

IVANHOE MINES LTD
Form 6-K
May 29, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

From: May 25, 2012

IVANHOE MINES LTD.

(Translation of Registrant's Name into English)

Suite 654 999 CANADA PLACE, VANCOUVER, BRITISH COLUMBIA V6C 3E1

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

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Form 20-F- Form 40-F-

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes: No:

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- .)

Enclosed:

Management Proxy Circular

Proxy

Supplemental Return Card

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 25, 2012

IVANHOE MINES LTD.

By: */s Beverly A. Bartlett*
BEVERLY A. BARTLETT
Vice President &
Corporate Secretary

Notice of Annual and Special Meeting of Shareholders

and

Management Proxy Circular

of

IVANHOE MINES LTD.

DATED: May 25, 2012

IVANHOE MINES LTD.

Notice of Annual and Special Meeting of Shareholders

June 28, 2012

NOTICE IS HEREBY GIVEN that an Annual and Special Meeting (Meeting) of shareholders of Ivanhoe Mines Ltd. (the Corporation) will be held on June 28, 2012, at 9:00 AM local time, in the Metropolitan Room of the Terminal City Club located at 837 West Hastings Street, Vancouver, British Columbia for the following purposes:

1. to receive the annual report of the directors to the shareholders;
2. to receive the audited consolidated financial statements of the Corporation for the year ended December 31, 2011, and the auditors report thereon;
3. to consider, and if thought advisable, to pass an ordinary resolution fixing the number of directors to be elected at the Meeting at eleven (11), as described in the accompanying management proxy circular;
4. to elect eleven (11) directors;
5. to consider and if thought advisable, to pass an ordinary resolution authorizing the Board to amend the terms of the Amended and Restated Shareholder Rights Plan Agreement dated April 21, 2010 (the Rights Plan) in order to permit the termination of the Rights Plan as of the date of the Meeting, as described in the accompanying management proxy circular;
6. to consider and if thought advisable, pass a special resolution to change the Corporation s name from Ivanhoe Mines Ltd. to Turquoise Hill Resources Ltd. , or such other name as the board of directors of the Corporation may approve, as described in the accompanying management proxy circular;
7. to consider and, if thought advisable, to pass an ordinary resolution approving and reconfirming the unallocated stock options, rights and other entitlements pursuant to the Amended and Restated Employees and Directors Equity Incentive Plan adopted by the Corporation on May 7, 2010, as described in the accompanying management proxy circular;
8. to appoint auditors for the ensuing year and to authorize the directors to fix the auditors remuneration; and
9. to transact such other business as may properly come before the Meeting or any adjournment thereof.

The Board of Directors has fixed May 25, 2012 as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the Meeting and at any adjournment thereof.

A management proxy circular, form of proxy, the audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2011 and a return envelope accompany this notice of meeting.

A shareholder who is unable to attend the meeting in person and who wishes to ensure that such shareholder's shares will be voted at the meeting, is requested to complete, date and execute the enclosed form of proxy and deliver it by facsimile, by hand or by mail in accordance with the instructions set out in the form of proxy and in the management proxy circular.

Dated at Vancouver, British Columbia this 25th day of May 2012.

BY ORDER OF THE BOARD

Beverly A. Bartlett

Beverly A. Bartlett

Vice President and Corporate Secretary

IVANHOE MINES LTD.

World Trade Centre

654 999 Canada Place

Vancouver, British Columbia, V6C 3E1

MANAGEMENT PROXY CIRCULAR

SOLICITATION OF PROXIES

This Management Proxy Circular is furnished to the holders of common shares (**shareholders) of IVANHOE MINES LTD. (the **Corporation**) by management of the Corporation in connection with the solicitation of proxies to be voted at an Annual and Special Meeting (the **Meeting**) of the shareholders to be held at 9:00 AM, local time, on June 28, 2012 in the Metropolitan Room located at 837 West Hastings Street, Vancouver, British Columbia, and at any adjournment thereof, for the purposes set forth in the Notice of Meeting.**

The solicitation of proxies by management will be primarily by mail, but proxies may be solicited personally or by telephone by directors of the Corporation (**Directors**), officers and regular employees of the Corporation and its affiliates. All costs of this solicitation will be borne by the Corporation.

The Board of Directors of the Corporation (the **Board of Directors** or the **Board**) has fixed the close of business on May 25, 2012 as the record date, being the date for the determination of the registered shareholders entitled to receive notice of, and to vote at, the Meeting (the **Record Date**).

Unless otherwise stated, the information contained in this Management Proxy Circular is as of May 24, 2012. All dollar amounts are expressed in Canadian dollars (**C\$** or **Cdn\$**), United States dollars (**US\$**) or Australian dollars (**A\$**), as indicated.

APPOINTMENT OF PROXYHOLDERS

A shareholder entitled to vote at the Meeting may, by means of a proxy, appoint a proxyholder or one or more alternate proxyholders, who need not be shareholders, to attend and act at the Meeting for the shareholder and on the shareholder's behalf.

The individuals named in the enclosed form of proxy (the **Form of Proxy**) are Directors and/or officers of the Corporation. **A shareholder may appoint, as proxyholder or alternate proxyholder, a person or persons other than any of the persons designated in the enclosed Form of Proxy, and may do so either by inserting the name or names of such persons in the blank space provided in the enclosed Form of Proxy or by completing another proper Form of Proxy.**

A shareholder forwarding the enclosed Form of Proxy may indicate the manner in which the proxyholder is to vote with respect to any specific item by checking the appropriate position. If the shareholder giving the proxy wishes to confer a discretionary authority with respect to any item of business, then the position opposite the item is to be left blank. The shares represented by the proxy submitted by a shareholder will be voted in accordance with the directions, if any, given in the proxy.

An appointment of a proxyholder or alternate proxyholders will not be valid unless a form of proxy making the appointment, signed by the shareholder or by an attorney of the shareholder authorized in writing, is deposited with CIBC Mellon Trust Company, by facsimile to 1-866-781-3111 or 1-416-368-2502, by mail to P.O. Box 721, Agincourt, Ontario, M1S 0A1 or by hand to The Oceanic Plaza, 1600 1066 W. Hastings Street, Vancouver, British Columbia, V6E 3K9 or 320 Bay Street, Banking Hall Level, Toronto, Ontario, M5H 4A6 and received by CIBC Mellon Trust Company not less than 48 hours (excluding Saturdays, Sundays and statutory holidays) before the Meeting or the adjournment thereof at which the proxy is to be used.

REVOCATION OF PROXIES

A shareholder who has given a proxy may revoke the proxy:

- (a) by depositing an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing:
 - (i) with CIBC Mellon Trust Company, not less than 48 hours (excluding Saturdays, Sundays and statutory holidays) before the Meeting or the adjournment thereof at which the proxy is to be used;
 - (ii) at the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting, or an adjournment thereof, at which the proxy is to be used; or
 - (iii) with the chairman of the Meeting on the day of the Meeting or an adjournment thereof; or
- (b) in any other manner provided by law.

A revocation of a proxy will not affect a matter on which a vote is taken before the revocation.

EXERCISE OF DISCRETION

The persons named in the enclosed Form of Proxy will vote or withhold from voting the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. **In the absence of such direction in respect of a particular matter, such shares will be voted in favour of such matter. The enclosed Form of Proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified or referred to in the Notice of Meeting and this Management Proxy Circular and with respect to other matters which may properly come before the Meeting.** As of the date of this Management Proxy Circular, management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting. However, if any such or other matters which are not now known to management should properly come before the Meeting, the shares will be voted on such matters in accordance with the best judgment of the persons named in the Form of Proxy.

VOTES NECESSARY TO PASS RESOLUTIONS

The Corporation's by-laws provide that the quorum for the transaction of business at the Meeting is at least one individual present at the commencement of the Meeting holding, or representing by Proxy the holder or holders of, common shares carrying, in the aggregate, not less than one-third (33 1/3%) of the votes eligible to be cast at the Meeting.

Under the *Yukon Business Corporations Act* (the "YBCA"), a simple majority of the votes cast by shareholders at the Meeting is required to pass an ordinary resolution and a majority of two-thirds of the votes cast at the Meeting is required to pass a special resolution.

VOTING BY NON-REGISTERED SHAREHOLDERS

Only registered shareholders of the Corporation or the persons they appoint as their proxyholders are permitted to vote at the Meeting. Most shareholders of the Corporation are non-registered shareholders (Non-Registered Shareholders) because the shares they own are not registered in their names but are instead registered in the name of the brokerage firm, bank or trust company through which they purchased the shares. Shares beneficially owned by a Non-Registered Shareholder are registered either:

- (i) in the name of an intermediary (an Intermediary) that the Non-Registered Shareholder deals with in respect of the shares of the Corporation (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFFs, RESPs, TFSAs and similar plans); or
- (ii) in the name of a clearing agency (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant.

In accordance with applicable securities law requirements, the Corporation will have distributed copies of the Notice of Meeting, this Management Proxy Circular, the Form of Proxy and the request form (collectively, the Meeting Materials) to the clearing agencies and Intermediaries for distribution to Non-Registered Shareholders.

Intermediaries are required to forward the Meeting Materials to Non-Registered Shareholders unless a Non-Registered Shareholder has waived the right to receive them. Intermediaries often use service companies to forward the Meeting Materials to Non-Registered Shareholders. Generally, Non-Registered Shareholders who have not waived the right to receive Meeting Materials will either be given:

- (a) a voting instruction form which is not signed by the Intermediary and which, when properly completed and signed by the Non-Registered Shareholder and returned to the Intermediary or its service company, will constitute voting instructions (often called a voting instruction form) which the Intermediary must follow. Typically, the voting instruction form will consist of a one page pre-printed form. Sometimes, instead of the one page pre-printed form, the voting instruction form will consist of a regular printed proxy form accompanied by a page of instructions which contains a removable label with a bar-code and other information. In order for the Form of Proxy to validly constitute a voting instruction form, the Non-Registered Shareholder must remove the label from the instructions and affix it to the Form of Proxy, properly complete and sign the Form of Proxy and submit it to the Intermediary or its service company in accordance with the instructions of the Intermediary or its service company; or
- (b) a Form of Proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted as to the number of shares beneficially owned by the Non-Registered Shareholder but which is otherwise not completed by the Intermediary. Because the Intermediary has already signed the Form of Proxy, this Form of Proxy is not required to be signed by the Non-Registered Shareholder when submitting the proxy. In this case, the Non-Registered Shareholder who wishes to submit a proxy should properly complete the Form of Proxy and deposit it with the Corporation, c/o CIBC Mellon Trust Company, Attn: Proxy Department, PO Box 721, Agincourt, Ontario M1S 0A1.

In either case, the purpose of these procedures is to permit Non-Registered Shareholders to direct the voting of the shares of the Corporation they beneficially own. Should a Non-Registered Shareholder who receives one of the above forms wish to vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Shareholder), the Non-Registered Shareholder should strike out the persons named in the Form of Proxy and insert the Non-Registered Shareholder or such other person's name in the blank space provided. In either case, Non-Registered Shareholders should carefully follow the instructions of their Intermediary, including those regarding when and where the proxy or voting instruction form is to be delivered.

A Non-Registered Shareholder may revoke a Form of Proxy or voting instruction form given to an Intermediary by contacting the Intermediary through which the Non-Registered Shareholder's shares of the Corporation are held and following the instructions of the intermediary respecting the revocation of proxies. In order to ensure that an Intermediary acts upon a revocation of a proxy form or voting instruction form, the written notice should be received by the Intermediary well in advance of the Meeting.

VOTING SHARES AND PRINCIPAL HOLDERS

The Corporation's authorized capital consists of an unlimited number of common shares without par value (Common Shares) and an unlimited number of preferred shares without par value.

As of May 24, 2012, the Corporation had issued 741,386,789 fully paid and non-assessable Common Shares, each carrying the right to one vote. As of such date, no preferred shares were issued or outstanding.

A holder of record of one or more Common Shares on the securities register of the Corporation on the Record Date who either attends the Meeting personally or deposits a Proxy in the manner and subject to the provisions described above will be entitled to vote or to have such share or shares voted at the Meeting, except to the extent that:

- (a) the shareholder has transferred the ownership of any such share after the Record Date, and
- (b) the transferee produces a properly endorsed share certificate for, or otherwise establishes ownership of, any of the transferred shares and makes a demand to CIBC Mellon Trust Company no later than 10 days before the Meeting that the transferee's name be included in the list of shareholders in respect thereof.

To the knowledge of the Directors and senior officers of the Corporation, the only persons who beneficially own, or control or direct, directly or indirectly, Common Shares carrying 10% or more of the voting rights attached to all outstanding Common Shares, the approximate number of Common Shares so owned, controlled or directed and the percentage of voting shares of the Corporation represented by such shares, and the share ownership by the current Directors and senior officers of the Corporation as a group, in each case as at May 24, 2012, are:

| Name and Jurisdiction of Residence | Number of Shares Owned, Controlled or Directed | Percentage of Shares Outstanding |
|--|--|-------------------------------------|
| Rio Tinto plc ⁽¹⁾ | | |
| UK | 377,397,658 | 50.9% |
| Robert M. Friedland ⁽²⁾ | | |
| Singapore | 101,360,738 | 13.7% |
| Directors and Senior Officers as a group ⁽³⁾⁽⁴⁾ | 78,896 ⁽³⁾⁽⁴⁾ | 0.01% |

- (1) Common Shares are held indirectly through Rio Tinto International Holdings Limited (as to 162,297,658 shares) and indirectly through 7999674 Canada Inc. (as to 215,100,000 shares), each company a wholly owned subsidiary of Rio Tinto plc. The Common Shares held directly or indirectly by Rio Tinto do not include unissued Common Shares issuable upon the exercise of the MOA Convertible Securities (as defined below). The information as to shares beneficially owned, controlled or directed by Rio Tinto plc is not within the knowledge of the management of the Corporation and is based on public filings.
- (2) Common Shares are held directly (as to 22,782,421 shares) and indirectly through Newstar Securities SRL (as to 36,888,716 shares) and Goldamere Holdings SRL (as to 41,689,603 shares), each company beneficially owned and controlled as to 100% by Mr. Friedland. Common Shares held directly and indirectly by Mr. Friedland do not include 1,777,437 unissued Common Shares issuable upon the exercise of incentive stock options held by Mr. Friedland, 1,008,779 of which are currently vested and exercisable and 768,658 of which are Withheld Benefits (as defined herein) and are not presently exercisable. Notwithstanding the foregoing, Mr. Friedland has agreed to accept a commensurate amount of cash in lieu of Common Shares upon the valid exercise of the aforementioned incentive stock options. The information as to shares beneficially owned, controlled or directed by Robert Friedland is not within the knowledge of the Corporation and is based on public filings.
- (3) Common Shares held by the Directors and senior officers as a group do not include (i) 2,692,016 unissued Common Shares issuable upon the exercise of incentive stock options, 1,480,441 of which are currently vested and exercisable and 1,211,575 of which are Withheld Benefits (as defined herein) and are not presently exercisable; or (ii) 62,500 bonus shares, which as Withheld Benefits (as defined herein), have not yet been issued.
- (4) The information as to shares beneficially owned, controlled or directed by a nominee is not within the knowledge of the management of the Corporation and has been furnished by the nominee.

In addition to the foregoing, the Corporation has also issued or agreed to issue the following securities convertible into Common Shares (collectively, the MOA Convertible Securities):

- (i) **Anti-Dilution Subscription Right** In connection with the Memorandum of Agreement dated April 17, 2012, as amended May 22, 2012 (the MOA) amongst Rio Tinto International Holdings Limited (RTIH) and Rio Tinto South East Asia Limited (Rio Tinto Funding Company) and collectively with RTIH and their respective affiliates, Rio Tinto), Rio Tinto was issued the right (the Anti-Dilution Subscription Right) to subscribe from time to time for Common Shares in respect of any dilution of Rio Tinto 's equity ownership position as a result of the issuance of Common Shares pursuant to incentive stock options (i) that were exercised prior to the date of the MOA, or (ii) that remain outstanding and are exercised after the date of the MOA. The Anti-Dilution Subscription Right will remain exercisable until the 20th business day following receipt of notice by Rio Tinto that the last such outstanding incentive stock option has been exercised or expired. The subscription price per Common Share under the Anti-Dilution Subscription Right will be the volume weighted average price of a Common Share on the TSX during the five (5) trading days immediately before the applicable date of exercise. The Anti-Dilution Subscription Right may only be exercised to purchase up to a maximum of 19 million Common Shares, subject to adjustment pursuant to the terms of the Anti-Dilution Subscription Right.
- (ii) **Series D Warrants** In connection with the filing of the Corporation 's preliminary prospectus on May 22, 2012 in connection with a proposed offering of rights to purchase Common Shares (the 2012 Rights Offering), the Corporation issued to Rio Tinto share purchase warrants (the Series D Warrants) exercisable to purchase an additional 55 million Common Shares. Each Series D Warrant is exercisable to purchase one Common Share at any time until the third anniversary of the date of issuance at a price of (i) prior to the closing date of the 2012 Rights Offering (the Closing Date), US\$10.84, and (ii) after the Closing Date, the median (rounded to the nearest cent) of the NRO Exercise Price (as defined below) and US\$8.89, being the US dollar volume weighted average price of a Common Share on the NYSE over the five (5) trading days immediately before May 22, 2012.

The NRO Exercise Price is the price obtained by multiplying US\$12.79 by a fraction (i) the numerator of which is the aggregate of (A) the number of Common Shares outstanding as of the record date of the 2012 Rights Offering (the 2012 Rights Offering Record Date) and (B) a number determined by dividing the product of the subscription price for each Common Share offered pursuant to the 2012 Rights Offering and the number of Common Shares subscribed for or purchased under the 2012 Rights Offering by the volume weighted average trading price per Common Share at which the Common Shares have traded on the NYSE for the twenty (20) consecutive trading days before the 2012 Rights Offering Record Date, and (ii) the denominator of which is the number of Common Shares outstanding immediately after the completion of the 2012 Rights Offering and, if applicable, the Standby Commitment on the Closing Date. In no event will the NRO Exercise Price be lower than US\$8.89.

Rio Tinto also has, among other rights and entitlements, pre-emptive contractual rights to participate, subject to certain specific exceptions, in future issuances of Common Shares on a basis sufficient to maintain its percentage interest in Common Shares and Series D Warrants on economic terms equivalent to those upon which any such Common Shares are issued to third parties. Rio Tinto also has a right of first offer, subject to certain specific exceptions, in respect of any equity financing that the Corporation proposes to undertake prior to October 24, 2012.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

No person who has been a Director or executive officer of the Corporation at any time since the beginning of its last completed financial year, any proposed nominee for Director of the Corporation or any associate or affiliate of the foregoing, has any material interest, direct or indirect, in any matter to be acted upon at the Meeting, except as disclosed in this Management Proxy Circular.

ELECTION OF DIRECTORS

Term of Office

The Corporation's Articles currently provide that the number of Directors will be a minimum of three (3) and a maximum of fourteen (14). In accordance with the terms of the MOA, the Board has determined that it shall consist of 13 Directors, 11 of whom are to be elected at the Meeting and an additional two Directors to be appointed at the first meeting of the Board held after July 24, 2012 as further described under

Election of Directors Additional Director Appointees on page 19 of this Management Proxy Circular. Accordingly, the Corporation is requesting that shareholders consider and, if thought advisable, approve by ordinary resolution at the Meeting, the setting of the number of Directors to be elected at the Meeting at eleven (11). For further information, see Particulars of Matters to be Acted Upon Resolution to Fix the Number of Directors to be elected at the Meeting at eleven (11) .

Under the MOA, RTIH and the Corporation have also agreed to certain provisions regarding Director nomination rights (the terms of which superseded certain provisions in the Heads of Agreement dated December 8, 2010 (the HOA) between RTIH and the Corporation. For more information on these rights, reference is made to page 24 of this Management Proxy Circular.

The term of office of each of the current Directors will end at the conclusion of the Meeting. Unless a Director's office is earlier vacated in accordance with the provisions of the YBCA, each Director elected will hold office until the conclusion of the next annual meeting of the Corporation or, if no Director is then elected, until a successor is elected.

Management Nominees

The following tables set out information with respect to each of management's 11 nominees for election as Directors at the Meeting, including their ages, all major offices and positions with the Corporation and any of its significant affiliates each now holds, each nominee's principal occupation, business or employment, the period of time during which each has been a Director of the Corporation, the number of Common Shares beneficially owned, or controlled or directed, directly or indirectly, by each as at May 24, 2012, and the number of options to purchase Common Shares and securities in the capital of the Corporation's publicly traded subsidiaries held by each as at May 24, 2012. **Management recommends that shareholders vote in favour of the following nominees.**

Jill Gardiner

Vancouver, British Columbia, Canada

Age: 53

Director Since: May 2012

Director Status:

Independent

Areas of Experience:

Board

Banking

Energy

Compensation

Financially Literate

Public Capital Markets

Mergers & Acquisitions

Jill Gardiner was appointed to the Board of Directors in May 2012. Ms. Gardiner is a director of Parkbridge Lifestyle Communities Inc. and Timber Investments Ltd. (both private companies) and is also Governor of The Banff Centre, an arts education institution, and Chair of The Banff Centre Foundation. Between May 2003 and March 2009, Ms. Gardiner was Managing Director and Regional Head (British Columbia) for RBC Capital Markets. She was responsible for the firm's investment banking practice in British Columbia as well as management of RBC Capital Markets Vancouver office. She was also a member of the Canadian Investment Banking Management Committee, the Investment Banking Promotions Committee, the Fairness Opinion Committee, and Council for the Advancement of Women.

During her 20 plus years in the investment banking industry, Ms. Gardiner has held various roles pertaining to, and has developed considerable expertise in the areas of, corporate finance, mergers & acquisitions and debt capital markets. Prior to joining the investment banking industry, Ms. Gardiner was a Senior Project Manager at the Ontario Energy Board and a lecturer at the University of Victoria's Business and Public Administration Schools.

Ms. Gardiner holds a Bachelor of Science degree (O.T.) and a Master's of Business Administration degree, both from Queens University.

Principal Occupation, Business or Employment⁽¹⁾

Director/Consultant

| Board/Committee Membership: | 2011 Attendance: | | Other Public Company Board Membership⁽¹³⁾: | |
|------------------------------------|-------------------------|---------------|--|-----|
| | Company: | Since: | | |
| Board of Directors ⁽¹⁵⁾ | n/a | n/a | n/a | n/a |

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Audit Committee Chair⁽⁷⁾ n/a n/a

Nominating and Corporate Governance Committee⁽¹⁹⁾ n/a n/a

Common Shares Beneficially Owned, Controlled or Directed^{(1)(2):}

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | n/a | n/a |

Options Held:

| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------|-------------|----------------|-----------------------------------|-------------------------------|-------------------|---|
| n/a | n/a | Nil | n/a | n/a | Nil | Nil |
| Total: | | | | | | Nil |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|------------------------------|------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | n/a | n/a | n/a |

R. Peter Gillin

Toronto, Ontario, Canada

Age: 63

Director Since: May 2012

Director Status:

Independent

Areas of Experience:

Chief Executive Officer

Board

Banking

Finance

Compensation

Mining Industry

Managing/Leading Growth

Peter Gillin was appointed to the Board of Directors in May 2012. In addition to his public company board memberships described below, Mr. Gillin is also currently a director of Trillium Health Care Products Inc. and Barlow Mine Inc. (both private companies) and a member of the Independent Review Committee of TD Asset Management Inc. Mr. Gillin was Chairman and Chief Executive Officer of Tahera Diamond Corporation, a diamond exploration, development and production company, from October 2003 to September 2008, and was Chief Restructuring Officer until December 2008. Between November 2002 to May 2003, Mr. Gillin was President and Chief Executive Officer of Zemex Corporation, an industrial minerals producer. Additionally, Mr. Gillin was Vice Chairman and a director of N.M. Rothschild & Sons Canada Limited, an investment bank, between 1996 and 2002, and was Acting Chief Executive Officer between 2001 and 2002.

Mr. Gillin holds a Honours Business Administration degree from the Richard Ivey School of Business, University of Western Ontario, and is a Chartered Financial Analyst.

Mr. Gillin is a member of the Institute of Corporate Directors, the Chartered Financial Analysts Institute and the Toronto Society of Financial Analysts.

Principal Occupation, Business or Employment⁽¹⁾

Director

| Board/Committee Membership: | 2011 Attendance: | | Other Public Company Board Membership ⁽¹³⁾ : | | Since: |
|------------------------------------|------------------|-----|---|--|--------|
| | | | Company: | | |
| Board of Directors ⁽¹⁵⁾ | n/a | n/a | Dundee Precious Metals Inc. (TSX) (Health, Safety and Environment Committee; Compensation Committee Chair; Hedging Committee Chair) | | 2009 |

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| | | | | |
|---|-----|-----|--|------|
| Audit Committee ⁽¹⁷⁾ | n/a | n/a | Sherritt International Corp. (TSX) (Audit Committee, Human Resources Committee, Nominating and Corporate Governance Committee) | 2010 |
| Compensation and Benefits Committee ⁽¹⁸⁾ | n/a | n/a | Silver Wheaton Corporation (TSX; NYSE) (Audit Committee, Human Resources Committee) | 2004 |

Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾:

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | n/a | n/a |

Options Held:

| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------|-------------|----------------|-----------------------------------|-------------------------------|-------------------|---|
| n/a | n/a | Nil | n/a | n/a | Nil | Nil |
| Total: | | | | | | n/a |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|------------------------------|------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | n/a | n/a | n/a |

Warren Goodman

London, United Kingdom

Age: 60

Director Since: Nominee

Director Status:

Non-Independent (Rio Tinto)

Areas of Experience:

Board

Legal

Mining Industry

Project Development

Mergers & Acquisitions

Since June 2008, Warren Goodman has served as General Counsel, Business Development at Rio Tinto. In April 2010, lead responsibility for Rio Tinto's Europe, Middle East and Africa legal team was added to Mr. Goodman's role and he has served as General Counsel, Corporate-Europe and Business Development since that time. Between May 2007 and June 2008, Mr. Goodman held the position of General Counsel, Strategic Projects at Rio Tinto Alcan Inc. Prior to joining Rio Tinto, Mr. Goodman was a partner at a leading Canadian law firm practicing in the areas of mergers & acquisitions, project finance and corporate and commercial law.

Mr. Goodman has a Bachelor of Commerce degree from Concordia University and holds both a Bachelor of Civil Law degree and a Bachelor of Laws degree from McGill University.

Mr. Goodman is a member of the Quebec Bar Association, the Canadian Bar Association and the American Bar Association.

Principal Occupation, Business or Employment⁽¹⁾

General Counsel, Corporate Europe and Business Development, Rio Tinto (April 2010 – present)

| Board/Committee Membership: | 2011 | | Other Public Company Board Membership ⁽¹³⁾ : | |
|-----------------------------|-------------|-----|---|--------|
| | Attendance: | | Company: | Since: |
| n/a | n/a | n/a | n/a | n/a |

Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾:

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | n/a | n/a |

Options Held: n/a⁽⁵⁾

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| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------|-------------|-------------------|-----------------------------------|----------------------------------|----------------------|---|
| n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Total: | | | | | | n/a |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|---------------------------------|---------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | n/a | n/a | n/a |

Andrew Harding

Henley-on-Thames, United Kingdom

Age: 45

Director:

November 2009 to July 2010 and since February 2011

Director Status:

Non-Independent

(Rio Tinto)

Areas of Experience:

Chief Executive Officer/Board

Mining Industry

Financially Literate

Project Development

Managing/Leading Growth

Andrew Harding was a Director from November 2009 until his resignation in July 2010. He was reappointed as a Director in February 2011. Mr. Harding was appointed as Chief Executive of Rio Tinto's Global Copper Product Group on November 1, 2009 and is based in London, England. Prior to his current position, Mr. Harding was President and Chief Executive Officer at Rio Tinto's Kennecott Utah Copper in Salt Lake City.

Mr. Harding has also previously served as Global Practice Leader for Mining in Rio Tinto's Technology and Innovation Group where he focused on leading performance improvement initiatives, and he has held a variety of operations positions throughout his career in Rio Tinto's iron ore, energy and aluminum businesses in Australia. Mr. Harding has been with Rio Tinto for 18 years.

Mr. Harding holds a MBA from Deakin University in Australia and a Bachelor of Mining Engineering degree from University of New South Wales in Australia.

Mr. Harding is a member of the Institute of Corporate Directors.

Principal Occupation, Business or Employment⁽¹⁾

Chief Executive, Rio Tinto Global Copper Product Group

| Board/Committee Membership: | 2011 | | Other Public Company Board Membership ⁽¹³⁾ : | |
|------------------------------------|-------------|------|---|--------|
| | Attendance: | | Company: | Since: |
| Board of Directors ⁽²²⁾ | 8 of 8 | 100% | n/a | n/a |

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| | | |
|---|----------|------|
| Nominating and Corporate Governance Committee ⁽¹⁹⁾ | n/a | n/a |
| Safety, Health and Environment Committee | 1 of 3 | 33% |
| Non-Management Directors | 1 of 1 | 100% |
| Total: | 10 of 12 | 83% |

Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾:

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | Nil | Nil |

Options Held: n/a⁽⁵⁾

| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------|-------------|----------------|-----------------------------------|-------------------------------|-------------------|---|
| n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Total: | | | | | | n/a |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|------------------------------|------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | Nil | Nil | Nil |

Isabelle Hudon

Montreal, Quebec, Canada

Age: 45

Director Since: May 2012

Director Status:

Independent

Areas of Experience:

Chief Executive Officer

Board

Public Affairs

Compensation

Managing/Leading Growth

Isabelle Hudon was appointed to the Board of Directors in May 2012. Ms. Hudon is the President of Sun Life Financial Quebec and has held this position since August 2010. In this capacity, Ms. Hudon is responsible for overseeing all of Sun Life Quebec's activities which support the company's corporate strategy and growth. Prior to joining Sun Life, Ms. Hudon served as the President of Markatel, an advertising agency in Montreal, between November 2008 and August 2010. Additionally, Ms. Hudon was President and Chief Executive Officer of the Board of Trade of Metropolitan Montreal between 2004 and 2008.

Ms. Hudon chairs the board of directors of the Université du Québec à Montréal and of the Collectif de festivals montréalais. She is also a board member of Hydro-Québec, Aéroports de Montréal, Holt Renfrew Canada, and the Institute for Research on Public Policy.

Ms. Hudon has won a number of awards, among them being named one of the 40 most successful Canadians under the age of 40 (Canada's Top 40 under 40) in 2005 and being recognized in 2006 as one of the 100 most influential women in Canada (Canada's Most Powerful Women: Top 100). She was also recently named 2011 Business Woman of the Year by Consumer Choice Award.

Ms. Hudon has a Diploma of Collegial Studies from Valleyfield College, undertook economic science studies at the Université de Montréal and undertook business administration studies at the University of Ottawa.

Principal Occupation, Business or Employment⁽¹⁾

President, Sun Life Financial Quebec (August 2010 – present)

| Board/Committee Membership: | 2011 | | Other Public Company Board Membership ⁽¹³⁾ : | |
|---|-------------|-----|---|--------|
| | Attendance: | | Company: | Since: |
| Board of Directors ⁽¹⁵⁾ | n/a | n/a | n/a | n/a |
| Compensation and Benefits Committee ⁽¹⁸⁾ | n/a | n/a | | |
| Nominating and Corporate Governance Committee ⁽¹⁹⁾ | n/a | n/a | | |

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Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾:

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | n/a | n/a |

Options Held:

| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------|-------------|----------------|-----------------------------------|-------------------------------|-------------------|---|
| n/a | n/a | Nil | n/a | n/a | Nil | Nil |
| Total: | | | | | | n/a |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|------------------------------|------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | n/a | n/a | n/a |

Dr. David Klingner

Toorak, Melbourne, Australia

Age: 68

Director Since: May 2012

Director Status:

Independent

Areas of Experience:

Board

Exploration

Mining Industry

Project Development

Dr. David Klingner was appointed as Chairman of the Board of Directors in May 2012. Dr. Klingner is also the Chairman of the board of directors of Energy Resources of Australia Ltd., a uranium mining company, and Codan Limited, an electronic goods manufacturer. He also serves as an advisory director for Pacific Road Capital Management, a private equity fund. Dr. Klingner was a senior geologist and executive with the Rio Tinto Group of Companies for 38 years and held the position of Head of Exploration from 1997 to 2004. During this time, Dr. Klingner was responsible for the world-wide exploration efforts of the Rio Tinto Group and has led the development of a number of mining projects around the globe. Additionally, during his time with Rio Tinto, Dr. Klingner was a member of Rio Tinto's Executive Committee and served as Managing Director of Kaltim Prima Coal, where he led the development of their major export coal mine.

Dr. Klingner has a Bachelor of Science degree in Geology from the University of Queensland and a PhD from the University of Melbourne.

Dr. Klingner is a fellow of the Australian Institute of Mining and Metallurgy and a member of the Prospectors and Developers Association of Canada.

Principal Occupation, Business or Employment⁽¹⁾

Chair/Director

| Board/Committee Membership: | 2011 Attendance: | | Other Public Company Board Membership ⁽¹³⁾ : | |
|--|------------------|-----|--|--------|
| | | | Company: | Since: |
| Board of Directors Chairman ⁽¹⁵⁾⁽¹⁶⁾ | n/a | n/a | Energy Resources of Australia Ltd. (ASX) (Audit Committee, Remuneration Committee) | 2004 |
| Nominating and Corporate Governance Committee Chair ⁽⁹⁾ | n/a | n/a | Codan Limited (ASX) | 2004 |

Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾:

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------|------|------------------------------|--|
|--------------|------|------------------------------|--|

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| | | | |
|--------------------|------|-----|-----|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | n/a | n/a |

Options Held:

| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------|-------------|-------------------|-----------------------------------|----------------------------------|-------------------|---|
| n/a | n/a | Nil | n/a | n/a | Nil | Nil |
| Total: | | | | | | Nil |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|---------------------------------|---------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | n/a | n/a | n/a |

Daniel Larsen

Buckinghamshire, United Kingdom

Age: 53

Director Since: July 2011

Director Status:

Non-Independent (Rio Tinto)

Areas of Experience:

Mining Industry

Governance

Finance

Daniel Larsen was appointed to the Board of Directors in July 2011. Mr. Larsen has over 25 years experience in the mining industry. He has been based in London, England, as Group Controller and Global Head of Planning and Reporting for Rio Tinto plc since October 2005. He is also a director of Rio Tinto International Holdings Limited and is a member of several Rio Tinto governance and management committees. Mr. Larsen has held a number of senior financial positions with Rio Tinto, including international assignments in Australia, Canada and England. Before joining Rio Tinto in 1992, Mr. Larsen was a senior manager with Ernst & Young's mining practice.

Mr. Larsen holds a Bachelor of Science degree in Accounting from the University of Utah and is a Certified Public Accountant. He is also a member of the Institute of Corporate Directors.

Principal Occupation, Business or Employment⁽¹⁾

Group Controller and Global Head of Planning and Reporting, Rio Tinto plc (October 2005 – present)

| Board/Committee Membership: | 2011 | | Other Public Company Board Membership ⁽¹³⁾ : | |
|------------------------------------|-------------|------|---|--------|
| | Attendance: | | Company: | Since: |
| Board of Directors ⁽²³⁾ | 4 of 4 | 100% | n/a | n/a |
| Non-Management Directors | 1 of 1 | 100% | | |
| Total: | 5 of 5 | 100% | | |

Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | n/a | n/a |

Options Held: n/a⁽⁵⁾

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| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------|-------------|----------------|-----------------------------------|----------------------------------|-------------------|---|
| n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Total: | | | | | | n/a |

Value of Corporation's Equity at Risk

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|---------------------------------|---------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | n/a | n/a | n/a |

Livia Mahler

Vancouver, British Columbia, Canada

Age: 53

Director Since:

March 2009 to April 2012 and since May 2012

Director Status:

Independent⁽³⁾

Areas of Experience:

Board

Finance

Public Company

Financially Literate

Public Capital Markets

Finance and International Business

Livia Mahler was a Director from March 2009 until her resignation in connection with the MOA in April 2012. Ms. Mahler was re-appointed to the Board in May 2012. Since 2010, Ms. Mahler has held the position of President and Chief Executive Officer of Computational Geosciences Inc., a company that provides technological solutions to maximize the value of geophysical exploration surveys. Additionally, Ms. Mahler is a partner and co-founder of Greenstone Venture Partners, a venture capital fund targeting private early-stage technology companies in the area of information technologies. Mr. Mahler is also the current Lead Director of Bennett Environmental Inc., where she also sits on the Compensation and Corporate Governance Committees.

Ms. Mahler holds a Bachelor of Science degree from the Hebrew University of Jerusalem and an MBA from the University of British Columbia. Ms. Mahler is a member of the Canadian Venture Capital Association, Institutional Investors Committee. Ms. Mahler also sits on the Advisory Board of the Maurice Young Entrepreneurship and Venture Capital Research Centre at the University of British Columbia's Sauder School of Business.

Ms. Mahler is a member of the Institute of Corporate Directors.

Principal Occupation, Business or Employment⁽¹⁾

President and Chief Executive Officer, Computational Geosciences Inc. (December 2010 – present); partner and co-founder, Greenstone Venture Partners (February 2000 – present).

| Board/Committee Membership: | 2011 | | Other Public Company Board Membership ⁽¹³⁾ : Company: | Since: |
|------------------------------------|-------------|-----|---|--------|
| | Attendance: | | | |
| Board of Directors ⁽¹⁰⁾ | 8 of 9 | 89% | | 2011 |

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Bennett Environmental Inc. (TSX) (Compensation Committee, Corporate Governance Committee)

| | | |
|---|----------|------|
| Audit Committee ⁽¹⁰⁾ | 4 of 4 | 100% |
| Compensation & Benefits Committee ⁽¹⁰⁾ | 8 of 8 | 100% |
| Independent Directors | 5 of 5 | 100% |
| Non-Management Directors | 1 of 1 | 100% |
| Total: | 26 of 27 | 96% |
| Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾: | | |

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | Nil | Nil |

Options Held:

| Date Granted | Expiry Date | Number Granted ⁽¹⁴⁾ | Vested & Unexercised/ Unvested ⁽¹¹⁾ | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------|--------------|--------------------------------|---|-------------------------------|-------------------|---|
| May 10, 2011 | May 10, 2018 | 30,000 | 30,000/Nil | C\$ 23.86 | 30,000 | Nil |
| May 7, 2010 | May 7, 2017 | 57,463 | 57,463/Nil | C\$ 15.25 | 57,463 | Nil |
| May 8, 2009 | May 8, 2016 | 57,463 | 57,563/Nil | C\$ 8.20 | 57,463 | C\$ 98,836 |
| | | | | | Total: | C\$ 98,836 |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|------------------------------|------------------------------------|---------------|
| 2012 | Nil | C\$ 98,836 | C\$ 98,836 |
| 2011 | Nil | C\$ 1,737,106 | C\$ 1,737,106 |

Peter G. Meredith

Vancouver, British Columbia, Canada

Age: 68

Director Since: 2005

Director Status:

Non-Independent⁽³⁾⁽²⁵⁾

Areas of Experience:

Chief Executive Officer/Board Finance

Mining Industry

Financially Literate

Public Capital Markets

Peter Meredith has been a Director since March 2005. Mr. Meredith was the Corporation's Deputy Chairman from May 2006 to April 2012, during which time he oversaw the Corporation's business development and corporate relations. Mr. Meredith was the Corporation's Chief Financial Officer from June 1999 to November 2001 and from May 2004 to May 2006. He was the Chief Executive Officer of SouthGobi Resources Ltd. from June 2007 until October 2009, at which time he was appointed Chairman of SouthGobi. Prior to joining the Corporation, Mr. Meredith spent 31 years with Deloitte & Touche LLP, Chartered Accountants, and retired as a partner in 1996. Mr. Meredith is a Chartered Accountant and a member of the Canadian Institute of Chartered Accountants and the Institute of Corporate Directors.

Mr. Meredith was also a member of the Corporation's Executive Committee since its formation in March 2005 to its dissolution in April 2012.

Principal Occupation, Business or Employment⁽¹⁾

Chairman, SouthGobi Resources Ltd. (October 2009 – present); Deputy Chairman of the Corporation (May 2006 – April 2012)

| Board/Committee Membership: | 2011 | | Other Public Company Board Membership ⁽¹³⁾ : | | Since: |
|--|-------------|------|---|--|--------|
| | Attendance: | | Company: | | |
| Board of Directors | 9 of 9 | 100% | Ivanhoe Energy Inc. (TSX; NASDAQ) (Executive Committee) | | 2007 |
| Safety, Health and Environment ⁽²⁰⁾ | n/a | n/a | SouthGobi Resources Ltd. (TSX; HKSE) | | 2003 |
| Total: | 9 of 9 | 100% | Entrée Gold Inc. (TSX; AMEX) (Audit Committee – Chair) | | 2002 |
| | | | Great Canadian Gaming Corporation (TSX) | | 2000 |
| | | | (Compensation Committee – Chair; Audit, Risk & Finance Committee) | | |

Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾:

| | | |
|--------------|------|--|
| Company Name | Year | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------|------|--|

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| | | Common Shares ⁽⁴⁾ | | |
|---------------------------|------|---------------------------------|-----|-----------|
| Ivanhoe Mines Ltd. | 2012 | 30,000 ⁽¹²⁾ | C\$ | 297,600 |
| | 2011 | 80,500 | C\$ | 2,160,620 |
| Ivanhoe Australia Limited | 2012 | 500,000 | A\$ | 340,000 |
| | 2011 | 375,000 | A\$ | 1,286,250 |

Options Held:

| Date Granted | Expiry Date | Number Granted ⁽¹⁴⁾ | Vested & Unexercised/ Unvested ⁽¹²⁾ | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|---------------|---------------|-----------------------------------|---|----------------------------------|-------------------|---|
| Nov. 16, 2011 | Nov. 16, 2016 | 350,000 | 350,000/Nil | C\$ 21.44 | 350,000 | Nil |
| Jan. 29, 2011 | Jan. 29, 2018 | 220,000 | 220,000/Nil | C\$ 27.83 | 220,000 | Nil |
| Oct. 9, 2009 | Oct. 9, 2016 | 287,316 | 287,316/Nil | C\$ 13.76 | 287,316 | Nil |
| Jul. 23, 2009 | Jul. 23, 2016 | 229,853 | 229,853/Nil | C\$ 8.77 | 229,853 | C\$ 264,331 |
| May 8, 2009 | May 8, 2016 | 844,561 | 215,488/Nil | C\$ 8.20 | 215,488 | C\$ 370,639 |
| Nov. 13, 2008 | Nov. 13, 2015 | 459,555 | 120,673/Nil | C\$ 2.82 | 120,673 | C\$ 856,778 |
| Sep. 22, 2008 | Sep. 22, 2013 | 277,987 | 135,487/Nil | C\$ 8.35 | 135,487 | C\$ 212,715 |
| Mar. 27, 2006 | Mar. 27, 2013 | 459,707 | 459,707/Nil | C\$ 9.73 | 459,707 | C\$ 87,344 |
| | | | | | Total: | C\$ 1,791,807 |

Options Held in Publicly Traded Subsidiaries of the Corporation:

| Name of Affiliate | Date Granted | Expiry Date | Number Granted ⁽¹⁴⁾ | Vested & Unexercised/ Unvested ⁽¹²⁾ | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------------------|---------------|---------------|-----------------------------------|--|----------------------------------|----------------------|---|
| SouthGobi Resources Ltd. | Mar. 21, 2012 | Mar. 21, 2017 | 30,000 | 30,000/Nil | C\$ 6.16 | 30,000 | Nil |
| SouthGobi Resources Ltd. | Aug. 15, 2011 | Aug. 15, 2016 | 60,000 | 60,000/Nil | C\$ 9.43 | 60,000 | Nil |
| SouthGobi Resources Ltd. | Aug. 13, 2010 | Aug. 13, 2015 | 100,000 | 100,000/Nil | C\$ 12.58 | 100,000 | Nil |
| SouthGobi Resources Ltd. | Aug. 5, 2009 | Aug. 5, 2014 | 75,000 | 75,000/Nil | C\$ 12.99 | 75,000 | Nil |
| SouthGobi Resources Ltd. | Nov. 27, 2008 | Nov. 27, 2013 | 75,000 | 75,000/ Nil | C\$ 5.10 | 75,000 | C\$ 39,000 |
| SouthGobi Resources Ltd. | Aug. 27, 2008 | Aug. 27, 2013 | 100,000 | 100,000/Nil | C\$ 15.07 | 100,000 | Nil |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|---------------------------------|---------------------------------------|----------------|
| 2012 | C\$ 297,600 | C\$ 1,791,807 | C\$ 2,089,408 |
| 2011 | C\$ 2,160,620 | C\$ 40,647,947 | C\$ 42,808,567 |

Kay Priestly

Utah, United States

Age: 56

Director Since: 2011

Director Status:

Management

Areas of Experience:

Finance

Banking

Governance

Compensation Mining Industry Financially Literate

Public Capital Markets

Kay Priestly is the Chief Executive Officer of the Corporation. Ms. Priestly has been a Director since February 2011. Ms. Priestly was previously a senior executive with Rio Tinto where she served as Chief Financial Officer of Rio Tinto's global Copper product group from November 2008 to May 2012. Ms. Priestly joined Rio Tinto in 2006 as Chief Financial Officer at Rio Tinto's Kennecott Utah Copper operations.

Before joining Rio Tinto, Ms. Priestly served as Vice President, Risk Management and General Auditor for Entergy Corporation. She previously spent over 25 years with global professional services firm Arthur Andersen, where she provided tax and consulting services to companies in the energy and mining sectors with worldwide operations. She held various leadership positions while at Andersen, including serving on Andersen's global executive team and global energy team. Ms. Priestly previously served as a director of Palabora Mining Company Limited.

Ms. Priestly holds a Bachelor of Science degree in Accounting, summa cum laude, from Louisiana State University. She is also a member of the Institute of Corporate Directors and was a Certified Public Accountant and a member of the American Institute of Certified Public Accountants for over 25 years.

Principal Occupation, Business or Employment⁽¹⁾

Chief Executive Officer of the Corporation (May 2012 – present); Interim Chief Executive Officer of the Corporation (April 2012 – May 2012); Chief Financial Officer of Rio Tinto Copper (November 2008 to May 2012)

| Board/Committee Membership: | 2011 | | Other Public Company Board Membership ⁽¹³⁾ : Company: | Since: |
|--|-------------|------|--|--------|
| | Attendance: | | | |
| Board of Directors ⁽²²⁾ | 6 of 8 | 75% | Stone Energy Corporation (NYSE) (Audit Committee Chair; Nominating and Governance Committee; Reserves Committee) | 2006 |
| Safety, Health and Environment Committee ⁽²⁰⁾ | n/a | n/a | | |
| Non-Management Directors ⁽²¹⁾ | 1 of 1 | 100% | | |

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Total: 7 of 9 78%
Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾:

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | Nil | Nil |

Options Held:

| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|---------------|-------------|----------------|-----------------------------------|-------------------------------|-------------------|---|
| n/a | n/a | Nil | n/a | n/a | Nil | Nil |
| Total: | | | | | | Nil |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|------------------------------|------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | Nil | Nil | Nil |

Russel C. Robertson

Toronto, Ontario, Canada

Age: 64

Director Since: Nominee

Director Status:

Independent

Areas of Experience:

Accounting

Banking

Since March 2011, Russel Robertson has served as Executive Vice-President, Business Integration at BMO Financial Group, and as Vice-Chair at BMO Financial Corp. (formerly Harris Financial Corp.). In this capacity, Mr. Robertson has been responsible for overseeing the integration of BMO's recently purchased Marshall & Isley Bank with BMO's long-time subsidiary, Harris Bank. Prior to his current role at BMO, Mr. Robertson was the Chief Financial Officer at BMO Financial Group between March 2008 and March 2011. Before joining BMO, Mr. Robertson spent over 35 years as a Chartered Accountant. In this capacity, Mr. Robertson held various senior positions with a number of major accounting firms, including holding the positions of Vice-Chair, Deloitte & Touche LLP (Canada), and Managing Partner, Arthur Andersen LLP (Canada).

Mr. Robertson holds a Bachelor of Arts degree (Honours) from the Ivey School of Business at the University of Western Ontario, is a Chartered Accountant and a Fellow of the Institute of Chartered Accountants (Ontario).

Principal Occupation, Business or Employment⁽¹⁾

Executive Vice-President, Business Integration, BMO Financial Group (March 2011 – present), Chief Financial Officer, BMO Financial Group and Vice-Chair, BMO Financial Corp. (March 2008 – March 2011), Vice Chair, Deloitte & Touche LLP (Canada) (April 2007 – March 2008).

| Board/Committee Membership: | 2011 | | Other Public Company Board Membership ⁽¹³⁾ : | |
|-----------------------------|-------------|-----|---|--------|
| | Attendance: | | Company: | Since: |
| n/a | n/a | n/a | n/a | n/a |

Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾:

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | n/a | n/a |

Options Held:

| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised |
|--------------|-------------|----------------|-----------------------------------|-------------------------------|-------------------|----------------------|
|--------------|-------------|----------------|-----------------------------------|-------------------------------|-------------------|----------------------|

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| | | | | | | | |
|-----|-----|-----|-----|-----|-----|-------------------------------|-----|
| n/a | n/a | Nil | n/a | n/a | Nil | Options ⁽⁸⁾ Nil | |
| | | | | | | Total: | Nil |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|------------------------------|------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | n/a | n/a | n/a |

Additional Director Appointees

The MOA between the Corporation and Rio Tinto provides that the Board will consist of 13 Directors, that a majority of Directors are to be independent (as further described in *Nomination Rights* on page 24 of this Management Proxy Circular) and that Robert Friedland will be entitled to nominate two nominees for election as Directors. Pursuant thereto, management has nominated nine of the 11 nominees for election at the Meeting and Mr. Friedland has nominated two.

Management has also proposed Charles Lenegan and Jeffery D. Tygesen for appointment as Directors. Mr. Tygesen is a non-independent nominee as a result of his position as an executive officer within the Rio Tinto Group. Mr. Lenegan, formerly an executive officer within the Rio Tinto Group, retired from Rio Tinto Alcan on June 30, 2009 and has had no engagement with the Rio Tinto Group since that time. However, because Mr. Lenegan received retirement benefits from Rio Tinto in excess of Cdn \$75,000 on July 23, 2009, he is deemed to have a material relationship with Rio Tinto until the third anniversary of such payment under the applicable provisions of National Instrument 52-110, the NYSE Corporate Governance Rules and the NASDAQ Corporate Governance Rules. The Board has reviewed Mr. Lenegan's independence and has concluded that, save for the above payment, he is in all other respects independent, and does not otherwise have a direct or indirect material relationship with Rio Tinto or the Corporation and will meet the qualifications for appointment as an independent director of the Corporation on July 24, 2012.

Accordingly, in order to ensure that the provisions of the MOA requiring a majority of independent Directors are not breached, it is proposed that the appointments of Charles Lenegan and Jeffery D. Tygesen (together, the *Additional Director Appointees*) as the final two Directors to complete the Board of 13 as prescribed under the MOA be deferred. Section 107(4) of the YBCA and the Corporation's Articles permit the Board to appoint one or more additional Directors to serve until the next annual general meeting provided such additional number of Directors does not exceed one third of the number of Directors who held office at the expiration of the last annual general meeting of the Corporation. Accordingly, it is proposed that the *Additional Director Appointees* will be appointed as Directors at the first meeting of the Board held after July 24, 2012.

