

status and the law on telecommunications prohibiting entry with new subscribers unless they provide a passport as identity confirmation.

In November 2012, NCCIR issued the statements regarding MNP, which is expected to provide the subscribers with the possibility of retaining their telephone number after switching from one operator of mobile communications to another. However, the relevant clause has not yet been approved by NCCIR since there have been several uncertainties regarding the MNP implementation. The operators have submitted their recommendations to NCCIR and it is expected that NCCIR will approve MNP services in Ukraine on one of its future sessions. The approval of MNP services may lead to an increase in our costs caused by the necessity of infrastructure improvement and also lead to the intensification of competition.

Accordingly, the implementation of this law may materially adversely affect our business, financial condition and results of operations. See "Item 4. Information on Our Company—B. Business Overview—Regulation of Telecommunications in the Russian Federation and Ukraine—Regulation in Ukraine—Legislation."

***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 our shares and 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 tax laws 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 Arbitrazh 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 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 or, in certain limited instances, by a tax authority which conducted an initial review.

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. Additionally, according to amendments to the Tax Code of the Russian Federation, effective January 1, 2007, the three-year statute of limitations may be extended 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 terms. According to Presidium of High Arbitrazh Court Resolution # 4134/11 of September 27, 2011, the statute of limitations for tax penalties is calculated starting from the day immediately following the expiration of the tax period when the violation was committed.

On March 17, 2009, the Constitutional Court of the Russian Federation issued a decision preventing the Russian tax authorities from carrying out a subsequent tax audit of a tax period if, following the initial audit of such tax period, a court decision was made concerning a tax dispute between the relevant taxpayer and the relevant tax authority arising out of such tax period, and such decision has not been revised or discharged. The Constitutional Court of the Russian Federation then issued Decision # 138-O-P on January 28, 2010, which confirmed the above approach. Subsequently, the Presidium of High Arbitrazh Court held in several cases that under certain circumstances (in particular, when the case has not been considered in substance) a superior tax body is still entitled to conduct a tax audit with respect to re-opened tax periods and taxes already reviewed during the initial tax audit; however, the circumstances under which the audit is conducted should differ from the initial ones (# 14585/09 of March 16, 2010, # 17099/09 of May 25, 2010, # 7278/10 of October 20, 2010).

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 prospects.

As of January 1, 2012, changes to the Tax Code of the Russian Federation enable Russian taxpayers which are part of a group to consolidate their financial results for profit tax purposes. It is yet unclear how the new legislative provisions will be applied by the tax authorities as currently only limited regulatory guidance is available on this matter. In addition to imposing certain criteria that must be met in order to create a consolidated group of taxpayers, the law also limits certain transactions within the group (e.g. corporate restructurings, etc.). We are now considering creating the consolidated group of taxpayers as of 2014.

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.

According to the draft version of the Main Directions of Russian Tax Policy for 2013 and Planned for 2014 - 2015 and draft amendments to the Tax Code of the Russian Federation, our ability to apply accelerated tax depreciation on our equipment may be limited or excluded. It is unclear if and when such amendments will be enacted and their impact on our business, financial condition, results of operations and prospects.

The Russian tax authorities may take a 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 challenges 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 are increasingly taking a "substance and 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.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how any new measures would operate, any such introduction may affect our overall tax efficiency and may result in significant additional taxes becoming payable. 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 2010, the Russian tax authorities initiated an audit of our compliance with tax legislation for the years ended December 31, 2008 and 2007. Based on the results of this audit, the tax authorities imposed an additional tax liability in the amount of 353.9 million rubles (approximately \$11.6 million as of December 31, 2010), including taxes, fines and penalties. We appealed this assessment with the Federal Tax Service, which ruled to partially invalidate the assessment. We have filed a petition with a court in order to invalidate this tax assessment in full. The sitting of the court is assigned on April 5, 2013.

Recently, the tax authorities conducted a field tax audit of MGTS for the years 2007-2008. After consideration of company objections, additional tax liability in the amount of 258.1 million rubles (including taxes, fines and penalties) was imposed on February 9, 2012. In February 2012, MGTS attempted to challenge the tax authorities' decision with higher authorities within the Federal Tax Service. Following a rejection of the challenge request, MGTS filed an appeal with the Moscow Arbitrazh Court. In February 2013, the Moscow Arbitrazh Court issued a ruling to grant the claim dismissing the imposition of additional tax liability in its entirety.

