafone*

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

***Sales and Marketing***

*Target Customers*

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

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In 2013, we concentrated our marketing initiatives on the strategic development of mobile internet services and extensive growth of the mobile broadband user base. This will also remain our focus in 2014 as we shift our strategy to become more than a mobile operator in the traditional sense of the word and rather an internet and total telecom service provider company of the new economy. The goal of these marketing initiatives is to establish us as the best value operator and the most attractive data services provider in the Russian market.

These key focuses are in line with growing global market trend of transitioning from voice-centered services to data-driven business models. In 2013, we put greater emphasis on attracting new mobile internet users who had not previously used mobile broadband. This mass audience significantly drove our data revenues in 2013.

*Advertising and Marketing*

Our advertising and public relations initiatives include:

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

- advertising campaigns and promotions to inform our current and potential customers of the advantages of the high quality and variety of our services and the extensive coverage we offer;

- product and tariff related advertising and promotions for specific products, such as new tariff plans for various target audiences, pricing discounts, etc. and

- image and product related advertising and promotions to inform our current and potential customers of our market leading data products and services.

The key theme for our advertising campaigns in 2013 was the education of users on how mobile internet can help them in everyday life. Our 2013 communication strategy also included the use of a number of top-tier celebrities to ensure the highest possible influence on our audience.

In order to build brand awareness and stimulate demand we currently use a combination of various advertising formats, including television, outdoor, newspaper, magazine and radio. Increasingly we also advertise on-line (with the help of traditional as well as innovative and novel projects) to market and promote our products and services to the broad audiences of current and potential customers. Additionally, our indirect advertising includes sponsorship of selected television programs, sport events, music shows and other popular events. We also coordinate the advertising policies of our dealers and partners, such as MTS Bank, to capitalize on the increased volume of joint advertising and preserve the integrity and high-quality image of the MTS brand. For example, in 2012, we developed a creative framework and visual style for MTS Bank which has been used by MTS Bank in all of its communications since March 2012. In addition, we focus our advertising and marketing efforts on emphasizing the affordability and variety of our tariff plans, the broad coverage of our network and the use and availability of national roaming.

In 2013, we concentrated our efforts on strengthening our positioning as data services provider and operator. As a result the major part of our marketing activities in both products and services areas was closely connected with this strategic focus.

To support our key directions we undertook the following initiatives in 2013 in Russia and in selected other countries in which we operate:

- *Voice and Integrated tariffs*

  In 2013, we continued to actively support and develop the "Super MTS" tariff plan. This was our "flagship" tariff plan which is aimed at mass-market subscribers. Super MTS, developed from the Super Zero tariff plan in 2011, was our main sales-driving offer for 2012. In 2013, we

enhanced our Super MTS tariff plan with additional mobile internet features and free internet offers.

In 2013, we also continued to support our Maxi tariff line which we renamed and relaunched under the name of "Smart" which became a new revolutionary format of an integrated tariff plan for the market by offering our customers 1 Gb of mobile traffic for a very affordable monthly fee and totally free on-net phone calls. The major advertising campaign was very well received by our customers, including the High Value Private Customers (HVPC) segment, and doubled the tariff plan sales.

*Data*

In 2013, we continued to actively develop and promote data services in line with our overall strategy. These development efforts included the promotion of various add-on options such as BIT and Super BIT, which offers an unlimited mobile internet throughout Russia, MTS Tablet, specifically designed and marketed for the tablet user audience, as well as our 4G LTE campaign and other bundled data related offers. For example, our tariff option BIT was bundled with a Mobile TV offering to stimulate a more diverse use of mobile internet. Although we continued promoting USB modem devices in the first half of 2013, we put much more emphasis on developing and advertising the market's first specific data tariff plan for tablets, which are an up-and-coming and very promising segment in Russia. We also continued advertising support in the regions where we launched our 4G LTE network. Finally, during the New Year holidays season we launched an unprecedented mobile internet price offering which established us as an operator with the most affordable mobile broadband tariffs. The above mentioned campaigns proved to be an effective tool and helped us increase the mobile internet user base by more than 50% in just one year.

*Business-to-business offers*

In 2013, we shifted our focus in B2B segment as well and started actively promoting the use of mobile broadband for corporate clients. One of the major steps was to introduce a new line of contemporary tariff plans bundling mobile internet services with voice. The Smart Business tariff line was well received by the business community for its innovation and very competitive pricing. At the same time MTS continued to drive innovative services such as machine-to-machine technologies (M2M) and various cloud and online co-working environments for businesses which further strengthened our image as a leading provider of data services. In 2013, we continued our successful cooperation with the most prominent Russian business TV channel RBC to produce a series of TV programs about small and medium-sized companies which effectively used our products and services in different regions of Russia to improve their business results. This initiative was also supported in other communications channels such as print and radio.

*Handsets sales offers*

During 2013, we continued to reinforce our image as a leading retailer of mobile devices, including MTS branded phones and phones from other vendors. The growth of smartphones in our user database became one of the key objectives for 2013 and will continue to be so in 2014. We continued to focus on the efficiency of our monobrand network comprised of more than 4,034 points-of-sale across the country, including 1,197 franchise points-of-sale. We used the opportunity to provide our customers with exceptional device pricing offers supported by a more widely adopted practice of selling SIM-locked devices linked to our network (both MTS branded and devices from other vendors). At the same time we started actively promoting sales of tablets and increasing their penetration into our customer base. One of the revolutionary offers we were proud to introduce in 2013 was an MTS branded Android-based smartphone which became the most affordable smartphone on the market. At the same time we continued our successful practice of promoting special offers with newly purchased devices in order to effectively promote trial usage of mobile internet on smartphones and tablets.

*Other products and services*

Our residential services communication strategy in 2013 was focused on product improvement in the cable TV segment MTS cable TV raised the bar and transformed into Digital TV with full HD TV support for various channels. Broadband services were promoted through the "Fair Internet" approach, which customer studies defined as one of the strongest prerequisites for their satisfaction and which was strongly supported with specific product propositions. For the Moscow market we introduced the latest broadband technology GPON, the fastest network in Moscow enabling speeds up to 1Gb/s. In 2013, GPON based products were promoted under the MTS brand. In Moscow, MTS offers the fastest broadband speeds using state-of-the-art GPON technology.

*MTS Brand*

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

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

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

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

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

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*Global recognition*

In 2013, MTS was ranked number 82 in the BRANDZ Top 100 Most Powerful Brands (3 points up from last year with 11% year-to-year increase in brand value), an independent ranking published by the *Financial Times* and Millward Brown, a leading global market research and consulting firm. We were the first Russian company to join the ranks of the most powerful brands in the world in 2008 and we maintained or improved our position in every subsequent year.

*Sales and Distribution*

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

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

In 2013, we continued to implement our strategy in retail operations by increasing the efficiency and optimizing the structure of our proprietary sales and distribution network. We expect to continue enhancing the efficiency and structure of this sales network, including through the optimization of points-of-sale locations, with the aim of maintaining our market position.

Our proprietary distribution network consists of MTS-branded franchise points-of-sale (third-party dealers operating under the MTS brand) and MTS-branded points-of-sale owned by us. As of December 31, 2012, our proprietary distribution network in Russia consisted of 4,462 points-of-sale, including 1,573 franchise points-of-sale and 2,889 points-of-sale owned by us.

In 2013, we have been focusing on optimizing the structure of our proprietary network in Russia. As of December 31, 2013, we operated 4,034 points-of-sale, including 1,197 franchise points-of-sale and 2,837 points-of-sale owned by us.

Our proprietary distribution network outside of Russia as of December 31, 2013, consisted of 38 points-of-sale in Ukraine 97 points-of-sale in Armenia and 7 points-of-sale in Turkmenistan.

For newly acquired mobile subscribers in Russia, we link commissions payable to a dealer on a monthly basis to the amount of revenues we receive during a half to one year period from the date a subscriber is activated by a dealer. In addition, we have established caps, or a maximum commission amount payable to our dealers. The dealer commissions in Russia currently range between RUB 220 and RUB 1,900 ($6 and $58) per subscription.

In Ukraine, we link dealer commissions to the tariff package sold, category of subscriber, subscriber revenue, the duration of a subscriber being active, city of subscription and status of the specific dealer. We have different commission structures based on whether the subscriber is Prepaid, Postpaid or a CDMA-only subscriber (*i.e.*, subscribers using only mobile Internet services). For each new subscriber, a dealer typically receives a one-time commission payment at the time the contract is signed or monthly payments based on the revenue generated from the subscriber. The dealer commissions in Ukraine for Postpaid tariffs consist of one-time commissions of $5 and we are entitled to retain the full commission amount if the subscriber stops using our services within five months following the month of activation. In addition, we may also pay monthly commission in an amount ranging from 30% to 36% of the revenues generated by the subscriber for a period of 12 months. Prepaid tariff commissions for activation of a subscriber are linked to the territory where a dealer operates. The period during which we pay a dealer commission depends on our market share in that territory and may vary from 4 to 8 months, and is the lesser amount of 50% of the subscriber's monthly invoice and $10.6. We also pay monthly dealer commissions of $15 for high quality, long-term subscribers, as well as a lump sum amount of between $156 and $3,150 to exclusive dealers who sell exclusively MTS Ukraine products and services. For CDMA subscriptions, we typically pay dealers a one-time fee of $5 upon subscriber activation, as well as monthly payments up to 12 months based on the revenue generated by the subscriber.

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

***Competition***

*The Russian wireless telecommunications market*

Demand for wireless communications services in Russia has grown rapidly over the last 10 years due to rising disposable incomes, increased business activity and declining prices due to intensified competition among wireless communications providers. As of December 31, 2013, overall wireless penetration in Russia was approximately 170.0%, or approximately 242.8 million subscribers, according to AC&M-Consulting.

The Russian market has achieved high levels of penetration in Moscow and St. Petersburg, where penetration reached approximately 216.6% and 211.5%, respectively, as of December 31, 2013, according to AC&M-Consulting. The average penetration rate in regional markets reached approximately 160.2% as of December 31, 2013, according to AC&M-Consulting.

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

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** | **2013** |
| | **(amounts in millions, except for percentages)** | | | | |
| Subscribers[1] | 207.9 | 219.2 | 227.6 | 230.5 | 242.8 |
| Subscriber penetration | 143% | 151% | 157% | 161% | 170% |

Source:
AC&M-Consulting.

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

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According to AC&M-Consulting, we accounted for 38% and 37% of subscribers in Moscow, 28% and 28% of subscribers in St. Petersburg and 31% and 31% of total Russian subscribers as of December 31, 2012 and 2013, respectively. We believe that the decrease in our market share in Russia, particularly in Moscow, is the result of our effort to restructure our subscriber base to reduce churn by focusing on loyal subscribers rather than infrequent users of our mobile services.

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

The following table illustrates the number of wireless subscribers for each network operator in Russia as of December 31, 2011, 2012 and 2013:

| | As of December 31, | | |
|---|---|---|---|
| **Operator** | **2011** | **2012** | **2013** |
| | **(amounts in millions)** | | |
| MTS | 70.0 | 71.2 | 75.3 |
| MegaFon | 61.6 | 62.6 | 68.1 |
| Vimpelcom | 57.2 | 56.1 | 56.5 |
| Others | 38.8 | 40.6 | 42.9 |

Source: AC&M-Consulting.

*MegaFon.* MegaFon, which operates GSM 900/1800/UMTS (3G) networks, is one of our primary competitors in Russia, and it is the second largest GSM wireless operator in Russia in terms of subscribers. According to AC&M-Consulting, MegaFon had a subscriber base of approximately 68.1 million subscribers in Russia as of December 31, 2013, including 11.8 million subscribers in the Moscow license area. At December 31, 2013, according to AC&M-Consulting, MegaFon had a 29% market share in Moscow, a 34% market share in St. Petersburg and a 28% market share of total wireless subscribers in Russia.

Given the increasing demand for data services we monitor the development of Skartel LLC, which operates under the YOTA trade mark. Currently YOTA offers LTE Internet services in 33 cities of Russia. Starting from October 2, 2013 Scartell LLC operates as a subsidiary of MegaFon.

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

According to AC&M-Consulting, Vimpelcom had a subscriber base of approximately 56.5 million in Russia at December 31, 2013, including 13.2 million subscribers in the Moscow license area. At December 31, 2013, according to AC&M-Consulting, Vimpelcom had a 33% market share in Moscow, a 20% market share in St. Petersburg and a 23% market share of total wireless subscribers in Russia.

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

In certain areas of Russia, we compete with Tele2, which had approximately 23.7 million subscribers as of December 31, 2013 according to AC&M-Consulting. Also, we compete with Rostelecom and its subsidiaries CenterTelecom, SibirTelecom, Dalsvyaz, Uralsvyazinform, Volga Telecom, North-West Telecom, Southern Telecommunications Company and Dagsvyazinform. According to AC&M-Consulting, Rostelecom had approximately 14.8 million customers as of December 31, 2013.

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*The Ukrainian wireless telecommunications market*

From 2003 to 2007, the Ukrainian wireless telecommunications market enjoyed rapid growth, in part, due to broader economic recovery in Ukraine, changes in ownership of the two major operators, the introduction of CPP (calling party pays) billing arrangements and the launch of the Beeline brand in Ukraine in April 2006 by Ukrainian RadioSystems ("URS"), a wholly owned subsidiary of Vimpelcom. The two largest wireless telecommunications providers in Ukraine are MTS Ukraine and Kyivstar who share 80% of the market, with 37% and 43%, respectively, as of December 31, 2013, according to AC&M-Consulting. The competitive environment in Ukraine changed after Vimpelcom Ltd., a Bermuda holding company, completed the acquisition of Vimpelcom and Kyivstar initiated earlier in 2010 pursuant to the restructuring of Vimpelcom. As a result, Vimpelcom Ltd. currently controls both Kyivstar and URS. Consequently, in October 2010, Kyivstar and URS each announced that they have started integrating their operating activities in Ukraine, including the re-branding of URS services under the Kyivstar brand and introducing unified tariffs and a common system for client relationships management. During the third quarter of 2012, in response to the previous quarter's weak results, Kyivstar intensified its marketing activities by launching a market strategy which was significantly similar to ours, offering "zero" prices for in-net calls nation-wide with different price points on the specified regional levels. In turn, we promptly launched a winter campaign called "Zero without compulsory charges," as daily charges were viewed as the principal negative factor for Kyivstar customers.

In 2013, Kyivstar launched new tariff plans without obligatory monthly payments and with a more detailed regionalization. In the fourth quarter of 2013 Ukrtelecom, the only UMTS license holder on the market was sold to System Capital Management (SCM), the co-owner of Astelit (another competitor operating in Ukraine), MNP launching has been postponed to the second half of 2014.

