

ANNUAL REPORT  
2013

STRATEGY



DATA  
DIFFERENTIATION  
DIVIDENDS



MTS OJSC IS THE LEADING TELECOMMUNICATIONS OPERATOR IN RUSSIA AND CIS.

MTS OJSC HELPS PEOPLE COMMUNICATE AND GET INFORMATION IN ALL REGIONS OF RUSSIA, UKRAINE, BELARUS, TURKMENISTAN AND ARMENIA.

MTS OJSC IS SUCCESSFULLY ACHIEVING THE OBJECTIVE OF STRENGTHENING LEADERSHIP AND MAINTAINING HIGH BUSINESS EFFICIENCY.

IN 2014 MTS OJSC PRESENTED A NEW DEVELOPMENT STRATEGY FOR 2014–2016, WHICH IS BASED ON THREE KEY AREAS: «DATA», «DIFFERENTIATION» AND «DIVIDENDS».

NEW BUSINESS STRATEGY IS A TIMELY RESPONSE OF MTS TO CHANGES IN TELECOM MARKET, GROWTH OF NEEDS AND EXPECTATIONS OF CUSTOMERS, AS WELL AS A LOGICAL CONTINUATION OF THE 3I STRATEGY, WHICH COMPLETELY FULFILLED ITS TASK. WE HAVE COMPLETED THE PLANNED STAGES OF INTEGRATION, LAUNCHED THE PROCESSES OF TRANSFORMATION OF MTS NECESSARY TO DEVELOP IN THE MARKETS OF MOBILE AND FIXED INTERNET, NOT JUST INTRODUCING INNOVATIONS IN THEIR PURE FORM, BUT USING AN INNOVATIVE APPROACH TO THE FORMATION OF TARIFF OFFERS. THE NEW STRATEGY SPECIFIES EXISTING MTS STRATEGIC OBJECTIVES AND FOCUSES ON TOPICAL ASPECTS, WHICH HAVE FUNDAMENTAL IMPORTANCE FOR THE GLOBAL TELECOMMUNICATIONS PLAYER: INCREASING PENETRATION OF MOBILE INTERNET SERVICES, DIVERSIFICATION OF THE COMPANY’S SERVICES, INCREASING OPERATIONAL EFFICIENCY AND, CONSEQUENTLY, INCREASING DISTRIBUTIONS TO SHAREHOLDERS.

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

The indicators contained in this Annual Report are as of 31.12.2013, except where other periods or dates are expressly indicated.

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## Just Facts

**398.4 billion rubles** – revenue of MTS Group in 2013

**345 minutes per month** were used by MTS subscribers in 2013 – more than subscribers of other Big Three operators

**75.3 million subscribers** – MTS has the largest mobile subscriber base in Russia

**17 federal subjects of Russia** – the area where MTS launched LTE network in 2013

**2 billion Moscow households** connected to the Internet using GPON

**4,034 outlets** in various regions from Kamchatka to Kaliningrad make up the retail chain of MTS

**4,300 terabytes** is the daily amount of data transmitted in 2013 via MTS 3G network, which exceeds the size of all feature films ever made

**10,000 new base stations of MTS** were installed in Russia in 2013

## Main Outcomes of 2013

### FINANCIAL INDICATORS

CONSOLIDATED REVENUE

**398.4**  
bln. RUR

+ 5% growth vs. 2012

OIBDA

**175**  
bln. RUR

+ 8% growth vs. 2012

OIBDA MARGIN

**43.9%**

+ 1.1 p.p growth vs. 2012

CONSOLIDATED NET  
INCOME REVENUE

**76.1**  
bln. RUR

+ 22% growth vs. 2012

NET INCOME  
MARGIN

**20%**

### NON-FINANCIAL INDICATORS

THE NUMBER OF MTS BASE  
STATIONS

**78.000**

Growth due to increase in the number of 3G and LTE stations

THE LENGHT OF GPON  
OPTICALS LINKS  
IN MOSCOW

**25.000** km

MTS LTE NETWORK  
LAUNCHED  
**IN 17 REGIONS**  
OF THE RUSSIAN  
FEDERATION

BASED ON RESULTS OF 2013,  
MTS HAS THE **LOWEST CHURN** AMONG  
THE BIG THREE OPERATORS

BY THE END OF Q3 2013 IN RUSSIA,  
MTS BECAME **THE THIRD LARGEST  
PLAYER** IN TERMS OF SUBSCRIBERS  
BASED IN THE BROADBAND MARKET

WE HAVE CELEBRATED  
OUR 20TH ANNIVERSARY,  
AND SUMMING UP WE CAN  
JUSTIFIABLY SAY THAT THESE  
WERE **20 UNFORGETTABLE  
YEARS**, FULL OF ACHIEVEMENT,  
AND FOLLOWING ONE RULE —  
THE RULE OF **ON-GOING MOVE  
FORWARD**

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# Highlights 2013

<b>February 27</b>	<b>March 29</b>	<b>April 3 – May 30</b>
Expansion of the strategic partnership between MTS and Microsoft in the Russian market in the field of mobile applications, launch of a new product line for corporate market.	Acquisition of 25.095% of the outstanding shares of MTS Bank OJSC in accordance with the terms of the indicative offer signed in October 2012 between MTS and the Bank's majority shareholder — JSFC Sistema for the amount of 5.09 billion rubles. The transaction was completed in early April 2013.	Placement of exchange-traded debentures for 10 billion rubles for a period of 10 years at MICEX with put option for five years; placement of 10 year Eurobonds for \$500 million with a rate of 5.0% per annum.
<b>April 29</b>	<b>May 21</b>	<b>June 20</b>
Approval of the new revision of Dividend Policy Regulations, which ties payments to the free cash flow generated by the company. The minimum payout of dividends in 2013–2015 will be determined by the higher of the two values: a minimum of 75% of the free cash flow of MTS OJSC for the last financial year on the basis of U.S. GAAP reporting, or 40 billion rubles a year.	MTS brand for the sixth time was rated among the one hundred leading global brands BRANDZ™, formed by leading international research agency Millward Brown Optimor. MTS brand ranks among the ten leading global telecommunications brands by brand value. Brand value for the year grew by 11.2% to 10.63 BUSD.	Signing of an agreement with Ericsson on joint development of telecommunications infrastructure and cooperation in the construction of 4G networks in Volga, Siberia, the Urals and Southern federal districts.

<b>June 25</b>	<b>June 25</b>	<b>July 3</b>
The meeting of Shareholders of MTS decided to pay dividends for 2012 in the amount of 14.6 rubles per one ordinary share of MTS (or about 29.2 rubles per ADR); total amount of dividends was 30.2 billion rubles.	MTS reached an agreement with Altimo, Nomihold Securities Inc. (Nomihold) and other related parties on the settlement of all disputes related to investments in LLC Bitel.	Signing an agreement with Nokia Siemens Networks on joint development of telecommunications infrastructure and cooperation in construction of 4G networks in the Moscow region and the Central Federal District of Russia.
<b>August–December</b>	<b>August 26</b>	<b>October 2</b>
Launch of 4G networks in Tambov and Amur Oblast, Pskov Oblast, Kirov Oblast, Republic of North Ossetia–Alania, Khabarovsk Territory, Republic of Udmurtia, Trans-Baikal Territory, Rostov Oblast, Kaluga Oblast, Novosibirsk Oblast, Krasnoyarsk Territory.	Completion of dividend payout to shareholders for the year 2012 in the amount of 14.6 rubles per one ordinary share of MTS (or about 29.2 rubles per ADR); total amount of dividends was 30.2 billion rubles.	Appointment of Andrey Smelkov, a member of the Board of MTS OJSC as Vice President for Foreign Subsidiaries.
<b>October 25</b>	<b>November 29</b>	<b>December 10</b>
MTS retail chain started sales of iPhone 5s/5c.	Payout of interim dividend for the first half of 2013 in the amount of 5.22 rubles per one ordinary share of MTS (10.44 rubles per ADR), amounting to approximately 10.8 billion rubles.	Lowering interest rate to 8.45% from 8.50% per annum and rescheduling payments under Sberbank credit facility totaling 80 billion rubles.

# Background

MTS OJSC was established as Mobile TeleSystems Closed Joint-Stock Company by Moscow City Telephone Network Open Joint Stock Company (MGTS), Deutsche Telekom (DeTeMobil), Siemens and several other shareholders in October 1993. Four Russian companies owned 53% of the stock, while two German companies had 47%. At the end of 1996, JSFC Sistema 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 have been trading on the New York Stock Exchange as American Depositary Shares (index MBT).

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

In March 2013 MTS OJSC acquired 25% +1 share of MTS Bank OJSC. Our Company entered into a five-year agreement with MTS Bank on joint development of loan product

“MTS Money.” It is expected that by 2017 the share of financial services in the net income of the Company will be no less than 5%, and MTS expects to become for its customers a single point of entry for telecommunications and financial services.

In 2013, MTS was voted the most valuable Russian telecom brand according to Interbrand. MTS was the only Russian telecom brand to be ranked among the top 100 global brands BRANDZ™. This year, the brand value of MTS increased by 11.2% to 10.63 billion dollars. In 2013, the company launched commercial operation of LTE-FDD networks in Moscow, Moscow Oblast and other 15 regions of Russia. Within the framework of the project, GPON MTS connected more than two million apartments in Moscow to the fiber-optic line that allows to use the Internet at a fixed rate of up to one Gbit / s. In addition, MTS offers fixed FTTB / FTTH solutions in more than 180 Russian cities and also leverages its retail network to increase the penetration of consumer devices to access the Internet, developing its own branded line of affordable smartphones.

Based on synergy with fixed broadband, MTS offers its customers digital cable TV (IPTV and DVB-C), video services, comprehensive solutions for offices, combining fixed and mobile communications. Together with JSFC Sistema, MTS launches OTT- multimedia entertainment portal Stream.ru — universal



online store with a wide selection of licensed video content.

Today MTS OJSC is the largest mobile operator in Russia, Eastern and Central Europe in terms of subscribers. Services of MTS OJSC are available in all regions of Russia. As of December 31, 2013 MTS serves more than 107 million subscribers in various regions and countries.

MTS OJSC is the central Company of MTS Group, which also includes the subsidiaries and affiliates of MTS OJSC. MTS Group

provides integrated mobile and fixed telephony, long-distance and international communications, cable television services, data transmission services based on wireless and wired solutions, including fiber access technologies and third and fourth generation mobile networks, as well as financial services. The current position of MTS is the leadership in the development of networks and digital access services, branded retail chain, a wide range of additional services, experienced and stable management team.

COMPANY DEVELOPMENT HISTORY

1993

- MTS was established by fixed-line operator MGTS, Deutsche Telekom, Siemens and other investors

1994

- Launching services in the Moscow license area

1997

- Start of regional expansion in Russia

2000

- IPO on NYSE exceeded \$350 million to fund expansion in Russia and CIS

2002

- Expansion in CIS, and launch of operations in Belarus

2003

- Acquisition of the leading Ukrainian operator UMS

2004

- Acquisition of Uzdurobita, No. 1 mobile operator in Uzbekistan

2005

- Acquisition of BCTI, No. 1 mobile operator in Turkmenistan

2007

- Acquisition of the leading Armenian mobile operator VivaCell

2008

- Entering into strategic partnership with Vodafone
- Obtaining license for the construction of UMTS network in Russia

2009

- Launching monobrand retail chain of MTS (RTC CJSC)

2010

- Acquisition of a number of regional broadband and cable TV operators, start of consolidation of fixed assets of MTS
- Suspension of MTS operations in Turkmenistan
- Launch of the first LTE network in CIS in Uzbekistan

2011

- Signing of memorandum with Skartel
- Participation in the Union of LTE Operators
- Merger of Comstar by MTS completed

2012

- Obtaining frequencies and federal licenses to provide LTE telecommunications services in Russia, launching own network in Moscow
- Acquisition of Tascom CJSC
- Resumption of operations in Turkmenistan, connection of about 1 million subscribers by the end of 2012
- Signing indicative offer with MTS Bank and JSFC Sistema to acquire up to 20,095% of the share capital of MTS Bank OJSC
- Suspension of operations in Uzbekistan

2013

- Agreement signed between Altimeo, MTS, Nomihold Securities Inc. and other related parties on the settlement of all disputes related to investments in LLC Bitel, the former largest mobile operator in Kyrgyzstan.
- Approval of the new revision of dividend policy of MTS

# President’s Message to Shareholders

DEAR SHAREHOLDERS,

We are witnesses and actors of the revolutionary transformations in modern telecommunications, conditioned by recent landmark changes in customers’ consumption patterns. The crucial request of private and corporate customers has been transformed from “**always be connected**” into “**always be online**”, and then into “**always be online at high speeds**”. It is high-speed Internet that is capable today to expand comfort zone of a person, increasing its work efficiency, quality of life, and providing additional security.

From the perspective of our business, one of the most important effects of changed customer preferences is the expected slowdown in revenue from voice services and the need for their replacement. MTS Group is **fully prepared for these changes and considers them only as an opportunity to strengthen its leadership in the markets where it operates**, primarily due to organic growth in data revenue. We feel confident here due to the active modernization of 3G, construction of LTE networks, which by 2015 will cover the entire territory of Russia, as well as due to

convergence with fixed data transfer standards GPON and FTTB — MTS Group has everything necessary for better access to the Internet — at home, at work and on the street.

In 2013, MTS Group adopted a new development strategy for 2014–2016, which is based on three key areas: “**data**”, “**differentiation**” and “**dividends**”. It specifies the existing strategic objectives of MTS and focuses on topical and fundamentally important aspects for the global telecommunications player: increased penetration of mobile Internet services, diversification of the Company’s services, improving operating efficiency and, consequently, increasing payments to shareholders.

From the standpoint of differentiation, MTS will **focus on innovative products and services**. In particular, it will expand its presence **in the banking market** through unique services that are not available to other credit institutions lacking modern telecommunications infrastructure. Also MTS and MGTS will continue to **develop cutting-edge television and video services as well as digital platforms in Moscow based on GPON network**, which is the basis for introduction of advanced city management systems.

Implementation of these opportunities and traditionally rigorous approach of MTS



to improvement of operational efficiency allows us to progressively increase the rate of cash flow and apply a significant part for dividend payments. **In 2014 and 2015 MTS**

**intends to increase the total payouts to shareholders to 90 billion rubles** due to increased free cash flow and strong operating performance.

President of MTS OJSC  
Andrey Dubovskov

A handwritten signature in blue ink, appearing to read 'A. Dubovskov', positioned to the right of the printed name.

WE **HELP THE PEOPLE**  
COMMUNICATE AND RECEIVE  
INFORMATION THROUGHOUT  
ALL REGIONS OF RUSSIA,  
UKRAINE, BYELARUS REPUBLIC,  
TURKMENISTAN, AND ARMENIA

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# Market Position of the Company

As of December 31, 2013, MTS OJSC held licenses for all 83 regions of the Russian Federation. Subsidiaries of MTS OJSC continued to operate in the reporting year in Ukraine (Pr JSC MTS UKRAINE), Republic of Armenia (K-Telecom CJSC), Republic of Turkmenistan (BE MTS-Turkmenistan) and Republic of Belarus (MTS Joint LLC). The total population of the licensed area of MTS exceeds 200 million.

In Russia mobile services are provided by three federal operators — MTS OJSC, Megafon OJSC and Vimpelcom OJSC as well as several dozens smaller regional telecom companies operating under different cellular communications standards: GSM, NMT 450 and CDMA-1x, UMTS (3G). According to AC&M, as of December 31, 2013, mobile penetration in Russia reached 170.0%, and the total number of subscribers reached 242.8 million. With that, MTS OJSC holds the leading position in Russia in terms of subscriber base, with 31% market share, Megafon OJSC and Vimpelcom OJSC market shares amount to 28.1% and 23.3% respectively. MTS OJSC and its subsidiaries and affiliated companies in Russia collectively had 75.3 million customers as of December 31, 2013.

Russia's largest mobile communication markets (by the number of customers) are

Moscow and Moscow Region and St. Petersburg and Leningrad Oblast. According to AC&M, mobile penetration in Moscow and the Moscow Region was 216.6% at December 31, 2013. The total number of customers of all operators in Moscow and Moscow Region is estimated at 40.3 million, with the share of MTS OJSC reaching 37.4%. Mobile penetration in St. Petersburg and Leningrad Oblast, according to AC&M, was 211.5% as of December 31, 2013, with total number of customers of 13.9 million. MTS market share is recorded at 28.0%.

The most important regional market (apart from Moscow and St. Petersburg) is the Krasnodar Territory (including Republic of Adygeya), where the number of mobile subscribers as of December 31, 2013 exceeded 10.6 million according to AC&M, as well as Sverdlovsk Oblast — 7.4 million, Rostov Oblast — 6.5 million, Republic of Bashkortostan — 6.4 million and Republic of Tatarstan — 6.2 million.

As of Q4 2013, the number of subscribers of subsidiaries and affiliates of MTS OJSC in the CIS countries is as follows: 22.7 million (including CDMA) in Ukraine (Pr JSC MTS UKRAINE); 2.0 million in Turkmenistan (MTS-Turkmenistan EC), 2.4 million in the Republic of Armenia (K-Telekom CJSC), 5.4 million in the Republic of Belarus (MTS JLLC, not consolidated into financial statements of the MTS Group).



Mobile Internet becomes the main growth driver in the mobile market in Russia and CIS. MTS shows the highest rate of data revenue growth (in Q4 2013, y-o-y growth amounted to about 50%). According to AC&M, market share of MTS in terms of data revenue in Q4 2013 was 37%, which is 2 per cent higher than the last year.

One of the key indicators of popularity and availability of mobile Internet services is the penetration rate of smartphones. For our company in 2013 this figure exceeded 31%. Every third MTS subscriber uses a smartphone. According to our estimates, it is twice as high as the Russia's average.

# Company Outlook

In 2013, MTS OJSC reaffirmed its leadership in the markets where it operates, showing excellent performance as compared with the previous reporting period. Importantly, MTS OJSC is not just holding leadership positions, but consistently and actively developing new areas of business. And in this sense, 2013 was marked by transformation of MTS OJSC into a leading multi-service operator, offering not only a full range of the most advanced telecommunications services, but also access to ultra high-speed 4G LTE networks, banking services of the highest class, high-speed fixed access under GPON technology, digital TV, etc. It is important to note that the Company's consolidated subscriber base in the mobile business increased by 6.9% by the end of 2013 to 102.43 million.

Actual proof of strong market position of the Company is the consolidated revenue of the Group, demonstrating impressive growth +5% in 2012; in absolute terms, this figure reached 398.4 BRUR. Consolidated net income from continuing operations in Q4 2013 grew by 28% year-on-year and amounted to 19.8 BRUR. In annual terms, this indicator increased by 22% to 76.1 BRUR. Free cash flow from continuing operations

in 2013 increased year-on-year by 52% to 68.9 BRUR. Consolidated OIBDA in Q4 2013 increased by 11% to 45.0 BRUR, year-on-year. In annual terms, consolidated OIBDA increased by 8% to 175.0 BRUR. OIBDA margin in Q4 2013 increased y-o-y by 1.8 percentage points to 42.9%. In annual terms, it increased by 1.1 percentage points to 43.9% in 2013. Consolidated net income in Q4 2013 (y-o-y) increased by 16% to 19.8 BRUR. By the end of 2013, the growth of this indicator was 169% to 79.8 BRUR.

Business in Russia, the key domestic market of the Company, shows a steady positive development dynamics. Revenue in Q4 2013 increased by 7% to 94.2 BRUR year-on-year. In the fourth quarter OIBDA amounted to 41.1 BRUR, increase of this indicator as compared to the same period last year was 11%. OIBDA margin for the fourth quarter increased by 1.7 percentage points to 43.7% y-o-y. Revenue from mobile services in Russia grew in Q4 2013 by 8% to 71.6 BRUR, y-o-y. Revenue from fixed services went up by 5%. Revenue from data services were record high at 13.8 BRUR. This indicator increased by 49%. ARPU was 315 rubles, showing an increase of 3% as compared to Q4 2012. MOU grew by 7% to 345 minutes over the same period. Subscribers churn in Russia in Q4 2013 was 9.0%, which is an absolute record for the last four years. In the fourth quarter of 2012, the figure was 11.0%,

so it declined by 2 percentage points over the year.

We should also note the continued successful development of branded retail chain of MTS OJSC. At the end of Q4 2013, retail chain of MTS consisted of 4,034 outlets, including 1,197 franchised stores. In 2013, the Company focused on the growth of efficiency of outlets and optimization of franchised stores. In Q4 2013, the share of smartphone sales amounted to 65.0% of the total number of phones sold in the outlets of MTS. Sales of MTS contracts also remain at a consistently high level; with that, the Company attracts high-margin customers.

In the Ukrainian market, despite the adverse macroeconomic factors, revenue growth year-on-year was 3% (up to 9.965 BUAH) amidst continued subscriber growth. Decline in ARPU and MOU y-o-y of 4% and 3% (up to 38 hryvnia and 577 minutes), respectively, is associated with increased number of low-margin customers. OIBDA growth of 5% per year (up to 5.176 BUAH) is amplified by a steady reduction of churn, reduced costs to attract customers and improvement of overall business performance. MTS Ukraine continues to show high profitability of the business, OIBDA margin growing by 1.1% year-on-year, to 51.9%.

In Armenia and Turkmenistan markets, MTS OJSC also holds a strong position. For example, in Armenia revenue growth year-on-year was 3% (up to 79.9 billion drams), due to the active promotion of consumption of voice and data services, as well as growing market share. Churn reduction continues through customer loyalty campaigns. In the Turkmen market, after relaunching the network on August 30, 2012, the existing subscribers were able to reactivate their SIM-cards. By the end of 2013, revenue

increased to 253 million manat (166% per year) due to increase in the subscriber base and increased demand for voice, Internet and content services. Quarterly OIBDA growth by 62% (from 26.9 to 43.5 million manat) reflects the cancellation of reserves for salary fund and stock options, reserves for frequency payments, rental costs, reserves for dismantling network equipment due to elimination of BCTI, a subsidiary of MTS OJSC in Turkmenistan.

Rapid growth of penetration of mobile devices connected to the Internet, such as smartphones and tablets, continues. Penetration of consumer devices, combined with active deployment of 4G LTE networks becomes a growth driver of consumption of data services in 2013. As a result, MTS OJSC for the fourth consecutive quarter has been the leader in terms of data revenue dynamics in Russia. In future, MTS OJSC will also continue to build a modern third and fourth generation network infrastructure, which, in turn, will ensure not only the Company's market leadership, but also become the basis for an excellent customer experience for all target segments. Fixed business of the Company has been developing successfully as well. Thus, as a result of migration of pay-TV subscribers to digital TV platform and the total growth of consumption of DTV and broadband services by subscribers of upgraded networks in the regions, as well as resulting from subscribers migrating from ADSL to modern high-speed GPON technology and subscriber base growth in Moscow, ARPU in the mass market grew +7% y-o-y (to 310 rubles). ARPU growth y-o-y basis in the corporate market at +13% (to 8,962 rubles) is due to sales of additional services and projects for video surveillance of municipal infrastructure in Moscow.

Traditionally the Company gives high priority to the development of infrastructure, which is its key asset. During 2013, MTS OJSC launched commercial operation of LTE-FDD network in Moscow and Moscow Oblast, as well as 15 other regions of Russia. Thus, the Company remains the flagship of the digital revolution in the Russian market, enabling unprecedented rate of LTE rollout. By the end of 2014, MTS OJSC plans to launch LTE networks in 600 cities in 74 regions of Russia. MTS OJSC launches LTE network in the 2600 MHz band in urban areas in order to achieve maximum capacity and the highest data rates. After efforts on clearing the frequency spectrum, MTS OJSC plans to use in urban areas 800 MHz frequencies to improve the quality of indoor-coverage and overall network quality. MTS OJSC has a spectrum of 10–25 MHz in the 1800 MHz band in 76 regions, which can be used for the development of LTE 1800MHz after switching voice traffic into the GSM900/UMTS2100 band. After the launch of LTE Advanced technology, the Company will be able to combine the bandwidth of

various widths to further increase the capacity and speed up to 300 Mbit / s.

Finally, MTS OJSC continues to actively develop related business areas, other than of mobile and fixed services, such as banking services. As part of the work in this area, the acquisition of 25.095% of MTS Bank OJSC was completed in accordance with the indicative offer signed in October 2012 between MTS Bank OJSC and the majority shareholder — JSFC Sistema. Work in the field of telematic services (machine-to-machine), as well as cloud computing is in progress. All this, plus the active development of converged solutions based on fixed networks, such as video surveillance, are among the priority areas of development of the Company.

Already for 20 years MTS has been steadily reaching the most difficult, the most challenging goals, remaining the undisputed leader of the telecommunications market, going ahead of the competition and providing its customers the best services in the telecommunications sector and beyond, always and everywhere.

# Our Strategy

Leadership of MTS OJSC in the markets is based on consistent implementation of 3i Strategy — Integration, Internet, Innovation. Thanks to the 3i Strategy MTS OJSC becomes a true multiservice player, going beyond the traditional telecom markets and finding new growth points: it is not just active construction of modern infrastructure of 4G LTE networks, not just active development of high-speed fixed access technologies, such as GPON, but also provision of financial and banking services on the basis of MTS Bank, development of intelligent converged products in the field of video surveillance, etc.

Attention to related business areas, such as cloud computing, M2M and banking services, up-front investment in infrastructure development using the latest LTE and GPON technologies, providing digital TV services, active development of own branded retail chain and promotion of available consumer devices with Internet access, particularly smartphones, are all integral elements of the 3i Strategy and necessary components of the Company's success.

Successful implementation of the 3i Strategy 2013 is evidenced by operating results of the Company: in 2013 consolidated revenue of MTS OJSC y-o-y increased by 5% to 398.4 BRUR. Consolidated OIBDA

grew in Q4 2013 by 11% to 45.0 BRUR, year-on-year. In annual terms, consolidated OIBDA margin increased by 8% to 175.0 BRUR. OIBDA margin in Q4 2013 increased y-o-y by 1.8 percentage points to 42.9%. In annual terms, it increased by 1.1 percentage points to 43.9% in 2013. Consolidated net income in Q4 2013 grew y-o-y by 16% to 19.8 BRUR. Over the year, this indicator grew by 169% to 79.8 BRUR. Consolidated net income from continuing operations in Q4 2013 increased by 28% year-on-year and amounted to 19.8 BRUR. In annual terms, this indicator grew by 22% to 76.1 BRUR. Free cash flow from continuing operations in 2013 increased year-on-year by 52% to 68.9 BRUR. Consolidated subscriber base of the Company in mobile business by the end of 2013 increased by 2.4% to 107.83 million people. Finally, MTS brand for the sixth time was rated among the one hundred leading global brands BRANDZ™, formed by leading international research agency Millward Brown Optimor. MTS brand ranks among the ten leading global telecommunications brands by brand value. Brand value for the year grew by 11.2% to 10.63 BUSD.

Total capital expenditures of MTS Group in 2013 amounted to 81.6 BRUR. MTS Group's capital expenditure in 2013 were aimed at the development of 3G networks in Russia, construction of 4G LTE networks, reconstruction of MGTS networks based on GPON

MTS 3i Strategy

Strategic direction	Tactics	Key benefits
<b>Integration</b> New channels and points of contact with customers	<ul style="list-style-type: none"><li>Seamless customer experience for all segments</li><li>Rapid deployment of broadband access infrastructure (fixed network / 3G / LTE)</li><li>Integrated sales channels</li></ul>	User lifetime value is increasing
<b>Internet</b> More effective channels for additional value	<ul style="list-style-type: none"><li>Improved quality of connection</li><li>Convincing experience of Internet users</li><li>Best-in-class content applications and services</li></ul>	
<b>Innovations</b> Differentiation of products and services	<ul style="list-style-type: none"><li>Exclusive devices</li><li>Cutting-edge products and services for all customer segments</li><li>Seamless customer experience at home, at work and on the move</li></ul>	Generating shareholder returns

technology in Moscow and upgrading networks in the regions of Russia and countries of presence. Capital expenditures of the Group in 2013 correspond to the forecasted value at around 20% of revenue. As a part of the Company’s investment program, LTE-FDD networks were commercially launched in Moscow and Moscow Oblast, as well as in 15 other regions of Russia. By the end of 2014,

MTS OJSC plans to launch LTE network in 600 cities in 74 regions of Russia. MTS launches LTE networks in the 2600 MHz band in urban areas to achieve maximum capacity and highest data rates.

MTS OJSC has been and still is an attractive asset for investors and shareholders: in 2013 MTS OJSC paid dividends for the total amount of 41.0 BRUR, and high dividends

are an important element of the Company’s strategy. In April 2013, MTS OJSC adopted a new dividend policy, which provides that the minimum amount of dividend payments in 2013–2015 will be determined by the higher of the two values: a minimum of 75% of the free cash flow of MTS OJSC for the last financial year on the basis of U.S. GAAP reporting, or 40 BRUR a year. In 2013 MTS OJSC switched to semiannual dividend payment based on the results for the first and second half of the year.

In 2014 MTS OJSC will start implementation of new “3D” strategy – “Data, Differentiation, Dividends”. The new strategy will replace the “3i” that already successfully fulfilled its tasks and will ensure long-term Company growth and development. MTS OJSC expects growth of the Group’s revenue at 3–5%. The main factors that could affect the revenue growth are increase in data revenue due to increasing penetration of smartphones and modems, change of the concept of MTS retail outlets for promoting sales of data-generating devices, as well as growth of broadband Internet access and pay-TV markets in Russia.

Macroeconomic uncertainty and volatility in the markets of MTS Group can cause revision of income and OIBDA forecasts, which in turn may affect the financial and operating performance of MTS Group. The company expects OIBDA increase by more than 2% in 2014. The main factors that could affect OIBDA dynamics are revenue growth in key markets, growth of consumption of tariffs designed for data services and

smartphones and tablets, sales of handsets and accessories, competitive factors, increase in the share of inflation costs, macroeconomic factors.

Capital expenditures of MTS group in 2014 will amount to 21% of revenue. Investments include the expansion of networks and key projects: construction of LTE networks in all regions of Russia, modernization of 3G networks, extension of GPON network in Moscow Oblast, modernization of the telecommunications infrastructure in Ukraine, maintaining the current level of CAPEX in Armenia, construction of 3G networks in Turkmenistan.

Due to high indicators in 2013 and high level of free cash flow, MTS raises dividend forecast for 2014–2015 to at least 90 BRUR for two years in aggregate. MTS plans to ensure a high level of dividends due to work on stable markets, macroeconomic stability, as well as the expected level of CAPEX of about 90 BRUR in 2014 and 85 BRUR in 2015.