The following tables set out information with respect to each of the *Additional Director Appointees*, including their ages, all major offices and positions with the Corporation and any of its significant affiliates each now holds, their principal occupation, business or employment, the number of Common Shares beneficially owned, or controlled or directed, directly or indirectly, by each as at May 24, 2012, and the number of options to purchase Common Shares and securities in the capital of the Corporation's publicly traded subsidiaries held by each as at May 24, 2012.

Charles Lenegan

Perth, Australia

Age: 61

Director Since: Nominee

Director Status:

Independent⁽²⁴⁾

Areas of Experience:

Board

Board

Mining Industry

Governance

Financially Literate

Managing/Leading Growth

Corporate Functions

Resource Project Development International

Since 2010, Charles Lenegan has served as a non-executive director of Oz Minerals Limited, an Australian copper-gold exploration and development company, and as non-executive Chairman of Rey Resources Limited, an Australian resource exploration and development company. Prior thereto, Mr. Lenegan spent 28 years with the Rio Tinto Group and its predecessor corporations, where he held various senior management positions, including Vice President Business Development, Middle East and Africa, Rio Tinto Alcan (January 2008 to June 2009), Managing Director, Rio Tinto Australia (February 2004 to January 2008), and President Director, Kelian Equatorial Mining (January 2001 to January 2004.). Mr. Lenegan is also a former Chairman of the Minerals Council of Australia, former President of AMMA (Australia Mines and Metals Association Australia) and a former board member of the Business Council of Australia. Mr. Lenegan began his career as a Chartered Accountant and worked in Zimbabwe, the United Kingdom and the United Arab Emirates before migrating to Australia in 1980.

Mr. Lenegan holds a Bachelor of Science degree in Economics from the University of London.

Principal Occupation, Business or Employment⁽¹⁾

Director

| Board/Committee Membership: | 2011 | | Other Public Company Board Membership ⁽¹³⁾ : | | Since: |
|-----------------------------|-------------|-----|--|--|--------|
| | Attendance: | | Company: | | |
| n/a | n/a | n/a | Oz Minerals Limited (ASX) (Audit Committee; Nomination and Board Governance Committee) | | 2010 |

2010

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Rey Resources Limited (ASX) (Remuneration Committee Chair; Sustainability Committee Interim Chair and Audit Committee)

Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾:

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | n/a | n/a |

Options Held:

| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------|-------------|----------------|-----------------------------------|-------------------------------|-------------------|---|
| n/a | n/a | Nil | n/a | n/a | Nil | Nil |
| Total: | | | | | | Nil |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|------------------------------|------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | n/a | n/a | n/a |

Jeffery D. Tygesen

Sandy, Utah, United States

Age: 54

Director Since: Nominee

Director Status:

Non-independent (Rio Tinto)

Areas of Experience:

Engineering

Mining Industry

Managing/Leading Growth

Since December 2009, Mr. Tygesen has served as Vice-President, Copper Development at Rio Tinto. In this capacity, Mr. Tygesen has been responsible for overseeing Rio Tinto's joint venture interests, technical and innovation development, sustainable development and accountability at the company's Chilean and Indonesian copper projects. Mr. Tygesen has spent over 30 years with Rio Tinto, and has held such other positions as Mining Executive, Rio Tinto Copper; Regional General Manager, Rio Tinto Technology & Innovation; Manager, Long Term & Strategic Planning, Rio Tinto Energy America Coal; and Manager of Mine Development, Diavik Diamond Mines.

Mr. Tygesen holds a Bachelor of Science degree (Mining Engineering) and a Master of Science degree (Mining Engineering), both from the University of Utah (College of Mines and Earth Sciences).

Mr. Tygesen is a member of the Society of Mining Engineering.

Principal Occupation, Business or Employment⁽¹⁾

Vice-President, Copper Development, Rio Tinto Copper (April 2011 - present); Mining Executive, Rio Tinto Copper (December 2009 - March 2011); Regional General Manager, Rio Tinto Technology & Innovation (April 2007 - November 2009).

| Board/Committee Membership: | 2011 | | Other Public Company Board Membership ⁽¹³⁾ : | |
|-----------------------------|-------------|-----|---|--------|
| | Attendance: | | Company: | Since: |
| n/a | n/a | n/a | n/a | n/a |

Common Shares Beneficially Owned, Controlled or Directed⁽¹⁾⁽²⁾:

| Company Name | Year | Common Shares ⁽⁴⁾ | Total Market Value of Common Shares ⁽⁶⁾ |
|--------------------|------|------------------------------|--|
| Ivanhoe Mines Ltd. | 2012 | Nil | Nil |
| | 2011 | n/a | n/a |

Options Held: n/a⁽⁵⁾

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| Date Granted | Expiry Date | Number Granted | Vested & Unexercised/ Unvested | Exercise Price ⁽⁷⁾ | Total Unexercised | Value of Unexercised Options ⁽⁸⁾ |
|--------------|-------------|-------------------|-----------------------------------|----------------------------------|----------------------|---|
| n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Total: | | | | | | n/a |

Value of Corporation's Equity at Risk:

| Year | Common Shares ⁽⁴⁾ | Unexercised Options ⁽⁹⁾ | Total |
|------|---------------------------------|---------------------------------------|-------|
| 2012 | Nil | Nil | Nil |
| 2011 | n/a | n/a | n/a |

NOTES:

- (1) The information as to principal occupation, business or employment and shares beneficially owned, controlled or directed by a nominee is not within the knowledge of the management of the Corporation and has been furnished by the nominee.
- (2) Does not include unissued Common Shares issuable upon the exercise of incentive stock options.
- (3) Nominated pursuant to Robert Friedland's contractual nomination rights. See "Nomination Rights" on page 24 of this Management Proxy Circular.
- (4) "Common Shares" refers to the number of Common Shares or, where applicable, ordinary shares of Ivanhoe Australia Limited ("Ivanhoe Australia"), beneficially owned, controlled or directed by the nominee as of May 24, 2012 and March 25, 2011, respectively.
- (5) In accordance with Rio Tinto corporate policy, Directors who are employees of Rio Tinto are not permitted to receive options to purchase Common Shares.
- (6) The "Total Market Value of Common Shares" is calculated, (i) in the case of Common Shares, by multiplying the closing price of the Common Shares on the TSX on May 24, 2012 (C\$9.92) and March 25, 2011 (C\$26.84), respectively, by the number of Common Shares held by the nominee as at May 24, 2012 and March 25, 2011, respectively; and (ii) in the case of ordinary shares of Ivanhoe Australia, by multiplying the closing price of the ordinary shares of Ivanhoe Australia on the Australian Securities Exchange ("ASX") on May 24, 2012 (A\$0.68) and March 25, 2011 (A\$3.43), respectively, by the number of ordinary shares of Ivanhoe Australia held by the nominee as at May 24, 2012 and March 25, 2011, respectively.
- (7) The "Exercise Price" is the Fair Market Value on the date of approval by the Board of Directors, pursuant to the Employees' and Directors' Equity Incentive Plan (the "Equity Incentive Plan").
- (8) In the case of options to acquire Common Shares and options to acquire common shares of the Corporation and the Corporation's subsidiary, SouthGobi Resources Ltd. ("SouthGobi"), "Value of Unexercised Options" is calculated on the basis of, (i) in the case of the Corporation, the difference between the closing price of the Common Shares on the TSX on May 24, 2012 (C\$5.62) and the Exercise Price of the options, multiplied by the number of unexercised options on May 24, 2012, and (ii) in the case of SouthGobi, the difference between the closing price of the SouthGobi shares on the TSX on May 24, 2012 (C\$5.62) and the Exercise Price of the options, multiplied by the number of unexercised options on May 24, 2012.
- (9) In the case of options to acquire Common Shares, the value of "Unexercised Options" is calculated on the basis of the difference between the closing price of the Common Shares on the TSX on May 24, 2012 (C\$9.92) and March 25, 2011 (C\$26.84), respectively, and the Exercise Price of the options, multiplied by the number of unexercised options on May 24, 2012 and March 25, 2011, respectively.
- (10) Pursuant to the MOA, Ms. Mahler resigned from the Board of Directors effective April 17, 2012. In connection with her resignation, Ms. Mahler also resigned from the Audit Committee and the Compensation and Benefits Committee effective April 17, 2012. Under the terms of the MOA, Robert Friedland has the right to nominate two Directors and had previously nominated Peter Meredith and David Huberman as his appointees to the Board of Directors. Following Mr. Huberman's resignation on May 7, 2012, Mr. Friedland nominated Ms. Mahler as his new nominee and Ms. Mahler was reappointed to the Board of Directors and the Audit Committee effective May 9, 2012. She was subsequently reappointed to the Compensation and Benefits Committee effective May 10, 2012. For more information on Mr. Friedland's nomination rights, see "Nomination Rights" on page 24 of this Management Proxy Circular.

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- (11) All of Ms. Mahler's previously unvested options vested pursuant to the acceleration provisions in the Equity Incentive Plan, which were triggered as a result of her resignation in connection with the MOA; however pending the approval of the Withheld Benefits (as defined herein), 30,000 options to purchase Common Shares are not presently exercisable. For more information on the Withheld Benefits, see Executive Compensation Withholding of Certain Termination Benefits in favour of Former Executives on page 51 of this Management Proxy Circular and Compensation of Directors Withholding of Certain Termination Benefits in favour of Former Directors on page 59 of this Management Proxy Circular.
- (12) All of Mr. Meredith's previously unvested bonus shares and options vested pursuant to the acceleration provisions in the Equity Incentive Plan, which were triggered in connection with the MOA and the Mutual Release dated April 17, 2012 between Peter Meredith, the Corporation and RTIH; however pending the approval of the Withheld Benefits (as defined herein), (i) 62,500 bonus shares have not yet been issued; and (ii) 1,181,575 options to purchase Common Shares and 115,500 options to purchase common shares of SouthGobi are not presently exercisable. For more information on the Withheld Benefits, see Executive Compensation Withholding of Certain Termination Benefits in favour of Former Executives on page 51 of this Management Proxy Circular.
- (13) There are no interlocking directorships that exist within management's Director nominees or the Additional Director Appointees.
- (14) All incentive stock options issued to the Corporation's directors, employees and service providers prior to December 31, 2010 (the 2011 Rights Offering Record Date), the record date of the Corporation's rights offering transaction which was completed February 2, 2011 (the 2011 Rights Offering), and outstanding as of the 2011 Rights Offering Record Date, have been adjusted to ensure that holders of such options retain an equivalent share capital entitlement underlying their options after the completion of the 2011 Rights Offering as such holders enjoyed prior to the 2011 Rights Offering and the resulting dilutive issuance of Common Shares under the 2011 Rights Offering.
- (15) Ms. Gardiner, Mr. Gillin, Ms. Hudon and Dr. Klingner were appointed to the Board effective May 7, 2012.

- (16) Dr. Klingner was appointed Chairman of the Board effective May 10, 2012.
- (17) Ms. Gardiner and Mr. Gillin were appointed to the Audit Committee effective May 9, 2012.
- (18) Mr. Gillin and Ms. Hudon were appointed to the Compensation and Benefits Committee effective May 10, 2012.
- (19) Mr. Harding was appointed to the Nominating and Corporate Governance Committee effective April 17, 2012. Ms. Gardiner, Ms. Hudon and Dr. Klingner were appointed to the Nominating and Corporate Governance Committee effective May 10, 2012.
- (20) Mr. Meredith and Ms. Priestly were appointed to the Safety, Health and Environment Committee effective May 10, 2012.
- (21) Pursuant to the MOA, Ms. Priestly was appointed interim Chief Executive Officer of the Corporation effective April 17, 2012 and ceased to be a non-management Director as of such date. She was subsequently appointed Chief Executive Officer effective May 1, 2012.
- (22) Mr. Harding and Ms. Priestly were appointed to the Board effective February 8, 2011. During 2011, the Board held eight meetings after such date.
- (23) Mr. Larsen was appointed to the Board effective July 8, 2011. During 2011, the Board held four meetings after such date.
- (24) The Corporation has determined that Mr. Lenegan will qualify as an independent Director effective July 24 2012. For more information see Election of Directors Additional Director Appointees on page 19 of this Management Proxy Circular.
- (25) The Corporation has determined that Mr. Meredith is a non-independent Director nominee by virtue of being a former senior officer of the Corporation and/or one or more of its subsidiaries and a former member of management within the last three years.

Additional Disclosure Relating to Directors

To the knowledge of the Corporation, no Director is, or has been within the last 10 years, a director or executive officer of an issuer that, while that individual was acting in such capacity, (a) was the subject of a cease trade order or similar order or an order that denied the issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days, (b) was subject to an event that resulted, after that individual ceased to be a director or executive officer, in the issuer being the subject of a cease trade or similar order that denied the issuer access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days, or (c) within one year of that individual ceasing to act in such capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except for the following:

Mr. R. Peter Gillin, a Director, was a director, Chairman and Chief Executive Officer of Tahera Diamond Corporation (Tahera), from October 2003 to September 2008, a company that filed for protection under the Companies Creditors Arrangement Act (Canada) (CCAA) with the Ontario Superior Court of Justice on January 16, 2008. As a consequence of its financial difficulties, Tahera failed to file financial statements for the year ended December 31, 2007 and subsequent financial periods. As a result, Tahera was delisted from the TSX in November 2009 and issuer cease trade orders were issued in 2010 by the securities regulatory authorities of Ontario, Quebec, Alberta and British Columbia, which orders have not been revoked. Tahera subsequently sold its tax assets to Ag Growth International and certain properties, including the Jericho diamond mine, to Shear Minerals Ltd., and the monitoring process under CCAA concluded by order of the Ontario Superior Court of Justice in September 2010.

Interlocking Directorships

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There are no interlocking directorships that exist among management s (11) Director nominees or the Additional Director Appointees as at May 24, 2012.

Retirement Policy

At present, the Corporation has no formal retirement policy for its Directors.

Summary of Board and Committee Meetings Held

The following table summarizes the meetings of the Board and the Committees held during the year ended December 31, 2011: ¹

| | |
|---|---|
| Board of Directors | 9 |
| Compensation and Benefits Committee | 8 |
| Audit Committee | 4 |
| Nominating and Corporate Governance Committee | 4 |
| Safety, Health and Environment Committee | 3 |
| Executive Committee ² | 0 |

The number of meetings above is inclusive of a total of four meetings of the Board of Directors and two meetings of the Compensation and Benefits Committee held by teleconference. In addition, there were six resolutions passed in writing by the Board and two by the Compensation and Benefits Committee in 2011. No resolutions in writing were passed by the Audit, the Nominating and Corporate Governance, the Safety, Health and Environment or the Executive Committees in 2011. Resolutions in writing must be executed by all of the Directors entitled to vote on the subject matter of the resolution.

NOMINATION RIGHTS

Rio Tinto owns a majority of the Common Shares and can exercise its voting power to elect all of the members of the Board subject only to the agreed limitations in the MOA (the terms of which supersede the limitations in the HOA). The MOA effectively limits Rio Tinto's ability to elect more than nine Directors (on a Board of 11) or 11 Directors (on a Board of 13) by providing that until the earlier of: (a) January 18, 2014; and (b) the date the Corporation ceases to be a reporting issuer or its equivalent under the securities laws of any province or territory of Canada:

- (i) Robert Friedland may, conditional upon him continuing to own at least 10% of the outstanding Common Shares, select two Directors who were Directors on April 16, 2012 (such potential nominee Directors, the RMF Nominees) and Rio Tinto will exercise its voting power for the election of the RMF Nominees from time to time. Such RMF Nominees (1) must include one independent Director, (2) cannot include Robert Friedland and (3) must be acceptable to Rio Tinto;
- (ii) subject to the foregoing condition, if an RMF Nominee resigns as, or ceases to be, a Director, Robert Friedland shall have the right to select a replacement Director from among the remaining RMF Nominees or, if there are no remaining RMF Nominees who are able and willing to be a Director at such time, select any other qualified individual who is an independent Director and acceptable to Rio Tinto and the Board, to fill any such vacancy and the Board shall take all necessary steps to appoint such RMF Nominee or individual, as the case may be, as a Director; and
- (iii) a majority of the Directors will be independent Directors, as determined in accordance with the criteria established for independence under the Private Placement Agreement dated October 18, 2006 between the Corporation and RTIH, as amended (the PPA).

¹ In addition to meetings of the Board and the Committees, the Independent Directors held five meetings and the Non-Management Directors held one meeting during the year ended December 31, 2011.

² As part of the MOA, the Executive Committee was dissolved in April 2012.

APPOINTMENT OF AUDITORS

Shareholders will be requested to appoint PricewaterhouseCoopers LLP, Chartered Accountants, Vancouver, B.C. (PwC) as auditors of the Corporation to hold office until the next annual meeting of shareholders and to authorize the Directors to fix their remuneration and the terms of their engagement.

Deloitte & Touche LLP, Chartered Accountants, Vancouver, B.C. (Deloitte) were appointed as auditors of the Corporation in January 1995. The Corporation accepted the resignation of Deloitte as auditors of the Corporation effective April 2, 2012. The Corporation has appointed PwC as Deloitte's successor auditors. The appointment of PwC must be approved by ordinary resolution at the Meeting.

In accordance with the requirements of National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102), a copy of the Corporation's Reporting Package , which includes a Notice of Change of Auditor (the Notice) and letters from Deloitte and PwC indicating their agreement with the information contained in the Notice, is attached to this Management Proxy Circular as Schedule B .

To be approved, the resolution requires the affirmative vote of a majority of the votes cast on the resolution. Proxies received in favour of management will be voted in favour of the appointment of PwC as auditors of the Corporation to hold office until the next annual meeting of shareholders and the authorization of the directors to fix the auditors' remuneration and terms of engagement, unless the shareholder has specified in a proxy that his, her or its Common Shares are to be withheld from voting in respect thereof.

Audit Services

Fees billed by Deloitte and its affiliates during fiscal 2011 and fiscal 2010 were approximately C\$2,940,000 and C\$2,181,000, respectively. The aggregate fees billed by the auditors in fiscal 2011 and fiscal 2010 are detailed below.

| <i>(Canadian \$ in 000 \$)</i> | 2011 | 2010 |
|--------------------------------|-----------------|-----------------|
| Audit Fees (a) | \$ 1,203 | \$ 954 |
| Audit Related Fees (b) | \$ 771 | \$ 1,156 |
| Tax Fees (c) | \$ 143 | \$ 71 |
| Other Fees (d) | \$ 823 | |
| Total | \$ 2,940 | \$ 2,181 |

(a) Fees for audit services billed or expected to be billed relating to fiscal 2011 and 2010 consist of:

audit of the Corporation's annual statutory financial statements; and

audit of its subsidiaries (SouthGobi and Ivanhoe Australia) annual statutory financial statements.

In addition, in 2011 and 2010, fees were paid for services provided in connection with reviews pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) and the required attestations relating to the effectiveness of the Corporation's internal controls on financial reporting.

(b) Fees for audit-related services provided during fiscal 2011 and 2010 consisted of:

translation services;

financial accounting and reporting consultations;

reviews of the Corporation's interim financial statements;

reviews of its subsidiaries (SouthGobi and Ivanhoe Australia) interim financial statements; and

comfort letters, consents, and other services related to the U.S. Securities and Exchange Commission (SEC), Canadian and other securities regulatory authorities matters.

(c) Fees for tax services provided during fiscal 2011 and 2010 consisted of income tax compliance and tax planning and advice relating to transactions and proposed transactions of the Corporation and its subsidiaries.

(d) Fees for other services provided during fiscal 2011 related to human capital advisory services to a subsidiary of the Corporation.

Pre-Approval Policies and Procedures

All services to be performed by the Corporation's independent auditor must be approved in advance by the Audit Committee or a designated member of the Audit Committee (Designated Member). The Designated Member is a member of the Audit Committee who has been given the authority to grant pre-approvals of permitted audit and non-audit services.

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Audit Committee or the Designated Member of all audit and non-audit services provided by the external auditor, other than any *de minimis* non-audit services allowed by applicable law or regulation. The decisions of the Designated Member to pre-approve a permitted service are reported to the Audit Committee at its regularly scheduled meetings.

Pre-approval from the Audit Committee or Designated Member can be sought for planned engagements based on budgeted or committed fees. No further approval is required to pay pre-approved fees. Additional pre-approval is required for any increase in scope or in final fees.

Pursuant to these procedures, 100% of each of the services provided by the Corporation's external auditors relating to the fees reported as audit, audit-related, tax and all other fees were pre-approved by the Audit Committee or the Designated Member.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

At no time since the beginning of the Corporation's most recently completed financial year was any Director, executive officer or proposed management nominee for election as a Director or any associate of such Director, executive officer or proposed nominee indebted to the Corporation or any of its subsidiaries, or to another entity where such indebtedness is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Other than as disclosed below or elsewhere in this Management Proxy Circular, no Director, proposed Director or executive officer of the Corporation, or person or company who beneficially owns, or controls or directs, directly or indirectly, 10% or more of the issued and outstanding Common Shares, or any Director or executive officer of such 10% shareholder, nor any associate or affiliate of the foregoing, has any material interest, direct or indirect, in any transaction since the commencement of the Corporation's most recently completed financial year or in any proposed transaction that has materially affected or would materially affect the Corporation or any of its subsidiaries.

Prior to the MOA, the Corporation was a party to cost sharing agreements with other companies in which the Corporation's significant shareholder and former Chief Executive Officer, Robert Friedland, has a material direct or indirect beneficial interest. Through these agreements, the Corporation shared, on a cost-recovery basis, office space, furnishings, equipment and communications facilities in Vancouver, Singapore and London, and an aircraft. The Corporation also shared the costs of employing administrative and non-executive management personnel in these offices. During the year ended December 31, 2011, the Corporation's share of these costs was US\$23.1 million (2010 US\$21.3 million and 2009 US\$15.8 million). The companies with which the Corporation was a party to the cost sharing agreements, and Mr. Friedland's ownership interest in each of them, as at December 31, 2011, are as follows:

| Company Name | Robert Friedland Ownership Interest |
|---|--|
| Ivanhoe Energy Inc. | 14.30% |
| Ivanhoe Capital Corporation | 100% |
| Ivanplats Limited (formerly Ivanhoe Nickel & Platinum Ltd.) | 35.47% |
| SouthGobi Resources Ltd. | (1) |
| I-Pulse Inc. | 33.38% |
| GoviEx Uranium Inc. | Nil |

(1) As at December 31, 2011, Mr. Friedland owned 13.71% of the Common Shares of the Corporation, which owned 57.79% of the common shares of SouthGobi (57.68% as of May 24, 2012).

Concurrent with the execution of the MOA, on April 17, 2012, the Corporation and certain entities controlled by Mr. Friedland entered into a series of agreements (the Cost Sharing Termination Agreements) providing for the termination of cost sharing arrangements for the use of office space, furnishings, equipment and communications facilities in London, Singapore and Beijing, for the provision of aircraft services and for the cost of employing administrative and non-executive management personnel, in consideration for the payment by the Corporation to those entities of the aggregate amount of US\$19,350,000, as full and final settlement and payment of (i) the Corporation and its subsidiaries percentage share (based on historical usage of the shared assets) of estimated costs and expenses to such entities of terminating the cost-sharing arrangements, and (ii) the settlement of all other claims, accruals or amounts owing by or to the Corporation or any of its subsidiaries to such entities in respect of the cost-sharing arrangements, including outstanding invoices and accruals thereunder. It was agreed that cost-sharing arrangements for the sharing of offices and staff, furnishings, equipment and communications facilities in Vancouver will continue, on a transitional and modified basis, until October 31, 2013.

Rio Tinto is the Corporation's largest shareholder, beneficially holding as of May 24, 2012, 50.90% of the issued and outstanding Common Shares. Within the Corporation's three most recently completed financial years, and within the current financial year, Rio Tinto has been a party to a series of transactions that have materially affected, or could materially affect, the Corporation. During the year ended December 31, 2011, Rio Tinto provided services to the Corporation for the Oyu Tolgoi Project on a cost-recovery basis which amounted to US\$110.2 million (2010 US\$23.8 million and 2009 US\$8.6 million).

MANAGEMENT CONTRACTS

Management functions of the Corporation or its subsidiaries are not performed by a person or persons other than the directors or senior officers of the Corporation or its subsidiaries.

EXECUTIVE COMPENSATION

In accordance with the requirements of applicable securities legislation in Canada, the following executive compensation disclosure is provided in respect of each person who served as the Corporation's Chief Executive Officer or Chief Financial Officer during the 2011 fiscal year, and each of the three most highly compensated executive officers of the Corporation and its subsidiaries whose annual aggregate compensation for the 2011 fiscal year exceeded Cdn\$150,000 (collectively the Named Executive Officers or NEOs).

Compensation Discussion and Analysis

Executive Summary

The purpose of the Corporation's compensation program for senior executives is to link compensation levels to performance, provide incentives to attract, motivate and retain qualified and experienced executives, to align the interests of senior executives with shareholders, to encourage and reward high performance, and to provide fair, transparent and defensible compensation.

The Board, through its Compensation and Benefits Committee (the Compensation Committee) is committed to the transparent presentation of its compensation program.

The three principal elements that make up the compensation program are: base salary, performance bonus and long term incentives.

Direct compensation levels for NEOs for 2011 were targeted at the 75th percentile of market for the three most senior positions (Chief Executive Officer, Deputy Chairman and President) and at between the median and 75th percentile for Chief Financial Officer and the Executive Vice President. This Compensation philosophy is a target only, with flexibility to provide compensation at a higher or lower percentile.

Compensation decisions for bonus and long term incentives awarded to NEOs for 2011 performance were made on a subjective discretionary assessment by the Compensation Committee and the Board based on the NEO's respective contributions and corporate achievements during 2011. In making these decisions, considerable weight was given by the Compensation Committee and the Board to the small size of the Corporation's executive team handling multiple important functions and to the importance of retaining these executives at a significant time in the Corporation's development.

In 2011 the NEOs were:

Robert Friedland Former Chief Executive Officer

John Macken Former President

Peter Meredith Former Deputy Chairman

Tony Giardini Former Chief Financial Officer

Steve Garcia Executive Vice President

Recent Developments Related to NEOs

Concurrent with the execution of the MOA on April 17, 2012:

- (i) Robert Friedland (Chief Executive Officer), Tony Giardini (Chief Financial Officer), John Macken (President), Sam Riggall (Executive Vice President, Business Development and Strategic Planning) and Peter Meredith (Deputy Chairman) resigned as officers of the Corporation; and
- (ii) Kay Priestly (Director) was appointed as interim Chief Executive Officer of the Corporation and Catherine Barone (Vice-President, Finance) was appointed as interim Chief Financial Officer of the Corporation. On May 1, 2012, Kay Priestly was appointed as Chief Executive Officer and Chris Bateman was appointed as Chief Financial Officer.

Compensation Committee

The Corporation's executive compensation program is administered by the Compensation Committee. The Compensation Committee's responsibilities include the following:

Reviewing and approving corporate goals and objectives relevant to the Chief Executive Officer's compensation, by evaluating the Chief Executive Officer's performance and setting his compensation level;

Reviewing and making recommendations to the Board with respect to the adequacy and form of compensation and benefits of all executive officers and directors;

Administering and making recommendations to the Board with respect to the Corporation's incentive compensation plans and equity-based plans;

Determining the recipients of, the nature of, and size of share compensation awards and bonuses granted from time to time; and

Preparing any report as may be required under applicable securities law, stock exchange, and any other regulatory requirements. The Compensation Committee met eight times during the year. At the beginning of 2011, the Compensation Committee consisted of Messrs. David Korbin (Chair), Howard Balloch, Marc Faber and Ms. Livia Mahler, all independent Directors. Mr. Howard Balloch left the Committee in July 2011 and Mr. Robert Holland was appointed to Committee in August 2011. Messrs. David Korbin and Marc Faber and Ms. Livia Mahler left the Committee in April 2012. Messrs. Michael Gordon and David Huberman were appointed to the Committee in April 2012. Messrs. Michael Gordon, David Huberman and Robert Holland left the Committee in May 2012. Ms. Mahler was reappointed to the Committee in May 2012.

The Compensation Committee is currently made up of the following members, all of whom are independent Directors and have experience in dealing with compensation matters:

Mr. R. Peter Gillin was elected Chair of the Compensation Committee in May 2012. He also serves as the chair of the compensation committees of two public companies and serves on the compensation committee of another public company. Mr. Gillin has experience in establishing compensation and has attended several conferences on executive compensation and compensation committee responsibilities.

Ms. Isabelle Hudon serves as board chair of a Canadian public university and has broad experience in benchmarking and compensation policies and practices.

Ms. Livia Mahler is currently serving on the compensation committee of another public company and has experience developing and negotiating compensation packages for senior management members which included fixed salary components and performance based bonus and equity schemes.

The Compensation Committee assists the Board in fulfilling its responsibilities relating to compensation issues and human resources. The Compensation Committee endeavours to ensure that the Corporation has an executive management compensation plan that is both competitive and motivational so that it will help attract, retain and inspire performance of the Corporation's executive management of a quality and nature that will enhance the sustainable growth and success of the Corporation.

In establishing compensation policies for senior executives, the Compensation Committee takes into consideration the recommendations of management. The Compensation Committee may seek compensation advice where appropriate from external consultants. When the Compensation Committee considers it necessary or advisable, it may retain, at the Corporation's expense, outside consultants or advisors to assist or advise the Compensation Committee on any matter within its mandate. The Compensation Committee has the sole authority to retain and terminate any such consultants or advisors. Management also engages consultants from time to time to assist in making compensation proposals for consideration by the Compensation Committee and the Board.

The Compensation Committee engaged Mercer (Canada) Limited (Mercer) in 2007 to assist the Compensation Committee with compensation matters and, as part of this engagement, Mercer assisted in preparing an executive compensation model for the Corporation. This model was approved by the Compensation Committee in October 2007 and was formally adopted by the Board of Directors in March 2008. Mercer also provides ongoing support to the Compensation Committee from time to time in determining compensation for the Corporation's executive officers.

In 2011, the Compensation Committee retained Mercer to assess and report on the market competitiveness of executive compensation levels at the Corporation and to provide advice on management proposals for 2012 salary increases and awards under the Corporation's incentive plans for 2011 performance (the 2011 Mercer Report). During 2011, Mercer also provided advice in connection with compensation issues related to the transition of the Lead Director to the non-executive Board Chair role and in respect of director compensation levels.

Management retained Roger Gurr and Associates (Gurr) of Vancouver in 2010 to assist management in making compensation proposals to the Compensation Committee. In 2011 management again engaged the services of Gurr to assist them in making proposals to the Compensation Committee in respect of compensation levels (salary, bonus and value of long-term incentives) to be provided to top-level executives in 2012. In addition, Gurr was independently retained by the Compensation and Benefits Committee of the board of directors of SouthGobi during 2010 and 2011 to provide executive compensation advice for executive officers of SouthGobi.

Executive Compensation-Related Fees

Mercer received Cdn\$97,335 in 2010 and Cdn\$52,689 in 2011 in connection with its executive compensation advice to the Compensation Committee. Mercer's fees of Cdn\$52,689 in 2011 were comprised of Cdn\$44,289 for executive compensation matters and Cdn\$8,400 in respect of Board, Chair and Director compensation matters. Gurr received Cdn\$68,656 in 2010 and Cdn\$74,088 in 2011 in connection with its compensation advice to management, regarding executive compensation.

All Other Fees

In consideration of its services to the Compensation and Benefits Committee of SouthGobi, Gurr received Cdn\$43,848 in 2010 and Cdn\$48,496 in 2011.

Compensation Philosophy and Goals

The guiding principles for the Corporation's executive compensation philosophy, each having approximately an equal level of importance, are as follows:

to ensure a strong link between compensation levels and performance in relation to the Corporation's key short and long-term performance metrics;

to facilitate the attraction, motivation, and retention of high quality executive talent;

to provide fair, transparent, and defensible compensation;

to encourage and reward high performance; and

to align the Corporation's executives' interests with those of its shareholders.

In applying these principles during what is still the developmental period of the Corporation's growth, the Compensation Committee maintains a degree of flexibility and subjectivity in making compensation recommendations, rather than applying structural objective compensation processes that are appropriate for a company whose major assets are in production. In light of recent corporate developments and management changes, the Compensation Committee expects to review its compensation policies for senior management during 2012 with the assistance of compensation consultants to the extent deemed advisable.

How the Compensation Committee Arrives at its Compensation Recommendations

The Compensation Committee reviews and recommends the compensation philosophy and guidelines for the Corporation which includes reviewing, for recommendation to the Board of Directors, the compensation of senior executive officers and employees, including annual salary and incentive policies and programs. The Compensation Committee bases its recommendations to the Board of Directors on its compensation philosophy and on the performance of the individual and the Corporation. The Compensation Committee seeks compensation advice from its compensation consultants to provide support to the Compensation Committee in determining compensation for the Corporation's officers.

The Compensation Committee periodically reviews the terms of reference for the Corporation's Chief Executive Officer and recommends any changes to the Board of Directors for approval. It reviews corporate goals and objectives with respect to the Chief Executive Officer's compensation and leads the Chief Executive Officer review process.

In the fall of each year, the Compensation Committee reviews the total compensation of the senior executive officers, including salaries, target bonus award opportunities, target annual long-term incentive award values, other compensation elements, and other practices related to compensation. The Compensation Committee then sets each executive's compensation target for the following year. Typically, this involves establishing his or her salary and annual bonus opportunities and granting long-term equity incentive awards. Regular salary adjustments become effective on January 1 of the following year. The Compensation Committee's recommendations are reviewed and, if deemed appropriate, ratified by the Board.

The Compensation Committee works with the senior executives of the Corporation to evaluate their performance and set the compensation for their positions. Management presents compensation recommendations for each of the executive officers, including proposed salary adjustments, target bonus awards and long-term incentive award values. The Compensation Committee determines the appropriateness management's proposals based on the market data and recommended framework provided by Mercer and its own evaluation of the individuals' past and expected future performance.

Ultimately, recommendations made by the Compensation Committee are the responsibility of the Compensation Committee and may reflect factors and considerations other than the information and recommendations provided by Mercer. The Compensation Committee also considers a variety of qualitative factors, including the business environment in which the Corporation operates, as well as the stage of the Corporation's development. Thus, the compensation of its executives is not determined by any specific formula. The Compensation Committee and the Board retain a significant level of discretion in making compensation decisions, particularly in assessing corporate and individual performance in the determination of bonus compensation. The Compensation Committee and the Board also retain flexibility in making compensation awards outside of the compensation plan framework where circumstances justify such awards.

In making compensation decisions, the Compensation Committee and the Board regularly assess, as part of their respective deliberations, the risks associated with the Corporation's compensation policies and practices. The actual bonus and long term incentive compensation decisions made in 2011 were subjective and discretionary within the Board targeted compensation framework, and, accordingly, compensation is not tied to particular metrics which could be distortive and import risk. In assessing performance, the Compensation Committee and the Board consider multiple short and long term factors, including contribution to shareholder value, corporate business objectives, regulatory and other compliance factors and risk minimization.

Executive compensation (including the salary ranges, target bonuses, and long-term incentive grants) is reviewed on an annual basis and adjusted in accordance with changes in the market and market conditions, while also taking into account the Corporation's stage of development, to ensure that its compensation remains competitive and aligns with the Corporation's compensation philosophy and market conditions.

Peer Comparator Group

A specific comparator group of publicly-traded companies has been developed annually based on research conducted by Mercer and input from the Compensation Committee and management. The selection criteria for the companies included: significant project development activities underway, project developments and/or operations in complex, international locations, and with a market capitalization within a reasonable range of the Corporation's current market capitalization.

The comparator group listed below was used to benchmark base salary, annual incentives, and long term incentives. For 2011, Mercer conducted a review of market executive compensation levels. At the outset of the review, updated background information on the Corporation, the executives' roles and responsibilities, and current compensation philosophy and programs were provided to Mercer by representatives of the Compensation Committee and management. The peer comparator group of companies was reviewed, to confirm whether or not the companies included were still relevant to the Corporation. Mercer then compiled and analyzed market compensation information about the peer comparator companies. The Compensation Committee believes that this peer comparator group represents the market for the attraction and retention of qualified executive talent.

The comparator organizations used for compensation decisions made during 2011 were Agnico Eagle Mines Ltd., AngloGold Ashanti Ltd., Cameco Corp., Eldorado Gold Corp., First Quantum Minerals Ltd., Fortescue Metals Group Ltd., Gold Fields Ltd., IAMGOLD Corp., Kinross Gold Corp., Newcrest Mining Ltd., Randgold Resources Ltd., and Yamana Gold Inc. This group differs from 2010, in that Centerra Gold Inc., Lundin Mining Corp., and Petropavlovsk PLC were excluded because of their smaller relative market capitalizations, and AngloGold Ashanti and Gold Fields Ltd. were added.

The Compensation Committee compares the Corporation's executives to the incumbents in the comparator group that appear to be performing similar job functions. Where market data for the functional roles was not available, data was provided on a ranking basis (for the ranking match, the top five executives in the comparator organizations are ranked in order of their total cash compensation from highest to lowest). The Corporation's executives are matched to the comparator group executives on the same basis.

Executive Compensation Programme

As a basis for its compensation recommendations in respect of 2011, the Compensation Committee set the target compensation for the Chief Executive Officer, Deputy Chairman and President at the 75th percentile for the executives in equivalent positions in the Corporation's peer comparator group. The target for the Chief Financial Officer and Executive Vice President were initially set at median level for purposes of setting 2011 salary levels, but this was reassessed during the compensation deliberations during the fall of 2011 and the target was reset at between the median and the 75th percentile to reflect both the importance of, and expanded responsibilities entailed in, these roles during the course of 2011. The Compensation Committee and the Board retain the ability to deliver compensation at a higher percentile of the market when performance warrants such determination.

In light of recent corporate developments and management changes, the Compensation Committee expects to review its compensation policies for senior management during 2012 with the assistance of compensation consultants to the extent deemed advisable.

Compensation Elements

The compensation of the Corporation's senior executives is comprised of three principal components: base salary, annual performance bonuses (in cash or fully paid Common Shares, or a combination thereof) and long term equity incentives. The Corporation does not maintain a pension plan or other long term compensation plan for its senior executives. Eligible employees, including officers, designated by the Board on the recommendation of the Compensation Committee may participate in the Corporation's Share Purchase Plan under the Corporation's Employees and Directors' Equity Incentive Plan (the "Equity Incentive Plan").

The following summarizes the primary purpose of each rewards element and its emphasis within the total rewards package:

Base salary Base salary is paid in cash and is the fixed amount of compensation for performing day-to-day responsibilities.

Annual Performance Bonus Annual bonus awards (paid in cash or Common Shares, or a combination thereof) are earned for achieving short-term goals and other strategic objectives measured over the current year.

Long-Term Incentive Awards Long-term incentive awards are granted to retain executives, build executive ownership, and align compensation with achievement of the Corporation's long-term goals, creating shareholder value and achieving strategic objectives as measured over multi-year periods.

In making compensation recommendations in respect of these elements, the Compensation Committee considers both the cumulative compensation being granted to executive officers of the Corporation as well as internal comparisons amongst the Corporation's executives.

In exceptional circumstances, the Compensation Committee will also consider awarding special recognition awards to senior executives, employees and other individuals, where certain special corporate achievements occur as a result of the significant efforts, particularly where such achievements provide for significant increases in shareholder value.

Annual Salary Compensation

Under the Corporation's compensation plan, salaries are reviewed on an annual basis in conjunction with the annual performance review, and salary adjustments for the following year are considered based on a variety of factors, including the individual's performance and contributions, improvements in job proficiency, retention risks and concerns, succession requirements, and compensation changes in the market.

For 2011, NEO salaries were set at the end of 2010 and reflected a median percentile of comparator group target pay position for the Chief Financial Officer and Executive Vice President and at a 75% percentile for the more senior NEO positions.

The following table sets forth the salaries of the NEOs for 2010, 2011 and 2012 with the respective percentage increases in salary over such periods.

| Name and Position | Salary 2010 US\$ | Salary 2011 US\$ | % Increase in Salary from 2010 to 2011 | Salary 2012 US\$ | % Increase in Salary from 2011 to 2012 |
|---|---------------------|---------------------|--|---------------------|--|
| Robert Friedland ⁽¹⁾ | n/a | \$ 900,000 | n/a | \$ 1,050,000 | 16.7% |
| Former Chief Executive Officer (and until May 2011, Executive Chairman) ⁽²⁾ | | | | | |
| John Macken | \$ 714,000 | \$ 800,000 | 12.0% | \$ 900,000 | 12.5% |
| Former President ⁽²⁾ | | | | | |
| Peter Meredith ⁽³⁾ | \$ 714,000 | \$ 800,000 | 12.0% | \$ 900,000 | 12.5% |
| Former Deputy Chairman ⁽²⁾ | | | | | |
| Tony Giardini ⁽⁴⁾ | \$ 399,914 | \$ 455,018 | 13.8% | \$ 606,612 | 33.3% |
| Former Chief Financial Officer ⁽²⁾ | | | | | |
| Steve Garcia ⁽⁵⁾ | \$ 450,000 | \$ 450,000 | Nil | \$ 500,000 | 11.1% |
| Executive Vice President | | | | | |

- (1) Mr. Friedland received no salary in 2010 for his role as the Corporation's Executive Chairman and from October 2010, as its Chief Executive Officer. Commencing in January 2011, Mr. Friedland received a salary for his role as Chief Executive Officer. Mr. Friedland resigned as Executive Chairman as of May 2011 and Chief Executive Officer as of April 2012.
- (2) Pursuant to the MOA, Messrs. Friedland, Macken, Meredith and Giardini resigned in April 2012.
- (3) Mr. Meredith's salary was set by the Corporation but was allocated among the Corporation and certain other subsidiaries and related companies. For 2010, a salary of US\$549,198 was paid by the Corporation and for 2011, a salary of \$600,662 was paid by the Corporation. The calculation in this table assumes 100% of Mr. Meredith's salary was paid by the Corporation.
- (4) Mr. Giardini's salary was payable in Canadian dollars. The US dollar equivalent of Mr. Giardini's salary was obtained by dividing his Canadian dollar salary in 2012 and 2011 by C\$0.9891/US\$1.00, the Bank of Canada average noon exchange for 2011, and in 2010 by C\$1.0299/US\$1.00, the Bank of Canada average noon exchange rate for 2010.
- (5) Mr. Garcia's salary is paid to a services corporation that provides Mr. Garcia's services to the Corporation. The NEO salary increases for 2012 were based on target salaries set at the median and 75th percentile of the peer comparator group for all NEOs. Mr. Giardini received a proportionately higher increase in part to reflect his position being reassessed at a higher target level, in part to reflect the expanded responsibilities of his position during 2011 and in part for retention purposes.

Annual Bonus Compensation

Executive officers are eligible for annual bonus compensation. Annual bonus awards are earned for both individual and corporate performance. In certain years, annual bonus awards are more formalized based on an allocation of corporate, business unit performance and individual performance. In 2011, this structure was not followed and specific compensation related goals and metrics were not established. Accordingly, bonus decisions were based on a subjective discretionary assessment of corporate and individual performance by the Compensation Committee and the recommendation of their findings to the Board.

Under the annual bonus plan, target awards (as a percentage of base salary) are based on relevant market data for the peer comparator group and target pay positioning which, for 2011 annual bonuses were set at the 75th percentile of the peer comparator group for the Chief Executive Officer, Deputy Chairman and President and between the median and 75th percentile for the remaining two NEOs. Actual bonuses awarded were based on a discretionary subjective assessment of corporate and individual performance and retention considerations.

The table below sets forth the cash bonuses awarded as a percentage of 2011 salary, total cash compensation for 2010 and 2011 and the percentage increase in total cash compensation from 2010 to 2011.

| | 2011 Cash Bonus US\$ | 2011 Cash Bonus as % of Salary | 2010 Cash Compensation (Salary and Bonus) US\$ | 2011 Cash Compensation (Salary and Bonus) US\$ | % Increase in Cash Compensation (2010-2011) |
|---|-------------------------|--------------------------------------|---|---|--|
| Robert Friedland ⁽¹⁾ | \$ 930,000 | 103.3% | n/a | \$ 1,830,000 | n/a |
| Former Chief Executive Officer (and until May 2011, Executive Chairman) ⁽²⁾ | | | | | |
| John Macken | \$ 830,000 | 103.8% | \$ 1,514,000 | \$ 1,630,000 | 7.7% |
| Former President ⁽²⁾ | | | | | |
| Peter Meredith ⁽³⁾ | \$ 830,000 | 103.8% | \$ 1,514,000 | \$ 1,630,000 | 7.7% |
| Former Deputy Chairman ⁽²⁾ | | | | | |
| Tony Giardini ⁽⁴⁾ | \$ 444,849 | 97.8% | \$ 778,577 | \$ 899,867 | 15.6% |
| Former Chief Financial Officer ⁽²⁾ | | | | | |
| Steve Garcia ⁽⁵⁾ | \$ 440,000 | 97.8% | \$ 890,000 | \$ 890,000 | Nil |
| Executive Vice President | | | | | |

- (1) Mr. Friedland did not receive a salary or bonus in 2010, but did receive a special recognition award, of which US\$3,390,665 was received in cash. See Other Compensation for Robert Friedland in 2010 in the Summary Compensation Table for the Corporation below.
- (2) Pursuant to the MOA, Messrs. Friedland, Macken, Meredith and Giardini resigned in April 2012.
- (3) Mr. Meredith's salary was set by the Corporation but was allocated among the Corporation and certain other subsidiaries and related companies. For 2011, a salary of US\$600,662 was paid by the Corporation and for 2010 US\$549,198 was paid by the Corporation. The calculation in this table assumes 100% of Mr. Meredith's salary was paid by the Corporation.
- (4) Mr. Giardini's salary was payable in Canadian dollars. The US dollar equivalent of Mr. Giardini's salary and bonus was obtained by dividing his Canadian dollar salary in 2011 by C\$0.9819/US\$1.00, the Bank of Canada average noon exchange rate for 2011, and in 2010 by C\$1.0299/US\$1.00, the Bank of Canada average noon exchange rate for 2010.
- (5) Mr. Garcia's bonus is paid to a services corporation that provides Mr. Garcia's services to the Corporation.

In setting bonus compensation for 2011, the Compensation Committee determined that bonus compensation at 1.4 to 1.5 times target for each of the NEOs was warranted for both retention considerations and in light of the following key corporate factors: the relatively small executive team handling multiple responsibilities; the importance of retaining the executive team at a significant time in the Corporation's development and the development of the Corporation's complex project at Oyu Tolgoi being ahead of schedule and on budget as at the time 2011 compensation decisions were taken. In setting Mr. Friedland's bonus the Compensation Committee noted his overall leadership and his role as the principal interface for the Corporation with important stakeholders. Mr. Meredith was rewarded for his overall management of the Corporation's activities both in relation to Oyu Tolgoi and the Corporation's other interests, as well as his role in respect of certain strategic relationships. Messrs. Macken and Garcia were rewarded principally for their valued technical and strategic experience in developing complex projects and their overall importance to the development of the Oyu Tolgoi project and the interim successes achieved in relationship to its development. Mr. Giardini was singled out for particular recognition, through a relatively larger bonus as a percentage of his salary, for the important leadership role he played during 2011 for the Corporation, noting the expansion of his role to include many additional duties, and the particular role he played as team leader for project finance.

Special Bonus Arrangements for Steven Garcia, Executive Vice-President

In December 2011, the Corporation entered into a bonus arrangement in respect of the personal services of Mr. Garcia provided by a services corporation. Under this arrangement, the services corporation will receive a cash bonus of US\$1 million upon the principal construction contractor at the Oyu Tolgoi project receiving its completion fee for substantial completion of the Oyu Tolgoi plant construction, provided Mr. Garcia's services have not been terminated at the election of the services corporation at such completion date. A proportionate amount of the bonus in respect of Mr. Garcia's services may become payable as of the date such contractor earns, or is deemed to earn, its completion fee as a result of any amendments to the contractual arrangements with such contractor. If the Corporation terminates its services arrangement with Mr. Garcia's services corporation for any reason other than cause, this bonus will also be payable. The Compensation Committee recommended this arrangement as a more appropriate manner of incentivizing Mr. Garcia to continue to provide his very important services in the construction of the project, recognizing that his role was not expected to be of a long term duration, and that, accordingly, this bonus arrangement was more appropriate than a grant of long term incentives in the form of stock options.

Long-Term Incentives Stock Option Awards

An equity incentive component in the form of options is a key part of the executive's overall compensation package, reflecting the Corporation's belief that stock options offer an effective mechanism for incentivizing management and aligning the interests of its executive officers with those of the Corporation's shareholders. Since the Corporation does not grant incentive stock options at a discount to the prevailing market price of the Common Shares, the incentive stock options the Corporation grants to its executive officers accrete value only if, and to the extent that, the market price of the Common Shares increases, thereby linking equity-based executive compensation to shareholder returns.

Target long-term incentive awards under the Corporation's compensation plan are based on relevant market data for the peer comparator group and target pay positioning at the appropriate market level for total direct compensation (base salary, bonus and annual and long-term incentive compensation). The dollar value of the long-term incentive award is converted to the appropriate number of stock options at the time of the award, using a valuation methodology based on the details of the grant.

The Compensation Committee also considers the current total potential dilution under the Equity Incentive Plan (i.e., the number of stock options issued and unexercised, full-value share grants outstanding, and the number of shares reserved for the future issuance of equity, expressed as a percentage of Common Shares outstanding) of the Corporation and the peer comparator companies.

The actual award to the executive may be adjusted upwards or downwards relative to target, depending on the Compensation Committee's evaluation of each executive officer's ability to influence long-term success of the Corporation, and to provide an incentive to encourage outstanding individual performance and contributions. The Compensation Committee also considers each executive's stock option position, and may, in certain circumstances, grant options with performance-based vesting criteria.

The Compensation Committee accepts in principle the merits of performance related vesting for stock options, and the Corporation has in the past included performance contingent or performance accelerated vesting for many of its stock option grants. The Compensation Committee did not award performance contingent options to its NEOs during 2011.

Under the Corporation's compensation plan, new stock option grants will normally have terms of seven years and will be made to executive officers on an annual basis. Vesting of the stock options will generally be based on time, with 25% instalments vesting only on each anniversary of the original date of grant; provided, however, that upon a termination of employment of an option holder without cause following a change of control of the Corporation, all outstanding options become fully vested.

Pursuant to the MOA, the Corporation has agreed that it will not, without obtaining the prior written consent of RTIH, issue any equity incentive securities or equity compensation securities in favour of any directors, officers, employees or service providers of the Corporation or its subsidiaries, other than the issuance of Common Shares upon the exercise of outstanding stock options previously granted under the Equity Incentive Plan, as such options may be adjusted with the terms therein. For more information on such restrictions, see the MOA, which is available for viewing by the public at the System for Electronic Document Analysis and Retrieval (SEDAR) via the Internet at www.sedar.com.

