

# Annual Report

# 2010



## ALWAYS ON THE GO!



**MTS**

a step ahead

Preliminary confirmed  
by the Decision of Board  
of directors MTS OJSC  
12.05.2011 (protocol № 181)



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

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

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

### Disclaimer

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

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

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**MTS**

a step ahead

# RUSHING SINCE BIRTH!



a step ahead



**Company history**





# 1. Company history

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

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

The core business of MTS is provisioning of mobile communication services. The objective of the Company's business is earning profit through planning, marketing and operations

of the cellular mobile communication network across the territories specified in the licenses issued by the Ministry of Communications of the Russian Federation.

MTS OJSC is the largest mobile operator in Russia, Central and Eastern Europe with regard to the customer base. The services provided by MTS OJSC are available in most Russian regions and cities, including Moscow, St. Petersburg, Nizhny Novgorod, Krasnodar, Perm, Novosibirsk, Khabarovsk and many others. As of December 31<sup>st</sup> 2010, MTS is providing services to 108.07 million customers in numerous regions and countries.

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

In 2009, MTS OJSC acquired the controlling stakes in COMSTAR-UTS OJSC, one of the lead fixed operators and Eurotel OJSC, a

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backbone provider, having thus enabled itself to provide the data services through the use of wire-based and wireless technologies.

Today MTS OJSC is the major Company belonging to the MTS Group alongside with its subsidiaries and affiliated companies. MTS Group is providing mobile and fixe-line

telephony, national and international long-distance communication, data services, Internet access through wireless and wire-based solutions, including optical access and WiFi technologies and 3G networks. The CIS countries-based subsidiaries of MTS OJSC operate in Ukraine, Uzbekistan, Turkmenistan\*, Armenia and the Republic of Belarus.

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

\* On December 21, 2010, a licence for the provision of communication services was granted to Barash Communication Technologies (a subsidiary of MTS OJSC) pursuant to the letter of the Minister of Communications of Turkmenistan.



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

The indicators contained in this Annual Report are as of 31.12.2010, except where other periods or dates are expressly indicated.

WHEN MOVING,  
YOU GET AHEAD!



a step ahead



A.A. Dubovskov, President of MTS OJSC



## The President's Message to the Shareholders





# 2. The President's Message to the Shareholders

## Dear Shareholders,

2010 was a year of transition for MTS. With the completion of our merger with Comstar by April 01<sup>st</sup> 2011, MTS has transformed itself into an integrated telecommunications provider.

Today we offer to our customers the mobile, fixed, internet, pay TV and content products and services. Our accomplishments during the year, clearly establish MTS as the leading telecommunications provider in Russia and the CIS countries, boasting a platform for managing growth and realizing profitability in the coming years.

Group annual revenue increased 14% to 11.3 billion US dollars in 2010. MTS' revenues in Russia – including mobile, monobrand retail and fixed businesses – increased 12% to 286.4 billion rubles. In our mobile business, growth was driven by: subscriber acquisitions, general growth in consumption of voice and data products, and strong handset sales. In Q4 2010 alone, revenue from the sale of handsets, modems and accessories exceeded \$276 million US dollars. The increase was largely driven by the expanded range of premium handsets and smartphones. Sustained development of MTS retail network with the launch of new retail services also contributed to this growth.

In our fixed business, we witnessed growth of 12% year-over-year. This was driven by increased domestic and international

long-distance calling, contributions from acquired companies and subscriber growth.

In Ukraine, revenues grew by 4% in 2010 to roughly 8.5 billion hryvnas. Our efforts to improve the quality of our subscriber base and loyalty of our customers resulted in contraction in churn during the past year – from 9.7% to 8.2%. In 2010, data content revenues grew by more than two times, or by 107%.

In Uzbekistan, we improved our top line in 2010 by 11% to \$448 million US dollars on the back of continued subscriber additions and expansion of product portfolio. We continue to lead the market with a 42% market share as for the subscriber base. In Turkmenistan, we suspended operations starting from December 21, 2010 in compliance with the notice from the Ministry of Communications. Revenues for the year reached 592 million manats, however the suspension of operations leading up to the New Year holidays negatively impacted our annual performance in the country. In Armenia, our revenues decreased by 4% year-over-year to 77.3 billion drams. Despite competitive pressure, we retain our leadership position as for the subscriber base with a market share of 72%.

For 2010, MTS Group's net income came in at \$1.39 billion – a healthy 36% improvement from 2009. This does include a non-cash impairment loss of \$138 million US dollars recorded in the fourth quarter resulting from the suspension of our operations in



## Group annual revenue increased 14% to 11.3 billion US dollars in 2010.

MTS' revenues in **Russia** – including mobile, monobrand retail and fixed businesses – increased 12% to 286.4 billion rubles.

In **Ukraine**, revenues grew by 4% in 2010 to roughly 8.5 billion hryvnas.

In **Uzbekistan**, we improved our top line in 2010 by 11% to \$448 million US dollars on the back of continued subscriber additions and expansion of product portfolio.

Despite competitive pressure, in **Armenia** we retain our leadership position as for the subscriber base with a market share of 72%.

Turkmenistan. Recognition of a loss is consistent with US GAAP rules related to situations like ours. This doesn't mean we have necessarily given up on the Turkmenistan market. Our assets remain in Turkmenistan, and we are taking every effort to find a constructive resolution to the situation by negotiating the issue with the Turkmenistan government.

**In 2010 CAPEX to sales reached \$2.7 billion US dollars as we continued to build-out our 3G and fixed networks in Russia.**

**We expect CAPEX for 2011 to come in at around 22-24% as a percentage of revenues.**

The exact figure will depend upon a number of factors including currency volatility, vendor terms, project implementation schedules and other developments we cannot accurately predict. In 2011 we will be roughly doubling the number of 3G base stations and advancing certain high-profile projects, like the digitization of our fixed-line networks,



namely those in Moscow and other large urban centers.

**Free cash flow in 2010 increased 43% to \$1.5 billion US dollars despite higher CAPEX spending.**

The increase is attributable to healthy operating cash flows as well as the sale of our Svyazinvest stake for 26 billion rubles.

To date we have been focused on an acquisition model of business. This has served us with the sustained growth of subscribers and the changes in distribution over the years. Having now established ourselves in both the

fixed-line space and retail, we can now begin to focus on subscriber base development, customer loyalty improvement and innovative and convergent services launch as key operational goals of our business.

When I took charge of our Ukraine operations in 2008, the Ukraine market was fully penetrated and the company's profitability was falling on the back of tough competition. However, by expanding the capacity and coverage of our network and driving usage, we were able to strengthen our position on the market and improve the profitability of the business. We are going to use

this approach to drive our operational goals in Russia.

Unlike Ukraine, the Russian market offers more scenarios and ways to improve the telecom services and reach the customer.

**In addition to the installation of roughly 10,000 3G base stations, we are going to improve our back haul capacity, increase our transport network and transit to HSPA+ across Russia regions to enhance data transmission speed on our 3G networks. In our fixed business, we will also be modernizing networks to provide more FTTB connections in both Moscow and in the regions.**

Improving networks is critical for us to both meet the growing customer needs and ensure beneficial impact on the company's revenue growth. Right now we see that the volume of value-added services can be increased by 20% of a percentage of ARPU. We believe we can avail ourselves of the situation. With better networks, we can increase usage of our services which will help us improve performance and loyalty and reduce churn.

**Overall, in terms of revenue we see growth of around 10% for 2011. Given the**

**scope of our business, Russia will remain the primary driver of growth. Key drivers continue to be:**

- increased mobile voice and data usage and the continued expansion of our fixed-broadband and IPTV offerings;
- greater take-up of convergent products as allowed by completion of merger with Comstar;
- rising sales of handsets and accessories;
- better subscriber additions as we sell subscriptions through our own proprietary networks.

In Ukraine and other CIS countries, growth performance should be similar to 2010.

Lastly, I just want to emphasize that it is an honor and a privilege to be given the opportunity to lead the Company. MTS has been my home since 2004, when I joined to lead our efforts in Nizhny Novgorod. Since then, I have managed both regions and countries, and I have watched MTS develop. I am confident that these experiences will allow me to ensure MTS's further development, realize the goals of our corporate strategy and enable MTS to remain the market leader and strengthen its innovator image.

A.A. Dubovskov,  
President of MTS OJSC



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MOVING SLOWLY?  
YOU WILL NOT  
OVERTAKE!



a step ahead



Company's position  
in the mobile  
communications market



# 3. Company's position in the mobile communications market

**As** of December 31, 2010, MTS OJSC held licenses for 82 regions of the Russian Federation. Subsidiaries of MTS OJSC in the CIS operate in Ukraine (Pr JSC MTS UKRAINE), the Republic of Uzbekistan (Foreign Enterprise UZ-DUNROBITA LLC), Turkmenistan (Corporation Barash Communications Technologies, Inc.), the Republic of Armenia (K-Telecom CJSC) and

the Republic of Belarus (MTS Joint LLC). MTS has a licensed area that encompasses over 230 million.

In Russia mobile services are provided by the three federal operators – MTS OJSC, Megafon OJSC and Vypelcom OJSC as well as several dozens smaller regional telecom companies using different cellular communications

standards: GSM, NMT 450 and CDMA-1x, UMTS (3G). According to AC&M, as of December 31, 2010, wireless penetration in Russia reached 151.0%, and the total number of customers reached 219,3 million. By the number of customers MTS OJSC holds the leading position in Russia with a 32.6% market share, Megafon OJSC and Vypelcom OJSC market shares total 25.8% and 23.7% accordingly. MTS OJSC and its subsidiaries and affiliated companies in Russia collectively had 71.4 million customers as of December 31, 2010.

By the end of Q4, 2010 MTS OJSC's licenses covered 82 of the 83 regions in the Russian Federation. Thus, MTS OJSC directly or through its subsidiaries holds licenses for practically all of the Russian Federation territory, with the exception of the Penza Region. Megafon OJSC holds licenses for all 83 subjects of the Russian Federation, Vypelcom OJSC holds licenses for 76 regions. All three federal operators hold 3G licenses for the entire Russian Federation.

Russia's largest markets of mobile services (by the number of customers) are Moscow and the Moscow Region and St. Petersburg and the Leningrad Region. According to AC&M, wireless penetration in Moscow and the Moscow Region was 201.1% at December 31, 2010. The total number of customers of all operators in Moscow and the Moscow Region is estimated at 32.4 million, with the share of MTS OJSC reaching 38.6%.

Wireless penetration in St. Petersburg and the Leningrad Region, according to AC&M, was 203.3%, at December 31, 2010 with total customers number of 12.9 mln. MTS market share is at 31.0%.

The most important regional market (apart from Moscow and St. Petersburg) is the Krasnodar Territory (including the Republic of Adygeya), where the number of mobile subscribers at December 31, 2010 as estimated by AC&M, surpassed 9,3 million and penetration was 181.4%. In addition, there are 5 regions of the Russian Federation where the number of subscribers of telecom operators exceeded 5 million: the Republic of Tatarstan, the Republic of Bashkortostan, the Samara Region, the Rostov Region, the Chelyabinsk Region, while in the Sverdlovsk Region the number of subscribers reached 6.7 million.

According to the results for Q4, 2010, the subsidiaries and affiliated companies of MTS OJSC in the CIS countries had the following numbers of customers: 18.2 million in Ukraine (Pr JSC MTS UKRAINE), 8.8 million in the Republic of Uzbekistan (Foreign Enterprise UZ-DONROBITA LLC), 2.4 million in Turkmenistan\* (Corporation Barash Communication Technologies, Inc.), 2.1 million in the Republic of Armenia (K-Telekom CJSC), 4.7 million in the Republic of Belarus (MTS Joint LLC, which is not consolidated in the MTS Group financial statements).

**By the number of customers MTS OJSC holds the leading position in Russia with a 32.6% market share.**

**MTS OJSC and its subsidiaries and affiliated companies in Russia collectively had 71.4 million customers as of December 31, 2010.**

**By the end of Q4, 2010 MTS OJSC's licenses covered 82 of the 83 regions in the Russian Federation.**

\* Data on the number of customers in Turkmenistan as at December 21, 2010.

FUTURE IS DOWN  
THE ROAD!



a step ahead



Company outlook





# 4. Company outlook

**MTS** OJSC connects the perspectives of its future operations with implementation of “3i” Strategy – Integration, Internet, Innovations that was formulated and approved by the Company’s Board of Directors in 2009. This strategy is based on the principle of Total Communications, a concept of providing by the Company of a full range of modern

telecommunication services in all customer segments by using wire and wireless technologies. In addition to the voice communication which is in great demand, the following rapidly growing services such as Internet access, digit TV, data transfer services and content services created on the basis thereof are becoming more important for customers and,

accordingly, for service providers. In accordance with “3i” Strategy, MTS aims at business development and creation of value in all these areas.

In order to ensure growth in the traditional for MTS mobile communications area, the Company is actively involved in the construction of 3G networks in all markets of presence including Russia and a number of CIS countries where MTS subsidiaries operate. Launching of third generation networks significantly increases the level of mobile data transfer consumption and provides new opportunities connected with development of content products. The Company is closely monitoring and adopting most advanced technological tendencies related to the transfer to new wireless connection generations. The first segments of LTE networks were launched for commercial operation in Yerevan and Tashkent that will be further developed as adequate quantity of subscriber devices supporting this technology will appear in the market.

The development of fixed line business of the Company started when a controlling stock of COMSTAR-UTS OJSC was purchased in October 2009 which allowed MTS to gain leading positions in the segment of fixed telephony, wide band Internet access and digit TV in Moscow. The fundamental step on ensuring regional presence was made by acquiring Multiregion

CJSC in July 2010, one of major federal players that operated in 37 Russian cities at that time. The key area of fixed line business development for MTS is further development of regional markets and integration of acquired companies in the MTS organizational structure.

In December 2009 MTS significantly increased the length of its proprietary backbone network after acquisition of Eurotel OJSC, one of the leading federal payers in the backbone market. MTS significantly increased the length of own backbone network which is intended first of all for data transfer at the interregional level given the growing consumption volumes both in the fixed lines and in 3G network which is being constructed energetically. It is a major priority in Company’s activity to build its own transport network covering all MTS requirements.

MTS’ major competitive advantage is its proprietary monobrand retail network which is currently one of three mobile retail market leaders. Its own retail network allows to ensure a high service level, to reduce churn and costs of dealer’s fee. MTS further plans in this area are related to standardization of service range in all retail network points of sale, with increase due to the retail network of sales of products and services developed by the Company, increase of 3G compatible subscriber equipment penetration level, and expansion of MTS brand presence.

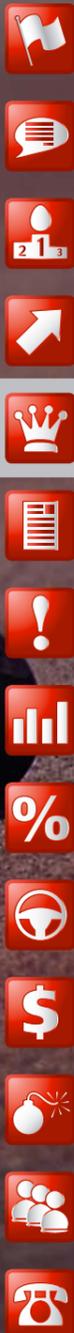
We believe that implementation of “3i” Strategy by the Company will provide an opportunity for MTS to create value in all areas of telecommunication industry, in all customer segments; will allow to ensure the best customer experience for customers and create maximum additional value for shareholders.

**MTS OJSC connects the perspectives of its future operations with implementation of “3i” Strategy –**

**Integration  
Internet  
Innovations**

This strategy is based on the principle of Total Communications, a concept of providing by the Company of a full range of modern telecommunication services in all customer segments by using wire and wireless technologies.





**THE FASTEST  
DECISIONS!**

 **MTS** a step ahead

**Company Development  
Strategy (Business Priorities)**





# 5. Company Development Strategy (Business Priorities)

**MTS** OJSC's primary strategic goal is to maintain and strengthen its position as a leading telecom operator in all markets of presence. It is achieved by provision of the widest range of telecommunication services: mobile and fixed communication services, high-speed access to the Internet while en route and at home, cable television services, and vast choice of legal content. MTS OJSC seeks to maintain and strengthen its market position through investing in network development and developing new products and services, advanced technological solutions and enhancing the servicing system of its customers.

In October 2009 MTS OJSC adopted a new strategy which in many aspects is a logical continuation of the previous one while taking into account changes in the market. Acquisition of COMSTAR-UTS OJSC, prompt establishing of a proprietary retail network and launching the first on-line content platform Omlet.ru enabled the Company to go beyond the scope of the mobile communication market. MTS OJSC going beyond the scope of mobile telephony is an integral part of a new "3i" Strategy encompassing the following areas:

- **Integration** means creation of new communication channels and points of contact with customers including further development of proprietary monobrand

distribution network. We intend to become an integrated player offering a full portfolio of products that comply with all needs of our customers on the basis of both wire and wireless communications. Networks and platforms created by the Company will enable to make an integrated and, therefore, unsurpassed customer experience.

- **Internet** means offering universal communication. Our customers believe that we will provide ever increasing access speed, therefore, operation of equipment and provision of services will increasingly frequently depend on the functionality of integrated mobile and fixed network. Our objective is to create infrastructure that will enable our customers to realize all advantages of modern technologies and that, in its turn, will create additional value for MTS OJSC. Following the strategy of the so called "intelligent pipe", we intend to offer the best content applications of this category, most advanced services in the market, make payments and, therefore, MTS OJSC will become closer to the customers.
- **Innovation** means provision of an opportunity to MTS OJSC to show up against the background of competitors by offering a set of products and services

that competitors will not be able to reproduce. We will offer exclusive handsets, original service packages addressed to all buyers' segments, create the best customer experience in the market of using our products everywhere: at home, in the office, en route.

Completion of integration with COMSTAR-UTS OJSC means for the Company a higher growth rate and a bigger share in the Russian market of telecommunication services while satisfying needs and wishes of its customers. MTS OJSC seeks to significantly increase its revenues from convergent products and reduce total costs due to realization of synergy effects

from integration with COMSTAR-UTS OJSC. It complies with the principles of efficiency and profitability that were laid down as a foundation of the Company's strategy for several years already.

Moreover, MTS OJSC still believes in the opportunity to develop the Group by expanding the geographical location of its presence in case interesting proposals arise. The Company estimates such projects both from the point of view of financial efficiency and from the point of view of its strategic priorities. The requirement for adopting a positive investment decision is ensuring at all times fulfillment of Company's obligations and maintaining optimum level of debt load.

In view of MTS OJSC's experience regarding ensuring growth and creation of value for its customers and shareholders, we believe that new objectives of our strategy will enable us to successfully develop the Company's business and remain a leading telecom operator in all markets of presence for a long time in future.

MOVING ONWARD  
IS THE ONLY RIGHT  
WAY



a step ahead



Ron Sommer, Chairman of MTS OJSC Board of Directors



**Board of Directors'  
Performance Report**





# 6. Board of Directors' Performance Report on the Company's Business Priorities

**MTS** OJSC in 2010 developed on the basis of consistent implementation of "3i" Strategy- Integration, Internet, Innovations formulated and approved by the Company's Board of Directors in 2009. The Principle of "Total" telecommunications or provision by the Company of a full range of advanced telecommunication services in all consumer segments by using wire and wireless technologies was implemented during 2010 more fully and energetically in all markets of MTS OJSC's presence.

Key and permanent priorities in the activity of MTS OJSC, a Top company in the telecommunication industry in 2010 are to ensure the best customer experience for subscribers and create maximum additional value for shareholders of the Company. The revenue of the Group exceeded RUB 340 bln, and the number of customers serviced by the Company in the markets of presence exceeded 103 million people.

In order to realize the existing priorities under conditions of recovering markets in Russia and in the world, and given energetic development of telecommunication technologies, the Company focused its efforts not only on voice communication that is in great demand, but on such fast developing market segments as Internet access, digit TV, data transfer services and content services. In accordance

with "3" Strategy, the objective of MTS OJSC in 2010 was business development and creation of value in all areas.

**Integration** and related processes were of great importance in the activity of the Company in 2010. Energetic activity in the area of integration is aimed at satisfying the needs of Company's customers, creating additional value in related segments of telecommunication market and strengthening MTS OJSC's leadership positions both in mobile communications and related telecommunication areas. Among the most important steps it is necessary to mention adopting a decision on full merger of MTS OJSC and COMSTAR-UTS OJSC and buy-back of 9% shares of COMSTAR-UTS OJSC minority shareholders. Actually, that means appearance of a strong integrated player in the market that offer better quality services and advanced services to the customers including those beyond the framework of mobile communications.

MTS customers received a full range of high quality services in proprietary retail stores under MTS brand where they can purchase any telecommunication products, e.g. mobile communications, advanced telecommunication equipment and handsets, customer sets for television viewing and connection to high speed Internet and many other services.

Currently, MTS retail network consists of more than 3560 retail stores that in 2010 sold about 15% of handsets sold in Russia.