Based on the results of their audit in August 2012, the tax authorities of Uzbekistan assessed \$669 million in additional taxes, penalties and fines payable by Uzdunrobita. Uzdunrobita is up to challenge the tax authorities' decisions among other Uzbek authorities' claims in due course. See also "Legal Risks and Uncertainties—The inability of Uzdunrobita, MTS' wholly-owned subsidiary in Uzbekistan, to resume its operations in Uzbekistan may adversely affect our business, financial condition and results of operations", and "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—7. Litigation—Tax Audits and Claims."

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

Besides the new Tax Code, which came into force on January 1, 2011, Ukraine currently has a number of laws related to various taxes imposed by both central and regional authorities. Applicable taxes include value added tax ("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.

Furthermore, with the entry into force of the new Tax Code of Ukraine (the "TCU"), there is uncertainty in regards to tax accounting of payments for the use of computer software. As part of its business, MTS Ukraine purchases limited end-user rights for the use of computer software. Currently, there are no clear rules for the classification of the payments made by MTS Ukraine for these purchases. Under the TCU, these payments may be treated as payments for copyrights (royalties), as payments for intangible assets or as payments for fixed assets. Tax authorities of different levels have provided inconsistent tax clarifications on this matter. The tax rate applicable to these payments will vary according to their classification.

Also, rules established by the TCU for recalculation of the input tax credit for non-current assets are unclear. Uncertain transfer pricing rules and their inconsistent application by the Ukrainian tax authorities and courts may also adversely affect MTS Ukraine's operations. MTS Ukraine's transactions with its related parties as well as certain transactions with non-Ukrainian entities that are not MTS Ukraine's related parties may be affected by the application of the transfer pricing rules. No "safe harbor" margin is provided under Ukrainian legislation if the sale price deviates from the arm's length price.

Due to the poor quality of the applicable tax legislation and its inconsistent interpretation, it is possible that MTS Ukraine's prices could be subject to challenge and adjustment for corporate income tax or VAT purposes. Profit repatriation arrangements, such as the level of royalties for trademarks or loan interest paid by MTS Ukraine from Ukraine abroad, may also be challenged for the same reasons. If such price adjustments are implemented, MTS Ukraine's effective tax rate may increase and its financial results may be adversely affected.

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 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.

The changes into the new Tax Code of the Ukraine during 2012 introduced a duty to pay advance installments on the profit tax on a monthly basis along with retaining the duty to pay advance installments on dividend payments. Before 2013 the profit tax charged for the accounting period was reduced for the amount of advance installments made on dividend payments. Commencing 2013 such reduction would not be encountered and we are obliged to pay the new monthly advance installment on the profit tax as well as the advance installment on the dividend payments which increases our tax expenses.

While we believe that we are currently materially 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 allowed the tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to all "controlled" transactions, provided that the transaction price differed from the market price by more than 20%. "Controlled" transactions included transactions with related parties, barter transactions, foreign trade transactions and transactions 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 were established for operations with securities and derivatives. Russian transfer pricing rules were 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. These transfer pricing rules apply with respect to transactions that occurred before January 1, 2012.

New transfer pricing rules became effective on January 1, 2012. The implementation of these new rules should help to align domestic rules with OECD principles. The new rules are expected to considerably toughen the previously effective law by, among other things, effectively shifting the burden of proving market prices from the tax authorities to the taxpayer and obliging the taxpayer to keep in certain cases specific documentation. In addition, the amendments:

- introduce the possibility for major taxpayers to enter into an advance pricing agreement with the tax authorities;
- introduce the 'arm's length' principle as a fundamental principle of the Russian transfer pricing rules;
- establish a new list of controlled transactions (which would cover cross-border transactions with certain commodities, cross-border transactions with related parties and tax haven residents, and certain intra-Russian transactions with related parties);
- extend the list of related parties;
- extend the list of transfer pricing methods (including the Transactional Net Margin Method and the Profit Split method) with the choice of method depending on the allocation of functions performed, risks assumed and assets used by the parties to a transaction (instead of a rigid priority of methods under prior legislation);
- replace the existing permitted deviation threshold with the 'arm's length' range of market prices (profitability);
- introduce double-side adjustments in relation to domestic transactions; and
- introduce special transfer pricing audits by federal tax authorities and specific transfer pricing penalties (more severe than in case of other, non-transfer pricing related, tax assessments).

