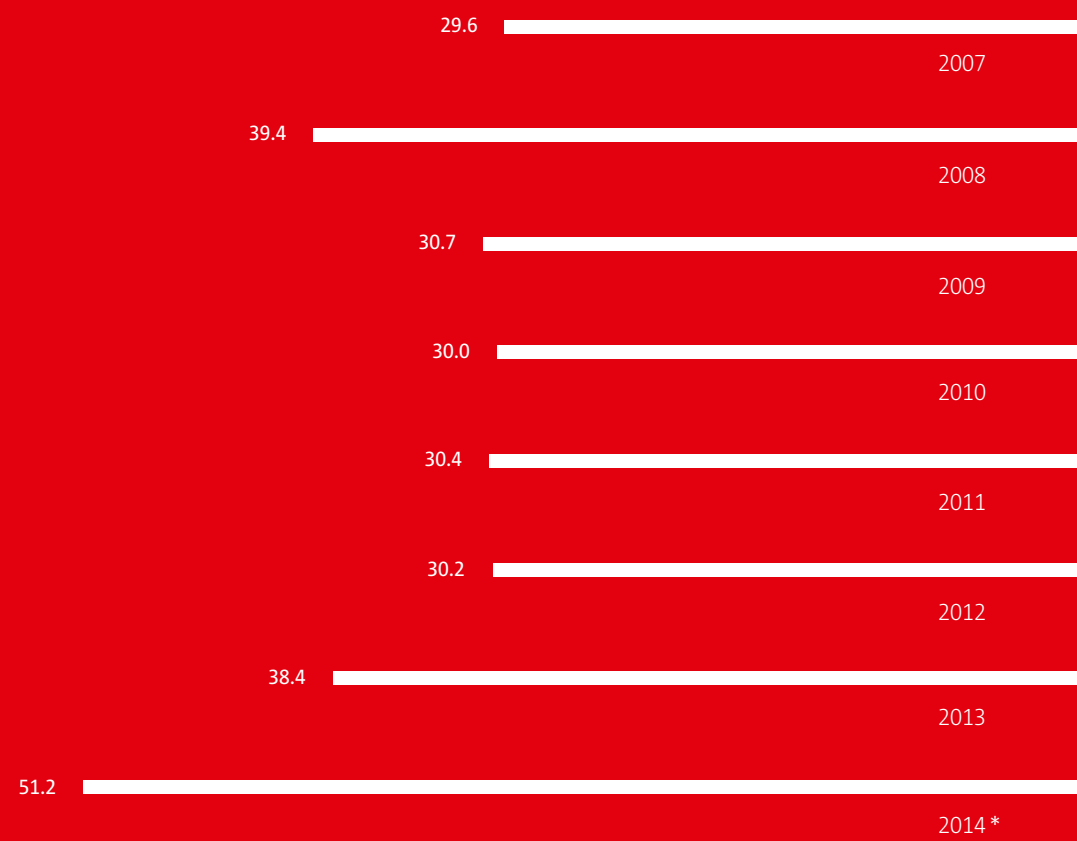


2014

ANNUAL
REPORT

a step ahead





Dividends (RUB bln)

* Outlook

2014

ANNUAL REPORT

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

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

MTS OJSC is successfully achieving the objective of strengthening leadership and maintaining high business efficiency.

In 2014, MTS OJSC presented the Company's new development strategy for 2014–2016, which focuses on three key areas: “data”, “differentiation” and “dividends”.

New business strategy is a timely response of MTS to the changes in telecom market, growth the customers' needs and expectations, as well as a logical continuation of the “3i” strategy, which has completely accomplished its task. We have completed the planned integration stages, launched MTS transformation processes required for the development in mobile and fixed Internet markets, managed not just to introduce the innovations in their pure form, but to use an innovative approach to the development of tariff plans. The new strategy elaborates the existing strategic objectives of MTS and focuses on topical aspects which are of fundamental importance for a global telecommunications player: increasing penetration of mobile Internet services, diversification of the Company's services, improving operational efficiency and, consequently, increasing shareholder payout.

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* In this Annual Report, the terms “MTS”, the “Company”, and the “Group” shall refer to the group 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 December 31, 2014, unless other periods or dates are expressly indicated.

JUST THE FACTS

RUB 410.8 billion –
revenue of MTS Group in 2014

393 minutes per month
were used by MTS subscribers in Russia in 2014 –
more than by the subscribers of other Big Three operators

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

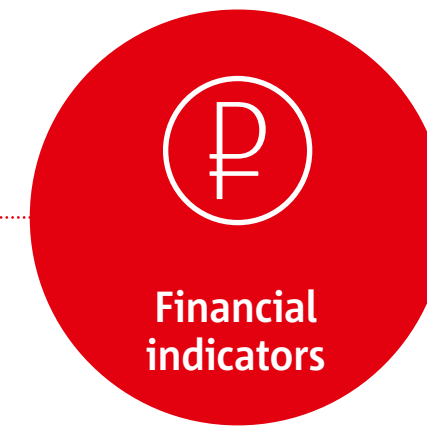
76 constituent entities of the Russian Federation
are covered by MTS LTE network

3.5 million Moscow households
connected to the Internet using GPON

4,245 outlets
in various regions from Kamchatka to Kaliningrad comprise
MTS retail chain

42.4% –
penetration of smartphones in MTS network in 2014

THE MAIN OUTCOMES FOR 2014



Financial indicators

Consolidated revenue

410.8 BRUB.

3.1% growth vs. 2013

OIBDA

175.5 BRUB.

3% growth vs. 2013

OIBDA margin

42.7%

Consolidated net income

51.8 BRUB.

Net income margin

12.6%

Non-financial indicators

The LTE network of MTS
expanded to**76** regions of RussiaThe length of GPON optical
links in Moscow has reached**40,000** km**3.5** million Moscow
householdsconnected to the Internet
using GPONBased on the results of 2014,
MTS has the lowest churn
among the Big Three operators**MTS Ukraine**has won a license to provide
third-generation (3G)
connectivity through
an open tender

1.

About the Company

410.8 RUB. bln

Consolidated revenue

+ 3.1%

Consolidated revenue growth
vs. 2013

CONSTITUENT ENTITIES
OF THE RUSSIAN FEDERATION
ARE COVERED BY MTS LTE NETWORK

17

2013 year

76
2014 year

+ 0,3%

OIBDA growth in 2014

175.5
RUB bln.

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4 February	Presentation of the new 3D strategy, the main focus of which is “data”, “differentiation” and “dividends”
12 March	The execution of the loan agreement with Citibank Europe PLC (Citibank) and the Swedish Export Credit Corporation (SEK) amounting to USD 300 million (RUB 10.9 billion). This credit line has been extended under the guarantee of Export Credit Agency of Sweden (EKN).
January– March	Launch of LTE network in the Republic of Tatarstan, the Primorsky Territory, the Sverdlovsk Region, St. Petersburg, the Leningrad Region, the Republic of Adygea, the Komi Republic, the Tver Region, the Stavropol Territory, the Novgorod Region, and the Republic of Dagestan.
29 April	The acquisition of 10.82% stake in Ozon Holdings, a leading Russian e-commerce company, as a result of additional issue of shares for USD 75 million.
21 May	MTS is the only Russian telecom brand which has been ranked for the seventh time among top 100 leading brands of BRANDZ™, formed by leading international research agency Millward Brown Optimor, and has been ranked 9 th among top 10 global telecom brands. During the year, the brand value grew by 14.5% to USD 12.18 billion.
April – June	Launch of LTE networks in 25 regions of Russia: the Leningrad Region, the Republic of Adygea, the Komi Republic, the Tver Region, the Stavropol Territory, the Novgorod Region, the Arkhangelsk Region, the Ryazan Region, the Republic of Bashkortostan, the Mari El Republic, the Chelyabinsk Region, the Irkutsk Region, the Republic of Dagestan, the Belgorod Region, the Vologda Region, the Murmansk Region, the Kaluga Region, the Republic of Khakassia, the Republic of Buryatia, the Republic of Sakha (Yakutia), the Altai Territory, the Tomsk Region, the Volgograd Region, the Samara Region, and the Saratov region.
31 July	MTS OJSC and the Republic of Uzbekistan executed a settlement agreement. According to the agreement, MTS OJSC received 50.01% of UMS shares in Uzbekistan.
11 August	MTS Group completed its dividend payout as at the end of 2013: the total payments amounted to RUB 49.2 billion.

2 October	Joint charity project of MTS and Konstantin Khabenskiy Foundation “The Mowgli Generation” was awarded the Prize of Stanislavsky Theatre
27 October	MTS signed an agreement with Sberbank of Russia on the non-revolving credit facility amounting to RUB 50 billion with maturity in September 2021, and the extension of the loan agreement amounting to RUB 20 billion to September 2017 from July 2015.
12 November	Launch of satellite TV project under the MTS brand.
20 November	MTS completed the payout of interim dividend for the first half of 2014: total payments amounted to RUB 12.812 billion.
1 December	UMS – a joint venture of Uzbekistan and MTS – launched a mobile network in Uzbekistan.
19 December	MTS and VimpelCom signed an agreement on large-scale partnership for joint development and operation of LTE networks in 36 regions of Russia.
30 December	MTS completed the acquisition of three regional assets of the SMARTS Group: Penza-GSM CJSC, SMARTS-Ufa CJSC, and SMARTS-Ivanovo CJSC. The transaction amounted to RUB 3.1 billion, including net debt.

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% stock, while two German companies held 47%. Late 1996, JSFC Sistema bought out the Russian shareholders' stake, and DeTeMobil bought the remaining stake from Siemens.

At the time of merger, Mobile TeleSystems CJSC had an extensive cellular network and provided the communications services to more than 1 million subscribers in 15 regions of the Russian Federation. The Company's active growth from 5 thousand subscribers at the beginning of 1996 was attributable both to the obtaining of licenses and development of own networks, and the acquisition/take-over of the regional operators. In 2000, Mobile TeleSystems CJSC and Russian Telephone Company CJSC merged to form Mobile TeleSystems Open Joint Stock Company. The same year, the Company entered the world stock markets. Since June 30, 2000, the stocks of MTS OJSC have been traded on the New York Stock Exchange as American Depositary Shares (MBT index).

By early 2004, mobile services had been provided in 58 regions, the subscriber base amounted to 13.5 million people, or 37% of the cellular market. The rapid increase in the number of the Company's subscribers was attributable to the launch in late 2002 of the first tariff plans without subscription fee under sub-brand Jeans. In the same years, MTS started international expansion by launching in 2002 a network in Belarus, and by entering in 2003 the mobile communications market of Ukraine, in 2004 – Uzbekistan, and in 2005 – Turkmenistan.

In 2006, MTS was rebranded in Russia, and a unified graphic design of all telecom businesses forming AFK Sistema Group was introduced. New logo with a few changes has been preserved till now. In other countries of MTS presence, the rebranding was undertaken later, in 2006–2008. According to the independent studies, during the year that has passed since the rebranding, the brand awareness increased from 84% to 91%.

2008 was marked for our company by federal 3G-license in Russia, and in May of that year, the third generation network was launched in four

Russian cities: St. Petersburg, Kazan, Sochi and Yekaterinburg.

In the fall of 2008, MTS entered into an agreement for exclusive strategic non-corporate partnership with Vodafone in order to expand the marketing and technological capabilities of both companies. The four-year partnership agreement covered the territory of Russia, Ukraine, Uzbekistan, Turkmenistan and Armenia.

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

In March 2013, MTS OJSC acquired 25% +1 share of MTS-Bank PJSC. 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 Company's net income will amount to at least 5%, and MTS expects to become for its customers a single entry point for telecommunications and financial services.

In 2013, the Company launched the commercial operation of LTE-FDD networks in Moscow, the Moscow Region and other 15 regions of Russia. In 2014, the number of regions with the LTE network reached 76.

Within the framework of the GPON project, MTS connected more than two million apartments in Moscow to the fiber-optic line that allows using the Internet at a fixed rate of up to 1 Gbit/s. In addition, MTS offers fixed FTTB / FTTH solutions in more than 180 Russian cities and leverages its retail chain 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



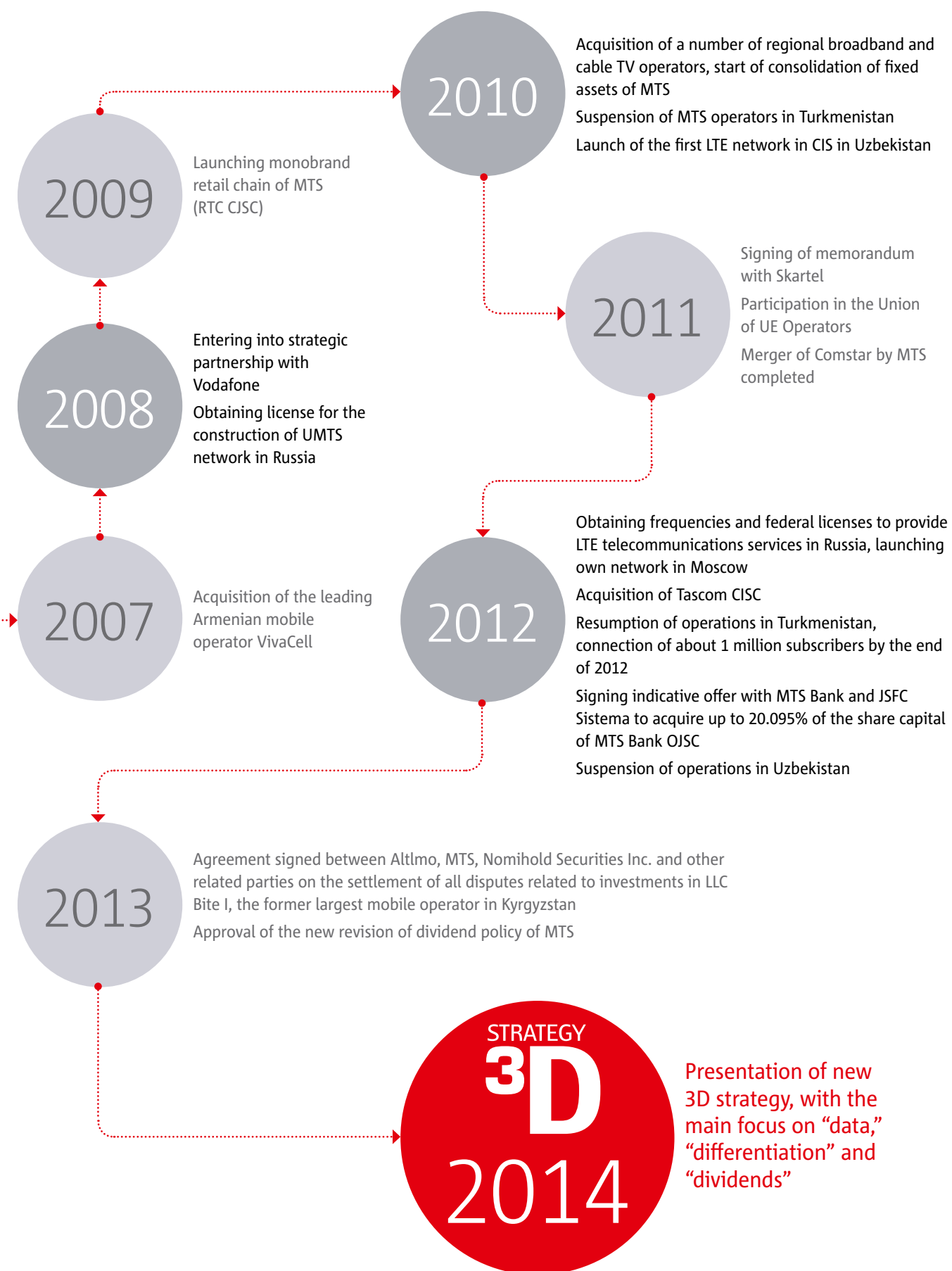
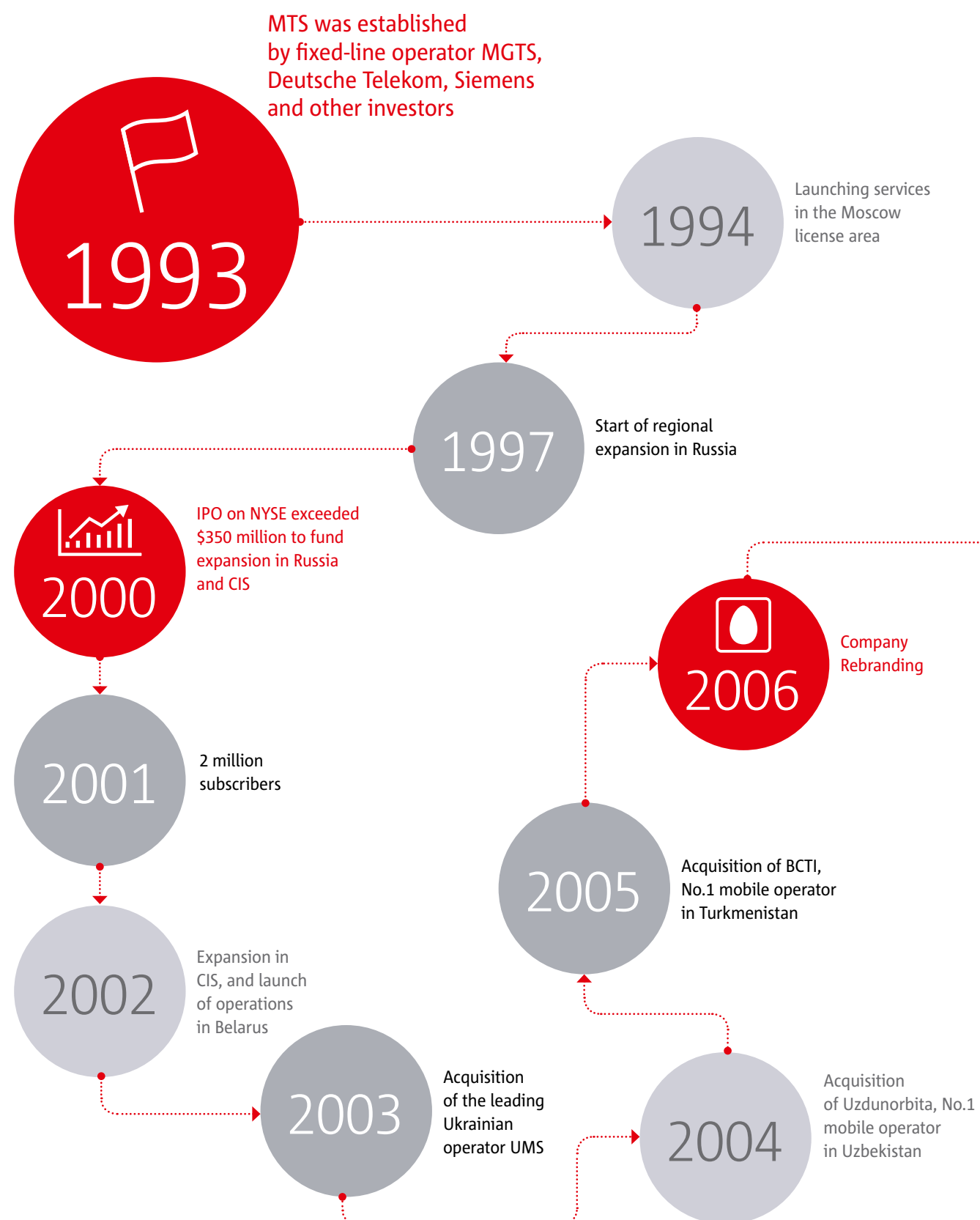
DVB-C), video services, comprehensive solutions for offices, combining fixed and mobile communications. Together with JSFC Sistema, MTS launched OTT-multimedia entertainment portal Stream.ru – universal online store with a wide selection of licensed video content.

Today, MTS OJSC is the largest mobile operator in Russia, Eastern and Central Europe in terms of the number of subscribers. The services rendered by MTS OJSC are available in all regions of Russia. As of December 31, 2014, MTS serves more than 104 million subscribers in various regions and countries.

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

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

Corporate History



Dear shareholders!

2014 was the year when MTS faced unprecedented challenges due to geopolitical changes, the military conflict in Eastern Ukraine, a sharp devaluation of the ruble and hryvnia, macroeconomic instability in the operating countries, and limited access to the capital markets. But despite these difficulties, MTS again kept its promise to the investors and showed a good performance at the Group level.

A Challenging Year

Group revenue rose by 3.1% to RUB 410.8 billion. We showed high revenue growth in Russia and Turkmenistan, a slight increase in Ukraine, despite the negative macroeconomic and political factors, and a decline in revenues in Armenia.

In Russia, revenues increased by 5.6% and amounted to RUB 374.9 billion due to the growth of revenues from mobile services and an increase in the sales of mobile phones. **In our mobile business, we have demonstrated the best performance in the market and strengthened our leadership** through the development of data networks and the promotion of sales of smartphones at affordable prices in our retail chain. Revenues from mobile services rose by 6.8%.

Key growth factors include the following:

- Network development by expanding **LTE networks in 76 regions of Russia**, expanding 3G networks coverage and the construction of fiber optic links across the country;
- Encouraging the migration of subscribers from featurephones to smartphones via marketing campaigns and co-operation with handset vendors to bring unique products to the market;



- The success of our SMART tariffs that allows us to stimulate the transition of the subscribers to more expensive tariff plans with a large volume of traffic included;
- The growth of revenues from messaging service due to an increase in SMS packages sales;
- Increase in the number of connections due to **year-on-year subscriber base growth by about 5 million subscribers**; and;
- Acquisition of loyal customers, which is reflected in the lowest level of churn in the market.

Late December 2014, we acquired three regional asset of SMARTS OJSC to strengthen our operations in the Penza Region, the Ivanovo Region and Bashkortostan, and to use 1800 MHz frequency resources in those regions.

The sales of handsets and accessories increased by 9.3% and amounted to RUB 28.8 billion. The growth was driven by the expansion of our own retail chain by more than 200 stores and accelerated as a result of a sharp surge in sales in Q4 of 2014, when the customers purchased premium smartphones due to the ruble volatility.

The revenues from fixed-line services declined by 1.2% and amounted to RUB 62.5 billion. The decline was due to influence of one-off factors associated with the implementation by our subsidiary MGTS of B2G projects in 2013. Aside from these factors, we would see the organic growth of revenues due to the following factors:

- Modernization and expansion of our regional network, replacement of ADSL-lines with FTTB-connection;
- Increased penetration of double play and triple play products in our database;



- Migration of pay-TV subscribers from analog to digital platform; and;
- Migration of ADSL subscribers in Moscow to GPON and acquisition of new GPON subscribers in B2C and B2B segments.

During the year, **we increased ARPU in the fixed telecommunications segment by 6.9%**. We attribute this growth to the development of the network, improvement of the customer service quality and focus on increasing the proportion of double/triple play users in the base. By the end of the year, **we have connected to GPON more than 3.5 million households in Moscow** and provided broadband Internet access and pay TV via the GPON network to more than 600 thousand households. The development of fiber optic networks has enabled the increase of the broadband Internet and pay-TV market share in terms of the number of B2C subscribers in Moscow from **26% in 2013 to 29% in 2014**, and from **12% in 2013 to 17% in 2014**, respectively¹.

In Ukraine, our earnings were negatively impacted by discontinued operations in the Crimea, which accounted for about 10% of MTS-Ukraine business, and by operating issues in the east of Ukraine. Despite these difficulties, the revenues rose by 1.1% to nearly UAH 10.1 billion.

In Armenia, the revenues declined slightly by 2.8% to AMD 77.7 million. Revenue dynamics is largely explained by a decrease in the volume of international telephone services under the impact of macroeconomic factors.

Turkmenistan revenues rose by 11.5% to TMT 282.1 million. The growth was caused by more intensive use of data and content-based services. Our goal in this market was to upgrade the network and more effectively monetize the customer base, to increase the quality of customer service, and to introduce package rates for data and voice services which have proved to be successful in Russia and Ukraine.

On December 1, 2014, we began operations in Uzbekistan. By the end of the month we have connected almost 200 thousand subscribers to our network. Although we are not yet ready to forecasts the operating and financial performance in the region, we observe a high level of customer loyalty and the high demand for our services.

¹ Source: TMT Consulting

Maintaining profitability in challenging conditions

In 2014, we faced a number of factors that negatively impacted our profitability:

- Mobile phones sales growth in Russia;
- Impact of the ruble and hryvnia volatility on our operating expenses, including the cost of international roaming and international calls;
- Increase in taxes and fees for the use of radio frequency spectrum in Ukraine;
- Increase in general and administrative expenses due to the expansion of our mobile and fixed networks in Russia and inflationary pressure;
- Costs associated with the launch of business in Uzbekistan.

Nevertheless, **adjusted OIBDA of the Group rose to RUB 175.5 billion**, which is a convincing proof of the effectiveness of our operations and stable competition in target markets. OIBDA was adjusted by the income of RUB 6.7 billion (RUB 3.6 billion in Q3 2014 and RUB 3.1 billion in Q4 2014) from resumption of operations in Uzbekistan and by the amount of provisions created for investment in Delta Bank PJSC in Ukraine in the amount of RUB 5.1 billion in Q4 2014. Adjusted OIBDA margin amounted to 42.7%

In Russia, OIBDA margin increased by 4.5% to RUB 164.8 billion, and OIBDA margin amounted to 44.0%. In the last year, we saw once again a steady growth in MTS revenues from mobile services and increase in revenue from highly profitable data transmission. At the same time, OIBDA dynamics was negatively affected by growing costs due to inflation, growth of foreign currency expenses driven by devaluation of the ruble, primarily related to the international roaming and international calls, and increased handset sales.

In Ukraine, adjusted OIBDA margin decreased by 9.5% to UAH 4.7 billion, and the margin amounted to 46.5%. This figure does not include the provisions built up in connection with the insolvency of DeltaBank. Decline of adjusted OIBDA reflected the dynamics of incomes, higher taxes and fees for the use of radio frequency spectrum, the growth of salary expenditures, cost of electricity and rental of premises, and the impact of currency devaluation on expenditures, including roaming and SIM-cards denominated in foreign currency.

In Armenia, OIBDA margin rose by 3.1% to AMD 38.0 billion with a margin of 49.0%.

The growth can be explained by the increase in tariffs for termination of calls from MTS Russia in December 2013, which adversely affected OIBDA in 2013, and by the impact of regulatory decision, under which international call termination tariffs have been sharply increased since Q3 2014.

In Turkmenistan, OIBDA increased by 11.9% to TMT 116.6 million in accordance with the income dynamics. OIBDA margin was 41.3%.

During the reporting period, net profit fell by 35.1% to RUB 51.8 billion. In addition to the trends that influenced the dynamics of the adjusted OIBDA, we note the influence of other factors on the performance of the Group:

- We have formed a reserve in the amount of RUB 5.1 billion for investment of UAH 1.4 billion in Delta Bank 1 PJSC, declared insolvent in early March 2015;
- We have also recognized a devaluation of our stake in MTS-Bank amounting to RUB 3.1 billion in Q4 2014;
- We have realized a profit of RUB 6.7 billion (RUB 3.6 billion in Q3 2014 and RUB 3.1 billion in Q4 2014) from resumption of operations in Uzbekistan

Additional factors that affect our net income include the impact of currency fluctuations and the return on investments in MTS Bank and Ozon, as well as the income that we get from our minority stake in Mobile TeleSystems (Belarus) JLLC.

Despite many difficulties, MTS continues to generate stable cash flow from operations in target markets. Excluding the impact of one-off factors, as well as investments in associated companies and acquisition of subsidiaries, **operating cash flow from current operations grew by 1.8% in comparison with 2013. Free cash flow decreased to RUB 57.0 billion, but remained organically stable.** In H2 2014, we prepaid a significant amount of capital expenditures and paid for 2015 and 2016 equipment supplies, which is reflected in free cash flow dynamics in 2014. Our merger and acquisition activity was also higher than in 2013, **MTS acquired a stake in Ozon, the regional assets of SMARTS OJSC and took part in additional issue of MTS-Bank shares.**

During the year, the total amount of debt increased by 29% and amounted to RUB 283.0 billion. We raised RUB 25.0 billion through non-revolving credit facility opened by Sberbank in Q4, but the main factor of our debt portfolio increase was the revaluation of a portion of the debt denominated in Euro and US dollars due to ruble

devaluation at the end of the year. Currently, MTS has two Eurobond issues with maturities in 2020 and 2023, and the foreign currency credit facility in the amount of USD 675 million has been hedged in rubles since 2013.

In view of raising funds and revaluation of debt portfolio, the ratio of net debt to LTM/OIBDA increased from 1.0 in Q4 2014 to 1.1 in Q4 2014. **However, this figure remains low against industry standards.** In February 2015, we paid UAH 2.7 billion for a license to operate UMTS cellular networks that will finally allow us to provide third generation services in Ukraine.

Growth Prospects

Despite the good performance in 2014, our business is not immune to macroeconomic changes in the region. We look into the future with cautious optimism, noting the following:

- The continuously increasing demand of customers
- The ability to monetize the growth of communication services consumption; and;
- Favorable regulatory environment that provides the opportunities for strategic cooperation between the operators, which was evidenced by our partnership with VimpelCom OJSC in the joint construction and use of LTE networks in Russia.

This gives us the opportunity to be confident about the development prospects in 2015 and afterwards. **In 2015, we expect revenue growth of more than 3% in Russia** due to the continued

growth of smartphone penetration and the use of data services.

As regards the Group, we expect revenue growth of more than 2% due to higher revenue from data transmission in our key markets.

Obviously, macroeconomic problems and the currency stability are the key factors that may affect our revenues. While there is a decrease in revenues from international roaming due to reduced foreign tourism and a slight decrease in revenues in the corporate market, we expect the demand to remain robust in the mass segment, which accounts for 80% of our revenues. **The main challenge for us in 2015 will be maintaining of profitability.** Although the growth in revenues and income from data communications will support OIBDA growth, we expect an increase in inflationary pressures on the profitability. Currency volatility can also add to this pressure, nevertheless, **we expect the Group's OIBDA margin to remain at the level exceeding 40%.**

Our 2015 CAPEX in denominated in rubles may be reduced to RUB 85 billion¹. Due to the ruble volatility, we can reduce the amount of equipment purchases in physical terms, but we are convinced that we are better prepared for such a scenario than our competitors. By the end of 2014, MTS LTE networks were launched in 76 regions of Russia, during the year, we have established more than 15,000 3G and 4G base stations – a record hit by MTS. The network growth has allowed us to significantly increase the data transmission rate and to improve customer service, as evidenced by the high level of satisfaction among MTS customers. Thus, we feel confident enough in the current competitive situation to reduce the amount of capital expenditures.

A.A. Dubovskov,
President of MTS OJSC

¹ Excluding the cost of the UMTS license in Ukraine and investments in network development

THE BOARD CHAIRMAN'S MESSAGE

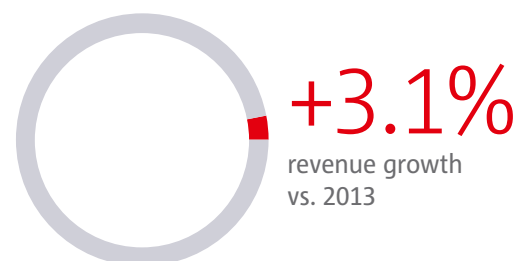
Dear shareholders!

I am glad to report that in 2014 MTS continued to consolidate its leading position in the Russian telecommunications market and demonstrated the business stability. Despite the growing uncertainty of the macroeconomic environment, MTS has reached high performance levels (Group revenue increased by 3.1% to RUB 410.8 billion) and paid a record amount of dividends – RUB 50.1 billion.

Against a backdrop of the fall of revenues in the mobile telecommunications industry in Europe, the Russian market not only shows stable growth, but also maintains a high growth potential. Even though Russia's economy faces challenges, the sector shows a positive trend, as the penetration of data services is still below the developed markets level. The Russian market maintains a significant growth potential due to the development of next-generation networks, increased penetration of smartphones and promotion of mobile Internet and value-added services.

While our sector shows the best performance in the Russian economy, **MTS is ahead of other companies in the sector. Year after year, we have been maintaining and strengthening our leading position among Russian telecommunications operators** through the continued expansion of our networks, far-sighted commercial policy, taking advantage of the extensive retail chain and focus on customer loyalty.

In Ukraine, political and economic difficulties facing the country will inevitably impact our business. We discontinued operations in the Crimea, which accounted for 10% of MTS Ukraine revenues. While organic growth continued in the remaining parts of the country in 2014, we assume that in the short term the economic slowdown and the decline in the market, together with the



devaluation of the local currency, will affect our financial performance.

Despite the current problems, Ukraine is one of the largest markets in Europe and retains great potential for growth in the future. Currently, the availability of 3G networks in the country is very limited, so the potential for increasing the use of data remains practically untouched. MTS won the tender for 3G license and intends to expand its network to meet the needs of Ukrainian consumers.

In these hard times, we remain committed to the highest standards of corporate governance, and maintain regular and transparent communication with our shareholders and the market in general. We believe that our experience in maintaining and enhancing shareholder value is reflected in the continuous stability of shareholder base. International funds still own more than 90% of our free float shares.