In 2013, Astelit continued its strategy of downmarket pricing on the voice-market. Tariff policies of all operators in Ukraine also stimulated data penetration and data consumption growth. Responding to the increasing competitive environment, we continued to focus on developing and marketing, providing superior customer service and positioning ourselves as offering the optimum price/quality proposition of voice and data services. While our average price per minute ("APPM") remained stable in 2013, our ARPU and MOU reduced due to growth of low-users in our customer base.

Overall wireless penetration in Ukraine in 2013 increased to 133.1%, or approximately 60.4 million subscribers, as compared to 126.1%, or approximately 57.7 million subscribers, in 2012, according to our estimates.

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

| **Operator** | **As of December 31, 2011** | **2012** | **2013** |
|---|---|---|---|
| | **(amounts in millions)** | | |
| Kyivstar | 23.2 | 25.1 | 25.8 |
| MTS Ukraine | 19.5(1) | 20.7(1) | 22.7(1) |
| Astelit | 7.0(2) | 8.0(2) | 9.2(2) |

(1) Number indicates our GSM subscribers. As of December 31, 2013, 2012 and 2011 also includes our CDMA subscribers, which reached 0.2, 0.3 million and 0.3 million, respectively.

(2) Number of three-month active subscribers.

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

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In Ukraine, we compete primarily with Kyivstar, a GSM operator with approximately 25.8 million subscribers as of December 31, 2013. Kyivstar offers wireless services using GSM 900/1800 technologies under the "Kyivstar," brand and fixed line services by the fiber-to-the-building technology ("FTTB") under the brand "Kyivstar Home Internet." Astelit offers services in GSM 900/1800 standards under the "life:)" brand.

In July 2006, we received a license to provide telecommunications services on the entire territory of Ukraine using the CDMA-450 standard. Following our development strategy in Ukraine, we launched a broadband network using CDMA 2000, deployed in the 450 MHz spectrum band, in November 2007. In 2010 we started to offer Prepaid CDMA tariffs. Our CDMA business in Ukraine faces wide competition from other operators, including Intertelecom (including CDMA Ukraine), People.net, 3mob (the only UMTS license holder in Ukraine), fixed broadband operators and Wi-Max operators. In 2012, we launched Rev B CDMA technology services in the Kiev Region.

*The Armenian wireless telecommunications market*

As of December 31, 2013, overall wireless penetration in Armenia was approximately 117.3%, or approximately 3.75 million subscribers, according to our estimates.

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

| Operator | As of December 31, 2011 | 2012 | 2013 |
|---|---|---|---|
| | (amounts in millions) | | |
| VivaCell-MTS | 2.4 | 2.4 | 2.4 |
| ArmenTel (Vimpelcom) | 0.8 | 0.8 | 0.7 |
| Orange (France Telecom) | 0.6 | 0.6 | 0.6 |

Source: Subscriber information based on our estimates.

As of December 31, 2013, VivaCell-MTS had approximately 2.43 million subscribers and a 65% market share, according to AC&M-Consulting and our estimates. In Armenia, we compete with ArmenTel, a fixed line and mobile operator wholly owned by Vimpelcom. ArmenTel holds a license in the GSM 900 standard for the entire territory of Armenia and a radio frequency permit for fixed line communications with CDMA equipment. Starting from 2009, we also compete with Orange (France Telecom), which was granted a GSM-900/1800 network license in October 2008.

*The Turkmenistan wireless telecommunications market*

As of December 31, 2013, overall wireless penetration in Turkmenistan was approximately 105.4%, or approximately 5.5 million subscribers, according to our estimates.

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

| Operator | December 31, 2012 | December 31, 2013 | Coverage Area |
|---|---|---|---|
| | (amounts in millions) | | |
| MTS-Turkmenistan | 1.4 | 2.0 | Nationwide |
| Altyn Asyr | 3.0 | 3.5 | Nationwide |

Source: Subscriber information based on our estimates.

MTS-Turkmenistan offers wireless services using GSM 900 and GSM 1800 technologies. As of December 31, 2013, MTS-Turkmenistan had approximately 2.0 million subscribers and a 36.6% market share according to our estimates. In Turkmenistan, we compete with Altyn Asyr, a state-owned cellular operator which launched a 3G network in 2010 and was the only GSM operator from December 21, 2010 till August 30, 2012.

***Tariffs***

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

| | As of December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| **Russia** | | | |
| Prepaid | 77% | 74% | 70% |
| Contract and corporate | 23% | 26% | 30% |
| **Ukraine** | | | |
| Prepaid | 92% | 91% | 91% |
| Other | 8% | 9% | 9% |

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

We currently have a unified system of tariff plans offered to subscribers throughout Russia. The unified system is aimed at achieving such benefits as clarity, simplicity and transparency for prospective subscribers by offering the same set of tariff categories throughout Russia. Under each tariff category, we offer different tariff plans with different connection fees, per minute call charges and a wide range of value-added services. All tariffs presented below are expressed in U.S. dollars converted from rubles using the exchange rate as of December 31, 2013.

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

*Tariff Plans in Russia*

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

*Prepaid:* Prepaid tariff plans are geared towards consumers who use their mobile phones for personal communication. These plans do not have monthly subscription fees and the per-minute fee charges depend largely on the tariff plan chosen. We offer a family-oriented tariff plan, Super MTS, which allows family members to make up to 60 minutes of calls per day within the network for free. The Super MTS tariff plan varies depending on the region of the customer and it is a tariff plan which we believe will remain a competitive tariff plan over a long period of time. We also offer a tariff plan, "Red Energy," developed for different market segments, featuring flat price for calls within our network and calls to other networks. Subscribers to our Prepaid plans can reduce the price of their calls by using tariff options which have a subscription fee. After our customers subscribe to a particular Prepaid plan, they have the option of switching to a different Prepaid plan by sending an SMS message (USSD request) to a designated number.

*Smart:* "Smart" is the re-designed family of integrated voice and data tariff plans for customers with active mobile data usage. "Smart" was launched instead of "MAXI" in the second quarter of 2013. It has a monthly fee for a bundle of all-net minutes and Internet, and on-net calls above the bundle are free. Versions of Smart (Smart and Smart+) differ by amount of minutes and megabytes included in the bundle and the corresponding monthly fee.

*Unlimited:* "Unlimited" tariff plans are designed for heavy users who call primarily within their domestic region. Subscribers of unlimited tariff plans are provided with an unlimited number of local minutes, an opportunity to pay through our credit payment system and access to personal customer care service. In the Moscow Region, for those subscribers issued with a local number, monthly fees start from RUB 2,542.4 and those using a federal number pay from RUB 2,118.6 per month. The Ultra tariff plan includes unlimited calls to MTS numbers as long as the recipient and the caller are in the same region (defined as "home region"), free domestic calls from the MTS network to any number regardless of carrier up to a certain limit of minutes, no roaming charges within Russia, 15 gigabytes of mobile Internet access and 5000 SMS messages within the network.

*Data:* We offer special tariffs for active users of mobile Internet devices (*e.g.,* USB-modems, 3G and 4G capable devices). For data users, our range of tariff plans is optimized by device type: smart phones and feature phones (small screen), tablets (mid screen) and laptop / table computers (big screen). For "small screen" users we offer the BIT add-on option family MiniBIT, BIT, SuperBIT that are available on voice tariff plans. For growing "mid screen" market we offer the MTS Planshet tariff plan (means "Tablet" in Russian). For "big screen" users, either for USB-modem or embedded modems, we offer a set of options on MTS Connect tariff plan. We plan to continue the active development of mobile internet usage in 2013.

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

Our tariffs vary from plan to plan. The description of tariffs and charges are, in each case, exclusive of VAT. As of December 31, 2013, the per-minute tariff for local calls within the MTS network varied from zero per minute to RUB 2.12 per minute. Different rates apply to local calls to other networks and vary from RUB 0.55 per minute to RUB 2.80 per minute. Higher rates apply to domestic long distance calls and rates for international calls vary from RUB 3.64 per minute for calls to the CIS to RUB 59.32 per minute for calls to other parts of the world. Periodically, we run various promotional campaigns, either on the federal or regional level, in which we provide temporary discounts to our regular prices.

*Tariff Plans in Ukraine*

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

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We have the following Postpaid tariff plans in the Ukraine:

*Postpaid Business:* A set of Postpaid corporate tariff plans called "MTS Office+" targeting business segment subscribers, including per second billing, special low prices for calls to other mobile operators, no connection fees and free of charge unlimited calls within the MTS Ukraine network and within corporates. "MTS Office+" tariff line is a complex offer which contains voice and data packages. For the top management, we offer a unique product "ULTRA" which has an unlimited calls and SMS in the MTS Ukraine network, unlimited Mobile Internet and special prices for international calls and roaming. We also have a special tariff plan for the machine-to-machine (M2M) segment "Telematika" which combines service packages for M2M-cards, personalized service, special tariffs even for data roaming, special heavy duty SIM cards and consulting support services. We offer corporate clients specially designed combined service packages with a wide range of telecommunications services included. We also offer cross bill discounts based on business customers' monthly usage and the amount of the bills, and we also provide special handset subsidies on the condition that the buyers remain our customers.

*Postpaid Private:* A set of Postpaid tariff plans designed for mass-market subscribers based on the main national tariff plan "Super MTS 3D Zero" with a "3D" set of services for a monthly fee: 1D (voice) in net minutes monthly package: 2D (data) GPRS Mb monthly package: and 3D (SMS) in net SMS monthly package. The Private Postpaid tariffs are the main instrument for the Postpaid base growth due to customers' life time value development and migrations from the Prepaid segment. We also offer special Postpaid tariffs which are available only to customers switching from Prepaid plans and other privileges for these migrating customers. The main advantages of Postpaid over Prepaid include the customer's ability to obtain all services on credit, per second billing, national usage of the tariffs, absence of daily limits in service packages, more convenient roaming and customer service.

We have the following Prepaid tariff plans in the Ukraine:

*Voice oriented regionalized tariffs:* Are a set of regionalized tariff plans designed to attract mainly mass-market subscribers. The main national tariff plan "Super MTS 3D Zero" offers a "3D" set of services on a Pay-Per-Use (PPU) basis without fixed daily payments: 1D (voice) daily in net minutes package, 2D (data) daily GPRS Mb package, 3D (SMS) daily in net SMS package. To increase customer's life time value (LTV) this new tariff has the LTV principle at its core after reaching the certain usage targets for the trial 30 days period after activation or migration customers get increased volumes of package or services after 1,3,6,12 and 24 months without daily fees increase but involving a change them from a PPU principle to PPD (Pay-Per-Day). All regions are grouped into several clusters depending on the MTS market share, population and region potential. Regional tariffs based on the national tariff "Super MTS 3D Zero" but with price differentiators and volumes of free minutes within the MTS network, prices for other mobile operators, absence of pay-per-use (PPU) for them, cheaper data prices and higher volumes of data. Along with the regionalized tariffs, we offer an extensive list of segmented services for medium and heavy users, such as calls in MTS network or other networks, Mobile Internet, SMS, MMS, International calls and Roaming to promote faster customer development and higher customer loyalty.

*Data oriented regionalized tariffs:* A specially designed tariff plan "Smartphone" to appeal to data oriented middle value mostly youth smartphone users. The tariff "Smartphone" offers a monthly volume of 3GB Mobile Internet on a Pay-Per-Day (PPD) basis and sufficient monthly amounts of free minutes and SMS within the MTS network . The tariff is similar in prices for other mobile operators. Another data-only tariff is "Planshet" is targeted directly on the users of iPads and other tablet devices, includes 200Mb of data per day of Mobile Internet without any speed limits and has Nano and Micro Sim card included. To increase data penetration and develop the data usage among our existing customer base we offer the umbrella service "Super Internet" with several concept options: 1. Pay-Per-Use (PPU) for the new data users and seldom use or for the first data try without bill shocks, 2. Pay-Per-Day (PPD) with cheaper daily fees for those who use smartphones on-line daily, 3. Unlimited the cheapest price per Mb but the customer must pay at up-front for the longer periods (week, month or 3 months).

*Segmented tariffs:* A set of special tariff plans offered to certain micro or seasonal market segments such as Russian tourists spending summer months in Crimea or children aged between 7 and 12 years old. In particular, the tariff plan "Tourist MTS" offers low rates for calls from Ukraine to Russia, tariff plan "Super MTS 3D Team" allows children to make free of charge calls to their parents, while all content services are prohibited on this tariff plan.

As of December 31, 2013, the standard per minute tariff for calls in Ukraine varied from RUB 1.02 per minute to RUB 5.10 per minute. The standard per minute tariff for calls made within the MTS Ukraine network ranged from RUB zero per minute with limitations in minutes to RUB 4.90 per minute. Higher rates, ranging from RUB 0.61 per minute, applied to international calls to fixed lines of some countries in special service to RUB 306 per minute in standard international tariffs for satellites. All tariffs for MTS Ukraine subscribers are quoted in hryvnias. The tariffs set forth above are translated from hryvnias to Russian rubles using the official exchange rate of 0.24 hryvnias per RUB 1 as of December 31, 2013.

***Customer Payments and Billing***

We enroll new Prepaid subscribers in an advance payment program, under which the subscriber prepays a specific amount of money to use our services. As of December 31, 2013, 85% of our consolidated subscriber base was enrolled in the advance payment program and 15% used the credit system.

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

Under the credit payment system, customers are billed monthly in arrears for their network access and usage. We limit the amount of credit extended to customers based on the customer's payment history, type of account and past usage. As of December 31, 2013, subscribers using the credit system of payment had credit limits of up to RUB 98.8 million ($3 million) for key corporate customers in Russia. When a credit limit is reached, we block the telephone number until the balance is settled. There are no credit limits established for certain exceptional, high loyalty customers.

In 2007, we began to actively promote our credit payment system to our existing and new subscribers with the aim of migrating our subscriber base to the credit payment system from the existing advance payment system. In furtherance of this effort, during the period from 2009 to 2010, we introduced the "in full confidence" service (instead of the "Credit" service), which allows our Prepaid customers who subscribe to this service to continue using services when the balance on the subscriber's account becomes negative. We assign credit limits to our subscribers based on their payments and charge history (*i.e.,* average balance usage) during the prior three months. As of December 31, 2013, subscribers using the "in full confidence" service had a maximum credit limit of RUB 28.7 thousands ($871). Customer service representatives can also set individual credit limits for subscribers. When the credit limit is reached, our billing system blocks the phone number until the balance is settled. Similarly to the credit payment system, the subscribers are billed monthly in arrears for usage. The invoice, which can be delivered to the customer by e-mail, fax, regular post and Internet, should be settled within 24 days. If the invoice is not paid five to seven days prior to the due date, the system sends an additional reminder. The telephone number is blocked on the 25th day if the invoice is not settled.

