

MOBILE TELESYSTEMS  
OPEN JOINT STOCK COMPANY  
**ANNUAL REPORT**

2011



**MTS**

a step ahead

Preliminary approved by the  
Board of Directors of OJSC MTS,  
Minutes No.195  
from May 23, 2012

Creating the best customer experience is MTS OJSC's mission as the company sees it today.

A company, to provide the best customer experience, shall understand the customers' inner needs at any time and at any company contact point. It is critical to pay attention to and support each customer before the customer addresses for help, to meet the customer's needs before he or she is able to recognize and state them. MTS shall be the customer's friend and partner whose advice is important and to be trusted.

MTS OJSC is the largest telecom operator in Russia, Central and Eastern Europe. MTS OJSC enables people to communicate and get information in the majority of territories across Russia, Ukraine, Republic of Belarus, Uzbekistan and Armenia.

## Disclaimer

Some statements in this Annual Report may contain projections or forecasts regarding future events or future financial performance of the Company, as defined in the provisions of the US Securities Act of 1995. Such statements contain such terms as "expect", "estimate", "intend", "will", "could" or other similar expressions. We wish to caution you that these statements are only predictions, and that actual events or results may differ. We shall not be obliged and do not intend to review these statements for reconciliation with actual results. We refer you to the documents MTS files to the U.S. Securities and Exchange Commission, and Form 20-F, in particular. These documents contain and identify important factors, including those contained in the Risk Factors section of the Form 20-F. These factors could cause the actual results to differ from the projections and forecasts. They include: gravity and duration of the current economic situation period, including high

volatility of refinancing rates and exchange rates, prices of goods and shares and financial assets value, impact of government programs of Russia, the USA and other countries on restoring liquidity and stimulation of national and world economy, our opportunity to maintain current credit rating and impact on the cost of financing and competitive position and if the latter is decreased, strategic activity including acquisitions and alienations and successful integration of acquired businesses, potential fluctuations in quarterly results, our competitive environment, dependence on development of new services and tariff structures, rapid technological and market changes, strategy, risks associated with the telecommunication infrastructure, government regulation of telecommunication industry and other risks associated with operating in Russia and the CIS, fluctuations of stock quotes, financial risk management and other arising risk factors.


# MAIN OUTCOMES OF 2011

Financial data	Nonfinancial data
Consolidated proceeds <b>\$12.3 bln</b> +9.1% growth vs 2010	Higher rates of construction of 3G basic stations. In 2011 17,000 3G stations were installed <b>Triple growth vs. 2010</b>
OIBDA <b>\$5.1 bln</b> +5.6% growth vs 2010	Length of MTS fibre-optic communication lines made 117,000 km <b>15% growth vs. 2010</b>
Profitability by OIBDA <b>41.8%</b>	MTS – leader in number of mobile Internet users according to 2011 results – more than 20 mln subscribers <b>Triple growth of Internet traffic consumption by MTS subscribers vs. 2010</b>
Net profit <b>\$1.4 bln</b> +4.6% growth vs 2010	As of the end of 2011 the network of MTS outlets included 4,146 outlets <b>623 new outlets were opened under MTS brand</b>
Net profit margin <b>11.7%</b>	<b>More than 30 mln MTS subscribers connected to the loyalty programme "MTS Bonus"</b>






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# 1 COMPANY HISTORY



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# 1. COMPANY HISTORY

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

In 2000, Mobile TeleSystems CJSC and Russian Telephone Company CJSC merged to form Mobile TeleSystems Open Joint Stock Company. The same year, the Company entered the world stock markets. Since June 30th, 2000, the stocks of MTS OJSC started trading on the New York Stock Exchange as American Depositary Shares (Index MBT).

The core business of MTS is provisioning of mobile communication services. The objective of the Company's business is earning profit

through planning, marketing and operations of the cellular mobile communication network across the territories specified in the licenses issued by the Ministry of Communications of the Russian Federation.

MTS OJSC is the largest mobile operator in Russia, Central and Eastern Europe with regard to the customer base. The services provided by MTS OJSC are available in most Russian regions and cities, including Moscow, St. Petersburg, Nizhny Novgorod, Krasnodar, Perm, Novosibirsk, Khabarovsk and many others. A handset is no longer a piece of luxury and has become an integral part of social and business life of many people. As of December 31st 2011, MTS is providing services to 106.07 million customers in numerous regions and countries.

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



In this Annual Report the terms "MTS", "the Company", and "the Group" shall mean the aggregate of the companies including MTS OJSC and its subsidiaries, and "MTS OJSC" shall mean Mobile TeleSystems Open Joint Stock Company.

The indicators contained in this Annual Report are as of 31.12.2011, except where other periods or dates are expressly indicated.

## 1. Company history

In 2009, MTS OJSC acquired the controlling stakes in COMSTAR-UTS OJSC, one of the lead fixed operators, and Eurotel OJSC, a backbone provider, having thus enabled itself to provide the data services through the use of wire-based and wireless technologies.

Today MTS OJSC is the major Company belonging to the MTS Group alongside with its subsidiaries and affiliated companies. MTS

Group is providing mobile and fixe-line telephony, national and international long-distance communication, data services, Internet access through wireless and wire-based solutions, including optical access and WiFi technologies and 3G networks. The CIS countries-based subsidiaries of MTS OJSC in 2011 operated in Ukraine, Uzbekistan, Armenia and the Republic of Belarus

We are proud of our significant contribution to the development of telecommunications in Russia and its neighboring countries



# 2 PRESIDENT'S MESSAGE TO SHAREHOLDERS



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# 2. PRESIDENT'S MESSAGE TO SHAREHOLDERS

DEAR SHAREHOLDERS,

The last year, 2011, became another year of changes for MTS – the new management team identified and started implementing the strategy for MTS aimed at increasing efficiency of key business activities. In 2011 MTS traditionally fulfilled its obligations, the financial results of the company in 2011 comply with our preliminary targets.

Within the year the Group revenue increased by 9% to 12.3 bln. USD. We continued developing mobile and fixed segments of our business and managed to increase voice and data consumption in all countries, where we operate.

The revenue in Russia in 2011, including mobile, fixed segments and sales of subscriber equipment, increased by 9% to 311.9 bln. RUR.

In our mobile business, revenue growth was driven by higher consumption of voice services, growth of profit share from data transfer, improved quality of the subscriber base, which affected ARPU growth.

The revenue in our fixed business increased by 10% in connection with merger and acquisition deals, network modernization and changing subscribers to rate plans with a higher monthly fee.

In Ukraine, revenues grew by 7% to 9.1 bln. hryvnas due to growth of the subscriber base and keeping high level of voice and data transfer services consumption in the market that continues to demonstrate indicators of stabilized competition

In Uzbekistan annual revenues slightly dropped down to 441 mln. USD. We observe growing competition in this market, while the macroeconomic situation still remains complicated. Lower revenues are also due to correction of rate plans against the background of weakness of Uzbek som by 8% in 2011. Despite competition we remain the market leader with the share of 39%. We also observe positive dynamics in profits from data transfer along with our 3G network deployment and growing sales of USD modems

In Armenia annual profits dropped by 3% down to 74.7 bln. USD due to intense pricing competition. But we still remain the market leader with the share of 64%.

**In 2011 we managed to achieve considerable growth of the Group OIBDA by 6% to more than 5.1 bln. USD, which stands for profitability by OIBDA at the level of 41.8%. In the second half of the year the OIBDA profitability increased almost by 3.5% vs the first half. It was achieved by certain strategic decisions in respect to our Russian business and also general commitment to increasing efficiency in the entire Group.**

**Key drivers to increase profitability in Russia were:**

- Rationalized marketing and sales expenses, including changeover to the new structure

**Within the year the Group revenue increased by 9% to 12.3 bln. USD.**

- The revenue **in Russia** in 2011, including mobile, fixed segments and sales of subscriber equipment, increased by 9% to 311.9 bln. RUR.
- **In Ukraine**, revenues grew by 7% to 9.1 bln. hryvnas due to growth of the subscriber base and keeping high level of voice and data transfer services consumption in the market that continues to demonstrate indicators of stabilized competition.
- **In Uzbekistan** annual revenues slightly dropped down to 441 mln. USD. Despite competition we remain the market leader with the share of 39%.
- **In Armenia** annual profits dropped by 3% down to 74.7 bln. USD due to intense pricing competition. But we still remain the market leader with the share of 64%.

of dealer bonuses on the basis of income sharing;

- Reasonable rate policy aiding to improve interconnect balance;
- Optimized headcount by centralizing key functions and improving efficiency of processes;
- Changing priorities of retail chain operation, focus on activities aiding to increase profitability of the entire Group business;
- Centralized procurement system;

- Savings from agreements of joint infrastructure usage and network maintenance outsourcing.

**The net profit exceeded 1.4 bln. USD, which is 5% higher than the level of 2010, despite negative influence of non-cash loss from exchange rates differentials in the amount of 158 mln. USD in 2011.**

Capital expenses in 2011 made 21% of the revenues or 2.6 bln. USD, which is slightly below the target of 22–24% given previously. In 2012 deployment of our 3G network will





achieve the target of 28,000 basic stations. In 2011 we also started implementing the project of construction of the fibre-optic network based on GPON technology in Moscow. As a result four million households of Moscow will be connected along high-speed fibre-optic channels. Construction of the GPON network in Moscow will be completed by the end of 2014. Outside Moscow, starting already from 2013, we are not planning any ambitious capital-intensive projects, apart from investments into network maintenance. Deployment of the 4G network will not be capital-intensive for MTS, since our network is mainly ready for the 4G communication standard. Therefore the capital expenses may be reduced since 2013 down to 15–18% of revenues.

Free cash flow of 12 months made 1 bln. USD. This is less than in 2010, but in 2010 we received additional profit from investments in the amount of 25 bln. RUR as a result of consolidation with OJSC COMSTAR-UTS and selling a share in OJSC Svyazinvest. If influence of this factor is excluded, then free cash flow in 2011 would be higher by roughly one third. Nevertheless, annual cash flow from operations increased by 6%, despite consolidation of assets acquired within merger and acquisition deals, modification of the commercial policy and amendment of the organizational structure. This definitely confirms strength of our business foundations and our good position for building future value more efficiently for our shareholders.

In Q4 2011 the total debt increased to 8.7 bln. USD, but in general the net debt ratio to OIBDA remains at the relatively low level of 1.3. During 2012 we will continue optimizing the structure of our debt portfolio.

We believe that in 2012 our business development will again be restricted by

macroeconomic factors, and the objectives of operators will become retrieval of higher added value in already developed markets. The growth rates of certain market segments will persist, for instance, in data transfer services. We will continue developing new segments, in particular, financial services, and keep on stimulating growth of profit from existing customers by selling smartphones and convergent services, even though, taking into account the size of our business, it is too early to see any effect from development of these segments.

Therefore we are not able to forecast revenue growth in 2012 at the level of more than 5–7 percent in local currency. And we expect that such growth rates will continue on a mid-term and long-term horizon.

**In the second half of 2011 we considerably improved profitability of our business due to reduction of marketing and sales costs, modification of the dealer bonus scheme, which is now to a larger extent “linked” to profits from a subscriber, and not to a number of sold SIM-cards; higher loyalty of subscribers due to the rate policy aimed at stimulation of on-network communication and further ordering of general and administrative expenses.**

However, we see that such actions produced one-off positive effect at profitability, but did not shape a trend. Our forecast for the profitability level in 2012 makes from 40 to 42 percent.

**Although we will continue working to improve profitability of the business, there are some drivers that will most likely put pressure on the profitability:**

- Slower revenue growth rates;
- Lagged effect from transition to the new dealer bonus structure;

## 2. President's Message to Shareholders

- Higher expenses for wages as a result of increased tax burden;
- Retail business development.

On a long-term horizon, taking into account our profit forecast, the profitability at the level of more than 40% looks natural for a company of our size.

Further reduction of capital expenses in 2013–2015 to the level of 15–18% of the revenues may cause free cash flow growth by hundreds of millions of dollars. Such financial flexibility will give us more opportunities. Our priority will be investing all required resources into increasing the Company's efficiency. We will also analyze opportunities to optimize the financial

strategy, in particular, to reduce the debt burden, taking into account high debt cost. We will be searching for ways to improve the capital structure. As soon as operational and financial status of the Company allows, we will consider other methods to grow value for our shareholders.

A.A. Dubovskov,  
President, MTS OJSC





# 3 COMPANY'S POSITION IN THE MOBILE COMMUNICATIONS MARKET



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# 3. COMPANY'S POSITION

## in the mobile communications market

As of December 31, 2011, MTS OJSC held licenses for all 83 regions of the Russian Federation. Subsidiaries of MTS OJSC in the CIS operate in Ukraine (Pr JSC MTS UKRAINE), the Republic of Uzbekistan (Foreign Enterprise UZDUNROBITA LLC), the Republic of Armenia (K-Telecom CJSC) and the Republic of Belarus (MTS Joint LLC). MTS has a licensed area that encompasses over 230 million.

In Russia mobile services are provided by the three federal operators — MTS OJSC, Megafon OJSC and Vimpelcom OJSC as well as several dozens smaller regional telecom companies using different cellular communications standards: GSM, NMT 450 and CDMA-1x, UMTS (3G). According to AC&M, as of December 31, 2011, wireless penetration in Russia reached 156.8%, and the total number of customers reached 227.6 million. By the number of

customers MTS OJSC holds the leading position in Russia with a 30.7% market share, Megafon OJSC and Vimpelcom OJSC market shares total 27.1% and 25.1% accordingly. MTS OJSC and its subsidiaries and affiliated companies in Russia collectively had 70.0 million customers as of December 31, 2011.

Russia's largest markets of mobile services (by the number of customers) are Moscow and the Moscow Region and St. Petersburg and the Leningrad Region. According to AC&M, wireless penetration in Moscow and the Moscow Region was 212.1% at December 31, 2011. The total number of customers of all operators in Moscow and the Moscow Region is estimated at 36.0 million, with the share of MTS OJSC reaching 36.2%.

Wireless penetration in St. Petersburg and the Leningrad Region, according to AC&M, was

## 3. Company's position

215.6%, at December 31, 2011 with total customers number of 13.7 mln. MTS market share is at 28.0%.

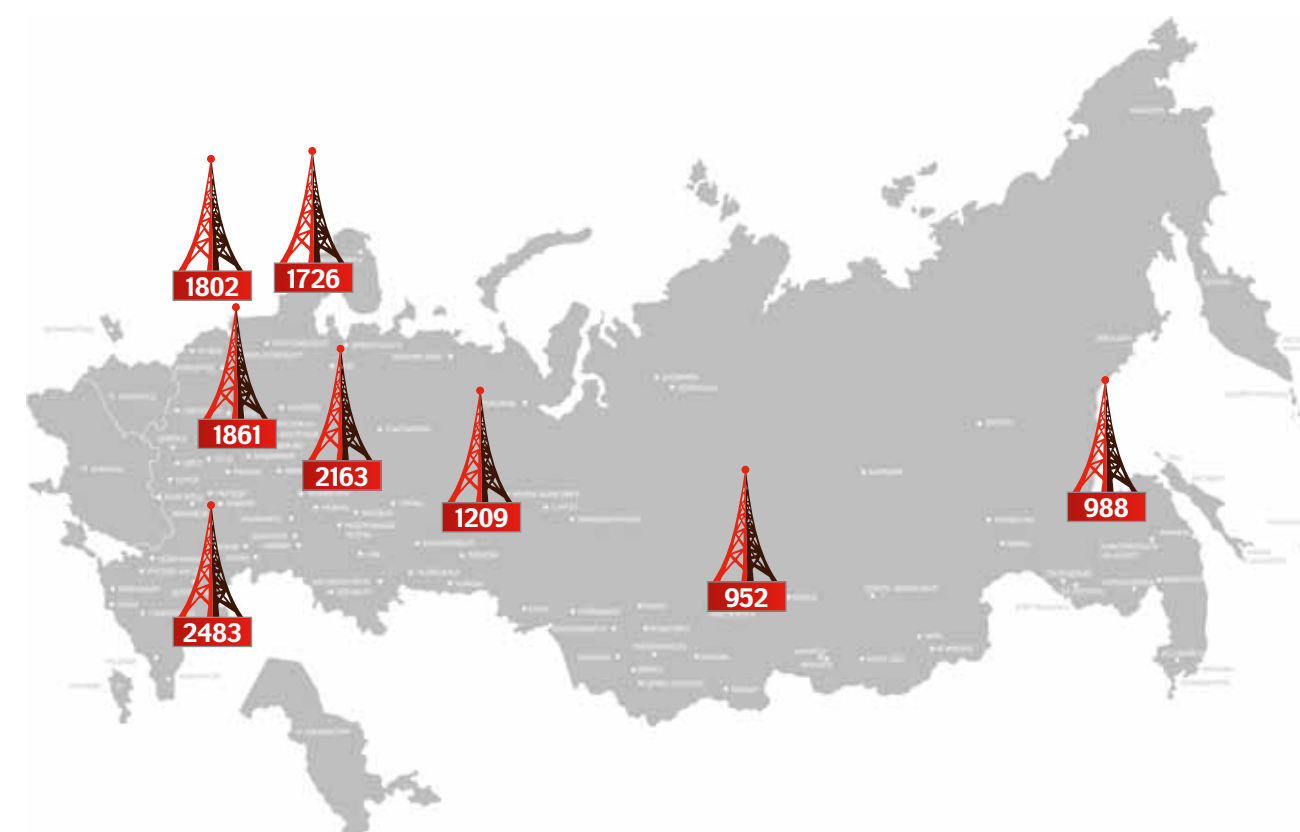
The most important regional market (apart from Moscow and St. Petersburg) is the Krasnodar Territory (including the Republic of Adygeya), where the number of mobile subscribers at December 31, 2011 as estimated by AC&M, surpassed 9.9 million and penetration was 175%. In addition, there are 4 regions of the Russian Federation where the number of subscribers of telecom operators exceeded 5 million: the Republic of Tatarstan, the Republic of Bashkortostan, the Samara Region, the

Chelyabinsk Region, while in the Rostov Region and in the Sverdlovsk Region the number of subscribers reached 6.0 and 7.0 million accordingly.

According to the results for Q4, 2011, the subsidiaries and affiliated companies of MTS OJSC in the CIS countries had the following numbers of customers: 19.2 million in Ukraine (Pr JSC MTS UKRAINE), 9.3 million in the Republic of Uzbekistan (Foreign Enterprise UZDUNROBITA LLC), 2.4 million in the Republic of Armenia (K-Telekom CJSC), 4.9 million in the Republic of Belarus (MTS Joint LLC, which is not consolidated in the MTS Group financial statements).

### The number of 3G base stations put into operation upon Macro Regions:

Moscow	Central Region	North-West	Primorje	South	Ural	Siberia	Far East	Russia Total
1861	2163	1726	1802	2483	1209	952	988	13,184



- As of December 31, 2011, MTS OJSC **held licenses for all 83 regions** of the Russian Federation.
- By the **number of customers** MTS OJSC holds the **leading position** in Russia with a 30.7% market share.
- MTS OJSC and its subsidiaries and affiliated companies in Russia collectively had **70.0 million customers** as of December 31, 2011.



# 4 COMPANY OUTLOOK



a step ahead



# 4. COMPANY OUTLOOK

MTS OJSC has been one of the leading telecommunications companies in Russia and CIS for many years now. To keep the status of the leader against the background of intense competitive struggle, the Company may not stand still, but shall continuously develop, look ahead, open new markets, improve services, propose advanced services to customers, foresee customers' wishes, be a step ahead.

In 2011 the year-over-year consolidated proceeds of the MTS Group grew by 9%. Russia is the main market of the Company's presence. In the mobile market traditional for MTS revenues were growing along with MOU and ARPU growth. Thus, MOU in 2011 increased by 15% vs 2010 and made 273 minutes. At the same time in Ukraine MOU made 580 minutes, which indicates availability of considerable potential for growth of mobile services usage in Russia that the company plans to implement, also through promotion of the "Super Zero" tariff with free conversations within the network. Stimulation of consumption is aimed at increasing profits in the main markets of the company. At the same time those times of rapid growth due to subscriber base expansion have gone. The mobile market is in the saturation stage, it has become more mature and sets new objectives for an operator. The focus in working with subscribers moves from aggressive attraction to retention rather.

The highest growth rates are observed in profits from data transfer services, thus, in Russia in 2011 these profits increased by 49%.

Mobile Internet development is a priority task for the company. In 2012 production of smartphones will exceed production of PCs in the world, therefore, the customer is becoming more and more mobile and needs easy access to the Internet in any point of presence. MTS OJSC will continue building 3G and 4G networks, will participate in tenders to get new frequencies, so that the customer could get a better customer experience when surfing on the mobile Internet, which will result in keeping higher rates of growing profits from the data transfer services.

An important place in the company is occupied by the fixed business. In 2011 profits from the fixed business in Russia grew almost by 10%. The company will continue the process of deeper integration with the fixed business, proposing convergent offers to its customers. In the near term the company plans to issue a single invoice to users of mobile and fixed services. Convergent services will make it possible to increase loyalty of subscribers and to reduce their churn, which will positively affect the company's financial results. MTS OJSC will continue its business in the M&A market of regional fixed broadband access and cable TV operators.

During the last years the retail chain has become one of the most important elements of the company. The retail chain of MTS OJSC is growing continuously. In the medium term the number of internal outlets shall grow to 2,800, at the same time another 2,600 will operate

as franchisees. Control over the internal chain makes it possible to vary its priorities. Thus, in the nearest future the focus from selling telephones and contracts in the internal chain will be moved towards selling services, including the financial ones, and gadgets (smartphones, modems, tablet PCs), which now or in the future will generate proceeds for the operator.

The foundation of the company's business is developed infrastructure. In 2011 MTS built 14 K basic 3G stations, having increased its network 2.6 times vs. the end of 2010 года — up to 23 K basic stations. The company will continue investing in development of networks, including 3G and LTE networks and transport infrastructure. Joint use of infrastructure with other operators will make it possible to cut costs and make the company more efficient. It stands to separately mention the project of fixed network modernization in Moscow on the basis of GPON technology, which will make it possible to offer more services to customers at a brand new level and will promote retention of the subscriber base in the highly competitive Moscow market.

Apart from traditional businesses, the company intends to enter new markets, such as financial services, telematic services (machine-to-machine) and development of cloud calculations. Thus, MTS OJSC plans to enter the market of SaaS (Software as Service), for which purpose the pilot projects are already being implemented. In the financial sphere the company will be issuing MTS bank cards and grant loans via its retail chain and MTS Bank OJSC (previously JSCB MBRD (OJSC)), planning to cover an appreciable part of its subscriber base. In the sphere of telematic services MTS OJSC plans to propose new solutions to the market in the field of medicine, housing and community amenities, transport and security.