**Internet** and winning strong leading positions in this most important telecommunication market segment and satisfying the needs of customers in Internet access at home, in the office and en route is another priority of MTS OJSC during the whole 2010 year. In the course of merger of MTS OJSC and COMSTAR-UTS OJSC there were launched sales of convergent products under MTS brand. The Company energetically operated in the dynamic market of pay-TV by purchasing 100% of Multiregion CJSC, a leader of broadband Internet access and cable TV services in Russia.

In 2010 MTS customers in Russia, in the key market of the Company, had an opportunity of access to 3G network using HSPA technology at speeds up to 7.2 MBit per second, and 3G network covered more than 900 settlements, demonstrating growth by 3.5 times during the year. MTS is traditionally in the forefront of advanced technologies and pays careful attention to further evolution of mobile communications: LTE networks with roaming functions operate in Armenia and Uzbekistan. Even more energetic construction of high speed networks is scheduled for the year 2011, Company's customers can be sure to receive most advanced and highest quality communication services in any location.

**Innovation** and ensuring leadership in this most important dynamic area is another big objective achieved by the Company in 2010. It is MTS that was the first in Russia to sell

proprietary branded tablet computer based on Android operational system, and sets of MTS-TV were received by MTS retail network under its own brand. In 2010 the multimedia portal "Om-let" offering to its users music, films and other modern entertainment content was visited by 55 million people, including via the mobile interface. In addition, MTS-360 platform was launched that is an innovative set of mobile internet-services together with Vodafone.

Among major achievements of 2010, we should note a turning point of the situation in the market of Ukraine where both the market share of the Company and total satisfaction of customers is growing. There are positive results regarding improving operating efficiency and reduction of costs during 2010 that only in Russia and Corporate Center totaled 2.5% vs. 2009.

Summarizing the work undertaken, it is necessary to note a prestigious international award - GSMA Global Mobile Award 2010 which MTS OJSC received first in the history of Russian telecommunications. MTS brand for 3 years in succession has been recognized as the most expensive Russian brand according to the rating of BRANDZ - \$9.7 bln, and the Company for a good reason may be proud of this achievement.

Therefore, consistent implementation by the Company of "3i" Strategy during 2010 provided an opportunity for MTS to retain leadership positions in all areas of telecommunication industry and all customer segments. Further Company development will allow to provide the best customer experience and create maximum additional value for shareholders in 2011.

Ron Sommer,  
Chairman of MTS OJSC Board  
of Directors





LIFE = MOVEMENT



**MTS**

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**Major events**





# 7. Major events

## 1. MTS brand is the most expensive Russian brand

According to the results of annual rating of one hundred leading world brands BRAN-DZ™, the international research agency Millward Brown and Financial Times for 2010, MTS held the 72-nd position with brand value in the amount of \$ 9.7, thus the third year in succession MTS brand is recognized as the most expensive Russian brand. In 2008 MTS became the first Russian company in the history of BRAN-DZ™ rating that was included in the list of one hundred major world brands.

MTS brand estimated at \$ 7.753 bln. was also recognized as the most expensive Russian brand in the rating of Best Russian Brands-2010 of international Interbrand agency.

Within the framework of integration of telecommunication assets and obtaining a full



control over the brands of MTS Group the company acquired trademarks used by MTS and its subsidiaries in December 2010 from AFK Sistema.

## 2. Enhancement of MTS shares attractiveness

Change of ratio between the American Depository Shares (ADS) and ordinary shares from 1:5 to 1:2 beginning since May 3, 2010. It allowed to bring the cost of ADS in compliance with the price level of comparable companies shares and enhanced the attractiveness of shares for a wider range of investors.

In November 2010 MTS declared transfer of ordinary shares of the company in quotation list "A1" at the MICEX for the purpose of improving share liquidity due to the expansion of the investor base that had an opportunity to trade MTS ordinary shares.

## 3. Confident management of debt portfolio

Placement of Eurobonds in June 2010 for the amount of \$750 million at the interest rate of 8.625% per annum with repayment period in June 2020. Listing was done at the Irish Stock Exchange Limited.

In November 2010 MTS also placed ru- ble bond issues of series 07 and 08 for a total amount of RUB 25 bln. included in quotation list

"A" of the first level at Moscow Interbank Stock Exchange (MICEX).

Completion of the transaction on sales by the Group of companies COMSTAR-UTS to Ros- telecom OJSC of Svyazinvest OJSC ordinary shares totaling 25% of its share capital plus one share for RUB 26 billion.

## 4. Stable high dividends

Approval by the General Sharehold- ers' Meeting of dividend payment for 2009 in the amount of RUB 15.40 per one ordinary

registered share of MTS OJSC that totaled in general RUB 30.70 bln.

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

Acquisition of 100% of Multiregion CJSC share capital, one of the Top Russian regional operators of broadband Internet access and

cable TV for \$123.5 mln. Acquisition of alterna- tive operators in Novosibirsk and Saint-Peters- burg.

## 6. Promotion of new technologies in the CIS

MTS energetically promotes 3G technolo- gies in Armenia, Uzbekistan and Belarus. MTS was one of the first companies in the CIS and

Central Asia to launch 4G network (LTE) in Uz- bekistan.

## 7. COMSTAR-UTS' merger to MTS

Approval by the Extraordinary General Shareholder's Meeting of MTS OJSC in Decem- ber 2010 of COMSTAR-UTS OJSC merger to MTS

OJSC became a final step in acquisition by MTS of one of the leading players of fixed business market that began in October 2009.

FLOWN THROUGH  
THE CRISIS  
SUCCESSFULLY!



a step ahead



Company Results for 2010



# 8. Company Results for 2010

The mobile communications market in Russia has been developing at a very high rate for a long time. The rapid development was stimulated by the continuous expansion of target segments and by involvement of wider sections of population as well as by the decrease of price levels both for services and terminal equipment. A trend for a slower customer base growth in mobile networks was first revealed in 2005 and continued in the subsequent years.

The slowdown of customer base growth rates may be connected with gradual market saturation and operators' focus on the "quality" of the customer base. Therefore, marketing efforts of operators shift from the acquisition of new customers to ensuring customer loyalty, enhancing the profitability of existing customers and acquisition of customers from competitor companies.

According to 2010 results, the level of mobile penetration reached 151.0% and this places Russia among the most developed global telecommunication markets. As one of the leading players in the Russian and CIS telecommunications market MTS strives to use the existing growth potential in all industry segments that demonstrate the most dynamic development.

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

Some markets of the Company's presence still have a potential for organic growth due to the increase of customer base size and in this respect MTS concentrates on gaining leadership in the acquisition of new customers. MTS OJSC intends to strengthen its position by taking an advantage and through further consolidation of factors that define operator's competitiveness in the segment of mobile telephony: network coverage and internal network roaming, traditional high quality of communication services, competitive tariff offers that take into account customer needs, a wide range of VAS.

In 2009 MTS OJSC purchased the controlling stock of one of the leading fixed operators, COMSTAR-UTS OJSC, and backbone network provider Eurotel OJSC, thus having got an opportunity to provide data services based on wire and wireless technologies.

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

Moreover, MTS OJSC is actively extending its own chain of sales and customer care offices that continue to sell the Company's own unique products and services and provide high-quality customer care and this has a positive effect on the MTS brand awareness.

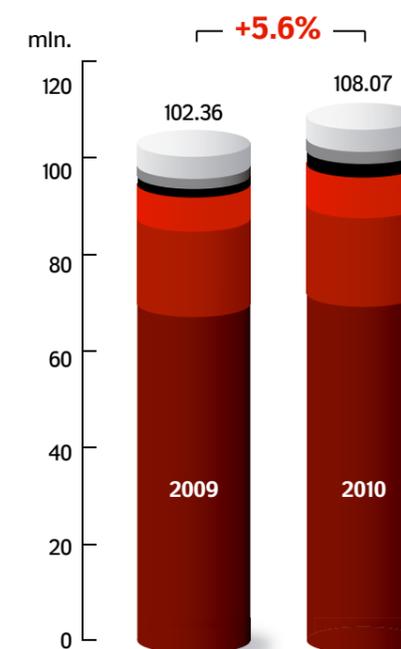
All these factors allow the Company to increase gradually its revenue both due the

growth of customer base and due to more intensive use of services.

In addition to the above, the Company monitors opportunities of inorganic growth both in the markets of presence and beyond.

MTS OJSC has an adequate experience in the integration of acquired companies that allows to incorporate them effectively into the business structure and to gain a positive economic effect in the quickest possible way.

## Dynamics of the Group's Customer Base Growth



Customer base (mln.)	2009	2010	Change
Russia	69.34	71.44	3.0%
Ukraine	17.56	18.24	3.9%
Uzbekistan*	7.07	8.79	24.3%
Turkmenistan**	1.76	2.42	37.5%
Armenia	2.07	2.46	18.8%
Belarus***	4.56	4.72	3.5%
<b>Итого</b>	<b>102.36</b>	<b>108.07</b>	<b>5.6%</b>

\* Since 1.01.2008 MTS OJSC applies a customer base accounting policy based on six-month periods in all markets of the Group.

\*\* Data for 2010 as of 21 December 2010 - the date of suspension of operations in Turkmenistan.

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

- **The number of customers** of MTS Group **exceeded 108.1 mln.** in the end of 2010.
- In 2010 the **customer base** in Russia **increased by 5.7 million (+5.6%)** due to the launch of attractive tariffs, seasonal marketing offers and the use of various sales channels (own retail network and multiple brand distribution channels).
- **MTS share** in the Russian mobile market **grew up to 32.6%** in Q4 2010 due to the Company's initiatives aimed at the strengthening of its positions in the competitive environment which became even tougher during the year.
- In 2010 the Company acquired some alternative operators in Russian regions within the framework of its integrated business development strategy, and this resulted in the increase of the number of connected households as well as fixed BB and pay TV users.

## Russia

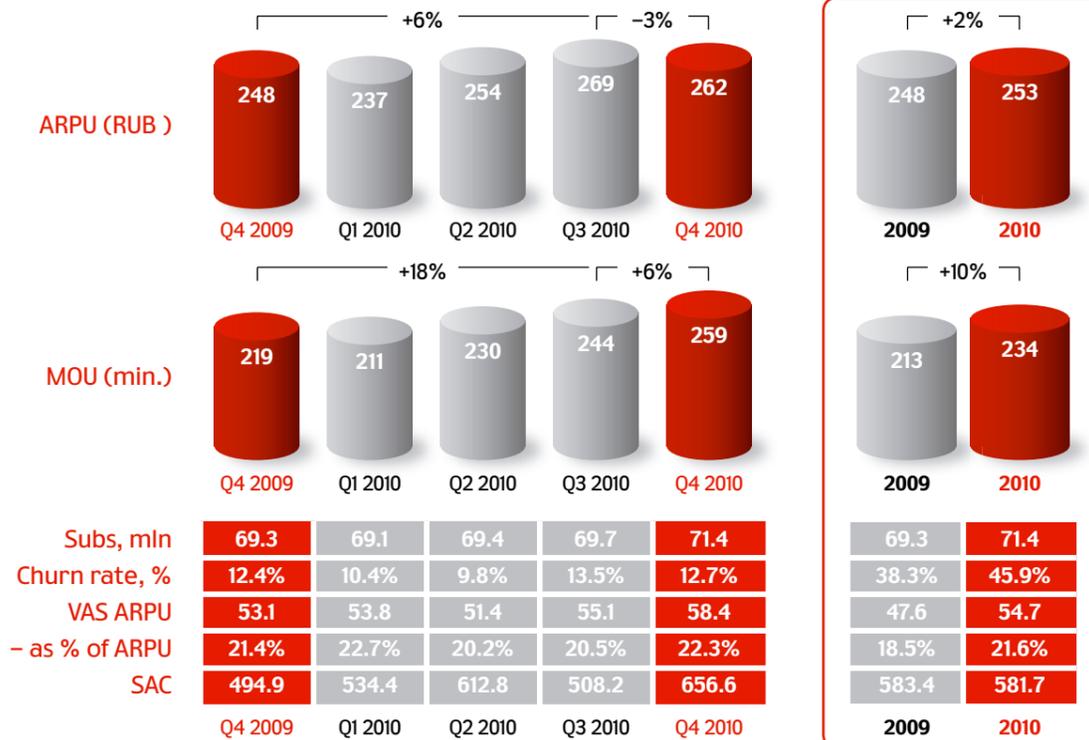
The Russian telecommunications market is characterized by rapid growth of customer base and revenues. According to AC&M data, at the end of 2010 the penetration (in SIM cards) was 151.0% or 219.3 million customers. The highest penetration levels were observed in Moscow and St. Petersburg where they exceeded 201.1% and 203.3%, respectively.

According to AC&M data, MTS' share in customer base in Moscow is 38.6%, in St. Petersburg — 31.0% and in Russia as a whole — 32.6%.

To retain its lead in the market the Company continuously strives to provide customers not only with high-quality services, but also with the cheapest tariff plans, to boost at the same time the quality of service, to extend the network coverage and upgrade the customer care level.

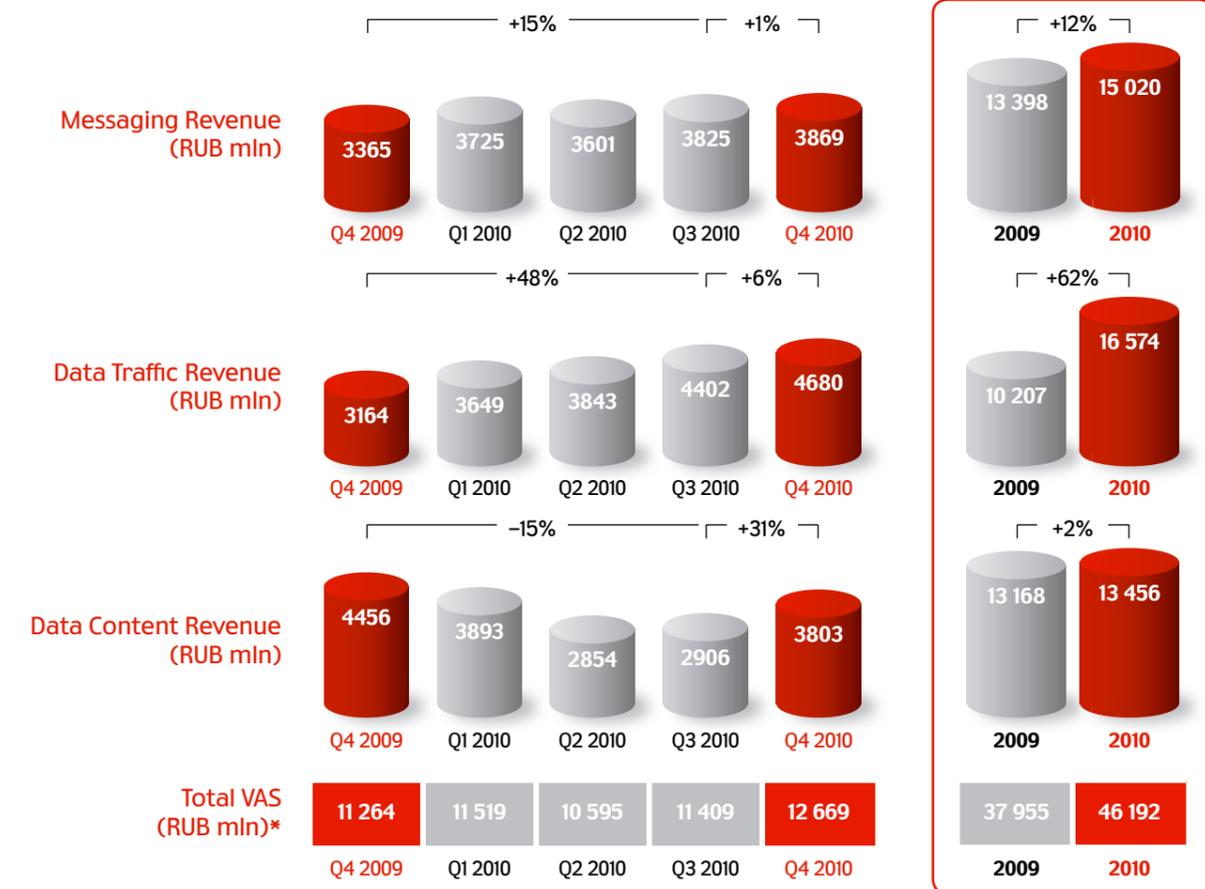
We also need to emphasize the prospects opened to the Company by its own mono-brand retail network whose active deployment in Russia took place in 2009–2011. Availability of own distribution channels allows to increase the number of subscriptions, monitor their quality and reduce the churn.

### Russia mobile operating indicators



- ARPU decrease in Q4 2010 due to seasonally low roaming revenues and higher net subscriber additions
- **Growth in MOU** as result of introduction of tariffs aimed at stimulating usage

### Russia mobile operating indicators



\* Does not include revenue from SMS and data bundles, which is included in airtime revenue.

### Key initiatives in Q4 2010:

- **Launch of new MTS Connect products** such as 7.2/14.4 Mbit/s modems and the 3G Wi-Fi router
- **Further development of MTS Internet shop** and its integration with social networks
- **Launch of messaging services** including MMS RSS-feeds and SMS notifications from popular social networks
- **Launch of MTS branded applications**
- Seasonal **promotion** of the **GOOD'ok** service

**Ukraine**

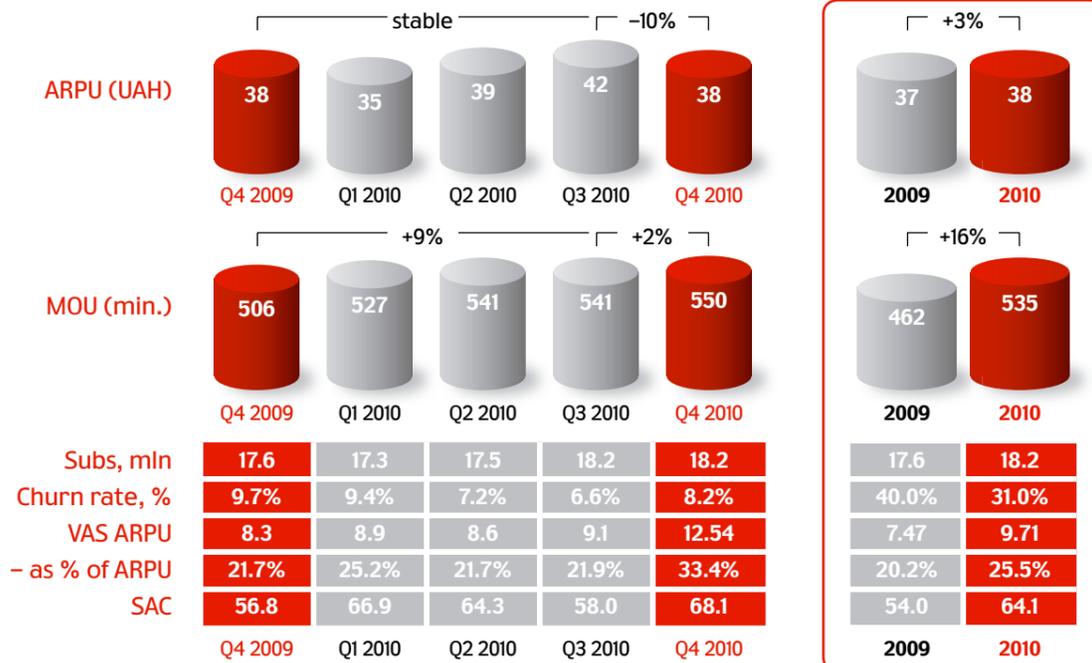
Reduction of customer growth rates in the Ukrainian telecommunications market is related to the gradual saturation of the market and the operators' focus on the customer base "quality". According to ACM Consulting, at the end of 2010 the service penetration in the country was 118.1% or 54.1 million customers. MTS OJSC had 18.2 million customers or 33.7% of the market in the Ukraine as of the year end. The number of customers of Kievstar, MTS main competitor, at the end of the year was 24.4 million. It should be noted that MTS OJSC gap with the market leader in 2010 increased by 1,691 thousand customers due to the merger of Kievstar and

Beeline. Retaining the leading positions in terms of customer acquisition is also a positive result of MTS OJSC operations in the Ukrainian market.