Option Grants for 2010 Deferred to January 2011

As a result of corporate activities during the fourth quarter of 2010, the Board determined that the annual grant of long term incentive options would be deferred until such time that it was deemed appropriate. On January 29, 2011, following the conclusion of certain corporate events, the Board of Directors granted options to purchase Common Shares under its Equity Incentive Plan to the NEOs as follows: Mr. Friedland 300,000 options; Mr. Macken 220,000; Mr. Meredith 220,000 options; Mr. Giardini 120,000 options and Mr. Garcia 120,000 options. Such options are exercisable at a price of C\$27.83 and (i) in the case of Mr. Garcia, vested 25% on the first anniversary from the date of grant, and will vest as to 25% each subsequent year upon anniversary, until fully vested, and (ii) in the case of Mr. Friedland, Macken, Meredith and Giardini, vested 25% on the first anniversary from the date of grant, with the remainder having fully vested pursuant to the acceleration provisions in the Equity Incentive Plan, which were triggered in connection with the MOA and the Mutual Releases dated April 17, 2012 between the Corporation, RTIH and such executives (Acceleration Event); however such options are not presently exercisable pending the approval of the Withheld Benefits (as defined below). For more information on the Withheld Benefits, see Executive Compensation Withholding of Certain Termination Benefits in favour of Former Executives on page 51 of this Management Proxy Circular.

Option Adjustments Related to Rights Offering

All incentive stock options issued to the Corporation's directors, employees and service providers, including the NEOs prior to the 2011 Rights Offering Record Date, were adjusted to ensure that the holders of such options retained an equivalent share capital entitlement underlying their options after the completion of the 2011 Rights Offering as such holder enjoyed prior to such offering and the resulting dilutive issuance of Common Shares under such offering.

Option Grants Related to 2011 Compensation

In November 2011, the following long term incentive options were granted to NEOs under the Corporation's Equity Incentive Plan: Mr. Friedland 400,000 options; Mr. Macken 350,000 options; Mr. Meredith 350,000 options; and Mr. Giardini 200,000 options. Mr. Garcia did not participate in the November 2011 option grants in light of the special bonus arrangements put in place for Mr. Garcia in the fourth quarter of 2011 discussed above under the heading Special Bonus Arrangements for Steven Garcia, Executive Vice President . Such options are exercisable at a price of C\$21.44 and have fully vested pursuant to the Acceleration Event; however such options are not presently exercisable pending the approval of the Withheld Benefits (as defined below). For more information on the Withheld Benefits, see Executive Compensation Withholding of Certain Termination Benefits in favour of Former Executives on page 51 of this Management Proxy Circular.

Total direct compensation for the 2011 fiscal year for the NEOs inclusive of salary, incentive bonus and these stock option awards (exclusive of the option grants deferred until January 2011, the option adjustments related to the 2011 Rights Offering and Mr. Garcia's bonus rights discussed above) results in the overall positions of the NEOs as a group falling between the median and the 75th percentile of the peer comparator group.

Other Elements of Executive Compensation

The Corporation does not provide a pension plan for its executive officers.

Executive officers, once eligible, are entitled to participate in the Corporation's share purchase plan, pursuant to which the Corporation will contribute a sum equal to 50% of such officers' contributions of up to a maximum of 7% of base salary. Each of Messrs. Macken, Giardini, Meredith, and Garcia participated in the share purchase plan. See Summary Compensation Table for the Corporation below.

In addition, the Corporation provides and/or provided a life insurance benefit to each of Messrs. Macken, Meredith, Giardini and Garcia. See Summary Compensation Table for the Corporation below.

As part of Mr. Garcia's contractual arrangements, he receives a housing benefit, given his location in Mongolia, which in 2011 was valued at US\$38,605 and income and social taxes in 2011 of US\$113,993. See Summary Compensation Table for the Corporation below.

Compensation in relation to Public Company Subsidiaries

The compensation disclosure requirements of NI 51-102 require the inclusion of compensation details in respect of income earned from, or in respect of, subsidiaries of the Corporation. See Summary Compensation Table for the Corporation below.

SouthGobi Resources Ltd.

The Corporation owns, directly and indirectly, 104,807,155 common shares of SouthGobi as at May 24, 2012 representing 57.7% of the issued and outstanding common shares of SouthGobi as at such date³. The common shares of SouthGobi are listed on the TSX and on the Stock Exchange of Hong Kong. While SouthGobi is managed by its own public company board of directors and has its own compensation policies, certain of the officers and Directors of the Corporation also served as officers and/or directors of SouthGobi and accordingly compensation received from SouthGobi is included in this Management Proxy Circular.

Mr. Meredith, Former Deputy Chairman of the Corporation, is the Chairman of SouthGobi and received a salary from SouthGobi in the amount of US\$65,330 and other compensation of US\$14,995. In August 2011 each of Messrs. Macken, Meredith and Giardini received options to purchase common shares of SouthGobi: Mr. Meredith 60,000 options; Mr. Macken 35,000 options; and Mr. Giardini 20,000 options. Such options are exercisable at a price of Cdn\$9.43 and have fully vested pursuant to the Acceleration Event; however such options are not presently exercisable pending the approval of the Withheld Benefits (as defined below). For more information on the Withheld Benefits, see Executive Compensation Withholding of Certain Termination Benefits in favour of Former Executives on page 51 of this Management Proxy Circular.

Following the year ended December 31, 2011, certain officers of the Corporation received additional options to purchase common shares of SouthGobi in March, 2012: Mr. Meredith 30,000 options; Mr. Macken 17,500 options; and Mr. Giardini 10,000 options. Such options are exercisable at a price of Cdn\$6.16 and have fully vested pursuant to the Acceleration Event; however such options are not presently exercisable pending the approval of the Withheld Benefits (as defined below). For more information on the Withheld Benefits, see Executive Compensation Withholding of Certain Termination Benefits in favour of Former Executives on page 51 of this Management Proxy Circular.

³ On April 1, 2012, the Corporation entered into a lock-up agreement (the "SGQ Lock-up Agreement") with Aluminum Corporation of China Ltd. ("CHALCO") in connection with a proportional takeover bid (the "SGQ Takeover Bid") that CHALCO proposes to make for up to 60%, but not less than 56%, of the common shares of SouthGobi at Cdn.\$8.48 per share. The Lock-up Agreement provides for a "hard" lock-up covenant by the Corporation pursuant to which it (i) must tender all of its common shares of SouthGobi to the SGQ Takeover Bid, (ii) is precluded from tendering or voting any of its common shares of SouthGobi to, or in favour of, any other acquisition proposal relating to SouthGobi, and (iii) must vote against other acquisition proposals or actions which might prevent, delay or interfere with the successful completion of the SGQ Takeover Bid.

Ivanhoe Australia Limited

The Corporation owns 326,155,332 of the issued and outstanding ordinary shares of Ivanhoe Australia as at May 24, 2011, representing 58.9% of the issued and outstanding ordinary shares of Ivanhoe Australia as at such date. None of the Corporation's senior executives received compensation from Ivanhoe Australia during 2011.

Other Corporate Policies

While it has not been a formal requirement of the Corporation, the Corporation's senior executives are encouraged to hold a share ownership position in the Corporation. The Corporation does not have a policy to recoup or claw back incentive compensation based on achieving performance targets that were later restated as the Corporation at this stage does not base incentive plan compensation on the achievement of objective metrics. NEOs and Directors are not permitted to purchase financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the NEO or Director in accordance with the Corporation's Corporate Disclosure, Confidentiality and Securities Trading Policy.

Performance Graph

The following graph and table compares the cumulative shareholder return on a C\$100 investment in Common Shares to a similar investment in companies comprising the S&P/TSX Composite Index, including dividend reinvestment, for the period from December 31, 2006 to December 31, 2011.

In 2007, 2008 and 2011, the Corporation's share price performance has trended downwards and in the other years in the chart above the Corporation's share price performance has trended upwards. Over this period cash compensation has generally increased in response to both competitive and retention demands and market benchmarking. The value of long term incentive compensation in the form of stock options is influenced by the Corporation's share price performance.

Summary Compensation Table for the Corporation

The following executive compensation disclosure is provided as at December 31, 2011, December 31, 2010 and December 31, 2009, in respect of the Named Executive Officers.

| Name and Principal Position | Year | Salary (US\$) | Share-based awards ⁽⁷⁾ (US\$) | Option-based awards ⁽⁸⁾ (US\$) | Non-equity incentive plan compensation | | Pension Value (US\$) | All Other Compensation ⁽¹¹⁾ (US\$) | Total Compensation (US\$) |
|--|------|----------------------------|--|---|--|---|----------------------|---|----------------------------------|
| | | | | | Annual incentive plans (US\$) | Long-term incentive plans ⁽⁶⁾ (US\$) | | | |
| Robert Friedland⁽¹²⁾ (Former Chief Executive Officer, (and until May 2011, Executive Chairman))⁽¹⁶⁾ | 2011 | \$ 900,000 | Nil | \$ 10,883,271 | \$ 930,000 | Nil | Nil | Nil | \$ 12,713,271 ⁽⁵⁾⁽¹²⁾ |
| | 2010 | Nil | \$ 6,624,338 | Nil | Nil | Nil | Nil | \$ 3,390,665 | \$ 10,015,003 ⁽⁵⁾⁽¹²⁾ |
| | 2009 | Nil | Nil | \$ 7,460,000 | Nil | Nil | Nil | Nil | \$ 7,460,000 ⁽⁵⁾⁽¹²⁾ |
| John Macken (Former President)⁽¹⁶⁾ | 2011 | \$ 800,000 | Nil | \$ 21,954,755 | \$ 830,000 | Nil | Nil | \$ 30,897 ⁽¹⁾ | \$ 23,615,652 ⁽⁵⁾⁽¹³⁾ |
| | 2010 | \$ 714,000 | \$ 6,624,338 | \$ 185,869 | \$ 800,000 | Nil | Nil | \$ 30,826 ⁽¹⁾ | \$ 8,355,033 ⁽⁵⁾⁽¹³⁾ |
| | 2009 | \$ 714,000 | Nil | \$ 7,730,000 | \$ 550,000 | Nil | Nil | \$ 32,292 ⁽¹⁾ | \$ 9,026,292 ⁽⁵⁾⁽¹³⁾ |
| Peter Meredith (Former Deputy Chairman)⁽¹⁶⁾ | 2011 | \$ 665,992 ⁽⁹⁾ | Nil | \$ 12,645,373 | \$ 830,000 | Nil | Nil | \$ 54,895 ⁽²⁾ | \$ 14,196,260 ⁽⁵⁾⁽¹⁴⁾ |
| | 2010 | \$ 647,550 ⁽⁹⁾ | \$ 6,624,338 | \$ 531,053 | \$ 848,547 | Nil | Nil | \$ 39,084 ⁽²⁾ | \$ 8,690,572 ⁽⁵⁾⁽¹⁴⁾ |
| | 2009 | \$ 489,397 ⁽⁹⁾ | Nil | \$ 6,032,000 | \$ 600,000 | Nil | Nil | \$ 33,018 ⁽²⁾ | \$ 7,154,415 ⁽⁵⁾⁽¹⁴⁾ |
| Tony Giardini (Former Chief Financial Officer)⁽¹⁶⁾ | 2011 | \$ 455,018 ⁽¹⁰⁾ | Nil | \$ 5,753,453 | \$ 444,849 | Nil | Nil | \$ 17,718 ⁽³⁾ | \$ 6,671,038 ⁽¹⁵⁾ |
| | 2010 | \$ 399,914 ⁽¹⁰⁾ | \$ 1,815,068 | \$ 115,802 | \$ 378,663 | Nil | Nil | \$ 15,656 ⁽³⁾ | \$ 2,725,103 ⁽¹⁵⁾ |
| | 2009 | \$ 338,165 ⁽¹⁰⁾ | Nil | \$ 1,524,500 | \$ 210,158 | Nil | Nil | \$ 13,354 ⁽³⁾ | \$ 2,086,177 ⁽¹⁵⁾ |
| Steve Garcia (Executive VP) | 2011 | \$ 450,000 | Nil | \$ 3,144,595 | \$ 440,000 | Nil | Nil | \$ 171,245 ⁽⁴⁾ | \$ 4,205,840 ⁽¹²⁾ |
| | 2010 | \$ 450,000 | \$ 1,748,825 | Nil | \$ 440,000 | Nil | Nil | \$ 316,504 ⁽⁴⁾ | \$ 2,955,329 ⁽¹²⁾ |
| | 2009 | \$ 450,000 | Nil | \$ 1,029,000 | \$ 270,000 | Nil | Nil | \$ 175,018 ⁽⁴⁾ | \$ 1,924,018 ⁽¹²⁾ |

Notes:

- (1) The Corporation provided the following in 2011: Life insurance premiums of \$2,897 and share purchase plan amounts of \$28,000; 2010: Life insurance premiums of \$5,836 and share purchase plan amounts of \$24,990; 2009: Life insurance premiums of \$7,302 and share purchase plan amounts of \$24,990.
- (2) The Corporation provided the following in 2011: Life insurance premiums of \$12,281 and share purchase plan amounts of \$27,620 and SouthGobi provided the following in 2011: life insurance premiums of \$1,335 and share purchase plan amounts of \$13,660; 2010: Life insurance premiums of \$14,011 and share purchase plan amounts of \$25,073; 2009: Life insurance premiums of \$12,636 and share purchase plan amounts of \$20,382.
- (3) The Corporation provided the following in 2011: Life insurance premiums of \$2,148 and share purchase plan amounts of \$15,570; 2010: Life insurance premiums of \$2,063 and share purchase plan amounts of \$13,593; 2009: Life insurance premiums of \$1,861 and share purchase plan amounts of \$11,493.
- (4) The Corporation provided the following in 2011: Life insurance premiums of \$2,897, share purchase plan amounts of \$15,750, income and social taxes of \$113,993 and housing allowance amounts of \$38,605; 2010: Life insurance premiums of \$2,897, share purchase plan amounts of \$15,750, income and social taxes of \$128,481, housing allowance amounts of \$150,195 and car lease payments of \$19,181; 2009: Life insurance premiums of \$2,812, share purchase plan amounts of \$15,750, housing allowance amounts of \$129,495 and car lease payments of \$26,961.
- (5) Mr. Meredith is a Director and Mr. Macken and Mr. Friedland were also Directors until their resignations in February 2011 and April 2012, respectively. Pursuant to the Corporation's policies regarding non-independent Directors, they received no compensation from the Corporation for acting as a Director and no portion of the Total Compensation disclosed above was received by them for acting as a Director.
- (6) The Corporation does not presently have a pension plan for any of its executive officers, including its NEOs.
- (7) The Corporation used the closing TSX share price for determining fair value of special recognition awards and bonus shares granted as at the grant date. The conversion rate for the grant is the rate on the date the grant is made in Canadian currency. In 2010, such rate was C\$1.0001/US\$1.00; in 2011 and 2009, no grants were made.

- (8) The Corporation uses the Black-Scholes option-pricing model for determining fair value of stock options issued as at the grant date. The Black Scholes option-pricing model requires the input of subjective assumptions, including the expected term of the option award and stock price volatility. The expected term of options granted is derived from employee exercise and post-vesting employment termination behaviour. Expected volatility is based on the historical volatility of the Corporation's stock. These estimates involve inherent uncertainties and the application of management judgment. While actual assumption used vary with individual grants, certain annual weighted average assumptions for overall annual option grants to its employees, officers and directors by the Corporation are: expected risk-free interest net of 1.66% (2011), 2.42% (2010) and 2.10% (2009); expected life of 3.0 years (2011), 3.6 years (2010) and 3.7 years (2009); expected volatility factor of 65% (2011), 77% (2010) and 74% (2009); and expected dividend yield of nil (2011, 2010 and 2009). The practice of the Corporation is to grant all option based awards in Canadian currency. The conversion rate for each grant is the exchange rate on the date the grant is made in Canadian currency or in Australian currency. The conversion rates for the purpose of the grants to the NEOs in the Summary Compensation Chart are presented below.
- (9) Mr. Meredith's salary was set by the Corporation but was allocated among the Corporation and certain other subsidiaries and related companies. For 2011, Mr. Meredith's salary was US\$800,000 of which US\$600,662 was paid by the Corporation. For 2010, Mr. Meredith's salary was US\$714,000 of which US\$549,198 was paid by the Corporation. For 2009, Mr. Meredith's salary was US\$562,000 of which US\$349,389 was paid by the Corporation.
- (10) Mr. Giardini's salary was payable in Canadian dollars. The US dollar equivalent of Mr. Giardini's salary was obtained by dividing his Canadian dollar salary in 2011 by C\$0.9891/US\$1.00, the Bank of Canada average noon exchange for 2011, in 2010 by C\$1.0299/US\$1.00, and in 2009 by C\$1.1089/US\$1.00, the Bank of Canada average noon exchange rate for 2010.
- (11) Where other compensation is in currency other than US\$ it has been translated at the Bank of Canada average noon rate for the exchange rates for 2011 (Cdn\$0.9891/US\$1.00), 2010 (Cdn\$1.0299/US\$1.00) and 2009 (Cdn\$1.1420/US\$1.00).
- (12) All compensation provided by the Corporation.
- (13) SouthGobi provided in 2011: \$166,998 of \$21,954,755 Option-based awards and \$166,998 of \$23,615,652 of total compensation; 2010: \$185,869 of \$185,869 Option-based awards and \$185,869 of \$8,355,033 of total compensation; in 2009: \$270,000 of \$7,730,000 of Option-based awards and \$270,000 of \$9,026,292 of total compensation.
- (14) SouthGobi provided in 2011: \$65,330 of \$665,992 Salary, \$286,282 of \$12,645,373 Option-based awards, \$14,995 of \$54,895 Other Compensation, and \$366,607 of \$14,196,260 total compensation; in 2010: \$98,352 of \$647,550 of Salary, \$531,053 of \$531,053 Option-based Awards, \$48,547 of \$848,547 Annual Incentive Plans and \$677,952 of \$8,690,572 of total compensation; in 2009: \$140,008 of \$489,397 Salary, \$562,500 of \$6,032,000 Option-based Awards, \$50,000 of \$600,000 Annual Incentive Plans, and \$752,508 of \$7,154,415 of total compensation.
- (15) SouthGobi provided in 2011: \$100,106 of \$5,753,453 Option-based awards, and \$100,106 of \$6,671,038 total compensation; in 2010: \$115,802 of \$115,802 Option-based awards and \$115,802 of \$2,725,103 total compensation; in 2009: \$112,500 of \$1,524,500 Option-based awards, and \$112,500 of \$2,086,177 total compensation.
- (16) Pursuant to the MOA, Messrs. Friedland, Macken, Meredith and Giardini resigned in April 2012.

2011 Options Granted

| Company that Granted | | | | Exchange | |
|---------------------------------|--------------------------|---------------|-----------------|-------------------|--------------------------------|
| Name | Options | Date of Grant | Options Granted | Rates to USD | Basis of Grant |
| Robert Friedland ⁽²⁾ | Ivanhoe Mines Ltd. | 1/29/2011 | 300,000 | C\$ 1.0013/US\$1 | January 2011 Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 111,950 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 27,987 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 11/16/2011 | 400,000 | C\$ 1.0245/ US\$1 | 2011 Compensation Grant |
| Tony Giardini ⁽²⁾ | Ivanhoe Mines Ltd. | 1/29/2011 | 120,000 | C\$ 1.0013/US\$1 | Jan 2011 Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 37,316 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 22,390 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 8,956 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 14,926 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 22,390 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 11/16/2011 | 200,000 | C\$ 1.0245/ US\$1 | 2011 Compensation Grant |
| | SouthGobi Resources Ltd. | 8/15/2011 | 20,000 | C\$ 0.9838/US\$1 | SouthGobi |
| John Macken ⁽²⁾ | Ivanhoe Mines Ltd. | 1/29/2011 | 220,000 | C\$ 1.0013/US\$1 | January 2011 Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 149,267 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |

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| | | | | | |
|-------------------------------|---------------------------------|------------|---------|-------------------|--------------------------------|
| | Ivanhoe Mines Ltd. | 2/11/2011 | 149,267 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 37,316 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 134,340 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 223,901 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 37,316 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 11/16/2011 | 350,000 | C\$ 1.0245/ US\$1 | 2011 Compensation Grant |
| | SouthGobi Resources Ltd. | 8/15/2011 | 35,000 | C\$ 0.9838/US\$1 | SouthGobi |
| | Ivanhoe Mines Ltd. | 1/29/2011 | 220,000 | C\$ 1.0013/US\$1 | January 2011 Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 59,707 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 27,987 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 39,555 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 94,561 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 29,853 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 37,316 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 11/16/2011 | 350,000 | C\$ 1.0245 /US\$1 | 2011 Compensation Grant |
| Peter Meredith ⁽²⁾ | SouthGobi Resources Ltd. | 8/15/2011 | 60,000 | C\$ 0.9838/US\$1 | SouthGobi |
| | Steve Garcia Ivanhoe Mines Ltd. | 1/29/2011 | 120,000 | C\$ 1.0013/US\$1 | January 2011 Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 21,494 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 5,597 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 11,195 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 11,195 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 16,792 | C\$ 0.9874/ US\$1 | Anti-dilution adjustment Grant |

Notes:

- (1) The Corporation uses the Black-Scholes option-pricing model for determining fair value of stock options issued as of the grant date. See footnote (8) to the Summary Compensation Table of the Corporation above.
- (2) Pursuant to the MOA, Messrs. Friedland, Macken, Meredith and Giardini resigned in April 2012.

2010 Options Granted

| Name | Company that Granted Options | Date of Grant | Options Granted | Exchange Rates to USD |
|-------------------------------|------------------------------|---------------|-----------------|-----------------------|
| John Macken ⁽¹⁾ | SouthGobi Resources Ltd. | 8/13/2010 | 35,000 | C\$ 1.0402/US\$1 |
| Peter Meredith ⁽¹⁾ | SouthGobi Resources Ltd. | 8/13/2010 | 100,000 | C\$ 1.0402/US\$1 |
| Tony Giardini ⁽¹⁾ | SouthGobi Resources Ltd. | 8/13/2010 | 20,000 | C\$ 1.0402/US\$1 |

Notes:

- (1) Pursuant to the MOA, Messrs. Friedland, Macken, Meredith and Giardini resigned in April 2012.

2009 Options Granted

| Name | Company that Granted Options | Date of Grant | Options Granted | Exchange Rates to USD |
|---------------------------------|------------------------------|---------------|-----------------|-----------------------|
| Robert Friedland ⁽¹⁾ | Ivanhoe Mines Ltd. | 5/8/2009 | 1,500,000 | C\$ 1.1488/US\$1 |
| | Ivanhoe Mines Ltd. | 10/9/2009 | 250,000 | C\$ 1.0408/US\$1 |
| Tony Giardini ⁽¹⁾ | Ivanhoe Mines Ltd. | 5/8/2009 | 100,000 | C\$ 1.1488/US\$1 |
| | Ivanhoe Mines Ltd. | 10/9/2009 | 150,000 | C\$ 1.0408/US\$1 |
| | SouthGobi Resources Ltd. | 8/5/2009 | 15,000 | C\$ 1.0720/US\$1 |
| John Macken ⁽¹⁾ | Ivanhoe Mines Ltd. | 5/8/2009 | 1,500,000 | C\$ 1.1488/US\$1 |
| | Ivanhoe Mines Ltd. | 10/9/2009 | 250,000 | C\$ 1.0408/US\$1 |
| | SouthGobi Resources Ltd. | 8/5/2009 | 36,000 | C\$ 1.0720/US\$1 |
| Peter Meredith ⁽¹⁾ | Ivanhoe Mines Ltd. | 5/8/2009 | 750,000 | C\$ 1.1488/US\$1 |
| | Ivanhoe Mines Ltd. | 7/23/2009 | 200,000 | C\$ 1.0884/US\$1 |
| | Ivanhoe Mines Ltd. | 10/9/2009 | 250,000 | C\$ 1.0408/US\$1 |
| | SouthGobi Resources Ltd. | 8/5/2009 | 75,000 | C\$ 1.0720/US\$1 |
| Steve Garcia | Ivanhoe Mines Ltd. | 10/9/2009 | 150,000 | C\$ 1.0408/US\$1 |

Notes:

- (1) Pursuant to the MOA, Messrs. Friedland, Macken, Meredith and Giardini resigned in April 2012.

Outstanding option-based awards and share-based awards as at December 31, 2011

| Name | Issuer of Option-based Award | Option-based Awards | | | Market Value of Unexercised in-the-Money Options (US\$) ⁽¹⁾ | Share-based Awards | | Market or Payout Value of Share-based Awards not paid out or distributed (US\$) |
|--|------------------------------|---|--------------------------------------|------------------------|--|---|--|---|
| | | Number of Securities Underlying Unexercised Options | Option Exercise Price (Cdn\$/Option) | Option Expiration Date | | Number of Shares or Units have not Vested | Payout Value of Share-based Awards that have not Vested (US\$) | |
| Robert Friedland ⁽²⁾ | Ivanhoe Mines Ltd. | 861,950 | \$ 8.20 | 5/8/2016 | \$ 8,382,323 | | | |
| | Ivanhoe Mines Ltd. | 215,487 | \$ 13.76 | 10/9/2016 | \$ 917,477 | | | |
| | Ivanhoe Mines Ltd. | 400,000 | \$ 21.44 | 11/16/2016 | Nil | | | |
| | Ivanhoe Mines Ltd. | 300,000 | \$ 27.83 | 1/29/2018 | Nil | | | |
| | SouthGobi Resources Ltd. | 250,000 | \$ 18.86 | 7/9/2013 | Nil | | | |
| | SouthGobi Resources Ltd. | 125,000 | \$ 5.10 | 11/27/2013 | \$ 110,621 | | | |
| John Macken ⁽²⁾ | Ivanhoe Mines Ltd. | | | | | 62,500 | \$ 1,111,744 | |
| | Ivanhoe Mines Ltd. | 1,149,267 | \$ 9.73 | 3/27/2013 | \$ 9,447,421 | | | |
| | Ivanhoe Mines Ltd. | 287,316 | \$ 8.35 | 9/22/2013 | \$ 2,751,724 | | | |
| | Ivanhoe Mines Ltd. | 1,149,267 | \$ 7.78 | 3/30/2014 | \$ 11,651,065 | | | |
| | Ivanhoe Mines Ltd. | 734,340 | \$ 2.82 | 11/13/2015 | \$ 11,026,108 | | | |
| | Ivanhoe Mines Ltd. | 1,723,901 | \$ 8.20 | 5/8/2016 | \$ 16,764,656 | | | |
| | Ivanhoe Mines Ltd. | 287,316 | \$ 13.76 | 10/9/2016 | \$ 1,223,302 | | | |
| | Ivanhoe Mines Ltd. | 350,000 | \$ 21.44 | 11/16/2016 | Nil | | | |
| | Ivanhoe Mines Ltd. | 220,000 | \$ 27.83 | 1/29/2018 | Nil | | | |
| | SouthGobi Resources Ltd. | 250,000 | \$ 6.00 | 6/22/2012 | Nil | | | |
| | SouthGobi Resources Ltd. | 50,000 | \$ 15.07 | 8/27/2013 | Nil | | | |
| | SouthGobi Resources Ltd. | 40,000 | \$ 5.10 | 11/27/2013 | \$ 35,399 | | | |
| | SouthGobi Resources Ltd. | 36,000 | \$ 12.99 | 8/5/2014 | Nil | | | |
| SouthGobi Resources Ltd. | 35,000 | \$ 12.58 | 8/13/2015 | Nil | | | | |
| SouthGobi Resources Ltd. | 35,000 | \$ 9.43 | 8/15/2016 | Nil | | | | |
| Peter Meredith ⁽²⁾ | Ivanhoe Mines Ltd. | | | | | 62,500 | \$ 1,111,744 | |
| | Ivanhoe Mines Ltd. | 459,707 | \$ 9.73 | 3/27/2013 | \$ 3,778,970 | | | |
| | Ivanhoe Mines Ltd. | 215,487 | \$ 8.35 | 9/22/2013 | \$ 2,063,793 | | | |
| | Ivanhoe Mines Ltd. | 241,346 | \$ 2.82 | 11/13/2015 | \$ 3,623,808 | | | |
| | Ivanhoe Mines Ltd. | 728,061 | \$ 8.20 | 5/8/2016 | \$ 7,080,275 | | | |
| | Ivanhoe Mines Ltd. | 229,853 | \$ 8.77 | 7/23/2016 | \$ 2,106,455 | | | |
| | Ivanhoe Mines Ltd. | 287,316 | \$ 13.76 | 10/9/2016 | \$ 1,223,302 | | | |
| | Ivanhoe Mines Ltd. | 350,000 | \$ 21.44 | 11/16/2016 | Nil | | | |
| | Ivanhoe Mines Ltd. | 220,000 | \$ 27.83 | 1/29/2018 | Nil | | | |
| | SouthGobi Resources Ltd. | 335,000 | \$ 6.00 | 6/22/2012 | Nil | | | |
| | SouthGobi Resources Ltd. | 100,000 | \$ 15.07 | 8/27/2013 | Nil | | | |
| | SouthGobi Resources Ltd. | 75,000 | \$ 5.10 | 11/27/2013 | \$ 66,373 | | | |
| | SouthGobi Resources Ltd. | 75,000 | \$ 12.99 | 8/5/2014 | Nil | | | |
| SouthGobi Resources Ltd. | 100,000 | \$ 12.58 | 8/13/2015 | Nil | | | | |
| SouthGobi Resources Ltd. | 60,000 | \$ 9.43 | 8/15/2016 | Nil | | | | |
| Tony Giardini ⁽²⁾ | Ivanhoe Mines Ltd. | | | | | 17,125 | 304,618 | |
| | Ivanhoe Mines Ltd. | 21,794 | \$ 9.73 | 3/27/2013 | \$ 179,155 | | | |
| | Ivanhoe Mines Ltd. | 122,390 | \$ 8.35 | 9/22/2013 | \$ 1,172,171 | | | |
| | Ivanhoe Mines Ltd. | 34,478 | \$ 2.82 | 11/13/2015 | \$ 517,687 | | | |
| | Ivanhoe Mines Ltd. | 114,926 | \$ 8.20 | 5/8/2016 | \$ 1,117,637 | | | |
| | Ivanhoe Mines Ltd. | 172,390 | \$ 13.76 | 10/9/2016 | \$ 733,983 | | | |
| | Ivanhoe Mines Ltd. | 200,000 | \$ 21.44 | 11/16/2016 | Nil | | | |
| | Ivanhoe Mines Ltd. | 120,000 | \$ 27.83 | 1/29/2018 | Nil | | | |
| | SouthGobi Resources Ltd. | 20,000 | \$ 18.86 | 7/9/2013 | Nil | | | |
| | SouthGobi Resources Ltd. | 6,800 | \$ 5.10 | 11/27/2013 | \$ 6,018 | | | |
| | SouthGobi Resources Ltd. | 15,000 | \$ 12.99 | 8/5/2014 | Nil | | | |
| | SouthGobi Resources Ltd. | 20,000 | \$ 12.58 | 8/13/2015 | Nil | | | |
| | SouthGobi Resources Ltd. | 20,000 | \$ 9.43 | 8/15/2016 | Nil | | | |
| Steve Garcia | Ivanhoe Mines Ltd. | | | | | 16,500 | 293,500 | |

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| | | | | |
|--------------------|---------|----------|------------|--------------|
| Ivanhoe Mines Ltd. | 165,494 | \$ 9.73 | 3/27/2013 | \$ 1,360,425 |
| Ivanhoe Mines Ltd. | 86,195 | \$ 8.35 | 9/22/2013 | \$ 825,519 |
| Ivanhoe Mines Ltd. | 43,097 | \$ 13.71 | 11/14/2014 | \$ 185,612 |
| Ivanhoe Mines Ltd. | 86,195 | \$ 2.82 | 11/13/2015 | \$ 1,294,217 |
| Ivanhoe Mines Ltd. | 129,292 | \$ 13.76 | 10/9/2016 | \$ 550,485 |
| Ivanhoe Mines Ltd. | 120,000 | \$ 27.83 | 1/29/2018 | Nil |

Notes:

- (1) The Value of Unexercised in-the-Money Options is calculated on the basis of the difference between the closing price of the Common Shares on the TSX on December 31, 2011, and the Exercise Price of the options. This amount has been converted from Cdn\$ to US\$ at the Bank of Canada noon rate on December 31, 2011.
- (2) Pursuant to the MOA, Messrs. Friedland, Macken, Meredith and Giardini resigned in April 2012.

Incentive Plan Awards value vested or earned during 2011

| Name | Issuer of Option-based Award | Option-based Awards Value Vested During the Year (US\$) ⁽¹⁾ | Share-based Awards Value Vested During the Year (US\$) ⁽²⁾ | Non-Equity Incentive Plan Compensation Value Earned During the Year (US\$) |
|--|------------------------------|--|---|--|
| Robert Friedland ⁽³⁾ | Ivanhoe Mines Ltd. | \$ 7,538,624 | Nil | Nil |
| | SouthGobi Resources Ltd. | \$ 65,847 | Nil | Nil |
| | Ivanhoe Australia Limited | \$ 1,805,877 | Nil | Nil |
| John Macken ⁽³⁾ | Ivanhoe Mines Ltd. | \$ 23,174,192 | \$ 1,383,713 | Nil |
| | SouthGobi Resources Ltd. | \$ 21,071 | Nil | Nil |
| | Ivanhoe Australia Limited | \$ 225,735 | Nil | Nil |
| Peter Meredith ⁽³⁾ | Ivanhoe Mines Ltd. | \$ 10,245,702 | \$ 1,383,713 | Nil |
| | SouthGobi Resources Ltd. | \$ 39,508 | Nil | Nil |
| | Ivanhoe Australia Limited | \$ 225,735 | Nil | Nil |
| Tony Giardini ⁽³⁾ | Ivanhoe Mines Ltd. | \$ 2,729,613 | \$ 379,137 | Nil |
| | SouthGobi Resources Ltd. | \$ 10,535 | Nil | Nil |
| | Ivanhoe Australia Limited | \$ 22,573 | Nil | Nil |
| Steve Garcia | Ivanhoe Mines Ltd. | \$ 1,912,209 | \$ 365,300 | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil |

- (1) The Option-based Awards Value Vested During the Year amounts is calculated on the basis of the difference between the closing price of the Common Shares on the TSX on the date of vesting and the exercise price of the Options. This amount has been converted from Cdn\$ to US\$ at the Bank of Canada noon rate on the date of vesting.
- (2) The Share-based Awards Value Vested During the Year is calculated on the basis of the closing price of the Common Shares on the TSX on the date of vesting. This amount has been converted from Cdn\$ to US\$ at the Bank of Canada noon rate on the date of vesting.
- (3) Pursuant to the MOA, Messrs. Friedland, Macken, Meredith and Giardini resigned in April 2012.

Option and SAR Re-pricings

No options or stock appreciation rights were re-priced during the year ended December 31, 2011.

Defined Benefit and Pension Plans

The Corporation does not presently provide any defined benefit or pension plan to its Directors, executive officers or employees.

Indemnity Insurance

During 2011, the Corporation purchased director and officer liability insurance with an aggregate US\$150 million limit. The total premiums paid by the Corporation in respect of this insurance coverage for the twelve month term were US\$1,176,100.

Termination and Change of Control Benefits Provisions in Employment Contracts

John Macken

The Corporation entered into an amended and restated employment contract with John Macken, former President of the Corporation, dated January 1, 2008. Mr. Macken's employment contract provided for an initial base salary, discretionary performance bonuses and stock option grants from time to time if and when awarded by the Corporation, housing benefit and other benefits and entitlements available to the Corporation's other executive officers. Mr. Macken's employment contract also provided that: (a) the Corporation could terminate Mr. Macken's employment for cause; (b) the Corporation could terminate Mr. Macken's employment without cause, or upon his disability, in each case upon payment to Mr. Macken of 24 months base salary together with an amount equal to the average of the two highest value aggregate annual performance bonuses paid to Mr. Macken during the five completed fiscal years of the Corporation preceding the date of termination; and, (c) in the event of (A) a change of control of the Corporation; and (B) within 24 months thereafter, the termination of the employment contract either by the Corporation other than for cause or disability, or by Mr. Macken for "good reason" as defined in the employment contract, Mr. Macken was entitled to receive a payment equal to the product of 2.99 times the sum of Mr. Macken's then base salary and the average of the two highest value aggregate annual performance bonuses paid to Mr. Macken by the Corporation during the five completed fiscal years of the Corporation preceding the date of termination. "Good reason" under the contract included certain adverse changes in Mr. Macken's status or position in the Corporation, certain adverse changes to his compensation, benefits or employment terms, and acts constituting constructive dismissal at law. In the event of a termination for disability or without cause, or on a change of control followed by a termination or resignation with "good reason", all of Mr. Macken's then unvested incentive stock options would vest and all his options would remain exercisable for six months following the date of termination of employment, and certain of Mr. Macken's benefits would continue for 12 months following termination. The Corporation has provided Mr. Macken, a United States citizen and resident, with an indemnity in respect of certain United States excise taxes under Section 4999 of the Internal Revenue Code (United States) and certain interest and penalties in the event such excise taxes, interest and penalties were levied on compensation and benefits payable to Mr. Macken upon a termination of his employment following a change of control of the Corporation. The intent of the indemnity is to make Mr. Macken whole for any taxes which may be imposed on him pursuant to Section 4999 of the Internal Revenue Code. The calculation and determination of whether such taxes will apply are complex and dependent on a number of factors, including, but not limited to, Mr. Macken's historic compensation, the applicable federal, state, city and other tax rate, the Corporation's stock price, the date of termination of employment (if applicable) and the dates of payment. In addition, Mr. Macken is subject to a twelve month post employment non-competition covenant, and this restriction (depending on the value) may reduce or eliminate the need to provide the additional indemnification payment. The determination of whether a payment is required and the amount of such payment shall be made by a national accounting firm selected by the Corporation.

The following is an estimate of incremental payments to Mr. Macken in the above-described termination scenarios (a) – (c), based on his annual salary as at December 31, 2011, and the value of his options as at December 31, 2011: (a) no further wages, no lump sum payments, and no acceleration of unvested options, for a total of nil; (b) a lump sum based on salary of US\$1,600,000, a lump sum based on historical bonuses of US\$815,000, a benefit amount of US\$32,099, and acceleration of unvested options for an in the money value of US\$9,373,405, for a total of US\$11,820,504; (c) a lump sum based on salary of US\$2,392,000, a lump sum based on historical bonuses of US\$2,436,850, a benefit amount of US\$32,099, and acceleration of unvested options for an in the money value of US\$9,373,405, for a total of US\$14,234,354; and assuming both (i) a change of control occurred on December 31, 2011 and (ii) Mr. Macken's employment was terminated by the Corporation without cause on December 31, 2011, the Corporation estimates that it might be required to pay Mr. Macken an indemnity payment of approximately \$2.2 million (assuming a tax rate of 45%). As noted above, there are a number of assumptions and variables which could increase or decrease the requirement to make any such indemnity payments.

As contemplated by the MOA, as of April 17, 2012, Mr. Macken resigned as President of the Corporation. In connection with his resignation, Mr. Macken entered into a mutual release agreement (the Macken Release Agreement) with the Corporation and RTIH dated as of April 17, 2012. Subject to the approval of the termination benefits resolution (as described below in the section entitled Withholding of Certain Termination Benefits in favour of Former Executives), the Macken Release Agreement provides Mr. Macken with severance consisting of (i) a lump sum payment of approximately US\$5.16 million, with approximately US\$761,000 payable immediately and the balance to follow upon satisfaction of certain conditions listed in the Macken Release Agreement, (ii) the vesting of 1,420,048 unvested options to purchase Common Shares, (iii) the vesting of 64,740 unvested options to purchase common shares (SouthGobi Shares) of the Corporation's subsidiary, SouthGobi, (iv) and the immediate payment of 62,500 escrowed bonus shares of the Corporation. Under the Macken Release Agreement, the Corporation, on its own behalf and on behalf of its wholly-owned subsidiaries, and RTIH released Mr. Macken from all specified claims that such parties may have against Mr. Macken originating prior to the date of the Macken Release Agreement, other than such claims based on fraud, illegality or an intentional misrepresentation of Mr. Macken pursuant to a filing under applicable securities laws or in a written communication to the Government of Mongolia. Similarly, Mr. Macken agreed to release the Corporation and all of its wholly-owned subsidiaries from all specified claims he may have against such parties originating prior to the date of the Macken Release Agreement, other than such claims based on fraud.

Peter Meredith

The Corporation entered into an employment contract with Peter Meredith, former Deputy Chairman of the Corporation, dated December 18, 2007. Mr. Meredith's employment contract provided for an initial base salary, discretionary performance bonuses and stock option grants from time to time if and when awarded by the Corporation, and other benefits and entitlements available to the Corporation's other executive officers. Mr. Meredith's employment contract also provided that: (a) the Corporation could terminate Mr. Meredith's employment for cause; (b) the Corporation could terminate Mr. Meredith's employment without cause or upon his disability upon payment to Mr. Meredith of 18 months base salary together with an amount equal to the average of the two highest value aggregate annual performance bonuses paid to Mr. Meredith during the five completed fiscal years preceding the date of termination; and, (c) in the event of (A) a change of control of the Corporation; and (B) within 24 months thereafter, the termination of the employment contract either by the Corporation other than for cause or disability or by Mr. Meredith for good reason as defined in the employment contract; Mr. Meredith was entitled to receive a payment equal to the product of 2.99 times the sum of Mr. Meredith's then base salary and the average of the two highest value aggregate annual performance bonuses paid to Mr. Meredith by the Corporation during the five completed fiscal years of the Corporation preceding the date of termination. Good reason under the contract included material adverse changes in Mr. Meredith's status or position in the Corporation, certain adverse changes to his compensation, benefits or employment terms, and acts constituting constructive dismissal at law. In the event of a termination for disability or without cause, or on a change of control followed by a termination or resignation with good reason, all of Mr. Meredith's then unvested incentive stock options would vest and remain exercisable for six months following the date of termination of employment, and certain of Mr. Meredith's benefits would continue for 12 months following such termination.

The following is an estimate of incremental payments to Mr. Meredith in the above-described termination scenarios (a) – (c), based on his annual salary as at December 31, 2011, and the value of his options as at December 31, 2011: (a) no further wages, no lump sum payments, and no acceleration of unvested options, for a total of nil; (b) a lump sum based on salary of US\$1,200,000, a lump sum based on historical bonuses of US\$815,000, a benefit amount of US\$36,683, and acceleration of unvested options for an in the money value of US\$6,260,304, for a total of US\$8,311,987; (c) a lump sum based on salary of US\$2,392,000, a lump sum based on historical bonuses of US\$2,436,850, a benefit amount of US\$36,683, and acceleration of unvested options for an in the money value of US\$6,260,304, for a total of US\$11,125,837.

As contemplated by the MOA, as of April 17, 2012, Mr. Meredith resigned as Deputy Chairman of the Corporation. In connection with his resignation, Mr. Meredith entered into a mutual release agreement (the Meredith Release Agreement) with the Corporation and RTIH dated as of April 17, 2012. Subject to the approval of the termination benefits resolution (as described below in the section entitled Withholding of Certain Termination Benefits in favour of Former Executives), the Meredith Release Agreement provides Mr. Meredith with severance consisting of (i) a lump sum payment of approximately US\$5.16 million, with approximately US\$726,000 payable immediately and the balance to follow upon satisfaction of certain conditions listed in the Meredith Release Agreement, (ii) the vesting of 1,181,575 unvested options to purchase Common Shares, (iii) the vesting of 115,500 unvested options to purchase SouthGobi Shares, and (iv) the immediate payment of 62,500 escrowed bonus shares of the Corporation. Under the Meredith Release Agreement, the Corporation, on its own behalf and on behalf of its wholly-owned subsidiaries, and RTIH released Mr. Meredith from all specified claims that such parties may have against Mr. Meredith originating prior to the date of the Meredith Release Agreement, other than such claims based on fraud, illegality or an intentional misrepresentation of Mr. Meredith pursuant to a filing under applicable securities laws or in a written communication to the Government of Mongolia. Similarly, Mr. Meredith agreed to release the Corporation and all of its wholly-owned subsidiaries from all specified claims he may have against such parties originating prior to the date of the Meredith Release Agreement, other than such claims based on fraud.

Tony Giardini

Mr. Giardini was employed by the Corporation on May 1, 2006 as Chief Financial Officer. Mr. Giardini's employment contract provided for an initial base salary, discretionary performance bonuses and stock option grants from time to time if and when awarded by the Corporation, housing benefit and other benefits and entitlements available to the Corporation's other executive officers. Mr. Giardini's employment contract also provided that: (a) the Corporation could terminate Mr. Giardini's employment for cause; (b) the Corporation could terminate Mr. Giardini's employment without cause, or upon his disability, in each case upon payment to Mr. Giardini of 12 months base salary; and, (c) in the event of (A) a change of control of the Corporation; and (B) within 24 months thereafter, the termination of the employment contract either by the Corporation other than for cause or disability or by Mr. Giardini for good reason as defined in the employment contract; Mr. Giardini was entitled to receive a payment equal to the product of two (2) times the sum of Mr. Giardini's then base salary and the average of the two highest value aggregate annual performance bonuses paid to Mr. Giardini by the Corporation during the five completed fiscal years of the Corporation preceding the date of termination. Good reason under the contract included certain adverse changes in Mr. Giardini's status or position in the Corporation, certain adverse changes to his compensation, benefits or employment terms, and acts constituting constructive dismissal at law. In the event of a termination for disability or without cause, or on a change of control followed by a termination or resignation with good reason, all of Mr. Giardini's then unvested incentive stock options would vest and all his options would remain exercisable for six months following the date of termination of employment, and certain of Mr. Giardini's benefits would continue for 12 months following termination.

The following is an estimate of incremental payments to Mr. Giardini in the above-described termination scenarios (a) – (c), based on his annual salary as at December 31, 2011, and the value of his options as at December 31, 2011: (a) no further wages, no lump sum payments, and no acceleration of unvested options, for a total of nil; (b) a lump sum based on salary of US\$432,652, a benefit amount of US\$18,190, and acceleration of unvested options for an in the money value of US\$1,576,857, for a total of US\$2,027,699; (c) a lump sum based on salary of US\$865,304, a lump sum based on historical bonuses of US\$816,139, a benefit amount of US\$18,190, and acceleration of unvested options for an in the money value of US\$1,576,857 for a total of US\$3,276,490.

As contemplated by the MOA, as of April 17, 2012, Mr. Giardini resigned as Chief Financial Officer of the Corporation. In connection with his resignation, Mr. Giardini entered into a mutual release agreement (the Giardini Release Agreement) with the Corporation and RTIH dated as of April 17, 2012. Subject to the approval of the termination benefits resolution (as described below in the section entitled Withholding of Certain Termination Benefits in favour of Former Executives), the Giardini Release Agreement provides Mr. Giardini with severance consisting of (i) a lump sum payment of approximately Cdn\$2.05 million, with approximately Cdn\$427,000 payable immediately and the balance to follow upon satisfaction of certain conditions listed in the Giardini Release Agreement, (ii) the vesting of 482,503 unvested options to purchase Common Shares, (iii) the vesting of 41,900 unvested options to purchase SouthGobi Shares, and (iv) the immediate payment of 17,125 escrowed bonus shares of the Corporation. Under the Giardini Release Agreement, the Corporation, on its own behalf and on behalf of its wholly-owned subsidiaries, and RTIH released Mr. Giardini from all specified claims that such parties may have against Mr. Giardini originating prior to the date of the Giardini Release Agreement, other than such claims based on fraud, illegality or an intentional misrepresentation of Mr. Giardini pursuant to a filing under applicable securities laws or in a written communication to the Government of Mongolia. Similarly, Mr. Giardini agreed to release the Corporation and all of its wholly-owned subsidiaries from all specified claims he may have against such parties originating prior to the date of the Giardini Release Agreement, other than such claims based on fraud.

Steve Garcia

The Corporation is party to an executive personnel services agreement, as amended, between the Corporation and the services corporation providing Mr. Garcia's personal services as Executive Vice President of the Corporation. This contract provides that: (a) the Corporation may terminate the services arrangement for cause; (b) the Corporation may terminate Mr. Garcia's employment without cause upon payment of 3 months' base salary, in which event the bonus compensation under the services agreement will also become due and payable; and (c) the services corporation may terminate its arrangement with the Corporation on one month's notice.

The following is an estimate of incremental payments to Mr. Garcia in the above-described termination scenarios (a) – (c), based on his annual salary as at December 31, 2011: (a) no further wages, for a total of nil; (b) a lump sum equal to 3 months' base salary of US\$125,000 plus US\$1 million bonus payment; and, (c) no further wages, for a total of nil.

Robert Friedland

Robert Friedland served as Executive Chairman of the Corporation until May 2011 and as its Chief Executive Officer from October 2010 until April 2012. In connection with the MOA, as of April 17, 2012, Mr. Friedland resigned as a Director and Chief Executive Officer of the Corporation, and concurrent therewith, the Corporation and Mr. Friedland entered into a separation agreement (the RMF Separation Agreement) to govern their respective rights and obligations following his resignation. The RMF Separation Agreement covers various matters, including confidentiality, non-competition, non-solicitation, mutual releases of liability among the Corporation, Rio Tinto and Mr. Friedland, and Corporation director nomination rights. Pursuant to the RMF Separation Agreement, Mr. Friedland entered into a mutual release agreement (the Friedland Release Agreement) with the Corporation and RTIH dated as of April 17, 2012. The Friedland Release Agreement provided Mr. Friedland with (i) a lump sum payment of approximately US\$650,000, and (ii) subject to the approval of the termination benefits resolution (as described below in the section entitled Withholding of Certain Termination Benefits in favour of Former Executives), the vesting of 768,658 unvested options to purchase Common Shares and the entitlement to receive cash in lieu of Common Shares upon the exercise thereof, as described below under Withholding of Certain Termination Benefits in favour of Former Executives . Under the Friedland Release Agreement, the Corporation, on its own behalf and on behalf of its wholly-owned subsidiaries, and RTIH released Mr. Friedland from all specified claims that such parties may have against Mr. Friedland originating prior to the date of the Friedland Release Agreement, other than such claims based on fraud, illegality or an intentional misrepresentation of Mr. Friedland pursuant to a filing under applicable securities laws or in a written communication to the Government of Mongolia. Similarly, Mr. Friedland agreed to release the Corporation and all of its wholly-owned subsidiaries from all specified claims he may have against such parties originating prior to the date of the Friedland Release Agreement, other than such claims based on fraud.

The option agreements with substantially all the officers and employees, including the NEOs, provide that if an optionee involuntarily ceases to be employed for any reason other than cause or death within 12 months of a change of control, unvested options held by such optionee would vest. In this scenario, based on the value of his options at December 31, 2011, the acceleration of unvested options would have an in the money value (i) for Mr. Macken, US\$9,373,405 as set out above; (ii) for Mr. Meredith, US\$6,260,304 as set out above; (iii) for Mr. Giardini, US\$1,576,857 as set out above; (iv) for Mr. Friedland, US\$4,802,813, and (v) for Mr. Garcia, US\$2,532,218.

Certain NEOs also hold option agreements with SouthGobi, an affiliate of the Corporation, which provide that if the optionee involuntarily ceases to be employed by SouthGobi or certain of its affiliates for any reason other than cause or death within 12 months of a change of control of SouthGobi, unvested options held by such optionee would vest. In this scenario, based on the value of options at December 31, 2011, the acceleration of unvested options would have an in the money value (i) for Mr. Macken, US\$ nil; (ii) for Mr. Meredith, US\$ nil; (iii) for Mr. Giardini, US\$ nil; and for Mr. Friedland, US\$ nil.