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We completed implementation of the Foris billing system in Russia in 2008 and have already begun to experience increases in our overall efficiency and reductions in our expenses. We are planning to complete the transfer of our individual subscribers in Ukraine to the Foris billing system by May 2014. In Armenia, we use the "Eskadenia" billing system. The Foris billing system allows us to offer all of our subscribers a uniform and consistently high level of service. It also supports the monitoring of account usage in real time. In addition, the system provides us with the ability to offer flexible tariff plans with various usage discounts and subscriber loyalty bonuses. Furthermore, we are able to provide our corporate subscribers with more sophisticated customized billing solutions. For example, our corporate subscribers who use multiple phone numbers in different regions of Russia now receive a single invoice, whereas our previous billing system could not support such a service.

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

In Ukraine, our post-paid corporate and high-end subscribers receive an invoice which must be paid by a specified date. If the subscriber fails to pay, we block the phone number until the balance is settled. Our contract subscribers, who make an advance payment, are able to continue using our services once they reach a zero balance or until their accounts reach the credit limit specified in their service agreements. When the limit for such a subscriber is reached, we suspend our service until the balance is settled. We determine account terms and credit limits for each subscriber based on the subscriber's age, payment history and tariff plan.

In Ukraine we provide services to our Prepaid customers for as long as the balance on their accounts remains above zero and/or the tariff plans allow to use free-of-charge services without having the positive balance on the account.

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

***Customer Service***

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

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

In 2013, we created the MTS customer service data base to provide support in telephone service, to process claims, to improve collection of accounts receivable. The MNP project was started in MTS Contact Center to provide a leased line service for customers wishing to take advantage of mobile number portability.

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We continuously work to improve customer satisfaction by providing our subscribers with convenient and functional self-service systems (*e.g.,* Internet-Helper, interactive voice response ("IVR") and Mobile Helper). For instance, Internet-Helper is a service that, among other things, provides the customer with an opportunity to view information about his contract and personal information as well as manage certain account data. Similarly, Mobile Helper, among other things, allows a customer to receive information about his current balance, tariff plan details, as well as change service language and view bills for previous months. In 2012, we offered our customers the ability to pay for services using interactive voice menu IVR. As a result, the customers can now top up their accounts at any time using their bank cards and IVR.

In 2013, we have successfully implemented the service Voice Call Back, which allows the client not to wait for a response in Call Centre line, but request a call back. Our customers can now order the information on tariffs and services through the IVR system. In 2013, we started testing of speech recognition system.

In 2012, we established a telephone hotline support for our monobrand retail stores. The staff at our shops can call the hotline and get advice regarding our services. With the creation of the center of claims processing and support hotline mono-brand stores we are able to provide our clients with a high level of service at our retail stores.

We have back-office employees responsible for handling diverse customer inquiries. They also help to minimize the impact of technical problems and incidents on our customers. In addition, we have established customer retention departments throughout the territory of Russia to develop and implement customer retention programs with respect to all key customer segments and each of our primary service offerings. Our customer retention personnel are responsible for training front line employees on handling customer claims and suggestions, as well as following up with those customers who disconnected from our network to understand the reasons for the disconnection and properly respond to the changing needs of our customers. We continued pursuing a personalized approach in customer care using the Siebel CRM system, which helps us manage all customer-facing operations.

In 2014, we plan to implement an interactive IVR customer function, which allows a customer to use voice search to find the required information.

In 2008, in Ukraine, we launched a web portal and started to provide free access at special terminals in our sales offices for contract customers. Since 2009 we have further enhanced the quality of our customer service as a result of the complete integration of our IVRs and billing. In 2012, we made improvements to the IVRs menu to enhance its utility. In 2013, we continued to work on the improvement and expansion of self-service channels for subscribers and we were focused on auditing and optimizing internal customer service business processes.

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

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

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

In 2013, we continued to work for improvement and expansion of our self-care channels. And we completely redesigned our IVR system and Web Chat and expanded the functionality and usability of Web Chat.

In 2013, we launched a new mobile application for Android OS. The application allows users to manage their account directly from their smartphones. We started the process of implementing an operational CRM system and the process of renewal of our contact center technical platform. We have also changed the approach to subscriber differentiation. In 2013, we finished the process of integration of our broadband subscribers into our system of customer service.

In 2014, we plan to continue to transform our call centers into effective channels for client relationship management. We plan to continue implementation of operational CRM system and complete the renewal of the technical platform for our contact center.

*Network Technology*

We launched our commercial 2G network in 1994, based on GSM-900 technology. From 1999 we significantly improved our 2G network capacity on the basis of GSM-1800 technology. From 2001 we implemented wireless data communication services based on GPRS technology with download data rate up to 85.6 kbit/s. In 2005 we modernized our GSM network to support EDGE technology and tripled data services rates. Today we continue supporting and modernizing our 2G network, and we put the prime focus on the development of our 3G and LTE networks in order to provide our subscribers with high-speed broadband wireless services.

Our 3G network, developed from 2009, have mainly reused our existing GSM infrastructure in order to improve the 3G network roll-out time and decrease capital and operating costs. At first, we deployed UMTS-2100 technology and provided data rates up to 3.6 Mbit/s. In 2010 we implemented 3G/HSDPA technology to boost download data rates up to 14.4 Mbit/s. In 2011 we began to re-allocate available GSM spectrum and launched UMTS 900 in the UMTS-2100 restricted areas: in the Moscow and in the Khabarovsk Regions. In 2012 we improved the data services rate in our network by up to 21 Mbit/s for the downlink using 3G/HSPA+ technology. From December, 2013 we activated second and third UMTS-2100 carriers on the 64% of our UMTS-2100 sites to improve capacity, and launched ultra high-speed services, based on Dual Carrier (DC-HSPA+) technology, with download rates up to 42 Mbps in 55% 3G sites in Russia.

The first commercial LTE FDD 2600 network launched in Armenia was ours in 2010. In September 2012, we launched a commercial LTE TDD 2600 network in Moscow. In our LTE network we provide data services with a download data rate up to 75 Mbit/s, and up to 25 Mbit/s uplink. We implemented MIMO2x2 and 64QAM technologies to maximize spectrum efficiency of the limited LTE frequencies. Our LTE network satisfied the requirements of 3GPP Rel.9 in line with available LTE customer equipment. In 2013, we started LTE Small Cells technology trials for the purpose of rating different deployments scenarios of HetNet RAN.

In December 2013 we were allowed to re-allocate the existing 900 and 1800 MHz spectrum to UMTS-900 and LTE-1800 all over the Russia. We plan to launch LTE-1800 network and expand out UMTS-900 network in 2014. Our strategy is to re-allocate available spectrum to the most efficient technology in the mid term period and provide competitive high-performance data services to our customers.

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*Network Infrastructure and Frequency Allocation*

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

In the Moscow license area, we have been allocated frequencies spanning 2 × 11.4 MHz of spectrum in the GSM 900 frequency band and 2 × 24.6 MHz of spectrum in the GSM 1800 frequency band for operation of a dual GSM 900/1800 network and UMTS900 network. In 2011, we were allocated frequencies 2595-2620 MHz spanning 25 MHz for LTE TDD network deployment in Moscow and the Moscow Region.

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

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

We have been allocated frequency bands 2540-2550 MHz and 2660-2670 MHz spanning 2 × 10 MHz and frequency bands 798. 5-806 MHz and 839.5-847 MHz spanning 2 × 7.5 MHz for LTE FDD network deployment for the entire territory of the Russian Federation.

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

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

*Base Station Site Procurement and Maintenance*

The process of obtaining appropriate sites requires that our personnel coordinate, among other things, site-specific requirements for engineering and design, leasing of the required space, obtaining all necessary governmental permits, construction of the facility and equipment installation. In Russia, we use special radio planning software supplied by Aircom International and Mentum to assess new sites so that the network design and site development are coordinated. This software can create digital cellular coverage maps of our licensed areas, taking into account the peculiarities of the urban landscape, including the reflection of radio waves from buildings and moving automobiles and supports all necessary technologies, such as 2G, 3G and LTE. To use these tools more effectively we purchase high quality 3D digital maps for more precise planning. Used together, these software tools enable us to plan base station sites without the need for numerous field trips and on-site testing, saving us considerable time and money in our network build-out.

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

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that we will be able to continue to use our existing GSM 900 base station sites and to co-locate GSM 1800, UMTS 2100 and UMTS 900 base stations at some of the same sites. In 2013, we started the large-scale development of LTE network mainly using existing infrastructure.

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

*Network Monitoring Equipment*

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

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

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

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

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

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

***Interconnect Arrangements and Telephone Numbering Capacity***

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

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

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

To meet subscriber demand and provide for an adequate inventory of numbering capacity, we previously entered into contracts with local fixed line providers for allocation of numbering capacity to us. However, the Ministry of Communications and Mass Media subsequently took the view that numbering capacity assigned to one operator could not be rented to other operators. Accordingly, we have entered into arrangements whereby fixed line operators make their numbers available to our subscribers via agency contracts between the subscribers and us acting on behalf of such fixed line operators. Our right to use numbering capacity ranges from five years to an unlimited period of time. As a result of our merger with Comstar, we have decreased the use of local numbering capacity of other operators. As of December 31, 2013, we had numbering capacity (federal and local) for approximately 24.72 million subscribers in the Moscow license area.

To provide our subscribers in Russia with DLD/ILD services, we have interconnect agreements with national operators Rostelecom, MTT (an affiliate of Sistema until March 18, 2009), Vimpelcom and other national transit operators. We have also built and operate our own DLD/ILD network, which allows us to interconnect directly to foreign operators and thereby decrease our interconnect costs. Most interconnect fees payable for connecting users of other operators' fixed line and wireless networks to our network are based on a one-time connection fee, a monthly fee per point of interconnect and usage by minute which vary depending on the destination called.

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

Interconnect and traffic transit between the networks of mobile operators in Russia occurs through direct channels connecting the switches of the different mobile operators within the same city; through the network of transit long distance operators, which connect the networks of different mobile operators in different cities; or through operators' proprietary long distance networks. For domestic long distance traffic transit, we use our DLD/ILD network and networks of different national operators, including among others, MTT, Rostelecom and Vimpelcom. For ILD traffic transit, we primarily use our DLD/ILD network which is interconnected with more than 45 international carriers, including, for example, France Telecom S.A. and Deutsche Telecom A.G. We also have an interconnect between the DLD/ILD MTS network and the ILD networks of our subsidiaries, MTS Ukraine and K-Telecom, in order to provide the transit of international traffic.

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

***Handsets***

Nearly all of our handset sales consist of tri-band GSM 900/1800/1900 and dual-band UMTS 900/2100 handsets, except for certain models in the low cost segment and touch-phones. These handsets, which function in the GSM 900, GSM 1800 and PCS-1900 standards, provide users with greater automatic roaming possibilities in Russia, Europe, the United States and Canada. We generally do not offer handset subsidies in Russia but do offer them in Ukraine to a limited number of contract subscribers as well as modem subsidies for GSM and CDMA users. For the years ended December 31, 2011, 2012 and 2013, we provided net handset subsidies of RUB 257 million, RUB 168 million and RUB 120 million, respectively, in Ukraine.

In 2009, we substantially changed the strategy and structure of our retail operations by significantly expanding our proprietary sales and distribution network both organically and through the acquisition of national and regional retail chains. We organized these operations under RTC, our wholly owned subsidiary. From 2009, RTC handles all functions relating to our retail operations, including the purchase and sale of handsets and accessories and subscriber enrollment at our retail outlets. RTC has entered into arrangements with Sony, Nokia, Samsung, HTC, Alcatel, Fly, Philips, Huawei and others to purchase handsets. We also offer an array of mobile telephone accessories. Since 2009 we have successfully been selling MTS branded phones. According to GFK, a leading market research agency, our MTS 970 branded smartphone was a top selling smartphone in August and September 2013.

In line with our strategy to promote data services the structure of our handsets sales changed in favor of affordable smartphones rather than premium-priced devices which resulted in a decrease in overall sales of handsets and accessories by 8.3% during 2013. We expect moderate growth in our handset sales in 2014. See also "Item 5. Operating and Financial Review and Prospects A. Operating Results Revenues Sales of Handsets and Accessories."

**Fixed Line Services**

We offer alternative and traditional fixed line communications services in over 185 cities across Russia, covering a population of over 53 million people.

Our alternative fixed line communications services include voice, data and Internet and pay-TV services for corporate and residential subscribers, as well as the provision of interconnect services to other communications operators and numbering capacity to their subscribers. According to Direct INFO, as of December 31, 2013, we are the largest operator in the Moscow residential broadband market in terms of subscribers, with a 27% market share. We also operate in Ukraine and Armenia, where we provide digital telephony communications services, data transmission, Internet access and the renting of channels.

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Our traditional fixed line communications services are provided through incumbent operator MGTS. Through MGTS, we own "last mile" access to approximately 4.1 million households in Moscow, representing approximately 91% of the overall number of households in Moscow, according to Direct INFO. MGTS provides regulated and unregulated services, including:

- local telephony services at tariffs regulated by the Russian government;
- DLD/ILD voice telephony through licensed operators;
- interconnect to other operators;
- internet and data transmission services and numbering capacity to subscribers of other communications operators through agency agreements concluded with such operators.

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

***Customers and Services Offered Fixed Line***

We provide alternative fixed line communications services to corporate, operator and residential subscribers in over 185 cities throughout Russia. Specifically, we offer local voice, DLD/ILD voice, data and Internet and pay-TV services to our subscribers. Some of the interconnect tariffs we charge other telecommunications operators for in Moscow and certain other cities are regulated by the Russian government. We believe our fixed line subscribers typically evaluate our service and product offerings based on such factors as price, technology, security, reliability and customer service.

The following table presents certain operating data for our alternative fixed line business in Russia as of and for the years ended December 31, 2012 and 2013.

| **Alternative fixed line business** | **December 31, 2012** | **December 31, 2013** |
|---|---|---|
| *Residential* | | |
| Number of subscribers (000s)(1) | 4,598 | 4,071 |
| ARPU (RUB) | 217 | 232 |
| *Corporate(2)* | | |
| Number of subscribers (000s) | 128 | 123 |
| ARPU (RUB) | 5,810 | 5,866 |

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

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

*Corporate subscribers*

We target corporate subscribers covering a range of industries, such as business centers, hotels, financial institutions, professional services firms, consumer goods companies, manufacturers and companies involved in extractive industries, among others. These subscribers vary in size, ranging from large multinational and Russian corporations with thousands of employees to small-and medium-sized enterprises with up to several hundred employees. As of December 31, 2013, we had approximately 50,000 voice and 65,000 Internet corporate subscribers.