I would like to thank my colleagues from the Board of Directors for their contribution to the representation of the Company's shareholders. Our three independent non-executive directors used their considerable expertise, actively participating in the discussions of strategy and the adoption of investment decisions.

I am proud of the role that MTS and its employees play in the life of the society as a whole. Our services make us a part of everyday life, bringing people together and making their life more comfortable. The increased use of mobile data transmission underlies our strategy, which imposes on us special responsibility for the impact of our activities on all strata of society.

We launched Children Online program in 2011 to stimulate the safe use of the Internet by the children and to promote its use in education. Young people are among the most active users of mobile services, but we are also working with the older generation, which often does not know

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MTS shareholders can be assured that the Company is managed by one of the best teams in the industry, which has a deep understanding of both the telecommunications sector and the Russian market.

MTS management demonstrates flexibility and creativity when faced with numerous various challenges in the regions of operation and in the industry as a whole. Despite the macroeconomic volatility and political uncertainty, the Group's revenue is growing, and a high level of profitability is maintained. Responding to the challenges of continuous technological changes and the growth in customer demands, MTS remains the leader in the market and is ahead of its competitors.

Ron Sommer,
Chairman of MTS Board of Directors

Brand value growth



+14.5%

During the year, the brand value grew by 14.5% to USD 12.175 billion.



all the privileges of data transmission. We want no one to be excluded from the developed information society, and strive to unite the generations in our program Children Teaching Adults. It is supplemented by Network for All Ages project, specially designed for those over 40. MTS is also actively cooperating with orphanages and schools, providing not only financial assistance, but also the volunteers' direct support in using our services.

In addition to our social programs, we strive to protect the environment. This is reflected in the Group's commitment to the principles of sustainable development and the promotion of our national measures aimed at improving the environment.

MTS shareholders can be assured that **the Company is managed by one of the best teams in the industry**, which has a deep understanding of both the telecommunications sector and the Russian market. Our President, Andrey Dubovskov, has been working in the telecommunications sector since 1993 and in MTS since 2004. Alexey Kornya, Vice President for Finance and Investment, also joined MTS in 2004, which means that the Company has a constant, stable management team. Mr. Dubovskov and Mr. Kornya are backed by the most experienced specialists in marketing, technology and HR.

MTS management demonstrates flexibility and creativity when faced with numerous various challenges in the regions of operation and in the industry as a whole. Despite the macroeconomic volatility and political uncertainty, the Group's revenue is growing, and a high level of profitability is maintained. Responding to the challenges of continuous technological changes and the growth in customer demands, MTS remains the leader in the market and is ahead of its competitors.

Ron Sommer
Chairman of MTS Board of Directors

2.

Business Review

74.6 mln

The number of the subscribers of MTS OJSC, its subsidiaries and affiliated companies in Russia

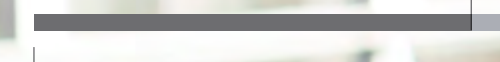
+ 36%

Data revenue growth in the Russian market



The sales of handsets and accessories

+ 9.3%



28.8 RUB. bln

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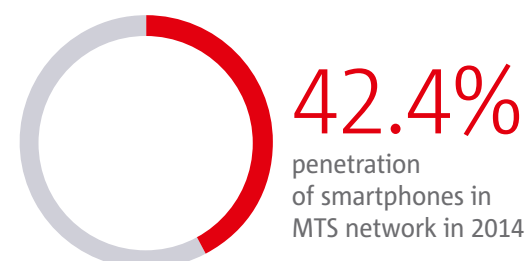
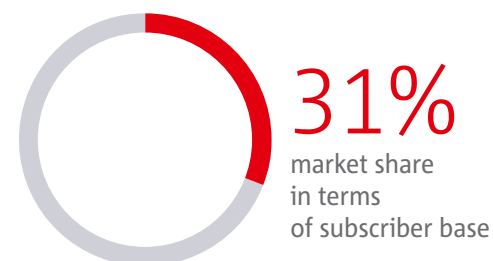


MARKET POSITION OF THE COMPANY

As of the end of 2014, MTS OJSC was licensed to operate in 83 regions of the Russian Federation. In the reporting year, MTS subsidiaries continued operation in Ukraine (MTS UKRAINE PrJSC), the Republic of Armenia (K-Telecom CJSC), the Republic of Turkmenistan (MTS-Turkmenistan BE) and the Republic of Belarus (Mobile TeleSystems JLLC). Since December 2014, the operations in the territory of the Republic of Uzbekistan have been resumed (Universal Mobile Systems LLC). The total population of MTS licensed area exceeds 230 million people.

In Russia, mobile services are provided by four federal operators – MTS OJSC, Megafon OJSC, VimpelCom OJSC, and RT-Mobile JSC (T2 RTK Holding – joint venture of Rostelecom and Tele2), as well as regional telecom companies operating under different cellular communications standards: GSM, NMT 450 and CDMA–1x, UMTS (3G). According to our estimates, as of December 31, 2014, mobile penetration in Russia reached 167.0%, and the total number of subscribers reached 242 million. Therewith, MTS OJSC holds the leading position in Russia in terms of subscriber base, with 31% market share. The market shares of Megafon OJSC and VimpelCom OJSC amount to 29% and 24%, respectively. As of December 31, 2014, the number of the subscribers of MTS OJSC, its subsidiaries and affiliated companies in Russia total 74.6 million.

Russia's largest mobile communication markets (by the number of customers) include Moscow and the Moscow Region, and St. Petersburg and the Leningrad Region.



As of Q4 2014, the number of subscribers of MTS subsidiaries and affiliates in the CIS countries is as follows: 20.2 million (including CDMA) in Ukraine (MTS UKRAINE PrJSC); 1.7 million in Turkmenistan (MTS-Turkmenistan BE), 2.1 million in the Republic of Armenia (K-Telecom CJSC), 5.3 million in the Republic of Belarus (MTS JLLC, not consolidated into the financial statements of MTS Group).

Mobile Internet has become the main growth driver in the mobile market in Russia and CIS. MTS shows the highest rate of data revenue growth in the recent two years, including 2014 revenue growth in this segment by 36%.

Smartphone penetration rate is one of the key indicators of popularity and availability of mobile Internet services. In 2014, this figure exceeded 42% for our Company. The level of data traffic use by the mobile Internet users increased 1.5 times in comparison with 2013.





From 2014 onwards, the earlier MTS OJSC 3i strategy – “Integration, Internet, Innovation” has given way to a new strategic paradigm called “3D” – “Data, Differentiation, Dividends”.

The need for a new strategic concept is explained by actual completion of integration of mobile retail and fixed telephony businesses into the management structure of MTS, as well as the establishment of a strong and effective management in the units responsible for operations in the financial sector in partnership with MTS-Bank PJSC. Successful completion of the integration phase allows us to focus on getting value in all areas of activity, to effectively diversify the service portfolio, respond to the risks and challenges of the environment, and also receive additional benefits through synergies.

At the same time the succession of the previous strategy is maintained. In particular, the Internet strategic area was rephrased to a wider concept of **Data** reflecting our vision of the future telecommunication services market. In our opinion, data-related services will form in future the most important part of the customer experience, underlying the basic growth of the telecommunications sector; and in this area we traditionally aim to be the leaders.

Successful integration of new businesses and focus on innovative approach to the Company's services allow us to identify a new value, which we have formulated as **Differentiation**. This value essentially means that we have a broader look at the area of our operations, going beyond the status of a conventional telecommunications operator, and covering not only a full range of communications services, but also the related areas such as financial services, M2M, geolocation and cloud-based services. We believe that the purpose of the differentiation is the creation of our own differentiating factors that will enable us to significantly differ from our competitors, to deliver a special value, to provide our customers with a unique customer experience, to create products and services that would not only motivate people to choose MTS, but would also significantly increase our customers' loyalty. This value also reflects our ongoing commitment to improvement of products and services in all sectors of the Company's operation,

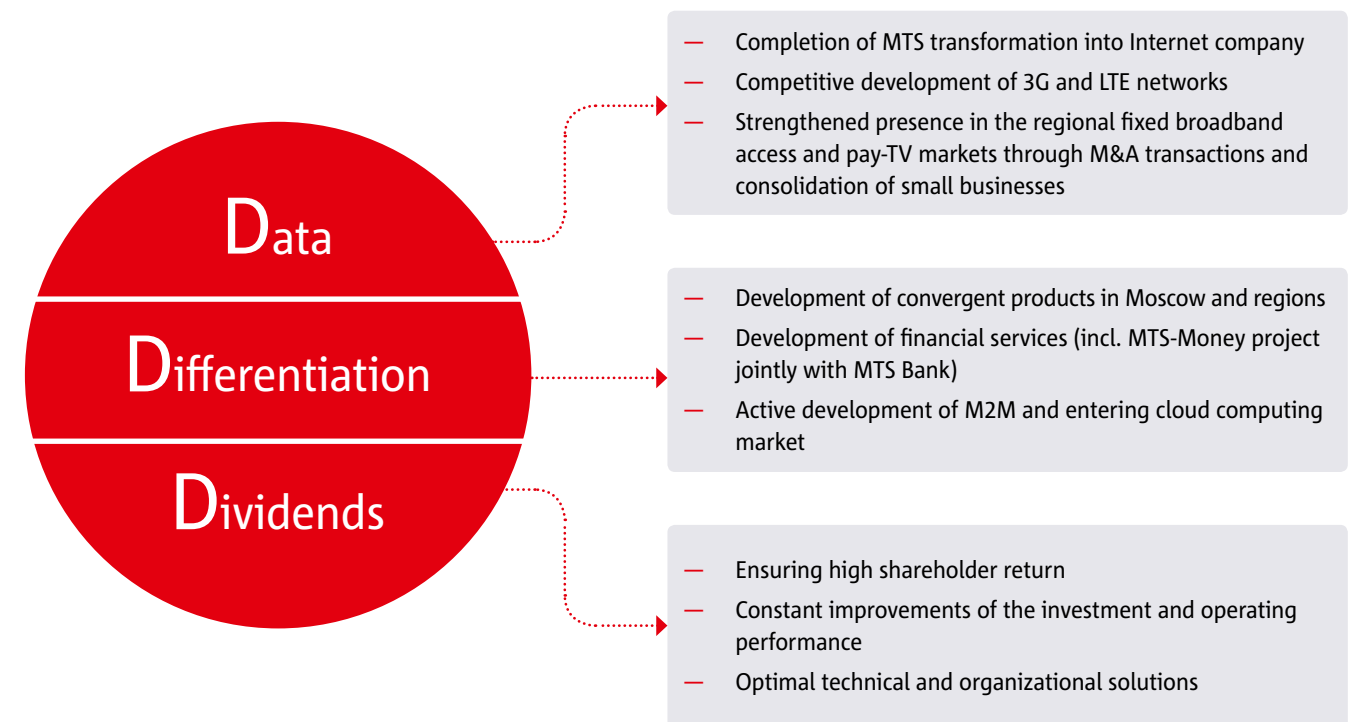
to win and retain significant market position, and, where possible, to be market leaders, to deliver advanced and diverse customer experience. Differentiation is associated not only with our intention to generate value in the promising markets, but also with the desire to diversify the service portfolio, thus mitigating the industry risks and strengthening our competitive position.

Another strategy direction indicated as **Dividends** reflects the emphasis we will place on shareholder return. Despite the macroeconomic challenges in 2014, the Company decided to pay record dividends totaling RUB 51.2 billion, and we reiterate 2014–2015 forecasted payments amounting to no less than RUB 90 billion. The most important part of the process of creating shareholder value is a constant and consistent improvement of business efficiency, based on the optimal use of technological and organizational solutions, control of expenses, sound investment policies, and improvement of business processes.

The main strategic priorities of MTS in the short and medium term are:

- Retaining leadership in the mobile segment, both in terms of total revenues and the number of subscribers, and growth rate in the most dynamic mobile data business;
- Active development of mobile data networks (LTE and 3G) to achieve growth potential with growth rates above the average;
- Timely modernization of the fixed network in order to maintain competitiveness in the sector and enable provision of a full range of telecommunications services;
- Development of financial services in cooperation with MTS-Bank, reaching synergies with other business areas;
- Increased operational efficiency of the single-branded retail chain, using this channel to sell the financial services and promote data consumption, including by selling our own range of branded consumer devices;

MTS 3D Strategy: key development areas in 2014–2017



- Paying close attention to the promising trends in related industries: M2M, cloud services, geolocation services, video surveillance and remote monitoring, etc.

MTS strategically positions itself as a primarily telecommunications company, the universal service provider, offering a full range of high quality services, absolute and undisputed leader in the mobile segment. Telecommunications is our key competence and core business. At the same time we have gained intellectual, organizational and management capacity to

be used as a basis to seek points of growth in adjacent markets that will allow us to create more value for our customers and shareholders, and more broadly – to enrich the lives of people, to provide new opportunities for living, business and self-fulfilment. We are convinced that implementation of the 3D Strategy will allow us to maintain and strengthen the market position, ensure financial stability and operational efficiency, ensure the development and growth in the most dynamic segments, will enable us to offer our customers the best experience, and to fulfill the obligations to the shareholders.

The year of 2014 showed us how fast can the macroeconomic and business environment and the world as a whole change, how strong can be the external challenges and how quickly and pro-actively we need to respond to them. And this strongly emphasizes the importance of the fact that under such conditions MTS demonstrates excellent performance in terms of key business indicators, shows growth above the market in the most dynamic business areas, and continues to maintain leadership in our key market – the mobile market of Russia.

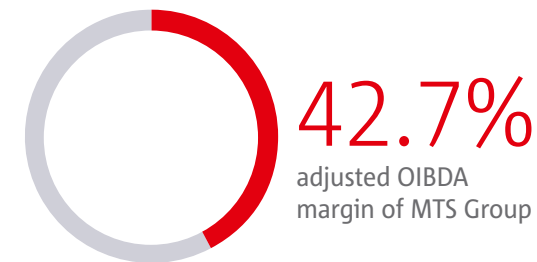
2014 has become a period of transformation of the earlier 3i strategy – “Integration, Internet, Innovation” and the adoption of a new strategic paradigm, called “3D” – “Data, Differentiation, Dividends”. The need for a new strategic concept is explained by actual completion of integration of mobile retail and fixed telephony businesses into the management structure of MTS, as well as the establishment of a strong and effective management in the units responsible for operations in the financial sector in partnership with MTS-Bank PJSC. Successful completion of the integration phase allows us to focus on getting value in all areas of activity, effectively diversify the service portfolio, respond to the risks and challenges of the environment, and to receive additional benefits through synergies.

Talking about the financial performance of the Company, the following should be noted. In 2014, the consolidated revenue of MTS Group increased by 3.1% and amounted to RUB 410.8 billion year-on-year. Adjusted OIBDA¹ increased by 0.3% to RUB 175.5 billion year-on-year, while the level of adjusted OIBDA margin decreased by 1.2 pp to 42.7%. Consolidated net profit in 2014 decreased by 35.1% to RUB 51.8 billion, which was influenced by non-cash foreign exchange losses and creation of provision of RUB 5.1 billion for investment in Delta Bank PJSC operating in Ukraine. As at the end of 2014, free cash flow from continuing operations decreased by 22.6% to RUB 57.0 billion due to the increased capital expenditures resulting from advance payments to vendors for the supply of equipment, made for

the purpose of leveling exchange rates fluctuations, as well as from acquisition of certain assets in the Russian Federation (OzonHoldingsLimited, part of SMARTS regional assets, participation in the additional issue by MTS-Bank). In general, MTS shows stable operating cash flow, despite weakening of the national currencies in all its markets, and continues to generate significant cash from operations.

One of the key achievements of the Company in 2014 was record-high mobile data network construction, as well as the modernization of the fixed-line network in Moscow. As of the year-end, LTE networks have been launched in 76 regions of the Russian Federation, which allowed the Company to gain leadership in organic revenue growth in mobile internet segment in Russia, which at the year-end amounted to RUB 64.4 billion, indicating a growth by 36% as compared to the previous period. MTS sees mobile data services as a major growth segment in the Russian market. In this regard, we pay special attention to the development of an attractive price offer in this area and the promotion of consumption, including by launching a branded range of low-cost mobile devices with advanced consumer properties.

One of the main tools for implementation of data services promotion programme, both in terms of user equipment sales, customer service and tariffs marketing, is MTS single-branded retail chain. At the end of 2014, it consisted of 4,245 outlets, including 1,326 franchised stores. We believe this is the optimal size of the network, and we will keep focusing on improving the retail financial per-



formance by optimizing lease payments, relocation of stores, improving logistics and introducing new commission schemes. The key goal of our retail chain is the leadership in data products sales, including equipment and services.

In 2013, the Company adopted new dividend policy principles, under which the amount of dividend payout is determined as the largest of the following values: no less than 75% of the free cash flow of MTS Group for the last financial year under U.S. GAAP, or RUB 40 billion per year. In line with the new policy, and taking into account that the “Dividends” is one of the key priorities of the Company under 3D strategy, in 2014, MTS paid a record amount of dividends of RUB 51.2 billion. MTS keeps the previous dividend forecast for 2014–2015, totaling at least RUB 90 billion.

It should be noted that MTS brand has been ranked for the seventh time among the top 100 leading brands of BRANDZ™ by the leading

international research agency Millward Brown Optimor, and is among top 10 global telecom brands in terms of value. During the year, the brand value grew by 14.5% to USD 12.175 billion.

In general, our expectations for the coming year of 2015 remain positive; in particular, we expect the Group’s revenue to grow by 2%, while the growth in the key Russian market may reach 3%. Paying special attention to cost-effectiveness, we intend to maintain adjusted OIBDA margin above 40%. Due to the fact that 2014 was the record year for MTS in terms of the rate of building and modernization of mobile and fixed networks, in 2015 we intend to slightly cut Group’s CAPEX and to reach RUB 85 billion by the end of the year.

Despite the macroeconomic challenges, we remain industry leaders, we see prospects for continued moderate growth in our key markets, are confident in our own stable competitive position, our ability to continue demonstrating high profitability of the business and achieving the growth potential in the most dynamic market segments. Our key objectives in the current environment include dynamic development of data transmission network based on 3G and LTE technology solutions, correct price positioning in accordance with the market situation and customers’ potential, cost control and increase of operational efficiency, generation of stable cash flow, fulfillment of obligations to the shareholders, and ensuring a high level of dividend yield.

Ron Sommer
Chairman of MTS Board of Directors

¹ Exclusive of income of RUB 6.7 billion (RUB 3.6 billion in Q3 2014 and RUB 3.1 billion in Q4 2014) from returning to Uzbekistan and the amount of the reserve in Delta Bank PJSC (Ukraine) in the amount of RUB 5.1 billion)..

Mobile communications market in Russia and CIS countries has been developing very rapidly, owing to the steady decline in prices, both for the services of mobile operators and subscriber equipment. This resulted in 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. Marketing efforts of operators shifted from acquiring new customers towards improving loyalty and yield of existing subscribers and acquisition of the competitors' subscribers. Additional incentive to intensify the competition for the customers' loyalty was the fact that in 2013 the Ministry of Communications introduced substantial amendments to the telecom legislation. On December 1, 2013, a law on mobile number portability (MNP) came into force. At the moment, the introduction of mobile number portability has not had a significant effect on the market share of mobile operators in Russia.

By the end of 2014, the penetration rate of mobile communication services reached 167%, 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 the CIS, MTS aims to employ existing growth potential in all most dynamic segments of the industry.

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

Development of the mobile Internet is increasingly important for the growth of mobile market in Russia and the CIS. The year of 2014 became extremely successful for MTS in terms

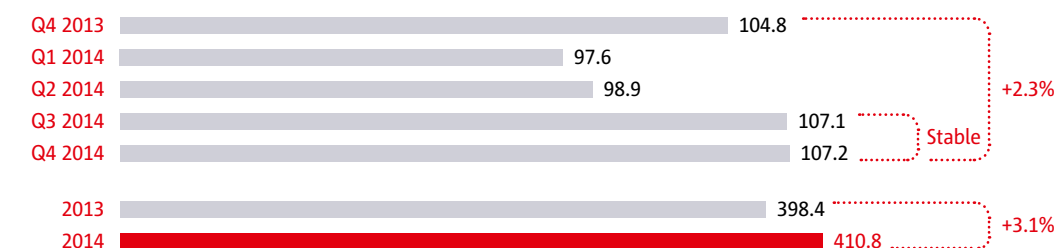
of development of this business. In 2014, MTS showed the highest data revenue growth in the Russian market (36% by 2013). The basis for qualitative growth in consumption of mobile data services is the development of 3G network which operates in all federal districts of Russia, Armenia, Belarus, and Turkmenistan. Important role in the development of digital services is played by LTE. In 2014, commercial operation of LTE networks was launched in 76 regions of Russia. MTS was the first among Russian carriers to provide an opportunity to use LTE networks while roaming internationally. By 2016, LTE penetration among the digital service users will exceed 25%. "Heavy" users that consume a large amount of data will be the first ones to move to LTE. Developing LTE networks, we expect to acquire and retain these customers. Migration of active customers to the new technology will enable decreasing the load on 3G networks. According to our estimates, LTE will start contributing to revenue in 5 years; however, today the technology is already able to provide a completely new service level to the most demanding customers.

MTS OJSC is actively developing its own chain of sales and service centers enabling to sell unique branded products and services, thus ensuring high level of customer experience and positively affecting MTS brand awareness. Smartphone penetration rate is a crucial factor for the development of mobile Internet; accordingly, MTS is actively developing its branded smartphones and tablets sold at an attractive price.

In addition to the above, the Company monitors inorganic growth opportunities, both in its markets of operation and outwards. MTS OJSC has sufficient experience of integration of the acquired companies, which allows their effective incorporation into the business structure and obtaining a positive economic effect as quickly as possible.

MTS Group financial highlights

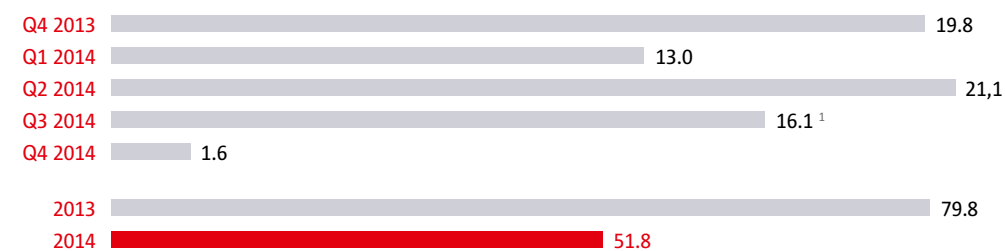
Total Group revenue (RUB bln)



Group revenue performance offset by decline in subscriber base and fall in revenues in Ukraine, due to discontinuation of operations in Crimea, ongoing hostilities in the East of Ukraine and sustained macroeconomic weakness

Q-on-Q revenue growth mitigated by seasonally lower roaming revenues in the key markets

Total Group net income¹ (RUB bln)



¹ Includes gain in the amount of RUB 6.7 bln (RUB 3.6 bln in Q3 2014 and RUB 3.1 bln in Q4 2014) from reentrance into Uzbekistan

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2013	2014
Net income margin	18.9%	13.4%	21.3%	15.0%	1.5%	20.0%	12.6%

Net income dynamics in Q4 2014 reflect:

- A FOREX loss of RUB 8.9 bln based on the value of MTS's foreign currency-denominated debt due to ruble depreciation;
- A gain in the amount of RUB 3.1 bln from reentrance into Uzbekistan, recognized upon completion of an appraisal of the asset by an independent consultancy;
- A reserve related to the insolvency of JSC DeltaBank, Ukraine's fourth-largest bank, in the amount of RUB 5.1 bln.

MTS continues to see sustained macroeconomic volatility in its markets of operations that may impact the financial and operational performance throughout the Group

Group capital expenditures (RUB mln)

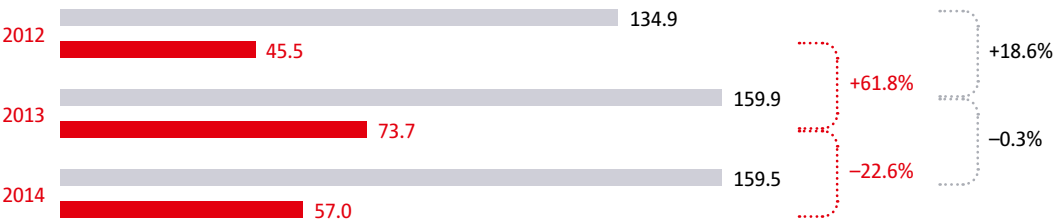


(in RUB mln)	2011	2012	2013	2014
Russia	66,869	82,896	70,910	86,162
Ukraine	4,487	4,125	8,840	4,210
Armenia	1,344	751	1,093	1,142
Turkmenistan	н/д	11	732	1,084
Group	72,798	87,783	81,575	92,599
— as % of revenue	20.9%	23.2%	20.5%	22.5%

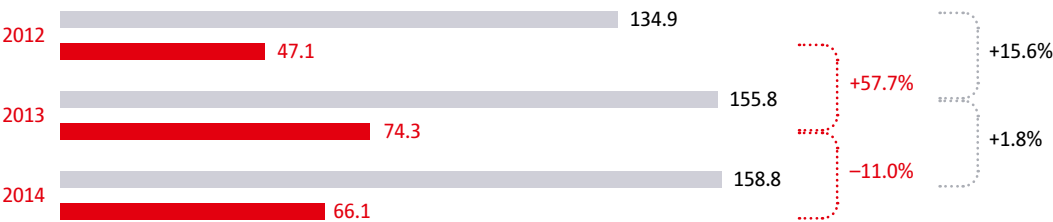
In 2014, CAPEX amounted to RUB 92.6 bln slightly exceeding management guidance of RUB 90.0 bln due to prepayment to the vendors in Q3 2014 prior to substantial depreciation of the ruble.

Key projects include the enhancement of 3G networks in Russia, roll-out of LTE/4G networks throughout Russia, and the ongoing deployment of GPON in Moscow as well as network modernization in other markets of operations.

Operating and free cash flow from continuing operations
(RUB bln)



Adjusted operating and free cash flow from continuing operations¹
(RUB bln)



- Operation cash flow
- Free cash flow from continuing operations

1 Operating and Free Cash Flow from continuing operations net of one-off effect related to the compensation for the settlement over Bitel LLC and excluding proceeds from sale of PPE and investments in associates and acquisition of subsidiaries.

MTS boasts stable operating cash flows despite currency weakness in its markets of operation.

Year-over-year increase in adjusted operating cash flow from continuing operations due to:

- Improvements in working capital;
- Reduction of net interest expense due to astute debt management;
- higher dividends from Belarus.

Year-over-year decline in FCF due to:

- increased CAPEX as the Company prepaid a higher amount of foreign currency denominated equipment in anticipation of further weakening of the ruble;
- M&A activities, including acquisition of a stake in Ozon Holdings, participation in the additional share issuance of MTS-Bank OJSC and acquisition of a three regional assets of SMARTS OJSC.

MTS continues to demonstrate strong cash generation through its operations.

Outlook for 2015

Total Group revenue
(RUB bln)



Total Russia revenue
(RUB bln)



Group adjsuted OIBDA margin



Group capex
(RUB bln)



1 Without the costs of 3G license and investments in 3G network in Ukraine.

MTS expects to realize:

- Group revenue growth of more than 2%;
- Revenue growth in MTS Russia more than 3%;
- Group OIBDA margin of more than 40%;
- Group CAPEX of RUB 85.0 bln.

Group revenue and OIBDA dynamics will continue to be impacted by currency volatility in Russia and Ukraine.

MTS sees significant macroeconomic uncertainty and volatility across its markets of operation, which may cause MTS to revisit its revenue and OIBDA guidance and, in turn, impact its financial and operating results.

Group mobile subscriber base dynamics

MTS subscribers (mln unless noted)	Q3 2014	Q4 2014	% Change
Total mobile	105.1	104.1	-0.9%
Russia	73.3	74.6	+1.8%
Ukraine ¹	22.7	20,2	-11,0%
Turkmenistan	1.7	1.7	+1.6%
Armenia	2.2	2.2	-0.2%
Uzbekistan	0.0	0.2	N/A
Belarus ²	5.3	5.3	stable

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

In Russia, MTS continues to attract and retain high-quality subscribers by promoting innovative tariff plans and driving sales through its proprietary retail network.

In Q3 2014, MTS adjusted its subscriber reporting methodology to reflect three-months of subscriber activity instead of the previously used six-month methodology.



Russia

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.

As of the end of 2014, an estimated penetration of the Company in the Russian telecommunications market (SIM-cards) was about 167%. The highest penetration rates are observed in Moscow and St. Petersburg – more than 200%.

Without any concern for price, MTS is constantly working on introduction of attractive tariff plans for both mobile and fixed services, providing our customers with the opportunity of free communication – a comfortable level of consumption. Thus, the popular tariff plan Super MTS includes free on-net calls for MTS customers. Reduction in the average cost per minute and free calls within the network allow our customers to communicate freely. Average consumption of minutes of use (MOU) in MTS network is constantly growing, having reached in 2014 top level records in Russia (393 minutes in Q4 2014).

The main offer in 2014 was the updated range of Smart tariff plans, focused on the growing audience of smartphone users. Smart tariffs include free on-net communication, large mobile Internet packages at a low monthly cost, and in 2014 they became even more attractive with extended voice and Internet bundles, and lower prices for national roaming. As a result, the sales share of Smart tariff plans nearly doubled, while the number of mobile Internet users in this tariff group is almost twice higher than the average of the Company.

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

The Company has been consistently reducing the cost of data transmission for mobile

Internet users. During 2014, the cost was reduced by almost 30%. This was possible due to rising popularity of additional options allowing to receive large mobile Internet bundles at an attractive price.

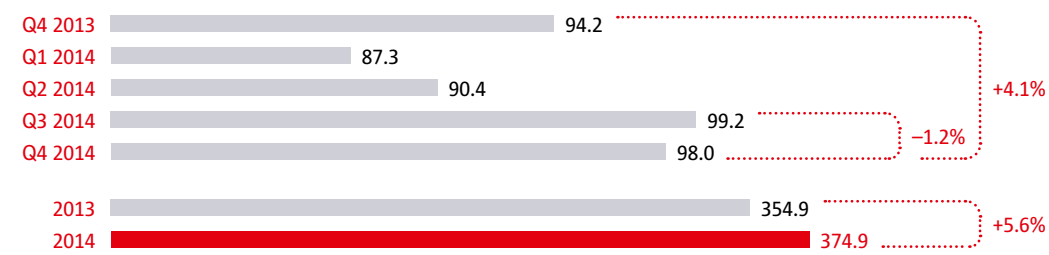
MTS continues to offer the most attractive international roaming tariffs to its customers. Today, we offer Zero without Borders options, which enable to significantly reduce the cost of voice calls in roaming due to free incoming calls. By the end of 2014, a significant share of roaming customers has been using Zero without Borders option. We also offer our customers the BIT abroad option with daily traffic increased to 30Mb, which allows to significantly reduce the cost of mobile Internet while roaming.

In 2014, the joint project of MTS and MTS-Bank was further developed. The partnership allowed MTS to become the Russia's only integrated provider of telecom and financial services for the time being, using the synergy of two areas to increase the customer loyalty and monetization. MTS goal in the project is to become a provider of financial services to the largest subscriber base in Russia in order to improve loyalty, increase the life cycle of subscribers and growth of ARPU.

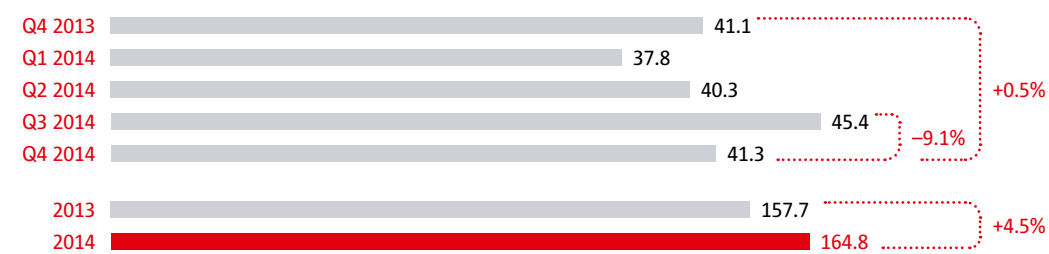
Furthermore, it is worth mentioning the prospects offered to the Company through its own single branded retail chain, actively developed in Russia during 2009–2010. Our own sales channel allows increasing the number of acquisitions, controlling their quality and reducing churn.

FINANCIAL HIGHLIGHTS

Total Russia revenue
(RUB bln)



Total Russia OIBDA
(RUB bln)



	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2013	2014
OIBDA margin	43.7%	43.3%	44.6%	45.8%	42.1%	44.4%	44.0%

MTS is an unchallenged leader in terms of absolute revenue and OIBDA among the “big three” operators.