Withholding of Certain Termination Benefits in favour of Former Executives

On April 17, 2012, certain members of the Corporation's senior management (including Robert Friedland, John Macken, Peter Meredith Tony Giardini and Sam Riggall) (the Former Executives) ceased employment with the Corporation and its subsidiaries, other than Peter Meredith who continues as Chairman of SouthGobi. Douglas Kirwin has also ceased employment with the Corporation and its subsidiaries and, therefore, is also a Former Executive. Upon cessation of his employment, each Former Executive became entitled to receive certain termination benefits in connection with such cessation including, in the case of Messrs. Macken, Meredith and Giardini, the termination benefits more particularly described above under the heading Termination and Change of Control Benefits Provisions in Employment Contracts .

The Corporation's subsidiary, Ivanhoe Australia, is subject to legal restrictions in Australia (Australian Law) that prohibit Ivanhoe Australia or any of its related bodies corporate from giving a benefit in connection with a person's retirement from an office, or position of employment, in Ivanhoe Australia or any of its related bodies corporate (termination benefit) if the office or position is a managerial or executive office or the person has, at any time in the last three years before retirement, held a managerial or executive office in Ivanhoe Australia or any of its related bodies corporate unless the giving of the benefit has been approved by Ivanhoe Australia's shareholders in accordance with the requirements of Australian Law or the benefit is otherwise exempted. Retirement is defined to include loss of, and resignation from, an office (including as a result of death in office).

Insofar as Ivanhoe Australia is a subsidiary of the Corporation, the Corporation is a related body corporate of Ivanhoe Australia and, therefore, Australian Law appears to prohibit the Corporation from giving certain termination benefits to the Former Executives in connection with the cessation of their employment even though the relevant termination benefits:

are not to be given (directly or indirectly) by Ivanhoe Australia or any subsidiary of Ivanhoe Australia;

will not result in Ivanhoe Australia incurring any cost; and

do not require approval by the Corporation's shareholders;
and even though the giving of the benefit would not contravene Canadian or other applicable foreign law.

While it is arguable whether the Australian Law extends to arrangements that have no relevant connection to Australia, the Corporation has requested that Ivanhoe Australia seek the approval of its shareholders to ensure that the Corporation is able to honour its commitments to the Former Executives (and others in respect of whom the Corporation may owe termination benefits upon a future cessation of their employment) in respect of whom the Australian Law potentially applies and to give them termination benefits in accordance with their contractual and other entitlements without potentially contravening the Australian Law.

An ordinary resolution for the approval of the relevant termination benefits by the shareholders of Ivanhoe Australia is to be voted on at the annual general meeting of Ivanhoe Australia scheduled to be held in Melbourne, Australia on May 29, 2012 (the termination benefits resolution). The termination benefits resolution applies to directors and employees (current or future) who, at the time of their termination of office or position, hold managerial or executive office in relation to the Corporation or any of its subsidiaries or held such office in the three years prior to their termination. The termination benefits resolution specifically applies to termination benefits to be given to certain named individuals, including the following Former Executives:

Robert Friedland, in respect of (i) the vesting of 768,658 unvested options to purchase Common Shares and (ii) the entitlement to receive, in lieu of Common Shares, upon the exercise of stock options a cash payment equivalent to the fair market value (determined at the time immediately before exercise) of the number of Common Shares that he would have been entitled to receive, less the amount of the exercise price that he would have been required to pay to exercise the stock options;

Tony Giardini, in respect of (i) a Cdn\$2,048,190.30 cash severance payment, (ii) the vesting of 482,503 unvested options to purchase Common Shares, (iii) the vesting of 41,900 unvested options to purchase SouthGobi Shares, and (iv) the vesting of 17,125 unvested bonus Common Shares;

John Macken, in respect of (i) a Cdn\$5,159,949.26 cash severance payment, (ii) the vesting of 1,420,048 unvested options to purchase Common Shares, (iii) the vesting of 64,740 unvested options to purchase SouthGobi Shares, (iv) an indemnity in respect of the payment of United States excise taxes levied on termination benefits payable upon cessation of employment following a change of control of the Corporation, and (v) the vesting of 62,500 unvested bonus Common Shares;

Peter Meredith, in respect of (i) a Cdn\$5,164,532.54 cash severance payment, (ii) the vesting of 1,181,575 unvested options to purchase Common Shares, (iii) the vesting of 115,500 unvested options to purchase SouthGobi Shares, and (iv) the vesting of 62,500 unvested bonus Common Shares; and

Sam Riggall, in respect of (i) an Aus\$3,965,207.06 cash severance payment, (ii) the vesting of 487,317 unvested options to purchase Common Shares, (iii) the vesting of 20,000 unvested options to purchase SouthGobi Shares, and (iv) the vesting of 27,000 unvested bonus Common Shares.

Although Steve Garcia continues to act as an executive officer of the Corporation, the termination benefits resolution also specifically applies to termination benefits to be given to Mr. Garcia if his employment is terminated without cause. These termination benefits currently include (i) a US\$125,000 cash severance payment, (ii) acceleration of the payment of a US\$1,000,000 bonus payment Mr. Garcia will earn upon substantial completion of the Oyu Tolgoi project, (iii) the vesting of 376,169 unvested options to purchase Common Shares, and (iv) the vesting of 16,500 unvested bonus Common Shares.

The approval of the termination benefits resolution by Ivanhoe Australia's shareholders is being sought out of an abundance of caution and certain of the termination benefits described above that are to be given to the Former Executives (Withheld Benefits) are being withheld pending such approval. The Corporation has no reason to believe that the termination benefits resolution will not be passed and it is expected that the Withheld Benefits will be given to the Former Executives once the termination benefits resolution has been passed (they may also be given in other limited circumstances). An escrow arrangement applies to the Withheld Benefits in the interim.

COMPENSATION OF DIRECTORS

Each non-management Director receives a retainer of Cdn\$100,000 per annum. Mr. David Huberman received an additional retainer per annum for acting as Chairman of the Board, the compensation of which was set at Cdn\$275,000 per annum, commencing August, 2011. This retainer was an increase from Cdn\$150,000 he had been receiving for his role as Lead Director to reflect the additional responsibilities of such role. Mr. David Korbin received a per annum payment for acting as the Chairman of the Audit Committee of Cdn\$40,000 per annum in 2011, which retainer was increased to Cdn\$50,000 per annum in 2012. The Chair of the Compensation Committee received a per annum payment of Cdn\$40,000 in 2011. The Chairs of the Nominating and Corporate Governance Committee and the Safety, Health and Environment Committee received a payment of Cdn\$20,000 each per annum in 2011.

Each non-management Director receives a fee of Cdn\$2,000 for each in-person Board of Directors meeting or conference call and/or each in-person Committee meeting or conference call in which they participate. Fees payable to Rio Tinto employees who act as Directors are paid directly to Rio Tinto in accordance with Rio Tinto's corporate policy. In 2011, each non-management Director (other than any Director who is an employee of Rio Tinto in accordance with Rio Tinto's corporate policy) also received an annual grant of incentive stock options exercisable to purchase up to 30,000 Common Shares, such options having a seven year term and fully vesting on the first anniversary of the date of the grant. Effective January 1, 2011, a travel fee of Cdn\$2,000 was approved to be payable to any non-management Director who travels to attend meetings, the venue of which is more than three (3) hours travel time from the Director's home. Each executive Director and each non-management Director is also entitled to be reimbursed for actual expenses reasonably incurred in the performance of his duties as a Director.

In light of recent corporate developments and Board changes, the Compensation Committee expects to review its compensation policies for Directors during 2012 with assistance from compensation consultants to the extent deemed advisable.

The following table reflects compensation earned by Directors in respect of fiscal 2011 under the compensation arrangements described above.

Directors Compensation for Fiscal 2011⁽¹⁾

| NAME | FEES EARNED (US\$) ⁽²⁾ | SHARE-BASED AWARDS (US\$) | NON-EQUITY | | | ALL OTHER COMPENSATION (US\$) | TOTAL COMPENSATION (US\$) |
|--------------------------------------|---|---------------------------------|---|--|-------------------------|--|---------------------------------|
| | | | OPTION-BASED AWARDS ⁽⁶⁾ (US\$) | INCENTIVE PLAN COMPENSATION (US\$) | PENSION VALUE (US\$) | | |
| Howard Balloch ⁽⁴⁾ | 97,061 | Nil | 932,492 | Nil | Nil | Nil | 1,029,553 |
| Markus Faber ⁽¹¹⁾ | 152,669 | Nil | 961,289 | Nil | Nil | Nil | 1,113,958 |
| R. Edward Flood ^{(10) (11)} | 173,643 | Nil | 791,199 | Nil | Nil | Nil | 964,842 |
| Michael Gordon ⁽¹²⁾ | 157,703 | Nil | 503,120 | Nil | Nil | Nil | 660,823 |
| Andrew Harding ⁽⁷⁾ | 104,307 | Nil | Nil | Nil | Nil | Nil | 104,307 |
| Robert Holland ⁽¹²⁾ | 149,614 | Nil | 432,977 | Nil | Nil | Nil | 582,591 |
| David Huberman ⁽¹²⁾ | 368,886 | Nil | 599,216 | Nil | Nil | Nil | 968,102 |
| David Korbin ^{(5) (11)} | 241,620 | Nil | 690,816 | Nil | Nil | Nil | 932,436 |
| Daniel Larsen ⁽⁹⁾ | 54,694 | Nil | Nil | Nil | Nil | Nil | 54,694 |
| Livia Mahler ⁽¹¹⁾ | 150,647 | Nil | 653,295 | Nil | Nil | Nil | 803,942 |
| Kay Priestly ⁽⁸⁾ | 110,373 | Nil | Nil | Nil | Nil | Nil | 110,373 |
| Tracy Stevenson ⁽¹¹⁾ | 160,225 | Nil | 499,674 | Nil | Nil | Nil | 659,899 |
| Kjeld Thygesen ⁽³⁾ | 11,964 | Nil | 583,534 | Nil | Nil | Nil | 595,498 |
| Dan Westbrook ⁽¹¹⁾ | 170,776 | Nil | 503,120 | Nil | Nil | Nil | 673,896 |

- (1) Messrs. Friedland, Macken and Meredith were members of management in fiscal 2011 and did not receive compensation as Directors. Accordingly, the compensation details for Messrs. Friedland, Macken and Meredith have been excluded from the table, as such information is included in the Named Executive Officer table set forth under the heading Summary Compensation for the Corporation .
- (2) The sums represented in the Fees Earned column of this table represent Director retainers, fees earned from acting as Chairman of each of the Board committees, remuneration for attending meetings and conference calls of the Directors.
- (3) Mr. Thygesen resigned from the Board of Directors in February 2011.
- (4) Mr. Balloch resigned from the Board of Directors in July 2011.
- (5) The Fees Earned by Mr. Korbin included the retainer for acting as Chairman of each of the Audit Committee and of the Compensation & Benefits Committee.
- (6) The Corporation uses the Black-Scholes option-pricing model for determining fair value of stock options issued as at the grant date. This practice and certain assumptions are further described in footnote (8) to the Summary Compensation Table for NEOs above. The practice of the Corporation is to grant all option based awards in Canadian currency, and then convert the grant date fair value amount to U.S. currency for reporting the value of the grants in the Corporation's financials. The conversion rate for each grant is the exchange rate on the date the grant is made in Canadian currency. See 2011 Corporation Options Granted to Directors below.
- (7) Mr. Harding's non-management Director retainer and fees are paid directly to Rio Tinto.
- (8) Ms. Priestly was appointed to the Board of Directors in February 2011. Ms. Priestly's non-management Director retainer and fees are paid directly to Rio Tinto.
- (9) Mr. Larsen was appointed to the Board of Directors in July 2011. Mr. Larsen's non-management Director retainer and fees are paid directly to Rio Tinto.
- (10) Includes the following payments from SouthGobi: \$42,206 in Fees Earned; \$166,998 in Option-based Awards; and \$209,204 in Total Compensation.
- (11) Pursuant to the MOA, Messrs. Faber, Korbin, Flood, Stevenson and Westbrook and Ms. Mahler resigned from the Board of Directors in April 2012. Ms. Mahler was reappointed to the Board in May 2012.
- (12) Messrs. Gordon, Holland and Huberman resigned from the Board of Directors in May 2012.

2011 Corporation Options Granted to Directors

| Name | Company that Granted Options | Date of Grant | Options Granted | Exercise Price | Exchange Rates Cdn to USD | Basis of Grant |
|---------------------------------------|------------------------------|---------------|-----------------|----------------|---------------------------|---------------------|
| Howard Balloch ⁽²⁾ | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 10.56 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 13.35 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 9.64 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 3,358 | \$ 2.82 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 8.20 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 15.25 | \$ 0.9874 | Anti-dilution Grant |
| Markus Faber ⁽³⁾ | Ivanhoe Mines Ltd. | 5/10/2011 | 30,000 | \$ 23.86 | \$ 0.9568 | Annual 2011 Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 10.56 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 13.35 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 9.64 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 4,478 | \$ 2.82 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 8.20 | \$ 0.9874 | Anti-dilution Grant |
| R. Edward Flood ⁽³⁾ | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 15.25 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 15.25 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 5/10/2011 | 30,000 | \$ 23.86 | \$ 0.9568 | Annual 2011 Grant |
| | SouthGobi Resources Ltd | 8/15/2011 | 35,000 | \$ 9.43 | \$ 0.9838 | SouthGobi Grant |
| | Ivanhoe Mines Ltd. | 5/10/2011 | 30,000 | \$ 23.86 | \$ 0.9568 | Annual 2011 Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 4,813 | \$ 2.82 | \$ 0.9874 | Anti-dilution Grant |
| Michael Gordon ⁽⁴⁾ | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 19.18 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 5/10/2011 | 30,000 | \$ 23.86 | \$ 0.9568 | Annual 2011 Grant |
| Robert Holland ⁽⁴⁾ | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 26.04 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 5/10/2011 | 30,000 | \$ 23.86 | \$ 0.9568 | Annual 2011 Grant |
| David Huberman ⁽⁴⁾ | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 13.35 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 1,679 | \$ 2.82 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 15.25 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 5/10/2011 | 30,000 | \$ 23.86 | \$ 0.9568 | Annual 2011 Grant |
| David Korbin ⁽³⁾ | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 13.35 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 9.64 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 2,518 | \$ 2.82 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 15.25 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 5/10/2011 | 30,000 | \$ 23.86 | \$ 0.9568 | Annual 2011 Grant |
| Livia Mahler ⁽³⁾ | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 8.20 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 15.25 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 5/10/2011 | 30,000 | \$ 23.86 | \$ 0.9568 | Annual 2011 Grant |
| Tracy Stevenson ⁽³⁾ | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 15.25 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 5/10/2011 | 30,000 | \$ 23.86 | \$ 0.9568 | Annual 2011 Grant |
| Kjeld Thygesen ⁽¹⁾ | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 10.56 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 13.35 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 3,731 | \$ 9.64 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 4,478 | \$ 2.82 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 8.20 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 15.25 | \$ 0.9874 | Anti-dilution Grant |
| Dan Westbrook ⁽³⁾ | Ivanhoe Mines Ltd. | 2/11/2011 | 7,463 | \$ 19.18 | \$ 0.9874 | Anti-dilution Grant |
| | Ivanhoe Mines Ltd. | 5/10/2011 | 30,000 | \$ 23.86 | \$ 0.9568 | Annual 2011 Grant |

(1) Mr. Thygesen resigned from the Board of Directors in February 2011.

(2) Mr. Balloch resigned from the Board of Directors in July 2011.

(3) Pursuant to the MOA, Messrs. Faber, Korbin, Flood, Stevenson and Westbrook and Ms. Mahler resigned from the Board of Directors in April 2012. Ms. Mahler was reappointed to the Board in May 2012.

(4) Messrs. Gordon, Holland and Huberman resigned from the Board of Directors in May 2012.

Outstanding share-based awards and option-based awards for Directors as at December 31, 2011

| Name | Issuer of Option-based Award | Number of Securities Underlying Unexercised Options | Option Exercise Price (C\$/Option) | Option-based Awards | |
|---------------------------------------|------------------------------|---|------------------------------------|------------------------|--|
| | | | | Option Expiration Date | Market Value of Unexercised in-the-Money Options (US\$) ⁽¹⁾ |
| Howard Balloch ⁽⁶⁾ | Ivanhoe Mines Ltd. | 28,731 | \$ 13.35 | May 11, 2012 | \$ 133,911 |
| | Ivanhoe Mines Ltd. | 8,620 | \$ 2.82 | Nov. 13, 2015 | \$ 129,429 |
| | Ivanhoe Mines Ltd. | 57,463 | \$ 15.25 | May 7, 2017 | \$ 160,470 |
| | Ivanhoe Mines Ltd. | 30,000 | \$ 23.86 | May 10, 2018 | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| Markus Faber ⁽⁷⁾ | Ivanhoe Mines Ltd. | 28,731 | \$ 13.35 | May 11, 2012 | \$ 133,911 |
| | Ivanhoe Mines Ltd. | 28,731 | \$ 9.64 | May 9, 2013 | \$ 238,723 |
| | Ivanhoe Mines Ltd. | 34,478 | \$ 2.82 | Nov. 13, 2015 | \$ 517,687 |
| | Ivanhoe Mines Ltd. | 57,463 | \$ 8.20 | May 8, 2016 | \$ 558,818 |
| | Ivanhoe Mines Ltd. | 57,463 | \$ 15.25 | May 7, 2017 | \$ 160,470 |
| | Ivanhoe Mines Ltd. | 30,000 | \$ 23.86 | May 10, 2018 | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| R. Edward Flood ⁽⁷⁾ | Ivanhoe Mines Ltd. | 37,063 | \$ 2.82 | Nov. 13, 2015 | \$ 556,501 |
| | Ivanhoe Mines Ltd. | 57,463 | \$ 15.25 | May 7, 2017 | \$ 160,470 |
| | Ivanhoe Mines Ltd. | 30,000 | \$ 23.86 | May 10, 2018 | Nil |
| | SouthGobi Resources Ltd. | 25,000 | \$ 13.80 | May 21, 2013 | Nil |
| | SouthGobi Resources Ltd. | 20,000 | \$ 5.10 | Nov 27, 2013 | \$ 17,699 |
| | SouthGobi Resources Ltd. | 35,000 | \$ 10.21 | May 6, 2014 | Nil |
| | SouthGobi Resources Ltd. | 35,000 | \$ 12.58 | Aug. 13, 2015 | Nil |
| | SouthGobi Resources Ltd. | 35,000 | \$ 9.43 | Aug. 15, 2016 | Nil |
| Ivanhoe Australia Limited | Nil | Nil | Nil | Nil | |
| Michael Gordon ⁽⁸⁾ | Ivanhoe Mines Ltd. | 57,463 | \$ 19.18 | Sept. 15, 2017 | Nil |
| | Ivanhoe Mines Ltd. | 30,000 | \$ 23.86 | May 10, 2018 | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| Andrew Harding ⁽²⁾ | Ivanhoe Mines Ltd. | Nil | Nil | Nil | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| Robert Holland ⁽⁸⁾ | Ivanhoe Mines Ltd. | 28,731 | \$ 26.04 | Nov. 15, 2017 | Nil |
| | Ivanhoe Mines Ltd. | 30,000 | \$ 23.86 | May 10, 2018 | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| David Huberman ⁽⁸⁾ | Ivanhoe Mines Ltd. | 6,465 | \$ 2.82 | Nov. 13, 2015 | \$ 97,072 |
| | Ivanhoe Mines Ltd. | 57,463 | \$ 15.25 | May 7, 2017 | \$ 160,470 |
| | Ivanhoe Mines Ltd. | 30,000 | \$ 23.86 | May 10, 2018 | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| David Korbin ⁽⁷⁾ | Ivanhoe Mines Ltd. | 6,469 | \$ 2.82 | Nov. 13, 2015 | \$ 97,132 |
| | Ivanhoe Mines Ltd. | 40,000 | \$ 15.25 | May 7, 2017 | \$ 111,703 |
| | Ivanhoe Mines Ltd. | 30,000 | \$ 23.86 | May 10, 2018 | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| Daniel Larsen ⁽⁴⁾ | Ivanhoe Mines Ltd. | Nil | Nil | Nil | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| Livia Mahler ⁽⁷⁾ | Ivanhoe Mines Ltd. | 57,463 | \$ 8.20 | May 8, 2016 | \$ 558,818 |
| | Ivanhoe Mines Ltd. | 57,463 | \$ 15.25 | May 7, 2017 | \$ 160,470 |

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| | | | | |
|---------------------------|--------|----------|--------------|-----|
| Ivanhoe Mines Ltd. | 30,000 | \$ 23.86 | May 10, 2018 | Nil |
| SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |

| Name | Issuer of Option-based Award | Option-based Awards | | | Market Value of Unexercised in-the-Money Options (US\$) ⁽¹⁾ |
|---------------------------------------|------------------------------|---|------------------------------------|------------------------|--|
| | | Number of Securities Underlying Unexercised Options | Option Exercise Price (C\$/Option) | Option Expiration Date | |
| Kay Priestly ⁽³⁾ | Ivanhoe Mines Ltd. | Nil | Nil | Nil | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| Tracy Stevenson ⁽⁷⁾ | Ivanhoe Mines Ltd. | 57,463 | \$ 15.25 | May 7, 2017 | \$ 160,470 |
| | Ivanhoe Mines Ltd. | 30,000 | \$ 23.86 | May 10, 2018 | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| Kjeld Thygesen ⁽⁵⁾ | Ivanhoe Mines Ltd. | 28,731 | \$ 13.35 | May 11, 2012 | \$ 133,911 |
| | Ivanhoe Mines Ltd. | 28,731 | \$ 9.64 | May 9, 2013 | \$ 238,723 |
| | Ivanhoe Mines Ltd. | 34,478 | \$ 2.82 | Nov. 13, 2015 | \$ 517,687 |
| | Ivanhoe Mines Ltd. | 57,463 | \$ 8.20 | May 8, 2016 | \$ 558,818 |
| | Ivanhoe Mines Ltd. | 57,463 | \$ 15.25 | May 7, 2017 | \$ 160,470 |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |
| Dan Westbrook ⁽⁷⁾ | Ivanhoe Mines Ltd. | 57,463 | \$ 19.18 | Sept. 15, 2017 | Nil |
| | Ivanhoe Mines Ltd. | 30,000 | \$ 23.86 | May 10, 2018 | Nil |
| | SouthGobi Resources Ltd. | Nil | Nil | Nil | Nil |
| | Ivanhoe Australia Limited | Nil | Nil | Nil | Nil |

- (1) The Value of Unexercised in-the-Money Options is calculated on the basis of the difference between the closing price of the Common Shares on the TSX on December 31, 2011 and the Exercise Price of the options. This amount is converted from Cdn\$ to US\$ at the Bank of Canada noon rate on December 31, 2011.
- (2) Mr. Harding resigned from the Board of Directors in July 2010 and was reappointed in February 2011.
- (3) Ms. Priestly was appointed to the Board of Directors in February 2011.
- (4) Mr. Larsen was appointed to the Board of Directors in July 2011.
- (5) Mr. Thygesen resigned from the Board of Directors in February 2011.
- (6) Mr. Balloch resigned from the Board of Directors in July 2011.
- (7) Pursuant to the MOA, Messrs. Faber, Korbin, Flood, Stevenson and Westbrook and Ms. Mahler resigned from the Board of Directors in April 2012. Ms. Mahler was reappointed to the Board in May 2012.
- (8) Messrs. Gordon, Holland and Huberman resigned from the Board of Directors in May 2012.

Incentive Plan Awards value vested or earned during 2011

| Name | Issuer of Option-based Award | Option-based Awards Value Vested During the Year (US\$) ⁽⁶⁾ |
|---------------------------------------|------------------------------|--|
| Howard Balloch ⁽⁵⁾ | Ivanhoe Mines Ltd. | \$1,088,739 |
| | SouthGobi Resources Ltd. | Nil |
| | Ivanhoe Australia Limited | Nil |
| Markus Faber ⁽⁷⁾ | Ivanhoe Mines Ltd. | \$1,117,364 |
| | SouthGobi Resources Ltd. | Nil |
| | Ivanhoe Australia Limited | Nil |
| R. Edward Flood ⁽⁷⁾ | Ivanhoe Mines Ltd. | \$900,220 |
| | SouthGobi Resources Ltd. | \$10,535 |
| | Ivanhoe Australia Limited | Nil |
| Michael Gordon ⁽⁸⁾ | Ivanhoe Mines Ltd. | \$142,657 |
| | SouthGobi Resources Ltd. | Nil |
| | Ivanhoe Australia Limited | Nil |
| Andrew Harding ⁽¹⁾ | Ivanhoe Mines Ltd. | Nil |

SouthGobi Resources Ltd.
Ivanhoe Australia Limited

Nil
Nil

| Name | Issuer of Option-based Award | Option-based Awards Vested During the Year (US\$) ⁽⁶⁾ | Value |
|---------------------------------------|------------------------------|--|-------------|
| Robert Holland ⁽⁸⁾ | Ivanhoe Mines Ltd. | | Nil |
| | SouthGobi Resources Ltd. | | Nil |
| | Ivanhoe Australia Limited | | Nil |
| David Huberman ⁽⁸⁾ | Ivanhoe Mines Ltd. | | \$734,557 |
| | SouthGobi Resources Ltd. | | Nil |
| | Ivanhoe Australia Limited | | Nil |
| David Korbin ⁽⁷⁾ | Ivanhoe Mines Ltd. | | \$825,662 |
| | SouthGobi Resources Ltd. | | Nil |
| | Ivanhoe Australia Limited | | \$45,147 |
| Daniel Larsen ⁽³⁾ | Ivanhoe Mines Ltd. | | Nil |
| | SouthGobi Resources Ltd. | | Nil |
| | Ivanhoe Australia Limited | | Nil |
| Livia Mahler ⁽⁷⁾ | Ivanhoe Mines Ltd. | | \$710,496 |
| | SouthGobi Resources Ltd. | | Nil |
| | Ivanhoe Australia Limited | | Nil |
| Kay Priestly ⁽²⁾ | Ivanhoe Mines Ltd. | | Nil |
| | SouthGobi Resources Ltd. | | Nil |
| | Ivanhoe Australia Limited | | Nil |
| Tracy Stevenson ⁽⁷⁾ | Ivanhoe Mines Ltd. | | \$560,301 |
| | SouthGobi Resources Ltd. | | Nil |
| | Ivanhoe Australia Limited | | Nil |
| Kjeld Thygesen ⁽⁴⁾ | Ivanhoe Mines Ltd. | | \$1,117,364 |
| | SouthGobi Resources Ltd. | | Nil |
| | Ivanhoe Australia Limited | | Nil |
| Dan Westbrook ⁽⁷⁾ | Ivanhoe Mines Ltd. | | \$142,657 |
| | SouthGobi Resources Ltd. | | Nil |
| | Ivanhoe Australia Limited | | Nil |

(1) Mr. Harding resigned from the Board of Directors in July 2010 and was reappointed in February 2011.

(2) Ms. Priestly was appointed to the Board of Directors in February 2011.

(3) Mr. Larsen was appointed to the Board of Directors in July 2011.

(4) Mr. Thygesen resigned from the Board of Directors in February 2011.

(5) Mr. Balloch resigned from the Board of Directors in July 2011.

(6) The Option-based Awards Value Vested During the Year amounts are calculated on the basis of the difference between the closing price of the Common Shares on the TSX on the date of vesting and the Exercise Price of the Options. This amount has been converted from Cdn\$ to US\$ at the Bank of Canada noon rate on the date of vesting.

(7) Pursuant to MOA, Messrs. Faber, Korbin, Flood, Stevenson and Westbrook and Ms. Mahler resigned from the Board of Directors in April 2012. Ms. Mahler was reappointed to the Board in May 2012.

(8) Messrs. Gordon, Holland and Huberman resigned from the Board of Directors in May 2012.

Withholding of Certain Termination Benefits in favour of Former Directors

On April 17, 2012, certain Directors, including Dan Westbrook, Tracy Stevenson, Livia Mahler, David Korbin, Markus Faber and Edward Flood (the Former Directors) resigned. Upon resigning, each Former Director became entitled to receive certain termination benefits in connection with such resignations.

The termination benefits resolution being sought in respect of the termination benefits that are to be given to the Former Executives, will also apply to the termination benefits to be given to the Former Directors. See Executive Compensation Withholding of Certain Termination Benefits in favour of Former Executives in this Management Proxy Circular.

The termination benefits to be given to the Former Directors to which the termination benefit resolution applies are as follows:

Dan Westbrook, in respect of the vesting of 30,000 unvested options to purchase Common Shares;

Tracy Stevenson, in respect of the vesting of 30,000 unvested options to purchase Common Shares;

Livia Mahler, in respect of the vesting of 30,000 unvested options to purchase Common Shares;

David Korbin, in respect of the vesting of 36,465 unvested options to purchase Common Shares;

Markus Faber, in respect of the vesting of 38,620 unvested options to purchase Common Shares; and

Edward Flood, in respect of the vesting of 48,532 unvested options to purchase Common Shares.

The termination benefits described above that are to be given to the Former Directors are being treated as Withheld Benefits that are being withheld until the termination benefits resolution is passed. The Corporation has no reason to believe that the termination benefits resolution will not be passed and it is expected that the Withheld Benefits will be given to the Former Directors once the termination benefits resolution has been passed (they may also be given in other limited circumstances).

EQUITY COMPENSATION PLAN INFORMATION

All of the incentive stock options and equity compensation the Corporation granted in 2011 were made under the Equity Incentive Plan, attached as Schedule G to this Management Proxy Circular. The Equity Incentive Plan is the only equity compensation plan the Corporation has in effect and is intended to secure for the Corporation and its shareholders the benefits of incentive inherent in share ownership by the employees and directors of the Corporation and its affiliates who, in the judgment of the Board, will be largely responsible for its future growth and success. The Corporation's shareholders have approved the Equity Incentive Plan and all amendments thereto. The following information is at May 24, 2012:

| Plan category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (Cdn\$) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans |
|--|---|---|--|
| Equity compensation plans approved by Security holders | 21,302,449 | 14.22 | 26,887,692 |
| Equity compensation plans not approved by Security holders | Nil | Nil | |
| Total | 21,302,449 | 14.22 | 26,887,692 |

Summary of Equity Incentive Plan

Overview

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The Equity Incentive Plan has three components: an Option Plan, which provides for the grant to eligible participants of incentive stock options exercisable to purchase Common Shares; a Bonus Plan, which provides for awards of fully paid Common Shares to eligible participants as and when determined to be warranted on the basis of past performance; and a Purchase Plan, under which eligible participants have the opportunity to purchase Common Shares through payroll deductions which are supplemented by Corporation contributions.

No. 97051 March 15, 2017MTS OJSC Tyva Republic No. 97033 March 15, 2017MTS OJSC Kaliningrad Region No. 97046 March 15, 2017MTS OJSC Murmansk Region No. 97023 March 15, 2017MTS OJSC Pskov Region No. 97017 March 15, 2017MTS OJSC Karelia Republic No. 97047 March 15, 2017MTS OJSC Komi Republic No. 97021 March 15, 2017MTS OJSC Altai Republic No. 97027 March 15, 2017MTS OJSC Mordovia Republic No. 97001 March 15, 2017MTS OJSC Krasnodar Region No. 110717 August 31, 2017MTS OJSC Astrakhan Region No. 110725 December 18, 2014MTS OJSC Tambov Region No. 110742 December 18, 2014MTS OJSC Udmurt Republic No. 110729 February 27, 2018MTS OJSC Tver Region No. 110701 November 24, 2014MTS OJSC Samara Region No. 110700 December 31, 2014MTS OJSC Sverdlovsk Region , Khanty-Mansiysk Autonomous District-Yugra No. 108752 March 25, 2018MTS OJSC Perm Region No. 110716 February 27, 2018MTS OJSC Tyumen Region, Yamalo-Nenetsk Autonomous Region No. 110748 December 01, 2015MTS OJSC St. Petersburg No. 110708 January 28, 2015MTS OJSC Tatarstan Republic No. 108754 March 25, 2018

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| Licensee | License Region(s) | License number | Expiry Date |
|---|--|----------------|--------------------|
| MTS OJSC | Nenetsk Autonomous Region | No. 108753 | March 25, 2018 |
| MTS OJSC | Vladimir Region, Ryazan Region | No. 108755 | March 25, 2018 |
| MTS OJSC | Jewish Autonomous Region, Chukotsk Autonomous Region | No. 108756 | March 25, 2018 |
| MGTS | Moscow Region | No. 95256 | January 26, 2017 |
| MTS OJSC | Arkhangelsk Region | No. 117815 | February 17, 2019 |
| MTS OJSC | Krasnoyarsk Region | No. 117816 | February 17, 2019 |
| MTS OJSC | Novosibirsk Region | No. 117817 | February 17, 2019 |
| MTS OJSC | Leningrad Region | No. 117818 | February 17, 2019 |
| MTS OJSC | Nizhny Novgorod Region | No. 117819 | February 17, 2019 |
| MTS OJSC | Omsk Region | No. 117820 | February 17, 2019 |
| MTS OJSC | Smolensk Region | No. 117821 | February 17, 2019 |
| MTS OJSC | Novgorod Region | No. 117822 | February 17, 2019 |
| MTS OJSC | Tula Region | No. 117823 | February 17, 2019 |
| MTS OJSC | Volgograd Region | No. 117824 | February 17, 2019 |
| MTS OJSC | Kemerovo Region | No. 117825 | February 17, 2019 |
| Comstar Regions | Khanty-Mansiysk Autonomous District-Yugra | No. 109139 | December 01, 2015 |
| Comstar Regions | Sverdlovsk Region | No. 82416 | March 15, 2016 |
| Comstar Regions | Ryazan Region | No. 92022 | December 08, 2016 |
| Mobile Radio Services | | | |
| MTS OJSC | Orenburg Region | No. 110718 | October 02, 2016 |
| MTS OJSC | Rostov Region | No. 110721 | August 31, 2017 |
| MTS OJSC | Yamalo-Nenetsk Autonomous Region | No. 116564 | December 15, 2015 |
| Comstar Regions | Khanty-Mansiysk Autonomous District-Yugra | No. 109138 | December 15, 2015 |
| Comstar Regions | Khanty-Mansiysk Autonomous District-Yugra | No.109413 | May 23, 2018 |
| Telecommunications Services for Cablecasting | | | |
| MTS OJSC | Russian Federation | No. 95837 | November 24, 2014 |
| Comstar Regions | Ryazan Region | No. 96615 | December 10, 2015 |
| Comstar Regions | Sverdlovsk Region | No. 101795 | October 16, 2017 |
| Comstar Regions | Khanty-Mansiysk Autonomous District-Yugra | No. 111597 | December 1, 2015 |
| MGTS | Moscow | No. 83904 | January 27, 2016 |
| MGTS | Moscow Region | No. 111326 | June 18, 2018 |
| Telecommunications Services for Broadcasting | | | |
| MTS OJSC | Kaluga | No. 110724 | June 13, 2015 |
| MTS OJSC | Nizhny Novgorod | No. 110698 | June 28, 2015 |
| MTS OJSC | Arkhangelsk Region, Arkhangelsk, Koryazhma | No. 110705 | November 4, 2014 |
| MTS OJSC | Rostov-on-Don city | No. 113017 | August 1, 2016 |
| MTS OJSC | Tver Region | No. 114630 | August 1, 2016 |
| MTS OJSC | Rostov Region, Taganrog | No. 117190 | August 2, 2016 |
| MTS OJSC | Arkhangelsk Region, Severodvinsk | No. 110739 | August 1, 2014 |
| MTS OJSC | Ivanovo | No. 110719 | September 29, 2015 |
| MTS OJSC | Udmurt Republic, Izhevsk | No. 110738 | July 19, 2015 |
| MTS OJSC | Krasnoyarsk Region, Norilsk, Dudinka | No. 114619 | August 1, 2016 |
| Comstar Regions | Yekaterinburg | No. 112544 | August 1, 2016 |
| Comstar Regions | Nizhniy Tagil, Sverdlovsk Region | No. 99351 | July 19, 2015 |
| Comstar Regions | Ryazan | No. 86661 | November 6, 2015 |

Table of Contents**C. Organizational Structure**

The table below presents our significant subsidiaries and investees, the places of incorporation and our effective ownership interests therein as of December 31, 2013.

| Subsidiary | Accounting Method | Ownership Interest | Place of Incorporation/ Organization |
|--|-------------------|--------------------|--------------------------------------|
| Sibintelecom | Consolidated | 100.0% | Russia |
| Russian Telephone Company | Consolidated | 100.0% | Russia |
| Sistema Telecom | Consolidated | 100.0% | Russia |
| Intercom | Consolidated | 100.0% | Russia |
| Elf | Consolidated | 100.0% | Russia |
| Pilot | Consolidated | 100.0% | Russia |
| Teleradiokompania "TVT" | Consolidated | 100.0% | Russia |
| TVKiK | Consolidated | 100.0% | Russia |
| ZhelGorTeleCom | Consolidated | 100.0% | Russia |
| Metro-Telecom | Consolidated | 95.0% | Russia |
| MGTS | Consolidated | 94.6% | Russia |
| MTS Ukraine | Consolidated | 100.0% | Ukraine |
| MTS Finance | Consolidated | 100.0% | Luxembourg |
| MTS Turkmenistan | Consolidated | 100.0% | Turkmenistan |
| MTS Bermuda ⁽¹⁾ | Consolidated | 100.0% | Bermuda |
| MTS International Funding ⁽²⁾ | Consolidated | VIE | Ireland |
| K-Telecom | Consolidated | 80.0% | Armenia |
| MTS Belarus | Equity | 49.0% | Belarus |
| IntellectTelecom | Equity | 47.3% | Russia |
| Stream | Equity | 45.0% | Russia |
| MTS Bank | Equity | 26.3% | Russia |

(1) A wholly owned subsidiary established to repurchase our ADSs.

(2) A private limited company organized and existing under the laws of Ireland for the sole purpose of financing a loan to MTS. The company is a variable interest entity of the Group.

See also Note 2 to our audited consolidated financial statements.

D. Property, Plant and Equipment**Property, Plant and Equipment**

We own and occupy premises in Moscow at 4 Marksistskaya Street Bldgs. 1-4, 34 Marksistskaya Street Bldg. 10, 1/3 Vorontsovskaya Street Bldgs. 2 and 2a, 5 Vorontsovskaya Street Bldgs. 1 and 2, 13/14 Vorontsovskaya Street Bldg. 4, 8 Vorontsovskaya Street Bldg. 4, 12/12 Pankratievsky Pereulok, 2/10 Perviy Golutvinskiy Pereulok Bldg. 1 and 2, 4 Perviy Golutvinskiy Pereulok Bldg. 1, 9 Magnitogorskaya Street Building 1, 6 Vtoroy Vyazovskiy Proezd Building 1-3, 2A Konstantina Simonova Street, 19 Dmitrovskoye shosse Bldg. 2, 103 Prospect Mira, 42 Profsoyuznaya Street Bldg. 1, 24/2 Malaya Dmitrovka Street, 5/9 Malaya Dmitrovka Street Sheremetyevo Airport, 58/1 Ryazanskiy prospect, 60 Varshavskoe shosse, 27 Smolenskaya-Sennaya square Bldg 2, 27 Smolenskaya-Sennaya square Bldg 3, 6 Ostrovitjanova Street, 2 Mozhayskoe shosse, which we use for administration, sales and other service centers as well as the operations of mobile switching centers.

We also lease buildings in Moscow for similar purposes, including marketing and sales and other service centers. In addition, through our subsidiary MGTS, we own approximately 238 buildings located throughout Moscow, which serve as sales and customer service offices, house MGTS'

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telecommunication equipment and are leased to third parties. We also own office buildings in some of our regional license areas and in Ukraine, and we lease office space on an as-needed basis. We believe that our properties are adequate for our current needs and additional space is available to us if and when it is needed.

The primary elements of our network are base stations, base station controllers, transcoders and mobile switching centers. Base stations occupy sites leased at selected locations in all the areas in which we provide network coverage. GSM, 3G and 4G technologies are based on an "open architecture," which means that equipment from one supplier can be combined with that of another supplier to expand the network. Thus, there are no technical limitations to using equipment from other suppliers.

The table below sets forth certain information on our network equipment as of December 31, 2013.

| | Base stations GSM-900 | Base stations GSM-1800 | Base stations UMTS-900 | Base stations UMTS-2100 | Femtocells UMTS-2100 | Base stations LTE-800 | Base stations LTE-2600 | Base station controller | Switches | Media gateways ⁽²⁾ |
|--------------|--------------------------|---------------------------|---------------------------|----------------------------|-------------------------|--------------------------|---------------------------|----------------------------|----------|-------------------------------|
| Russia | 25831 | 18583 | 1162 | 28149 | 2250 | 182 | 4841 | 972 | 119 | 163 |
| Ukraine | 5561 | 9688 | | | | | | 328 | 95 | 5 |
| Turkmenistan | 751 | 688 | | 36 | | | | 16 | 4 | |
| Armenia | 1000 | 576 | | 797 | | | 200 | 20 | 10 | 6 |

(1) Includes 3G equipment.

(2) Includes 3G and 4G equipment.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion of our financial condition and results of operations is intended to help the reader understand us, our operations and our present business environment and should be read in conjunction with our consolidated financial statements, related notes and other information included elsewhere in this document. In particular, we refer you to the risks discussed in "Item 3. Key Information D. Risk Factors" for information regarding governmental, economic, fiscal, monetary or political policies or factors that could materially adversely affect our operations or your investment in our shares and ADSs. In addition, this section contains forward-looking statements that involve risk and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Item 3. Key Information D. Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements." Our reporting currency is the Russian ruble and our consolidated financial statements have been prepared in accordance with U.S. GAAP.

A. Operating Results

Overview

We are a leading telecommunications provider in Russia and the CIS, providing a wide range of mobile and fixed line voice and data telecommunications services, including transmission, broadband, pay-TV and various value-added services, as well as selling equipment and accessories.

According to AC&M-Consulting, we are the largest mobile operator in Russia and Armenia and the second largest in Ukraine in terms of mobile subscribers. As of December 31, 2013, we had a mobile subscriber base of approximately 102.4 million.

We are also the largest operator in the Moscow residential broadband market in terms of subscribers, with a 27.0% market share as of December 31, 2013, according to Direct INFO.

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Our revenues for the year ended December 31, 2013, were RUB 398,443 million, an increase of 5.3% from the year ended December 31, 2012. Our net income attributable to the Group for the year ended December 31, 2013, was RUB 79,839 million, an increase of 169.3% from the year ended December 31, 2012 (mainly due to the situation in Uzbekistan, where our operations were terminated in July 2012 and our licenses were consequently withdrawn, for more details please see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations" regarding suspension of our services in Uzbekistan" and Note 4 to our audited consolidated financial statements). Our net income from continuing operations for the year ended December 31, 2013 increased by RUB 13,597 or 21.4% to RUB 77,055 million, the increase was mainly attributable to one off gain recognized as a result of settlement of Bitel litigation (the gain totaled RUB 12,147 million) . Our revenues have historically increased through organic growth, as well as through acquisitions.

The acquisition of Comstar in 2009 and the subsequent merger have provided us access to important growth markets in corporate and residential broadband in furtherance of our strategy to develop convergent telecommunications services and evolve into an integrated telecommunications operator.

We also aggressively expanded our proprietary retail and distribution network over the course of 2011, 2012 and 2013, both organically and through the acquisition of several national and regional retail chains. See "Item 4. Information on Our Company B. Business Overview Mobile Operations Sales and Marketing Sales and Distribution" and " Acquisitions."

We require significant funds to support our subscriber growth, primarily for increasing network capacity, maintaining and modernizing our mobile and fixed line networks, developing our network in the regions and continuing the build-out of our LTE, 3G and broadband Internet networks.

Our cash outlays for capital expenditures (consisting of purchases of property, plant and equipment and intangible assets) for the years ended December 31, 2011, 2012 and 2013 were RUB 72,802 million, RUB 87,783 million and RUB 81,575 million, respectively.

We have financed our cash requirements through our operating cash flows and borrowings. Net cash provided by operating activities from continuing operations for the years ended December 31, 2011, 2012 and 2013 was RUB 107,019 million, RUB 134,856 and RUB 159,924 million, respectively.

Our borrowings consist of notes and bank loans. Since 2001, we have raised a total of \$3.0 billion (approximately RUB 92.8 billion as at the date of issue) through eight U.S. dollar-denominated unsecured bond offerings in the international capital markets, as well as ruble-denominated bonds totaling RUB 96 billion. Our bank loans consist of U.S. dollar, euro and ruble-denominated borrowings totaling approximately RUB 116.4 billion as of December 31, 2013.

We repaid approximately RUB 45,191 million of indebtedness in 2013. As of December 31, 2013, the total amount available to us under our credit facilities amounted to RUB 5.0 billion. We had total indebtedness of approximately RUB 219.1 billion as of December 31, 2013, including capital lease obligations, compared to approximately RUB 232.1 billion as of December 31, 2012.

Our total interest expense for the years ended December 31, 2012 and 2013 was RUB 15,498 million and RUB 17,673 million, net of amounts capitalized, respectively. See Note 15 to our audited consolidated financial statements for a description of our indebtedness.

Our reporting currency is Russian Rubles. Our and our subsidiaries' functional currencies are the ruble in Russia, the hryvnia in Ukraine, the U.S. dollar in Uzbekistan, the manat in Turkmenistan and the dram in Armenia. See " Certain Factors Affecting our Financial Position and Results of

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Operations Currency Fluctuations" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

Segments

We have two reportable segments and four operating segments.

We align our business into two reportable segments, Russia and Ukraine, to effectively manage both the mobile and fixed line operations as an integrated business and to respond to the demands of our customers. The Russian reportable segment arose due to the aggregation of two similar operating segments: MTS Russia and MGTS Russia.

The "Other" category does not constitute a reportable segment. It includes both the results of a number of other operating segments that do not meet the quantitative thresholds for separate reporting, such as Armenia, Turkmenistan and the headquarters. See also Note 26 to our audited consolidated financial statements for segment information.

We manage our operations separately in each country in which we operate due to the different economic and regulatory environments, which require us to separately and specifically tailor our marketing and investment strategies. Our management evaluates our performance based on the operating results in each country. Thus, as of December 31, 2013 we had four operating segments that corresponded to our countries of operations and business activities: (1) Russia, (2) Ukraine, (3) Armenia and (4) Turkmenistan, which include our mobile and fixed line communications operations in Russia, Ukraine, Armenia and Turkmenistan, respectively.

The net operating revenues of our segments for the years ended December 31, 2011, 2012 and 2013 were as follows:

| | Year Ended December 31, | | |
|------------------------------------|--|-------------|-------------|
| | 2011 | 2012 | 2013 |
| | (in millions of Russian Rubles) | | |
| Net operating revenues | | | |
| Russia | 311,776 | 337,949 | 354,894 |
| Ukraine | 33,720 | 37,722 | 39,732 |
| Other | 5,933 | 6,382 | 9,129 |
| Eliminations ⁽¹⁾ | (2,858) | (3,813) | (5,313) |
| | | | |
| Net operating revenues as reported | 348,571 | 378,240 | 398,443 |

(1) Represents the eliminations of intercompany transactions and results, which are primarily related to interconnect and roaming arrangements.

Certain Operating Data

Below we provide certain operating data not included in our financial statements that we believe is useful for evaluating our business and results. The data focuses primarily on our mobile operations, particularly in Russia and Ukraine, which comprise the most significant share of our revenue in the periods presented, and is among the information routinely reviewed by our management as part of their regular evaluation of our performance.

Table of Contents**Mobile Subscriber Data**

The following table shows our mobile subscribers by country as of the dates indicated:

| | At December 31, | | |
|----------------------------------|-----------------|-------------|--------------|
| | 2011 | 2012 | 2013 |
| | (in millions) | | |
| Subscribers⁽¹⁾ | | | |
| Russia | 70.0 | 71.2 | 75.3 |
| Ukraine ⁽²⁾ | 19.5 | 20.7 | 22.7 |
| Turkmenistan ⁽³⁾ | n/a | 1.5 | 2.0 |
| Armenia | 2.4 | 2.4 | 2.4 |
| Uzbekistan ⁽⁴⁾ | n/a | n/a | n/a |
| Total consolidated | 91.8 | 95.8 | 102.4 |
| MTS Belarus (unconsolidated) | 4.9 | 5.2 | 5.4 |

- (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 tariffs) or whose account does not have a negative balance for more than this period.
- (2) Including CDMA subscribers starting 2011.
- (3) We do not present subscribers for 2011 as our operations in Turkmenistan have been terminated.
- (4) We do not present subscribers as our operations in Uzbekistan have been terminated in 2012.

We had approximately 75.32 million subscribers in Russia as of December 31, 2013, and a leading 31.0% market share of total mobile cellular subscribers in Russia, according to AC&M-Consulting. Overall penetration in Russia was at approximately 170.0%, according to AC&M-Consulting. We had approximately 22.66 million subscribers in Ukraine as of December 31, 2013 and, according to AC&M-Consulting, a 37.0% market share of total mobile cellular subscribers in Ukraine. In addition, as of December 31, 2013, we had approximately 2.44 million subscribers in Armenia, and 2.02 million subscribers in Turkmenistan, representing a 65.2% and 36.6% market share, respectively, according to AC&M-Consulting and our estimates. For a description of our fixed line subscriber base, see "Item 4. Information on Our Company B. Business Overview Fixed Line Services."

Mobile churn rate

We define mobile churn as the total number of subscribers who cease to be a subscriber 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. We view the subscriber churn as a measure of market competition and customer dynamics. The following table shows our Russian and Ukrainian subscriber churn for the periods indicated.

| | Year Ended December 31, | | |
|-------------------------|----------------------------|-------|-------|
| | 2011 | 2012 | 2013 |
| Subscriber Churn | | | |
| Russia | 47.6% | 42.4% | 36.3% |
| Ukraine | 30.7% | 30.5% | 26.1% |

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The churn rate is highly dependent on competition in our license areas and those subscribers who migrate as a result of such competition.

Our churn rate in Russia decreased to 36.3% during the year ended December 31, 2013, as compared to 42.4% for the year ended December 31, 2012, as we improved the quality of customer service by developing our proprietary mono-brand retail network in Russia and revised the pattern of

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interaction with dealers. In addition, we continued to offer our popular tariff plan "Super MTS" (free calls to all subscribers of MTS Russia), updated options for unlimited mobile Internet, further improved network quality and enhanced data rate by expanding our 3G capabilities. We expect that the expansion of the MTS-Bonus loyalty program and further development of our mono-brand retail network will allow us to keep churn rate stable in 2014, stimulate value-added services usage and promote subscriber loyalty through superior customer service.

The churn rate in Ukraine decreased to 26.1% for the year ended December 31, 2013 from 30.5% for the year ended December 31, 2012. This decrease was achieved by adjusting our tariffs in response to changes in the market and economic environment and by focusing on better managing our subscriber base.