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

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*Voice Services.* We provide a full range of alternative fixed line voice services to corporates in Moscow, the Moscow Region and other selected regions of Russia, which include local, zonal, and DLD/ILD services using our transmission network and leased capacity between major Russian cities. We also provide integrated voice and data services, voice over frame relay and certain integrated services digital network ("ISDN") services.

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

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

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

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

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

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

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

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services, videoconferencing and other data transmission services. We intend to expand our service offerings to include customer premises management and network-centric IT solutions.

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

*Operators*

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

According to Direct INFO, together with MGTS, we had approximately 77% of the total active numbering capacity in Moscow as of December 31, 2013. We now have approximately 323 local fixed networks in 63 regions of Russia, including Moscow, and 42 zonal fixed networks to provide telephony services to subscribers. Our integrated intercity\international network is interconnected to more than 43 international operators. As of December 31, 2013, we had more than 1100 interconnect agreements with national and international operators for interconnection of our fixed networks.

*Residential subscribers*

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

*Voice Services.* We provide voice services to residential and corporate subscribers. Like corporate subscribers, residential subscribers in each of the regions that we are present in seek a full range of high quality voice services equivalent to those provided in Western Europe. In addition to "basic" voice telephony services, we provide a number of additional services, such as call forwarding, call transferring, call waiting, conference, voicemail and Caller ID, among others.

*Internet Services.* We offer broadband Internet services to residential subscribers throughout Russia. As of December 31, 2013, we had 8% market share in the Russian Federation together with Moscow where we had a 27% share, according to Direct INFO. Depending on the Internet connection speed, we charge residential subscribers a subscription fee of RUB 300-RUB 2,100 ($9.2-$64.2) per month in Moscow and a subscription fee of RUB 150-RUB 3,500 ($4.6-$106.9) in other regions of Russia. We do not charge a connection fee in Moscow and in most of the Russian regions.

*Pay-TV.* We operate a TV service based on IPTV service over ADSL and GPON technologies in Moscow. In addition, we offer pay-TV services based on DVB-C (digital television via cable connection), analog cable transmission and MMDS (wireless cable) technologies in most of the regions in which we are present. Since November 2013, we connect our subscribers only to digital TV. A set-top box allows pay-TV subscribers to access more than 150 channels of digital quality and 37 channels of HD quality from a television. International and Russian channels are included as part of the basic services package. As of December 31, 2013, we had approximately 132.4 thousand pay-TV subscribers in Moscow and approximately 2.5 million subscribers in other regions of Russia.

Our pricing structure is designed to appeal to large numbers of consumers with various interests and purchasing power, and varies significantly between regions. We charge a subscription fee of RUB 99-RUB 1099 ($3.0-$32.7) per month in Moscow and a subscription fee of up to RUB 120-RUB 900 ($3.7-$27.5) in other regions of Russia, depending on the number of channels included in the package. We also offer bundled Internet and pay-TV services for RUB 399-RUB 2,100 ($12.2-$64.2)

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per month in Moscow and RUB 419-RUB 1,049 ($12.8-$32.1) in certain other regions of Russia, depending on the speed of the Internet connection, the number of pay-TV channels being provided and level of competition in a particular region.

***Customers and Services Offered Traditional Fixed Line Business***

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

As of December 31, 2013, MGTS had approximately 4.27 million active lines in service, a cable network of over 95,470 km, a fiber optic network of over 20,122 km and 3,045 payphones. Currently, MGTS has focused its efforts on the deployment of GPON, IP/MPLS technologies and an IMS core. The old SDH equipment is being removed which results in the decreased number of E1 streams, a reduction in the copper network and the respective extension of the fiber-optic network.

In 2011, MGTS completed the digitalization of its network based on the special range of equipment MPN (Mediator Private Network), which allowed MGTS to complete the digitalization of the network two years ahead of schedule. The total installed capacity of the telephone network reached 4.9 million numbers as of December 31, 2013.

Residential subscribers accounted for approximately 81.8% of MGTS' total lines, corporates for 10.8% and public sector subscribers for 7.4%, as of December 31, 2013.

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

- local telephony;
- DLD/ILD voice telephony through licensed DLD/ILD operators, including us;
- interconnect to other operators;
- Internet and data transmission, including leased DLD/ILD services;
- inquiry and information, including telephone directories;
- use of payphones; and
- numbering capacity provided to the subscribers of other communications operators through agency agreements concluded with such operators.

As the only licensed PSTN operator in Moscow, MGTS is considered a natural monopoly under Russian antimonopoly regulations. Consequently, most of the services provided by MGTS are subject to governmental regulation. The Federal Tariff Service regulates MGTS' tariffs for voice telephony services provided to its PSTN subscribers, including monthly subscription fees, installation fees and local call charges. Operating revenues from regulated services accounted for approximately 59% of service operating revenues of our traditional fixed line business in 2013, 62% in 2012 and 69% in 2011. The percentage decline is connected with gradual growth of operating revenues from non-regulated services as a proportion of the overall operating revenues in 2013 and 2012 as compared to 2011. The Federal Tariff Service sets the tariffs MGTS can charge taking into account cost of services, network investment and a certain profit margin, and the current tariffs fully compensate MGTS for the cost of services provided to residential and government subscribers. According to Russian legislation, MGTS is allowed to petition the Federal Tariff Service for tariff increases upon certain conditions, such as inflation or increases in the cost of services. Historically, MGTS has petitioned the relevant Russian government agency for tariff increases once or twice per year. The Federal Tariff Service has permitted MGTS to increase its tariffs several times.

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MGTS also provides a number of unregulated services. According to Russian legislation, DLD/ILD services provided by licensed non-monopoly operators, public payphones, data transmission services, value-added services and a number of other services are not subject to tariff regulation. Among others, MGTS provides the following unregulated services:

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

- Internet access for residential subscribers and corporates; and

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

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

The following table presents certain operating data for our traditional fixed line business as of and for the years ended December 31, 2012 and 2013.

| **Traditional fixed line business** | **December 31, 2012** | **December 31, 2013** |
|---|---|---|
| Installed telephone lines (000s) | 4 944 | 4 944 |
| *Residential* | | |
| Number of subscribers (000s)[1] | 3 554 | 3 492 |
| CPP traffic (millions of minutes) | 1 562 | 1 269 |
| ARPU (RUB) | 382 | 400 |
| *Corporate*[2] | | |
| Number of active lines (000s) | 802 | 776 |
| Number of subscribers (000s) | 66 | 63 |
| CPP traffic (millions of minutes) | 788 | 689 |
| ARPU (RUB) | 10 891 | 15 552 |

(1) We calculate our subscribers based on the number of active lines in service. A line is considered "active" if the subscriber has used and paid for the service within the last six months.

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

MGTS' subscriber segments and the services provided to each subscriber segment are further described below.

*Residential and corporate subscribers*

MGTS provides basic regulated voice services to residential and corporate subscribers using its PSTN facilities and copper "last mile" access. Tariffs for these services are established by the Federal Tariff Service.

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

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The following table illustrates MGTS' regulated tariff development in the period from February 1, 2010, to March 1, 2014:

| MGTS Regulated Tariffs | February 1, 2010 | January 1, 2011 | March 1, 2012 | March 1, 2013 | March 1, 2014 |
|---|---|---|---|---|---|
| *Residential*[1] | | | | | |
| Line rental | | | | | |
| RUB per month | 155 | 175 | 190 | 205 | 205 |
| Per minute tariff plan local connection fee | | | | | |
| RUB per minute | 0.36 | 0.40 | 0.44 | 0.48 | 0.54 |
| Unlimited tariff plan connection fee (unlimited connection) | | | | | |
| RUB per month | 250 | 260 | 266 | 276 | 282 |
| Combined tariff plan fee for fixed amount of minutes[2] | | | | | |
| RUB per month | 140 | 152 | 172 | 184 | 205 |
| Combined tariff plan fee for each additional minute | | | | | |
| RUB per minute | 0.34 | 0.38 | 0.42 | 0.46 | 0.52 |
| *Corporate (non-governmental)*[1] | | | | | |
| Line rental (USD per month) | | | | | |
| RUB per month | 175 | 195 | 205 | 220 | 220 |
| Per minute tariff plan local connection fee | | | | | |
| RUB per minute | 0.36 | 0.40 | 0.44 | 0.48 | 0.54 |
| Unlimited tariff plan connection fee (unlimited connection) | | | | | |
| RUB per month | 350 | 365 | 375 | 385 | 391 |
| Combined tariff plan fee for fixed amount of minutes[2] | | | | | |
| RUB per month | 140 | 152 | 172 | 184 | 205 |
| Combined tariff plan fee for each additional minute | | | | | |
| RUB per minute | 0.34 | 0.38 | 0.42 | 0.46 | 0.52 |
| *Corporate (governmental and state-funded organizations)*[1] | | | | | |
| Line rental | | | | | |
| RUB per month | 160 | 180 | 200 | 215 | 215 |
| Per minute tariff plan local connection fee | | | | | |
| RUB per minute | 0.36 | 0.40 | 0.44 | 0.48 | 0.54 |
| Unlimited tariff plan connection fee (unlimited connection) | | | | | |
| RUB per month | 350 | 365 | 375 | 385 | 391 |
| Combined tariff plan fee for fixed amount of minutes[2] | | | | | |
| RUB per month | 140 | 152 | 172 | 184 | 205 |
| Combined tariff plan fee for each additional minute | | | | | |
| RUB per minute | 0.34 | 0.38 | 0.42 | 0.46 | 0.52 |

(1) Tariffs for residential subscribers are shown including VAT; tariffs for non-governmental corporate subscribers and governmental/state-funded organizations are shown excluding VAT.

(2) From February 1, 2007, until February 1, 2010, this plan included 450 minutes per month; from February 1, 2010, until March 1, 2014, this plan included 400 minutes per month.

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*Operators*

MGTS provides interconnect, traffic transmission and leased line services to other communications operators. Interconnect is carried out on the local and zonal levels in accordance with terms and conditions that are publicly disclosed. MGTS also provides additional services to operators interconnecting to MGTS' network, including access to emergency service, information and customer care numbers.

MGTS has also established an active presence in the data transmission market. Through its PDTN, MGTS can establish VPNs for other operators as well as provide other data network services. Operators can also rent space and utility systems from MGTS to house their network equipment.

***Sales and Marketing***

*Alternative fixed line business*

Our target customers include corporate, operator and residential subscribers.

To promote our product and service offerings, we use various communication channels for advertising and marketing, including direct marketing, printed mass media, television, Internet, radio, directories, outdoor advertising, advertising in the subway, special promotions and cross promotions. Through these various advertising and marketing channels, we intend to further develop our brand recognition. Our marketing strategy is designed to create a unified brand for each of our various product and service offerings with the aim of becoming a single source for all of our subscribers' communications needs.

We also actively promote our services to existing subscribers with special bundled product offerings aimed at servicing their communication requirements and enhancing subscriber loyalty. Our advertising and marketing materials are aimed primarily at the promotion of MTS brand. All fixed-line products are offered and marketed under this brand. However, when we enter new markets and acquire existing companies, we have to use both brands in advertising MTS and the one popular in a certain area. This is done to decrease churn as customers tend to express strong loyalty towards local brands. We then gradually decrease presence of the local brand and this allows us to make MTS a market leader in a given region in future. Our advertising and marketing efforts are designed to convey a positive image of us to the market as a leading communications operator focused on customer satisfaction.

*Traditional fixed line business*

As the incumbent PSTN, MGTS has not invested significantly in sales and marketing. In 2013 MGTS continued realization of its long-term modernization program on GPON, therefore, the biggest part of advertising budget was spent on convergent products promotion like Double and Triple Play (an offer bundling two and three services) with the use of GPON technology. GPON allows us to provide higher quality services than our competitors and to increase the number of our subscribers and revenue from Internet and pay-TV services in Moscow. By the end of 2013, more than 708,000 subscribers were transferred to GPON.

In 2014, we are continuing the development of GPON technology and aim to double the number of our subscribers by the end of the year.

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***Competition***

We compete with a number of fixed line telecommunications operators servicing Moscow, St. Petersburg and other major Russian cities. Moscow is the largest and most competitive of these markets. Our primary competitors include:

*Vimpelcom*, which is also one of our primary competitors in the Russian mobile communications market, offers voice, data and Internet services to corporates, operators and residential subscribers in major cities throughout Russia, Ukraine, Kazakhstan and Uzbekistan. We compete with Vimpelcom in the corporate, operator and residential fixed line telecommunications markets in Moscow and in certain other regions of Russia where we are present, including, among others, St. Petersburg, Rostov, Nizhny Novgorod, Ekaterinburg and Krasnodar.

*Rostelecom*, Russia's largest national fixed line telecommunications operator with presence in all Russian regions. We compete with Rostelecom in the corporate, operator and residential fixed line telecommunications markets in all regions where we operate in Russia. We also compete with Rostelecom in the mobile telecommunications market.

*Akado Group*, provider of pay-TV, broadband Internet and digital telephony in Moscow. We compete with the Akado Group primarily in the residential fixed line telecommunications markets in Moscow and Ekaterinburg.

*MegaFon,* which acquired operators Synterra and Net-by-Net, and offers services in the operator, corporate and residential fixed line telecommunications markets in Moscow, St. Petersburg, and other regions.

*Er-Telecom*, voice telephony, broadband and TV operator. We compete with Er-Telecom in the corporate and residential fixed line telecommunications market in St.-Petersburg, Novosibirsk, Omsk, N.Novgorod, Ekaterinburg, Kazan, Novosibirsk, Chelyabinsk and other regions.

*Corporate subscribers*

The following table sets forth the corporate subscriber market shares of the primary fixed line operators (including both alternative and incumbent operators) in Moscow as of December 31, 2013:

| | |
|---|---|
| MTS | 9% |
| MGTS | 13% |
| Vimpelcom | 22% |
| Megafon (Synterra) | 6% |
| Orange | 4% |
| Akado | 9% |
| Rostelecom (incl. RTCOMM) | 15% |
| Other | 22% |
| **Total** | **100**% |

Source: Direct INFO

In the corporate subscriber segment, we generally compete on the basis of network quality, individual and bundled service offerings, customer service, installation time, geographical presence and pricing.

