

MOBILE TELESYSTEMS OJSC
Form 20-F
May 26, 2009

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

- o Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934
or
- ý Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008
or
- o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
or
- o Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of event requiring this shell company report
Commission file number 333-12032

MOBILE TELESYSTEMS OJSC

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

4 Marksistskaya Street, Moscow 109147 Russian Federation

(Address of Principal Executive Offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)
Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING 5 SHARES OF COMMON STOCK	NEW YORK STOCK EXCHANGE
COMMON STOCK, PAR VALUE 0.10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE ⁽¹⁾

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

NONE
(Title of Class)

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

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 1,885,052,800 ordinary shares, par value 0.10 Russian rubles each and 155,479,301 American Depositary Shares as of December 31, 2008.

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

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

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

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

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

Large accelerated filer ☒ Accelerated Filer ☐ Non-accelerated filer ☐
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒ International Financial Reporting Standards as issued by
the International Accounting Standards Board ☐ Other ☐

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

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

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

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Unless otherwise indicated or unless the context requires otherwise, references in this document to "MTS," "we," "us," or "our" refer to Mobile TeleSystems OJSC and its subsidiaries; "MTS-Ukraine" refers to Ukrainian Mobile Communications, or UMC, our Ukrainian subsidiary; "MTS-Uzbekistan" refers to Uzdunrobita, our Uzbekistan subsidiary; and "MTS-Turkmenistan" refers to BCTI, our Turkmenistan subsidiary. We refer to Mobile TeleSystems LLC, our 49% owned joint venture in Belarus as MTS Belarus. As MTS Belarus is an equity investee, our revenues and subscriber data do not include MTS Belarus. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

our strategies, future plans, economic outlook, industry trends and potential for future growth;

our liquidity, capital resources and capital expenditures;

our payment of dividends;

our capital structure, including our indebtedness amounts;

our ability to generate sufficient cash flow to meet our debt service obligations;

our ability to achieve the anticipated levels of profitability;

our ability to timely develop and introduce new products and services;

our ability to obtain and maintain interconnect agreements;

our ability to secure the necessary spectrum and network infrastructure equipment;

our ability to meet license requirements and to obtain and maintain licenses and regulatory approvals;

our ability to maintain adequate customer care and to manage our churn rate; and

our ability to manage our rapid growth and train additional personnel.

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

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

growth in demand for our services;

changes in consumer preferences or demand for our products;

availability of external financing on commercially acceptable terms;

the developments of our markets;

the highly competitive nature of our industry and changes to our business resulting from increased competition;

the impact of regulatory initiatives;

the rapid technological changes in our industry;

cost and synergy of our recent acquisitions;

the acceptance of new products and services by customers;

the condition of the economies of Russia, Ukraine and certain other countries of the CIS;

risks relating to legislation, regulation and taxation in Russia and certain other CIS, including laws, regulations, decrees and decisions governing each of the telecommunications industries in the countries where we operate, currency and exchange controls relating to entities in Russia and other countries where we operate and taxation legislation relating to entities in Russia and other countries where we operate, and their official interpretation by governmental and other regulatory bodies and by the courts of Russia and the CIS;

political stability in Russia, Ukraine and certain other CIS countries; and

the impact of general business and global economic conditions and other important factors described herein and from time to time in the reports filed by us with the U.S. Securities and Exchange Commission, or the SEC.

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

Table of Contents**PART I****Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information**A. Selected Financial Data**

The selected consolidated financial data for the years ended December 31, 2006, 2007 and 2008, and as of December 31, 2007 and 2008, are derived from the audited consolidated financial statements, prepared in accordance with U.S. GAAP included elsewhere in this document. In addition, the following table presents selected consolidated financial data for the years ended December 31, 2004 and 2005, and as of December 31, 2004, 2005 and 2006, derived from our audited consolidated financial statements not included in this document. Our results of operations are affected by acquisitions. Results of operations of acquired businesses are included in our audited consolidated financial statements from their respective dates of acquisition. The summary financial data should be read in conjunction with our audited consolidated financial statements, included elsewhere in this document, "Item 3. Key Information D. Risk Factors" and "Item 5. Operating and Financial Review and Prospects." Certain industry and operating data are also provided below.

	Years Ended December 31,				
	2004	2005	2006	2007	2008
	(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)				
Consolidated statements of operations data:					
Net operating revenues:					
Service revenues and connection fees	\$ 3,800,271	\$ 4,942,288	\$ 6,287,100	\$ 8,172,650	\$ 10,176,255
Sales of handsets and accessories	86,723	68,730	97,154	79,728	69,038
Total net operating revenues	3,886,994	5,011,018	6,384,254	8,252,378	10,245,293
Operating expenses:					
Cost of services, excluding depreciation and amortization shown separately below	481,097	732,867	1,223,715	1,727,365	2,247,948
Cost of handsets and accessories	218,590	254,606	209,260	158,580	169,615
Sales and marketing expenses	460,983	608,092	607,835	724,115	882,508
Depreciation and amortization expenses	675,729	907,113	1,095,981	1,489,548	1,936,837
Sundry operating expenses ⁽¹⁾	631,532	876,309	1,113,727	1,418,924	1,804,893
Net operating income	1,419,063	1,632,031	2,133,736	2,733,846	3,203,492
Currency exchange and transaction gains	(6,529)	(10,319)	(24,051)	(163,092)	563,292
Other (income) expenses:					
Interest income	(21,792)	(24,828)	(13,055)	(38,100)	(33,166)
Interest expense, net of capitalized interest	107,956	132,474	177,145	134,581	153,341
Equity in net income of associates	(24,146)	(42,361)	(58,083)	(72,665)	(75,976)
Bitel investment and write off			320,000		
Other (expenses) income, net	(9,310)	13,211	65,913	44,034	25,317
Total other (income) expenses, net	52,708	78,496	491,920	67,850	69,516
Income before provision for income taxes and minority interest	1,372,884	1,563,854	1,665,867	2,829,088	2,570,684
Provision for income taxes	354,664	410,590	576,103	738,270	630,621
Minority interest	30,342	26,859	14,026	19,314	9,644
Net income	\$ 987,878	\$ 1,126,405	\$ 1,075,738	\$ 2,071,504	\$ 1,930,419

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	Years Ended December 31,				
	2004	2005	2006	2007	2008
	(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)				
Dividends declared ⁽²⁾	\$ 219,918	\$ 402,600	\$ 561,629	\$ 747,213	\$ 1,257,453
Net income per share, basic and diluted	0.50	0.57	0.54	1.05	1.00
Dividends declared per share	0.11	0.20	0.28	0.38	0.63
Dividends declared per share, rubles	3.20	5.75	7.60	9.67	14.84
Number of common shares outstanding	1,986,124,030	1,987,925,652	1,977,404,010	1,960,849,301	1,885,052,800
Weighted average number of common shares outstanding	1,984,497,348	1,986,819,999	1,987,610,121	1,973,354,348	1,921,934,091
Consolidated cash flow data:					
Cash provided by operating activities	\$ 1,711,589	\$ 1,799,436	\$ 2,378,916	\$ 3,350,156	\$ 4,423,385
Cash used in investing activities	(1,543,201)	(2,454,173)	(1,779,562)	(2,343,881)	(2,335,185)
(of which capital expenditures) ⁽³⁾	(1,358,944)	(2,181,347)	(1,721,968)	(1,539,528)	(2,227,290)
Cash provided by/ (used in) financing activities	10,773	461,528	(464,066)	(692,894)	(1,374,294)
Consolidated balance sheet data (end of period):					
Cash, cash equivalents and short-term investments	\$ 347,510	\$ 106,343	\$ 276,036	\$ 650,274	\$ 1,104,520
Property, plant and equipment, net	3,234,318	4,482,679	5,297,669	6,607,315	5,900,129
Total assets	5,581,187	7,545,780	8,573,945	10,966,667	10,448,334
Total debt (long-term and short-term) ⁽⁴⁾	1,937,148	2,850,557	3,078,452	3,401,667	4,075,234
Total shareholders' equity	2,523,323	3,294,089	3,751,781	5,442,930	4,054,896
Including capital stock ⁽⁵⁾	43,162	45,024	(64,220)	(317,794)	(1,376,195)
Financial ratios (end of period):					
Total debt/total capitalization ⁽⁶⁾	43.4%	46.4%	45.1%	38.5%	50.1%
Industry and operating data:⁽⁷⁾					
Mobile penetration in Russia (end of period)	51%	87%	105%	119%	129%
Mobile penetration in Ukraine (end of period)	29%	64%	105%	120%	121%
Subscribers in Russia (end of period, thousands) ⁽⁸⁾	26,540	44,219	51,222	57,426	64,628
Subscribers in Ukraine (end of period, thousands) ⁽⁸⁾	7,374	13,327	20,003	20,004	18,115
Overall market share in Russia (end of period)	36%	35%	34%	33%	34%
Overall market share in Ukraine (end of period)	53%	44%	41%	36%	32%
Average monthly usage per subscriber in Russia (minutes) ⁽⁹⁾	157	128	129	157	209
Average monthly usage per subscriber in Ukraine (minutes) ⁽⁹⁾	114	117	142	154	279
Average monthly service revenue per subscriber in Russia ⁽¹⁰⁾	\$ 12	\$ 9	\$ 8	\$ 9	\$ 11
Average monthly service revenue per subscriber in Ukraine ⁽¹⁰⁾	\$ 13	\$ 10	\$ 7	\$ 7	\$ 7
Subscriber acquisition costs in Russia ⁽¹¹⁾	\$ 21	\$ 19	\$ 23	\$ 26	\$ 27
Subscriber acquisition costs in Ukraine ⁽¹¹⁾	\$ 19	\$ 14	\$ 10	\$ 12	\$ 11
Churn in Russia ⁽¹²⁾	27.5%	20.7%	23.3%	23.1%	27.0%
Churn in Ukraine ⁽¹²⁾	15.8%	21.8%	29.9%	49.0%	47.3%

(1) "Sundry operating expenses" consist of general and administrative expenses, provision for doubtful accounts and other operating expenses (including charges incurred in connection with the "universal services reserve fund").

(2) Dividends declared in each of the years ended December 31, 2004, 2005, 2006, 2007 and 2008 were, in each case, in respect of the prior fiscal year (i.e., in respect of each of the years ended December 31, 2003, 2004, 2005, 2006 and 2007, respectively). Includes dividends on treasury shares of \$1.4 million, \$1.5 million, \$6.0 million and \$36.5 million as of the years ended December 31, 2004, 2005, 2006 and 2007, respectively. The Board of Directors recommended that the annual general meeting of shareholders to be held on June 25, 2009 approve annual cash dividends in the amount of \$1,158.3 million (including dividends on treasury shares of \$62.9 million) for the year ended December 31, 2008, payable in 2009. See also "Item 10.

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Additional Information B. Charter and Certain Requirements of Russian Legislation Dividends."

(3)

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

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- (4) Includes notes payable, bank loans, capital lease obligations and other debt.
- (5) Calculated as common stock less treasury stock.
- (6) Calculated as book value of total debt divided by the sum of the book values of total shareholders' equity and total debt at the end of the relevant period. See footnote 4 above for the definition of "total debt."
- (7) Source: AC&M-Consulting and our data. None of this data is derived from our audited consolidated financial statements.
- (8) We define a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of prepaid tariffs) or whose account does not have a negative balance for more than this period. Prior to October 1, 2004, UMC used a 90-day period for such purposes with respect to its "Jeans" and "SIM-SIM," or prepaid, subscribers.
- (9) Average monthly minutes of usage per subscriber is calculated by dividing the total number of minutes of usage during a given period by the average number of our subscribers during the period and dividing by the number of months in that period.
- (10) We calculate average monthly service revenue per subscriber by dividing our service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of our subscribers during that period and dividing by the number of months in that period. Prior to April 1, 2008, we excluded connection fees from service revenues. Average monthly service revenue per subscriber data for each of the years ended December 31, 2006, 2007 and 2008 presented in this table are based on our current calculation methodology.
- (11) Subscriber acquisition costs in Russia are calculated as total sales and marketing expenses for a given period divided by the total number of gross subscribers added during that period. In Ukraine, subscriber acquisition costs are calculated as total sales and marketing expenses, handset subsidies and cost of sim cards and vouchers for a given period divided by the total number of gross subscribers added during that period.
- (12) We define our churn as the total number of subscribers who cease to be a subscriber (as defined above) during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber's request), expressed as a percentage of the average number of our subscribers during that period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Relating to Business Operations in Emerging Markets

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

Investors in emerging markets such as the Russian Federation, Ukraine and other CIS countries should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic, tax and political risks. Investors should also note that emerging economies such as the economies of the Russian Federation and Ukraine are subject to rapid change and that the

information set out herein may become outdated relatively quickly. Furthermore,

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in doing business in various countries of the CIS, we face risks similar to (and sometimes greater than) those that we face in Russia and Ukraine. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in our securities.

Risks Relating to Our Business

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

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

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

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

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

Our controlling shareholder has the ability to take actions that may conflict with the interests of holders of the ADSs.

We are controlled by Sistema Joint Stock Financial Corporation, or Sistema, which controls 52.8% of our total charter capital (55.7% excluding treasury shares). If not otherwise required by Russian law and/or our charter, resolutions at a shareholders' meeting will be adopted by a simple majority in a meeting at which shareholders holding more than half of the issued share capital are present or

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represented. Accordingly, Sistema has the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as it holds, either directly or indirectly, a majority of our shares, will control the appointment of a majority of directors and removal of directors. Sistema is also able to control or significantly influence the outcome of any vote on matters which require three-quarters majority vote of a shareholders' meeting, such as amendments to the charter, proposed reorganizations and substantial asset sales and other major corporate transactions, among other things. Thus, Sistema can take actions that may conflict with the interests of other shareholders and holders of the ADSs. In addition, under certain circumstances, a disposition by Sistema of its controlling stake in our company could harm our business. See also "Risks Relating to Our Financial Condition A disposition by our controlling shareholder of its stake in our company could materially harm our business."

Sistema has outstanding a significant amount of indebtedness, including consolidated indebtedness of approximately \$1.47 billion of short-term debt, \$2.23 billion comprising the short-term portion of its long-term debt, and \$6.96 billion of long-term debt (net of the short-term portion). At the corporate level, Sistema has \$513.6 million of short-term debt, \$292.0 million comprising the short-term portion of its long-term debt, and \$1,469.8 million of long-term debt (net of the short-term portion). Therefore, Sistema will require significant funds to meet its obligations, which may come in part from dividends paid by its subsidiaries, including us.

Sistema voted in favor of declaring dividends of \$402.6 million in 2005, \$561.6 million in 2006, \$747.2 million in 2007 and \$1,257.5 million in 2008. The indentures relating to our outstanding notes and other debt do not restrict our ability to pay dividends. As a result of paying dividends, our reliance on external sources of financing may increase, our credit rating may decrease and our cash flow and ability to repay our debt obligations, or make capital expenditures, investments and acquisitions could be materially adversely affected.

In addition, our credit ratings can be affected by Sistema's activity and credit ratings. For example, in April 2009, Standard & Poor's placed our 'BB' long-term corporate credit rating on CreditWatch with negative implications following a similar rating action on Sistema. In placing the rating on CreditWatch, Standard & Poor's stated that our "rating remains constrained by Sistema's credit profile and majority ownership."

Sistema also owns a non-controlling interest in Sky Link CJSC, or Sky Link, which operates on a CDMA-2000 standard in a number of key regions, including Moscow and St. Petersburg. Sky Link may pursue business strategies that specifically target high-end businesses and residential customers, which could result in increased competition for us.

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

We have historically enrolled a vast majority of our subscribers through a network of independent dealers. In October 2008, Vimpelcom acquired a 49.9% stake in Morefront Holdings Ltd., a company that owns 100% of the Euroset Group, the largest mobile handset retailer and leading dealer for major mobile network operators in Russia. Although the Federal Antimonopoly Service, or FAS, approval relating to the sale of Euroset specifically prohibits Euroset from discriminating against or providing preferential treatment to any mobile operator following the acquisition, we believe that we faced discriminatory treatment following Vimpelcom's acquisition, including the promotion Vimpelcom's services over ours at Euroset outlets, notwithstanding these regulatory prohibitions. As a result, we ceased working with Euroset as of April 1, 2009, and we are currently involved in litigation with Euroset in Russia. See "Item 8. Financial Information 8.A.7. Litigation."

Subscribers enrolled through Euroset accounted for around 20%-25% of our total new subscribers in 2008. However, following Vimpelcom's acquisition of its stake in Euroset and in view of the

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deteriorating financial condition of many nationwide dealer networks, we accelerated the development of our proprietary distribution network and have been working to increase our relationship with small regional dealers in an effort to mitigate the potential effects of these events. If we are not successful in expanding our proprietary network and developing new relationships with independent dealers effectively and expeditiously, our market share may decline and our business, financial condition, results of operations and prospects may be materially adversely affected.