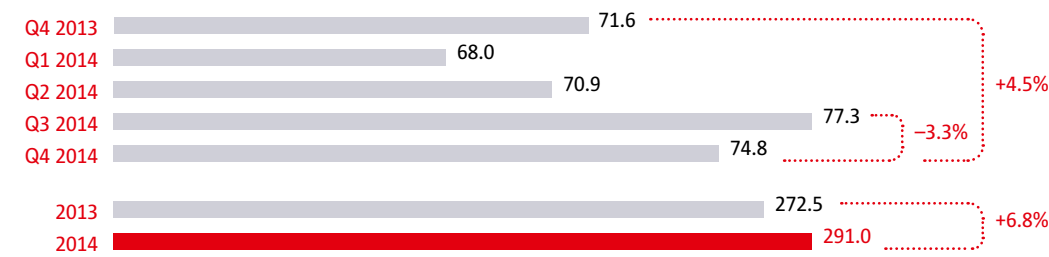
- Y-on-Y revenue expansion driven by:
- Higher usage of voice, messaging and data products;
 - Increased data adoption among subscribers;
 - Strong subscriber additions;
 - Higher sales of handsets.

Slight Q-on-Q decline in revenue demonstrate seasonal trends, including lower roaming revenues.

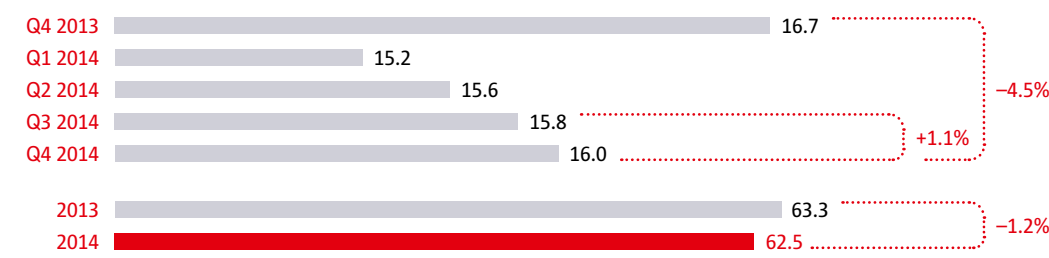
- Quarterly OIBDA decline reflective of:
- Seasonally lower contribution from roaming revenues;
 - Impact of increased costs related to international calling and international roaming;
 - Increase of payroll in September 2014;
 - Inflationary expenses.

REVENUE BREAKDOWN

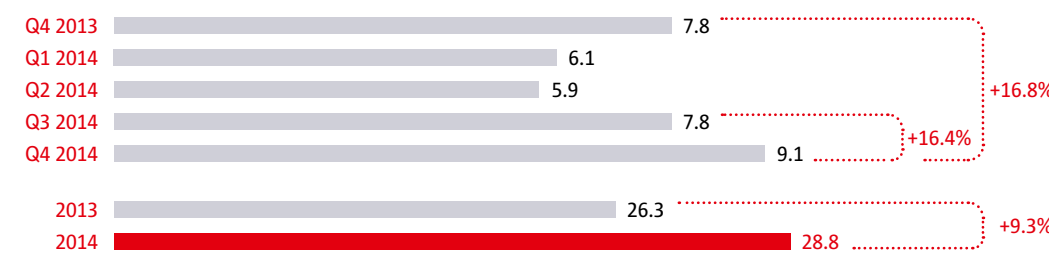
Mobile revenue (RUB bln)



Fixed line revenue (RUB bln)



Sales of handsets & accessories (RUB bln)



Y-on-Y growth in mobile service revenue attributable to:

- Increased adoption of data through higher penetration of smartphones and tablets;
- Upselling of existing data users to tariff plans and options with higher traffic allowances;
- Expansion of the subscriber base.

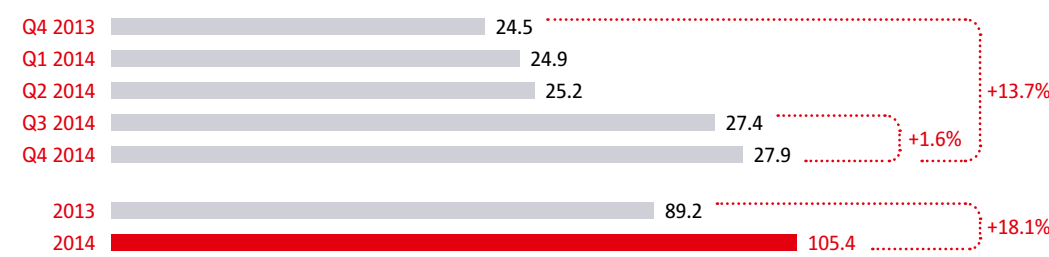
Quarterly decrease in mobile service revenues due to traditional seasonal factors, such as lower roaming

Y-on-Y decline in fixed-line revenue due to a one-off effects from recognition of revenue derived from a fixed-line telecommunications projects with the Government of Moscow in Q4 2013

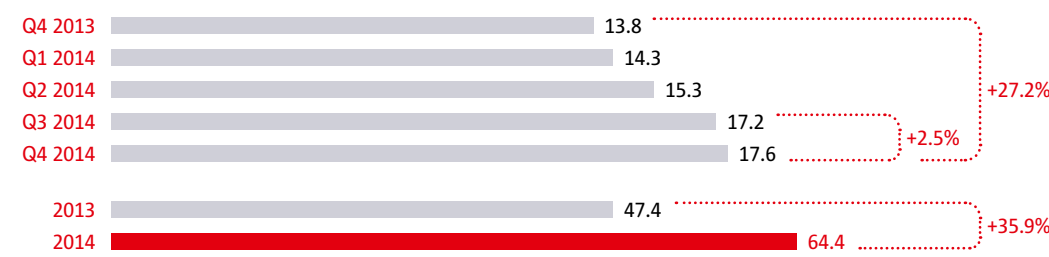
Quarterly rise in sales of handsets due to increased purchases due to currency volatility at end of year

MOBILE OPERATING INDICATORS

Total VAS revenue (RUB bln)



Data traffic revenue (RUB bln)



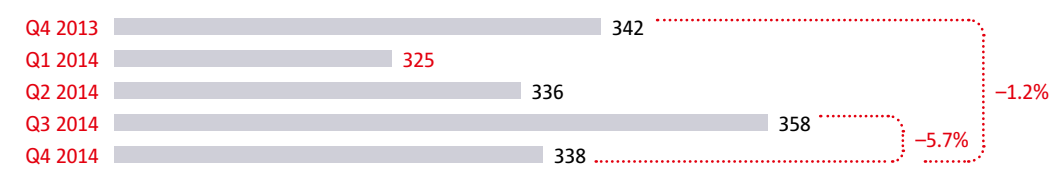
MTS is the Russia's leader in terms of growth and absolute data revenue.

Growth in data revenues demonstrates success in upselling customers on data plans, promotion of affordable smartphones in its retail chain, sustained investment in 3G/LTE networks, and success in creating the market's strongest value proposition to customers

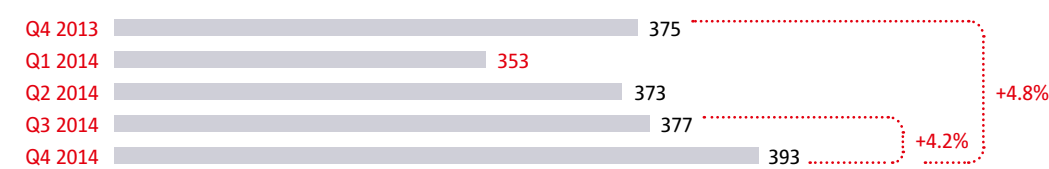
Sustained data traffic revenue growth driven by growth in smartphone and tablet penetration and migration of customers to larger data packages

- Key initiatives included:
- Launch and development of LTE networks in 76 Russia's regions;
 - New Year promo campaigns – data packages, minutes of usage and sms for free to increase customer loyalty;
 - Pilot launches of “shared” tariff plans in four regions;
 - Partnerships with Nokia and Samsung to bundle Internet access with purchase of smartphone.

ARPU
(RUB)



MOU
(min)



	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Subs, mln	69.4	70.0	70.6	73.3	74.6
Churn, %	9.8%	10.1%	10.9%	9.2%	11.0%
VAS ARPU (RUB)	111.8	112.0	112.6	118.3	120.8
— as % of ARPU	32.7%	34.4%	33.5%	33.0%	35.8%
APPM (RUB)	0.91	0.92	0.90	0.95	0.86

MTS is the cheapest operator for subscribers among key competitors, steadily demonstrating minimum churn and stable subscriber base growth.

ARPU dynamics demonstrate success of upselling customers to tariff plans with larger data packages, as well as the increased penetration of smartphones and tablets

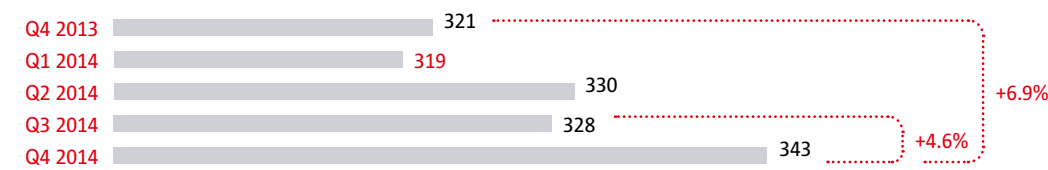
Quarterly decline in ARPU attributable to traditional seasonal factors, including lower roaming revenues and higher seasonal sales

MOU dynamics showcase success in driving usage by promoting tariff plans with free on-net calling

Churn increased slightly due to seasonal factors, but remains at the lowest level in the market

FIXED OPERATING INDICATORS

ARPU residential
(RUB)



	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Total households passed, 000s	12,269	12,347	12,390	12,471	12,541
Number of subs, 000s ¹	7,563	7,426	7,294	7,185	7,062

1 Including residential fixed-line telephony, broadband, and pay-TV subscribers

Residential ARPU growth highlights the rising share of double-play and triple-play customers in the customer base, migration of Pay-TV subscribers to MTS’s digital TV platform, upselling of broadband subscribers through modernization of fixed-line networks in the regions and migration of ADSL customers in Moscow to GPON

Increase in the number of households passed highlights ongoing network expansion in the regions

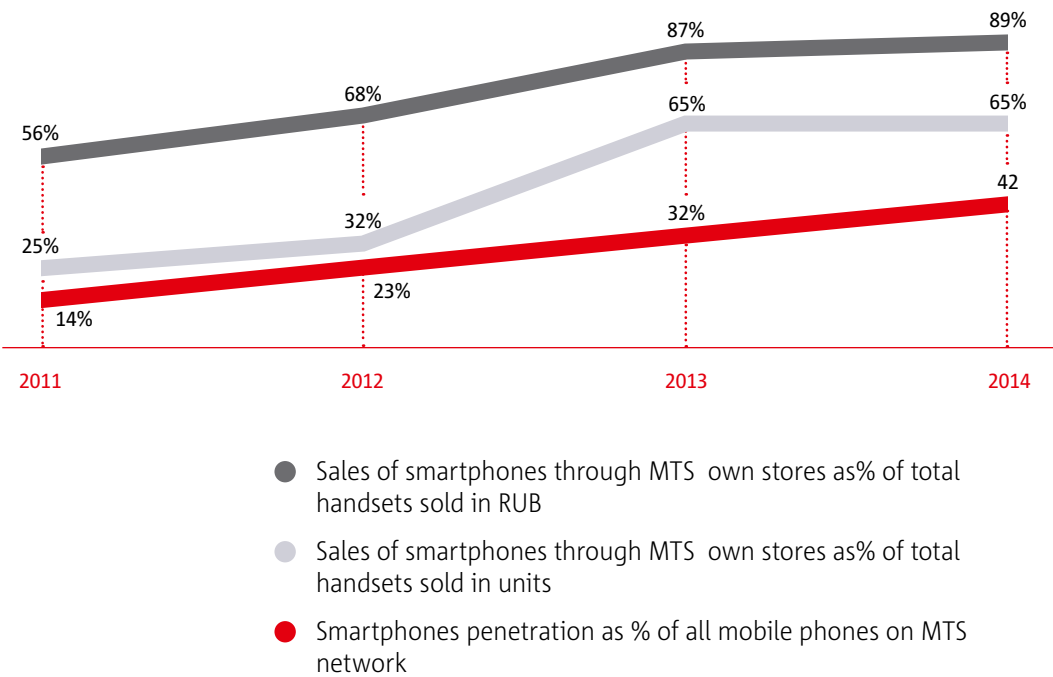
Decline in residential subscriber base highlights the migration of Pay TV subscribers from analog to digital platforms, which results in defection of certain types of subscribers and decline in the number of fixed telephony subscribers in Moscow

MTS RETAIL NETWORK DEVELOPMENT

Development of MTS retail network



Smartphones sales and penetration



At the end of Q4 2014, MTS's retail network comprised 4,245 stores, including 1,326 franchised outlets

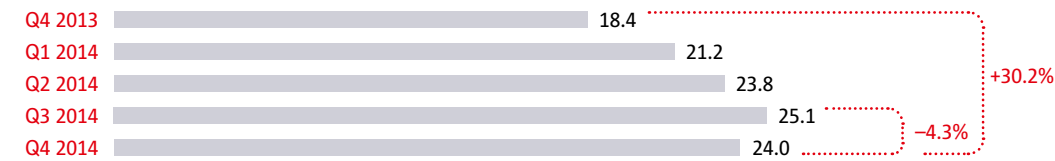
During the quarter, MTS increased its retail footprint by 83 own stores

In Q4 2014, smartphones accounted for 65.0% of phones sold in MTS stores in units

In Q4 2014, total smartphone penetration reached 42.4%

FINANCIAL SERVICES

Total credit portfolio
(RUB bln)



Total number of MTS DENGİ cards issued
(mln)



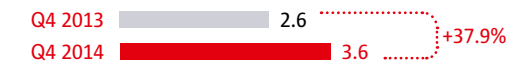
Mobile payments turnover
(RUB bln)



During the quarter MTS continued to see strong demand for point-of-sale loans for smartphones with 20.6% of smartphones sold with the assistance of some P-o-S credit through MTS's banking partners

On December 17, 2014, sales of handsets on credit were discontinued due to the change in the banks' commercial policies following the rate increase by the Central Bank of Russia

Mobile payments users
(mln)



Turnover and number of users of mobile payments through SMS-based services, MTS's mobile application Easy Payment and website continue to rise due to enhancement of mobile commerce platform and marketing campaigns aimed at promoting mobile payments

Ukraine

In Ukraine, the Company provides services in GSM 900/1800, CDMA 450 standard throughout the country. At the year-end, the number of CDMA subscribers averages 160,000.

Slower growth in the number of subscribers in the Ukrainian telecommunications market is due to gradual market saturation and the operators’ focus on the quality of the subscriber base. According to the Company, at the end of 2014 service penetration in the country was 132%, or 56.8 million subscribers, and the number of MTS OJSC subscribers in Ukraine at the end of the year was 20.2 million (including CDMA) or 36% of the market. The main competitor – Kyivstar – accounts for 26.2 million subscribers at the end of the year.

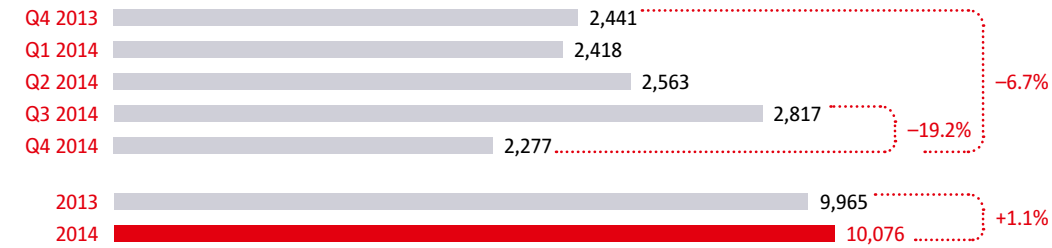
- In 2014, the main priorities of MTS in the Ukrainian market were as follows:
- Promotion of Internet services penetration and launch of Smartphone and Smart Office tariff line with connected Internet for bulk users and corporate customers (resulting in data revenue increase by 3.4% as compared to the previous year);
 - Development of the tools to optimize the cost of communications, including the following offers: 0 Abroad, Cheaper in Bulk, top-up discounts, A Year without Subscriber Fee and introduction of pay-as-you-go principle on the Just Super tariff line.

The Company continues to use the tools for regional adaptation of the tariffs aimed at providing tariff plans corresponding as much as possible to the subscriber profile in a certain area.

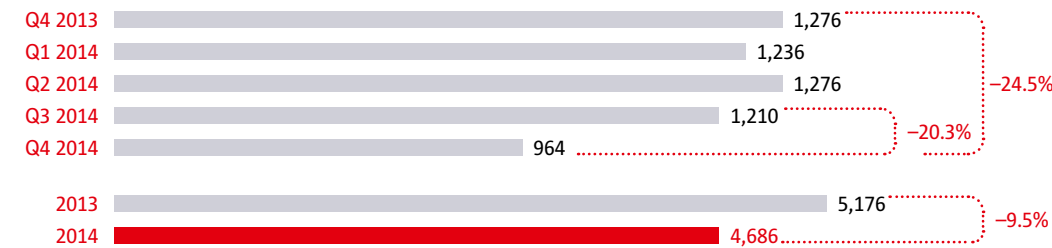
MTS OJSC provides CDMA-based service MTS Connect 3G, offering its customers high-speed mobile Internet access.

FINANCIAL HIGHLIGHTS

Total Ukraine revenue (UAH mln)



Total Ukraine adjusted OIBDA¹ (UAH mln)



1 Adjusted for provision for investments in DeltaBank in Ukraine of RUB 5.1 bln. in Q4 2014.

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2013	2014
Adjusted OIBDA margin	52.3%	51.1%	49.8%	42.9%	42.3%	51.9%	46.5%

- Y-on-Y revenue decline attributable to:
- Discontinuation of operations in Crimea;
 - Ongoing hostilities in the East of Ukraine;
 - Sustained macroeconomic weakness resulting in lower consumption of voice and data products throughout the country.
- Key factors related to decline in OIBDA:
- Revenue dynamics;

- Increased operating expenses due to inflationary pressure, higher utility prices, and a 2x increase in monthly frequency fees;
- One-off charge related to non-recoverable VAT expenses;
- Hryvna devaluation impact on the costs denominated in foreign currencies, including international calling and international roaming.

OPERATING INDICATORS

Total VAS revenue
(UAH mln)



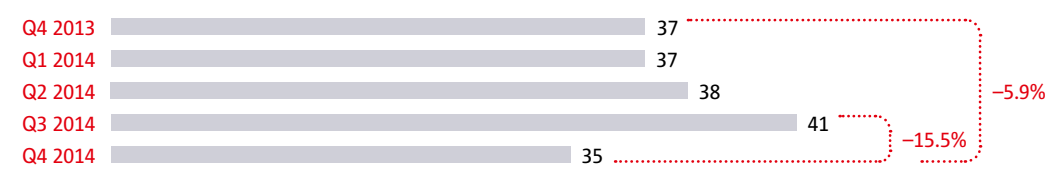
Data traffic revenue
(UAH mln)



Decline in total VAS revenue as a result of reduced consumption of value-added services, messaging and SMS-based content related to overall drop in domestic traffic

Period decline in data traffic revenue reflects overall decrease in usage

ARPU
(UAH)



MOU
(min)



	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Subs, mln	21.5	21.7	22.3	22.7	20.2
Churn, %	7.4%	6.2%	4.5%	4.6%	17.6%
VAS ARPU (UAH)	12.8	12.6	11.3	10.3	9.4
— as % of ARPU	34.5%	34.2%	29.6%	25.0%	26.9%
SAC (UAH)	53.3	49.4	50.8	63.4	69.3
APPM	0.063	0.064	0.067	0.085	0.072

Y-on-Y decline in ARPU due to lower usage of voice, data, messaging and content products due to macroeconomic factors and challenges of provisioning services in eastern Ukraine

Quarterly decline in ARPU attributable to the challenging macro environment and seasonal factors

Year-over-year decline in minutes of use attributable to difficulty in provisioning services in eastern Ukraine and impact of macroeconomic factors on overall voice traffic

Armenia

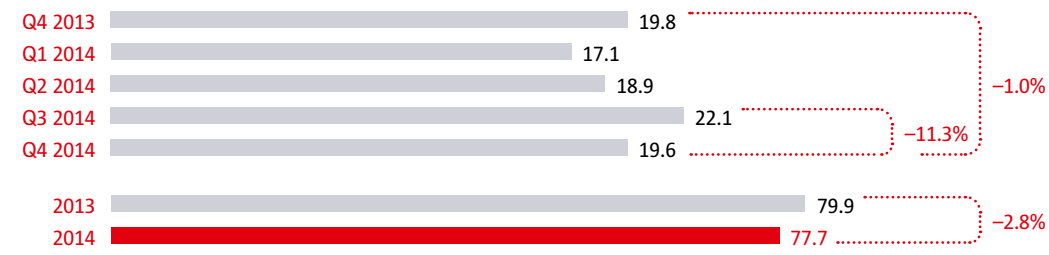
In September 2007, the Company acquired the leading operator in Armenia, providing mobile services under the brand name VivaCell in GSM 900/1800 standard. In Q3 2008, VivaCell brand changed to co-brand VivaCell-MTS. Changing the visual image of the brand was the first step in a comprehensive rebranding of K-Telecom, which affected all spheres of interaction between the operator and the 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 111%, amounting to about 3.6 million subscribers as of December 31, 2014. The number of MTS subscribers in Armenia at the year-end was 2.1 million (60% market share).
VivaCell-MTS in Armenia offers services in GSM 900/1800, UMTS standard, and in December 2010 it launched LTE network.
In 2014, despite tough competition in Armenian telecommunications market, K- Telecom CJSC (VivaCell-MTS) maintained its leadership.

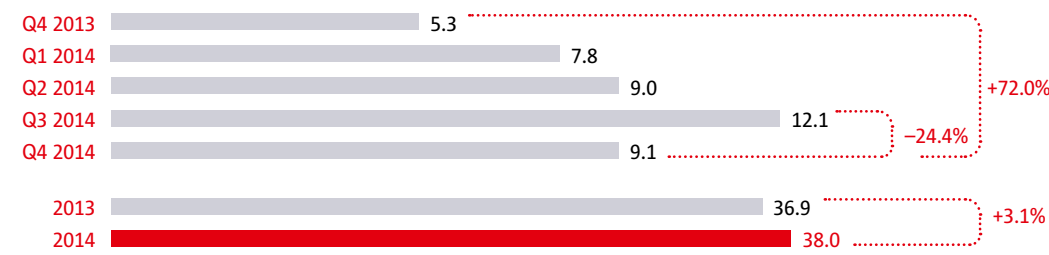
- In 2014, the key priorities of MTS in Armenia were:
- Maintaining high market share in terms of subscribers and revenues through the development of unlimited tariff plans Super 0 Daily and Jan-Jan Daily, as well as updating of Dialect and Yes tariff plans;
 - Strengthening leadership in the mobile broadband market through the development of Large Screen and Small Screen segments. The development of this area was supported by a number of active measures, such as: Super BIT, 4G modems at the price of 3G, as well as Tariff + Smartphone for AMD 1 offers.

FINANCIAL HIGHLIGHTS

Total Armenia revenue (AMD bln)



Total Armenia OIBDA (AMD bln)



	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2013	2014
Adjusted OIBDA margin	26.8%	45.5%	47.9%	54.6%	46.6%	46.1%	49.0%

Revenue dynamics driven by a sustained decline in international calling due to macroeconomic factors

Quarterly revenue decline attributable to seasonal factors

Quarterly OIBDA dynamic reflect topline dynamics and a write-off of bad deb

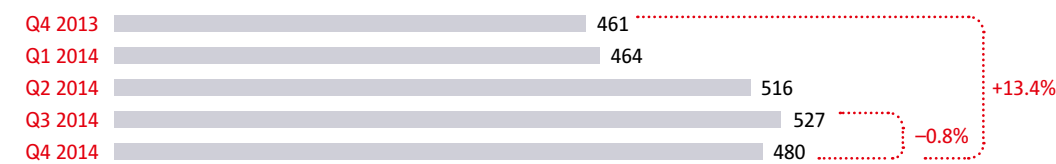
- Y-on-Y OIBDA growth attributable to:
- increase in the termination rates with MTS Russia in December 2013 which negatively impacted Q4 2013 results;
 - regulatory decision to increase termination rates for international calling starting from Q3 2014.

OPERATING INDICATORS

ARPU
(AMD)



MOU
(min)



	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Subs, mln	2,099.7	2,102.5	2,121.8	2,149.4	2,145.5
Churn, %	8.3%	7.8%	7.7%	9.0%	9.5%
SAC (AMD)	6,800.7	5,129.8	5,302.3	4,773.3	6,261.6
APPM	6.75	5.80	5.70	6.41	5.65

Y-on-Y decline in ARPU attributable to an increase in free on-net calls included in the packages as well as reduced international calling

Quarterly decline in ARPU in line with traditional seasonal trends due to lower subscriber roaming revenues

Y-on-Y rise in MOU reflects MTS's efforts to drive voice usage



Turkmenistan

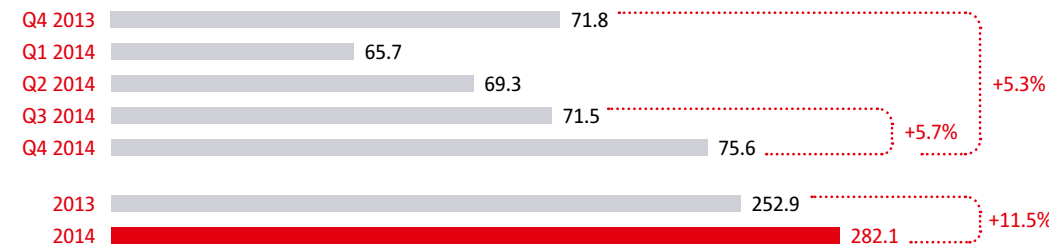
On August 30, 2012, the Company resumed its activities in the Turkmenistan market, and from October 1, 2012 onwards it started connecting new subscribers. We are pleased to note that MTS services are popular and in high demand.

As of December 31, 2014, 1.7 million subscribers were registered in MTS-Turkmenistan network. According to expert estimates, the market share of MTS was 31%, with penetration at 104%
In 2013, 3G network for corporate subscribers was launched in Turkmenistan.

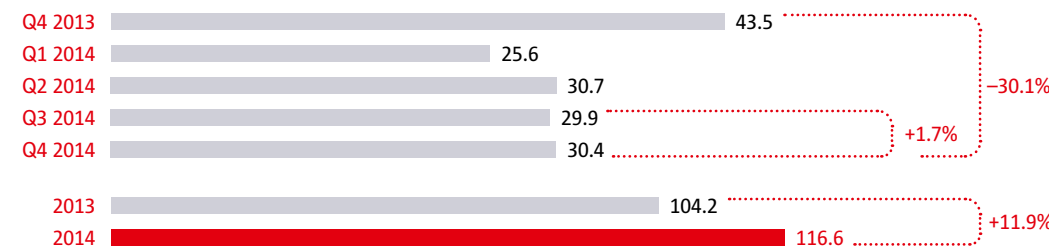
- MTS key priorities in 2014 in the Turkmenistan market included:
- Increased data revenues due to launch of 3G network for individuals – SMART tariff plan, and integrated offer Tariff + Smartphone;
 - Increase in the active subscriber base through cost-efficient seasonal tariff offers – Avaza service, update of the tariff plan Gülyaly and top-up bonuses;
 - Development of services, VAS-services and content services.

FINANCIAL HIGHLIGHTS

Turkmenistan revenue (TMT mln)



Turkmenistan OIBDA (TMT mln)



	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2013	2014
OIBDA margin	60.6%	39.0%	44.3%	41.8%	40.2%	41.2%	41.3%

Y-on-Y topline growth driven by increased data and content revenues due to network enhancement and promotion of data services

Quarterly revenue growth due to the launch of voice & data tariff plan Smart

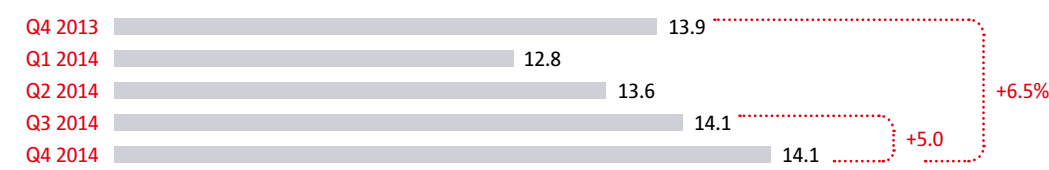
Quarterly OIBDA improvement attributable to growing contribution from data revenues

Sharp drop in OIBDA due to:

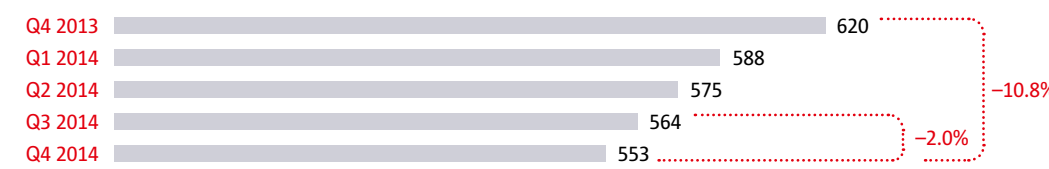
- one-off effect on OIBDA in Q4 2013 attributable to the cancellation of reserves for salaries and stock options, reserves for frequency payments, line rentals and network dismantling due to liquidation of BCTI, the former MTS subsidiary;
- increased line rentals costs from June 2014.

OPERATING INDICATORS

ARPU
(TMT)



MOU
(min)



	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Subs, mln	1,723.5	1,691.9	1,699.4	1,691.3	1,718.8
Churn, %	13.5%	12.0%	10.4%	11.2%	10.3%
SAC (TMT)	22.1	23.9	24.1	26.7	26.1
APPM	0.022	0.022	0.024	0.025	0.027

Y-on-Y growth in ARPU reflects MTS’s success in monetizing its subscriber base and rising data traffic revenues

Sequential decline in MOU attributable to MTS’s initiatives aimed at reducing the share of free on-net calling in the traffic mix

Uzbekistan

On December 1, 2014, the Company resumed activities in Uzbekistan under UMS brand (Universal Mobile Systems).

As of December 31, 2014, UMS network registered 188,000 subscribers. UMS market share amounted to 1%, with penetration of 64%.

The main priority of MTS after resumption of operations in Uzbekistan market was regaining the subscriber base and acquisition of new subscribers to the free network. To this end,

the kick-off range of tariff plans was launched in December 2014, consisting of two simple up-to-date tariffs including Internet package (Start and MAXI), and one unlimited tariff – Absolute, as well as a range of Internet packages and international calls option.

Key financial metrics
(USD mln)



Operating indicators

	Q4 2014
Subs, mln	188.1
MOU, min	445

On September 24, 2014, MTS took possession of a 50.01% stake in the Russian-Uzbek entity Universal Mobile Systems LLC (UMS)

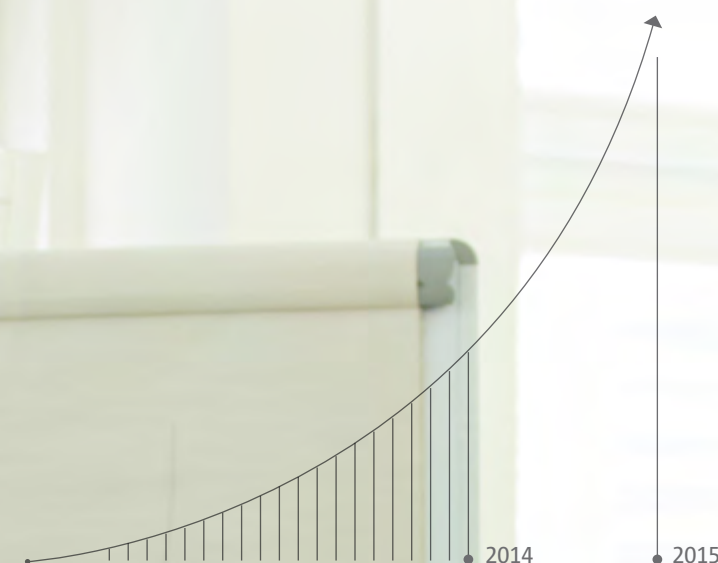
The assets, equipment and infrastructure, which were previously owned by Uzdunrobota FE LLC, former MTS subsidiary in Uzbekistan, were transferred to UMS

UMS has been granted 2G, 3G and LTE licenses, and received frequencies, numbering capacity and other permits required for the launch of the operations

MTS launched operations throughout the territory of Uzbekistan on December 1, 2014

3.

Information for the Shareholders and Investors



+ 3,1%

Consolidated revenue

410,8
RUB bln.

51 246 994 938 rub.

The amount of dividends accrued and paid in 2014 (following the results of 2013 and H12014)

≥ 90 RUB bln.

MTS keeps the previous dividend forecast for 2014–2015, totaling at least.

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

The principal features of MTS corporate governance are as follows:

- Comprehensive protection of the rights and interests of the shareholders;
- Information openness and transparency;
- Single corporate policy regarding the Company's 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 and the growth of its welfare.