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*Residential subscribers*

*Voice services*

The following table sets forth the market shares of the primary fixed line operators (including both alternative and incumbent operators) for voice services in Russia as of December 31, 2013:

| **Company** | **Russia** |
|---|---|
| MTS | 13% |
| Rostelecom | 75% |
| Other | 12% |
| **Total** | **100**% |

Source: Direct INFO

As Moscow's only PSTN operator, MGTS faces limited competition in the market for residential local telephony services in Moscow. As of December 31, 2013, it provided local voice telephony services for approximately 95% of all residential subscribers in Moscow, according to Direct INFO.

In the alternative voice services market, we generally compete based on the availability of bundled packages comprising broadband Internet access and pay-TV services, value-added services, network quality, installation time and customer service.

*Internet*

According to Direct INFO, as of December 31, 2013, broadband Internet penetration of households was 54% in Russia. The following table sets forth the market shares of the primary operators in the residential broadband Internet market in Russia as of December 31, 2013:

| **Company** | **Russia** |
|---|---|
| MTS | 8% |
| Akado | 3% |
| Vimpelcom | 8% |
| Er-Telecom | 9% |
| Rostelecom (including OJSC «National Cable Networks») | 34% |
| Other | 38% |
| **Total** | **100**% |

Source: Direct INFO

*Pay-TV*

According to Direct INFO, as of December 31, 2013, pay-TV penetration was 65% in Russia. The following table sets forth the market shares of the primary operators in the TV market in Russia as of December 31, 2013:

| Company | Russia |
|---|---|
| MTS | 8% |
| Akado | 3% |
| Rostelecom | 21% |
| Tricolor TV | 28% |
| Vimpelcom | 3% |
| Er-Telecom | 7% |
| Other | 30% |
| **Total** | **100%** |

Source: Direct INFO

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In the TV market, we generally compete on the basis of pricing, channel selection and content, individual and bundled service offerings, customer service and installation time.

***Tariffs***

We establish prices for our unregulated services and different subscriber segments based on certain common considerations, policies and goals. For example, we generally seek to establish competitive prices based on market rates for the services we offer and below market prices when our lower-than-average costs or economies of scale allow us to do so. We also offer subscribers bundled service packages with several services offered together at a discount to the cost of ordering each individual service separately and to promote additional services to our existing subscribers. In addition, we often offer promotions to our various subscriber segments waiving or discounting installation fees in order to attract new subscribers or promote new services.

With regard to corporates, we generally aim to derive the bulk of our operating revenues from monthly payments. Thus, depending on the scale and type of services ordered, we will often discount or waive installation fees.

For services offered to other communications service providers, we aim to generate most of our operating revenues from monthly payments and by offering an array of value-added services.

We develop tariffs for service offerings to residential subscribers with the aim of attracting new subscribers, as well as expanding the services used by existing subscribers in order to generate higher ARPU.

***Network Infrastructure***

*The transport network*

As a result of our acquisitions of Comstar and Evrotel, we became one of the largest operators of the Internet long-haul backbone networks in Russia. We continue to develop our long-haul backbone network through the build-out of a fiber optic infrastructure, based on 100G technology, and acquisitions of other Internet backbone service providers. We currently have a fiber optic network of approximately 147,000 km, which also allows us to operate an optical transport network using dense wavelength division multiplexing technology.

In addition, we have our own IP MPLS network, which is capable of providing Internet and L2/L3 VPN services, as well as deliver other media products, such as digital television and internet protocol television, to regional networks for the use in our fixed line and mobile operations, as well as for our wholesale customers. Our IP MPLS backbone network covers most of Russia and Ukraine and is present in most of the European and U.S. Internet exchange points, such as DE-CIX in Frankfurt, NETNOD in Stockholm, AMS-IX in Amsterdam, PARIX in Paris, LINX in London, Equinix in Ashburn and New York, NIIX in New York and Any2 in Los-Angeles. In 2011, we also established connection to FICIX in Helsinki. More than 75% of our international Internet traffic is delivered through settlement-free peerings with other large networks. The remaining international Internet traffic is delivered through direct connections with certain of the largest networks. All internet traffic in Russia is delivered through settlement-free peering with the largest ISPs in Russia.

*Alternative fixed line business*

The network infrastructure we maintain in Moscow is substantially different to the infrastructures we use in the regions. In Moscow, we have primarily grown organically, while our regional development has largely been through the acquisition of companies with different business models and a focus on different services. As a result, the network infrastructures in the regions outside Moscow and the

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technologies used to support such infrastructures are different from the network infrastructure established in Moscow and which we currently own.

*Moscow and Moscow Region*

The Moscow telephone network consists of 23 switching nodes (10 TDM switches and 13 soft switches) with total capacity of over 1,000,000 subscribers.

The Moscow Region telephone network consists of 13 soft switches with total capacity of around 100,000 subscribers.

All of our PSTN switching centers are connected to a digital transport network, which uses SDH technology and covers the entire territory of Moscow and most of the Moscow Region. The network ensures the functioning of our digital ATSs and their connectivity with analog and digital equipment of PSTNs of other operators. The digital transport network includes a trunk core STM-64, with connected half-rings STM-16 and STM-4. Multiplexers of access level are connected to trunk nodes by means of fiber-optic lines that organize streams STM-4 and STM-1. There are 1,000 multiplexers. The management of the transport network and digital ATSs is carried out remotely from network operation centers.

For the provision of Internet access, IP-telephony and other services, we have our own IP MPLS network, the core of which is constructed as IP MPLS rings with routers connected to each other by means of 10 GE channels. In addition, separate routers are used for inter-carrier connections and are connected to the core routers by means of 10 GE interfaces.

As of December 31, 2012, our wireless broadband network in Moscow and the Moscow Region included 60 base stations in the 5 GHz frequency band. Our radio-relay communication lines included 25 links and it also had 115 Internet hot-spots using Wi-Fi technology as of December 31, 2013.

*Russian Regions*

As of December 31, 2013, outside of Moscow and the Moscow Region, we provide cable Internet access to 7.8 million households and cable TV access 8.6 million households. Among the access equipment used are Ethernet switches, IP DSLAM, ONT (PON) and Optical Receivers. We mainly use FTTB technology for internet access, which can provide speeds up to 1 Gb/se and about 500 channel CATV. In 2011, we started to roll-out DVB-C technology for cable TV service. In 2013, we started to roll-out a hybrid TV service.

In Moscow and regions as an Internet traffic supplier, we mainly use MTS own IP Backbone network described in the "transport network" section.

The acquisition of Comstar provided us with an opportunity to use MTS fiber optic lines for fixed network development. Optical network construction in cities is carried out on the basis of fixed and mobile business needs. When we modernize and construct new networks, we deploy fixed and mobile equipment on the basis of "collocation" method.

*Principal suppliers*

Our principal suppliers are Ericsson, Nvision Group, our related party, Cisco Systems , Huawei, Nokia Siemens Networks for switching equipment; ECI Telecom, Tellabs and Alcatel Lucent for transport network equipment; Cisco Systems, Huawei and Alcatel Lucent for Internet and data network equipment; Secure Media for crypto-protection conditional access software; and Tandberg TV (Ericsson), Irdeto for broadcasting equipment. All of our equipment is supplied directly through authorized dealers.

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**Seasonality**

Our results of operations are impacted by certain seasonal trends. Generally, revenue is higher during the second and third quarter due to increased mobile phone use by subscribers who travel in the summer from urban areas to more rural areas where fixed line penetration is relatively low, as well as an increase in roaming revenues and guest roaming revenues during these quarters. Quarterly trends can also be influenced by a number of factors, including new marketing campaigns and promotions, and may not be consistent from year to year.

**Regulation of Telecommunications in the Russian Federation and Ukraine**

**Regulation in the Russian Federation**

In the Russian Federation, the federal government regulates telecommunications services. The principal law regulating telecommunications in the Russian Federation is the Federal Law on Communications, which provides, among other elements, for the following:

- licensing of telecommunications services;
- requirements for obtaining a radio frequency allocation;
- equipment certification;
- equal rights for individuals and legal entities, including foreign individuals and legal entities, to offer telecommunications services;
- fair competition;
- freedom of pricing other than pricing by companies with a substantial position in public telecommunication networks; and
- liability for violations of Russian legislation on telecommunications.

The Federal Law on Communications came into force on January 1, 2004, and replaced the law of 1995 regulating the same subject matter. The Federal Law on Communications creates a framework in which government authorities may enact specific regulations. Regulations enacted under the legislative framework in place prior to the enactment of the Federal Law on Communications continue to be applied to the extent they do not conflict with the Federal Law on Communications. The lack of interpretive guidance from the regulatory authorities regarding the new regulations and the uncertainty surrounding their compatibility with the regulations still in effect impedes our ability to assess effectively the full impact of the new regulations under the Federal Law on Communications on our business.

The Federal Law on Communications, which confers broad powers to the state to regulate the communications industry, including the allocation of frequencies, the establishment of fees for frequency use and the allocation and revocation of numbering capacity, significantly modifies the system of government regulation of the provision of communications services in Russia. In particular, licenses to provide communications services in territories where frequency and numbering capacity are limited may be issued only on the basis of a tender. In addition, the Federal Law on Communications provides for the establishment of a "universal services reserve fund" which is funded by a levy imposed on all operators of public networks, including us.

***Regulatory Authorities***

The Russian telecommunications industry is regulated by several governmental agencies. These agencies form a complex, multi-tier system of regulation that resulted, in part, from the implementation of the Federal Law on Communications, as well as from the large-scale restructuring of the Russian

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government in March 2004 and subsequent restructuring in May 2008. The system of regulation is still evolving and further changes are expected. See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Countries of Operation Political and Social Risks Political and governmental instability in Russia and other countries of our operations could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs."

*The Ministry of Communications and Mass Media* is the federal executive body that develops and supervises the implementation of governmental policy in the area of communications and coordinates and controls the activities of its subordinate agencies. The Ministry has the authority to issue certain regulations implementing the federal law on communications and other federal laws.

*The Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications* is a federal executive body that supervises and controls certain areas of communications and information technologies, including:

- the issuance of licenses and permissions in the area of communications and information technologies;
- the registration of radio-electronic and high-frequency equipment;
- the assignment of radio frequencies based on decisions taken by the State Radio Frequencies Commission and registration of such assignments;
- the technical supervision of networks and network equipment throughout Russia;
- the monitoring of compliance by network operators with applicable regulations, terms of their licenses and terms of the use of frequencies allocated and assigned to them;
- the enforcement of equipment certification requirements;
- the examination of electromagnetic compatibility of equipment with existing civil radio-electronic equipment;
- the organization of tenders with respect to licenses in the sphere of communications; and
- the control of activity in processing of personal data.

*The Federal Agency of Communications* is a federal executive body that implements governmental policy, manages state property and provides public services in the area of communications, including the allocation of numbering capacity and the certification of equipment for compliance with technical requirements.

*The State Radio Frequencies Commission* is an inter-agency coordination body acting under the Ministry of Communications and Mass Media which is responsible for the regulation of the radio frequency spectrum, develops long-term policy for frequency allocation in the Russian Federation and decides on the allocation of frequency bands.

*FAS* is a federal executive body that supervises competition regulations and enforces the Federal Law on Protection of Competition and the Federal Law on Natural Monopolies and the regulations enacted thereunder. FAS controls certain activity of natural monopolies, including monitoring their execution of certain obligatory contracts, and can issue mandatory orders as provided for in the Federal Law on Natural Monopolies.

*Other regulatory authorities.* In addition, the Federal Tariff Service regulates certain tariffs in the sphere of telecommunications, including the tariffs on the local and DLD calls by subscribers of public switched telephone networks and installation and subscription fees. The Federal Service for Supervision in the Area of Consumer Rights Protection and Human Well-Being is responsible for the enforcement

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of sanitary regulations, including some authority over the location of telecommunications equipment, and supervises the compliance of companies with the regulations relating to the protection of consumer rights. The Federal Registration Service is responsible for registering certain telecommunications infrastructure that is considered real property in accordance with Government Decree No. 68 dated February 11, 2005.

***Licensing of Telecommunications Services and Radio Frequency Allocation***

Telecommunications licenses are issued based on the Federal Law on Communications and Government Decree No. 8 dated January 12, 2006 on Approval of Regulations for Holding a Competitive Tender for Receipt of Telecommunication License. Under these regulations, licenses may be issued and renewed for periods ranging from three to twenty-five years. Several different licenses to conduct different communication services may be issued to one entity. Provided the licensee has conducted its activities in accordance with the applicable law and terms of the license, renewals may be obtained upon application to the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media. Officials of the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media have broad discretion with respect to both issuance and renewal procedures.

A company must complete a multi-stage process before the commercial launch of its communications network. A company must:

- receive a license from the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media to provide communications services;

- obtain approval to use specific frequencies within the specified band from the State Radio Frequencies Commission if providing wireless telecommunications services; and

- obtain permission from the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media for network operations. To receive this permission, a wireless telecommunications services provider must develop a frequency assignment and site plan, which is then reviewed and certified by the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media for electromagnetic compatibility of the proposed cellular network with other radio equipment operating in the license area. The Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media has discretion to modify this plan, if necessary, to ensure such compatibility.

Effective January 1, 2004, licenses may be transferred in case of mergers or other reorganizations of the licensee upon application by a transferee as a new license holder. Additionally, the Ministry of Communications and Mass Media has declared that agreements on the provision of telecommunications services must be concluded and performed by the license holder.

If the terms of a license are not fulfilled or the service provider violates applicable legislation, the license may be suspended or terminated. Licenses may be suspended for various reasons, including:

- detection of violations which may cause damage to rights, interests, life or health of individuals or to interests of government administration including, but not limited to, presidential and government telecommunication networks, defense, security and protection of legal order in the Russian Federation;

- annulment of a frequency allocation if it results in the inability to render communications services;

- failure in a timely requirements of the licensing authority, which commits to eliminate detected violations, including provisions that had been granted under reprimand to suspend the license.

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In addition, licenses may be terminated for various reasons by a court, including:

- failure to remedy in a timely manner a violation that led to the suspension of the license;
- provision of inaccurate information in documents on the basis of which a license was issued; and
- failure to fulfill obligations undertaken in the process of a tender or auction.

The license may also be terminated by the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media in a number of cases, including liquidation of a license holder. A suspension or termination of a license may be appealed in court.

Frequencies are allocated for a maximum term of ten years, which may be extended upon the application of a frequency user. Under the Federal Law on Communications, frequency allocations may be changed for purposes of state management, defense, security and protection of legal order in the Russian Federation with the license holder to be compensated for related losses. Further, frequency allocations may be suspended or terminated for a number of reasons, including failure to comply with the conditions on which the frequency was allocated.