In addition, it has been reported in the press that virtually all of the large national and regional mobile handset retailers are facing liquidity issues or are on the verge of bankruptcy, and the share of our subscribers enrolled through these retailers dropped dramatically during the last quarter of 2008 and continues to decline. As a result, many large handset retailers are considering business combinations with other retailers or with mobile operators. Mergers among major retailers would likely increase their bargaining power when negotiating with mobile telecommunications operators, including us. Acquisitions of major handset retailers by competing mobile operators could result in the retailers' preferential treatment and promotion of the acquiring mobile operator.

As the share of subscribers enrolled through large national and regional dealers has decreased, the share of our subscribers enrolled through small dealer and subdealer networks and our own distribution network is increasing, and we are continuing our efforts to grow our proprietary distribution network both organically and through acquisitions. See Item 4. Information on our company B. Business overview Sales and Marketing Sales and Distribution.

However, if we fail to rapidly expand our proprietary distribution network or to maintain and further develop our distribution network of national, regional and local retailers, or if our strategy to rapidly expand our proprietary distribution network is not successful, our subscriber growth rate, market share and revenues may decrease and have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

The wireless telecommunications services markets in which we operate are highly competitive, particularly in Russia and Ukraine. Increased competition, including from the potential entry of new mobile operators and Mobile Virtual Network Operators in the markets where we operate, may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies.

For example, competition in the Ukrainian wireless telecommunications market has significantly intensified over the last three years, and with the Ukrainian market reaching saturation, there was little growth in the overall number of subscribers and nationwide penetration in 2008 compared to 2007. At the same time, aggressive pricing in the market by Turkish operator Astelit and the entry of Vimpelcom into the market in 2006 has caused our subscriber numbers in Ukraine to decrease and the average monthly revenue per subscriber to remain flat over the past three years.

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

We have substantially completed implementation of a new billing system in Russia and Belarus. The transition to the new billing system in the other countries where we operate will take longer to complete. Although we have already begun to experience increases in our overall efficiency and reductions in our expenses as a result of the new billing system, we are still required to run both the old and new billing systems simultaneously during the transition period, creating additional burdens on our technical support staff. We may also experience technical problems with the new billing system during the transition period. These factors may increase our operational risks and expenses and inconvenience for subscribers in the short term. The failure or breakdown of key components of our infrastructure in the future, including our billing system and its susceptibility to fraud, could have a material adverse effect on our business and results of operations.

The failure of our geographic expansion strategy could hamper our continued growth and profitability.

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

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

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We may acquire, invest in or merge with other companies to expand our operations which may pose risks to our business.

As part of our growth strategy, we will continue to evaluate opportunities to acquire, invest in or merge with other existing operators or license holders in the CIS and in growing markets outside the CIS, as well as other complementary businesses. For example, we are currently considering the potential acquisition of "Comstar United Telesystems" Open Joint Stock Company, or Comstar UTS, and on May 22, 2009, we announced that we filed an application with FAS to receive approval for this acquisition. We have also acquired certain handset dealer chains in an effort to expand our distribution network. See "Item 8. Financial Information B. Significant Changes."

Business combinations that we may undertake in the future would entail a number of risks that could materially and adversely affect our business, financial condition, results of operations and prospects, including the following:

incorrect assessment of the value of any acquired target;

assumption of the acquired target's liabilities and contingencies;

failure to realize any of the anticipated benefits or synergies from any acquisitions or investments we complete;

problems integrating the acquired businesses, technologies or products into our operations;

incurrence of debt to finance acquisitions and higher debt service costs related thereto;

difficulties in retaining business relationships with suppliers and customers of the acquired company;

risks associated with markets in which we lack experience;

potential loss of key employees of the acquired company;

potential write-offs of acquired assets; and

lawsuits arising out of disputes over ownership of acquired assets and/or the enforcement of indemnities relating to the title to such assets.

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

If any of our future business combinations, including in relation to Comstar UTS, is structured as a merger with another company, such a merger would be considered a corporate reorganization under Russian law, which would allow our creditors to accelerate our outstanding indebtedness. In addition, a corporate reorganization and any business combination that constitutes a "major transaction" under Russian law would trigger the right of our shareholders who abstain from voting on or vote against such transaction to sell, and our obligation to buy, their shares in an amount representing up to 10% of our net assets as calculated under Russian Accounting Standards. See " Legal Risks and Uncertainties Shareholder rights provisions under Russian law could impose additional obligations and costs on us."

If we cannot successfully develop our network or integrate our acquired businesses, we will be unable to expand our subscriber base and maintain our profitability.

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We plan to expand our network infrastructure by extending coverage and increasing the capacity of our existing network in the Moscow and regional license areas, as well as by further developing our operations in Ukraine, Uzbekistan, Turkmenistan and Armenia and making investments in MTS Belarus.

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Our ability to increase our subscriber base depends upon the success of our network expansion. We have expended considerable amounts of resources to enable this expansion. Limited information regarding the markets into which we have or are considering expanding, either through acquisitions or new licenses, complicates accurate forecasts of future revenues from those regions, increasing the risk that we may overestimate these revenues.

In addition, we have expanded our network through acquisitions and we may continue to engage in further acquisitions. We may not be able to integrate previous or future acquisitions successfully or operate them profitably. Such integration requires significant time and effort from our senior management, who are also responsible for managing our existing operations. Such integration may also be difficult as our technical systems may differ from those of the acquired businesses. In addition, unpopular cost cutting measures may be required and control of cash flow may be difficult to establish. Any difficulties encountered in the transition and integration process and in the operation of acquired companies could have a material adverse effect on our results of operations.

We also may face risks during the course of our expansion into countries outside of the Russian Federation. Differing cultures and more uncertain business operating environments could lead to lower profitability and higher risks to our business. For example, see " Legal Risks and Uncertainties Our inability to gain operational control over Bitel has prevented us from realizing the expected benefits of our acquisition and resulted in our write off of the costs relating to the purchase of Bitel, and we may face significant liabilities to the seller and Bitel."

The buildout of our network is also subject to risks and uncertainties, which could delay the introduction of service in some areas and increase the cost of network construction, including difficulty in obtaining base station sites on commercially attractive terms. In addition, telecommunications equipment used in Russia, Ukraine and other CIS countries is subject to governmental certification, and periodic renewals of the same. The failure of any equipment we use to receive timely certification or re-certification could also hinder our expansion plans. Furthermore, as a result of the current downturn in the global financial markets, certain banks have curtailed their lending programs, which may limit our ability to obtain external financing and, in turn, result in the reduction of our capital expenditure program. To the extent we fail to expand our network on a timely basis, we could experience difficulty in expanding our subscriber base.

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

Mobile penetration in Russia and Ukraine reached 129.4% and 120.8%, respectively, as of December 31, 2008, according to AC&M-Consulting. While customer growth has been, and we expect it will continue to be, a principal source of revenue growth, increasing competition and market saturation will likely cause the increase in subscribers to continue to slow in comparison to our historical growth rates. As a result, we will need to continue to develop new services, including value-added, 3G, Blackberry services, integrated telecommunications services and others, as well as consider vertical integration opportunities through the development or acquisition of dealers in order to provide us with sources of revenue in addition to standard voice services. Our inability to develop additional sources of revenue could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Our ability to provide commercially viable services depends on our ability to continue to interconnect cost-effectively with zonal, intercity and international fixed line and mobile operators in Russia, Ukraine and other countries in which we operate. Fees for interconnection are established by

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agreements with network operators and vary, depending on the network used, the nature of the call and the call destination.

In Russia, the government in the past has expressed its intent to privatize SVYAZINVEST Telecommunications Investment Joint-Stock Company, or Svyazinvest, a holding company that controls Open Joint Stock Company Long-Distance and International Telecommunications Rostelecom, or Rostelecom, Russia's primary domestic and international long-distance operator, and certain multiregional fixed line operators controlling over 80% of all fixed line telecommunications services in Russia. In Ukraine, the government plans to privatize Ukrtelecom, which has a market share of over 80% of all fixed line telecommunications services in Ukraine. The timing of these privatizations is not yet known, and it is currently unclear how they will affect our interconnection arrangements and costs.

Although Russian legislation requires that operators of public switched telephone networks that are deemed "substantial position" operators cannot refuse to provide interconnections or discriminate against one operator over another, we believe that, in practice, some operators attempt to impede wireless operators by delaying interconnection applications and establishing technical conditions for interconnection feasible only for certain operators. Any difficulties or delays in interconnecting cost-effectively with other networks could hinder our ability to provide services at competitive prices or at all, causing us to lose market share and revenues, which could have a material adverse effect on our business and results of operations. See also " If we or any of our subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

Governmental regulation of our interconnect rates in Ukraine could adversely affect our results of operations.

Under the Ukrainian Telecommunications Law, the National Commission for the Regulation on Communications, or the NCRC, is authorized to regulate the local tariffs for public telecommunications services rendered by fixed line operators within one geographical numbering zone. While mobile cellular operators (including MTS-Ukraine) are generally entitled to set their retail tariffs and negotiate interconnect rates with other operators, the NCRC is entitled to regulate the interconnect rates of any mobile cellular operator declared a "dominant market force" by the Antimonopoly Committee of Ukraine, or the AMC. Although MTS-Ukraine had a 32.5% market share of the wireless communications market in Ukraine as of December 31, 2008, it has not been declared a dominant market force by the AMC.

However, over the course of 2007-2009, the AMC conducted a preliminary investigation of the telecommunications interconnection market among mobile operators in Ukraine and found that eight mobile operators, including MTS-Ukraine and its closest competitors, are monopolists in relation to the market for interconnecting to each of their respective networks. A final ruling has not yet been made. In the event that the AMC declares these operators to be monopolists in relation to the market for interconnecting to each of their respective networks, the interconnection fees charged by these operators for terminating calls connecting to their respective networks may be subject to regulation by the NCRC which, in turn, may cause a significant decrease in both the interconnect revenues we receive as well as the interconnect fees we pay to other mobile operators in Ukraine, which could have a material adverse effect on our results of operations. "Item 4. Information on Our Company B. Business Overview Regulation in Ukraine Competition" for additional information.

In addition, in February 2009, the NCRC adopted a decision to analyze certain telecommunication services markets to determine whether such markets should be subject to regulation. Among the markets to be reviewed are the market for accessing mobile networks and the market for terminating calls on mobile networks. This review by the NCRC may lead to additional regulation of our

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interconnect rates and/or influence the position of the AMC in connection with the investigation described above.

In addition, we believe that the state owned fixed line operator monopoly, Ukrtelecom, is currently able to influence telecommunications policy and regulation and may cause substantial increases in interconnect rates for access to fixed line operators' networks by mobile cellular operators. In November 2008, Ukrtelecom announced its plans to increase the current interconnect rates for access to fixed line operators' networks by mobile cellular operators commencing January 1, 2009. The contract between MTS-Ukraine and Ukrtelecom terminated on December 31, 2008. Although a new contract has not been signed, Ukrtelecom and MTS-Ukraine continue to provide traffic transit services to each other in 2009. MTS-Ukraine filed a lawsuit against Ukrtelecom seeking to reinstate the 2008 interconnect rates, and the matter is currently pending.

Similarly, Ukrtelecom may cause substantial decreases in interconnect rates for access to mobile cellular operators' networks by fixed line operators, which could cause our revenues to decrease and materially adversely affect our results of operations.

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

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

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

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

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

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

In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media, awarded each of Open Joint Stock Company MegaFon, or MegaFon, Open Joint Stock Company "Vimpel-Communications," or Vimpelcom, and us a license to provide 3G services in the Russian Federation. The 3G license will allow us to provide mobile radio telephone services using the International Mobile Telecommunications-2000, or IMT-2000/UMTS standard. Historically, mobile operators that have developed 3G networks have experienced various difficulties and challenges, including a limited supply of 3G-compatible handsets, limited international roaming capabilities, as well as 3G software and network-related problems. We may experience similar problems or encounter new

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difficulties when developing our 3G network and may be unable to fully resolve them. For example, we cannot be certain that:

our 3G network and services will deliver the quality and level of service that our customers demand or prefer;

we will be able to provide all contemplated 3G services at reasonable prices and within a reasonable timeframe;

manufacturers and content providers will develop and offer products and services for our 3G network on a timely basis;

there will be sufficient demand for 3G services in the markets where we operate;

our 3G network will be commercially viable in all of the locations we are required to operate pursuant to our 3G license;

our competitors will not offer similar services at lower prices; and

changes in governmental policies, rules, regulations or practices will not affect our network rollout or our business operations.

In addition, Russian military authorities also use frequencies on the 3G spectrum, which may limit the availability of 3G frequencies for commercial use in certain areas. During the construction of our 3G network, there is also a risk that the frequencies assigned to us for commercial use may overlap with frequencies used by the Russian military. If this overlap were to occur, it could cause problems or delays in the development and operation of our 3G network in Russia.

In addition, we may face competition from operators using second generation, or 2G, or other forms of 3G technology. For example, licenses for the use of code division multiple access, or CDMA, technology have already been granted for the provision of fixed wireless services in a number of regions throughout Russia. CDMA is a 2G digital cellular telephony technology that can be used for the provision of both wireless and fixed services. Currently, CDMA technology is offered by certain mobile operators in Russia who operate using the Nordic Mobile Telephone 450 MHz, or NMT-450, standard. If CDMA operators were able to develop widespread networks throughout Russia, we would face increased competition.

In addition, the development of WiMAX networks will likely pose additional competition for 3G providers operating in the IMT-2000/UMTS standard.

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

Our inability to obtain a UMTS license in Ukraine on commercially reasonable terms or at all may hinder us from competing in Ukraine.

It has been reported that the NCRC will issue through an auction one UMTS license by the end of 2009. The terms and procedures for issuing this license are not yet clear. The award of the UMTS license to one of our competitors would likely increase the competition we face in the provision of both GSM and 3G services in Ukraine. If we are successful in obtaining the UMTS license, the purchase price may be significant which, in turn, may negatively affect our financial condition and results of operations.

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

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

While we maintain back-up systems for our telecommunications equipment, network management, operations and maintenance systems, these systems may not ensure recovery in the event of a network failure. In particular, in the event of extensive software and/or hardware failures, significant disruptions to our systems could occur, leading to our inability to provide services. Disruptions in our provision of services could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

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

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

Each of our licenses requires service to be offered by a specific date and some contain further requirements as to network capacity and territorial coverage to be reached by specified dates. In addition, all of our licenses require us to comply with various telecommunications regulations relating to the use of radio frequencies and numbering capacity allocated to us, network construction and interconnection rules, among others. If we fail to comply with the requirements of Russian, Ukrainian or other applicable legislation or we fail to meet any terms of our licenses, our licenses and other authorizations necessary for our operations may be suspended or terminated. A suspension or termination of our licenses or other necessary governmental authorizations could have a material adverse effect on our business and results of operations.

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

Our ability to attract new subscribers and retain existing subscribers depends in part on our ability to maintain what we believe to be our favorable brand image. Negative publicity or rumors regarding our company, our shareholders and affiliates or our services could negatively affect this brand image, which could lead to loss of market share and revenues.

Our intellectual property rights are costly and difficult to protect.

We regard our copyrights, trademarks, trade secrets and similar intellectual property, including our rights to certain domain names, as important to our continued success. We rely upon trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. Nonetheless, intellectual property rights are especially difficult to protect in the markets where we operate. In these markets, the

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regulatory agencies charged to protect intellectual property rights are inadequately funded, legislation is underdeveloped, piracy is commonplace and enforcement of court decisions is difficult. For example, in Russia, legislation in the area of copyrights, trade marks and other types of intellectual property was significantly changed in 2008, and Russian courts have limited experience in applying and interpreting the new laws.

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

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

Our telecommunications licenses expire in various years from 2010 to 2021 and may be renewed upon application to the relevant governmental authorities. Government officials in Russia and the other CIS countries in which we operate have broad discretion in deciding whether to renew a license, and may not renew licenses after their expiration. If licenses are renewed, they may be renewed with additional obligations, including payment obligations. In addition, we may be subject to penalties or our licenses may be suspended or terminated for non-compliance with the new licenses requirements.

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

Our inability or failure to register our communications networks with the government may have a material adverse effect on our business, financial condition and results of operations.

Amendments to the Communications Law enacted in 2008 require telecommunications operators in Russia to register their communications networks with Federal Supervision Service for Communication, Information Technologies and Mass Media.

As articulated in the amendments, the primary goal of the new registration requirements is to keep the relevant regulatory and supervisory bodies informed about the state of communications networks in Russia. The amendments envisage a process whereby (i) an operator seeking to build a network will prepare and submit a detailed network deployment plan (referred to in the law as a "system project") to the registration authority and (ii) once the network is built, the operator would need to engage an accredited non-governmental third party to inspect and approve the network. Following this approval, the network should be registered. Existing networks are to undergo the same registration procedure as for new networks, and the amendments require that networks in existence prior to February 14, 2008 be registered by January 1, 2010.