If the Russian tax authorities were to impose significant additional tax liabilities through the introduction of transfer pricing adjustments, it could have a material adverse impact on our business, financial condition and results of operations. Adoption of the new transfer pricing rules may increase the risk of transfer pricing adjustments being made by the tax authorities. In addition to the usual tax risks and tax burden imposed on Russian taxpayers, the uncertainties of the new transfer pricing rules complicate tax planning and related business decisions. It will also require us to ensure compliance with the new transfer pricing documentation requirements proposed in such rules. Uncertainty of the new rules may also require us to expend significant additional time and material resources for implementation of our internal compliance procedures. Tax authorities could impose additional tax

liability as well as penalties on the underpaid tax in case the prices or profitability are outside the market range and if the required transfer pricing documentation has not been prepared, which could have a material adverse effect on our results of operations and financial condition.

***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 Kyivstar, our competitors in Russia and Ukraine, respectively, received preferential treatment in regulatory matters in the past.

***An adverse change in the infrastructure regulation in Russia could result in additional costs on us.***

In 2012, the Russian Ministry for Transportation proposed new rules for calculating mandatory payments for using the public easement areas of public roads where we place our communication equipment and cables. Although these rules have not been adopted to date, they provide for a calculation method which, if employed, could result in significant additional costs on us. There have been press reports that the Russian Ministry for Economic Development and Trade in its official comment disagreed with these rules implying that the rules are to be adjusted. However, it is currently unclear whether or not the original approach of the Russian Ministry for Transportation will be retained. As a result, we could be unable to successfully pass the relevant additional costs on to our customers.

In addition, starting from January 1, 2013, telecommunications operators are required to enter into agreements with owners of the roads whose public easement areas host telecommunication equipment. These agreements have to contain certain mandatory provisions to be prescribed by the Russian Ministry for Transportation and the Russian Ministry for Economic Development and Trade. To date, no list of such provisions has been adopted. There is a risk of misbalance in commercial interests of the operators and road owners in case such list is adopted.

Consequently, any adverse changes in legislation relating to the regulation of public roads and their interaction with telecommunications matters could have a material adverse effect on our business, financial condition, results of operations and prospects.

#### **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 25% of a Russian company's shares may be circulated abroad through sponsored depository 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.

***New Russian legislation requires the disclosure of information about ownership of the ADSs, including in some cases beneficial ownership of the ADSs, and a failure to provide such disclosure may restrict your ability to vote and/or receive dividends***

According to the Federal Law "On Introduction of Amendments to Certain Legislative Acts of the Russian Federation in Connection with Federal Law "On Central Depository" No. 415-FZ dated December 7, 2012, the holder of a depositary receipt program, representing rights in Russian securities, will be required to open a special depositary program depo account with the Russian Central Depository (the "CSD"). Such accounts need to be open within one year from the accreditation of the CSD which happened on November 6, 2012. Accordingly, the compliance of our ADS program with this new legislation will depend on the ability of our custodian to timely adapt to the new regulation and open the requisite accounts. After depositary accounts with our shares are opened new disclosure obligations in order to vote or receive dividends will apply.

Pursuant to recently enacted legislation, depositaries, and as a result, ADS holders, will not be able to vote or receive dividends in connection with the shares underlying ADSs on behalf of the ADS holders unless they provide certain information to the issuer. At a minimum, this information will include the identity of the holder of the ADSs and the number of shares attributable to each ADS holder. The use of voting rights currently requires only the provision of the information about the holder of ADSs. The exact scope of the required disclosure and procedures involved are not fully described in the new legislation, and can be further clarified in regulations to be issued by the FSFM.