Following the principles of leadership and constantly focusing on the needs of the Company’s customers – both subscribers and shareholders, MTS OJSC will continue to work actively in its markets in both traditional telecom sectors, such as mobile and fixed telephony, and adjacent sectors, for example, in financial services, convergence, etc. This will enable MTS OJSC to maintain high growth rates in the future and maintain performance at the highest level, going before the competition and moving a step ahead of expectations of customers and shareholders.

# Report of the Board of Directors

In 2013, MTS OJSC successfully fulfilled its obligations to the shareholders and to subscribers. Thanks to consistent implementation of the 3i Strategy – Integration, Internet, Innovation, the company is a recognized leader in its markets both in telecom business, fixed and mobile, and in related industries, such as financial and banking services, in the area of development of branded retail chain, etc.

In accordance with the Company's strategy in 2013 unprecedented efforts were made to accelerate the deployment of 4G LTE networks: LTE-FDD networks were commercially launched in Moscow and Moscow Oblast, as well as in 15 other regions of Russia. By the end of 2014 MTS OJSC plans to launch LTE network in 600 cities in 74 regions of Russia. MTS launches LTE network in the 2600 MHz band in urban areas in order to achieve maximum capacity and the highest data rates. This, along with the development of high-speed fixed access networks, such as GPON in Moscow, will allow MTS OJSC to provide its customers the most advanced, high-speed Internet access services everywhere – at work, at home and on the road. By the end of 2013, more than 2 million households have been upgraded in Moscow as a part of development of fixed networks of the Company.

Branded retail chain of MTS has been actively developing as well. At the end of Q4 2013, it consisted of 4,034 outlets, including 1,197 franchised stores. In 2013, the company focused on the growth of efficiency of outlets and optimization of franchised stores. In Q4 2013, the share of smartphone sales amounted to 65.0% of the total number of phones sold in the outlets of MTS. Outpacing growth in sales of smartphones is due to the high demand for low cost branded devices to access the Internet and promotional offers for data services. Revenue from data services in Russia – the key market of the Company – showed a record growth, amounting to 13.8 BRUR. This indicator increased by 49%. MTS OJSC for the fourth consecutive quarter has been the leader in terms data services revenue dynamics in Russia.

Successful implementation of the 3i Strategy 2013 is evidenced by operating results of the Company: in 2013 consolidated revenue of MTS OJSC y-o-y increased by 5% to 398.4 BRUR, and consolidated OIBDA grew in annual terms by 8% to 175.0 BRUR. OIBDA margin increased in annual terms by 1.1 percentage points to 43.9% in 2013. Consolidated subscriber base of the Company in mobile business by the end of 2013 increased by 2.4% to 107.83 million people. Finally, MTS brand for the sixth time was rated among the one hundred leading global brands



BRANDZ™, formed by leading international research agency Millward Brown Opti-mor. MTS brand ranks among the ten leading global telecom brands by brand value. Brand value for the year grew by 11.2% to 10.63 BUSD.

Chairman of MTS OJSC Board of Directors  
Ron Sommer

Dividend obligations are being performed in full: in 2013 MTS OJSC paid dividends for the total amount of 41.0 BRUR. In April 2013, MTS OJSC adopted a new dividend policy, which provides that the minimum amount of dividend payments in 2013–2015 will be determined by the higher of the two values: a minimum of 75% of the free cash flow of MTS OJSC for the last financial year on the basis of U.S. GAAP reporting, or 40 BRUR a year. In 2013 MTS OJSC switched to semi-annual dividend payment based on the results for the first and second half of the year. Due to strong performance in 2013 and high level of free cash flow, MTS raises dividend forecast for 2014–2015 to at least 90 BRUR for two years in aggregate. MTS plans to ensure a high level of dividends due to operations in stable markets, macroeconomic stability, as well as the expected level of CAPEX of about 90 BRUR in 2014 and 85 BRUR in 2015.

In 2013, MTS OJSC celebrated its 20th anniversary. And we can rightly say, summing up, that it was 20 unforgettable years, full of victories and subordinated just to one rule – moving forward constantly. Without a doubt, this is only the first step in a long journey of the Company and MTS OJSC in the future only strengthen its leadership position in the markets. Today, we began transformation of the Company into a multi-service operator, and have already made the first successful efforts in this direction, staying as usual one step ahead of the boldest, most ambitious expectations.

A handwritten signature in blue ink, likely belonging to Ron Sommer, the Chairman of MTS OJSC Board of Directors. The signature is stylized and cursive, written on a light-colored background.

# Operating Results

Mobile communications market in Russia and CIS countries has been developing very rapidly, owing to the steady decline in prices, both for services of mobile operators and subscriber equipment. The result has been the growth of mobile penetration into wider population groups.

The trend towards slower growth in the subscriber base of mobile operators for the first time appeared in 2005, and continued in the following years. This can be attributed to the gradual saturation of the market and operators' focus on the "quality" of the subscriber base. Thus, in Russia all the Big Three operators have reduced customer churn in 2013; MTS reduction was more than 6 percentage points. In this connection, marketing efforts of operators shifted from attracting new customers towards improving loyalty and profitability of existing subscribers and attracting to its network subscribers of competing companies. Additional incentive to intensify the competition for customers' loyalty was the fact that in 2013 the Ministry of Communications made substantial changes to telecom legislation. On December 1, 2013 a law on mobile number portability came into force. At the moment, the introduction of mobile number portability did not have a significant effect on the market share of mobile operators in Russia.

By the end of 2013, the penetration rate of mobile communication services reached 170%, which puts Russia among the most developed telecommunications markets in the world. Being one of the leading players in the telecommunications market in Russia and CIS, MTS aims to employ existing growth potential in all the most dynamic segments of the industry.

In the Company's traditional segment of mobile telephony the major growth factors are increased overall use of communications services and more active consumption of value-added services by subscribers, with their loyalty increasing. MTS offers its customers tariff plans at fair prices, timely and regular informing them of any changes in terms of service and tariff plans. MTS develops its tariff plans also taking into account regional specifics, which allows to market offers tailored to each region.

Development of the mobile Internet is increasingly important for the growth of mobile market in Russia and CIS. The year 2013 became extremely successful for MTS in terms of development of this business. In 2013, MTS showed the highest data revenue growth in the Russian market (in Q4 2013 y-o-y growth amounted to about 50%). According to AC&M, market share of MTS data revenue in Q4 2013 was 37%, down 2 percentage points from the last year.



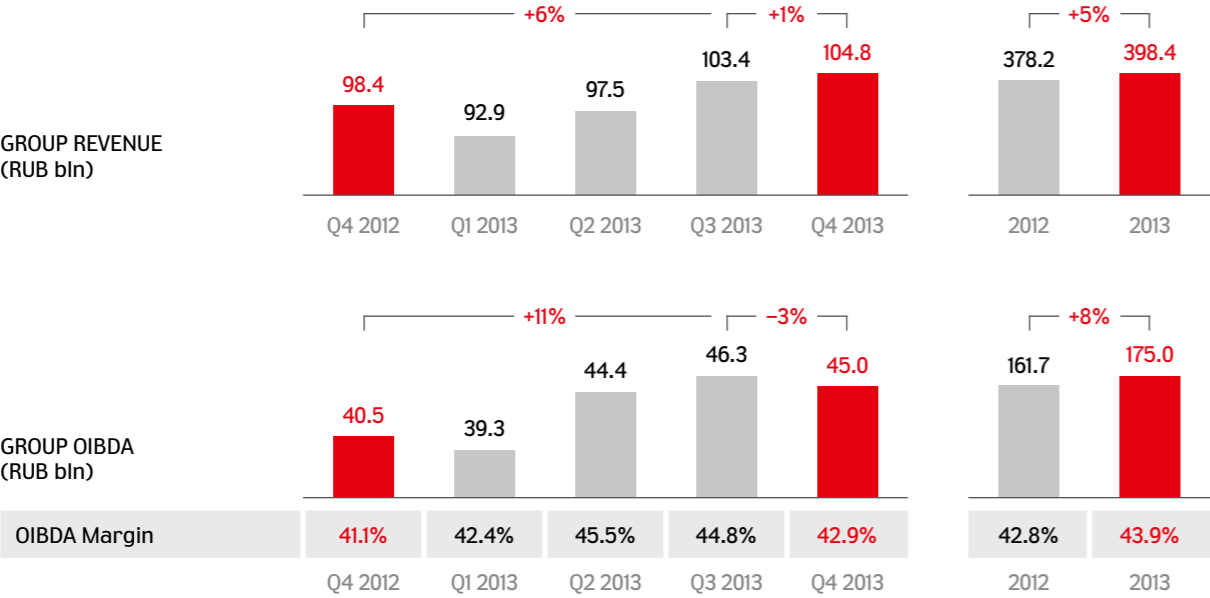
The basis for qualitative growth in consumption of mobile data services is the development of 3G network which operates in all federal districts of Russia, Armenia, Belarus. 3G network was launched in Turkmenistan. Important role in the development

of digital services is played by LTE. In 2014, LTE penetration rate among users of digital services will be 7%, and by 2016 the figure will exceed 25%. "Heavy" customers that consume a large amount of data traffic will be the first to move to LTE. Developing LTE networks, we expect to attract and retain these customers. Migration of active customers to the new technology will relieve 3G networks. According to our estimates, LTE will begin to make a noticeable contribution to revenue in 5 years; however the technology already today is able to provide the most demanding customers a completely new service level. By the end of 2013, LTE network is commercially launched in 17 regions of the country. MTS is the first Russian operators to provide a possibility to use LTE networks in international roaming.

MTS OJSC is actively developing its own network of sales and service centers that allow to sale branded unique products and services, to provide quality service to customers and have positive effect on MTS brand awareness. The smartphones penetration rate is important for the development of mobile Internet, in which connection MTS is actively developing its branded smartphones and tablets at an attractive price.

In addition to above, the Company monitors inorganic growth opportunities, both in the markets of presence and beyond. MTS OJSC has sufficient experience of integration of acquired companies which allows effectively incorporate them into the business structure and get a positive economic effect as quickly as possible.

MTS GROUP FINANCIAL HIGHLIGHTS: REVENUE AND OIBDA



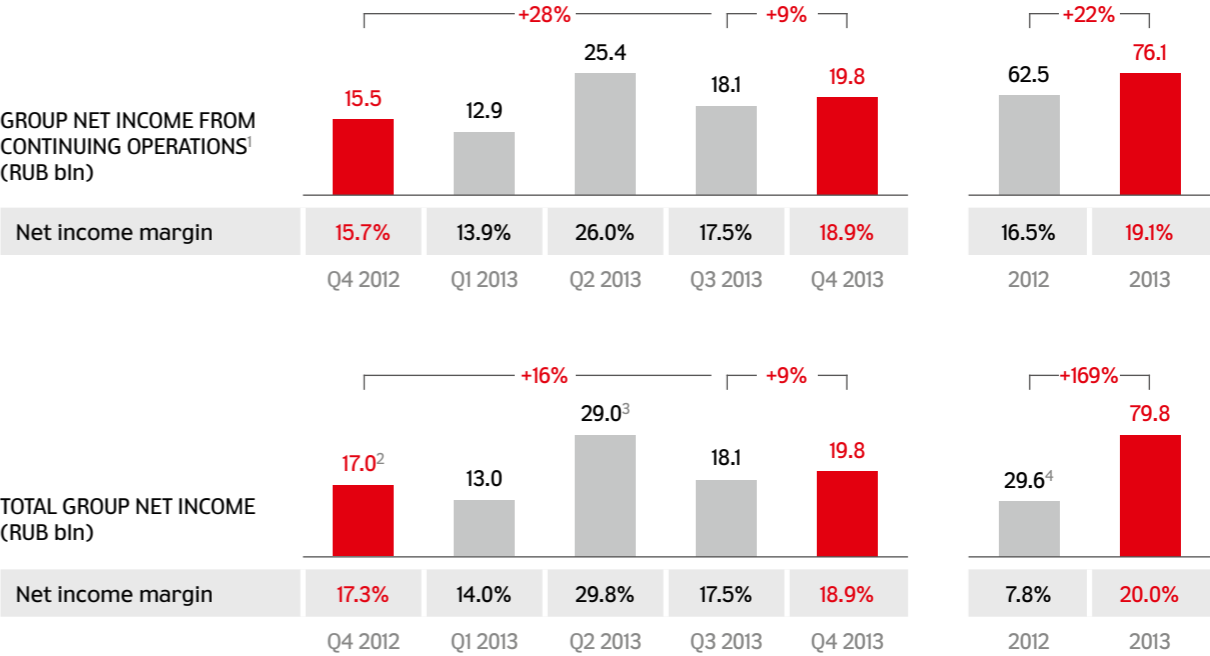
YEAR-ON-YEAR REVENUE GROWTH DRIVEN BY A SUSTAINED INCREASE IN DATA REVENUE IN RUSSIA AND SUBSCRIBER GROWTH IN KEY MARKETS

Q-ON-Q REVENUE GROWTH BUCKS SEASONAL TRENDS DUE TO HIGHER-VALUE SUBSCRIBER ADDITIONS, INCREASED DATA ADOPTION AND EXPANSION OF FIXED-LINE BUSINESS IN RUSSIA

YEAR-ON-YEAR OIBDA IMPROVEMENT REFLECTS EXPANSION OF HIGHER-MARGIN DATA REVENUE, SUSTAINED IMPROVEMENTS IN THE COMPANY'S OPERATING EFFICIENCY, AND DECLINE AS A PERCENTAGE OF SALES OF HIGH-COST HANDSETS IN THE REVENUE MIX

SEASONAL Q-O-Q OIBDA DECLINE MITIGATED BY STRONGER TOP-LINE PERFORMANCE

MTS GROUP FINANCIAL HIGHLIGHTS: NET INCOME



STRONG Q-ON-Q AND Y-O-Y BOTTOM LINE PERFORMANCE ENHANCED BY STABLE REDUCTION OF G&A AND D&A, IMPROVED CONTRIBUTION FROM MINORITY SHARE BUSINESSES IN BELARUS, LOWER INTEREST EXPENSES AND SUSTAINED GROWTH IN OIBDA

STRONG NET INCOME PERFORMANCE IN Q4 2013, DESPITE NEGATIVE IMPACT FROM NON-CASH FOREX LOSS IN THE AMOUNT OF RUB 840 MLN

NET INCOME DYNAMICS IN 2013 REFLECT ONE-OFF GAINS REALIZED IN CONNECTION WITH SETTLEMENT OF LITIGATION OVER BITEL LLC AND DISCONTINUATION OF OPERATIONS IN UZBEKISTAN

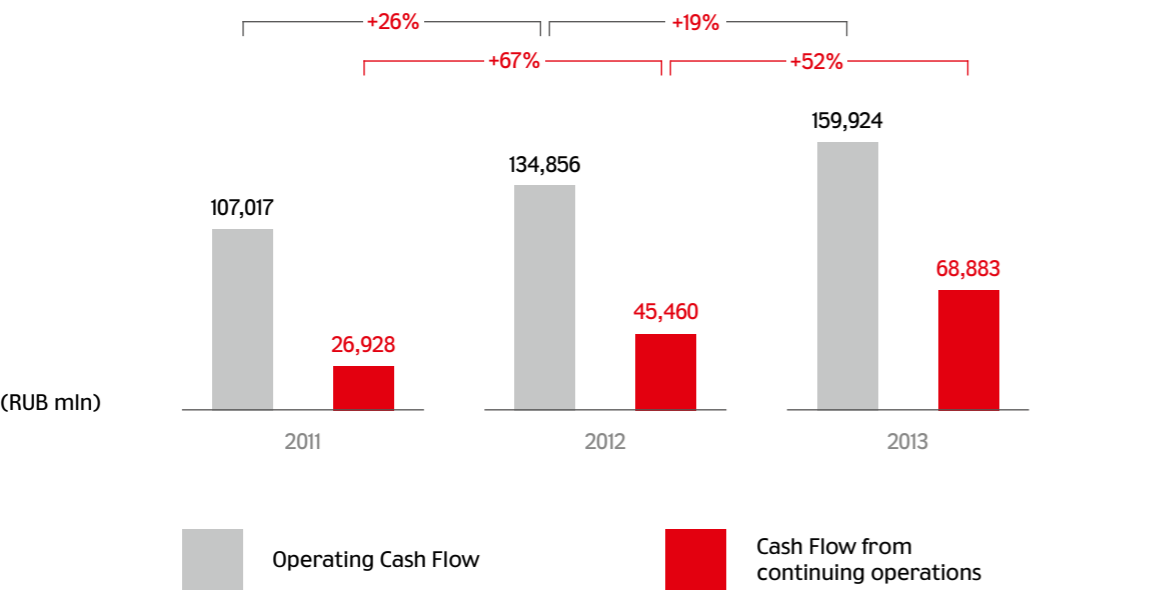
<sup>1</sup> Represents ongoing MTS operations exclusive of operations in Uzbekistan.

<sup>2</sup> Includes a non-cash impairment for goodwill and long-lived assets of RUB 979 mln and a gain from the reversal of provision for claims in Uzbekistan of RUB 2 510 mln resulting from the suspension of operations in July 2012.

<sup>3</sup> Includes a non-cash gain on deconsolidation of Uzbekistan of RUB 3 682 mln.

<sup>4</sup> Includes a non-cash impairment for goodwill and long-lived assets of RUB 20 037 mln and provision for claims in Uzbekistan of RUB 13 948 mln resulting from the suspension of operations in July 2012.

OPERATING AND FREE CASH FLOW FROM CONTINUING OPERATIONS <sup>1</sup>



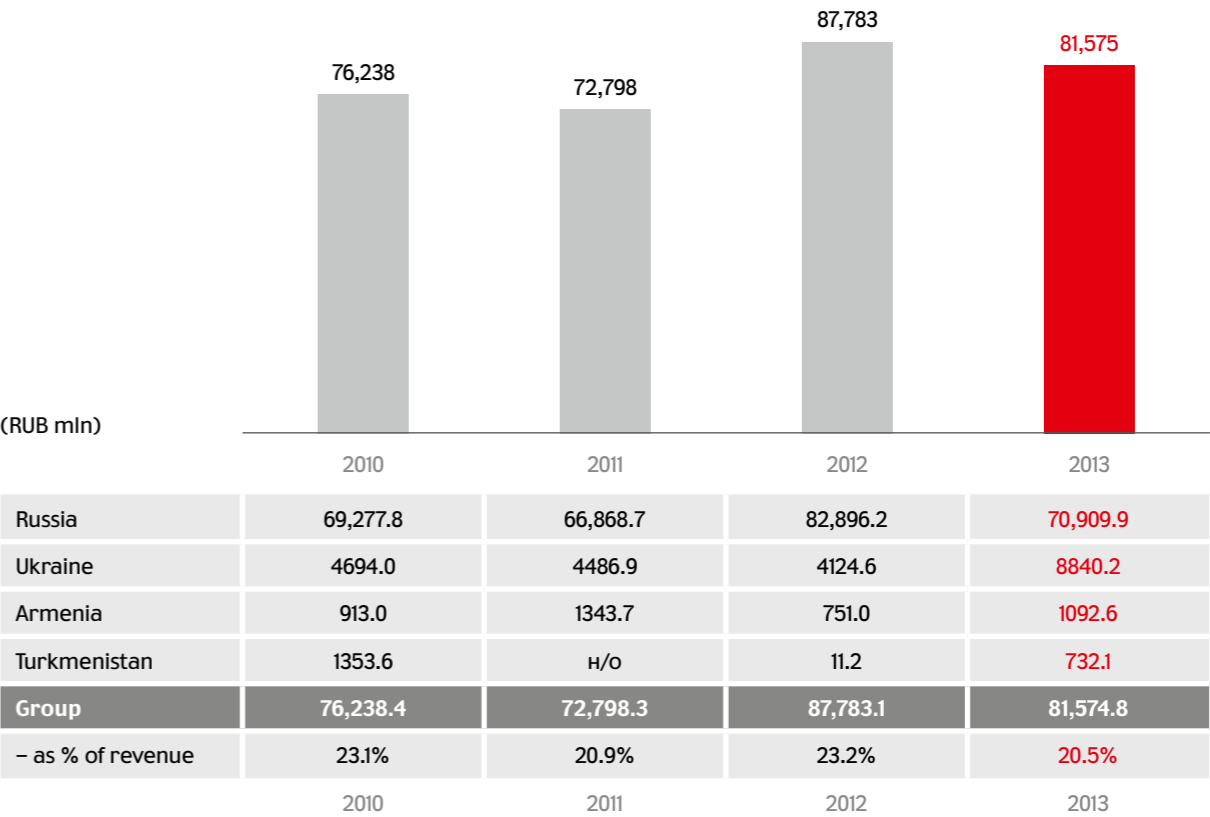
SUSTAINED INCREASE IN CASH FLOWS DUE TO OIBDA GROWTH, IMPROVEMENTS IN WORKING CAPITAL AND STABLE CAPEX SPENDING

FREE CASH FLOW FROM CONTINUING OPERATIONS REACHED RUB 68.9 BLN IN 2013 EXCLUDING ONE-OFFS FROM SETTLEMENT OF PROCEEDINGS OVER BITEL LLC

REDUCTION IN NET DEBT/LTM OIBDA RATIO TO 1.0X DUE TO IMPROVEMENT IN OPERATING PERFORMANCE AND OUR SUCCESS IN MANAGING DEBT PORTFOLIO

<sup>1</sup> Free Cash Flow from continuing operations excluding one-offs from settlement of proceedings over Bitel LLC in the amount of RUB 4.1 billion.

GROUP CAPITAL EXPENDITURES



CAPITAL EXPENDITURES AMOUNTED TO RUB 81.6 BLN IN 2013

OVERALL CAPEX SPENDING OF THE GROUP 2013 CAME IN LINE THE GUIDANCE OF ROUGHLY 20% OF REVENUE

KEY PROJECTS OF MTS GROUP IN 2013 INCLUDE THE ENHANCEMENT OF 3G NETWORKS IN RUSSIA, ROLL-OUT OF 4G NETWORKS THROUGHOUT RUSSIA, RECONSTRUCTION OF MGTS NETWORKS BASED ON GPON IN MOSCOW AS WELL AS NETWORK MODERNIZATION IN RUSSIAN REGIONS AND COUNTRIES OF OPERATIONS

GROUP MOBILE SUBSCRIBER BASE DYNAMICS

MTS SUBSCRIBERS (MLN UNLESS NOTED)	Q3 2013	Q4 2013	% Change
Russia	73.14	75.32	+3.0%
Ukraine <sup>1</sup>	22.41	22.66	+1.1%
Turkmenistan	2.01	2.02	+0.3%
Armenia	2.38	2.44	+2.2%
Belarus <sup>2</sup>	5.33	5.39	+1.3%
TOTAL MOBILE	105.27	107.83	+2.4%

IN RUSSIA, MTS CONTINUES TO ATTRACT AND RETAIN HIGH-QUALITY SUBSCRIBERS BY PROMOTING INNOVATIVE TARIFF PLANS AND DRIVING SALES THROUGH ITS PROPRIETARY RETAIL NETWORK

<sup>1</sup> Including CDMA subscribers  
<sup>2</sup> MTS owns a 49% stake in Mobile TeleSystems LLC, a mobile operator in Belarus, which is not consolidated



RUSSIA

According to AC&M, as of the end of 2013, penetration in the Russian telecommunications market (SIM-cards) was 170%. The highest penetration rates are observed in Moscow and St. Petersburg – more than 216.6% and 211.5%, respectively. According to AC&M, the share of MTS OJSC subscribers in Moscow is 37.4%, in St. Petersburg, 28.4% and in Russia as a whole 31.0%.

To hold the leading positions in the market, the Company continues its efforts aimed at providing the customers not only high-quality services, but the most favorable tariffs, as well as enhancing growth of communications quality, network coverage and customer service level. MTS is constantly working on introduction of attractive tariff plans for both mobile and fixed services, providing our customers with the opportunity to communicate freely – a comfortable level of consumption, without thinking about the price. Thus, the popular tariff plan Super MTS provides MTS customers the opportunity of free calls within the network. During 2013, we increased the daily limit of free minutes and reduced mandatory payment, finally abandoning it in the end of the year. Decrease in the average cost per minute and free calls within the network allow our customers to communicate freely. Average consumption of voice minutes (MOU) in MTS network is constantly growing, reaching a Russia's record in 2013 (345 minutes in Q4 2013, which is 7% higher than the same period last year).

Also, in 2013, MTS launched a range of Smart tariff plans, focused on the growing audience of smartphone users. Smart tariffs give our customers free voice calls and large mobile internet packages for a low monthly fee.

MTS develops its tariff plans also taking into account regional specifics, which allows to market offers tailored to each region.

The company has been consistently reducing the cost of data for mobile Internet users. From January to December 2013, the cost was reduced by almost 15%. This was made possible thanks to the rising popularity of additional options allowing to receive large mobile Internet packages at attractive price.

MTS consistently removes borders for communication of our customers in international roaming. Today we offer our customers options “Zero without Borders” which allow to significantly reduce the cost of voice roaming through free incoming calls. By the end of 2013 about 50% of roaming customers were using “Zero without borders” option. Also we offer our customers the option BIT abroad which allows to significantly reduce the cost of mobile Internet while roaming. During 2013, we reduced the cost of services for several popular destinations (e.g. Ukraine), as well as increased the size of the package (for example, Germany, Latvia and Lithuania).

In 2013, the joint project of MTS and MTS Bank was launched. The partnership allowed MTS to become the Russia's only integrated provider of telecom and financial services



for today, employ the synergy of two areas to increase the loyalty of customers and monetization. MTS goal in the project is to become a provider of financial services to the largest subscriber base in Russia to improve loyalty, increase the life cycle of subscribers and growth of ARPU.

Furthermore, it is worth mentioning the prospects offered to the Company through its own mono-brand retail chain, active construction of which took place in Russia during 2009–2010. Our own sales channel allows us to increase the number of additions, controlling their quality and reducing churn.

LTE Network Development

In 2013, MTS launched commercial operation of LTE-FDD networks in Moscow, Moscow Oblast and other 15 regions of Russia.

By the end of 2014, MTS OJSC plans to launch LTE networks in 600 cities in 74 regions of Russia.

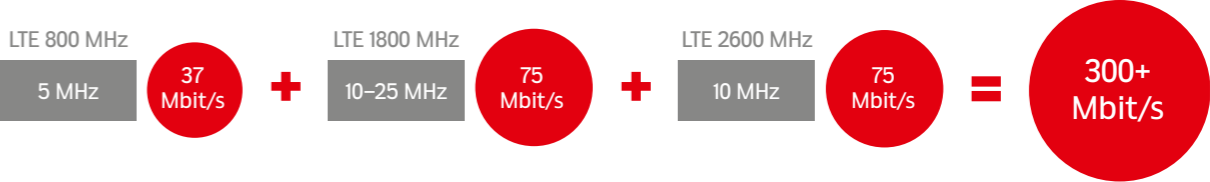
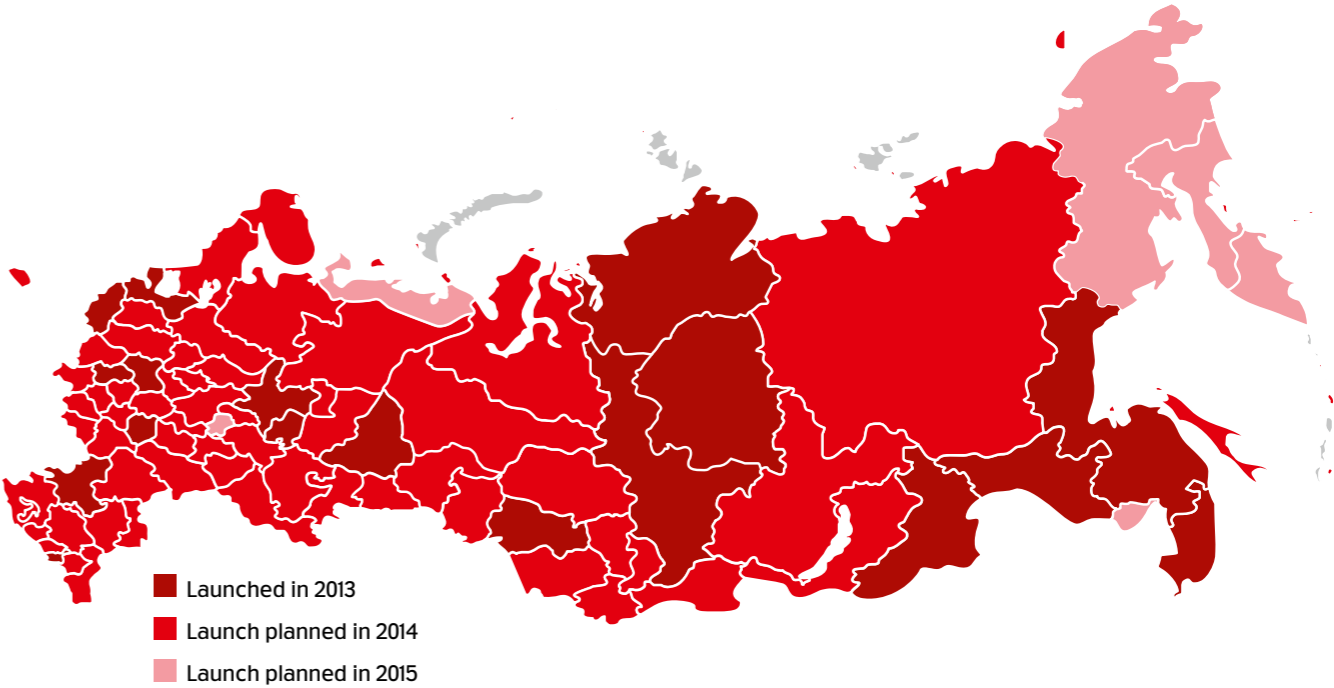
MTS launches LTE network in the 2600 MHz band in urban areas in order to achieve maximum capacity and the highest data rates.