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

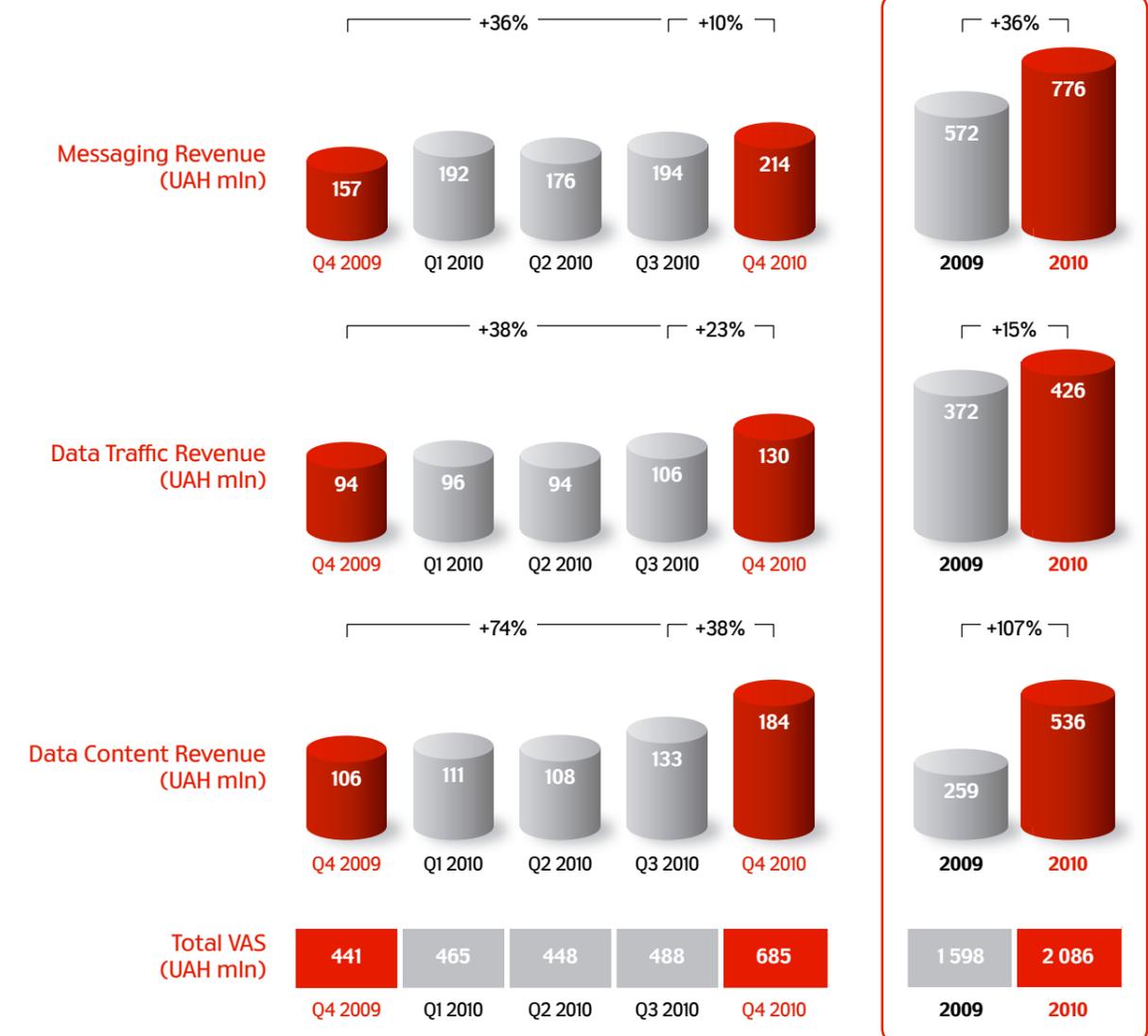
The Company provides GSM 900/1800 and CDMA 450 services throughout the whole country.

**Ukraine operating indicators**



- Decrease in ARPU in line with seasonal factors
- **MOU growth** as result of promotional campaigns aimed at stimulating usage
- **Decline in annual churn rate** reflective of the Company's focus on subscriber quality

**Ukraine operating indicators**



**Key initiatives in Q4 2010:**

- **Expansion** of the "SMS Package" service functionality
- **Launch** of new internet service "Unlimited internet with Opera Mini"
- **Diverse content offerings**, related to New Year and Christmas holidays
- **Promotion** of various branded content-services through MTS-Click



## Uzbekistan

Uzbekistan the first in CIS and the Central Asia commercial LTE network.

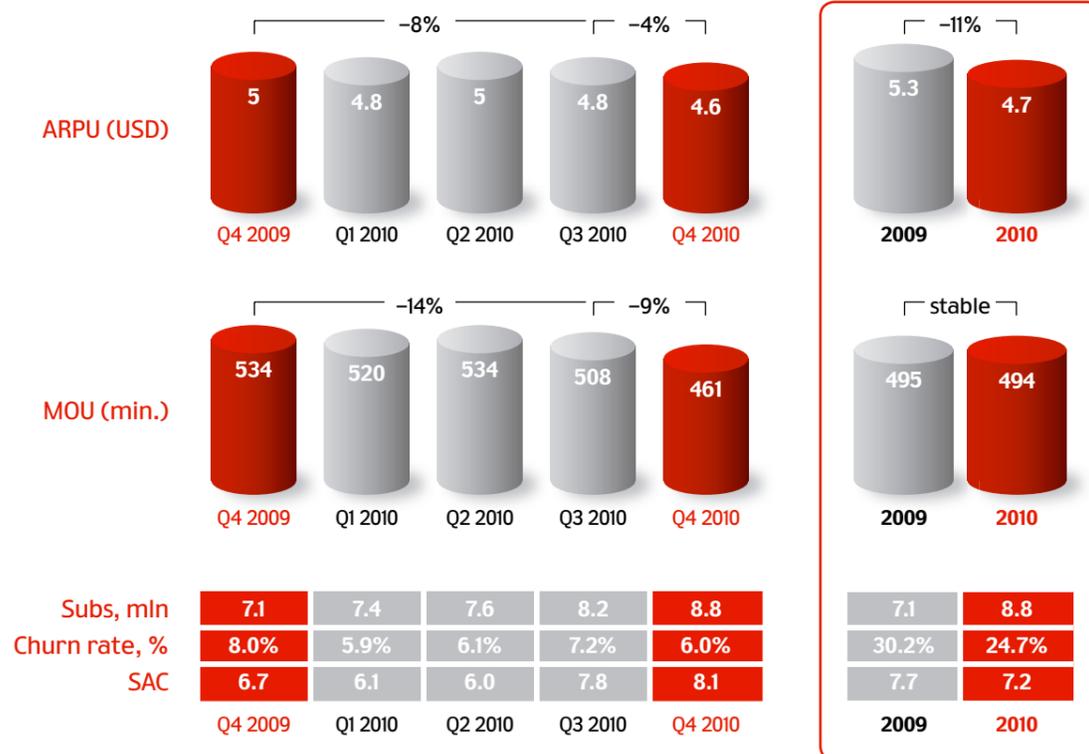
According to the Company's estimates, the service penetration during 2010 increased by 16.6 pp and reached 73.3% that is approximately 20.8 million customers.

MTS OJSC in Uzbekistan provides GSM 900/1800 and UMTS services. In addition to that the Company in July 2010 launched in

During the year the number of MTS OJSC customers increased by 1.7 million and by the end of the year reached 8.8 million, that is 42.3 % of the Uzbek market.

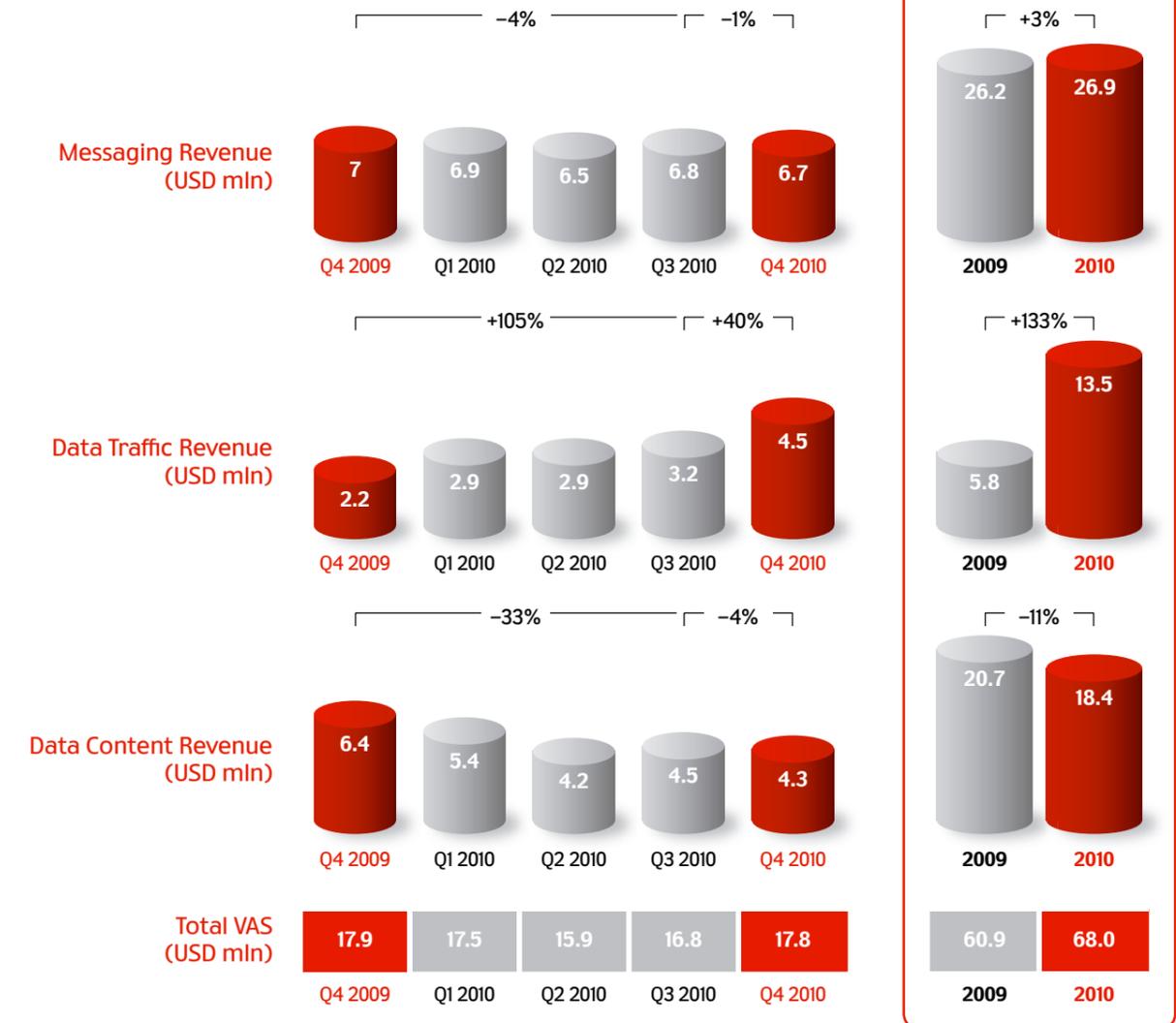
In spite of a tough competition in the Uzbek market the Company intends to retain its leading positions by providing innovative services including broadband access to Internet.

### Uzbekistan operating indicators



- Decline in ARPU in Q4 2010 as result of further dilution of subscriber base with mass market users
- MOU reduction due to the increased share of lower-value mass market subscribers
- **Solid subscriber growth** with 676 thousand in net additions in Q4 2010

### Uzbekistan operating indicators



### Key initiatives in Q4 2010:

- **Launch** of MTS Uzbekistan **MMS-portal** offering entertainment content
- **Prolongation of successful campaign** "All Included" aimed at stimulating internet usage
- Introduction of initiatives aimed at boosting key corporate client loyalty through **launch of attractive internet tariff plans**
- **Improvement to GOOD'ok** service functionality

## Turkmenistan

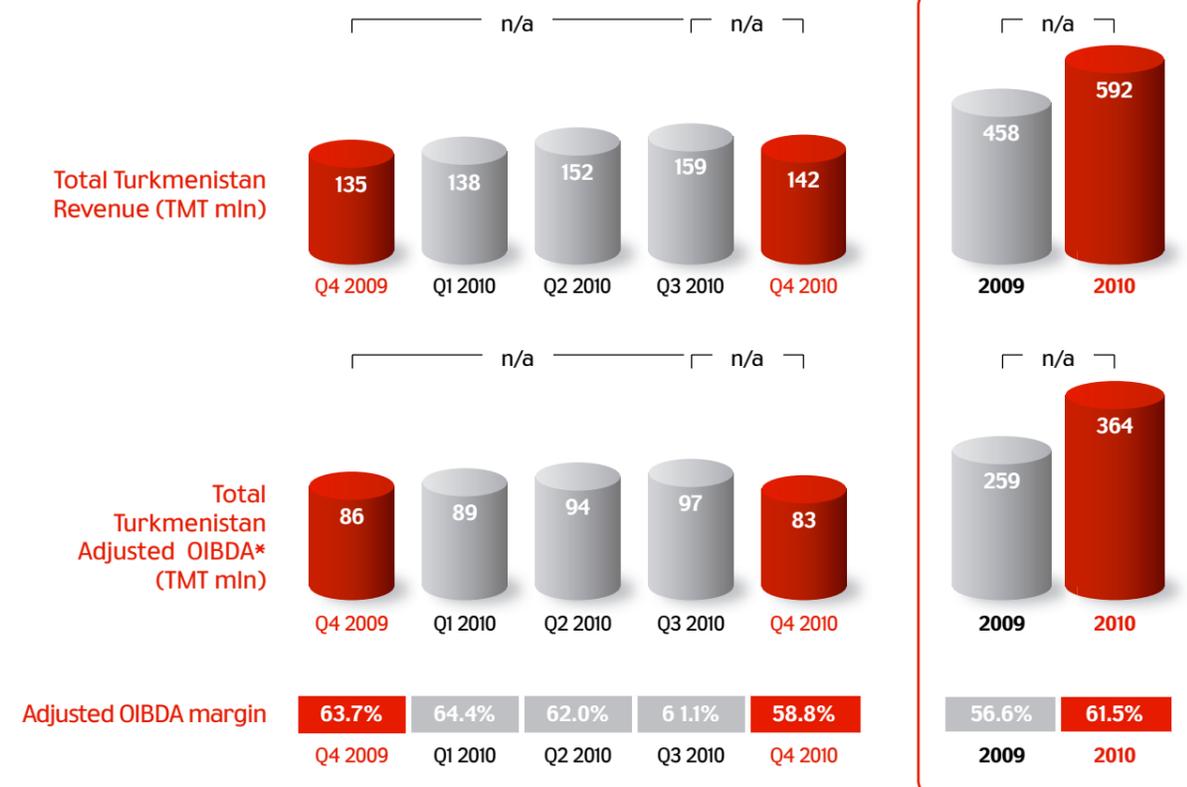
According to the Company's estimates, the penetration during 2010 increased by 19.1 pp and reached 59.5% that is approximately 3.1 million customers. The number of MTS OJSC customers as of 21 December 2010 constituted 2.4 million, the market share was 78.5%.

MTS OJSC in Turkmenistan offers GSM 900/1800 services. In November 2010 MTS Turkmenistan launched into commercial operation a 3G network in Ashkhabad.

In 2010 MTS, in line with other services, began to offer customized equipment.

\* Data as of 21 December 2010 — the date of suspension of MTS operations in Turkmenistan.

### Turkmenistan financial highlights



\* Adjusted OIBDA represents operating income before depreciation & amortization, impairment of long-lived and other assets and acquisition related costs. For further information, please see the Appendix for definitions and reconciliations

- The Company suspended its operations in the country starting from December 21, 2010 in compliance with the notice from the Ministry of Communications
- Decline in revenues reflective of the difficulties MTS encountered towards the end of the year
- Absolute OIBDA decline is reflective to the top-line dynamics

## Armenia

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

According to the Company's estimates the service penetration in the country during 2010 increased by 25.7 pp and reached 111.6% that

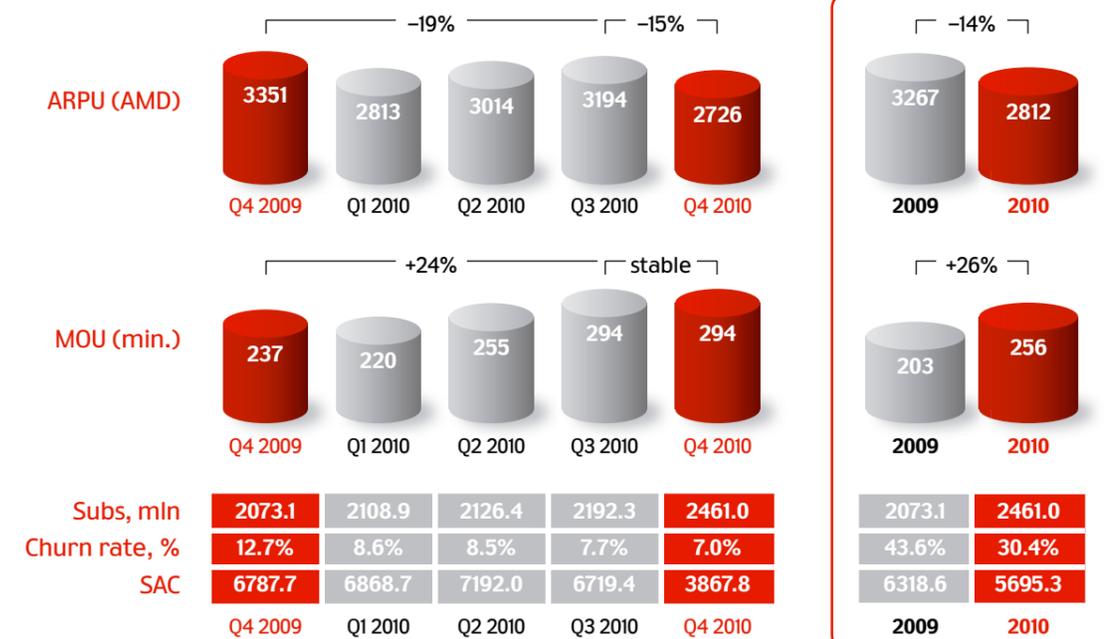
constitutes approximately 3.6 million customers. The number of MTS OJSC customers in Armenia as of the year end was equal to 2.5 million (68.9% of the market).

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

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

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

### Armenia operating indicators



- ARPU decline in Q4 2010 due to increasing competition with introduction of new voice and data tariffs
- MOU maintained at a high level



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**BE THE LEADER,  
BE AHEAD!**



a step ahead

**Information for  
Shareholders and Investors**





# 9. Information for Shareholders and Investors

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

The equity capital of MTS OJSC as of December 31, 2010 was 199,332,613.80 rubles.

### Outstanding and authorized shares of MTS OJSC as of 31.12.2010\*

Categories/classes of shares	Number of shares	Nominal value per share (rubles)
<b>Outstanding shares</b>		
Common shares	1,993,326,138	0.1
Preferred shares	0	0
<b>Authorized shares</b>		
Common shares	103,649,654	0.1
Preferred shares	0	0

\* According to the Report on results of the issue of MTS OJSC securities (filed by the Federal Financial Markets Service of the Russian Federation on April 21, 2011 that were placed by means of conversion in the course of reorganization by merger of COMSTAR UTS OJSC, the number of actually placed securities of the additional issue was 73,087,424 pieces with par value of zero point one (0.1) rubles each.

### As of December 31, 2010 the registered shareholders of MTS OJSC had the following shares in the equity capital\*:

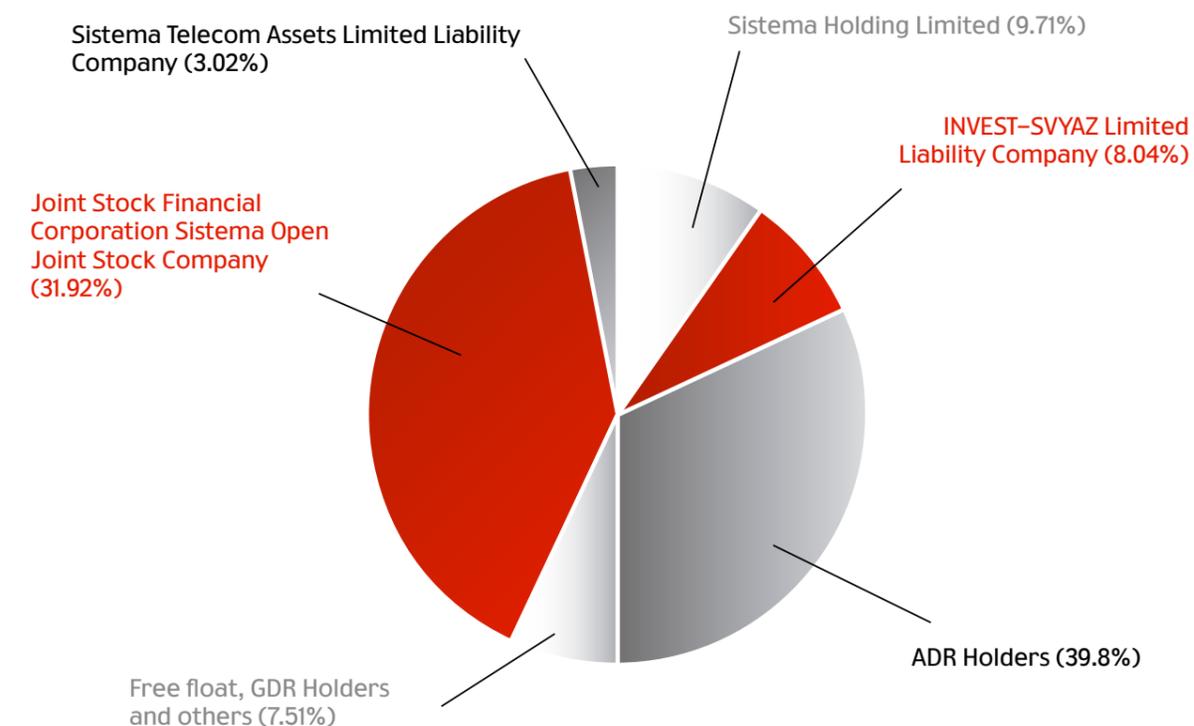
Joint Stock Financial Corporation Sistema Open Joint Stock Company	31.92 %
INVEST-SVYAZ Limited Liability Company**	8.04 %
Sistema Holding Limited**	9.7%
Sistema Telecom Assets Limited Liability Company**	3.02%
ADR Holders	39.8%
Free float, GDR Holders and others	7.51%

\* Calculation of shareholders' shares in MTS OJSC equity capital was carried out without consideration of the following assumptions. MTS CJSC and Capital CJSC (100% subsidiaries of MTS OJSC) hold 0.13% and 0.3% of MTS OJSC shares respectively.