As of the date of this document, the network registration procedure has not been established, including the rules for accrediting the third party inspectors and the rules and parameters for carrying out the inspections. The ambiguity in the amendments and lack of any implementing regulations has led to uncertainty as to our ultimate obligations under these new requirements and the financial and managerial resources that will be required. Moreover, as there is no registration procedure currently in place, it is unclear whether it will be possible for us to register our existing networks by January 1, 2010. Failure to register any of our networks could result in their suspension by the authorities.

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If the financial and managerial resources required to comply with the new registration requirements are substantial or if the operation of any of our networks is suspended, our business, financial condition and results of operations could be materially adversely affected.

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

We have purchased interests in various mobile telecommunications companies from Sistema and entered into arrangements with subsidiaries and affiliates of Sistema for the provision of advertising services (Open Joint Stock Company Advertising Agency Maxima, or Maxima, and Closed Joint Stock Company Mediaplanning, or Mediaplanning), interconnection services (Open Joint Stock Company Multiregional Transit Telecom, or MTT), interconnection and telephone numbering capacity (The Moscow City Telephone Network Public Open Joint Stock Company, or MGTS and Comstar UTS), IT services and hardware purchases (LLC Kvazar-Micro.RU, or Kvazar), banking services (Moscow Bank of Reconstruction and Development, or MBRD), office leases (MGTS) and the purchase of a new billing system (Open Joint Stock Company Sitronics), among others. Related party transactions with Sistema and other companies within the Sistema group may present conflicts of interest, potentially resulting in the conclusion of transactions on terms less favorable than could be obtained in arm's-length transactions. See "Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions."

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

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

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

Our competitive position and future prospects depend on our senior managers and other key personnel.

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team and other key personnel. Moreover, competition in Russia and in the other countries where we operate for personnel with

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

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

Although we make efforts to protect confidential information, future breaches of security and leaks of confidential information, including information relating to our subscribers may negatively impact our reputation and our brand image and lead to a loss of market share, which could materially adversely affect our business, financial condition, results of operations and prospects.

For example, in January 2003, we discovered that part of our database of subscribers, containing private subscriber information, was illegally copied and stolen. The database contained information such as the names, addresses, home phone numbers, passport details and other personal information of approximately five million of our subscribers. Following its theft, this database was available for sale in Russia. In addition, in May 2003, certain subscriber databases of several operators in the North-West region, including those of us, MegaFon, Delta Telecom and two other operators, were stolen and are currently being sold.

In December 2003, we completed our internal investigation relating to the theft of our subscriber databases and found that these incidents were due to weaknesses in our internal security in relation to physical access to such information. We have taken measures that we believe will prevent such incidents from occurring in the future, but such incidents may nonetheless recur.

In January 2003, lawsuits were filed by two of our subscribers seeking compensation for damages resulting from the leak of the subscribers' confidential information. While the subscribers subsequently withdrew their claims, if similar lawsuits are successful in the future, we might have to pay significant damages, including consequential damages, which could have a material adverse effect on our results of operations.

The entry of Mobile Virtual Network Operators into the Russian mobile communications market could increase competition and subscriber churn, resulting in a loss of our market share and decreased revenue.

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

The aim of the Ministry in establishing the legal framework for MVNOs to operate is to increase competition in the Russian mobile services market, which is currently dominated by us, Vimpelcom and Megafon. While existing frequency holders, including us, may receive revenues from MVNOs for the use of our frequencies and network infrastructure, we expect these revenues to be lower than the

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revenues we would receive if providing services directly to subscribers. In addition, in the event we lose subscribers to MVNOs that lease their frequencies and infrastructure from an operator other than us, we will be deprived of the revenue streams from both the subscribers and the MVNOs. The MVNOs may also establish aggressive tariffs, which could result in increased subscriber churn and/or driving down the tariffs of all mobile operators.

While the impact of MVNOs' entry into the Russian mobile communications market is not yet clear, the emergence of any of the foregoing trends could have a material adverse effect on our business, financial condition, results of operations and prospects.

If the Federal Antimonopoly Service were to conclude that we acquired or created a new company in contravention of antimonopoly legislation, it could impose administrative sanctions and require the divestiture of this company or other assets.

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

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

Under Russian legislation, FAS may categorize a company controlling over 50% of a market or otherwise able to control the market conditions as a dominant force in such market. Companies controlling over 35% are listed by FAS in a special register and may become subject to monitoring and reporting requirements with respect to such markets. Current Russian legislation does not clearly define "market" in terms of the types of services or the geographic area. As of December 31, 2008, we were categorized by FAS as a company with a market share exceeding 35% in Moscow and the Moscow region, Ivanovo region, Arkhangelsk region and Nenets Autonomous District. In the event that we are found in the future to have a dominant position in any of our markets, FAS would have the right to regulate our tariffs and impose certain restrictions on our operations in such markets. See "Item 4. Information on Our Company B. Business Overview Regulation in the Russian Federation Competition, Interconnection and Pricing" for additional information.

Additionally, MTS-Ukraine, which according to AC&M-Consulting, had a 32.5% market share of the Ukrainian wireless communications market as of December 31, 2008, can be categorized as a company with a dominant position in the market and become subject to certain government-imposed restrictions. While MTS-Ukraine has not been categorized as a company with a dominant position in the market, it reduced certain of its tariffs at the recommendation of the AMC, in April 2004. See "Item 4. Information on Our Company B. Business Overview Regulation in Ukraine Competition" for additional information.

If we or any of our subsidiaries were to be classified by FAS (or the AMC with respect to our operations in Ukraine) as a dominant market force or as having a dominant position in the market, FAS (or the AMC, as the case may be) would have the power to impose certain restrictions on our or their businesses. In particular, the authorities may impose on us tariffs at levels that could be competitively disadvantageous and/or set interconnect rates between operators that may adversely affect

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our revenues. Moreover, our refusal to adjust our tariffs according to such government-determined rates could result in the withholding of all our revenues for the benefit of the state. Additionally, restrictions on our expansion or government-mandated withdrawal from regions or markets could reduce our subscriber base and prevent us from fully implementing our business strategy.

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

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

At present, the foregoing regulations apply only to fixed line operators in Russia. However, draft legislation was introduced in 2008 that would extend the law to apply to mobile operators. If the new legislation is adopted and we and any of our subsidiaries operating in Russia are identified as operators occupying a "substantial position," regulators may reduce our interconnection tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.

The enactment of regulations allowing mobile network subscribers to select their long distance providers could have a material adverse effect on our financial condition and results of operations.

We currently provide long distance services to our subscribers pursuant to our license for mobile services and route the long distance traffic through long distance transit operators. We receive revenue from our subscribers for these calls, and remit an interconnection fee to the long distance transit operators. In providing long distance services, we select the transit operators based on cost and quality considerations. Subscribers making long distance calls on their mobile phones do not have the option of selecting their long distance provider.

In contrast, fixed line telephone users in Russia have the legal right to select their long distance operator, either by pre-selecting the operator for all of their future calls, or through a "hot choice" option, the latter of which allows callers to select their preferred long distance provider before each long distance call.

The Ministry of Communications and Mass Media is currently considering whether to extend the right to select long distance providers to mobile network subscribers. In the event that this occurs, we will need to make substantial investments in our network infrastructure to support the "hot choice" feature. In addition, allowing our subscribers to select their long distance providers may result in their selection of higher cost providers, causing higher interconnect fees to be payable by us and, consequently, lower revenues. As a result, extending the right to select long distance providers to mobile subscribers could have a material adverse effect on our financial condition and results of operations.

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

Electromagnetic emissions from transmitter masts and mobile handsets may harm the health of individuals exposed for long periods of time to these emissions. The actual or perceived health risks of

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transmitter masts and mobile handsets could materially adversely affect us by reducing subscriber growth, reducing usage per subscriber, increasing the number of product liability lawsuits, increasing the difficulty in obtaining or maintaining sites for base stations and/or reducing the financing available to the wireless communications industry.

Risks Relating to Our Financial Condition

We may be adversely affected by the current economic environment.

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

We may also experience increases in accounts receivable and bad debt among corporate subscribers, some of whom may face liquidity problems and potential bankruptcy, as well as the potential bankruptcy of our corporate partners. For example, in 2008, we extended a short-term loan to Beta Link, mobile handset retailer and MTS dealer, for \$28.2 million. Beta Link subsequently filed for bankruptcy in March 2009, and we believe it is unlikely that we will be able to recover the loan amount or accounts receivable due from Beta Link. See Note 5 to our audited consolidated financial statements.

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

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

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

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

The current downturn in the global financial markets has also caused some companies to experience difficulties accessing their cash equivalents, trading investment securities, drawing on revolvers, issuing debt and raising capital generally. A continuation of this downturn may negatively impact our ability to obtain financing on commercially reasonable terms and the level and volatility of

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the trading price of our shares and ADSs, and could have a material adverse effect on our business, financial condition, results of operations and prospects.

Servicing and refinancing our indebtedness will require a significant amount of cash. Our ability to generate cash or obtain financing depends on many factors beyond our control.

We have a substantial amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with our notes and bank loans. As of December 31, 2008, our consolidated total debt, including capital lease obligations, was \$4,075.2 million. Our interest expense for the year ended December 31, 2008 was \$153.3 million, net of amounts capitalized.

Our ability to service, repay and refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we may default under the terms of our indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, potentially causing cross-defaults under and acceleration of our other indebtedness. Furthermore, as of December 31, 2008, 50.2% of the debt we have incurred is at floating rates of interest linked to indices, such as LIBOR and EURIBOR, and we have hedged the interest rate risk only with respect to approximately 20% of our floating interest rate debt. As a result, our interest payment costs can increase if such indices rise.

We may not be able to generate sufficient cash flow or access international capital markets or incur additional indebtedness to enable us to service or repay our indebtedness or to fund our other liquidity needs. We may be required to refinance all or a portion of our indebtedness on or before maturity, sell assets, reduce or delay capital expenditures or seek additional capital. Refinancing or additional financing may not be available on commercially reasonable terms or at all, and we may not be able to sell our assets or, if sold, the proceeds therefrom may not be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would materially adversely affect our business, financial condition, results of operations and prospects. See "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources."

Ruble depreciation could increase our costs, decrease our cash reserves, or make it more difficult for us to comply with financial ratios and to repay our debts and will affect the value of dividends received by holders of ADSs.

Over the past 15 years, the ruble has fluctuated, at times substantially over short periods of time, against the U.S. dollar and, in particular, it has significantly depreciated against the U.S. dollar in 2008 as a result of the ongoing global financial crisis. For example, on December 31, 2008, the official exchange rate published by the Central Bank of Russia, or CBR, was 29.38 rubles per one U.S. dollar, as compared to 24.55 rubles per one U.S. dollar on December 31, 2007. Furthermore, various press reports suggest that the ruble will continue to depreciate against the U.S. dollar through 2009, and as of April 30, 2009, the exchange rate was 33.25 rubles per one U.S. dollar. The ruble has also depreciated against the euro. On April 30, 2009, the official exchange rate was 43.84 rubles per one euro, as compared to 35.93 rubles per one euro on December 31, 2007.

The CBR from time to time has imposed various currency-trading restrictions in attempts to support the ruble. The ability of the government and the CBR to maintain a stable ruble will depend on many political and economic factors. These include their ability to finance the budget without recourse to monetary emissions, to control inflation and to maintain sufficient foreign currency reserves to support the ruble.

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A majority of our capital expenditure and liabilities and borrowings are either denominated in or tightly linked to the U.S. dollar. Conversely, a majority of our revenues are denominated in rubles. As a result, devaluation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in rubles, both in absolute terms and relative to our revenues, and make it more difficult to comply with our financial ratios or timely fund cash payments on our indebtedness. A decline in the value of the ruble against the U.S. dollar will also result in a translation loss when we translate the ruble revenues into U.S. dollars for inclusion in our audited consolidated financial statements. It also reduces the U.S. dollar value of tax savings arising from tax incentives for capital investment and the depreciation of our property, plant and equipment, since their basis for tax purposes is denominated in rubles at the time of the investment. Increased tax liability would also increase total expenses.

We also anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and will be converted into U.S. dollars by the depositary and distributed to holders of the ADSs. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. Depreciation of the ruble against the U.S. dollar could therefore materially adversely affect our financial condition, results of operations and prospects and the value of the ADSs. See also "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

Changes in the exchange rate of local currencies in the countries where we operate against the U.S. dollar and/or euro could adversely impact our revenues reported in U.S. dollars and costs in terms of local currencies.

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

The Ukrainian hryvnia has experienced significant volatility over the last quarter of 2008 and thus far in 2009, with the official exchange rate falling from 4.86 hryvnias per one U.S. dollar as of October 1, 2008 to 7.70 hryvnias per one U.S. dollar as of April 30, 2009. The steep decline of the hryvnia occurred notwithstanding the Ukrainian government's efforts to defend the national currency, for which it spent \$11 billion. In November 2008, the International Monetary Fund agreed to extend a \$16.4 billion loan to Ukraine to help stabilize the hryvnia and decelerate skyrocketing inflation. Notwithstanding this inflow of funds into Ukraine, the risk of further currency devaluation remains due to ongoing capital flight, the increasing national deficit and the possibility that the government will use new currency emissions to pay down the deficit, the weak state of the banking system, the decreased reserves of the National Bank of Ukraine and the continued public demand for foreign currency.

The exchange rate volatility and continued devaluation of the Turkmenistan manat may also adversely affect our revenues from this market. From 1998 to 2007, the official Turkmenistan manat to U.S. dollar exchange rate was fixed at 5,200 manat per one U.S. dollar. In January 2008, a Presidential Decree was issued establishing a new official exchange rate at 6,250 manat per one U.S. dollar and a commercial exchange rate at which companies and banks can buy and sell currency of up to 20,000

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manat per one U.S. dollar. In May 2008, an additional Presidential Decree changed the official exchange rate to 14,250 manat per one U.S. dollar. As a result of the changes in the manat-to-U.S. dollar exchange rate, the revenues of MTS-Turkmenistan declined significantly in the year ended December 31, 2008, as we experienced a significant currency exchange loss when translating the manat revenue of MTS-Turkmenistan to U.S. dollars, our reporting currency.

On December 31, 2008 the Central Bank of Turkmenistan announced the redenomination of the manat and the introduction of new banknotes and coins of national currency as of January 1, 2009. Under the new currency, 1 new manat equals 5,000 old manat. The Central Bank of Turkmenistan established the exchange rate at 2.85 new manat per one U.S. dollar. As conversion of local currency in Turkmenistan is subject to government regulations, it is difficult to predict the extent of further exchange rate fluctuations. While we continue to consider different financial instruments available to us in order to mitigate our exposure to exchange rate fluctuations, we have not entered into any significant currency hedging arrangements. See also "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

A disposition by our controlling shareholder of its stake in our company could materially harm our business.

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

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

We will need to make significant capital expenditures, particularly in connection with the development, construction and maintenance of, and the purchasing of software for our GSM network. We spent \$1,722.0 million in 2006, \$1,539.5 million in 2007 and \$2,227.3 million in 2008 for the fulfillment of our capital spending plans. In addition, the acquisition of 3G licenses and frequency allocations and the buildout of a 3G network will require additional capital expenditures. However, future financings and cash flow from our operations may not be sufficient to meet our planned needs in the event of various unanticipated potential developments, including the following:

a lack of external financing sources;

changes in the terms of existing financing arrangements;

construction of the wireless networks at a faster rate or higher capital cost than anticipated;

pursuit of new business opportunities or investing in existing businesses that require significant investment;

acquisitions or development of any additional wireless licenses;

slower than anticipated subscriber growth;

slower than anticipated revenue growth;

regulatory developments;

changes in existing interconnect arrangements; or

a deterioration in the economies of the countries where we operate.

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Also, currently we are not able to raise equity financing through newly issued depositary receipts such as ADSs, due to Russian securities regulations providing that no more than 30% of a Russian company's shares (and no more than 25% with respect to certain telecommunications operators) may be circulated abroad through sponsored depositary receipt programs. Prior to December 31, 2005 and at the time of our initial public offering, this threshold was 40% and our current ADSs program is near its full capacity. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

The Russian and Ukrainian economies have been characterized by high rates of inflation. The World Bank forecasted inflation to reach between 11%-13% in Russia in 2009, and the International Monetary Fund forecasted inflation to reach 17% in Ukraine in 2009 (although it reached 22.3% in February 2009). As we tend to experience inflation-driven increases in certain of our costs, which are sensitive to rises in the general price level in Russia and Ukraine, our costs will rise. In addition, media inflation in Russia continues to be very high and shows little sign of slowing, which may lead to higher marketing expenditures by us in order to remain competitive. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia and Ukraine could increase our costs and decrease our operating margins. See also "Item 5. Operating and Financial Review and Prospects Inflation."

Our failure to fulfill our iPhone handset purchase commitment under our agreement with Apple Sales International could have a material adverse effect on our financial condition and results of operations.