The Company aspires to comply with the best practices and standards of corporate governance, both domestic and international. We have approved and comply with the Code of Business Ethics and Code of Corporate Conduct, containing the key principles of ethical and law-abiding business, as well as basic principles of corporate governance, aimed at the Company's directors, executives and all other employees. MTS fully complies with statutory requirements regarding prescribed procedures for major and related-party transactions¹, as well as involves independent directors for special consideration of major 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 affiliat-

ed companies, and other entities where the Company is a participant, founder or member. All related-party transactions are conducted on an arm's length basis.

Activities of the Company's governance and control bodies are strictly regulated by the corporate documents, which can be found on the corporate website of MTS OJSC².

MTS OJSC timely discloses the full, timely and accurate information to enable informed decision-making by the Company's shareholders and investors. In this case, the disclosures in our Company are 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 the shareholders, investors and other stakeholders are enshrined in the Regulations on Information Policy, approved by the Board of Directors of the Company³.

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 laws 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 introduces appropriate adjustments to its corporate governance system.

1 Detailed information on compliance with transaction approval procedures is set out in the Annex 1 to the Annual Report http://www.mtsgsm.com/about/corporate_governance/shareholders/2015_06_25/.

2 http://www.mtsgsm.com/about/corporate_governance/.

3 http://www.mtsgsm.com/upload/contents/328/MTS_OJSC_Disclosure_policy_eng.pdf.



2014 Results in the Area of Corporate Governance

On April 18, 2014, the Code of Corporate Governance was published in the Bulletin of the Bank of Russia (No.40), defining the principles and guidelines on corporate governance for Russian companies (hereinafter, the CCG). After the CCG was reviewed by the Corporate Conduct & Ethics Committee, MTS decided to use in practice the corporate governance principles set forth in the CCG.

The analysis of CCG provisions has shown that MTS complies with the CCG principles and recommendations.

In order to perform full compliance audit of MTS corporate governance against the principles laid down in the CCG, and to develop an action plan in order to implement the recommendations of the CCG, the Corporate Conduct & Ethics Committee of the Board of Directors decided

to establish a Working Group, and to develop a road map for the implementation of the provisions of the CCG in the Company, subsequently approved by the management.

Plans for 2015 Corporate Governance System Development

In 2015, MTS plans to implement the measures prescribed by the approved Road Map for introduction of the CCG principles and recommendations that have not been earlier implemented by MTS. More detailed information about the planned measures is contained in the Report on the Implementation of the CCG principles and recommendations.

Corporate governance structure

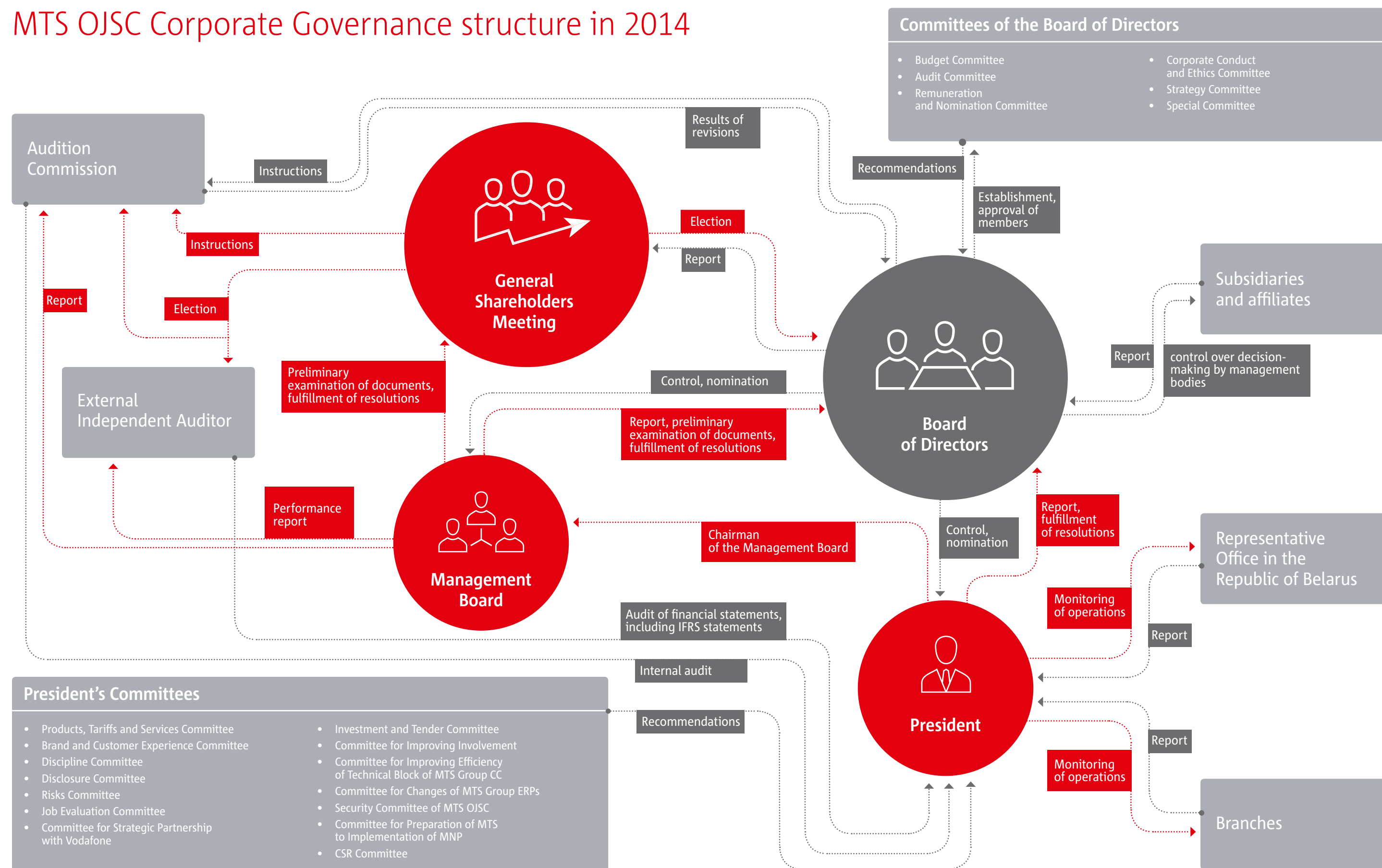
The **General Meeting of Shareholders** is the supreme management body of the Company.

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

The Company's executive bodies, namely, the **Management Board** (the Company's collegial executive body) and the **President** (the Company's sole executive body), are responsible for managing the Company's daily operations.

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

MTS OJSC Corporate Governance structure in 2014



General meeting of shareholders

The General Meeting of Shareholders is the supreme management body of the Company that executes its activities in compliance with the provisions of the Company’s Charter, Regulations on the General Meeting of Shareholder of MTS OJSC¹ and requirements of the Russian Federation legislation.

The Company’s shareholders participate in the management of the Company by making decisions at the General Meeting of Shareholders. The shareholders can considerably influence the business through voting. In particular, the powers of the General Meeting of Shareholders 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 for holding the General Meeting of Shareholders is aimed at observance of the shareholders’ rights and meets all requirements of the Russian legislation.

The shareholders that own at least 2% of the Company’s voting shares are entitled to propose the agenda items for the General Meeting of Shareholders and to nominate candidates for the Company’s management and control bodies. Proposals for the agenda of the Annual General Meeting of Shareholders are accepted by the Company in writing not later than 100 days after financial year end. The proposals received from the shareholders are considered by the Company’s Board of Directors, and if such proposals comply with the legislative requirements, they are included into the agenda of the General Meeting of Shareholders. The notice of the General Meeting of Shareholders is forwarded to all shareholders (nominal holders registered in the shareholders register) at least 30 days prior to the Meeting. In addition, a text of the notice is published on the Company’s official web-

site– www.mts.ru – within the period prescribed for such notice to the Company’s shareholders. Information and materials for the meeting are provided to the shareholders in Russian and English languages and are also published on the official website of MTS OJSC in the Internet². Together with the notice on the forthcoming meeting, the shareholders shall receive the voting bulletins. The bulletin may be filled in by the shareholder in advance and sent by mail to the Company’s address specified therein. In this case, the shareholder’s vote will be taken into account when summarizing voting results. The holders of the Company’s depositary receipts are able to vote on the agenda issues of the Meeting of Shareholders by proxy procedure at ADR depository of MTS OJSC – JP Morgan Chase Bank, National Association.

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

Since 2014, in preparation for the MTS General Meeting of Shareholders, the shareholders are given the opportunity to ask questions to the members of the executive bodies and the Board of Directors based on the agenda of the General Meeting of Shareholders, as well as to express their opinion on the agenda of the Meeting via e-mail shareholder@mts.ru.

In 2014, 2 (two) General Meetings of Shareholders took place:

- June 24, 2014
- September 30, 2014

Meeting agenda

Annual General Meeting of Shareholders, June 24, 2014

- Meeting agenda:
- Procedures at the Annual General Meeting of Shareholders.
 - 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 2013 (including payment of dividends).
 - Election of the members of MTS Board of Directors.
 - Election of the members of MTS Auditing Commission of.
 - Approval of MTS Auditor.
 - Reorganization of MTS OJSC in the form of merger of Elf CJSC, EFCOM CJSC, Pilot CJSC, Firm TVK & C CJSC, ZhelGorTeleKom CJSC, Intercom CJSC, TRC TVT OJSC, Cascade-TV CJSC, Kuznetsktelemost CJSC, Sistema Telecom CJSC, TZ CJSC to MTS OJSC.
 - Amendments and additions to MTS Charter.

Extraordinary General Meeting of Shareholders, September 30, 2014

- Meeting agenda:
- Procedure of the Extraordinary General Meeting of Shareholders.
 - Distribution of profits (payment of dividends) of MTS OJSC following the results of the 1st half of 2014.

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



1 http://www.mtsgsm.com/upload/contents/328/MTS_GMS_Regulations_20_3_eng.pdf.
2 http://www.mtsgsm.com/about/corporate_governance/shareholders/.

Board of Directors

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

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

The Company's Board of Directors carries out overall management of the Company's activities in compliance with the provisions of the Company's Charter, Regulations on the Board of Directors of MTS OJSC¹ and requirements of the Russian Federation legislation..

The main objectives of the Board of Directors include:

- development and analysis of the general corporate strategy and control over its implementation;
- ensuring the control over and assessment of the performance of the Company's executive bodies and top executives;
- increasing the 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 the rights and legitimate interests of the Company's shareholders.

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

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 the laws. Each member of the Board of Directors has only one vote in decision-making at the Board of Directors meeting.

The meetings of the Board of Directors are held on a regular basis.

A meeting of the Board of Directors is convened by the Chairman of the Board of Directors, at his/her own discretion, or at the request of a member of the Company's Board of Directors, Auditing Commission, Auditor, President 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.

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

In 2014, we introduced the practice of field meetings of the Board of Directors. In particular, two meetings were held in the Republic of Altai and the city of Sochi. The practice of field meetings allows the members of the Board of Directors to combine the participation and discussion of the issues of the scheduled meetings with the analysis of the Company's operating activities in certain entities and Macro-Regions, and the communication with the heads of the Company's branches.

Over the past four years, MTS completely abandoned paper documents when considering the materials at the meetings of the Board of Directors. Board members are provided with laptops, where they can review the agenda of the meeting and all the necessary materials in interactive presentation format.

Besides that, In 2014, the Company introduced an electronic document management system – Portal of the Board of Directors.

This system is implemented on iPad, which significantly simplifies the interaction of the members of the Board of Directors and the members of the Board of Directors' committees.

In particular, the system allows to promptly agree all matters and materials of the meetings of the Board of Directors and the Board of Directors' committees in real time, with the Secretary of the Board of Directors/committees being able to keep track of all the questions and comments received from the members of the Board of Directors/committees.

It is possible to deal with the records and to participate in the meeting through remote access via iPad, including video / audio conferencing; to simultaneously demonstrate the materials on iPad, to search for the questions by category, to view the composition and structure of the collegial bodies, to send personal messages and comments on the issues, materials and assignments.

Due to the notifications system and a personal calendar, all assigned tasks, comments on issues, documents, memos and personal messages are available to participants at any time.

All stakeholders are connected to a single electronic database where the documents are stored, which allows them to get quick access to the materials and decisions of the past, current and planned meetings, without asking the Secretary, which significantly reduces the decision-making time for the members of the Board of Directors.

Also, this system provides the participants with easy access to the Company's basic and relevant information: news, events, detailed information about the members of the collegial bodies, regulatory documents related to the Company and the collegial bodies, etc. The Portal has upgraded options to protect and control access to the system.

Informing the Newly Elected Members of the Board of Directors about the Company's Activities

In accordance with the best corporate governance practices, an orientation course (briefing) 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 new members of the Board of Directors to the history of the Company, activities of the Board of Directors, main documents regulating the Company's activities, annual financial statements, development strategy, governance structure of the Company, etc..

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

The Role of the Board of Directors in Organization of Effective Risk Management and Internal Control System¹

Within the framework of its competence, the Board of Directors is responsible for organizing risk management and internal control in the Company. In particular, it approves the reports of the Company's executive bodies on the effectiveness of risk management system, the effectiveness of the Company's internal control system, including the Compliance System.

The Board of Directors is responsible for the effectiveness of the risk management process, for building and maintenance of the risk management and internal control systems; annual consideration of the report of the Audit Committee on the annual performance with an analysis of existing monitoring systems and violations.

To date, the Company has a well-functioning risk management and internal control system designed to provide reasonable assurance to the Company in achieving its goals.

¹ http://www.mtsgsm.com/upload/contents/328/MTS_BoD_Regulations_2013_eng.pdf.

¹ For more information, see Risk Management And Internal Control.

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 Directors¹ and are in line with the best global corporate governance practice.

Currently, three independent directors are the 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.

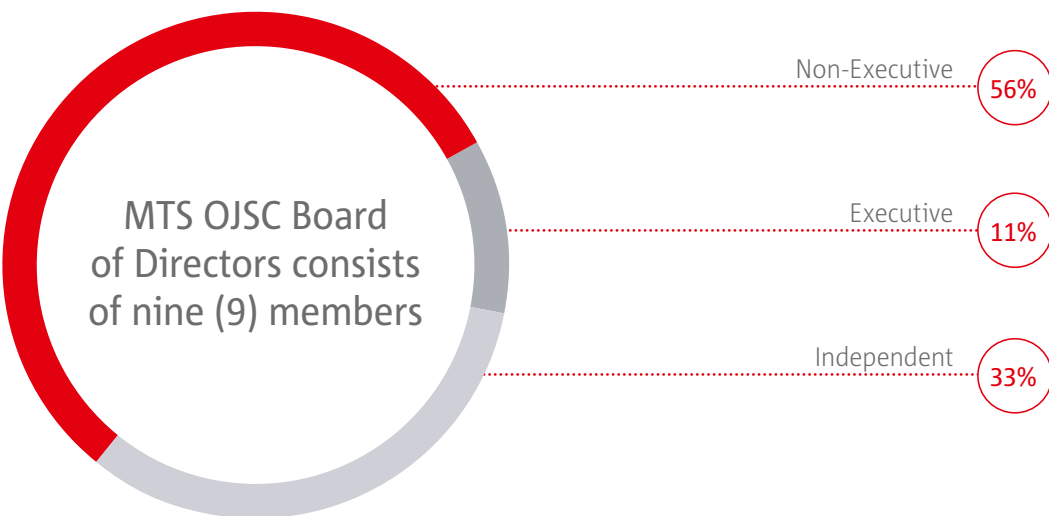
In 2014, in connection with the adoption of the new Code of Corporate Governance, the independence criteria have undergone some changes. Also, the list of independence criteria set forth in the Listing Rules of the Moscow Stock Exchange has changed.

In this regard, our Company plans to bring the list of independence criteria set forth in the Regulations on the Board of Directors of MTS OJSC, the new version of which will be submitted for approval to the Annual General Meeting of Shareholders in June 2015, in line with the Code of Corporate Governance and the Listing Rules of the Moscow Stock Exchange.

At the same time, it is worth noting that the current independent members of the Board of Directors fully comply with the independence criteria laid down in the Code of Corporate Governance and the Listing Rules of the Moscow Stock Exchange and the NYSE.

The Board of Directors was elected at the Annual General Meeting of Shareholders of MTS OJSC held on June 24, 2014, with a term of office commencing upon election and lasting throughout 2014

Board of Directors



1 http://www.mtsosm.com/upload/contents/328/MTS_BoD_Regulations_2013_eng.pdf.



Ron Sommer
Chairman of the Board of Directors

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. Therewith, in 2006–2009

In 2014, was rated among Top 25 Chairman of the Board as a part of the National Award Director of the Year 2014

he was a Board of Directors member of WEATHER INVESTMENTS, Italy, in
2009 – the Chairman of the Management Board of COMSTAR-UTS OJSC.
2009–2011 he was the Chairman of the Management Board of SMM OJSC, in 2009–2010 – the Chairman of the Management Board of Sky Link CJSC.
Also since 1998, Mr. Sommer has been the member of Supervisory Board of the company Munich Reinsurance, since 2009 – the Chairman of the Board of Directors of SISTEMA SHYAM TELESERVICES LIMITED, since 2006 – a member of the Board of Directors of Tata Consultancy Services.
Since 2009 – the Chairman of the Board of Directors of MTS OJSC, Chairman of the Strategy Committee (until 2013), and a member of the Budget Committee of the Board of Directors of MTS OJSC. Since 2013 – a member of the Strategy Committee at 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 acting in the capacity of the 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 is 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, MTS Bank OJSC.
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 Core Assets Business Unit 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 SISTEMA SHYAM TELESERVICES LIMITED, Ozon Holdings Ltd.

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, had 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, Moskapstroy OJSC 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.

From January 2008 onwards, headed the business unit MTS Ukraine. In November 2007, started his work in MTS Ukraine as the first deputy general director. In 2006–2007 was the director of MTS Ural macro-region, from 2004 to 2006, he was the MTS branch director in Nizhny Novgorod. From 2002 to 2004, acted as General Director of Tele2 Group in Nizhny Novgorod.

Until March 2011, was the General Director of MTS Ukraine PrJSC.

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

Member of the Board of Directors of MTS OJSC since 2011.

During the reporting year (until December 18, 2014), he owned common registered shares of MTS OJSC in the amount of 15,620 shares.

Since December 18, 2014, he has held common registered shares of MTS OJSC in the amount of 202,410 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 and held this position until 2006, while 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.

From 2009 to 2014, Chairman of the Supervisory Board of Assystem, from 2003 to 2014 – Director;

From 2010 to 2013, Member of the Board of Directors of ISS.

From 2014, Non-Executive Director, Member of the Auditing Committee of ALTICE.

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

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.
Held the post of CEO of Electronic Media Network in South Africa and the Netherlands. From 1991 to 1997, Mr. Miller headed operating and corporate governance at NetHold Group companies, including he served as the CEO of Telepiu, Italy.

In 2014 was rated among 50 Best Independent Directors as a part of the National Award Director of the Year 2014

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.
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 and other companies.
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 V. Rozanov
Member of the Board of Directors

Born in 1971.
Graduated from the 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 COM-STAR-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, MTS Bank OJSC and other companies.
Member of the Board of Directors of MTS OJSC since 2012.
During the reporting year, held 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

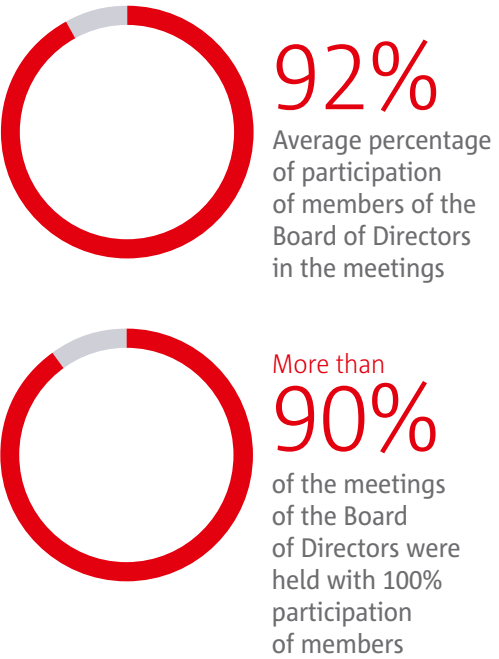
Born in 1954 in Germany.
Studied Psychology at the University of Freiburg and Business Administration, majoring in Economics and Production Engineering in the German Civil Servants Academy.
From 1990 to 1999, he worked in the banking sector, served as Vice President of American Express International 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, he 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.

Over the past year 2014, the Board of Directors held 11 meetings; 7 meetings in praesentia and 4 in the form of absentee voting.

Directors' attendance at the Board meetings in 2014

Director	Meetings in praesentia	Meetings in absentia
Ron Sommer	7	4
Anton Abugov	6	4
Alexander Gorbunov	7	4
Andrey Dubovskov	7	4
Sergey Drozdov	2	3
Michel Combes	6	4
Stanley Miller	7	4
Vsevolod Rozanov	7	4
Thomas Holtrop	7	4



Conflict of Interest

Our company has established the procedures that exclude the possibility of conflicts of interest of directors. The members of the Board of Directors are obliged to refrain from actions that could lead to a conflict of interest, and in the event of such a situation to disclose it to the Board of Directors and not to participate in voting on contentious agenda items.

The members of the Board of Directors who have an interest in the agenda items of the Board of Directors meetings shall not participate in the discussion and voting on these agenda items.

Evaluation of Performance of the Board of Directors

An important tool for the progressive development of corporate governance is the system of evaluation of the Board of Directors. To analyze the performance of MTS Board of Directors, the activities of the Board of Directors are assessed based on the existing evaluation system in the form of questionnaire.

Following the consideration of the questionnaires, a summary is prepared showing the results for all the analyzed criteria, identifying priority areas for improvement, and an action plan is drawn up to improve the standards and procedures of the Board of Directors and its committees. The report on the evaluation of performance of the Board of Directors is approved by the Corporate Governance Committee of the Board of Directors.

During the reporting period, no evaluation was performed.

Within the framework of the Roadmap¹ for implementation of the provisions of the Code of Corporate Governance, in 2015 it is planned to develop a new methodology of the Board of Directors' performance evaluation.

Information on Transactions with MTS Shares conducted by the Members of the Company's Governance Bodies

In December 2014, the Company's President Andrey Dubovskov acquired 186,790 ordinary shares of MTS OJSC through transactions at the price ranging from RUB 169.2 to RUB 179.85.

Furthermore, on December 17, Mr. Dubovskov also acquired an economic stake of 100,000 US shares (ADS) of MTS entering into a Contract for Difference (CFD). As at the time of acquisition, ADS costed USD 655,770.25.

As a result of this transaction, Mr. Dubovskov actually acquired all the rights and obligations in respect of the ownership to the specified number of ADS, except for the voting right.

As a result of the transaction, the size of Mr. Dubovskov's stake in the authorized capital of MTS OJSC increased from 0.00076% to 0.0098%.



Secretary of the Board of Directors

The main objective of the Secretary of MTS OJSC Board of Directors is to ensure that the Company's governance bodies comply

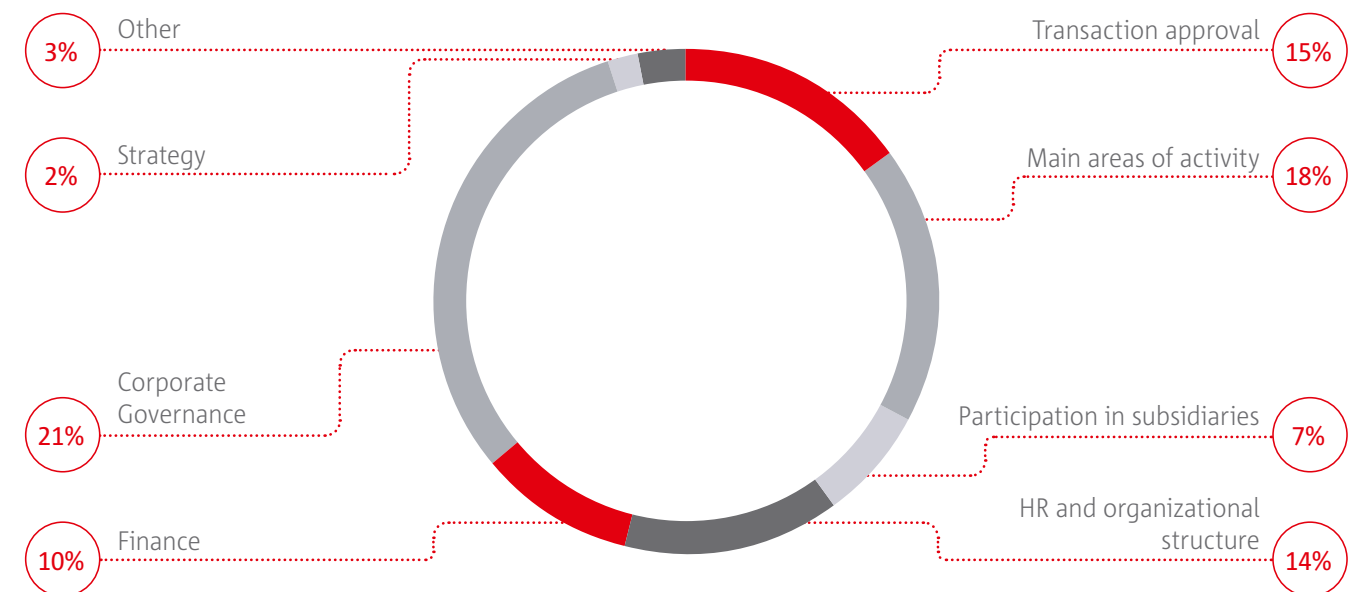
with the legislative requirements and the Company's bylaws guaranteeing that the rights and interests of its shareholders are exercised.

Apart from the Charter, the Regulations on MTS Board of Directors also serve as the regulatory basis for the Secretary of MTS Board of Directors in performing his/her functions.

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

In 2014, Maxim Kalinin, Director of Corporate Governance, MTS OJSC, was rated among top 25 Directors of Corporate Governance – Corporate Secretaries, as a part of the IX National Award Director of the Year.

Structure of the Issues Considered at the Meetings of the Board of Directors in 2014



Among the issues discussed at the meetings of the Board of Directors of MTS OJSC in 2014, a number of issues should be noted, decisions on which were of key importance for our Company:

- Appointment of MTS President;
- Determining the number of the members of MTS Management Board;
- Report on the implementation of 2013 budget of MTS Group;
- Approval of MTS Code of Business Conduct and Ethics as restated;
- Report on risk management in MTS OJSC;
- MTS reorganization in the form of a merger of subsidiaries;
- Approval of a major transaction – entering into addenda to the associated loan agreements with Sberbank of Russia OJSC;
- 2014–2015 HR Strategy of MTS OJSC ;
- Election of the Chairman and Deputy Chairman of MTS Board of Directors;
- Formation of the committees of MTS Board of Directors;
- Report on implementation of CSR programs in 2013;
- Recommendations of the Board of Directors on payment of the dividends for 2013 and the H1 2014;
- Approval of MTS Group strategy for 2015–2017;
- Approval of 2015budget of MTS Group .

¹ In 2014, the Working Group audited MTS execution principles and recommendations of the Code of Corporate Governance, which resulted in the Roadmap developed to implement the provisions of the Code in the Company, subsequently approved by the management.

Information on remuneration of the members of the board of directors

Terms and procedure of remuneration of the members of MTS Board of Directors is set out in the Regulations of Remunerations and Compensations Payable to the Members of MTS Board of Directors¹.

Remunerations for the performing the duties of the members of MTS Board of Directors shall be paid by the Company to the Board of Directors members, being independent directors, and to the members of the Board of Directors, other than the officers or members of the governance bodies of the companies included in the Group.

In accordance with the above Regulations, the members of MTS Board of Directors, during their term of office, shall be remunerated and compensated for the expenses associated with their duties as the members of the Board of Directors. Compensation is paid for actually incurred and documented costs of travelling 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 not exceeding USD 200,000 per annum.

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

Basic remuneration

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

The basic remuneration of each Director and the Chairman of the Board of Directors amounts to USD 250,000 and USD 275,000, respectively, per a corporate year, and may be adjusted only by special decision of the General Meeting of Shareholders based on the Company's performance for the reporting year.

In case of early termination of the powers of a member of the Board of Directors and election of the members of the Board of Directors at the Extraordinary General Meeting of Shareholders, the basic remuneration is paid in the amount proportional to the Director's actual term of office and determined as a product of the basic remuneration

and the amount equal to the ratio of the actual term of powers and the duration of the corporate year that is deemed to be equal to 365 days.

The basic remuneration is paid by the Company quarterly at least with 30 days after the quarter end, on the basis of an office memo that must be provided by the Company's Corporate Secretary (a person performing the duties of the Corporate Secretary), and an extract from the minutes of the General Meeting of Shareholders regarding the election of the 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 member of the Board of Directors arise after the beginning of the reporting period – to the part of the quarterly amount pro rata to the actual period of office.

Remuneration for performing additional duties

The members of the Company's Board of Directors shall be entitled to the additional remuneration for performing duties associated with participation in the committees of the Board of Directors:

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

The remuneration for performing additional duties is paid by the Company on a quarterly basis in equal installments not later than 30 days after the quarter end, based on the memo that must be provided by the Company's Corporate Secretary (a person performing the duties of the Corporate Secretary), and contain the number of the Committees of the Board of Directors, in which each Director participates, and an extract from the minutes of the Board of Directors meeting that reflects the allocation of responsibilities between the 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

The members of the Board of Directors receive a performance-based annual bonus depending on the Company's capitalization value in case of profit under the U.S. GAAP standards.

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

S = (\$175 000 × K/P1) × P2,

where S — is the bonus amount;

K — is the number of full months between the General Meetings of Shareholders, at which an independent director is reelected, divided by 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 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 100 days before the date of termination of powers of an independent director.

Herewith, the maximum performance-based annual bonus payable to the Directors may not exceed USD 200,000. In case of early termination of the Director's powers, the maximum bonus payable to the Director may not exceed K × USD 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 Company's Vice President of Finance and Investments, no later than 45 days after the date of the Annual General Meeting of Shareholders.

Liability Insurance of Directors, Officers and Companies of MTS Group

Insurance coverage (limit of liability) over the past 5 years:

Period	Insurance coverage (limit of liability)
October 2010 — October 2011	USD 250 million
October 2011 — October 2012	USD 250 million
October 2012 — October 2013	USD 250 million
October 2013 — October 2014	USD 250 million
October 2014 — October 2015	USD 250 million

D&O Policy

The Policy enables to protect the members of the Board of Directors, the Management Board and management of MTS OJSC (hereinafter, the "Officers") in the following cases:

- recovery of the 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 defense costs incurred by the Officers in connection with the above suits or claims;
- recovery of damage caused to claimants by the Officers' actions/failures to act (in case the claim has been satisfied by court);
- recovery of losses incurred by MTS OJSC and its subsidiaries in respect of the claims related to securities (excluding claims related to IPO of American depositary receipts).

The amount of remuneration paid to the members of the Board of Directors in 2014

Indicator	RUB
Remuneration for taking part in the work of a management body	50,149,229.50
Reimbursement for expenses	11,397,991.58
TOTAL	61,547,221.08

1 http://www.mtsgsm.com/upload/contents/328/Statute_on_remunerations_final__eng.pdf.

Committees of the Board of Directors

The Committees of the Board of Directors are consultative-advisory bodies and are designed to address the issues relating to especially important aspects of the Company’s business. Their activity is regulated by the Regulations on the Committees of the Company’s Board of Directors. The Committee meetings are held separately from the meetings of the Board of Directors. The previously established committees continued their operation in the reporting year, namely: the Budget Committee, the Audit Committee, the Remuneration & Nomination Committee, the Committee for Corporate Conduct & Ethics, the Strategy Committee, and the Ad Hoc Independent Directors Committee.

Membership of the Committees of MTS Board of Directors in 2014



Committees’ Meetings Attendance in 2014

Committee Member	Remuneration & Nomination Committee	Audit Committee	Budget Committee	Strategy Committee	Committee for Corporate Conduct & Ethics	Ad Hoc Independent Directors Committee
	8 meetings	11 meetings	3 meetings	4 meetings	3 meetings	2 meetings
Ron Sommer			3/3	4/4		
Anton Abugov				3/4		
Alexander Gorbunov			3/3	3/4		
Andrey Dubovskov				4/4	3/3	
Sergey Drozdov					2/3	
Michel Combes Non-executive Independent Director of MTS OJSC	7/8	11/11				2/2
Stanley Miller Non-executive Independent Director of MTS OJSC	8/8	11/11	3/3	4/4		2/2
Vsevolod Rozanov			3/3		3/3	
Thomas Holtrop Non-executive Independent Director of MTS OJSC	8/8	11/11			3/3	2/2

ACTIVITIES OF THE COMMITTEES DURING THE REPORTING YEAR

Budget Committee

The Budget Committee is an auxiliary body of MTS Board of Directors serving to develop the recommendations to the Board of Directors in reviewing the issues related to the 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 financial policy;
- funding through loans raised from Sberbank of Russia;
- etc.