Managing considerable financial resources and experience in closing deals, MTS OJSC continuously monitors possible targets for acquisitions both in the markets of its presence and in the new markets. One can't exclude chances of the company's presence area expansion by acquisition of communication providers in the nearest future.

MTS OJSC is a team of professionals setting with ambitious objectives and hitting them. In 2011 the MTS brand for the fourth year in a row was recognized the most expensive Russian brand among a hundred leading global brands in the rating by BRANDZ™, published by Financial Times. The gained experience makes it possible to solve the most complicated issues. We see a bright future ahead.

# 5 COMPANY DEVELOPMENT STRATEGY



a step ahead



# 5. COMPANY DEVELOPMENT STRATEGY

## (Business Priorities)

The strong base of MTS OJSC development is laid by the “3i” Strategy — “Integration”, “Internet”, “Innovations”. Because of regular implementation of the selected strategy, MTS OJSC, despite the crisis of 2008–2009 and further volatility of world’s and Russia’s economies of 2010–2011, was able to keep the leadership positions and to also substantially strengthen them.

To maintain competitiveness, MTS shall considerably invest into infrastructure. Strategic objectives of MTS are leadership in the market of mobile, fixed broadband access and paid TV.

Therefore, the “3i” Strategy is focused on aspects of principal importance for a global telecommunications player, such as strategic consolidation of business, development of infrastructure, mobile and fixed access to Internet, innovative telecommunications services — cloud calculations, M2M (telematic services), convergence, etc.

For full usage of these opportunities, it is necessary to both invest into infrastructure and explore adjacent markets. Indeed, the main principle of the Company today is to be “A step ahead”, which covers all aspects of the business, from building relations with a customer today to establishing point of growth that will be required to secure the Company’s leadership tomorrow.

The strategy area of critical importance in all markets of presence includes development of infrastructure and new businesses, or rather preparing springboards for future

development of the Company already now. Among the long-term priorities there are investments into data processing centre services, cloud calculations, M2M (telematic services), introduction of GPON technology in the MGTS network, etc. All these initiatives will ensure advantage of MTS OJSC in the long term.

The “3i” Strategy is efficiently complemented by regionalization as a new approach to business. In practice it stands for optimal distribution of resources between the regions and taking into account specifics of the regional markets when implementing the commercial strategy, which secures the maximum payback for the Company. The regional approach makes it possible for MTS OJSC to positively assess market growth opportunities in the telecommunications field. Despite strong competitive pressure and also other threats of importance for the business, such as replacement of traditional services with ip-telephony services and instantaneous messaging and risks of excessive control in the field and the business in general, the Company will manage to both keep its positions in the market and to strengthen leadership, through maximum implementation of the available market potential in each region. Based on the regionalization, sales quality improves, the base loyalty grows and churn drop.

Data transfer and development of new products, regular expansion of the 3G network, active distribution of smartphones and modems, development of fixed broadband access / TV, development of banking business will

## Main strategic steps in 2011/2012

Integration	<ul style="list-style-type: none"><li>• Development of integrated products for Moscow and regions</li><li>• Buy-out of remaining MGTS share and further integration of the company</li><li>• In-depth integration of the fixed business: functional, organizational, technical</li></ul>
Internet	<ul style="list-style-type: none"><li>• Launching services of fixed broadband access and paid TV in regions through M&amp;A deals and consolidation of small companies</li><li>• Deployment of competitive 3G network in regions</li><li>• Development of the best-in-class portfolio of services and promotion of higher level of smartphones penetration</li></ul>
Innovation	<ul style="list-style-type: none"><li>• Further development of the single-brand retail chain</li><li>• Further development of Omlet.ru</li><li>• Active development of M2M business and entering the market of “cloud” calculations</li></ul>

become the vectors of development of higher priority.

Apart from active market and business actions, the strategy also pays higher attention to improvement of the Company’s operational efficiency. The organizational structure is optimized and simplified, commercial costs are reduced and overheads are minimized.

All that is the present and the future of the Company. As concerns implementation of the strategy in the last year of 2011, it should be mentioned that this year for MTS OJSC became a year of active business consolidation and strengthening of leadership positions in all spheres of the Company’s business.

Sustainable profitability of the Company and its ability to generate the positive cash flow make it possible for MTS OJSC to comply with its dividend obligations to the shareholders. In

particular, the Board of Directors of the Company recommended to pay dividends for 2010 in the amount of 30.05 billion RUR (\$1.08 billion) or 78% of the Company’s net profit in 2010 according to US GAAP.

In 2011 MTS OJSC once again confirmed the high status of the leader in the telecommunications field. The subscriber base of the Company made 106.07 million people, the revenues of the MTS Group increased by 9% vs. 2010 and achieved 12,318.7 million USD. OIBDA growth made 6% year over year — up to 5,144.1 million USD.

Finally, we would like to note that for the fourth year already the brand “MTS” has been recognized the most expensive Russian brand in the annual rating of the hundred leading world brands, BRANDZ™. In this year the brand “MTS” took the 80th position in the rating with the brand cost of \$10.9 billion USD.





Undoubtedly, further development of MTS OJSC will provide best customer experience for subscribers and maximize the added value for the shareholders in 2012. Existing trends make it possible to speak about it with confidence.

From the point of view of macroeconomics, the Russia's economy is recovering, even though slowly. Oil prices are high, considerable drops or jumps are not expected. There are certain crisis phenomena in the economy of Belarus and currency exchange rate instability in Armenia.

In part of telecommunications market growth there is a growth potential for voice traffic and a prospect for MOU growth by several dozens of percents within the following 5 years, which, in its turn, builds opportunities for ARPU growth. Intense growth of Internet traffic continues, both mobile and fixed, more than 1.5 times a year. MTS estimates mobile broadband access as one of the main growth drivers.

It should be mentioned that in the key market of the Group, in the Russian Federation, the decision by the Federal Radio Frequency Commission dated September 8, 2011 launched the process of spectrum cleanup and issue of LTE-licenses. MTS OJSC was the first among mobile providers of Russia to receive licenses for rendering services of mobile radiotelephony LTE services of the TDD (time-division duplex) standard in the range of 2,595–2,620 MHz in the territory of Moscow and the Moscow Region.

Based on the identified trends, MTS OJSC in 2012 is expecting growth of the Group profits at the level of around 5–7%. The level of the OIBDA margin is forecasted at the level of 40–42%, the capex forecast makes 20–22% of the profits on the strength of continuous active construction of 3G networks and planned investments into development of fixed networks in Moscow and other regions.

Therefore, in 2012 MTS OJSC will continue to lead and will focus strategic efforts at such important areas as development of infrastructure and data transfer, development of fixed, convergent and financial services, and also enhancing the Company's appeal for subscribers and shareholders.



# 6 BOARD OF DIRECTORS' PERFORMANCE REPORT



a step ahead



# 6. BOARD OF DIRECTORS' PERFORMANCE REPORT

on Company's Business Priorities

The year of 2011 for MTS OJSC has become a year of active business consolidation in all areas of the Company's activity and also a year of maximization of efforts aimed at maintaining leadership positions in the markets of presence and growing the Company's value for subscribers and shareholders. The confident forward movement of the Company is supported by the "3i" Strategy — "Integration", "Internet", "Innovations", regular implementation of this strategy is the basis of 2011 achievements.

Sustainable profitability of the Company and its ability to generate the positive cash flow make it possible for MTS OJSC to comply with its dividend obligations to the shareholders. In particular, the Board of Directors of the Company recommended to pay dividends for 2010 in the amount of 14.54 RUR per one ordinary registered share of MTS OJSC (or \$1.04 per one ADR), totaling 30.05 billion RUR (\$1.08 billion) or 78% of the Company's net profit in 2010 according to US GAAP.

In 2011 MTS OJSC strengthened its leadership positions even more. The subscriber base of the Company made 106.07 million people, the revenues of the MTS Group increased by 9% vs. 2010 and achieved 12,318.7 million USD. OIBDA growth made 6% year over year — up to 5,144.1 million USD. Achievement of these indicators became possible as a result of optimizing sales, marketing costs and higher efficiency of the Company's services outlets.

MTS OJSC confirmed the status of the telecommunications player of national importance, having demonstrated solid achievements in construction of 3G networks. The capex share in the revenues achieved 21% or \$2.6 billion USD as a result of investments in construction of the MTS OJSC 3G network in Russia, and also large-scaled modernization of broadband access networks in regions. By the end of 2011 the 3G network includes roughly 23,000 3G basic stations and covered more than 14,000 settlements in Russia. The length of the Company's fibre-optic lines made around 117,000 km.

At the end of 2011 MTS OJSC finalized preparation of infrastructure for fastest deployment of LTE in the Moscow Region. Besides, in 2011 the GSM 900 license was obtained for operation in the Penza Region, thus, the Company provides GSM services in all regions of Russia.

2011 also become the year of innovation development of one of the markets of importance for the Company — the market of Moscow and the Moscow Region, where MTS OJSC started implementing the GPON technology. This project will make it possible to carry out the full reconstruction of MGTS networks and to change them over to the newest high-speed standard of data transfer. Besides, in Moscow and the Moscow Region the first 3G network in the 900 MHz range was launched for commercial operation.

Proceeding with active operation in the key market for the Group, the Russian Federation, MTS OJSC focuses on stabilization of SIM-card sales in order to improve quality of the subscriber base through higher sales via its own retail chain and reducing churn of subscribers.

Speaking about the MTS retail chain, it should be mentioned that by the end of 2011 its numbers achieved 4,147 branded outlets, 1,686 of which are franchised. The Company continues developing SIM-card sales via its own stores, having achieved higher share of SIM-card sales in the MTS OJSC retail chain up to 46.3% by the end of 2011.

Reacting to challenges of the modern telecommunications market, in 2011 MTS OJSC focuses on selling handsets, which will promote consumption of the operator's services, having increased the retail sales by 5% to 1,249 K pcs.

In the markets of the fixed business and paid TV, which the Company actively develops, the business subscriber base growth should be mentioned through expansion of fixed networks and acquisition of regional assets. Purchasing certain alternative operations in regions of the Russian Federation within the framework of the Company's strategy for development of integrated business resulted in increasing the number of covered households and also users of fixed broadband access and paid TV.

Finally, it should be mentioned that for the fourth year already the brand "MTS" has been recognized the most expensive Russian brand in the annual rating of the hundred leading world brands, BRANDZ™. In this year the brand "MTS" took the 80th position in the rating with the brand cost of \$10.9 billion USD.

Therefore, the systematic implement of "3i" Strategy by MTS OJSC in 2011 both secured all necessary opportunities for keeping leadership positions in the telecommunications market

and also made it possible for the Company to successfully develop in all spheres of the telecommunications industry and in all consumer segments.

Undoubtedly, the further development of MTS OJSC will provide the best customer experience for subscribers and maximize the added value for shareholders in 2012.

Ron Sommer  
Chairman of MTS OJSC Board of Directors





# 7 MAJOR EVENTS



a step ahead

7 Major events

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# 7. MAJOR EVENTS

## 1. MTS brand has been recognized the most expensive Russian brand for the fourth year in a row



The brand "MTS" for the fourth year in a row has been recognized the most expensive Russian Brand in the annual rating of the hundred leading world brands, BRANDZ™, published by the Financial Times and the leading international research agency Millward Brown Optimor. In 2011, the brand "MTS" held the 80th position with the brand value of \$ 10.9.

The "MTS" brand value in the global rating BRANDZ™ has been increasing for the fourth year in a row. In 2008, when MTS became the first Russian company in the history of the rating included in the list of the hundred most valuable world brands, its brand value was estimated as almost \$8.1 billion. In 2009 the "MTS" brand value increased to \$9.2 billion, and in 2010 – up to more than \$9.7 billion.

## 2. Finalization of COMSTAR-UTS OJSC integration

Finalization of COMSTAR-UTS OJSC integration with MTS OJSC and termination of COMSTAR-UTS business as an independent legal entity as of April 1, 2011.

In compliance with the integration terms, the ordinary shares of COMSTAR-UTS OJSC were converted into ordinary shares of MTS with a

conversion ratio making 0.825 of MTS ordinary shares for one share of COMSTAR-UTS OJSC.

As a result of conversion the chartered capital of MTS OJSC increased by 73,087,006 ordinary shares to 2,066,413, 144 ordinary shares.

## 3. Confident management of debt portfolio Extended loan terms.

Implementation of steps to reduce loan costs via redemption and reissue of debt instruments, achievement of agreements with bilateral creditors.

Maintenance of optimal RUR/USD ratio in the debt portfolio with account of profits and capital investments structure.



## 4. Assignment of Andrey Dubovskov as the President of MTS OJSC

Assignment of Andrey Dubovskov as the President of MTS OJSC, who earlier occupied the position of the Director of Pr JSC MTS Ukraine.



## 5. Stable high dividends

Approval by the General Shareholders' Meeting in June 2011 for dividend payment for 2010 in the amount of RUR 15.54 per one ordinary registered share of MTS OJSC that totaled RUR 30.05 billion.

## 6. Acquisition of alternative telecom operators in Russia within the framework of "3i" Strategy

Acquisition of broadband access operators in Kurgan and Altai Territory.

Entering into the market of broadband access and cable TV in Tula through

acquisition of the regional leader in the market of cable TV and Internet access – Group of Companies Altair.

Acquisition of the television and radio broadcasting company TVT, the largest provider of cable TV and fixed communication services in the Republic of Tatarstan.

## 7. Optimization of the company's organizational structure in order to increase efficiency of operational management

Optimization of the company's organizational structure in order to increase efficiency of operational management – direct reporting of MTS Russia macroregions directors to the MTS President; assignment of Alexander Popovskiy to the newly established position of the Vice President, Operational Issues, separation of marketing and sales functions under management of the Vice President, Marketing, Vasiliy Latsanich and the Vice President, Sales and Service, Vadim Savchenko, accordingly; assignment of Nataliya Bereza to the position of the Vice President, HR.



Alexander Popovskiy, Vasiliy Latsanich, Vadim Savchenko, Nataliya Bereza





# 8 COMPANY'S OPERATING RESULTS FOR 2011



**MTS**

a step ahead

8 Company's operating  
results for 2011

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# 8. COMPANY'S OPERATING RESULTS FOR 2011

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

According to 2011 results, the level of mobile penetration reached 156.8% and this places Russia among the most developed global telecommunication markets. As one of the leading players in the Russian and CIS telecommunications market MTS strives to use the existing growth potential in all industry segments that demonstrate the most dynamic development.

In mobile telephony that is the Company's traditional segment of business the most important growth factors are the growth of the total use of telecom services and a more active use of high-revenue VAS. As main instruments for leveraging the consumption MTS uses targeted tariff offers and a wide range of

VAS. Some markets of the Company's presence still have a potential for organic growth due to the increase of customer base size and in this respect MTS concentrates on gaining leadership in the acquisition of new customers. In the market of Russia, which is quite saturated from the penetration point of view, the company's focus is to retain the existing subscribers and to cut on churn through attractive tariff offers, improvement of customer experience, MTS OJSC intends to further strengthen its position by taking an advantage and through further consolidation of factors that define operator's competitiveness in the market. The following factors shall be specified as major factors of competitiveness: network coverage and internal network roaming, traditional high quality of communication services, competitive tariff offers that take into account customer needs and additional services, the developed network of subscriber service.

Merger of one of the leading fixed operators, COMSTAR-UTS OJSC, and the backbone network provider Evrotel OJSC with MTS OJSC strengthened our positions in the market and made it possible to expand the spectrum of the services provided to the subscribers.

A high-quality growth in the use of mobile data services will be based on the further development of MTS 3G network, which is in service in all federal districts of Russia, in Uzbekistan, Armenia, Belarus.

Moreover, MTS OJSC is actively extending its own chain of sales and customer care offices

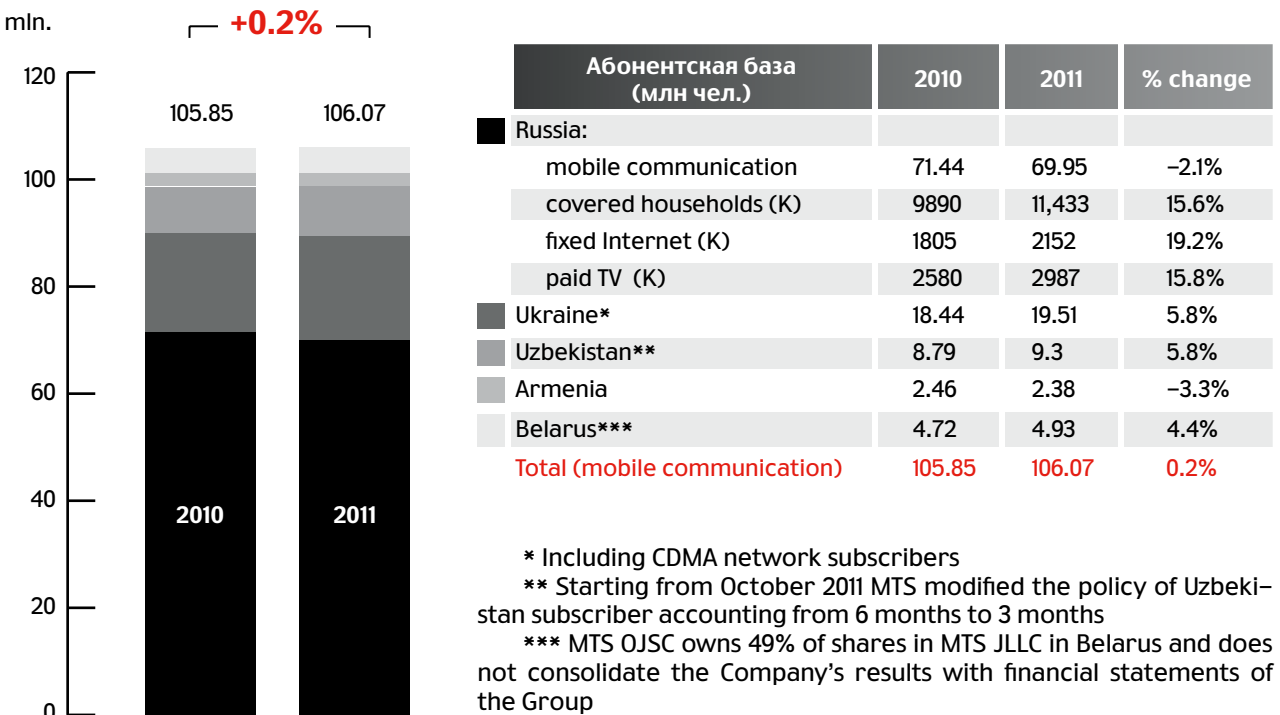
## 8. Company's operating results for 2011

that continue to sell the Company's own unique products and services and provide high-quality customer care and this has a positive effect on the MTS brand awareness.

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

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

### Dynamics of the Group's Customer Base Growth



- The **number of customers** of MTS Group **exceeded 106 mln.** at the end of 2011.
- In Russia, keeping the **leading position**, MTS implements the strategy aimed at stabilization of SIM-card sales in order to **increase the subscriber base quality** through growing sales via its retail chain, reducing losses of subscribers and enhancing dealer motivation.
- Also within the strategy of integrated business development MTS **increases the subscriber base** of paid TV and number of fixed broadband access users.



## Russia

The Russian telecommunications market is characterized by rapid growth of customer base and revenues. According to AC&M data, at the end of 2011 the penetration (in SIM cards) was 156.8% or 227.6 million customers. The highest penetration levels were observed in Moscow and St. Petersburg where they exceeded 201.1% and 203.3%, respectively.

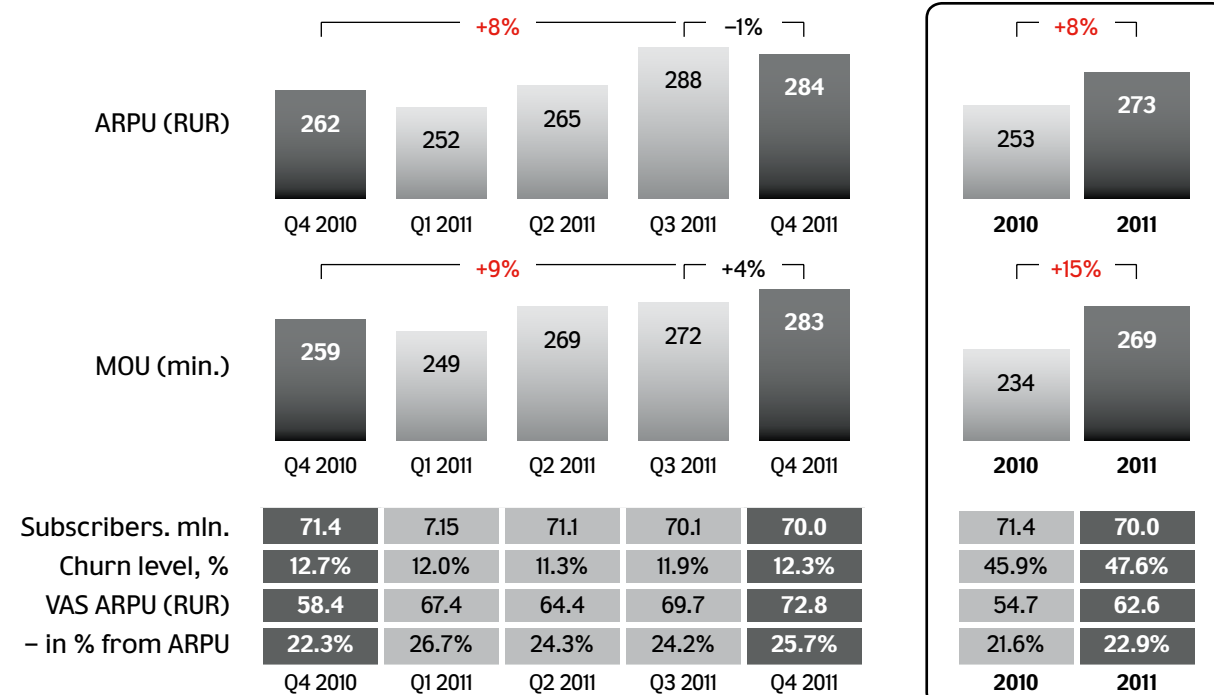
According to AC&M data, MTS' share in customer base in Moscow is 36.2%, in St. Petersburg — 28.0% and in Russia as a whole — 30.7%.

To retain its lead in the market the Company continuously strives to provide customers

not only with high-quality services, but also with the cheapest tariff plans, to boost at the same time the quality of service, to extend the network coverage and upgrade the customer care level.