In August 2008, we entered into an unconditional purchase agreement with Apple Sales International to buy certain quantities of iPhone handsets at list prices over a three-year period. The aggregate amount of our commitments under this agreement (based on list prices as of December 31, 2008) is \$847.9 million for the years ended December 31, 2009, 2010 and 2011. The economic downturn in Russia has caused consumer spending to decrease, which has negatively affected iPhone sales in Russia. As a result, we did not fulfill our required purchase commitments under our agreement with Apple in the fourth quarter of 2008 and the first quarter of 2009. We are currently in discussions with Apple to adjust our required purchase commitments. However, in the event we are unable to reach an agreement, it is possible that Apple may bring a claim against us, which could have a material adverse effect on our financial condition and results of operations.

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

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

In addition, Sistema, which controls 52.8% of our total charter capital (55.7% excluding treasury shares) and consolidates our results in its financial statements, is subject to various covenants in the indentures related to its notes and in its credit facilities with VTB. These covenants impose restrictions

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on Sistema and its restricted subsidiaries (including us) with respect to, *inter alia*, incurrence of indebtedness, creation of liens and disposal of assets. In the indentures, Sistema undertakes that it will not, and will not permit its restricted subsidiaries (including us) to, incur indebtedness unless a certain debt/EBITDA (as defined therein) ratio is met. In addition to us, Sistema has various other businesses that require capital and, therefore, the consolidated Sistema group's capacity to incur indebtedness otherwise available to us could be diverted to its other businesses. Sistema may also enter into other agreements in the future that may further restrict it and its restricted subsidiaries (including us) from engaging in these and other activities. We expect Sistema to exercise its control over us in order for Sistema, as a consolidated group, to meet its obligations under its current and future financings and other agreements, which could materially limit our ability to obtain additional financing required for the implementation of our business strategy.

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

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

Any person acquires beneficial ownership of 50% or more of the total voting power of all shares of our common stock; provided that the following transactions would not be deemed to result in a change in control:

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

any acquisition by us, our subsidiary or our employee benefit plan.

We merge or consolidate with or into, or convey, sell, lease or otherwise dispose of all or substantially all of our assets to, another entity or another entity merges into us and, immediately following such transaction, Sistema does not beneficially own at least 50% of the total voting power of all shares of common stock of such entity.

We no longer beneficially own more than 50% of the issuer's share capital.

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

Risks Relating to Our Countries of Operation

Economic Risks

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

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

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Russian banking sector, with the termination of banking licenses of a number of major Russian banks. This crisis had a severe impact on the economies of Russia and the other CIS countries.

While the economies of Russia and the other CIS countries where we operate have experienced positive trends in recent years, such as increases in gross domestic product, relatively stable national currencies, strong domestic demand, rising real wages, increased disposable income, increased consumer spending and a relatively reduced rate of inflation, these positive trends have been supported, in part, by increases in global commodity prices, and may not continue or may abruptly reverse. The current financial crisis, as well as any future economic downturns or slowdowns in Russia or the other CIS countries where we operate could lead to decreased demand for our services, decreased revenues and negatively affect our liquidity and ability to obtain debt financing, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

The Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

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

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

The recent disruptions in the global markets have generally led to reduced liquidity and increased cost of funding in Russia. Borrowers have generally experienced a reduction in available financing both in the inter-bank and short-term funding market, as well as in the longer term capital markets and bank finance instruments. The non-availability of funding to the banking sector in the Russian Federation has also negatively affected the anticipated growth rate of the Russian Federation. According to Standard & Poor's, which in October 2008 revised the outlook on its long-term sovereign credit rating for the Russian Federation from "stable" to "negative," Russia is at risk of recording a deficit by 2009. In addition to anticipated slower asset growth on the Russian banking market, the Russian Federation is facing significant inflation, a significant decline in stock prices and a substantial outflow of capital from the country. The Russian government and the CBR provide financial support only to a limited number of banks, which may result in the liquidation of other banks and financial

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institutions. A combination of these factors may result in a significant deterioration in the financial fundamentals of Russian banks, notably liquidity, asset quality and profitability.

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

The physical infrastructure in Russia and Ukraine is in poor condition, which could disrupt our normal business activities.

The physical infrastructure in Russia and Ukraine largely dates back to Soviet times and has not been adequately funded and maintained over the past two decades. Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. In May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major power outage in a large section of Moscow and some surrounding regions. The blackout disrupted ground electric transport, including the metro system, led to road traffic accidents and massive traffic congestion, disrupted electricity and water supply in office and residential buildings and affected mobile communications. The trading on exchanges and the operation of many banks, stores and markets were also halted. In addition, the road conditions throughout Russia and Ukraine are poor with many roads not meeting minimum quality standards, causing disruptions and delays in the transportation of goods to and within these countries. The Russian and Ukrainian governments are actively considering plans to reorganize the nations' rail, electricity and communications systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of the physical infrastructure in Russia and Ukraine harms the national economies, adds costs to doing business in these countries and generally disrupts normal business activities. These difficulties can impact us directly; for example, we keep portable electrical generators to help us maintain base station operations in the event of power outages. Further deterioration of the physical infrastructure in Russia and Ukraine, as well as the other countries where we operate, could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Political and Social Risks

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

Since 1991, Russia has sought to transform from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. Ukraine and the other CIS countries where we operate are similarly vulnerable.

Current and future changes in the Russian and other CIS governments, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

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

The Russian Federation is a federation of 83 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities could result in the enactment of conflicting legislation at various levels and may lead to political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus may hinder our long-term planning efforts and create uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

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

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In Ukraine, tensions between certain regional authorities and the central government were ignited following the November 2004 presidential elections. Amid the mass demonstrations and strikes that took place throughout Ukraine to protest the election process and results, the regional authorities in three regions in eastern Ukraine threatened to conduct referendums on creating a separate, autonomous region within Ukraine. Though the regional authorities ultimately backed down from these threats, and tensions in Ukraine subsided, the reemergence of these tensions in Ukraine in the future may cause our long-term planning ability and operations in Ukraine to suffer.

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

Relations between Russia and certain other former Soviet republics are or have in the past been strained. For example, in August 2008, a significant armed conflict erupted between Russia and Georgia over the separatist regions of South Ossetia and Abkhazia, culminating in Russia's recognition of their independence from Georgia. The political and economic relationships between Ukraine and Russia have also been strained in recent years. The possible accession by Ukraine and Georgia to the North Atlantic Treaty Organization is also a significant source of tension between Russia and these countries. Although we currently do not have operations in Georgia, our operations in Ukraine are significant. If disputes with Ukraine were to disrupt or reduce the flow of Russia's trade with Ukraine, the Ukrainian economy could be materially adversely affected. Declines in the Ukrainian economy could have a material adverse effect on our operations in Ukraine and, consequently, on our financial condition, results of operations and prospects.

The conflicts between Russia and these and other former Soviet republics have, in some instances, also strained Russia's relationship with the United States and the European Union which, at times, has negatively impacted Russia's financial markets.

The emergence of new or escalated tensions between Russia and other former Soviet republics could further exacerbate tensions between Russia and the United States and the European Union, which may have a negative effect on the Russian economy, our ability to obtain financing on commercially reasonable terms, and the level and volatility of the trading price of the ADSs. Any of the foregoing circumstances could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Recent political turmoil in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations.

Changes to the Ukrainian Constitution that came into effect on January 1, 2006, shifted important powers from the president to the parliament, including the right to name the prime minister and form a government. With these new powers, there is a risk that an impasse between the president and the parliament could evolve into a protracted political struggle and cause Ukraine's economy to decline.

Since January 2005, Victor Yushchenko has served as Ukraine's president. Yulia Tymoshenko served as the prime minister from February 2005 to September 2005. In November 2007, a coalition of the political blocks headed by Mr. Yushchenko and Ms. Tymoshenko received a majority of seats in the parliament at extraordinary parliamentary elections and appointed Ms. Tymoshenko as prime minister for the second time. Mr. Yushchenko and Ms. Tymoshenko's tenure in office has been characterized by tension between them and their respective political factions and, on September 16, 2008, the collapse of their coalition was formally declared by the Ukrainian parliament. On October 9, 2008, Mr. Yushchenko dissolved the parliament due to the failure of factions of the parliament to form a new coalition and scheduled new parliamentary elections for December 7, 2008. However, on October 20,

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2008, Mr. Yushchenko suspended his October 9, 2008 decree to dissolve the parliament and instead decided to postpone new parliamentary elections indefinitely because of the deteriorating economic conditions caused by the ongoing global financial crisis. On December 16, 2008, the political parties led by Mr. Yushchenko, Ms. Tymoshenko and the parliamentary speaker signed a three-party coalition agreement. Despite efforts by Ukrainian political parties to work together in the face of the ongoing economic challenges, greater political instability or further weakening of the government could cause further deterioration in the social and economic environment in Ukraine which, in turn, could have a material adverse effect on our operations in Ukraine and our business, financial condition and results of operations.

Crime and corruption could disrupt our ability to conduct our business.

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

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

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

Legal Risks and Uncertainties

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

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

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

conflicting local, regional and federal rules and regulations;

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the lack of judicial and administrative guidance on interpreting legislation;

the relative inexperience of judges and courts in interpreting legislation;

the lack of an independent judiciary;

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

poorly developed bankruptcy procedures that are subject to abuse.

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

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

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as at the end of the second or any subsequent year of a company's operation can serve as a basis for a court to order the liquidation of the company upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, *i.e.*, their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets. The amount of net assets of some of our subsidiaries is below the minimum legal requirements. Although we are currently taking steps to remedy this and these subsidiaries continue to meet all of their obligations to creditors, there is a minimal risk of their liquidation.

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

The judiciary's lack of independence and overall inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of our shares and ADSs from obtaining effective redress in a court proceeding.

The judicial systems in the countries where we operate are not always independent or immune from economic, political and nationalistic influences, and are often understaffed and underfunded. Judges and courts are generally inexperienced in the area of business, corporate and industry (telecommunications) law. Judicial precedents generally have no binding effect on subsequent decisions, and not all court decisions are readily available to the public or organized in a manner that facilitates

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understanding. The judicial systems in these countries can also be slow or unjustifiably swift. Enforcement of court orders can, in practice, be very difficult to achieve. All of these factors make judicial decisions in these countries difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies, and the government may attempt to invalidate court decisions by backdating or retroactively applying relevant legislative changes.

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

Our inability to gain operational control over Bitel has prevented us from realizing the expected benefits of our acquisition and resulted in our write off of the costs relating to the purchase of Bitel, and we may face significant liabilities to the seller and Bitel.

In December 2005, our wholly owned subsidiary MTS Finance S.A., or MTS Finance, acquired a 51.0% stake in Tarino Limited, or Tarino, from Nomihold Securities Inc., or Nomihold, for \$150.0 million in cash based on the belief that Tarino was at that time the indirect owner, through its wholly owned subsidiaries, of Bitel LLC, or Bitel, a Kyrgyz company holding a GSM 900/1800 license for the entire territory of Kyrgyzstan.

Following the purchase of the 51.0% stake, MTS Finance entered into a put and call option agreement with Nomihold for "Option Shares," representing the remaining 49.0% interest in Tarino shares and a proportional interest in Bitel shares. The call option was exercisable by MTS Finance from November 22, 2005 to November 17, 2006, and the put option was exercisable by Nomihold from November 18, 2006 to December 8, 2006. The call and put option price was \$170.0 million.

Following a decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's corporate offices were seized by a third party. As we did not regain operational control over Bitel's operations in 2005, we accounted for our 51.0% investment in Bitel at cost as at December 31, 2005. We appealed the decision of the Kyrgyz Supreme Court in 2006, but the court has not acted within the time period permitted for appeal. We subsequently sought the review of this dispute over the ownership of Bitel by the Prosecutor General of Kyrgyzstan to determine whether further investigation could be undertaken by the Kyrgyz authorities. In January 2007, the Prosecutor General informed us that there were no grounds for involvement by the Prosecutor General's office in the dispute and that no legal basis existed for us to appeal the decision of the Kyrgyz Supreme Court. Consequently, we decided to write off the costs relating to the purchase of the 51.0% stake in Bitel, which was reflected in our audited annual consolidated financial statements for the year ended December 31, 2006.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell Option Shares for \$170.0 million to MTS Finance. In January 2007, Nomihold commenced an arbitration proceeding against MTS Finance in the London Court of International Arbitration in order to compel MTS Finance to purchase Option Shares. Nomihold seeks specific performance of the put option, unspecified monetary damages, interest, and costs. The matter is currently pending. MTS Finance is vigorously contesting this action and has asked the arbitration tribunal to dismiss Nomihold's claim.

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A group of individual shareholders of Sistema has agreed to compensate MTS Finance for any potential loss up to \$170.0 million should the arbitration decision regarding exercise of the aforementioned put option prove unfavorable to MTS Finance. Notwithstanding this, in the event MTS Finance does not prevail in the arbitration, we could be liable to Nomihold for \$170.0 million plus any additional amounts that the arbitration tribunal might award to Nomihold.

In connection with the above mentioned put option exercise and the uncertainty as to the resolution of the dispute with Nomihold, we recognized a liability in the amount of \$170.0 million in our audited annual consolidated financial statements with a corresponding charge to other non-operation expenses as of December 31, 2006 and for the year then ended.

In addition, three Isle of Man companies affiliated with us, or the KFG Companies, have been named defendants in lawsuits filed by Bitel in the Isle of Man seeking the return of dividends received by these three companies in the first quarter of 2005 from Bitel in the amount of approximately \$25.2 million plus compensatory damages, and to recover approximately \$3.7 million in losses and accrued interest. In the event that the defendants do not prevail in these lawsuits, we may be liable to Bitel for such claims. The KFG Companies have also asserted counterclaims against Bitel, and claims against other defendants including Altimo LLC, or Altimo, and Altimo Holdings & Investments Limited, or Altimo Holding, for the wrongful appropriation and control of Bitel. In November 2007, the Isle of Man court set aside orders it had previously issued granting leave to serve the non-Manx defendants out of the jurisdiction as to the KFG Companies' counterclaims on the basis of a lack of jurisdiction. The KFG companies appealed that ruling to the Isle of Man Staff of Government, and in November 2008, the appellate court ruled in our favor, holding that the case should proceed under its jurisdiction. The defendants against whom the KFG Companies have brought the action attempted to appeal the Isle of Man Staff of Government decision by seeking leave to appeal to the Judicial Committee of the Privy Council, the court of final appeal for the Isle of Man. This request was denied and the defendants then sought permission to appeal from the Judicial Committee of the Privy Council itself, an application which remains pending. It is not possible at this time to predict the ultimate outcome or resolution of these claims.

In a separate arbitration proceeding initiated against the KFG Companies by Kyrgyzstan Mobitel Investment Company Limited, or KMIC, under the rules of the London Court of International Arbitration, the arbitration tribunal in its award found that the KFG Companies breached a transfer agreement dated May 31, 2003, or the Transfer Agreement, concerning the shares of Bitel. The Transfer Agreement was made between the KFG Companies and IPOC International Growth Fund Limited, or IPOC, although IPOC subsequently assigned its interest to KMIC, and KMIC was the claimant in the arbitration. The tribunal ruled that the KFG Companies breached the Transfer Agreement when they failed to establish a date on which the equity interests in Bitel were to be transferred to KMIC and by failing to take other steps to transfer the Bitel interests. This breach occurred prior to MTS Finance's acquisition of the KFG Companies. The arbitration tribunal ruled that KMIC is entitled only to damages in an amount to be determined in future proceedings. At the request of the parties, the tribunal agreed to stay the damages phase of the proceedings pending the resolution of the appeals process now before the second instance court in the Isle of Man, as described above. We are not able to predict the outcome of these proceedings or the amount of damages to be paid, if any.

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

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

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

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

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

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

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

Our failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required to operate telecommunications equipment or the findings of government inspections may also result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, approvals, authorizations and permits, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Moreover, an agreement or transaction entered into in violation of Russian law may be invalidated and/or unwound by a court decision. Any such decisions, requirements or

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sanctions, or any increase in governmental regulation of our operations, could result in a disruption of our business and substantial additional compliance costs and could materially adversely affect our business, financial condition, results of operations and prospects.

Developing corporate and securities laws and regulations in Russia could limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than, for example, in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, are relatively new, while other laws concerning anti-fraud, insider trading and fiduciary duties of directors and officers remain underdeveloped. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

the Federal Service for the Financial Markets;

FAS;

the CBR; and

various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be contradictory.

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

There is little minority shareholder protection in Russia.

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

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

While the Federal Law on Joint Stock Companies of December 26, 1995, or the Joint Stock Companies Law, provides that shareholders owning not less than 1% of the company's stock may bring

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an action for damages on behalf of the company, Russian courts to date do not have much experience with such lawsuits. Russian law does not contemplate class action litigation. Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of the shares and ADSs.

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

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

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

the effective parent gives obligatory directions to the effective subsidiary.