The Committee's recommendations to the Board of Directors:

- submit separate projects for an additional approval by the Committee at the meeting in praesentia on the initiative of the members of the Budget Committee;
- quarterly submit to the Committee the information on the implementation of MTS investment program.

Audit Committee¹

The main tasks of the Audit Committee include:

- supervision over completeness, accuracy and reliability of the Group's financial statements; analysis of audit results, interim and annual financial statements and related documents filed with the US Securities and Exchange Commission and other regulatory bodies together with the management and the external auditor;
- control over the reliability and efficiency of the risk management and internal control system; review and analysis of reports on the assessment of internal control system and business risks, significant comments and recommendations contained in such reports,

and review of the responses and actions taken to address the comments;

- evaluation of the impartiality, objectivity and the absence of conflict of interests of the Group's external auditors, including evaluation of the candidates for the Group's auditors, development of proposals for the appointment, re-election and dismissal of the Group's external auditors, payment for their services and conditions of their involvement; overseeing the external audit and evaluation of the quality of the audit and the auditors' opinions.
- etc.

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

- Approval of the report on MTS financial and operating results for 2013 and Q1, 2, 3 2014;
- Review and approval of the audit results for 2013 and quarterly reviews of financial statements for Q1, 2, 3 2014;
- Discussion and approval of the Annual Report according to the Form 20-F;
- Review and approval of the performance of the Internal Control and Audit Unit for 2013 and H1 2014;
- Review of the results of the Internal Control Systems Department for 2013 and H1 2014;
- Review of the performance of the Compliance Department for 2013 and H1 2014;
- Preliminary review of related party transactions;
- etc.

The Committee's recommendations to the Board of Directors:

- the Committee recommended Deloitte & Touche CIS CJSC as the auditor of MTS financial statements in 2014;
- according to the recommendation of the Audit Committee, the remuneration of Deloitte & Touche CIS CJSC has been agreed.

Remuneration & Nomination Committee

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

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

- approval of the achieved KPIs set forth by 2013 long-term incentive program developed for MTS employees ;
- preliminary assessment of the candidates nominated to MTS Board of Directors and the Audit Committee;
- preliminary consideration of 2014–2015 human resources management strategy;
- discussion of the top managers succession program (the candidates).
- etc.

The Committee's recommendations to the Board of Directors:

- the Committee pre-approved and recommended to the Board of Directors to approve the candidates nominated by the shareholders of MTS OJSC to the list of the candidates for election to MTS Board of Directors and the Audit Committee at the Annual General Meeting of Shareholders of MTS OJSC;
- the Board of Directors is recommended to determine the status of independent director, non-executive director, 'executive director and financial expert;
- the Board of Directors is recommended to approve the HR strategy of MTS Group in 2014–2015.

Committee for Corporate Conduct & Ethics¹

The main function of the Corporate Conduct and Ethics Committee is to prepare recommendations to the Board of Directors regarding the Company's 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 the corporate conduct or ethics rules were identified in the operation of MTS Single Hotline.

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

- approval of MTS Code of Business Conduct and Ethics as revised.
- preliminary consideration of 2013 Annual Report of MTS OJSC;
- preliminary consideration of 2013 Report on Corporate Social Responsibility.
- the Code of Corporate Governance (2014): relations with the shareholders, the Board of Directors and other amendments;
- Consideration of the report on the activities of the Compliance Department aimed to develop and maintain the culture of good conduct in MTS Group.
- etc.

The Committee's recommendations to the Board of Directors:

- 2013 Annual Report recommended for approval by the Board of Directors;
- 2013 Report on the Insider Trading Monitoring System recommended for approval by the Board of Directors;
- 2013 Report on Corporate Social Responsibility recommended for approval by the Board of Directors.

¹ In February 2015, the Audit Committee was assigned the functions of the Committee for Corporate Conduct & Ethics of MTS Board of Directors related to compliance with the ethical rules and conflict of interest management

¹ In February 2015, MTS Board of Directors decided to assign the functions of the Committee for Corporate Conduct and Ethics of MTS Board of Directors related to the ethics in MTS OJSC to the Audit Committee of MTS Board of Directors, and to rename the Committee for Corporate Conduct and Ethics of MTS Board of Directors into the Corporate Governance Committee of MTS Board of Directors

Strategy Committee

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

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

- Mobile business in Moscow Macro-Region: results of 2013;
- LTE development programme;
- Development of federal retail sales channels;
- New business of MTS;
- etc.

The Committee's recommendations to the Board of Directors:

- as a result of the agreement with VimpelCom OJSC, to introduce the appropriate KPI adjustments in MTS LTE project for 2014–2015.;
- to approve the financial targets of MTS Group based on business in Russia;

2014 REPORT OF THE AUDIT COMMITTEE

The Audit Committee is a collegial consultative body of the Board of Directors.

The Audit Committee was established to facilitate the effective performance of the Board of Directors' functions related to control over the Company's financial and economic activities.

In its activities, the Committee is guided by the recommendations and requirements of the current legislation, the Charter and the internal documents of the Company, the Code of Business Conduct & Ethics, the decisions of the Company's management and the Regulations on the Committee.

The main tasks of the Audit Committee are:

- supervision to ensure the completeness, accuracy and reliability of financial reporting;
- analysis of the annual financial statements and related documents filed with

- to develop a plan for mitigation of the administrative and regulatory risks associated with the development of the fourth player, and to include these risks in a regular report on risks submitted to the Board of Directors.

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:

- information on the project status;
- information on the outcome of negotiations;
- report on the project stages implementation;
- etc.

the US Securities and Exchange Commission and other regulatory bodies.

- control over the reliability and efficiency of the risk management and internal control systems, the system of corporate governance;
- analysis and evaluation of the execution of the conflict of interest management procedures;
- ensuring the independence and objectivity of the internal and external audit;
- reviewing the auditor's report confirming the accuracy of the Financial Statements;
- reviewing the reports on the activities of the Single Hotline
- monitoring compliance with ethical standards, analysis and evaluation of conflict of interest management policy;
- other tasks.

As of December 31, 2014, the Audit Committee consisted of:

- Thomas Holtrop (Chairman, Non-executive Independent Director of the Company, financial expert in);
- Michel Combes (Non-executive Independent Director of the Company);
- Stanley Miller (Non-executive Independent Director of the Company).

In 2014, the Committee held eleven meetings.

In addition to these meetings, the Committee members held meetings with the Company's financial management and the management responsible for risk management and internal control, as well as with the Company's external consultants on a number of issues.

In February 2015, the Audit Committee was assigned the functions of the Committee for Corporate Conduct & Ethics of MTS Board of Directors related to compliance with the ethical rules and conflict of interest management.

The main activities of the Audit Committee in 2014 included the following:

1. In the area of risk and internal control system management

Overseeing the activities aimed to ensure compliance with the requirements of the Sarbanes-Oxley Act 2002, review of the performance of the Internal Control Systems Department for H1 2014 and 2014.

Approval of the plan for further development of anti-corruption compliance in MTS Group. Review of the information on the performance of the Compliance Department in H1 2014 and 2014 and the results of MTS Group compliance strategy for 2014.

2. In the area of internal control and audit management

Review and approval of the strategy and action plan of the Internal Control and Audit Unit for 2015.

Approval of the Internal Control And Audit policy in order to create a unified methodological framework for the effective functioning of the internal control and audit units in accordance with international best practice of internal control and audit.

Consideration of the information on 2014 current work and approval of the performance of the Internal Control and Audit Unit for the H1 2014 and 2014.

3. In the area of external audit

Analysis and discussion of the reports and messages provided by Deloitte on the results of the annual audit and quarterly reviews of financial statements, including comments in the field of internal control, consideration of the audit report confirming the accuracy of MTS consolidated financial statements.

In March 2014, the results and conclusions of the external auditor upon the consideration of financial statements for 2013 were approved, and in March 2015, the results were approved following the consideration of 2014 financial statements.

The auditors' compliance with the independence principles was monitored; the auditors' qualifications and performance were reviewed.

The Audit Committee recommended Deloitte & Touche CIS CJSC as an auditor of MTS financial statements in 2014, which was later confirmed by the recommendation of the Board of Directors and the Company's shareholders at the Annual General Meeting of Shareholders on June 24, 2014.

According to the recommendation of the Audit Committee, on July 31, 2014, the Board of Directors approved the remuneration payable to Deloitte & Touche CIS CJSC for the audit of 2014 financial statements of MTS Group in the amount of RUB 116,960,000 (Excluding VAT and overheads).

4. In the field of combating fraud by MTS Group employees and third parties

Review of the performance of MTS Group Single Hotline for 2014.

The Company's Sole Executive Body – The President

In accordance with MTS 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 do not fall within the competence of the Company's General Meeting of Shareholders, the Board of Directors and the Management Board. The President of the Company manages the Company's activities in accordance with the provisions of the Company's Charter, Regulations on the President of MTS OJSC¹ and the legislation of the Russian Federation.



The activities of MTS President are aimed at ensuring profitability and competitiveness of the Company, financial and economic stability, securing shareholders' rights and social guarantees of the Company's employees.

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

The President chairs the Company's Management Board and organizes its operation.

The Company's President is elected by the Company's Board of Directors 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 Company's General Meeting of Shareholders and Board of Directors.

In 2014 (since March 5, 2011), the functions of the sole executive body (the President) of MTS OJSC were exercised by Andrey Dubovskov².

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

¹ http://www.mtsgsm.com/upload/contents/328/MTS_Statute%20of_CEO_2013_eng.pdf.

² More information about A. Dubovskov see the section "Management Board".

Collegial Executive Body: The Management Board

The implementation of the selected strategy and specific decisions 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 the decisions 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 Charter and the Regulations on MTS Management Board¹.

Number of members and composition of the Management Board is approved by the Board of Directors as proposed by the President of the Company. The Company's President acts in the capacity of the Chairman of the Management Board. 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 decision-making.

The meetings of the Management Board are held on a planned basis. The meetings of the Management Board are convened by the Chairman of the Management Board, or at the request of any member of the Company's Management Board, the Board of Directors, the

Auditing Commission or the auditor. A decision of the Company's Management Board on the issues falling within its competence may be taken via absentee voting (by poll).

Members of the Management Board in 2014

Members of the Management Board as of December 31, 2014 see page 82.²

Secretary of MTS Management Board

This function is assigned to the Corporate Governance Department of MTS OJSC.

Olga A. Oleynik is acting in the capacity of the Secretary of the Management Board.

¹ http://www.mtsgsm.com/upload/contents/328/MTS_Executive_Board_Regulations_2013_eng.pdf.

² No Deputy Chairman of the Management Board has been elected.



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.

From January 2008 onwards, headed the business unit MTS Ukraine. In November 2007, started his work in MTS Ukraine as the first deputy general director. In 2006–2007 was the director of MTS Ural macro-region, from 2004 to 2006, he was the MTS branch director in Nizhny Novgorod. From 2002 to 2004, acted as General Director of Tele2 Group in Nizhny Novgorod.

Until March 2011, was the General Director of MTS Ukraine PrJSC.

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

Member of the Board of Directors of MTS OJSC since 2011.

During the reporting year (until December 18, 2014), he owned common registered shares of MTS OJSC in the amount of 15,620 shares.

Since December 18, 2014, he has held common registered shares of MTS OJSC in the amount of 202,410 shares.

restructured recruitment process to ensure skilled workforce for new plants of the company.

Appointed as a Board Member – Vice President, Human Resources of MTS OJSC in April 2013.

Mr. Arkhipov is a member of the governance bodies of MGTS OJSC, RTK CJSC, and Intellect telecom OJSC.

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

The member of the Management Board refrained from actions that could lead to a conflict between his interests and the interests of the Company during the reporting year.



Mikhail A. Arkhipov

Management Board Member – Vice President, Human Resources

Born in 1982.

In 2004, graduated with honors from the Faculty of Sociology of M.V. Lomonosov Moscow State University.

Worked in HR management in large FMCG companies – SUN InBev OJSC and Kampomos MPZ LLC. In 2008–2009 was employed at KPMG CJSC and was responsible for establishing policies and strategies for compensation and benefits in Russia and the CIS. 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



Kirill Dmitriev

Management Board Member – Director of Macro-region “Moscow”

Born in 1978.

In 2000, graduated with honors from the St. Petersburg State University of Economics and Finance.

In 2006–2009, worked as national Sales Development Manager and then Director of Key Retail at Baltic Beverages Holding (Ukraine).

Mr. Dmitriev's career in MTS began in 2009 with his appointment as Director of the Western Territorial Department of MTS Ukraine, where he was responsible for the Company's business in the territory of the six regions - Lviv, Ivano-Frankivsk, Ternopil, Zakarpattia, Chernivtsi and Volyn.

In 2011–2014 – General Director of North-West Macro-Region of MTS OJSC.

Appointed as the Management Board Member – Director of Moscow Macro-Region in March 2014.

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

The member of the Management Board refrained from actions that could lead to a conflict between his interests and the interests of the Company during the reporting year.



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 UK Open University with degree in management. Completed presidential program training in Engineering-Economic Academy, majored in Management and Marketing.

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

Held the position of Sales Director in St. Petersburg company BCC from 2001 to 2005.

In June 2005, was appointed the Director of MTS branch North-West Macro-Region, where he was responsible for operational management of MTS mobile and fixed business of in all regions of North-West Federal District – the Republic

of Karelia, the Republic Komi, the Arkhangelsk Region, the Vologda Region, the Kaliningrad Region, the Leningrad Region, the Murmansk Region, the Novgorod Region, the Pskov Region, St. Petersburg, the Nenets Autonomous District.

Joined MTS in January 2005 as MTS branch manager in Tula.

In September 2011, was appointed the General Director of MTS Ukraine PrJSC. In October 2011, was elected the member of MTS Management Board.

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

The member of the Management Board refrained from actions that could lead to a conflict between his interests and the interests of the Company 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 the post-graduate studies. Cand. Cs. (Law).

From 1992 to 1996 he headed legal services in several commercial banks. From 1997 to 2002 held the position of director-partner, Deputy General Director, Head of Tax and Legal Consultation Department at Top-Audit.

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 Matters of MTS since March 1, 2013.

Prior to joining MTS OJSC, he worked at the Moscow college of lawyers Ibragimov, Kagan, and Partners.

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 the 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.

The member of the Management Board refrained from actions that could lead to a conflict between his interests and the interests of the Company during the reporting year.



Alexey Kornya

Management Board Member – Vice President, Chief Financial Officer

Born in 1975.

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

He served as an auditor at the Audit Department of Pricewaterhouse Coopers CJSC in Saint Petersburg. Then, prior to joining MTS OJSC, from 2000 to 2004, Mr. Kornya was employed at Severo-Zapadny Telecom OJSC in Saint Petersburg, Petrozavodsk.

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 Unit, MTS Group CC, in March 2007, he was appointed Director of Controlling, Finance and Investment Unit.

In August 2008, he headed the Finance and Investment Unit. 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.

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 MTS shares during the reporting year.

The member of the Management Board refrained from actions that could lead to a conflict between his interests and the interests of the Company 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 MTS Ukraine PrJSC, in October 2005, he was appointed Marketing Director of MTS Ukraine PrJSC.

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

Has been heading MTS Ukraine PrJSC since March 2013.

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

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

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

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

The member of the Management Board refrained from actions that could lead to a conflict between his interests and the interests of the Company 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 the 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.

He has extensive experience in telecommunications industry in the CIS countries. He started his career with the mobile operator Novgorod Telecommunications as marketing and advertising manager in 2002. From 2004 to 2007, headed VimpelCom branch in Veliky Novgorod. From 2006 to 2008, worked as Deputy General Director for regional business development in a subsidiary of VimpelCom in Uzbekistan. In 2008–2010, he

headed SkyMobile in Kyrgyzstan. 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.

He joined MTS after resigning from a position of senior adviser to the executive vice president of Tele2 AB (Stockholm).

Mr. Smelkov is a member of management bodies of JLLC Mobile TeleSystems, BE MTS-Turkmenistan, Sistema Shyam Teleservices Limited, etc.

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

The member of the Management Board refrained from actions that could lead to a conflict between his interests and the interests of the Company 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 PEPSI INTERNATIONAL BOTTTLERS LLC, JTI CJSC and Vienna OJSC. From 2005 to 2007, worked as the Director of Partnership Relations Department, Ural Macro-Region, MTS OJSC. In the period from 2007 to 2008, held the position of the Ural branch Director, OJSC TS-retail.
In the period from November 2008 to July 2011, held the position of Sales and Subscriber Service Director, e Business Unit MTS Ukraine PrJSC.

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 governance bodies of MTS UKRAINE PrJSC, Russian Telephone Company CJSC, MTS Bank OJSC, MGTS OJSC, and other companies.
The member of the Management Board held no NTS shares during the reporting year.
The member of the Management Board refrained from actions that could lead to a conflict between his interests and the interests of the Company during the reporting year.



Andrey Ushatsky

Management Board Member – Vice President, Chief Technology Officer

Born in 1974.
In 1997, graduated from the Moscow Power Engineering Institute. 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 MTS Russia Business Unit.
In April 2009, appointed Vice President, Chief Technology Officer of MTS OJSC.

Member of the Management Board, Vice President, Chief Technology Officer of MTS OJSC since March 01, 2013.
Mr. Ushatsky is the member of the management bodies of BE MTS-Turkmenistan, MGTS OJSC, and other companies.
The member of the Management Board held 14,000 registered common shares of MTS OJSC during the reporting year.
The member of the Management Board refrained from actions that could lead to a conflict between his interests and the interests of the Company during the reporting year.



Valery Shorzhin

Management Board Member – Vice President, Procurement and Administrative Affairs

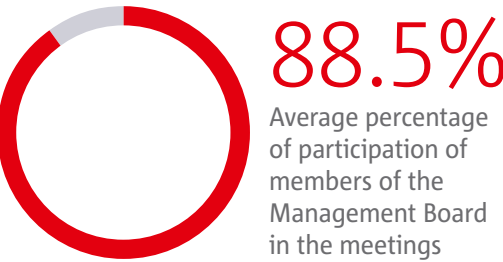
Born in 1963.
In 1986, graduated with honors from Moscow State Technical University n.a. N.E. Bauman, began working at the Research Institute of Radio Physics.
From 1993 to 1996 – work at the Office of the Automation of Banking Technologies at the Tveruniversal Bank JSCB.
Since 1996, Communications Engineer, head of analysis and traffic control, director of monitoring and development of the network, and from 2000 to 2006 – IT Director at the Sovintel SCS.
In 2006–2008, CIO and CTO of Farlep-Invest alternative operator (Ukraine).
In 2008–2011, IT Director of MTS OJSC.

From 2011 to 2014, Procurement Director MTS OJSC.
Since 2014 – Member of the Board – Vice President, MTS OJSC, Procurement and Administrative Affairs.
Mr. Shorzhin is the member of the management bodies of PrJSC MTS Ukraine, Russian Telephone Company CJSC, MGTS OJSC, and other companies.
The member of the Management Board held MTS shares during the reporting year.
The member of the Management Board refrained from actions that could lead to a conflict between his interests and the interests of the Company during the reporting year.

Over the past year 2014, MTS Management Board held 28 meetings: 22 meetings in praesentia and 6 in the form of absentee voting.

Participation of the Members of the Management Board in the Management Board Meetings in 2014

Member of the Management Board	Meetings in praesentia	Absentee meetings
A. Dubovskov	22	6
M. Arkhipov	22	6
K. Dmitriev	3	2
I. Zolochovsky	17	6
R. Ibragimov	19	6
A. Kornya	20	6
V. Latsanych	17	6
A. Smelkov	20	6
V. Savchenko	17	6
A. Ushatskiy	19	6
V. Shorzhin	18	4



Remunerations and
Compensations 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 the Management Board member’s duties, and procedure for contract termination. On behalf of the Company, the contract is signed by the Chairman of the Company’s Board of Directors or a person duly authorized by the Board of Directors. The Board of Directors may terminate the contract with the member of the Company’s Management Board at any time. The terms and conditions of the contract are approved by the Company’s Board of Directors.

Information on the Principles
and System of Remuneration of
Senior Officials

The remuneration of senior officials is set out and calculated on the basis of the Policies for Remuneration of MTS Employees and complies with the following principles:

- observance of fairness and competitiveness of the remuneration;
- linking the remuneration to personal contribution and the final performance of the Company as a whole;
- motivation to achieve the target indicators of business development in accordance with the strategic development objectives.

The system of remuneration of senior officials includes short-term and long-term financial incentives.

Short-term incentive system is intended for a period of up to 1 year and consists of several parts:

- **Basic remuneration** – monthly salary, established in accordance with the internal system of posts and grades;
- **Variable remuneration** – the annual premium paid for the performance of key performance indicators (KPIs), established in general for the Company for the relevant accounting period, as well as for fulfillment of individual functional tasks.

The long-term tangible incentive program is aimed at increasing the Company’s shareholder value, and maintaining long-term employment and business relations between the Company and its management.

Evaluation of Performance of
the President and the Members
of the Management Board

One of the tasks of the Board of Directors is to ensure monitoring of the activities of the President and the members of the Management Board, as well as to evaluate the results of their activities on the basis of the records approved by the Remuneration and Nomination Committee.

The President’s and the Management Board members’ 2014 activities were evaluated in accordance with the existing methodology based on the Company’s key performance indicators as a whole, individual functional tasks and level of competence.

The amount of remuneration paid
to the members of the Management
Directors in 2014

Indicator	RUB
Salary	161,049,846.72
Bonus	290,658,687.08
Reimbursement for expenses	98,637,127.95
Other remuneration	1,072,121
TOTAL	551,417,782.75

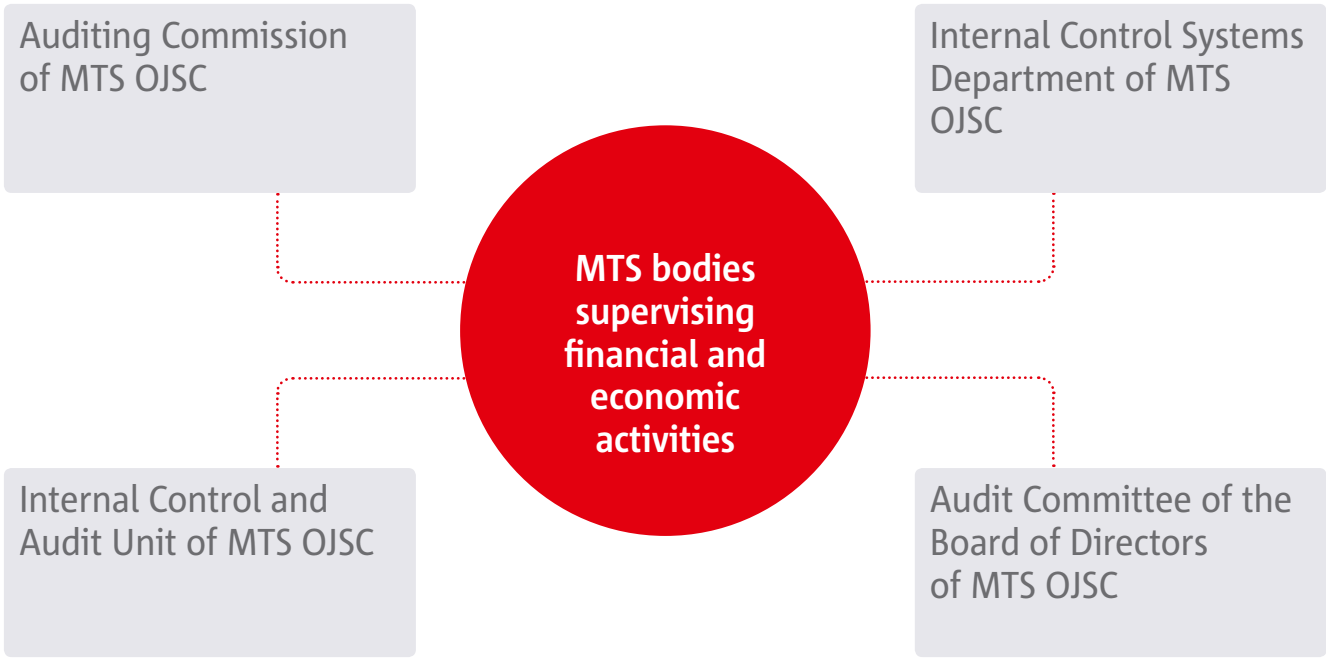
The amount of remuneration paid
to the senior officials of the Company
in 2014¹

Indicator	RUB
Salary	247,569,640
Bonus	395,667,179
Reimbursement for expenses	130,488,113
Other remuneration	1,072,121
TOTAL	774,797,053

1 Contains information on remuneration of 25 senior officials of the Company (including members of the Management Board), whereas 2(two) officials have been holding positions less than 12 months in the reporting year.

The bodies supervising financial
and economic activities

MTS bodies supervising financial and economic activities are structured as follows



MTS AUDITING COMMISSION

On June 24, 2014, MTS Annual General Meeting of Shareholders elected the following persons as members of the Auditing Commission:

1. Borisenkova Irina Radomirovna, born in 1963, holds the position of Chief Accountant, Managing Director of Finance and Investment Complex of JSFC Sistema.
2. Mamonov Maxim Alexandrovich, born in 1978, holds the position of Director of Internal Control of MTS OJSC.
3. Tverdokhleby Andrey Alexandrovich, born in 1979, holds the position of the Head of Planning of Finance and Investment Complex of JSFC Sistema.

Auditing Commission, acting in accordance with MTS Charter, as well as the Regulations on MTS Auditing Commission, is the Company’s permanent elected body that carries out periodic supervision over the Company’s financial and economic activities, the activities of its governance bodies and officers (including its separate units, departments, branches and representative offices) by performing documentary and factual audits. The Auditing Commission is independent from the officers of the Company’s governance bodies and is accountable only to the General Meeting of Shareholders.

MTS INTERNAL CONTROL AND AUDIT UNIT

MTS Internal Control and Audit Unit was established in February 2014, and is an independent unit of MTS OJSC. The Unit consists of the Internal Audit Department, the Department of Control, the Administrative Control Division and the Methodology and Coordination Division. The Internal Control and Audit Unit is headed by the Director of Internal Control and Audit, who is functionally subordinate to the Audit Committee of MTS Board of Directors, and administratively subordinate directly to MTS President.

The Internal Control and Audit Unit performs the following functions:

- Evaluating the effectiveness of the internal control system in the following areas: effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with internal policies and external requirements;
- Evaluating effectiveness of the risk management system in the Company as a whole, and the development of recommendations for improving the risk management system;
- Development of recommendations to improve internal control, risk management

and corporate governance procedures, and assistance to the management in developing corrective actions based on the results of the audits/inspections of financial and economic activity;

- Analysis of the reliability of performance indicators and achievement of planned results during the audits/inspections of financial and economic activity;
- Monitoring compliance with financial and performance discipline in the Company and implementation of decisions of MTS management in the framework of audits of financial and economic activity;
- Ensuring control and monitoring of execution of the instructions and recommendations of collegial bodies of MTS OJSC, MTS subsidiaries, orders of MTS President;
- Co-ordination, analysis and recording of the messages received on the Single Hotline;
- Analysis of compliance of the company with legal requirements (including anti-corruption laws) during audits/inspections of the financial and economic activity.

MTS INTERNAL CONTROL SYSTEMS DEPARTMENT

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

The Internal Control Systems Department performs the following functions:

- Development of effective internal control system in MTS Group;
- Maintaining updated the internal control system of MTS Group ;
- Identification of risks in terms of reliability of financial reporting; development of risk assessment methods, assessment systems and support for risk-related decisions;
- Monitoring requirements of financial regulators (stock exchange) in terms of disclosure requirements, evaluation of operational

efficiency, monitoring changes in certification requirements of the U.S. Securities and Exchange Commission (SEC);

- Implementation of unconditional and accepted requirements of the government and supervisory authorities and regulators in terms of requirements for the 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 in MTS Group.
- Coordination of interaction of the Company's external auditors and the functions in the course of auditing the 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 Board of Directors.

AUDIT COMMITTEE OF MTS BOARD OF DIRECTORS

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

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

The Auditing Commission is guided in its activities by legislation of the Russian Federation, other foreign laws applicable to MTS OJSC, MTS Charter, corporate governance principles adopted by 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 activities of MTS management and evaluating the effectiveness thereof, 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 the requirements applicable to MTS activities;
 - efficiency of execution of the goals and objectives by the Board of Directors;

- overseeing and coordinating the activities and plans, and evaluating the performance of MTS internal audit service;
- 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 external auditors' activities; providing preliminary approval and confirmation of the auditors' services in accordance with applicable requirements of the regulators; and formulating relevant recommendations for the Board of Directors and the management in this regard;
- providing effective coordination in information exchange between external and internal auditors, maintaining proper independence of the 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 the complaints;
- advising MTS employees on accounting, internal controls and auditing issues, including whistle-blower initiatives.

MTS Auditor

On June 24, 2014, MTS Annual General Meeting of Shareholders approved **Deloitte & Touche CIS Closed Joint Stock Company** 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 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 2014 Annual Financial Statements prepared under Russian accounting standards;
- Integrated audit of MTS Group' and subsidiaries' US GAAP Consolidated Financial Statements and audit of the effectiveness of internal control over financial reporting for the year 2014.

In March 2015, the Audit Committee approved the results of the integrated audit of the consolidated financial statements and the audit of the effectiveness of internal control over financial reporting for 2014 performed by the external auditor.

Based on the audit, MTS Auditor expressed the opinion that MTS financial statements 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 MTS external auditor is held not less than once every 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 its representative to a joint tender committee.

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

The Auditor's fee is approved by MTS Board of Directors and was amounted in 2014 to RUB 116,960,000 excluding VAT (including the audit of compliance with Sarbanes-Oxley Act requirements)

Insider Information

Particular attention is paid to the development of countermeasures against the illegal use of insider information.

The Company has implemented the Regulations on the principles and procedures relating to prevention of insider trading; approved list of insider information, published on the official website of the Company¹. We keep the list of insiders and provide this list at the request of the Bank of Russia and the Moscow Stock Exchange.

In accordance with best practices and for the prevention of insider trading, the Company has established limits for all employees and members of the management relating to transactions with MTS securities, the so-called "closed" periods.

In 2014, we improved the system of protection of the Company's insider information:

- since 2014, the Company has started regular trainings for insiders, in which the trainees are informed about the responsibilities of insiders, the requirements and prohibitions of the legislation on insider information, as well as applicable procedures for the protection of MTS insider information;
- internal documents and procedures have been improved: a new edition of the Code

of Ethics and the Compliance Manual includes a section on the protection of insider information; new revision of the Regulations on the Prevention of Insider Trading is approved;

- internal communications have been improved: MTS internal portal for employees has a special section on compliance with insider information laws, the practice has been introduced to quarterly inform the employees and members of the management about open and closed periods for the purchase of MTS securities and about the insiders' duties.

¹ http://www.company.mts.ru/comp/ir/control/data/insider_information/.

Risk Management and Internal Control System

MTS OJSC created a well-functioning risk management and internal control system designed to provide reasonable assurance of the achievement of the MTS purposes.

MTS Board of Directors defines the principles and approaches to risk management and internal control in the Company.

Principles and approaches to risk management and internal control system:

- provision of reasonable assurance of achieving MTS goals;
- ensuring the effectiveness of financial and economic activity and economical use of the resources;
- risk identification and management;
- safeguarding of the Company's assets;
- ensuring the completeness and reliability of the accounting (financial), statistical, administrative and other reports;
- monitoring compliance with legislation and internal policies, regulations and procedures of MTS OJSC.

MTS risk management and internal control system is built on different levels of management, taking into account the role of the corresponding level in the development, approval, implementation and evaluation of risk management and internal control system:

- at the operational level – through the introduction and implementation of the necessary control procedures in the operating processes;
- at the organizational level – by organizing the functions, coordinating the activities of MTS OJSC in the framework of risk management and internal control system and ensuring its operation (such as risk management, internal control, compliance monitoring, quality control, etc.).

Risk management is carried out in MTS OJSC within the accepted conceptual risk management frameworks of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Risk management policy

aims to minimize unexpected losses from risks and to maximize capitalization, taking into account the relation between risk and return of investments acceptable to the shareholders and the management of MTS OJSC.

MTS OJSC applies an integrated approach to risk management, which includes a full cycle, namely: identification, analysis, assessment and prioritization of risks, planning and coordination of risk management, monitoring and control of all types of risks inherent in MTS business across the organizational structure and geolocation of the Issuer.

MTS management is informed on the spectrum of risks to ensure the completeness, quality and comparability of the information provided for each level of decision-making (support for the mechanism of risk management monitoring and decision-making by the collegial governance bodies at different levels of the Issuer's hierarchy depending on the priority of the risks and their importance for MTS OJSC).

Roles and tasks of the Board of Directors, executive bodies, the Auditing Commission, the Internal Control and Audit Unit and other units of MTS OJSC, as well as their interaction in a valid risk management and internal control system are formalized in MTS internal documents.

MTS risk management and internal control system ensures an objective, fair and clear picture of the current state and prospects of MTS OJSC, the integrity and transparency of MTS reporting, the reasonableness and acceptability of risks taken by MTS OJSC.

As part of the risk management and internal control system, a set of measures is designed to prevent corruption, to reduce the reputational risks and risks of the use of sanctions for bribery against MTS.