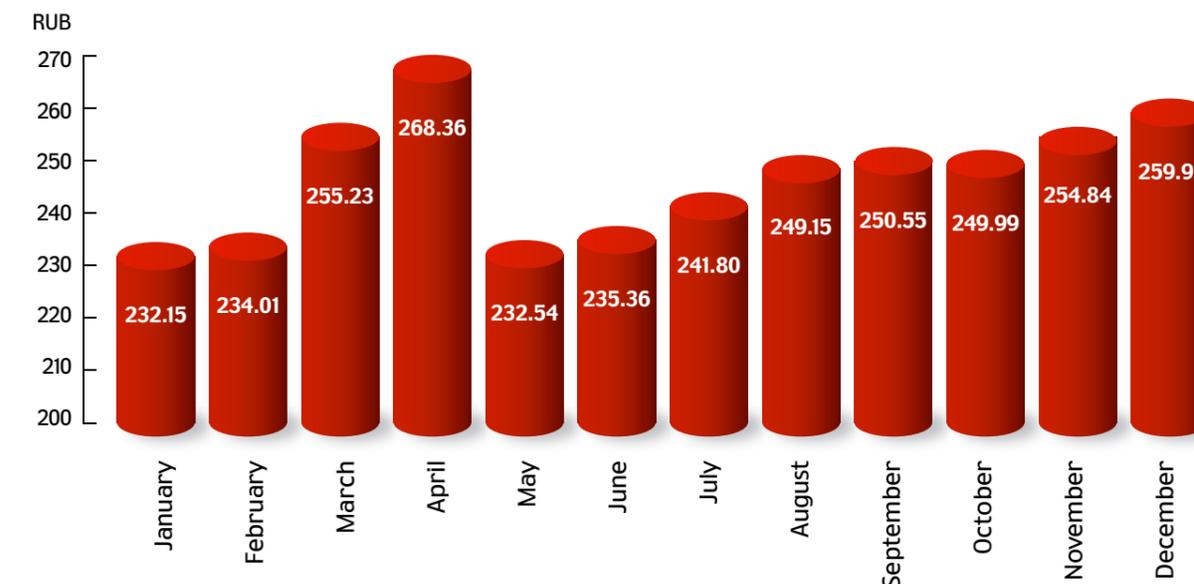
Our 100% subsidiary MTS Bermuda Ltd. holds 67,995,335 our shares in the form of ADRs that were repurchased in 2006–2008.

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

### Shares in the equity capital



### Dynamics of the prices for MTS OJSC common shares, January 2010 – December 2010 \*



\* The quotes are stated as of the last trading day of the month, for MTS shares – weighted average price.



## American depositary receipts

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

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

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

As of December 31.12.2010 a total of 388,698,253 ADRs was issued for registered common shares (equal to 777,396,505 registered common shares).

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

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

On the New York Stock Exchange MTS shares are listed as American Depositary Receipts (ADR).

(Ratio: 1 ADR to 2 shares)

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

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

### Share prices, 2010

MICEX	Price (RUR)
Minimum price per share	217.64
Maximum price per share	273.49
Average daily trading volume	226,229,168
Price as of 31.12.2010	259.88

### American depositary receipts of MTS OJSC on New York Stock Exchange, 2010

NYSE	Price (USD)
Minimum price per share	17.84
Maximum price per share	23.55
Average daily trading volume	58,551,148
Price as of 31.12.2010	20.87

### Credit ratings of MTS as an issuer\*

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

\* Data as of 31.12.2010.

## Bond issues

MTS is one of the largest issuers of corporate bonds in Russia. In 2010 the Company successfully placed ruble bonds for RUR 25 bln. The funds received as a result of the bond issue the Company uses for refinancing of its debt portfolio and for the implementation of the investment program.

### Basic details of bond issues

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

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	22 June 2020

The first issue of the MTS OJSC ruble denominated bonded loan for 10 billion rubles took place in June 2008. In October 2008 MTS OJSC placed two more issues of bonds for 10 billion rubles each. In May 2009 the ruble denominated bonded loan was issued for 15 billion rubles and in July 2009 one more bonded loan was issued for 15 billion rubles. On 16 November MTS OJSC placed two more issues of bonds for

10 and 15 billion rubles. The funds received from the bond issues were used for corporate purposes, for optimization of the Company's debt portfolio and implementation of the investment program.

On 9 April 2010 MTS OJSC set a new coupon rate for the following coupon periods at 7% per annum that will be effective until the maturity date. On 26 April 2010 MTS OJSC passed an offer for Series 01 bonds that resulted in the redemption of own bonds for the total amount of RUR 7.1 billion.

On 14 April 2010 MTS OJSC set a new coupon rate for the following coupon periods at 7.75% per annum that will be effective until the maturity date. On 29 April 2010 MTS OJSC passed an offer for Series 02 bonds that resulted in the redemption of own bonds for the total amount of RUR 6.3 billion.

On 10 June 2010 MTS OJSC set a new rate for 6–10 coupons at 8% per annum. The bonds provide for an offer in three years. On 24 June 2010 MTS OJSC passed an offer for Series 03 bonds that resulted in the redemption of own bonds for the total amount of RUR 179,5 million.

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



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

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

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Documentary interest bearing non-convertible bonds payable to bearer, subject to compulsory centralized storage, Series 04
Coupon	1,2 coupons - 16.75% per annum, 3-5 coupons - to be specified by the issuer
Issue price	100%
Currency of issue	Ruble
Amount of issue	15 000 000 000
Maturity date	19 May 2009
Дата погашения	13 May 2014
ISIN Reg No.	RU000A0JQ5E1
Offer	19 May 2011

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

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Documentary interest bearing non-convertible 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	16 November 2010
Maturity date	07 November 2017
ISIN Reg No.	RU000A0JR4H6
Offer	-

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Documentary interest bearing non-convertible 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	16 November 2010
Maturity date	03 November 2020
ISIN Reg No.	RU000A0JR4J2
Offer	12 November 2015

### Dividend policy

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

MTS OJSC uses the practice of annual dividend payments as a part of its policy aimed at enhancing shareholder value. When determining the amount of dividends payable by the

Company, the Board of Directors considers a variety of factors, including the prospects for revenue growth, requirements for capital expenses, cash flow from core operations, potential acquisition opportunities, as well as the Company's debt position. Decisions on dividends are proposed by the Board of Directors and later voted upon at an annual general meeting of MTS shareholders in the first half of the year.

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

### Dividend history, 2002 to 2009

	2002	2003	2004	2005	2006	2007	2008	2009
Total dividends (MUSD)	111	220	403	562	747	1243	1158	999
As % of net income	40%	43%	41%	50%	69%	60%	60%	75%
Per one ADR, USD	0.3	0.6	1.0	1.4	1.9	3.1	3.0	1.0
Per one share, RUR	1.70	3.20	5.75	7.60	9.67	14.84	20.15	15.40

### Financial calendar 2011\*

General meetings of shareholders			
27 June 2011	Annual general meeting of MTS OJSC shareholders		
Meetings of the Board of Directors			
03 February 2011, 15 March 2011, 14 April 2011, 12 May 2011, 27 June 2011, 28 July 2011, 15 September 2011, 27 October 2011, 15 December 2011	MTS OJSC Board of Directors		
Release of financial statements (Russian accounting standard)			
30-31 March 2011	Q4 (12 months) 2010	30 July 2011	Q2 (6 months) 2011
30 April 2011	Q1 (3 months) 2011	30 October 2011	Q3 (9 months) 2011
Release of financial statements (International accounting standards)			
5 April 2011	Q4 (12 months) 2010	Q3 2011	Q2 (6 months) 2011
Q2 2011	Q1 (3 months) 2011	Q4 2011	Q3 (9 months) 2011

\* The dates may be adjusted.



MTS operations as reflected in ratings

Rating/Contest	MTS rating/nomination in the contest	Source
<b>Top 100 world brands BRANDZ™ rating</b>	72	Financial Times, 28.04.2010 Millward Brown agency
<b>Global Mobile Awards 2010</b>	Winner in the category: 'The best solution for customer care'	GSM Association (18.02.2010)
<b>Global Telecoms Business Innovation Awards</b>	Winner in the category: 'Innovative bank cards for customers'	Global Telecoms Business (International Telecommunications Edition) (10.06.2010)
<b>'500 best Internet resources in Europe', Hallvarsson&amp;Halvarsson</b>	The best corporate resource among Russian companies The Company was put on rating: '500 best Internet resources in Europe'.	Hallvarsson&Halvarsson (19.01.2010)
<b>Confidence Mark rating</b>	Winner in the category: 'Mobile operator'	Reader's Digest (27.01.2010)
<b>Call-Center Awards - 2010 (Crystal Headset)</b>	Winner in categories: 'Operator of the year', 'The best campaign', 'The best shift of the year', 'The best multichannel contact center', 'The best staff management practices'	Call Center Guru Professional Community (24.03.2010)
<b>Meffys Mobile Entertainment Award 2010</b>	Winner in the category: 'Cross-platform technology'	Meffys Mobile Entertainment Awards (22.06.2010)

<b>40 under 40 Global Telecoms Business rating</b>	The Company's top managers were put on the global rating of the most successful world telecoms business managers under 40.	'Global Telecoms Business' (Magazine) (07.04.2010)
<b>V International Contest 'The Best Risk Management in Russia and CIS - 2010'</b>	Category: 'The best risk manager'	The Russian Risk Management Society (11.06.2010)
<b>V National Award 'Director of the Year'</b>	Winner in the category: 'Director for Corporate Governance/ Corporate Secretary'	Association of Independent Directors under the auspices of PricewaterhouseCoopers and The Russian Union of Manufacturers and Businessmen (01 December 2010)
<b>XIII Annual Federal Contest of Annual Reports</b>	Winner in categories: 'The best disclosure of information on corporate governance in the annual report', 'The best annual report in the telecoms sector of economy'	RTS (19 November 2010)
<b>Silver Mercury 2010</b>	Winner in the category: 'Best integrated campaign using multiple communication channels'	The Russian Association of Marketing Services under the auspices of Association of Russian Communication Agencies (19.05.2010)
<b>'Business and Higher Educational Institutions: Partnership 2009' - rating of The Russian Union of Rectors</b>	Rating leader in categories: 'The largest employer of young people', 'The best professional adaptation practices for students of higher educational institutions'	The Russian Union of Rectors (24.05.2010)

THE WAY  
IS SELECTED,  
THE GOAL IS CLEAR!



a step ahead





# 10. Corporate governance

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

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

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

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

Corporate Conduct is set out in Annex 1). MTS fully complies with statutory requirements regarding prescribed procedures for major and related-party transactions (detailed information on compliance with transaction approval procedures is set out in Annex 2).

The Company has corporate bylaws governing the activities of management and control bodies. You can get familiarized with these provisions at <http://www.company.mts.ru/ir/control/regulations/>.

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

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

The approved documents provide greater protection for the Company's shareholders, investors, and partners, fostering team spirit and a desire to work and achieve substantial results.

MTS OJSC discloses information in the form of Annual Report, quarterly reports, lists of affiliated entities, material facts affecting the business, data that can have a material effect on the value of securities.

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

### Standard & Poor's\* Corporate Governance Score\*



April 04, 2011 MTS OJSC is assigned the highest corporate governance score (GAMMA) in CIS countries.

Current GAMMA scores of GAMMA 7 were also assigned to the Brazilian banks Santander Brazil SA and Banco Bradesco SA.

**There are no higher corporate governance scores to date.**

### What is GAMMA?

A GAMMA score\*\* is focused on assessment of non-financial risks associated with the purchase of companies' shares in emerging markets, and is desired for investors investing in these companies' shares.

GAMMA allows to assess non-financial risks affecting the Enterprise Value.

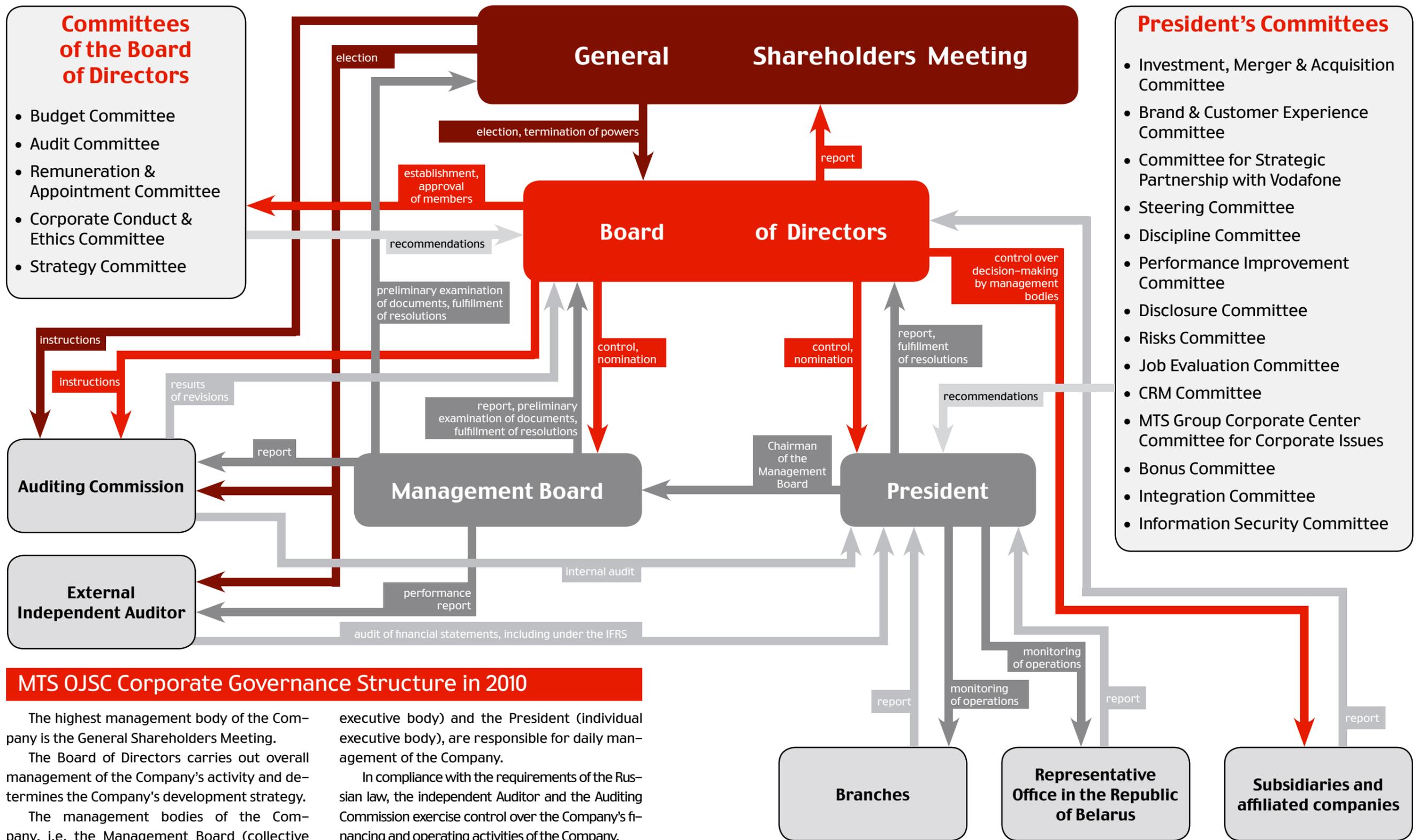
In the course of assigning a GAMMA score, several risks are analyzed that vary in their probability and level of impact on the Enterprise Value. The result of this process is an opinion on

potential total loss of value or missed opportunities to create value in consequence of ineffective corporate governance.

A GAMMA score reflects Standard & Poor's opinion on the relative strengths and weaknesses of a company's corporate governance practices, as far as investors' interests are concerned, i.e. the company's capability to prevent a decrease in its EV due to possible imperfections of its corporate governance system or failure to create value.

\* The international rating company Standard & Poor's, whose activity is based on the principles of honesty, objectivity and innovation, has been one of the global leaders in risk analysis for already 150 years. In 1998, Standard & Poor's began to develop criteria and methods for assessing corporate governance practices and since 2002 started to conduct an independent interactive analysis of companies' and banks' corporate governance system.

\*\* GAMMA is an abbreviation from the English words Governance, Accountability, Management Metrics and Analysis.



**MTS OJSC Corporate Governance Structure in 2010**

The highest management body of the Company is the General Shareholders Meeting. The Board of Directors carries out overall management of the Company's activity and determines the Company's development strategy. The management bodies of the Company, i.e. the Management Board (collective

executive body) and the President (individual executive body), are responsible for daily management of the Company. In compliance with the requirements of the Russian law, the independent Auditor and the Auditing Commission exercise control over the Company's financing and operating activities of the Company.



## General Shareholders Meeting

The Company's shareholders of the Company participate in the management of the Company through decision-making at general shareholders meetings. Shareholders can considerably influence the business via voting rights. In particular, the powers of the general shareholders meeting include the power to elect the Company's management and control bodies, approve major and related-party transactions, pay (declare) dividends and consider several other important issues

The Annual General Shareholders Meeting (June 26, 2010) and an Extraordinary General Shareholders Meeting (December 23, 2010) were held during 2010. Shareholders' meeting minutes are posted at: [http://www.company.mts.ru/ir/control/shareholders\\_meetings/resolution/](http://www.company.mts.ru/ir/control/shareholders_meetings/resolution/). Materials for shareholders meetings are posted at: [http://www.company.mts.ru/ir/control/shareholders\\_meetings/materials/](http://www.company.mts.ru/ir/control/shareholders_meetings/materials/).

### The Annual General Shareholders Meeting on June 24, 2010 considered the following issues:

- Approval of MTS OJSC Annual Report, MTS OJSC Annual Financial Statements, including MTS OJSC Profit & Loss Report, distribution of MTS OJSC profit and losses based on FY 2009 results (including the payment of dividends);
- Election of members of MTS OJSC Board of Directors;
- Election of members of MTS OJSC Auditing Commission;
- Approval of MTS OJSC auditor;
- Approval of MTS OJSC Charter, as amended;

- Approval of the Regulations of MTS OJSC General Shareholders Meeting, as amended.

### The Extraordinary General Shareholders Meeting on December 23, 2010 considered the following issues:

- Reorganization of MTS OJSC through the takeover of COMSTAR-United TeleSystems Open Joint Stock Company, United TeleSystems Closed Joint Stock Company, Capital Closed Joint Stock Company, Communications Operator Closed Joint Stock Company, Mobile TeleSystems Closed Joint Stock Company, COMSTAR-Direct Closed Joint Stock Company by MTS OJSC;
- Reorganization of MTS OJSC through the takeover of Dagtelecom Closed Joint Stock Company, and approval of the Takeover Agreement;
- Reorganization of MTS OJSC through the takeover of Eurotel Open Joint Stock Company, and approval of the Takeover Agreement;
- Increasing the charter capital of MTS OJSC through the placement of additional shares;
- Amendments and additions to the Charter of MTS OJSC.

## Board of Directors

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

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

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

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

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

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

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

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

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

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

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



### Members of the Board of Directors

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

The Company is interested that the Board of Directors includes at least three independent directors, according to global corporate governance standards and provisions of the Company's corporate by-laws. Director independence criteria are set forth in the Regulations of MTS OJSC Board of Directors (you can find these regulations at: <http://www.company.mts.ru/ir/control/regulations/>) and are in line with the best global corporate governance practice.

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

**The Board of Directors was elected at the Annual General Meeting of Shareholders of MTS OJSC held on June 24, 2010, with a term commencing upon election and lasting through 2010.**



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

Born in 1949.