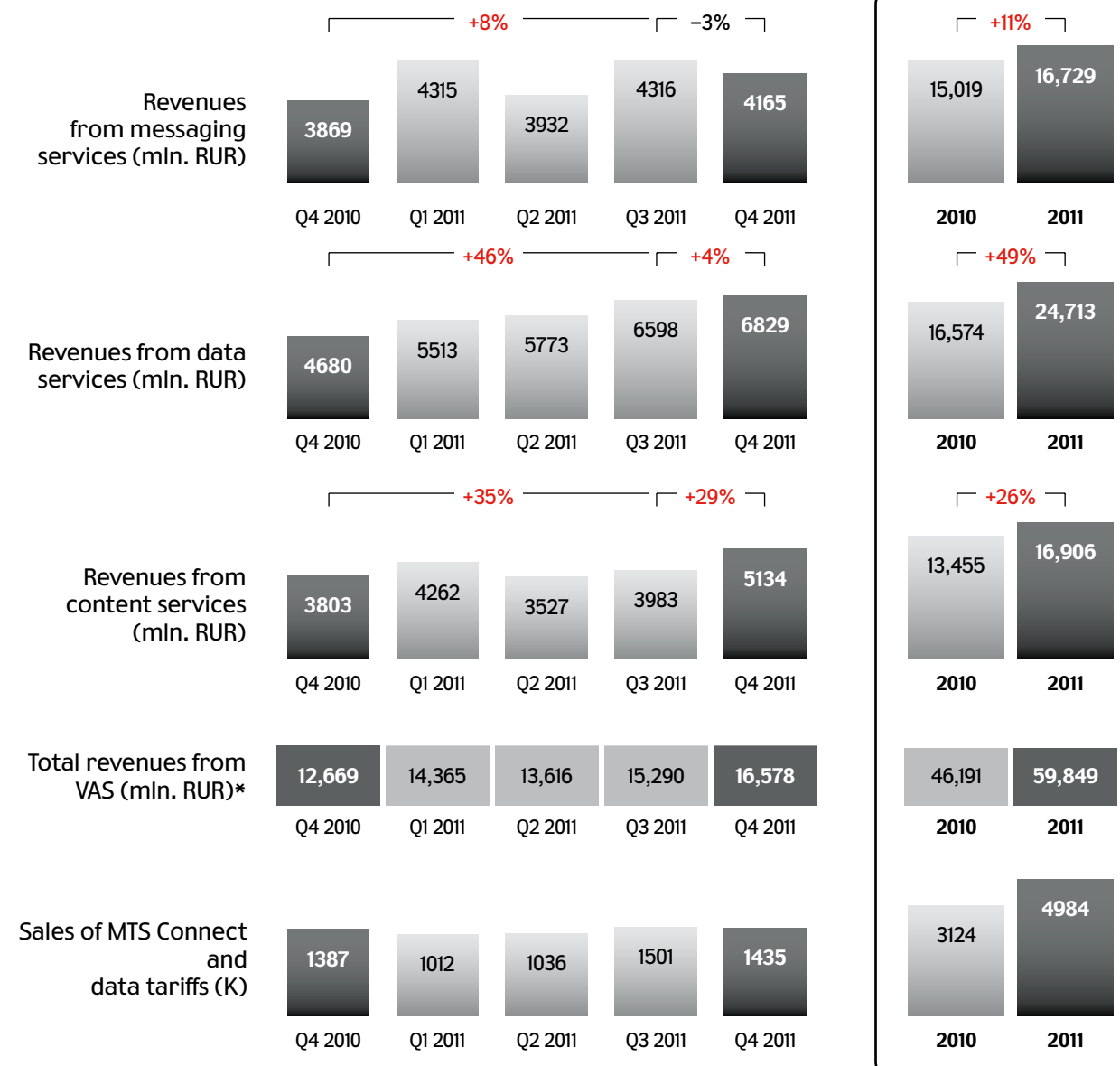
We also need to emphasize the prospects opened to the Company by its own single-brand retail chain, whose active deployment in Russia took place in 2009–2010. Availability of its own distribution channel allows increasing the number of subscriptions, monitoring their quality and reducing churn.

## Russia: mobile business operating indicators



- **ARPU growth** year over year as a result of higher quality of the subscriber base and services consumption growth
- ARPU reduction quarter over quarter as a result of seasonal reduction in consumption of roaming communication services
- Considerable **growth of MOU** as a result of implementation of the strategy aimed at increasing quality of the subscriber base and stimulation of calls inside the MTS network

## Russia: mobile business operating indicators



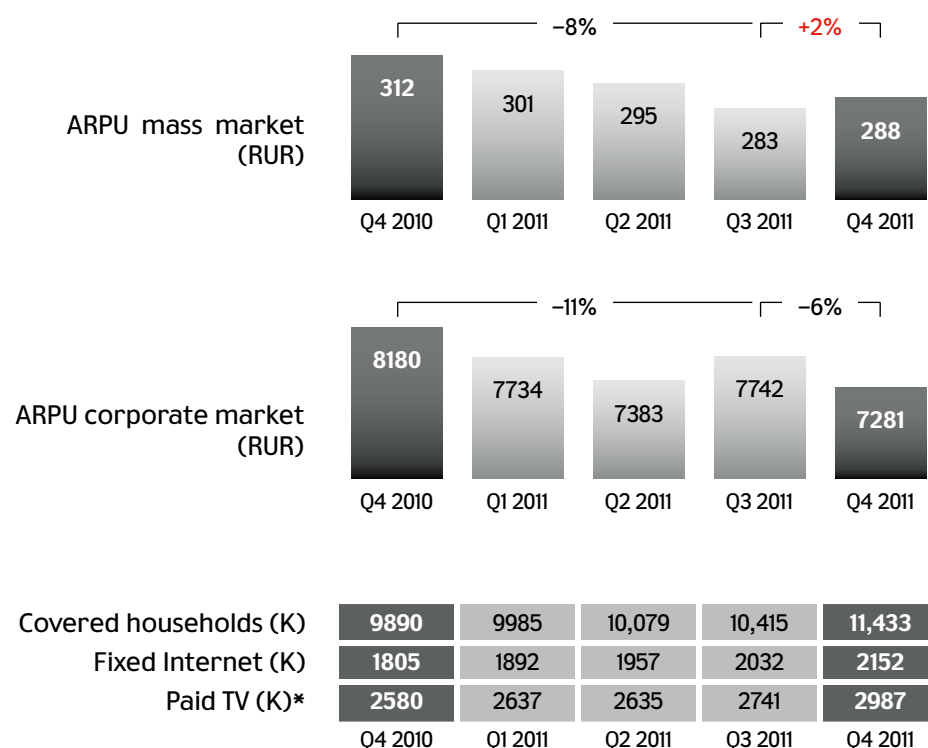
\* Excluding SMS and data packets included into package tariff offers.

## Main initiatives in Q4 2011:

- **Launching campaigns** aimed at stimulation of SMS services uses and optimization of unlimited SMS packages
- Considerable **growth of profits** from sales of content due to seasonal factors and using bonuses by subscribers received within new tariff offers



## Russia: mobile business operating indicators



\* Indicators were retrospectively modified in compliance with the MTS policy on accounting of subscribers and do not include subscribers of community antenna television systems. The total base of TV subscribers as of the end of Q4 2011 makes 3,352 K.

- **ARPU growth** in the mass market quarter over quarter as a result of network modernization and change over of existing customers to more expensive types of services
- ARPU reduction year over year stipulated by inflow of low-profit customers as a result of the company's deals of assets acquisition
- ARPU reduction in the corporate market as a result of seasonal factors and aggravation of competition

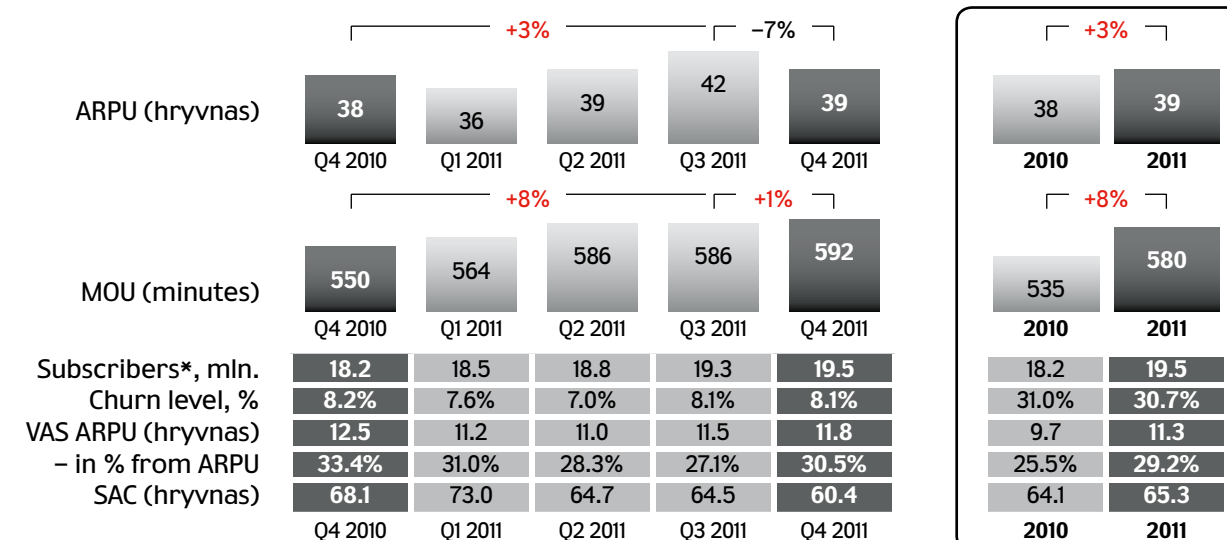
## Ukraine

Reduction of customer growth rates in the Ukrainian telecommunications market is related to the gradual saturation of the market and the operators' focus on the customer base "quality". According to ACM Consulting, at the end of 2011 the service penetration in the country was 117.6% or 50.9 million customers. MTS OJSC had 19.2 million customers or 35.8% of the market in the Ukraine as of the year end. The number of customers of Kievstar, MTS main competitor, at the end of the year was 24.8 million. It should be noted that MTS OJSC gap with the market leader in 2011 reduced by 596 K customers due to marketing activities and increased loyalty of subscribers.

MTS OJSC provides and actively improves MTS Connect 3G services based on CDMA 2000 1x EVDO Rev.A, proposing high-speed mobile access to the Internet to its subscribers. In April 2010, MTS launched the MTS Connect service for PrP subscribers. In addition to that, to improve its own position in the market, the Company continues the implementation of the program aimed at the regional customization of tariff plans that will be tailored as close as possible to customer profiles in certain territories.

The Company provides GSM 900/1800 and CDMA 450 services throughout the whole country. The number of CDMA subscribers as of the year end makes around 300 K.

## Ukraine: operating indicators



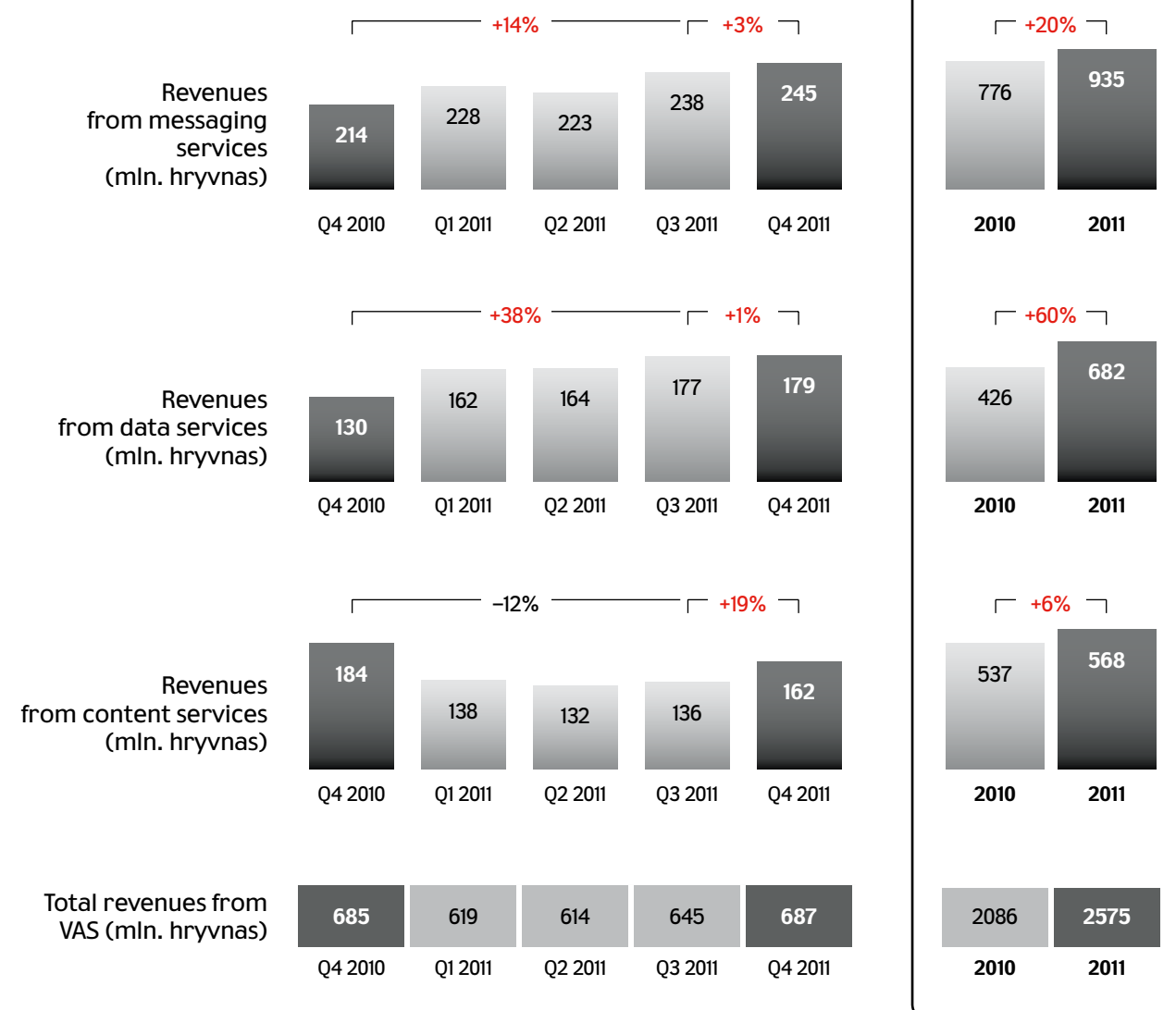
\* From Q1 2011 the indicator includes CDMA network subscribers

- **ARPU growth** quarter over quarter as a result of positive seasonal trends and continuous efforts aimed at monetization of the subscriber base
- Considerable **increase of communication services consumption** year over year stipulated by measures aimed at stimulation of subscribers' activity in order to increase their loyalty
- **Reduced churn** of the subscriber base year over year due to the company's efforts aimed at increasing subscribers' loyalty
- Seasonal factors and active new-year's promotions **positively affected profits** from VAS





## Ukraine: operating indicators



## Main initiatives in Q4 2011:

- Campaigns aimed at **promoting Good'OK** services
- **Launching new games** based on SMS and LBS services
- **Start of selling MTS 916** – the first branded smartphone on OS Android
- **Start of selling a tablet PC** under the MTS brand

## Uzbekistan

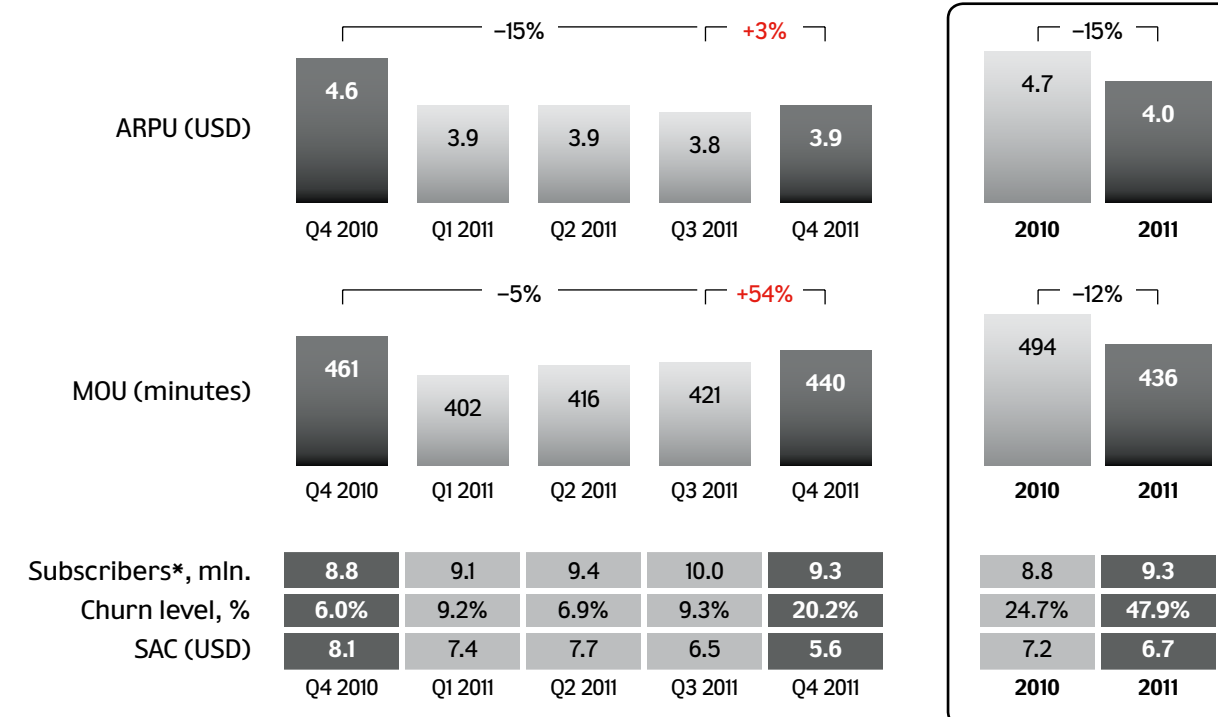
According to the Company's estimates, the service penetration during 2011 increased by 8.9 pp and reached 82.2% that is approximately 23.7 million customers.

MTS OJSC in Uzbekistan provides GSM 900/1800 and UMTS services. In addition to that the Company in July 2010 launched in Uzbekistan the first in CIS and the Central Asia commercial LTE network.

During the year the number of MTS OJSC customers increased by 2.9 million and by the end of the year reached 9.3 million that is 39.2% of the Uzbek market.

In spite of tough competition in the Uzbek market the Company intends to retain its leading positions by providing innovative services including broadband access to Internet.

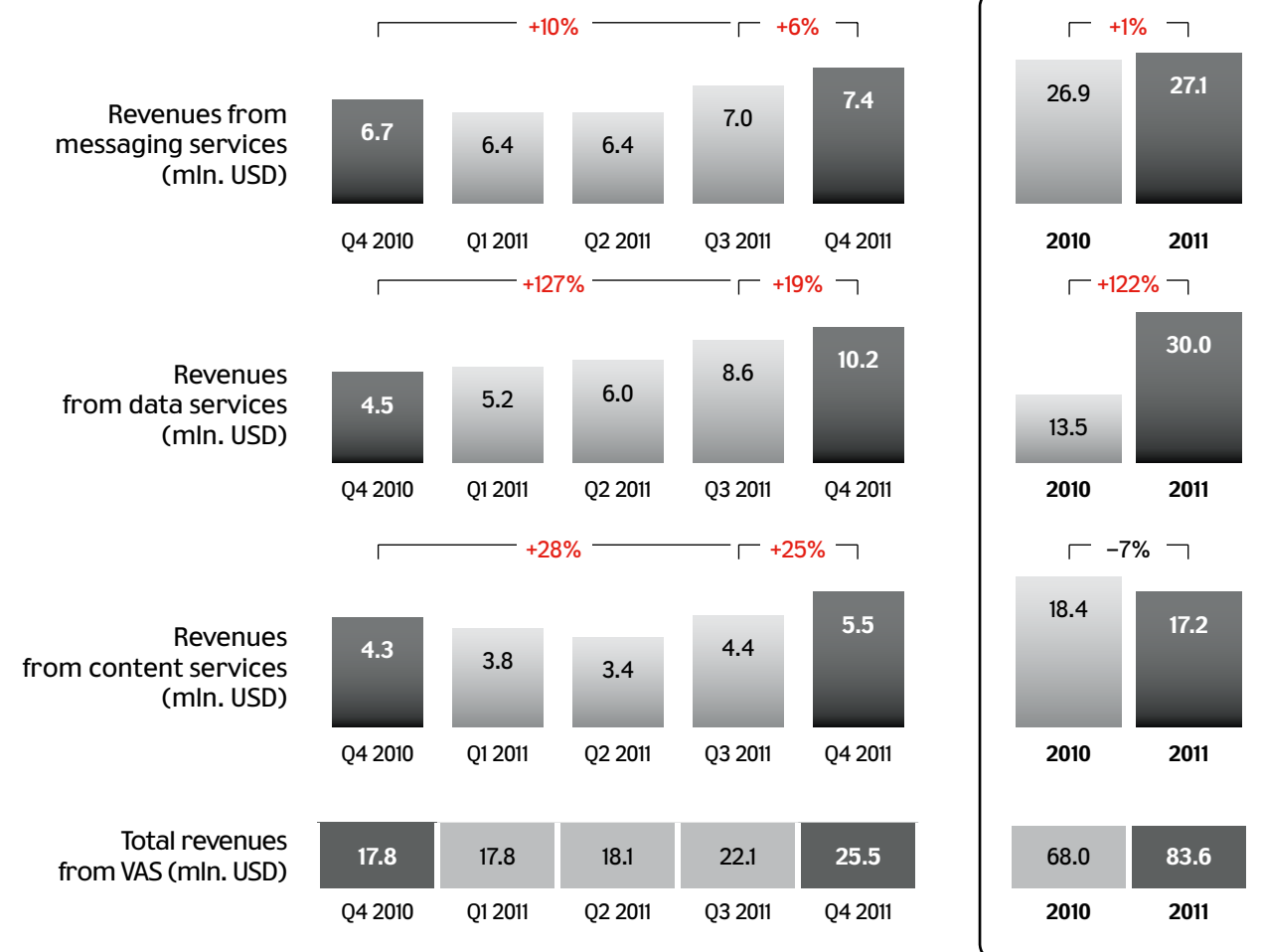
## Uzbekistan: operating indicators



- ARPU dynamics reflects dynamics of the subscriber base and is stipulated by availability of low-profit subscribers
- MOU dynamics year over year is stipulated by connection of subscribers with low conversational activity
- High level of churn in Q4 is related to one-off amendment of the subscriber accounting policy and change-over from the 6-month to the 3-month policy



## Uzbekistan: operating indicators



## Main initiatives in Q4 2011:

- **Start of 3,5 G-modem sales**
- **Reduction of price** for 3Gmodems with speed of up to 7.2 Mb/s
- **Launching** MMS service "MMS Pulse"
- **Unlimited mobile access** to social networks at a single tariff rate
- Changeover to daily payment for **Good'OK** service
- New-year's **SMS quiz**

## Armenia

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

According to the Company's estimates the service penetration in the country during 2011 increased by 4.8 pp and reached 116.4% that constitutes approximately 3.7 million customers. The number of MTS OJSC customers in

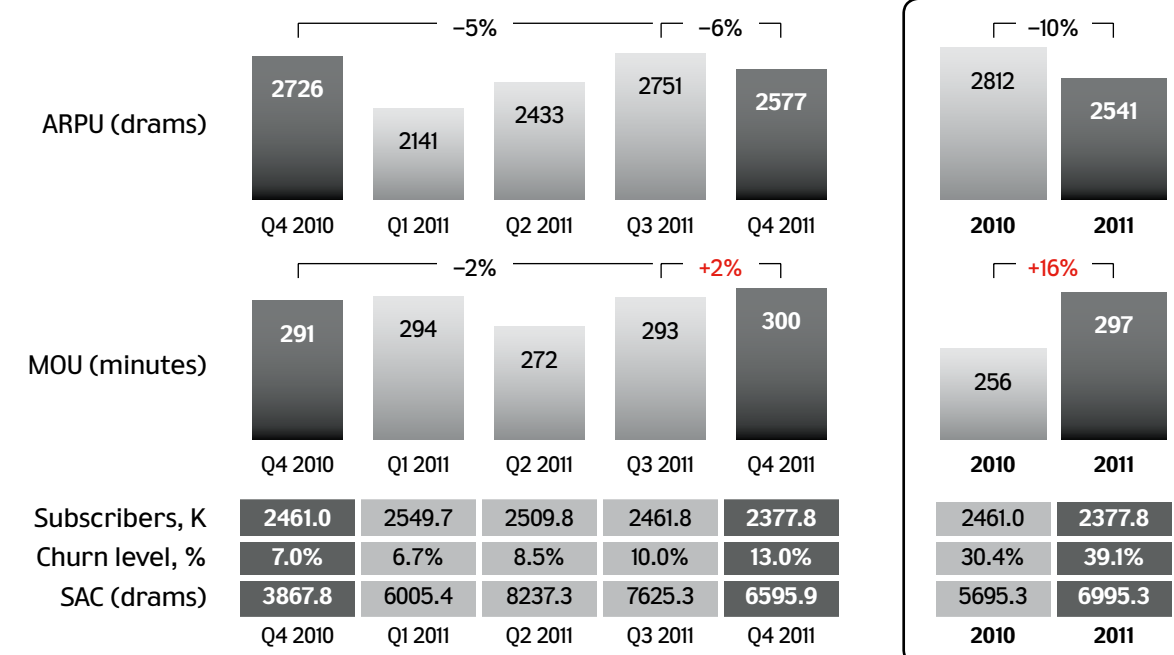
Armenia as of the year end was equal to 2.4 million (63.9% of the market).