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

Shareholder rights provisions under Russian law could impose additional obligations and costs on us.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

decisions with respect to a reorganization;

the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth more than 50% of the gross book value of our assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and

the amendment of our charter in a manner that limits shareholder rights.

For example, from 2004 through December 31, 2008, we merged 25 of our wholly owned subsidiaries into MTS. Following the approval of the merger of our two subsidiaries into MTS at the general shareholders meeting in June 2008, we repurchased shares from investors who voted against or abstained from voting on the merger in the amount of 11.1 billion rubles (\$446.3 million as of the date of repurchase), or 10% of our net assets as of March 31, 2008 calculated according to Russian accounting standards.

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Our obligation to purchase shares in these circumstances, which is limited to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Under Russian law, if we are unable to sell the repurchased shares at a price equal to or exceeding the market price within one year after the date of repurchase, we have to reduce our charter capital accordingly.

It is not yet clear how the new Strategic Foreign Investment Law will affect us and our foreign shareholders.

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

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

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

As we are classified as a strategically important company, our current and future foreign investors are subject to the notification requirements described above and our current and potential investors may be limited in their ability to acquire a controlling stake in, or otherwise gain control over, us. Such increase in governmental control or limitation on foreign investment could impair the value of your investment and could hinder our access to additional capital. In addition, the Strategic Foreign Investment Law contemplates the adoption of a number of implementing regulations. It is currently unclear how these regulations will affect us and our foreign shareholders.

Reduction of the Calling Party Pays Settlement Rate and other regulatory changes in Russia may have a material adverse effect on our financial condition and results of operations.

An amendment to the Federal Law on Communications, which became effective July 1, 2006, implemented the Calling Party Pays, or the CPP, principle prohibiting mobile operators from charging their subscribers for incoming calls. Prior to the implementation of the CPP, subscribers of fixed line operators could initiate calls to mobile phone users free of charge. Under the new system, fixed line operators began charging their subscribers for such calls and transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is established by the regulator and is known as the "settlement rate." Any reduction of the settlement rate by the

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regulator could have a negative impact on our average monthly service revenues per subscriber and margins.

In addition, potential regulatory changes that may be enacted in the future, such as mobile numbering portability and the introduction of new rules regulating MVNOs could weaken our competitive position in the mobile telecommunications market and, as a result, materially adversely affect our financial condition and results of operations.

Our failure to comply with new personal data protection laws in Russia may have a material adverse effect on our business, financial condition and results of operations.

The Federal Law on Personal Data and certain regulations enacted thereunder require us to bring our information storage, processing and protection practices in compliance with the statutory standards by January 1, 2010. The implementation of these standards involves significant technical, financial and managerial undertakings. For example, we will be required to treat subscribers' personal data with the level of protections afforded to state secrets, obtain state certification of our installed information protection facilities and ensure that our automated accounting systems do not have any undeclared capabilities. At the same time, the standards contain significant ambiguity, which may impede our ability to comply and creates the potential for Russian authorities to form differing views on compliance.

If the resources required to develop and implement data protection systems meeting the new standards are greater than expected, or we fail to comply with the data protection laws despite our best efforts to do so, our business, financial condition and results of operations could be materially adversely affected.

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

The new Ukrainian Law on Telecommunications came into force on December 23, 2003 (certain articles became effective in 2004 and 2005). However, certain regulatory bodies established by the new law were unable to duly exercise their regulatory functions for an extended period of time. For example, the NCRC was established in August 2004 by a Decree of the President of Ukraine. On January 1, 2005, it was vested with the powers of the central regulatory body in the sphere of communications by the Ukrainian Law on Telecommunications. The NCRC was considered formed and began to perform its regulatory activity in April 2005, when both the chairperson and its members were appointed as required by the Ukrainian Law on Telecommunications. However, in 2007 and 2008, the authority to appoint the NCRC chairperson and its members became the subject of a dispute between the President of Ukraine and the Cabinet of Ministers of Ukraine and the respective appointments were challenged in Ukrainian courts because of conflicting orders and regulations issued by the President of Ukraine and the Cabinet of Ministers. On October 8, 2008, the Constitutional Court of Ukraine passed a resolution pursuant to which the right of the Cabinet of Ministers to appoint the NCRC members and adopt its regulations was confirmed. Thus, the NCRC chairperson and its members are currently appointed by the Cabinet of Ministers. However, this uncertainty and any future challenges to the NCRC's authority or composition may have an adverse effect on our business, financial condition and results of operations.

In addition, the new Ukrainian Law on Telecommunications, among other things, may require companies with a dominant position in the telecommunications market to develop public telecommunications services if directed to do so by the regulatory authorities. As, according to AC&M-Consulting, the market share of MTS-Ukraine in mobile telecommunications services in Ukraine was 32.5% as of December 31, 2008, implementation of this law may materially adversely

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affect our financial condition and results of operations. See "Item 4. Information on Our Company B. Business Overview Regulation in Ukraine Legislation."

The lack of a developed share registration system in Russia may result in improper record ownership of our shares, including the shares underlying the ADSs.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a developed share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the depositary, under the terms of the deposit agreement, will not be liable for the unavailability of our shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares.

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

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

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

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

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

Generally, tax returns in Russia remain open and subject to tax audit by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax

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audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent further review of that year, or any tax return applicable to that year, during the eligible three-year period by a superior tax authority. In addition, on July 14, 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax penalties to be extended beyond the three-year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax audit. Moreover, recent amendments to the Tax Code of the Russian Federation, effective January 1, 2007, provide for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed" or "hindered" or "created insurmountable obstacles" in respect of a tax audit and to ultimately seek review and possibly apply penalties beyond the three-year term. There is no guarantee that the tax authorities will not review our compliance with applicable tax law beyond the three-year limitation period. Any such review could, if it concluded that we had significant unpaid taxes relating to such periods, have a material adverse effect on our business, financial condition, results of operations and/or prospects.

Moreover, the financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 0% or 9% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules), if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties), if being distributed to foreign companies. If the receiving company itself pays a dividend, it may offset tax withheld against its own withholding liability of the onward dividend although not against any withholding made on a distribution to a foreign company. These tax requirements impose additional burdens and costs on our operations, including management resources.

Anti-crisis tax measures were recently adopted to help businesses. Such measures include, among others, the reduction of the corporate income tax rate from 24% to 20% starting from January 1, 2009, the acceleration of tax depreciation and the increase in interest expense deductibility thresholds.

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

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

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

In 2008, the tax authorities completed a tax audit in respect of the years ended December 31, 2005 and 2006. As a result of the audit, the tax authorities imposed additional tax liability in the amount of 1,130.0 million rubles (approximately \$38.5 million as of December 31, 2008), including taxes, fines and penalties, which amount we paid in full to the tax authorities as of December 31, 2008. See also "Item 8. Financial information 8.A.7. Litigation Tax Audits and Claims."

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

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

Although the Ukrainian Constitution prohibits retroactive enforcement of any newly enacted tax laws and the Law on Taxation System specifically requires legislation to adopt new tax laws at least six months prior to them becoming effective, such rules have largely been ignored. In addition, tax laws are often vaguely drafted, making it difficult for us to determine what actions are required for compliance. For example, MTS-Ukraine believes that the services rendered to its subscribers within the networks of foreign operators that serve as roaming partners for MTS-Ukraine, are not subject to VAT. However, due to the ambiguity of the Ukrainian tax legislation, the state tax authorities may conclude that VAT applies to these services. In such case, MTS-Ukraine will be obligated to pay the VAT sums and penalties.

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

Tax declarations/returns, together with other legal compliance areas (e.g., customs and currency control matters), may be subject to review and investigation by various administrative divisions of the tax authorities, which are authorized by law to impose severe fines, penalties and interest charges. These circumstances create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems. Generally, tax declarations/returns in Ukraine remain open and subject to inspection for a three-year period. However, this term may not be observed or may be extended under certain circumstances, including in the context of a criminal investigation. While we believe that we are currently in compliance with the tax laws affecting our operations in Ukraine, it is possible that relevant authorities may take differing positions with regard to interpretative issues, which may result in a material adverse effect on our results of operations and financial condition.

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

Russian transfer pricing legislation became effective in the Russian Federation on January 1, 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to all "controlled" transactions, provided that the transaction price differs from the market price by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price with respect to such transactions differs from the prices on similar transactions conducted within a short period of time by more than 20%). Special transfer pricing provisions are established for operations with securities and derivatives. Russian transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by Russian tax authorities and courts. There has been very little guidance (although some court practice is available) as to how these rules should be applied. Moreover, the Ministry of Finance of the Russian Federation is in the process of finalizing amendments to the transfer pricing legislation, which may come into force in the near future. The implementation of these amendments are expected to considerably toughen the existing law, as the proposed changes are expected, among other things, to effectively shift the burden of proving market prices from the tax authorities to the taxpayer, cancel the existing permitted deviation

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threshold and introduce specific documentation requirements for proving market prices. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on our business, financial condition and results of operations.

Additionally, in the event that a transfer pricing adjustment is assessed by the Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions.

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

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

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

Risks Relating to the Shares and ADSs and the Trading Market

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

The ability of investors to deposit shares into our ADS facility may be affected by current or future governmental regulations. For example, under Russian securities regulations, no more than 30% of a Russian company's shares and no more than 25% with respect to strategically important companies may be circulated abroad through sponsored depositary receipt programs. Prior to December 31, 2005, and at the time of our initial public offering, this threshold was 40%. Although we believe that the new lower threshold does not apply to our ADSs, in the future, we may be required to reduce the size of our ADS program or amend the depositary agreement for the ADSs.

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

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Because the depositary may be considered the owner of the shares underlying the ADSs, these shares may be arrested or seized in legal proceedings in Russia against the depositary.

Many jurisdictions, such as the United Kingdom and the United States, recognize a distinction between legal owners of securities, such as the depositary, and the beneficial owners of securities, such as the ADS holders. In these jurisdictions, the shares held by the depositary on behalf of the ADS holders would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the shares.

Russian law may not, however, recognize a distinction between legal and beneficial ownership of securities. Russian law generally treats a depositary as the owner of shares underlying the ADSs and, accordingly, may not recognize ADS holders' beneficial ownership therein.

Thus, in proceedings brought against a depositary, whether or not related to shares underlying the ADSs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. In the past, a lawsuit was filed against a depositary seeking the seizure of various Russian companies' shares represented by ADSs issued by that depositary. In the event that this type of suit were to be successful in the future against our depositary, and the shares underlying our ADSs were to be seized or arrested, the ADS holders involved could lose their rights to such underlying shares and all of the money invested in them.

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

The market price of our ADSs experienced, and may continue to experience, significant volatility. For the period from January 1, 2008 to December 31, 2008, the closing price of our ADSs on the New York Stock Exchange has ranged from a low of \$21.67 per ADS to a high of \$101.9 per ADS.

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

periods of regional or global macroeconomic instability;

announcements of technological or competitive developments;

regulatory developments in our target markets affecting us, our customers or our competitors;

actual or anticipated fluctuations in our quarterly operating results;

changes in financial estimates or other material comments by securities analysts relating to us, our competitors or our industry in general;

announcements by other companies in our industry relating to their operations, strategic initiatives, financial condition or financial performance or to our industry in general;

announcements of acquisitions or consolidations involving industry competitors or industry suppliers;

sales or perceived sales of additional ordinary shares or ADSs by us or our significant shareholders; and

impact and development of any lawsuit, currently pending or threatened, or that may be instituted in the future.

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

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

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

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

In addition, although Russian securities regulations expressly permit the depositary to split the votes with respect to the shares underlying the ADSs in accordance with instructions from ADS holders, there is little court or regulatory guidance on the application of such regulations, and the depositary may choose to refrain from voting at all unless it receives instructions from all ADS holders to vote the shares in the same manner. ADS holders may thus have significant difficulty in exercising voting rights with respect to the shares underlying the ADSs. We cannot assure you that holders and beneficial owners of ADSs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the depositary, (ii) receive notice to enable the timely cancellation of ADSs in respect of shareholder actions or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

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

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

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

Under Russian law, dividends paid to a non-resident holder of the shares generally will be subject to Russian withholding tax at a rate of 15%. The domestic tax rate applicable to dividends payable by

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Russian companies to non-resident individuals has been reduced from 30% to 15% effective from January 1, 2008. This tax may potentially be reduced to 5% or 10% for legal entities and organizations and to 10% for individuals under the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital, or the United States Russia income tax treaty, provided a number of conditions are satisfied. However, the Russian tax rules on the application of double tax treaty benefits to individuals are unclear and there is no certainty that advance clearance would be possible. The Russian tax rules applicable to ADS holders are characterized by significant uncertainties. In a number of clarifications, the Ministry of Finance of the Russian Federation expressed a view that ADS holders (rather than the depositary) should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax residencies of the ADS holders are duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts will ultimately treat the ADS holders in this regard. Thus, we may be obliged to withhold tax at standard non-treaty rates when paying out dividends, and U.S. ADS holders may be unable to benefit from the United States Russia income tax treaty. See also "Item 10. Additional Information E. Taxation" for additional information.

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

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

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

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

Foreign judgments may not be enforceable against us.

Our presence outside the United States may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation. Substantially all of our directors and executive officers named in this document reside outside the United States. All or a substantial portion of our

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assets and the assets of our officers and directors are located outside the United States. As a result, you may not be able to effect service of process within the United States on us or on our officers and directors. Similarly, you may not be able to obtain or enforce U.S. court judgments against us, our officers and directors, including actions based on the civil liability provisions of the U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws.

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

Other Risks

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

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

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

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

Item 4. Information on Our Company

A. History and Development

Mobile TeleSystems CJSC, or MTS CJSC, our predecessor, was formed in 1993. The founding shareholders included MGTS and three other Russian telecommunications companies, which collectively held 53% of our original share capital, and two German companies, Siemens AG and T-Mobile Deutschland GmbH, an affiliate of Deutsche Telekom AG, which collectively held the

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remaining 47%. JSFC Sistema, or Sistema, currently owns 52.8% of our share capital (55.7% excluding treasury shares). See "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders."

MTS CJSC inaugurated service in the Moscow license area in 1994 and began expanding into nearby regions in 1997. Since that time, we have continued to grow by applying for GSM licenses in new regions, investing in new GSM licensees, increasing our ownership percentage in these licensees and acquiring existing GSM license holders and operators.

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

We completed our initial public offering on July 6, 2000, and listed our shares of common stock, represented by ADSs on the New York Stock Exchange under the symbol "MBT." Each ADS represents five underlying shares of our common stock. Prior to January 1, 2005, each ADS represented 20 shares.

In April 2003 and December 2004, T-Mobile completed offerings of approximately 5.0% and 15.1% of our shares, respectively, in the form of GDRs through an unsponsored GDR program. In September 2005, T-Mobile sold its remaining 10.1% interest in us on the open market.

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

Expansion

Russia

In furtherance of our goal to be a nationwide operator in Russia, we have extended our focus beyond our original market of Moscow and the Moscow region with a view towards developing our existing license areas in the regions, acquiring new regional licenses and acquiring regional operators. For a listing of our acquisitions in the last three years, see "Item 5. Operating and Financial Review and Prospects Acquisitions" and Note 3 to our audited consolidated financial statements.

Belarus

In September 2001, we won a tender held by the Telecommunications Ministry of the Belarus Republic to form a joint venture with a GSM 900/1800 license to operate in Belarus. Pursuant to the tender conditions:

we formed a company in Belarus, MTS Belarus, and contributed approximately \$2.5 million in exchange for 49% of the share capital of the company (the other 51% of which is held by a state-owned enterprise);

we paid a lump sum of \$10 million to the government of Belarus;

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MTS Belarus made a one-time payment of \$5 million (which was funded by a \$5 million loan from us to it); and

we paid a total of \$6 million to the government of Belarus in five annual installments of \$1.2 million from 2003 through 2007.

On June 26, 2002, MTS Belarus received all of the governmental approvals and licenses required to commence operations in Belarus and it began operations on June 27, 2002. MTS Belarus is an equity investment, and its results are not consolidated in our financial statements.

MTS Belarus operates under a license to carry out telecommunications activities issued by the Ministry for Communications and Information Technology of the Republic of Belarus, valid until August 23, 2017.

Belarus had a population of approximately 9.8 million and a nationwide mobile penetration rate of approximately 86% as of December 31, 2008, according to AC&M-Consulting. We operate under the MTS brand in Belarus.

Ukraine

In March 2003, we purchased a 57.7% stake in UMC for \$199.0 million. We purchased a 16.33% stake from KPN, a 16.33% stake from Deutsche Telekom, and a 25.0% stake from Ukrtelecom. In June 2003, we purchased an additional 26.0% stake in UMC from Ukrtelecom for \$87.6 million pursuant to a call option agreement, which increased our ownership in UMC to 83.7%. We purchased the remaining 16.33% stake in UMC from TDC for \$91.7 million in July 2003 pursuant to a put and call option agreement. Since July 2007, we have operated under the MTS brand in Ukraine.