MTS OJSC adopted the Anti-Corruption Policy, which determines the measures aimed at the formation of the elements of corporate culture, organizational structure, rules and procedures for the prevention of corruption.

Hotline of Internal Control and Audit Unit has been organized as a part of the Single Hotline of MTS Group as a safe, confidential and affordable way to inform the Audit Committee of the Board of Directors and the Internal Control and Audit Unit on violations of the legislation, internal procedures, the Code of Business Conduct & Ethics of MTS OJSC by any of its employee and (or) any member of the governance body or a body controlling MTS financial and economic activity.

The Hotline is a way to communicate to the Audit Committee of the Board of Directors and the Internal Control and Audit Unit the received suggestions for improving the anti-corruption procedures and other internal control procedures. A person who provided the corresponding information is protected from all forms of pressure (including from dismissal, harassment, or any form of discrimination).

In order to perform systematic independent evaluation of reliability and efficiency of risk management and internal control system and corporate governance practices, MTS OJSC has organized an internal audit by MTS Internal Control and Audit Unit. The Internal Control and Audit Unit is a separate structural unit of MTS OJSC functionally subordinate to the Board of Directors and administratively subordinate directly to the President of MTS OJSC.

The Audit Committee of MTS Board of Directors twice a year examines the reports of the Internal Control and Audit Unit on the performance of the internal audit, control, compliance and risks. The Audit Committee assessing the effectiveness of the risk management function and the internal control system praised the work of the Internal Control and Audit Unit, and assessed the risk management function as effective and relevant to the current problems.

The Audit Committee of MTS Board of Directors reviews the reports of the external auditors Deloitte & Touche CIS CJSC on the quarterly basis, approving the results of their work.

The Board of Directors annually reviews the report of the Audit Committee on its annual performance results with an analysis of existing monitoring systems and violations. Report of the Audit Committee is annually attached to the materials of the Annual General Meeting of Shareholders of MTS OJSC.

2014 results in the field of risk management and internal control system

1. Internal control and audit policy

In October 2014, the Audit Committee of MTS Board of Directors sanctioned, and the President approved MTS Policy on Internal Control and Audit as revised, which defines the principles of interaction of the Internal Control and Audit Unit with the shareholders and the management of MTS OJSC.

2. Improvement of procedures for handling the messages received at the Single Hotline

In 2014, in addition to the existing system of handling the messages received at the Single Hotline, the line of the Control Department and the line of the Audit Committee were consolidated into Internal Control and Audit Unit line. Such a combination provides additional control over efficiency of the system of notification of the potential misbehavior of the Group's employees (including the requirements of anti-corruption policy, illegal use of insider and confidential information) and third parties, as well as other violations in MTS Group.

Main Components of Corporate Compliance System in MTS OJSC and the Development Results in 2014

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 has been actively developing for several years a corporate system of compliance with the requirements of the applicable laws and ethical business practices ("compliance system").

The company is committed to the principles of compliance with anti-corruption laws (anti-corruption laws of the countries where 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 in MTS include the Code of Business Conduct and Ethics, the Policy Compliance with Anti-Corruption Laws, and the Policy Management of the Conflict of Interests. In addition, the procedures to ensure compliance with anti-corruption laws are contained in the regulations on the Company's business processes.

MTS compliance system establishes the measures aimed at managing regulatory risks, 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 MTS compliance system are:

- The management of the Company actively demonstrates its commitment to compliance principles, and supports the 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 operation, 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 the identified risks;
- The Company implements and supports a training program for its employees and members of the governance bodies relating to the principles and standards of compliance with applicable anti-corruption laws using specially developed training system. The Company promotes improvement of corporate culture, awareness of anti-corruption and ethical business practices through briefing and training;
- 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 the anti-corruption clauses in contractual texts, which take into account the level of risk depending both on the category of a counterparty, and the type of the relationship being established;
- To minimize the risks of the Company's involvement in corrupt activities, the Company has developed screening procedures ("due diligence"), both in respect of the corporate counterparties (including the 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, reporting system and sub-

sequent analysis of the transactions involving the highest risk in terms of compliance, including related to the gifts, entertainment expenses, events, corporate social responsibility, procurement, marketing, sales, etc.;

- Within the framework of internal control procedures, the Company inspects the discipline of compliance with the established procedures of business processes execution, including verification of the legality of the transactions involving the Company's assets;
- The Company operates a hotline, which allows, in particular, sending anonymous messages. Bona fide informers are protected by the Company from any form of harassment or discrimination.

In 2014, the Company continued to improve the compliance system:

- The structure of the Corporate Center's Compliance Department has been optimized through the creation of functional groups within the Department; the expertise of the Department was enhanced through recruitment of additional qualified personnel;
- Strengthened support of compliance functions in subsidiaries and affiliates;
- Continued efforts to strengthen controls over implementation of compliance controls and procedures by the Company's employees, which significantly improved the discipline of compliance controls and procedures;
- Provisions on compliance with the requirements of applicable anti-corruption laws were introduced in the employment contracts executed with all employees of the Company;
- Compliance KPIs introduced to the performance indicators system of the Company's managers and employees, which are now taken into account according to their weight in evaluation of the employees' performance and estimation of their bonuses;
- Special attention has been paid to strengthening the involvement of the managers at all levels in the development of a culture of compliance within the Company.

In 2014, the Company continued the development of corporate compliance culture, diversifying formats and approaches to training activities, increasing frequency of internal communications for compliance, developing a new information section on compliance on the internal corporate portal. We have developed and launched an updated electronic training course on the basics of anti-corruption compliance, binding on all the employees of the Company, taking into account the significant changes in the Russian regulatory environment and current trends in the applicable anti-corruption laws enforcement. Training sessions on compliance requirements and procedures have been held by MTS for the representatives of the Company's strategic suppliers. The Company has developed and implemented a specialized electronic training for procurement function employees. Throughout the year, we conducted training sessions for the heads of internal divisions, based on the functional risks and the specific business scenarios.

In connection with resumption of the Company's operations in the Republic of Uzbekistan, the Compliance Department actively supports the local management in the development of the local compliance function.

The project of detailed study of business processes in major subsidiaries with respect to their vulnerability to corruption (compliance risk assessment) has been completed. The project was completed with involvement of an international consultant and resulted in audit of compliance risks and definition of measures to improve internal control system in the subsidiaries in Russia, Armenia, Belarus, Ukraine, and Turkmenistan.

A number of procedures important for the compliance system has been revised and improved.

In 2014, the officer of the Compliance Department won the prestigious International Compliance Association (ICA) award.

Report on compliance with the principles and recommendations of the Corporate Governance Code

The Board of Directors of MTS OJSC hereby states that the Company complies with the corporate governance principles set forth the Corporate Governance Code (hereinafter – the Code, CGC) with the exception of certain principles and recommendations of the Code specified in the Annex to this Statement.

Summary of the most significant aspects of the corporate governance model and practices of the Company

The corporate governance system (model) of MTS OJSC is based on the norms of applicable legislation of the Russian Federation, the provisions of the Company’s Articles of Association and the principles recommended for application by the Corporate Governance Code, taking into account the requirements of the Moscow Exchange and the New York Stock Exchange listing.

Description of the most significant aspects of the corporate governance model and practices is set forth in “Corporate Governance” Section of the Annual Report.

Description of the methodology applied by the Joint-Stock Company to estimate compliance with corporate governance principles set forth by the Corporate Governance Code

Estimation of compliance with corporate governance principles set forth by the Code is carried out by means of analysis and comparison of internal standards and procedures with the Code

recommendations. A comprehensive audit of the corporate governance practices functioning at the Company considering the results of the Company studies (Comparative Study of the corporate governance practices of the Company and other market participants (hereinafter – the Corporate Governance Benchmarking); Study of the Corporate Governance System perception by the investment community (hereinafter – the Survey of Investors)) was conducted during the estimation supervised by the Corporate Governance Committee.

Planned (alleged) actions and activities of the Joint-Stock Company for improving the corporate governance model and practices

According to the results of the audit, a Road Map for the implementation of Corporate Governance Code recommendations at MTS OJSC (hereinafter – the Roadmap) was developed and approved by the President. Implementation of the activities under the Roadmap is scheduled by the Company until the end of 2016. Some recommendations of the Code are documented and (or) put into corporate governance practice of the Company in the first half of 2015. Draft internal documents updated in accordance with the CGC applicable recommendations are submitted for approval to the Annual General Meeting of Shareholders of MTS OJSC.

Detailed information on compliance with the Code principles as of the date of approval of the MTS OJSC Annual Report by the Board of Directors of the Company, as well as on measures to furtherimplement the CGC recommendations, are presented below inthe Annex hereto.

Annex to the Statement of the Board of Directors of MTS OJSC on Compliance with the Principles and Recommendations of the Corporate Governance Code

Serial No.	Corporate governance principle (principles) or key criterion (recommendation)	Summary of the matter of non-compliance with the principle or the key criterion	Explanation of the main reasons, factors and circumstances due to which the principle or the key criterion is not complied with or not complied with in full, description of alternative mechanisms and corporate governance tools used
1	2	3	4
I. The Shareholders’ Rights and Equitable Treatment of the Shareholders When They Exercise Their Rights			
1.1.	The company shall ensure equitable and fair treatment of all shareholders when they exercise their right to participate in the company’s governance. The corporate governance system and practices shall guarantee equal conditions for all shareholders owning the same category (type) shares, including minority shareholders and foreign shareholders, and the company’s equitable treatment of them		
1.1.1.	The company has approved the internal document determining the main procedures for preparing, calling and holding a general meeting of shareholders complying with the Corporate Governance Code recommendations, including the company’s obligation: to inform the shareholders of holding the general meeting of shareholders and provide access to the materials, including post a notification and materials on the company’s website in the Internet no later than 30 days before the date of its holding (unless the larger term is not stipulated by the legislation of the Russian Federation); to disclose the information on the date of drawing up the list of persons having the right to participate in the general meeting of shareholders no later than 7 days before its maturing; to provide additional information and materials on all the agenda items to the general meeting of shareholders in accordance with the Corporate Governance Code recommendations.	Fully complied with	
1.1.2.	The company has committed itself to provide the shareholders with the opportunity to put questions on the company’s activity to the management and controlling bodies’ members, the Audit Committee members, the Chief Accountant, the company’s auditors, as well as the candidates to the management and controlling bodies while preparing and holding the general meeting of shareholders. The stated obligations are stipulated in the company’s Articles of Association or internal documents	Fully complied with	
1.1.3.	The company has committed itself to adhere to the principle of prohibition of actions resulting in artificial corporate control redistribution (for example, voting with “quasi-treasury” shares, making decision on dividends payout on preferred shares under the conditions of financial limitations, making decision on non-distribution of dividends on preferred shares determined in the company’s Articles of Association when sufficient sources for their distribution are available). The stated obligations are stipulated in the company’s Articles of Association or internal documents	Fully complied with	

1	2	3	4
1.1.4.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
1.2	The shareholders shall be provided with the equitable and fair opportunity to participate in the company's profits through dividends distribution		
1.2.1.	The company has approved the internal document determining the company's dividend policy complying with the Corporate Governance Code recommendations and establishing, inter alia: the procedure of determination of the net profit part (for companies drawing consolidated financial statements - the minimal part (share) of consolidated net profit), forwarded for dividends payout, the conditions under which dividends are declared; the minimal amount of dividends on the company's shares of different categories (types); the obligation to disclose the document determining the company's dividend policy on the company's website in the Internet	Fully complied with	
1.2.2.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
II. The Company's Board of Directors			
2.1	The Board of Directors determines main strategic guidelines of the company's activity for a long-term perspective, the key indicators of the company's activity, exercises the company's strategic management, determines main principles of and approaches to the organisation of the company's risk management and internal control system, exercises control over the activity of the company's executive bodies, determines the company's policy on the Board of Directors and executive bodies members' remuneration, as well as performs other key functions		
2.1.1.	The company has established the Board of Directors which: determines main strategic guidelines of the company's activity for a long-term perspective, the key indicators of the company's activity; controls the activity of the company's executive bodies; determines principles of and approaches to the organisation of the company's risk management and internal control; determines the company's policy on remuneration of the members of the Board of Directors, executive bodies and other key administrative officers of the company	Fully complied with	
2.1.2.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
2.2.	The Board of Directors shall be the efficient and professional the company's management body capable of passing objective independent judgments and resolutions meeting the interests of the company and its shareholders. The Board of Directors Chairman shall contribute to the most effective performance of the functions assigned to the Board of Directors. The Board of Directors' meetings, their preparation and participation of the Board of Directors members therein shall ensure the Board of Directors' efficient activity		

1	2	3	4
2.2.1.	The Board of Directors Chairman shall be an independent director; or a senior independent director shall be determined among the elected independent directors who coordinates the work of independent directors and exercises cooperation with the Board of Directors Chairman.	Not complied with	<p>1. Mr. Ron Sommer, Non-Executive Director, was appointed as the Chairman of the Board of Directors of MTS OJSC in 2009. He was a member of AFK Sistema until 2012. Since 2012, Mr. Sommer has not participated in the management bodies of the AFK Sistema Group companies, except his work at the Board of Directors of MTS OJSC. Mr. Sommer also participates in the management bodies of other large foreign companies, such as Munich Re, Tata Consultancy (for details, see. p. 65 of the Annual Report).</p> <p>Mr. Sommer's great working experience at the management bodies of the Russian and the largest foreign companies in conjunction with his high qualification, including in the telecom industry, contribute significantly to the efficient work organization of the Board of Directors of MTS. In this regard, the company believes that the appointment of an Independent Chairman of the Board of Directors will not cause any additional significant effect/ impact on the work organization of the Board of Directors and the quality of its decisions.</p> <p>Increase in the number of independent directors at the Board of Directors is more important for the company investors, as it will strengthen the role of independent directors in making certain decisions, which is also confirmed by the results of the Survey of Investors conducted by the company.</p> <p>At the annual general meeting of shareholders in 2015, the Board of Directors of MTS (Minutes #234 dated 14.04.2015) approved four candidates to be elected who meet the independence requirements established by the Code. If the approved candidates to the Board of Directors of MTS are elected, the number of independent directors will increase to four (instead of three in the current composition).</p> <p>2. The company has a balanced Board of Directors' composition, both in terms of quantitative composition and in terms of experience and qualifications. The existing procedures for planning, preparation and holding of the Board of Directors meetings ensure the effectiveness of this body. Independent directors are actively involved in the work of the Board of Directors and its committees; they regularly communicate with the Chairman of the Board of Directors.</p> <p>Three of the nine seats on the Board of Directors belong to independent directors and all of them have occupied senior positions for a long time and have considerable experience in the industry.</p> <p>At the moment, there is no need to choose a Senior Independent Director among three independent directors.</p> <p>By increasing the number of independent directors, the Company will return to considering the issue of the need to elect the Senior Independent Director.</p>

1	2	3	4
2.2.2.	The company's internal documents establish the procedure of preparing and holding the Board of Directors meetings, providing the Board of Directors members with the opportunity to prepare duly for their holding, and stipulating, in particular: the terms of the Board of Directors members' notification on the upcoming meeting; the terms of forwarding the documents (ballot papers) for voting and receipt of the filled in documents (ballot papers) when holding the meetings in absentia; the opportunity of forwarding and consideration of the written opinions on the agenda items for the Board of Directors members absent at the meeting in praesentia; the opportunity of discussion and voting by means of conference call and videoconference.	Fully complied with	
2.2.3.	The most important issues shall be resolved at the Board of Directors meetings held in praesentia. The list of such issues complies with the Corporate Governance Code recommendations ¹	Fully complied with	
2.2.4.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
2.3.	The Board of Directors shall include the sufficient number of independent directors		
2.3.1.	The independent directors shall constitute not less than one third of the elected Board of Directors members	Fully complied with	
2.3.2.	The independent directors shall fully comply with the criteria of independence recommended by the Corporate Governance Code	Fully complied with	
2.3.3.	The Board of Directors (the Nominating (Staff, Appointments) Committee) shall carry out the assessment of the Board of Directors candidates' compliance with the independence criteria	Fully complied with	
2.3.4.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
2.4.	The Board of Directors shall establish committees for provisional consideration of the most important issues of the company's activity		
2.4.1.	The Board of Directors has established the Audit Committee consisting of independent directors; its functions are stated in the internal documents and comply with the Corporate Governance Code recommendations ²	Fully complied with	

1 Indicated in Clause 168 of Part B of the Corporate Governance Code

2 Indicated in Clause 172 of Part B of the Corporate Governance Code

1	2	3	4
2.4.2.	The Board of Directors has established the Remuneration Committee (may be combined with the Nominating (Staff, Appointments) Committee)) consisting of independent directors; its functions comply with the Corporate Governance Code recommendations ³	Partially complied with	The functions of the Board of Directors' committees of the appointments and remuneration are combined at the Company.
2.4.3.	The Board of Directors has established the Nominating (Staff, Appointments) Committee (may be combined with the Remuneration Committee), the most of it members are independent directors, its functions comply with the Corporate Governance Code recommendations ⁴	<p>According to the internal documents of the Company, the functions of the Appointments and Remuneration Committee do not include the following:</p> <p>– Selection of an independent consultant on remuneration among members of the executive bodies and other key administrative officers, and if the company policy involves mandatory competition procedures to select the said consultant, then determination of the competition terms and conditions and implementation of the role of the competition committee;</p> <p>– Development of recommendations to the Board of Directors to determine the remuneration amount and the principles of bonuses for the Corporate Secretary, as well as a preliminary assessment of the work of the Corporate Secretary of the company over the year and make suggestions for rewarding the Corporate Secretary of the company;</p> <p>– Drawing-up of a report on practical implementation of the remuneration policy principles applied to the members of the Board of Directors, executive bodies and other key administrative officers to be included in the annual report and other documents of the company;</p> <p>– Supervision of the disclosure of the remuneration policy and practices and the ownership of the company shares by the members of the Board of Directors, collective executive bodies and other key administrative officers in the annual report and on the company's corporate website in the Internet.</p> <p>– Evaluation of composition of the Board of Directors in terms of professional expertise, experience, independence and involvement of its members in the work of the Board, setting priorities for strengthening the composition of the Board;</p> <p>– Interaction with shareholders which should not be limited to the terms of the largest shareholders in the context of the selection of candidates for the Board of Directors of the company;</p> <p>– Description of the individual responsibilities of the directors and the Board of Directors Chairman, including the determination of time that should be given to issues related to the company activities during and apart from the meetings, during both planned and unplanned work;</p>	<p>The Roadmap provides consideration by the Appointments and Remuneration Committee of the matter of expanding the Committee functions in accordance with the CGC recommendations together with the development of methodologies and processes of executing such functions in order to ensure the effective implementation of the relevant Code recommendations.</p> <p>Upon consideration, a new edition of the Regulation on the Appointments and Remuneration Committee is planned to be developed.</p>

3 Indicated in Clause 180 of Part B of the Corporate Governance Code

4 Indicated in Clause 186 of Part B of the Corporate Governance Code

1	2	3	4
		<p>– Annual detailed formalized self-assessment procedure or external assessment of the Board of Directors and Committees of the Board of Directors from the standpoint of the effectiveness of their work in general, as well as the individual contribution of directors to the work of the Board of Directors and its committees, the development of recommendations to the Board of Directors in regard of improving the procedures of the Board of Directors and its committees, preparation of a report on the results of self-assessment or external assessment to be included in the annual report of the company;</p> <p>– Formation of an introductory course program for the newly elected members of the Board of Directors aimed at getting the new directors acquainted with key company assets, the company strategy, business practices, the company organizational structure and the key senior employees of the company, as well as the procedures of the board of directors; supervision of the practical implementation of the introductory course;</p> <p>– Formation of the training and professional development program for the Board of Directors members, taking into account the needs of its individual members, as well as supervision of the practical implementation of this program;</p> <p>– Formation of recommendations to the Board of Directors regarding candidates for the position of the Corporate Secretary of the company;</p> <p>– Drawing-up of a report on the committee work to be included in the annual report and other documents of the company.</p>	
2.4.4.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
2.5.	The Board of Directors shall ensure the quality assessment of work of the Board of Directors, its committees and members of the Board of Directors		
2.5.1.	The quality assessment of the Board of Directors' work shall be carried out on a regular basis, at least annually, herewith at least once in three years such assessment shall be carried out with the involvement of external organisation (consultant)	Partially complied with	The quality assessment of the Board of Directors' work was not carried out in 2014. In 2015, activities aimed at developing a methodology for carrying out the assessment of the Board of Directors and its committees, followed by the work assessment of the Board of Directors on the basis of the approved methodology, were included in the Roadmap
2.5.2	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	

1	2	3	4
III. The Company's Corporate Secretary			
3.1	Effective current interrelation with the shareholders, coordination of the company's activity on protection of the shareholders' rights and interests, support of the effective work of the Board of Directors are ensured by the Corporate Secretary (special structural unit headed by the Corporate Secretary)		
3.1.1.	The Corporate Secretary shall be accountable to the Board of Directors, appointed and designated on the resolution or the consent of the Board of Directors	Fully complied with	
3.1.2.	The company has established the internal document determining the Corporate Secretary's rights and obligations (Regulation on the Corporate Secretary), the content of which complies with the Corporate Governance Code recommendations ⁵	Fully complied with	
3.1.3.	The Corporate Secretary holds a position which cannot be combined with the performance of other functions in the company. The Corporate Secretary is assigned with functions in accordance with the Corporate Governance Code recommendations ⁶ . The Corporate Secretary disposes sufficient resources to perform its functions	Fully complied with	
3.1.4.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
IV. The Remuneration System of the Members of the Board of Directors, Executive Bodies and Other Key Administrative Officers of the Company			
4.1.	The level of remuneration paid by the company shall be sufficient to attract, motivate and keep the persons possessing competence and qualification necessary for the company. Payment of remuneration to the members of the Board of Directors, executive bodies and other key administrative officers of the company shall be made in accordance with the remuneration policy adopted in the company		
4.1.1.	All the payments, benefits and bonuses provided to the members the Board of Directors, executive bodies and other key administrative officers of the company are regulated in the company	Fully complied with	
4.1.2.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
4.2.	The system of the Board of Directors members' remuneration shall ensure bringing together the directors' financial interests and the shareholders' long-term financial interests		
4.2.1.	The company shall not apply other forms of monetary remuneration of the Board of Directors members apart from the fixed annual remuneration	Partially complied with	Using a variable based on the market value of the company shares in the remuneration structure is aimed at the separation of interests of the members of the Board of Directors and the management and the orientation of the interests of the Board of Directors' members to increasing the company's shareholder value in the interests of shareholders and investors. The Roadmap provides consideration by the Appointments and Remuneration Committee of the matter of compliance of the procedure for determining the remuneration of the Board of Directors' members to the best foreign practices

⁵ Indicated in Clause 217 of Part B of the Corporate Governance Code

⁶ Indicated in Clause 218 of Part B of the Corporate Governance Code

1	2	3	4
4.2.2.	The Board of Directors members shall not be given the opportunity to participate in stock options plans; and the right to dispose of the company's shares held by them shall not be determined by achievement of certain activity indicators	Fully complied with	
4.2.3.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
4.3.	The remuneration system of executive bodies and other key administrative officers of the company shall provide for the remuneration's dependence on the results of the company's work and their personal contribution to achievement of this result		
4.3.1.	The company has implemented the program of the long-term motivation of executive bodies' members and other key administrative officers of the company	Fully complied with	
4.3.2.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
V. Risk Management and Internal Control System			
5.1.	An efficiently functioning risk management and internal control system aimed at ensuring reasonable confidence in achievement of the goals set before the company shall be established in the company		
5.1.1.	The Board of Directors has determined the principles of and approaches to the organisation of the company's risk management and internal control system	Fully complied with	
5.1.2.	A separate structural unit on risk management and internal control has been established in the company	Fully complied with	
5.1.3.	The company has developed and implemented an anti-corruption policy determining the arrangements aimed at establishing the elements of the corporate culture, organisational structure, rules and procedures ensuring prevention of corruption	Fully complied with	
5.1.4.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
5.2.	For systematic independent assessment of reliability and efficiency of the risk management and internal control system and corporate government practices the company shall organise the internal audit performance		
5.2.1.	A separate structural unit has been established in the company performing the functions of internal audit under the control of the company's Board of Directors. The stated unit's functions comply with the Corporate Governance Code recommendations; such functions include, in particular: estimation of the internal control system efficiency; estimation of the risk management system efficiency; the corporate governance estimation (in case the Corporate Government Committee is absent)	Fully complied with	

1	2	3	4
5.2.2.	The Internal Audit Unit Head shall be accountable to the company's Board of Directors, appointed and designated on the company's Board of Directors resolution	Fully complied with	
5.2.3.	The company has approved the internal audit policy (Regulation on the Internal Audit), determining the internal audit's aims, goals and functions	Fully complied with	
5.2.4.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
VI. Disclosure of Information on the Company, the Company's Information Policy			
6.1.	The company and its activity shall be transparent for the shareholders, investors and other persons concerned		
6.1.1.	The company has approved the internal document determining the company's information policy complying with the Corporate Governance Code recommendations. The company's information policy includes the following ways of interrelation with the investors and other persons concerned: arrangement of a special page of the company's website in the Internet with answers to frequently asked questions of the shareholders and investors, regularly updatable calendar of the company's corporate events, as well as other information useful for the shareholders and investors; holding meetings of executive bodies members and other key administrative officers of the company with analysts on a regular basis; holding regular presentations (including in the forms of teleconferences, webcasts) and meetings with the participation of the management bodies' members and other key administrative officers of the company, including ancillary publications of the company's accounting (financial) reports or connected with main investment projects and plans of the company's strategic development	Fully complied with	
6.1.2.	The company's implementation of the information policy shall be carried out by the company's executive bodies. The control over due information disclosure and compliance with the information policy is exercised by the Board of Directors	Fully complied with	
6.1.3.	The company has established the procedures ensuring coordination of work of all the company's services and structural units connected with information disclosure or the activity of which may lead to the necessity of information disclosure	Fully complied with	

1	2	3	4
6.1.4.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
6.2.	The company shall timely disclose full, up-to-date and reliable information on the company to ensure the capability of making reasonable decisions by the company's shareholders and investors		
6.2.1.	Given there is a significant share of foreign investors in the capital, along with the information disclosure in Russian, the company shall ensure the disclosure of the most significant information on the company (including notifications of holding the general meetings of shareholders, the company's annual report) in the foreign language which is commonly used on the financial market	Fully complied with	
6.2.2.	The company shall ensure the disclosure of information not only about itself, but also about the legal entities controlled by it, having the substantial significance for it	Fully complied with	
6.2.3.	The company shall disclose the annual and the interim (semi-annual) consolidated or individual financial reports drawn up in accordance with the International Financial Reporting Standards (IFRS). Annual consolidated or individual financial statements shall be disclosed together with the audit report, and the interim (semi-annual) consolidated or individual financial statements – together with the report on the review audit results or the audit report	Partially complied with Until 2015, the consolidated financial statements of the Company were drawn up in accordance with the generally accepted accounting principles (US GAAP)	Since January 1, 2015, the Company transitioned to the International Financial Reporting Standards (IFRS). Annual consolidated financial statements drawn up in accordance with IFRS shall be disclosed by the Company together with the audit report. Audit of the interim consolidated financial statements is not planned as the Company's current accounting and financial reporting procedures in conjunction with the internal control system procedures are based on the best international standards and practices and they are sufficient to ensure their accuracy
6.2.4.	The company has disclosed the special memorandum containing the plans of the entity controlling the company in relation to the company. The stated memorandum has been drawn up in accordance with the Corporate Governance Code recommendations ⁷	Not complied with	The Roadmap provides the development in 2015 of the Company's proposals for the controlling shareholder on the preparation and disclosure of a memorandum of such shareholder
6.2.5.	The company ensures the disclosure of detailed information about personal data of the Board of Directors members, including the information if they are independent directors, as well as immediate disclosure of information on the Board of Directors member's loss of the independent director status	Fully complied with	
6.2.6.	The company shall disclose the information on the capital structure in accordance with the Corporate Governance Code recommendations	Fully complied with	

⁷ Indicated in Clause 279 of Part B of the Corporate Governance Code

1	2	3	4
6.2.7.	The company's annual report contains additional information recommended by the Corporate Governance Code: summary of the most significant transactions, including interrelated transactions entered into by the company and legal entities controlled by it for the last year; annual report on the Board of Directors work (including the Board of Directors' committees) containing, inter alia, the information on the number of meetings in praesentia (absentia), on participation of each of the Board of Directors members in the meetings, description of the most significant questions and the most complex issues considered at the meetings of the Board of Directors and its committees, main recommendations given to the Board of Directors by the committees; information on direct or deemed interest in the company's shares of the members of the Board of Directors and executive bodies of the company; information if the members of the Board of Directors and executive bodies have the competitive interests (including connected with participation of the stated persons in the management bodies of the company's competitors); description of the remuneration system of the Board of Directors members, including the amount of individual remuneration at year-end on each member of the Board of Directors (with a breakdown into basic, additional remuneration for chairmanship in the Board of Directors, for chairmanship (membership) in the committees attached to the Board of Directors, commitment to the long-term incentive program, commitment of each member of the Board of Directors to the stock options plan, if any), reimbursement of expenses connected with the Board of Directors membership, as well as the company's expenses on the directors' liabilities insurance as the management bodies members; information on the annual cumulative remuneration: a) on the group of not less than five most high-paid members of executive bodies and other key administrative officers of the company with a breakdown by each remuneration type; b) on all the members of executive bodies and other key administrative officers of the company to which the company's remuneration policy applies, with a breakdown by each remuneration type; information on annual remuneration of the sole executive body which it received or shall receive from the company (legal entity from the group of organisations whereof the company is the part) with a breakdown by each remuneration type, both for its fulfilment of the sole executive body's obligations and on other grounds	Соблюдается не в полной мере В Годовом отчете Обществом не раскрывается информация о размере индивидуального вознаграждения, выплачиваемого членам Совета директоров и единоличному исполнительному органу, а также о размере расходов общества на страхование ответственности директоров как членов органов управления.	Общество не раскрывает информацию о размере индивидуального вознаграждения работников и лиц, входящих в состав органов управления Общества следуя действующей в Обществе политике корпоративной и, в частности, кадровой безопасности. Результаты проведенного Обществом Опроса инвесторов позволяют констатировать, что указанная информация, в оценке инвесторов, не отвечает критериям существенности, не влияет на степень их информированности и выбор инвестиционных решений. В Годовом отчете раскрываются сведения о размере страховой суммы (лимите ответственности) договору страхования ответственности директоров как членов органов управления. Информация о размере расходов общества на страхование ответственности директоров как членов органов управления не раскрывается в связи с её отнесением к конфиденциальной информации.

1	2	3	4
6.2.8.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
6.3.	The company's provision of the information and documents on the shareholders' requests shall be effected in accordance with the principles of fairness and lack of onerousness		
6.3.1.	In accordance with the company's information policy, the shareholders with equal number of voting shares are provided with equal access to the company's information and documents	Fully complied with	
6.3.2.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
VII. Significant Corporate Actions			
7.1.	Actions which influence significantly or may influence the structure of the company's joint-stock capital and financial standing and, consequently, the shareholders' position (hereinafter - significant corporate actions) shall be executed under fair conditions ensuring observance of rights and interests of the shareholders, as well as other parties concerned		
7.1.1.	The company's Articles of Association determine the list (criteria) of transactions or other actions being significant corporate actions, the consideration of which is referred to the competence of the company's Board of Directors, including: the company's reorganisation, acquisition of 30 and more per cent of the company's voting shares (takeover), increase or decrease of the company's authorised capital, listing and delisting of the company's shares; transactions on sales of equities (shares) of the legal entities under the control of the company having significant importance to it, as a result of which the company loses control over such legal entities; transactions, including interrelated transactions with the company's property or the property of the legal entities under the control of the company the cost of which exceeds the amount stated in the company's Articles of Association or which is of significant importance for the company's business activity; organisation of a legal entity under the company's control having the significant importance to the company's activity; the company's carve-out of treasury and "quasi- treasury" shares	Fully complied with	
7.1.2.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	
7.2.	The company shall ensure such procedure of significant corporate actions execution which allows the shareholders' timely receipt of full information on such actions, provides them with the capability to influence the execution of such actions and guarantees observance and the reasonable protection level of their rights when executing such actions		

1	2	3	4
7.2.1.	The company's internal documents have established the principle of ensuring equal conditions for all the company's shareholders when executing significant corporate actions involving the shareholders' rights and legal interests, as well as have stipulated additional arrangements protecting rights and legal interests of the company's shareholders provided for by the Corporate Governance Code, including: engagement of an independent appraiser having an untarnished reputation recognised on the market and appraisal experience in the corresponding sphere or the provision of the grounds not to engage an independent appraiser when appraising the property disposed of or acquired in a large transaction or a related party transaction; appraisal of the company's shares during their acquisition and redemption by the independent appraiser having an untarnished reputation recognised on the market and appraisal experience in the corresponding sphere with regard to the shares' volume-weighted average price for a reasonable period, notwithstanding the effect connected with the company's entering into the relevant transaction (without regard to the share's price change in connection with dissemination of information on the company's entering into the relevant transaction), as well as notwithstanding the discount for carve-out of minority stake shares; extension of the list of the grounds whereon the company's Board of Directors members and other persons stipulated by the legislation shall be recognised as related parties in the company's transactions for the purpose of the related parties' actual relatedness evaluation	Partially complied with The principle is not entered in the internal documents	In practice, the Company applies the recommended mechanisms to protect the shareholders' rights when implementing significant corporate actions: - an independent appraiser appraises the assets; - the Board of Directors' members do not participate in voting on the matters, the consideration of which could lead to a conflict of interests Procedure adequacy is controlled by the Board of Directors, including the independent directors, for the Company's implementation of significant corporate actions; in particular, a "special" committee consisting solely of independent directors, which produces recommendations for decision-making by the Board of Directors, is created for the purposes of a preliminary review of "significant" transactions and projects
7.2.2.	Other key, according to the company, criteria (recommendations) of the Corporate Governance Code related to the stated corporate governance principle (principles)	—	

Shareholding Structure

The authorized capital of MTS OJSC as of December 31, 2014 amounted to

RUB 206,641,356.20.