The following one-time license fee is payable irrespective of the number of regions covered by the license: RUB 6,000 (equivalent to $181 as of December 31, 2013) for services involving, among other things, the use of a frequency spectrum and the lease of communication channels. The license fee for a license received through a tender or auction is determined by the terms of such tender or auction.

In addition to licensing fees, a government decree enacted on June 2, 1998, required payment of fees for the use of radio frequencies for cellular telephone services. The payment procedure was established by a government decree enacted on August 6, 1998, which required that all wireless telecommunications services operators pay an annual fee set by the State Radio Frequencies Commission and approved by FAS for the use of their frequency spectrums. On January 1, 2012, a new government decree came into force which provides that fees for the use of radio frequency spectrums consist of a one-time fee and an annual fee. The fees are determined according to the methodology approved by the Ministry of Communications and Mass Media.

Furthermore, the Federal Law on Communications provides for the establishment of a "universal services reserve fund" for the purpose of supporting communications companies operating in less developed regions of Russia through the financing, construction and maintenance of telecommunications networks in low-profit and unprofitable sectors. This reserve fund is aimed at eliminating the practice of cross-subsidies by compensating operators for certain mandatory, loss-making local services in rural and sparsely populated areas. It is funded by a levy imposed on all operators of public networks, including us, in the amount of 1.2% of revenues from telecommunications services less the amount of taxes paid by subscribers. The universal service fund concept has been used in some developed countries and in Eastern Europe.

The Federal Law on Communications empowers the Russian government to determine and annually review the list of licensing requirements applicable to various communication services being licensed. The list of licensing requirements was enacted by Government Decree No. 87 dated February 18, 2005, as amended. Licenses also generally contain a number of other detailed conditions, including a date by which service must begin, technical standards and certain other terms and conditions. We have either commenced service by the applicable deadline or received an extension of the applicable deadline for all of our licenses.

***Equipment Certification***

Government Decree No. 532 adopted on June 25, 2009, sets forth the types of communications equipment that is subject to mandatory certification. Communications equipment must be certified, or its compliance with the established requirements must be declared and proven in the interconnected communications network of the Russian Federation, which includes all fixed line and wireless networks open to the public. All our networks must be certified. The Federal Agency of Communications issues certificates of compliance with technical requirements to equipment suppliers based on the Agency's internal review. In addition, a Presidential decree requires that licenses and equipment certifications should be obtained from the Federal Security Service to design, produce, sell, use or import encryption devices. Some commonly used digital cellular telephones are designed with encryption capabilities and must be certified by the Federal Security Service.

Further, certain high-frequency equipment, a list of which was approved by Government Decree No. 539 dated October 12, 2004 (as amended) manufactured or used in the Russian Federation requires special permission from the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media. These permissions are specific to the entity that receives them and do not allow the use of the equipment by other parties. Failure to receive such certification could result in the mandatory cessation of the use of such equipment.

***Competition, Interconnect and Pricing***

The Federal Law on Communications requires federal regulatory agencies to encourage competition in the provision of communication services and prohibits the abuse of a dominant position to limit competition. The Federal Law on Communications provides that telecommunications tariffs may be regulated in cases provided for by legislation. The Federal Law on Communications and Presidential Decree No. 221, enacted on February 28, 1995, as amended, on Measures for Streamlining State Regulation of Prices (Tariffs) allow for regulation of tariffs and other commercial activities of telecommunications companies that are "natural monopolies." Government Decree No. 637, dated October 24, 2005, authorized the Federal Tariff Service to set the following tariffs for the natural monopolies in the communications market, including:

- provision of access to a local telephone network;
- permanent use of a subscriber's line; and
- local, intra-zone and DLD calls.

In addition, the Federal Law on Natural Monopolies establishes the legal basis for federal regulation of natural monopolies, including those in the communications market, and provides for governmental control over tariffs and certain activities of the natural monopolies. The Federal Law on Natural Monopolies outlines the types of transactions for which a regulated entity must obtain prior FAS approval and establishes the general principle that regulated entities may not refuse to provide regulated services to certain types of consumers. Regulated entities are also subject to continuous reporting requirements, including submitting plans for capital investments.

The Federal Tariff Service maintains a Register of Natural Monopolies whose tariffs are controlled and regulated by the state. A telecommunications operator may be included in this register upon a decision by the Federal Tariff Service based on the Service's analysis of the operator's activities and the market conditions.

Our subsidiary, MGTS, was added to the Register of Natural Monopolies in 2000. In addition, our subsidiary Comstar-regions was added to the Register of Natural Monopolies in 2009. As a result, MGTS and Comstar-regions are subject to the requirements of the Federal Law on Natural Monopolies including, *inter alia*, the following:

- the Federal Tariff Service regulates and controls tariffs for services provided by MGTS and Comstar-regions, including installation fees, monthly subscription fees (for subscribers to the unlimited tariff plan) and local call charges (for subscribers who do not use the unlimited tariff plan), as well as interconnect and traffic transit tariffs;

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MGTS and Comstar-regions must obtain prior FAS approval for any transaction involving the acquisition, disposal or lease of assets not related to the regulated activity, if the value of such assets exceeds 10% of MGTS' or Comstar-regions' share capital, additional capital, retained profits and reserves;

MGTS and Comstar-regions are required to maintain separate accounting records for each type of activity they carry out; and

MGTS and Comstar-regions are required to publicly disclose information on their tariffs, products, material conditions of their contracts with customers, capital expenditure programs and certain other information.

In addition, FAS is authorized by law to maintain a register of companies holding a market share in excess of 35%. Companies included in this register may become subject to certain restrictions in conducting their business, including in relation to pricing, acquisitions, geographical expansion, and associations and agreements with competitors. We are categorized by FAS as a company with a market share exceeding 35% in Ivanovo Region, Magadan Region, Sakhalin Region, Udmurt Republic and Nenets Autonomous District. See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business If we are found to have a dominant position in the markets where we operate, the government may regulate our subscriber tariffs and restrict our operations."

The Federal Law on Communications also provides for the special regulation of telecommunications operators occupying a "substantial position," *i.e.,* operators which together with their affiliates have, in the Russian Federation generally or in a geographically defined specific numerical zone, 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic. Comstar-UTS and MGTS were added to the register of telecommunications operators occupying a substantial position in 2005 and 2006, respectively. After the exclusion of Comstar-UTS from the register in February 18, 2013 MGTS is subject to the requirements of the Federal Law on Communications relating to operators occupying a substantial position in the public switched telephone networks including, *inter alia*, the following:

MGTS must develop interconnect rules and procedures in accordance with the requirements set forth by the federal government;

MGTS must ensure that interconnect agreements with operators who intend to interconnect to our networks are entered on the same terms and conditions as the agreements between MGTS, us and our affiliates; MGTS also cannot refuse to provide interconnect or discriminate against one operator over another; and

the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media may monitor MGTS' interconnect terms and procedures and issue mandatory orders to the companies where non-compliance with the law is found.

The Federal Law on Communications and implementation rules adopted by Government Decrees No. 161 dated March 28, 2005, and No. 627 dated October 19, 2005, also provides for government regulation of interconnect tariffs established by operators occupying a substantial position. In addition, such operators, including MGTS, are required to develop standard interconnect contracts and publish them as a public offer for all operators who intend to use such interconnect services.

Notwithstanding the above, fixed line operators not considered to occupy a substantial position and not included in the Register of Natural Monopolies, as well as mobile operators, are free to set their own tariffs. Also see "Item 3. Key Information D. Risk Factors Risks Relating to Our Business If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

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***Calling Party Pays***

In March 2006, the Federal Law on Communications was amended to incorporate a "calling party pays" scheme effective as of July 1, 2006. Prior to the implementation of the "calling party pays" principle, subscribers of fixed line operators could initiate calls to mobile phone users free of charge. Under the current system, fixed line operators charge their subscribers for such calls and transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is regulated by the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media and is known as the settlement rate. Any reduction of the settlement rate by the regulator could have a negative impact on our average monthly service revenues per subscriber and margins.

***Mobile Number Portability***

On December 1, 2013, a mobile number portability law came in force within the Russian Federation. It allows subscribers, whether corporate or individuals, to retain their mobile telephone numbers when switching from one mobile network operator to another. This may lead to the reallocation of the mobile subscriber base in Russian Federation among existing operators and may lead to intensification of competition and an increase in our costs. Also see "Item 3. Key Information  D. Risk Factors  Legal Risks and Uncertainties  Regulatory changes in Russia, including the reduction of settlement rate, the mobile number portability principle and others may have a material adverse effect on our financial condition and results of operations."

**Regulation in Ukraine**

***Regulatory Authorities***

*Administration of State Service on Special Communications and Information Protection of Ukraine*. This body is responsible mainly for establishing and overseeing technical policies and standards in the sphere of telecommunications. Previously these functions were carried out by the State Communications Administration.

*The NCCIR.* The functions of the NCCIR were formerly carried out by the NCRC (National Commission for Communications Regulation of Ukraine). Established by a Decree of the President of Ukraine in August 2004, the NCRC was vested with the powers of the central regulatory body in the sphere of telecommunications on January 1, 2005 pursuant to the Telecommunications Law described below. It consisted of seven members and a chairperson. The NCRC commenced its activity in April 2005 when the chairperson and its members were appointed as required by the Telecommunications Law.

The NCRC has been responsible for issuing licenses for telecommunications services and use of radio frequencies commencing January 1, 2005, as well as various other responsibilities of the SCA from that date. According to the amendments to the Telecommunications Law introduced in July 2011, the NCRC was replaced in August 2011 with the NCCIR, which now consists of six members and a chairperson. The NCCIR is currently responsible for issuing licenses for telecommunications services and use of radio frequencies, and other functions of former NCRC.

*The State Center for Radio Frequencies of Ukraine (the "SCRF").* While licenses for radio frequencies for wireless communications are issued by the NCCIR, SCRF is the authority responsible for all technical issues related to the use of radio frequency resources and, in such proxy, is also involved in the issuance of radio frequency licenses. In particular, the SCRF determines frequency availability and technical aspects of frequency allocation, as well as provides the NCCIR with an expert opinion in relation to each application for radio frequency. The SCRF also monitored use of the frequencies and continued monitoring compliance with the license terms and carried out physically

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inspections of operators and providers of telecommunications services until the establishment of the State Inspection of Communications, as described below. The SCRF also independently issues individual permissions for the use of radio-electronic and radio-emitting equipment, its development, import, sale and purchase, and maintains a data base of IMEI codes of mobile telephones.

*The State Inspection of Communications (the "SIC")*, established by the new Telecommunications Law, was a division of the NCRC. The SIC was responsible for the general supervision of the telecommunications market and the use of radio frequency resources. The SIC also monitored compliance with license terms, physically inspected operators and providers of telecommunications services and, together with the SCRF, reviewed cases relating to administrative violations in the areas of telecommunications and radio frequencies. In July 2011, the SIC was abolished, and inspectors tasked with supervision were re-assigned to the NCCIR.

*The AMC* is charged with the administration of competition legislation and the protection and regulation of economic competition in Ukraine, including economic competition among industry participants in the telecommunications sector.

***Legislation***

The principal legislation regulating the telecommunications industry consists of the Law on Telecommunications dated November 18, 2003, (the "Telecommunications Law"), and the Radio Frequencies Law dated June 1, 2000, (the "Radio Frequencies Law").

The Telecommunications Law provides for, among other things, equal rights for private entrepreneurs and legal entities to offer telecommunications services, fair competition and freedom of pricing. The Telecommunications Law also sets forth the legal, economic and organizational framework for the operation of companies, associations and government bodies forming part of the telecommunications networks. The licensing of telecommunications services, the requirements for equipment certification and liability for violations of Ukrainian legislation on telecommunications are also determined by this legislation. The Telecommunications Law also governs the relations between the state and local governmental bodies, telecommunications operators and users of telecommunications services and radio frequencies.

The Telecommunications Law addresses various areas of telecommunications services in Ukraine, including numbering requirements, tariff and settlement regulations, interconnect, public telecommunications services, market access rules and licensing issuance and renewal. The Telecommunications Law also significantly expands the definition of the telecommunications services market, including in its scope Internet Protocol telecommunications, transmission of data and facsimile communications.

The Telecommunications Law also restructured the regulatory bodies governing the area of telecommunications. It provided for the creation of the NCRC, which, between January 1, 2005, and July 5, 2011, had been responsible for many of the functions formerly handled by the SCA. In August 2011, the NCRC was replaced with the NCCIR, which is authorized, *inter alia*, to issue regulations for telecommunications services, issue telecommunications licenses to operators and providers, issue frequency licenses, request information from operators, providers and authorities, impose administrative penalties and maintain the register of the operators and providers. The NCCIR is also authorized to conduct hearings and to resolve disputes among operators concerning the interconnect of telecommunications networks.

In July 2010, the Telecommunications Law was amended with provisions on mobile number portability and national roaming obligations. In April 2013 the NCCIR (formerly NCRC) adopted regulations which allow subscribers to retain their mobile telephone numbers when switching from one mobile telecommunications operator to another.

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On August 25, 2011, the NCCIR enacted national roaming regulations. Accordingly, telecommunications operators were permitted to conclude agreements on national roaming and prescribed to provide this service as described in the regulations (*e.g.*, must inform users on roaming prices and maintain quality of service on the same level for own subscribers and subscribers of operators with whom roaming agreements are signed). Foreign investments in Ukrainian telecommunications operators are not limited; however, in order to provide telecommunications services in Ukraine an entity must be located on the territory of Ukraine and registered in accordance with Ukrainian legislation.

The Radio Frequencies Law sets forth comprehensive rules regarding the allocation, assignment, interrelation and use of radio frequencies, the licensing of the users of radio frequencies and other relevant issues.

***Licensing of Telecommunications Services and Radio Frequency Allocation***

Commencing January 1, 2005, the NCCIR (formerly NCRC) has assumed responsibility for issuing telecommunications licenses and frequency licenses pursuant to the Telecommunications Law and the 2004 amendments to the Radio Frequencies Law. Licenses are issued for the following types of telecommunications services:

- fixed-line telephone communications services (local, intercity, international):
- fixed-wireless telephone communications services (local, intercity, international):
- mobile telephone communications services; and
- technical maintenance and exploitation of telecommunications networks.

Starting from July 5, 2011, the leasing of electric communications channels no longer requires licensing.

Other telecommunications services do not require licenses.