After efforts on clearing the frequency spectrum, MTS plans to use in urban areas

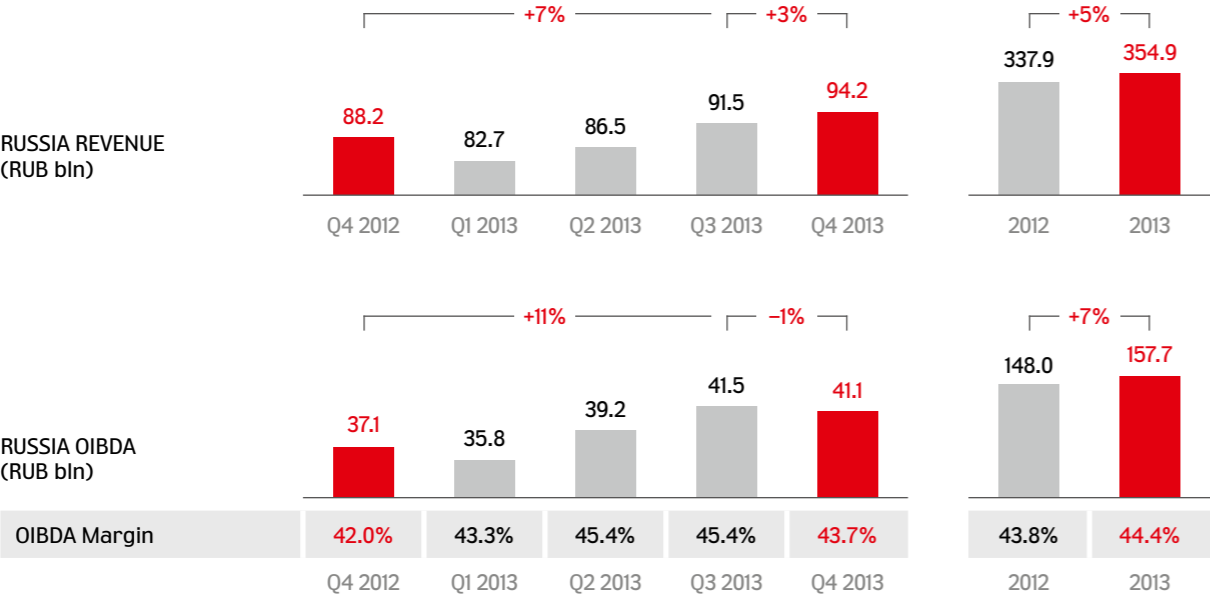
800 MHz frequencies to improve the quality of indoor-coverage and overall network quality.

MTS has a spectrum of 10–25 MHz in the 1800 MHz band in 76 regions, which can be used for the development of LTE 1800 MHz after switching voice traffic into the GSM900/UMTS2100 band.

After the launch of LTE Advanced technology, MTS will be able to combine the bandwidth of various widths to further increase the capacity and speed up to 300 Mbit / s.



RUSSIA: financial highlights



YEAR-OVER-YEAR REVENUE IMPROVEMENT DRIVEN BY GROWTH IN DATA USAGE AND FOCUS ON ATTRACTING AND RETAINING HIGHER-QUALITY SUBSCRIBERS

Q-ON-Q REVENUE GROWTH COUNTERS SEASONAL TRENDS DUE TO HIGHER-VALUE SUBSCRIBER ADDITIONS, INCREASED DATA ADOPTION, GROWTH IN RETAIL AND EXPANSION OF FIXED-LINE BUSINESS IN RUSSIA

SEASONAL OIBDA DECLINE Q-ON-Q MITIGATED BY INCREASED DATA REVENUE, HIGHER PROFITABILITY IN RETAIL AND STABLE COMPETITIVE ENVIRONMENTS

**MTS IS AN UNCHALLENGED LEADER BY ABSOLUTE VALUES OF REVENUE, OIBDA AND OIBDA MARGIN ON THE BASIS OF Q4 2013 AND FULL 2013 AMONG THE MAJOR COMPETITORS IN RUSSIA**

Russian revenue breakdown



STRONG YEAR-OVER-YEAR GROWTH IN MOBILE SERVICE REVENUE DRIVEN BY HIGH DATA ADOPTION RATES

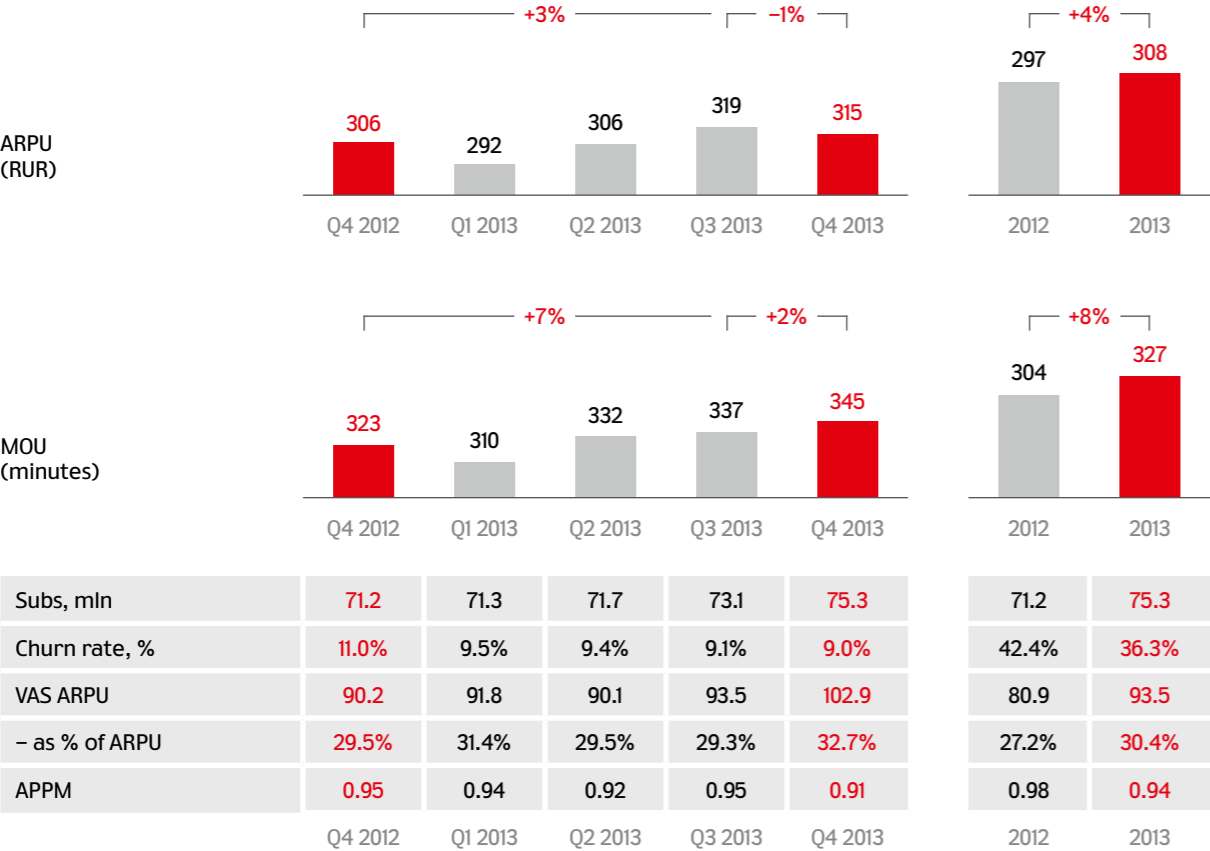
YEAR-ON-YEAR FIXED-LINE REVENUE GROWTH ADDITIONALLY ENHANCED BY THE MIGRATION OF PAY-TV CUSTOMERS TO DIGITAL PLATFORM. NETWORK MODERNIZATION IN REGIONS AND GROWTH IN B2G SERVICES

QUARTERLY INCREASE IN FIXED-LINE REVENUE ATTRIBUTABLE TO THE RECOGNITION OF THE REVENUE FROM B2G PROJECTS IN MOSCOW IN Q4 2013

INCREASE IN QUARTERLY SALES OF HANDSETS DUE TO SEASONAL FACTORS AND RECORD HIGH DEMAND FOR SMARTPHONE AND TABLETS SALES PRIOR TO THE NEW YEAR HOLIDAYS

YEAR-ON-YEAR DECLINE IN SALES OF HANDSET REFLECTIVE OF THE COMPANY'S FOCUS ON PROMOTING SALES OF MORE AFFORDABLE SMARTPHONES AS WELL AS THE DECREASED NUMBER OF MTS RETAIL STORES AS MTS CONTINUES TO IMPROVE EFFICIENCY OF ITS RETAIL OPERATIONS

RUSSIA: mobile operating indicators



YEAR-ON-YEAR ARPU GROWTH DRIVEN BY POLICIES AIMED AT INCREASING VOICE AND DATA CONSUMPTION, INCLUDING THE PROMOTION OF TARIFFS STIMULATING ON-NET CALLING AND TARIFFS TO BOOST DATA USAGE ON SMARTPHONES AND TABLETS

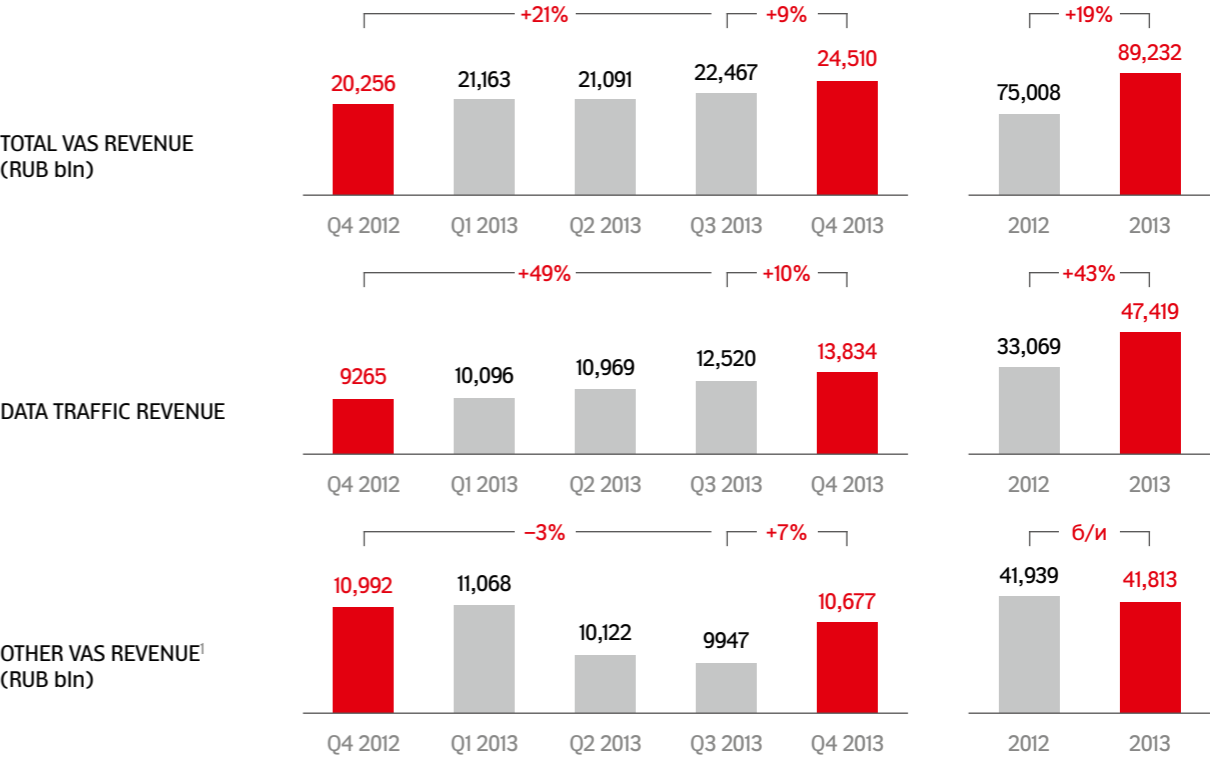
MOU GROWTH REFLECTIVE OF THE GROWTH OF VOICE USAGE AND ENHANCEMENT OF CUSTOMER LOYALTY

SUSTAINED CHURN IMPROVEMENT REFLECTS INTRODUCTION OF INNOVATIVE TARIFF PLANS, CHANGES IN THE STRUCTURE OF DEALER COMMISSIONS WITH THE PURPOSE TO ATTRACT AND RETAIN HIGHER-VALUE CUSTOMERS

MTS STEADILY DEMONSTRATES MINIMUM CHURN LEVEL AMONG KEY COMPETITORS

MTS IS THE CHEAPEST OPERATOR FOR SUBSCRIBERS AMONG KEY COMPETITORS

RUSSIA: mobile operating indicators



GROWTH IN VAS REVENUE ATTRIBUTABLE TO THE COMPANY’S SUCCESS IN CREATING THE FASTEST DATA NETWORKS IN RUSSIA, PROMOTING DATA SERVICES AND IMPROVEMENT OF CUSTOMER SERVICE

STRONG IMPROVEMENT IN DATA REVENUE BY GROWING SMARTPHONE AND TABLET PENETRATION AND INCREASED USE OF INTERNET SERVICES

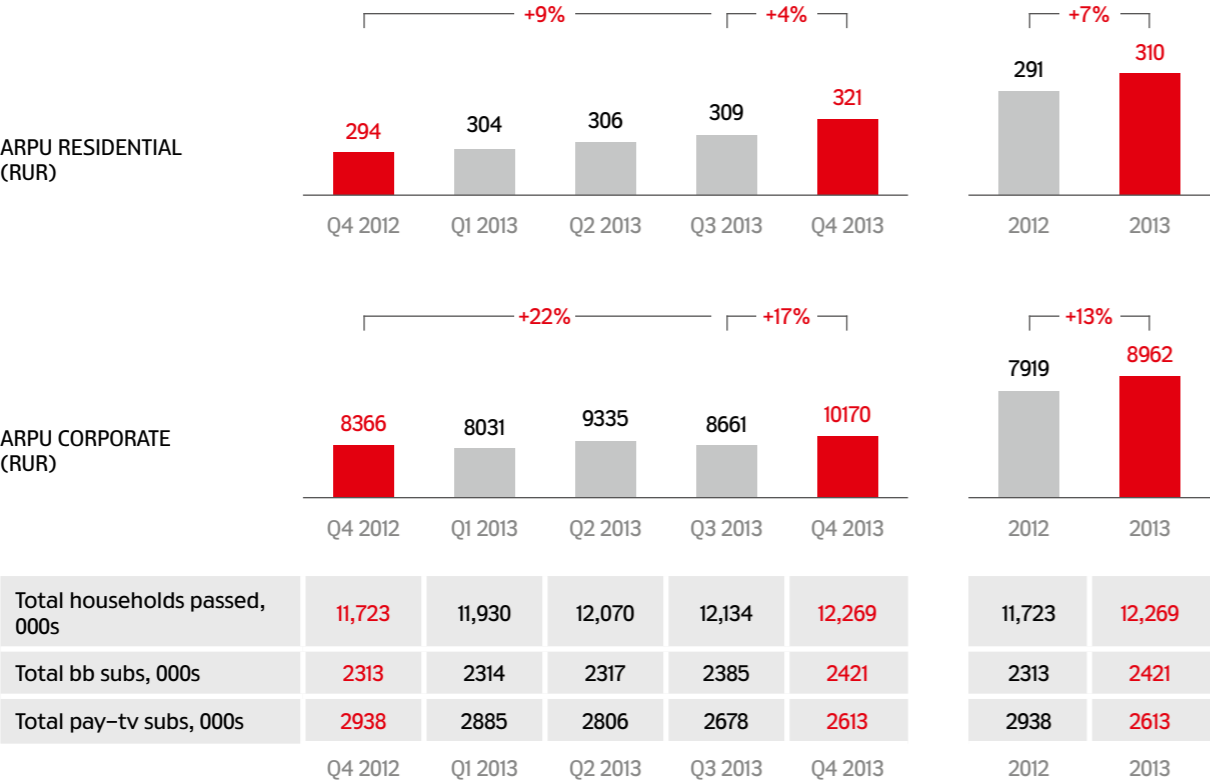
SLIGHT YEAR-OVER-YEAR DECLINE IN OTHER VAS REVENUES REFLECTIVE OF DECREASED REVENUES FROM CONTENT AS THE COMPANY INTRODUCED POLICIES TO ELIMINATE UNSOLICITED SMS-BASED SERVICES

- KEY INITIATIVES INCLUDED:
- LAUNCH OF LTE NETWORKS IN 8 RUSSIA’S REGIONS
  - PROMOTION OF TARIFF PLAN SUPER BIT WITH FIXED PRICE ON INTERNET IN ALL OF THE RUSSIA’S REGIONS
  - ENHANCEMENT OF ULTRA TARIFF PLAN
  - PROMOTIONAL CAMPAIGN “INTERNET FOR 2 RUBLES PER DAY”
  - PROMO TARIFF PLANS FOR TABLETS
  - ENABLEMENT OF LTE NETWORKS FOR IPADS

MTS IS THE RUSSIA’S LEADER IN TERMS OF GROWTH OF DATA REVENUE

<sup>1</sup> Other VAS revenue includes messaging and content revenue.

RUSSIA: fixed operating indicators



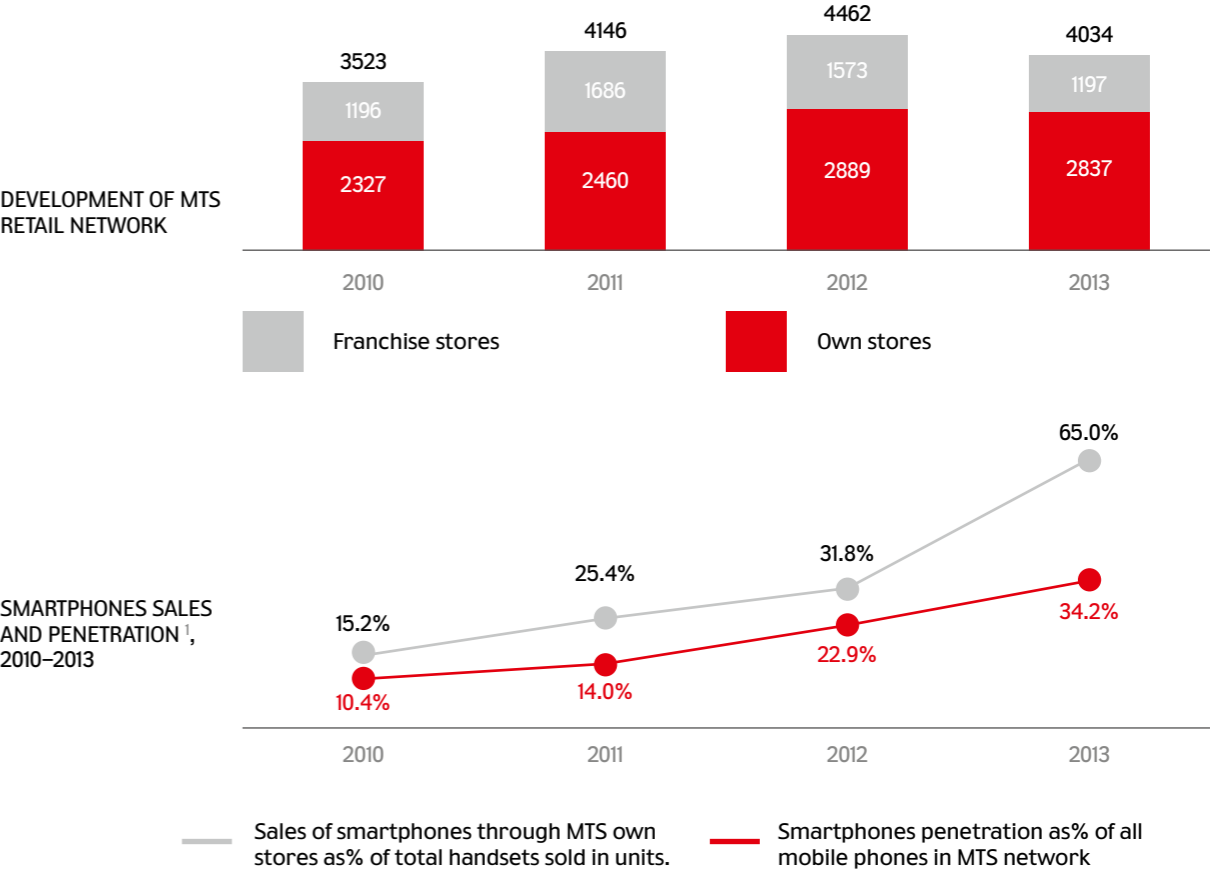
YEAR-ON-YEAR RESIDENTIAL ARPU GROWTH ATTRIBUTABLE TO MIGRATION OF PAY-TV SUBSCRIBERS TO DIGITAL TV PLATFORM AND UPSELLING OF PAY-TV AND BROADBAND SERVICES BY SUBSCRIBERS OF MODERNIZED NETWORKS IN THE REGIONS

ARPU GROWTH IN MOSCOW DUE TO MIGRATION OF ADSL CUSTOMERS TO GPON AND EXPANSION OF THE SUBSCRIBER BASE

YEAR-ON-YEAR CORPORATE ARPU GROWTH DRIVEN BY STRONGER SALES OF VAS AND PROJECTS FOR VIDEO SURVEILLANCE OF MUNICIPAL INFRASTRUCTURE IN MOSCOW

DECLINE IN PAY TV SUBSCRIBER BASE REFLECTS THE MIGRATION OF LOWER-VALUE "SOCIAL PACKAGE" SUBSCRIBERS DURING MIGRATION OF SUBSCRIBER BASE FROM ANALOG TV TO DIGITAL PLATFORM

MTS retail chain development



AT THE END OF Q4 2013, MTS RETAIL CHAIN COMPRISED 4 034 STORES, INCLUDING 1 197 FRANCHISED OUTLETS

DURING 2013, MTS FOCUSES ON IMPROVING POINT-OF-SALE EFFICIENCY AND OPTIMIZATION OF FRANCHISE NETWORK

IN Q4 2013, SMARTPHONES ACCOUNTED FOR 65.0% OF PHONES SOLD IN MTS STORES

OUTPACING GROWTH IN SALES OF SMARTPHONES IS DUE TO THE HIGH DEMAND FOR LOW COST BRANDED DEVICES TO ACCESS THE INTERNET AND PROMOTIONAL OFFERS FOR DATA SERVICES.

<sup>1</sup> MTS defines a smartphone as a handset with one of the following operating systems:iOS, Android, Windows, Blackberry OS, Symbian, Linux, Bada or Asha.

UKRAINE

In Ukraine, the Company provides services in GSM 900/1800, CDMA 450 standard throughout the country. The number of CDMA subscribers at the end of the year is about 240,000.

Slower growth in the number of subscribers in the telecommunications market in Ukraine is due to gradual saturation of the market and operators’ focus on the “quality” of the subscriber base. According to ACM Consulting research, at the end of 2013 service penetration in the country was 133.1%, or 60.4 million subscribers, and the number of MTS OJSC subscribers in Ukraine at the end of the year was 22.7 million (including CDMA) or 37.5% of the market. The main competitor – Kyivstar – has 25.8 million subscribers at the end of the year.

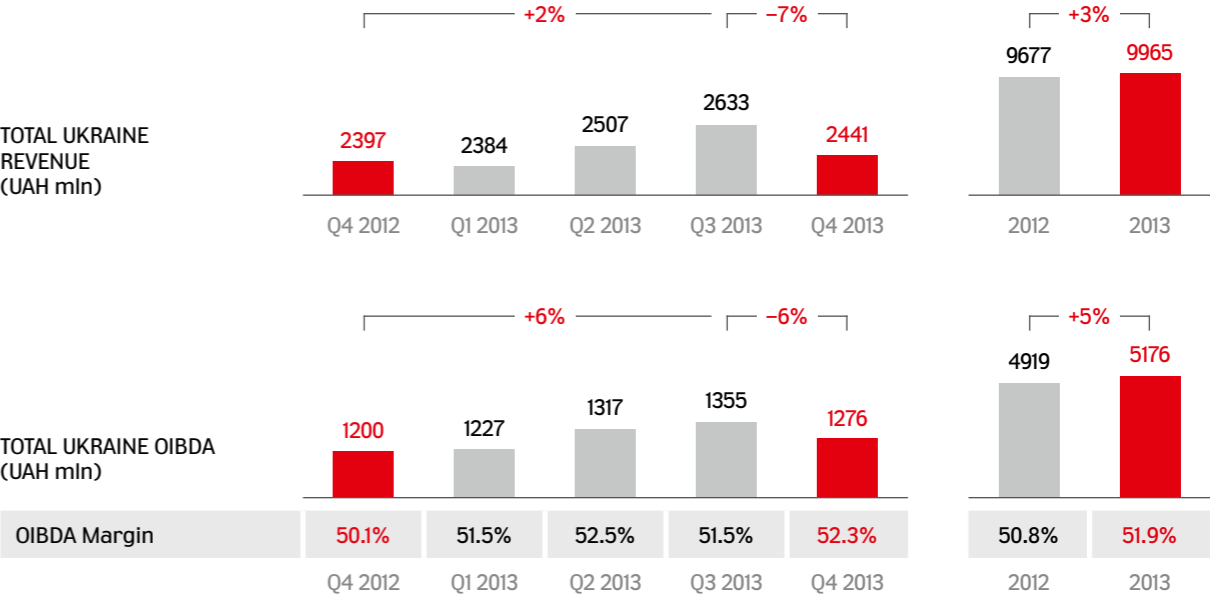
In 2013, the main priorities of MTS in the Ukrainian market were:

- Continued evolution of the offer “Zero without subscription fee” to further strengthen customer loyalty (reduction of annual churn of more than 4 percentage points)
- Development of HVPC and M2M market, as well as mobile advertising business
- Updating the Loyalty Program and development of the customer base using A-CRM models

The Company continues to work on implementation of the program of tariff regionalization aimed at providing tariff plans corresponding as much as possible to the subscriber profile in a certain area.

MTS OJSC provides and is actively developing CDMA-based service MTS Connect 3G, offering its customers high-speed mobile Internet access.

UKRAINE: financial highlights



YEAR-ON-YEAR GROWTH IN REVENUE ATTRIBUTABLE TO EXPANSION OF SUBSCRIBER BASE DESPITE UNFAVORABLE MACROECONOMIC FACTORS

QUARTERLY DECLINE IN REVENUE REFLECTS SEASONAL REDUCTION OF USAGE

YEAR-ON-YEAR OIBDA GROWTH ENHANCED BY SUSTAINED CHURN IMPROVEMENT, REDUCTION IN SUBSCRIBER ACQUISITION COSTS AND IMPROVEMENT OF OVERALL COST EFFICIENCY

MTS UKRAINE CONTINUES TO DEMONSTRATE STRONG PROFITABILITY DESPITE WEAKENING MACROECONOMIC TRENDS

UKRAINE: operating indicators

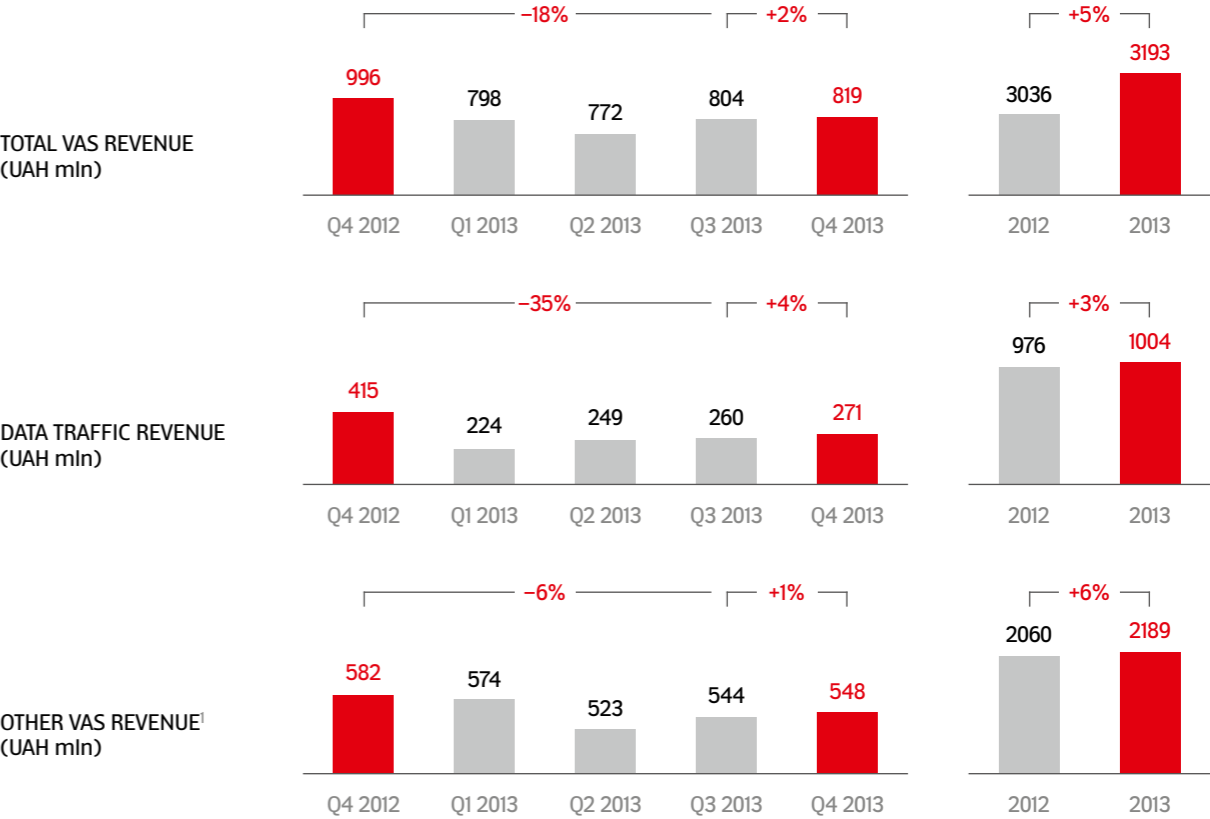


YEAR-ON-YEAR ARPU DECLINE ATTRIBUTABLE TO INFLUX OF LOWER-VALUE SUBSCRIBERS

QUARTERLY DECLINE IN ARPU TIED TO SEASONAL FACTORS

YEAR-ON-YEAR REDUCTION IN MOU ATTRIBUTABLE TO INFLUX OF LOWER-VALUE SUBSCRIBERS

UKRAINE: operating indicators



INCREASE IN TOTAL VAS REVENUE DUE TO COMPANY’S EFFORTS TO MONETIZE ITS EDGE AND CDMA NETWORKS

YEAR-ON-YEAR DECLINE IN DATA TRAFFIC REVENUE ATTRIBUTABLE TO RECLASSIFICATION OF REVENUE FROM BUNDLES IN Q4 2012

- KEY INITIATIVES INCLUDED:
- ONE MONTH OF INTERNET FROM MTS ON PURCHASING A NUMBER OF SMARTPHONES IN MTS RETAIL STORES
  - 6 MONTHS OF INTERNET FOR FREE ON PURCHASING THE SAMSUNG GALAXY TABLET
  - MTS BRANDED LOTTERIES
  - LAUNCH OF SUBSCRIPTIONS ON MTS’S MULTIMEDIA CONTENT PORTAL
  - LAUNCH OF “TURBO BUTTON” ON CDMA TARIFF PLAN

<sup>1</sup> Other VAS revenue includes messaging and content revenue.