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

VivaCell-MTS (MTS Armenia) and MTS Uzbekistan (both belonging to MTS Group) have carried out a successful testing of roaming services in their respective LTE networks and have signed the Memorandum of Understanding that sets targets for and responsibilities of operators in terms of implementation of reciprocal LTE roaming services.

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

## Armenia: operating indicators



- ARPU reduction in 2011 caused by growth of competition in the market and launching new tariffs for voice and data services
- **MOU growth** caused by launching rate planes aimed at stimulation of voice consumption in order to increase subscribers' loyalty
- High level of churn in Q4 caused by high level of competition





# 9 INFORMATION FOR SHAREHOLDERS AND INVESTORS



a step ahead



# 9. INFORMATION FOR SHAREHOLDERS AND INVESTORS

## Equity Capital. Issues of the Company's Shares

The equity capital of MTS OJSC as of December 31, 2011 was 206,641,356.20 RUR.

### Outstanding and authorized shares of MTS OJSC as of December 31, 2011

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

As of December 31, 2011 the registered shareholders of MTS OJSC had the following shares in the equity capital\*:

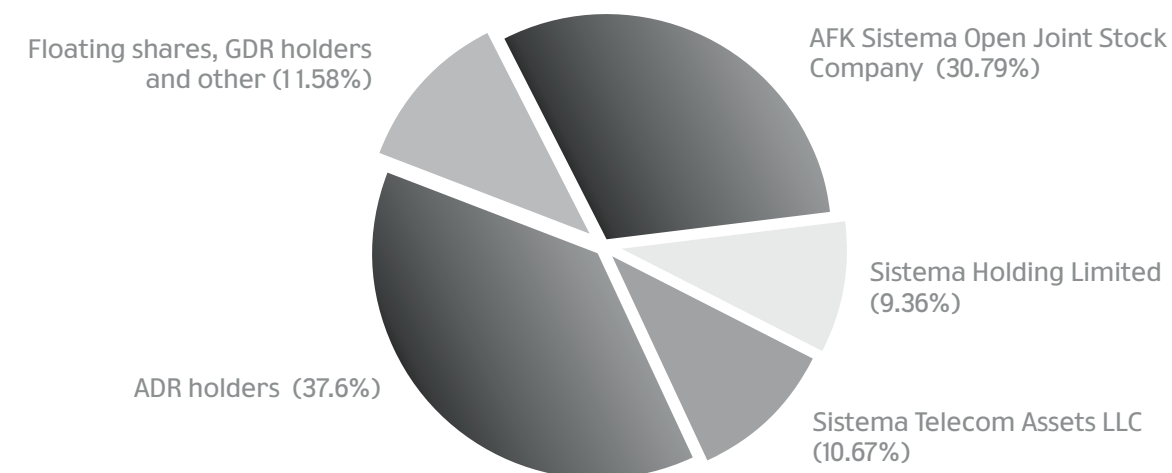
Joint Stock Financial Corporation Sistema Open Joint Stock Company	30.79%
Sistema Holding LIMITED**	9.36%
Sistema Telecom Assets Limited Liability Company **	10.67%
ADS Holders	37.6%
Free float, GDR Holders and others	11.58%

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

- MTS OJSC owns 3,240 voting shares;
- MGTS OJSC (subsidiary of MTS OJSC) owns 0.46% shares of MTS OJSC;
- MOBILE TELESYSTEMS BERMUDA Ltd. (subsidiary of MTS OJSC) holds 67,995,335 shares of MTS OJSC in the ADS form redeemed in the period of 2006–2008.

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

### MTS OJSC Shareholders as of December 31, 2011



### Information on Company's securities

#### Common shares

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

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

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

Trading floor	Stock ticker
NYSE, New York	MBT
MICEX, Moscow	MTSS

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

- [www.micex.ru](http://www.micex.ru)
- <http://finance.yahoo.com/q/hp?s=MBT>



MTS OJSC share prices and volumes at MICEX (RUR), 2011

MICEX	Price (RUR)
Minimum price per share	169.53
Maximum price per share	263.00
Average daily trading volume	1,226,379
Price as of December 31, 2011	183.18



Price and volume of ADR of MTS OJSC at NYSE (USD), 2011

NYSE	Price (USD)
Minimum price per share	11.91
Maximum price per share	21.54
Average daily trading volume	3,263,959
Price as of December 31, 2011	14.68





## American depositary receipts

On June 30, 2000 MTS successfully placed an issue of American Depositary Receipts (ADR), Level 3, on the New York Stock Exchange (NYSE: MBT). MTS OJSC became the second Russian company that implemented the highest level ADS program.

Since October 3, 2003, MTS shares have been traded as non-listed securities on the Moscow Interbank Currency Exchange. In December 2003 MTS shares were included in the MICEX Quotation List B. Since October 2010 MTS shares have been traded in the Quotation List A1.

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

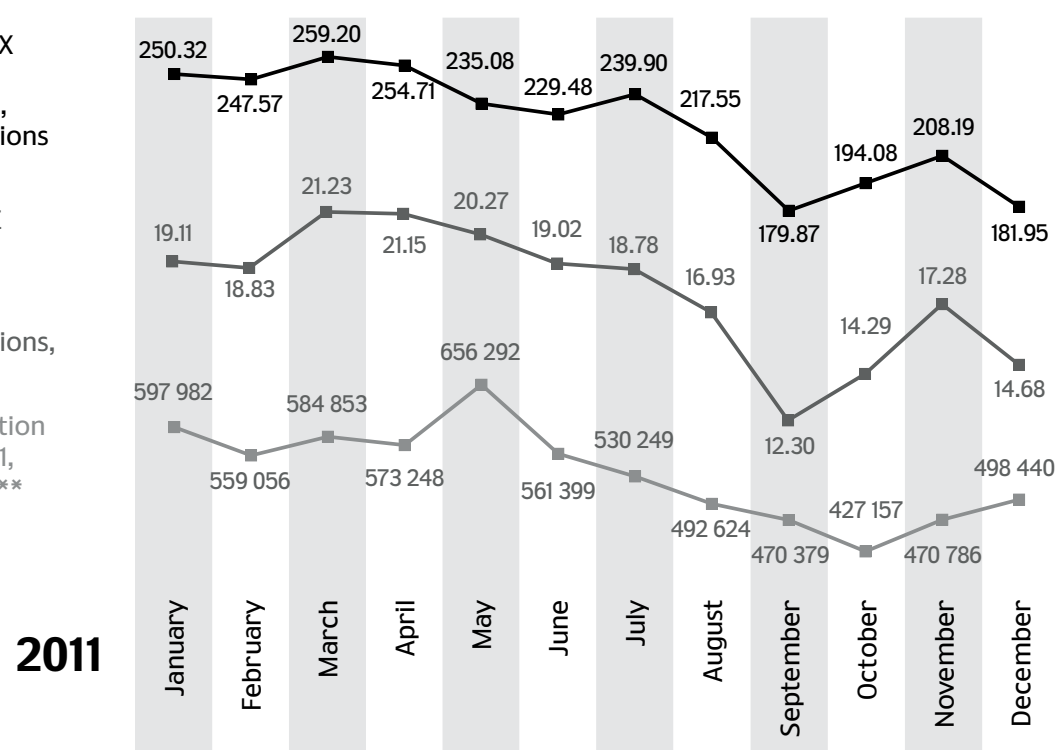
As of December 31, 2011 the total of 388,698,253 ADRs was issued for registered common shares (equal to 777,396,505 registered common shares)..

## Dynamics of MTS OJSC share prices, January 2011 – December 2011\*

Trading site: MICEX (Moscow), stock ticker MTSS, MTS share quotations (in RUR)\*

Trading site: NYSE (New York), stock ticker MBT, minimum, MTS share quotations, (in USD)\*\*

Market capitalization of MTS OJSC in 2011, mln. RUR (NYSE)\*\*\*



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

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

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

## Company bond issues

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

### Basic details of bond issues:

Issuer	Mobile TeleSystems Finance SA (Luxembourg)
Type of security	Eurobonds (144A/Reg S), secured by the Company
Coupon	8.00 % fixed, payable semi-annually
Issue price	99.736%
Currency of issue	US dollar
Amount of issue	400,000,000
Maturity date	January 28, 2012

Issuer	MTS International Funding Limited
Type of security	Eurobonds (144A/Reg S), secured by the Company
Coupon	8,625% fixed, payable semi-annually
Issue price	100%
Currency of issue	US dollar
Amount of issue	750,000,000
Maturity date	June 22, 2020

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

debt portfolio and implementation of the investment program.

In April of 2011 three bond issues of A, B, C series were placed for the total amount of 35,990,400 RUR by conversion of registered interest-bearing non-certificated inconvertible bonds of OJSC COMSTAR – United TeleSystems into registered interest-bearing non-certificated inconvertible bonds of MTS OJSC.

On May 10, 2011 MTS OJSC set a new coupon rate for the following coupon periods at 7.6% per annum that will be effective until the maturity date of Series 04 bonds.

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

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



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

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 04
Coupon	1,2 coupons – 16.75% per annum, 3-5 coupons – 7,6% per annum
Issue price	100%
Currency of issue	Ruble
Amount of issue	15 000 000 000
Date of placement	May 19, 2009
Maturity date	May 13, 2014
ISIN Reg No.	RU000A0JQ5E1
Offer	May 19, 2011

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

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

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

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Registered interest-bearing non-certificated inconvertible bonds, Series A
Coupon	10% of the Bond par value for entire trading period.
Issue price	100%
Currency of issue	Ruble
Amount of issue	11 991 600
Date of placement	April 01, 2011
Maturity date	November 29, 2015
ISIN Reg No.	4-09-04715-A
Offer	–

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Registered interest-bearing non-certificated inconvertible bonds, Series B
Coupon	8% of the Bond par value for entire trading period.
Issue price	100%
Currency of issue	Ruble
Amount of issue	11 998 800
Date of placement	April 01, 2011
Maturity date	August 21, 2016
ISIN Reg No.	4-10-04715-A
Offer	–

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Registered interest-bearing non-certificated inconvertible bonds, Series C
Coupon	5% of the Bond par value for entire trading period.
Issue price	100%
Currency of issue	Ruble
Amount of issue	12,000,000
Date of placement	April 01, 2011
Maturity date	June 28, 2022
ISIN Reg No.	4-11-04715-A
Offer	–

### Credit ratings of MTS issuer\*

Moody's	Ba2, stable forecast
S&P	BB, stable forecast
Fitch Ratings	BB+, stable forecast

\*data as of December 31, 2011

### Cooperation with Investors and Shareholders

One of the major objectives of the Company is maintaining strong and confidential relations with shareholders and investors based on principles of direct dialog in compliance with the existing legislation and prevalent world's practice.

MTS OJSC goes the extra mile to observe interests of investors and shareholders and to establish confidential relations of MTS with partners through enhanced transparency and openness of the Company's business.

In accordance with the principle of general availability, the Company publishes

announcements on major events at the website of the New York Stock Exchange.

Besides, MTS places data at its official website. The sections "To Investors and Shareholders" (<http://www.company.mts.ru/ir/>) and "Corporate Governance" (<http://www.company.mts.ru/ir/control/>) contain internal corporate documents, annual reports, materials for shareholders' meetings, data on the registrar and the auditor, data on the dividend policy, quarterly financial reports according to IAS and RAS, data on share and bond quotations. You may find more detailed information at the official website <http://www.mts.ru> in the





sections “To Investors and Shareholders” and “Corporate Governance”.

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

Publication of financial results following the results of quarterly reports is accompanied with teleconferences with participation of the MTS management. The published financial reports are supported with the presentation materials for better coverage of achieved results and presentation of the company’s strategy.

MTS strives to continuously improve cooperation with investors and shareholders, using

## Dividend policy

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

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

experience of other companies, tracking recent changes in the legislation and advanced standards in this area.

**In case issues arise that are related to the MTS business, investors may address to investor and shareholder relations offices.**

### Corporate Governance Department, MTS OJSC:

Maxim Kalinin (Corporate Governance Director).

Tel.: +7 (495) 911 6552. Fax: +7 (495) 911 6551.

E-mail: [kama@mts.ru](mailto:kama@mts.ru).

### Investor Relations Department:

Josh Tulgan (Department Director).

Tel.: +7 (495) 223 2025. Fax: +7 (495) 911 6567.

E-mail: [ir@mts.ru](mailto:ir@mts.ru).

meeting of MTS shareholders in the first half of the year.

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

The regulation “On the dividend policy” is placed at the official MTS OJSC website at the address: <http://www.company.mts.ru/ir/dividends/>.

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

Total amount of dividends accrued for MTS OJSC shares following the results of 2010 – 30 045 619 168 RUR.

Dividend amount per one share – 14.54 RUR.

Total amount of paid dividends following the results of 2010 – 30 045 619 168 RUR.

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

## 9. Information for Shareholders and Investors

### Dividend statistics, 2004 – 2010.

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

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

\*\* 75% of net profit of the company in 2009 according to US GAAP before a series of one-off write-offs or 99% of net profit of the company in 2009 according to US GAAP.

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

## Financial calendar 2012\*

### General meetings of shareholders

June 27, 2012 Annual general meeting of MTS OJSC shareholders

### Meetings of the Board of Directors

February 08, 2012  
 March 14, 2012  
 April 12, 2012  
 May 23, 2012  
 June 27, 2012 MTS OJSC Board of Directors  
 July 27, 2012  
 September 12, 2012  
 October 24, 2012  
 December 14, 2012

### Release of financial statements (Russian Accounting Standard)

March 30, 2012 Q4 (12 months) 2011  
 April 30, 2012 Q1 (3 months) 2012  
 July 30, 2012 Q2 (6 months) 2012  
 October 30, 2012 Q3 (9 months) 2012

### Release of financial statements (International Accounting Standards)

Q1 2012 Q4 (12 months) 2011  
 Q2 2012 Q1 (3 months) 2012  
 Q3 2012 Q2 (6 months) 2012  
 Q4 2012 Q3 (9 months) 2012

\* The dates may be adjusted



## MTS operations as reflected in ratings

Rating/Contest	MTS rating/contest nomination	Source
 <b>BRANDZ™</b>	<b>Top 100 world brands</b> <b>BRANDZ™ rating</b>	80 Financial Times, May 09, 2011 Millward Brown agency
	<b>Time of Innovations Award</b>	Winner in the nomination "Discovery of the Year", category "IT and telecommunications" The Fund "Social Projects and Programmes" supported by the Ministry of Economic Development of the Russian Federation, the Ministry of Telecom and Mass Communications of the Russian Federation, the Federal State Budget Institution "Russian Power Agency", the Ministry of Energy of Russia and the Non-Commercial Partnership "Innovations in Power Engineering". (December 15, 2011)
	<b>Corporate Governance Rating GAMMA</b>	MTS OJSC was assigned the rating of corporate governance GAMMA-7 Service of Corporate Governance Ratings, Standard & Poor's (April 04, 2011)
	<b>HR-Brand 2011 Award</b>	Winner in the HR management area HeadHunter Group of Companies (March 02, 2012)
	<b>VI National Award "Director of the Year"</b>	Winner in the nomination "Independent Director" (Paul Ostling) Association of Independent Directors supported by PricewaterhouseCoopers and The Russian Union of Industrialists and Entrepreneurs (RSPP). (November 22, 2011)
	<b>XIV Annual Federal Contest of Annual Reports</b>	Winner in the nomination: "Best annual report in the telecommunications sector of economy" In 2011 MICEX CJSC and RTS OJSC jointly held the annual Contest of Annual Reports (November 18, 2011)
	<b>XIV Annual Contest of Annual Reports and Sites «Рынок цен</b>	Honoree in the nomination "Best Interactive Annual Report" 2 <sup>nd</sup> place The Magazine "Stock Market" and social network Investor.ru supported by the Federal Financial Markets Service of Russia (November 17, 2011)
		





# 10 CORPORATE GOVERNANCE



a step ahead

# 10. CORPORATE GOVERNANCE

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

## The principal features of corporate governance for MTS are:

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

The Company aspires to meet international standards of corporate governance. We comply with the Code of Ethics and Code of Corporate Conduct, which set out a number of important principles aimed at both directors and executives of the Company (detailed information on compliance with the Code of Corporate Conduct is set out in the Annex 1). MTS fully complies with statutory requirements regarding prescribed procedures for major and related-party transactions (detailed information on compliance with transaction approval procedures is set out in the Annex 2).

The Company has corporate bylaws governing the activities of management and control bodies. You can study these provisions at

## 10. Corporate governance

<http://www.company.mts.ru/ir/control/regulations/>.

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

The Company constantly strives to improve our corporate governance, drawing on the experience of other companies, following recent legislative changes and progressive standards in this area, and adjusting our corporate governance system accordingly. To improve our corporate governance system, during the reporting year we approved amendments to the Charter of MTS OJSC and Regulations of MTS OJSC General Shareholders Meeting. The necessity to approve these documents, as amended, was caused by changes in the Law "On Joint-Stock Companies".

MTS OJSC discloses information in the form of an Annual Report, quarterly reports, lists of affiliated entities, material facts affecting the financing and operating activities of the Company.

## Corporate Governance Structure

The highest management body of the Company is the General Shareholders Meeting.

The Board of Directors carries out overall management of the Company's activity and determines the Company's development strategy.

The management bodies of the Company, i.e. the Management Board (collective

For the purposes to comply with requirements of the Federal Law dated July 27, 2010 No. 224-FZ "On resistance to illegal usage of insider data and market manipulation and on amendments to certain legal acts of the Russian Federation":

- the list of MTS OJSC insider data has been approved, which is published at the official MTS OJSC website ([http://www.company.mts.ru/ir/control/data/insider\\_information/5/](http://www.company.mts.ru/ir/control/data/insider_information/5/));
- the Company keeps a list of insiders. All amendments in the list of insiders are forwarded to MICEX-RTS;
- The decision of the Board of Directors approved the Regulation on principles and procedures related to prevention of deals with usage of insider data as amended..