An operator that is granted a telecommunications license may not commence the provision of wireless telecommunications services until it receives a frequency license. The issuance of a frequency license is, in turn, subject to the availability of radio frequencies in the respective regions of Ukraine. Frequency licenses are issued for specific bandwidths within certain frequency spectrums in specific regions. The GSM and UMTS spectrum is presently considered to be the most commercially attractive for telecommunications operators. It is currently deemed to be virtually impossible to obtain a license for GSM frequencies in major Ukrainian cities because most of the GSM radio frequencies in such cities are already licensed to the existing GSM operators, including us. UMTS radio frequencies are currently allocated for special users, in particular, the Ministry of Defense. In September 2009, the NCRC announced plans to launch a tender for a single 3G/UMTS mobile services license in Ukraine. However, the NCRC canceled the planned tender in November 2009 following a decision by the President of Ukraine to put the tender and conversion of the radio frequencies on hold.

Following the election of Viktor Yanukovich as Ukraine's new President in February 2010, a working group was created in order to fulfill the assignment of Ukraine's Cabinet of Ministers regarding the conversion of frequencies.

In October 2010, the NCRC proposed an updated plan that stipulates carrying out the conversion within eight months of November 2010 and at a cost of 841 million hrivnias in one stage by means of releasing the whole 100 MHz frequency range. In March 2011, the NCRC developed a draft regulation (which has yet to be approved by the Ukrainian government) for the compensation of costs incurred by various governmental agencies (including the Ministry of Defense) that currently hold frequencies to be converted. In 2012, the NCCIR was planning to determine the specific requirements of a public tender for the sale of frequencies for the development of 3G networks. The tender was not held in 2012 and is currently on hold. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Our inability to obtain a UMTS license in Ukraine on commercially reasonable terms, or at all, may negatively affect our competitive position in Ukraine."

Under applicable legislation, licenses for telecommunications services may be issued and renewed for periods of not less than 5 years, with the actual period generally ranging from 10 to 15 years. Renewal of a license is made by an application submitted to the NCCIR at least four months prior to the expiration of the license term. NCCIR officials have broad discretion with respect to both the issuance and the renewal of licenses. The Telecommunications Law further provides that the NCCIR must grant licenses on a first come-first served basis within 30 days from submission of an application. If resources are limited or consumer interests so require, the NCCIR may adopt a decision to limit the number of licenses. In this event, the law requires that such decision is made public along with the rationale and that the licenses be allocated through a tender.

In accordance with the Radio Frequencies Law, the NCCIR issues a frequency license concurrently with the issuance of a telecommunications license for the type of services requiring use of radio frequency resources. A telecommunications operator that has the respective telecommunications license may apply for licenses for additional radio frequency bands. Frequency licenses may not be issued for a period shorter than the term of the relevant telecommunications license.

Under applicable legislation, a public tender or an auction for a radio frequency license must be held by the NCCIR if demand for radio frequency resources exceeds available resources. Radio frequency licenses issued on the basis of a public tender or an auction for the same type of radio technology must include identical conditions regarding the radio frequency bands and development period. Telecommunications operators are allowed to apply to the NCCIR for redistribution of the radio frequency resources previously allocated to them.

Applicable legislation prohibits the transfer of a license by the licensee, including by means of assignment or pledge of a license as collateral, and agreements regarding the provision of telecommunications services must be executed and performed by the actual licensee.

Licenses generally contain a number of detailed conditions, including the date by which service must be commenced, terms of network deployment and territory coverage, the requirement to use only certified equipment, the technical standards which must be considered and the requirement to comply with all environmental regulations. Frequency licenses issued after January 1, 2005 will also contain the date by which the radio frequency resources must be fully utilized.

Telecommunications operators' activities are subject to strict regulations, especially regarding electromagnetic compatibility; construction and technical maintenance of a telecommunications network must be carried out in accordance with specific regulations applicable in Ukraine. Telecommunications operators must submit periodic reports to the NCCIR on the amount and quality of services provided under the telecommunications license. We believe that we are in compliance with the applicable laws and regulations related to our Ukrainian licenses.

Some licenses also provide that services for persons entitled to certain social benefits must be provided at or below certain minimum thresholds established by Ukrainian legislation in effect at that time.

If the terms of a license are not fulfilled or the service provider violates legislation, the license may be suspended or terminated. Both telecommunications services licenses and radio frequency licenses may be terminated for various reasons, including:

- provision of inaccurate information in the application for a license;

- repeated refusal to allow the representatives of the NCCIR to make inspections;

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- failure to remedy in a timely manner the circumstances which resulted in a violation of the license terms;
- repeated violation of the license terms;
- transfer or assignment of the license to a third party; and
- other grounds set forth by Ukrainian laws.

Radio frequency licenses may also be terminated for the following reasons:

- failure to commence using radio frequency resources within the time period specified in the license;
- termination of use of radio frequency resources specified in the license for more than one year;
- failure to use radio frequency resources to the full extent within the time period specified in the license; and
- failure to pay monthly fees for the use of allocated radio frequencies for six months or more.

Decisions of the NCCIR with respect to the termination of licenses may be appealed to a court.

MTS' Ukraine license to construct and maintain the telecommunication network and provide services using such network was due to expire on December 3, 2013. In October 2013, MTS Ukraine submitted an application to the NCCIR requesting the renewal of the license. On October 15, 2013, the NCCIR refused to renew the license and recommended that MTS Ukraine receive a new license to provide operations in the telecommunications sphere. On October 21, 2013, MTS Ukraine filed a lawsuit against the NCCIR with a demand to renew the license. On November 19, 2013, a court decision was issued in favour of MTS Ukraine. The decision obliged the NCCIR to renew the license. The NCCIR appealed against the court decision. On January 15, 2014, the court of appeal issued a judgement in which the court refused to sustain the NCCIR appeal. On January 28, 2014, the NCCIR renewed MTS Ukraine license until December, 2018. On January 27, 2014, the NCCIR filed anappeal against the court of appeals' order. The NCCIR's appeal is yet to be considered.

***Equipment Certification***

For installation on a telecommunications network either the manufacturer or the vendor must provide the operator with a document of confirmation to the normative documents compliance and documentary confirmation of inclusion in the registry of technical equipment that can be used in the telecommunication network. The Administration of State Service on Special Communications and Information Protection of Ukraine sets the technical standards for equipment designed for use in telecommunications networks in Ukraine.

The Radio Frequencies Law provides that users of radio frequency resources must obtain permits for the operation of radio-electronic and radio-emitting equipment, except for equipment used on a permit-free basis in accordance with this law. In order to obtain such operation permit, a company is required to file an application with the SCRF. The Radio Frequencies Law also requires producers and importers of radio-electronic and radio-emitting equipment to be used on the territory of Ukraine to register such equipment with the NCCIR.

***Competition***

The Telecommunications Law provides that one of the purposes of the licensing of telecommunications services is to encourage competition and de-monopolization in the telecommunications industry.

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Ukrainian antimonopoly legislation prohibits a company operating in Ukraine from abusing its dominant position in its market to gain, inter alia, an unfair or anti-competitive advantage in the provision of its services or products. A legal entity is deemed to be in a dominant position if such entity has no competitor in the market or is not subject to substantial competition due to restricted access or entry barriers for other business entities. Further, Ukrainian antimonopoly legislation provides that a company shall be deemed dominant if its market share in the respective product market exceeds 35% unless such company proves that it faces significant competition in the respective product market.

According to AC&M-Consulting, MTS Ukraine had a 37.5% market share of the wireless communications market in Ukraine as of December 31, 2013.

A telecommunications operator which is found by the AMC to have a dominant position in the market, in particular, may specifically be required to:

- annually submit to the NCCIR irrevocable public offers regarding interconnect with the other operators' telecommunications networks;

- comply with the regulations of the NCCIR regarding the technical, organizational and commercial terms and conditions of interconnect with the other operators' telecommunications networks;

- comply with the cost determination factors set by the NCCIR for access to the operator's own network; and

- not discriminate other players in the telecommunications market.

In June 2010, the AMC confirmed a finding dating back to May 2009 that eight mobile operators, including MTS Ukraine and its closest competitors, have a dominant position on the market for interconnecting to their own mobile networks. As a result, the interconnect fees charged by these operators, including MTS Ukraine, for termination of calls on their networks are currently regulated by the NCCIR. In February 2010, the NCRC approved interconnect rates for telecommunications operators found by the AMC to have a dominant position. Thus, MTS Ukraine was obligated to charge interconnect rates established by the NCRC, which were 0.35-0.40 hryvnias per minute excluding VAT (approximately RUB 0.011 RUB 0.012 as of December 31, 2013). See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Governmental regulation of SMP operators in Ukraine could adversely affect our results of operations."

In December 2010, the Telecommunications Law was amended to introduce the term "significant market power operator." An operator qualifies as a SMP operator if its share of gross revenue from the provision of traffic transfer services on fixed or mobile telecommunications networks during the last 12 months exceeded 25% of total gross revenues of all telecommunications operators for the same services during the same period. An operator can be classified as a significant market power operator on either the fixed telecommunications market, the mobile telecommunications market, or on both. Such an amendment could allow the NCCIR to recognize certain operators, including us, as operators with significant market power (rather than operators with dominant positions) and to regulate consequently their fees for traffic transfer services (rather than interconnect fees for termination of calls on the operators' networks).

In July 2010, the term "significant market power operator" was changed by the amendment to the Telecommunications Law which came into effect on January 1, 2011. From this date, the significant market power operator will be qualified in the market which is defined by NCCIR.

On October 20, 2011, the NCCIR issued a decision, which recognizes all mobile operators, including MTS Ukraine, as SMP operators on the market of call termination on their own networks.

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On December 1, 2011, the NCCIR approved an interconnect rate of 0.36 hrivnias per minute excluding VAT (approximately RUB 0.011 as of December 31, 2013) which came into effect on January 1, 2012, for all SMP operators on the market of call termination on their own networks.

The Telecommunications Law also extends the power of the NCCIR to receive financial and economic data from telecommunications operators. Such information allows the NCCIR to analyze the Ukrainian telecommunications services market in order to determine which operators (if any) have a dominant position and which ones (if any) are significant market power operators for purposes of regulating fees such operators can charge for interconnect and traffic transfer services. In addition, the financial and economic data permits the NCCIR to better regulate the interaction of operators with regard to traffic transfer services and to assist without court dispute settlement. New amendments to the Telecommunications Law also set forth the methodology for fee determination that can be charged for traffic transfer services based largely on a calculation that includes an operator's base cost plus profit level of certain services. Furthermore, in order to prevent "dumping" fees, operators that do not have a dominant position nor significant market power are prohibited under the Telecommunications Law from charging fees less than those charged by the regulated entities, but can charge more if they choose.

Due to the currently large market shares held by MTS Ukraine and Kyivstar in Ukraine, we believe that the AMC may determine that only these two operators (and not the current eight operators) have dominant positions on the market. If so, we and Kyivstar would remain the only regulated operators in Ukraine and, as a result, we could suffer a significant decrease in our interconnect revenues as well as an increase in the interconnect fees we pay to other operators not deemed to have a dominant position or significant market power.

On December 30, 2011, the AMC commenced an investigation of the telecommunications services market for the purpose of determining dominant market force abuse by MTS Ukraine in relation to international roaming services. During the investigation, MTS Ukraine has been continuously providing the AMC with documents and information officially requested by the AMC. A similar investigation was commenced in relation to our main competitor in Ukraine, Kyivstar. In the event that the AMC finds any operator has abused its dominant market force in relation to international roaming services, it could fine such an operator for up to 10% of its revenue for the previous year, calculated in accordance with local accounting principles.

On September 27, 2012, the AMC commenced an investigation into the telecommunications services market for the purpose of determining any abuse of a dominant market position by MTS Ukraine in relation to national mobile communications services. During the investigation, MTS Ukraine has been continuously providing the AMC with documents and information officially requested by the AMC. A similar investigation was commenced in relation to our main competitor in Ukraine, Kyivstar. In the event that the AMC finds any operator in abuse of its dominant market force in relation to international roaming services, it could fine such an operator for up to 10% of its revenue for the previous year, calculated in accordance with National Accounting Regulations (Standards) ("NR(S)AU").

On December 19, 2012, the AMC issued a mandatory recommendation following its international roaming services investigation. According to this recommendation, MTS Ukraine is obliged to decrease its tariffs on international roaming services to a competitive level. In January 2013, MTS Ukraine provided the AMC with the required information, necessary for fulfill this recommendation.

The cases on international roaming services and national mobile communications services have been closed, with MTS Ukraine receiving the relevant notices from the AMC on February 8, 2013 and February 11, 2013, respectively.

Please see also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business A finding by the AMC that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations" for details of AMC of Ukraine investigations in respect of international roaming services and national mobile communications services.

***Tariffs***

Telecommunications tariffs are regulated by the NCCIR for:

- "public telecommunication" services; and
- provision of electric communications channels by operators with a dominant position on the market.

The Telecommunications Law withdrew the authority of the Cabinet of Ministers of Ukraine to regulate the prices for telecommunications services.

In February 2006, the NCRC established maximum tariffs for the provision of electric communications channels by operators having a dominant position on the market and, in April 2009, it established maximum tariffs for fixed line public telecommunications services.

Although there are no additional regulations limiting the rates at which tariffs may be set for wireless telecommunications services, if the Antimonopoly Committee believes competition laws are violated, it can assert that tariffs are unfair and injurious to market competition. In such cases, the AMC may, inter alia, request the violating telecommunications operator to remedy the situation, in particular, by amending its tariff scheme, and impose fines on the company for an infringement.

Subject to the above, wireless operators are free to set tariffs at levels they consider appropriate.

***Interconnect***

Interconnect activity is regulated by the NCCIR. Operators may provide offers for interconnect to the NCCIR, and the NCCIR is required to publish on an annual or regular basis a catalog of such offers. Operators with a dominant position on the market are obliged to submit interconnect offers to the NCCIR for each catalog.

Interconnect is made pursuant to interconnect agreements between network operators as prescribed by the regulatory authorities. Such agreements are required under the law to contain certain provisions. An operator with a dominant position cannot refuse an offer to conclude an interconnect agreement with another operator, if the offeror has offered points of interconnect that were previously published by the NCCIR in the catalog of interconnect proposals.

The NCCIR is authorized to conduct hearings and to resolve disputes among operators concerning the interconnection of telecommunications networks. Decisions of the NCCIR are binding upon the parties in the dispute but a party to the dispute may appeal such a decision in court.

In May 2009, the AMC issued a finding that eight mobile operators, including MTS Ukraine and its closest competitors, have a dominant position in relation to the market for interconnecting to each of their respective networks. MTS Ukraine appealed this decision in June 2009, and the AMC suspended the decision pending resolution of the appeal. In June 2010, the AMC confirmed its earlier decision and interconnect fees charged by MTS Ukraine for terminating calls on its network are currently regulated. In February 2010, the NCRC established regulated interconnect fees for termination of calls on the networks of operators that have a dominant position. See " Competition."