Uzbekistan

In August 2004, we acquired a 74% stake in Uzdurobita, the largest wireless operator in Uzbekistan, for \$126.4 million in cash. We acquired the remaining 26% stake in June 2007 pursuant to a put option agreement for \$250.0 million in cash. Since May 2006, we have operated under the MTS brand in Uzbekistan.

Turkmenistan

In two separate purchases in June and November 2005, we acquired 100% of BCTI, the leading wireless operator in Turkmenistan, for \$46.7 million in cash. Since October 2006, we have operated under the MTS brand in Turkmenistan.

Armenia

In September 2007, we acquired an 80% stake in International Cell Holding Ltd., a 100% indirect owner of K-Telekom, the leading wireless operator in Armenia, for €260.0 million (\$361.2 million as of the date of acquisition), and entered into call and put option agreement valid until 2012 for the remaining 20%. According to the sale and purchase agreement, an additional €50.0 million (\$69.0 million as of the date of acquisition) will be paid to the sellers over the course of three years from 2008 to 2010 provided certain financial targets are met by K-Telekom. We also agreed to extend a €140.0 million (\$194.5 million as of the date of acquisition) technical loan to the company to finance the repayment of payables for equipment and other liabilities due as of the date of acquisition.

K-Telekom operates in the GSM-900/1800 standard, covering the entire territory of Armenia. It historically operated under the VivaCell brand, and was rebranded as VivaCell-MTS in September 2008.

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Capital Expenditures

We spent in total \$2,227.3 million in 2008 for network development in Russia and the other countries where we operate, which included \$1,847.5 million in cash expenditures on property, plant and equipment, and \$379.8 million for the purchase of intangible assets. We expect to spend approximately \$1,500.0 million in 2009 for our current operations, including for GSM and 3G network development. We plan to finance our capital expenditures primarily through operating cash flows, and to the extent necessary, through additional external financing activities. The actual amount of our capital expenditures for 2009 may vary depending on subscriber growth and demand and network development as well as currency volatility, vendor terms and the availability of external financing. The capital expenditure estimate for 2009 excludes expenditures that may be made in connection with acquisitions of existing operators or new licenses. A breakdown of our capital expenditures in 2008 by country is set forth below. For the first quarter of 2009 and continuing into the second quarter, our principal capital expenditures have related to the buildout of our 3G network and other expenditures related to our GSM network maintenance and expansion which we have financed through operating cash flows.

We spent in total \$35.1 million in 2008 for acquisitions of subsidiaries, net of cash acquired. See also "Item 5. Operating and Financial Review and Prospects Acquisitions."

Russia

We spent \$1,399.3 million in 2008 for network development in Russia, including \$1,117.8 million in cash expenditures on property, plant and equipment, and \$281.4 million for the purchase of intangible assets.

Belarus

MTS Belarus spent \$145.2 million in 2008 for network development in Belarus. We do not include the capital expenditures of MTS Belarus in our capital expenditures described above as MTS Belarus' results are not consolidated in our financial statements.

Ukraine

We spent \$595.6 million in 2008 for network development in Ukraine, including \$534.2 million in cash expenditures on property, plant and equipment, and \$61.4 million for the purchase of intangible assets.

Uzbekistan

We spent \$139.7 million in 2008 for network development in Uzbekistan, including \$113.0 million in cash expenditures on property, plant and equipment, and \$26.7 million for the purchase of intangible assets.

Turkmenistan

We spent \$58.2 million in 2008 for network development in Turkmenistan, including \$55.4 million in cash expenditures on property, plant and equipment, and \$2.8 million for the purchase of intangible assets.

Armenia

We spent \$34.6 million in 2008 for network development in Armenia, including \$27.0 million in cash expenditures on property, plant and equipment, and \$7.6 million for the purchase of intangible assets.

Table of Contents**B. Business Overview**

We are the largest provider of mobile cellular communications services in Russia, Uzbekistan, Turkmenistan and Armenia and the second largest in Ukraine, in terms of subscribers, employing technology based primarily on GSM. In 2008, we generated net revenues of \$10,245 million and had a subscriber base of 91.33 million (64.63 million in Russia, 18.12 million in Ukraine, 5.65 million in Uzbekistan, 0.93 million in Turkmenistan and 2.02 million in Armenia) at December 31, 2008.

In addition to standard voice services, we offer our subscribers value added services, including voice mail, short message service, or SMS, general packet radio service, or GPRS, augmented by enhanced data rates for GSM evolution, or EDGE, high-speed downlink packet access, or HSDPA, and various SMS- and GPRS/EDGE/HSDPA-based information and entertainment services (including multi media message service, or MMS). We also offer our subscribers the ability to roam automatically throughout Europe and in much of the rest of the world, and as of December 31, 2008, we had bilateral roaming agreements with 530 wireless operators in 208 countries.

We have grown rapidly since 1999 through organic growth, as well as acquisitions. The table below sets forth our total subscribers as of the end of, and net revenues for each of, the last five years:

Period	Subscribers ⁽¹⁾	Net revenues (in thousands)
2004	34,224	\$ 3,886,994
2005	58,194	\$ 5,011,018
2006	72,858	\$ 6,384,254
2007	81,970	\$ 8,252,378
2008	91,335	\$ 10,245,294

(1)

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

Russia is our principal market, both in terms of subscribers and revenues. At December 31, 2008, approximately 71% of our subscriber base was in Russia and approximately 20% was in Ukraine. According to AC&M-Consulting, we had a 34.4% market share of total wireless subscribers in Russia at December 31, 2008. In Ukraine, we had a 32.5% market share at December 31, 2008, according to AC&M-Consulting.

For the years ended December 31, 2008, 2007 and 2006 approximately 76%, 75% and 73% of our revenues came from operations in Russia; approximately 16%, 20% and 23% of our revenues came from operations in Ukraine; and approximately 8%, 5% and 4% of our revenues came from operations in our other countries, respectively.

Our subscriber base continued to grow in 2009. At April 30, 2009, we had approximately 93.03 million subscribers, including 65.68 million in Russia, 17.82 million in Ukraine, 6.30 million in Uzbekistan, 1.18 million in Turkmenistan and 2.06 million in Armenia.

Overall mobile cellular penetration in Russia was at approximately 129% at December 31, 2008, according to AC&M-Consulting. Mobile cellular penetration in Ukraine was at approximately 121% at December 31, 2008, according to AC&M-Consulting. According to our estimates, mobile cellular penetration in Uzbekistan, Turkmenistan and Armenia was at approximately 44%, 19% and 80% at December 31, 2008, respectively.

As of December 31, 2008, we had licenses to operate in 82 regions of Russia with a population of approximately 144 million people, or approximately 99% of the country's total population, for the entire territory of Ukraine with a population of approximately 46 million people, for the entire territory of Uzbekistan with a population of approximately 27 million people, for the entire territory of Turkmenistan with a population of approximately 6 million people and for the entire territory of

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Armenia with a population of approximately 3 million people. As of December 31, 2008, we had commercial operations in 81 regions of Russia.

To maintain and increase our market share and brand awareness, we use a combination of print media, radio, television, direct mail and outdoor advertising, focusing on brand and image advertising, as well as promotion of particular tariff plans. Supporting these efforts, we have developed an extensive distribution network comprised of approximately 1,700 MTS mono-brand points-of-sale and approximately 46,350 additional points-of-sale operated by our dealers, as of December 31, 2008. We are in the process of expanding our proprietary distribution network both organically and through acquisitions. In furtherance of this expansion effort, in the first quarter of 2009, we acquired 100% of handset retailer Telefon.Ru, which operates 512 stores in 180 cities in Russia, and 100% of the Eldorado handset retail chain, which operates 383 stores in 153 cities in Russia. Of the stores operated by Eldorado and Telefon.Ru, approximately 380 will be rebranded as MTS mono-brand outlets by the end of 2009, an additional 290 will be rebranded as MTS mono-brand outlets by the end of 2010, and 130 will be closed due to overlapping locations with other points-of-sale by the end of 2009.

MTS Belarus had 4.32 million subscribers and a leading market share of 52% at December 31, 2008, according to AC&M-Consulting. The subscriber base of MTS Belarus grew to 4.41 million at April 30, 2009. Belarus, a country with a population of approximately 10 million, had a mobile cellular penetration rate of 86% at December 31, 2008, according to AC&M-Consulting.

Business Strategy

Our primary strategic goal is to capture growth opportunities in the territories where we operate or are licensed to operate while at the same time increasing our efficiency and maintaining our overall profitability level. We strive to maintain and strengthen our market position by investing in network development, new technologies, product development and customer service. In addition, we intend to take advantage of opportunities to expand our network footprint and explore complementary businesses in the CIS, and other developing growth markets outside the CIS.

In accordance with our "3+2" strategy, our strategic focus is centered around the following three key growth principles:

delivering the best possible customer experience to our subscribers to increase customer retention and further stimulate demand;

promoting increased use of data and content services by continuing to develop innovative services and attractive content while rapidly deploying a broad third-generation, or 3G, infrastructure; and

continuing to expand our footprint within the CIS and identifying attractive growth opportunities outside the CIS.

In addition to the preceding three principles, our two other main strategic focus areas are:

cost efficiency; and

development of the MTS group.

To achieve our goals and implement these principles, we plan to continue to undertake the following:

seek to increase customer lifetime value by providing subscribers with superior quality service at all touch points in all territories;

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expand and further develop our operations in the regions we currently service by focusing on increasing revenues in these markets and extending our network into areas where we are licensed to operate, but currently do not service;

provide new and varied tariff plans as well as value-added services that appeal to our various subscriber segments, aiming in particular at enhancing the MTS brand perception and increasing subscriber loyalty;

expand our operations and further develop our commercial services in CIS countries as attractive opportunities arise through acquisitions of existing operators or new licenses;

explore other selective opportunities in growing markets outside the CIS, particularly in Africa, focusing on strong players with attractive competitive positions;

enhance innovation and technology, especially in the more developed markets of Russia and Ukraine;

continue technical and commercial rollout of 3G in Russia, Ukraine, Uzbekistan and Armenia;

acquire 3G licenses in other CIS countries and prepare for further 3G network development;

continue to develop and offer attractive data services and content to stimulate greater usage of 3G services;

explore opportunities to develop stationary broadband services in the countries where we operate;

increase cost efficiency in the countries where we operate, including by taking advantage of synergies and economies of scale within the CIS by centralizing roaming and wholesale agreements, carrying more traffic on our proprietary networks, optimizing network services through centralized planning and the harmonization of equipment and platforms and reducing advertising and marketing expenses, office maintenance costs and other non-essential business expenses, as well as overhead expenses through headcount and salary freezes;

further develop distribution by growing our mono-brand network of company-owned retail outlets, engaging partners to increase the number of our franchisees, as well as through potential acquisitions of existing retail networks;

become a leader with respect to the quality of our management, employees and company culture; and

develop corporate and social responsibility activities.

Over the past several years, we have rapidly expanded into the Russian regions and selected CIS countries by launching operations in territories for which we had licenses as well as through acquisitions of other mobile operators. Starting in 2003, we have been particularly focused on the integration of our existing businesses into a single company with a unified marketing approach and centralized network and operations management. In addition, we have consolidated and intend to continue to consolidate our ownership in regional subsidiaries by acquiring remaining minority stakes.

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

Current Operations

Subsidiaries

For a list of our major subsidiaries and our ownership percentages in these subsidiaries, see Note 2 to our audited consolidated financial statements.

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Consistent with our efforts to increase operating efficiencies and integrate our existing businesses into a single company, from 2004 up to the date of this document, we have merged 25 of our wholly- and majority-owned Russian subsidiaries into MTS OJSC. In each case, these mergers were undertaken following the requisite shareholder and regulatory approvals.

License Areas

The following table shows, as of April 30, 2009, information with respect to the license areas in which we and our subsidiaries and affiliates provide or expect to provide GSM services:

License Region	GSM 900		GSM 1800	
	Licensee	Expiry date	Licensee	Expiry date
Moscow License Area				
Moscow	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Moscow region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
St. Petersburg License Area				
St. Petersburg	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Leningrad region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Russian Regional License Areas				
European Russia				
Adygeya Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Arkhangelsk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Astrakhan region	MTS OJSC	December 11, 2013	MTS OJSC	October 18, 2011
Bashkortostan Republic			MTS OJSC	February 07, 2012
Bashkortostan Republic	MTS OJSC	August 22, 2012	MTS OJSC	August 22, 2012
Belgorod region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Bryansk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Chuvashia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Chechen Republic ⁽¹⁾			MTS OJSC	April 28, 2011
Dagestan Republic	Dagtelecom LLC	June 05, 2013		
Dagestan Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Ivanovo region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Ingushetia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Kabardino-Balkar Republic			MTS OJSC	December 30, 2013
Kaliningrad region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Kalmykia Republic	MTS OJSC	January 25, 2011	MTS OJSC	December 30, 2013
Kaluga region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
	MTS OJSC			

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Karachaevo-Cherkesia Republic		December 30, 2013	MTS OJSC	December 30, 2013
Karelia Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Kirov region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Komi Republic	MTS OJSC	August 22, 2012	MTS OJSC	August 22, 2012
Kostroma region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Krasnodar Territory	MTS OJSC	May 30, 2012	MTS OJSC	May 30, 2012
Kursk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Lipetsk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Mari-El Republic	MTS OJSC	January 15, 2012	MTS OJSC	January 15, 2012
Mordovia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Murmansk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Nenets Autonomous District	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Nizhny Novgorod region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Novgorod region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Orel region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Orenburg region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Permsky Territory	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Rostov region	MTS OJSC	July 1, 2010	MTS OJSC	July 1, 2010
Pskov region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Ryazan region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013

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License Region	GSM 900		GSM 1800	
	Licensee	Expiry date	Licensee	Expiry date
Samara region	MTS OJSC	December 30, 2012	MTS OJSC	December 30, 2012
Saratov region	MTS OJSC	July 11, 2012	MTS OJSC	July 11, 2012
Severnaya Osetia-Alania Republic	MTS OJSC	September 1, 2011	MTS OJSC	September 1, 2011
Smolensk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Stavropol Territory	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Tambov region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Tatarstan Republic	MTS OJSC	June 26, 2012	MTS OJSC	June 26, 2012
Tula region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Tver region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Udmurt Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Ulyanovsk region			MTS OJSC	December 30, 2013
Vladimir region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Volgograd region			MTS OJSC	October 4, 2011
Vologda region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Voronezh region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Yaroslavl region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Asian Russia				
Aginski-Buryatski Autonomous District	Sibintertelecom CJSC	October 31, 2010	Sibintertelecom CJSC	October 31, 2010
Altai Territory	MTS OJSC	September 8, 2010	MTS OJSC	September 8, 2010
Altai Republic	MTS OJSC	July 19, 2011	MTS OJSC	December 30, 2013
Amur region	MTS OJSC	January 10, 2012	MTS OJSC	January 10, 2012
Amur region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Buryatiya Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Chelyabinsk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Chita region	Sibintertelecom CJSC	January 1, 2011	Sibintertelecom CJSC	January 1, 2011
Zabaykalsky Territory	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Chukotsk Autonomous District	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Jewish Autonomous region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Irkutsk region	MTS OJSC	December 30, 2013		
Irkutsk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Kamchatka Territory	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Kemerov region	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Khabarovsk Territory	MTS OJSC	January 10, 2012	MTS OJSC	January 10, 2012
Khabarovsk Territory	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Khakassiya Republic	MTS OJSC	September 13, 2011	MTS OJSC	September 13, 2011
	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013

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Khanty Mansiysk

Autonomous

District

Krasnoyarsk

Territory	MTS OJSC	May 07, 2013	MTS OJSC	May 07, 2013
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Kurgan region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
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Magadan region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
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Novosibirsk region	MTS OJSC	February 21, 2012	MTS OJSC	February 21, 2012
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Omsk region	MTS OJSC	December 20, 2011	MTS OJSC	December 20, 2011
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Primorsky Territory	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
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Sakha Republic (Yakutia)	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
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Sakha Republic (Yakutia)	MTS OJSC	July 1, 2010	MTS OJSC	July 1, 2010
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Sakhalin region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
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Sverdlovsk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
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Tomsk region	MTS OJSC	June 5, 2013	MTS OJSC	June 5, 2013
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Tyumen region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
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Tyva Republic	MTS OJSC	July 19, 2011	MTS OJSC	December 30, 2013
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Yamalo-Nenetsk

Autonomous

District	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
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Ukraine				
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Ukraine	UMC	December 3, 2013	UMC	December 3, 2013
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License Region	GSM 900		GSM 1800	
	Licensee	Expiry date	Licensee	Expiry date
Armenia				
Armenia	K-Telekom	November 4, 2019	K-Telekom	November 4, 2019
Uzbekistan				
Uzbekistan	Uzdunrobita	June 30, 2016	Uzdunrobita	June 30, 2016
Turkmenistan				
Turkmenistan	BCTI	February 1, 2012	BCTI	February 1, 2012
Belarus				
Belarus	MTS Belarus	April 30, 2012	MTS Belarus	April 30, 2012

License Region	IMT-2000/UMTS/CDMA	
	Licensee	Expiry date
Russian Federation	MTS OJSC	May 21, 2017
Uzbekistan	Uzdunrobita	June 30, 2016
Armenia	K-Telekom	November 4, 2019
Ukraine	UMC	September 28, 2021

(1) Our regional license areas in which we have not commenced commercial operations as of the date of this document.