In September 2007, the Company acquired the leading operator in Armenia, providing mobile services under the brand name VivaCell in GSM 900 /1800 standard. In Q3 2008, VivaCell brand changed to co-brand VivaCell–MTS. Changing the visual image of the brand was the first step in a comprehensive rebranding of K-Telecom, which affected all spheres of interaction of the operator with subscribers: VivaCell–MTS subscribers were offered innovative tariffs and services, as well as new convenient service formats meeting international standards in force at MTS Group.

The Company estimates service penetration in the country at 117.3%, about 3.8 million subscribers as of December 31, 2013. The number of subscribers of MTS in Armenia at the end of the year was 2.4 million (64.9% market share).

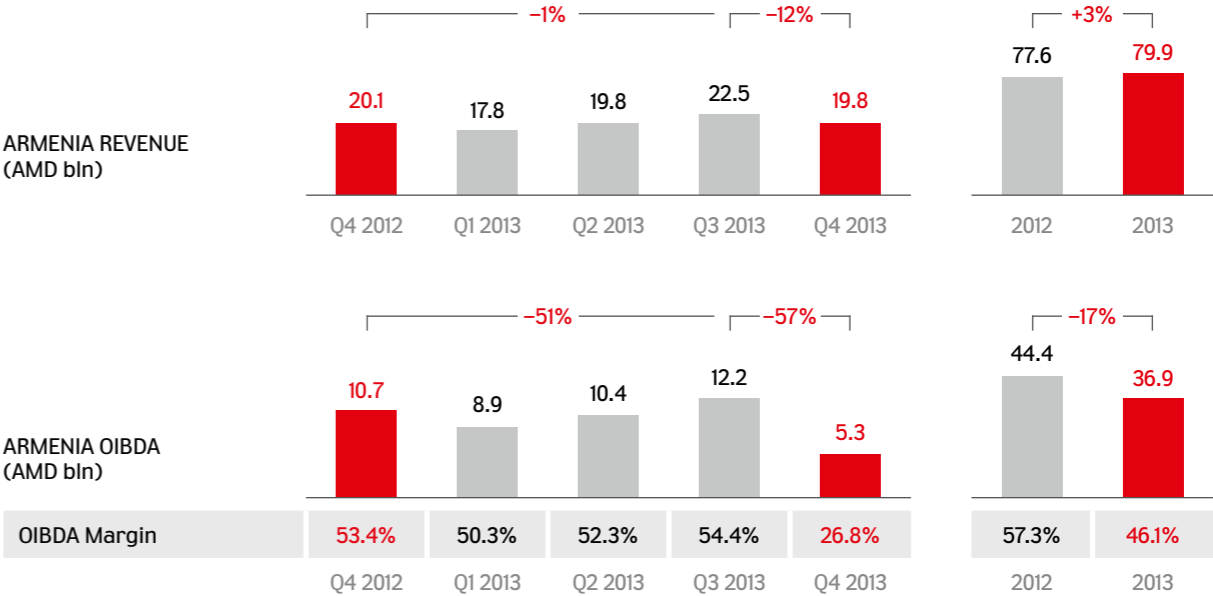
VivaCell–MTS in Armenia offers services in GSM 900/1800, UMTS standard, and in December 2010 it launched LTE network.

In 2013, despite tough competition in Armenian telecommunications market and presence of international company Orange, K– Telecom CJSC (VivaCell–MTS) maintained its leadership.

**The key priorities of MTS in Armenia were:**

- Maintaining a high market share of subscribers and revenues;
- Winning leadership in mobile broadband market through the development of Large Screen and Small Screen segments. Development of this area was supported by a number of active actions such as: creation of bonus program for modem users, launching and development of BIT options based on the best practices of MTS in Russia, development of integrated tariff offers (voice and internet);
- Development of unlimited tariff offers and Tariff + Smartphone offers

ARMENIA: financial highlights

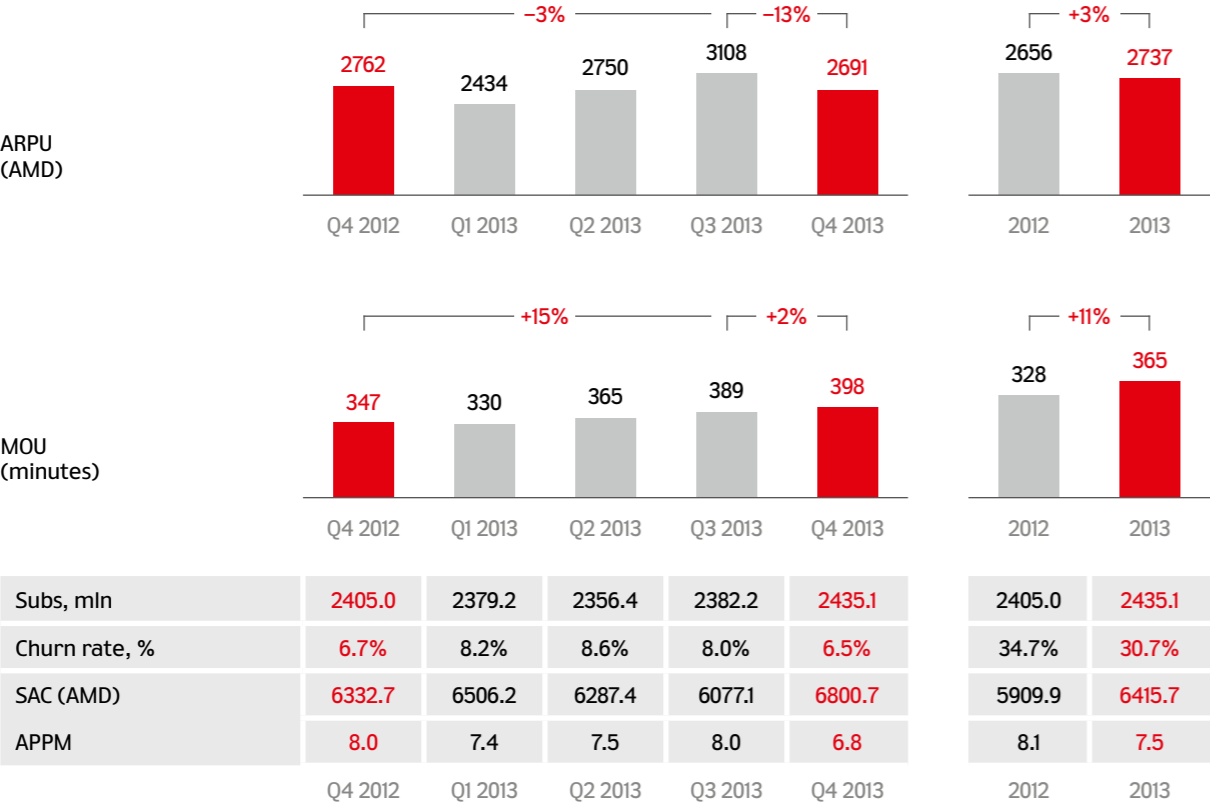


YEAR-ON-YEAR REVENUE GROWTH ATTRIBUTABLE TO ACTIVE PROMOTION OF VOICE AND DATA SERVICES AND INCREASING MARKET SHARE

DECLINE IN OIBDA DUE TO ONE-TIME ADJUSTMENTS OF MTS RUSSIA TARIFFS FOR INTERNATIONAL CALLS AND INTERCONNECTION

QUARTERLY DECLINE IN REVENUE DUE TO SEASONAL FACTORS, INCLUDING LOWER ROAMING AND INTERNATIONAL CALLS REVENUES

ARMENIA: operating indicators



QUARTERLY DECLINE IN ARPU IN LINE WITH SEASONAL TRENDS DUE TO LOWER ROAMING REVENUES

YEAR-ON-YEAR RISE IN USAGE AS A RESULT CAMPAIGNS TO PROMOTE VOICE TRAFFIC

CONTINUED IMPROVEMENT IN CHURN RESULTING FROM CAMPAIGNS PROMOTING CUSTOMER LOYALTY



TURKMENISTAN

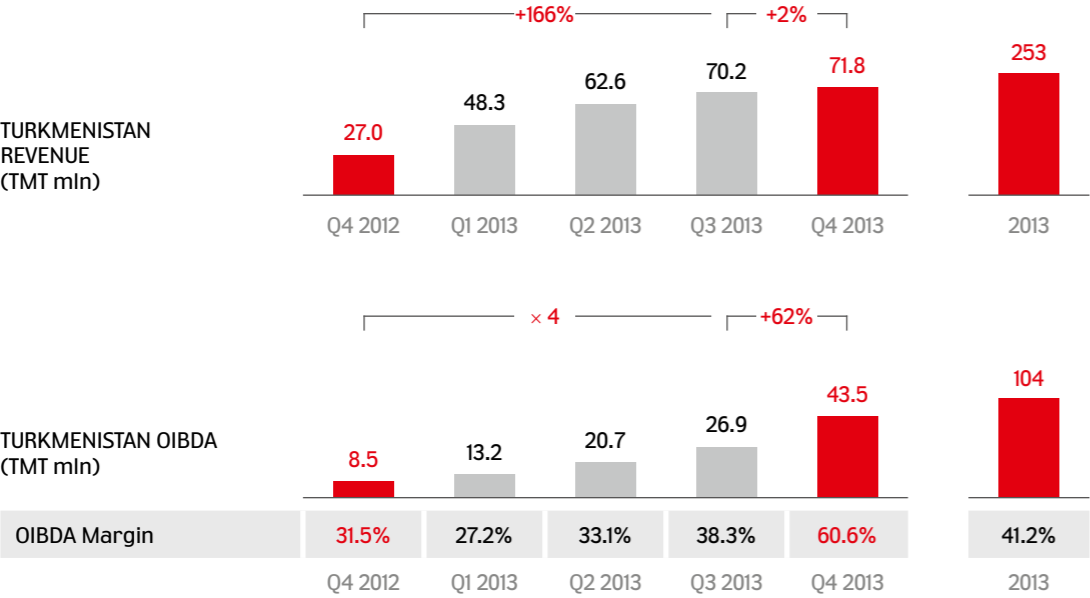
On August 30, 2012 the Company resumed its activities in the Turkmenistan market, and from October 1, 2012 started adding new subscribers. We are pleased to note that MTS services are popular and in high demand. As of December 31, 2013, more than 2 million subscribers were registered in MTS-Turkmenistan network. According to expert estimates, the market share of MTS was 36.6%, penetration 105.4%.

In 2013, 3G network was launched in Turkmenistan.

The key priorities of MTS after the return to the Turkmenistan market were:

- Regaining the subscriber base, making subscribers use MTS SIM-card as the main card, and not the “second” one.
- Looping traffic within the network and creating the snowball effect on the tariff plan Super MTS.
- Increase subscribers ARPU through “Bonus for deposits” promotion and development of VAS- services.
- Development of mobile Internet by launching 3G mobile internet in regional cities, launch of bundled offers Tariff+USB modem (big screen) and introduction of unlimited options for small screen users.

Turkmenistan: financial highlights



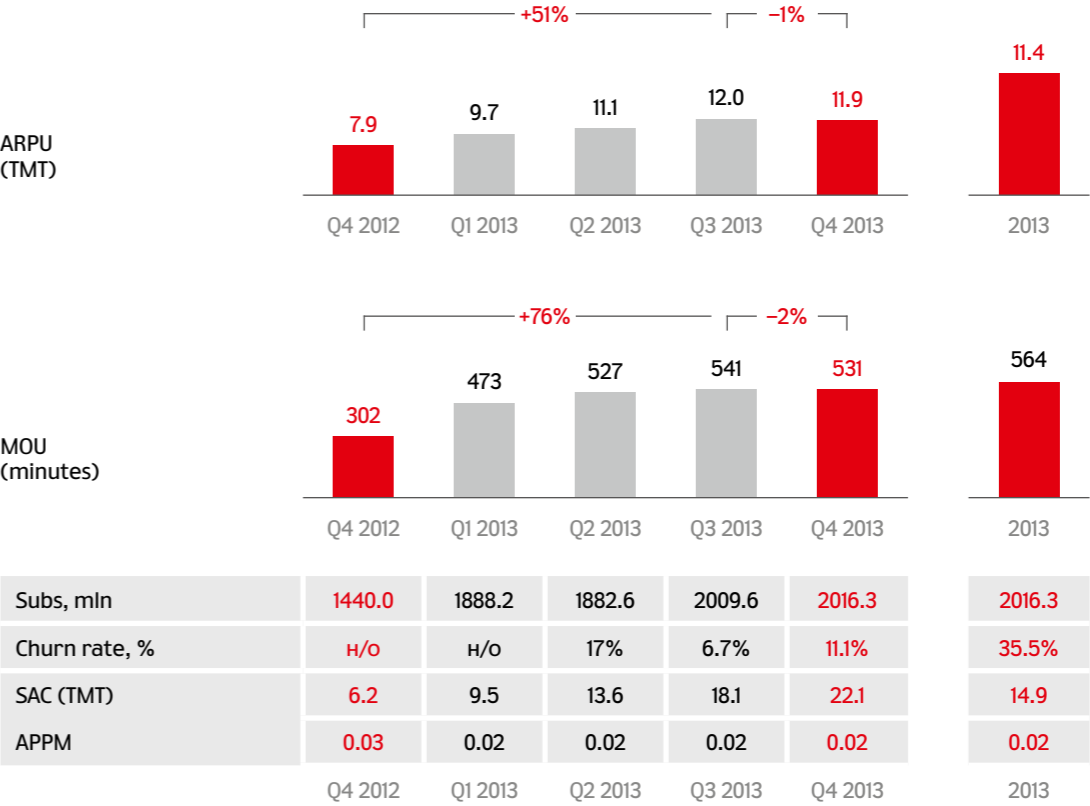
ON AUGUST 30, 2012, MTS RE-LAUNCHED ITS NETWORK IN TURKMENISTAN AND ALLOWED EXISTING SUBSCRIBERS TO RE-ACTIVATE SIM CARDS

ON OCTOBER 1, 2012, SALES OF NEW SIM CARDS STARTED

IN Q4 2013, Q-ON-Q REVENUE INCREASE OF 2% DRIVEN BY AN INCREASE IN SUBSCRIBER BASE AND GROWING CONSUMPTION OF VOICE, DATA AND CONTENT SERVICES

RISE IN OIBDA OF 62% Q-O-Q DUE TO CANCELLATION OF RESERVES FOR SALARIES AND STOCK OPTIONS, RESERVES FOR FREQUENCY PAYMENTS, LINE RENTALS AND RESERVES FOR NETWORK EQUIPMENT DISMANTLING DUE TO IMMINENT LIQUIDATION OF BCTI, MTS'S WHOLLY-OWNED SUBSIDIARY IN TURKMENISTAN

TURKMENISTAN: operating indicators



STRONG YEAR-ON-YEAR GROWTH IN ARPU REFLECTIVE OF COMPANY'S SUCCESS IN MONETIZATION OF ITS SUBSCRIBER BASE

SUBSTANTIAL YEAR-ON-YEAR MOU GROWTH DUE TO PROMOTION OF TARIFF PLANS BOOSTING ON-NET CALLING

A MAJOR OBJECTIVE  
OF THE COMPANY IS  
MAINTAINING **ROBUST AND  
TRUST-BASED RELATIONS**  
WITH SHAREHOLDERS AND  
INVESTORS ON THE PRINCIPLES  
OF DIRECT DIALOGUE

## INFORMATION FOR SHAREHOLDERS AND INVESTORS

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# Corporate Governance

Owing to the existing highly effective corporate governance system of the Company, MTS is able to balance the interests of shareholders and management and effect cooperation between them based on trust and a high culture of business relationships and ethical norms, which is clearly evidenced by impeccable business reputation of the Company in business circles.

**The principal features of corporate governance for MTS OJSC are:**

- Comprehensive protection of the rights and interests of shareholders;
- Information openness and transparency;
- Single corporate policy regarding subsidiaries and affiliates
- Independence of the Board of Directors in defining the Company's strategy and approving business plans and important business decisions;
- Control over management activities;
- Compliance with business ethics;

- Maintaining a socially responsible business, aiming at sustainable development of the Company, the growth of its welfare.

The Company aspires to meet best practices and standards of corporate governance, both domestic and international. We approved and comply with the Code of Business Ethics and Code of Corporate Conduct, containing key principles of key principles of ethical and law-abiding business, as well as basic principles of corporate governance, aimed at both directors and executives of the Company and for all other employees<sup>1</sup>. MTS fully complies with statutory requirements regarding prescribed procedures for major and related-party transactions<sup>2</sup>, as well as involves independent directors in special consideration of material transactions with related parties through the creation of special committees of the Board of Directors.

MTS OJSC follows a common corporate policy towards its subsidiaries and affiliated companies, and other entities where the Company is a participant, founder or

<sup>1</sup> Detailed information on compliance with the Code of Corporate Conduct is set out in the Annex 1 to the Annual Report [http://www.company.mts.ru/comp/ir/control/data/annual\\_reports/52/](http://www.company.mts.ru/comp/ir/control/data/annual_reports/52/).

<sup>2</sup> Detailed information on compliance with transaction approval procedures is set out in the Annex 2 to the Annual Report [http://www.company.mts.ru/comp/ir/control/data/annual\\_reports/52/](http://www.company.mts.ru/comp/ir/control/data/annual_reports/52/).

member. All related-party transactions were made on arm's length basis.

Activities of government and control bodies of the Company are strictly regulated by corporate documents, which can be found on the corporate website of MTS OJSC<sup>3</sup>.

MTS OJSC timely discloses the full, timely and accurate information to enable informed decision-making by shareholders and investors of the Company. In this case, the disclosure in our Company is made in accordance with the principles of regularity, consistency and efficiency, as well as the availability, reliability, completeness, and comparability of the data disclosed. These and other principles aimed at ensuring transparency and respect for the rights of shareholders, investors and other stakeholders are enshrined in the Regulation on Information Policy, approved by the Board of Directors of the Company<sup>4</sup>.

## CODE OF CORPORATE GOVERNANCE

MTS OJSC informs its shareholders that on March 21, 2014 the Board of Directors of the Bank of Russia approved the new Code of Corporate Governance. The update and revision of the Code of Corporate Conduct approved by Russia's FCSM Order No. No. 421/r of 04.04.2002 has been triggered by significant changes in Russian corporate law, progress of corporate governance practices in Russian companies, the global financial crisis of 2008–2009, focusing attention on

The most important element of the Company's corporate governance is the system ensuring compliance with legislation and other requirements. Thus, the Company adheres to a systematic approach to compliance with both legislation (e.g. anti-corruption legislation and laws preventing the use of insider information) and ethical business practices. The Company constantly strives to improve corporate governance, leveraging the experience of other companies, tracking recent changes in legislation and best standards in this area and makes appropriate adjustments to its corporate governance system. As a part of this process, the new revision of the Charter of MTS OJSC, new revisions of the Regulations of the General Meeting of Shareholders, the Board of Directors, the President, the Management Board of MTS OJSC were approved in the reporting year.

risk management issues and fair remuneration of members of companies' management bodies as well as on the use of corporate governance as a tool for reducing non-market risks that investors are not able to estimate.

MTS OJSC plans to actively apply in its practice the provisions of the new Code of Corporate Governance to enhance the attractiveness of the Company for existing and prospective investors.

<sup>1</sup> <http://www.company.mts.ru/comp/ir/control/regulations/>.

<sup>2</sup> [http://www.company.mts.ru/comp/ir/control/regulations/disclosure\\_policy/](http://www.company.mts.ru/comp/ir/control/regulations/disclosure_policy/).

In particular, the following novelties of the Code of Corporate Governance have been already implemented in the corporate governance practices of MTS OJSC:

**1. Rights of shareholders and fair treatment for shareholders in exercising their rights:**

- Prevention of acts that lead to artificial redistribution of corporate control;
- Protecting the dividend rights of shareholders and exclusion of other ways for shareholders to generate income from the company, besides dividends and liquidation value;
- Provision of the fullest possible information on agenda items of the general meeting of shareholders.

**2. Board of Directors of the Company:**

- Election and early termination of powers of executive bodies by the Board of Directors;
- Discussion of the most important and strategic issues at the meetings of the Board of Directors;
- Committees on Audit, Remuneration and Nominations of the Board of Directors have been established and operating;
- Independent directors constitute at least one third of the Board of Directors.

**3. Independent Director:**

- Has sufficient professionalism, experience and independence to form his opinion;
- Is able to make objective and honest judgment, independent of the influence of related parties;
- Not connected to the Company, major shareholder, major counterparty or competitor of the Company;
- Regular assessment for compliance with independence criteria.

**4. Remuneration of members of management bodies:**

- Sufficient level of remuneration to attract, retain and motivate qualified personnel;
- For members of the Board of Directors — a fixed annual remuneration, as well as the variable part of the remuneration that depends on capitalization of the Company on the basis of performance for the year.
- For executive bodies — fixed and variable components of remuneration, short- and long-term incentive system;
- Limiting the amount of “golden parachutes” for members of executive bodies.

CORPORATE GOVERNANCE RESULTS 2013

**1. Organization of Proxy solicitation.**

In preparation for the Annual General Meeting of Shareholders, in 2013 MTS OJSC campaigned for proxy solicitation, aimed at identifying ADR holders and interaction with ADR holders to attract minority shareholders to participate in AGM.

As a result of the campaign, we were able to increase the number of MTS OJSC shareholders taking part in the annual meeting, reaching the highest percentage of participation in the last 5 years.

**2. Dividend Policy**

In April 2013, the Board of Directors of MTS OJSC approved a new revision of the Dividend Policy Regulations of MTS OJSC, which set out the new profit distribution policy of the Company. Details of the Regulations are contained in the relevant section of this report.

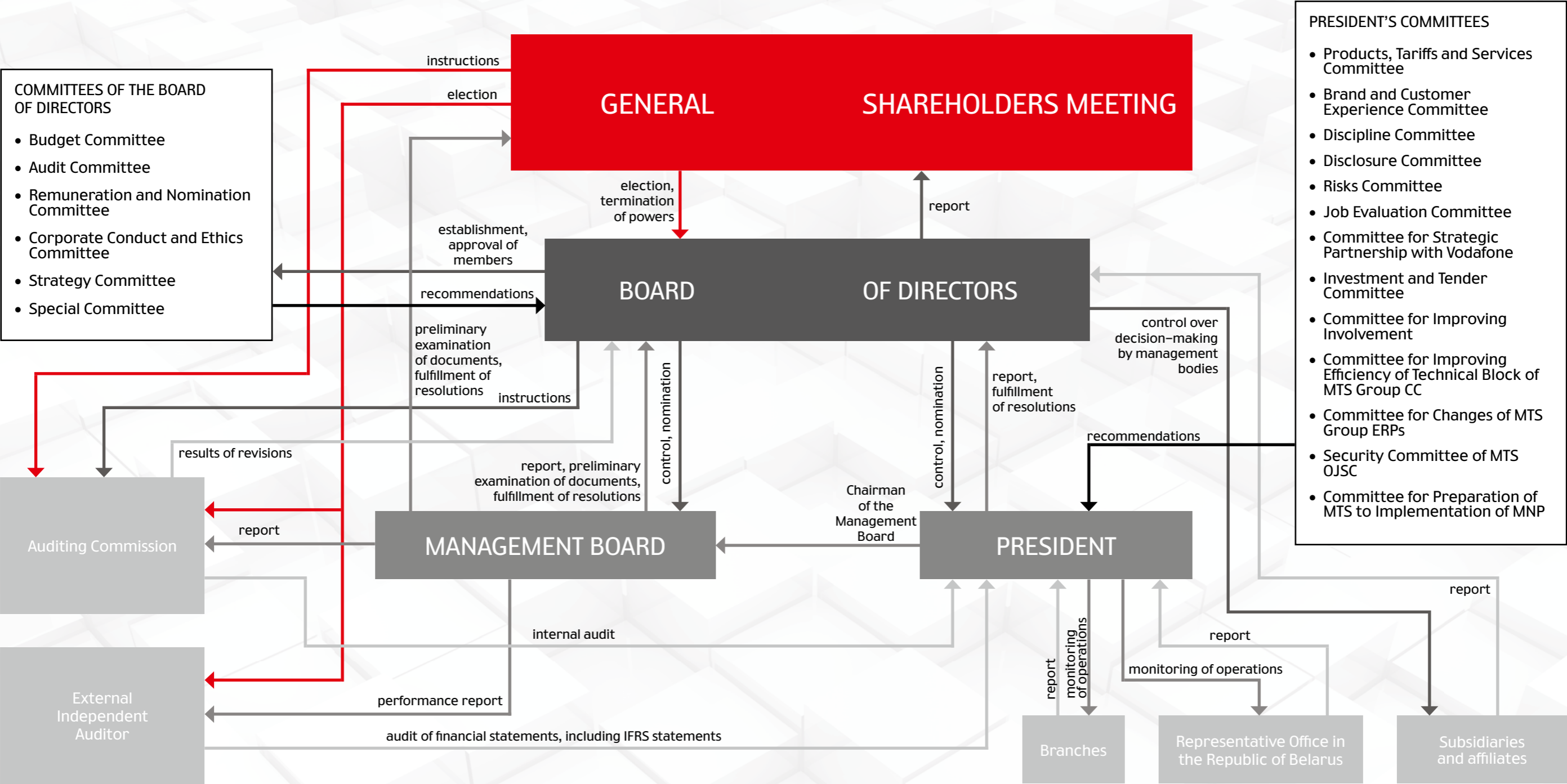
**3. Improving related party transactions approval procedure.**

In 2013, in addition to the existing system of internal corporate approval of transactions, the practice of prior review of transactions at the meeting of the Audit Committee of the Board of Directors was introduced. This practice creates an additional level of control over the management and provides additional protection for the interests of shareholders of the Company in approval of related party transactions.

**4. Development of electronic document management system for the preparation, conduct and recording of the results of meetings of collegial bodies of MTS OJSC**

In late 2013, the Company started preparation for the development of electronic document management system with unique features for conducting and preparation of meetings of collegial management bodies in electronic format. This system will allow participants of collegial bodies to take management decisions efficiently, consistently, quickly, thereby greatly improving the efficiency of collegial bodies and the Company as a whole.

MTS OJSC CORPORATE GOVERNANCE STRUCTURE IN 2013



CORPORATE GOVERNANCE STRUCTURE

The supreme management body of the Company is the **General Shareholders Meeting**. The **Board of Directors** carries out overall management of activities and defines development strategy of the Company. Executive bodies of the Company, namely Management Board (collegial executive body of the Company) and the **President** (sole executive body), are responsible for management of daily operations of the Company. In compliance with the requirements of the Russian law, the **independent Auditor** and the **Auditing Commission** exercise control over financing and economic activities of the Company.

GENERAL SHAREHOLDERS MEETING

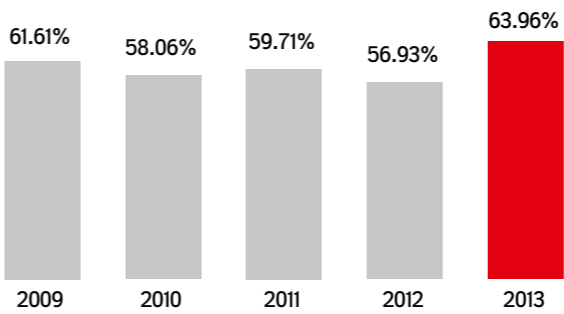
The General Shareholders Meeting is the supreme management body of the Company and executes its activities in compliance with the provisions of the Company’s Charter, Regulations on the General Meeting of Shareholder of MTS OJSC <sup>1</sup> and requirements of the Russian Federation legislation.

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

The procedure of holding a General Shareholders Meeting is aimed at observance of the shareholders’ rights and meets all requirements of the Russian legislation. Shareholders that own at least 2% of the Company’s voting shares are entitled to offer proposals for the General Shareholders Meeting agenda and to nominate candidates for the management and control bodies of the Company. Proposals for the Annual General Shareholders Meeting agenda are accepted by the Company in writing not later than 100 days after financial year end. Proposals received from shareholders are considered by the Board of Directors of the Company, and if proposals comply with legislative requirements, they are included into the agenda of the general shareholders meeting. The notice on holding a General Shareholders Meeting is forwarded to all

<sup>1</sup> <http://www.company.mts.ru/comp/ir/control/regulations/gms/>.

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



shareholders (nominal holders registered in the shareholders register) at least 30 days prior to the Meeting. In addition, text of the notice is published on the official website of the Company — [www.mts.ru](http://www.mts.ru) within the period provided for sending this notice to shareholders of the Company. Information and materials for the meeting are provided to shareholders in Russian and English languages and are also published on the official website of MTS OJSC in the Internet <sup>1</sup>. Together with the notice on the forthcoming meeting, shareholders receive voting bulletins. The bulletin may be filled in by the shareholder in advance and sent by mail to the Company’s address specified in it. In this case the shareholder’s vote will be taken into account when summarizing voting results. Owners of depositary receipts of the Company are able to vote on issues of the shareholders meeting agenda through voting via proxy procedure at ADR depository of MTS OJSC — JP Morgan Chase Bank, National Association.

<sup>1</sup> [http://www.company.mts.ru/comp/ir/control/shareholders\\_meetings/](http://www.company.mts.ru/comp/ir/control/shareholders_meetings/).

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 preparation for the Annual General Meeting of Shareholders, in 2013 MTS OJSC campaigned for proxy solicitation, aimed at identifying ADR holders and interaction with ADR holders to attract minority shareholders to participate in AGM. As a result of the campaign, we were able to increase the number of shareholders of MTS OJSC taking part in the annual meeting, reaching the highest percentage of participation in the last 5 years. According to analysts of Standard & Poor’s, active participation of minority shareholders is the evidence that positive aspects of corporate governance in MTS OJSC depend not only on the goodwill of the majority shareholder and regulatory requirements, but these structures are also supported by active efforts of minority shareholders. Thus, MTS OJSC developed a tool to take into account votes of holders of MTS OJSC shares denominated in ADRs, which, if necessary, will allow to submit to the General Meeting of Shareholders of MTS OJSC and obtain decisions on transactions, the approval of which shall be provided by a simple majority vote of all shareholders—owners of voting shares disinterested in the transaction.

- In 2013, 4 (four) general meeting of shareholders took place:**
- January 14, 2013
  - February 14, 2013
  - June 25, 2013
  - September 30, 2013.