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

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

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

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

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



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

Born in 1969.

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

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

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

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

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



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

Born in 1976.

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

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

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

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

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



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

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

Born in 1964.  
Mr. Dunstone graduated from the Liverpool University.  
Since March 2010, he has served as the Chairman of the Board of Directors of TalkTalk and Carphone Warehouse.  
He co-founded Carphone Warehouse в 1989 and served as the CEO of the company until 2010.  
He founded TalkTalk in 2003 and served as the CEO of the Company until 2010.  
Currently, Mr. Dunstone is a member of the Board of Directors of Best Buy Europe Distributions Limited, The Daily Mail and General Trust, Clareville Capital Partners LLP, Independent Media Distribution PLC and some other companies. He previously served on the Board of Directors of Halifax Bank of Scotland.

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



**Sergey Alexeevich Drozdov**  
member of the Board  
of Directors

Born in 1970.  
Mr. Drozdov graduated from the S. Ordzhonikidze State Academy of Management in Economics in 1993. Cand, sc. (Economics).

From 1994 to 1995, Mr. Drozdov headed the financial innovations and marketing department at the City of Moscow's Property Fund. He has been working at Sistema since 1995. He was the executive director of the department of development and investments from 1995 to 1998, and from 1998 to 2002 served as Vice President, Acting President, and First Vice President of Sistema-Invest OJSC. Mr. Drozdov became head of the Corporation's department of corporate property in April 2002. He was appointed Acting First Vice President of Sistema on May 15, 2002, and First Vice President of Sistema in September 2002. In April 2005 he became Senior Vice President and Chief of the property complex.

Mr. Drozdov is a member of the Board of Directors of Sviyazinvest OJSC, Bashneft OJSC, NK Rusneft OJSC and other Russian companies.

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



**Tatiana Vladimirovna Yevtoushenkova**  
member of the Board  
of Directors

Born in 1976.  
Ms Yevtoushenkova graduated from the Finance Academy under the Government of the Russian Federation.

From 2007 to 2008, she was Advisor to the President of MTS OJSC. Ms. Yevtuoshenkova joined the Company in October 2002. Prior to that, from December 1999, she was the Director of the Investments Department at Sistema Telecom.

From 2002 to 2007, Ms. Yevtoushenkova was MTS OJSC Vice President of Strategy and Development.

Since 2008 she has been an advisor to the President of Sberbank of Russia OJSC.

The member of the Board of Directors held 136,968 common registered shares of MTS OJSC during the reporting period.



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

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

Born in 1958.  
Mr. Miller received a degree in law and administration from the University of South Africa and a degree in human resources management from the Institute of Administration and Commerce in Cape Town, South Africa. He has also completed several business management programs, including the Proteus Leadership program at the London Business School.

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

Mr. Miller is a member of the Board of Directors of AINMT (AB) Sweden, KPN Royal NV, E-Plus GMBH Germany, Arrow Creak investments 75 (PTY) LTD South Africa.

Previously, he was a member of the Board of Directors of Royal KPN, Hutchison 3G UK Ltd, IP Global Net NV and VESTA Technologies.

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



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

**Non-executive Independent Director of MTS OJSC**  
Born in 1948.

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

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

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

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

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

Since 2007 Mr. Ostling has been Deputy Chairman of the Board of Directors of Cool nrg. PTY, members of the Board of Directors of Promsvyazbank OJSC, and since 2011 member of the Board of Directors of the Moscow Airport Domodedovo.

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



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

Born in 1970.

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

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

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

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

Since March 10, 2011, Mr. Shamolin has been serving as President of AFK Sistema OJSC.

Mr. Shamolin is a member of the Board of Directors of SISTEMA SHYAM TELESERVICES LIMITED, International Cell Holding LTD, MTS UKRAINE PrJSC and other companies.

The member of the Board of Directors held 174,890 common registered shares of MTS OJSC during the reporting period.

### Members of the Company's Board of Directors prior to the Annual General Meeting of Shareholders in 2010

- Ron Sommer, b. 1949
- Alexey Nikolaevich Buyanov (Deputy Chairman), b. 1969
- Anton Vladimirovich Abugov, b. 1976
- Mohanbir Gyani, b. 1951
- Sergey Alexeevich Drozdov, b. 1970
- Tatiana Vladimirovna Yevtoushenkova, b. 1976
- Daniel Crawford, b. 1939
- Paul Ostling, b. 1948
- Mikhail Valerievich Shamolin, b. 1970.

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

During the past 2010, the Board of Directors held 20 meetings. In preparing and making decisions, MTS OJSC Board of Directors strived to take into account the interests of shareholders, the Company's employees, creditors, local communities and other interest groups of society.

### Directors' attendance at Board meetings in 2010

Director	Meetings in praesentia	Meetings in absentia
Ron Sommer <sup>1</sup>	9	11
Alexey Nikolaevich Buyanov <sup>1</sup>	9	11

Anton Vladimirovich Abugov <sup>1</sup>	8	11
Mohanbir Singh Gyani <sup>2</sup>	3	8
Sergey Alexeevich Drozdov <sup>1</sup>	9	11
Tatiana Vladimirovna Yevtoushenkova <sup>1</sup>	9	11
Daniel Crawford <sup>2</sup>	3	8
Paul Ostling <sup>1</sup>	9	11
Mikhail Valerievich Shamolin <sup>1</sup>	9	11
Charles Dunstone <sup>1</sup>	6	4
Miller Stanley <sup>1</sup>	6	4

<sup>1</sup> Joined the Board of Directors elected at the Annual General Shareholders Meeting on June 24, 2010

<sup>2</sup> Did not join the Board of Directors elected at the Annual General Shareholders Meeting on June 24, 2010

### 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 management bodies comply with the requirements of law and the Company's bylaws guarantying that the rights and interests of its shareholders are exercised.

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

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



**Maxim Kalinin,**  
Director of Corporate Governance, winner of the National Award “Director of the Year”\* in the category “Director of Corporate Governance – Corporate Secretary”:

“The improvement of corporate governance is a strategic goal for the Russian market today, taking into consideration that the establishment of this most important function of investors’ cooperation with corporations began just a little more than ten years ago. We are very thankful that the expert community highly appreciated existing MTS corporate governance standards, the expertise of our team and the corporate governance improvement strategy being implemented by our Company”

In 2010, MTS Director of Corporate Governance Maxim Kalinin was the winner of the National Award “Director of the Year”\* in

the category “Director of Corporate Governance – Corporate Secretary”.

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

### Main issues considered by the Board of Directors in 2010

1. Approval of participants of the Long-term Incentive Program for MTS OJSC Employees;
2. Amendments to MTS OJSC Charter;
3. Approval of candidates for the positions of top managers reporting directly to MTS OJSC President;
4. Working out MTS OJSC’ position as for the participation of MTS OJSC representatives in the vote and voting on issues on the agenda of meetings of MTS OJSC subsidiaries’ and affiliates’ governing bodies;
5. Report on implementation of MTS Group Corporate Responsibility Strategy based on 2009 results;
6. MTS OJSC’ participation in other organizations;
7. Approval of transactions with a value in excess of USD 100 million;
8. Updating MTS OJSC Board of Directors’ schedule for 2010;
9. Changes in number of members and composition of MTS OJSC Management Board;
10. Dissolution of the Ad-hoc Committee of MTS OJSC Board of Directors;
11. Amendments to the Employment Contract concluded with MTS OJSC President (Approval of MTS OJSC President’s KPIs and individual tasks for 2010);
12. Introduction of changes into MTS brand positioning;
13. Approval of the standard version of Regulations of MTS OJSC Macro Region Branch and the Regulations of MTS OJSC Branch in Ryazan;
14. Amendments to the Employment Contract concluded with MTS OJSC President (Approval of MTS OJSC President’s KPIs and individual tasks for 2009);
15. Report on the implementation of MTS Group Budget and CAPEX Program for 2009, and current forecast of implementation of the Budget for 2010 (including the report on CDI and ADR);
16. Entering adjustments to MTS OJSC Budget for 2010;
17. Audit Committee’s report on the activities of MTS OJSC internal control and audit divisions, including the report on the efficiency of the risk management system at MTS OJSC in 2009;
18. Report on the implementation of MTS Group Corporate Social Responsibility Strategy based on 2009 results;
19. Review of shareholders’ proposals for the agenda of MTS OJSC Annual General Shareholders Meeting;
20. Inclusion of shareholders’ nominees into the list of candidates to be elected to MTS OJSC Board of Directors and MTS OJSC Audit Commission at MTS OJSC Annual General Shareholders Meeting;
21. Candidate for MTS OJSC auditor in 2010;
22. Convocation of MTS OJSC Annual General Shareholders Meeting;
23. Approval of related-party transactions;
24. Amendments to the Regulations of MTS OJSC Branches;
25. Report on the implementation of MTS Group Budget and CAPEX Program for 1Q 2010, and current forecast of implementation of the Budget for 2010,;
26. Report on the risk management at MTS OJSC;
27. MTS OJSC Strategy;
28. Preliminary approval of MTS OJSC Annual Report, review of the Annual Financial Statements, the Auditor’s and Auditing Commission Reports;



29. Recommendations of the Board of Directors regarding payment of MTS OJSC dividends;

30. Materials to be provided to shareholders in preparing the Annual General Meeting of MTS OJSC Shareholders;

31. Approval of the Regulations of the Remuneration & Nomination Committee of MTS OJSC Board of Directors, as amended;

32. Election of the Chairman and Deputy Chairman of MTS OJSC Board of Directors;

33. Appointment of the Secretary of MTS OJSC Board of Directors;

34. Determination of the status of members of MTS OJSC Board of Directors;

35. Formation of Committees of MTS OJSC Board of Directors;

36. Audit Committee's report on the activities of MTS OJSC internal control and audit divisions, including the report on the efficiency of the risk management system at MTS OJSC in 2009.

37. Network quality status (voice and data) in Moscow/Moscow Region and when roaming abroad;

38. Approval of MTS OJSC organizational structure in the form of a list of MTS OJSC key structural divisions reporting directly to MTS OJSC President (dissolution of the Technical Development Block, inclusion of the Strategic Partnership Department into the Commercial Block);

39. Determination of auditor's fee;

40. Report on the assessment of the performance of MTS OJSC Board of Directors;

41. Report on the implementation of MTS Group Budget and CAPEX Program for 1H 2010, and current forecast of implementation of the Budget for 2010 (including the report on CDI and ADR);

42. Audit Committee's report on the activities of MTS OJSC internal control and audit divisions, including the report on the efficiency of the risk management system at MTS OJSC in the first half year of 2010;

43. Results of assessment of MTS OJSC assets organizational maturity;

44. Changes in the composition of MTS OJSC Management Board;

45. Establishment of an ad-hoc committee of MTS OJSC Board of Directors;

46. MTS OJSC Branches;

47. MTS OJSC Strategy: results of strategic sessions;

48. Approval of MTS Group Budget for 2011;

49. MGTS OJSC Development Strategy;

50. Analysis of the current procurement management system at MTS OJSC;

51. Improvement of the trade secret protection process at MTS OJSC;

52. Approval of nominees for the election to Boards of Directors (Supervisory Boards) of foreign subsidiaries;

53. Approval of the timetable of MTS OJSC Board of Directors for 2011;

54. Approval of Indemnification Agreements that are related-party transactions;

55. MTS OJSC Stock Option Program;

56. Amendments to the Employment Contract concluded with MTS OJSC President (Approval of MTS OJSC President's KPIs and individual tasks for 2011);

57. Principles of assessment of MTS OJSC top managers' performance;

58. Approval of the decision on additional issue of MTS OJSC securities;

59. Approval of MTS OJSC Prospectus;

60. Approval of related-party transactions.

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

The conditions of, and procedure for payment of remuneration to members of the Board of Directors of MTS OJSC are set out in the Regulations of Remunerations and Compensations Payable to the Members of the Board of Directors of MTS OJSC, a document approved by the General Meeting of MTS OJSC Shareholders

(you can get familiarized with these Regulations at: [http://www.company.mts.ru/ir/control/regulations/bod\\_compensation/](http://www.company.mts.ru/ir/control/regulations/bod_compensation/))

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

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

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

- **Basic remuneration**

The basic remuneration is paid in money for the performance of duties as member of the Company's Board of Directors during the

corporate year and does not depend on the number of meetings the Director attended.

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

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

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

- **Remuneration for performing additional duties**

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



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

The remuneration for performing additional duties is paid by the Company quarterly, in equal installments, at least within 30 days after the quarter end, on the basis of an office memo that must be provided by the Corporate Secretary of the Company (a person performing the duties of Corporate Secretary) and contain the number of Committees of the Board of Directors in which each of Directors participates, and an abstract from the minutes of the Board meeting that reflects the assignment of responsibilities between members of committees of the Board of Directors. In case of early termination of powers, the remuneration is paid in the amount proportional to the actual period of office of the Director during the corporate year.

**Performance-based annual bonus**

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

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

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

where: S is the bonus amount;  
 K is the number of completed months between general shareholders' meetings of the Company at which an independent director is reelected, divided into 12 (K = 1, if an independent director was not reelected during the corporate year);  
 P1 is the weighted average price of one (1) ADR of the Company for 100 days before the date of election of an independent director; and  
 P2 is the weighted average price of one (1) ADR of the Company for 100 days before the date of termination of powers of an independent director.

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

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

**Total amount of remuneration paid to the members of the Board of Directors in 2010: RUB 19,678,813.**

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

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

**Assessment of performance of the Board of Directors**

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

In 2010, the performance of the Board of Directors was assessed based on the existing assessment system using the questionnaire survey method. In the course of questioning, members of the Board of Directors were asked above 30 questions, opinion was given according to a four-point grading scale. The questions dealt mainly with the procedure of work, planning and organization of activities of the Board of Directors and Committees.

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

**Maximum score was received as answers to the following questions:**

- Work of the Corporate Secretary related to organization of work of the Board and its Committees;
- Effectiveness of the work of Committees of the Board in terms of special opinion on agenda items within their responsibility and preliminary consideration of issues to be submitted to the Board for review;
- Completeness and quality of information regarding the Company's financial standing provided to the Board;

- Regularity of reviewing issues related to corporate governance at Board meetings;
- Frequency, regularity and length of meetings, and proportion between meetings in praesentia and in absentia;
- Timeliness of preliminary submission of documents for meetings of the Board to prepare for meetings.
- The score with respect to the question "Training and career enhancement system for the members of the Board" decreased slightly vs. 2009 results.

The Report on Assessment of the Board of Directors' Performance was approved by the Committee for Corporate Conduct & Ethics of MTS OJSC Board of Directors and MTS OJSC Board of Directors in July 2010.

**Committees of the Board of Directors**

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

Besides, due to the necessity of monitoring the transaction related to the acquisition of stake in the charter capital of Sistema Telecommunications, Informatics and Communications LLC, an ad-hoc committee of independent directors of MTS Board of Directors was formed on September 09, 2010 to govern the project for acquiring the stake in the charter capital of Sistema Telecommunications, Informatics and Communications LLC.

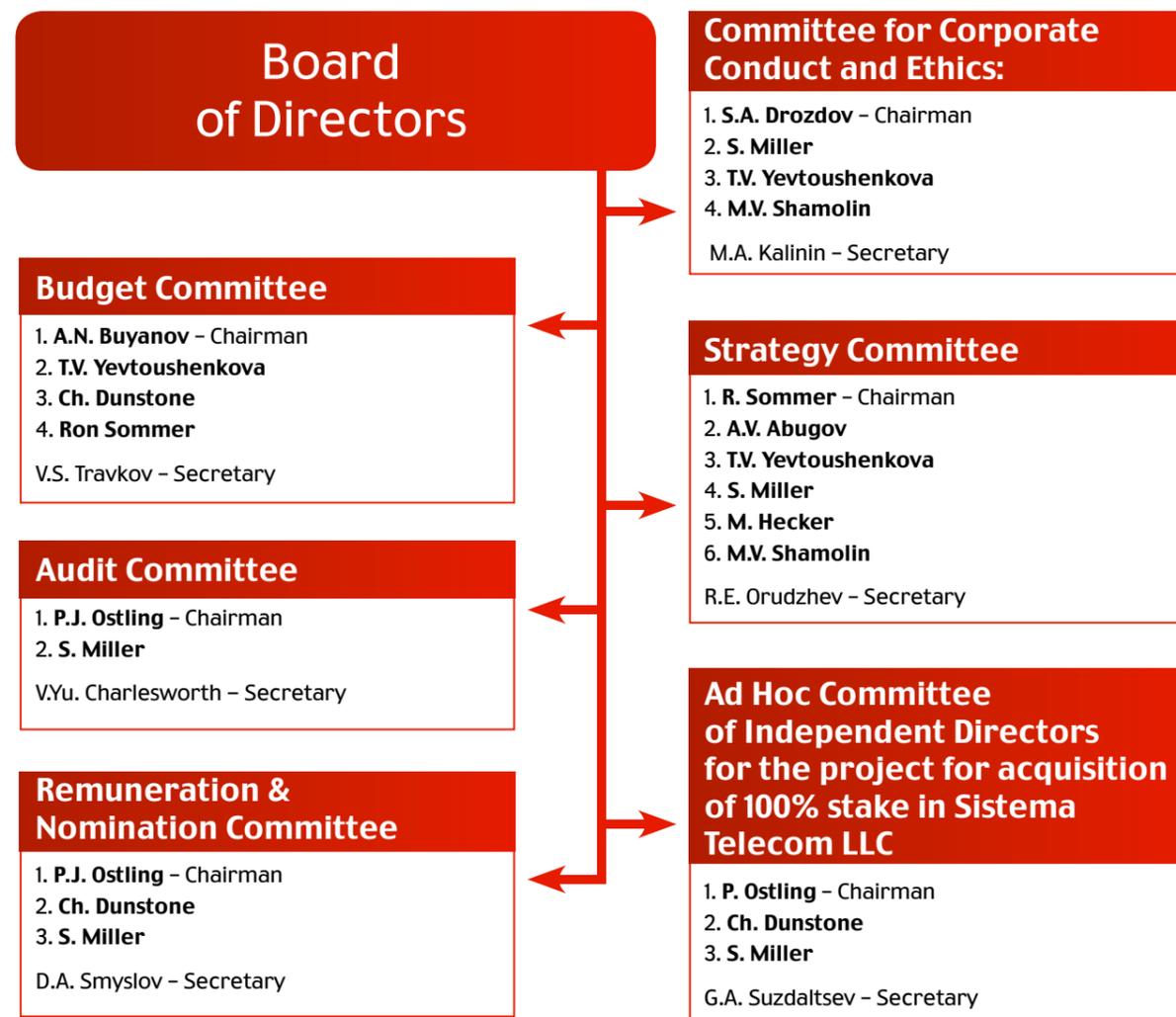
In view of the fact that the project for acquiring the controlling interest in



COMSTAR-UTS OJSC by MTS OJSC was completed and taking into account the analysis of activities of the Ad-hoc Committee of Independent Directors governing the project for acquiring

the stake in COMSTAR-UTS OJSC, on March 17, 2010 MTS Board of Directors decided to abolish the Ad-hoc Committee and terminate the powers of its members.

The meeting of MTS OJSC Board of Directors, where the composition of committees of the Board of Directors was determined, was held on June 24, 2010. This composition of committees will be effective after the election through 2010.



**Composition of Committees of MTS OJSC Board of Directors before the Annual General Shareholders' Meeting in 2010:**

- **Budget Committee:** A.N. Buyanov (Chairman), M.S. Gyani, T.V. Yevtoushenkova, R. Sommer
- **Audit Committee:** P.J. Ostling (Chairman), M.S. Gyani, D.E. Crawford
- **Remuneration & Nomination Committee:** P.J. Ostling (Chairman), M.S. Gyani, D.E. Crawford
- **Committee for Corporate Conduct and Ethics:** M.S. Gyani (Chairman), S.A. Drozdov, T.V. Yevtoushenkova, M.V. Shamolin
- **Strategy Committee:** R. Sommer (Chairman), M.S. Gyani, A.V. Abugov, T.V. Yevtoushenkova, M. Hecker, M.V. Shamolin

**Terms of reference of the Committees and their activities during the reporting year**

**Budget Committee**

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

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

- MTS debt management;
- Additional investment into 3G;
- Impact of the resistance against MegaFon in struggling for leadership in Russia on MTS budget;
- MTS debt portfolio restructuring;

- MTS loan portfolio management in 4Q 2010;
- MTS OJSC Draft Budget for 2011;
- and other.

**Audit Committee**

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

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

- Discussion of the draft report on MTS OJSC financial and operating results in Q4 2009 and 2009;
- Discussion of the review from Deloitte in Q4 2009 and 2009;
- Selection of auditor to carry out audit in 2010;
- Discussion and approval of the Internal Audit Strategy for 2010;
- Review and approval of the results of the assessment of risk management and internal control systems in 2009 ;
- Discussion and pre-approval of the Annual Report on Form 20-F
- and other.