Moreover, even if an ADS holder chooses to provide the required information, there may be no assurance that the depositary will be successful in collecting and providing this information to the issuer on a timely basis or at all, since the process of obtaining this information is untested and could be technically complicated. In particular, the ADS ownership chains are typically multi-layered and involve, among others, global clearing systems and institutional participants in such clearing systems. Since similar data collection processes have not been widely used to date, and due to the multitude of parties involved, it is possible that technical or procedural complications will make it difficult to obtain and provide all the necessary information to the issuer on a timely basis, if at all. As a result, in case you fail to disclose your ownership or the disclosed details are not provided by the depositary to us in a timely fashion, you may be unable to vote the ADSs and/or receive dividends.

Furthermore, the new legislation stipulates that starting from 1 July 2012 the FSFM, Russian courts, pretrial investigation agencies and internal affairs authorities may request such lists of depositary receipt holders from the issuers.

In case of non-compliance with the above requirements, the FSFM may suspend, or impose limitations on, transactions with securities held in the relevant accounts of Russian custodians for a period of up to six months. As a result, the shares underlying the ADSs may be blocked and it may be

impossible to deposit or withdraw the shares into or from the depositary program during this period. Moreover, the depositary may be subject to administrative fines in case of non-compliance.

***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.

According to recently enacted Russian legislation, within one year of the accreditation of the CSD, shares underlying the ADSs will need to be moved to a special nominee account for the depositary. Starting January 1, 2013, Shares that are moved to such an account will no longer be subject to seizure or arrest in case of a lawsuit against the depositary. See also "—New Russian legislation will require the disclosure of beneficial ownership of the ADSs, and a failure to provide such disclosure may restrict your ability to vote and/or receive dividends."

***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. The closing price of our ADSs on the New York Stock Exchange ranged from a low of \$18.60 to a high of \$54.54 per ADS in 2009, a low of \$17.84 to a high of \$23.55 per ADS in 2010 and a low of \$11.41 to a high of \$21.86 per ADS in 2011, and a low of \$15.69 to a high of \$20.07 per ADS in 2012. On May 3, 2010, the ADS to ordinary share ratio was changed from five ordinary share for one ADS to two ordinary shares for one 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.

***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 depository. The depository 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 depository how to vote the shares represented by the ADSs they hold. Because of this additional procedural step involving the depository, 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 depository in a timely manner. ADSs for which the depository does not receive timely voting instructions will not be voted.

Amendments to the Federal Law on Securities Market provide for new restrictions in relation to voting of shares represented by ADSs. The depository holding such shares is entitled to participate in the general shareholders' meeting solely with the shares represented by foreign securities, details of which (including the number of shares represented by the securities held and the person holding or otherwise entitled to use such securities) are provided to the Company. These rules come into force only after the central depository account in our register is opened and respective depository accounts with our shares are opened with the CSD. This is expected to take place in the second half of 2013.

In addition, although Russian securities regulations expressly permit the depository 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 depository 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%. 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 (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. Russian tax law does 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."

***The lack of a developed share registration system in Russia and other countries where we operate may result in improper record ownership of our shares, including the shares underlying the ADSs, and other problems connected with the rights attributed to the relevant shares such as dividend payments.***

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, the central registration system in Russia is under development. 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 central and rigorously regulated 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 depository, 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.

On December 7, 2011 amendments to the relevant legislation were adopted, substantially reforming the registration system by introducing the CSD. In the course of this reform of the share keeping system, numerous different depositories with accounts in the registers of companies are expected to be replaced by a single central depository, whose primary function would be the custody of shares in all major companies. These changes became effective on January 1, 2012 and are currently being implemented. On November 6, 2012 FSFM officially appointed the National Settlement Depository as the central depository. It is envisaged that the central depository will open its account in the register of each major issuer in the first half of 2013. However, it is not clear yet whether these changes will affect us.

In addition on July 6, 2012 a central depository was introduced in Ukraine. Such central depository is expected to account the shares of all joint stock companies in Ukraine. The way of the dividend payout would be changed and should be effected through the CSD. The changes are expected to come into force on October 11, 2013 and could affect the timing of dividend payout.

See also "—New Russian legislation will require the disclosure of beneficial ownership of the ADSs, and a failure to provide such disclosure may restrict your ability to vote and/or receive dividends."

***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 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 our shares and 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 user ("ARPU"), average monthly usage per user ("MOU") or churn exists in the 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 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 telecommunications companies may be difficult to draw.