General meetings of shareholders in 2013

General meeting of shareholders	Meeting agenda
Extraordinary General Meeting of Shareholders January 14, 2013	<ul style="list-style-type: none"><li>• Procedure of the Extraordinary General Meeting of Shareholders.</li><li>• Reorganization of MTS OJSC in the form of merger of CR-1 CJSC by MTS OJSC, created by reorganization in the form of splitting off Comstar– Regions CJSC.</li><li>• Reorganization of MTS OJSC in the form of merger of SVIT–COM CJSC, Universal TV CJSC, MC “Altair Tula” CJSC, Telekompaniya Altair CJSC, Altair Tula CJSC, MultiKabelnye Seti Tambova CJSC , Infocenter CJSC, SibGrupplInvest Company CJSC, Skif–Line CJSC, SKIF–OREL CJSC, SKIF–TAMBOV CJSC, TC Spektr CJSC by MTS OJSC.</li><li>• Amendments and additions to the Charter of MTS OJSC.</li></ul>
Extraordinary General Meeting of Shareholders February 14, 2013	<ul style="list-style-type: none"><li>• Procedure of the Extraordinary General Meeting of Shareholders..</li><li>• Early termination of powers of the Board of Directors of MTS OJSC.</li><li>• Election of members of the Board of Directors of MTS OJSC.</li><li>• Early termination of powers of members of the Auditing Commission of MTS OJSC and election of members of the Auditing Commission of MTS OJSC.</li><li>• Participation of MTS OJSC in Association “National Payments Council.”</li></ul>
Annual General Meeting of Shareholders, June 25, 2013	<ul style="list-style-type: none"><li>• Procedure of the Annual General Meeting of Shareholders.</li><li>• Approval of the annual report of MTS OJSC, annual financial statements of MTS OJSC, including profit and loss statement of MTS OJSC, distribution of profits and losses of MTS OJSC based on the results of 2012 (including payment of dividends). Election of members of the Board of Directors of MTS OJSC.</li><li>• Election of members of the Auditing Commission of MTS OJSC.</li><li>• Approval of the Auditor of MTS OJSC.</li><li>• Approval of new revision of the Charter of MTS OJSC.</li><li>• Approval of new revision of the Regulations on General Meeting of Shareholders of MTS OJSC.</li><li>• Approval of new revision of the Regulations on the Board of Directors of MTS OJSC.</li><li>• Approval of new revision of the Regulations on the Management Board of MTS OJSC.</li><li>• Approval of new revision of the Regulations on the President of MTS OJSC.</li></ul>
Extraordinary General Meeting of Shareholders, September 30, 2013	<ul style="list-style-type: none"><li>• Procedure of the Extraordinary General Meeting of Shareholders.</li><li>• Distribution of profits (payment of dividends) of MTS OJSC following the results of the 1st half of 2013.</li></ul>



BOARD OF DIRECTORS

MTS OJSC Board of Directors is a key element of the Company’s corporate governance system. The Board of Directors represents the interests of shareholders and is responsible for increasing business value by organizing efficient management.

The Board of Directors of the Company carries out overall management of activities of the Company in compliance with the provisions of the Company’s Charter, Regulations on the Board of Directors of MTS OJSC<sup>1</sup> and requirements of the Russian Federation legislation.

The main objectives of the Board of Directors are:

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

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

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

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

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

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

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

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

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

Over the past 3 years MTS completely abandoned paper documents when considering the materials at the meetings of the Board of Directors. Board members are

provided with notebooks where they can review the agenda of the meeting and all the necessary materials in interactive presentation format. Thus, the Company reduced costs and time to prepare handouts, and increased convenience and flexibility of working with information.

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

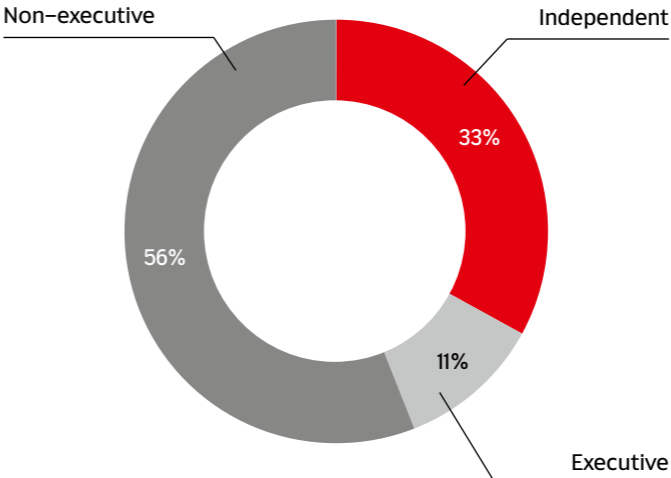
In accordance with the best corporate governance practices, an introductory (information) course is conducted for newly elected members of the Board of Directors

in the form of interactive presentation, in Russian and English.

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

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

Membership of the Board of Directors



Membership of the Board of Directors

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

In accordance with the global corporate governance standards and provisions of the Company’s corporate documents, the Company is interested that the Board of Directors includes at least three independent directors. Criteria of independence of a member of the Board of Directors are set forth in the Regulations of MTS OJSC Board of Directors<sup>2</sup> and are in line with the best global corporate governance practice.

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

<sup>1</sup> [http://www.company.mts.ru/comp/ir/control/regulations/board\\_of\\_directors\\_new/](http://www.company.mts.ru/comp/ir/control/regulations/board_of_directors_new/).

<sup>1</sup> [http://www.company.mts.ru/comp/ir/control/regulations/board\\_of\\_directors\\_new/](http://www.company.mts.ru/comp/ir/control/regulations/board_of_directors_new/).

The Board of Directors was elected at the Annual General Meeting of Shareholders of MTS OJSC held on June 25, 2013, with a term of office commencing upon election and lasting through 2013.

Additional Information

On February 14, 2013, an extraordinary General Meeting of Shareholders of MTS OJSC was held, which elected a new membership of the Board of Directors. The powers of the new Board of Directors lasted until the annual general meeting of shareholders of MTS OJSC, held on June 25, 2013.

Current members of the Board of Directors of MTS OJSC:

- Ron Sommer (Chairman),
- Anton Abugov (Deputy Chairman)
- Alexey Buyanov (Deputy Chairman)
- Alexander Gorbunov
- Andrey Dubovskov
- Michelle Combes
- Stanley Miller
- Vsevolod Rozanov
- Thomas Holtrop

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



Ron Sommer  
Chairman of the Board of Directors

In 2013 was rated among "Top 25 Chairman of the Board" as a part of the National Award "Director of the Year 2013"  
Thanks to Ron Sommer, an effective work system of the Board of Directors and Committees of the Board of Directors has been developed.  
The main merit of Ron chairmanship of the Board of Directors of MTS is that the activities of the Board of Directors became more structured, open and understandable for both top management and for shareholders and investors.

Born in 1949.  
Mr. Sommer studied mathematics in the University of Vienna, receiving his doctorate in 1971.  
In 1980 he joined the Sony Group as a Managing Director of its German subsidiary. In 1986 Mr. Sommer became the Chairman of the Management Board of Sony Deutschland. 1990-1993 — President and COO of Sony Corporation in the USA. 1993-1995 — President and COO of Sony Europe, Germany.  
1995-2002 — President, Chairman of the Management Board of Deutsche Telekom AG, Germany.  
In 2005 he joined the Board of Directors of JSFC Sistema as independent director, and also exercised functions of Chairman of the Committee for Investor Relations. 2009-2011 — First Vice-President of JSFC Sistema, Head of the Telecommunication Assets Business Unit, Management Board member.  
2004-2012 — member of the international consultancy Board of Blackstone Group.  
2004-2009 — Board of Directors member of Motorola Inc., USA.  
2006-2009 — Board of Directors member of WEATHER INVESTMENTS, Italy.  
2009 — Chairman of the Management Board of COMSTAR-UTS OJSC.  
2009-2011 — Chairman of the Management Board of SMM OJSC.  
2009-2010 — Chairman of the Management Board of Sky Link CJSC.  
At present Mr. Sommer is the member of Supervisory Board of the company Munich Reinsurance, Chairman of the Board of Directors of SISTEMA SHYAM TELESERVICES LIMITED, member of the Board of Directors of Tata Consultancy Services.  
Chairman of the Board of Directors of MTS OJSC since 2009, Chairman of the Strategy Committee and member of the Budget Committee of the Board of Directors of MTS OJSC.  
The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



Anton Abugov  
Deputy Chairman 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 management bodies of SMM JSC, SISTEMA SHYAM TELESERVICES LIMITED and other companies.  
Member of the Board of Directors of MTS OJSC since 2008, Deputy Chairman of the Board of Directors of MTS OJSC since 2012.  
The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



Alexander Gorbunov  
Member of the Board of Directors

Born in 1967.  
Graduated from the Moscow Engineering Physics Institute in 1992 majoring in engineering and physics.  
During the period of 2005-2006, he was the Head of Corporate Development Department, Acting First Vice President — Head of Strategy and Development Complex of JSFC Sistema; in 2006-2010 served as Vice President for Strategy and Development of JSC Comstar-UTS; in 2011-2012 served as Executive Vice President for Development of Telecommunications Assets of the Business Unit "Core Assets" of JSFC Sistema.  
Currently holds the position of Executive Vice President (Investment Portfolio) of JSFC Sistema.  
Member of the Board of Directors of MTS OJSC since 2013.  
Mr. Gorbunov is a member of management bodies of SMM JSC, Cosmos TV JSC, Stream LLC and SISTEMA SHYAM TELESERVICES LIMITED.  
The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



**Sergey Drozdov**  
Member of the Board  
of Directors

Born in 1970.  
In 1993 graduated from the Ordzhonikidze State Academy of Management (GAU).  
PhD in Economics.  
In 1994 and 1995 headed the Financial Innovation and Marketing Directorate of Moscow Property Fund. Since 1995 has been working in JSFC Sistema. From 1995–1998 — Executive Director of Development and Investment Department of the Corporation, from 1998–2002 — Vice-President, Acting President, First Vice-President of Sistema-Invest CJSC. Since April 2002 — Head of Corporate Property Department, and from May 15, 2002 — Acting First Vice President of JSFC Sistema. In September 2002 he was appointed First Vice-President of JSFC Sistema, from April 2005 to April 2011 was Senior Vice President — Head of the Property Complex of JSFC Sistema. Since April 2011 he has been Senior Vice President — Head of the Corporate Governance Complex of JSFC Sistema, a member of the Management Board of JSFC Sistema.  
Mr. Sergey Drozdov is a member of management bodies of Reestr JSC, Bashneft JSC, JSOC RussNeft and other companies.  
Member of the Board of Directors of MTS OJSC since 2013.  
Earlier, in the period from 2008 to 2011, was a member of the Board of Directors of MTS OJSC, in the period from 2008 to 2009 — Deputy Chairman of the Board of Directors of MTS OJSC.  
The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



**Andrey 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, with degree in stage directing.  
Headed the business unit MTS Ukraine from January 2008. In November 2007 started his work in MTS Ukraine as the first deputy general director. In 2006–2007 was the director of macroregion MTS Ural, from 2004 to 2006 was the MTS branch director in Nizhny Novgorod. From 2002 to 2004 was the general director of the company of the Tele2 Group in Nizhny Novgorod.  
Before March 2011 was the General Director of PrJSC MTS Ukraine.  
Since March 05, 2011 — the President of MTS OJSC, the Chairman of the MTS OJSC Management Board.  
According to the decision of the Board of Directors of MTS OJSC dated February 13, 2014 the term of office of Andrei Dubovskov as the President of MTS OJSC was extended for three (3) years, with effect from 5 March 2014.  
Mr. A. Dubovskov has a vast experience of working in telecommunications companies: having started his work in 1993, he occupied several management positions in such companies as Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Communications, CJSC 800 and other companies in Moscow, Almaty, Nizhny Novgorod, Ekaterinburg, Perm and Kiev.  
Currently is the member of the management bodies of JLLC Mobile TeleSystems, PrJSC MTS Ukraine, International Cell Holding LTD., Russian Telephone Company CJSC, MGTS  
Member of the Board of Directors of MTS OJSC since 2011.  
During the reporting year owned common registered shares of MTS OJSC in the amount of 15,620 shares.



**Michel Combes**  
Member of the Board  
of Directors  
  
Non-executive Independent  
Director of MTS OJSC

Born in 1962 in France.  
Graduated from the École Polytechnique and the Higher National School of Telecommunications in Paris, has a degree from the University of Paris-Dauphine (PhD in Corporate Strategy) and the Conservatory of Arts and Crafts (PhD in Forecasting).  
From 1985 to 2002 held various management positions in a number of leading French companies.  
In 2003, Mr. Combes was appointed Senior Vice President and CFO of France Telecom, in this position until 2006 he worked on integration of the French telecom operator with Orange and Wanadoo and its transformation into an integrated communications operator.  
Since 2006 he served as Chief Executive Officer at TDF (Telediffusion de France).  
From 2008 to 2012 he served as Chief Executive Officer for Europe at Vodafone, London, and Non-Executive Director of Vodafone PLC.  
At various times, Mr. Combes served on the Board of Directors of Vodafone, Weather (Orascom Wind), Atari, TDF, Eurotunnel, Atos and Procapital.  
In 2013, Mr. Combes was appointed Chief Executive Officer of Alcatel-Lucent SA.  
Chairman of the Supervisory Board of Assystem and Non-Executive Director, Member of the Board of Directors of ISS.  
Member of the Board of Directors of MTS OJSC since 2013.  
The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



**Stanley Miller**  
Member of the Board  
of Directors  
  
Non-executive Independent  
Director of MTS OJSC

In 2013 was rated among “50 Best Independent Directors” as a part of the National Award “Director of the Year 2013”.  
  
Born in 1958.  
Mr. Miller received a degree in law and administration from the University of South Africa and a degree in human resources management from the Institute of Administration and Commerce in Cape Town, South Africa. He has also completed several business management programs, including the Proteus Leadership program at the London Business School.  
From 1998 to 2011, he served in a number of top leadership positions at KPN (the Netherlands), including the CEO of KPN Mobile International, the CEO and Chairman of the Supervisory Board of E-Plus, the CEO and the Chairman of the Board of Directors of BASE in Belgium. From 1991 to 1997, Mr. Miller headed operating and corporate governance at NetHold Group companies, including he served as the CEO of Telepiu, Italy. Prior to that, he served as the CEO of Electronic Media Network in South Africa and the Netherlands.  
Mr. Miller is a member of the Board of Directors of AINMT (AB) Sweden, the executive director of Leaderman — SA Lux, Leaderman — NV Belgium. ULS BVBA Belgium, Milvest BVBA Belgium.  
Member of the Board of Directors of MTS OJSC since 2010.  
The member of the Board of Directors held no shares of MTS OJSC during the reporting year.



**Vsevolod Rozanov**  
Member of the Board  
of Directors

Born in 1971.  
Graduated from Moscow State University with a degree in economics.  
Has extensive experience in management, economics and finance. In 1993–2001, held various consulting positions at Bain & Company in Moscow, London and Stockholm. From 2002 to 2004, he was Deputy General Director for Economy & Finance of MTU–Inform CJSC, from 2004 to 2006 — Deputy General Director for Economy & Finance of COMSTAR–United TeleSystems OJSC. From 2006 to 2008 — Vice President, Finance and Investment of MTS OJSC. From 2008 to 2013 — President of Sistema Shyam TeleServices Ltd. (India).  
Since 2013 — Senior Vice President, Head of Investment and Finance Complex, Member of the Board of JSFC Sistema.  
Mr. Rozanov is a member of management bodies of SISTEMA SHYAM TELESERVICES LIMITED, JSOC Bashneft, Leader– Invest CJSC.  
Member of the Board of Directors of MTS OJSC since 2012.  
During the reporting year owned ordinary registered shares of MTS OJSC in the amount of 72,792 shares



**Thomas Holtrop**  
Member of the Board  
of Directors  
  
Non–executive Independent  
Director of MTS OJSC

Born in 1954 in Germany.  
Studied Psychology at the University of Freiburg and Business Administration, majoring in “Economics and Production Engineering” in the German Civil Servants Academy.  
From 1990 to 1999 he worked in the banking sector, served as Vice President of American Express International Inc in New York, Frankfurt and London, Member of the Board of Directors of the Bank 24 AG and Deutsche Bank 24 AG.  
From 2001 to 2004 he was President of T–Online International AG, which was led by Mr. Holtrop to the leading positions in the broadband Internet services market in Europe.  
Also from 2002 to 2004 Mr. Holtrop served on the Board of Directors of Deutsche Telekom AG, where he was responsible for directing the development of broadband services.  
From 2005 to 2006 Mr. Holtrop held the position of Chief Executive Officer of travel company Thomas Cook AG.  
During 2005–2011, he was a member of the Supervisory Board of the publishing house Gruner + Jahr (Hamburg).  
From 2009 to 2011, Mr. Holtrop was a member management bodies of Comstar–UTS JSC.  
Member of the Board of Directors of MTS OJSC since 2013.  
The member of the Board of Directors held no shares of MTS OJSC during the reporting year.

Directors’ attendance at Board meetings in 2013

Director	Meetings in praesentia	Meetings in absentia
Ron Sommer <sup>1</sup>	9	8
Anton Abugov <sup>1</sup>	9	8
Alexander Gorbunov	8	7
Andrey Dubovskov <sup>1</sup>	9	8
Sergey Drozdov <sup>1</sup>	3	3
Michelle Combes <sup>1</sup>	8	7
Stanley Miller <sup>1</sup>	9	8
Vsevolod Rozanov <sup>1</sup>	9	8
Thomas Holtrop <sup>1</sup>	9	7
Alexey Buyanov <sup>2</sup>	3	4
Paul Ostling <sup>2</sup>	–	1
Gregor Harter <sup>2</sup>	–	1
Mikhail Shamolin <sup>2</sup>	–	1

<sup>1</sup> Member of the Board of Directors elected at the Annual General Shareholders Meeting on June 25, 2013.  
<sup>2</sup> Not a member of the Board of Directors elected at the Annual General Shareholders Meeting on June 25, 2013.



Secretary of Board of Directors

The main objective of the Secretary of MTS OJSC Board of Directors is to ensure that the Company’s management bodies comply with the requirements of law and the Company’s bylaws guaranteeing that the rights and interests of its shareholders are exercised.  
The regulatory basis for the Secretary of MTS OJSC Board of Directors to perform his functions is, in addition to the Charter, the Regulations of MTS OJSC Board of Directors approved at the Annual General Meeting of MTS OJSC Shareholders on June 25, 2013.  
Since 2005 and until now the powers of the Secretary of MTS OJSC Board of Directors have been performed by Maxim Kalinin, the Director of Corporate Governance, MTS OJSC.

Over the past year 2012, the Board of Directors held 17 meetings; 9 meetings in praesentia and 8 in the form of absentee voting

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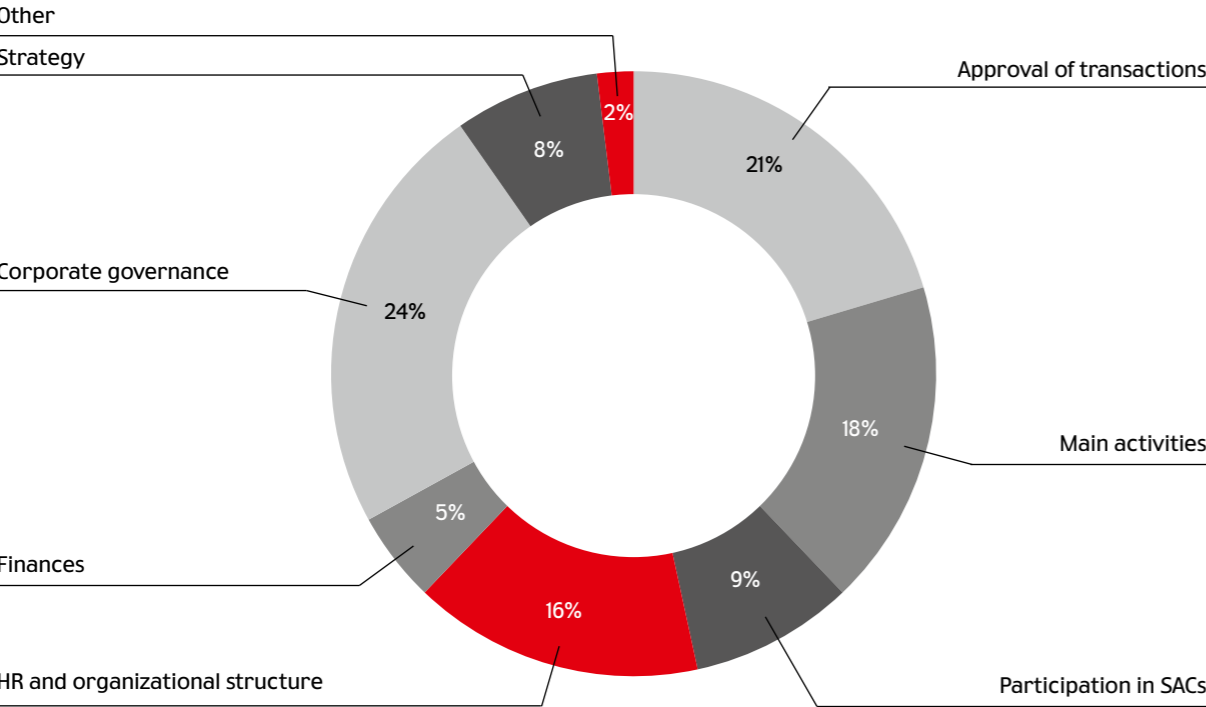
AVERAGE PERCENTAGE OF PARTICIPATION OF MEMBERS OF THE BOARD IN BOARD MEETINGS

**90%**

More than 90% meetings of Board of Directors with 100% participation of members of the Board in Board meetings

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Structure of the issues considered at the meetings of the Board of Directors in 2013



Among the issues discussed at the meetings of the Board of Directors of MTS OJSC in 2013, a number of issues should be noted decisions on which were of key importance for our Company:

- Developments concerning business in the Republic of Turkmenistan and Republic of Uzbekistan;
- Long-term tangible incentive program for employees of MTS OJSC;
- Implementation of the budget of MTS Group in 2012 and projected budget performance of MTS Group in 2013;
- Optimization of the process of real estate management of MTS OJSC;

- Conclusion of contracts for construction of LTE FDD network in the territory of the Russian Federation;
- Recommendations of the Board of Directors to pay dividends for 2012 and the 1st half of 2013;
- Report on risk management in MTS OJSC;
- Election of the Chairman and Deputy Chairman of the Board of Directors of MTS OJSC;
- Formation of committees of the Board of Directors of MTS OJSC;
- Approval of the Settlement Agreement between MTS OJSC, Altimo, Nomihold Securities Inc. and other related parties in

- respect of the disputes regarding Bitel LLC;
- Plans for the development of retail chain of MTS OJSC for 2013;
  - LTE Strategy of MTS;
  - HR Strategy of MTS for 2013–2015;
  - Report on implementation of CSR programs in 2012;
  - Approval of MTS Group strategy for 2014–2016;
  - Approval of the budget of MTS Group for 2014;
  - Approval of key performance indicators of the President and members of the Management Board for 2014;
  - Approval of the work schedule of the Board of Directors of MTS OJSC for 2014.

Information on Remuneration of Members of Board of Directors

Terms and procedure of payment of remuneration to members of the Board of Directors of MTS OJSC is set out in the Regulations of Remunerations and Compensations Payable to the Members of the Board of Directors of MTS OJSC<sup>1</sup>.

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

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

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

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

- **Basic remuneration**
- The basic remuneration is paid in money for the performance of duties as member of the Company’s Board of Directors during the corporate year and does not depend on the number of meetings the Director attended.
- The basic remuneration of each Director and the Chairman of the Board of Directors is \$250,000 and \$275,000, respectively, during a corporate year, and may be changed by special decision of the general shareholders meeting of the Company based on the Company’s performance for the reporting year.
- In case of early termination of powers of a Board member, and election of a Board members at extraordinary general shareholders meeting of the Company, the basic remuneration is paid in the amount proportional to the actual term of powers of the Director and determined as a product of the basic remuneration and the amount equal to the ratio of the actual term of powers and the duration of the corporate year that is deemed to be equal to 365 days.
- The basic remuneration is paid by the Company quarterly at least with 30 days

<sup>1</sup> [http://www.company.mts.ru/comp/ir/control/regulations/bod\\_compensation/](http://www.company.mts.ru/comp/ir/control/regulations/bod_compensation/).

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

• **Remuneration for performing additional duties**

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

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

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

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

The remuneration for performing additional duties is paid by the Company quarterly, in equal installments, not later than 30 days after the quarter end, based on memo that must be provided by the Corporate Secretary of the Company (a person performing the duties of Corporate Secretary) and

contain the number of Committees of the Board of Directors in which each of Directors participates, and an abstract from the minutes of the Board meeting that reflects the allocation of responsibilities between members of committees of the Board of Directors. In case of early termination of powers, the remuneration is paid in the amount proportional to the actual period of office of the Director during the corporate year.

• **Performance-based annual bonus**

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

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

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

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

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

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

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

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

TOTAL AMOUNT OF REMUNERATION PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS IN 2013:  
**37,311,439 RUR**

Liability insurance of Directors, officers and companies of MTS Group

Period	Insurance coverage (limit of liability)
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 2012	USD 250 million
October 2010 to October 2011	USD 250 million
October 2011 to October 2012	USD 250 million
October 2012 to October 2013	USD 250 million
October 2013 to October 2014	USD 250 million

D&O policy purpose  
To provide protection of the members of the Board of Directors, the Management Board and management of MTS OJSC (hereinafter — the “Officers”) in the following cases:

- Recovery of Officers’ losses in connection with suits or claims filed against them or prosecution by authorized government agencies for their actions/failures to act

in the course of performance of their job duties, namely:

- Compensation of attorney fees and legal defence costs incurred by Officers in connection with the above suits or claims;
- Recovery of damage caused to claimants by Officers’ actions/failures to act (in case the claim has been satisfied by court);
- Recovery of losses of MTS OJSC and its subsidiaries on claims related to securities (excluding claims related to IPO of American depositary receipts).

Evaluation of performance of the Board of Directors

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

The assessment is carried out by MTS OJSC independently, using existing assessment method (questionnaire survey). In the course of questioning, members of the Board of Directors are asked more than 30 questions; opinion is given using four-point grading scale. The questions deal mainly with the work procedure, planning and organization of activities of the Board of Directors and Committees.

Based on the results of questionnaires, a summary is prepared containing the results with respect to all analyzed criteria; priority areas for improvement of standards and operating procedures of MTS OJSC Board of Directors and Committees are identified.

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

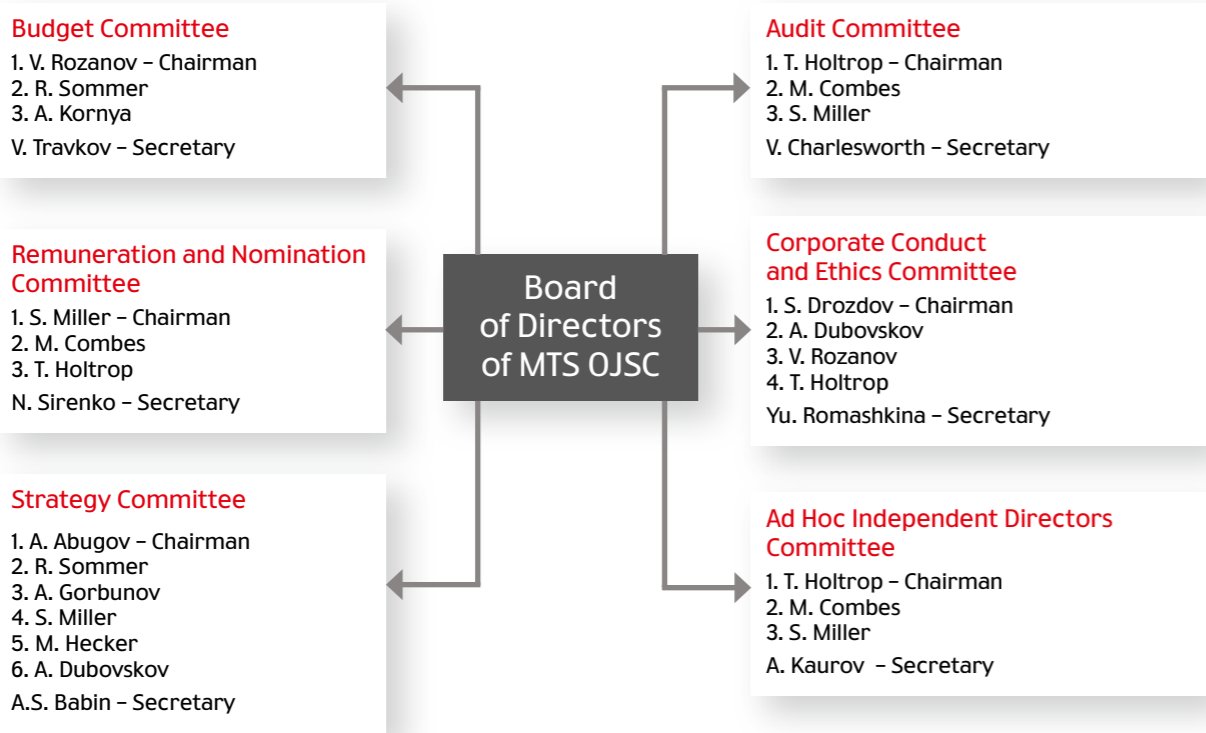
COMMITTEES OF BOARD OF DIRECTORS

The Committees of the Board of Directors are consultive–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.

The previously established committees continued their work in the reporting year, namely: the Budget Committee, the Audit Committee, the Remuneration & Nomination Committee, the Committee for Corporate Conduct & Ethics, the Strategy Committee; also the Ad Hoc Independent Directors Committee was established.

Please find below the information on membership of Committees of the Board of Directors of MTS OJSC as of December 31, 2013.

information on membership of Committees of the Board of Directors of MTS OJSC as of December 31, 2013



Membership of Committees of MTS OJSC Board of Directors before the Annual General Shareholders’ Meeting in 2013:

- Budget Committee:** A. Buyanov (Chairman), R. Sommer, A. Kornya, V. Rozanov
- Audit Committee:** T. Holtrop (Chairman), M. Combes, S. Miller

- Remuneration & Nomination Committee:** S. Miller (Chairman), M. Combes, T. Holtrop
- Committee for Corporate Conduct and Ethics:** A. Buyanov (Chairman), S. Miller, A. Dubovskov, V. Rozanov
- Strategy Committee:** R. Sommer (Chairman), A. Abugov, A. Gorbunov, S. Miller, M. Hecker, A. Dubovskov.

Powers of Committees and their activities during reporting year

Budget Committee

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

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

- MTS Investment Program 2014–2015;
- Draft budget of MTS for 2014;
- Debt Management in 2014;
- Refinancing loan from Sberbank;
- etc.