**Remuneration & Nomination Committee**

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

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

- Approval of MTS OJSC President's KPIs and individual objectives for 2010;



- Approval of the candidate for the director of the Internal Audit Department;
- Discussing the HR Strategy and key HR initiatives for 2010;
- Implementation of KPIs and approval of the amount of the President's annual bonus for 2009;
- Implementation of KPIs and approval of the amount of the annual bonus payable to MTS top managers (members of the Management Board and top executives (excluding the President) reporting directly to the President;
- pre-approval of candidates nominated for the Company's Board of Directors and Auditing Commission;
- and other.

### Committee for Corporate Conduct & Ethics

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

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

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

- Review of the Report on Evaluation of Performance of MTS OJSC Board of Directors;
- Review of reports on MTS OJSC representatives' activities in boards of directors of MTS OJSC subsidiaries and affiliated companies.

### Strategy Committee

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

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

- Report on the implementation of MTS OJSC key functional strategies in 2009 (marketing strategy, sales and customer care strategy);
- Brief report on M&A activities;
- Report on the customer churn and CDI research results vs. competitors;
- and other.

### Ad Hoc Committee of Independent Directors for the project for acquisition of 100% stake in Sistema Telecom LLC

The main function of the Ad Hoc Committee of Independent Directors for the project of acquisition of 100% stake in Sistema Telecom LLC is to oversee the conditions for settlement of the transaction involving the acquisition of stock in Sistema Telecom LLC.

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

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

## Individual Executive Body of the Company: the President

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

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

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

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

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

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

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

During 2010, the functions of the Individual Executive Body (President) of MTS OJSC were

performed by Mikhail Valerievich Shamolin. The powers of the President M.V. Shamolin were terminated early on March 04, 2011 by resolution of the Board of Directors.

M.V. Shamolin was appointed to serve as the President of AFK Sistema OJSC since March 10, 2011.



President of MTS OJSC until 04.03.2011

## Mikhail Valeryevich Shamolin

Mr. Shamolin was elected by resolution of the Board of Directors of May 29, 2008 (Minutes No. 120) to serve as MTS OJSC President from May 29, 2008 for a period of three years.



Born in 1970.

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

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

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

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

Since March 10, 2011, Mr. Shamolin serves as President of AFK Sistema OJSC.

Mr. Shamolin is a member of the Board of Directors of SISTEMA SHYAM TELESERVICES LIMITED, International Cell Holding LTD, MTS UKRAINE PrJSC and other companies.

He held 174,890 common registered shares of MTS OJSC during the reporting period.

President of MTS OJSC from 05.03.2011

## Andrey Anatolyevich Dubovskov

Mr. Dubovskov was elected by resolution of the Board of Directors of March 04, 2011 (Minutes No. 177) to serve as MTS OJSC President from March 05, 2011 for a period of three years.



Born in 1966.

Mr. Dubovskov graduated from the S.A. Gerasimov All-Union State Institute of Cinematography (VGIK) in 1993.

Mr. Duvobskov headed MTS Ukraine Business Unit from January 2008. He joined MTS Ukraine Business Unit as the First Deputy Director General in December 2007. From 2006 to 2007, he was Director of MTS Ural Macro Region, from 2004 to 2006 served as Director of MTS OJSC branch in Nizhny Novgorod. From 2002 to 2004, he headed one of Tele2 Group companies in Nizhny Novgorod.

Mr. Dubovskov has a wealth of experience in working for Russian and foreign telecommunications companies. From 1993 onwards, he occupied a number of management positions in such companies as Millicom International Cellular S.A., Millicom International Cellular B.V., Regionalnaya Sotovaya Svyaz LLC and CJSC 800 as well as other companies in Moscow, Alma-Ata, Nizhny Novgorod, Perm and Kiev.

He held 15,620 registered common shares of MTS OJSC during the reporting period.



### Collective Executive Body: the Management board

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

The President (Chairman of the Management Board) and the Management Board act on the basis of the Federal Law "On Joint-Stock Companies", MTS OJSC Charter and Regulations of MTS OJSC Management Board that were approved by the Annual General Meeting of MTS OJSC Shareholders on June 15, 2009

(you can get familiarized with these Regulations at [http://www.company.mts.ru/ir/control/regulations/executive\\_board/](http://www.company.mts.ru/ir/control/regulations/executive_board/)).

Number of members and composition of the Management Board is approved by the Board of Directors at the suggestion of the President of the Company for a period determined by the Board of Directors of the Company in establishing the Management Board. The term of office of the Management Board

may not exceed the term of office of the current President of the Company. Members of the Management Board may be elected an unlimited number of times.

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

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

MTS OJSC Management Board held 34 meetings during the past 2010.

**Members of the Management Board were elected by resolution of the Board of Directors (Minutes of 120 dated May 29, 2008).**

**Members of the Management Board as of December 31, 2010**



**Chairman of the Management Board**  
**Mikhail Valeryevich Shamolin**

Born in 1970.

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

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

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

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

Since March 10, 2011, Mr. Shamolin serves as President of AFK Sistema OJSC.

Mr. Shamolin is a member of the Board of Directors of SISTEMA SHYAM TELESERVICES LIMITED, International Cell Holding LTD, MTS UKRAINE PrJSC and other companies.

The member of the Management Board held 174,890 common registered shares of MTS OJSC during the reporting period.



**Pavel Dmitrievich Belik**

Born in 1966.

Mr. Belik graduated from the KGB's Orel Higher Military Command Communications School in 1987 specializing in the operation of radio-relay and tropospheric communication systems.

He served in the government communication forces from 1987 to 1992. From 1992 to 2004, he served in military counter-intelligence units and the Internal Security Directorate of the Russian Federal Security Service (FSB).

He graduated in law from the FSB Academy in 1999.

Mr. Belik joined MTS in February 2005 as Director of Security for the Moscow Macro Region. He was Vice President of Security of MTS OJSC from October 3, 2005 to March 2011.

The member of the Management Board held 13,916 registered common shares of MTS OJSC during the reporting year.



**Mikhail Yurievich Gerchuk**

Born in 1972.

Mr. Gerchuk graduated from the M.V. Lomonosov Moscow State University in economic geography in 1994, and received an MBA from the INSEAD Business School in 1999.

He started his career at the advertising agency BBDO. From 1995 to 1997, he served as Brand Manager at MARS Inc. From 1997 to 1998, he was employed with Pepsi-Cola in the position of Category Marketing Manager. From 1999 to 2002, he worked as an Associate at Booz Allen Hamilton in London with a responsibility for marketing and strategy projects. From 2003, prior to joining MTS OJSC, Mr. Gerchuk was employed with Vodafone, first in the position of Vodafone Group Senior Global Marketing Manager and, thereafter, as Chief Commercial Officer at Vodafone Malta.

Mr. Gerchuk joined MTS OJSC in 2007 as the Marketing Director of the Corporate Center.

Since 2008 he has been the MTS OJSC Vice President and Chief Commercial Officer.

Mr. Gerchuk is a member of management bodies of MTS UKRAINE PrJSC, Russian Telephone Company CJSC, International Cell Holding Ltd., etc.

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



**Andrey Anatolyevich Dubovskov**

Born in 1966.

Mr. Dubovskov graduated from the S.A. Gerasimov All-Union State Institute of Cinematography (VGIK) in 1993.

Mr. Duvobskov headed MTS Ukraine Business Unit from January 2008. He joined the MTS Ukraine Business Unit as the First Deputy Director General in December 2007. From 2006 to 2007, he was Director of MTS Ural Macro Region, from 2004 to 2006 served as Director of MTS OJSC branch in Nizhny Novgorod. From 2002 to 2004, he headed one of Tele2 Group companies in Nizhny Novgorod.

Until March 2011 he was CEO of PrJSC «MTS UKRAINE».

On March 5, 2011 – President of MTS OJSC.

Mr. Dubovskov has a wealth of experience in working for Russian and foreign telecommunications companies. From 1993 onwards, he occupied a number of management positions in such companies as Millicom International Cellular S.A., Millicom International Cellular B.V., Regionalnaya Sotovaya Svyaz LLC and CJSC 800 as well as other companies in Moscow, Alma-Ata, Nizhny Novgorod, Perm and Kiev.

The member of the Management Board held 15,620 registered common shares of MTS OJSC during the reporting period.



**Ruslan Sultanovich Ibragimov**

Born in 1963.

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

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

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

Mr. Ibragimov is a member of management bodies of COMSTAR-Regions CJSC.

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



**Alexey Valeryevich Kornya**

Born in 1975.

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

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

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

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

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

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

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





**Sergey Borisovich Nikonov**

Born in 1960.

Mr. Nikonov graduated from the Military Institute of the USSR Ministry of Defense as a military interpreter in 1987.

Mr. Nikonov joined MTS OJSC in July 2006 to serve as Vice President of HR and Administrative Issues.

In October 2005 he became Deputy General Director of Power Machines OJSC responsible for human resources and administration.

From 2003 to 2005 he served as the Deputy General Director of ROSNO, where he headed human resources, administration, and internal control.

He worked with the Federal Tax Police Service from 1992 to 2002. He began his career in 1987 with state security agencies.

The member of the Management Board held 19,982 registered common shares of MTS OJSC during the reporting period.



**Alexander Valeryevich Popovsky**

Born in 1977.

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

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

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

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

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

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



**Oleg Yuryevich Raspopov**

Born in 1966.

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

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

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

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

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

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



**Andrey Borisovich Terebenin**

Born in 1962.

Mr. Terebenin graduated from MGIMO (Moscow State Institute of International Relations) of the RF Foreign Ministry in international economic relations.

He has been the MTS OJSC Vice President of Corporate Communications since 2006.

In 1999 he became a partner in the communications agency Treugolnik Porter Novelli, and from 2003 prior to coming to MTS held the position of General Director and partner at the communications holding company R.I.M. Porter Novelli. He held management posts at Ekonomicheskaya Gazeta, Dun & Bradstreet CIS, and AIG Russia.

Until November 2010 Member of the Board owned the common registered shares of MTS OJSC in the amount of 29,735 common shares.



**Andrey Eduardovich Ushatsky**

Born in 1974.

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

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

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

Mr. Ushatsky is a member of management bodies of MGTS OJSC, MTS UKRAINE PrJSC, etc.

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



**Michael Hecker**

Born in 1970.

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

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

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

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

Mr. Hecker is a member of management bodies of MTS UKRAINE PrJSC, MULTIREGION CJSC, etc.

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



**Frederic Vanoosthuyze**

Born in 1973 in Belgium.

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

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

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

Mr. Vanoosthuyze is a member of management bodies of MTS UKRAINE PrJSC.

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



**Victor Valerianovich Stankevich**

Born in 1958.

Mr. Stankevich graduated from the Moscow Aviation Institute (MAI) in 1981, the All-Russian Academy of External Trade with a degree in International Economic Relations in 1989, and the Financial Academy under the Government of the Russian Federation with a degree in Economics and Finance in 2002.

In June 2006, he joined MTS as Director of the Control Department, from June 2007 he was Director of Control and External Resources Management at MTS Group, and from February 2010 - Director of the Procurement Block at MTS Group; since 2011 he has been Director of Control.

Prior to joining MTS, Mr. Stankevich headed a laboratory and was Deputy Director of the Center of Problems of Automation of Electronic Circuit Design under the Russian Academy of Sciences. In June 1996, he joined the insurance company ROSNO as Head of Treasury, and was appointed to serve as Deputy CFO at ROSNO in 2000 and Deputy CEO at ROSNO in October 2003.

Mr. Stankevich is member of management bodies of MGTS OJSC and Barash Communications Technologies, Inc.

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





The following persons ceased to be members of the Management Board between January 01 and December 31, 2010, by resolution of the Board of Directors:

- Valery Victorovich Shorzhin (the resolution of the Board of Directors was adopted on September 09, 2010)

**Members of the Management Board as of March 15, 2011 (date of election of new members of the Management Board)**

The following persons have been members of MTS OJSC Management Board since March 15, 2011:

- Frederic Vanoosthuyze;
- Mikhail Yurievich Gerchuk;
- Andrey Anatolievich Dubovskov (Chairman);
- Ruslan Sultanovich Ibragimov;
- Alexey Valerievich Kornya;
- Sergey Borisovich Nikonov;
- Alexander Valeryevich Popovsky;
- Oleg Yuryevich Raspopov;
- Andrey Borisovich Terebenin;

- Andrey Eduardovich Ushatsky;
- Michael Hecker;
- Valery Victorovich Shorzhin.

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

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

**Total remuneration paid to the members of the Management Board in 2010: RUB 351,532,129.29.**

Based on the results of its work, the Auditing Commission presented its findings on the financial statements of MTS OJSC for 2010. According to the Auditing Commission, the audit provided a reasonable basis to express the opinion that the financial and business operations of MTS OJSC during the reporting year were in all material respects carried out in accordance with current legislation, and that this Report and the annual financial statements of MTS OJSC for 2010 fairly present the Company's financial condition as at December 31, 2010, and the results of its financial and business operations for the period from January 1 through December 31, 2010.

**Auditor of MTS OJSC**

On June 24, 2010, the Annual General Meeting of Shareholders of MTS OJSC approved as the Company's auditor ZAO Deloitte & Touche CIS (location: 5 Lesnaya St., Moscow, Russian Federation 125047, main state registration number (OGRN) 1027700425444, Certificate of Membership in the Non-Profit Partnership Auditor Chamber of Russia No. 3026 of May 20, 2009.

Deloitte CIS is one of the leading auditing and advisory firms that provides auditing, tax, consulting and corporate finance services using the experience of approximately 3 000 employees in 15 offices in 10 countries of the region. Deloitte CIS is a part of the international association of firms Deloitte Touche Tohmatsu Limited that is one of the global leaders in the provision of professional services, with about 17,000 employees in more than 140 countries of the world.

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

In 2010 the Company was the winner of the SPEAR'S Russia Managements Awards (in

Russian private banking sector) in the nomination Tax Adviser of the Year the second year running.

According to an independent research study conducted by the publication International Tax Review in 2009, Deloitte CIS received the Company of Year Award in tax consulting in Russia. In 2009 World Tax rankings released by The International Tax Review, one of the most authoritative publications in the global tax field, 47 Deloitte tax practices, of 52 jurisdictions examined, were ranked at the highest levels. Deloitte CIS was rated number 1 Financial Advisor to the Russian Mid-Market M&A sector in 2008 by the international information and analytical agency Mergermarket.

**The work performed by the Auditor:**

- Audit of MTS' 2010 Annual Financial Statements prepared under Russian accounting standards;
- Integrated audit of MTS Group' and subsidiaries' 2010 Consolidated Financial Statements prepared under US GAAP and as required by the Sarbanes-Oxley Act.

Based on the audit the Auditor of MTS OJSC expressed the opinion that the financial statements of MTS OJSC were fairly presented and accounting procedures were consistent with the laws of the Russian Federation and GAAP requirements.

**The Auditor's fee is approved by MTS OJSC Board of Directors and was, based on 2010 results, RUB 93,000,000, exclusive of the value added tax and on-costs.**

**Internal Audit Department of MTS OJSC**

The Internal Audit Department of MTS OJSC was created in September 2003, and is an independent unit of the Company within the MTS Group's Corporate Center. The Department

**Financial and usiness oversight bodies**

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

**MTS OJSC Auditing Commission**

On June 24, 2010, the Annual General Meeting of MTS OJSC Shareholders elected the following persons as members of the Auditing Commission:

1. Vasily Vasilyevich Platoshin, citizen of the Russian Federation, b. 1965, Chief Accountant, Director of Accounting and Reporting

Department, Financial Functional Division, AFK Sistema OJSC;

2. Artem Yevgenyevich Popov, citizen of the Russian Federation, b. 1979, Executive Director of Financial Planning and Budget Department, Financial Function Division, AFK Sistema OJSC.

3. Dmitry Yevgenievich Frolov, citizen of the Russian Federation, b. 1971, Director of Internal Control and Audit Division, AFK Sistema OJSC.

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





operates in accordance with its Regulations. Today the Department consists of a head of the department, deputy head of the department, a financial and business operations analysis section, and an operational audit and coordination section, and employees at the Company's macro-regional branches.

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

- provides guarantees of the fair presentation of information, compliance with requirements and verification of effectiveness through reviews, internal audits, diagnostic studies, and releases: regularly, as needed, or in the form of ad hoc audit projects;
- participates in investigations, transactions, and various operations of the Company, and in projects of other units of the Company: as needed or in the form of ad hoc projects/assignments;
- provides advice and recommendations, including explanations on selected issues, assists in finding solutions and improvements, educating employees in matters under review: as necessary, in the course of reviews, or in the form of ad hoc advisory and educational projects.

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

**Control Department of MTS OJSC**

The Control Department was created in June 2006, and is an independent unit of MTS OJSC within the MTS Group's Corporate Center. The Department operates in accordance with its Regulations. The Department consists of a head of the department, a deputy head of the department, a financial and business operations review section, and administrative

control section, and a performance assessment section.

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

- monitoring and analyzing the results of financial and business operations of the units of MTS OJSC;
- monitoring compliance with fiscal discipline at MTS OJSC and monitoring the implementation of decisions of its management bodies, including its collective management bodies;
- verifying that internal documents and decisions of the management bodies of MTS OJSC are consistent with the Company's financial and business interests;
- monitoring that the Company's agreements with third parties are consistent with MTS' financial and business interests;
- monitoring the preparation and implementation of operational and design plans;
- monitoring the implementation of internal regulations and business processes;
- monitoring the effectiveness and transparency of the system of governance at MTS OJSC, including identifying abuses by executive bodies and officers of MTS OJSC;
- monitoring compliance with instructions of the President of MTS OJSC;
- conducting independent investigations at the request of the President or collective management bodies of the Company;
- conducting independent investigations in the event of conflicts between different units of the Company;
- preparing opinions on violations brought before the disciplinary commission of MTS OJSC.

**The Control Department reports directly to the Director of Fraud (Security Block).**

**Internal Control Systems Department of MTS OJSC**

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

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

- developing effective internal control systems at MTS Group;
- supporting internal control systems;
- testing and certifying internal control systems at MTS Group.

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

**Audit Committee of MTS OJSC Board of Directors**

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

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

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

- overseeing the work of the management of MTS OJSC, evaluating its effectiveness, and

providing information to the Board of Directors, and formulating relevant recommendations, in the following areas:

- risk management and internal control systems;
- financial accounting and preparation of the Company's reports and evaluation of their fair presentation;
- compliance with requirements applicable to the activities of MTS OJSC;
- efficiency of implementation of goals and objectives by the Board of Directors.