Mobile ARPU

We calculate mobile 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. The following table shows our average monthly service revenue per Russian and Ukrainian subscriber based on our current calculation methodology and average monthly minutes of use per Russian and Ukrainian subscriber for the periods indicated.

| | Year Ended December 31, | | |
|--|-------------------------|-------|-------|
| | 2011 | 2012 | 2013 |
| Average monthly service revenue per subscriber, RUB | | | |
| Russia | 272.7 | 297.1 | 307.9 |
| Ukraine | 143.0 | 152.7 | 149.7 |
| Average monthly minutes of use per subscriber | | | |
| Russia | 269 | 304 | 327 |
| Ukraine | 580 | 597 | 574 |

Average monthly service revenue per subscriber in Russia increased to RUB 307.9 for the year ended December 31, 2013, from RUB 297.1 for the year ended December 31, 2012. This increase was coupled with an increase in subscriber base in 2013 to 75.3 million from 71.2 million, and was caused by inflation and an increase in the disposable income of the general population. Average monthly minutes of use per subscriber in Russia increased to 327 minutes in 2013 from 304 minutes in 2012 mainly due to decrease in tariffs for on-net traffic and various roaming-related offers.

In Ukraine, average monthly service revenue per subscriber decreased slightly to RUB 149.7 for the year ended December 31, 2013, from RUB 152.7 for the year ended December 31, 2012. The average monthly minutes of use per subscriber decreased to 574 minutes in 2013 from 597 minutes in 2012 due to the influx of lower value subscribers.

Revenues

Our principal sources of revenue are:

mobile service revenues, which include usage and interconnect fees, value-added services fees, monthly subscription fees, roaming fees and connection fees;

fixed service revenues from individual and corporate subscribers, which include monthly subscription fees, traffic charges, connection fees, revenues from broadband Internet connection and data transmission services, revenues from pay-TV and from sales of end-user telecommunications equipment. Fixed service revenues also include revenues received from operators, which comprise revenues from the renting out of channels and traffic charges and revenues from the renting out of telecommunications infrastructure; and

revenues from sales of handsets and accessories.

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Our mobile service subscriber tariffs in Russia and Ukraine are not currently regulated by any organization or governmental authority. The interconnect fees we charge to other operators for terminating calls interconnecting to our mobile network are not regulated in Russia, but are regulated in Ukraine. See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Governmental regulation of SMP operators in Ukraine could adversely affect our 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" and " If we or any of our mobile operator 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."

Certain of our fixed service tariffs are regulated, including tariffs charged by Moscow incumbent operator MGTS for installation fees, monthly subscription fees and local call charges, as well as interconnect and traffic transit tariffs. The interconnect tariffs charged by us are also regulated by the Federal Agency on Communications.

Service revenues

Usage fees include amounts charged directly to our subscribers, both for their usage of our network and for their usage of other operators' GSM networks when roaming outside of our service area. We generally bill our subscribers for all outgoing calls. Since July 2006, pursuant to an amendment to the Federal Law on Communications, mobile operators in Russia have been prohibited from charging their subscribers for incoming calls.

The prices for outgoing calls to other cellular operators and to the public service telephone network are usually higher than charges for outgoing calls within our network. The usage fees charged for a call originating on our network depend on a number of factors, including the subscriber's tariff plan, call duration, the time of day when the call was placed and the call destination. Usage fees as a percentage of our total revenues were 30.0% in 2011, 27.6% in 2012 and 26.4% in 2013. Usage fees as a percentage of our total revenues have been decreasing largely due to the increase in revenues from value-added services as a percentage of our total revenues.

Interconnect fees, which are fees for connecting users of other operators' fixed line and wireless networks to our network, comprised 11.0%, 11.3% and 11.1% of our total revenues in 2011, 2012 and 2013, respectively. The fluctuations of interconnect fees as a percentage of our total revenues were largely due to the increase in revenues from value-added services, which grew faster than our revenue from interconnect fees. However, in absolute terms, interconnect fees grew by RUB 1.2 billion in 2013 as compared to 2012 and we expect it to continue to grow due to the increases in traffic volumes from our competitors.

Value-added services as a percentage of our total revenues comprised 18.2% in 2011, 21.5% in 2012 and 24.1% in 2013. We offer our subscribers an array of value-added services. The increase in 2013 in revenue from value-added services was due to an increase in data traffic, resulting from active marketing initiatives, expansion of mobile internet penetration and overall improvement of the quality of these services.

Monthly subscription fees consist of fixed monthly charges for network access and access to additional services. Monthly subscription fees as a percentage of our total revenues represented 7.6% in 2011, 7.1% in 2012 and 6.8% in 2013, respectively. The fluctuations of the monthly subscription fees as a percentage of our total revenues corresponds to the change in the share of subscribers with monthly subscription fees in the subscriber mix from year to year and the subscription-based services we offer. Many of our monthly subscription fee-based tariff plans also include a usage fee-based component for minutes used over a certain number of prepaid minutes. The percentage of our total revenues represented by usage fees as compared to monthly subscription fees will continue to be affected by

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changes in our tariff plans, as well as the relative product mix between usage fee-based tariff plans versus monthly subscription fee-based tariff plans.

Roaming fees for guest subscribers include amounts charged to other cellular operators for their subscribers *i.e.*, guest roamers, utilizing our network while traveling in our service area. We bill other cellular operators for calls of guest roamers carried on our network. Roaming fees for guest subscribers as a percentage of our total revenues represented 0.8% in 2011, 0.7% in 2012 and 0.6% in 2013. We generally expect that roaming fees will continue to decline as a percentage of our total revenues due to the large increase of revenues from our value-added services. In addition, roaming tariffs between mobile operators have a tendency to decrease relative to the increase in the total number of mobile users. We may also be pressured or required to lower our roaming tariffs by FAS. See "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Antimonopoly Proceedings."

Roaming fees for our own subscribers include amounts charged to our subscribers while traveling out of our service area. Roaming fees for our own subscribers as a percentage of our total revenues represented 8.7% in 2011, 8.6% in 2012 and 8.6% in 2013. We expect that our roaming fees will decline as a percentage of total revenues due to the continuing growth of revenues from our value-added services.

Connection fees consist of charges incurred by subscribers for the initial connection to our network and sign-up for value-added services. We defer connection fees and recognize them as revenues over the estimated average subscriber life in our network as described in Note 17 to our audited consolidated financial statements. Connection fees represented 0.3%, 0.3%, 0.2% of our total revenues in 2011, 2012, and 2013, respectively. We expect connection fee revenues to remain at a low level as a percentage of our total revenues.

Fixed service revenues which consist primarily of fixed line telephony services, broadband internet and pay-TV services, comprised 15.4%, 14.7% and 14.7% of our total revenues in 2011, 2012 and 2013, respectively. In absolute terms, the growth of our fixed service revenues was accompanied by an increase in regulated tariffs. We expect that it will continue to grow due to the further increase in regulated tariffs caused by inflation and future acquisitions.

Sales of Handsets and Accessories

Revenue from the sale of handsets and accessories as a percentage of total revenue comprised 7.5% in 2011, 7.6% in 2012 and 6.6% in 2013. The decrease in 2013 is attributable to a reduction in sales of premium priced smartphones as we refocused our retail strategy to promote affordable smartphones. We expect that sales of handsets and accessories will decrease as a percentage of total revenue due to the expected increase of revenues from our value-added services. We do not subsidize handset sales in Russia. In Ukraine, we subsidize handsets for some of our contract subscribers as well as modems for GSM and CDMA users. See " Cost of Handsets and Accessories" below.

Cost of Services

Interconnect and line rental. Interconnect and line rental charges include charges payable to other operators for access to, and use of their networks, which are necessary in the course of providing service to our subscribers. Interconnect charges as a percentage of our total revenues represented 12.4% in 2011, 12.3% in 2012 and 11.9% in 2013. Line rental charges as a percentage of our total revenues represented 1.9% in 2011, 2012 and 2013.

We expect that interconnect expenses payable by us to other operators for termination of traffic generated by our subscribers will increase. Primarily, this increase will likely be attributable to the

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growth in the volume of traffic resulting from our efforts to encourage greater usage through the introduction of new services, which may be supported by marketing campaigns.

We expect line rental costs to increase based on the number of base stations, base station controllers, the number and capacity of rented lines.

Roaming expenses. Roaming expenses consist of amounts charged by other cellular operators under agreements for roaming services provided to our subscribers while outside our service area. Roaming expenses as a percentage of our total revenues represented 1.4% in 2011, 1.7% in 2012 and 1.4% in 2013.

Cost of Handsets and Accessories

This type of expense includes primarily the cost of handsets and accessories sold to subscribers, and the cost of SIM cards provided to our customers. Cost of handsets, accessories sold and SIM cards provided to customers as a percentage of our total revenues represented 7.5% in 2011, 6.6% in 2012 and 5.7% in 2013. The decrease in 2013 was primarily attributable to the decrease in our handsets sales and our ability to gain significant discounts from our vendors for purchase volumes. We do not subsidize handset sales other than in Ukraine, where we subsidize handsets on a limited basis to contract subscribers as well as modems for CDMA users. In the years ended December 31, 2011, 2012, and 2013 we provided net handset subsidies in Ukraine totaling RUB 257 million, RUB 168 million, and RUB 120 million, respectively.

Generally, we provide SIM cards to our customers free of charge. The cost of SIM cards amounted to RUB 284 million in 2011, RUB 252 million in 2012 and RUB 250 million in 2013.

Sales and Marketing Expenses

Our sales and marketing expenses primarily consist of:

expenses for advertising and promotion; and

dealer commissions on new connections and cash collected from subscribers.

Sales and marketing expenses reflect, among other things, advertising, promotions and other costs associated with the expansion of services in our license areas. These expenses have generally increased in prior years as subscriber numbers, market saturation and market competition have increased, as well as in connection with the further development of our brand and introduction of new value-added services. In 2012, we changed the motivation scheme for our dealers, shifting from a fixed bonus per acquired subscriber to a bonus depending on the subscriber quality which is measured by a percentage of subscriber payment. This resulted in the decrease of sales and marketing expenses in 2012. In 2013, sales and marketing expenses remained generally stable and we expect them to remain stable.

At the same time, we retain some degree of flexibility to increase or decrease these expenses in any given period based on our requirements, strategy and the general economic environment. For the structure of our dealer commissions in Russia and Ukraine please see "Item 4. Information on Our Company B. Business Overview Mobile Operations Sales and Marketing Sales and Distribution."

Sundry Operating Expenses

Our sundry operating expenses consist primarily of:

employee salaries and bonuses;

social contributions payable to state funds;

general and administrative expenses;

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taxes other than income taxes, *e.g.* property taxes;

office maintenance expenses;

network repair and maintenance;

rental of premises;

provision for doubtful accounts;

long-lived assets and goodwill impairment loss; and

other operating expenses.

Sundry operating expenses as a percentage of our total revenues represented 22.5% in 2011, 22.9% in 2012 and 23.6% in 2013. The increase in 2013 is mainly attributable to increase in salaries and social contributions resulting from increasing number of employees (mainly leading from our continuing retail expansion) and salary indexation. In addition, rent expenses grew as a result of inflation and increasing number in base station sites rented. Sundry operating expenses as a percentage of revenue are expected to increase over time as a result of inflation.

Depreciation of Property, Network Equipment and Amortization of Intangible Assets

Our expense for depreciation of property, network equipment and amortization of intangible assets as a percentage of our total revenues increased to 18.4% for the year ended December 31, 2013 as compared to 18.0% of our total revenues for the year ended December 31, 2012. This increase was due to our increased asset base resulting from the continued expansion of our network through build-outs, as well as due to accelerated depreciation of certain equipment. We expect further increases in connection with our ongoing network development and modernization program and the build-out associated with our regional networks.

Interest Expense

Our interest expense for 2013 decreased by RUB 2,175 million or 12.3% compared to 2012 and amounted to RUB 15,498 million. The decrease is primarily attributable to the decline in our total indebtedness, revision of interest rates during 2013 as well as raising funds at lower interest rates. We do not expect interest expense to increase in 2014.

Provision for Income Taxes

Taxation on income of Russian companies is regulated by a number of laws, government decrees and implementation instructions.

The income tax base for Russian companies is defined as income received from sales of goods and services reduced by the amount of business expenses incurred in such operations with certain exceptions.

The statutory income tax rate in Russia is 20%. Effective April 1, 2011, the statutory income tax rate in Ukraine was reduced from 25% to 23%, to 21% in 2012, to 19% in 2013 and will decrease to 18% in 2014, to 17% in 2015 and to 16% in 2016. The effective tax rate applicable to our consolidated group in the year ended December 31, 2013 was 20.3%. The effective tax rate differs from the statutory rate insignificantly, mainly as a result of earnings distributions from subsidiaries, effect of the lower tax rates of subsidiaries and other items not liable for tax purposes.

Table of Contents**Certain Factors Affecting our Financial Position and Results of Operations*****Change in reporting currency***

Beginning with the period commencing on January 1, 2013, we changed our reporting currency from U.S. dollar to Russian Ruble. Previously, we had presented our consolidated financial statements in U.S. Dollars. Our change in reporting currency is to allow better transparency of reporting.

Currency fluctuations

A majority of our capital expenditure and a significant part of our liabilities and borrowings are either denominated in or tightly linked to the U.S. dollar or euro. We conduct our operations within the Russian Federation, Ukraine, Turkmenistan and Armenia, and we are therefore subject to currency fluctuations. The local currencies of these countries fluctuate significantly against the U.S. dollar and euro. As a result of these fluctuations we may incur significant currency exchange gains/losses which may adversely affect our net income.

Inflation

Our financial position and results of operations as reflected in our audited consolidated financial statements included elsewhere in this document have been influenced by inflation.

The Russian economy has been characterized by high rates of inflation:

| Year | Inflation rate |
|-------------|-----------------------|
| 2007 | 11.9% |
| 2008 | 13.3% |
| 2009 | 8.8% |
| 2010 | 8.8% |
| 2011 | 6.1% |
| 2012 | 6.6% |
| 2013 | 6.5% |

Source: Federal State Statistics Service

The Ukrainian economy has typically been characterized by high rates of inflation until 2012:

| Year | Inflation/(deflation) rate |
|-------------|---------------------------------------|
| 2007 | 12.8% |
| 2008 | 25.2% |
| 2009 | 15.9% |
| 2010 | 9.4% |
| 2011 | 8.0% |
| 2012 | (0.2)% |
| 2013 | (0.3)% |

Source: State Statistics Committee of Ukraine

Inflation rates in Armenia and Turkmenistan in 2013 were estimated at 5.6% and 6.0% respectively.

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We expect inflation-driven increases in costs to put pressure on our margins. While we could seek to raise our tariffs to compensate for such increase in costs, competitive pressures may not permit increases that are sufficient to preserve operating margins. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Financial Condition Inflation could increase our costs and adversely affect our results of operations."

Acquisitions

Our results of operations for the periods presented are significantly affected by acquisitions. Except for Metro-Telecom and Sistema Telecom acquired from Sistema, results of operations of acquired businesses are included in our audited consolidated financial statements for the periods after their respective dates of acquisition. See "Item 3. Key Information A. Selected Financial Data."

Below is a list of our major acquisitions during 2011, 2012 and 2013.

| Company | Type | Date of acquisition | Stake acquired | Purchase price |
|-------------------------|--------------------------------|---------------------|----------------|----------------|
| 2011 | | | | |
| Infocentr | Optical fiber network provider | April 2011 | 100% | 431 |
| Inteleca Group | Optical fiber network provider | April 2011 | 100% | 546 |
| Altair | Fixed line operator | August 2011 | 100% | 749 |
| Teleradiokompania "TVT" | Fixed line operator | October 2011 | 100% | 5,093 |
| MGTS ⁽¹⁾ | Fixed line operator | December 2011 | 29% | 10,560 |
| | | | | 17,379 |

| | | | | |
|----------------|---|---------------|------|--------------|
| 2012 | | | | |
| Tascom | Provider of telecommunication services to corporate clients in Moscow and the Moscow Region | May 2012 | 100% | 1,437 |
| Elf Group | Regional fixed line operator | August 2012 | 100% | 191 |
| Intercom | Regional fixed line operator | August 2012 | 100% | 80 |
| Zhelgortelecom | Regional fixed line operator | October 2012 | 100% | 147 |
| Pilot | Regional fixed line operator | October 2012 | 100% | 32 |
| TVK & K | Regional fixed line operator | December 2012 | 100% | 59 |
| | | | | 1,946 |

| | | | | |
|-------------|-----------------|------------|-------|--------------|
| 2013 | | | | |
| MTS Bank | Commercial bank | April 2013 | 25.1% | 5,089 |
| | | | | 5,089 |

(1)

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MTS acquired 29% of MGTS ordinary shares as part of its acquisition of a 100% stake in CJSC Sistema-Inventure, which directly owned 29% of the ordinary shares of MGTS.

Results of Operations

We align our business into segments to effectively manage both the mobile and fixed line operations as an integrated business and to respond to the demands of our customers in different geographical areas. Our Board of Directors and management have identified two reportable segments: Russia and Ukraine. See " Segments."

Intercompany eliminations presented below consist primarily of sales transactions between segments conducted in the normal course of operations.

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Financial information by reportable segments is presented below:

| | Year Ended December 31, | | |
|--|---------------------------------|---------|---------|
| | 2011 | 2012 | 2013 |
| | (in millions of Russian Rubles) | | |
| Net operating revenues | | | |
| Russia | 311,776 | 337,949 | 354,894 |
| Ukraine | 33,720 | 37,722 | 39,732 |
| Other | 5,933 | 6,382 | 9,129 |
| Eliminations ⁽¹⁾ | (2,858) | (3,813) | (5,313) |
| Net operating revenues as reported | 348,571 | 378,240 | 398,443 |
| Costs of services, excluding depreciation and amortization shown separately below, and cost of handsets and accessories | | | |
| Russia | 93,117 | 100,725 | 99,201 |
| Ukraine | 9,477 | 9,691 | 10,067 |
| Other | 1,148 | 1,400 | 2,234 |
| Eliminations ⁽¹⁾ | (2,703) | (3,723) | (5,089) |
| Cost of services and cost of handsets and accessories as reported | 101,039 | 108,093 | 106,413 |
| Sundry operating expenses | | | |
| Russia | 63,862 | 70,754 | 78,639 |
| Ukraine | 5,882 | 6,243 | 6,360 |
| Other | 8,752 | 9,687 | 9,050 |
| Eliminations | 9 | 92 | 109 |
| Sundry operating expenses as reported | 78,505 | 86,776 | 94,158 |
| Sales and marketing expenses | | | |
| Russia | 21,947 | 18,462 | 19,356 |
| Ukraine | 2,246 | 2,570 | 2,664 |
| Other | 808 | 817 | 1,060 |
| Eliminations | (201) | (182) | (219) |
| Sales and marketing expenses as reported | 24,800 | 21,667 | 22,861 |

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| Depreciation and amortization expenses | | | |
|---|--------|--------|--------|
| Russia | 51,321 | 56,235 | 62,825 |
| Ukraine | 10,169 | 9,571 | 8,896 |
| Other | 2,441 | 2,104 | 1,589 |
| Eliminations | 1 | 0 | (57) |

Depreciation and amortization as reported 63,932 67,910 73,253

| Operating Income | | | |
|-------------------------|---------|---------|---------|
| Russia | 81,530 | 91,773 | 94,873 |
| Ukraine | 5,946 | 9,647 | 11,745 |
| Other | (7,216) | (7,625) | (4,803) |
| Eliminations | 35 | (1) | (57) |

Operating income as reported 80,295 93,794 101,758

(1) Represents the elimination of inter-company transaction results, primarily interconnect and roaming arrangements.

Table of Contents**Year Ended December 31, 2013 compared to Year Ended December 31, 2012***Revenues and cost of services and cost of handsets and accessories*

Consolidated revenues for the year ended December 31, 2013, increased by RUB 20,203 million, or 5.3%, to RUB 398,443 million from RUB 378,240 million for the year ended December 31, 2012. The principal reason for the growth of our consolidated revenues for the year ended December 31, 2013, was the large increase in the usage of value-added services by our subscribers (by RUB 14,860 million), which was mainly attributable to the increase of data traffic driven by our active promotion of value-added services, an increase in mobile Internet penetration, an increase in usage of smartphones by our subscribers and active 3G network expansion and the consequent improvement of the quality and uptake of value-added services. The increase of our consolidated revenues for the year ended December 31, 2013 was also supported by the growth of interconnect revenues by RUB 1,206 million, increases in roaming revenues by RUB 1,663 million and a growth in fixed line revenues by RUB 2,838 million. The growth of our interconnect revenues was due to increases in the volume of traffic from our competitors. The increase in roaming revenues was attributable to increases in the volume of traffic from our subscribers resulting from the launch of attractive roaming propositions. The increase in fixed line revenues was mainly attributable to the growth of revenues from fixed line Internet and TV due to the development of the GPON project and consequent improvement in quality and uptake of services provided. In the year ended December 31, 2013, we experienced a decline in our revenues from sales of handsets and accessories by RUB 2,409 million due to refocusing of our devices strategy to promote sales of affordable smartphones. Our consolidated mobile subscriber base, excluding Uzbekistan increased and amounted to 102.4 million as of December 31, 2013 as compared to 95.5 million as of December 31, 2012. The decrease in the mobile churn rate in Russia to 36.3% from 42.4% in 2012 had an immaterial impact on our consolidated revenues.

Consolidated cost of services and cost of handsets and accessories for the year ended December 31, 2013 decreased slightly and amounted to RUB 106,413 million as compared to RUB 108,093 million for the year ended December 31, 2012 and comprised 26.7% and 28.6% as a percentage of consolidated revenues for the year ended December 31, 2013 and 2012, respectively. The decline was mainly attributable to the decrease in the cost of handsets and accessories as a percentage of revenue to 5.4% of consolidated revenues for the year ended December 31, 2013 as compared to 6.3% of consolidated revenues for the year ended December 31, 2012 attributable to an increase in the amount of volume discounts offered by our handsets vendors.

Russia revenues for the year ended December 31, 2013, increased by 5.0% to RUB 354,894 million from RUB 337,949 million for the year ended December 31, 2012. The increase in Russia revenues in the year ended December 31, 2013, was primarily due to the growth of revenues from value-added services by RUB 13,366 million, interconnect revenues by RUB 1,808 million, roaming revenues by RUB 1,614 million and fixed line revenues by RUB 2,528 million. Revenues from value-added services as a percentage of Russia revenues in the year ended December 31, 2013, grew to 23.3% as compared to 20.5% in the year ended December 31, 2012, due to the increase in data traffic volumes attributable to the introduction of new marketing initiatives aimed at stimulating greater usage of value-added services among our subscribers and the overall improvement of quality of these services. Interconnect revenues grew to RUB 38,955 million, as compared to RUB 37,147 million, in the year ended December 31, 2012, due to the growth in the volume of traffic from our competitors. The increase in roaming revenues to RUB 34,193 million for the year ended December 31, 2013 as compared to RUB 32,580 million for the year ended December 31, 2012 was attributable to increased traffic volumes from our subscribers resulting from the launch of attractive roaming propositions. The increase in fixed line revenues to RUB 58,126 million for the year ended December 31, 2013 from RUB 55,598 million for the year ended December 31, 2012 was mainly attributable to the growth of revenues from fixed line Internet and TV due to the development of the GPON project and consequent improvement in quality and uptake of services provided. Interconnect revenues, roaming revenues and fixed line

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revenues as a percentage of Russia revenues for the year ended December 31, 2013 remained stable and amounted to 11.0%, 9.6% and 16.4% , respectively as compared to 11.0%, 9.6% and 16.5%, respectively for the year ended December 31, 2012. In the year ended December 31, 2013, we experienced a decline in our revenues from the sales of handsets and accessories as a percentage of Russia revenues to 7.4% of Russia revenues in the year ended December 31, 2013 as compared to 8.5% for the year ended December 31, 2012 due to refocusing of our retail strategy to promote affordable smartphones.

Russia cost of services and cost of handsets and accessories for the year ended December 31, 2013, decreased by 1.5% to RUB 99,201 million from RUB 100,725 million for the year ended December 31, 2012. The decline was primarily attributable to the decrease in cost of handsets and accessories by RUB 2,421 million and as a percentage of Russia revenues to 5.9% of Russia revenues in the year ended December 31, 2013 from 6.9% in the year ended December 31, 2012 attributable to a decrease in sales of handsets and accessories and an increase in the amount of volume discounts offered by our handsets vendors.

Ukraine revenues increased by 5.3% to RUB 39,732 million in the year ended December 31, 2013, from RUB 37,722 million in the year ended December 31, 2012, primarily due to the growth in usage of value-added services by our subscribers, an increase in interconnect revenues and the increase in the number of our subscribers by 9.6% to 22.7 million from 20.7 million. Value-added services revenues increased by 8.8% to RUB 12,088 million in the year ended December 31, 2013, from RUB 11,114 million in the year ended December 31, 2012, due to the active promotion of these services among our subscribers. Value-added services revenues as a percentage of Ukraine revenues in the year ended December 31, 2013, grew to 30.4%, as compared to 29.5% in the year ended December 31, 2012. An increase in interconnect revenues by RUB 699 million to 18.9% as a percentage of Ukraine revenues for the year ended December 31, 2013 as compared to 18.1% for the year ended December 31, 2012 is attributable to the increase in traffic volume from our competitors. The increase in air time revenue by RUB 492 million arose from the growth of our Ukraine subscriber base by 9.6%.

Ukraine cost of services and cost of handsets and accessories increased insignificantly by 3.9% to RUB 10,067 million in the year ended December 31, 2013, from RUB 9,691 million in the year ended December 31, 2012. Ukraine cost of services and cost of handsets and accessories as a percentage of Ukraine revenues for the year ended December 31, 2013 remained relatively stable and amounted to 25.3% as compared to 25.7% for the year ended December 31, 2012. The moderate growth was primarily attributable to the increase in interconnect expenses by RUB 302 million and an increase in other direct costs by RUB 216 million due to the growth in overall volume of outgoing traffic.

Other countries and business activities revenues for the year ended December 31, 2013, increased by 43.0% to RUB 4,600 million from RUB 3,291 million for the year ended December 31, 2012. The increase was caused by us resuming mobile telecommunications services in Turkmenistan in the second half of 2012. The subscriber base in Turkmenistan as of December 31, 2013 increased to 2.0 million as compared to 1.4 million as of December 31, 2012.

Other countries and business activities cost of services and cost of handsets and accessories for the year ended December 31, 2013, increased to RUB 2,234 million from RUB 1,400 million for the year ended December 31, 2012. The decline was caused by us resuming mobile telecommunications services in Turkmenistan in the second half of 2012.

Sundry operating expenses

Consolidated sundry operating expenses for the year ended December 31, 2013, increased by 8.5% to RUB 94,158 million from RUB 86,776 million for the year ended December 31, 2012. Sundry operating expenses as a percentage of our total revenues increased to 23.6% in the year ended December 31, 2013, from 22.9% in the year ended December 31, 2012. The change was mainly attributable to the

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increase in salary expenses and related social contributions by RUB 5,304 million amounting to 11.5% of our revenues for the year ended December 31, 2013 compared to 10.7% for the year ended December 31, 2012 due to increases in the number of employees (mainly resulting from our continuing retail expansion), as well as indexation of salaries. In addition, our rent expenses grew due to increases in the number of rented base station sites as well as retail expansion. Rent expenses as a percentage of our total revenues grew to 3.7% for the year ended December 31, 2013, from 3.5% for the year ended December 31, 2012. The increase was also attributable to the increase of taxes other than income tax to 1.6% of our total revenues for the year ended December 31, 2013 from 1.4% for the year ended December 31, 2012.

Russia sundry operating expenses for the year ended December 31, 2013, increased by 11.1% to RUB 78,639 million from RUB 70,754 million for the year ended December 31, 2012. Russia sundry operating expenses as a percentage of Russia revenues increased to 22.2% for the year ended December 31, 2013, from 20.9% for the year ended December 31, 2012. The increase of Russia sundry operating expenses as a percentage of Russia revenues was mainly attributable to the increase in the percentage of salary expenses and related social contributions to 10.4% for the year ended December 31, 2013, from 9.3% for the year ended December 31, 2012 due to increases in the number of employees and salary indexation. Rent expenses grew to 3.6% of our Russia revenues for the year ended December 31, 2013, from 3.4% for the year ended December 31, 2012, attributable to an increase in the number of rented base station sites and retail expansion. Taxes other than income as a percentage of Russia revenues increased to 1.6% of our Russia revenues for the year ended December 31, 2013 from 1.4% for the year ended December 31, 2012.

Ukraine sundry operating expenses for the year ended December 31, 2013, increased by 1.9% to RUB 6,360 million from RUB 6,243 million for the year ended December 31, 2012. Ukraine sundry operating expenses as a percentage of Ukraine revenues decreased to 16.0% for the year ended December 31, 2013, from 16.6% for the year ended December 31, 2012. The increase in sundry operating expenses was primarily attributable to the increase in salary expenses and related social contributions and rent.

Other countries and business activities sundry operating expenses for the year ended December 31, 2013, decreased by 6.6% to RUB 9,050 million from RUB 9,687 million for the year ended December 31, 2012. Other countries and business activities sundry operating expenses as a percentage of other countries and business activities revenues decreased to 99.1% for the year ended December 31, 2013, from 151.8% for the year ended December 31, 2012. This decrease was mainly due to the recognition of a one off operating gain resulting from the settlement of the Bitel litigation amounting to RUB 1,060 million.

Sales and marketing expenses

Consolidated sales and marketing expenses for the year ended December 31, 2013, increased by 5.5%, or RUB 1,194 million, to RUB 22,861 million from RUB 21,667 million for the year ended December 31, 2012. This increase was mainly attributable to the increase in commissions payable to dealers by RUB 639.1 million. Dealer commissions as a percentage of our revenues remained stable at 3.6% for the year ended December 31, 2013 compared to 3.6% for the year ended December 31, 2012. This resulted from the fact that in 2012 we introduced changes into the motivation scheme for our dealers shifting from a fixed bonus per acquired subscriber to a bonus depending on the subscriber quality, which is measured by a percentage of subscriber payment and this scheme remained in place in 2013. Advertising and promotion expenses increased by 7%, or RUB 554.7 million, to RUB 8,463 million for the year ended December 31, 2013, from RUB 7,908 million for the year ended December 31, 2012, which was primarily attributable to our marketing efforts. Sales and marketing expenses as a percentage of our total revenues remained stable at 2.1% for the year ended December 31, 2013 and 2012.

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Russia sales and marketing expenses for the year ended December 31, 2013, increased to RUB 19,356 million, or 5.5% of Russia revenue, from RUB 18,462 million, or 5.5% of Russia revenues, for the year ended December 31, 2012. The increase in sales and marketing expenses by 4.8% was due to the increase of dealer commissions by RUB 440.5 million and advertising and marketing expenses by RUB 453.0 million. Dealer commissions as a percentage of Russia revenues remained stable at 3.6% for the year ended December 31, 2013, compared to 3.6% for the year ended December 31, 2012. Advertising and marketing expenses as a percentage of Russia revenues increased to 1.9% for the year ended December 31, 2013, as compared to 1.8% for the year ended December 31, 2012.

Ukraine sales and marketing expenses for the year ended December 31, 2013, increased to RUB 2,664 million, or 6.7% of Ukraine revenues, from RUB 2,570 million, or 6.8% of Ukraine revenues, for the year ended December 31, 2012. The increase in sales and marketing expenses by RUB 94 million was primarily attributable to the increase in dealer commissions by RUB 70 million as a result of subscriber base growth by 9.6%.

Other countries and business activities sales and marketing expenses for the year ended December 31, 2013, increased by 29.7% to RUB 1,060 million from RUB 817 million for the year ended December 31, 2012. This increase was mainly attributable to the increase in sales and marketing expenses in Turkmenistan for RUB 167 million driven by resuming of its activities. As a percentage of other countries and business activities total revenues, other countries and business activities sales and marketing expenses decreased to 11.6% for the year ended December 31, 2013, from 12.8% for the year ended December 31, 2012. The decrease was mainly attributable to the significant increase in Turkmenistan revenue in 2013 as its operations resumed.

Depreciation and amortization expenses

Consolidated depreciation and amortization of property, network equipment, telephone numbering capacity, license costs and other intangible assets for the year ended December 31, 2013, increased by 7.9% to RUB 73,253 million from RUB 67,910 million for the year ended December 31, 2012. The expenses grew mainly in Russia and resulted from the continued expansion of our network through builds-outs, as well as accelerated depreciation of certain equipment. In Ukraine and Armenia the expenses decreased as part of the equipment was fully amortized and was replaced at the end of reporting period. Depreciation and amortization expenses as a percentage of our total revenues increased to 18.4% for the year ended December 31, 2013, from 18.0% for the year ended December 31, 2012.

Russia depreciation and amortization for the year ended December 31, 2013, increased by 11.7% to RUB 62,825 million from RUB 56,235 million for the year ended December 31, 2012, mainly as a result of the development of our network in the regions, the build-out of our 3G and broadband Internet networks and accelerated depreciation of certain equipment which we intend to replace. Depreciation and amortization expenses as a percentage of total revenues increased to 17.7% for the year ended December 31, 2013, from 16.6% for the year ended December 31, 2012.

Ukraine depreciation and amortization for the year ended December 31, 2013, was RUB 8,896 million, or 22.4% of Ukraine revenues, and RUB 9,571 million or 25.4% of Ukraine revenues, for the year ended December 31, 2012. In the year ended December 31, 2012, there was accelerated depreciation of certain equipment to be replaced.

Other countries and business activities depreciation and amortization for the year ended December 31, 2013, decreased by 24.5% to RUB 1,588 million from RUB 2,104 million for the year ended December 31, 2012, and decreased as a percentage of other countries and business activities total revenues to 17.4% from 33.0% respectively. The decrease in other countries and business activities depreciation and amortization expense was primarily attributable to the decrease of property, plant and equipment depreciation expenses in Armenia, part of which was fully amortized and replaced.

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Operating income

Consolidated operating income increased by 8.5% to RUB 101,758 million for the year ended December 31, 2013, from 93,793 million for the year ended December 31, 2012. Operating income as a percentage of our total revenues increased insignificantly to 25.5% for the year ended December 31, 2013, compared to 24.8% for the year ended December 31, 2012. The main reason for the growth was the increase in our consolidated revenues by RUB 20,203 which was offset by the increase in sundry operating expense by RUB 7,382 million and depreciation and amortization expense by RUB 5,343 million due to the reasons described in more detail above.

Russia operating income for the year ended December 31, 2013, increased by 3.4% to RUB 94,873 million from RUB 91,773 million for the year ended December 31, 2012. Russia operating income decreased insignificantly as a percentage of Russia revenues to 26.7% for the year ended December 31, 2013, from 27.2% for the year ended December 31, 2012, mainly due to the increase in Russia revenues by 5.0% which was offset by the increase in Russia sundry operating expenses as a percentage of Russia revenues to 22.2% for the year ended December 31, 2013 from 20.9% for the year ended December 31, 2012 as well as by the increase in Russia depreciation and amortization expense to 17.7% for the year ended December 31, 2013 from 16.6% for the year ended December 31, 2012 as explained above.

Ukraine operating income for the year ended December 31, 2013, increased by 21.7% to RUB 11,745 million from RUB 9,647 million for the year ended December 31, 2012. Ukraine operating income increased as a percentage of Ukraine revenues to 29.6% for the year ended December 31, 2013, from 25.6% for the year ended December 31, 2012. These increases were largely due to the growth in Ukraine revenues by 5.3% and the simultaneous decline of depreciation and amortization expenses as a percentage of Ukraine revenues to 22.4% for the year ended December 31, 2013 from 25.4% for the year ended December 31, 2012 as explained above.

Other countries and business activities operating loss for the year ended December 31, 2013, amounted to RUB 4,803 million, while other countries and business activities' operating loss for the year ended December 31, 2012, was RUB 7,626 million. The decrease in other countries and business activities operating loss was attributable to the fact that we resumed our operations in Turkmenistan in the second half of 2012 with the subsequent growth of other countries and business activities revenues. The decline was also reduced due to the release of damages, interest and other costs that had been provided for in relation to the dispute with Nomihold.

Currency exchange and transaction gains/losses

Consolidated currency exchange and transaction loss for the year ended December 31, 2013, was RUB 5,473 million, compared to the gains of 3,952 million for the year ended December 31, 2012. We conduct our operations within the Russian Federation, Ukraine, Turkmenistan and Armenia, and we are therefore subject to currency fluctuations. The local currencies of these countries fluctuated significantly against the U.S. dollar and euro during the years ended December 31, 2013 and 2012, and the currency exchange and transaction gains/losses we incurred were primarily due to the translation effect of our U.S. dollar and euro-denominated debt as of December 31, 2013 and 2012. The losses recognized in 2013 as compared to gains recorded in 2012 were mainly due to the depreciation of the Russian ruble against the U.S. dollar and euro during the year ended December 31, 2013, as compared to 2012.

Interest expense

Consolidated interest expense for the year ended December 31, 2013, decreased by RUB 2,175 million, or 12.3%, to RUB 15,498 million from RUB 17,673 million for the year ended December 31,

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2012, primarily as a result of the decrease in our total indebtedness, revision of interest rates during 2013 as well as raising credit funds at more attractive rates.

Equity in net income of associates

Consolidated equity in net income of associates for the year ended December 31, 2013, increased by RUB 1,603 million, or 184.5%, to a gain of RUB 2,472 million, compared to a gain of RUB 869 million for the year ended December 31, 2012. The increase results mainly from income growth of our equity investee in Belarus during the year ended December 31, 2013. In addition, in April 2013, we acquired a 25.0945% stake in MTS Bank, consolidated equity in net income of MTS Bank for the year ended December 31, 2013 amounted to RUB 229 million.

Other expenses (income), net

Consolidated other income for the year ended December 31, 2013, amounted to RUB 10,636 million, as compared to the loss of RUB 688 million for the year ended December 31, 2012. This increase was primarily attributable to the release of the provision to exercise the put option for acquisition of the remaining 49% stake in Bitel and the release of damages, interest and other costs that had been provided for in relation to the dispute with Nomihold.

Provision for income taxes

Consolidated provision for income taxes for the year ended December 31, 2013, increased by 1.3% to RUB 19,633 million from RUB 19,384 million for the year ended December 31, 2012. The effective tax rate decreased to 20.3% in the year ended December 31, 2013, from 23.4% in the year ended December 31, 2012 mainly as a result of earnings distributions from subsidiaries, effect of the lower tax rates of subsidiaries and other items not liable for tax purposes.

Net income attributable to the non-controlling interest

Net income attributable to the non-controlling interest for the year ended December 31, 2013 remained relatively stable and amounted to RUB 949 million compared to net income attributable to the non-controlling interest of RUB 970 million for the year ended December 31, 2012.

Net income attributable to the Group

Net income attributable to the Group for the year ended December 31, 2013, increased by 50,197 million, or 169%, to RUB 79,839 million, compared to RUB 29,642 million for the year ended December 31, 2012. Net income as a percentage of revenues was 20.0% in the year ended December 31, 2013, and 7.8% in the year ended December 31, 2012. Net income attributable to the Group for the year ended December 31, 2013, as compared to the year ended December 31, 2012, increased due to the overall growth of consolidated revenues by 5.3%, recognition of other income in the amount of RUB 12,147 million attributable to the release of the provision relating to the exercise of the put option to acquire the remaining 49% stake in Bitel and the release of provisions for damages, interest and other costs that had been provided for in relation to the dispute with Nomihold. Another reason for the growth of net income was the recognition of gain in the amount of RUB 3,733 related to discontinued operations in Uzbekistan in the year ended December 31, 2013 as compared to the loss in the amount of RUB 32,846 million recognized in the year ended December 31, 2012.

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Consolidated revenues for the year ended December 31, 2012, increased by RUB 29,669 million, or 0.9%, to RUB 378,240 million from RUB 348,571 million for the year ended December 31, 2011. The dominant reason for the growth of our consolidated revenues for the year ended December 31, 2012, was the large increase in the usage of value-added services by our subscribers (by RUB 17,865 million), which was mainly attributable to the increase of data traffic due to our active promotion of value-added services, the increase of mobile Internet penetration, active 3G network expansion and the consequent improvement of the quality of value-added services. The increase of our consolidated revenues for the year ended December 31, 2012 was also supported by the growth of interconnect revenues by RUB 4,624 million and sales of handsets and accessories by RUB 2,877 million. The growth of our interconnect revenues was due to the increase in the volume of traffic from our competitors. The increase in sales of handsets and accessories was stimulated by the continued expansion of our retail operations. In the year ended December 31, 2012, we experienced a decline in our voice revenues by RUB 454 million which was attributable to our strong focus on data services promotion. Our consolidated mobile subscriber base, excluding Uzbekistan increased and amounted to 95.5 million as of December 31, 2012 as compared to 91.8 million as of December 31, 2011. The decrease in the mobile churn rate in Russia to 42.4% from 47.6% in 2011 had an immaterial impact on our consolidated revenues.

Consolidated cost of services and cost of handsets and accessories for the year ended December 31, 2012 increased and amounted to RUB 108,093 million as compared to RUB 101,039 million for the year ended December 31, 2011 and comprised 28.6% and 29.0% as a percentage of consolidated revenues for the year ended December 31, 2012 and 2011, respectively. The increase was attributable to the growth in cost of value added services by RUB 2,149 million, interconnect expenses by RUB 3,250 million and other direct cost by RUB 2,292 million. Significant increases of usage of value added services by our subscribers led to the growth of data traffic volumes and increase in cost of value added services. The growth of interconnect expenses and other direct cost was caused by the increase in outgoing traffic volume.

Russia revenues for the year ended December 31, 2012, increased by 8.4% to RUB 337,949 million from RUB 331,776 million for the year ended December 31, 2011. The increase in Russia revenues in the year ended December 31, 2012, was primarily due to the growth of revenues from value-added services by RUB 15,621 million; interconnect revenues by RUB 4,696 million and sales of handsets and accessories by RUB 3,001 million. Revenues from value-added services as a percentage of Russia revenues in the year ended December 31, 2012, grew to 20.5% as compared to 17.2% in the year ended December 31, 2011, due to the increase in data traffic volumes attributable to the introduction of new marketing initiatives aimed at stimulating greater usage of value-added services among our subscribers and the overall improvement of quality of these services. Interconnect revenues as a percentage of Russia revenues in the year ended December 31, 2012, grew to 11.0%, as compared to 10.4%, in the year ended December 31, 2011, due to the growth in the volume of traffic from our competitors. Our continued expansion of our monobrand retail chain in 2012 caused sales of handsets and accessories to increase as a percentage of Russia revenues to 8.5% in the year ended December 31, 2012, from 8.2% in the year ended December 31, 2011. In the year ended December 31, 2012, we experienced a decline in Russia voice revenues by RUB 1,904 million which was attributable to our strong focus on promoting our data services.

Russia cost of services and cost of handsets and accessories for the year ended December 31, 2012, increased by 8.2% to RUB 100,725 million from RUB 93,117 million for the year ended December 31, 2011. The growth was primarily due to an increase in outgoing traffic volumes and cost of value-added services by RUB 2,150 million. Interconnect expenses increased to RUB 43,319 million or 12.8% of

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Russia revenues in the year ended December 31, 2012, from RUB 39,524 million or 12.7% of Russia revenues in the year ended December 31, 2011, mainly due to the growth in outgoing network traffic. In the year ended December 31, 2012, our handsets sales margins in Russia increased to 18.2% from 6.1% for the year ended December 31, 2011. The main reason for the increase was the expansion of our retail operations and, consequently, of our ability to gain significant discounts from our vendors for purchase volumes. As a result, cost of handsets and accessories sold and SIM cards provided to customers as a percentage of Russia revenues in the year ended December 31, 2012, decreased to 6.9% as compared to 7.7% in the year ended December 31, 2011. Active promotion of value-added services during the year ended December 31, 2012, resulted in an increase of value-added services cost as a percentage of Russia revenues in the year ended December 31, 2012, to 3.5% as compared to 3.2% in the year ended December 31, 2011.

Ukraine revenues increased by 11.9% to RUB 37,722 million in the year ended December 31, 2012, from RUB 33,720 million in the year ended December 31, 2011, primarily due to the growth in usage of value-added services by our subscribers and the increase in the number of our subscribers by 6.2% to 20.7 million from 19.5 million. Value-added services revenues increased by 24.6% to RUB 11,114 million in the year ended December 31, 2012, from RUB 8,916 million in the year ended December 31, 2011, due to the active promotion of these services among our subscribers. Value-added services revenues as a percentage of Ukraine revenues in the year ended December 31, 2012, grew to 29.5%, as compared to 26.4% in the year ended December 31, 2011.

Ukraine cost of services and cost of handsets and accessories increased insignificantly by 2.3% to RUB 9,691 million in the year ended December 31, 2012, from RUB 9,477 million in the year ended December 31, 2011. Ukraine cost of services and cost of handsets and accessories as a percentage of Ukraine revenues decreased to 25.7% for the year ended December 31, 2012, from 28.1% for the year ended December 31, 2011. The increase in absolute terms was mainly attributable to the growth of interconnect expenses by 6.4% to RUB 4,963 million for the year ended December 31, 2012 from RUB 4,675 million for the year ended December 31, 2011 and to an increase in other direct cost by 18.6% to RUB 2,245 million for the year ended December 31, 2012 from RUB 1,899 million for the year ended December 31, 2011 due to an increase in outgoing traffic volumes. The decrease in Ukraine cost of services as a percentage of Ukraine revenues was caused by the decrease of roaming expenses as a percentage of Ukraine revenue to 2.2% for the year ended December 31, 2012 from 2.8% for the year ended December 31, 2011 due to the growth of roaming discounts for traffic volume from our international roaming partners. Cost of handsets and accessories sold and SIM cards provided to customers decreased by 54.3% to RUB 574 million or 1.5% of Ukraine revenues for the year ended December 31, 2012 from RUB 852 million or 2.5% of Ukraine revenues for the year ended December 31, 2011. The decline is attributable to the decrease of subsidized sales of handsets and accessories by 50.2% to RUB 155 million for the year ended December 31, 2012 from RUB 311 million for year ended December 31, 2011.

Other countries and business activities revenues for the year ended December 31, 2012, increased by 7.6% to RUB 6,382 million from RUB 5,933 million for the year ended December 31, 2011. The increase was caused by us resuming the provision of mobile telecommunications services in Turkmenistan in the second half of 2012. The subscriber base in Armenia as of December 31, 2012 as compared to December 31, 2011 remained stable and amounted to 2.4 million and we regained 1.4 million subscribers in Turkmenistan during the second half of the year ended December 31, 2012 as a result of resuming our operations in this country.

Other countries and business activities cost of services and cost of handsets and accessories for the year ended December 31, 2012, increased to RUB 1,400 million from RUB 1,148 million for the year ended December 31, 2011. The increase was caused by us resuming to provide mobile telecommunications services in Turkmenistan in the second half of 2012.

Table of Contents**Sundry operating expenses**

Consolidated sundry operating expenses for the year ended December 31, 2012, increased by 10.5% to RUB 86,776 million from RUB 78,505 million for the year ended December 31, 2011. The increase was mainly attributable to the increase in salary expenses and related social contributions by RUB 5,017 million and as a percentage of our revenues to 10.7% for the year ended December 31, 2012 from 10.2% for the year ended December 31, 2011 due to our retail network expansion and a corresponding increase in the number of employees, as well as due to the change of the unified social tax rate.

Russia sundry operating expenses for the year ended December 31, 2012, increased by 11.1% to RUB 70,754 million from RUB 63,862 million for the year ended December 31, 2011. Russia sundry operating expenses as a percentage of Russia revenues increased to 20.9% for the year ended December 31, 2012, from 20.5% for the year ended December 31, 2011. The increase of Russia sundry operating expenses as a percentage of Russia revenues was mainly attributable to the increase in the percentage of salary expenses and related social contributions to 9.3% for the year ended December 31, 2012, from 9.0% for the year ended December 31, 2011 due to our retail network expansion and a corresponding increase in the number of employees and the introduction of the unified social tax rate of 10%.

Ukraine sundry operating expenses for the year ended December 31, 2012, increased by 6.1% to RUB 6,243 million from RUB 5,882 million for the year ended December 31, 2011. Ukraine sundry operating expenses as a percentage of Ukraine revenues decreased to 16.6% for the year ended December 31, 2012, from 17.4% for the year ended December 31, 2011. The decrease in sundry operating expenses as a percentage of Ukraine revenues is primarily attributable to the decrease in the provision for bad debt and other operating expenses.

Other countries and business activities sundry operating expenses for the year ended December 31, 2012, increased by 10.7% to RUB 9,687 million from RUB 8,752 million for the year ended December 31, 2011. Other countries and business activities sundry operating expenses as a percentage of other countries and business activities revenues increased to 151.8% for the year ended December 31, 2012, from 147.5% for the year ended December 31, 2011. This increase was mainly attributable to the increase in salary expenses and related contributions, which totaled to RUB 1,106 million.

Sales and marketing expenses

Consolidated sales and marketing expenses for the year ended December 31, 2012, decreased by 12.6%, or RUB 3,133 million, to RUB 21,667 million from RUB 24,800 million for the year ended December 31, 2011. This decrease was mainly attributable to the decrease in commissions payable to dealers by RUB 2,224 million. Dealer commissions as a percentage of our revenues decreased to 3.6% for the years ended December 31, 2012 from 4.6% for the year ended December 31, 2011. This resulted from the fact that in 2012 we introduced changes into the motivation scheme for our dealers shifting from a fixed bonus per acquired subscriber to a bonus depending on the subscriber quality which is measured by a percentage of subscriber payment. Also, as a result of our distribution strategy, the number of subscribers in Russia who were enrolled directly by us increased by 16% during the year ended December 31, 2012, as compared to the year ended December 31, 2011. Advertising and promotion expenses decreased by 10.3%, or RUB 908 million, to RUB 7,908 million for the year ended December 31, 2012, from RUB 8,817 million for the year ended December 31, 2011, which was primarily attributable to our cost optimization efforts. Sales and marketing expenses as a percentage of our total revenues decreased to 5.7% for the year ended December 31, 2012, as compared to 7.1% for the year ended December 31, 2011.

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Russia sales and marketing expenses for the year ended December 31, 2012, decreased to RUB 18,462 million, or 5.5% of Russia revenue, from RUB 21,947 million, or 7.0% of Russia revenues, for the year ended December 31, 2011. The decrease in sales and marketing expenses by 15.9% was due to the decrease of dealer commissions by RUB 2,451 million and advertising and marketing expenses by RUB 1,039 million. Dealer commissions as a percentage of Russia revenues decreased to 3.6% for the year ended December 31, 2012, from 4.7% for the year ended December 31, 2011. Advertising and marketing expenses as a percentage of Russia revenues decreased to 1.8% for the year ended December 31, 2012, as compared to 2.3% for the year ended December 31, 2011.

Ukraine sales and marketing expenses for the year ended December 31, 2012, increased to RUB 2,570 million, or 6.8% of Ukraine revenues, from RUB 2,246 million, or 6.7% of Ukraine revenues, for the year ended December 31, 2011. The increase in sales and marketing expenses by RUB 324 million and as a percentage of Ukraine revenues was primarily attributable to the increase in dealer commissions by RUB 210 million as a result of revenue-sharing agreements.

Other countries and business activities sales and marketing expenses for the year ended December 31, 2012, increased by 1.1% to RUB 817 million from RUB 808 million for the year ended December 31, 2011. As a percentage of other countries and business activities total revenues, other countries and business activities sales and marketing expenses decreased also remained stable at 12.8% for the year ended December 31, 2012, compared to the 13.6% for the year ended December 31, 2011.