In October 2011, the NCCIR defined all of operators, that have operated in the Ukrainian market in the period from 2009 through 2010 as having significant market power (SMP-operators) for

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termination traffic on their fixed and mobile networks (433 fixed and 8 mobile operators). Effective 1 January 2012, the NCCIR regulates the interconnection rates for all SMP fixed and mobile operators, including MTS Ukraine. The interconnection rates charged by long-distance operators are set up equal to rates charged by mobile operators.

The NCCIR regularly analyses the telecommunication market to determine operators with significant market power in this market. The last analysis of the market was carried out in October 2013. As a result of this analysis, 345 fixed and 7 mobile operators were defined as SMP-operators. The interconnect rates charged by SMP-operators have remained in place since January 1, 2012.

**Licenses**

***Mobile Services***

The following table shows, as of March 1, 2014, information with respect to the license areas in which we and our subsidiaries and affiliates provide or expect to provide GSM services:

| | GSM 900 | | GSM 1800 | |
|---|---|---|---|---|
| **License Region** | **Licensee** | **Expiry date** | **Licensee** | **Expiry date** |
| **Moscow License Area** | | | | |
| Moscow | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Moscow Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| **St. Petersburg License Area** | | | | |
| St. Petersburg | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Leningrad Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| **Russian Regional License Areas** | | | | |
| **European Russia** | | | | |
| Adygeya Republic | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Arkhangelsk Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Astrakhan Region | MTS OJSC | December 11, 2018 | MTS OJSC | October 18, 2016 |
| Bashkortostan Republic | MTS OJSC | August 22, 2017 | MTS OJSC | August 22, 2017 |
| Belgorod Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Bryansk Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Chuvashia Republic | MTS OJSC | December 30, 2018 | MTS OJSC | December 30, 2018 |
| Chechen Republic | | | MTS OJSC | April 28, 2016 |
| Dagestan Republic | MTS OJSC | December 30, 2018 | MTS OJSC | December 30, 2018 |
| Ivanovo Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Ingushetia Republic | MTS OJSC | December 30, 2018 | MTS OJSC | December 30, 2018 |
| Kabardino-Balkar Republic | | | MTS OJSC | December 30, 2018 |
| Kaliningrad Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Kalmykia Republic | MTS OJSC | January 25, 2016 | MTS OJSC | December 30, 2018 |
| Kaluga Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Karachaevo-Cherkesia Republic | MTS OJSC | December 30, 2018 | MTS OJSC | December 30, 2018 |
| Karelia Republic | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Kirov Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Komi Republic | MTS OJSC | August 22, 2017 | MTS OJSC | August 22, 2017 |
| Kostroma Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Krasnodar Region | MTS OJSC | May 30, 2017 | MTS OJSC | May 30, 2017 |
| Kursk Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Lipetsk Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Mari-El Republic | MTS OJSC | January 15, 2017 | MTS OJSC | January 15, 2017 |
| Mordovia Republic | MTS OJSC | December 30, 2018 | MTS OJSC | December 30, 2018 |

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| | GSM 900 | | GSM 1800 | |
|---|---|---|---|---|
| **License Region** | **Licensee** | **Expiry date** | **Licensee** | **Expiry date** |
| Murmansk Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Nenetsk AutonomousDistrict | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Nizhny Novgorod Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Novgorod Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Orel Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Orenburg Region | MTS OJSC | April 28,2018 | MTS OJSC | April 28, 2018 |
| Penza Region | MTS OJSC | May 6, 2021 | | |
| Perm Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Pskov Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Rostov Region | MTS OJSC | July 1, 2015 | MTS OJSC | July 1, 2015 |
| Ryazan Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Samara Region | MTS OJSC | December 30, 2017 | MTS OJSC | December 30, 2017 |
| Saratov Region | MTS OJSC | July 11, 2017 | MTS OJSC | July 11, 2017 |
| Severnaya Osetia-Alania Republic | MTS OJSC | September 1, 2016 | MTS OJSC | September 1, 2016 |
| Smolensk Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Stavropol Region | MTS OJSC | December 30, 2018 | MTS OJSC | December 30, 2018 |
| Tambov Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Tatarstan Republic | MTS OJSC | June 26, 2017 | MTS OJSC | June 26, 2017 |
| Tula Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Tver Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Udmurt Republic | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Ulyanovsk Region | MTS OJSC | May 6, 2021 | MTS OJSC | December 30, 2018 |
| Vladimir Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Volgograd Region | | | MTS OJSC | October 4, 2016 |
| Vologda Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Voronezh Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Yaroslavl Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| **Asian Russia** | | | | |
| Altai Region | MTS OJSC | September 8, 2015 | MTS OJSC | September 8, 2015 |
| Altai Republic | MTS OJSC | July 19, 2016 | MTS OJSC | December 30, 2018 |
| Amur Region | MTS OJSC | April 282018 | MTS OJSC | April 28, 2018 |
| Buryatiya Republic | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Chelyabinsk Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Zabaykalsky Region | Sibintertelecom CJSC | June 5, 2014 | Sibintertelecom CJSC | June 5, 2014 |
| Zabaykalsky Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Chukotsk Autonomous Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Jewish Autonomous Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Irkutsk Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Kamchatka Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Kemerovo Region | MTS OJSC | December 30, 2018 | MTS OJSC | December 30, 2018 |
| Khabarovsk Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Khakassiya Republic | MTS OJSC | September 13, 2016 | MTS OJSC | September 13, 2016 |
| Khanty-Mansiysk Autonomous District | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Krasnoyarsk Region | MTS OJSC | May 7, 2018 | MTS OJSC | May 7, 2018 |
| Kurgan Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Magadan Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Novosibirsk Region | MTS OJSC | February 21, 2017 | MTS OJSC | February 21, 2017 |

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| License Region | GSM 900 Licensee | GSM 900 Expiry date | GSM 1800 Licensee | GSM 1800 Expiry date |
|---|---|---|---|---|
| Omsk Region | MTS OJSC | December 20, 2016 | MTS OJSC | December 20, 2016 |
| Primorsky Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Sakha Republic (Yakutia) | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Sakhalin Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Sverdlovsk Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Tomsk Region | MTS OJSC | June 5, 2018 | MTS OJSC | June 5, 2018 |
| Tyumen Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| Tyva Republic | MTS OJSC | July 19, 2016 | MTS OJSC | December 30, 2018 |
| Yamalo-Nenetsk Autonomous Region | MTS OJSC | April 28, 2018 | MTS OJSC | April 28, 2018 |
| **Ukraine** | | | | |
| Ukraine | MTS Ukraine PrJSC | December 3, 2018 | MTS Ukraine PrJSC | December 3,2018 |
| **Armenia** | | | | |
| Armenia | K-Telecom CJSC | November 4, 2019 | K-Telecom CJSC | November 4, 2019 |
| **Turkmenistan** | | | | |
| Turkmenistan | BCTI | July 27, 2015 | BCTI | July 27, 2015 |
| **Belarus** | | | | |
| Belarus | Mobile Telesystems LLC | April 30, 2022 | Mobile Telesystems LLC | April 30, 2022 |

**IMT-2000/UMTS/CDMA**

| License Region | Licensee | Expiry date |
|---|---|---|
| Russian Federation | MTS OJSC | May 21, 2017 |
| Khabarovsk Territory | MTS OJSC | April 28, 2018 |
| Moscow, Moscow Region | MTS OJSC | April 28, 2018 |
| Turkmenistan | MTS-Turkmenistan | July 27, 2015 |
| Armenia | K-Telecom CJSC | November 4, 2019 |
| Belarus | Mobile Telesystems LLC | April 30, 2022 |
| Ukraine | MTS Ukraine PrJSC | September 27, 2026 |

**LTE**

| License Region | Licensee | Expiry date |
|---|---|---|
| Russian Federation | MTS OJSC | July 25, 2022 |
| Moscow, Moscow Region | MTS OJSC | December 29, 2016 |
| Armenia | K-Telecom CJSC | November 4, 2019 |

**Mobile Virtual Network**

| License Region | Licensee | Expiry date |
|---|---|---|
| Moscow Region, Moscow | MTS OJSC | April 16, 2017 |
| Moscow Region, Moscow | MGTS | August 2, 2018 |

Each of our licenses requires service to be started by a specific date. We have met this target or received extensions to these dates in those regional license areas in which we have not commenced operations. Neither the government nor other parties have taken or attempted to take legal actions to suspend, terminate or challenge the legality of any of our licenses (except for Uzbekistan, see Note 4 to our audited consolidated financial statements). We have not received any notice of violation of any of our licenses, and we believe that we are in compliance with all material terms of our licenses.

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***Fixed Line Services***

The following table shows, as of March 1, 2013, information with respect to our fixed line licenses:

| Licensee | License Region(s) | License number | Expiry Date |
|---|---|---|---|
| | **International, national, intra-zonal and local communications services** | | |
| MGTS | Moscow | No. 112865 | December 11, 2018 |
| MGTS | Moscow | No. 73888 | July 28, 2015 |
| MTS OJSC | Moscow | No. 94370 | March 30, 2017 |
| MTS OJSC | Russian Federation | No. 104893 | February 16, 2020 |
| MTS OJSC | Moscow Region | No. 94371 | March 30, 2017 |
| MTS OJSC | Moscow | No. 87181 | February 16, 2016 |
| MTS OJSC | Moscow Region | No. 87182 | November 21, 2015 |
| MTS OJSC | Rostov Region | No. 110869 | August 1, 2018 |
| MTS OJSC | Severnaya Osetia-Alania Republic | No. 110870 | August 1, 2018 |
| MTS OJSC | Krasnodar Region | No. 110871 | August 1, 2018 |
| MTS OJSC | Bashkortostan Republic | No. 77972 | November 21, 2015 |
| MTS OJSC | Astrakhan Region | No. 114620 | January 19, 2019 |
| MTS OJSC | Kemerovo Region | No. 114621 | January 19, 2019 |
| MTS OJSC | Arkhangelsk Region | No. 114622 | January 19, 2019 |
| MTS OJSC | Vologda Region | No. 114623 | January 19, 2019 |
| MTS OJSC | Kaliningrad Region | No. 114624 | January 19, 2019 |
| MTS OJSC | Karelia Republic | No. 114628 | January 19, 2019 |
| MTS OJSC | Murmansk Region | No. 114625 | January 19, 2019 |
| MTS OJSC | Novgorod Region | No. 114629 | January 19, 2019 |
| MTS OJSC | St. Petersburg | No. 114626 | January 19, 2019 |
| MTS OJSC | Komi Republic | No. 114627 | January 19, 2019 |
| MTS OJSC | Volgograd Region | No. 115176 | March 4, 2019 |
| MTS OJSC | Omsk Region | No. 90203 | October 4, 2016 |
| MTS OJSC | Tomsk Region | No. 104900 | February 27, 2018 |
| MTS OJSC | Altai Region | No. 104899 | February 27, 2018 |
| MTS OJSC | Krasnoyarsk Region | No. 104895 | February 27, 2018 |
| MTS OJSC | Novosibirsk Region | No. 104898 | February 27, 2018 |
| MTS OJSC | Khakassiya Republic | No. 88183 | June 6, 2016 |
| MTS OJSC | Kaluga Region | No. 87186 | July 3, 2015 |
| MTS OJSC | Tyumen Region | No. 100908 | August 31, 2017 |
| MTS OJSC | Volgograd Region | No. 90196 | November 17, 2016 |
| MTS OJSC | Irkutsk Region | No. 90208 | October 24, 2016 |
| MTS OJSC | Sakhalin Region | No. 90197 | October 24, 2016 |
| MTS OJSC | Primorsky Region | No. 90198 | October 24, 2016 |
| MTS OJSC | Bashkortostan Republic | No. 77981 | September 8, 2015 |
| MTS OJSC | Bashkortostan Republic | No. 92587 | March 5, 2017 |
| MTS OJSC | Kemerovo Region | No. 113543 | December 26, 2018 |
| MTS OJSC | Omsk Region | No. 90201 | October 4, 2016 |
| MTS OJSC | Udmurt Republic | No. 90202 | October 4, 2016 |
| MTS OJSC | Ryazan Region | No. 75034 | July 3, 2015 |
| MTS OJSC | Voronezh Region, Orel Region | No. 101773 | October 24, 2017 |
| MTS OJSC | Lipetsk Region, Kursk Region, Bryansk Region, Belgorod Region | No. 104896 | February 7, 2018 |
| MTS OJSC | Severnaya Osetia-Alania Republic | No. 97615 | June 5, 2017 |
| MTS OJSC | Dagestan Republic | No. 97616 | June 5, 2017 |
| MTS OJSC | Tver Region | No. 104894 | February 27, 2018 |

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| MTS OJSC | Smolensk Region | No. 104897 | February 27, 2018 |
| MTS OJSC | Buryatiya Republic | No. 105547 | April 18, 2018 |
| MTS OJSC | Saratov Region | No. 105548 | April 18, 2018 |
| MTS OJSC | Zabaykalsky Region | No. 75297 | May 6, 2015 |
| MTS OJSC | Vologda Region, Pskov Region, Novgorod Region, Murmansk Region, Karelia Republic, Arkhangelsk Region, Leningrad Region, St. Petersburg | No. 94373 | April 17, 2017 |
| MTS OJSC | Kaliningrad Region | No. 104022 | December 17, 2017 |
| MTS OJSC | Krasnoyarsk Region | No. 90204 | October 24, 2016 |
| MTS OJSC | Yaroslavl Region | No. 90185 | October 24, 2016 |
| MTS OJSC | Ivanovo Region | No. 90212 | October 24, 2016 |
| MTS OJSC | Astrakhan Region | No. 90199 | October 24, 2016 |
| MTS OJSC | Rostov Region | No. 90205 | October 24, 2016 |
| MTS OJSC | Krasnodar Region | No. 90213 | October 24, 2016 |
| MTS OJSC | Chelyabinsk Region | No. 90190 | October 24, 2016 |
| MTS OJSC | Perm Region | No. 90206 | October 24, 2016 |
| MTS OJSC | Kurgan Region | No. 90214 | October 24, 2016 |
| MTS OJSC | Khanty-Mansiysk Autonomous District | No. 90215 | October 24, 2016 |
| MTS OJSC | Tomsk Region | No. 90189 | October 24, 2016 |
| MTS OJSC | Novosibirsk Region | No. 90209 | October 24, 2016 |
| MTS OJSC | Altai Region | No. 90191 | October 24, 2016 |
| MTS OJSC | Samara Region | No. 90210 | October 24, 2016 |
| MTS OJSC | Orenburg Region | No. 90192 | October 24, 2016 |
| MTS OJSC | Tatarstan Republic | No. 90207 | October 24, 2016 |
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