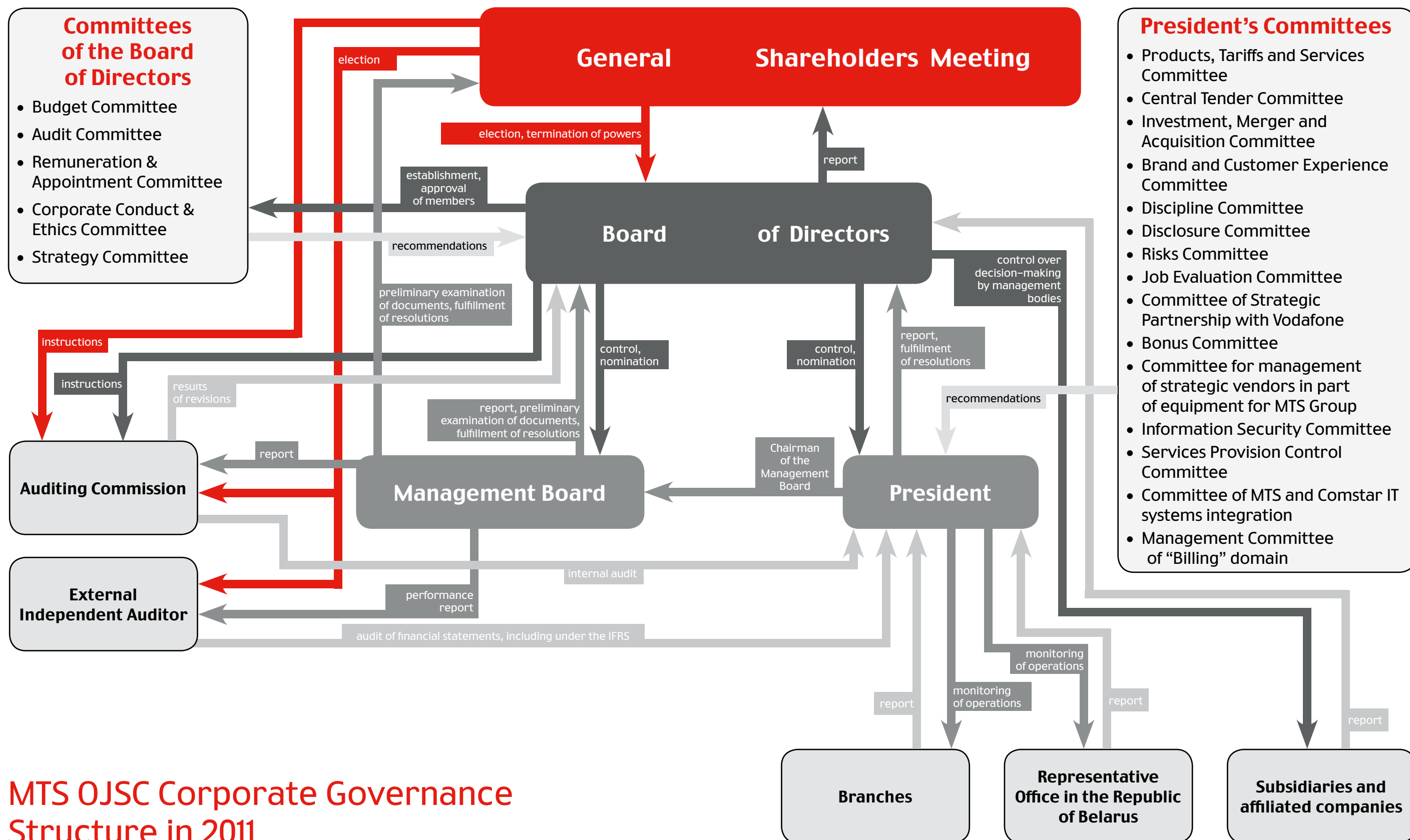
To ensure information transparency, the Company adopted the Regulations of Information Policy that are placed on MTS OJSC site at: [http://www.company.mts.ru/ir/control/regulations/disclosure\\_policy/](http://www.company.mts.ru/ir/control/regulations/disclosure_policy/).

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

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







MTS OJSC Corporate Governance Structure in 2011

## General Shareholders Meeting

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

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

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

Shareholders that own at least 2% of the Company's voting shares are entitled to offer proposals for the General Shareholders Meeting agenda and to nominate candidates for the management and control bodies of the Company. Proposals for the Annual General Shareholders Meeting agenda are accepted by the Company in writing not later than 100 days upon completion of the financial year. Received proposals of shareholders are considered by the Board of Directors of the Company, and

if proposals comply with legislative requirements, they are included into the agenda of the general shareholders meeting.

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

Besides, each shareholder may also personally (or via an authorized representative) attend General Shareholders Meetings and vote on agenda issues directly at the meeting.

In 2011 the annual general shareholders meeting was held (June 27, 2011).

The agenda of the Annual General Shareholders Meeting on June 27, 2011 included the following items:

1. Approval of MTS OJSC Annual Report, MTS OJSC Annual Financial Statements, including MTS OJSC Profit & Loss Report, distribution of MTS OJSC profit and losses based on FY 2010 results (including the payment of dividends).
2. Election of members of MTS OJSC Board of Directors.

3. Election of members of MTS OJSC Auditing Commission.
4. Approval of MTS OJSC auditor.
5. Approval of MTS OJSC Charter, as amended.
6. Participation of MTS OJSC in LTE Union of Telecommunications Providers.

## Board of Directors

**MTS OJSC Board of Directors is a key element of the Company's corporate governance system.**

The Board of Directors represents the interests of shareholders and is responsible for the rise in business value by organizing efficient management.

The Board of Directors carries out overall management of the Company's activity, except for addressing issues within the purview of the General Shareholders Meeting.

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

- development and analysis of the corporate-wide strategy and control over its implementation;
- ensuring that the activities of the Company's executive bodies and top executives are controlled and assessed;
- increasing the Company's capitalization, strengthening its market positions, achieving and retaining the Company's competitive advantage;
- maintaining a good financial standing, increasing income and profitability;
- protection of rights and legitimate interests of the Company's shareholders.

Members of the Board of Directors of the Company are elected by the General Shareholders Meeting for a term lasting until the

next Annual General Shareholders Meeting. The members of the Board of Directors are elected by cumulative voting at a General Shareholders Meeting.

Resolutions of the Company's Board of Directors are adopted by majority of votes of directors present at the meeting, save as otherwise provided for by the Charter and law. Each member of the Board of Directors has only one vote in decision-making at the Board of Directors meeting.

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

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

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

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

An unscheduled meeting is called within 15 days following the request of conducting such meeting.

\* Minutes of the shareholders meeting are placed at the following address: [http://www.company.mts.ru/ir/control/shareholders\\_meetings/resolution/](http://www.company.mts.ru/ir/control/shareholders_meetings/resolution/).

Materials for the shareholders meetings are placed at the following address: [http://www.company.mts.ru/ir/control/shareholders\\_meetings/materials/](http://www.company.mts.ru/ir/control/shareholders_meetings/materials/).





## Members of Board of Directors

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

In accordance with the global standards of corporate governance and provisions of the Company's corporate documents, the Company is interested that the Board of Directors includes at least three independent directors. Criteria of independence of a member of the Board of Directors are set forth in the Regulations of MTS OJSC Board of Directors (you can find these regulations at: <http://www.company.mts.ru/ir/control/regulations/>) and are in line with the best global corporate governance practice.

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

The Board of Directors was elected at the Annual General Meeting of Shareholders of MTS OJSC held on June 27, 2011, with a term commencing upon election and lasting through 2011.



**Ron Sommer**  
Chairman of the Board  
of Directors

Born in 1949.

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

From May 1995 to July 2002, Mr. Sommer was Chairman of the Management Board of Deutsche Telekom AG. In 2003 Mr. Sommer was elected Chairman of the International Advisory Board at AFK Sistema OJSC.

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

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

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



**Alexey Nikolaevich Buyanov**  
Deputy Chairman of the Board  
of Directors

Born in 1969.

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

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

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

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

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



**Anton Vladimirovich Abugov**  
member of the Board  
of Directors

Born in 1976.

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

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

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

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

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



**Charles Dunstone**  
member of the Board  
of Directors

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

Born in 1964.

Mr. Dunstone graduated from the Liverpool University.

Since March 2010, he has served as the Chairman of the Board of Directors of TalkTalk and Carphone Warehouse.

He co-founded Carphone Warehouse в 1989 and served as the CEO of the company until 2010.

He founded TalkTalk in 2003 and served as the CEO of the Company until 2010.

Currently, Mr. Dunstone is a member of the Board of Directors of Best Buy Europe Distributions Limited, The Daily Mail and General Trust, Clareville Capital Partners LLP and some other companies. He previously served on the Board of Directors of Halifax Bank of Scotland.

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



**Andrey Anatolyevich Dubovskov**  
member of the Board  
of Directors

Born in 1966.

In 1993 graduated from the All-Russian State Institute of Cinematography named after S.A. Gerasimov, specialty – director.

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

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

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

Currently is the member of the management bodies of JLLC Mobile TeleSystems, PrJSC MTS Ukraine, International Cell Holding LTD.

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



**Felix Vladimirovich Yevtoushenkov**  
member of the Board  
of Directors

Born in 1978.

Graduated from the Institute of International Law and Economy named after A.S. Griboedov, specialty – law.

In 1999–2000 – the assistant to the president of CJSC Sistema-Invest, the executive director of the industry department in Joint Stock Financial Corporation Sistema.

Since 2000 – the deputy general director, the manager of the strategy and marketing department, Sistema-Gals OJSC.

Headed the company Sistema-Gals OJSC from 2003 to 2008.

From 2008–2009 – the Chairman of the Board of Directors of Sistema-Gals OJSC, from 2009–2010 – the Member of the Board of Directors of Sistema-Gals OJSC.

In 2008 – 2011 – the Vice President of the Joint Stock Financial Corporation Sistema, the Manager of the Business Unit “Consumer Assets”.

In April 2011 was assigned as the First Vice President of the Joint Stock Financial Corporation Sistema, the manager of the Business Unit “Basic Assets”, the member of the Management Board.

Currently is the member of the management bodies of Oil Company Russneft OJSC, Aviation Oil Company Bashneft OJSC, SISTEMA SHYAM TELESERVICES LIMITED and other companies

During the reporting year the member of the Boards of Directors did not own any MTS OJSC shares.



**Stanley Miller**  
member of the Board  
of Directors

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

Born in 1958.

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

From 1998 to 2010, he served in a number of top leadership positions at KPN (the Netherlands), including the CEO of KPN Mobile International, the CEO and Chairman of the Supervisory Board of E-Plus, the CEO and the Chairman of the Board of Directors of BASE in Belgium. From 1991 to 1997, Mr. Miller headed operating and corporate governance at Ne-tHold Group companies, including he served as the CEO of Telepiu, Italy. Prior to that, he served as the CEO of Electronic Media Network in South Africa and the Netherlands.

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

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





**Paul James Ostling**  
member of the Board  
of Directors

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

Born in 1948.

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

From 2003 to 2007 he was the Chief Operating Officer (COO) of Ernst & Young. Prior to that he held a number of other management positions at Ernst & Young: Global Executive Partner from 1994 to 2003, Vice Chairman and National Director of Human Resources from 1985 to 1994, and associate and assistant general counsel from 1977 to 1985.

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

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

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

Since 2007 Mr. Ostling has been Deputy Chairman of the Board of Directors of Cool nrg. PTY, in the period of 2007–2011 – the member of the Board of Directors of Promsviyazbank OJSC, and since 2011 – the member of the Board of Directors of East Line – Domodedovo (DME Limited), Uralkali OJSC.

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



**Mikhail Valeryevich Shamolin**  
member of the Board  
of Directors

Born in 1970.

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

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

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

The powers of MTS OJSC M.V. Shamolin were terminated early by resolution of MTS OJSC Board of Directors on March 04, 2011.

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

Mr. Shamolin is the member of the Board of Directors of Medsi Group of Companies CJSC, the member of the Board of Directors of AFK Sistema OJSC, Aviation Oil Company Bashneft OJSC and other companies.

The member of the Board of Directors held 174,890 common registered shares of MTS OJSC during the reporting period (until December 20, 2011).

#### Members of the Company's Board of Directors prior to the Annual General Meeting of Shareholders in 2011:

- Ron Sommer (Chairman), b. 1949
- Alexey Nikolaevich Buyanov (Deputy Chairman), b. 1969
- Anton Vladimirovich Abugov, b. 1976
- Charles Dunstone, b. 1964
- Sergey Alexeevich Drozdov, b. 1970
- Tatiana Vladimirovna Yevtoushenkova, b. 1976
- Stanley Miller, b. 1948
- Paul James Ostling, b. 1948
- Mikhail Valerievich Shamolin, b. 1970

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

During the last year of 2011, the Board of Directors held 18 meetings. In preparing and making decisions, MTS OJSC Board of Directors strived to take into account the interests of shareholders, the Company's employees, partners, creditors, local communities and other interested groups of the society.

#### Directors' attendance at Board meetings in 2011

Director	Meetings in praesentia	Meetings in absentia
Ron Sommer <sup>1</sup>	11	7
Alexey Nikolaevich Buyanov <sup>1</sup>	10	7
Anton Vladimirovich Abugov <sup>1</sup>	11	7
Charles Dunstone <sup>1</sup>	10	7

Sergey Alexeevich Drozdov <sup>2</sup>	5	3
Andrey Anatolyevich Duboskov <sup>1</sup>	5	4
Tatiana Vladimirovna Yevtoushenkova <sup>2</sup>	5	3
Felix Vladimirovich Yevtoushenkov <sup>1</sup>	3	4
Stanley Miller <sup>1</sup>	11	7
Paul Ostling <sup>1</sup>	11	7
Mikhail Valerievich Shamolin <sup>1</sup>	11	7

<sup>1</sup> Joined the Board of Directors elected at the Annual General Shareholders Meeting on June 27, 2011

<sup>2</sup> Did not join the Board of Directors elected at the Annual General Shareholders Meeting on June 27, 2011

#### Secretary of MTS OJSC Board of Directors

The main objective of the Secretary of MTS OJSC Board of Directors is to ensure that the Company's management bodies comply with the requirements of law and the Company's bylaws guarantying that the rights and interests of its shareholders are exercised.

The normative basis for the Secretary of MTS OJSC Board of Directors to perform his functions is, in addition to the Charter, the Regulations of MTS OJSC Board of Directors approved at the Annual General Meeting of MTS OJSC Shareholders on June 25, 2009.

Since 2006 and until now the powers of the Secretary of MTS OJSC Board of Directors have been performed by Maxim Alexandrovich Kalinin, the Director of Corporate Governance, MTS OJSC.

In 2011 Director for corporate governance of MTS OJSC Maxim Kalinin became member of the



Expert Counsel of professional society of corporate governance directors VI of the National award "Director of the year", was elected the member of the Board of Directors of the Russian public organization National association of corporate secretaries (NOKS), and was nominated for the award in the area of management Aristos-2011 ("Best corporate governance director" nomination).

## On Expert Council of National Award "Director of the Year"

The Expert Council invites representatives of the government and international organizations, as well as companies with high business standards.

To establish the Expert Council, the Organizational Committee forwards invitations to reputable representatives of the business community, state authorities and experts, who share values and principles of corporate governance. Inclusion into the Expert Council takes place upon approval of all individuals, who received invitations.

The Expert Council of the Award selects winners in all nominations of the Award on the basis of competent and objective assessment of all participant nominees by voting in absentia on nominee candidacies.

## About the Award

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

## Main issues considered by the Board of Directors in 2011

1. On early termination of powers of the MTS OJSC President and on election of the MTS OJSC President
2. On approval of terms of the labour agreement (contract) with the MTS OJSC President (including approval of KPIs and individual objectives of the MTS OJSC President for 2011).
3. On early termination of powers of the members of the Management Board of MTS OJSC
4. On approval of candidacies for replacement of positions of higher officials directly reporting to the President of MTS OJSC.
5. On approval of an Indemnification Agreement, being a transaction of interest.
6. On approval of the report on the results of MTS OJSC shareholders laying claims on redemption of MTS OJSC shares that they own.
7. Report on results of MTS OJSC and COMSTAR-UTS integration.
8. On approval of candidacies to be nominated to the Boards of Directors (Supervisory Boards) and auditing commissions of foreign subsidiaries.
9. On approval of the MTS OJSC programme for development of the commercial secret security mode for 2011-2012.
10. On approval of the organizational structure of MTS OJSC in the form of a list of main structural divisions of MTS OJSC directly reporting to the President of MTS OJSC.
11. On election of the members of the collective executive board (the Management Board) of MTS OJSC, identification of the quantitative composition of the MTS OJSC Management Board and approval of agreements signed with the members of the Management Board of MTS OJSC.
12. On overlapping positions of the members of the MTS OJSC Management Board in management bodies of other organizations.

13. On identification of the MTS OJSC position on issues of MTS OJSC representatives participation in voting and voting on agenda items of the management bodies of subsidiary and affiliated companies of MTS OJSC.

14. Report on compliance with the budget of the MTS Group and CAPEX programme in 2010, and also on current forecast of 2011 budget compliance.

15. On results of synergies from purchasing Evrotel OJSC in 2010.

16. Report of risks management in OJSC MTS.

17. On considering shareholders' proposals to the agenda of the Annual General Meeting of MTS OJSC Shareholders.

18. On inclusion of candidates nominated by shareholders into the list of candidacies for voting in elections into the Board of Directors of MTS OJSC and the Auditing Commission of MTS OJSC at the annual general meeting of MTS OJSC Shareholders.

19. On candidacy of the MTS OJSC auditor for 2011.

20. On dividend policy of MTS OJSC.

21. On recommendations by the Board of Directors for payment of MTS OJSC dividends.

22. On calling the annual general meeting of MTS OJSC shareholders.

23. On overlapping positions of the MTS OJSC Management Board in management bodies of other organizations.

24. On participation of MTS OJSC in other organizations.

25. On liquidation of the Ad-Hoc Committee at the Board of Directors of MTS OJSC.

26. On approval of Regulations on MTS OJSC branches.

27. Report of the Audit Committee on operation of internal monitoring and audit divisions of MTS OJSC, including the report on efficiency of the risks management system in MTS OJSC for 2010.

28. On programme of preparation for compliance with the British law "On bribery".

29. On preliminary approval of the Annual Report of MTS OJSC for 2010, the annual accounting statements, auditors' and auditing commission's report.

30. On materials provided to shareholders during preparation for the Annual General Meeting of MTS OJSC Shareholders.

31. On election of the Chairman and the Deputy Chairman of the MTS OJSC Board of Directors.

32. On appointment of the Secretary of the Board of Directors of MTS OJSC.

33. On establishment of committees at the Board of Directors of MTS OJSC.

34. On identification of status of the members of the Board of Directors of MTS OJSC.

35. Report on status and plans for Corporate Social Responsibility for 2011-2012 (including data on participation of MTS OJSC in the charity programme "Lift to the future").

36. On establishment of the special committee at the Board of Directors of MTS OJSC.

37. On strategy of MTS OJSC: results of strategic sessions.

38. On determination of the auditors' services payment amount.

39. Report on compliance with MTS Group budget and CAPEX programme for the 1st half of 2011, and also on current forecast of 2011 budget compliance.

40. Report of the Audit Committee on operation of internal control and audit divisions of MTS OJSC, including the report on efficiency of the risks management system in MTS OJSC for the 1st half of 2011.

41. Making a decision on placement of MTS OJSC securities (bonds, Series 09, 10, 11, 12).

42. On approval of the Decision on issue of securities of MTS OJSC (bonds, Series 09, 10, 11, 12).

43. On approval of Listing Prospectus of MTS OJSC (bonds, Series 09, bonds, Series 10, bonds, Series 11 and bonds, Series 12).



44. On approval of the MTS Group strategy for 2012–2014.

45. On approval of the work schedule of the Board of Directors of MTS OJSC for 2012.

46. On Approval of the Regulations on the Corporate Conduct and Ethics Committee, as amended.

47. On approval of the Business Conduct and Ethics Code of MTS OJSC, as amended.

48. On approval of the Regulations on principles and procedures related to prevention of deals with usage of insider information of MTS OJSC, as amended.

49. On approval of a major transaction.

50. On approval of transactions exceeding 100 mln. USD in price.

51. On approval of related-party transactions.

52. and other issues.

## Information on remuneration of members of Board of Directors

The conditions of, and procedure for payment of remuneration to members of the Board of Directors of MTS OJSC are set out in the Regulations of Remunerations and Compensations Payable to the Members of the Board of Directors of MTS OJSC, a document approved by the General Meeting of MTS OJSC Shareholders (you can study these Regulations at: [http://www.company.mts.ru/ir/control/regulations/bod\\_compensation/](http://www.company.mts.ru/ir/control/regulations/bod_compensation/)).

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

In accordance with the Regulations, members of the Board of Directors of MTS OJSC, during their term of office, receive remuneration and are compensated for expenses

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

### Members of the Company's Board of Directors receive remuneration in three forms:

- **Basic remuneration**

The basic remuneration is paid in money for the performance of duties as member of the Company's Board of Directors during the corporate year and does not depend on the number of meetings the Director attended.

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

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

The basic remuneration is paid by the Company quarterly at least with 30 days after the quarter end, on the basis of an office memo that must be provided by the Corporate Secretary of the Company (a person performing the duties of Corporate Secretary), and an extract

from the minutes of the general shareholders meeting of the Company regarding the election of members of the Board of Directors. The amount of quarterly remuneration is equal to ¼ of the basic remuneration, and if the powers of a Board member arise after the beginning of the reporting period, to a part of the quarterly payment pro rata to the actual period of office.

- **Remuneration for performing additional duties**

Members of the Board of Directors receive additional remuneration for performing duties associated with work on committees of the Board of Directors:

- for work on mandatory committees of the Board of Directors: as Committee Chairman – \$25,000 per annum, as Committee member – \$15,000 per annum (for participation in each of committees);
- for work in other committees of the Board of Directors: as Committee Chairman – \$10,000 per annum, as Committee member – \$5,000 per annum (for participation in each of committees);
- for work on ad hoc committees of the Board of Directors: as Committee Chairman – \$25,000 per annum, as Committee member – \$20,000 per annum (for participation in each of committees).

The remuneration for performing additional duties is paid by the Company quarterly, in equal installments, at least within 30 days after the quarter end, on the basis of an office memo that must be provided by the Corporate Secretary of the Company (a person performing the duties of Corporate Secretary) and contain the number of Committees of the Board of Directors in which each of Directors participates, and an abstract from the minutes of the Board meeting that reflects the assignment of responsibilities between members of committees of the Board

of Directors. In case of early termination of powers, the remuneration is paid in the amount proportional to the actual period of office of the Director during the corporate year.

- **Performance-based annual bonus**

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

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

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

where: S is the bonus amount;

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

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

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

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

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

**Total amount of remuneration paid to the members of the Board of Directors in 2011: RUB 41,881,087.25.**



## Directors and Officers Insurance of MTS Group of companies

Limit of coverage of civil liability of members of the Board of Directors of MTS OJSC under concluded contracts:

Insurance period	Responsibility limit (USD)
September 2006 to September 2007	USD 100 million
October 2007 to October 2008	USD 195 million
October 2008 to October 2009	USD 250 million
October 2009 to October 2010	USD 250 million
October 2010 to October 2011	USD 250 million
October 2011 to October 2012	USD 250 million

## D&O policy purpose

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

- Recovery of Officials’ losses in connection with suits or claims filed with them for their actions/failures to act when holding the office and performing their job duties;
- Compensation of Officials’ expenses for lawyers and judicial defense in connection with the above risks or claims;
- Recovery of damage caused to claimants by actions/failures to act of the Officials (in case the claim has been satisfied by court);
- Recovery of MTS OJSC losses on claims related to securities (excluding claims related to IPO of American depositary receipts).

## Assessment of performance of the Board of Directors

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

In 2011, the performance of the Board of Directors was assessed based on the existing assessment system using the questionnaire survey method. In the course of questioning, members of the Board of Directors were asked above 30 questions, opinion was given according to a four-point grading scale. The questions dealt mainly with the procedure of work, planning and organization of activities of the Board of Directors and Committees.

Summarizing the results of questionnaires, summary information was prepared containing the results with respect to all analyzed criteria, priority areas were identified that should be improved, and a plan of measures was developed to improve standards and procedures of MTS OJSC Board of Directors and Committees.