Outstanding and authorized shares of MTS OJSC as of December 31, 2014

Categories/classes of shares	Number of shares	Nominal value of share (RUB)
Outstanding shares		
Ordinary shares	2,066,413,562	0.1
Voting shares	2,066,413,562	0.1
Preferred shares	0	0
Authorized shares		
Common shares	100,000,000	0.1
Preferred shares	0	0

Shareholders of MTS OJSC as of December 31, 2014



THE STRUCTURE OF MTS SHARE CAPITAL AS OF DECEMBER 31, 2014¹

Information about shareholders disposing of votes on shares and being beneficiaries on shares

	Number of ordinary shares	Share of authorized capital
Sistema JSFC OJSC ²	1,063,335,886	51.46%
MGTS OJSC ³	9,496,163	0.46%
MOBILE TELESYSTEMS BERMUDA Ltd ⁴	67,995,335	3.29%
MTS OJSC ⁵	9,935	0.000005%
Free float ⁶	925,576,243	44.79%
Total	2,066,413,562	100.00%

- 1 All ordinary registered voting shares disposed of by MTS OJSC, in accordance with requirements of current legislation do not grant a voting right, are not taken into account when counting votes, dividends are not accrued on them.
- 2 Sistema JSFC OJSC stake includes stakes owned by its following subsidiaries: Sistema Telecom Assets LLC (10.67% of MTS OJSC shares) and Sistema Finance S.A. (10.00% of MTS OJSC shares). Vladimir Petrovitch Evtushenkov is a controlling person of Sistema JSFC.
- 3 MGTS OJSC is a subsidiary of MTS OJSC.
- 4 MOBILE TELESYSTEMS BERMUDA Ltd (subsidiary of MTS OJSC) holds ADRs for MTS OJSC shares.
- 5 Repurchased from shareholders of MTS OJSC in August 2014 as part of the mandatory redemption in connection with the reorganization of MTS OJSC in the form of a merger of 11 subsidiaries.
- 6 Includes 10,46% of MTS OJSC stock and ADR for 34,33% MTS OJSC stock.

Information on the number of shareholders

Total number of persons registered with the Issuer's shareholder register as of the end of the reporting year	67
Total number of persons included in the last list (as of 14.08.2014) of persons entitled to exercise (implement) rights to shares of MTS OJSC and for the compilation of which issuer's nominee shareholders submitted data on persons, for the benefit of which they owned (own) shares of MTS OJSC	11,644

MTS OJSC management has no information about existing stakes exceeding five percent of MTS OJSC authorized capital, except for the above-specified.

Information on the Company's securities

MTS successfully places its securities in the international capital markets, raising significant funds and investing these in the development of the Company.

SHARES

MTS shares are traded at the leading Russian Stock Exchange (MICEX) and are quoted at 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. Since June 2014, the shares of MTS OJSC have been traded in the level 1 of the MICEX list of securities.

This section contains the information about MTS shares and bonds.

MTS 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.

An ordinary share of MTS OJSC attached a certain amount of property rights to its owner (shareholder), including the right to participate in the management of the Company, the right to receive a part

of the Company's profits in the form of dividends, as well as the right to receive part of the property remaining after liquidation of the Company.

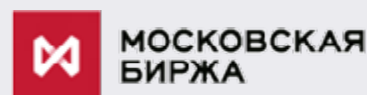
All the issued and outstanding shares of the Company are ordinary registered shares of equal nominal value.

Information on stock exchange listings of MTS shares

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

Information on current listings and transaction prices:

<http://www.moex.com>
<http://www.nyse.com>



MTS share prices and volumes (RUB), 2014

MICEX	Price (RUB)
Minimum price per share	158.50
Maximum price per share	324.00
Average daily trading volume	3,339,902
Price as of December 31, 2014	169.05



Price and volume of American depositary receipts of MTS OJSC (USD), 2014

NYSE	Price (USD)
Minimum price per share	6.17
Maximum price per share	21.38
Average daily trading volume	3,045,033
Price as of December 31, 2014	7.18

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, the Company's ADRs 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.

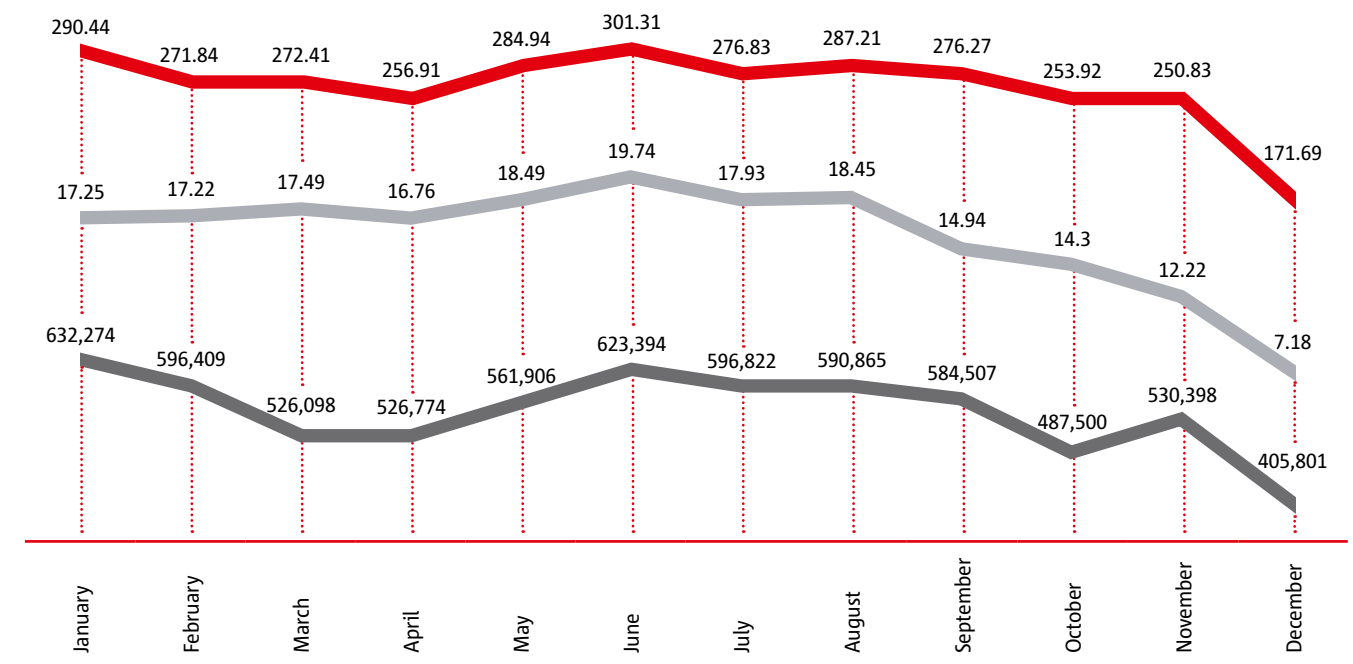
Since October 3, 2003, MTS shares have been traded as non-listed securities on the Moscow Interbank Currency Exchange

(<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 ordinary shares starting from May 3, 2010. As a result, ADR to ordinary shares ratio was changed from 1:5 to 1:2. Therefore, the holders of MTS ADRs, registered as of the end of the business day of April 28, 2010, received 1.5 additional ADRs per each ADR they held.

As of December 31, 2014, the total number of ADRs issued for registered ordinary shares made up 388,698,253 ADRs, which equals to 777,396,505 registered ordinary shares.

Dynamics of MTS share prices, January 2014 – December 2014



● Trading floor: MICEX (Moscow), MTSS ticker (RUB)¹

● Trading floor: NYSE (New York), MBT ticker(USD)²

● Market capitalization of MTS OJSC in 2014, RUB million (MOEX)³

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

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

3 Capitalization is calculated as the product of the total number of MTS shares on the weighted average price per share, calculated based on the closing prices of MTS shares at the Moscow Stock Exchange

BONDS

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

The first issue of the MTS ruble denominated bonded loan of RUB 10 billion took place is June 2008. In October 2008, MTS OJSC placed two more issues of bonds amounting to RUB 10 billion each. In May 2009, the ruble denominated bonded loan was issued amounting to RUB 15 billion and in July 2009 – another bonded loan was issued amounting to RUB 15 billion. On November 16, 2010, MTS OJSC placed two other issues of bonds amounting to RUB 10 and 15 billion. 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 RUB 35,990,400 by converting the registered interest-bearing non-certificated inconvertible

bonds of COMSTAR – United TeleSystems OJSC into the 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 USD 400 million. On April 3, 2013, the first issue of exchange ruble bonds of MTS OJSC was carried out in the amount of RUB 10 billion with a maturity term of 10 years and 5-year offer term. On May 30, 2013, dollar Eurobonds were issued amounting to USD 500 million with a maturity term of 10 years. On October 17, 2013, Series 01 bonds amounting to RUB 10 billion were fully redeemed. On May 13, 2014, Series 04 bonds amounting to RUB 15 billion were fully redeemed.

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% per annum, 4–14 coupons — 7.75% per annum
Issue price	100%
Currency of issue	Ruble
Amount of issue	10,000,000,000
Date of placement	October 28, 2008
Maturity date	October 20, 2015
ISIN Reg No	RU000A0JQ0E2
Offer	—

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Certificated interest-bearing inconvertible bonds payable to bearer, subject to compulsory centralized storage, Series 03
Coupon	1–4 coupons — 8.7% per annum, 5–10 coupons — 8% per annum, 11 coupon — 7% per annum, 12–13 coupons — 7.5% per annum, 14–15 coupons — 12% per annum, 16–20 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	December 17, 2015

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 7, 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 3, 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 6O-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 3, 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
ISIN Reg No	4-09-04715-A
Offer	—

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

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Registered interest-bearing non-certificated inconvertible bonds, Series 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
ISIN Reg 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

Credit ratings of MTS issuer

Credit agencies Fitch, Moody’s and Standard & Poor’s assigned the following ratings to the Company’s debt obligations¹:

Moody’s	Standard & Poor’s	Fitch
Baa3 review for possible downgrade	BBB– review for possible downgrade	BB+ review for possible downgrade

Changes after the reporting date:

Moody’s	Standard & Poor’s	Fitch
Ba1 negative outlook 24.04.2015	BB+ negative outlook 04.02.2015	BB+ stable outlook 18.03.2015

1 Data as of December 31, 2014

Interaction with Investors and Shareholders

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

MTS OJSC does its best to observe the investors’ and the shareholders’ interests 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 US Securities and Exchange Commission¹, at the website of the Russian news agency (news feed)², as well as at the official website of MTS for the shareholders³ and investors⁴, in the iPad app⁵.

Besides, MTS posts data at its official website. The sections “For Investors and Shareholders”⁶ and “Corporate Governance”⁷ contain internal corporate documents, annual reports, materials for the shareholders’ meetings, registrar and auditor details, information on dividend policy, IAS and RAS quarterly financial statements, share and bond quotations. Annual Report of MTS OJSC is also available in iTunes⁸.

Maintenance and development of efficient dialog with stock market participants requires 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

by the teleconferences with participation of MTS management. Published financial statements are supported by presentations for better coverage of the achieved results and presentation of the Company’s strategy.

MTS strives to continuously improve cooperation with the 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 the 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: shaerholders@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

1 <http://www.sec.gov>.
2 <http://www.disclosure.ru>.
3 <http://www.company.mts.ru/comp/ir/control/data/>.
4 <http://www.mtsgsm.com>.
5 <https://itunes.apple.com/gb/app/mts-investor-relations/id928385820?mt>.
6 http://www.mtsgsm.com/about/corporate_governance/.
7 http://www.mtsgsm.com/about/corporate_governance/.
8 <https://itunes.apple.com/ru/app/godovaa-otcetnost-gruppy-mts/id919440557?mt=8>.

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

General Meeting of Shareholders to pay the dividends twice a year.
The regulation On the Dividend Policy is posted at the official website of MTS OJSC¹.

Report on payment of declared (accrued) dividends on MTS shares

The amount of dividends accrued and paid in 2014 (following the results of 2013 and H12014) totaled RUB 51,246,994,938.
The dividend payment obligation to the shareholders was discharged by the Company in full.

Dividend history, 2004 – H1 2014

	2004	2005	2006	2007	2008	2009	2010	2011	2012	H1 2013	2013	H1 2014
Total dividend, RUB million	11.5	15.1	19.3	29.6	39.4	30.7	30.0	30.4	30.2	10.8	38.4	12.8
Per share, RUB	5.8	7.6	9.7	14.8	20.2	15.4	14.5	14.7	14.6	5.2	18.6	6.2
Dividend yield	3.1%	4.0%	4.0%	5.0%	11.1%	6.2%	5.7%	6.3%	5.3%	1.8%	6.1%	2.8%

1 <http://www.mtsgsm.com/information/dividends/>.

Dividend history and outlook
(RUB billion)



DIVIDEND POLICY

In April 2013, MTS Board approved a new dividend policy, which stipulates that for the calendar years 2013–2015, MTS aims to payout a minimum dividend distribution of an amount equal to at least 75% of Free Cash Flow for the relevant financial period or, if greater, RUB 40.0 bln per year

In 2013, MTS also started paying out dividends on a semi-annual basis using interim H1 and full-year financial result

MTS paid out in total RUB 41.0 bln in 2013 and RUB 51.2 bln in 2014 .

OUTLOOK FOR 2014+

MTS confirms its dividend guidance for 2014–2015 of at least RUB 90.0 bln for the period.

Organizations controlled by and having significant importance for MTS OJSC

(As of December 31, 2014)

Russian Telephone Company Closed Joint Stock Company	
Location	5 Vorontsovskaya Str, Bldg 2, 109147 Moscow, Russia
MTS share in the authorized capital of the controlled entity	100%
Share of the controlled entity in the authorized capital of MTS OJSC	0%
Description of the primary business of the entity	trading activities; the sale of MTS services
MTS Ukraine Private Joint Stock Company	
Location	15 Leiptsigskaya Str, 01601 Kyiv, Ukraine
MTS share in the authorized capital of the controlled entity	99%
Share of the controlled entity in the authorized capital of MTS OJSC	0%
Description of the primary business of the entity	electric communications; opportunity of providing cellular services under the MTS brand in Ukraine
Moscow City Telephone Network Open Joint Stock Company	
Location	25 Bolshaya Ordynka Str, Bldg 1, 119017 Moscow, Russia
MTS share in the authorized capital of the controlled entity:	
Direct	56.01%
Through the controlled entities	38.59%
Share of the controlled entity in the authorized capital of MTS OJSC	0.4595%
Description of the primary business of the entity	Telecommunications services in the territory of Moscow

Information on major transactions of the controlled entities:

No such transactions have been conducted in 2014.

Investor Schedule 2015¹

June 27–29, 2015	Bank of America Merrill Lynch 2015 Emerging Markets Corporate Conference in Miami
June 25, 2015	Annual General Meeting of Shareholders in Moscow
June 02–04, 2015	CalGEMs Global Emerging Markets One-on-One Conference in California
May 19, 2015 (preliminary)	Disclosure of the results for Q1 2015
May 7, 2015	The record date for the holders of ordinary shares and ADRs of MTS for the purpose of participation in the AGM
April 24, 2015	Goldman Sachs Russian Day in Frankfurt
April 14–15, 2015	Sberbank CIB “Russia: The Inside Track” One-on-One Conference in Moscow
April 7–9, 2015	UBS Russia Corporate Day in New-York
March 25–27, 2015	HSBC EEMEA Investor Forum in London
March 18–19, 2015	Citi's European & Emerging Markets Telecoms Conference in London
March 17, 2015	Disclosure of the results for Q4 2014
January 21–23, 2015	dbAccess CEEMEA Conference in London

¹ The dates may be adjusted.

MTS Operations as Reflected in 2014 Awards and Ratings

Rating / Contest / Award	MTS rating / contest / award category	Organizer / Source
CORPORATE AWARDS		
BRANDZ ™ TOP 100 MOST VALUABLE GLOBAL BRANDS 2014	The only Russian telecommunications brand in the ranking 80th place, +2 points vs. 2013	International agency Millward Brown
GLOBAL TELECOMS BUSINESS INNOVATION AWARDS 2014	The winner in the category “Business Service Innovation” for MTS corporate service “Smart Insurance”	International Telecommunication publication Global Telecoms Business
NATIONAL PROGRAM “BEST SOCIAL PROJECTS OF RUSSIA “	Inclusion of the educational project to teach seniors Internet literacy “Networks for all ages” in the top 20 best Russian social projects	Fund “Social projects and programs”
BEST DIGITAL COMMUNICATIONS SYSTEM	MTS became the winner of the second annual award in the field of digital communications “Digital Communication Awards”	Association of Directors of Communications and Corporate Media of Russia (ACMR) and “Media Business” publishing house
ICONS OF RUSSIA	MTS was recognized the icon of Russia 2014	Expert Council of the international project Icons of Russia
“EASY INTERNET” AWARD	MTS project “Network for all ages” won the competition held by the organizers of educational programs for seniors “Easy Internet”	The RF Ministry of Labor and Social Protection
“CRYSTAL PYRAMID” AWARD	National project award of MTS “Children teaching adults” is a winner in the category “Social responsibility and charity”	Steering Committee of the Summit of HR Directors of Russia and CIS
COMPETITIVE PROCUREMENT LEADER AWARD	Competitive Procurement Leader Award in the category “Buyers’ Choice” Special award “For contribution to the development and optimization of procurement 360”	International Center for Electronic Trading B2B-Center
THE MOSCOW TIMES AWARDS	MTS project “Network for all ages” won the award in the category “Project of the Year in corporate and social responsibility	The Moscow Times
HR AWARDS AND ACHIEVEMENTS OF MTS TEAM		
RUSSIAN EMPLOYERS RATING	The best employer among Russian companies Russia’s only Top 3 employer	Recruitment holding HeadHunter International consulting group PricewaterhouseCoopers
“EMPLOYER CONFIDENCE CERTIFICATE”	The certificate confirms that the company observes labor legislation	Chamber of Commerce and Industry, Federation of Trade Unions and State Labor Inspectorate in Moscow
INTERNATIONAL COMPETITION “BEST LEGAL DEPARTMENTS – 2014”	MTS Corporate and Legal Matters Unit became the absolute leader of the international competition “Best Legal Departments – 2014” conducted by Legal Insight magazine in the category “Telecommunications” and became the best among the Russian legal departments	Legal Insight Magazine

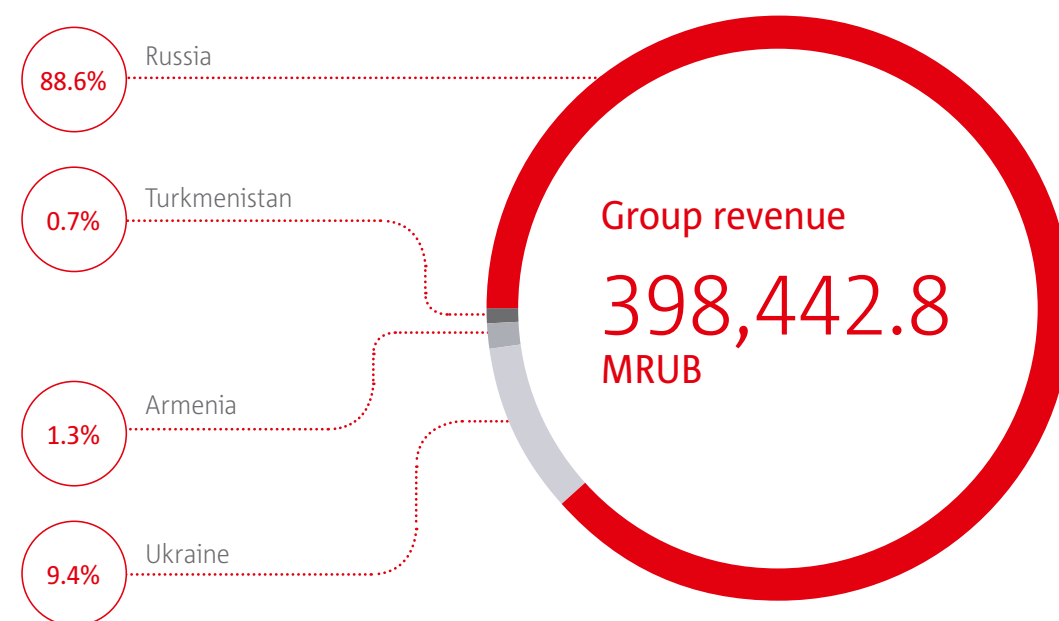
Rating / Contest / Award	MTS rating / contest / award category	Organizer / Source
INTERNATIONAL COMPETITION “BEST LEGAL DEPARTMENTS – 2014”	MTS Corporate and Legal Matters Block won the largest legal award in the CIS “Best Legal Departments – 2014», in two categories: sectoral “Communication and telecom” and “Battle of Giants” as the best of all the sectoral categories.	International publishing group Wolters Kluwer Specialized legal magazine “Corporate Lawyer”
NATIONAL AWARD “SUCCESS. BEST CORPORATE LAWYER OF THE YEAR 2014”	MTS Corporate and Legal Matters Unit won in the category “Team of the Year.” Vice President, Corporate and Legal Matters of MTS Ruslan Ibragimov, Director, Regulatory Risk Management, Andrey Rego, and Area Manager, Regulatory Risk Management, Sergey Voychenko became the winners in the category “Team of the Year.” Director, Corporate Law Department, Elena Pavlova became the winner in the category “Reformer of the Year” for active participation in reformation of business legislation, and Senior Expert, Corporate Law Department Tatiana Murziyanova became the winner in the category “Publication of the Year” – for development of practical guidelines due to the adoption of the new Civil Code.	Corporate Counsel Association (CCA)
RUSSIAN NATIONAL RATING OF CORPORATE COMMUNICATIONS AND CORPORATE RELATIONS DIRECTORS AND DEPARTMENTS “TOP-COMM 2014”	Public Relations Director of MTS Group, Elena Kokhanovskaya, ranked among TOP-5 of the first Russian National Rating of the directors and departments of corporate communications and corporate relations “TOP-COMM 2014” and became the best communications director in the telecommunications sector.	Association of Directors of Communications and Corporate Media of Russia (ACMR)
“BEST CORPORATE MEDIA 2014”	MTS children’s book on mobile communications and a customer magazine rated best corporate publications in 2014.	Non-profit partnership “Promotion of Corporate Media” MediaBusiness Publishing house
II ALL-RUSSIAN CONTEST “THE BEST CORPORATE VIDEO 2014”	Video report of MTS Retail chain on the incentive programme “Big Game” for the first time ever won the Grand Prix and was recognized the best corporate video of the year.	Association of Directors of Communications and Corporate Media of Russia (ACMR) MediaBusiness Publishing
AWARDS OF MTS EXECUTIVES		
NATIONAL AWARD “DIRECTOR OF THE YEAR 2014”	Ron Sommer, Chairman of MTS Board of Directors, ranked among the Top 25 Best Chairmen of the Board of Directors 2014 Stanley Miller, Independent Director of MTS, ranked among the Top 50 independent directors in 2013 Maksim Kalinin, Secretary of MTS Board of Directors, ranked among the Top 25 Best Corporate Governance Directors	Association of Independent Directors Russian Union of Industrialists and Entrepreneurs

In the past several years, MTS Group has transformed from the leader of the Moscow regional market into a major transnational operator, which provides services to 104.1 million subscribers in various regions and countries (including the 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 the consolidated financial statements of MTS Group excluding the financial results of MTS Group operations in the Republic of Belarus¹.

Group revenue

2013

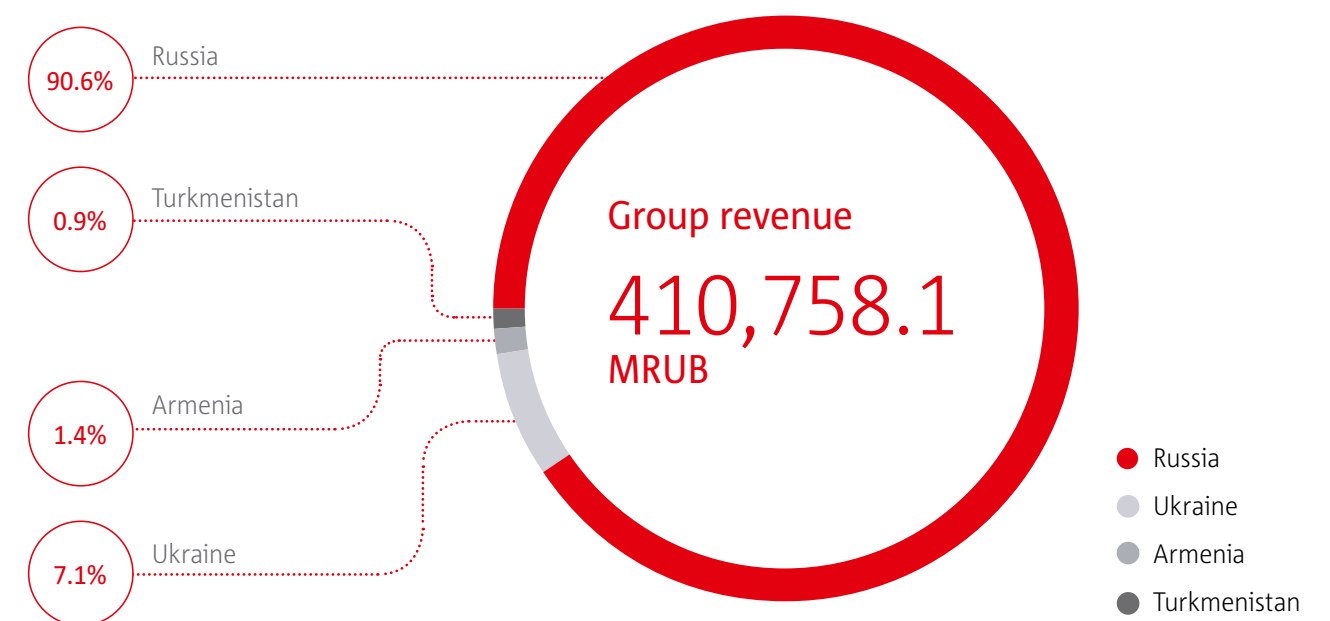


¹ Information on consolidated financial and operating results of MTS Group for Q4 2014 and 2014 can be found at: <http://www.mtsqsm.com/news/2015-03-17-83380/>.

KEY FINANCIAL INDICATORS 2014 (RUB billion)

Indicators	Q1 2014	Q4 2013	Q4 2014 vs. Q4 2013	Q3 2014	Q4 2014 vs. Q3 2014	2014	2013	Change over the year
Revenue	107,188	104,751	2.3%	107 148	w/i	410,758	398,442	3.1%
OIBDA ¹	42,596	44,988	-5.3%	48,186	-11.6%	175,463	175,011	0.3%
OIBDA ¹ margin	39.7%	42.9%	-3.2 pp	45.0%	-5.3 pp	42.7%	43.9%	-1.2pp
Operating profit ¹	23,191	27,219	-14.8%	29,152	-20.4%	100,753	101,758	-1.0%
Operating profit margin ¹	21.6%	26.0%	-4.4 pp	27.2%	-5.6pp	24.5%	25.5%	-1.0 pp
Net income from continuing operations	1,646	19,750	-91.7%	16,062	-89.8%	51,822	76,106	-31.9%
Net income margin from continuing operations	1.5%	18.9%	-17.4 pp	15.0%	-13.5 pp	12.6%	19.1%	-6.5 pp
Net income	1,646	19,750	-91.7%	16,062	-89.8%	51,822	79,839	-35.1%
Net income margin	1.5%	18.9%	-17.4 pp	15.0%	-13.5 pp	12.6%	20.0%	-7.4 pp

2014



¹ Exclusive of the revenue in the amount of RUB 6.7 billion (RUB 3.6 billion in Q3 2014 and RUB 3.1 billion in Q4 2014) from resumption of operations in Uzbekistan and provision for devaluation of investment in Delta Bank PJSC (Ukraine) in the amount of RUB 5.1 billion in Q4 2014

Below is the analysis of key operating indicators of MTS Group in 2014 vs. 2013

Consolidated revenues of MTS Group increased by RUB 12.3 billion or 3.1% and amounted to RUB 410.8 billion. The main driver of consolidated revenue growth was higher consumption of VAS services by the Group subscribers (by RUB 14.4 billion) due to the increased data volumes as a result of active promotion of these services in the market, growth of the mobile Internet and smartphones penetration, as well as the development of 3G and LTE networks, and, consequently, improvement of the quality of VAS services. The consolidated revenues growth was also supported by the growth of revenues from traffic termination (by RUB 5.6 billion) and from the sales of smartphones and accessories (+ RUB 2.4 billion). The growth of revenues from traffic termination was attributable to the weakening of Russian ruble exchange rate to US Dollar and increase of traffic volumes from our competitors. The growth of revenues from the sales of smartphones and accessories was driven by a continuing expansion of the Group retail chain. In 2014, we also saw the revenue decrease by RUB 7.3 billion and reduction of the revenues from subscription by RUB 3.3 billion, which resulted from shifting of our subscribers to more affordable contractual tariffs. The subscriber base as of December 2014 increased to 98.5 million compared with 94.7 million subscribers as of December 2013.

In 2014, the adjusted OIBDA of MTS Group was RUB 175.5 billion, which is 0.3% higher than the last year's indicator. The adjusted OIBDA does not include the revenue in the amount of RUB 6.7 billion from resumption of operations in Uzbekistan and the cost of generating the provision for investment in Delta Bank PJSC (Ukraine) in the amount of RUB 5.1 billion. OIBDA margin declined to 42.7% as compared to 43.9% in the last year. Decline of the adjusted OIBDA margin is mainly associated with inflation pressure and the devaluation of the ruble and hryvnia affecting the foreign currency expenses, first of all connected to the international roaming and increased sales of low-margin handsets.

2014 consolidated operating profit remained relatively stable, declined by 1% as compared to the previous year, and amounted to RUB 100.8 billion. Operating profit does not include the revenue in the amount of RUB 6.7 billion from resumption of operations in Uzbekistan and provision for devaluation of investment in Delta Bank PJSC (Ukraine) in the amount of RUB 5.1 billion. Operating profit margin also decreased from 25.5% in 2013 to 24.5% in 2014.

Consolidated net income from continuing operations in 2014 decreased by 31.9% to RUB 51.8 billion, mainly due to non-cash foreign exchange losses, provision of RUB 5.1 billion for investment in Delta Bank PJSC (Ukraine) and the devaluation of the investment in the amount of RUB 3.2 billion. Decrease in consolidated net income from continuing operations in 2014 as compared to 2013 was also influenced by the settlement of litigation over Bitel in the amount of RUB 12.1 billion. Net income margin from continuing operations in the reporting period also decreased to 12.6% as compared with 19.1% in 2013.

Consolidated net income of MTS Group in 2014 amounted to RUB 51.8 billion, which is 35.1% lower than the previous year. Net profit decrease in 2014 was caused by recognition of income from deconsolidation of MTS Group's subsidiaries in Uzbekistan in the amount of RUB 3.7 billion. Consolidated net income margin reduced from 20.0% in 2013 to 12.6% in 2014.

Cash flow from continuing operations in 2014 was almost the same as in 2013 and amounted to RUB 159.5 billion. Free cash flow from continuing operations in 2014 decreased by 22.6% and amounted to RUB 57.0 billion, due to CAPEX growth related to prepayment to vendors for the equipment supply to level the exchange rates fluctuations and purchase of assets in the Russian Federation.