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



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Company financial results  
for 2010





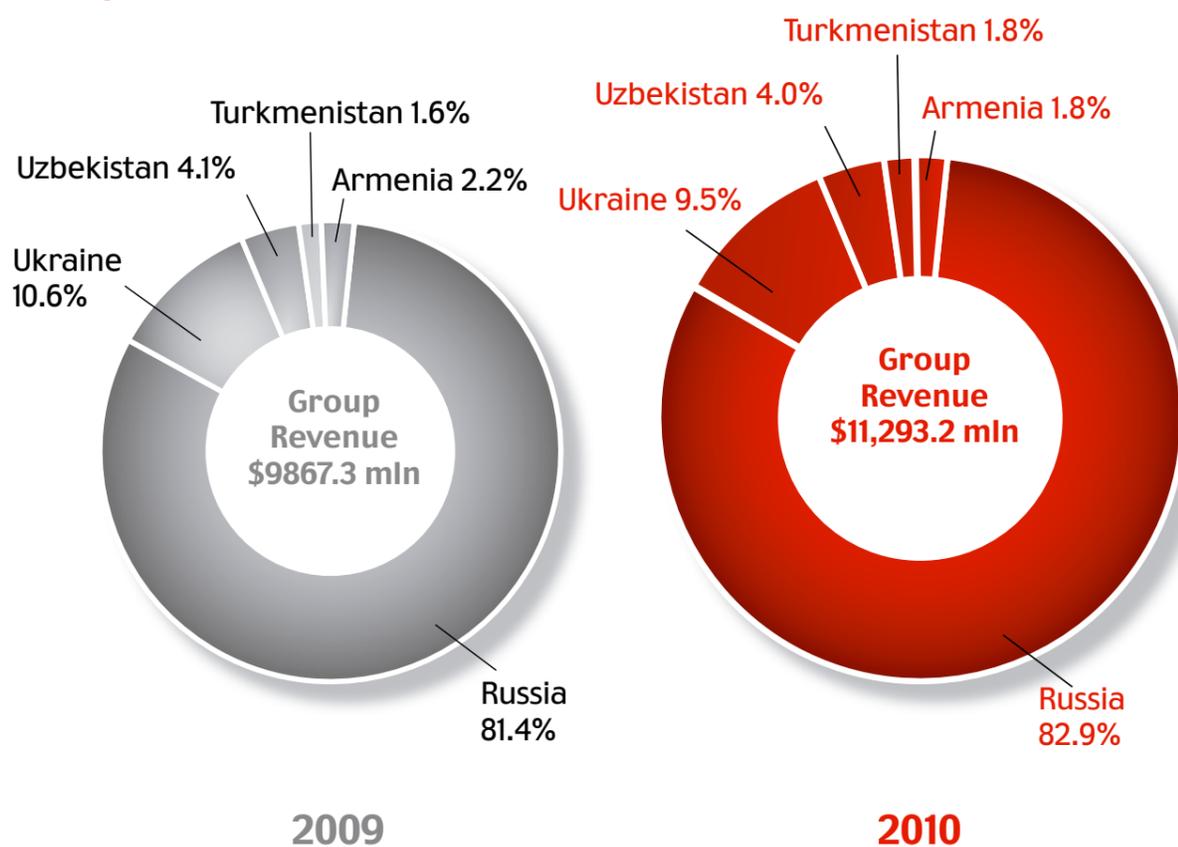
# 11. Company financial results for 2010

In the past several years MTS Group OJSC has transformed from being the leader of one regional market of Moscow into a major transnational operator, which provides services to 108.07 million subscribers in various regions and countries (including subscribers of Mobile TeleSystems JLLC in

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

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

## Group Revenue



## Key financial indicators, 2010 (MUSD)\*

Indicators	Q4 2010	Q4 2009	Q4 2010 vs. Q4 2009	Q3 2010	Change over the quarter	2009	2008	Change over the year
Revenue	2 995	2 724	10%	2 911	3%	11 293	9 867	14%
OIBDA	1 159	1 202	-4%	1 317	-12%	4 873	4 486	9%
OIBDA margin	38.7%	44.1%	-5.4 pp	45.3%	-6.6 pp	43.1%	45.5%	-2.4 pp
Net operating income	493	617	-20%	804	-39%	2 735	2 556	7%
Net operating margin	16.5%	22.7%	-6.2 pp	27.6%	-11.1 pp	24.2%	25.9%	-1.7 pp
Net income/loss	156	-23	n/a	484	-68%	1 381	1 014	36%

\* Taking into account the retrospective Sistema Telecom LLC, TS-Retail OJSC and METRO-TELECOM CJSC consolidation for all disclosure periods.

The full year consolidated revenue increased by 14% up to \$11.293 billion

The full year consolidated OIBDA increased by 9% vs. 2009 up to \$4.873 billion (OIBDA margin made up 43.1%)

The full year consolidated net income increased by 36% в годовом исчислении to \$1 381 billion

The Company's positive net cash flow in 2010 made up \$1.529 billion

**Revenue structure (MUSD)\***

Region	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2009	2010	Change over the year
Russia	2 264.2	2 185.5	2 298.1	2 408.3	2 533.3	8 074.9	9 425.1	+17%
Ukraine	263.8	240.6	270.9	291.6	269.7	1 048.8	1 072.8	+2%
Uzbekistan	105.2	103.5	113.3	114.9	116.3	404.9	448.0	+11%
Turkmenistan	47.4	48.5	53.4	55.9	49.8	160.8	207.6	+29%
Armenia	54.5	46.3	50.2	57.2	53.6	221.3	207.3	-6%

**OIBDA (MUSD)\***

Region	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2009	2010	Change over the year
Russia	1 022.8	996.4	1 042.2	1 096.5	956.0	3 745.3	4 091.1	+9%
Ukraine	116.0	104.7	126.9	144.8	122.2	472.3	498.6	+6%
Uzbekistan	56.7	56.5	65.8	64.4	62.0	222.7	248.7	+12%
Turkmenistan	30.2	31.2	33.1	34.1	29.3	91.0	127.7	+40%
Armenia	27.2	22.6	26.9	31.5	27.4	118.8	108.4	-9%

**OIBDA margin (MUSD)\***

Region	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2009	2010
Russia	45.2%	45.6%	45.3%	45.5%	37.7%	46.4%	43.4%
Ukraine	44.0%	43.5%	46.8%	49.7%	45.3%	45.0%	46.5%
Uzbekistan	53.9%	54.6%	58.1%	56.1%	53.3%	55.0%	55.5%
Turkmenistan	63.7%	64.4%	62.0%	61.1%	58.7%	56.6%	61.5%
Armenia	50.0%	48.8%	53.5%	55.2%	51.1%	53.7%	52.3%

\* Taking into account the retrospective Sistema Telecom LLC, TS-Retail OJSC and METRO-TELECOM CJSC consolidation for all disclosure periods.



**Main conclusions**

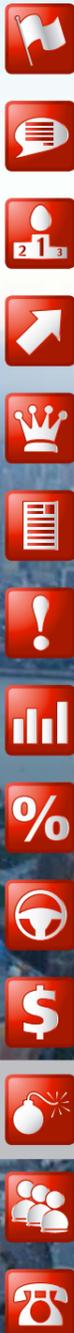
Strategy evolution and establishing a universal operator on the market of mobile and fixed-line telecommunications services within the framework of this strategy implementation

Successful implementation of the financial strategy including raising additional finance and decreasing debt servicing costs

Retaining leadership positions in the operations markets through making sought after offers to customers and provision of high quality services

Ensuring the growth of revenues from data services while expanding the 3G network, launching innovative services and selling USB modems

Implementation of programs for optimization and control over expenses for maintaining the company's operating profit margin.



THERE ARE  
NO BARRIERS  
FOR STRONGMEN



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Major risk factors





# 12. Major risk factors

**We** are an operator, which provides chargeable telecom services to subscribers. Our financial position and operating indicators depend among other things on the paying capacity of the population, competitive environment in the countries of presence, demand for our services and operations effectiveness. Our activities are regulated by the state, in particular, through licensing and the laws effective in the countries of our presence. We use radio frequencies, which are allocated by the states of these countries. We are planning to develop the infrastructure of our network through the expansion of the coverage and the increase of capacity of the existing network in the licensed territories, further expansion of our operations in the countries of our presence and other countries through new acquisitions or new licenses, which is taken into account in our program of capital investments.

Macroeconomic instability and slowdown in the economic growth in the countries, where the company operates, may result in the decrease of demand for the services provided, decrease of revenues and indicators of effectiveness of the Company. The financial market crisis may restrict the Company's ability to raise debt financing, limit the Company growth rates, affect the financial position of the Company.

Our business activities, operating indicators and financial position may depend on the relations between Russia and other countries of our presence, effectiveness of local and

regional authorities, economic situation in these countries and in Russia, social situation. The economies of the countries of our presence are subject to the influence of the world economic slump and economic slowdown and also depend on the dynamics of the prices for raw materials in the world market.

The telecommunications market is subject to rapid and significant changes in technology and features continuously appearing new products and services, which require constant alignment with them. Consequently the technologies that we currently use may become less profitable and even obsolete. The competition is growing including the competition from potential new mobile and fixed lines operators in the markets, where our Company already operates. To manage this risk the Company invests in the increase of the portfolio of value added services as well in the roll-out of 3G network and development of other wireless and fixed line services. Among other things our competitive position, financial and operating indicators depend on the implementation of these initiatives.

We believe that the rapid growth of the Internet use in our market will continue, that MTS OJSC mobile and fixed assets will supplement each other after COMSTAR-UTS OJSC's merger and that the combination of communication assets will allow us to develop and provide complex telecommunications services and to benefit from the possibility of cross-sales. If any of these assumptions are not correct, and

if we are not able to effectively implement our strategy, our major investments in the former COMSTAR-UTS OJSC may not pay back, which may have a significant negative impact of the results of our activities.

The state bodies of the countries of our presence have a high degree of freedom with respect to granting, extension, suspension and withdrawal of licenses, definition of criteria for classifying companies in certain territories as monopolists, companies having a dominant position and/or a significant position by issuing corresponding decrees and laws. E.g., on December 21st, 2010 the BCTI license for provision of telecom services was suspended based on the letter of the Ministry of Posts and Telecommunications of Turkmenistan. At present there is a risk of complete termination of MTS's activities in Turkmenistan without possibility of selling BCTI's assets to any third party and withdrawal of accumulated dividends from the country.

If we or any of our subsidiaries are classified as having a dominant position in the country of our presence, the government of this country will be able to apply certain restrictions to our activities, tariffs for telecom services and traffic transmission, which may affect our business, financial position and operating results. The capacity of our network and the feasibility of its expansion, which among other factors are important for maintaining the market share as for subscribers and revenues, will depend on the ability to timely extend the right to use the allocated frequencies and get new frequencies.

E.g. MTS UKRAINE PrJSC among 8 other operators was classified as an operator having a monopoly (dominant) position in mobile call termination market, and now has to apply in its networks the call termination rates that are set by the National Commission for Communications Regulation (NCCR).

We keep the main portion of our ruble and hard currency reserves in Russian banks, including the subsidiaries of foreign banks. A notable portion of our expenses, costs and liabilities, including capital expenses and loans are nominated in USD and/or EURO, while the main portion of our revenues is nominated in local currencies of the countries of our presence. The situation in the markets of our presence, including the stability of the banking system, inflation, fluctuation of exchange rate of local currencies to USD and/or EURO, influences our operating indicators and operating results.

Agreements on our active bonds and bonds of our controlling shareholder AFK Sistema as well as some loan agreement contain liabilities, which among other things restrict our capability as well as the capability of AFK Sistema OJSC and its subsidiaries (including our company) to raise borrowed funds, create security interests, dispose of assets, carry out merger and consolidation with other parties, sell or transfer our GSM licenses or GSM licenses of our subsidiaries, including those of our foreign subsidiaries. Non-performance of these obligations as well as the change of the majority shareholder may result in the early redemption of Eurobonds.

For more information on the risks please see section "Item 3 – Key Information – D. Risk Factors" in the annual MTS OJSC 20-F Report and the quarterly MTS OJSC Reports for 2010.





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**Human resources  
and social policy**





# 13. Human resources and social policy

## Work and compensation

As of December 2010 MTS OJSC had 20 519 employees on its payroll list.

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

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

In 2010 the analytic research aimed at assessing the Company's existing grade system was carried out. Taking into account the speed and specifics of Company development as well as the current world trends, the decision to optimize the system and to bring it in line with the world standards was made.

The bonus scheme parameters, which relate to the income structure, were also improved. Based on the analysis of the market situation the decision was made to change the income structure for improving remuneration competitiveness.

The variable portion is provided in the form of the incentive system, which establishes explicit and transparent principles for setting bonus target amounts and calculating their actual amounts on the basis of key performance indicators and individual targets, set in the

bonus plans of all employees. In 2010 changes were made in the incentive system to improve it and to strengthen the correlation between the labour remuneration and the performance of each employee.

In addition to abovementioned incentive system the Company has established a bonus system for employees, who are engaged in sales activities and customer care services (S&CC). The basic objective is to provide incentives for achieving specific results and close correlation between the bonus amount and the actual result for the Company. The feature of the S&CC incentive program is the income structure with a larger variable portion and higher payment frequency.

The Company pays special attention to setting up a competitive social package. In 2010 the analysis of the existing compensations and benefits package vs. the market was carried out. Based on the results of the analysis the decision was made to introduce in MTS a number of new benefits, including some additional kinds of personal insurance and special leaves related to specific personal situation.

### Actions taken in 2010 allowed to:

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

## Improvement of the MTS OJSC organizational structure in 2010

Action	Results of the changes:
<b>12.01.2010</b> Reorganization of the HR management divisions of BU MTS Russia and the Corporate Centre.	<ul style="list-style-type: none"> <li>• Headcount optimization as a result of liquidation of the HR divisions in the MTS Russia BU.</li> <li>• Centralization of the HR management function at the MTS GROUP Corporate Centre level.</li> </ul>
<b>28.01.2010</b> Handing over the MTS OJSC own retail stores to RTC CJSC.	<ul style="list-style-type: none"> <li>• Handing over the management of MTS OJSC own retail stores with the purpose of building up an effective sales chain based on RTC CJSC.</li> <li>• Sales chain expansion to include 3000 points of sale.</li> </ul>
<b>01.02.2010</b> Centralization of procurement activities in the Procurement Management Block of the Corporate Centre.	<ul style="list-style-type: none"> <li>• The centralized procurement management system is based on the management of the corresponding procurement categories, which contributes to significant savings, ensures the improvement of the procurement process efficiency and transparency of expenses.</li> </ul>
<b>22.06.2010</b> Reorganization of the subdivisions of the Commercial Block, Corporate Centre.	<ul style="list-style-type: none"> <li>• Setting up and development of mobile commerce services: making all types of payments from the a customer's account or from his/her bank card.</li> <li>• Generation of additional revenues through selling the applications specially developed for MTS.</li> </ul>
<b>20.09.2010</b> Uniting the management of the backbone and transport networks.	<ul style="list-style-type: none"> <li>• Transfer of the MTS and Eurotel backbone networks planning, development and operation functions to a single subdivision.</li> </ul>
<b>01.10.2010</b> Centralization of the MA project management functions in the Strategy and Corporate Development Block B of the Corporate Centre.	<ul style="list-style-type: none"> <li>• Optimization of the M&amp;A project management processes.</li> </ul>
<b>04.10.2010</b> Establishing the Single Help Desk Department in the Volga Macro Region.	<ul style="list-style-type: none"> <li>• It became possible to handle the applications from business subdivisions in the 24x7 mode.</li> </ul>

In 2010 the basic changes in the MTS OJSC organizational structure were aimed at the centralization of functions in the subdivision at all levels from a Region to the Corporate Centre.

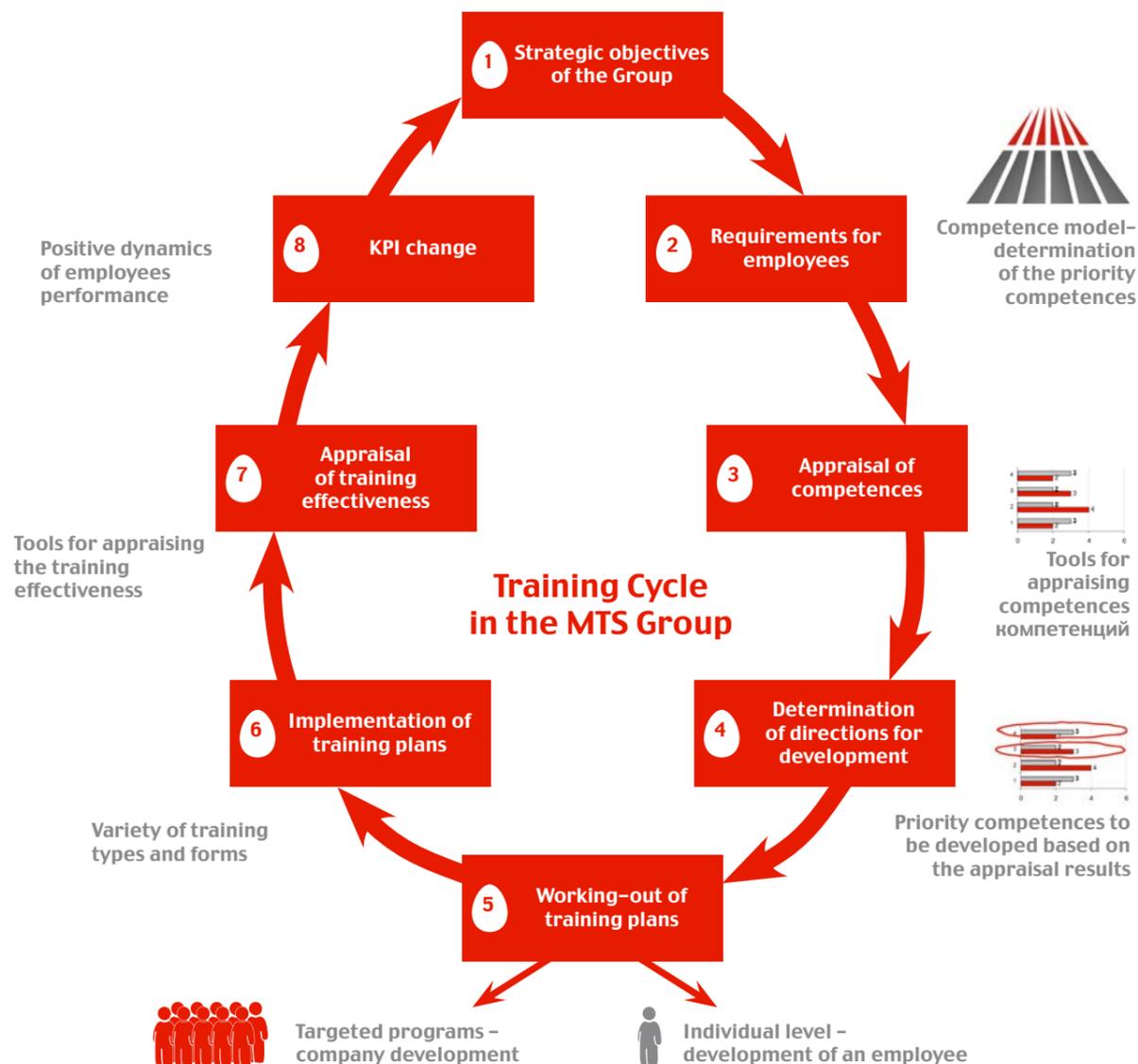
The purpose of the changes was to improve the effectiveness of operations of functional subdivisions through combining management functions and avoiding function overlapping.



## Staff development

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

### MTS Group Training System



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

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

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

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

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

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

- **Vocational training.** The Company has a system of vocational training aimed at ensuring constant development of expertise and skills of the employees. Standards and contents of training programs 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 results of appraisal of professional skills and annual performance appraisals and in accordance with the needs of a particular sub-unit. This element of the training system accounts for the major portion of activities and the largest number of employees involved in training. Vocational training for frontline employees is provided mainly through in-house resources according to uniform standards (taking into account regional differences). Functional academies are established for key functions.
- **Managerial training for managers.** The basis of this system is the concept of targeted and modular training of managers. Targeted programs are mandatory for selected



categories of managers, while modular programs are created based on annual appraisal of managers' competencies. Particular attention is given to training managers in the methods of personnel management (selection, appraisal, grading, feedback, creation of personalized development plans, mentoring, motivation of employees, etc.) and interaction with subordinates on the basis of uniform corporate standards. In addition to ensuring a uniform approach of managers to performance of managerial functions, an important objective of managerial training is to motivate and retain Company managers. The direction and content of managers training programs are determined based on the Company development strategy, the business objectives of the relevant sub-unit, and the level of managers' competencies according to the appraisal results.

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

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

- **Self-education.** The Company has created the conditions for the self-education of employees. The internal library of study materials by competences was created. The Smart-Book is available, which helps an individual to develop the required competences.

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

changes in their processes. Video records are made of all master classes, distance training courses are developed and are made available in the Distance Training System for testing and training employees. Thus, each Company employee has an opportunity to familiarize himself/herself with information, ask questions and receive responses. All master classes are also recorded on DVDs for their subsequent transfer to remote regions and foreign subsidiaries.

- **Staff rotation and development appointments** are regarded as an effective tool for developing, training, and retaining promising employees. The rotation mechanism is actively used to develop reserve personnel and successors.
- **Special tasks, projects.** This form of development is actively used in the Company for developing employees of the Candidate Pool within the framework of individual development plans.
- **And other.**

**As of December 31st, 2010 54 in-house training courses had been developed in the Company, including:**

- Vocational training – 11 courses (in 2010 2 new training courses were developed, 1 training course was excluded for being non-topical).
- Communicative training – 31 courses (in 2010 7 new training courses were developed, 2 training courses were excluded for being non-topical).
- Induction training – 12 courses (in 2010 no new courses were developed).
- Managerial training – 11 courses (in 2010 6 new training courses were developed).

**MTS Internal Training Courses as of 31.12.2010**



**By the end of 2010 the following programs were also implemented in the Company:**

- A modular development program for the Directors of MTS Branches and Successors for these positions – the Academy of Success, **53 employees passed the training in 2010.**
- A development program for key MTS Group managers, "Leadership DNA", together with SKOLKOVO. 5 program modules were implemented for **50 key MTS Group managers**, 7 strategic projects for the company were developed and approved by the Management meeting. MTS's SuperGoal was developed and approved for the period till 2015.
- The Employee Distance Testing and Training System (DTTO) is being actively developed. As of today **123 distance training courses and 429 professional tests has been developed and are being implemented.**
- The practice of involving the managers for holding master classes was established and is being developed. In 2010 **37 master classes were held.**



- Within the scope of the project for Introduction of the Coaching Style in the MTS Group 86.5% of the MTS Group Candidate Pool members passed the training. 685 managers of the Company were trained in Coaching-Style Management, Level 1.