Depreciation and amortization expenses

Consolidated depreciation and amortization of property, network equipment, telephone numbering capacity, license costs and other intangible assets for the year ended December 31, 2012, increased by 6.2% to RUB 67,910 million from RUB 63,932 million for the year ended December 31, 2011. The increase resulted from the development of our network in the regions, the build-out of our 3G and broadband Internet networks, the acquisition of fixed line operators and accelerated depreciation of certain equipment which we intend to replace. Depreciation and amortization expenses as a percentage of our total revenues decreased to 18.0% for the year ended December 31, 2012, from 18.3% for the year ended December 31, 2011.

Russia depreciation and amortization for the year ended December 31, 2012, increased by 9.6% to RUB 56,235 million from RUB 51,321 million for the year ended December 31, 2011, mainly as a result of the development of our network in the regions, the build-out of our 3G and broadband Internet networks, the acquisition of fixed line operators and accelerated depreciation of certain equipment which we intend to replace. Depreciation and amortization expenses as a percentage of total revenues increased to 16.6% for the year ended December 31, 2012, from 16.5% for the year ended December 31, 2011.

Ukraine depreciation and amortization for the year ended December 31, 2012, was RUB 9,571 million, or 25.4% of Ukraine revenues, and RUB 10,169 million or 30.2% of Ukraine revenues, for the year ended December 31, 2011. In the year ended December 31, 2011, there was a decrease in useful life of certain equipment to be replaced which was fully amortized during 2011.

Other countries and business activities depreciation and amortization for the year ended December 31, 2012, decreased by 13.8% to RUB 2,104 million from RUB 2,441 million for the year ended December 31, 2011, and decreased as a percentage of other countries and business activities total revenues to 33.0% from 41.1% respectively. The decrease in other countries and business activities depreciation and amortization expense was primarily attributable to the decrease of the customer base amortization expenses in Armenia, which was fully amortized in the year 2011.

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Operating income

Consolidated operating income increased by 16.8% to RUB 93,793 million for the year ended December 31, 2012, from RUB 80,296 million for the year ended December 31, 2011. Operating income as a percentage of our total revenues increased to 24.8% for the year ended December 31, 2012, compared to 23.0% for the year ended December 31, 2011. The overall increase in our consolidated revenues by 8.5% with the simultaneous decrease in consolidated sales and marketing expenses by 12.6% due to the reasons described above led to the increase in our consolidated operating income. The growth was also offset by an increase in consolidated cost of services and cost of handsets and accessories by 7%, increase in consolidated sundry operating expenses by 10.5%, increase in consolidated depreciation and amortization expenses by 6.2% due to the reasons described above.

Russia operating income for the year ended December 31, 2012, increased by 12.6% to RUB 91,773 million from RUB 81,530 million for the year ended December 31, 2011. Russia operating income increased as a percentage of Russia revenues to 27.2% for the year ended December 31, 2012, from 26.2% for the year ended December 31, 2011, mainly due to the increase in Russia revenues by 8.4% combined with the simultaneous decrease in Russia sales and marketing expenses as a percentage of Russia revenues to 5.5% for the year ended December 31, 2012 from 7.0% for the year ended December 31, 2011 due to the reasons described above.

Ukraine operating income for the year ended December 31, 2012, increased by 62.3% to RUB 9,647 million from RUB 5,946 million for the year ended December 31, 2011. Ukraine operating income increased as a percentage of Ukraine revenues to 25.6% for the year ended December 31, 2012, from 17.6% for the year ended December 31, 2011. These increases were largely due to the growth in Ukraine revenues by 11.9% and the simultaneous decline of depreciation and amortization expenses as a percentage of Ukraine revenues to 25.4% for the year ended December 31, 2012 from 30.2% for the year ended December 31, 2011 due to the reasons described above.

Other countries and business activities operating loss for the year ended December 31, 2012, increased by RUB 410 million to RUB 7,626 million from RUB 7,216 for the year ended December 31, 2011. The increase was caused by resumption of our operations in Turkmenistan in the second half of 2012 and by the decline of other countries and business activities depreciation and amortization expenses both in absolute terms and as a percentage of other countries and business activities revenues due to the reasons described above.

Currency exchange and transaction gains/losses

Consolidated currency exchange and transaction gains for the year ended December 31, 2012, was RUB 3,952 million, compared to the loss of RUB 4,403 million for the year ended December 31, 2011. We conduct our operations within the Russian Federation, Ukraine, Turkmenistan and Armenia, and we are therefore subject to currency fluctuations. The local currencies of these countries fluctuated significantly against the U.S. dollar and euro during the years ended December 31, 2012 and 2011, and the currency exchange and transaction gains/losses we incurred were primarily due to the translation effect of our U.S. dollar and euro-denominated debt as of December 31, 2012 and 2011. The gains recognized in 2012 as compared to losses recorded in 2011 were mainly due to the appreciation of the Russian ruble against the U.S. dollar and euro during the year ended December 31, 2012, as compared to 2011.

Interest expense

Consolidated interest expense for the year ended December 31, 2012, decreased by RUB 1,660 million, or 8.6%, to RUB 17,673 million from RUB 19,333 million for the year ended December 31, 2011. The decrease was mainly due to decrease of our weighted average interest rate (6.9% as of December 31, 2012 against 7.6% as of December 31, 2011) resulting from revision of coupon rate for

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MTS Notes due 2016 and drawing of funds under credit facility of Calyon, ING N.V. Nordea Bank AB, Reiffeisen Zentralbank Osterreich AG, which bears relatively lower interest rate in comparison to RUB denominated notes and loans as well as decline in our average debt balance.

Equity in net income of associates

Consolidated equity in net income of associates for the year ended December 31, 2012, decreased by RUB 561 million, or 39.2%, to a gain of RUB 869 million, compared to a gain of RUB 1,430 million for the year ended December 31, 2011. The decline is attributable to the depreciation of the Belarusian ruble against the U.S. dollar and subsequent decline in income of our equity investee in Belarus during the year ended December 31, 2012.

Other expenses (income), net

Consolidated other expenses for the year ended December 31, 2012, increased to RUB 687 million, as compared to RUB 181 million for the year ended December 31, 2011. This increase was primarily attributable to the growth of expenses relating to the dispute with Nomihold and an increase in loss from currency sale in the year ended December 31, 2012, as described in Note 16 to our consolidated financial statements.

Provision for income taxes

Consolidated provision for income taxes for the year ended December 31, 2012, increased by 24.9% to RUB 19,384 million from RUB 15,526 million for the year ended December 31, 2011. The effective tax rate decreased to 23.4% in the year ended December 31, 2012, from 26.0% in the year ended December 31, 2011 mainly as a result of decrease in earnings distributions from subsidiaries and expenses non-deductible for tax purposes.

Net income attributable to the non-controlling interest

Net income attributable to the non-controlling interest for the year ended December 31, 2012, amounted to RUB 970 million compared to net income attributable to the non-controlling interest of RUB 3,624 million for the year ended December 31, 2011. The decline in net income attributable to the non-controlling interest resulted from the increase of our ownership interest in MGTS during the year ended December 31, 2011, from 51.3% to 94.1%.

Net income attributable to the Group

Net income attributable to the Group for the year ended December 31, 2012, decreased by RUB 12,674 million, or 30.0%, to RUB 29,642 million, compared to RUB 42,315 million for the year ended December 31, 2011. Net income as a percentage of revenues was 7.8% in the year ended December 31, 2012, and 12.1% in the year ended December 31, 2011. Net income attributable to the Group for the year ended December 31, 2012, as compared to the year ended December 31, 2011, decreased due to the effect of the loss from discontinued operations in Uzbekistan in the amount of RUB 32,846 million recognized in the year ended December 31, 2012. The decrease in net income attributable to the Group was partially offset by the overall increase in revenues by 8.5% with the simultaneous decrease in sales and marketing expenses and depreciation and amortization expenses as a percentage of revenues for the year ended December 31, 2012 as compared to the year ended December 31, 2011.

B. Liquidity and Capital Resources

Our borrowings consist of notes and bank loans. Since 2001, we have raised a total of \$3.0 billion (RUB 92.8 billion at the date of transactions) through seven U.S. dollar-denominated unsecured bond

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offerings in the international capital markets, as well as ruble-denominated bonds totaling RUB 96 billion. Our bank loans consist of U.S. dollar-, euro- and ruble-denominated borrowings totaling approximately RUB 116.4 billion as of December 31, 2013. We repaid approximately RUB 45,191 million of indebtedness in 2013. As of December 31, 2013, the total amount available to us under our credit facilities amounted to RUB 5.0 billion. We had total indebtedness of approximately RUB 219.1 billion as of December 31, 2013, including capital lease obligations, compared to approximately RUB 232.1 billion as of December 31, 2012. Our total interest expense for the years ended December 31, 2012 and 2013, was RUB 17,673 million and RUB 15,498 million, net of amounts capitalized, respectively. See Note 15 to our audited consolidated financial statements for a description of our indebtedness.

Capital Requirements

We need capital to finance the following:

capital expenditures, consisting of purchases of property, plant and equipment and intangible assets;

acquisitions;

repayment of debt and related interest payments;

changes in working capital; and

general corporate activities, including dividends.

We anticipate that capital expenditures, acquisitions, repayment of long-term debt and dividends will represent the most significant uses of funds for several years to come.

Our cash outlays for capital expenditures in 2011, 2012 and 2013 were RUB 72,802 million, 87,783 million and RUB 81,575 million, respectively. We expect to continue to finance most of our capital expenditure needs through our operating cash flows, and to the extent required, to incur additional indebtedness through borrowings or additional capital raising activities. Historically, a significant portion of our capital expenditures have been related to the installation and build-out of our network and expansion into new license areas. We expect that capital expenditures will remain a large portion of our cash outflows in connection with the continued installation and build-out of our network. We expect our total capital expenditures in 2014 to be approximately 21% of our total 2014 revenue. These investments are required to support the growth in our subscriber base (*i.e.*, to improve network capacity), to maintain and modernize our mobile and fixed line networks, to develop our network in the regions and to continue with the roll out of LTE networks throughout Russia as well as the development of our proprietary retail chain in Russia. We expect that the development of LTE networks will be among our most significant capital expenditures and require considerable management resources. See "Item 4. Information on Our Company B. Business Overview Mobile Operations Services Offered 3G Technology" for additional information. Our actual capital expenditures may vary significantly from our estimates.

In addition to capital expenditures, RUB 33,086 million and RUB 2,198 million (net of cash acquired) in 2011 and 2012, respectively, was spent to acquire businesses. Part of the consideration was paid in connection with our acquisition of Comstar and MGTS. See "Item 3. Key Information A. Selected Financial Data" and Note 3 to our audited consolidated financial statements. In 2013 we bought a 25.0945% stake in MTS Bank for RUB 5,089 million. We also used cash provided by operating activities as well as external credit facilities to finance our capital expenditures. We plan to finance future acquisitions through operating cash flows and additional borrowings. We may continue to expand our business through acquisitions. Our cash requirements relating to potential acquisitions can vary significantly based on market opportunities.

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We expect to refinance our existing debt when it becomes due. Of our notes outstanding as of December 31, 2013, RUB 17,462 million are due in 2014, RUB 22,558 million are due in 2015 and RUB 1,800 million are due in 2016. Of our bank loans outstanding as of December 31, 2013, RUB 7,564 million is due in 2014, RUB 11,669 million is due in 2015 and RUB 26,590 million is due in 2016. We generally use the proceeds from our financing activities for our corporate purposes and refinancing existing indebtedness.

Sistema, which currently controls 51.46% of our total charter capital (53.47% excluding treasury shares) and consolidates our results in its financial statements, has a significant amount of outstanding debt and requires funds for debt service. These funds may come, in part, from dividends paid by its subsidiaries, including us. Our shareholders approved cash dividends in the amount of RUB 30,046 million (including dividends on treasury shares of RUB 1,127 million) for the year 2010, of which RUB 6 million remained payable as of December 31, 2011, RUB 30,397 million (including dividends on treasury shares of RUB 1,140 million) for 2011, of which RUB 4 million remained payable as of December 31, 2012, and RUB 30,168 million (including dividends on treasury shares of RUB 1,131 million) for 2012. In 2013, MTS started to pay out dividends on a semi-annual basis using interim 6 months and full-year financial results as a foundation, and the amount of semi-annual dividends for 2013 approved by our shareholders was RUB 10,786 million (including dividends on treasury shares of RUB 405 million). Dividends payable to our shareholders as of December 31, 2013, amounted to RUB 1 million.

We generally intend to finance our dividend requirements through operating cash flows, and accordingly, our payment of dividends may make us more reliant on external sources of capital to finance our capital expenditures and acquisitions.

Capital Resources

We plan to finance our capital requirements through a mix of operating cash flows and financing activities, as described above. Our major sources of cash have been cash provided by operations and the proceeds of our U.S. dollar-denominated and ruble-denominated note issuances and loans. We expect that these sources will continue to be our principal sources of cash in the future.

The availability of financing is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We cannot assure you that we will be able to continue to obtain large amounts of financing in the future through debt or equity offerings, bank financings or otherwise.

As of December 31, 2013, our outstanding indebtedness consisted of the following notes and bank loans:

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Notes

As of December 31, 2013, our notes consisted of the following:

| | Currency | Annual interest rate (actual rate at December 31, 2013) | Amount |
|------------------------------------|----------|---|----------|
| MTS International Notes due 2020 | USD | 8.625% | 24,547 |
| MTS International Notes due 2023 | USD | 5.00% | 16,365 |
| MTS OJSC Notes due 2020 | RUB | 8.15% | 15,000 |
| MTS OJSC Notes due 2014 | RUB | 7.60% | 13,619 |
| MTS OJSC Notes due 2017 | RUB | 8.70% | 10,000 |
| MTS OJSC Notes due 2023 | RUB | 8.25% | 10,000 |
| MTS OJSC Notes due 2015 | RUB | 7.75% | 7,537 |
| MTS OJSC Notes due 2018 | RUB | 7.50% | 3,844 |
| MTS OJSC Notes due 2016 | RUB | 8.75% | 1,788 |
| MTS OJSC Notes due 2015 (A series) | RUB | 10.0% | 12 |
| MTS OJSC Notes due 2016 (B series) | RUB | 8.0% | 12 |
| MTS OJSC Notes due 2022 (V series) | RUB | 5.0% | 12 |
| Plus: unamortized premium | | | 8 |
| Total notes | | | 102,744 |
| Less: current portion | | | (17,462) |
| Total notes, long-term | | | 85,282 |

The Group has an unconditional obligation to repurchase certain MTS OJSC Notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. The dates of the announcement for each particular note issue are as follows:

| | |
|-------------------------|---------------|
| MTS OJSC Notes due 2018 | December 2014 |
| MTS OJSC Notes due 2020 | November 2015 |
| MTS OJSC Notes due 2023 | March 2018 |

Subject to certain exceptions and qualifications, the indentures governing our U.S. dollar-denominated notes due 2020 contain covenants limiting our ability to incur debt, create liens, sell or transfer lease properties, enter into loan transactions with affiliates, merge or consolidate or convey our properties and assets to another person, as well as our ability to sell or transfer any of our GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if we experience a change in control, noteholders will have the right to require us to redeem the notes at 101% of their principal amount, plus accrued interest. We are required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. We are also prohibited from having any judgment, decree or order for payment of money in an amount \$15.0 million (RUB 491 million as of December 31, 2013) for MTS International Notes 2020 and \$75.0 million (RUB 2,455 million as of December 31, 2013) for MTS International Notes due 2023 unsatisfied for more than 60 days without being appealed, discharged or waived. If we fail to comply with these and the other covenants contained in the indentures, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

Our ruble-denominated notes contain certain covenants limiting our ability to delist the notes from the quotation lists and delay coupon payments. We may from time to time seek to repurchase or redeem our outstanding notes through cash purchases and/or exchanges for new debt securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on market conditions, our liquidity requirements, contractual restrictions and other factors.

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We were in compliance with all our note covenants as of December 31, 2013.

Bank loans

As of December 31, 2013, our loans from banks and other financial institutions consisted of the following:

| | Maturity | Interest rate (actual at December 31, 2013) | December 31, 2013 |
|---|-------------|--|----------------------|
| <i>USD-denominated:</i> | | | |
| Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG | 2013 - 2020 | LIBOR +1.15% (1.50%) | 26,132 |
| Skandinaviska Enskilda Banken AB | 2013 - 2017 | LIBOR+0.23% - 1.8% (0.57% - 2.15%) | 4,238 |
| HSBC Bank plc and ING BHF Bank AG | 2013 - 2014 | LIBOR+0.3% (0.65%) | 394 |
| Other | 2013 - 2014 | Various | 258 |
| | | | 31,022 |
| <i>EUR-denominated:</i> | | | |
| Bank of China | 2013 - 2016 | EURIBOR+1.95% (2.34%) | 2,435 |
| Credit Agricole Corporate Bank and BNP Paribas | 2013 - 2018 | EURIBOR+1.65% (2.04%) | 1,557 |
| LBBW | 2013 - 2017 | EURIBOR+0.75% (1.14%) | 839 |
| | | | 4,831 |
| <i>RUB-denominated:</i> | | | |
| Sberbank ⁽¹⁾ | 2020 | 8.45% | 80,000 |
| Other | 2013 - 2023 | Various | 395 |
| | | | 80,395 |
| <i>AMD-denominated:</i> | | | |
| ASHIB | 2014 | 13.45% | 108 |
| | | | 108 |
| Total bank loans | | | 116,356 |
| Less: current portion | | | (7,564) |
| Total bank loans, long-term | | | 108,792 |

(1)

Each of our ruble-denominated Sberbank loan facilities provides that Sberbank may unilaterally change the interest rate including, without limitation, in the event of an increase in the CBR refinance rate. An increase in the interest rate is subject to a minimum 60-day prior notice from Sberbank, and a decrease in the interest rate is subject to a 30-day notice.

See also Note 15 to our audited consolidated financial statements.

Our loans are subject to certain restrictive covenants, including, but not limited to, negative pledges, certain financial ratios, limitations on dispositions of assets and limitations on transactions with associates, requirements to maintain ownership in certain subsidiaries, maintain certain

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contracts or licenses, maintain assets of certain value and to maintain a certain level of deposits in accounts at our creditor banks. In addition, there are restrictions on the granting of loans and guarantees and the incurrence of debt the purpose of which is to facilitate us paying or making any dividend or other payment or distribution of any kind on or in respect of any of our shares or to undertake any form of capital reduction. Most of the loans also include an event of default involving an unsatisfied judgment against us in excess of \$10.0 million (RUB 327 million as of December 31, 2013) for a period of over 60 consecutive calendar days. We were in compliance with our loan covenants as of December 31, 2013.

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The following table presents the aggregate scheduled maturities of debt principal outstanding as of December 31, 2013:

| | Notes | Bank loans |
|---|----------------|----------------|
| Payments due in the year ending December 31, | | |
| 2014 | 17,462 | 7,564 |
| 2015 | 22,558 | 11,669 |
| 2016 | 1,800 | 26,590 |
| 2017 | 10,000 | 20,264 |
| 2018 | 10,000 | 19,420 |
| Thereafter | 40,924 | 30,849 |
| Total | 102,744 | 116,356 |

In addition, we had capital lease obligations in the amount of RUB 48 million and RUB 212 million as of December 31, 2013 and 2012, respectively. The terms of our material debt obligations are described in Note 15 to our audited consolidated financial statements.

Subsequent to December 31, 2013, we repaid approximately RUB 2,608 million (based on USD and Euro exchange rates as of the payment dates) in short-term indebtedness.

In addition, Sistema, which currently controls 51.46% of our total charter capital (53.47% excluding treasury shares) and consolidates our results in its financial statements, is subject to various covenants in certain of its credit facilities which impose restrictions on Sistema and its restricted subsidiaries, including us, with respect to, among others, incurrence of indebtedness and liens. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Financial Condition Indentures relating to some of our 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."

Consolidated Cash Flow Summary

A summary of our cash flows and cash outlays for capital expenditures and acquisitions of subsidiaries follows:

| | Years Ended December 31, | | |
|--|--------------------------|----------|----------|
| | 2011 | 2012 | 2013 |
| | (in millions of RUB) | | |
| Cash flows from: | | | |
| Net cash provided by operating activities continuing operations | 107,019 | 134,856 | 159,924 |
| Net cash provided by/(used in) operating activities discontinued operations | 6,543 | (2,733) | (547) |
| Net cash used in investing activities continuing operations | (72,658) | (91,322) | (96,786) |
| Net cash used in/(provided by) investing activities discontinued operations | (4,552) | (2,045) | 115 |
| Net cash used in financing activities continuing operations ^(f) | (5,630) | (75,346) | (55,145) |
| Effect of exchange rate changes on cash and cash equivalents | 594 | (985) | 1,037 |
| | | | |
| Net increase/(decrease) in cash and cash equivalents | 31,316 | (37,575) | 8,598 |
| | | | |
| Cash outlays from continuing operations for: | | | |
| Capital expenditures ⁽²⁾ | (72,802) | (87,783) | (81,575) |
| Acquisition of subsidiaries, net of cash acquired | (6,569) | (1,937) | |
| Cash payments for the acquisition of subsidiaries from related party and non-controlling interests | (26,517) | (261) | |

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- (1) There were no cash flows/inflows provided by financing activities related to discontinued operations
- (2) Includes acquisitions of property, plant and equipment and intangible assets.

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For the year ended December 31, 2013, net cash provided by operating activities from continuing operations was RUB 159,924 million, an increase of 18.6% from the year ended December 31, 2012. This increase was primarily attributable to an increase in total revenues due to the increased usage of value added services by our subscribers as well as one off cash inflow recognized on settlement of Bitel litigation in amount of RUB 4,093 million.

Net cash from continuing operations used in investing activities in the year ended December 31, 2013 was RUB 96,786 million, an increase of 6.0% from the year ended December 31, 2012. Net cash used on purchases of property, plant and equipment and intangible assets in the year ended December 31, 2013, decreased by RUB 6,208 million. The cash outflow relating to short term and other investments in the form of deposits and loans increased by RUB 8,544 million. The amount of cash paid for acquisition of subsidiaries, net of cash acquired, decreased by RUB 1,937 million. At the same time investments in associates increased by RUB 5,088 million due to acquisition of 25.0945% stake in MTS Bank.

Net cash from continuing operations used in financing activities in the year ended December 31, 2013 was RUB 55,145 million, compared to RUB 75,346 million used in the year ended December 31, 2012. The decrease was mainly attributable to our repayments of loans and debt, which were by RUB 17,764 million lower than in 2013. In addition, the amount of funds raised by us in the year ended December 31, 2013 increased by RUB 8,049 million, as compared to the year ended December 31, 2012. The effect of change in cash flows related to debt activities was partially offset by an increase in dividends paid (by RUB 10,080 million) resulting from change in our dividend policy (starting from 2013 we pay dividends on a semi-annual basis). Additional cash inflows were generated from the sale of MGTS's subsidiary "Business Real Estate" to AFK Sistema for RUB 3,215 million (RUB 3,068 million net of cash disposed), as well as reimbursement of debt issuance costs paid for insurance premium of not used credit facilities in amount of RUB 959 million.

For the year ended December 31, 2012, net cash from continuing operations provided by operating activities was RUB 134,856 million, an increase of 26.0% from the year ended December 31, 2011. This increase was primarily attributable to an increase in total revenues due to the increased usage of value added services by our subscribers.

Net cash from continuing operations used in investing activities in the year ended December 31, 2012 was RUB 91,322 million, an increase of 25.7% from the year ended December 31, 2011. Net cash used on purchases of property, plant and equipment and intangible assets in the year ended December 31, 2012, increased by RUB 14,981 million. The cash outflow relating to short term and other investments in the form of deposits and loans increased by RUB 7,957 million. The amount of cash paid for acquisition of subsidiaries, net of cash acquired, decreased by RUB 4,632 million.

Net cash used in financing activities in the year ended December 31, 2012 was RUB 75,346 million, compared to RUB 5,630 million used in the year ended December 31, 2011. The increase was mainly attributable to our repayments of loans and debt, which were by RUB 52,915 million greater than in 2011 (of which RUB 29,200 million was due to the voluntary early repayment of Gazprombank and Moscow Bank facilities. In addition, the amount of funds raised by us in the year ended December 31, 2012 decreased by RUB 50,220 million, as compared to the year ended December 31, 2011. The effect of change in cash flows related to debt activities was partially offset by decrease in cash payments for acquisitions of subsidiaries from related parties and non-controlling interests (by RUB 26,256 million), dividends paid (by RUB 5,157 million) and notes and debt issuance costs (by RUB 2,171 million).

Liquidity

As of December 31, 2013, we had total cash and cash equivalents of RUB 30,612 million (RUB 20,115 million in rubles, RUB 8,839 million in U.S. dollars, RUB 697 million in Turkmenistan)

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manat, RUB 531 million in euros, RUB 363 million in Ukrainian hryvnias, RUB 67 million in Armenian dram). In addition, as of December 31, 2013, we had short-term investments of RUB 14,633 million, mostly in deposits in various banks as well as money market funds. We also had RUB 5,000 million available under existing credit facilities as of December 31, 2013. For a description of our outstanding external financing, see Note 15 to our audited consolidated financial statements.

As of December 31, 2013, we had a working capital surplus of RUB 14,814 million compared to a deficit of RUB 21,043 million as of December 31, 2012. The increase in working capital was mainly attributable to an increase in our total cash and cash equivalents by RUB 8,598 million, in short term investments by RUB 10,599 million, in trade receivables by RUB 1,182 million as well as in other assets by RUB 1,317 million and the decrease in accrued liabilities and other payables by RUB 12,981 million (of which RUB 8,031 related to provision for claims in Uzbekistan and RUB 6,718 related to the Bitel liability). We expect to repay all long-term debts as they become due from our operating cash flows or through re-financings. We believe that our working capital, together with our plans for external financing, will provide us with sufficient funds for our present requirements.

Russian law requires that dividends can only be paid in an amount not exceeding net profits as determined under Russian accounting standards, denominated in rubles, after certain deductions. In addition, dividends may only be paid if the value of the company's net assets is not less than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred stock of the company, if any, as determined under Russian accounting standards. Our net income under Russian accounting standards for the years ended December 31, 2011, 2012 and 2013 that was distributable under Russian legislation amounted to RUB 54,129 million, RUB 42,949 and RUB 55,999 million, respectively.

Credit Rating Discussion

Our credit ratings impact our ability to obtain short- and long-term financing, and the cost of such financing, and credit rating downgrades may require us to prepay certain loans. In determining our credit ratings, the rating agencies consider a number of factors, including our operating cash flows, total debt outstanding, commitments, interest requirements, liquidity needs and availability of liquidity. Other factors considered may include our business strategy, the condition of our industry and our position within the industry and the strategy, activity and/or credit rating of Sistema. Although we understand that these and other factors are among those considered by the rating agencies, each agency might calculate and weigh each factor differently. See "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Our controlling shareholder has the ability to take actions that may conflict with the interests of holders of our securities."

Critical Accounting Policies and Estimates

Our significant accounting policies are disclosed in Note 2 to our audited consolidated financial statements. Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe our most critical accounting policies and estimates are those discussed below.

Management estimates

The preparation of our audited consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements

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and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Our significant estimates include the allowance for doubtful accounts, allowance for inventory obsolescence, valuation of assets acquired and liabilities assumed in business combinations, income tax benefits, the recoverability of goodwill, intangible assets and other long-lived assets, certain accrued liabilities and valuation of financial instruments.

Useful Lives of Property Plant and Equipment

We calculate depreciation expense for property, plant and equipment on a straight-line basis over their estimated useful lives. We establish useful lives for each category of property, plant and equipment based on our assessment of the use of the assets and anticipated technology evolution. We review and revise if appropriate the assumptions used in the determination of useful lives of property, plant and equipment at least on an annual basis. With regard to certain equipment, we cannot predict with certainty how and when developing technology will require us to replace such equipment.

Impairment of Long-lived Assets

We periodically evaluate the recoverability of the carrying amount of our long-lived assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, we compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, we record impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. None of the Group's long-lived assets were impaired in 2013. An impairment loss in the amount of RUB 16,514 million for the year ended December 31, 2012 was recognized by our subsidiaries in Uzbekistan and included net loss from discontinued operations. See also Note 2 and Note 4 to our audited consolidated financial statements.

Impairment of Goodwill

Goodwill represents an excess of the consideration paid over the fair market value of net identifiable assets acquired in a purchase business combination and is not amortized. Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. We determine whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with the authoritative guidance on intangibles, and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If an impairment of goodwill has occurred, we recognize a loss for the difference between the carrying amount and the implied fair value of goodwill. As of December 31, 2012, we recognized goodwill impairment in the amount of RUB 3,523 million related to Uzdurobita Litigation, which is included in the net loss from discontinued operations. Please see "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations" regarding the recent suspension of our services in Uzbekistan, "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Uzbekistan" and Note 4 to our audited consolidated financial statements.

Taxation

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. While most of our tax declarations have been inspected without significant penalties, these inspections do not eliminate the possibility of re-inspection.

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We believe that we have adequately provided for tax liabilities in our financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. See Note 27 to our audited consolidated financial statements.

We recognize deferred tax assets and liabilities for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and for the loss or tax credit carry-forwards using enacted tax rates expected to be in effect at the time these differences are realized. We record valuation allowances for deferred tax assets when it is likely that these assets will not be realized.

New Accounting Pronouncements

In July 2012, the FASB updated the authoritative guidance on testing indefinite-lived intangible assets for impairment. The update permits the entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The guidance is effective for all entities for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

In March 2013, the FASB issued the authoritative guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or group of assets within a foreign entity or of an investment in a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance is effective for fiscal years and interim reporting periods within those fiscal years beginning after December 15, 2013. The amendments described in the update are to be applied prospectively to derecognition events occurring after the effective date; prior periods are not to be adjusted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

See Note 2 to our audited consolidated financial statements.

C. Research and Development, Patents and Licenses, etc.

Not applicable.

D. Trend Information

Sales

In 2013, our revenues in Russia and Ukraine increased by 5% and 5.3%, respectively. Our mobile subscriber base increased to 95.5 million subscribers from 95.5 million subscribers as of December 31, 2013. We expect our consolidated subscriber base to grow in 2013 as a result of continued marketing and advertising activity. We anticipate our consolidated revenues will increase in 2013 mainly based on growth in data usage and the development of our broadband business in the regions.

Average monthly service revenue per subscriber in Russia increased to RUB 307.9 for the year ended December 31, 2013, from RUB 297.1 for the year ended December 31, 2012. Average monthly minutes of use per subscriber in Russia increased to 327 minutes in 2013 from 304 minutes in 2012 mainly due to decrease in tariffs for on-net traffic and various roaming-related offers. We expect average monthly service revenue per subscriber in Russia to remain stable in 2014 as we plan to decrease prices and stimulate growth in usage of data services. We also believe that average monthly

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minutes of use per subscriber will remain stable with an increase in megabytes of use per subscriber due to our efforts aimed at stimulating data usage and on-net traffic.

In Ukraine, our subscriber base increased to approximately 22.7 million subscribers as of December 31, 2013, from 20.7 million subscribers as of December 31, 2012. While APPM remained stable in 2013, our ARPU stagnation and MOU reduction have been caused by the growth in low value subscribers. In 2014, we expect revenues to remain stable under the impact of the weaker macroeconomic environment. We expect the average monthly minutes of use per subscriber will remain stable or decrease slightly in 2014. We expect MTS Ukraine's subscriber base to increase in 2014 due to continued development and marketing of our best customer experience in order to position ourselves as an operator with the optimum price/quality proposition of voice and data services.

Our subscriber base in Armenia remained stable and amounted to 2.4 million subscribers in 2013. The average monthly service revenue per subscriber in Armenia increased to 2,737 dram (RUB 213.2) from 2,656 dram (RUB 205.6). We expect the average monthly service revenue per subscriber in Armenia to decline mainly due to the growth of competition on these markets which may, in turn, lead to decreasing tariffs, the addition of lower-value mass market subscribers, as well as increasing market penetration and multiple SIM card usage per person.

Our primary operating license in Turkmenistan was resumed, and all of our operations in the country fully recommenced on October 1, 2012. Our subscriber base in Turkmenistan amounted to approximately 2.0 million subscribers as of December 31, 2013. We expect our subscriber base and revenues to increase and our market share to grow in 2014.

Russia and Ukraine are the two largest markets for us, both in terms of subscribers and revenue. In 2013, the underlying developments within these markets remained generally positive and included high mobile penetration, strong demand for mobile services, generally positive usage trends and increased consumption of data services and value-added services. We expect the growth of our business activity in Russia to continue throughout 2014. We also expect that the stabilizing of the political situation in Ukraine will allow us to retain our operating indicators.

We expect a challenging operating environment in 2014 due to continued macroeconomic and market volatility in the countries where we operate, increasing competition and significant changes in the mobile retail market in Russia. We also experienced significant exchange rate volatility and depreciation of local currencies against the U.S. dollar in the countries where we operate. The volatility and devaluation of local currencies against the U.S. dollar and/or euro may adversely affect our revenues reported in U.S. dollars and increase our costs, including our non-cash foreign exchange loss due to the translation of our U.S. dollar- and euro- denominated debt. For further information on these risks, see " A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Currency Fluctuations," and "Item 3. Key Information D. Risk Factors Risks Relating to Our Financial Condition Inflation could increase our costs and adversely affect our results of operations."

However, considering current macroeconomic conditions, our management believes that we will experience medium- and long-term growth and efficiency. Due to the fact that the Russian and the Ukrainian markets are highly penetrated, we believe the next wave of revenue growth for the overall market is likely to come from customers' increasing use of data, content and other value-added services.

Churn

We define churn as the total number of subscribers who cease to be a subscriber during the period (whether involuntarily due to non-payment or voluntarily), expressed as a percentage of the average number of our subscribers during that period.

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A vast majority of our subscribers are prepaid subscribers with no contractual commitment to us. As a result, these subscribers have unfettered freedom to migrate between operators at their convenience. This freedom, combined with the relative ease with which subscribers can obtain SIM cards, contributes to churn and increasing penetration levels in the markets where we operate.

The churn rate is highly dependent on competition in our license areas and those subscribers who migrate as a result of such competition. Our churn rate in Russia decreased to 36.3% during the year ended December 31, 2013, as compared to 42.4% for the year ended December 31, 2012, as we improved the quality of customer service by developing our proprietary mono-brand retail network in Russia and revised the pattern of interaction with dealers. In addition, we continued to offer our popular tariff plan "Super MTS" (free calls to all subscribers of MTS Russia), updated options for unlimited mobile Internet, further improved network quality and enhanced data rate by expanding our 3G and LTE capabilities. We expect that the extension of the MTS-Bonus loyalty program and further development of our mono-brand retail network will allow us to keep churn rate under control in 2014, stimulate value-added services usage and promote subscriber loyalty through superior customer service.

The churn rate in Ukraine decreased to 26.1% for the year ended December 31, 2013, from 30.5% for the year ended December 31, 2012. This decrease was achieved by adjusting our tariffs in response to changes in the market and economic environment and focusing on subscriber base management.

E. Off-balance Sheet Arrangements

We believe that our existing off-balance sheet arrangements do not have and are not reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Obligations under derivative contracts

In 2007, 2008 and 2009 we entered into variable-to-fixed interest rate swap agreements to manage the exposure to changes in variable interest rate related to debt obligations. The instruments qualify for cash flow hedge accounting under U.S. GAAP requirements. Each interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective hedges. Interest rate swap contracts outstanding as of December 31, 2013, mature in 2014-2015.

In 2013, 2012 and 2009, we entered into several cross-currency interest rate swap agreements with various banks. These contracts hedge the risk of both interest rate and currency fluctuations and assume periodical exchanges of both principal and interest payments from ruble-denominated amounts to U.S. dollar- and euro-denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. These contracts also include an interest rate swap of a fixed U.S. dollar- and euro-denominated interest rate to a fixed ruble-denominated interest rate. The instruments qualify for cash flow hedge accounting under the U.S. GAAP requirements. Each cross-currency interest swap matches the interest and principal payments of the underlying debt allowing for highly effective hedges. Our cross-currency interest rate swap contracts outstanding as of December 31, 2013, mature in 2019 and 2020.

F. Tabular Disclosure of Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, capital lease obligations (including interest) and certain committed

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obligations. The following table summarizes our future obligations under these contracts due by the periods indicated as of December 31, 2013:

| | Payments due by period | | | | Total |
|--|------------------------|---------------|---------------|----------------------|----------------|
| | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years | |
| (amounts in millions of RUB) | | | | | |
| Contractual Obligations: ⁽¹⁾ | | | | | |
| Long-Term Principal Debt Obligations | 25,026 | 62,617 | 59,684 | 71,772 | 219,099 |
| Interest Payments ⁽²⁾ | 15,139 | 25,679 | 17,107 | 11,030 | 68,955 |
| Capital Lease Obligations | 42 | 11 | | | 53 |
| Operating Lease Obligations | 4,684 | 1,079 | 428 | 1,371 | 7,562 |
| Purchase Obligations ⁽³⁾ | 30,709 | 7,089 | 42 | 27 | 37,867 |
| Asset retirement obligation | | | | 2,743 | 2,743 |
| Retirement and post-retirement obligation | 47 | 165 | 170 | 677 | 1,059 |
| Payments related to business acquisitions | 11 | | | | 11 |
| Uncertain Income Tax Position | 615 | | | | 615 |
| Total | 76,273 | 96,640 | 77,431 | 87,620 | 337,964 |

(1) Debt payments could be accelerated upon violation of covenants in our debt agreements.

(2) Interest payments are calculated based on indebtedness as of December 31, 2013, scheduled maturities for the debt and interest rates effective as of December 31, 2013. We calculate interest payments on ruble-denominated notes until the dates of their respective put options, as described in Note 15 to our audited consolidated financial statements. Payments under interest rate swap agreements are excluded from the table as their amount and timing cannot be reasonably estimated.

(3) Includes future payments under purchase agreements to acquire property, plant and equipment, intangible assets, costs related thereto, inventory and services. We plan to finance our capital commitments through operating cash flow and additional borrowings.

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Our directors and executive officers, their dates of birth and positions as of the date of this document were as follows:

| Name | Year of Birth | Position |
|---------------------------------------|----------------------|--|
| Ron Sommer | 1949 | Chairman of the Board of Directors, Non-Executive Director |
| Anton V. Abugov | 1976 | Deputy Chairman of the Board of Directors, Non-Executive Director |
| Vsevolod Rozanov | 1971 | Non-Executive Director |
| Stanley P. Miller ⁽¹⁾⁽²⁾ | 1958 | Non-Executive Independent Director |
| Alexander E. Gorbunov | 1967 | Non-Executive Director |
| Michel Combes | 1962 | Non-Executive Independent Director |
| Thomas Holtrop | 1954 | Non-Executive Independent Director |
| Andrei A. Dubovskov ⁽³⁾ | 1966 | Executive Director, President and Chief Executive Officer ("CEO") |
| Sergey A. Drozdov | 1970 | Non-Executive Director |
| Alexey V. Kornya ⁽³⁾⁽⁴⁾ | 1975 | Vice President Member of Management Board Chief Financial Officer ("CFO") |
| Andrei E. Ushatskiy ⁽³⁾ | 1974 | Vice President Member of Management Board Chief Technology and Information Officer |
| Vasil I. Latsanych ⁽³⁾ | 1972 | Vice President Member of Management Board Marketing |
| Ruslan S. Ibragimov ⁽³⁾⁽⁴⁾ | 1963 | Vice President Member of Management Board Corporate and Legal Matters |
| Vadim E. Savchenko ⁽³⁾ | 1974 | Vice President Member of Management Board Sales and Customer Service |
| Igor V. Alyoshin | 1965 | Vice President Security |
| Mikhail A. Arkhipov ⁽³⁾ | 1982 | Vice President Member of Management Board HR |
| Andrey G. Smelkov ⁽³⁾ | 1976 | Vice President Member of Management Board Director of "MTS Foreign Subsidiaries" Business Unit |
| Ivan A. Zolochevsky ⁽³⁾ | 1972 | Member of Management Board General Director of MTS Ukraine |
| Valery V. Shorzhin ⁽³⁾ | 1963 | Vice-President Member of Management Board Procurement Management and Administrative Matters |
| Kirill A. Dmitriev | 1978 | Member of Management Board Head of Moscow Macro-region |

(1) Member of the Remuneration and Nomination Committee.

(2) Member of Audit Committee.

(3) Member of Management Board.

(4) Member of Disclosure Committee.

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Ron Sommer has served as Chairman of our Board of Directors since June 2009. He also was the Chairman of our Strategy Committee until 2013 and is now a member of the Strategy Committee and a member of the Budget Committee. Mr. Sommer has served as First Vice President Head of Telecommunications Assets Operating Unit of Sistema from May 2009 until 2011. He served as a member of the Board of Directors of Sistema from 2005 until 2012 and he served as Chairman of the Board of Directors of various Sistema affiliated companies. Currently Mr. Sommer is a Chairman of the Board of Directors of SSTL. He is also a member of the Board of Directors of Tata Consultancy Services, a member of the Supervisory Board of Munich Reinsurance, and a member of the International Advisory Board of The Blackstone Group. In 2009, he served as Chairman of the Board of Directors of Comstar. Between May 1995 and July 2002, he was CEO of Deutsche Telekom AG. From 1980 to 1995, he held a number of positions with Sony Corporation, including as CEO of Sony Deutschland, COO of Sony Corporation of America and COO of Sony Europe.

Anton V. Abugov has served as one of our Directors since June 2008 and as Deputy Chairman of the Board of Directors since June 2012. He is also the Chairman of our Strategy Committee. In addition, Mr. Abugov serves on the Board of Directors of various other companies affiliated with Sistema, including SSTL, Russkaya Zemlya LLC and RZ-Agro OJSC. Since 2006, Mr. Abugov has served as First Vice President and Head of Strategy and Development at Sistema. He is also a member of the Strategy Committee and the Investor Relations Committee at Sistema. Between 2003 and 2006, he was Managing Director of AKB Rosbank and head of its Corporate Finance Department. Between 1997 and 2006, he was a Strategy Consultant at the TAIF Group of Companies. From 1995 to 2002, he worked for the United Financial Group in different positions, including head of corporate finance from 1999 to 2002.

Vsevolod Rozanov has served as one of our Directors since June 2012. He is also the Chairman of our Budget Committee, Corporate Conduct and Ethics Committee. From 2008 until 2013 he served as the president of SSTL. From 2006 until 2008 served as Vice President and Chief Financial Officer of MTS. In 2004 he was appointed Deputy General Director for Economics and Finance of Comstar UTS, coordinating the preparation of the company's IPO on the London Stock Exchange. From 2002 until 2004 served as Deputy General Director and Chief Financial Officer of MTU-Inform. From 1993 until 2001 held various consulting positions at the Moscow, London and Stockholm offices of Bain & Company.

Stanley P. Miller has served as one of our Directors since June 24, 2010. He also is the Chairman of our Remuneration and Appointment Committee, and a member of our Audit Committee, Strategy Committee and the Special Committee. From 1998 to 2010, Mr. Miller served as CEO at KPN, Netherlands (since 2005, KPN Mobile International). From 2006 to 2010, he served as CEO and Chairman of the Supervisory Board at E-Plus, a subsidiary of KPN and the third largest provider of mobile telephony services in Germany. From 2001 to 2010, Mr. Miller was CEO and Chairman of the Board at BASE, Belgium, a subsidiary of KPN and the third largest provider of mobile telephony services in Belgium operating under the Simyo and Ortel Mobile brands. From 1998 to 2010, he served as a member of the Board of Directors of Hutchison 3G UK Ltd, IP Global Net NV and VESTA Technologies. Mr. Miller also serves as the Chairman of the Board of Directors of AINMT (AB) Sweden, and Arrow Creek Investments 75 (PTY) LTD South Africa.

Alexander E. Gorbunov has served as one of our Directors since February 2013. He also is a member of our Strategy Committee. In addition, Mr. Gorbunov serves on the Board of Directors of various other companies such as SSTL, SMM, Stream LLC and Cosmos-TV JSC. From 2010 until 2011, Mr. Gorbunov served as Executive Vice President for development of telecommunication assets at Basic Assets Business Unit of Sistema and from 2011 as Executive Vice-President. From 2006 until 2010, he served as Vice President for Strategy and Development at Comstar. Prior to that, from 2005 to 2006, Mr. Gorbunov headed Corporate Development Department at Sistema.

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Michel Combes has served as one of our Directors since February 2013. He also is a member of the Remuneration and Appointment Committee, Audit Committee and Special Committee. Mr. Combes serves as Chief Executive Officer of Alcatel-Lucent SA. Mr. Combes also serves as Chairman of the Supervisory Board at Assystem and as Non-Executive Director and a member of the Board of Directors of ISS. From 2008 until 2012, he served as Main Executive Director for Europe at Vodafone London and as Non-Executive Director at Vodafone PLC. From 2006 to 2008, Mr. Combes served as Main Executive Director at Telediffusion de France. Prior to that, from 2003 to 2006, he served as Senior Vice President and Financial Director at France telecom. Mr. Combes has also served as a Director of Vodafone, Weather (Orascom Wind), Atari, TDF, Eurotunnel, Atos and Procapital.

Thomas Holtrop has served as one of our Directors since February 2013. From 2009 until 2011, he served as a member of the Board of Directors at Comstar. He is also the Chairman of our Audit Committee, a member of the Special Committee and the Remuneration and Appointment Committee and Committee of Independent Directors on MTS-Bank acquisition project. From 2005 to 2011, Mr. Holtrop served as a member of the Supervisory Board at Gruner & Jahr (Hamburg). Prior to that, from 2001 to 2006, he served as the President of T-Online International AG. Mr. Holtrop also served as a member of the Board of Directors at Deutsche Telecom AG from 2002 to 2004. Prior to that, he served as Vice President at American Express International Inc. and was a member of the Board of Directors at Bank 24 AG and Deutsche Bank 24 AG.

Andrei A. Dubovskov has served as our President and CEO since March 2011. Since June 2011 he has also served as our President and a member of our Corporate Conduct and Ethics Committee, Strategy Committee. From April 2008 to March 2011, he served as the General Director of MTS Ukraine. From March 2006 to December 2007, Mr. Dubovskov served as Director of Ural Macro-region. From January 2005 to March 2006, he served as the Director of one of our subsidiaries in Nizhniy Novgorod. Prior to joining us, Mr. Dubovskov served as the General Director of various telecommunications companies from 1998 to 2005.

Sergey A. Drozdov has served as one of our Directors since June 2013. He has also served as Senior Vice-President and head of Corporate Governance Complex at Sistema since 2011. From 2002 to 2011, Mr. Drozdov served as First Vice-President and Head of Property Complex of Sistema. He served as Vice-President performing duties of the President of OJSC Sistema-Invest, from 1998 to 2002. Prior to that, from 1995 to 1998, he served as head of Development and Investments Department. From 1994 to 1995 Mr. Drozdov served as head of Financial Innovations and Marketing of the Moscow City Property Fund.

Alexey V. Kornya has served as our Vice President CFO since June 2010. Prior to that, he served as our Acting Vice President Finance and Investments from August 2008. Mr. Kornya serves as our Chief Financial Officer and is the Chairman of our Disclosure Committee. He is a member of our Management Board and a member of the Board of Directors of RTC, a member of the Board of Directors of MTS-Bank and a member of the Board of Directors of SOOO CJSC. He is also a member of the Supervisory Board at MTS Ukraine. From March 2007 to December 2009, he served as our Chief Financial Controller. He served as our Financial Planning and Analysis Director from November 2004 to March 2007 and as CFO of our Urals Macro-region branch from July 2004 to November 2004.

Andrei E. Ushatsky has served as our Vice President Chief Technology and Information Officer since April 2014. Prior to that Mr. Ushatsky has served as our Vice President Chief Technology Officer since April 2009. Mr. Ushatsky joined us in 1996 and has served in various technology-related positions, most recently as the Deputy Head of MTS Russia for Technology.

Vasil I. Latsanych has served as our Vice President Marketing since September 2011. He served as Acting Head MTS Ukraine since March 2011 until September 2011. From October 2007 to March 2011, Mr. Latsanych served as Marketing Director of MTS Ukraine. Prior to joining us, Mr. Latsanych served as Marketing Director at Coca-Cola Bottlers Siberia and Coca-Cola Krasnoyarsk. From 1996 to 1999, Mr. Latsanych held various management positions at Coca-Cola Amatil Ukraine Ltd and Coca-Cola Beverages Ukraine.

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Ruslan S. Ibragimov has served as our Vice President Corporate and Legal Matters since January 2008. From February 2007 to January 2008, Mr. Ibragimov served as our Director Chief Legal Counsel. He joined us in June 2006 and initially served as the Director for legal matters, as well as headed our Legal Department. Prior to joining us, Mr. Ibragimov was a member of the law firm Ibragimov, Kagan and Partners from July 2002 to June 2006. From 1997 to 2002, he served as Deputy General Director and Senior Partner at RSM Top-Audit, a tax and legal consulting firm. From 1992 to 1996, Mr. Ibragimov headed legal departments at various commercial banks.

Vadim E. Savchenko has served as our Vice President Sales and Customer Service since July 2011. In November 2008, Mr. Savchenko became the Director of Sales at MTS Ukraine. Mr. Savchenko first joined MTS in 2005, when he assumed the position of the director of the department in charge of partner relations at Macro-region "Ural" until 2007. From 2007 to 2008 he was the director of the Urals branch of OJSC "HARDWARE-Retail." Mr. Savchenko has over 15 years of operational experience in sales from the coordinator of the sales department to the director of a branch in such companies as Pepsi International Bottlers LLC, Joint Stock Company "JTI" and OJSC "Vienna."

Igor V. Alyoshin was appointed MTS Vice President for Security in January 2013. Prior to joining MTS, from 2012 to 2013, Mr. Alyoshin worked at CJSC Medsi Group as Vice President for Security and HR, member of the Executive Board and Vice President for Security and Assets Safeguard. Prior to that, he served as Deputy Interior Minister of the Russian Federation in 2011-2012, Minister of Interior of Republic Bashkortostan in 2008-2011 and Minister of Interior of Karelia Republic in 2006-2008. Since 1989 until 2006 Mr. Alyoshin worked in Directorate of Internal Affairs of Omsk Region, taking various positions, from officer of criminal investigation and economic crimes prevention to Head of Department of Economic Crimes prevention, first Deputy Head and further Head of Criminal Investigation Police.

Mikhail A. Arkhipov has served as our Vice President HR starting April 2013. Prior to joining us, from 2009 to 2013, he worked at SIBUR, where he took several positions, from Head of Compensations and Benefits to HR Director. From 2008 to 2009, he held various positions at SUN Interbrew and KPMG.

Andrey G. Smelkov has served as our Vice President Director of "MTS Foreign Subsidiaries" Business Unit since October 2013. Prior to that, since 2010, he has served as a Chairman of the Board in TOO "Mobile Telekom Service", Kazakhstan. Since 2008 Mr. Smelkov has worked as a Head of OOO "Sky Mobile", Kyrgyzstan. Prior to that, he worked as a Head of branch in OJSC VimpelCom.

Ivan A. Zolochovsky has served as member of Management Board since October 2011. He has served as General Director of MTS Ukraine since 2011. From 2005 to 2011, Mr. Zolochovsky served as Director of OJSC MTS Macro-region North-West branch. From 2001 to 2005, he served as sales Director at VVS. Prior to that he served as head of Sales and Marketing Department at Tranzas.