Revenue structure (RUB million)

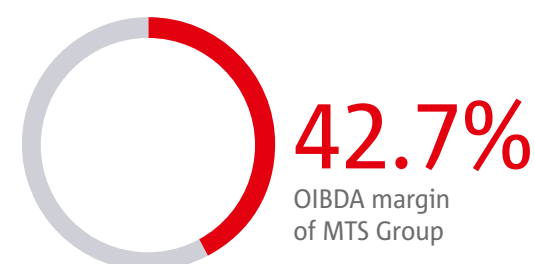
Region	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2013	2014	Change over the year
Russia	94,154	87,252	90,389	99,209	98,044	354,894	374,895	+6%
Ukraine	9,933	9,558	7,665	8,109	7,455	39,732	32,787	-17%
Turkmenistan	819	806	851	908	1,257	2,838	3,822	+35%
Armenia	1,586	1,458	1,599	1,953	2,141	6,228	7,151	+15%
Uzbekistan					104		104	NA

OIBDA (v) (RUB million)

Region	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2013	2014	Change over the year
Russia	41,107	37,773	40,309	45,437	41,324	157,699	164,844	+5%
Ukraine	5,194	4,890	3,818	3,481	3,120	20,641	15,308	-26%
Turkmenistan	498	315	377	379	506	1,177	1,576	+34%
Armenia	420	662	766	1,067	986	2,859	3,481	+22%
Uzbekistan					-607		-607	NA

OIBDA margin

Region	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2013	2014
Russia	43.7%	43.3%	44.6%	45.8%	42.1%	44.4%	44.0%
Ukraine	52.3%	51.2%	49.8%	42.9%	41.8%	52.0%	46.7%
Turkmenistan	60.8%	39.0%	44.3%	41.7%	40.2%	41.5%	41.2%
Armenia	26.5%	45.4%	47.9%	54.6%	46.1%	45.9%	48.7%
Uzbekistan					NA		NA



Country and macroeconomic risks

We are the operator providing the subscribers with paid telecommunications services. Our financial condition and operating results, inter alia, depend on the population's ability to pay. 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, and have a negative impact on the financial condition of our corporate customers and partners, including financial institutions, which can lead to the decrease in our revenues and performance indicators and adversely affect the security of assets.

We can be influenced by country and political risks, as well as the risks associated with the legal status and the ability to provide uninterrupted services in the countries where we operate, which may affect our financial condition, the security 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 or linked to USD and/or EUR exchange rate, while the large portion of our income 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 developing our business in the countries where we operate and other countries through acquisitions, usage of new technologies and new licenses. Rate of the Company's development and its financial standing depend on debt financing. Crisis of financial markets may restrict the ability of the Company to raise debt financing.

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

The system of taxation in the countries where we operate is undergoing constant changes; legislation in this area tends to have ambiguous interpretation. For example, poorly drafted Russian transfer pricing rules may increase the risk of price adjustment by tax authorities and lead to additional tax burden within transfer pricing control. This may complicate tax planning and related business processes, and may also have adverse material impact on our business and 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 of the countries where we operate, make payments and interact with suppliers, partners and creditors, may affect our financial standing and operating indicators by issuing appropriate laws and regulations that govern our operations and activity of our partners, including financial institutions. 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 the 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 the UK (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 prolong the right for currently used radio frequencies and receive 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 the subscribers and our reputation.

Competitive environment

Our business, performance indicators and financial position depend on the 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. From 2014 onwards, gradual intensification of competition 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, as well as the possible emergence of new players in the market may lead to lower rates and, therefore, a general decline in margins, which poses a threat to our business.

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 invest in expanding the portfolio of value added services and also in building communications systems (including 4G), 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 OJSC¹, as well as in quarterly reports of MTS OJSC².

¹ http://www.mtsgsm.com/resources/annual_reports/

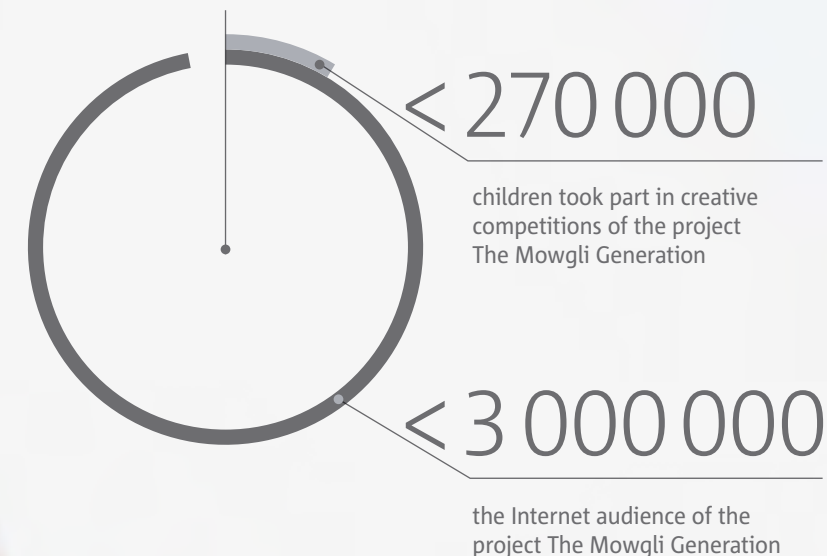
² http://www.company.mts.ru/comp/ir/control/data/quarterly_reports/

4.

Social Responsibility

TOP 20

Inclusion of the educational project to teach seniors Internet literacy "Networks for all ages" in the top 20 best Russian social projects



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CORPORATE VOLUNTEER INITIATIVE
«JUST GIVE GOOD!»

+ 250
events across the country
volunteers held in 2014

+ 350
events across the country
volunteers held in 2014

Labor and Compensation

As of December 31, 2014 MTS OJSC had 30,024 employees on its payroll list.

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

The fixed part of the salary is determined taking into account the salary ranges established for each grade based on the analysis of the labor market in the region of operation 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 the employees engaged in sales and customer care, the basic principle of which is motivation for achieving specific results. Specific 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 the Company's employees responsible for direct sales.

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

MTS provides to its employees a wide compensation and benefits package, focused on social protection of the employees. The employees are provided service benefits (including cars and compensation of maintenance costs, 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 for relocation within the Company). Due to the active development of the benefit package, over the past years, 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 the activities carried out in 2014, MTS preserves and strengthens its position among employers both for potential foreign competitors and for its own talented employees; and provides comfortable and stable working environment for the entire staff.

Organizational structure in 2014

In 2014, main changes in the organizational structure of MTS OJSC were aimed at increasing the manageability of the business (building a model structure, reducing the number of management layers and increasing the span of control, optimization of small structures), increasing the efficiency of resolving issues on the agenda and approval processes, elimination of duplicate functions.

	Result of changes
Marketing, sales and service units	— Building the model structure
	— Enhancement of competitiveness and management of fixed business
	— Systematization of work with freelance personnel (positions, number, form of registration)
	— Transfer of sales, service and marketing function from Moscow Macro-Region to MGTS
	— Creation of a telemarketing functional group
Finance units	— Transfer of franchising and distribution staff from RTC to MTS
	— Completion of the preparatory phase for the transfer of invoice generation function to COD SSC
	— Formation of Revenue management IBU. Centralization of revenue assurance and fraud management
HR units	— Transfer of recruitment function from RTC to MTS
IT units	— Building the model structure
	— 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)
	— Formation of plans to centralize functions (production, ERP support, testing, pricing, etc.)
	— Completion of centralization for implementation of marketing programs in the North-West MR
Subsidiaries	— Acquisition of the following subsidiaries and affiliates by MTS OJSC:
	— EFCOM Closed Joint-Stock Company (EFCOM CJSC)
	— Elf Closed Joint-Stock Company (Elf CJSC)
	— Zheleznogorsk City Telephone Communications Closed Joint-Stock Company (ZhelGorTeleKom CJSC)
	— Pilot Closed Joint-Stock Company (Pilot CJSC)
	— Firm TVK & C Closed Joint-Stock Company (Firm TVK & C CJSC)
	— Cascade-TV Closed Joint-Stock Company (Cascade-TV CJSC)
	— Intercom Closed Joint-Stock Company (Intercom CJSC), TRC TVT OJSC, Kuznetsktelemost CJSC, to MTS OJSC.
	— System of telecommunications, informatics and connection Closed Joint-Stock Company (Sistema Telecom CJSC)
	— Tovarnye Znaki Closed Joint-Stock Company (TZ CJSC)
	— Teleradiocompany Open Joint-Stock Company (TRC TVT OJSC)
	— Kuznetsktelemost Closed Joint-Stock Company (Kuznetsktelemost CJSC).

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 the 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 the 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 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 for the employees and managers to improve their performance in their current jobs
- Creation of tools for developing the Candidate Pool and Successors for key positions
- Ensuring continuity of expert/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's 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 the Company's functions 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 the 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 division. 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 the uniform standards (taking into account regional differences).
- **Management training for managers.** The concept of completion of individual train-



ing plan, as well as targeted and modular training of managers underlies the system. Targeted and modular programs are mandatory for selected categories of managers, and individual training plans are created based on the annual appraisal of the managers' competences. Particular attention is given to train the managers in the HR management methods (recruitment, appraisal, grading, feedback, creation of personalized development plans, mentoring, motivation of employees, etc.) and interaction with the 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 the managers training programs are determined based on the Company's development strategy, the business objectives of divisions, and the level of the 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 the employees. The internal library of materials related to 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 the employees and to discuss the issues of 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 the 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 has established a mentorship system for all employees: from an intern to an expert;
- **Master classes held by top managers of the Company.** 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 2014, the following programs have been implemented in the Company:

- New cycle of the "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. 98 new courses were added to Remote Personnel Testing and Training System (1.5 times more than in 2013); each employee completed more than three courses in SDTO.
- A system of online learning through webinars is actively developing. In 2014, training in this format has been held for more than 9,000 employees.
- 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 2014, 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 conducted in 2014, 50% of the Company's executives had full-time education.
- In support of the Company's strategy, targeted training programs "Leadership in Change Management, Development of Leadership Potential were launched. Non-Financial Motivation, Coaching in Management, and Management of Operational Efficiency development programs were designed to be launched in 2015.
- The English Club was started, aimed at development of language skills among MTS staff. Classes are held in the format of debates (Eng. Club) and full-time/online courses. Moderators are guest lecturers.
- Candidate Pool program in Sales and Customer Service Block units was implemented.

Total coverage of employees trained was 132,000 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;
- **HR Academy** for employees of the HR unit;
- **iMBA** for employees in remote regions.

The criteria for sending the 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.

Occupational health and labor safety

MTS pays close attention to the issue of ensuring comfortable and safe working conditions. Personnel safety is the main component of corporate social responsibility of the Company. MTS is guided in the field of occupational health and safety by the laws of countries where it operates, as well as international law and local regulations on labor protection.

The Company operates a three-tier system of OSH management, focused on creating a safe working environment, prevention of occupational injuries and personnel training of safe work rules.

Labor protection activities carried out by MTS Group are aimed at:

- Ensuring the priority of preserving life and health in the workplace;
- Improving the OSH management system;
- Timely training of managers and specialists on labor protection;
- Organization of preventive and periodic medical examinations of employees;
- Timely provision of employees with special clothing, footwear and other personal protective equipment;
- Organization of the production control and evaluation of the special conditions of employment;
- Ensuring the safety of production equipment and processes;
- Accounting and analysis of occupational injuries, organization of investigation of accidents and activities to prevent occupational injuries and diseases;
- Providing units with normative documents, communicating the laws and regulations on labor protection to the employees;
- Promotion of occupational safety and health issues.

In January 2015, the analysis of the implementation of the planned activities on labor protection in the past year was performed. In total, MTS Group spent RUB 78.8 MRbillionUR on labor protection measures in 2014, which amounted to an average amount of RUB 2067.4 per employee.

One of the major trends in the prevention of occupational injuries and diseases is a special

assessment of working conditions. This process allows to fully identify and objectively evaluate the harmful and (or) dangerous production factors and risks in the workplace, to plan the activities to improve working conditions. As of December 31, 2014, 14,768 workplaces have been certified (estimated) in MTS Group's Corporate Center and MTS macro-regions, in 2015, special assessment of working conditions will continue.

Personal protective equipment (PPE) plays an important role in the prevention of employee's direct exposure to harmful and (or) hazardous production factors.

MTS Group developed and approved norms of free issue of special clothing, footwear and other personal protective equipment to workers who are engaged in work with harmful and (or) dangerous working conditions.

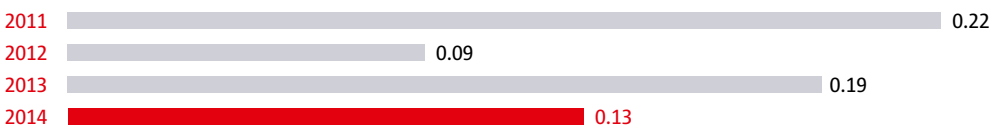
Timely procurement of certified PPE is provided, deadlines of wearing and testing of personal protective equipment are met. Properly organized safekeeping of PPE is ensured.

MTS employees engaged in work with harmful and (or) dangerous working conditions undergo preventive (at employment) and periodic (during work) medical examinations. The purpose of the periodic medical examination is a dynamic monitoring of the employee's health in the workplace, prevention and timely establishment of the signs of occupational and general disease, and prevention of accidents.

During the reporting period, MTS Group held preventive and periodic medical examinations of 3,409 and 11,469 employees, respectively. As a result of periodic medical examinations, 20 employees needed to transfer to another job, 250 employees were encouraged to health resort treatment.

Particular attention is paid to the organization of MTS activities to prevent occupational injuries and diseases, to carry out preventative measures to manage occupational risks. For this

Frequency factor of accidents in 2011–2014



purpose, various organizational and technical measures have been implemented for accidents prevention.

In 2014, five minor accidents occurred within MTS Group, two cases less than in 2013. Rate of injury, which is characterized by a frequency factor of accidents (Ff), was 0.13.

OSH management system in the Company has been recognized at the regional and district levels. In 2014, a number of MTS branches became winners of city and regional contests for labor protection.

MTS OJSC in Moscow was awarded a "Certificate of trust to the employer."

Every year, the Company assesses the effectiveness of OSH management system based on quantitative indicators that objectively assess the degree of implementation of the labor policy. Assessment is carried out for each region. As a result of evaluating the OSH management system effectiveness, the analysis is performed, concrete measures on improvement of labor protection are planned.

Corporate social responsibility principles (CSR)

MTS provides integrated services to more than 100 million people in Russia and the CIS, Central and Eastern Europe. The quality of life of all these people is influenced by our technology, pricing, quality of communications. We are fully aware of our responsibility to our customers, thus MTS sees sustainable development as the mechanism that:

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

One of priorities of MTS is the integration of this responsibility into all aspects of the Group's activities. We are committed to the adopted sustainable development strategy. We understand sustainable development as a system of consistent economic, environmental and social activities carried out based on the continuous interactions

with stakeholders, and aimed at a more effective risk management, long-term improvement of the image and reputation of MTS Group, as well as capitalization and competitiveness growth.

The principles of socially responsible business, aimed at ensuring sustainable development of the Company, the growth of its welfare and formation of a competitive economy, improving the quality of life and prosperity of society, lie at the heart of the Company's CSR activity. The principles have been formulated taking into account the expectations of all stakeholders.

Sustainable Development Reports of MTS Group, major charity projects of the Company, as well as feedback contacts are available on our corporate website¹. We maintain a constant dialogue with stakeholders and give them opportunity to get all the information about our social activities.

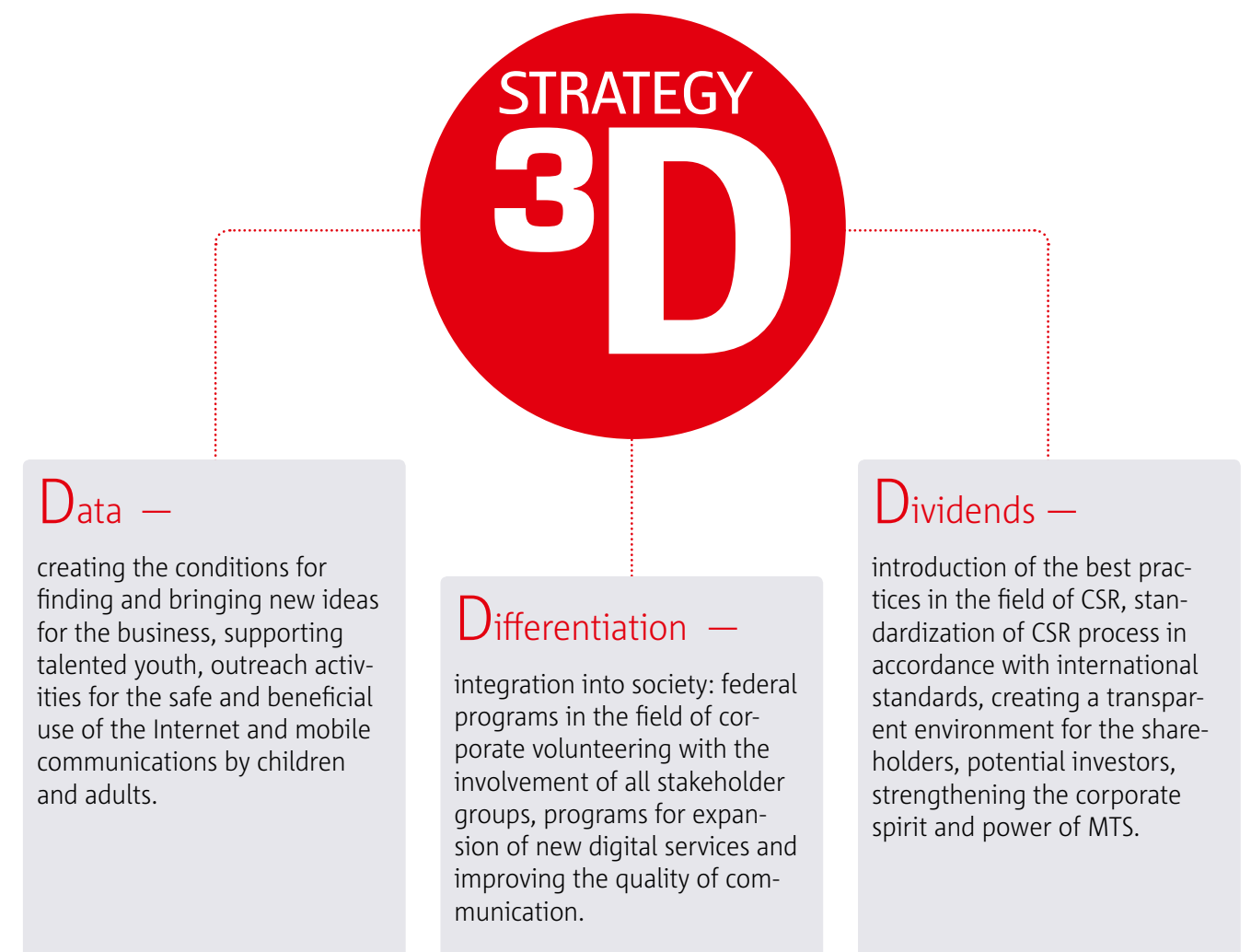
¹ <http://www.mtsgsm.com/csr/>.

Strategy of sustainable development

Corporate Social Responsibility Activities of MTS is aimed at supporting the Company's business strategy and has been based on the principles of three «d» since 2014¹:

- data,
- differentiation,
- dividends.

At the end of 2013, MTS corporate strategy has been changed – the Company has focused on the development of data component; data strategy was developed. Similar changes have occurred in the CSR strategy of the Company: since 2013, all the projects in the field of CSR has become data-oriented.



¹ Previous CSR strategy of MTS Group was based on three «i»: Integration, Internet and Innovation. In 2013, this strategy has been fully successfully implemented. «3d» Strategy was a logical evolution of the previous strategy, taking into account new trends in the telecommunications market and the change in the strategic priorities of MTS. Today, we focus on increasing penetration of mobile Internet services and the diversification of the Company's services..

Social projects

Network for all ages

In 2014, one of the most significant MTS projects was Network for All Ages, ranked among the TOP-20 projects of the Program The Best Social Projects of Russia. The objective of the project that we have been implementing for 3 years in collaboration with the Internet Development Foundation is the popularization of modern information technologies and useful online services among older people, to help them to acquire practical skills of using the Internet for everyday tasks. MTS, being one of the largest providers of mobile and fixed access to the Internet, sees its social mission in providing equal access to the digital world for the people of all ages. By the end of 2014, over 10 Internet literacy training sites were operating in Russia – in the Samara region, Obninsk, St. Petersburg, Kazan, Tula, Kirov, Perm Region, Kemerovo, the Amur Region, Kamchatka, and Sakhalin. Throughout the entire duration of the project, more than 9,000 people in total acquired Internet skills. In 2015, MTS plans to launch the Mobile Academy – special classes to train people aged over 50 to use mobile Internet.



Children Teaching Adults

In 2014, MTS began to implement a national educational project Children Teaching Adults aimed at young people teaching their parents to use practical features of mobile Internet. The project won Crystal Pyramid award in the category Social Responsibility and Charity. Children Teaching Adults allows adults to overcome technical and psychological barrier to the use of mobile Internet, and helps children realize their creative potential. The competition for “reverse lessons” caused great interest among teenagers, allowing them to gain skills of practical use of information technologies and to find new common ground in relations with their parents.

Children on the Internet

In the reporting period, we actively developed educational and exhibition project Children on the Internet – a set of educational activities combining interactive exhibitions, a series of training classes for younger students, and parent meetings. The project has been implemented since 2011 by MTS jointly with the Internet Development Foundation with the support of the Ministry of Telecommunications and Mass Communications of the Russian Federation and the Ministry of Education and Science of the Russian Federation. The purpose of the project is to inform primary school children, parents and teachers about the potential risks when using the Internet, the ways to protect from network threats and useful education, development, communication and entertainment opportunities of the global network. In just 4 years the exhibitions have been held in more than 30 cities of Russia and Belarus, the project was attended by over 300 thousand people. In 2014, the exhibitions were first held in Siberia (Barnaul, Tomsk) and the south of Russia (Krasnodar). The key development vector of the project in the reporting period was the Interregional Scientific and Practical Program Digital Childhood: Socialization and Safety, which was attended by more than 650 educators and more than 5,000 children in seven regions of Russia: Moscow, the Moscow Region, the Nizhny Novgorod Region and the Sverdlovsk Region, Bashkortostan, Altai and the Krasnodar Region.



In addition to the main strategic areas of the Company's CSR, we plan to develop the following areas:

Eco-Telecom: A set of measures to improve environmental sustainability of the business and to develop a culture of respect for the environment and each other among employees, customers and partners of the Company. In 2014, 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, International exhibition Ecosphere, national environmental campaign for the collection of waste paper Save a Tree and many others.

Social HR: support and 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. In 2014, MTS has supported such large and socially significant events, as:

- Annual Forum Business for Equal Opportunities. The Forum is an open platform to discuss opportunities for business and government to provide mutual assistance in the socialization of people with disabilities;
- Competition for young professionals Way to Career, which allows the business to see that along with other members of the labor market, there are undiscovered resources – young, enterprising and talented professionals with disabilities, professionally trained in various fields;
- The annual dance marathon Best Friends, where MTS involves employees to draw public attention once again to the fact that we all have equal opportunities. The event is attended by over 500 people;
- Sporting activities aimed at the formation of inclusion in sport – joint football games and beach volleyball with MTS corporate teams.
- Educational business trainings, which are conducted by MTS staff and corporate trainers, as well as a summer internship program.

CSR management

MTS Group is guided by CSR principles in its activities:

- the company does not take part in projects implemented in order to directly or indirectly influence or reward the decisions of representatives of state authorities, local government or other officials;
- MTS does not take part in projects implemented for the benefit of political parties, organizations, movements and associations;
- the company does not take part in charitable projects with participation of state-owned companies or public officials that are closed, and where disclosure of information about these project can be harmful to mts or its employees.

The main CSR management body is MTS Board of Directors, 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 Unit 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.

A CSR Committee has been created as an advisory body to MTS President, whose members work on a voluntary basis for the purpose of attracting affiliate programs, communicating the Company's CSR Policy to the external and internal environment. Their duties include creating CSR environment within MTS and around it, consolidation and efficient use of MTS resources in integrated projects, carrying out independent verifications of sustainability reports, approving annual work plans for the Corporate Center and Macro-Regions.

In 2014, MTS has significantly strengthened its control over the reporting: we regularly mon-

itor the CSR activities at the regional and federal levels. All information on the activities regarding corporate social responsibility of the Company for the year in Russia and abroad is consolidated in the public record of sustainable development of MTS Group.

At the end of 2014, MTS conducted self-evaluation of its activities in accordance with the principles of social responsibility on the basis of the provisions of the international standard ISO 26000:2010 Guidance on Social Responsibility. This International Standard has been prepared using the approach based on the participation of experts representing various stakeholders from more than 90 countries and 40 international and regional organizations with a wide scope, involved in various aspects of social responsibility. The 2014 self-assessment showed that the projects in the field of CSR in MTS are implemented at a high level, but there is a need to bring a number of aspects in full compliance with the standard. In 2015, we plan to introduce all the principles of standard and application of the standard in full.

MTS regularly reviews the effectiveness of the implementation of CSR policies based on the target values of key performance indicators established during the planning phase and reflected in the CSR strategy of MTS. Based on these results, the Company evaluates the relevance and completeness of the corporate social responsibility policies. As part of this assessment the need to review the activities of CSR for the next year or adjustment of the target values is discussed.

The Department of Public Relations is responsible for implementation of MTS charity programs. The main body in charge of charitable projects in MTS is the Supervisory Board, composed of senior executives of MTS, representatives of partners of the Company in the field of charitable activities, as well as the representatives of the public.

Charity

Charity policy

One of the major components of 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 the 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

We are convinced that a truly successful business must help those who need help. MTS invests part of its income to finance CSR and charity projects.

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

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

The Group pays special attention to children. MTS volunteers together with partners regularly organize activities for orphan homes, children with disabilities and children from disadvantaged and needy families throughout Russia. Since 2014, jointly with a number of sponsored institutions, we have launched creative workshops organized by the best teachers, directors and volunteers.

Give Good!

For the past four years, MTS has implemented a charity program Give Good! (www.dobroedelo.mts.ru) to support the treatment of children with cancer and other serious diseases. MTS invests its own funds in the program, and also due to the unique system guaranteeing the safety and targeted assistance to individual children it involves subscribers, partners and customers in funding. The Company actively promotes the development of the philanthropy among the Russian population: MTS creates and promotes the modern means of raising funds for the treatment of children, which allows each owner of a mobile phone to make a donation. Funds raised under the program Give Good! are aimed at the treatment of 114 children from different regions of Russia.

All-Russian creative charity project The Mowgli Generation

The Mowgli Generation is a key project of MTS charity program. It is implemented in the format of Creativity in the Name of Life, promoting the development of philanthropy among the Russian population through the use of Internet technologies.



- Project highlights 2014 are as follows:
- project websites has been developed and launched: the official portal www.dobroedelo.mts.ru and social networks groups;
 - over 270 thousand children took part in creative competitions of the project;
 - the Internet audience of the project has exceeded 3 million people;
 - more than 30 creative laboratories have been organized in the regions (master classes, exhibitions, flash mobs, campaigns and festivals);
 - over 27 thousand people took part in raising funds for oncologic children from the Konstantin Khabenskiy Foundation;
 - in total, more than RUB 4.5 million collected;
 - the project has been awarded International Stanislavsky Prize.

Corporate volunteer initiative Just Give 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 due 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 2014, volunteers held more than 350 events across the country. Corporate volunteering is a manifestation of corporate social responsibility of business, which is gaining popularity among the employees, allowing the Company to increase the loyalty of its employees and boldly address important social issues, integrating them with business objectives.

Mobile Fairy Tales Theater

Since 2012, a corporate volunteer puppet theater Mobile Fairy Tales Theatre has been operating at MTS. The program of the theatre includes 5 performances – Christmas fairy tale Morozko and educational musical fairy tale Children on the Internet, musical performances on the ecological issue Saving the Planet Earth and The Story of a Prince. These performances are shown by MTS volunteers to children in sponsored orphanages and children of employees and partners. In 2015, 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.



Plans for 2015

In 2015, we plan to:

- shift to a more modern and high-quality level of non-financial reporting: implementation of GRI G4 standard, that allows to focus on the essential aspects of sustainable development of MTS Group in the preparation of sustainability report;
- use the social and educational mechanisms more actively in order to promote and advance the use of mobile Internet in the society;
- continue replicating key CSR projects in regions and countries where MTS operates: Telecom Idea, Network for All Ages and Children on the Internet;
- actively develop creative charity project The Mowgli Generation in Moscow and in the Russian regions;

- continue to develop Social HR: expand opportunities for training, practice and recruitment of professionals with disabilities, and increase the involvement of the Company's employees in socially important activities aimed at the socialization of young people with disabilities;
- continue to work on Eco-telecom: to promote environmentally responsible lifestyle and attitude towards natural resources, support for federal and international eco-activities;
- continue to apply the provisions of the International Standard ISO 26000:2010 Guidance on Social Responsibility.

In addition, in 2015, the quality of CSR projects management is planned to be strengthened through the CSR Committee established in 2014.

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.

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 the 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 the 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.

CONSUMPTION OF POWER RESOURCES

Information on consumption of power resources by MTS OJSC in 2014 (in kind and monetary terms)

Resource	In kind	In monetary terms
Power	824,300,874.00 kW/h	RUB 3,599,752,108.70
Heat	47,258.90 Gcal	RUB 57,023,079.74
Water supply	291,028.36 m³	RUB 9,301,169.38
Gas	976,864.75 m³	RUB 6,137,184.71
Petrol	3,443,388.93 l	RUB 99,527,459.16
Diesel fuel	4,028,992.78 l	RUB 116,825,751.45

INTERACTION WITH
THE STAKEHOLDERS

Currently, MTS is one of the leaders in the Russian telecommunications industry. In today’s world, the 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 the 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 share capital value and return on investments of our shareholders are the main objectives of Company. MTS activities related to disclosure of information and interaction with the shareholders is governed by regulations of the U.S. Securities and Exchange Commission, New York Stock Exchange, Russian legislation, the Company’s Charter and by-laws. We use a rigorous and thorough approach to preparation of the 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

President
Mobile TeleSystems OJSC

Chief Accountant
Mobile TeleSystems OJSC

A. Dubovskov

A. Dvoretiskikh

and services. Our activities are focused on improving the delivery of services and maintenance, simplifying the interaction with the customers.

Our employees are the main driver of the Company’s development. Care for employees is one of the Group’s 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, the 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 operation, MTS actively co-operates both with governmental authorities and with local communities (population, non-governmental organizations and associations, public health authorities, trade unions and mass media).

We strive to build our relationships with suppliers on long-term and mutually profitable basis. Efficient co-operation with the suppliers allows MTS Group to take advantage of new market opportunities, to improve the quality of services provided to the customers, and to improve technology. The most important aspect of the 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 services, the Company’s employees, government officials, nonprofit organizations and other stakeholders is carried out via various communications channels, the details of which are available on the corporate site at www.mts.ru

GLOSSARY

MOU (*Minutes Of Usage*) — voice traffic volume in minutes

ARPU (*Average Revenue Per User*) — average revenue per user

GPON (*Gigabit Passive Optical Network*) — gigabit passive optical network

3G (*3rd Generation*) — third generation

4G (*4th Generation*) — fourth generation

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

TDD (*Time Division Duplex*) — duplex communication with time division

FDD (*Frequency Division Duplex*) — duplex communication with division of transmission and receipt frequencies

M2M (*Machine-To-Machine*) — interaction between machines

SaaS (*Software as a Service*) — Software as a Service

HSPA+ (*High Speed Packet Access Plus*) — High Speed Packet Access Plus

MVNO (*Mobile Virtual Network Operator*) — virtual mobile operator

CDMA (*Code Division Multiple Access*) — code division multiple access

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

Wi-Fi (*Wireless Fidelity*) — specification for wireless data communication over radio channels

UMTS (*Universal Mobile Telecommunications System*) — Universal Mobile Telecommunications System

VAS (*Value Added Services*) — services that bring additional income

Broadband — Broadband access

FOL — fiber-optic link

OIBDA (*Operating Income Before Depreciation And Amortization*) — analytical indicator that means operating income before depreciation and amortization of intangible assets

CAPEX (*CAPital EXpenditure*) — capital expenditures

MICEX — Moscow Interbank Currency Exchange, Russia

Moscow Stock Exchange — the largest in Russia and Eastern Europe exchange holding

NYSE — Нью-Йоркской фондовой бирже (New York Stock Exchange), США

The Bank of Russia — The Central Bank of the Russian Federation

SEC — Securities and Exchange Commission (The United States Securities and Exchange Commission), United States

ADR — American Depositary Receipts

IFRS — International Financial Reporting Standards

RAS — Russian Accounting Standards

US GAAP (Generally Accepted Accounting Principles) — a system of financial accounting standards and guidelines used in the U.S.

CSR — Corporate Social Responsibility

Information
on Company

Full corporate name of Company:
— in Russian: Открытое акционерное общество «Мобильные ТелеСистемы».
— in English: Mobile TeleSystems Open Joint Stock Company.

Abbreviated corporate name of Company:
— in Russian: ОАО «МТС» или ОАО «Мобильные ТелеСистемы».
— in English: MTS OJSC.

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Information
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Website: http://www.nsd.ru.

Disclaimer

This Annual Report has been prepared by Mobile TeleSystems OJSC (the “Company”) solely for information purposes and may contain forward-looking statements or forecasts. Such statements or forecasts relate to the matters other than historical facts or statements, and reflect the Company’s intentions, beliefs or current expectations concerning, inter alia, 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 the events or circumstances occurring or arising after the date of this report.