Each of our licenses requires service to be started by a specific date. We have met this target or received extensions to these dates in those regional license areas in which we have not commenced operations. Neither the government nor other parties have taken or attempted to take legal actions to suspend, terminate or challenge the legality of any of our licenses. We have not received any notice of violation of any of our licenses, and we believe that we are in compliance with all material terms of our licenses.

Services Offered***Network Access***

We primarily offer mobile cellular voice and data communication services to our subscribers on the basis of various tariff plans. In general, we offer tariff plans that do not require subscribers to pay a monthly subscription fee. However, certain tariff plans require subscribers to pay a monthly subscription fee and a per-minute charge for usage. See "Item 4. Information on Our Company B. Business Overview Tariffs."

Automatic Roaming

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

As of December 31, 2008, we had bilateral roaming contracts with 530 wireless operators in 208 countries, including with regional operators in Russia. We continually seek to expand our roaming capability and are currently in negotiations with additional operators. In Russia, as of December 31, 2008, in addition to our network coverage area in 81 of the 83 regions of Russia, GSM service is available to our subscribers in the regions of Russia where we do not currently operate through our roaming agreements with 15 regional operators.

Table of Contents**Value-Added Services**

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

Blackberry	Call Barring	Call Waiting
Call Divert/Forwarding	SMS	MMS
Caller ID Display and anti-Caller ID Display	Mobile Office	Melody Ring Tones
Conference Calling	Voicemail	Missed Call Alert
WiFi	Mobile banking	Itemization of Monthly Bills
Location-Based Service (LBS)	Wireless Application Protocol (WAP)	Information and Directory Service
GPRS	MTS-Connect	International Access Service
Intelligent call assistant	SIM-browser	WEB and WAP portal
APN remote access point	Point-to-point transfer	Real IP
Fixed Mobile Convergence	Unstructured Supplementary Services Data (USSD)	Automatic Customer Care System and Customer Care System via the Internet
Enhanced Data rates for GSM Evolution (EDGE)	High-Speed Downlink Packet Access (HSDPA)	Ring Back Tone

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

GPRS and Internet Access

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

In 2005, we commercially launched EDGE services in the Moscow metropolitan area and expanded EDGE services between 2006 and 2008 to cover the most developed markets where we operate. EDGE is a high-speed, high-quality data transfer application capable of transmitting streamline video and TV programs onto mobile phones. At present, EDGE services are available to our subscribers in Russia, Ukraine, Armenia, Uzbekistan, Turkmenistan and Belarus.

We also offer the MTS-Connect service, which allows our subscribers to get mobile internet access through a GPRS/EDGE/3G connection, using a computer, PC-card and USB-modem. This service is available to our subscribers in Russia and Ukraine and in more than 144 countries where we have GPRS roaming.

We signed an agreement with Research In Motion in September 2005 to offer BlackBerry services to our subscribers. Following our receipt of the required regulatory approvals, we began providing BlackBerry services to corporate users in Ukraine in October 2007 and began providing BlackBerry services to corporate users in Russia in June 2008. We have also started providing BlackBerry services for mass market subscribers in Ukraine and in Moscow and the Moscow region in Russia. We were the first mobile operator to offer BlackBerry services in the CIS.

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3G Technology

The key benefit of a 3G network, using UMTS technology, is the ability to provide subscribers with faster data download speeds with top download capacity using high speed packet access technology up to 3.6 Mbit per second. This is over 10 times faster than the currently available 2G EDGE technology.

In April 2007, the Russian Ministry of Communications and Mass Media announced the results of a tender for 3G licenses. We were one of three companies, along with Vimpelcom and MegaFon, who received a nationwide 3G/UMTS license in Russia. The license is valid through 2017 and covers the entire territory of Russia. In accordance with the conditions set forth in the tender documentation, we, Vimpelcom and MegaFon were required to begin undertaking the construction of a 3G network over a period of two years from the time the license was received. In 2008, we commercially launched our 3G network in 14 Russian cities, including St. Petersburg, Kazan, Sochi, Ekaterinburg, Nizhniy Novgorod, Novosibirsk, Norilsk and Vladivostok, among others. We have since launched the network in ten additional Russian cities. In May 2009, we, along with Vimpelcom and MegaFon, were allocated 3G/UMTS frequencies to begin testing our 3G network in Moscow and the Moscow region. Our 3G network uses 1950-1965 MHz, 2015-2020 MHz and 2140-2155 MHz frequencies and compliments our existing GSM network.

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

In Uzbekistan, the Communications and Information Agency of Uzbekistan allocated a 3G/UMTS license to us in April 2007. The license is valid through 2016 and covers the entire territory of the country. In December 2008, we commercially launched our 3G network in Uzbekistan's two largest cities, Tashkent and Samarkand, followed by the launch in three additional cities in January 2009.

In Armenia, our subsidiary K-Telekom is licensed to offer 3G services in the UMTS standard throughout Armenia pursuant to its wireless services license. In October 2007, K-Telekom was allocated frequencies to offer 3G services throughout the entire territory of Armenia. The frequencies were allocated for a 10-year period. In April 2009, we commercially launched our 3G network in Armenia's three largest cities: Yerevan, the capital, Gyumri and Vanadzor. The network will be expanded to additional cities during 2009.

Other Services

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

Strategic Partnership with Vodafone

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

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Sales and Marketing

Target Customers

Our target customers historically included companies, professionals, high-income individuals, reporters, government organizations, businesspersons and diplomats. However, with mobile cellular penetration in these segments becoming saturated, we began to more aggressively promote our mobile cellular services to a much wider group of the population. Over time, we adjusted our service model to provide differentiated levels of service to meet the needs of distinctive customer segments as such segments have developed. In 2002, we launched a group of prepaid tariff plans with low connection and no monthly fees which appealed to mass-market subscribers. We also continue to actively target high-end customers who provide us with larger profit margins through high ARPU and MOU. For example, the "Profi" and "Exclusive" tariff plans offer a higher level of customer service, technical support and a wide range of services, including personalized service and support with minimum waiting time. Today, we are considered a mass-market mobile network operator with a wide range of subscribers in all customer segments.

To promote subscriber loyalty, we offer discounts with respect to our tariff plans for customers willing to enter into extended contracts with us. This strategy also helps to mitigate churn rates among our subscribers in a highly competitive market.

Advertising and Marketing

Our advertising and public relations initiatives include:

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

information advertising and promotion to inform potential customers of the advantages of the high quality and variety of our services and the extensive coverage we offer; and

product- and tariff-related advertising and promotion for specific marketing campaigns, new tariff plans for various target audiences and pricing discounts.

We use a combination of newspaper, magazine, radio, television and outdoor advertising, including billboards and signs on buses and kiosks, and exhibitions to build brand awareness and stimulate demand. We also advertise on-line to market and promote our products and services to younger tech-savvy consumers. Our indirect advertising includes sponsorship of selected television programs, sporting events, concerts and other popular events. We also coordinate the advertising policies of our dealers to capitalize on the increased volume of joint advertising and preserve the integrity and high-quality image of the MTS brand. As we have expanded our network, we have concentrated a greater part of our advertising and marketing effort on positioning the MTS brands as national brands. In addition, we focus our advertising and marketing on the affordability and variety of our tariff plans, on the broad coverage of our network and the use and availability of national roaming.

Renewed Brand

In May 2006, Sistema introduced a universal brand featuring a new egg-shaped logo for each of the telecommunications companies operating within the Sistema group, including us. We believe that our new brand symbolizes leadership and a dynamic and innovative approach to doing business. The re-branding reflects a shift in our marketing strategy with a renewed focus on the simplification of our communications to the general public. One of the goals of our re-branding efforts is to create a simple set of tariff plans with clear advantages over our competitors and easy-to-understand descriptions of the wide range of our services and product offerings. In addition, we aim to simplify the purchasing experience for our customers by creating a universal format for our sales offices, transforming them

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into visually appealing, practical and convenient venues where buyers can obtain product information and test our latest products and services.

The changes relating to our brand renewal had an impact on each of our operational regions. We launched a federal advertising campaign with new advertising and informational materials, and revised our website with the new brand and logo. We redesigned each of our sales offices with new signs that reflect the service standards and philosophy of the new brand.

Under this universal brand, our subscribers have access to a wide range of telecommunications products and services, including Internet access, mobile and fixed line telephones, single billing and a single interface for all of the subscriber's telecommunications needs. We believe that our re-branding efforts will increase our recognition among existing and potential clients, promote cross-sales of the companies using the brand and enhance subscriber loyalty.

In July 2007, we launched the MTS brand in Ukraine. Prior to this date, we operated in Ukraine under the "UMC" brand. In connection with this re-branding effort, we have sought to retain our existing subscribers by continuing to provide high quality communications services, launching new services and introducing new tariff plans. We believe that the MTS brand is now well established in Ukraine. We also operate under the MTS brand in Uzbekistan, Turkmenistan, and Belarus. In Armenia, have operated under the VivaCell-MTS brand since September 2008.

In April 2008 and April 2009, we were named as one of the BRANDZ Top 100 Most Powerful Brands, a ranking published by the Financial Times and Millward Brown, a leading global market research and consulting firm. We were the first Russian company to join the ranks of the most powerful brands in the world.

In December 2008, we reached an agreement with Sistema Shyam TeleServices Limited, or Sistema Shyam, allowing Sistema Shyam to use the MTS brand in India. Sistema Shyam is a joint venture between Sistema and Shyam Group of India, with Sistema controlling a 73.71% stake in the venture. Sistema Shyam has licenses and spectrum to provide mobile telephony services across India.

Under the terms of the agreement, Sistema Shyam has the right to use the MTS brand in India beginning March 2009, and we will receive 0.16% of Sistema Shyam's revenues commencing April 2009. The agreement is limited to Sistema Shyam using the MTS brand in India and does not contemplate our participation in Sistema Shyam's operations. The terms also stipulate that we will act as the brand guardian to ensure brand usage and marketing communications adhere to our brand guidelines.

Sales and Distribution

We have historically enrolled a vast majority of our subscribers through a network of independent dealers that operate numerous points-of-sale in places with high consumer activity, such as supermarkets, shopping centers, air terminals and markets. During 2008, approximately 80% of our new subscribers in Russia and 93% in Ukraine enrolled through independent dealers, and we enrolled the remainder directly. However, the financial crisis and tightening of the credit markets has resulted in virtually all of the large national and regional mobile handset retailers facing liquidity issues or being on the verge of bankruptcy, according to press reports. As a result, the share of our subscribers enrolled through these retailers dropped dramatically during the last quarter of 2008 and continues to decline.

In addition, in October 2008, Vimpelcom acquired a 49.9% stake in Morefront Holdings Ltd., a company that owns 100% of the Euroset Group, the largest mobile handset retailer and leading dealer for major mobile network operators in Russia. Although the FAS approval relating to the sale of Euroset specifically prohibits Euroset from discriminating against or providing preferential treatment to any mobile operator following the acquisition, we believe that we faced discriminatory treatment following Vimpelcom's acquisition, including the promotion Vimpelcom's services over ours at Euroset

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outlets, notwithstanding these regulatory prohibitions. As a result, we ceased working with Euroset as of April 1, 2009, and we are currently involved in litigation with Euroset in Russia. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business The reduction, consolidation or acquisition of independent dealers and our failure further develop our distribution network may lead to a decrease in our subscriber growth rate, market share and revenues."

As the share of subscribers enrolled through large national and regional dealers has decreased, the share of our subscribers enrolled through small dealer and subdealer networks and our own distribution network is increasing, and we are working to expand our relationships with these small dealer networks while continuing our efforts to grow our proprietary distribution network.

We are continuing to aggressively expand our network in 2009 both organically and through acquisitions. In furtherance of this expansion effort, in the first quarter of 2009, we acquired 100% of handset retailer Telefon.Ru, which operates 512 stores in 180 cities in Russia, and 100% of the Eldorado handset retail chain, which operates 383 stores in 153 cities in Russia. In addition, in March 2009, we entered into a three-year executive services agreement with the majority shareholder of the Svyaznoy group of companies, which operates a nationwide dealer network in Russia, whereby the Svyaznoy shareholder will provide operational and strategic consultancy services to us as well as procure that certain managers from the Svyaznoy group, as set forth in the agreement, cease to be employed by the Svyaznoy group and become our full time employees.

Our proprietary distribution network consists of MTS-branded franchise points-of-sale (third-party dealers operating under the MTS brand), MTS-branded points-of-sale operated by TS-Retail, our equity investee, and MTS-branded points-of-sale owned by us.

As of December 31, 2008, our proprietary distribution network in Russia consisted of approximately 1,500 points-of-sale, including approximately 800 franchise points-of-sale, approximately 300 points-of-sale operated by TS-Retail, and approximately 300 points-of-sale owned by us. In addition, third-party dealer network Beta Link, which filed for bankruptcy in March 2009, operated approximately 100 MTS-branded points-of-sale as of December 31, 2008.

As of April 30, 2009, we increased our proprietary network in Russia to over 2,600 points-of-sale, including approximately 1,000 franchise points-of-sale, 500 points-of-sale operated by TS-Retail, approximately 300 points-of-sale owned by us and approximately 800 points-of-sale operated by Eldorado and Telefon.Ru, which we acquired in the first quarter of 2008. Of the stores operated by Eldorado and Telefon.Ru, approximately 380 will be rebranded as MTS mono-brand outlets by the end of 2009, an additional 290 will be rebranded as MTS mono-brand outlets by the end of 2010, and approximately 130 will be closed due to overlapping locations with other points-of-sale by the end of 2009.

Our proprietary distribution network outside of Russia as of December 31, 2008 consisted of 47 points-of-sale in Ukraine, 29 points-of-sale in Uzbekistan, 30 points-of-sale in Turkmenistan and 95 points-of-sale in Armenia.

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

In Russia, we link commissions payable to a dealer on a monthly basis to the amount of revenues we receive. In the six-month period from the date a subscriber is activated by a dealer, the dealer receives the lesser of the full commission amount or 50% of the revenues received from the subscriber during the period. The dealer commissions in Russia currently range between \$5 and \$60 per subscription.

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In Ukraine, starting from July 2007, we link dealer commissions to the tariff package sold, category of subscriber, city of subscription, and status of the dealer itself. We have different commission structures based on whether the subscriber is prepaid, postpaid or a CDMA-only subscriber (*i.e.*, subscribers using only mobile internet services). For each new subscriber, a dealer typically receives a one-time commission payment at the time the contract is signed followed by monthly payments based on the revenue generated from the subscriber. The dealer commissions in Ukraine currently range between approximately \$0.40 and \$18 plus a certain percentage of subscriber revenue payable monthly for up to six months following a subscriber's account activation. We also pay extra fees to our exclusive dealers who sell only MTS-Ukraine subscriptions.

Independent dealers have also begun servicing some aspects of our subscribers' accounts, such as activating international roaming, handling SIM card replacements and payment collection, as well as promoting our value added services.

Competition***The Russian wireless telecommunications market***

The Russian wireless telecommunications market is characterized by sustained growth in subscribers and revenues. As of December 31, 2008, overall wireless penetration in Russia was 129.4%, or approximately 187.8 million subscribers, according to AC&M-Consulting.

Demand for wireless communications services in Russia has grown rapidly over the last 10 years due to rising disposable incomes, increased business activity and declining prices due to intensified competition among wireless communications providers. The Russian market has achieved high levels of penetration in Moscow and St. Petersburg, where penetration reached 185.1% and 166.5%, respectively, at December 31, 2008, according to AC&M-Consulting. The average penetration rate in regional markets reached 119.7% at December 31, 2008, according to AC&M-Consulting.

The following table sets forth key data on Russia's wireless telecommunications market:

	As of December 31,				
	2004	2005	2006	2007	2008
	(amounts in millions, except for percentages)				
Subscribers ⁽¹⁾	74.4	125.8	151.9	172.9	187.8
Subscriber penetration	51%	87%	105%	119%	129%

Source: AC&M-Consulting.

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

According to AC&M-Consulting, we accounted for 44.9% and 47.4% of subscribers in Moscow, 29.1% and 30.8% of subscribers in St. Petersburg and 33.2% and 34.4% of total Russian subscribers as of December 31, 2007 and 2008, respectively.

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

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The following table illustrates the number of wireless subscribers for each network operator in Russia as of December 31, 2006, 2007 and 2008:

Operator	As of December 31,		
	2006	2007	2008
	(Amounts in millions)		
MTS	51.2	57.4	64.6
Vimpelcom	48.1	51.7	47.7
MegaFon	29.6	35.5	43.3
Others	23.0	28.4	32.2

Source: AC&M-Consulting.