Valery V. Shorzhin has served as Vice President-Procurement Management and Administrative Matters, Member of the Management Board since March 2014. Prior to that he served at MTS as Director-Procurement Management since 2011. He had also been a Member of the MTS Management Board between 2009 and 2010. From 2008 to 2011, he served as Director of Information Technology. Prior to joining MTS, Mr. Shorzhin held the positions of Technical Director and Director for IT and Information Management of Farlep-Invest in Ukraine from December 2006. From 2003 to 2006, he held various information technology management positions at Sovintel.

Kirill A. Dmitriev has served as Member of Management Board-Head of Moscow Macro-region since April 2014. Prior to that he has served as Director of North-West Macro-region since 2011. Mr. Dmitriev joined MTS in 2009 as Director of Western branch of MTS Ukraine. Prior to joining MTS he served at various management positions at Baltic Beverages Holding Ukraine.

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Our directors were elected at the extraordinary general shareholders' meeting on February 14, 2013 and will serve until their terms expire at the next annual shareholders' meeting, which will take place on June 25, 2013. The business address of each of our directors is 4 Marksistkaya Street, Moscow 109147, Russian Federation.

B. Compensation of Directors and Senior Management

Our officers and directors were paid during 2013 an aggregate amount of approximately RUB 883 million for services in all capacities provided to us; this amount comprised RUB 393 million in base salaries and RUB 490 million in bonuses paid pursuant to a bonus plan and in other monetary compensations for the management and directors. Bonuses are awarded annually based on our financial performance.

Our management and directors are also entitled to monetary remuneration based on the quoted prices of our ADSs on the NYSE. Related compensation accrued in 2013 amounted to RUB 482 million. For additional information, see Note 2 to our audited consolidated financial statements.

In 2009, we amended our Regulation on Remuneration and Compensation of the Members of the Board of Directors to provide that only independent non-executive directors receive compensation. Members of the Board of Directors who are independent non-executive directors receive annual base compensation of \$250,000 (RUB 8 million) (or \$275,000 (RUB 9 million) in the case of an independent non-executive director who serves as Chairman of the Board of Directors).

Independent non-executive directors who also serve on Board committees receive additional compensation as follows. Members of the Strategy Committee, Remuneration and Nomination Committee, Audit Committee and Committee for Corporate Conduct and Ethics receive additional annual compensation of \$15,000 (RUB 0.5 million), and a director serving as Chairman of the foregoing committees receives additional annual compensation of \$25,000 (RUB 0.8 million). Members of special committees of the Board of Directors, which are committees established for undertaking preliminary consideration and making recommendations to the full Board in relation to certain assigned matters, receive additional annual compensation of \$20,000 (RUB 0.7 million), and a director serving as Chairman of a special committee receives additional annual compensation of \$25,000 (RUB 0.8 million). Members of all other Board committees receive additional annual compensation of \$5,000 (RUB 0.2 million) and a director serving as Chairman of any other Board committee receives additional annual compensation of \$10,000 (RUB 0.3 million).

Independent non-executive members of the Board of Directors are also eligible for an annual bonus of up to a maximum of \$200,000 (RUB 7 million) based on our performance and average ADS price over a specified period.

The aggregate amount of compensation received by an independent non-executive director (including annual base compensation, bonus and additional compensation for serving as a Board committee member) should not exceed \$500,000 (RUB 16 million). In the event of early termination of a director, such director receives a pro rata share of the base, committee and bonus compensation based on the amount of time the director served on our Board.

We provide all of our directors with professional liability insurance and reimburse them for all documented expenses incurred in connection with their attendance at Board meetings and other expenses of up to \$200,000 (RUB 7 million).

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C. Board Practices

Board of Directors

Members of our Board of Directors are elected by a majority vote of shareholders at the annual shareholders' meeting using a cumulative voting system. Directors are typically elected by the annual meeting of shareholders for one year until the next annual meeting of shareholders and may be re-elected an unlimited number of times. The Joint Stock Companies Law requires that companies with more than 10,000 holders of voting shares have a board of directors consisting of not less than nine members. Our Board of Directors currently consists of nine members. The Board of Directors has the authority to make overall management decisions for us, except those matters reserved to the shareholders. It must meet at least once a month, though it may meet more often at its election. The members of our Board of Directors have entered into service contracts with us. Other than their entitlement to a pro rata share of their annual compensation and, in the case of independent directors, a pro rata share of their bonus, these contracts do not provide for benefits upon termination of their employment. See " B. Compensation of Directors and Senior Management" for a description of the pro rata payments.

Audit Committee

Our Audit Committee consists of three members appointed by the Board of Directors. The current members are Thomas Holtrop, Stanley Miller and Michel Combes, all of whom are independent members of the Board of Directors. Mr. Thomas Holtrop serves as the Chairman of the Audit Committee. The Audit Committee is primarily responsible for the integrity of our financial statements; overseeing our internal control system; overseeing our accounting and financial reporting processes and the internal and external audits of our financial statements; recommending the appointment and compensation of the independent auditors to the Board of Directors; overseeing the performance of the auditors; reviewing issues raised by the auditors, management and/or Board of Directors and, as required, making recommendations to the Board of Directors; and resolving matters arising during the course of audits.

According to the bylaws, the Audit Committee shall convene with our external auditors at least four times a year, but may convene more frequently if the Audit Committee chooses to do so.

Remuneration and Nomination Committee

Our Remuneration and Nomination Committee consists of three members appointed by the Board of Directors. The current members are Michel Combes, Thomas Holtrop and, Stanley Miller, who serves as Chairman of the Remuneration and Nomination Committee. The Remuneration and Nomination Committee is primarily responsible for developing a remuneration structure and compensation levels for management executives.

According to the bylaws, the Remuneration and Nomination Committee shall be convened by the Chairman of the Remuneration and Nomination Committee, at his sole discretion, or at the suggestion of any member of this committee, a member of the Board of Directors or our President.

President

Our President is elected by the Board of Directors for a term of three years and can be reelected for an unlimited number of terms. The rights, obligations and the times and amounts of payment for the President's services are determined by a contract between him and us, as represented by our Chairman or by a person authorized by our Board of Directors. The President is responsible for day-to-day management of our activities, except for matters reserved to our shareholders or the Board of Directors and the Management Board. The President reports to the shareholders' meeting and to

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the Board of Directors and is responsible for carrying out decisions made by the shareholders and by the Board of Directors and the Management Board. On March 4, 2011, Andrei A. Dubovskov was elected as our President and CEO, starting from March 5, 2011, by the Board of Directors for a term of three years, in March 2014 his contract was extended for three more years.

Management Board

In October 2006, we revised our charter to establish a new governing body called the Management Board. The Management Board is an executive body which oversees certain aspects of our ongoing activities. The overall number of the Management Board members is approved by the Board of Directors at the proposal of the President with each member being elected by the Board upon nomination by the President. Each Board member is elected for a three year period and can be reelected an unlimited number of times.

The President is the Chairman of the Management Board. Currently our Management Board consists of 11 members.

Disclosure Committee

In April 2007, we established an advisory body called the Disclosure Committee. The Disclosure Committee supervises our compliance with disclosure standards in connection with all public information regarding us. These disclosure standards are based on principles of timeliness, accuracy and completeness. Members of the Disclosure Committee may be nominated by various divisions of MTS, willing to have representatives in the Disclosure Committee. Members are appointed by the President. Alexey Kornya, our CFO, is the Chairman of the Disclosure Committee. Currently, our Disclosure Committee consists of seven members, two of whom are officers of the company.

Information Security Committee

In July 2010, we created a new advisory body called the Information Security Committee. The Information Security Committee coordinates our activities in respect of trade secrets and data privacy protection. The Committee also supervises the compliance of our information systems and internal procedures with applicable legal requirements concerning data privacy protection. The Information Security Committee consists of 11 members. The Chairman of the Information Security Committee is the Vice President Chief Security Officer.

Review Commission

Our Review Commission supervises our financial and operational activities. Members of the Review Commission are nominated and elected by our shareholders at annual meetings of shareholders. A director may not simultaneously be a member of the Review Commission. As of the date of this document, our Review Commission has three members:

Irina R. Borisenkova, who holds the position of Chief Accountant and Managing Director of the Finance and Investment Complex at Sistema;

Jakub O. Paragulgov, who holds the position of Director of Planning in Finance and Investment Complex at Sistema; and

Maxim A. Mamonov, who holds the position of Director of the Internal Control and Audit at Sistema.

The members of our Review Commission serve until their terms expire at the next annual shareholders' meeting, which will take place in June 2014.

Table of Contents**Corporate Governance**

We are required under the New York Stock Exchange listing rules to disclose any significant differences between the corporate governance practices that we follow under Russian law and applicable listing standards and those followed by U.S. domestic companies under New York Stock Exchange listing standards. This disclosure is posted on our website (http://www.mtsghm.com/information/corporate_governance/). See also "Item 16G. Corporate Governance."

D. Employees

At December 31, 2013, we had 67,715 employees. Of our 62,642 employees in Russia, we estimate that 516 were executives; 15,567 were technical and maintenance employees; 37,360 were sales, marketing and customer service staff; and 9,094 were administration and finance staff. In addition, of the 62,642 employees in Russia, we estimate that 23,942 were employed in our retail unit.

As of December 31, 2013, 3,240 of our employees worked in Ukraine. Of these employees, we estimate that 17 were executives; 993 were technical and maintenance employees; 1,481 were sales, marketing and customer service staff; and 749 were administration and finance staff.

As of December 31, 2013, 608 of our employees worked in Turkmenistan. Of these employees, we estimate that 13 were executives; 107 were technical and maintenance employees; 363 were sales, marketing and customer service staff; and 125 were administration and finance staff.

As of December 31, 2013, 1,225 of our employees worked in Armenia. Of these employees, we estimate that 12 were executives; 153 were technical and maintenance employees; 673 were sales, marketing and customer service staff; and 359 were administration and finance staff.

The following chart sets forth the number of our employees at December 31, 2011, 2012 and 2013:

| | At December 31, | | |
|--------------|-----------------|--------|--------|
| | 2011 | 2012 | 2013 |
| Russia | 52,300 | 56,617 | 62,642 |
| Ukraine | 3,063 | 3,096 | 3,240 |
| Uzbekistan | 1,419 | 618 | |
| Turkmenistan | 70 | 565 | 608 |
| Armenia | 1,200 | 1,181 | 1,225 |
| Total | 58,052 | 62,077 | 67,715 |

Our employees are not unionized, except for 4,877 employees of MGTS, who are members of trade unions. We have not experienced any work stoppages and we consider our relations with employees to be strong.

E. Share Ownership

As of April 1, 2014, our directors, senior management and employees owned less than 1% of our outstanding common stock.

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The following table sets forth information with respect to the beneficial ownership of our common stock as of April 15, 2014, by our current directors and executive officers. All shares of common stock have the same voting rights.

| Directors and Executive officers | Beneficial ownership as of April 15, 2014 | |
|---|--|------------------------|
| | Number | %⁽¹⁾ |
| Andrei A. Dubovskov, Executive Director, President and CEO | 15,620 | 0.00079% |
| Ruslan S. Ibragimov, Vice President Corporate and Legal Matters | 19,824 | 0.00100% |
| Andrei E. Ushatsky, Vice President Chief Technology and Information Officer | 14,000 | 0.00070% |
| Vsevolod V Rozanov, Non-Executive Director | 72,792 | 0.00366% |
| Total | 122,236 | 0.00615% |

(1) Percentage of beneficial ownership of each named director and executive officer is based on 1,988,922,064 ordinary shares outstanding as of April 15, 2014.

Our management are entitled to remuneration in the form of options granted to them for MTS ordinary shares, which will expire in a weighted average term of approximately 2.5 years. The transfer of such shares is probable and is subject to certain employment conditions. In 2013, options related compensation accrued in the amount of RUB 95 million.

The following table sets forth information with respect to our ordinary shares in the form of share options granted to our current directors and executive officers as of April 15, 2014. All shares of common stock have the same voting rights.

| Directors and Executive officers | Number of ordinary shares as of April 15, 2014 | |
|--|---|------------------------|
| | Number | %⁽¹⁾ |
| Andrei A. Dubovskov, Executive Director, President and CEO | 152,525 | 0.00767% |
| Alexey V. Kornya, Vice President Chief Financial Officer | 85,416 | 0.00429% |
| Ruslan S. Ibragimov, Vice President Corporate and Legal Matters | 54,053 | 0.00272% |
| Andrei E. Ushatsky, Vice President Chief Technology and Information Officer | 55,884 | 0.00281% |
| Vadim E. Savchenko, Vice President Sales and Customer Service | 63,020 | 0.00317% |
| Vasil I. Latsanych, Vice President Marketing | 67,307 | 0.00338% |
| Valery V. Shorzhin, Vice-President Procurement Management and Administrative Matters | 51,595 | 0.00259% |
| Igor V. Alyoshin, Vice President Security | 32,486 | 0.00163% |
| Mikhail A. Arkhipov, Vice President HR | 39,530 | 0.00199% |
| Kirill A. Dmitriev, Head of Moscow Macro-region | 33,591 | 0.00169% |
| Andrey G. Smelkov, Vice President Director of "MTS Foreign Subsidiaries" Business Unit | 19,820 | 0.00100% |
| Ivan A. Zolochovsky, General Director of MTS Ukraine | 41,880 | 0.00211% |
| Oleg A. Atamanov, General Director of MTS Turkmenistan | 42,185 | 0.00212% |
| Ralph S. Yirikian, General Director of MTS Armenia | 47,720 | 0.00240% |
| Andrey V. Ershov, General Director of MGTS | 40,853 | 0.00205% |
| Ron Sommer, Chairman of the Board, Non-Executive Director | 74,580 | 0.00375% |
| Total | 902,445 | 0.04537% |

-
- (1) Percentage of ordinary shares in the form of share options granted to each named director and executive officer is based on 1,988,922,064 ordinary shares outstanding as of April 15, 2014.

Table of Contents**Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders**

The following table sets forth, as of April 1, 2014, certain information regarding the beneficial ownership of our outstanding common stock. All shares of common stock have the same voting rights.

| Name | Beneficial ownership as of April 1, 2014 | |
|--|---|------------|
| | Number | Percentage |
| Sistema ⁽¹⁾ | 636,224,752 | 31.99% |
| Sistema Finance S.A. | 206,643,900 | 10.39% |
| STA ⁽²⁾ | 220,467,234 | 11.08% |
| ADS holders ⁽³⁾ | 709,401,170 | 35.67% |
| Other Public Float (including our directors and executive officers) ⁽⁴⁾ | 216,185,008 | 10.87% |
| Total ⁽⁵⁾ | 1,988,922,064 | 100.0% |

(1) Vladimir P. Evtushenkov has a controlling interest in Sistema, and is considered under U.S. securities laws as the beneficial owner of our shares held by Sistema, Sistema Finance SA, and Sistema Telecom Activy ("STA"). Mr. Evtushenkov is also the chairman of the board of directors of Sistema.

(2) STA is a limited liability company formed under the laws of Russia. Sistema owns 100% of STA, which became a holder of our 11.1% beneficial ownership after VAST LLC ("VAST") and Invest-Svyaz CJSC, the previous beneficial owners of this ownership interest, were merged into STA in 2010, 2011 and 2012, respectively.

(3) Excludes treasury shares held in the form of ADSs, as described below. As of April 1, 2014, the total number of ADSs outstanding (including 33,997,667 ADSs held by our wholly owned subsidiary, MTS-Bermuda Ltd., which are excluded from the table above) was 388,698,252, representing underlying ownership of 777,396,505 shares, or approximately 39.1% of our outstanding common stock. Of these ADSs, approximately 68.9% were held by U.S. investors as of April 15, 2014. The shares underlying the ADSs are deposited with JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York and the local custodian is Sberbank of Russia.

(4) We believe that our directors and executive officers as a group own less than 1% of our shares.

(5) Excludes treasury shares, as described below.

As a result of our merger with Comstar, our subsidiary, MGTS, owned 9,496,163 of our ordinary shares as of April 1, 2014. We did not undertake any repurchases of ADSs in the years ended December 31, 2011, 2012 and 2013. A total of 8,000 MTS ordinary shares representing 0.0004% of our issued share capital were repurchased for RUB 1.96 million (\$70,000 as of March 31, 2011) as part of our reorganization during 2011. A total of 90,881 MTS ordinary shares representing 0.004% of our issued share capital were repurchased for RUB 19.7 million as a part of our reorganization during 2013. In March 2014, these shares were sold pursuant to applicable requirements of Russian legislation. See "Item 3. Key information A. Selected Financial Data."

As of April 1, 2014, we held a total of 77,491,498 shares, of which approximately 87.8% were held in the form of ADSs. These shares are excluded from the total number of shares presented in the table above.

As of December 31, 2013, Sistema's effective ownership in us was 53.47%.

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B. Related Party Transactions

Transactions with Sistema and its Affiliates

Sistema

In November 2009, Sistema issued a promissory note to us as repayment of accrued interest and principal under a loan we had provided to Sistema-Hals, an affiliate of Sistema. The promissory note is an interest free and is repayable in 2017. As of December 31, 2013 and 2012 the amount receivable from Sistema under the promissory note was RUB 618 million and RUB 618 million, and such amount was included under the line item "other investments" in our audited consolidated financial statements.

In June 2010, we accepted a promissory note from Sistema in exchange for a promissory note of Sky Link. The note is interest free and was repaid upon demand in the year ended December 31, 2011.

Sistema Holding Limited

In October 2011, Sistema Holding Limited acquired 4,311,019 of our ADSs in a series of purchases.

Doveritelnaja Investizionnaja Kompanija "DIK"

In April and May 2013, the Group invested RUB 4.0 billion in Investment fund "Reservnyi" managed by "DIK" a subsidiary of Sistema. As of December 31, 2013 unrealized gain in the amount of RUB 154 million was recognized in the accompanying consolidated statements of operations and comprehensive income.

Maxima Advertising Agency

We have contracts for advertising services with Maxima, a subsidiary of Sistema, pursuant to which we incurred expenses of RUB 2,407 million, RUB 1,902 million and RUB 1,757 million for services provided in the years ended December 31, 2011, 2012 and 2013, respectively.

NVision Group

During the years ended December 31, 2011, 2012 and 2013, the Group acquired from NVision Group, a subsidiary of Sistema, telecommunications equipment, software and billing systems (FORIS) for approximately RUB 14,783 million, RUB 12,898 million and RUB 13,394 million, respectively, and incurred expenses of RUB 1,415 million, RUB 1,115 million and RUB 1,083 million, respectively, under an IT consulting agreement.

As of December 31, 2012 and 2013, the advances given to NVision Group, a subsidiary of Sistema, amounted to RUB 1,215 million and RUB 496 million, respectively. These amounts were included into property, plant and equipment and intangible assets in the accompanying consolidated statements of financial position.

Smart Cards Group

During the years ended December 31, 2011, 2012 and 2013, the Group purchased SIM cards and Prepaid phone cards for approximately RUB 2,336 million, RUB 842 million and RUB 765 million, respectively.

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AB Safety

During the years ended December 31, 2011, 2012 and 2013, we paid RUB 296 million, RUB 344 million and RUB 354 million, respectively, to AB Safety, an affiliate of Sistema, for the provision of security services.

Sistema-Inventure

In the year ended December 31, 2010, in connection with the sale of a 25% plus one share stake in Svyazinvest, we incurred consultancy fees for Sistema-Inventure, a subsidiary of Sistema, in the amount of RUB 291 million. In December 2011, we acquired a 100% stake in Sistema-Inventure, which directly owns 24.3% of the ordinary shares of MGTS.

Svyazinvest

We have entered into various agreements with Svyazinvest and its subsidiaries relating to the provision of interconnect and other services. During the year ended December 31, 2010, Svyazinvest ceased to be related to us.

Mediaplanning

We had contracts for advertising services with Mediaplanning, a subsidiary of Sistema, pursuant to which we incurred expenses of RUB 32 million for services provided in the year ended December 31, 2011. In the year ended December 31, 2011, we ceased our relationship with this contractor and it ceased to be related to us.

City Hals

During the year ended December 31, 2010, City Hals, a subsidiary of Sistema, provided rent, repair, maintenance and cleaning services to us. During the year ended December 31, 2010, City Hals ceased to be related to us.

Sky Link and subsidiaries

During the year ended December 31, 2010, we accrued revenues from interconnect agreements with Sky Link, an affiliate of Sistema, and its subsidiaries. During the year ended December 31, 2010, Sky Link and its subsidiaries ceased to be related to us.

Investments in certain subsidiaries and affiliates of Sistema

As of December 31, 2011, 2012 and 2013, we held investments in the share capital of certain subsidiaries and affiliates of Sistema amounting to RUB 306 million, RUB 306 million and RUB 125 million, respectively, which, individually, were and are immaterial. Our main investments are in SMM, in which we hold 3.14%, and the value of such investments as of December 31, 2011, 2012 and 2013, amounted to RUB 117 million, RUB 117 million and RUB 117 million.

Transactions with equity investees

Stream OOO

In July 2012 our share in the company Stream OOO decreased to 45% and therefore it has become a related party for the group. In the year ended December 31, 2013 we signed contracts for content services and expenses amounting to RUB 711 million.

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MTS Bank

We maintain certain number of deposit and loan agreements with MTS Bank, a subsidiary of Sistema. As of December 31, 2011, 2012 and 2013, we had cash positions at MTS Bank in the amount of RUB 10,029 million and RUB 8,161 and RUB 11,297 million in current accounts, including short-term deposits in the amount of nil, RUB 101 million and RUB 5,081 million, respectively. The interest accrued on the deposits and cash on current accounts for the years ended December 31, 2011, 2012, and 2013, amounted to RUB 445 million, RUB 172 million and RUB 742 million, respectively, and was included as a component of the line item "interest income" in our audited consolidated financial statements.

Interest expense on the funds raised from MTS Bank during the years ended December 31, 2011, 2012 and 2013 amounted to nil, RUB 363 million and nil respectively, was included as a component of interest expense in the accompanying consolidated statements of operations and comprehensive income.

MTS Belarus

During the years ended December 31, 2011, 2012 and 2013, we accrued revenues from roaming agreements with MTS Belarus, our associate company, amounting to RUB 192 million, RUB 209 million and RUB 149, respectively. At the same time, during the years ended December 31, 2011, 2012 and 2013 we incurred roaming expenses with MTS Belarus amounting to RUB 309 million, RUB 424 million and RUB 278 million, respectively.

Accounts receivable and accounts payable

We had total accounts receivable of RUB 144 million, RUB 336 million and RUB 965 million from, and total accounts payable of RUB 1,835 million, RUB 2,338 million and RUB 3,315 million to, related parties as of December 31, 2011, 2012 and 2013, respectively. We do not have the intent or ability to offset the outstanding accounts payable and/or accounts receivable with related parties under the term of existing agreements with them. See Note 22 to our audited consolidated financial statements for details of our accounts payable and accounts receivable.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

8.A.1-3. See Item 18.

8.A.4-6. Not applicable.

8.A.7. Litigation

Uzbekistan

In June 2012, the authorities of the Republic of Uzbekistan commenced repeat audits of previously audited financial and operating activities of MTS' wholly owned subsidiary Uzdunrobita. On July 17, 2012, Uzdunrobita suspended its services in Uzbekistan pursuant to the order of the State Agency for Communications and Information of Uzbekistan (the "SACI") temporarily suspending the operating license of Uzdunrobita for a period of ten business days. This suspension was subsequently extended to three months due to a decision of the Tashkent Economic Court of July 30, 2012.

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On August 6 and 7, 2012, fourteen regional antimonopoly departments of the Republic of Uzbekistan simultaneously held hearings and declared that Uzdunrobota had violated antimonopoly laws, consumer protection laws and laws governing advertisements. In total, the claims of the regional antimonopoly departments against Uzdunrobota amounted to approximately RUB 2,558 million. This amount was subsequently reduced by the superior antimonopoly regulator to RUB 416 million in the aggregate. The disputes with the antimonopoly authorities were dismissed after payments were made by Uzdunrobota pursuant to the Appeal Decision (as defined below). On August 13, 2012, the Tashkent Economic Court granted the petition of the SACI to terminate all operating licenses of Uzdunrobota permanently. This decision was subsequently upheld by the appeals and cassation instance courts on August 27, 2012 and April 4, 2013, respectively.

Notwithstanding the fact that a tax audit of Uzdunrobota's operations for the period of 2007-2010 was completed in February 2012 and did not reveal any serious violations, further tax audits were conducted and purported to find alleged violations of licensing regulations as well as income and other tax legislation resulting in the imposition of additional taxes and fines totaling approximately RUB 28,776 million. This amount was subsequently reduced to RUB 21,390 million in the aggregate. Whether these taxes and sanctions can be claimed by the Uzbek tax authorities from Uzdunrobota under bankruptcy procedures (discussed below) is uncertain in light of the decisions made by the High Economic Court and the Regional Economic Courts of Appeals between April 4, 2013 and April 11, 2013. With limited exceptions, those decisions dismissed the obligation of the regional tax authorities to enforce the financial sanctions. The decisions, however, do not cover any obligation of the local tax authorities to collect the additional taxes.

During September-October of 2012, RUB 201 million were seized from Uzdunrobota's bank accounts by the Uzbek State and applied to settle a portion of the State's alleged claims.

On September 17, 2012, the Tashkent City Criminal Court issued a ruling in favor of the Uzbek state authorities authorizing the confiscation of all assets of Uzdunrobota based on a criminal court's verdict which the Tashkent City Criminal Court issued against four employees of Uzdunrobota, despite the fact that Uzdunrobota was not itself a party to such proceedings. Prior to this ruling, the Uzbek law enforcement agencies had frozen all of Uzdunrobota's assets, including cash held in local bank accounts.

On November 8, 2012, the Appellate Instance of the Tashkent City Criminal Court allowed Uzdunrobota's appeal challenging the verdict of the Tashkent City Criminal Court dated September 17, 2012. The appeals court found that all damages (taxes, sanctions, unpaid licenses duties and damages to customers) suffered by the State must be compensated by Uzdunrobota. The amount of damages was calculated and determined on the basis of all of the aforementioned claims against Uzdunrobota existing as of November 8, 2012, which amounted to RUB 18,375 million to be paid in eight equal monthly instalments (the "Appeal Decision").

In accordance with applicable Uzbek laws, Uzdunrobota petitioned the Deputy General Prosecutor to challenge the Appeal Decision before the Supreme Court of Uzbekistan and grant a stay of enforcement of the Appeal Decision. Uzdunrobota's petition was rejected by the General Prosecutor's Office on December 25, 2012.

Following this rejection, Uzdunrobota immediately filed a further petition to appeal to the Supreme Court of Uzbekistan with the Chairman of the Supreme Court of Uzbekistan. On January 23, 2013, the Company was notified that the matter had been submitted by the Supreme Court for consideration by the Chairman of the Tashkent City Court. On May 2, 2013, the Chairman of the Tashkent City Court rejected Uzdunrobota's petition.

In order to comply with the Appeal Decision, Uzdunrobota paid two scheduled installments in November and December 2012 totaling RUB 4,584 million. On January 14, 2013, subsequent to the payment of a portion (RUB 242 million) of the third installment due in January 2013 with all cash

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remaining in Uzdunrobota's bank accounts, Uzdunrobota filed a petition for voluntary bankruptcy with the Tashkent Economic Court due to its inability to meet its further obligations arising out of the Appeal Decision. On January 18, 2013, the Court initiated bankruptcy proceedings and appointed an external temporary supervisor over Uzdunrobota, and scheduled a further bankruptcy hearing which took place on April 22, 2013.

Considering the adverse impact of such circumstances on the Group's ability to conduct operations in Uzbekistan, the Group tested goodwill and other long-lived assets attributable to Uzbekistan for impairment and recorded an impairment charge of RUB 20,037 million in the consolidated statement of operations and comprehensive income for the year ended December 31, 2012.

On April 22, 2013, the Tashkent Economic Court declared Uzdunrobota bankrupt and initiated six-month liquidation procedures which, as far as the Group is able to comprehend, are still in process (the period has been prolonged several times). In accordance with the terms of local liquidation procedures, Uzdunrobota's CEO was relieved of his duties and all of the oversight and governance over Uzdunrobota was transferred to the liquidation administrator. As a result the Group lost control over the subsidiary and deconsolidated Uzdunrobota.

In July 2013, two rounds of auctions were set and held in relation to the sale of assets of Uzdunrobota and all of its branches. All auctions were recognized as having failed due to the absence of any applications by interested bidders.

MTS believes that the claims of the Uzbek state authorities against Uzdunrobota that resulted in the initiation of its bankruptcy are unfounded. The Group reserves all of its rights to pursue all available legal options in Uzbekistan and internationally to defend its legal rights and protect its investments and to fully recover damages or obtain other relief including from any party involved in depriving MTS of its business and assets in Uzbekistan.

MTS has filed a claim against the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes (ICSID), part of the World Bank Group, in Washington, D.C. The claim was registered on November 15, 2012. The tribunal was formed on August 29, 2013 and the first procedural hearings took place in November 2013. The case is currently pending.

For additional information please refer to Note 4 to our audited consolidated financial statements.

Ukraine

In August 2012, the Group received from MTS LLC, a third party based in Ukraine, a claim seeking the dismissal of international registration of four of our trademarks on the territory of Ukraine. The claim was handled by the Economic Court of Kiev, which fully dismissed it in July 2013. MTS LLC appealed the decision of the Economic Court of Kiev, and the appeal was dismissed by Economic Appeal Court of Kiev in December 2013. Please see "Item 3. Key Information D. Risk Factors Risks Relating to Our Business Our intellectual property rights are costly and difficult to protect."

Tax Audits and Claims

In the ordinary course of business, we may be party to various tax proceedings, and subject to tax claims, some of which relate to the developing markets and evolving fiscal and regulatory environments in which we operate. In the opinion of management, our liability, if any, in all pending tax proceedings or tax claims will not have a material effect on our financial condition, results of operations or liquidity. We believe that we have adequately provided for tax liabilities in the accompanying consolidated financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. See also Note 27 to our audited consolidated financial statements.

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In December 2010, the Russian tax authorities completed a tax audit of MTS OJSC for the years ended December 31, 2007 and 2008. Based on the results of this audit, the Russian tax authorities determined that RUB 353.9 million in additional taxes, penalties and fines were payable by us. The resolution did not come into force as we prepared and filed a petition with the Federal Tax Service to declare the tax authorities' resolution to be invalid. In September 2011, the Federal Tax Service partially satisfied our petition, decreasing the amount of additional taxes, penalties and fines payable by us by RUB 173.9 million. We filed an appeal for RUB 84.2 million of the remaining RUB 180.0 million with the Moscow Arbitrate Court. In August 2013, the Moscow Arbitrate Court issued a ruling to grant our claim partly, which was subsequently confirmed by the Arbitrate Appeal Court in November 2013. However, we appealed the decision of the Arbitrate Appeal Court in the Federal Arbitrate Court of Moscow District, which issued a ruling to partly grant our claim in March 2014. We are considering whether to take further actions.

In February 2012, the Russian tax authorities completed a tax audit of MGTS for the years ended December 31, 2008 and 2009. Based on the results of their audit, the Russian tax authorities assessed RUB 258.1 million in additional taxes, penalties and fines payable by us. In February 2012, MGTS challenged the tax authorities' decision with higher authorities within the Federal Tax Service. In May 2012, the Federal Tax Service refused to satisfy MGTS' claim and MGTS appealed the decision in Moscow Arbitrate Court. The court has ruled in our favor on February 20, 2013, dismissing the Russian tax authorities' claims in their entirety.

In June 2013, the Russian tax authorities completed a tax audit of MTS OJSC for the years ended December 31, 2009, 2010 and 2011. Based on the results of this audit, the Russian tax authorities determined that RUB 253.38 million in additional taxes, penalties and fines were payable by us. In December 2013 we appealed the resolution this assessment to the Federal Tax Service, and, further to its refusal to grant the appeal, we are considering appealing to the Moscow Arbitrate Court.

In January 2014, the Russian tax authorities completed a tax audit of MGTS for the years ended December 31, 2010 and 2011. Based on the results of this audit, the Russian tax authorities determined that RUB 91.0 million in additional taxes and penalties were payable by us. We are considering whether to take further actions.

Generally, according to Russian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2013, the tax declarations of MTS OJSC and its Russian subsidiaries for the preceding three fiscal years were open for further review.

Antimonopoly Proceedings

In June 2011, the FAS subdivision in the Republic of Tatarstan determined that we, Vimpelcom, MegaFon and CJSC Smarts violated antimonopoly laws on competition by charging our subscribers higher fees for calls to fixed operators than for calls to other cellular operators. We appealed this decision in the Tatarstan Arbitrate Court, which confirmed the FAS decision in January, 2012. Our further appeals to the Eleventh Arbitrate Appeal Court, Federal Arbitrate Court Povolzhye Region, and Higher Appeal Court of Russia were also not satisfied. In May 2012 FAS subdivision in the Republic of Tatarstan fined us RUB 41.6 million. Our appeals for this penalty were left unsatisfied by decisions of the FAS of Russian Federation in September 2012, the Moscow Arbitrate Court in December 2012, the Ninth Arbitrate Appeal Court in March 2013 and the Federal Arbitrate Court in Moscow Region in August 2013. In April 2013, we fully paid the fine in the amount of RUB 41.6 million.

In October 2011, the FAS subdivision in the Republic of Bashkortostan decided that the agreement on social and economic development in the field of telecommunications between us and the Bashkortostan Ministry of Communications and Mass Media, signed in February 2011, violated

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antimonopoly laws on competition as certain provisions of this agreement may constrain competition on the Bashkortostan telecommunications market. In December 2011, we appealed this decision in the Bashkortostan Arbitrate Court, which ruled in our favor in March 2012. However, in March 2012 the FAS subdivision in the Republic of Bashkortostan sought to impose an administrative fine and appealed the decision of the Bashkortostan Arbitrate Court. The Eighteenth Arbitrate Appeal Court in May 2012 and the Federal Arbitrate Court Ural Region in August 2012 also ruled in our favor. Finally, in September 2012 the FAS of Russian Federation canceled the decision and penalty imposed on us by the FAS subdivision in the Republic of Bashkortostan.

In October 2011, FAS began an investigation of our and Vimpelcom's actions suspecting violation of antimonopoly laws by coordinated pricing of iPhone 4 handsets. In April 2012, the FAS decided that we and Vimpelcom were in violation of antimonopoly laws in respect of iPhone 4 pricing. Further, FAS imposed an administrative fine on us in the amount of RUB 16.8 million which we paid in August 2012.

In October 2013, the FAS subdivision in the Pskov Region began an investigation into our, Vimpelcom's and MegaFon's GPRS pricing in the Pskov Region. In December 2013 the investigation was closed as no violation of the antimonopoly laws was identified.

In November 2013, the FAS subdivision in the Rostov Region charged us and LLC "I-CUBE" with a violation of antimonopoly laws by entering into an agreement allowing preferential terms for the services of LLC "I-CUBE". FAS issued an order to cease the violation and imposed a fine of RUB 0.1 million on MTS. We do not intend to appeal this decision of the FAS subdivision in the Rostov Region.

In January 2014, the FAS subdivision in the Khanty-Mansiysk Autonomous District-Yugra charged Comstar-regions with violation of antimonopoly legislation by abusing its dominant position on the Internet access market by setting different prices in different municipalities of the region. FAS also issued an order to cease the violations. On January 17, 2014, the arbitrazh court of Khanty-Mansiysk Autonomous District-Yugra cancelled the decisions and the order of the FAS subdivision in the Khanty-Mansiysk Autonomous District-Yugra.

In January 2014, the FAS subdivision in the Rostov Region charged MTS with violation of antimonopoly laws by setting a monopoly tariff on cable TV tariffs services in the Rostov-on-Don city. The investigation is currently in progress.

Please see also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business A finding by the AMC that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations" for details of AMC of Ukraine investigations.

8.A.8. Dividend Distribution Policy

On April 29, 2013, the Board of Directors approved a dividend policy, whereby we will aim to make dividend payments to our shareholders for 2013, 2014 and 2015 in the amount of at least 75% of MTS OJSC's free cash flow, but not less than RUB 40 billion. For the purposes of our dividend calculation we utilize a simplified form of free cash flow which we define as Operating Cash Flow less capital expenditures. In case of fluctuations in the amount of dividends payable from the set up goals, MTS OJSC should provide the reasons of that fluctuations.

Annual dividend payments, if any, must be recommended by our Board of Directors and approved by the Annual General Meeting of Shareholders (AGM). 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. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the dollar.

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At a meeting held on April 11, 2014, the Board of Directors recommended that an AGM approves annual dividends of RUB 18.6 per ordinary MTS share (RUB 37.2 per ADS), or a total of approximately RUB 38 billion, based on the full-year 2013 financial results. Upon acceptance by the AGM and completion of this payment, we will have paid out up to RUB 49 billion based on our fiscal year 2013 financial results.

The Board of Directors set the date for our AGM for June 24, 2014. The record date for the Company's shareholders and ADS holders entitled to participate in the AGM has been set for May 6, 2014. The Board of Directors recommended that the AGM sets the record date for shareholders and ADS holders entitled to receive dividends for the 2013 fiscal year for July 7, 2014.

B. Significant Changes

Political and economic crisis in Ukraine

Subsequent to year end, key aspects of the Ukrainian economy continued to deteriorate. Opposing groups have organized protests in Kiev and other regions of the country. A referendum on the status of Crimea was held on March 16, 2014 followed by Crimea acceding to the Russian Federation on March 21, 2014. These protests and the related unrest have caused a deterioration of Ukraine's credit ratings and depreciation of the national currency. The political tension in Ukraine remains high and in case of further escalation, conflict or imposition of any sanctions applicable to our operations could result in a negative impact on our business in Ukraine including on its financial position and results of operations, and such impact, if any, could be significant.

Raising financing from Citibank Europe and Swedish Export Credit Corporation

On March 12, 2014, we entered in a credit facility agreement with Citibank Europe PLC and Swedish Export Credit Corporation for up to \$300 million (RUB 10,920 million at the date of transaction). The credit facility will be used for the development of our mobile networks through purchases of equipment from Ericsson. The facility will be made available in one tranche with maturity in July 2024. The interest rate is LIBOR + 0.9%. The amounts may be drawn by us over the next 12 months and will be linked to equipment purchases for the development of LTE networks.

Raising financing from Sberbank

On April 11, 2014 we signed an agreement with Sberbank to open a non-revolving credit line for a total amount of RUB 20 billion. The credit line matures in July 2015 and bears an annual interest rate of 9.96%. The line will be used to support general corporate needs.

Investigations into former operations in Uzbekistan

In March 2014, we received requests for the provision of information from the United States Securities and Exchange Commission and the United States Department of Justice relating to an investigation of the Group's former subsidiary in Uzbekistan. See also Note 4 to our audited consolidated financial statements. As the aforementioned US government investigations are at an early stage, we cannot predict the outcome of the investigations, including any fines or penalties that may be imposed, and such fines or penalties could be significant.

Depreciation of the Russian Ruble

During the period from December 31, 2013 to April 17, 2014, the Russian Ruble further depreciated by 10% and 11% against the U.S. dollar and the Euro, respectively. Since a portion of our capital expenditures, borrowings and certain operating costs are denominated in U.S. dollars and Euros, this and any further devaluation could adversely affect our results of operations in 2014. We would

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experience an estimated currency exchange loss of RUB 4.3 billion on our U.S. dollar- and Euro-denominated net monetary liabilities as a result of a hypothetical 10% and 11% depreciation of the Russian Ruble against the U.S. dollar and Euro at December 31, 2013, respectively. This sensitivity analysis includes only outstanding U.S. dollar- and Euro- denominated monetary items.

Repurchase of Notes

In March 2014, we repurchased part of MTS International Notes due 2020 with nominal value of USD 50.2 million (RUB 1,819 million at the date of transaction).

Disposal of Business-Nedvizhimost

In April 2014, we sold a 49% stake in Business-Nedvizhimost to Sistema for cash consideration of RUB 3.1 billion to be paid by June 30, 2014. Before the disposal an ownership interest in Business-Nedvizhimost was held by MGTS-Nedvizhimost CJSC, a subsidiary of MGTS, and was accounted for using the equity method. See Note 3 to our audited consolidated financial statements.

Item 9. Offer and Listing Details

(Only Items 9.A.4 and 9.C are applicable.)

A.4. Market Price Information

Our ADS, each representing two ordinary shares, have been listed on the NYSE since July 6, 2000 under the symbol "MBT." Our ordinary shares have been listed on MICEX (currently Moscow Exchnage) since December 2003. In addition, we issued additional ordinary shares in connection with our merger with Comstar, which have been listed on MICEX (currently Moscow Exchange) since May 2011. The shares of the additional issuance became fully fungible with our previously issued ordinary shares in July 2011. Set forth below, for the periods indicated, are the high and low closing prices per

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ADS as reported by the NYSE and the high and low closing prices per ordinary share as reported by the Moscow Exchange.

| | ADS High | ADS Low | Ordinary Share High | Ordinary Share Low |
|--|----------|----------|---------------------|--------------------|
| Monthly High and Low | | | | |
| March 2014 | \$ 17.49 | \$ 15.79 | 273.0 RUB | 235.0 RUB |
| February 2014 | \$ 18.10 | \$ 16.90 | 303.1 RUB | 271.4 RUB |
| January 2014 | \$ 21.38 | \$ 17.19 | 318.0 RUB | 287.9 RUB |
| December 2013 | \$ 21.63 | \$ 19.82 | 329.5 RUB | 305.0 RUB |
| November 2013 | \$ 23.20 | \$ 20.67 | 338.4 RUB | 310.2 RUB |
| October 2013 | \$ 23.92 | \$ 22.70 | 351.5 RUB | 324.0 RUB |
| Quarterly High and Low | | | | |
| First Quarter 2014 | \$ 21.38 | \$ 15.79 | 318.0 RUB | 235.0 RUB |
| Fourth Quarter 2013 | \$ 23.92 | \$ 19.82 | 351.5 RUB | 305.0 RUB |
| Third Quarter 2013 | \$ 22.66 | \$ 18.52 | 323.0 RUB | 258.0 RUB |
| Second Quarter 2013 | \$ 20.87 | \$ 15.69 | 279.9 RUB | 248.2 RUB |
| First Quarter 2013 | \$ 21.58 | \$ 14.94 | 283.7 RUB | 246.7 RUB |
| Fourth Quarter 2012 | \$ 17.78 | \$ 11.91 | 236.7 RUB | 235.5 RUB |
| Third Quarter 2012 | \$ 20.07 | \$ 12.30 | 254.7 RUB | 223.0 RUB |
| Second Quarter 2012 | \$ 19.74 | \$ 18.68 | 235.5 RUB | 206.8 RUB |
| First Quarter 2012 | \$ 19.06 | \$ 18.48 | 239.8 RUB | 186.0 RUB |
| Annual High and Low⁽¹⁾ | | | | |
| 2013 | \$ 23.96 | \$ 17.66 | 351.5 RUB | 246.7 RUB |
| 2012 | \$ 20.07 | \$ 14.94 | 254.7 RUB | 186.0 RUB |
| 2011 | \$ 21.54 | \$ 11.91 | 263.0 RUB | 169.5 RUB |
| 2010 | \$ 23.55 | \$ 17.84 | 273.5 RUB | 217.6 RUB |
| 2009 | \$ 21.82 | \$ 7.44 | 231.6 RUB | 104.8 RUB |

(1) Effective May 3, 2010, the ratio of our ADSs changed from 1 ADS per 5 common shares to 1 ADS per 2 common shares. The ADS prices set forth in the table above reflect the new share: ADS ratio for all periods.

C. Markets

Our common stock has been listed on the Moscow Interbank Currency Exchange (currently Moscow Exchange) since December 2003. ADSs, each representing two shares of our common stock, have been listed on the New York Stock Exchange under the symbol "MBT" since July 6, 2000. Our U.S. dollar-denominated notes due in 2020 are listed on the Irish Stock Exchange. Our ruble-denominated notes are listed on the Moscow Exchange.

Item 10. Additional Information**A. Share Capital**

Not applicable.

B. Charter and Certain Requirements of Russian Legislation

We describe below material provisions of our charter and certain requirements of Russian legislation. In addition to this description, we urge you to review our charter to learn its complete terms.

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Our Purpose

Article 2.1 of our charter provides that our principal purpose is to obtain profits through the planning, marketing, establishing and operating communications network and facilities, to provide access to Internet and to render communications services on our license territories.

We are registered with the Ministry of Taxes and Duties of the Russian Federation under the state registration number 1027700149124.

General Matters

Pursuant to our charter, we have the right to issue registered common stock, preferred stock and other securities provided for by legal acts of the Russian Federation with respect to securities. Our capital stock currently consists of 2,066,413,562 common shares, each with a nominal value of 0.10 rubles, all of which are issued and fully paid. Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. We are also authorized to issue an additional 100,000,000 common shares with a nominal value of 0.10 rubles each. No preferred shares are authorized or outstanding. Preferred stock may only be issued if corresponding amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders. We have issued only common stock. The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our charter capital. We refer to such shares as treasury shares for the purposes hereof. Russian legislation does not allow for the voting of such treasury shares. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (*i.e.*, they are considered outstanding shares), and our subsidiaries holding such shares are able to vote and dispose of such shares without any further corporate actions by our shareholders or board of directors. As of April 1, 2014, we had no treasury shares. 90,881 of treasury shares which we repurchased in March 2013 during the process of merger of our subsidiaries into MTS pursuant to the requirements of applicable law were sold in March 2014 in order to comply with the relevant legal requirements. Together with our wholly owned subsidiaries we held a total of 77,491,498 shares, of which approximately 87.8% were held in form of ADSs. See "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders." In our consolidated financial statements prepared in accordance with U.S. GAAP, these shares are considered treasury shares (*i.e.*, they are considered not outstanding).

As of the date of this document, we had more than ten thousand shareholders for purposes of the Joint Stock Companies Law.

Rights Attaching to Shares

Holders of our common stock have the right to vote at all shareholders' meetings. As required by the Joint Stock Companies Law and our charter, all shares of our common stock have the same nominal value and grant identical rights to their holders. Each fully paid share of common stock, except for treasury shares, gives its holder the right to:

freely transfer the shares without our consent and the consent of other shareholders;

receive dividends;

participate in shareholders' meetings and vote on all matters within shareholders' competence;

transfer voting rights to a representative on the basis of a power of attorney;

participate in the election and dismissal of members of the board of directors and review commission;

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exercise its pre-emptive right in certain circumstances, as determined by the Joint Stock Companies Law;

if holding, alone or with other holders, 1% or more of the voting shares, file a lawsuit against a member of the board of directors or member of any executive body of the company (including the company's CEO and/or the company's managing organization) to reimburse damages suffered by the company as the result of their fault;

if holding, alone or with other holders, more than 1% of the voting shares, demand from the holder of register of shareholders to provide information on shareholders of the company and shares held by such shareholders;

if holding, alone or with other holders, 2% or more of the voting stock, within 100 days after the end of our fiscal year, make proposals for the agenda of the annual shareholders' meeting and nominate candidates to the board of directors, the counting commission and the review commission;

if holding, alone or with other holders, 10% or more of the voting stock, demand from the board of directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the review commission or an independent auditor, and file a lawsuit against the company to convene an extraordinary shareholders' meeting if the board of directors fails to take a decision to convene an extraordinary shareholders' meeting or decides against convening such meeting;

demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:

any reorganization;

the conclusion of a major transaction, as defined under Russian law (*i.e.*, involving assets having value of more than 50% of the balance sheet value of the assets calculated under Russian Accounting Standards ("RAS"));

any amendment of our charter or approval of a restated version of our charter in a manner that restricts the holder's rights; and

delisting of our shares from a stock exchange;

upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;

have free access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have access to accounting documents and minutes of the management board meetings; and

exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of shareholders' meeting approved in accordance with its competence.

Pre-emptive Rights

The Joint Stock Companies Law and our charter provide existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in the amount proportionate to their existing shareholdings. In addition, the Joint Stock

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Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares, in an amount proportionate to their existing shareholdings, during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a closed subscription to the existing shareholders provided that

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such shareholders may each acquire a whole number of shares or securities convertible into shares being placed in an amount proportionate to their existing shareholdings. We must provide shareholders with written notice of their pre-emptive right to purchase shares and the period during which shareholders can exercise their pre-emptive rights. Such period may not be less than 20 or, under certain circumstances, 45 days. We cannot sell the shares or securities convertible into shares which are subject to the pre-emptive rights during this period.

Dividends

The Joint Stock Companies Law and our charter set forth the procedure for determining the quarterly and annual dividends that we may distribute to our shareholders. We may declare dividends based on our first quarter, six month, nine month or annual results. Dividends are recommended to a shareholders' meeting by a majority vote of the board of directors and approved by the shareholders by a majority vote. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the respective quarter at the extraordinary shareholders' meeting; and a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors.

The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under RAS as long as the following conditions have been met:

the charter capital of the company has been paid in full;

the value of the company's net assets on the date of the adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred stock of the company;

the company has repurchased all shares from shareholders having the right to demand repurchase; and

the company is not, and would not become, insolvent as the result of the proposed dividend payment.

The Joint Stock Companies Law and the Securities Market Law have been amended on December 29, 2012 to adopt new dividend payment rules that came into force January 1, 2014. These amendments include new rules on determining the shareholders entitled to dividend distribution whereby the list of such shareholders is fixed at date determined in the decision of the General shareholders' meeting on the distribution of dividends. The date shall be not earlier than 10 days and not later than 20 days following the date of such decision. The dividends are to be paid within 25 days from such date to private shareholders registered in the share register of the company and within 10 days to nominal holders and professional managers. If shares are held on a depo account with a depository, dividends will be transferred to such shareholders by such depository within 7 days of receipt of funds by the depository.

Distributions to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter allow us to be liquidated:

by a three-quarters majority vote of a shareholders' meeting; or

by a court order.

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Following a decision to liquidate us, the right to manage our affairs would pass to a liquidation commission appointed by a shareholders' meeting. In the event of an involuntary liquidation, the court may assign the duty to liquidate the company to its shareholders. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code of the Russian Federation gives creditors the following order of priority during liquidation:

individuals owed compensation for injuries, deaths or moral damages;

employees and authors of intellectual property;

federal and local governmental entities claiming taxes and similar payments to the federal and local budgets and to non-budgetary funds; and

other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the company's property ("secured claims") are satisfied out of the proceeds of sale of the pledged property prior to claims of any other creditors except for the creditors of the first and second priorities described above, provided that claims of such creditors arose before the pledge agreements in respect of the company's property were made. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the fourth priority creditors as described above.

The Federal Law on Insolvency (Bankruptcy), however, provides for a different order of priority for creditors' claims in the event of bankruptcy.

The remaining assets of a company are distributed among shareholders in the following order of priority:

payments to repurchase shares from shareholders having the right to demand repurchase;

payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by the company's charter, if any; and

payments to holders of common and preferred shares.

Liability of Shareholders

The Civil Code of the Russian Federation and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investments. This may not be the case, however, when one company is capable of determining decisions made by another company. The company capable of determining such decisions is called an "effective parent." The company whose decisions are capable of being so determined is called 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 such persons; and

the effective parent gives binding instructions to the effective subsidiary.

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Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, a shareholder will not be personally liable for our debts or those of our effective subsidiaries unless such shareholder controls our business and the conditions set forth above are met.

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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 omission of an effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency of this effective subsidiary. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as 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 that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Alteration of Capital

Charter Capital Increase

We may increase our charter capital by:

issuing new shares; or

increasing the nominal value of previously issued shares.