Maximum score was received as answers to the following questions:

- Compliance of the quantitative composition of the Board of Directors with the Company’s needs;
- Competence of the Board of Directors in the field of corporate governance;
- Efficient work of the Board of Directors Chairman;
- Competence of the Board of Directors for efficient strategic management of the company;
- Regularity of reviewing issues related to financial situation and financial statements at the Board of Directors meetings;

- Possibility of contacts with the Company’s management in the intervals between the Board of Directors meetings and obtaining additional data;
- Work of the Corporate Secretary related to organization of work of the Board and its Committees.

## Committees of Board of Directors

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

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

Besides, due to the necessity of monitoring the transaction related to the acquisition of stake in the charter capital of the Closed Joint Stock Company Sistema–Inventure by MTS OJSC/subsidiary (subsidiaries) of MTS OJSC, on June 27, 2011 an Ad Hoc Committee of Independent Directors was established at the Board of Directors of MTS OJSC on the project of participation in Sistema–Inventure CJSC. In connection with completion of the project of acquiring shares of Sistema–Inventure CJSC and with account of completed analysis of practical operation of the Ad Hoc Committee on December 15, 2011 the Board of Directors of MTS made a decision to abolish the Ad Hoc Committee and to terminate powers of its members.

- Work of the Corporate Conduct and Ethics Committee.

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

In connection with completion of the project of acquiring stakes in the chartered capital of LLC System of telecommunications, information technology and communications by MTS OJSC and with account of the completed analysis of practical operation of the Ad Hoc Committee of Independent Directors on the project of acquiring stakes in the chartered capital of LLC Sistema Telecom, on April 14, 2011 the Board of Directors of MTS made a decision to abolish the Ad Hoc Committee and to terminate powers of its members.

Please find below the information on composition of committees of the Board of Directors of MTS OJSC as of December 31, 2011.

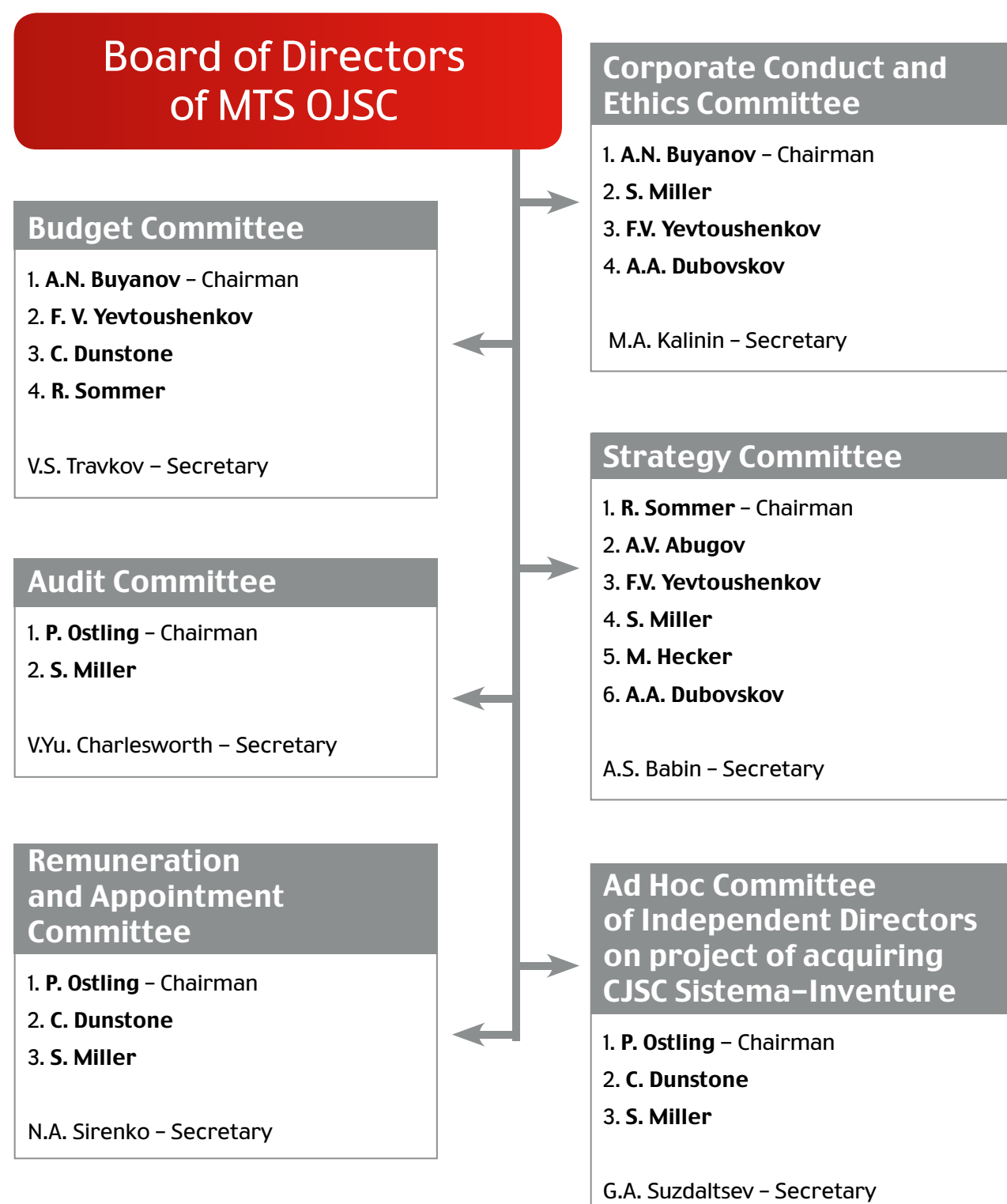
Composition of Committees of MTS OJSC Board of Directors before the Annual General Shareholders’ Meeting in 2011::

- **Budget Committee:** A.N. Buyanov (Chairman), C. Dunstone, T.V. Yevtoushenkova, R. Sommer
- **Audit Committee:** P. Ostling (Chairman), S. Miller
- **Remuneration & Appointment Committee:** P. Ostling (Chairman), C. Dunstone, S. Miller
- **Committee for Corporate Conduct and Ethics:** S.A. Drozdov (Chairman), S. Miller, T.V. Yevtoushenkova, M.V. Shamolin
- **Strategy Committee:** R. Sommer (Chairman), A.V. Abugov, T.V. Yevtoushenkova, S. Miller, M. Hecker, M.V. Shamolin.





Composition of committees of the Board of Directors of MTS OJSC as of December 31, 2011:



Powers of Committees and their activities during reporting year

#### ● Budget Committee

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

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

- Adjustment of MTS Group budget in 2011;
- Investment programme of MTS for 2011–2012;
- MTS budget project for 2012;
- Signature of a contract of guarantee between MTS and Deutsche Bank;
- and other.

#### ● Audit Committee

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

During the reporting period the Committee met several times and made decisions on such important issues as:

- Discussion of the draft report on MTS OJSC financial and operating results in Q4 2010 and 2010;
- Discussion of the financial results (Deloitte review for 2010);
- Selection of an auditor to carry out audit in 2011;

- Review and approval of the results of the assessment of risk management and internal control systems in 2010 ;
- Discussion and pre-approval of the Annual Report according to the Form 20-F;
- Discussion of the draft report on financial and operating results of MTS for Q1 2011;
- and other.

#### ● Remuneration & Appointment Committee

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

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

- Early termination of MTS President powers;
- Approval of a candidate for the job of the MTS President;
- Approval of a candidate for the job of the Procurement Director;
- MTS President's KPIs and individual objectives approval for 2011;
- Discussing the HR Strategy and key HR initiatives for 2011;
- Pre-approval of candidates nominated for the Company's Board of Directors and Auditing Commission;
- On changes in the Management Board of MTS;
- and other.



### ● Corporate Conduct & Ethics Committee

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

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

**During the reporting period the Committee met several times and made decisions on such important issues as:**

- Review of the Report on Evaluation of Performance of MTS OJSC Board of Directors;
- Pre-consideration of candidacies to be nominated to the Boards of Directors and Auditing Commissions of foreign subsidiaries;
- On issues related to activity of the Discipline Committee in part of considering breaches of Business Conduct and Ethics Code, ethical conflicts, results of completed inspections on messages from employees on unethical conduct from the side of MTS employees;
- On consideration of a new revision of the Business Conduct and Ethics Code of MTS.

### ● Strategy Committee

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

**During the reporting period the Committee held one meeting and made decisions on the issue:**

- Report on the implementation of MTS OJSC key functional strategies in 2010;
- Key functional strategies for 2011;
- Change of regulatory environment and its influence at MTS strategy development;
- Status of LTE development;
- and other.

### ● Ad Hoc Committee of Independent Directors on project for acquisition of Sistema-Inventure CJSC

The main function of the Ad Hoc Committee of Independent Directors on the project of acquisition of Sistema Inventure CJSC is to oversee the conditions for settlement of the transaction involving the acquisition of stock in Sistema Telecom LLC.

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

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

## Individual Executive Body of the Company — President

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

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

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

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

The President of the Company is elected by majority of votes of elected members of the Board of Directors. Herewith, the votes of

directors who left the Board are not taken into account.

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

The Regulations on the MTS OJSC President were approved by the Annual General Meeting of MTS OJSC Shareholders on June 23, 2006 (you can study these Regulations at: <http://www.company.mts.ru/ir/control/regulations/ceo>).

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

\* until March 04, 2011 the functions of the President of MTS OJSC were performed by Mikhail Valeryevich Shamolin.

### Andrey Anatolyevich Dubovskov

Born in 1966.

In 1993 graduated from the All-Russian State Institute of Cinematography named after S.A. Gerasimov, specialty – director.

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

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

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

Currently is the member of the management bodies of JLLC Mobile TeleSystems, PrJSC MTS Ukraine, International Cell Holding LTD.

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







## Collective Executive Body — Management board

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

The President (Chairman of the Management Board) and the Management Board act on the basis of the Federal Law "On Joint-Stock Companies", MTS OJSC Charter and Regulations of MTS OJSC Management Board that were approved by the Annual General Meeting of MTS OJSC Shareholders on June 15, 2009 (you can study these Regulations at [http://www.company.mts.ru/ir/control/regulations/executive\\_board/](http://www.company.mts.ru/ir/control/regulations/executive_board/)).

Number of members and composition of the Management Board is approved by the Board of Directors at the suggestion of the President of the Company for a period

determined by the Board of Directors of the Company in establishing the Management Board. The term of office of the Management Board may not exceed the term of office of the current President of the Company. Members of the Management Board may be elected an unlimited number of times.

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

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

The MTS OJSC Management Board held 25 meetings during the past 2011.

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

Members of the Management Board as of December 31, 2011



### Chairman of the Management Board

#### Andrey Valeryevich Dubovskov

Born in 1966.

In 1993 graduated from the All-Russian State Institute of Cinematography named after S.A. Gerasimov, specialty — director.

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

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

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

Currently is the member of the management bodies of JLLC Mobile TeleSystems, PrJSC MTS Ukraine, International Cell Holding LTD.

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



### Nataliya Lyubomirovna Bereza

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

In 1997 Nataliya graduated from the Kiev State Linguistics University, is certified according to international programmes in the field of HR: Society for Human Resource Management, GPHR, WorldatWork Association, GRPA (remuneration system management).

From September 2007 to July 2011 Nataliya Bereza occupied the job of the HR Director in the Business Unit MTS Ukraine. Before coming to MTS, Nataliya worked for four years in the company Kraft Foods Ukraine and for more than two years — in the company British American Tobacco in Ukraine, occupying different jobs in the field of HR management. Nataliya Bereza — a member of different professional associations in the sphere of HR management, including the European Business Association and the American Chamber of Commerce in Ukraine. Nataliya joined the MTS team in 2006 as the manager of the HR training and development function.

Since July 2011 — Vice President of MTS OJSC, HR Management, member of the Management Board of MTS OJSC.

Mrs. Bereza is the member of the management bodies of PrJSC MTS UKRAINE.

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



Frederic Vanoosthuyze

Born in 1973 in Belgium.

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

He joined MTS OJSC in February 2010 as Vice President for Information Technology.

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

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

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



Ivan Alexandrovich Zolocheskiy

Born in 1972.

In 1993 graduated from the Physics Faculty of St. Petersburg Pedagogical Institute named after A.I. Herzen, in 2001 — the Open University of Great Britain, specialty — management. Completed training in the presidential programme in Engineering-Economic Academy, specialty — Management and Marketing. In MTS, from 2001 to 2005 — Sales Director, St. Petersburg company BCC. From 1998 to 2001 — Director, Division of Corporate and Market Sales of St. Petersburg company Nyenschantz. Until 1998 worked in the Tranzas Group of Companies as the Director of Sales and Marketing.

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

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

In September 2011 was assigned as the General Director of PrJSC MTS Ukraine. In October 2011 was elected the member of the Management Board of MTS OJSC.

Mr. Zolocheskiy is the member of the management bodies of CJSC ITS, OJSC TK Spectrum.

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



Ruslan Sultanovich Ibragimov

Born in 1963.

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

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

From 2008 — Vice President, Corporate and Legal, MTS OJSC.

Prior to joining MTS OJSC, he worked at the Moscow college of lawyers Ibragimov, Kagan, and Partners. From 1997 to 2002 he held the post of directing partner, Deputy General Director-Head of Tax and Legal Consultation at Top-Audit. From 1992 to 1996 he headed legal services in several commercial banks. He is a member of the Board of the Non-profit Organization Russian Corporate Counsel Association (RCCA), member of the Non-profit Organization Supporting Competition and Non-profit Organization Supporting Competition in CIS Countries.

Mr. Ibragimov is a member of management bodies of Olma Media Group CJSC.

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



Alexey Valeryevich Kornya

Born in 1975.

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

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

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

He has been Vice president of Finance and Investment since 2010.

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

Mr. Kornya is member of management bodies of Mobile TeleSystems JLLC, MTS UKRAINE PrJSC, International Cell Holding Ltd., MTS Bank OJSC, etc.

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



**Vasiliy Igorevich Latsanich**

Born in 1972.

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

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

Since 2010 Vasiliy Latsanich is the co-chairman of the Telecom Committee at the American Chamber of Commerce in Ukraine.

Headed PrJSC MTS Ukraine since March 2011.

From September 2011 – Vice President, Marketing, MTS OJSC, member of the Management Board of MTS OJSC.

Mr. Latsanich is the member of the management bodies of PrJSC MTS Ukraine.

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

**Konstantin Viktorovich Markov**

Born on May 15, 1975 in Moscow.

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

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

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

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

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

**Alexander Valeryevich Popovsky**

Born in 1977.

Mr. Popovsky graduated with a degree in computing machinery, systems and networks (system engineer) from the Vyatka State Technological University in 1999, where he continued to post-graduate studies (systems analysis), in 2002 – finished the post-graduate course at the same university, specialty – System Analysis. In 2005 he got an academic degree Cand. Sc. at the Moscow Aeronautical Institute, and participated in the program of Executive MBA London Business School.

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

In 2008 he was appointed to serve as Director of MTS Russia Business Unit.

Since March 2011, he has been Vice President, Director of MTS Russia Business Unit. Since July 2011 – Vice President of MTS OJSC, Operations

Mr. Popovsky is a member of management bodies of MGTS OJSC, Intellect Telecom OJSC, etc.

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

**Oleg Yuryevich Raspopov**

Born in 1966.

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

He has been the Vice President, Director of MTS–Foreign Subsidiaries Business Unit since January 2008.

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

Prior to joining MTS OJSC, in November 2004 he headed Insurance Broker–Energozashchita OJSC that was established by him. From 2002 to 2004 he occupied the position of assistant of the Chief Financial Officer of RAO UES of Russia OJSC. From 2001 to 2002 served as lawyer at Gaspromenergосervice CJSC.

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

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

**Vadim Eduardovich Savchenko**

Born in 1974.

Graduated from the Law Faculty of the Humanitarian University of Ekaterinburg, and also the Kiev National Economic University named after Vadim Hetman, specialty – economics of enterprises.

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

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

Mr. Savchenko is the member of the management bodies of FI UZDUNROBITA LLC, PrJSC MTS UKRAINE.

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

**Andrey Eduardovich Ushatsky**

Born in 1974.

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

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

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

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

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

**Michael Hecker**

Born in 1970.

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

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

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

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

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

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

The following persons ceased to be members of the Management Board between January 01 and December 31, 2011:

- Pavel Dmitryevich Belik;
- Mikhail Yuryevich Gerchuk;
- Sergey Borisovich Nikonov;
- Victor Valeryanovich Stankevich;
- Andrey Borisovich Terebenin;
- Mikhail Valeryevich Shamolin;
- Valery Viktorovich Shorzhin.

### Secretary of the Management Board of MTS OJSC

This function has been assigned to the Department of corporate governance of MTS OJSC.

The secretary of the Management Board – Olejnik Olga Alexandrovna.

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

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

Total remuneration paid to the members of the Management Board in 2011: RUB 389,915,949.35.





## Financial and business oversight bodies

The financial and business oversight bodies of MTS OJSC are structured as follows:

### MTS OJSC Auditing Commission

On June 27, 2011, the Annual General Meeting of MTS OJSC Shareholders elected the following persons as members of the Auditing Commission:

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

2. **Nataliya Vladimirovna Demeshkina**, citizen of the Russian Federation, b. 1974, Managing Director of Internal Audit in Internal Audit Service, AFK Sistema OJSC.

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

### Auditor of MTS OJSC

On June 27, 2011, the Annual General Meeting of Shareholders of MTS OJSC approved as the Company's auditor Closed Joint Stock Company Deloitte & Touche CIS (location: 5 Lesnaya St., Moscow, Russian Federation 125047, main state registration number (OGRN) 1027700425444, Certificate of Membership in the Non-Profit Partnership Auditor Chamber of Russia No. 3026 of May 20, 2009.

Deloitte CIS is one of the leading auditing and advisory firms that provides auditing, tax, consulting and corporate finance services

The Auditing Commission is independent from officers of the Company's management bodies and reports solely to the General Meeting of Shareholders of the Company.

Based on the results of its work, the Auditing Commission presented its findings on the financial statements of MTS OJSC for 2011. According to the Auditing Commission, the audit provided a reasonable basis to express the opinion that the financial and business operations of MTS OJSC during the reporting year were in all material respects carried out in accordance with current legislation, and that this Report and the annual financial statements of MTS OJSC for 2011 fairly present the Company's financial condition as at December 31, 2011, and the results of its financial and business operations for the period from January 1 through December 31, 2011.

using the experience of approximately 3,000 employees in 15 offices in 10 countries of the region. Deloitte CIS is a part of the international association of firms Deloitte Touche Tohmatsu Limited that is one of the global leaders in the provision of professional services, with about 170,000 employees in more than 140 countries of the world.

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

The work performed by the Auditor in the reporting year:

- Audit of MTS' 2011 Annual Financial Statements prepared under Russian accounting standards;
- Integrated audit of MTS Group' and subsidiaries' 2011 Consolidated Financial Statements prepared under US GAAP and as required by the Sarbanes-Oxley Act.

Based on the audit the Auditor of MTS OJSC expressed the opinion that the financial statements of MTS OJSC prepared in accordance

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

The Auditor's fee is approved by MTS OJSC Board of Directors and was, based on 2011 results, RUB 115,713,000 including works on audit of compliance with Sarbanes-Oxley Act requirements (exclusive of the value added tax and on-costs).

### Internal Audit Department of MTS OJSC

Department Head: Veronica Yuryevna Charlesworth

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

The Internal Control Department performs the following functions:

- provides guarantees of the fair presentation of information, compliance with requirements and verification of effectiveness through reviews, internal audits, diagnostic studies, and releases;

- participates in investigations, transactions, and various operations of the Company, and in projects of other units of the Company, approval of separate transactions and decisions;
- provides advice and recommendations, including explanations on selected issues, assists in finding solutions and improvements, educating employees in matters under review.

The Internal Audit Department reports directly to the President of MTS OJSC and functionally to the Audit Committee of the Board of Directors of MTS OJSC.

In its work the Internal Audit Department coordinates plans, performs functions and exchanges information with other units involved in monitoring financial and economic operations and also related to the external auditor of the Company.



## Control Department of MTS OJSC

**Department Head:** Olga Vladimirovna Chernyavskaya

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

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

- monitoring procedures related to financial and economic activity (including operations) of MTS OJSC units, analyzing the results of the specified activities;
- monitoring compliance with fiscal and executive discipline at MTS OJSC and monitoring the implementation of decisions of its management bodies, including its collective management bodies;
- verifying that internal documents and decisions of the management bodies of MTS OJSC are consistent with the Company's financial and business interests;
- monitoring that the Company's agreements with third parties are consistent with MTS' financial and business interests;

- monitoring the effectiveness and transparency of the system of governance at MTS OJSC, including identifying abuses by executive bodies and officers of MTS OJSC;
- coordination of activities of units that process messages arriving to the address of the single hot-line, preparation of conclusions;
- preparing opinions on violations brought before the disciplinary commission of MTS OJSC;
- monitoring efficiency of business processes of operations, project activities of the company units;
- monitoring calculation of process performance indicators;
- monitoring fulfillment of instructions and recommendations of collective bodies of MTS OJSC, initiative instructions of the President of MTS OJSC, meetings at the President of MTS OJSC.

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

## Internal Control Systems Department of MTS OJSC

**Department Head:** Irina Alexandrovna Cherkasova

The Internal Control Systems Department was created in 2006, and is an independent unit of MTS OJSC within the MTS Group's Corporate Center, Finance and Investment Block. The Department operates in accordance with

its Regulations. The Department consists of a head of the department, the development and support division, the certification and testing division and the IT processes control division.

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

- developing effective internal control systems at MTS Group;
- supporting internal control systems;

- testing and certifying internal control systems at MTS Group.

The Internal Control Systems Department reports directly to MTS Vice President of Finance and Investments and is accountable to the Audit Committee of MTS OJSC Board of Directors.

## Audit Committee of MTS OJSC Board of Directors

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

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

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

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

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



A black and white photograph of a space shuttle launching from a launchpad. The shuttle is ascending vertically, leaving a massive, billowing plume of white smoke and fire behind it. The launchpad structure is visible to the left of the shuttle. In the foreground, there is a body of water reflecting the scene. The sky is clear with a few birds visible in the distance.