Vimpelcom

Vimpelcom, which operates GSM 900/1800/UMTS (3G) networks, is one of our primary competitors in Russia, and it is the second largest GSM wireless operator in Russia in terms of subscribers.

According to AC&M-Consulting, it had approximately 47.7 million subscribers in Russia at December 31, 2008, including 9.6 million in the Moscow license area. At December 31, 2008, according to AC&M-Consulting, Vimpelcom had a 30.6% market share in Moscow, a 19.6% market share in St. Petersburg and a 25.4% market share of total wireless subscribers in Russia.

MegaFon

In addition to Vimpelcom, we also compete with MegaFon, which is the third largest GSM wireless operator in Russia in terms of subscribers. The MegaFon group holds GSM 900/1800/UMTS (3G) licenses to operate in all 83 sub-federal political units of the Russian Federation.

According to AC&M-Consulting, MegaFon had a subscriber base of 43.3 million in Russia at December 31, 2008, including 6.5 million subscribers in the Moscow license area. At December 31, 2008, according to AC&M-Consulting, MegaFon had a 20.6% market share in Moscow, a 33.4% market share in St. Petersburg and a 23.0% market share of total wireless subscribers in Russia.

Other Operators

In addition to our principal competitors, Vimpelcom and MegaFon, we also compete with local GSM and D-AMPS operators in several Russian regions.

In certain areas of Russia, we compete with Tele2, which had approximately 10.4 million subscribers as of December 31, 2008. In certain regions of the Urals part of Russia, our primary competitor is Uralsvyazinform, which had approximately 5.7 million subscribers as of December 31, 2008. In certain regions of the Volga part of Russia, we compete with Smarts, which had approximately 3.5 million customers as of December 31, 2008. In addition, in certain parts of Siberia, we compete with Sibirtelecom, which had approximately 4.9 million customers as of December 31, 2008. The preceding subscriber numbers, in each case, are according to AC&M-Consulting.

The Ukrainian wireless telecommunications market

Since 2003, the Ukrainian wireless telecommunications market has enjoyed rapid growth, in part, due to broader economic recovery in Ukraine, changes in ownership of the two major operators, the introduction of CPP billing arrangements and the launch of the new Beeline brand in April 2006 by Ukrainian RadioSystems, or URS, a wholly owned subsidiary of Vimpelcom. The two largest wireless

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telecommunications providers in Ukraine are MTS-Ukraine and Kyivstar who share 74.7% of the market, with 32.5% and 42.2%, respectively, as of December 31, 2008. Competition between these two companies is based on the service and network quality, prices and brand perception. The remaining key competitors in Ukraine are Astelit, operating under the Life brand, and URS, operating under the Beeline brand. Astelit and URS compete with each other primarily by offering aggressive pricing plans.

Competition in the Ukrainian wireless telecommunications market has significantly intensified over the last three years and there was little growth in the overall number of subscribers and nationwide penetration in 2008 compared to 2007. Astelit continued its campaign of aggressive pricing in the market, which has driven down the overall average price per minute levels significantly since 2006. In response to the increasingly competitive operating environment, MTS-Ukraine continued to focus on developing and marketing its network quality and coverage while improving the quality of its subscriber base and increasing usage levels to stimulate improved subscriber loyalty. As a result, overall minutes of use per subscriber increased more than 80% during 2008, offsetting a decline in average price per minute.

As of December 31, 2008, overall wireless penetration in Ukraine was 120.8%, or approximately 55.8 million subscribers, according to AC&M-Consulting.

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

Operator	December 31, 2007	December 31, 2008	Coverage Area
(amounts in thousands)			
Kyivstar	23,604	23,530	Nationwide
MTS-Ukraine	20,004	18,115	Nationwide
Astelit	8,820	11,230	Nationwide
URS (Vimpelcom)	2,646	2,028	Nationwide

Source: Subscriber information based on AC&M-Consulting data.

In Ukraine, we compete primarily with Kyivstar, a GSM operator with 23,530 million subscribers as of December 31, 2008. Kyivstar is owned by Telenor and Alfa Group. Kyivstar offers wireless services using GSM 900/1800 technologies. Kyivstar is also licensed to provide fixed line domestic long distance and international long distance services. Astelit is owned by System Capital Management and Turkcell Iletisim Hizmetleri A.S., or Turkcell, and 13.2% of Turkcell is owned by Alfa Group. Astelit offers services in GSM 900/1800 standards under the Life brand. URS is a wholly owned subsidiary of Vimpelcom, which is beneficially owned by Alfa Group and Telenor. It has a nationwide GSM 900 license and a GSM 1800 license for major regions of Ukraine and provides wireless mobile services under the Beeline brand.

In July 2006, we received a license to provide telecommunications services on the entire territory of Ukraine using the CDMA-450 standard. Following our development strategy in Ukraine, we launched a broadband network using CDMA 2000, deployed in the 450 MHz spectrum band in November 2007. Our CDMA business in Ukraine faces competition from other operators, including People.net, Utel (the only UMTS license holder in Ukraine), fixed broadband operators and Wi-Max operators.

The Uzbekistan wireless telecommunications market

The Uzbekistan wireless telecommunications market is characterized by low but rapidly increasing penetration rates. In 2008, overall wireless penetration in Uzbekistan increased from 22% to 44%, or approximately 12.3 million subscribers, according to our estimates and AC&M-Consulting data.

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

Operator	December 31, 2007	December 31, 2008	Coverage Area
(amounts in thousands)			
MTS-Uzbekistan	2,802.0	5,646.9	Nationwide
Unitel (Vimpelcom)	2,197.7	3,636.2	Nationwide
Ucell (Coscom)	690.0	2,683.0	Nationwide
Others	191.8	302.1	Major cities

Source: Subscriber information based on our estimates and AC&M-Consulting data.

MTS-Uzbekistan offers wireless services in Uzbekistan using GSM and UMTS technologies. As of December 31, 2008, it had 5.6 million subscribers and a 46.0% market share according to AC&M-Consulting and our estimates. In Uzbekistan, we compete primarily with Beeline (Unitel), a GSM operator owned by Vimpelcom with 3.6 million subscribers and a 29.6% market share as of December 31, 2008. We also compete with Ucell (Coscom), a GSM operator beneficially owned by TeliaSonera with 2.7 million subscribers and 21.9% market share as of December 31, 2008.

The Turkmenistan wireless telecommunications market

The Turkmenistan wireless telecommunications market is characterized by low penetration rates. In 2008, overall wireless penetration in Turkmenistan increased from 7% to 19%, or approximately 1.1 million subscribers, according to our estimates.

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

Operator	December 31, 2007	December 31, 2008	Coverage Area
(amounts in thousands)			
MTS-Turkmenistan	356.3	927.4	Nationwide
Altyn Asyr	48.0	133.0	Nationwide

Source: Subscriber information based on our estimates.

As of December 31, 2008, MTS-Turkmenistan had an 87.5% market share according to AC&M-Consulting and our estimates. MTS-Turkmenistan offers wireless services using GSM 900 and GSM 1800 technologies. In Turkmenistan, we compete only with a state-owned GSM operator Altyn Asyr with 133,000 subscribers as of December 31, 2008.

The Armenian wireless telecommunications market

As of December 31, 2008, overall wireless penetration in Armenia was 80.0%, or approximately 2.6 million subscribers, according to our estimates.

The following table shows the number of subscribers as of the dates indicated and the coverage area of Viva-Cell and our competitor in Armenia:

Operator	December 31, 2007	December 31, 2008	Coverage Area
(amounts in thousands)			
VivaCell-MTS	1,381.3	2,017.0	Nationwide
ArmenTel (Vimpelcom)	487.2	544.3	Nationwide

Source: Subscriber information based on our estimates.

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As of December 31, 2008, VivaCell-MTS had 2.0 million subscribers and a 78.8% market share according to AC&M-Consulting and our estimates. In Armenia, we compete with ArmenTel, a fixed line and mobile operator wholly owned by Vimpelcom. ArmenTel holds a license in the GSM 900 standard for the entire territory of Armenia and a radio frequency permit for fixed line communications with CDMA equipment.

Tariffs

We customize our marketing efforts and pricing policies in each region of Russia by considering such factors as average income levels, local currency exchange rates, the competitive environment and subscriber needs, all of which vary from region to region. Consistent with our marketing strategy, we have developed tariff plans to appeal to a broader market.

Starting in June 2006, we launched a new set of prepaid tariff plans geared at mass-market subscribers in all regions of Russia, which include no monthly subscription fee, free incoming calls and special features for different segments of the mass-market subscribers. To offset losses for providing free incoming calls under CPP, we increased the price for the first minute of all outgoing calls made by our prepaid subscribers.

The following table shows the mix between prepaid and other subscribers, such as contract and corporate customers, for Russia and Ukraine for the periods indicated:

	At December 31,		
	2006	2007	2008
Russia			
Prepaid	90%	88%	87%
Other	10%	12%	13%
Ukraine			
Prepaid (including SIM-SIM)	93%	92%	92%
Other	7%	8%	8%

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

We currently have a unified system of tariff plans offered to subscribers throughout Russia. The unified system is aimed at achieving such benefits as clarity, simplicity and transparency for prospective subscribers by offering the same set of tariff categories throughout Russia. Under each tariff category, we offer different tariff plans with different connection fees, per minute call charges and a wide range of value added services. Although we offer the same categories of tariff plans throughout Russia, the prices of these plans differ from region to region taking into account such factors as the average income, competitive environment and subscriber needs in a particular region. Our tariff plans are more expensive in the Moscow license area than in other license areas.

Prior to January 1, 2007, our tariffs in Russia were primarily denominated in "conventional units" based on the U.S. dollar converted to rubles at a certain exchange rate, except for some regions of Russia where tariffs were quoted in rubles. Due to the enactment of regulatory changes in Russia prohibiting companies from establishing prices in currencies other than rubles as well as the growth in the share of our ruble denominated expenditures, we began pricing our services and invoicing customers in Russia in rubles from January 1, 2007. All tariffs presented below are expressed in U.S. dollars converted from rubles using the exchange rate as of December 31, 2008.

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

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

Prepaid: Prepaid tariff plans are geared towards consumers who use their mobile phones for personal communication. These plans do not have monthly subscription fees and the per-minute fee charges depend largely on the tariff plan chosen. For example, we offer a tariff plan geared towards students and youth, permitting inexpensive calls between subscribers of the same plan and a discounted price on SMS and MMS. We also offer a family-oriented tariff plan that permits family members to make calls among themselves at discounted prices. Subscribers to our prepaid plans can reduce the price of their calls by using tariff options which have a subscription fee. There are at least four prepaid plans available in each of the Russian regions where we operate. After our customers subscribe to a particular prepaid plan, they have the option of switching to a different prepaid plan by sending an SMS message to a designated number.

Maxi/Profi: "Maxi" and "Profi" tariff plans are geared toward mid- and heavy users who use their mobile phones for personal and business communications. These plans feature unlimited on-net calls as well as monthly fees for a certain pre-determined number of minutes and reduced fees for subscribers who exceed this limit. "Profi" subscribers choose between a local and federal number with the local number being more expensive, and from a wide range of value-added services, including caller ID, conference calling, call transferring and call waiting/holding. Regular subscribers of the "Profi" plans are provided an additional 15% discount on their local and mobile calls and a 15% increase of allotted minutes at no extra charge. In addition, subscribers of some of the "Profi" plans are offered access to our personal customer care service and credit payment system.

Exclusive: "Exclusive" tariff plans are designed for heavy users who call primarily within their domestic region. "Exclusive" subscribers are provided an unlimited number of local minutes, an opportunity to pay through our credit payment system and access to personal customer care service. In the Moscow region, for those "Exclusive" subscribers issued a local number, monthly fees start from \$244 and those using a federal number pay from \$143 per month.

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

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Our tariffs vary from plan to plan. The following description of tariffs and charges are, in each case, exclusive of VAT. As of December 31, 2008, the per-minute tariff for local calls within the MTS network varied from \$nil per minute to \$0.29 per minute. Different rates apply to local calls to other networks and vary from \$0.01 per minute to \$0.29 per minute. Higher rates apply to domestic long distance calls and we assessed a surcharge for all international calls that ranged from \$0.31 per minute for calls to MTS subscribers within the CIS to \$2.38 per minute for calls to other parts of the world. Certain value added services, such as Caller ID and Call Forwarding, are included in all current tariff plans at no additional charge (other than for subscribers using old tariff plans that we no longer offer, some of which carry a charge of up to \$2.45 per month for these services). Periodically, we run various promotional campaigns, either on the federal or regional level, in which we provide temporary discounts to our regular prices.

We also offer unified tariff plans throughout Ukraine and, in connection with our re-branding efforts in Ukraine during 2007 and 2008, we developed new tariff plans that focus on the differing needs of subscribers in the various market segments. Our tariff plans in Ukraine consist of two post paid and two prepaid nationwide tariff plans and a set of regional and group-specific plans that are not offered nationwide.

MTS Postpaid Business: A set of postpaid contract tariff plans designed to appeal to business segment subscribers, offering special prices, free minutes for calls among corporate subscribers and, within the MTS network, free GPRS traffic.

MTS Postpaid Private: A set of postpaid tariff plans designed to appeal to mass-market subscribers, offering free calls within the MTS network.

MTS Prepaid Private: A set of prepaid tariff plans designed to appeal to mass-market subscribers, offering special prices on calls within MTS network, no fee for the first minute and various loyalty offers.

MTS Prepaid Youth: Special tariffs designed to appeal to youth-market subscribers based on low flat rates on voice calls bundled with free SMS traffic.

Regional and Micro Segment Tariffs: These are more aggressive tariff plans tailored to the particular region where the plans are offered, which are typically regions where we have a relatively low market share. Also within this category are special tariffs designed for certain subscribers with unique usage patterns or specific needs, including, for example, children, roamers from Russia, customers in Western Ukraine with high levels of mobile traffic to and from Western Europe and heavy users of GPRS internet services.

As of December 31, 2008, the standard per minute tariff for calls in Ukraine varied from \$0.02 per minute to \$0.29 per minute. The standard per minute tariff for calls made within the MTS-Ukraine network ranged from \$0.001 per minute to \$0.14 per minute. Higher rates applied to international calls ranging from \$0.13 per minute to \$9.3 per minute. All tariffs for MTS-Ukraine subscribers are quoted in hryvnias. The tariffs set forth above are translated from hryvnias to U.S. dollars using the exchange rate as of December 31, 2008.

Customer Payments and Billing

We enroll new subscribers, except for certain corporate and exclusive clients, in an advance payment program, under which the subscriber prepays a specific amount of money to use our services. As of December 31, 2008, approximately 88% of our consolidated subscriber base was enrolled in the advance payment program and 12% used the credit system.

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

Under the credit payment system, customers are billed monthly in arrears for their network access and usage. If the invoice is not paid on time, the customer may be liable for a late payment charge of up to 0.3% of the amount due for each day payment is past due. We limit the amount of credit extended to customers based on the customer's payment history, type of account and past usage. As of December 31, 2008, subscribers using the credit system of payment had credit limits of up to \$1,000 for individuals and \$100,000 for key corporate customers in Russia. When the limit is reached, the subscriber receives an invoice, which must be paid within five days. If the subscriber fails to do so, we can block the telephone number until the invoice is settled.

In 2007, we began to actively promote our credit payment system to our existing and new subscribers with the aim of migrating our subscriber base to the credit payment system from the existing advance payment system. In furtherance of this effort, during 2007, we introduced the new "Credit" service, which allows our prepaid customers who subscribe to this service to continue using services when the balance on the subscriber's account becomes negative. As of December 31, 2008, subscribers using the "Credit" service had a maximum credit limit of \$17. When the limit is reached, we block the phone number until the balance is settled. Similarly to the credit payment system, the subscribers are billed monthly in arrears for the usage. The invoice is delivered via SMS and should be settled within 21 days. If the invoice is not paid seven days prior to the due date, the system sends an additional reminder. The telephone number is blocked after the 21st day, even if the credit limit is not reached at that time.

We have substantially completed implementation of a new billing system in Russia and Belarus. The transition to the new billing system in the other countries where we operate will take longer to complete. The new billing system allows us to offer all of our subscribers a uniform and consistently high level of service and is also capable of monitoring account usage in real time and provides us with the ability to offer flexible tariff plans with various usage discounts and subscriber loyalty bonuses. In addition, we are able to provide our corporate subscribers with more sophisticated customized billing solutions. For example, our corporate subscribers who use multiple phone numbers in different regions of Russia now receive a single invoice, whereas our old billing system could not support such a service. Although we have already begun to experience increases in our overall efficiency and reductions in our expenses as a result of the new billing system, we are still required to run both the old and new billing systems simultaneously during the transition period, creating additional burdens on our technical support staff. We may also experience technical problems with the new billing system during the transition period.

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