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 year the Committee considered and made decisions on the following issues:

- Discussion of the draft report on MTS OJSC financial and operating results in Q4 2012 and 2012;
- Discussion of the draft report on MTS OJSC financial and operating results in Q1, Q2 2013;
- Discussion of the financial results (Deloitte review for 2012);
- Discussion and pre-approval of the Annual Report according to the Form 20 –F;
- Review and approval of the results of evaluation of risk management system and internal control systems for 2012;
- etc.

Remuneration & Nomination Committee

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

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

- Discussion of changes in the organizational structure of MTS OJSC;
- Preliminary assessment of candidates nominated for the Board of Directors and Auditing Commission of MTS;
- Consideration of the report on the development of corporate culture of MTS;
- Pre-approval of changes in the basic principles of remuneration, compensation and incentives for top managers of MTS;
- Etc.

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

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

- Preliminary consideration of the 2013 Annual Report of MTS OJSC;
- Performance of hotline of the Corporate Conduct & Ethics Committee in 2013;
- Approval of the new format and content of the Code of Business Conduct and Ethics of MTS;

- Results of the annual testing knowledge and certification for compliance with the Code of Business Conduct and Ethics 2013;
- Etc.

Strategy Committee

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

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

- Development strategy of MTS for 2014–2016;
- LTE Development Strategy for 2013–2015;
- Etc.

Ad Hoc Independent Directors Committee

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

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

- Approval of the Regulations on the Committee;
- Information on the project status;
- Approval of the transaction consultants;
- Information about the outcome of negotiations;
- etc.

SOLE EXECUTIVE BODY OF COMPANY: PRESIDENT

In accordance with MTS OJSC Charter, the President of the Company is vested with full authority for day-to-day management of the Company's activities and addressing relevant issues that are not within the competence of the Company's General Shareholders Meeting, Board of Directors and Management Board. The President of the Company carries out management of activities of the Company in accordance with the provisions of the Company's Charter, Regulations on the President of MTS OJSC<sup>1</sup> and requirements of the legislation of the Russian Federation.

Activities of the President of MTS OJSC are aimed at ensuring profitability and competitiveness of the Company, financial and economic stability, securing shareholder rights and social guarantees of employees of the Company.

The President represents the point of view of the executive bodies at meetings of the Board of Directors and the General Meeting of Shareholders.

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

The President of the Company is elected by the Board of Directors of the Company by a majority vote of the elected members of the Board of Directors. In this case, the votes of the retired members of the Board of Directors are not counted.



The President is accountable in its activities to the General Meeting of Shareholders and Board of Directors of the Company.

In 2013 (since March 05. 2011) the functions of the sole executive body (President) of MTS OJSC were exercised by Andrey Dubovskov.

According to the decision of the Board of Directors of MTS OJSC dated February 13, 2014 the term of office of Andrey Dubovskov as the President of MTS OJSC was extended for three (3) years, with effect from 5 March 2014.

<sup>1</sup> <http://www.company.mts.ru/comp/ir/control/regulations/ceo/>.

<sup>2</sup> More information about A. Dubovskov see the section "Management Board".

COLLEGIAL EXECUTIVE BODY:  
MANAGEMENT BOARD

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

The President (Chairman of the Management Board) and the Management Board act on the basis of the Federal Law “On Joint-Stock Companies”, MTS OJSC Charter and Regulations of MTS OJSC Management Board<sup>1</sup>.

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. Chairman of the Management Board is the President of the Company. Management Board members are elected for the term of three (3) years. Management Board members may be re-elected an unlimited number of times.

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

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

Members of the Management Board in 2013

Members of the Management Board as of December 31, 2013.



Andrey Dubovskov  
Chairman of the  
Management Board

Born in 1966.  
In 1993 graduated from the All-Russian State Institute of Cinematography named after S.A. Gerasimov, with degree in stage directing.  
Headed the business unit MTS Ukraine from January 2008. In November 2007 started his work in MTS Ukraine as the first deputy general director. In 2006–2007 he 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.  
According to the decision of the Board of Directors of MTS OJSC dated February 13, 2014 the term of office of Andrei Dubovskov as the President of MTS OJSC was extended for three (3) years, with effect from 5 March 2014.  
Mr. Dubovskov has a vast experience of working in telecommunications companies: having started his work in 1993, he occupied several management positions in such companies as Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Communications, CJSC 800 and other companies in Moscow, Almaty, Nizhny Novgorod, Ekaterinburg, Perm and Kiev.  
Currently is the member of the management bodies of JLLC Mobile TeleSystems, PrJSC MTS Ukraine, International Cell Holding LTD., Russian Telephone Company CJSC, MGTS  
Member of the Board of Directors of MTS OJSC since 2011.  
During the reporting year owned common registered shares of MTS OJSC in the amount of 15,620 shares



Mikhail Arkhipov  
Management  
Board Member —  
Vice President,  
Human Resources

Born in 1982.  
In 2004 graduated from the Faculty of Sociology of M.V. Lomonosov Moscow State University.  
Appointed as a Board Member — Vice President, Human Resources of MTS OJSC in April 2013.  
Before joining MTS OJSC, in 2009, Mikhail Arkhipov worked at SIBUR, where as HR Director built a new effective HR unit, organized staff competencies assessment system, completely restructured recruitment process to ensure skilled workforce for new plants of the company. In 2008–2009 at KPMG CJSC was responsible for establishing policies and strategies for compensation and benefits in Russia and CIS. Previously worked in HR management in large FMCG companies — SUN In-Bev OJSC and Kampomos MPZ LLC.  
Mr. Arkhipov is a member of management bodies of MGTS OJSC and RTK CJSC.  
The member of the Management Board held no shares of MTS OJSC during the reporting year.



Frederic Vanoosthuyze  
Management  
Board Member –  
Vice President,  
Information  
Technology

Born in 1973 in Belgium.  
Mr. Vanoosthuyze graduated from Institut Supérieur Industriel Liegeois (Belgium) in 1995 with Engineering degree in Electronics and Communications, and in 1999 graduated from University of Mons (Belgium) with Engineering degree in Computer Science and management. He also received Executive Master degree in IT governance at the Solvay Business School in 2006.  
He joined MTS OJSC in February 2012 as Vice President, Information Technology.  
From 01 March 2013 to 31 March 2014: Member of the Board –Vice President, Information Technology  
Mr. Vanoosthuyze started his career at Siemens Atea (Belgium); subsequently he was employed with Alcatel Bell (Belgium) and KPN Group Belgium NV/SA Orange/BASE (Belgium). He served at Millicom International Cellular SA (Luxemburg) as Millicom Group Chief IT Officer from 2006.  
Mr. Vanoosthuyze is a member of management bodies of MTS UKRAINE PrJSC, OJSC Intellect Telecom.  
The member of the Management Board held no shares of MTS OJSC during the reporting year.

<sup>1</sup> [http://www.company.mts.ru/comp/ir/control/regulations/executive\\_board/](http://www.company.mts.ru/comp/ir/control/regulations/executive_board/).



**Ivan Zolocheskiy**  
General Director of  
PrJSC MTS Ukraine

Born in 1972.

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

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

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

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

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



**Ruslan Ibragimov**  
Management  
Board Member —  
Vice President,  
Corporate  
and Legal Matters

Born in 1963.

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

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

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

Member of the Board — Vice- President, Corporate and Legal Affairs of MTS Since March 1, 2013.

Prior to joining MTS OJSC, he worked at the Moscow college of lawyers Ibragimov, Kagan, and Partners. From 1997 to 2002 held the position of director-partner, Deputy General Director, Head of Tax and Legal Consultation Department at Top-Audit. From 1992 to 1996 he headed legal services in several commercial banks.

He is a member of the Management Board and Vice-President of the Non-profit Organization Russian Corporate Counsel Association (RCCA), member of the Non-profit Partnership for Promoting Competition and Non-profit Partnership Promoting Competition in CIS Countries, member of the All-Russian public organization “Association of Lawyers of Russia”, senior director of the Association of Independent Directors, member of the National Payment Council Association, member of the Board of Directors of “High School Publishing” OJSC.

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



**Alexey Kornya**  
Management  
Board Member —  
Vice President,  
Chief Financial Officer

Born in 1975.

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

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

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

In 2010 he was appointed Vice President, Chief Financial Officer of MTS OJSC.

Member of the Board — Vice President, Chief Financial Officer of MTS OJSC since March 01, 2013.

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

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

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



**Vasiliy Latsanich**  
Management  
Board Member —  
Vice President,  
Marketing

Born in 1972.

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

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

Since 2012 Vasiliy Latsanich is the co-chairman of the Telecom Committee at the American Chamber of Commerce in Ukraine.

Headed PrJSC MTS Ukraine since March 2013.

In September 2011 he was appointed Vice President, Marketing of MTS OJSC

Member of the Management Board, Vice President, Marketing of MTS OJSC since March 01, 2013.

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

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



**Andrey Smelkov**  
Management  
Board Member —  
Vice President,  
Foreign Subsidiaries

Born in 1976.

In 1998 graduated from the Faculty of Management and Economics of Novgorod State University named after Yaroslav Mudry. In 2000 he received a degree in Economics and Business Administration from the University of Telemark (Norway). In 2012 he took a course in Wharton business school (USA) under CEO competences development program.

In October 2013 appointed member of the Management Board — Vice President, Foreign Subsidiaries of MTS OJSC.

Andrey Smelkov has extensive experience in telecommunications industry in the CIS countries. He joined MTS being a senior adviser to the executive vice president of Tele2 AB (Stockholm). In 2010–2013 he worked as the Chief Executive Officer and Chairman of the Management Board of Tele2 Kazakhstan, where he successfully launched operations under Tele2 brand and made the company a group leader in business growth dynamics. In 2008–2010 he headed SkyMobile in Kyrgyzstan, and from 2006 to 2008 worked as Deputy General Director for regional business development in a subsidiary of VimpelCom in Uzbekistan. From 2004 to 2007 headed VimpelCom branch in Veliky Novgorod. He began his career in the mobile operator Novgorod Telecommunications as marketing and advertising manager in 2002.

Mr. Smelkov is a member of management bodies of JLLC Mobile TeleSystems.

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



**Vadim Savchenko**  
Management  
Board Member —  
Vice President,  
Sales & Customer  
Service

Born in 1974.

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

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

In the period from November 2008 to July 2011 Vadim held the position of Sales and Subscriber Service Director of the Business Unit PrJSC MTS Ukraine.

In July 2011 appointed as Vice President of MTS OJSC, Sales and Service.

Member of the Management Board, Vice President, Sales & Customer Service of MTS OJSC since March 01, 2013.

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

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



**Andrey Ushatsky**  
Management  
Board Member —  
Vice President,  
Chief Technology  
Officer

Born in 1974.

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

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

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

Member of the Management Board, Vice President, Chief Technology Officer of MTS OJSC since March 01, 2013.

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**  
Management  
Board Member —  
Vice President,  
Strategy,  
M&A and Corporate  
Development

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, Strategy, M&A and Corporate Development.

Member of the Management Board, Vice President, Strategy, M&A and Corporate Development of MTS OJSC from March 01, 2013 to January 09, 2014.

Prior to joining MTS OJSC, from 2000–2006 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).

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

Participation of members of the Management Board in meetings of the Board in 2013

Member of the Board	Meetings in praesentia	Absentee meetings
A. Dubovskov	26	3
M. Arkhipov <sup>1</sup>	23	2
F. Vanoosthuyze	25	2
I. Zolochesky	22	3
R. Ibragimov	17	2
A. Kornya	23	3
V. Latsanych	21	3
A. Smelkov <sup>2</sup>	9	2
V. Savchenko	18	3
A. Ushatskiy	22	3
M. Hecker <sup>3</sup>	11	2
O. Raspopov <sup>4</sup>		
K. Markov <sup>5</sup>		
A. Popovskiy <sup>6</sup>		

Over the past year 2013, the Management Board of MTS OJSC held 30 meetings: 27 meetings in praesentia and 3 in the form of absentee voting.

**80%**  
AVERAGE PERCENTAGE OF PARTICIPATION OF MEMBERS OF THE MANAGEMENT BOARD IN BOARD MEETINGS

<sup>1</sup> Elected to the Management Board by decision of the Board of Directors of MTS OJSC dated April 11, 2013.  
<sup>2</sup> Elected to the Management Board by decision of the Board of Directors of MTS OJSC dated March 26, 2013.  
<sup>3</sup> Powers of the member of the Management Board terminated by decision of the Board of Directors MTS OJSC of December 19, 2013.  
<sup>4</sup> Powers of the member of the Management Board terminated by decision of the Board of Directors MTS OJSC of February 14, 2013.  
<sup>5</sup> Powers of the member of the Management Board terminated by decision of the Board of Directors MTS OJSC of September 26, 2013.  
<sup>6</sup> Powers of the member of the Management Board terminated by decision of the Board of Directors MTS OJSC of May 16, 2013.

Secretary of the Management Board of MTS OJSC

This function is assigned to the Corporate Governance Department of MTS OJSC.  
Secretary of the Management Board — Olga Alexandrovna Oleynik.

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 2013 WAS

**597,987,340 RUR**

BODIES SUPERVISING FINANCIAL AND ECONOMIC ACTIVITIES

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

- Auditing Commission of MTS OJSC
- Director of Internal Control and Audit of MTS OJSC<sup>>>1</sup>
- Internal Audit Department of MTS OJSC
- Control Department of MTS OJSC
- Internal Control Systems Department of MTS OJSC
- Audit Committee of the Board of Directors of MTS OJSC

MTS OJSC Auditing Commission

On June 25, 2013, the Annual General Meeting of MTS OJSC Shareholders elected the following persons as members of the Auditing Commission:

1. Irina Borisenkova, born in 1963, holds the position of Chief Accountant, Managing Director of Finance and Investment Complex of JSFC Sistema.
2. Maxim Mamonov, born in 1978, holds the position of Director of Internal Control of MTS OJSC.
3. Jakub Paragulgov, born in 1983, holds the position of Head of Planning of Finance and Investment Complex of JSFC Sistema.

Auditing Commission, acting in accordance with the Charter of MTS OJSC, as well as the Regulations on the Auditing Commission of MTS OJSC is a permanent elected body of the Company and carries out periodic supervision over financial and economic activities of the Company, the activities of its management bodies and officers (in including its separate subdivisions, departments, branches and representative offices) by performing documentary and factual audits.

The Auditing Commission is independent from officers of the Company's management bodies and is accountable only to the

<sup>1</sup> In February 2014, the organizational structure of control and audit bodies was changed: The Internal Audit Department and Control Department were merged into Internal Control and Audit Block of MTS OJSC, functionally subordinate to the Director of Internal Control and Audit of MTS OJSC.

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 2013. According to the Auditing Commission, the audit provided sufficient grounds to express the opinion that the financial and economic activities of MTS OJSC during the

reporting year were carried out in all material respects in accordance with current legislation, and that this Report and annual financial statements of MTS OJSC for 2013 fairly present the Company's financial condition as at December 31, 2013, and the results of its financial and economic activities for the period from January 1 through December 31, 2013.

Director of Internal Control and Audit of MTS OJSC

Director of Internal Control and Audit is functionally subordinate to the Chairman of the Audit Committee of the Board of Directors of MTS OJSC and administratively subordinate directly to the President of MTS OJSC.

**Director of Internal Control and Audit has the following duties:**

- provides overall management, coordination, analysis and supervision of activities of overseen units. Organizes and provides effective interaction with the structural units of MTS OJSC, subsidiaries of MTS OJSC, foreign subsidiaries of MTS OJSC;
- organizes monitoring of observance of financial discipline in MTS OJSC, subsidiaries of MTS OJSC, foreign subsidiaries of MTS OJSC;
- organizes monitoring of effectiveness and efficiency of the procedures relating to financial and economic activity of MTS OJSC, subsidiaries of MTS OJSC, foreign subsidiaries of MTS OJSC;

- organizes monitoring of compliance with legal and regulatory documents in MTS OJSC, subsidiaries of MTS OJSC, foreign subsidiaries of MTS OJSC;
- organizes monitoring of conformity of contracts and agreements of MTS OJSC, subsidiaries of MTS OJSC, foreign subsidiaries of MTS OJSC with third parties to financial and economic interests of MTS, subsidiaries of MTS OJSC, foreign subsidiaries of MTS OJSC;
- organizes monitoring of effectiveness and transparency of the management system of MTS OJSC, subsidiaries of MTS OJSC, foreign subsidiaries of MTS OJSC, revealing abuses by executive bodies and officers of MTS OJSC, subsidiaries of MTS OJSC, foreign subsidiaries of MTS OJSC;
- organizes independent investigations at MTS OJSC, subsidiaries of MTS OJSC, foreign subsidiaries of MTS OJSC and prepares opinions on violations for consideration by the Committee on Discipline;
- other duties.

Internal Audit Department of MTS OJSC

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

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

**To do this, the department carries out an objective analysis of audit evidences for the purpose of independent assessment and preparation of opinion on reliability and efficiency of systems, processes, operations in the following areas:**

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

The Internal Audit Department is subordinated to the Director of Internal Control and Audit.

Control Department of MTS OJSC

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

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

- monitoring procedures related to financial and economic activity (including

operations) of MTS OJSC units, analyzing the results of the specified activities;

- monitoring compliance with fiscal and executive discipline at MTS OJSC and monitoring the implementation of decisions of its management bodies, including its collective management bodies;
- verifying that internal documents and decisions of the management bodies of MTS OJSC are consistent with the Company's financial and business interests;
- monitoring that the Company's agreements with third parties are consistent with MTS' financial and business interests;

- monitoring the effectiveness and transparency of the governance system in the Company, including revealing abuses by executive bodies and officers of MTS OJSC;
- coordination of activities of units that process messages arriving to the address of the single hot-line, preparation of conclusions;
- preparing opinions on violations brought before the disciplinary commission of MTS OJSC;
- monitoring efficiency of business processes of operations, project activities of the company units;

Internal Control Systems Department of MTS OJSC

The Internal Control Systems Department was created in 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 consists of a head of the department, the development and support division, the certification and testing division and the IT processes control division.

- The Internal Control Systems Department performs the following main functions:
- development of effective internal control system in MTS Group;
  - maintaining internal control system of MTS Group up-to-date;
  - identification of risks in terms of reliability of financial reporting; development of risk assessment methods, assessment systems and support for risk-related decisions;
  - monitoring requirements of financial regulators (stock exchange) in terms of disclosure requirements, evaluation

- 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 is subordinated to the Director of Internal Control and Audit and in its work coordinates plans, performs functions and exchanges information with other units involved in control of financial and economic activities of the Company.

- of operational efficiency, monitoring changes in certification requirements of the U.S. Securities and Exchange Commission (SEC);
- implementation of unconditional and accepted requirements of government and supervisory authorities and regulators in terms of requirements for financial reporting internal control system and certification of internal control system (SEC, New York Stock Exchange (NYSE));
  - testing, evaluation and certification of internal control systems at MTS Group.
  - coordination of interaction of external auditors and the functional departments of the company in the course of audit of effectiveness of internal control system of MTS Group.

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

Audit Committee of the Board of Directors of MTS OJSC

The Committee shall consist of at least two members. Only members of the Board of Directors may be Members of the Committee.

The Auditing Commission is guided in its activities, by legislation of the Russian Federation, other foreign legislation applicable to MTS OJSC, the Charter of MTS OJSC, corporate governance principles adopted by the MTS OJSC, Regulations on the Board of Directors and the Regulations on the Audit Committee.

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.

AUDITOR OF MTS OJSC

On June 25, 2013, the Annual General Meeting of Shareholders of MTS OJSC approved Closed Joint Stock Company Deloitte & Touche CIS as the Company's auditor (location: 5 Lesnaya St., Moscow, Russian Federation 125047, primary state registration number (OGRN) 1027700425444, Certificate of Membership in Self-Regulating Auditor Organization "Non-profit Partnership "Auditor Chamber of Russia" No. 3026 of May 20, 2009.

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

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

The work performed by the Auditor in the reporting year:

- audit of MTS' 2013 Annual Financial Statements prepared under Russian accounting standards;
- integrated audit of MTS Group' and subsidiaries' US GAAP Consolidated Financial Statements 2013 and audit of the effectiveness of internal control over financial reporting for the year 2013.

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

Issuer's auditor selection procedure

Tender for selection of external auditor of MTS OJSC is held not less than one time in five years. To hold the tender, MTS OJSC forms the tender committee (RAS) or, in the event of a tender to select an auditor for consolidated financial statements (US GAAP), MTS OJSC appoints a representative to a joint tender committee.

According to the results of the tender, tender committee generates recommendations on selection of the external auditor, which are sent for approval to the members of the Audit Committee of the Board of Directors of MTS OJSC. If the candidate of the auditor is approved by the Audit Committee, Board of Directors and General Meeting of Shareholders, a contract is signed with the audit firm for the provision of financial statements audit services.

The Auditor's fee is approved by MTS OJSC Board of Directors and was, based on 2013 results, RUB 124,886,025, ex-VAT (including works on audit of compliance with Sarbanes-Oxley Act requirements).

MAIN COMPONENTS OF CORPORATE COMPLIANCE SYSTEM IN MTS OJSC AND THE RESULTS OF ITS DEVELOPMENT IN 2013

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

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

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

Compliance system in MTS OJSC establishes measures aimed at managing regulatory risk, improving corporate culture,

introduction and development of the best corporate governance practices within the Company, as well as responsible business conduct standards, based on the applicable laws, recommendations of regulatory authorities, industry specifics and best practices in this area.

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

- The management of the Company actively demonstrates its commitment to compliance principles, and supports efforts to implement and support operation of corporate compliance system ("tone from the top").
- The Company regularly carries out activities to identify and further update corruption risks, paying particular attention to the risks specific to its operations, regions of presence, as well as potentially vulnerable business processes.
- The Company develops and implements procedures to combat corruption, reasonably and proportionally corresponding to the level and nature of identified risks.
- The Company implements and supports a program for its employees and members of management bodies to train them in principles and standards of compliance with applicable anti-corruption laws by means of specially developed training system. Through briefing and training the Company promotes improvement of corporate culture level, awareness of anti-corruption and ethical business practices.

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

messages. Bona fide informers are provided with Company protection from any form of harassment or discrimination.

**In 2013, the Company continued to improve the compliance system:**

- The number of compliance function specialists doubled, which allowed for the penetration of the function into activities of the regional units of the Company, thus providing a uniform understanding and fulfillment of principles and compliance rules established in the Company by the Company’s employees, regardless of the region where the Company operates in Russia.
- Compliance manager team established in subsidiaries and affiliates located in 5 different jurisdictions in the territory of Russia and CIS, adopting and developing compliance system locally in accordance with the unified approach adopted in MTS Group; monitoring local compliance with applicable anti-corruption legislation, as well as operational management of compliance system and its continuous improvement.

In 2013, the Company continued development of corporate compliance culture; formats and approaches to training activities were diversified, the frequency of internal communications on compliance issues increased, including the corporate media.

The project of detailed study of the Company’s business processes in terms of their vulnerability to corruption (compliance risk assessment) was completed. The result of the project, completed with the assistance of an international consultant, was detailed

audit of compliance risks and identification of measures to strengthen the internal control system.

The new version of the Code of Business Conduct and Ethics was developed and approved by the Board of Directors, which takes into account important aspects of responsible business conduct of the

Company in the modern world. The analysis of corporate compliance system in the context of the new Russian legal requirements, which came into effect in 2013, and the recommendations for their execution was carried out.

A number of critical compliance system procedures was revised and improved.

# Information for Shareholders

## SHAREHOLDING STRUCTURE

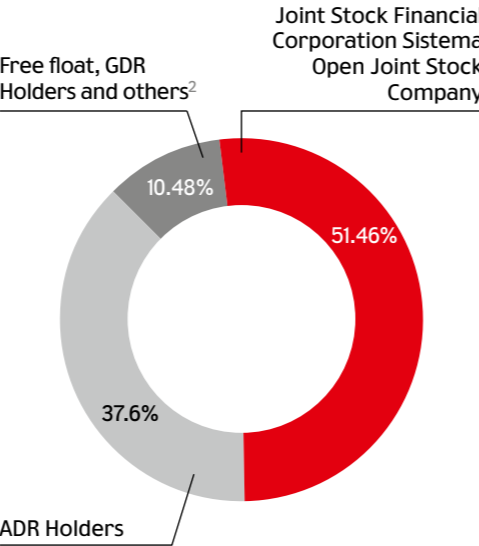
THE EQUITY CAPITAL OF MTS OJSC AS OF DECEMBER 31, 2013 WAS

**206,641,356.20 RUR**

Outstanding and authorized shares of MTS OJSC as of December 31, 2013

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, 2013 the registered shareholders of MTS OJSC had the following shares in the equity capital<sup>1</sup>



<sup>1</sup> Including shares owned by subsidiaries of JSFC Sistema: Sistema Finance SA (10%) and Sistema Telecom Assets (10.67%).

<sup>2</sup> Calculation of shareholders' stakes in MTS OJSC equity capital was carried out without consideration of the following assumptions:

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

## INFORMATION ON COMPANY'S SECURITIES

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

### Shares

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

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

Information on stock exchange listings of MTS OJSC shares

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

Information on current listings and transaction prices:

<http://www.moex.com>

<http://www.nyse.com>



MTS OJSC share prices and volumes at MICEX (RUR), 2013

MICEX	Price (RUR)
Minimum price per share	245.99
Maximum price per share	351.49
Average daily trading volume	1,412,248
Price as of December 31, 2013	328.16

American depositary receipts

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

Currently ADRs of the Company are traded on the London Stock Exchange, Frankfurt Stock Exchange, Berlin Stock Exchange and Munich Stock Exchange. Main trading volumes fall on the New York Stock Exchange.

Since October 3, 2003, MTS shares have been traded as non-listed securities on the Moscow Interbank Currency Exchange

(<http://rts.micex.ru/>). In December 2003 MTS shares were included in the MICEX Quotation List B. Since October 2010 MTS shares have been traded in the Quotation List A1.

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

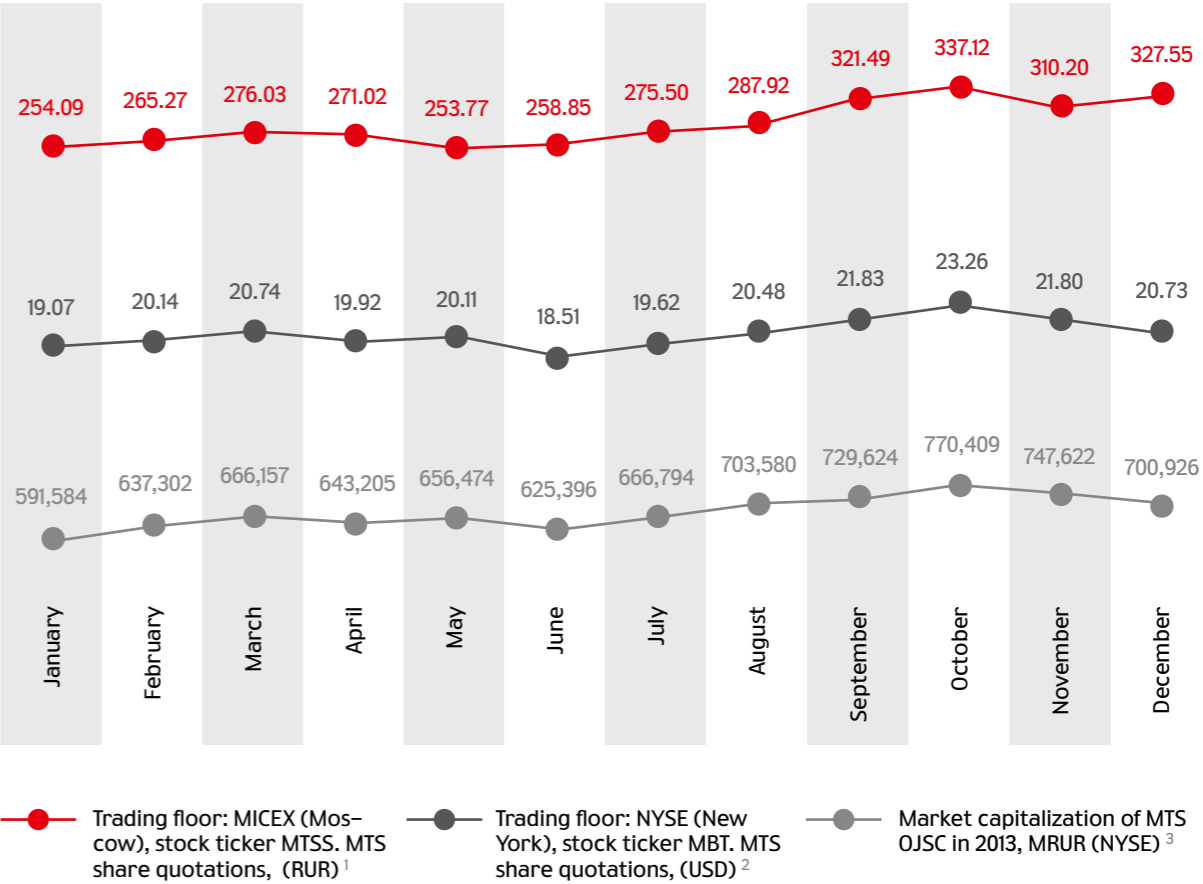
As of December 31, 2013 the total number of ADRs issued for registered common shares was 388,698,253, which equals to 777,396,505 registered common shares



Price and volume of American depositary receipts of MTS OJSC at NYSE (USD), 2013

NYSE	Price (USD)
Minimum price per share	23.92
Maximum price per share	17.66
Average daily trading volume	1,920,694
Price as of December 31, 2013	21.63

Dynamics of MTS OJSC share prices, January 2013 – December 2013



<sup>1</sup> Quotations are given as of the last trading day of the month, for MTS shares – weighted average.  
<sup>2</sup> Quotations are given as of the last trading day of the month, for ADR (NYSE) – closing price.  
<sup>3</sup> Capitalization is calculated as product of total quantity of MTS OJSC shares and weighted average price of one share calculated at ADR closing prices for shares of MTS OJSC (1 ADR = 2 common registered shares of MTS OJSC) at the New York Stock Exchange, multiplied by USD /RUR exchange rate established by the Central Bank as of the last day of the month.

Bonds

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.

The first issue of the MTS OJSC ruble de-nominated bonded loan for 10 billion rubles took place is 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 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 COMSTAR – United TeleSystems OJSC into registered interest-bearing non-certificated inconvertible bonds of MTS OJSC.

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

On April 3, 2013 the first issue of exchange bonds in rubles of MTS OJSC was carried out in the amount of 10 billion rubles with a maturity of 10 years and offer after 5 years.

On May 30, 2013 dollar Eurobonds were issued for \$500 million with a maturity of 10 years.

On October 17, 2013 Series 01 bonds for 10 billion rubles were fully redeemed.