# 11 COMPANY FINANCIAL RESULTS FOR 2011



a step ahead



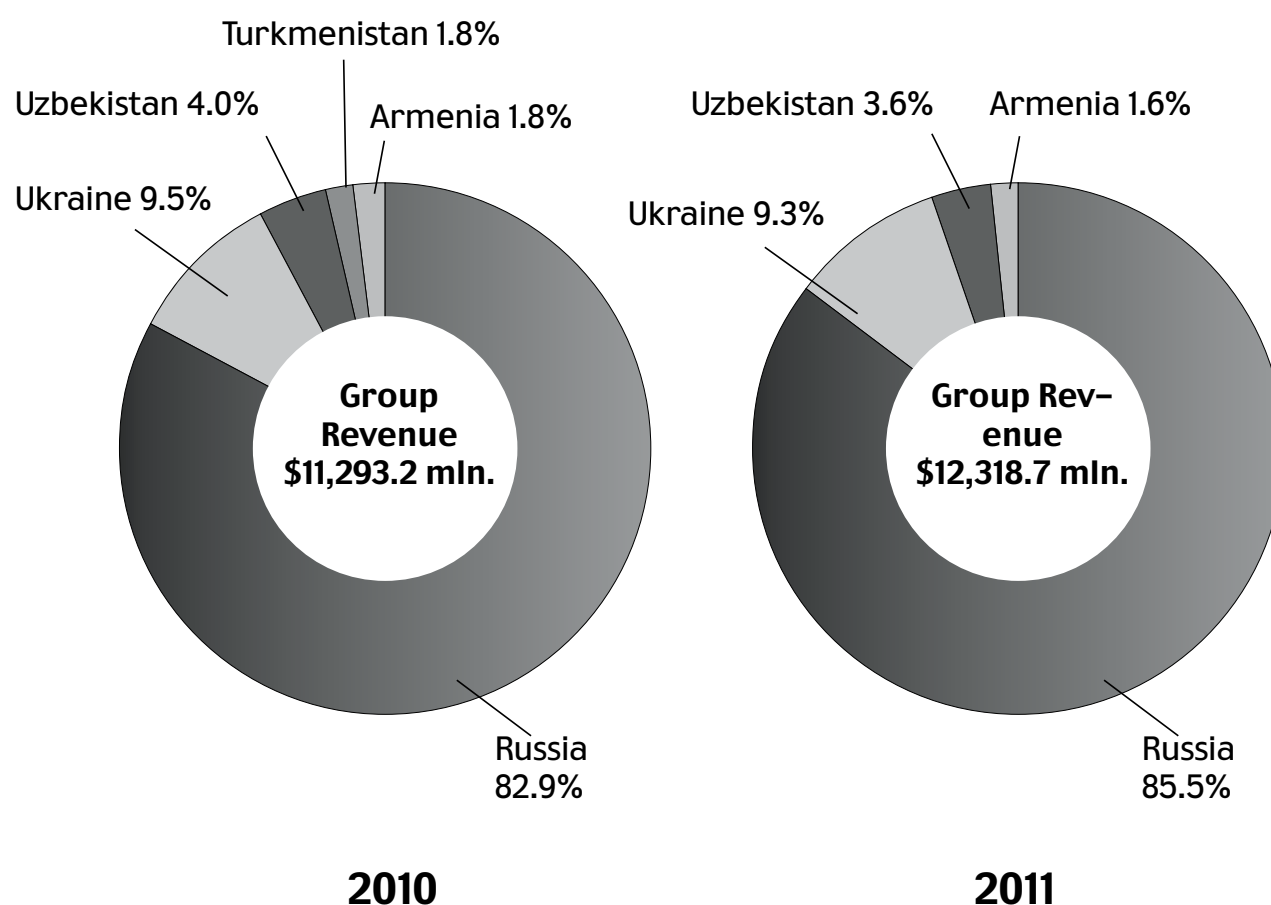
# 11. COMPANY FINANCIAL RESULTS FOR 2011

In the past several years MTS Group OJSC has transformed from being the leader of one regional market of Moscow into a major transnational operator, which provides services to 105.78 million subscribers in various regions and countries (including subscribers of Mobile TeleSystems JLLC in Belarus, whose financial

results are not consolidated in the US GAAP financial statements of MTS OJSC)

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

## Group Revenue



## 11. Company financial results for 2011

### Key financial indicators, 2011 (in mln. USD)

Indicators	Q4 2011	Q4 2010	Q4 2011 vs. Q4 2010	Q3 2011	Change over the quarter	2011	2010	Change over the year
Revenue	2 982	2 995	no changes	3 275	-9%	12 319	11 293	9%
OIBDA	1 276	1 159	10%	1 440	-11%	5 144	4 873	6%
OIBDA margin	42.8%	38.7%	4.1 pp	44.0%	-1.2 pp	41.8%	3.1%	-1.3 pp
Net OP	720	493	46%	853	-16%	2 809	2 735	3%
OP margin	24.1%	16.5%	7.6 pp	26.0%	-1.9 pp	22.8%	24.2%	-1.4 pp
Net profit	393	156	152%	362	9%	1 444	1 381	5%

Please find below the analysis of the main indicators of MTS Group business in 2011 vs. indicators of 2010.

Following the results of 2011 the MTS Group demonstrated growth of main financial indicators. Consolidated revenues increased by 9% year over year and made \$12.319 bln. The main driver of revenue growth was higher consumption of VAS services as a result of improved quality and active promotion of these services in the market, development of 3G networks and growth of the mobile Internet penetration level. The consolidated revenues growth in 2011 was also supported by growth of revenues from termination of traffic, higher proceeds from fixed communication services and proceeds from sales of handsets and subscriber equipment. The key driver of growing proceeds from traffic termination was represented by higher volumes of traffic consumed by our competitors. Revenue from fixed communication services increased as a result of tariffs revision and acquiring companies. Growth of profit from sales of telephones and subscriber equipment was stimulated by active expansion of our retail chain. The subscriber base of the company, excluding subscribers in Turkmenistan, remained stable, and as of the end of 2011 it made 100.9 mln. In Armenia and Uzbekistan our revenues in terms of functional

currency was reducing in connection with competition growth in these countries.

The consolidated indicator of OIBDA made \$5.144 bln., which is 6% higher than the indicator of the last year. The OIBDA margin reduced down to 41.8% in comparison with 43.1% year before. Reduction of the OIBDA margin is mainly related to active development of our retail chain, the marginality of which is lower than the marginality of operations on rendering communication services. The OIBDA margin was also negatively affected by expenses for internetworking, growth of which was caused by increased volumes of outgoing traffic. Nevertheless, implementation of cost optimization programmes (MTS retail and marketing headcount optimization; modification of the model of relations with dealers) made it possible for MTS to keep OIBDA marginality at the highest level among the Top 3 operators.

The consolidated OP in 2011 increased by 3% vs. the last year and made \$2.809 bln. The OP margin at that time dropped from 24.2% in 2010 to 22.8% in 2011. Negative influence at 2010 OP was from depreciation of our assets in Turkmenistan in connection with the rejection of the Ministry of Communications of Turkmenistan to renew the communications license. The effect from assets depreciation at 2010 OP made \$ 137.8 mln. In general lower OP margin in 2011





vs. 2010 was caused by increased percentage of expenses for depreciation of fixed assets and intangible assets, and also percentage of prime cost of handsets and subscriber equipment and expenses for internetworking to the consolidated revenues.

The consolidated net profit of the year increased by 5% to \$1.444 bln., mainly through

reduction of expenses on depreciation of the Group assets. At the same time the net profit margin in the reporting period reduced to 11.7% vs. 12.2% in 2010.

Cash flow from operations in 2011 increased by 6% and made \$3.849 bln., and free cash flow made \$1.026 bln.

#### Revenue structure (in mln. USD)\*

Region	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2010	2011	Change over the year
Russia	2533.3	2543.4	2718.6	2815.2	2555.0	9425.1	10 632.3	+13%
Ukraine	269.7	258.9	280.6	313.4	289.7	1072.8	1 142.6	+7%
Uzbekistan	116.3	104.7	108.6	112.8	114.9	448.0	441.0	-2%
Armenia	53.6	44.5	50.0	56.3	49.7	207.3	200.5	-3%

#### OIBDA (in mln. USD)\*

Region	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2010	2011	Change over the year
Russia	956.0	994.2	1160.9	1268.4	1102.8	4091.1	4526.4	+11%
Ukraine	122.2	115.7	135.9	153.1	143.7	498.6	548.3	+10%
Uzbekistan	62.0	56.6	58.1	56.0	60.7	248.7	231.4	-7%
Armenia	27.4	22.7	27.1	32.2	25.1	108.4	107.1	-1%

#### OIBDA MARGIN (in mln. USD)\*

Region	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2010	2011
Russia	37.7%	39.1%	42.7%	45.1%	43.2%	43.4%	42.6%
Ukraine	45.3%	44.7%	48.4%	48.9%	49.6%	46.5%	48.0%
Uzbekistan	53.3%	54.1%	53.5%	49.6%	52.8%	55.5%	52.5%
Armenia	51.1%	51.0%	54.2%	57.3%	50.5%	52.3%	53.4%

\* Data on Turkmenistan are not provided, since operations in this country were terminated in compliance with the resolution of the Ministry of Communications of Turkmenistan not to renew the licenses of Barash Communications Technologies, Inc. (BCTI), 100% subsidiary of MTS in Turkmenistan.

### Main conclusions

- Strategy evolution and establishing a universal operator on the market of mobile and fixed-line telecommunications services within the framework of this strategy implementation
- Successful implementation of the financial strategy including raising additional finance and decreasing debt servicing costs
- Retaining leadership positions in the operations markets through making sought-after offers to customers and provision of high quality services
- Ensuring the growth of revenues from data services while expanding the 3G network, launching innovative services and selling USB modems
- Implementation of programmes for optimization and control over expenses for maintaining the company's operating profit margin.



# 12 MAJOR RISK FACTORS



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# 12. MAJOR RISK FACTORS

## Macroeconomic risks

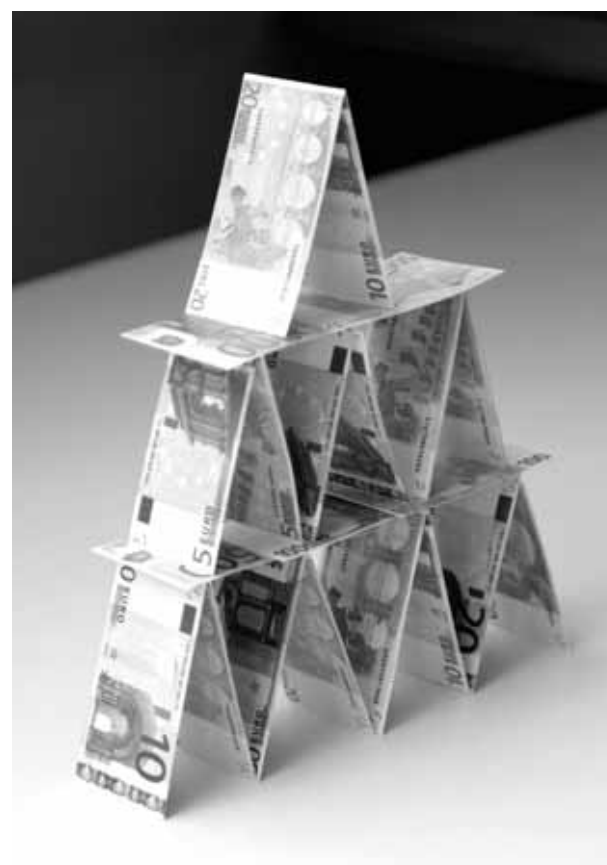
We are an operator, which provides chargeable telecom services to subscribers. Our financial position and operating indicators depend among other things on the paying capacity of the population. Economies of the countries of our presence are exposed to influence of the worlds' economic recession and slowdown of the global economy development,

and also depend on dynamics of material resources in the global market. Macroeconomic instability and slowdown in the economic growth in the countries, where the Company operates, may result in the decrease of demand for the services provided, decrease of revenues and the Company's performance indicators.

## Financial risks

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

We plan to expand the infrastructure of our network through increased coverage and capacity of our existing network in licensed territories, further development of our business in countries of our presence and other countries through acquisitions, usage of new technologies and new licenses. Rates of the Company's development and its financial status depend on raising debt financing. The crisis of financial markets may restrict the Company's opportunities for raising debt financing.



Contracts related to our bonds and bonds of our controlling shareholder, and also some loan agreements include restrictive provisions that limit opportunities of obtaining loan funds and engaging into various businesses. Failure

to comply with such contractual provisions could have resulted in a default and, as a result, in a request to immediately repay the debt, which could have had negative effects for our business.

## Regulatory risks

Our business is regulated by governments in the countries of our presence, in particular, through licensing and laws. State authorities of the countries of our presence have high extent of freedom in actions related to issuing, prolongation, suspending and withdrawing licenses, identifying criteria for referring the

companies in certain territories as monopolists, companies occupying dominant and/or substantial positions, etc. State authorities may affect our financial position and performance indicators by issuing appropriate laws and regulations.

## Technological risks

We use radio frequencies, the right of use of which is distributed by the governments of the countries of our presence. Throughput capacity of our network and opportunity of its expansion, which, among other things, are

important to maintain the market share on subscribers and profits, depend on the possibility of timely prolongation of the right for currently used radio frequencies and receiving the new ones.

## Competitive environment

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

Competition is growing in the markets of the countries of our Company's presence, also from the side of potential new operators of mobile and fixed communication systems. Regional markets are at the most active stage of

their development, besides, it is expected that competition in these markets will aggravate in the coming years (for instance, in part of broadband access services).

The Company invests in expanding its portfolio of additional services and also in building the 3G and 4G communication system, developing wireless and fixed communication services. Our competitive status, financial and performance indicators, among other things, depend on success in implementation of these initiatives.

More detailed information on these and other risks is available in the Section "Item 3 — Key Information — D. Risk Factors" in the annual report of MTS OJSC according to the Form 20-F, and also in the quarterly report of MTS OJSC in 2011.



# 13 HUMAN RESOURCES AND SOCIAL POLICY



**MTS**

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# 13. HUMAN RESOURCES AND SOCIAL POLICY

## Work and compensation

As of December 2011 MTS OJSC had 21,576 employees on its payroll list.

At present the Company has a competitive compensation system that consists of fixed and variable portions. The Company employees are provided with a packet of compensations and benefits in line with the current market practice.

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

Since January 1, 2011 the income structure parameters were improved to increase competitiveness of remuneration. The variable and fixed portions of remuneration were balanced.

The variable portion is provided in the form of the incentive system, which establishes explicit and transparent principles for setting bonus target amounts and calculating their actual amounts on the basis of key performance indicators and individual targets, set in the bonus plans of all employees. In addition to abovementioned incentive system the Company has established a bonus system for employees, who are engaged in sales activities and

customer care services (S&CC), the basic principle of which is motivation based on achieving specific results. The feature of the system is the income structure with a larger variable portion and a different payment frequency. To increase correlation of the bonus amount and the actual result of the Company, a commission bonus scheme (direct percentage from sales) was introduced in the middle of 2011 for the Company employees responsible for direct sales.

The Company pays special attention to setting up a competitive social package. In 2011, based on the results of the analysis of the existing compensations and benefits package vs. the market, the Company introduced a number of new benefits that improved social protection of employees.

### Actions taken in 2010 allowed to:

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

## 13. Human resources and social policy

### Improvement of the MTS OJSC organizational structure in 2011

Action	Results of the changes
<b>January 01, 2011 – April 01, 2011</b> Change of organizational structures and staff lists of business units of MTS OJSC, Corporate Centre of MTS Group, Business Unit MTS Russia, Macro-region Moscow within the project of integration of organizational structures of MTS OJSC, Comstar-UTS OJSC, Evrotel OJSC.	<ul style="list-style-type: none"> <li>• Integration of Comstar-UTS OJSC, Evrotel OJSC into the structure of MTS OJSC.</li> <li>• Introduction of processes for rendering fixed communication services into existing processes of MTS OJSC. Provision of fixed communication services (Internet, TV, telephony).</li> </ul>
<b>July 14, 2011</b> Change of organizational structure of MTS Group Corporate Centre and Business Unit MTS Russia. Exclusion of the job of Vice President, Director of Business Unit Russia. Establishment of direct reporting of Macro-regions Directors to the President.	<ul style="list-style-type: none"> <li>• Introduction of direct responsibility of the President for business results in Russia in parallel with increasing responsibility of Macro-regions in business management.</li> <li>• Delegation of responsibility for issues related to development of infrastructure to the Vice President, Operations.</li> <li>• Separation of marketing and sales functions.</li> <li>• Separation of HR management functions and administrative functions.</li> <li>• Optimized organizational structure and headcount of divisions of MTS Group Corporate Centre and Business Unit MTS Russia. Abolishment of the structure of the Business Unit MTS Russia».</li> </ul>
<b>December 01, 2011</b> Change of organizational structure of Commercial Block and Sales and Service Block, Corporate Centre, MTS Group, and Business Unit MTS Russia. Transfer of Subscriber Equipment Marketing Department from Commercial Block into Sales and Service Block.	<ul style="list-style-type: none"> <li>• Establishment of a single centre of competence for launching all types of subscriber equipment for retail market.</li> </ul>

In 2011 the basic changes in the MTS OJSC organizational structure were aimed at implementation of subsidiaries integration processes, optimization of organizational structure and headcount of MTS OJSC, increasing efficiency of implementation and management of business processes of the Company, improving

level of responsibility of Macro-regions in business management.

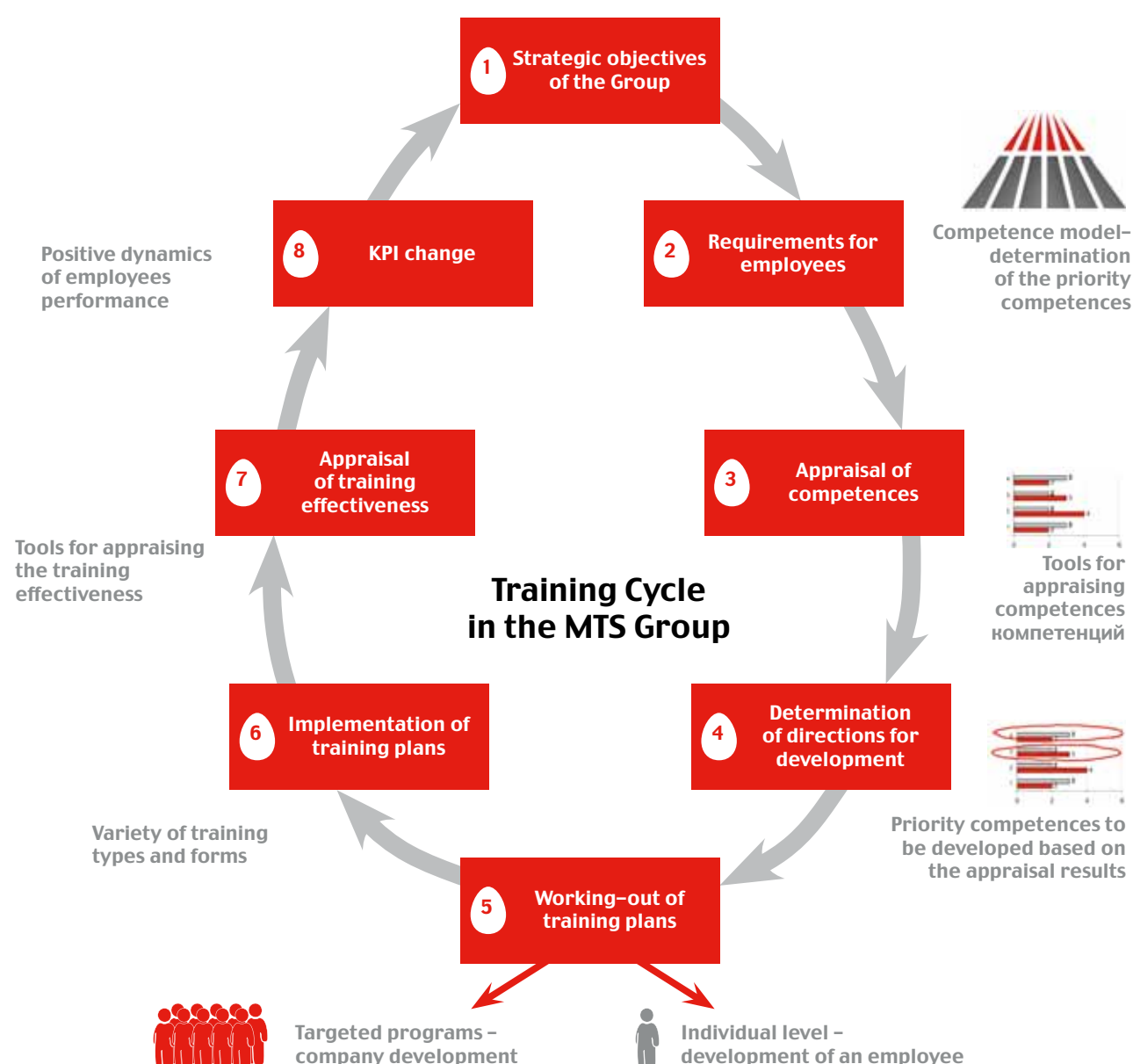
The purpose of the organizational structure change was to improve the effectiveness of operations of functional subdivisions through combining management functions and avoiding function overlapping.



## Staff development

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

### MTS Group Training System



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

#### The basic targets of the Staff Training and Development function:

- To ensure system-based effective development of employees in competences, which are key for the Company
- Forming skills, expertise, perceptions, which are required by employees and managers for improving their performance in their current jobs
- Creation of tools for developing the Candidate Pool and Successors for key positions
- To arrange for the continuity of expertise/unique skills and experience
- To create a self-training environment, where each manager and each employer is interested in the company's development and involved in the processes of developing, maintaining and expanding the knowledge and skills in the company

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

- **Induction training.** The Company conducts uniform, centralized induction training for all new employees, whose purpose is to ensure the understanding of the Company business, culture and structure, as well as

understanding of internal processes and organizational procedures by new employees. For new managers we provide additional programmes of introduction to the Company's internal structure, business processes, and established interaction procedures. For existing employees we conduct team-building activities to enhance corporate spirit and strengthen corporate culture. The heads of Company functional sub-divisions carry out training of existing employees according to the rules specified in bylaws. Functional seminars and master classes are conducted for newly implemented processes.

- **Vocational training.** The Company has a system of vocational training aimed at ensuring constant development of expertise and skills of the employees. Standards and contents of training programs, as well as norms for participation of employees in professional conferences, are set in accordance with the requirements for particular positions as well as in accordance with the requirements for professional knowledge of employees. Vocational training is planned based on the business needs of a particular sub-unit. This element of the training system accounts for the major portion of activities and the largest number of employees involved in training. Vocational training for frontline employees is provided mainly through in-house resources according to uniform standards (taking into account regional differences).

- **Managerial training for managers.** The basis of this system is the concept of compliance with the individual training plan, as well as targeted and modular training of managers. Targeted and modular programmes are mandatory for selected



categories of managers, and individual training plans are created based on annual appraisal of managers' competences. Particular attention is given to training managers in the methods of personnel management (selection, appraisal, grading, feedback, creation of personalized development plans, mentoring, motivation of employees, etc.) and interaction with subordinates on the basis of uniform corporate standards. The important objective of managerial training, apart from establishment of a single approach to management with managers, is to motivate and to retain the Company managers. The direction and content of managers training programmes are determined based on the Company development strategy, the business objectives of sub-units, and the level of managers' competences according to the appraisal results.