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

- Customer Care School for the employees engaged in servicing the MTS customers.
- Business Sales Academy and Marketing Academy for Commercial Block employees.
- IT and Technology Academy was launched and master classes and workshop/case studies were held and distance training courses were developed and launched within its framework.
- The Academy of Tutor Excellence was introduced for training the MTS Group internal tutors.
- The concept of the PDMS (point direct management system) Academy was developed for the divisions engaged in the work with the retail market.

For types of training the approved model of competences of the MTS Group as well as various criteria and standards on the number of programs depending on the employee category and the cost of programs, are used as a basis for planning the training programs and for sending employees for training.

Induction training is provided to all new employees, and in the event of introduction of a new regulatory document – to all existing Company employees.

The criteria for sending for vocational training are the approved vocational training plans, which are produced by functional

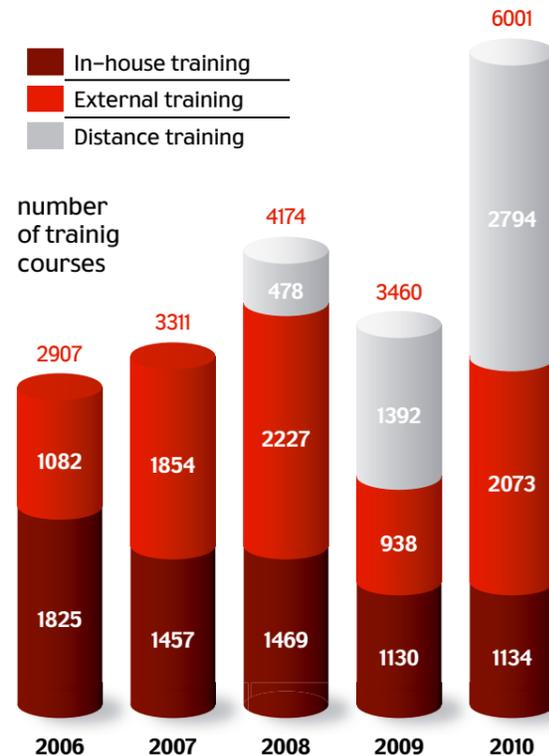
managers based on the professional expertise appraisal/annual appraisal results.

The criteria used for sending employees for training in management competencies are the results of management competency appraisals, shaping of the personal development plans and formation of targeted training programs focused on group priorities, which are based of the competency appraisal results for MTS OJSC in general.

The best employees from the Candidate Pool/Successors are selected for long-term development programs and MBAs and mini-MBAs.

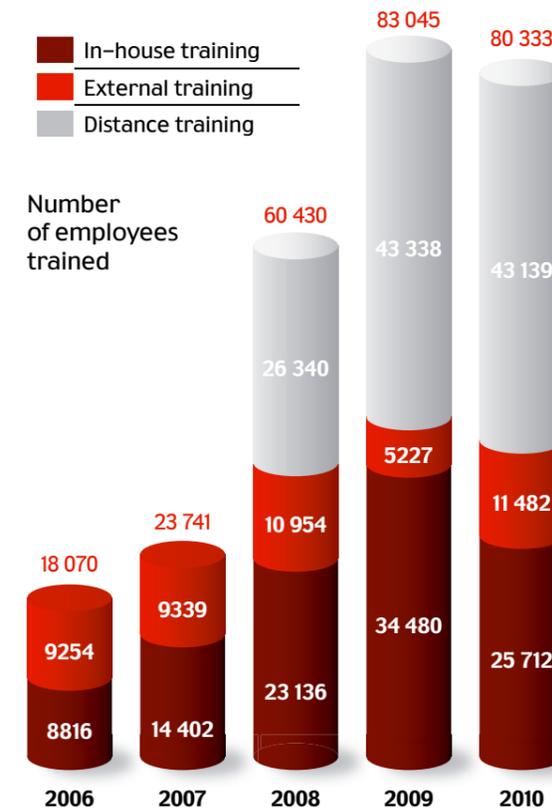
**Training dynamics in 2006–2010**

**Dynamics of the number of implemented training programs**

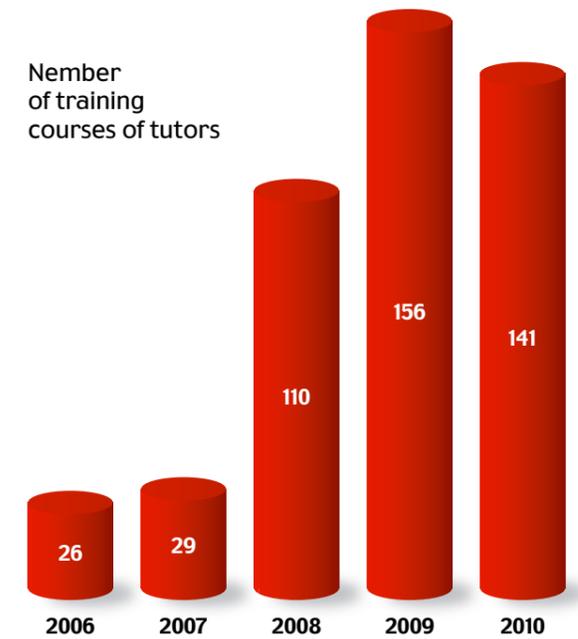


In 2010 the number of training programs increased by 73% compared to 2009. The number of external training programs increased due to the decreased impact of the macro economic crisis; the number of distance training programs increased as a result of developing new courses and implementing targeted programs for Company employees. At the same time, the number of employees who completed training, remained nearly the same (decrease by 3%), which proves the Company's training system stability.

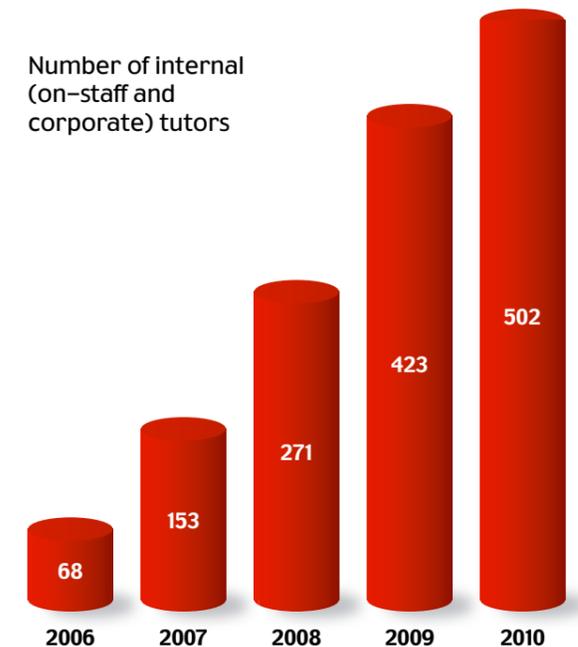
**Dynamics of the number of training employees**



**Dynamics of training courses of tutors**



**Dynamics of training the internal (on-staff and corporate) tutors**





As of December 31st, 2010 502 internal tutors (on-staff and corporate) were working within the in-house training system. The Academy of Tutor Excellence was established for improving the MTS Group in-house training quality as well as for improving the loyalty of the Company employees to training and to the HR function in general. The purpose of the Academy is to develop the professional skills of the corporate and on-staff tutors of the MTS Group and to translate the uniform philosophy/policy/training principles adopted in the Company.

After lifting the moratorium on training, increasing the volume of external training and launch of functional academies the dynamics

of in-house training and training of internal tutors, in general, remained on a high level.

The Company's training system meets the Company's business requirements and contributes to achieving its strategic targets. According to the feedback questionnaire results the level of satisfaction with training programs in 2010 made up 95,9% (the ratio of questionnaires with the average score equal to 8 or more (on a scale of 1 to 10) to the total number of questionnaires). The level of satisfaction with training increased by 0.3% compared to 2009; in 2010 the share of manager vacancies filled by appointing internal candidates made up 83,9%, which proves high effectiveness of the training programs.

### MTS OJSC principles and strategy of corporate social responsibility

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

#### Running a responsible business

MTS OJSC implements the principle of running a responsible business. The company plans and carries out its activities so that they would contribute to the positive changes in the society, improve social climate, decrease social tension and stimulate the development of the society. For MTS social responsibility means active attitude and maximum possible contribution to the society, state and an individual, wherever the Company can make it.

#### Responsibility of a telecom operator

MTS OJSC, being the major cellular operator in Russia and the CIS countries, believes that its main objective is the provision of high quality, innovative and affordable telecom products and services to all customers. MTS OJSC, as a telecom operator, is responsible for providing high quality services at fair prices,

expanding network coverage and developing new affordable and socially significant telecommunication technologies. Accepting this responsibility, MTS OJSC implements specific social initiatives. One of the initiatives is development and offering of socially oriented tariffs, which would meet the requirements of certain socially vulnerable groups. Moreover, MTS permanently improves quality of provided communication services and customer care services, implements loyalty programs and new (more attractive) tariff plans for mobile and fixed communication services, access to Internet and pay-TV. In 2010 some actions were carried out in order to make Company's services to be in great demand among customers. In 2010 within the frame of MTS and COMSTAR-UTS OJSC integration new convergent communication services were suggested to subscribers of corporate and private sectors thanks to which customers could have savings in telecommunications and receive interesting proposals from a multi-service operator and be in touch any time. MTS undertook further development of MTS Bonus program — in 2010 fixed communication subscribers were included into this program. During the year MTS expanded services on provision of high-quality licensed content via the portal [omlet.ru](http://omlet.ru). As of their Internet and pay-TV customers concerned, MTS Group operators increased Internet-access rates, extended the number of channels in a TV package and made easier the procedure of payment for services. As of QoS concerned, during the last year MTS developed a system allowing improvement of mobile communication in areas of poor radio coverage; the system was implemented in the beginning of 2011.

#### Equal opportunities

The company makes the largest possible contribution to creation of equal opportunities

## Social policy of the Company

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

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

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

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

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

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



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

The advanced technologies are becoming an indispensable part of the present-day society and increasing the level of informatization of the population would directly contribute to improving the living standards. Therefore, provision of all inhabitants of Russia with equal access to modern technologies is particularly important. Digital inequality is a severe problem for the Russian modern society. Low-level penetration of Internet and up-to-date telecommunication services, especially in the Russian regions, is a constraining factor for innovative and more dynamic country development. MTS is very much aware of the social significance of communication service development in regions and actively tries to make such services more available. In particular, in 2010 Group companies implemented some projects on launching of Internet- and TV-access services in remote districts of Russia, launched special social tariffs and increased access rates with no advance in service costs.

**Innovations**

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

forms a successful tomorrow's society. In 2010 MTS launched some projects on involving employees into Company innovative development. There were implemented mechanisms allowing discussion of MTS employee's proposals and, if necessary, implementation of them.

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

MTS is one of the telecommunication industry leaders and makes a significant contribution both in economic development of the country as a whole and in some regions of Company's presence as well. The Company growth strategy is based on significant investments in setting-up and development of the country's telecom infrastructure, which is required for successful implementation of key strategic state-wise projects. For example, in 2010 MTS put into operation about 7 300 new base stations 75% of which supported 3G innovative technology. Whereas in 2010 MTS carried out technological works and upgraded 3G network in every Russian region, therefore data transmission rate was possible to be increased up to 7.2 MBit/s on the basis of HSPA (High Speed Packet Access).

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

MTS OJSC supports the state initiatives aimed at the improvement of the life quality, social welfare in general and the welfare of each individual and contributes to the implementation of these initiatives by the state. For

example, in 2010 MTS Group company representatives took participation in different working groups of the communication industry ministry to solve problems related to development of communication services in the country.

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

**Long-term investments**

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

**Drive for results**

One of the MTS OJSC key principles in the social sphere is the drive for achievable and measurable results. In the company's perception this means the pursue of a policy of well thought through investments with foreseeable

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

results, aimed at solving the most acute social problems for the benefit of the society

**Information openness**

We believe that a continuous dialogue with the representatives of all parties concerned is a pre-requisite for effective implementation of the social policy. MTS OJSC is open for such dialogue and is interested in it. Being a public company, we inform the public on all aspects of our activities in compliance with the rules set by the Russian legislation and international norms, which are established for public companies. As a basic tool for informing the public on MTS OJSC social activities we established the practice of annual social reports, which are published using MTS OJSC open access information resources. Our Company makes its non-financial reports on the basis of the international standards. MTS social report for 2009 passed through the procedure of public certification in the Council of Non-Financial Reports of the Russian Union of Industrialists and Entrepreneurs (RUIE). The Council of RUIE acknowledged that MTS OJSC social report for 2009 had demonstrated Company's experience in responsible business practice, including economic freedom and responsibility, partnership in business, human rights, protection of the environment and local community development.





### Philanthropy policy

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

- Projects aimed at the improvement of the life quality of the society have the highest priority.
- We focus on long-term projects in the sphere of philanthropy, which contribute to solving the most acute social problems faced by broad layers of population and are in line with the priorities of the social policy of the state.
- In terms of the geography of the charity projects we are mainly interested in the projects that can be implemented on the largest possible scale both within one country and in all countries where MTS OJSC carries out its activities.
- Pursuant to the MTS OJSC social policy we are interested in implementing the projects aimed at creation of equal conditions and opportunities both for the population of remote areas and large cities.
- We believe that modern innovative technologies make a significant contribution to improving the life quality and contribute to the implementation of the personal potential of an individual, therefore charity projects, where our technologies, products and services contribute to achieving this objective, are of the highest priority for the Company.
- Bearing in mind the existing most acute social problems we believe that charity projects aimed at improving health and contributing to the harmonious development of the young generation will be most welcome. The active social position of the business in solving such problems will contribute to formation of a harmonious and successful society in future.
- We are open to cooperation with federal and regional authorities, nonprofit organizations and representatives of the business community within the framework of implementation of joint charity programs, which are compliant with the MTS OJSC social policy and philanthropy policy, on the terms and conditions of equal partnership and subject to legal and other restrictions applicable to the Company.

### Code of ethics and corporate conduct of MTS OJSC employees

The Code of Ethics and Corporate Conduct of MTS OJSC employees is the internal policy (bylaw) of the company whose purpose is to specify various aspects of interaction of MTS OJSC employees with the Company as an

employer, corporate conduct standards as well as the rules for interaction of MTS OJSC employees with business partners and external auditors. The Code is binding on all Company's employees irrespective of their position.

### The Code guarantees the MTS OJSC employees:

- Freedom from any discrimination. Recruitment, development, promotion, disciplinary measures, etc. shall be irrespective of sex, race, nationality, language, origin, age, place of residence, religion, political convictions, participation or nonparticipation in public associations, social position or official capacity of an employee.
- Protection against discriminative behavior towards them, negligence or other forms of harassment.
- Safe labour conditions.
- Company commitment to decrease the impact of its activities on the environment.
- Observance of all statutory norms with respect to the employer– employee relations

- Fair and unbiased settlement of all disputes by the Company Management.

### At the same time the Code specifies the following aspects:

- Flat prohibition and disapproval of child and forced labour.
- Prohibition of jobbery.
- Prohibition of any actions breaching local anti–corruption laws, the Foreign Corrupt Practices Act (FCPA), as well as MTS OJSC bylaws.
- Prohibitions of actions breaching customs and tax laws.
- Aspects of MTS OJSC copyright protection and protection of other copyright holders.
- Rules of business communication with colleagues and partners.

### Environmental protection

While carrying out our activities we try to produce the minimal impact on the environment and to decrease this impact as and when possible. To solve this problem we observe the requirements of the environmental laws and the regulations on running responsible business. All objects, including office buildings, consume electric power. MTS, when using energy–saving equipment and carrying–out energy–saving events, struggles for reduction of its expenses and contributes to protection of the environment as well. In 2010 MTS tested climate cabinets in which base station equipment and power supply units could be installed. Pursuant to the testing results there was made the following decision: such climate cabinets should be used when constructing new sites; tenders were carried out and suppliers were chosen. Pilot operation demonstrated that use

of climate cabinets, in comparison with the usual configuration, made possible 40%–saving of the electric power consumed.

MTS OJSC is keen to attract the attention of the business as well as the general public to environmental issues by way of its own example. In 2010 MTS organized “Environmental Force”, subbotnik of people involved in telecommunications industry, in the area of Victory Memorial Complex in Moscow Poklonnaya Mountain. This action was supported by the Ministry of Telecommunication and Mass Communications of the Russian Federation, the Ministry of Defense of the Russian Federation and the Moscow Government. Top managers, employees and partners of MTS, COMSTAR–UTS and MGTS took participation in the eco–subbotnik. Moreover, similar actions were carried out in some regions of Group presence.



## Interaction with the interested parties

At present time MTS is one of the leaders in the Russian telecommunication industry. In the present-day world telecommunications are presented in all economic activity processes and are, in practice, an integral part of any business activity. Telecommunications are tools of informing, entertainment, sharing of experience and social adaptation in social environment. Telecommunication networks allow long-distance provision of the said services to a wide range of customers.

Our Company believes that it is responsible before all interested parties, including shareholders and investors, employees, consumers and suppliers, governmental authorities and local communities. MTS is aiming at identification of needs and expectations of each of them. As of relations with the said groups, we are seeking to be in compliance with the balance of interests, we establish the dialogue and co-operation on the basis of principles of mutual respect, partnership and honesty. Dynamic development of business or new strategies or new products and services, receiving of income are impossible unless such co-operation is established.

MTS is a joint stock company in which AFK Sistema OJSC is the main shareholder. Increase in MTS' stock capital value and return on investments to our shareholders are the main objectives of Company. MTS OJSC activity related to disclosure of information and interaction with shareholders is governed by the provisions of the US Securities and Exchange Commission, New York Stock Exchange, Russian legislation, Company Charter and bylaws. We use a strict and thorough approach to preparation of financial statements, which ensures a high level of public information disclosure. All

material financial and operating information, published by the Company, is audited by external auditors. Over the past several years MTS OJSC has been declared one of the most transparent companies in Russia and the CIS (according to the Standard & Poor's assessments). We hold our customers in respect and estimation and believe that progressive business advance under conditions of severe competition is possible only in case of high quality of products and services to be provided. Our activity is targeted to improvement of quality of customer care and services as well as to simplifying of interaction with customers.

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

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

associations, public health authorities, trade unions and mass media).

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

relations with suppliers and partners, including purchasing activity.

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

A.A. Dubovskov  
President Mobile TeleSystems OJSC

I.R. Borisenkova  
Chief Accountant Mobile TeleSystems OJSC

# 14. Additional information on Company



<b>Information on Company</b>	<p><b>Full corporate name of Company:</b>                  – in Russian: Открытое акционерное общество «Мобильные ТелеСистемы»                  – in English: Mobile TeleSystems Open Joint Stock Company</p> <p><b>Abbreviated corporate name of Company:</b>                  in Russian: ОАО «МТС» or ОАО «Мобильные ТелеСистемы».                  In English: MTS OJSC.</p> <p><b>MTS OJSC Location:</b> 4, Marksistskaya Street, 109147, Moscow, Russian Federation                  Tel.: +7 (495) 911 6565.                  Fax: +7 (495) 911 6599.</p> <p><b>MTS OJSC Postal Address:</b> Bldg. 5, Cnstr. 2, Vorontsovskaya Street, 109147, Moscow, Russian Federation</p> <p><b>E-Mail:</b> info@mts.ru  <b>Internet Web-site:</b> http://www.mtsgsm.com.</p>
<b>Information on the Investor Relations Department</b>	<p><b>Location of the Investor Relations Department:</b>                  Bldg. 5, Cnstr. 2, Vorontsovskaya Street, 109147, Moscow, Russian Federation                  Tel.: +7 (495) 911 6553.                  Fax: (495) 911 6588.                  E-Mail: ir@mts.ru</p>
<b>Auditor</b>	<p><b>Deloitte &amp; Touche CIS Close Joint Stock Company</b>                  Certificate of Membership in Non-Profit Partnership "Auditor Chamber of Russia" № 3026.                  Location: 5, Lesnaya Street, 125047, Moscow, Russian Federation                  Tel.: +7 (495) 787 06 00                  Fax: +7 (495) 787 06 01                  Internet Web-site: http://www.deloitte.com</p>
<b>Registrar</b>	<p><b>Registrar NIKoil OJSC</b>                  License issued by FFMS of Russia № 10-000-1-00290 (perpetual license)                  Location: 8, Ivan Franko Street, 121108, Moscow                  Telephone:                  For natural persons: +7 (495) 926-8173                  For legal entities: +7 (495) 926-8161                  Fax: +7 (495) 926-8178                  Internet Web-site: http://www.rcnikoil.ru</p>
<b>Depository</b>	<p><b>Non-bank credit institution National Depository Close Joint Stock Company</b>                  License issued by FFMS of Russia № 177-12042-000100 (perpetual license)                  Location: Bldg. 1/13, Cnstr. 8, Sredny Kislovsky Per., 125009, Moscow                  Multi-channel phone: +7 (495) 234-48-27.                  Internet Web-site: http://www.nsd.ru</p>



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