CREDIT RATINGS OF MTS ISSUER

Credit agencies Fitch, Moody's and Standard & Poor's assigned the following ratings to debt obligations of the Company<sup>1</sup>:

Fitch	Moody's	Standard & Poor's
<b>BB+</b> outlook stable	<b>Ba2</b> outlook stable	<b>BB+</b> outlook stable

<sup>1</sup> Data as of December 31, 2013.

Basic details of bond issues

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

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 03
Coupon	1-4 coupon – 8.7%, 5-10 coupons – 8% per annum, 11 coupon – 7% per annum, 12-13 coupons – 7.5% per annum, 14-20 coupons – to be specified by the issuer
Issue price	100%
Currency of issue	Ruble
Amount of issue	10 000 000 000
Date of placement	June 24, 2008
Maturity date	June 12, 2018
ISIN Reg No	RU000A0JPTJ4
Offer	June 20, 2013

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

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

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

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

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Exchange-traded certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 50-01
Coupon	1-10 coupons – 8.25% 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	April 03. 2013
Maturity date	March 23. 2023
ISIN Reg No	RU000A0JTTA5
Offer	March 28, 2018

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	01.04.2011
Maturity date	29.11.2015
State registration No.	4-09-04715-A
Offer	–

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Registered interest-bearing non-certificated inconvertible bonds, Series «B»
Coupon	8% of the Bond par value for entire trading period.
Issue price	100%
Currency of issue	Ruble
Amount of issue	11 998 800
Date of placement	01.04.2011
Maturity date	21.08.2016
State registration No.	4-10-04715-A
Offer	–

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Registered interest-bearing non-certificated inconvertible bonds, Series «B»
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	01.04.2011
Maturity date	28.06.2022
State registration No.	4-11-04715-A
Offer	–

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

Issuer	MTS International Funding Limited
Type of security	Notes (144A/Reg S), secured by the Company
Coupon	5,00% fixed, payable semiannually
Issue price	100%
Currency of issue	US dollar
Amount of issue	500 000 000
Maturity date	May 30, 2023

COOPERATION WITH INVESTORS AND SHAREHOLDERS

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

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

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

In accordance with the principle of public availability, the Company publishes information on major events at the website of the New York Stock Exchange<sup>1</sup>, as well as on the official website of MTS for investors<sup>2</sup>.

Besides, MTS places data at its official website. The sections "For Investors and Shareholders"<sup>3</sup> and "Corporate Governance"<sup>4</sup> contain internal corporate documents, annual reports, materials for shareholders' meetings, registrar and auditor details, information on dividend policy, IAS and RAS quarterly financial statements, share and bond quotations.

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

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

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

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

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

Corporate Finance and Investor Relations Department: Josh Tulgan (Department Director). Tel.: +7 (495) 223 2025. Fax: +7 (495) 911 6588. E-mail: [ir@mts.ru](mailto:ir@mts.ru).

<sup>1</sup> <http://www.sec.gov> .  
<sup>2</sup> <http://www.mtsgsm.com> .  
<sup>3</sup> <http://www.company.mts.ru/comp/ir/> .  
<sup>4</sup> <http://www.company.mts.ru/comp/ir/control/> .

DIVIDEND POLICY

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

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

2013–2015 period, MTS OJSC aims to return to its shareholders at least 75% of free cash flow for the preceding fiscal year (or 40 billion rubles, whichever is greater) by paying dividends. In 2013–2015, the Board of Directors of MTS OJSC will recommend to the general meeting of shareholders to exercise dividends twice a year.

The regulation "On the dividend policy" is placed at the official MTS OJSC website<sup>1</sup>.

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

Total amount of dividends accrued for MTS OJSC shares following the results of 2012 and the first half of 2013 — **40,954,515,537 rubles**.

Dividend amount per share — **19.82 rubles**.

Total amount of dividends paid following the results of 2012 and the first half of 2013 — **40,946,069,140 rubles**.

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

Dividend history, 2004 — 1H 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	1H 2013
Total dividend, MRUR	11.5	15.1	19.3	29.6	39.4	30.7	30.0	30.4	30.2	10.8
Per share, RUR	5.8	7.6	9.7	14.8	20.2	15.4	14.5	14.7	14.6	5.2
Dividend yield	3.1%	4.0%	4.0%	5.0%	11.1%	6.2%	5.7%	6.3%	5.3%	1.8%

<sup>1</sup> <http://www.company.mts.ru/ir/dividends/> .

FINANCIAL SCHEDULE 2013 <sup>1</sup>

GENERAL MEETINGS OF SHAREHOLDERS		MEETINGS OF THE BOARD OF DIRECTORS	
June 24, 2014		April 11, 2014; May 22, 2014; June 24, 2014; July 31, 2014; September 11, 2014; October 30, 2014; December 19, 2014	
Annual general meeting of MTS OJSC shareholders		MTS OJSC Board of Directors	
PUBLICATION OF RAS FINANCIAL STATEMENTS			
Q1 2014	Q2 2014	Q3 2014	Q4 2014
Q4 (12 months) 2013	Q1 (3 months) 2014	Q2 (6 months) 2014	Q3 (9 months) 2014
PUBLICATION OF IAS FINANCIAL STATEMENTS			
Q1 2014	Q2 2014	Q3 2014	Q4 2014
Q4 (12 months) 2013	Q1 (3 months) 2014	Q2 (6 months) 2014	Q3 (9 months) 2014

<sup>1</sup> The dates may be adjusted.

MTS OPERATIONS AS REFLECTED IN AWARDS AND RATINGS 2013

Rating/Contest/ Award	MTS rating/contest/award category	Organizer/ Source
MTS IS THE BEST TELECOMMUNICATIONS BRAND		
BRANDZ™ TOP 100 MOST VALUABLE GLOBAL BRANDS	The only Russian telecommunications brand in the ranking 82th place, +3 points vs. 2012	International agency Millward Brown Financial Times newspaper
100 BEST GLOBAL BRANDS 2013	The most valuable Russian telecom brand 2nd place in the overall ranking	International consulting group Interbrand BusinessWeek Magazine
INTERNATIONAL PRIZE "BRAND OF THE YEAR / EFFIE	The winner in the category "Reputation and Trust" 2 awards: — Super MTS Tariff promotion project — Digitalization project, aimed at promoting digital television of MTS	American Marketing Association
MTS — THE BEST EMPLOYER		
RUSSIAN EMPLOYERS RATING	The best employer among Russian companies Russia's only employer in the Top 3	Recruitment holding Head-Hunter International consulting group PricewaterhouseCoopers Economic magazine "Kommersant-Money"
"EMPLOYERS FOR THE YOUTH" RATING	Best employer for the youth among Russian companies Russia's only employer in the Top 3	Youth portal Career.ru Recruitment holding Head-Hunter
COMPETITION OF PRESENTATION PAGES OF EMPLOYERS ON HEADHUNTER WEBSITE	Contest winner	Recruitment holding Head-Hunter
RUSSIA'S TOP EMPLOYERS RANKING "INDEX OF LEADERSHIP"	Winner in the category "Comfort index"	RDV-Media Group; RABOTA.RU website "Elitny Personal" business magazine

MTS — BEST COMPANY IN THE FIELD OF PROCUREMENT		
«PROCUREMENT LEADERS AWARDS 2013» (LONDON)	The only representative of Russia among the finalists in the category "Transformation of Procurement"	Global membership network «Procurement Leaders» Procurement Leaders magazine
COMPETITIVE PROCUREMENT LEADER AWARD	Winner in the category "For contribution to the development and promotion of competitive procurement"	International Center for Electronic Trading B2B–Center
NATIONAL PROCUREMENT TRANSPARENCY RANKING	Winner in the category and "223–FZ Customers" (MGTS) with "Guaranteed Transparency" mark	"National Association of Electronic Commerce Participants" (NAUET) Ministry of Economic Development Federal Antimonopoly Service (FAS) Accounts Chamber of the Russian Federation
MTS — THE BEST IN BUSINESS MANAGEMENT		
NATIONAL AWARD "INVESTOR AWARDS 2013"	Winner in the category "Best Corporate Business Strategy" for long–term corporate strategy 3i — Integration, Internet, Innovation	Media group "Securities Market" Social network «Investor.ru»
II ANNUAL INDUSTRY AWARD "COMNEWS AWARDS 2013"	Winner in 3 categories: "The largest telecom operator by revenue" "The largest mobile operator by penetration" "The best implementation of SAP solutions in telecommunications industry for the project "Work Force Management" at MGTS	ComNews Group
MTS — THE MOST CUSTOMER-ORIENTED COMPANY		
RUSSIA'S FIRST CUSTOMER-ORIENTED COMPANIES RANKING	1st place among mobile operators	Association of customer loyalty and customer–centricity (CLIC)
MTS — A SOCIALLY RESPONSIBLE COMPANY		
NATIONAL CORPORATE SOCIAL RESPONSIBILITY RANKING	Rating "AA (s)", which indicates a high level of social responsibility of the company and effective CSR Strategy	Rating Agency "Reputation"

ANNUAL FEDERAL INNOVATION AWARD "INNOVATION TIME"	Winner in the category "Social Innovation of the Year" for the educational project to teach older people Internet literacy "Networks for all ages"	Fund "Social projects and programs" with the support of the Ministry of Economic Development of the Russian Federation, the Ministry of Telecom & Mass Communications of the Russian Federation
NATIONAL PROGRAM "BEST RUSSIAN SOCIAL PROJECTS"	Inclusion of the educational project to teach older people Internet literacy "Networks for all ages" in the top 20 best Russian social projects	Fund "Social projects and programs" with the support of the Department of Social Welfare of Moscow, the World Wildlife Fund (WWF), the Forest Stewardship Council Russia (FSC)
FEDERAL AWARD FOR THE SUPPORT OF SMALL AND MEDIUM BUSINESS "GROWTH BASE 2013"	Award for the project to search and support young innovators in the field of telecommunications "Telecom Idea"	Fund "Social projects and programs" with the support of the Ministry of Economic Development of the Russian Federation and the Russian Union of Industrialists and Entrepreneurs
MTS — THE MOST ENVIRONMENTALLY RESPONSIBLE BUSINESS		
ANNUAL ALL–RUSSIAN AWARD "EKOPOZITIV"	The winner in the category "Initiative for Social Entrepreneurs and Environmentally Responsible Business" for the federal environmental program "Eco Telecom" The only representative of big business among Environmental Prize winners	Green Movement of Russia ECA Moscow Youth multifunctional center
MARKETING, COMMUNICATIONS AND PR AWARDS		
NATIONAL AWARD "BIG DIGIT"	Winner in the category "Marketing promotion of telecom operator for the campaign to promote digital TV MTS in mobile and fixed networks	Cable TV Association of Russia Ministry of Telecom & Mass Communications of the Russian Federation Exhibition company "MID'expo"
CONTEST OF MARKETING SERVICES INDUSTRY "SILVER MERCURY 2013"	GRAND PRIX for creating Yeti Bratishkin for MTS advertising campaigns 2 top awards in the categories: "Best creative solution for integrated campaign" "Best implementation of integrated campaign " (For the campaign "Free social networks for people and Yeti")	Russian Association of Marketing Services

II ALL-RUSSIAN CONTEST "THE BEST CORPORATE VIDEO 2013"	Winner in two categories: "TV show" for interactive television talk show "Struggle of ideas", created with the TV channel "Prosveschenie" as a part of the contest of youth innovation projects MTS "Telecom Idea" "Image corporate film" for the film "Three Stories of Love," dedicated to the 130th anniversary of MGTS	Association of Directors of Communications and Corporate Media Russia (ACMR) MediaBusiness Publishing
AWARD OF THE PUBLISHING HOUSE "KOMSO-MOLSKAYA PRAVDA"	The winner in the "Cross attack" category for the best creative campaigns on the Internet	Publishing house "Komsomolskaya Pravda" (portals "Soviet Sport" sovsport.ru and kp.ru)
AWARDS IN THE FIELD OF PRODUCTS AND SERVICES		
INTERNATIONAL AWARD "GLOBAL TELECOMS BUSINESS INNOVATION AWARDS 2013"	Winner in the category "Business Service Innovation" for MTS corporate service "Mobile Employees"	International Telecommunication edition "Global Telecoms Business"
RUNET AWARD "BEST GADGET"	Winner in the nomination "Best ultra low-cost smartphone" (MTS 970 smartphone)	Hi-Tech@Mail.Ru Portal RuNet Users
AWARDS OF EXECUTIVES OF MTS		
XIV ANNUAL RANKING "TOP 1000 RUSSIAN MANAGERS"	Top managers MTS collectively occupied the largest number of leading position in "Telecommunications" industry MTS President Andrei Dubovskov ranked first among the top managers	Russian Managers Association PH "Kommersant"
RUSSIAN BUSINESS AWARD IN THE FIELD OF MANAGEMENT "ARISTOS 2013"	Vice President, Sales and Customer Service of MTS Vadim Savchenko won the nomination "The Best Commercial Director"	Russian Managers Association
NATIONAL AWARD "SUCCESS. BEST CORPORATE LAWYER OF THE YEAR 2013"	Vice President, Corporate and Legal Matters of MTS Ruslan Ibragimov became the winner in the category "Development of the Profession"	Corporate Counsel Association (CCA)
«PROCUREMENT LEADERS AWARDS 2013» (ASIA PACIFIC)	Vice President, Procurement and Administrative Valery Shorzhin won in the category "Procurement leader"	Global membership network «Procurement Leaders» Procurement Leaders magazine
"MEDIA MANAGER OF RUSSIA-2013"	Director, Fixed Business & TV of MTS Dmitry Baghdasaryan won two awards: in the category "Television", nomination "Electronic Media" and the special category from TV channel "TV Nano" for significant contribution to bringing together members of the media market for the purpose of its sustainable development"	Association of Directors of Communications and Corporate Media Russia (ACMR) MediaBusiness Publishing

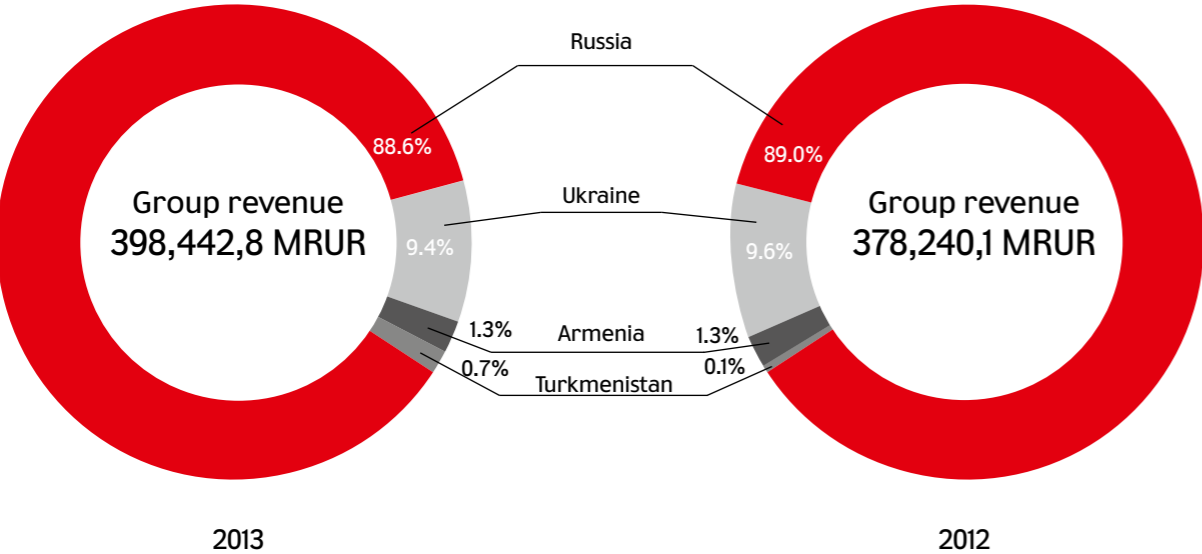
NATIONAL AWARD "DIRECTOR OF THE YEAR"	Ron Sommer, Chairman of the Board of Directors of MTS, ranked among the Top 25 Best Chairmen of the Board of Directors Independent Director of MTS Stanley Miller ranked among the Top 50 independent directors in 2013	
AWARDS OF STRUCTURAL UNITS OF MTS		
«IR MAGAZINE EUROPE AWARDS 2013»	Победитель в номинации «Лучшее подразделение по связям с инвесторами среди российских компаний»	IR Magazine
INTERNATIONAL COMPETITION "BEST LEGAL DEPARTMENT 2013"	Corporate and Legal Matters Block of MTS won in the category "Telecommunications"	International publishing group Wolters Kluwer Specialized legal magazine "Corporate Lawyer"
INTERNATIONAL COMPETITION "BEST LEGAL DEPARTMENTS — 2013"	Department of Corporate Governance and Legal Support of MTS Retail Chain won in the category "Trade"	International consulting company Odgers Berndtson Legal Insight Magazine
RECOGNITION OF ANNUAL REPORTS OF MTS BY PROFESSIONAL COMMUNITY		
XVI FEDERAL CONTEST OF ANNUAL REPORTS AND WEBSITES	MTS Annual Report became the best in the telecom industry. MTS also received an award in the main category of the contest for the "Best comprehensive representation of the company"	Media group Securities Market Social network «Investor.ru»
XVI ANNUAL REPORT COMPETITION OF THE MOSCOW EXCHANGE	Annual Report of MTS marked in the category nomination "Best Disclosure of corporate governance information in the annual report"	Moscow Exchange
ALL-RUSSIAN COMPETITION "RUSSIAN BUSINESS LEADERS: DYNAMICS AND RESPONSIBILITY 2013"	Sustainable Development Report of MTS won in the nomination "For high quality of reporting on sustainable development"	Russian Union of Industrialists and Entrepreneurs (RSPP)

# Financial Results 2013

In the past several years MTS Group OJSC has transformed from being the leader just in Moscow regional market into a major transnational operator, which provides services to 107.83 million subscribers in various regions and countries (incding subscribers of Mobile TeleSystems JLLC in Belarus, whose

financial results are not consolidated in the US GAAP financial statements of MTS OJSC) Below we present the data of consolidated financial statements of MTS Group in 2013 (excluding the financial results of the MTS Group operations in the Republic of Belarus)<sup>1</sup>.

Group revenue



<sup>1</sup> Information on consolidated financial and operating results of MTS Group for Q4 2013 and 2013 can be found at: <http://www.company.mts.ru/comp/ir/report/2014-03-18-3578088/>.

Key financial indicators 2013 (MRUR)

Indicators	Q4 2013	Q4 2012	Q4 2013 vs. Q4 2012	Q3 2013	Change over the quarter	2013	2012	Change over the year
Revenue	104,751	98,414	6%	103,388	1%	398,443	378,240	5%
OIBDA	44,988	40,456	11%	46,290	-3%	175,011	161,703	8%
OIBDA margin	42.9%	41.1%	1.8 pp	44.8%	-1.9 pp	43.9%	42.8%	1.1 pp
Operating profit	27,219	23,413	16%	27,395	-1%	101,758	93,793	8%
Operating profit margin	26.0%	23.8%	2.2 pp	26.5%	-0.5 pp	25.5%	24.8%	0.7 pp
Net income from continuing operations	19,750	15,450	28%	18,080	9%	76,105	62,488	22%
Net income margin from continuing operations	18.9%	15.7%	3.2 pp	17.5%	1.4 pp	19.1%	16.5%	2.6 pp
Net income	19,750	16,997	16%	18,080	9%	79,839	29,642	169%
Net income margin	18.9%	17.3%	1.6 pp	17.5%	1.4 pp	20.0%	7.8%	12.2 pp

Below is the analysis of key operating indicators of MTS Group in 2013 vs. 2012.

Following the results of 2013 the MTS Group demonstrated growth of main financial indicators. Consolidated revenues increased by 5% year over year and amounted to 398.4 BRUR. The main driver of revenue growth in 2013 was higher consumption of VAS services (+ 14.9 BRUR) as a result of active promotion of these services

in the market, growth of the mobile Internet and smartphones penetration as well as development of 3G networks, and, consequently, improvement of quality of VAS services. The consolidated revenues growth in 2013 was also supported by growth of revenues from traffic termination (+ 1.2 BRUR), higher revenues from roaming services (+ 1.7 BRUR) and revenues from fixed services (+ 2.8 BRUR). The key growth driver of traffic termination revenues was the increase of traffic volumes consumed by our competitors. Growth of revenues from roaming

services was driven by an increase of traffic of our subscribers as a result of tariff reductions. Revenues for fixed services mainly grew due to provision of broadband and digital TV services, boosted by successful development of GPON project. The Group's revenue from sales of MTS subscriber equipment in 2013 decreased by 2.4 BRUR, the decline was the result of shifting sales focus from premium smartphones to more affordable smartphones. The subscriber base of MTS Group, except for subscribers in Uzbekistan, as of December 31, 2013 increased to 102.4 million compared with 95.5 million subscribers as of December 31, 2012.

Consolidated adjusted OIBDA was 175.0 BRUR, which is 8% higher than in the last year. OIBDA margin grew to 43.9% as compared to 42.8% the last year. Growth of adjusted OIBDA margin is mainly associated with increased revenues from high-margin services as well as continuous cost optimization.

Consolidated operating profit 2013 grew by 8% as compared to the previous year to 101.8 BRUR. Operating profit margin at the same time also grew from 24.8% in 2012 to 25.5% in 2013. The main reason for the increase in operating profit, as in the case with consolidated OIBDA, was the increase in revenue from high-margin services in combination with ongoing cost optimization.

Consolidated net income from continuing operations for the year increased by 22% to 76.1 BRUR, mainly due to one-off recognition of income resulting from the settlement of litigation over Bitel in the amount of 12.1 BRUR. Net income margin from continuing operations in the reporting period also increased to 19.1% as compared with 16.5% in 2012.

Consolidated net income of MTS Group in 2013 amounted to 79.8 BRUR, which is 169% higher than the previous year. Consolidated net income margin grew from 7.8% in 2012 to 20.0% in 2013. Net profit of MTS Group in 2012 included an impairment loss of assets and accruals for litigation in Uzbekistan in the amount of 32.8 BRUR. In 2013 MTS Group deconsolidated its subsidiaries in Uzbekistan as a result of what an income from deconsolidation was recognized in the amount of 3.7 BRUR. Also positive impact on the net income of MTS Group resulted from recognition of one-off recognition of income resulting from the settlement of dispute over Bitel in the amount of 12.1 BRUR, as mentioned above.

Cash flow from continuing operations in 2013 increased by 19% and amounted to 159.9 BRUR, free cash flow from continuing operations amounted to 73.0 BRUR.

## Revenue structure (MRUR)

Region	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2012	2013	Change over the year
Russia	88,187	82,748	86,460	91,533	94,154	337,949	354,894	+5%
Ukraine	9,320	9,073	9,921	10,805	9,933	37,722	39,732	+5%
Turkmenistan	294	516	695	808	819	330	2,838	+ 760%
Armenia	1,533	1,323	1,512	1,807	1,586	6,006	6,228	+4%

## OIBDA (MRUR)

Region	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2012	2013	Change over the year
Russia	37,076	35,847	39,222	41,523	41,107	148,008	157,699	+7%
Ukraine	4,669	4,671	5,214	5,562	5,194	19,218	20,641	+7%
Turkmenistan	92	140	230	309	498	(115)	1,177	n/a
Armenia	819	665	791	983	420	3,440	2,859	-17%

## OIBDA Margin

Region	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2012	2013
Russia	42.0%	43.3%	45.4%	45.4%	43.7%	43.8%	44.4%
Ukraine	50.1%	51.5%	52.6%	51.5%	52.3%	50.9%	52.0%
Turkmenistan	31.4%	27.1%	33.1%	38.3%	60.8%	n/a	41.5%
Armenia	53.4%	50.3%	52.3%	54.4%	26.5%	57.3%	45.9%

# Risk Factors

## COUNTRY AND MACROECONOMIC RISKS

We are the operator providing subscribers with tariffed telecommunications services. Our financial condition and operating results, among other things, depend on the ability to pay of the population. Economies of the countries where we operate are influenced by both positive and negative trends in the global economy, and also depend on the dynamics of resource prices on the world market. Macroeconomic instability and slowdown of economic growth in

the countries where we operate, may lead to a decrease in demand for the provided services, reduce our revenues and performance indicators.

We can be influenced by country and political risks as well as risks associated with the legal status and the ability to provide uninterrupted service in the countries where we operate, which may affect our financial condition, the safeguarding of assets and operating results.

## 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 where we operate. The situation in our markets, including stability of the banking system, inflation, change in exchange rates of local currencies against USD and/or EUR, a possibility for free conversion of currencies and making currency payments impacts our operating performance and business results.

We plan to expand the infrastructure of our network by increasing coverage and capacity of our existing network in licensed territories, further development of our business in countries where we operate



The system of taxation in the countries where we operate is undergoing constant changes; legislation in this area tends to have ambiguous interpretation. For example, poorly drafted Russian transfer pricing rules may increase the risk of price adjustment by tax authorities and lead to

additional tax burden within transfer pricing control. This may complicate tax planning and related business processes, and may also have adverse material impact on our business, financial standing operating results.

REGULATORY AND LEGAL RISKS

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

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

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

TECHNOLOGY RISKS

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

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

COMPETITIVE ENVIRONMENT

Our business, performance indicators and financial position depend on competitive environment in the countries where we operate, demand for our services and efficiency of operations. The telecommunications market is characterized by rapid technological changes and characterized by continuous emergence of new competitive products and services. Starting from 2014, gradual intensification of competition is possible in connection with the launch of the new federal operator T2 RTK Holding, created by combining the mobile assets of JSC Rostelecom and Tele2 Russia.

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

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

Rate of growth of our subscriber base, market share and revenues depend, among other factors, on the ability to expand our retail chain, maintain relationships with regional distributors and on the independent dealers market structure.

Details about these and other risks can be found in the section “Item 3 – Key Information – D. Risk Factors” in Form 20-F Annual Report of MTS OJSC<sup>1</sup>, as well as in quarterly reports of MTS OJSC<sup>2</sup>.

<sup>1</sup> [http://www.mtsgsm.com/resources/annual\\_reports/](http://www.mtsgsm.com/resources/annual_reports/).

<sup>2</sup> [http://www.company.mts.ru/comp/ir/control/data/quarterly\\_reports/](http://www.company.mts.ru/comp/ir/control/data/quarterly_reports/).

WE BALANCE THE NEEDS  
OF BUSINESS WITH PUBLIC  
INTERESTS AND EXPECTATIONS  
OF THE COMMUNITY, AND  
**WE ACCEPT RESPONSIBILITY**  
FOR EFFECTS OF OUR  
DECISIONS AND ACTIVITIES  
ON THE SOCIETY AND THE  
ENVIRONMENT

## SOCIAL RESPONSIBILITY

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# Human Resources and Social Policy

## LABOR AND COMPENSATION

AS OF DECEMBER 31, 2014 MTS OJSC HAD  
**30,951 employees**  
ON ITS PAYROLL LIST



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

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

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

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

employees of the Company responsible for direct sales.

The Company also uses additional incentive system for key staff at all levels, allowing to motivate the best talented and promising employees

MTS provides to its employees a wide compensation and benefits package, focused on social protection of workers. Workers are provided service benefits (including cars and their compensation, mobile communications with large limit), social benefits (including life insurance, sick leave surcharge), entertainment benefits, fringe benefits (including compensation of fitness and pools, wide range of VMI insurance services, wide benefit package on relocation within the perimeter of the company). Due to the active development of the package, recently the growth of employee satisfaction with benefits package level has been one of the most significant in comparison with other satisfaction and involvement indicators.

Due to activities carried out in 2013, MTS preserves and strengthens its position among employers both for potential foreign competitors and for its own talented employees; as well as provide comfortable and stable working environment for the entire staff.

## ORGANIZATIONAL STRUCTURE IN 2013

01.01.2013–31.12.2013	Result of changes:
Changing of organizational structure and staffing in the Macro-regions and Regions of MTS OJSC as a part of the change of organizational structures and functions of the Corporate Center and implementation of integration project of organizational structure of MTS OJSC and COMSTAR-Regions OJSC	<ul style="list-style-type: none"><li>Organizational changes have been completed in all functional areas:</li><li>Work on standardization of staff number and distribution of functions in all areas was has been performed</li></ul>
Marketing units	<ul style="list-style-type: none"><li>Building the model structure</li><li>Centralization of administrative functions in the Corporate Center</li><li>Increasing competitiveness and manageability of fixed business</li><li>Redistribution of marketing human resources between mobile and fixed business</li><li>Staffing level optimization by 20%</li></ul>

Retail sales units	<ul style="list-style-type: none"><li>• Building the model structure</li><li>• Allocation of employees responsible for the development and promotion of financial services</li><li>• Organization of work with freelance staff (positions, quantity, employment type</li><li>• Introduction of salaried employees performing functional roles of Coach and Supervisor</li><li>• Provision of human resources due to redistribution of staff between macro-regions</li></ul>
IT units	<ul style="list-style-type: none"><li>• Building the model structure</li><li>• Standardization of staff size for all areas (creating drivers, analysis of current distribution of staff in areas and regions and the obtained results of the number of drivers)</li><li>• Formation of plans to centralize functions (production, ERP support, testing, pricing, etc.)</li><li>• Implementation of the first phase of centralization for implementation of marketing programs in the Northwest MR</li></ul>
Change in organizational structure and staffing in Branches and Communication Service Centers of COMSTAR-Regions OJSC as a part of preparation for legal accession to MTS OJSC	<ul style="list-style-type: none"><li>• All organizational changes completed</li></ul>

In 2013, main changes in the organizational structure of MTS OJSC were aimed at creating a chain of command for functions in Macro-regions and Regions, as well as at preparation for implementation of legal accession processes of COMSTAR-Regions CJSC to MTS OJSC.

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

STAFF DEVELOPMENT

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

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

The basic goals of Staff Training and Development function:

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

development and involved in the processes of developing, maintaining and expanding the knowledge and skills in the Company.

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

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



Vocational training is planned based on the business needs of a particular sub-unit. This element of the training system accounts for the major portion of activities and the largest number of employees involved in training. Vocational training for frontline employees is provided mainly through in-house resources according to uniform standards (taking into account regional differences).