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

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

- **Self-education.** The Company has created the conditions for self-education of employees. The internal library of study materials by competences was created.
- **Full-time training, workshops.** When conducting such trainings and workshops, internal resources are actively involved, in-house training programmes are developed, and the Academy of Trainer's Excellence for training local trainers was established;

- **Post-training follow-up.** Conducting follow up workshops on the subjects of training to sustain employees skills and expertise and to discuss the scope for using the skills and expertise that they acquired, in practice;
- **Remote training.** Distance forms of training are actively used in the company for all types of training. Theory courses are conducted mainly in the distance form. Distance methods are also actively used to evaluate the effectiveness of training: to test the knowledge gained as result of training and to evaluate satisfaction with training programmes, practical usefulness of training programmes;
- **On-the-job training** is deemed the preferred and most effective method. One of the main objectives of a manager at any level is the professional growth of his or her subordinates. The Company established a mentorship system for all employees: from an intern to an expert;
- **Master classes of the Company's top managers.** The company's top managers actively participate in the training and development of the Company's employees. Master classes of the key managers of the Company are held on a regular basis to give a message to the employees regarding the main objective of the Company and its strategy as well as to discuss the key projects. When holding master classes the top managers can get the feedback from the employees and discuss the prospective changes in their processes.

**By the end of 2011 the following programmes were also implemented in the Company:**

- A modular development program for the Directors of MTS Branches and Successors for these positions — the Academy of



Success. In the Academy in 2011 there were 5 groups trained (3 groups according to the module 1 and 2 groups according to the module 2), 86 managers passed the training.

- Within the project "Super Target: important for everyone" the functional managers organized field workshops in 84 out of 85 regions of MTS presence, which is 98.8% of the plan. Objectives were generated for increasing efficiency of the regions. More than 4,000 employees took part in the events.
- In 2011 MTS Group held 77 master classes (with a plan of at least 36, including 12 for the Corporate Centre)

During the year the total number of employees who attended master classes amounted to 2,000. Videotaped master classes are placed into the Employee Distance Testing and

Training System (DTTS), where they may be virtually attended by Group employees.

The Employee Distance Testing and Training System (DTTS) is being actively developed. Access to DTTS is open to all employees of Comstar, MGTS. As of the end of 2011 244 distance training courses and 674 professional tests have been developed and placed.

To support the Company values, a board game "PROSTO" ("SIMPLE") has been developed and handed over for distribution. Interactive rules of the game are available in DTTS.

Within the scope of the project "Introduction of Coaching Style in MTS Group" 150 managers of the Company were trained in accordance with the programme "Coaching Style Management. Level 1", 37 managers were trained according to the programme "Coaching Style Management. Level 2". The inner



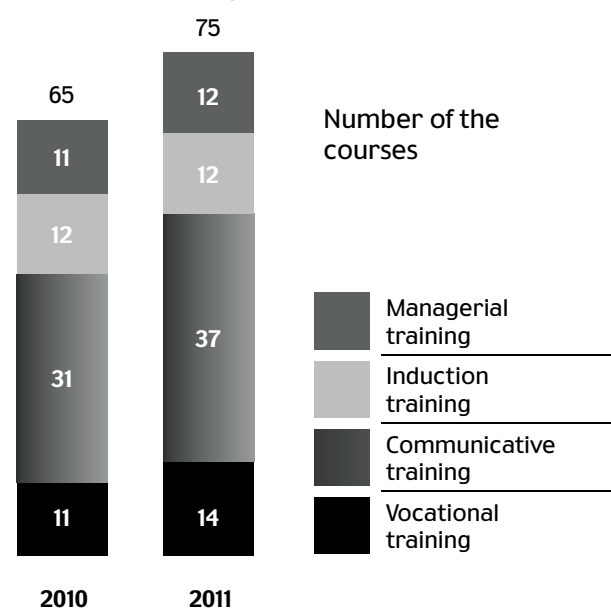
experts (11 employees) received the training course “Coaching Style Management. Level 2” for internal training. There were 77 post-training events within the scope of the project.

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

- **Customer Care School** for the employees engaged in servicing the MTS customers
- **Business Sales Academy and Marketing Academy** for Commercial Block employees
- **The Academy of Trainer Excellence** was introduced for training the MTS Group internal trainers. The first module of the Academy in 2011 was taught to 235 corporate trainers of MTS Group. The objectives of the Academy include professional development of corporate and staff trainers of MTS Group and translation of a single philosophy/policy/training principles of the Company.

Internal trainers develop the training courses.

**MTS Internal Training Courses**  
as of December, 31 2011



**As of December 31, 2011, 75 in-house training courses were developed in the Company, including:**

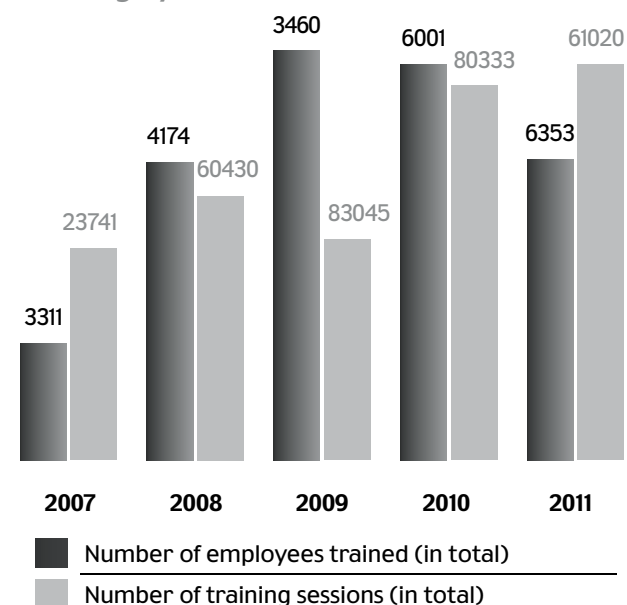
- Vocational training — 14 courses (in 2011 3 new training courses were developed)
- Communicative training — 37 courses (in 2011 6 new training courses were developed)
- Induction training — 12 courses (in 2011 no new courses were developed)
- Managerial training — 12 courses (in 2011 1 new training course was developed)

12 workshops were developed and held for managers within the scope of management and negotiations training

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

Induction training is undergone by all new employees, and if a new regulation/process is introduced – by all existing employees of the Company.

**Training dynamics in 2007–2011**



## 13. Human resources and social policy



### Company's social policy

MTS OJSC, being the major cellular operator in Russia and the CIS countries, believes that its social responsibility is the responsibility for the influence of the MTS OJSC decisions and actions on the society and environment, which, in the event of the Company's ethic and transparent behavior, will:

- contribute to sustainable development, health promotion and social welfare;
- take into account the expectations of the parties concerned;
- comply with the applicable legislation and be in line with the international conduct norms;
- be integrated in the activities of the Company as a whole and implemented by the Company in its relations with other parties;

- contribute to the information transparency of the Company and improvement of its corporate governance.

One of the MTS OJSC objectives is the integration of this responsibility into each Company level, including products, services and processes.

The Company determines its development strategy in accordance with the requirements of the society and consumers, and the main objective of this strategy is the improvement of the quality of life of a human being.

By the quality of life MTS OJSC means the combination of social, economic and other criteria that reflect the level and extent of the welfare of a human being achieved in various spheres of life, as a basic precondition for a stable development of the civil society and an individual.



## Principles and strategy of corporate social responsibility

The key MTS OJSC principles of running socially responsible business are aimed at ensuring a sustainable development of the Company, growth of its welfare and formation of a competitive economy. The Policy of the corporate social responsibility (CSR) and charity, where the principles of social and charitable activities were laid down, taking into account the expectations of all parties concerned, is placed on Company's official site [www.mts.ru](http://www.mts.ru) in the Section "Corporate Social Responsibility". It also contains the Company's social reports and the main projects related to MTS charity and CSR, as well as a feedback link. Therefore, MTS supports continuous dialogue with the target audience and makes available all information concerning Group social activity.

### Running a responsible business

MTS OJSC implements the principle of running a responsible business. The company plans and carries out its activities so that they would contribute to the positive changes in the society, improve social climate, decrease social tension and stimulate the development of the society.

An integral element of responsible conducting of MTS OJSC business is an absolute position of the Company on the counter action to any form and expression of corruption in day-to-day activity and by implementation of strategic projects, as well as projects in the area of social responsibility including charity.

For MTS social responsibility means active attitude and maximum possible contribution to the society, state and an individual, wherever the Company can make it.

### Responsibility of a telecom operator

MTS OJSC, being the major cellular operator in Russia and the CIS countries, believes

that its main objective is the provision of high quality, innovative and affordable telecom products and services to all customers. MTS OJSC, as a telecom operator, is responsible for providing high quality services at fair prices, expanding network coverage and developing new affordable and socially significant telecommunication technologies. Accepting this responsibility, MTS OJSC implements specific social initiatives. One of the initiatives is development and offering of socially oriented tariffs, which would meet the requirements of certain socially vulnerable groups. Moreover, MTS permanently improves quality of provided communication services and customer care services, implements loyalty programs and new (more attractive) tariff plans for mobile and fixed communication services, access to Internet and pay-TV. In 2011 some actions were carried out in order to make Company's services to be even more demanded by customers. During the year MTS OJSC was consistently reducing cost of mobile Internet services and also substantially reduced tariffs for using communication services when roaming. The Company continues its work on the average cost of a call minute, following the results of 2011, the average price of a minute reduced by almost 15% vs. the previous year. MTS OJSC is improving tariff offers and now proposes a tariff with free internal calls ("Super MTS").

MTS OJSC strives to increase both affordability of services and to facilitate their usage by customers. During the year the company expanded the retail chain by 630 outlets, with the total number of sales and customer offices equal to 4,147. In any MTS retail office subscribers may obtain a full spectrum of services, including services of broadband data transfer and TV. In 2011 MTS substantially widened opportunities of its customers through services of a branded online shop. It is now possible to

order any product from the online shop in any city of Russia, and the number of cities with courier delivery increased to 15. Besides, the company went on developing the service of "Internet helper" – more than 700 terminals were installed with this service in the retail chain, service confidentiality and security were improved.

### Equal opportunities

The company makes the largest possible contribution to creation of equal opportunities for everyone through provision of equal access to modern technologies, innovative products and services, which contribute to the fulfillment of personal potential. To the extent of this priority one of the key directions of MTS OJSC activities is the provision of equal conditions and opportunities for both the population of remote areas and large cities.

The advanced technologies are becoming an indispensable part of the present-day society and increasing the level of informatization of the population would directly contribute to improving the living standards. Therefore, provision of all inhabitants of Russia with equal access to modern technologies is particularly important. Digital inequality is a severe problem for the Russian modern society. Low-level penetration of Internet and up-to-date telecommunication services, especially in the Russian regions, is a constraining factor for innovative and more dynamic country development. MTS is very much aware of social significance of communication service development in regions and actively tries to make such services more available. In particular, in 2011 Group companies implemented some projects on launching of Internet- and TV-access services in remote districts of Russia, launched special social tariffs and increased access rates with no advance in service costs.

### Innovations

We believe that the objectives in improving the life quality can be achieved through large-scale introduction of innovative technologies, products and services. Proliferation of innovations, their use in the day-to-day life contributes to formation of innovative way of thinking, which, in its turn, stimulates the development of the society, contributes to the growth of the economy and integration of the country into the world community as well as forms a successful tomorrow's society. In 2011 MTS launched the project "Telecom Idea" aimed at attraction of talented young individuals and students to the process of the company's innovative development and innovation industry of Russia as a whole. During the year a series of events were held, where their participants could propose their developments and ideas, and also to get practical skills of building efficient operations in the field of innovations and venture business.

### Contribution to economic growth and social welfare, responsibility before the country

MTS is one of the telecommunication industry leaders and makes a significant contribution both in economic development of the country as a whole and in some regions of Company's presence as well. The Company growth strategy is based on significant investments in setting-up and development of the country's telecom infrastructure, which is required for successful implementation of key strategic state-wise projects. For example, in 2011 MTS put into operation about 17,000 new base stations, most of which supported the 3G innovative technology. As of the end of the year the total coverage of MTS 2G and 3G networks increased to 97% of the populated area of Russia.



The State receives additional funds due to MTS Group increased tax deductions into different budgets, contractors have additional funds due to MTS Group's increased orders for products and services, capital suppliers – due to increased financing of MTS Group investment programs. MTS Group efficient activity results in direct financial effect, beneficiaries of which are a wide range of economic agents.

MTS OJSC supports the state initiatives aimed at the improvement of the life quality, social welfare in general and the welfare of each individual and contributes to the implementation of these initiatives by the state. For example, in 2011 MTS Group company representatives took participation in different working groups of the communication industry ministry to solve problems related to development of communication services in the country.

MTS OJSC activity in every market of its presence is based only on the current legislation and legislative acts of relevant government authorities, including tax regulation.

#### Long-term investments

We consider the investments in the development of social sphere to be long-term investments, which contribute not only to the development of the society, but also create the basis for sustainable development of the Company. We are aiming at stable development of our business facilitating social and economic prosperity of the regions and countries where our company operates. Our Company provides its customers with new opportunities for communication, development, work and creativity, making their life productive and diversified.

#### Drive for results

One of the MTS OJSC key principles in the social sphere is the drive for achievable and measurable results. In the company's

perception this means pursuing a policy of well thought social investments with foreseeable results, aimed at solving the most acute social problems for the benefit of the society.

#### Information openness

We believe that a continuous dialogue with the representatives of all parties concerned is a pre-requisite for effective implementation of the social policy. MTS OJSC is open for such dialogue and is interested in it. Being a public company, we inform the public on all aspects of our activities in compliance with the rules set by the Russian legislation and international norms, which are established for public companies. As a basic tool for informing the public on MTS OJSC social activities we established the practice of annual social reports, which are published using MTS OJSC open access information resources. Our Company makes its non-financial reports on the basis of the international standards. MTS social report for 2010 passed through the procedure of public certification in the Council of Non-Financial Reports of the Russian Union of Industrialists and Entrepreneurs (RSPP). The Council of RSPP acknowledged that MTS OJSC social report for 2010 demonstrated Company's experience in responsible business practice in compliance with the Social Charter of the Russian Business, including economic freedom and responsibility, partnership in business, human rights, protection of the environment and local community development.

The MTS OJSC strategy in the field of social responsibility is based on continuous analysis of the company's current business processes and the extent of their compliance with the principles of socially responsible business, on planning and implementation of projects, which extend beyond the minimum statutory requirements and are aimed at increasing the positive influence of the Company business on the society.

## Charity policy

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

- Projects aimed at the improvement of life quality in the society have the highest priority;
- We focus on long-term projects in the sphere of charity, which contribute to solving the most acute social problems faced by broad layers of population and are in line with the priorities of the state social policy;
- In terms of the geography of the charity projects we are mainly interested in

the projects that can be implemented on the largest possible scale both within one country and in all countries where MTS OJSC carries out its activities;

- Pursuant to the MTS OJSC social policy we are interested in implementing the projects aimed at creation of equal conditions and opportunities both for the population of remote areas and large cities;
- We believe that modern innovative technologies make a significant contribution to improving the life quality and contribute to the implementation of the personal potential of an individual, therefore charity projects, where our technologies, products and services contribute to achieving this





objective, are of the highest priority for the Company;

- Bearing in mind the existing most acute social problems, we believe that charity projects aimed at improving health and contributing to the harmonious development of the young generation will be most welcome. The active social position of the business in solving such problems will contribute to formation of a harmonious and successful society in future;
- We are open to cooperation with federal and regional authorities, nonprofit

organizations and representatives of the business community within the framework of implementation of joint charity programs, which are compliant with the MTS OJSC social policy and philanthropy policy, on the terms and conditions of equal partnership and subject to legal and other restrictions applicable to the Company.

- MTS in no situation uses charity as the way to conduct corruption activity and to unlawfully obtain competitive advantage.

## The Code of Business Conduct and Ethics

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

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

- Potential conflicts of interests
- Prohibition of any actions breaching anti-corruption laws of the Russian Federation, the Foreign Corrupt Practices Act (FCPA) of the USA, the Bribery Act of Great Britain, similar legislation of states, in the territory of which the Company operates, as well as MTS OJSC bylaws

- Gifts and entertainment events
- Usage and security of confidential information
- Operations with the company's securities through application of insider information
- Protection and use of the company's property
- Competition and fair dealing
- Information disclosure
- Observance of existing legislation and internal documents of MTS
- Aspects of MTS OJSC copyright protection and protection of other copyright holders
- Business communication with colleagues and partners
- Accounting and its documenting
- Prohibition of discrimination and any unsuitable conduct at a workplace
- Channels for receiving information on Code requirements and also methods to inform the Company on violations of the Code regulations

## Environmental protection

The strategy of MTS OJSC growth is based on considerable investments into establishment and development of telecommunications infrastructure of the country, required for successful implementation of key strategic projects on the national level. While carrying out our activities we try to produce the minimal impact on the environment and to decrease this impact as and when possible. To solve this problem we observe the requirements of the

environmental laws and the regulations on running responsible business.

In 2011 MTS launched a federal programme of energy efficiency aimed at optimization of power consumption by communication network equipment. The programme includes using special M2M-modules and telematic services of MTS for online monitoring of power consumption and heat energy consumption by base stations and other components of the





network infrastructure. Thanks to innovation technologies, the company could build a transparent system of analysis and accounting of consumed power, implement a set of actions aimed at cost saving, and accordingly save both the company funds and valuable natural resources.

In several regions of Russia and CIS countries the Company uses alternative sources of energy for supplying to mobile network

elements – base stations are supported with generators operating on hydrogen fuel elements and solar batteries.

Within the scope of the programme for energy efficiency improvement the operator designed lighting systems on the basis of application of power-saving bulbs and light-diode lamps, and also introduced a technology for adjustment of light level depending on outdoor light.

### Data on volumes of each power resource used by MTS OJSC in 2011 (in natural and monetary terms)

Resource	In physical terms	In monetary terms
Power	582 813 043.96 kW/hr	2 004 281 446.44 RUR
Heat energy	35 252.61 Gcal	37 709 244.87 RUR
Water supply	241 357.50 m <sup>3</sup>	6 198 052.21 RUR
Petrol	4 080 851.84 l	91 593 252.10 RUR
Diesel fuel	3 805 793.69 l	80 259 486.98 RUR

### Interaction with interested parties

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

When running business, we interact with all interested parties: shareholders and investors, employees, consumers, partners and suppliers, governmental authorities and local communities. MTS is aiming at identification of needs and expectations of each of them. As of relations with the said groups, we

are seeking to be in compliance with the balance of interests, we establish the dialogue and co-operation on the basis of principles of mutual respect, partnership and honesty. Dynamic development of business or new strategies or new products and services, earning income are impossible unless such co-operation is established.

MTS is a joint stock company, in which AFK Sistema OJSC is the main shareholder. Increase in MTS' stock capital value and return on investments to our shareholders are the main objectives of Company. MTS OJSC activity related to disclosure of information and interaction with shareholders is governed by the provisions of the US Securities and Exchange

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

We hold our customers in respect and estimation and believe that progressive business advance under conditions of severe competition is possible only in case of high quality of products and services to be provided. Our activity is targeted to improvement of quality of customer care and services as well as to simplifying of interaction with customers.

Our employees are the main driver of Company development. Care for employees is one of the Group main priorities determining the activity success in the present-day market. Our Company permanently tries to improve social and labour relations. The main efforts are targeted to: safety and health protection of employees, social assistance, opportunities for career and personal development. Due to establishment of corporate skill pool, Company provides all employees of the Group with the possibility to fully realize their talents and creativities and motivates them with the

increased salary in proportion to the growth of their responsibility.

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

Our Company is seeking to build its relations with suppliers on the long-term and mutually profitable basis. Efficient co-operation with them allows MTS Group to fulfill itself in the market, improve quality of services provided to customers, update technology. The most important aspect of Company's corporate social responsibility is transparency of relations with suppliers and partners, including purchasing activity.

**The dialogue with the users of MTS OJSC services, company employees, representatives of authorities, nonprofit organizations and other stakeholders is carried out via various communication channels, the details of which are available on the corporate site [www.mts.ru](http://www.mts.ru).**

A.A. Dubovskov  
President  
Mobile TeleSystems OJSC

I. R. Borisenkova  
Chief Accountant  
Mobile TeleSystems OJSC



# 14. ADDITIONAL INFORMATION ON COMPANY

<b>Information on Company</b>	<p><b>Full corporate name of Company:</b> – in Russian: Открытое акционерное общество «Мобильные ТелеСистемы» – in English: Mobile TeleSystems Open Joint Stock Company</p> <p><b>Abbreviated corporate name of Company:</b> in Russian: ОАО «МТС» or ОАО «Мобильные ТелеСистемы». In English: MTS OJSC.</p> <p><b>MTS OJSC Location:</b> 4, Marksistskaya Street, 109147, Moscow, Russian Federation Tel.: +7 (495) 911 6565. Fax: +7 (495) 911 6599. <b>MTS OJSC Postal Address:</b> Bldg. 5, Cnstr. 2, Vorontsovskaya Street, 109147, Moscow, Russian Federation</p> <p><b>E-Mail:</b> info@mts.ru <b>Internet Web-site:</b> <a href="http://www.mtsgsm.com">http://www.mtsgsm.com</a>.</p>
<b>Information on the Investor Relations Department</b>	<p><b>Location of the Investor Relations Department:</b> Bldg. 5, Cnstr. 2, Vorontsovskaya Street, 109147, Moscow, Russian Federation Tel.: +7 (495) 911 6553. Fax: +7 (495) 911 6588. <b>E-Mail:</b> ir@mts.ru</p>
<b>Auditor</b>	<p><b>Deloitte &amp; Touche CIS Close Joint Stock Company</b> Certificate of Membership in Non-Profit Partnership "Auditor Chamber of Russia" № 3026. Location: 5, Leshnaya Street, 125047, Moscow, Russian Federation Tel.: +7 (495) 787 06 00 Fax: +7 (495) 787 06 01 Internet Web-site: <a href="http://www.deloitte.com">http://www.deloitte.com</a></p>
<b>Registrar</b>	<p><b>Registrar NIKoil OJSC</b> License issued by FFMS of Russia № 10-000-1-00290 (perpetual license) Location: 8, Ivan Franko Street, 121108, Moscow Telephone: For natural persons: +7 (495) 926-8173 For legal entities: +7 (495) 926-8161 Fax: +7 (495) 926-8178 Internet Web-site: <a href="http://www.rcnikoil.ru">http://www.rcnikoil.ru</a></p>
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