- **Management training for managers.** The basis of this system is the concept of completion of individual training plan, as well as targeted and modular training of managers. Targeted and modular programs are mandatory for selected categories of managers, and individual

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

- **Training of Candidate Pool members and the Successors for management positions.** The basis of the candidate pool training system is the individual development plans of each employee included in the Candidate Pool. The training programs are worked out individually based on the appraisal results and the level of competences.
- **Self-education.** The Company has provided the conditions for self-education of employees. The internal library of study materials by competences has been created.
- **Full-time training, workshops.** Internal resources are actively involved in such trainings and workshops, in-house training programs are developed, and the Academy of Trainer's Excellence for training local trainers has been established;
- **Post-training follow-up.** Conducting follow up workshops on the subjects of



completed training to reinforce skills and expertise of employees and to discuss the scope for using the acquired skills and expertise in practice;

- **Remote training.** Distance forms of training are actively used in the company for all types of training. Theory courses are conducted mainly in the distance form. Distance methods are also actively used to evaluate the effectiveness of training: to test the knowledge gained as result of training and to evaluate satisfaction with training programs, practical usefulness of training programs;
- **On-the-job training** is deemed the preferred and most effective method. One of the main objectives of a manager at any level is the professional growth of his or

her subordinates. The Company established a mentorship system for all employees: from an intern to an expert;

- **Master classes of the Company's top managers.** The company's top managers actively participate in the training and development of the Company's employees. Master classes of the key managers of the Company are held on a regular basis to give a message to the employees regarding the main objective of the Company and its strategy as well as to discuss the key projects. When holding master classes the top managers can get the feedback from the employees and discuss the prospective changes in their processes.



In addition, by the end of 2013, the following programs have been implemented in the Company:

- “Talent Management” program was launched for successors for leadership positions, high-potential employees (Hi-Po), specialists with unique expertise (Hi-Pro). For each of the target groups training programs have been developed, including the development of an individual development plan, 360

and Hogan feedback scoring, master classes, workshops, business lunches with top executives, mentoring programs.

- Remote Personnel Testing and Training System (SDTO) is being developed. 85 new courses were added to Remote Personnel Testing and Training System (twice as much as in 2013); each employee completed more than 3 courses in SDTO.
- Electronic library has been updated and expanded; now in addition to e-books, it also has audio-books on personal and professional development.
- The development program “Leadership Academy” was launched across Russia. During 2013, every fourth participant of “Leadership Academy” took a new career step.
- Implementation of the project “Sharing Knowledge” continued, where the employees share their expertise with colleagues in the format of webinars and workshops.
- For MTS managers “Rules for MTS Manager” were developed, including basic principles of management in the Company. Program to teach the rules was developed for 2014
- In support of the Company’s strategy, targeted training program “Leadership in change management” was launched.
- The English Club was started, aimed at development of language skills among MTS staff. Classes are held in the format of debates. Moderators are guest lecturers.
- Development program “Development of Employees in the Workplace” for Sales and Customer Service Block managers was implemented
- Total coverage of employees trained was 130,000 person-courses.



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

- “Customer Care Academy” for the employees engaged in customer service;
- “Academy of Business Sales PRO” for the employees engaged in sales of products and services for corporate customers;
- “Coaching Skills Academy” for the development of coaches within MTS Group. The goals of the Academy are professional development of corporate and in-house trainers of MTS Group and spreading single philosophy / policy / learning principles across the Company;

- “Leadership Academy” for high-potential employees of MTS Group. The key objectives of the Academy include development of managerial and communication skills of high-potential professionals.

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

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

# Corporate Social Responsibility

MTS is the largest telecommunications operator in Russia and the CIS, Central and Eastern Europe in terms of subscriber base, providing integrated services to more than 100 million people. We have responsibility to the people, because our technical solutions and actions directly affect their quality of life.



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

- contributes to sustainable development, promotion of health and social welfare;
- takes into account the expectations of stakeholders;
- integrated in the activities of the Company and implemented by the Company in practice;
- complies with the applicable legislation and is in line with the international conduct norms;
- contributes to information transparency of the Company and improvement of its corporate governance.

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

MTS Group is committed to the adopted sustainable development strategy. However, every year we update it in accordance with the new demands of society and our customers. The strategy of MTS is based on the desire to improve the quality of people's lives and contribute to the prosperity of society as much as possible.

## PRINCIPLES AND STRATEGY OF SUSTAINABLE DEVELOPMENT

At the heart of CSR activity of the Company are principles of socially responsible business, aimed at ensuring sustainable development of the Company, the growth of its welfare and formation of a competitive economy. Principles have been formulated taking into account the expectations of all stakeholders, and are enshrined in the internal regulatory documents of the Company "MTS activity in the field of corporate social responsibility (CSR)", which is accessible to any employee of the Company. On the corporate website of MTS<sup>1</sup>, Sustainable Development Reports of MTS Group are presented, the major projects of philanthropy and CSR of the Company, as well as feedback information. We maintain a constant dialogue with stakeholders and give the opportunity to get all the information about our social activities.

MTS CSR Strategy was based on three "i" in 2013:

- **Integration** — long-term programs for the support of local communities and development of corporate volunteering, bringing people together around the idea of "good cause" and charity.
- **Internet** — creating hardware and awareness and education efforts for the safe and beneficial use of Internet and mobile communication by children and adults, protection of subscribers from unwanted content and other risks;
- **Innovation** — search and attraction of new ideas for business, support of

talented young people, development of intellectual potential of the sector and investment in the future of the country as part of a Open Innovation corporate program.

In 2014, in addition to the above strategic areas of the company's CSR, we plan to develop two vectors in important areas such as:

- **Eco-Telecom:** A set of measures to improve environmental sustainability of the business and develop a culture of respect for the environment and each other among employees, customers and partners of the Company. As a part of this area in 2013, we implemented a number of projects, including: eco-campaign for the collection and recycling of used batteries and accumulators "Batteries, surrender!", Saturday Cleanup "Environmental Troopers of MTS", Eco-Marathon in Gorky Park in Moscow, children's drawing competition "Living Planet MTS" and took part in all-Russia environmental campaign to collect waste paper "Save a Tree." For more information about these and other environmental projects of the Company, please see our Sustainability Report 2013<sup>2</sup>.
- **Social HR:** implementation of measures for employment and adaptation of mature age workers, socially vulnerable groups and people with disabilities; creating affordable and comfortable environment for all categories of staff.

<sup>1</sup> [http://www.company.mts.ru/comp/social\\_responsibility/](http://www.company.mts.ru/comp/social_responsibility/).

<sup>2</sup> [http://www.company.mts.ru/comp/social\\_responsibility/soc\\_report/](http://www.company.mts.ru/comp/social_responsibility/soc_report/).

STRATEGY

3D

- **Data** — creating the conditions for finding and bringing new ideas for the business, supporting talented youth, outreach activities for the safe and beneficial use of the Internet and mobile communications by children and adults.
- **Differentiation** — integration into society: federal programs in the field of corporate volunteering with the involvement of all stakeholder groups, programs for expansion of new digital services and improving the quality of communication.
- **Dividends** — introduction of best practices in the field of CSR, standardization of CSR process in accordance with international standards, creating a transparent environment for the shareholders, potential investors, strengthening the corporate spirit and power of MTS.

At the end of 2013 corporate strategy of MTS was changed — we focus on the development of data-component, developed data strategy. Similar changes occurred in the Company’s CSR Strategy: in 2013 all of our projects in the field of CSR become data-oriented. In 2014, instead of the CSR Strategy based on three «i», we are planning to switch to the CSR Strategy based on three «d».

Since 2014, MTS CSR Strategy will be based on three “d”: data, differentiation, dividends.

In such MTS projects as “Network for all ages”, “Children on the Internet” and “Telecom Idea” data-component is greatly enhanced

CSR MANAGEMENT

MTS Group is guided by CSR principles in its activities. In the area of risk management the Company adheres to the basic principles of CSR, which allows us to minimize the consequences and prevent the negative situations

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

In 2013, MTS has significantly tightened its control over reporting. We conduct regular monitoring of CSR activities at both the regional and federal levels. All information on corporate social responsibility activities of the Company over the year in Russia and abroad is consolidated in public Social Report of MTS.

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

PLANS FOR 2014

In 2014, we plan to make greater use of social mechanisms for the promotion and advancement of mobile Internet, to focus on the development of HR-component — expand opportunities for employment of persons with disabilities in the Company, as well as to strengthen the work in the area of “Eco-telecom.”

In addition, in 2014 CSR projects quality control will be enhanced. We plan to create a CSR Committee — an advisory body to the President of the Company, whose members will work on a voluntary basis for

the purpose of attracting affiliate programs, broadcasting the Company’s CSR Policy to the external and internal environment, searching in the external environment for new ideas and projects for the development of the Company’s business, creating CSR environment in and around the Company, consolidation and efficient use of resources MTS in integrated projects, carrying out independent verifications of sustainability reports, approving annual work plans for the Corporate Center and Macro-regions..

CHARITY POLICY

The major component of the social responsibility of MTS is charity. The Company’s activities in this area are defined by the following principles:

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

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

MTS is a socially oriented company. We believe that a successful business is not only able but also obliged to help those who need help, invest in charitable projects to the maximum. In 2013, MTS has significantly increased financing of charity and CSR projects.

IN 2013, SPENDING ON CSR PROJECTS AND CHARITY OF MTS GROUP AMOUNTED TO

456.9 million rubles.<sup>1</sup>

CSR projects of MTS are implemented in the following strategic areas:

- Helping children;
- Supporting Great Patriotic War veterans and the communications industry;
- Helping the elderly;
- Helping in socializing people with disabilities;
- Supporting victims of emergency situations.

We pay special attention to socially vulnerable children. MTS employees together with partners regularly organize activities for orphan homes, children with disabilities and children from disadvantaged and needy families throughout Russia.

<sup>1</sup> Includes MTS Russia and MTS Armenia.

In 2014, permanent creative workshops will be launched for children of sponsored institutions, organized by the best teachers, directors and volunteers. The children will be able to show the result of the joint work, vocal and dance performances, plays at the final Workshops Festival, which we plan to hold at the end of the year.



Competition “Telecom Idea”

In 2011, as part of the project to identify, support and develop talented youth, MTS OJSC organized competition “Telecom Idea”, with the support of the Ministry of Telecom & Mass Communications of the Russian Federation, the Ministry of Economic Development of the Russian Federation, the Higher School of Economics, Trade and Industry Chamber of the Russian Federation, the Federal Agency for Youth and Support of Russia,

Department of Science, Industrial Policy and Entrepreneurship of Moscow Government.

The competition aims to help, support and promote innovative youth projects that involve the use of information & communication technologies in commercial, social and public area and contribute to improving the quality of life of the society.

In total, over three years, the competition brought together more than 500 projects, some of which were successfully implemented in conjunction with MTS (medical alarm system “Life Button”, fire monitoring system “Forest Watch”, antivirus Green Head, etc.).

Mobile Corporate Volunteer Fairy Tales Theater of MTS

Since 2012, MTS operates corporate volunteer puppet theater “Mobile Fairy Tales Theatre.” The theatre program includes





several performances, including the educational musical “Children on the Internet”, which MTS volunteers show to children in sponsored orphanages. In 2013, “Mobile Fairy Tales Theatre” took part in the International High Fest Festival in Yerevan as a unique corporate volunteer puppet theater. Plans of the theater for 2014 include staging sideshow “Lessons for Grandmothers,” as well as eco-performance. We plan to organize a tour of the theater across the territory where MTS Group operates: performances will be included in the annual events of volunteer initiatives “Just Give Good, Eco-cleanup, Victory Tango, Green Express, the project “Christmas Tree for Kids” and the event for the children of employees. For us, the work of volunteers in the puppet theater is the main driver of social activities of the company: in this connection MTS created similar puppet theaters in 3 macro-regions for socialization of children in the sponsored institutions.

 **подару добро** Charity program “Give good!”

Since 2011, MTS has been carrying out charity program “Give good!” ([www.dobro-edelo.mts.ru](http://www.dobro-edelo.mts.ru)), which helps children needing urgent medical care. The program’s budget is generated by funds of MTS, partners, employees and customers of the Company, as well as private benefactors. The “Give good!” program cooperates with proven charity foundations, which allows to quickly make targeted fund transfers to children. Since the inception of the program, assistance was been provided to more than 100 children from 30 regions of Russia. In 2013, funds were sent to 58 children from 20 regions of Russia, the budget of the program was about 20 million rubles.



**Corporate volunteer initiative “Just Dari good!”**

Since 2011, a corporate volunteer initiative “JUST Give Good!” has been adopted at MTS, which every year is gaining momentum and growing in membership, thanks to helpful people with an active life philosophy. Today the initiative includes already about 3,000 employees of MTS Group, constantly involved in voluntary programs of the Company. In 2013, volunteers held more than 250 events across the country. Corporate volunteering is a manifestation of corporate social responsibility of business, which is gaining popularity among employees, allowing the Company to increase the loyalty of its employees and boldly address important social issues, integrating them with business objectives.

**CODE OF ETHICS AND CORPORATE CONDUCT OF MTS OJSC**

The leading position of our company in the market is largely determined by the size and scope of its activities, dynamic development and continuous differentiation of products and services for subscribers. Today, however, it takes more than just seeking to improve investment and operating efficiency to be a successful company. Prominence of our company obliges us to support its reputation in a best possible way. With each new achievement our responsibility to all stakeholders and the public increases.

Code of Business Conduct and Ethics (hereinafter the Code) contains the basic business principles of Mobile TeleSystems OJSC. In its activities MTS complies with legislation and generally accepted standards of business ethics. The Company does not accept any other ways of doing business that are contrary to these rules.

The Code should be regarded as a document containing a minimum set of standards and requirements adopted by the Company in order to promote fair and ethical business practices and to prevent abuse. The Code defines the rules and standards that should be followed by employees in their everyday work. In cases requiring application of higher standards than the accepted commercial practice, or regulations having greater legal force under the current legislation, MTS will use such higher standards. The Code applies to members of the Board of Directors, senior management and other employees of the Company. All employees are responsible for compliance with the Code and are personally responsible for their actions. The Code is a fundamental document, which guides us in our daily work and helps us to protect the good name of our Company and maintain our competitive advantage.

# Environmental Protection

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

The year 2013 was declared the Year of Environmental Protection in Russia. In this year MTS Group as part of its comprehensive program “Eco Telecom” implemented a wide range of federal and regional initiatives, both internal and external, to improve environmental awareness, improvement of environment and raising eco-responsible generation.

“Eco-Telecom” of MTS Group brings together all the key stakeholders — from employees to senior executives and their families inside the Company to investors, external partners and public authorities outside the Company.

The uniqueness of the program “Eco Telecom” is that the content and specifics of the projects implemented by the Company not only has a regional dimension, but varies depending on the target audience, which it seeks to involve. Innovative focus of the

Company allows it to use the best of modern technology to solve ecological problems.

In the highly competitive metropolitan region with a large population, a huge number of large companies, advanced technology, lack of valuable specialists and concentration of public authorities, large-scale eco-projects dominate, aimed at engaging and retaining the best employees of the Company, socially responsible customers, subscribers, partners, and at raising environmental awareness of public and government. The projects are educational in nature and in an interactive manner remind metropolis residents about how important it is to keep in mind environment protection in the harsh urban jungle.

Regional eco-projects are aimed at preserving the scenic landscapes and wildlife. Along with activities for employees practiced across the Group, MTS contributes to the protection of unique species of animals and birds, using modern monitoring and surveillance technologies.

Thus, MTS has been consciously engaged in the development of social platforms of the society for a long time. The project “Eco-Telecom” is aimed at implanting ecological culture, not only among employees, subscribers and customers of the Company, but across the entire society and the state as a whole.

Below is a number of capital, federal and regional projects implemented by MTS as a part of the program “Eco-telecom”.

## ECO PROJECTS OF MTS RUSSIA

### Federal and capital projects

**“ENVIRONMENTAL TROOPERS” OF MTS.** On May 18, 2013 the RAS Botanical Garden named after N.V. Tsitsin, Moscow hosted the city Saturday Cleanup “Environmental Troopers” dedicated to the 20th anniversary of MTS and JSFC Sistema. More than 3,000 employees and their families came to the Botanical Garden to support their colleagues and help our dear capital. More than 10 tons of garbage was removed from the Botanical Garden, 530 meters of fence was painted, and the total cleaning area was 22 hectares! Top management installed painted 12 exclusive benches! This is a very significant contribution to the life and well-being of our city. During the cleanup the children of employees and guests of the park could see the performance “Children on the Internet” about safe use of the Internet, organized by Company’s employees, and elderly guests



could pass express online basic training in Internet literacy and participate in physical training outdoors. Similar Saturday cleanups confined to the significant date of the Company were held in all regions of MTS Group.

**MTS ECO-MARATHON IN GORKY PARK.** MTS became eco-partner of the most colorful event of the summer — Charity International Gardens and Flowers Festival “Moscow Flower Show-2013”, held in Gorky Park from 16 to 23 June 2013. The festival was attended by over 70,000 people.

As a part of the charity gardens and flowers festival Moscow Flower Show-2013, MTS prepared a number of environmental activities for employees and guests of the festival:

- Unique stand “MTS Eco-Office — the territory of the future”, designed on an individual project, informing about all the environmental initiatives;
- Special event “Changing harmful to useful”: all those who brought used up batteries and old phones for recycling were entertained with eco-cocktails at organic canteen of MTS;
- Rich program of eco-seminars for employees and guests of the festival: “How to make your office “green”, “How to be environmentally responsible in a big city”, “Eco-projects: the world’s best practices, including Telecom”, “Conservation of natural resources (best Russian and world practices)”, “5 rules of an effective and long life in the metropolis, or how jogging changed my life”, seminar about separate waste collection and hazardous waste.

**FEDERAL PROJECT “MTS ECO-OFFICE”.** As a caring employer and environmentally responsible business, MTS creates a true eco-friendly office for the second year in a row. Office is a place where employees spend a third of their life. And realizing that through proper organization of their daily work they are making invaluable contribution to preservation of the environment, employees are becoming more proud of their work.

**Key activities to create “MTS Eco-Office”:**

- **Federal children’s drawing competition “MTS living planet”.** The competition was attended by the children of employees of MTS and subsidiaries throughout Russia. Children of employees were invited to dream up on protecting the environment, creating eco-space and how mobile operator can help conserve natural resources. The contest received more than 500 pictures from all over the country. 33 winners in various creative and age categories received modern gadgets and tablets for drawing and improve their talents. After the contest, drawings pleased employees of the Company. MTS office halls hosted mobile exhibitions.
- **Eco-initiative “Paper boom”.** Corporate initiative of MTS to collect office waste paper, which takes place on a regular basis in the Company’s offices. The event was held in February 2013 in MTS office in Moscow — the staff participated in a competition to collect waste paper. 521 kg of office waste paper was collected and sent for recycling. Winners of the “Boom” were awarded the original prize — fresh juice.
- **“Save a Tree”.** In 2013, MTS supported the country-wide environmental campaign to collect waste paper “Save a Tree”, which was held as a part of the PAP — FOR Forum



“Sustainable Development and Effectiveness of Russian Pulp and Paper Industry.” The event was aimed at promoting the principles of separate waste collection and conservation of natural resources of the planet. It brought together participants from various areas of our life — from school to aerospace corporation. As a result of the corporate cleaning, MTS collected 1,580 kg of waste paper, which means 16 saved trees, saving of 1,580 kWh of electricity, 31,600 liters of water and preventing release of 2,686 kg of CO<sub>2</sub>! As a reward for the efforts and responsible approach to environmental initiative, MTS received a commemorative certificate of the “Save a Tree” Initiative Champion, and most importantly, personal tree named after MTS — a cedar on the shores of Lake Baikal!

- **Eco-initiative “Batteries surrender!”** The initiative started in October 2012 and operates on a continuous basis. One carelessly discarded battery irreversibly pollute about 20 sq. m. of soil. Collection of used up batteries is organized in administrative offices of MTS in Moscow. Today more than 200 kg of batteries has been collected, they are packed in sealed containers and stored in a warehouse of the Company. At the same time, active negotiations on industrial recycling of batteries are being carried out with a Russian company: industrial mechanical crushing of batteries with subsequent extraction of the chemical elements. Cooperation start is scheduled for 2014.
- **Environmental protection posters.** Posters dedicated to environmental protection are placed in MTS offices, urging us to think about the rational and careful attitude towards the natural resources given to us.



Regional projects

**MTS helped extinguish forest fires in Pskov oblast**

MTS and Forest Fire Centre of Pskov Oblast in 2013 used the service “MTS Communicator” for prompt notification of specialized services about fire danger in forests. This helped to eliminate and prevent more than 180 fires in the forests of the region.

**MTS helps protect the earth of leopard from forest fires**

MTS provided the opportunity to place fire monitoring equipment at the base stations in the south-west of Primorski Krai. Thanks to the support of our Company, the possibility was provided to carry out video surveillance of the reserve “Kedrovaya Pad”, to Narvinsky Pass, along the Barabashevka river valley, along Barsovy ridge and the buffer zone of the national park west of the river Razdolnaya, which means control over the area of 27,000 hectares.

**MTS implemented fire monitoring project in Khingansky reserve**

MTS implemented a project on remote monitoring of fire situation in Khingansky Reserve – a habitat to unique birds: Far East stork, Japanese crane and white-naped crane. Advanced telecommunication technologies used in the project allow to carry out round-the-clock remote fire monitoring of large forest areas and in the event of fire detection, pinpoint its location, thus saving resources and improving responsiveness. Currently MTS is implementing projects to support operation of fire monitoring system in some regions of Russia, including

in the Central Federal District, Southern Russia, the Volga Region and the Urals. Project on fire hazard monitoring in leopard habitat is being implemented by MTS jointly with the Amur branch of the World Wildlife Fund (WWF).

**MTS protects rare birds species equipping electricity pylons with protection devices**

MTS is equipping existing power lines providing power to MTS base stations with bird protection devices. Thus, MTS has equipped with bird protection devices more than 100 pylons marked by “Siberian Environmental Center” professionals as the most life-threatening for birds in the Altai Krai, Republic of Altai, Khakassia and Tuva.

Installation of such devices prevents bird deaths resulting from electric shock on power lines.

**MTS supported Russia’s only project on live webcast from the nests of white cranes in Ryazan oblast**

MTS participated in implementation of the Russia’s only project on interactive live webcast from the Oka State Biosphere Reserve. The project is a part of the international environmental program “Flight of Hope”, aimed at preservation and enhancement of the population of West-Siberian white cranes, or the Siberian Cranes, whose population count only twenty species on the entire planet. The project is using MTS network resources to organize live webcast from Siberian Crane nests in the reserve – the only place in Russia where Siberian Cranes are grown to replenish the natural population.

Consumption of Power Resources in 2013

Information on MTS OJSC consumption of power resources in 2013 (in natural and monetary terms)

Resource	In physical terms	In monetary terms
Power	736,914,547.07 kW/h	3,004,042,415.64 RUR
Heat energy	46,281.48 Gcal	53,136,895.05 RUR
Water supply	331,212.85 m³	9,571,524.18 RUR
Gas	955,481.65 m³	4,499,931.41 RUR
Petrol	4,479,566.95 l	100,081,255.68 RUR
Diesel fuel	3,873,298.58 l	105,788,862.11 RUR

# Interaction with Stakeholders

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

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

MTS is a joint stock company, where JSFC Sistema is the main shareholder. Increase in MTS' stock capital value and return on investments of our shareholders are the main objectives of Company. MTS OJSC activities related to disclosure of information and interaction with shareholders is governed by regulations of the U.S. Securities and Exchange Commission, New York Stock Exchange, Russian legislation, Company Charter and bylaws. We use a rigorous and thorough approach to preparation of financial statements, which ensures a high level of public information disclosure. All material financial and operating information published by the Company is audited by external auditors. Over the past several years MTS OJSC has been declared one of the most transparent companies in Russia and the CIS (according to the Standard & Poor's evaluations).

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

Our employees are the main driver of Company development. Care for employees is one of the Group main priorities determining the business success in the present-day market. Our Company is constantly working to improve social and labor relations. The main efforts include: safety and health protection of employees, social assistance, opportunities for career and personal development. Establishing corporate talent pool, Company provides all employees of the Group with the possibility to fully realize their talent and creativity and motivates them with increased salary in proportion to the growth of their responsibility.

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

President  
Mobile TeleSystems OJSC

Chief Accountant  
Mobile TeleSystems OJSC

non-governmental organizations and associations, public health authorities, trade unions and mass media).

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

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

A. Dubovskov

A. Dvoretiskikh

# Glossary

<b>MOU</b> (Minutes Of Usage)	— voice traffic volume in minutes.
<b>ARPU</b> (Average Revenue Per User)	— average revenue per user
<b>GPON</b> (Gigabit Passive Optical Network)	— gigabit passive optical network
<b>3G</b> (3rd Generation)	— third generation
<b>4G</b> (4th Generation)	— fourth generation
<b>LTE</b> (Long–Term Evolution)	— fourth generation standard mobile communications
<b>TDD</b> (Time Division Duplex)	— duplex communication with time division
<b>FDD</b> (Frequency Division Duplex)	— duplex communication with division of transmission and receipt frequencies.
<b>M2M</b> (Machine–To–Machine)	— interaction between machines
<b>SaaS</b> (Software as a Service)	— Software as a Service
<b>HSPA +</b> (High Speed Packet Access Plus)	— High Speed Packet Access Plus
<b>MVNO</b> (Mobile Virtual Network Operator)	— virtual mobile operator
<b>CDMA</b> (Code Division Multiple Access)	— code division multiple access
<b>GSM</b> (Global System for Mobile Communications)	— global standard for digital mobile communications
<b>Wi-Fi</b> (Wireless Fidelity)	— specification for wireless data transmission over radio channels.
<b>UMTS</b> (Universal Mobile Telecommunications System)	— Universal Mobile Telecommunications System
<b>VAS</b> (Value Added Services)	— services that bring additional income
<b>Broadband</b>	— Broadband access
<b>FOL</b>	— fiber–optic link

<b>OIBDA</b> (Operating Income Before Depreciation And Amortization)	— analytical indicator that means operating income before depreciation and amortization of intangible assets.
<b>CAPEX</b> (CAPital Expenditure)	— capital expenditures
<b>MICEX</b>	— Moscow Interbank Currency Exchange, Russia
<b>NYSE</b>	— New York Stock Exchange, United States
<b>FFMS</b>	— Federal Service for Financial Markets, Russia
<b>SEC</b>	— Securities and Exchange Commission (The United States Securities and Exchange Commission), United States
<b>ADR</b>	— American Depositary Receipts
<b>IFRS</b>	— International Financial Reporting Standards
<b>RAS</b>	— Russian Accounting Standards
<b>US GAAP</b> (Generally Accepted Accounting Principles)	— a system of financial accounting standards and guide–lines used in the U.S.
<b>CSR</b>	— Corporate Social Responsibility

# Additional Company Details

## DISCLAIMER

Information on Company	<p><b>Full corporate name of Company:</b></p> <ul style="list-style-type: none"><li>– in Russian: Открытое акционерное общество «Мобильные ТелеСистемы».</li><li>– in English: Mobile TeleSystems Open Joint Stock Company.</li></ul> <p><b>Abbreviated corporate name of Company:</b></p> <ul style="list-style-type: none"><li>– in Russian: ОАО «МТС» or ОАО «Мобильные ТелеСистемы».</li><li>– in English: MTS OJSC.</li></ul> <p><b>MTS OJSC Location:</b> 4, Marksistskaya Street, 109147, Moscow, Russian Federation</p> <p><b>Tel.:</b> +7 (495) 911 6555.</p> <p><b>Fax:</b> +7 (495) 911 6599.</p> <p><b>MTS OJSC Postal Address:</b> Bldg. 5, Cnstr. 2, Vorontsovskaya Street, 109147, Moscow, Russian Federation.</p> <p><b>E-Mail:</b> <a href="mailto:info@mts.ru">info@mts.ru</a>.</p> <p><b>Website</b> <a href="http://www.mtsgsm.com">http://www.mtsgsm.com</a>.</p>
Information on the Investor Relations Department	<p><b>Location of the Investor Relations Department:</b></p> <p>Bldg. 5, Cnstr. 2, Vorontsovskaya Street, 109147, Moscow, Russian Federation.</p> <p><b>Tel.:</b> (495) 223 2025.</p> <p><b>Fax:</b> (495) 911 6588.</p> <p><b>E-Mail:</b> <a href="mailto:ir@mts.ru">ir@mts.ru</a>.</p>
Auditor	<p><b>Deloitte &amp; Touche CIS Close Joint Stock Company</b></p> <p>Certificate of Membership in Non-Profit Partnership "Auditor Chamber of Russia" № 3026.</p> <p>Location: 5, Lesnaya Street, 125047, Moscow, Russian Federation</p> <p><b>Tel.:</b> (495) 787 06 00.</p> <p><b>Fax:</b> (495) 787 06 01.</p> <p><b>Website</b> <a href="http://www.deloitte.com">http://www.deloitte.com</a>.</p>
Registrar	<p><b>Registrar NIKoil OJSC</b></p> <p>Location: 8, Ivan Franko Street, 121108, Moscow.</p> <p>Telephone:</p> <p>For natural persons: (495) 926–8173.</p> <p>For legal entities: (495) 926–8161.</p> <p><b>Fax:</b> (495) 926–8178.</p> <p><b>Website</b> <a href="http://www.rcnikoil.ru">http://www.rcnikoil.ru</a>.</p>
Depository	<p><b>Non-bank credit institution National Depository Close Joint Stock Company</b></p> <p>License issued by FFMS of Russia № 177–12042–000100 (perpetual license) .</p> <p>Location: 12, Spartakovskaya Street, 105066, Moscow</p> <p>Multi-channel phone: (495) 234–4827.</p> <p><b>Website</b> <a href="http://www.nsd.ru">http://www.nsd.ru</a>.</p>

This annual report has been prepared by Mobile TeleSystems OJSC («Company») solely for informational purposes and may contain forward-looking statements or forecasts. Such statements or forecasts relate to matters that are not historical facts or statements and reflect the Company's intentions, beliefs or current expectations concerning, among others, performance results, financial condition, liquidity, efficiency, prospects, growth rates, strategies of the Company and industry in which it operates. Nature of the forward-looking statements and forecasts implies risk and uncertainty, as they relate to events and depend on circumstances that may, or may not arise in the future. The Company cautions that forward-looking statements and forecasts do not guarantee future performance, and that actual performance results, financial condition and liquidity of the Company, as well as changes in the industry in which the Company operates may differ materially from those stated or assumed in the forward-looking statements and forecasts contained in this report. The factors

that may lead to material differences between the actual results and the assumptions contained in forward-looking statements or forecasts, include, among others, general economic conditions prevailing in the markets in which the Company operates, competitive environment and risks associated with operating in such markets, market change in fertilizer industry and related industries, as well as many other risks affecting the Company and its activities. Moreover, even if the performance results, financial condition and liquidity and the changes taking place in the industry in which the Company operates comply with those set forth in the forward-looking statements or forecasts presented herein, those results or changes may not be illustrative of the results or changes in future periods. The Company does not undertake any obligation to review or confirm expectations or estimates or update any forward-looking statements or forecasts to reflect events or circumstances occurring or arising after the date of this report.