A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of common shares or securities convertible into common shares constituting 25% or more of the number of issued common shares, requires a three-quarters majority vote of a shareholders' meeting. Otherwise, a decision to increase the charter capital by increasing the nominal value of issued shares requires a majority vote of a shareholders' meeting. In certain circumstances provided in our charter, a decision to increase the charter capital may be taken by our board of directors. In addition, the issuance of shares above the number provided in our charter necessitates a charter amendment, which requires a three-quarters affirmative vote of a shareholders' meeting.

The Joint Stock Companies Law requires that the value of newly issued shares be determined by the board of directors based on their market value but not less than their nominal value. The price of newly issued shares for existing shareholders exercising their pre-emptive right to purchase shares could be less than the price paid by third parties, but not less than 90% of the price paid by third parties. Fees paid to intermediaries may not exceed 10% of the shares placement price. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures require:

prior registration of a share issuance with the CBR;

public disclosure of information relating to the share issuance; and

following the placement of the shares, registration and public disclosure of the results of the placement of shares.

Charter Capital Decrease; Share Buy-Backs

The Joint Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for an open joint stock company. The Joint Stock Companies Law and our charter require that any decision to reduce our charter capital through the repurchase and cancellation of shares, be made by a majority vote of a shareholders' meeting and through reduction of the nominal value of shares, by a three-quarter majority vote of a shareholders' meeting. Additionally, within 3 business days of a decision to reduce our charter capital,

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we must notify the federal executive body in charge of the state registration of legal entities on the decision taken and publish within the same 3-day period a notice regarding the charter capital reduction, as well as a second notice one month after the first notice is published. Our creditors, whose claims arose before the decision on the charter capital decrease was taken, would then have the right to demand in court, within 30 days of the second publication of the notice, early termination or settlement of relevant obligations by us, as well as compensation for damages.

The Joint Stock Companies Law and our charter allow our shareholders or the board of directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares pursuant to a board decision must be resold at the market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital. Repurchased shares do not bear voting rights.

Shares repurchased pursuant to a decision of our shareholders' meeting to decrease the overall number of shares are cancelled at their redemption.

The Joint Stock Companies Law allows us to repurchase our shares only if, at the time of repurchase:

our charter capital is paid in full;

we are not and would not become, as a result of the repurchase, insolvent;

the value of our net assets at the time of repurchase of our shares is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and par value of our issued and outstanding preferred shares; and

we have repurchased all shares from shareholders having the right to demand repurchase of their shares in accordance with Russian law, as described immediately below.

Our subsidiaries are not restricted from purchasing our shares, and our subsidiaries can vote these shares.

The Joint Stock Companies Law and our charter provide that our shareholders may demand repurchase of all or some of their shares as long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

reorganization;

conclusion of a major transaction, as defined under Russian law (*i.e.*, involving assets having value of more than 50% of the balance sheet value of the assets calculated under RAS); or

amendment of our charter or approval of a restated version of our charter in a manner which restricts shareholders' rights.

We may spend up to 10% of our net assets calculated under RAS on the date of the adoption of the decision which gives rise to a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis. Repurchase of the shares is at a price agreed on by the board of directors, but shall not be less than the market price.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company maintains a register of its shareholders. Ownership of our registered shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from our register certifying the number of shares that such

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shareholder holds. Since May 10, 2000, Registrar NIKoil OJSC has maintained our register of shareholders.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a depository if shares are held by a depository. The registrar or depository may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed, except in certain instances provided for by Russian legislation, and may be challenged in court.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 15% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 15% requirement.

Disclosure of Information

Russian securities regulations require us to make the following periodic public disclosures and filings:

posting on our website quarterly reports, containing information about us, our shareholders and depository, the structure of our management bodies, the members of the board of directors, our branches and representative offices, our shares, bank accounts and auditors, important developments during the reporting quarter, and other information about our financial and business;

publishing any information (including inside information) concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on share issuances, certain corporate events, such as mandatory or voluntary tender offers, record dates, certain changes in ownership and shareholding, filing of any material claim against us, obtainment or revocation of material licenses, entry into certain transactions, as well as shareholder and certain board of directors' resolutions and certain information regarding our material subsidiaries;

disclosing information on various stages of share placement, issuance and registration through publication of certain data as required by the securities regulations;

disclosing our charter and internal corporate governance documents on our website;

disclosing our annual report and annual financial statements prepared in accordance with RAS;

posting on our website a list of our affiliated companies and individuals on a quarterly basis and in case of any changes;

posting on our website a list of inside information; and

other information as required by applicable Russian securities legislation.

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General Shareholders' Meetings

Procedure

The powers of a shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. A shareholders' meeting may not decide on issues that are not included in the list of its competence by the Joint Stock Companies Law. Among the issues which the shareholders have the power to decide are:

charter amendments;

reorganization or liquidation;

election and removal of members of the board of directors;

determination of the amount of compensation for members of the board of directors;

determination of the number, nominal value, class/type of authorized shares and the rights granted by such shares;

changes in our charter capital;

appointment and removal of our external auditor and of the members of our review commission and counting commission;

approval of certain interested party transactions and major transactions;

participation in holding companies, commercial or industrial groups, or other associations of commercial entities;

approval of certain internal documents and corporate records;

distribution of profits and losses, including approval of dividends;

redemption by the company of issued shares in cases provided by the Joint Stock Companies Law; and

other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per share of common stock, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a shareholders' meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a shareholders' meeting to approve the following:

charter amendments;

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reorganization or liquidation;

major transactions involving assets in excess of 50% of the balance sheet value of the company's assets calculated under RAS;

the number, nominal value, and category (type) of authorized shares and the rights granted by such shares;

repurchase by the company of its issued shares;

any issuance of shares or securities convertible into shares of common stock by closed subscription;

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issuance by open subscription of shares of common stock or securities convertible into common stock, in each case, constituting 25% or more of the number of issued and outstanding shares of common stock; or

reduction of the charter capital through reduction of the nominal value of shares.

The quorum requirement for our shareholders' meetings is met if holders of shares (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in case of an annual shareholders' meeting must) be scheduled and the quorum requirement is satisfied if holders of shares (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

election of the members of the board of directors;

approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;

approval of distribution of profits, including approval of dividends, and losses, if any;

appointment of an independent auditor; and

appointment of the members of the review commission.

A shareholder or group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for the board of directors, counting commission and review commission. Any agenda proposals or nominations must be provided to the company no later than 100 calendar days after the preceding financial year end.

Extraordinary shareholders' meetings may be called by the board of directors on its own initiative, or at the request of the review commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request. The decision by the board of directors to call or reject the call for an extraordinary shareholders' meeting shall be sent to the party that requested the meeting within three days after such a decision was made.

A general meeting of shareholders may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general meeting of shareholders through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general meeting of the shareholders by absentee ballot contemplates the determination of collecting shareholders' opinions on issues of the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

election of the members of the board of directors;

election of the review commission;

approval of a company's independent auditor; and

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approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distribution of profits, including approval of annual dividends and losses, if any.

Notice and Participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of a meeting or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

If a nominal holder of the shares registers in the register of shareholders, then a notification of the shareholders' meeting shall be sent to the nominal holder. The nominal holder must notify its clients in accordance with Russian legislation or an agreement with the client.

The list of shareholders entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our shareholders register on the date established by the board of directors, which date may neither be earlier than the 10 days after the date of adoption of the board resolution to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary shareholders' meeting to elect the board of directors, not later than 80 days before the date of the meeting).

The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

by personally participating in the discussion of agenda items and voting thereon;

by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;

by submitting a written ballot reflecting the shareholders' voting on the agenda items; or

by delegating the right to submit such written ballot to an authorized representative.

Board of Directors

Our charter provides that our entire board of directors is up for election at each annual general shareholders' meeting. Our board of directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons to be elected to our board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter or a decision of the shareholders' meeting. Our charter provides that our board of directors consists of at least seven members, which number may be increased pursuant to a decision of the general meeting of shareholders. Currently, our board of directors consists of nine members.

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The Joint Stock Companies Law prohibits a board of directors from acting on issues that fall within the competence of the general shareholders' meeting. Our board of directors has the power to perform the general management of the company, and to decide, among others, the following issues:

determination of our business priorities;

approval of our annual plans, including financial plans;

convening annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;

approval of the agenda for the shareholders' meeting and determination of the record date for shareholders entitled to participate in a shareholders' meeting;

placement of our bonds and other securities in cases specified in the Joint Stock Companies Law;

determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;

repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;

appointment and removal of our President and the members of our management board;

recommendations on the amount of the dividend and the payment procedure thereof;

recommendations on the amount of remuneration and compensation to be paid to the members of our review commission and on the fees payable for the services of an independent auditor;

use of our reserve fund and other funds;

approval of our internal documents, except for those documents whose approval falls within the competence of our shareholders or the president;

creation and liquidation of branches and representative offices;

approval of major and interested party transactions in certain cases provided for by the Joint Stock Companies Law;

increasing our charter capital by issuing additional shares within the limits of the authorized charter capital, except in certain circumstances specified in our charter;

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approval of our share registrar and the terms of the agreement with it; and

other issues, as provided for by the Joint Stock Companies Law and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described therein. A board meeting is considered duly assembled and legally competent to act when a majority of elected directors is present.

Our internal regulation "On the Board of Directors of OJSC Mobile TeleSystems" (the "Regulation") was approved by the annual shareholders' meeting on June 25, 2013. In accordance with clause 2.2.2 of the Regulation, the members of the board of directors have the right to:

receive information regarding our operations;

propose issues to be discussed by the board of directors;

review the minutes of the board of directors meetings;

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request to include in the minutes of the meetings their personal opinion concerning issues on the agenda and decisions made with respect thereto;

receive a remuneration and/or compensation of expenses related to the execution of their duties as members of the board of directors in accordance with decisions of the general shareholders' meeting; and

be present at the general shareholders' meeting and answer questions regarding our operations.

In accordance with clause 2.3.2 of the Regulation, the members of the board of directors must:

act in our interests;

execute their duties in a confident and scrupulous manner;

act within their rights and in accordance with the purposes of the board of directors;

not distribute confidential information concerning us and protect such information from unlawful and improper use and publishing, and not use such confidential information in their own or third parties' commercial purposes;

participate in the work of the board of directors;

participate in the voting process during the board of directors meetings;

complete the tasks assigned by the board of directors;

evaluate the risks and consequences of the decisions made;

inform us on a timely basis about their participation in the management of other companies and changes in such participation;

restrain from voting on issues of personal interest;

inform the board of directors about future deals in which they may have a personal interest;

disclose information about the holding, disposal or acquisition of our shares and other securities;

restrain from actions, which could lead to a conflict between their personal and our interests; and

perform other responsibilities as provided by our charter and the Regulation.

Interested Party Transactions

Under the Joint Stock Companies Law, certain transactions defined as "interested party transactions" require approval by disinterested directors or shareholders of the company. "Interested party transactions" include transactions involving a member of the board of directors or member of any executive body of the company (including the company's chief executive office and/or the company's managing organization), any person that owns, together with any affiliates, at least 20% of a company's issued voting shares or any person who is able to direct the actions of the company, if that person and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters and/or their affiliates, is/are:

a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;

the owner of at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or

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a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of the board of directors or of any management body of a management organization of such a company.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders (holders of voting shares) be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision to approve the transaction was not, a general director/president, a member of any executive body or an affiliate of the company, or a member of the board of directors or any management body of the company's management organization. Additionally, such person's spouse, parents, children, adoptive parents or children, brothers or sisters may not, and within the year preceding the date of the decision to approve the transaction did not, occupy positions in the executive bodies of the company or positions on the board of directors or of any management body of the company's management organization. For companies with 1,000 or fewer shareholders, an interested party transaction must be adopted by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company's assets determined under RAS;

the transaction or a number of interrelated transactions involves the issuance, by subscription, of voting shares or securities convertible into voting shares, or a secondary market sale of such securities, in an amount exceeding 2% of the company's issued voting stock;

the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or

all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required, until the next annual shareholders' meeting, for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

the company has only one shareholder that simultaneously performs the functions of the executive body of the company;

all shareholders of the company are deemed interested in such transactions;

the transactions arise from the shareholders executing their preemptive rights to purchase newly issued shares of the company;

the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;

merger transactions; or

the transactions that are mandatory for the company pursuant to Russian law and must be concluded on the basis of fixed prices and tariffs adopted by a competent state body.

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Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a number of interrelated transactions, involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly) of property having a value of 25% or more of the balance sheet value of the assets of a company determined under RAS, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement of common stock, or securities convertible into common stock. Major transactions involving assets having a value ranging from 25% to 50% of the balance sheet value of the assets of a company determined under RAS require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders' meeting. Major transactions involving assets having a value in excess of 50% of the balance sheet value of the assets of a company determined under RAS require a three-quarters majority vote of a shareholders' meeting.

Change in Control

Anti-takeover Protection

Russian legislation requires the following:

A person intending to acquire more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates), will be entitled to make a public tender offer to other holders of such shares or securities convertible into such shares.

A person that has acquired more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares, at the price which is not less than the price determined based on a weighted average market price of the shares over the six month period before the filing of the offer with the CBR as described below, if the shares are publicly traded, or on a price supplied by an independent appraiser if the shares have no or insufficient trading history. The public tender offer price may not be less than the highest price at which the offeror or its affiliated persons purchased or undertook to purchase the relevant securities over the six month period before the offer was sent to the company. From the moment of acquisition of more than 30% (or 50% and 75% in cases referred to in the next sentence) of the shares until the date the offer was sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). These rules also apply to acquisitions resulting in a person or a group of persons owning more than 50% and 75% of a company's issued ordinary shares and voting preferred shares.

A person that as a result of an offer described in either of the preceding paragraphs becomes (individually or with its affiliates) the owner of more than 95% of the company's ordinary shares and voting preferred shares, must buy out the remaining shares of the company as well as other securities convertible into such shares upon request of the holders of such shares or other securities, and may require such holders to sell such shares and other securities, at the price determined in the manner described in the preceding paragraph but not less than the highest price of the preceding acquisitions by the offeror.

An offer of the kind described in either of the preceding three paragraphs must be accompanied by a bank guarantee of payment. If the company is publicly traded, prior notice of the offer must be filed with the CBR; otherwise, notice must be filed with the CBR no later than the date

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of the offer. The CBR may order amendments to the terms of the offer (including price) in order to bring them into compliance with the rules.

Once such an offer has been made, competing offers for the same securities can be made by third parties and, in certain circumstances, acceptance of the initial offer may be withdrawn by the security holders who choose to accept such competing offer. From the making of such an offer until 20 days after its expiry (which period may in certain cases exceed 100 days) the company's shareholders' meeting will have the sole power to make decisions on charter capital increase, issuance of securities, approval of certain major transactions, and on certain other significant matters.

The above rules may be supplemented through CBR rulemaking, which may result in a wider, narrower or more specific interpretation of these rules by the government and judicial authorities, as well as by market participants.

Approval of FAS

Pursuant to the Federal Law on Competition, FAS must approve in advance acquisitions of voting capital stock of a joint stock company involving (1) companies with a combined value of assets or combined annual revenues under RAS exceeding a certain threshold, or (2) companies registered as having more than a 35% share of a certain commodity market or otherwise occupying a dominant position on the market, and which would result in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount. See also "Item 3. Key Information D. Risk Factors Risks Relating to Our Business 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."

Strategic Industries Law

Pursuant to the Strategic Foreign Investment Law, investments resulting in a foreign entity or a group of entities receiving control over a company with strategic importance for the national defense and security of the Russian Federation (a "Strategic Company") require prior approval from the state authorities. The procedure for issuing such consent involves a special governmental commission on control of foreign investments ("Governmental Commission"), which was established by the Resolution of the Government of Russia dated July 6, 2008 as the body responsible for granting such consents, and FAS, which is authorized to process applications for consent from foreign investors. "Control" means an ability to determine, directly or indirectly, decisions taken by a Strategic Company, whether through voting at the general shareholders' (participants') meeting of the Strategic Company, participating in the board of directors or management bodies of the Strategic Company, or acting as the external management organization of the Strategic Company, or otherwise. As a result, "control" will generally be deemed to exist if an entity or a group of entities acquires more than 50% of the shares (or participation interest in share capital) of a Strategic Company, or if through contract or securities with voting rights it is able to appoint more than 50% of the members of the board of directors or of the management board of a Strategic Company.

Furthermore, if a foreign entity or group of entities holding securities of a Strategic Company or other entity that exercises control over this company becomes a direct or indirect holder of voting shares in an amount that is considered to give it direct or indirect control over this company in accordance with the Strategic Foreign Investment Law due to a change in allocation of voting shares pursuant to the procedures provided by Russian law (e.g., as a result of a buy-back of its shares by the relevant company), then such entity or group of entities will have to apply for state approval of its control within three months after it received such control.

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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.

On April 8, 2009, MTS OJSC and two of our subsidiaries, Dagtelecom LLC (Dagtelecom LLC has since been merged into MTS) 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.

See also "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties The Strategic Foreign Investment Law imposes certain restrictions on us and our existing and potential foreign shareholders, which could have a material adverse effect on our business, financial condition, results of operations and prospects."

Disclosure of Ownership

Under Russian law, a person acquiring, directly or indirectly, 5% or more of our common shares is required to notify us and the CBR of, and we must then publicly disclose, such acquisition, as well as any subsequent acquisitions or disposals resulting in the crossing of 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95% thresholds of our outstanding common shares by such person.

A holder of more than 5% of our common shares is required to file with us and the CBR information about its controlling shareholder (if any) or notify us and the CBR about the absence of any such controlling shareholders.

Our subsidiaries are required to notify us and the CBR about the acquisition of our common shares. We are required to publicly disclose the acquisition of our common shares by our subsidiaries.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. However, the procedure for notifying the Russian tax authorities by foreign companies that are not registered with such tax authorities at the time of their share acquisition remains unclear.

C. Material Contracts

The following is a description of contracts that we and/or our subsidiaries are a party to and that are or may be material to our business.

Eurobonds

On May 28, 2013, we issued U.S. dollar-denominated Loan Participation Notes in the amount of \$500 million (RUB 16.4 billion as of December 31, 2013) with an annual interest rate of 5.00% and a maturity in June 2023. The proceeds will be used for general corporate purposes. The notes were issued by MTS International Funding Limited, a private company organized and existing as a private limited company under the laws of Ireland, and are listed on the Irish Stock Exchange. Proceeds were on-lent to us pursuant to a loan agreement between us and MTS International Funding Limited.

The loan agreements relating to our notes due 2023 sets forth various occurrences, each of which would constitute an event of default. If an event of default, other than an event of default arising from events of bankruptcy, insolvency or bankruptcy-related reorganization, occurs and is continuing, either the lender, the trustee or the holders of at least 25% in principal amount of the outstanding notes may accelerate the maturity of all of the notes. If an event of default arising from events of our bankruptcy,

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insolvency or bankruptcy-related reorganization occurs and is continuing, then the principal of, and accrued interest on, all of the notes will automatically become immediately due and payable without any declaration or other act on the part of the lender, holders of notes or the trustee.

Covenants in the loan agreement relating to our notes due 2023 limit our ability to create liens on our properties, merge or consolidate with another person or convey our properties and assets to another person. In addition, if we experience certain types of mergers, consolidations or other changes in control, noteholders will have the right to require us to redeem the notes at 101% of their principal amount, plus accrued interest. We are also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. If we fail to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

Ruble bonds

On April 3, 2013, we issued exchange-traded ruble bond on Moscow Exchange. The bond is worth RUB 10 billion and has a maturity of ten years. Coupons are to be paid semiannually at the rate of 8.25%. Bond holders will have the right under a five-year put option to sell the bonds to us. The proceeds from the bond replacement will be used for general corporate needs.

ING Bank Evrazia revolving credit facility

In July 2011, we signed a credit facility agreement with ING Bank Evrazia. The facility is a revolving credit line, which allows us to borrow up to RUB 2.5 billion. The funds are to be used for the financing of our working capital and are available till July 2012. The facility can be drawn in RUB, EUR or USD. The interest rate is MosPrime, EURIBOR or LIBOR + 1.25%, depending on the currency of the drawn funds. The repayment period is to be agreed with the bank, but cannot exceed 3 months and extend beyond the final maturity date, which is July 2012. In July 2012 and 2013, we signed two amendments to this credit facility agreement. The interest rate margin was increased from +1.25% to 1.50% and the final maturity date was set at July 14, 2014. The arrangement fee paid under the agreement amounted to RUB 6.2 million. As of December 31, 2013, we have not made use of the facility.

Rosbank revolving credit facility

In July 2012, we entered into a credit facility agreement with Rosbank in the total amount of RUB 2,500 million. The funds under the facility are to be used for our general corporate purposes and are available till July 24, 2014. The interest rate is MosPrime_1m/2m/3m + 1.25% depending on the loan period. The loan period cannot exceed three months and cannot extend beyond the final maturity date, which is July 24, 2014. In August 2013, we signed an amendment to this credit facility agreement. The interest rate margin was decreased from +1.25% to 0.75%. We are to pay additional interest of 0.25% p.a. on the drawn amount as a fee for credit account maintenance (however the fee cannot exceed RUB 6.3 million). As of December 31, 2013, we have not made use of the facility.

Citybank revolving credit facility

In May 2012, we signed a framework agreement with Citybank. This framework agreement sets up general terms and conditions for short-term provision of funds for the financing of our working capital. The funds will be provided for the maximum period of 182 days in RUB. The interest rate is MosPrime +1.50%. The amount of funds provided will be set up individually in a special funds' request. Each request is subject to Citybank approval. The fee of 0.25% from the amount of funds granted is payable within 3 days after the funds transfer. Advanced repayment is allowed. The fee on early redemption is defined as the difference between the amount of interest expense for the period

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between the date of advanced repayment and maturity date set in the request and the amount of interest the bank could earn if it had placed the funds on deposit for the respective period. As of December 31, 2013, we have not made use of the facility.

Sberbank Loan Agreements

In December 2010, we entered into two non-revolving credit line facilities in the amount of RUB 60.0 billion and RUB 40.0 billion, respectively. The credit facility in the amount of RUB 60 billion was utilized for refinancing of the outstanding loans from Sberbank. The credit line for RUB 40 billion was used for financing the roll-out of MTS's 3G networks in 2011. In July 2013, we repaid RUB 20 billion of the RUB 40 billion credit facility. In December 2013 the tenor of the credit agreements was increased from December 2017 until March 2020, while the annual interest rate on both lines was lowered from 8.50% to 8.45%.

D. Exchange Controls

The Federal Law on Currency Regulation and Currency Control which came into effect on June 18, 2004 sets forth certain restrictions on settlements between residents of Russia with respect to operations involving foreign securities (including ADSs), including requirements for settlement in Russian rubles.

Repatriation of Export Proceeds

Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions concerning, in particular, certain types of secured financing).

Restrictions on the remittance of dividends, interest or other payments to non-residents

The Federal Law on Foreign Investments in the Russian Federation of July 9, 1999 specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect your ability to do so.

Currently, ruble dividends on common shares may be converted into U.S. dollars without restriction. However, the ability to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing 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.

E. Taxation

Certain Russian Tax Consequences

The following discussion describes the material Russian corporate income tax and personal income tax consequences to you if you are a U.S. holder of ADSs and a resident of the United States for purposes of the United States Russia income tax treaty and are fully eligible for benefits under the United States Russia income tax treaty. Subject to certain provisions of the United States Russia income tax treaty relating to limitations on benefits, a U.S. resident under the treaty is generally defined as a person liable, under the laws of the United States, to U.S. tax (other than taxes with respect to only of income from sources in the United States or capital situated therein) by reason of your domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a partnership, trust or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income). The treaty provides for a procedure to resolve matters where a resident of the United States qualifies as a Russian tax resident under Russian domestic rules. The treaty also provides for the non-application of treaty benefits to certain types of entities.

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Additionally, the benefits under the United States Russia income tax treaty discussed in this document generally are not available to U.S. persons who hold ADSs in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the United States Russia income tax treaty. Subject to certain exceptions, a U.S. person's permanent establishment under the United States Russia income tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office and a factory). Under certain circumstances, a U.S. person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the U.S. person. This summary does not address the treatment of holders described in this paragraph.

Treaty benefits may be potentially available to U.S. tax residents that are not subject to limitations on treaty benefits under the treaty, do not operate through a permanent establishment in Russia and are foreign legal entities (*i.e.*, a legal entity or organization in each case not organized under Russian law) or individuals not considered Russian tax residents under Russian law. Under current Russian law, the Russian tax residency for individuals is generally determined based on the number of days a person spends in Russia in a 12-month period. While the current version of the law specifies that an individual present in Russia for an aggregate period of 183 days in any consecutive 12-month period will be considered as a tax resident, exactly how to apply the 12-month rule is the subject of debate and is not entirely clear. The Ministry of Finance of the Russian Federation has issued several letters implying that the final tax status of an individual taxpayer shall still be defined for a whole calendar year by counting the days spent in Russia within the relevant calendar year. Accordingly, the approach used, in practice, to determine the tax residence of an individual for a given tax year (calendar year) remains the same as under the previous legislation *i.e.*, to be considered a Russian tax resident, the taxpayer should spend at least 183 days in Russia in a calendar year.

The following discussion is based on:

Russian tax legislation; and

the United States Russia income tax treaty (and judicial and administrative interpretations thereof by the Russian authorities).

All of the foregoing tax consequences are based on information in effect as of the date of this document and are subject to change, possibly on a retroactive basis, after the date of this document. This discussion is also based, in part, on representations of the depositary, and assumes that each obligation in the deposit agreement and any related agreements will be performed in accordance with its terms. The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations.

The following discussion is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential Russian corporate income and personal income tax consequences to you of ownership of ADSs. We urge you to consult your own tax adviser regarding the specific Russian tax consequences of the ownership and disposition of ADSs under your own particular factual circumstances.

Specific uncertainties associated with the tax treatment of ADS holders

The Russian tax rules in relation to ADS holders (that would affect U.S. holders) are characterized by significant uncertainties and limited interpretive guidance. Recent amendments to the tax rules have clarified the status of the ADS holders as beneficial owners of the income from the underlying shares by establishing that the custodian holding the depo account with the shares underlying the ADSs acting as the tax agent and determines amounts of the withholding tax based on the information about the ADS holders and their tax residency status as provided by the program depositary. However, the

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application of the baseline tax rate for ADS holders and any double tax treaty relief is available only if the tax treaty residence of the holder is provided to the custodian along with the other information prescribed by the Tax code. In relation to ADS holders such information is to be provided by the ADS holders to the depository, who relays it to the custodian, who acts as the tax agent and withholds the taxes when making transferring the dividends to the depository. It is currently unclear how the depository will collect the necessary information from ADS holders. Thus, while a U.S. holder may technically be entitled to benefit from the provisions of the United States Russia income tax treaty, in practice such relief may be difficult or impossible to obtain.

Russian tax law and procedures are also not well developed, and local tax inspectors have considerable autonomy and often interpret tax rules without regard to the rule of law. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets.

Taxation of Dividends

Dividends paid to U.S. holders generally will be subject to Russian withholding tax at a 15% rate. The tax burden may be reduced to 5% or 10% under the United States Russia income tax treaty for eligible U.S. holders; a 5% rate may potentially apply for U.S. holders who are legal entities owning 10% or more of the company's voting shares, and a 10% rate applies to dividends paid to eligible U.S. holders in other cases, including dividend payments to individuals and legal entities owning less than 10% of the company's voting shares. However, according to the recent amendments to the Tax Code, U.S. holders will only be able to utilize the 5% reduced rate through tax reimbursement procedures, as the tax agent is required to use the baseline tax rate established by the code or the applicable tax treaty, whichever is appropriate. See also " United States Russia Income Tax Treaty Procedures."

Recent amendments to the Tax Code have also introduced a new 30% withholding tax rate to be applied to the dividends paid out in relation to shares underlying an ADS program where the information regarding the holders of the ADSs including the overall number of securities held in a specific tax jurisdiction is not provided by the depository to the custodian holding the depo account with the underlying shares and acting as the tax agent.

From a practical perspective, it may not be possible for the depository to collect the necessary information from all ADS holders and submit the relevant information to the custodian.

Therefore, with respect to legal entities or organizations who are U.S. holders, the custodian may be obligated to withhold income tax at a rate of 30% from dividend payments made to the trustee, unless the information on the ADS holder, the respective amount of ADS held and its tax residency is provided to the depository and thereafter to the custodian within 7 days of the date on which the shareholders entitled to dividend payout are determined according to the relevant decision of the general shareholders meeting. The same amendments have also introduced an expedited refund process whereby the information regarding the ADSs not provided to the custodian can be submitted within 25 days of the date of the payment of the dividends to the depository in order for the custodian to refund the difference between the increased 30% tax rate used and the tax rate the respective ADS holders are entitled to according to their tax residency, however this process is new and not tested and it is unclear how it will work in practice. Although non-resident holders of ADSs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time consuming and no assurance can be given that the Russian tax authorities will grant a refund. See " United States Russia Income Tax Treaty Procedures."

With respect to individuals who are U.S. holders of ADSs and who are Russian tax non-residents, the custodian may also be obligated to withhold income tax at the rate of 30% from dividend payments made to the depository. Where withholding of personal income tax is not performed, individuals who

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are U.S. holders of ADSs will then be required to submit an annual personal tax return to the Russian tax authorities and pay Russian income tax at a rate of 15% as under Russian law an individual should report on his or her tax liabilities in case the relevant tax was due but not withheld by a tax agent from the relevant payment. When submitting the tax return, individuals who are U.S. holders may claim an application of the reduced rates of withholding tax established by the relevant treaty, provided that the procedures described in " United States Russia Income Tax Treaty Procedures" are complied with. Obtaining the respective approvals from the tax authorities may be time-consuming and burdensome.

If the appropriate information is not provided to the depository for transfer to the custodian in a timely manner, the custodian may have to withhold tax at the 30% rate, and U.S. holders that are legal entities qualifying for a reduced rate under the United States Russia income tax treaty then may file claims for a refund within three years with the Russian tax authorities.

For individuals claiming treaty relief, the documents substantiating the right for treaty benefits should be submitted to the Russian tax authorities within one year after the end of the year to which these benefits relate. In practice, where withholding is performed, the tax authorities may refuse to refund or credit the 15% tax withheld from payment of dividends to the depository and, therefore, it is possible that individuals who are U.S. holders may be subject to up to a 30% effective tax rate (general tax rate for Russian tax non-residents) on their share of dividends.

Taxation of Capital Gains

Legal entities and Organizations

Generally, capital gains arising from the sale, exchange or other disposition of securities by legal entities or organizations that are non-resident holders should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. If more than 50% of our assets were to consist of immovable property located in Russia, legal entities or organizations that are non-resident holders of the securities should be subject to a 20% withholding tax on the gross proceeds from the sale, exchange or other disposition of securities, the difference between the sales, exchange or other disposition price and the acquisition costs of the ADSs, determined in accordance with Russian tax deductibility rules. The corporate income tax decreased from 24% to 20% starting from January 1, 2009.

However, an exemption applies if immovable property located in Russia constitutes more than 50% of our assets and the securities are traded on a foreign stock exchange. In that case, the proceeds from the sale of securities on that foreign stock exchange shall not be deemed to be income from sources in Russia, and accordingly, will not be subject to taxation in Russia. The determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia does not currently and will not constitute more than 50% of our assets as at the date of the sale of ADSs by non-residents.

Where the ADSs are sold by legal entities or organizations to persons other than a Russian company or a foreign company or an organization with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Under the United States Russia income tax treaty, capital gains from the sale of shares and/or ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term "fixed assets" is used in the Russian version of the treaty) were to consist of immovable property located in Russia.

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Individuals

The taxation of the income of tax non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of securities outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However, Russian tax law gives no clear indication as to how the place of sale of securities should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in Russia or out of Russia.

The sale, exchange or other disposal of the shares and ADSs by non-resident individual holders in Russia will be considered Russian source income and will be subject to tax at a rate of 30% on the difference between the sales price and the acquisition costs of such securities, as well as other documented expenses, such as depositary expenses and broker fees, among others, defined by the tax rules.

Under Russian law, the acquisition costs and related expenses can be deducted at the source of payment if the sale was made by a non-resident holder through a licensed Russian broker, trust manager or other person that carries out operations under agency or commission agreements, or other agreements in favor of a taxpayer. Such party (as defined above) should also act as a tax agent and withhold the applicable tax. Such tax agent will be required to report to the Russian tax authorities the amount of income realized by the non-resident individual and tax withheld upon the sale of the securities.

Otherwise, if the sale is made to individuals but not through a tax agent, generally no withholding needs to be made and the non-resident holder will have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses (which includes filing of support documentation). Although Russian tax law imposes tax agent responsibility only on professional trustees, brokers or dealers, in practice, the tax authorities may require Russian legal entities and organizations or foreign companies with any registered presence in Russia that are not professional trustees, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

Under the United States Russia income tax treaty, capital gains from the sale of the ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term "fixed assets" is used in the Russian version of the United States Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50% threshold is not met, individuals who are U.S. holders may seek to obtain the benefit of the United States Russia income tax treaty in relation to capital gains resulting from the sale, exchange or other disposition of the ADSs.

In order to apply the provisions of relevant double tax treaties, the individual holders should receive clearance from the Russian tax authorities as described below. See " United States Russia Income Tax Treaty Procedures" below.

United States Russia Income Tax Treaty Procedures

The Russian Tax Code does not contain a requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident legal entity or organization seeking to obtain relief from or reduction of Russian withholding tax under a tax treaty must provide to a Russian company or foreign company or organization acting through its Russian registered presence, which is a tax agent (*i.e.*, the entity paying income to a non-resident) a confirmation of its tax treaty residence that complies with the applicable requirements and a Russian translation attached to it in advance of receiving the relevant income. The

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tax residency confirmation needs to be renewed on an annual basis and provided to the payer of income before the first payment of income in each calendar year.

A U.S. holder may obtain the appropriate certification by mailing completed forms, together with the holder's name, taxpayer identification number, the tax period for which certification is required, and other applicable information, to the United States Internal Revenue Service. The procedures for obtaining certification are described in greater detail in the instructions to Internal Revenue Service Form 8802. As obtaining the required certification from the Internal Revenue Service may take at least six to eight weeks, U.S. holders should apply for such certification as soon as possible.

In accordance with the Russian Tax Code, to rely on tax treaty benefits, a non-resident holder who is an individual must present to the tax authorities an official document confirming his residency in the home country issued by the competent authorities in his/her country of residence and also other supporting documentation including a statement confirming the income received and the tax paid in the home country, also confirmed by the relevant foreign tax authorities, duly translated and apostilled or pass through a consular legalization. Technically, such a requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore, advance relief from or reduction of withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before any payments are made to individuals. A non-resident holder which is an individual may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received and the tax was withheld.

If a non-resident holder which is a legal entity or organization does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require (i) apostilled or legalized confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts under which the foreign entity received income, as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to combine requirements (i) and (ii) specified above). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in a foreign language. The refund of the tax withheld should be granted within one month of the filing of the above set of documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

Recent amendments to the Tax Code have established additional requirements to the reimbursement procedure referred to above, identifying further documents that need to be provided to the tax authorities. These include: 1) a document confirming the rights of the ADS holder to the ADS as of the date on which the shareholders entitled to the dividend payout are set according to the relevant decision of the General shareholders meeting, 2) a document evidencing the actual amount of income received by the ADS holder, 3) a document with information about the custodian that transferred the dividend amounts to the depositary, and 4) documents confirming the ADS holder's compliance with the requirements of the Tax Code and/or the relevant income tax treaty provisions necessary for application of a reduced rate. The procedures referred to above are new and no assurance can be given that the custodian will be able to apply the respective double tax treaties when paying dividends to non-resident holders or that ADS holders would be successful in receiving relevant tax refunds.

Neither the depositary nor us has or will have any obligation to assist an ADS holder with the completion and filing of any tax forms.

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Stamp Duties

No Russian stamp duty will be payable by the holders of ADSs upon carrying out of transactions with the securities as discussed above (*i.e.*, on a purchase of the securities, sale of the securities, etc.).

Certain United States Federal Income Tax Consequences

The following is a general description of certain material United States federal income tax consequences that apply to you if you are, for United States federal income tax purposes, a beneficial owner of ADSs that is an individual who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which is subject to U.S. federal income tax regardless of its source, or a trust, if a United States court can exercise primary supervision over the administration of the trust and one or more United States persons can control all substantial trust decisions, or if the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person (in each case, a "U.S. Holder"). This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service ("IRS"), all as publicly available and in effect as of the date of this document. These authorities are subject to differing interpretations and may change, possibly retroactively, resulting in U.S. federal income tax consequences different from those discussed below. No ruling has been or will be sought from the IRS with respect to the matters discussed below, and there can be no assurance that the IRS will not take a contrary position regarding the tax consequences of the acquisition, ownership or disposition of ADSs, or that any such contrary position would not be sustained by a court. If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is an owner of ADSs, the United States federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Accordingly, partnerships that hold ADSs and partners in such partnerships are urged to consult their tax advisors regarding the specific U.S. federal income tax consequences to them. The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

an insurance company;

a tax-exempt organization;

a financial institution;

a person subject to the alternative minimum tax;

a person who is a broker-dealer in securities or a trader subject to a mark-to-market election;

an S corporation;

a person holding ADSs through a partnership or other pass-through entity;

an expatriate subject to section 877 of the Code;

an owner of, directly, indirectly or by attribution, 10% or more of the outstanding shares of our common stock; or

an owner holding ADSs as part of a hedge, straddle, synthetic security or conversion transaction.

In addition, this summary is limited to U.S. Holders holding ADSs as "capital assets" within the meaning of Section 1221 of the Code and whose functional currency is the U.S. dollar. The discussion below does not address the effect of the recently effective Medicare tax on "net

investment income" or of any United States state or local tax law or foreign tax law. This discussion also does not address any tax consequences relating to the direct ownership of ordinary shares.

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The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. For purposes of applying United States federal income tax law, we believe, and the following discussion assumes, that a holder of an ADS should be treated as the owner of the underlying shares of common stock represented by that ADS, although this matter is not free from doubt.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the shares underlying the ADS may be taking actions that are inconsistent with the beneficial ownership of the underlying shares. Accordingly, the analysis of the creditability of Russian withholding taxes described below and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders (discussed below) could be affected by actions taken by intermediaries in the chain of ownership between the holder of ADSs and our company if as a result of such actions the holders of ADSs are not properly treated as beneficial owners of underlying shares and future actions that may be taken by the U.S. Treasury. The remainder of this discussion assumes that a holder of an ADS will be treated as the beneficial owner of the underlying shares of common stock represented by such ADS for United States federal income tax purposes.

Taxation of Distributions on ADSs

Subject to the passive foreign investment company rules described below, for United States federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, paid by us with respect to ADSs will be treated as a taxable foreign source dividend on the date of actual or constructive receipt by the depository to the extent of our current and accumulated earnings and profits, computed in accordance with United States federal income tax principles. If you are a non-corporate U.S. Holder such dividends may be "qualified dividend income" that is taxed at the lower applicable capital gains rate provided that certain conditions are satisfied, including (1) certain holding period requirements are satisfied, (2) either (a) our ADSs continue to be listed on the New York Stock Exchange (or other national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934, as amended, or the Nasdaq Stock Market) or (b) we are eligible for the benefits of the United States - Russia income tax treaty, and (3) we are not, for the taxable year in which the dividend was paid, or in the preceding taxable year, a "passive foreign investment company" with respect to your ADSs (as discussed below). Distributions with respect to ADSs in excess of our current and accumulated earnings and profits will be applied against and will reduce your tax basis in such ADSs and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such ADSs. You should be aware that we do not intend to calculate our earnings and profits for United States federal income tax purposes and, unless we make such calculations, you should assume that any distributions with respect to ADSs generally will be treated as a dividend, even if such distributions would otherwise be treated as a return of capital or as capital gain pursuant to the rules described above. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on ADSs, which is generally available for dividends paid by U.S. corporations. U.S. Holders are strongly urged to consult their tax advisors as to the U.S. federal income tax treatment of any distribution received with respect to ADSs.

The amount of any distribution paid in rubles will equal the U.S. dollar value of such rubles, calculated using the exchange rate in effect on the date of actual or constructive receipt by the depository, regardless of whether the payment is actually converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange rate fluctuations during the period from the date of receipt by the depository to the date the rubles are converted into U.S. dollars will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes. Additionally, you may be required to recognize foreign currency gain or loss on the receipt of a refund of Russian withholding tax pursuant to the United States - Russia income tax treaty to the

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extent the United States dollar value of the refund differs from the dollar equivalent of that amount on the date of receipt of the underlying distribution.

Russian withholding tax at the rate applicable to you under the United States Russia income tax treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, may be eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States Russia income tax treaty, you may not be entitled to credits for the excess amount, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will generally be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends.

The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For United States foreign tax credit purposes, a dividend distribution with respect to the ADSs will be treated as foreign source "passive category income" but could, in the case of certain U.S. Holders, constitute "general category income." The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your tax advisors with respect to those rules.

Taxation on Sale or Other Taxable Disposition of ADSs

Subject to the passive foreign investment company rules described below, the sale or other taxable disposition of ADSs will generally result in the recognition of gain or loss in an amount equal to the difference between the amount realized on the sale or other taxable disposition and your adjusted basis in such ADSs. That gain or loss will be capital gain or loss and will be long-term capital gain or loss if you have held the ADSs for more than one year. If you are a non-corporate U.S. Holder, such recognized long-term capital gain is generally subject to a reduced rate of United States federal income tax. Limitations may apply to your ability to offset capital losses against ordinary income.

Gain or loss recognized on the sale of ADSs will generally be treated as U.S. source income or loss for foreign tax credit purposes. The use of any foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. You are strongly urged to consult your tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of ADSs.

Passive Foreign Investment Company Considerations

A non-U.S. corporation generally will be a passive foreign investment company (a "PFIC"), in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through" rules, either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income.

We do not believe that we were a PFIC for the year ended December 31, 2012. However, our possible status as a PFIC must be determined annually and may be dependent in part on the market price of our ADSs, which may be volatile. Therefore, our possible status as a PFIC may be subject to change. Thus there can be no assurance that we will not be treated as a PFIC in our current taxable year or in the future. If we were to be treated as a PFIC, U.S. Holders generally would be required to pay additional taxes on certain distributions and gains on sales or other dispositions (including pledges) of the ADSs, at tax rates that may be higher than those otherwise applicable. You should consult your tax advisors regarding the application of the PFIC rules to your investment in the ADSs.

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Information Reporting and Backup Withholding

Dividend payments with respect to ADSs and proceeds from the sale or exchange of ADSs may be subject to information reporting to the IRS and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

Additional Reporting Requirements

Certain U.S. Holders who are individuals may be required to report information relating to an interest in the ADSs, subject to certain exceptions (including an exception for ADSs held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of this requirement on their ownership and disposition of the ADSs.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The documents that are exhibits to or incorporated by reference in this document can be read at the U.S. Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or, from outside the United States, at 1-202-942-8090. Copies may also be obtained from the SEC website at www.sec.gov. Information about Mobile TeleSystems OJSC is also available on the Internet at www.mtsghsm.com. Information included in our website does not form part of this document.

I. Subsidiary Information

Not applicable.

Item 11. *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to market risk from changes in interest rates and foreign currency exchange rates. We are subject to market risk deriving from changes in interest rates, which may affect the cost of our financing. Foreign exchange risks exist to the extent our revenues, costs and debt obligations are denominated in currencies other than the functional currency in the countries of our operations.

Interest Rate Risk

We are exposed to variability in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate notes. As of December 31, 2013, RUB 35,595 million, or 16.2% of our total indebtedness, including capital leases, was variable interest rate debt, while RUB 183,552 million, or 83.8% of our total indebtedness, including capital leases, was fixed interest rate debt.

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The table below presents principal cash flows and related weighted average interest rates for indebtedness by contractual maturity dates as of December 31, 2013.

Contractual Maturity Date as of December 31, 2013:

| Indebtedness | Currency | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total | Annual interest rate (Actual interest rate at December 31, 2013) |
|--|----------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|--|
| (amounts in millions of RUB) | | | | | | | | | |
| Variable debt | | | | | | | | | |
| Comerzbank/ING-Bank/HSBC (Siemens). | USD | 393 | | | | | | 393 | 0,65% |
| Skandinaviska Enskilda Banken AB | USD | 1,036 | 1,036 | 957 | 443 | | 0 | 3,472 | 0,57% |
| Skandinaviska Enskilda Banken AB | USD | 191 | 191 | 191 | 191 | | | 766 | 2,15% |
| LBBW | EUR | 210 | 210 | 210 | 210 | | | 839 | 1,14% |
| Credit Agricole Corporate Bank and BNP Paribas | EUR | 311 | 311 | 311 | 311 | 311 | | 1,557 | 2,04% |
| Bank of China. | EUR | 812 | 812 | 812 | | | | 2,435 | 2,34% |
| Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG | USD | 4,083 | 4,083 | 4,083 | 4,083 | 4,083 | 5,719 | 26,132 | 1,50% |
| Total variable debt | | 7,037 | 6,643 | 6,564 | 5,238 | 4,394 | 5,719 | 35,595 | |
| Weighted average interest rate | | 1,49% | 1,50% | 1,50% | 1,50% | 1,51% | 1,50% | 1,50% | |
| Fixed-rate notes | | | | | | | | | |
| MTS OJSC Notes due 2018 | RUB | 3,844 | | | | | | 3,844 | 7,50% |
| MTS OJSC Notes due 2015 | RUB | | 7,546 | | | | | 7,546 | 7,75% |
| MTS OJSC Notes due 2014 | RUB | 13,619 | | | | | | 13,619 | 7,60% |
| MTS OJSC Notes due 2016 | RUB | | | 1,788 | | | | 1,788 | 8,75% |
| MTS International Notes due 2020 | USD | | | | | | 24,547 | 24,547 | 8,63% |
| MTS OJSC Notes due 2017 | RUB | | | | 10,000 | | | 10,000 | 8,70% |
| MTS OJSC Notes due 2020 | RUB | | 15,000 | | | | | 15,000 | 8,15% |
| MTS International Notes due 2023 | USD | | | | | | 16,365 | 16,365 | 5,00% |
| MTS OJSC Notes due 2015 (A series) | RUB | | 12 | | | | | 12 | 10,00% |
| MTS OJSC Notes due 2016 (B series) | RUB | | | 12 | | | | 12 | 8,00% |
| MTS OJSC Notes due 2022 (V series) | RUB | | | | | | 12 | 12 | 5,00% |
| MTS OJSC Notes due 2023 | RUB | | | | | 10,000 | | 10,000 | 8,25% |
| Fixed-rate bank loans | | | | | | | | | |
| Sberbank | RUB | | 5,000 | 20,000 | 15,000 | 15,000 | 25,000 | 80,000 | 8,45% |
| Ekvant | RUB | 160 | 26 | 26 | 26 | 26 | 130 | 393 | 0,00% |
| ASHIB | USD | 127 | | | | | | 127 | 7,80% |
| ASHIB | AMD | 108 | | | | | | 108 | 13,45% |
| Converse | USD | 131 | | | | | | 131 | 8,00% |
| Total fixed debt | | 17,989 | 27,584 | 21,826 | 25,026 | 25,026 | 66,053 | 183,504 | |

| | | | | | | | |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Weighted average interest rate | 8,02% | 8,07% | 8,07% | 7,99% | 7,84% | 7,64% | 7,94% |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|

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We would have experienced an additional interest expense of approximately RUB 174 million on an annual basis as a result of a hypothetical increase in the LIBOR/EURIBOR by 1% over the current rate as of December 31, 2013. In addition, the 8.45% interest rate set for our Sberbank facilities due 2020 totaling RUB 80.0 billion is dependent on the volume of turnovers on the bank accounts of certain our entities. In case the average volume falls below a certain limit, the interest rate will be increased by 1%. Such rate increase would cause our interest expense to increase by approximately RUB 800 million on an annual basis. The fair value of our publicly traded fixed-rate notes as of December 31, 2013, ranged from 93.75% to 118.60% of the notional amount. As of December 31, 2013, the difference between the carrying value and the fair value of other fixed rate debt, including capital lease obligations, was immaterial. For details of our fixed-rate debt, refer to Note 15 of our audited consolidated financial statements. The fair value of variable rate debt approximates its carrying value.

We use derivative financial instruments to reduce our exposure to adverse fluctuations in interest rates. We primarily focus on reducing risk caused by the fluctuations in interest rates for our variable-rate long-term debt. According to our policy, we have entered into various variable-to-fixed interest rate swap agreements. The table below presents a summary of our variable-to-fixed interest rate swap agreements.

| Type of derivative | Maturity | Notional amount (at inception) (amounts in millions of Rubles) | Mark to Market Value as of December 31, 2013 |
|--|------------------------------|---|--|
| Variable-to-fixed Interest Rate Swap Agreements | | | |
| Swap agreements with ING Bank N.V. to pay a fixed rates of 2.09% to 4.41% and receive a variable interest rate of 6m LIBOR | January 2014 - February 2015 | 7,272 | (12.9) |
| Swap agreements with HSBC bank Plc to pay a fixed rates of 2.18% to 4.14% and receive a variable interest rate of 6m LIBOR | May 2014 - September 2014 | 9,136 | (5.8) |
| Swap agreement with Societe General to pay fixed rate of 2.40% and receive a variable interest rate of 6m LIBOR | June 2014 | 5,334 | (5.6) |

As of December 31, 2013, approximately 1.1% of our variable interest rate debt was hedged against interest rate risks. We continue to consider other financial instruments available to us to mitigate exposure to interest rate fluctuations. We do not enter into derivative financial instruments for trading purposes.

We have also entered into several cross-currency interest rate swap agreements. These contracts, which hedge the risk of both interest rate and currency fluctuations, assume periodical exchanges of both principal and interest payments from ruble-denominated amounts to U.S. dollar- and euro-denominated amounts, to be exchanged at specified rates. The rates were determined with reference to the market spot rates upon issuance. These contracts also include an interest rate swap of a fixed U.S. dollar- and euro-denominated interest rate to a fixed ruble-denominated interest rate. All of our cross-currency interest rate swaps agreements mature in 2019 and 2020.

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The table below presents a summary of our cross-currency interest rate swap agreements:

| Type of derivative | Maturity | Notional amount (at inception) (amounts in millions of Rubles) | Mark to Market Value as of December 31, 2013 |
|--|----------------|---|--|
| Cross-currency Interest Rate Swap Agreements | | | |
| Swap agreements with Barclays Bank to pay a fixed rates of 7.3675% to 7.3775% and receive a variable interest rate of 6m LIBOR | September 2020 | 6,142 | 364 |
| Swap agreements with Merrill Lynch to pay a fixed rates of 7.095% and receive a variable interest rate of 6m LIBOR | September 2020 | 2,300 | 128 |
| Swap agreements with Sberbank to pay a fixed rates of 7.0950% and receive a variable interest rate of 6m LIBOR | September 2020 | 2,331 | 128 |
| Swap agreements with Rosbank to pay a fixed rates of 7.253% to 7.2575% and receive a variable interest rate of 6m LIBOR | September 2020 | 7,665 | 471 |
| Swap agreements with Barclays Bank to pay a fixed rates of 8.12% to 8.295% and receive a variable interest rate of 6m LIBOR | June 2019 | 5,849 | 492 |
| Swap agreements with HSBC bank Plc to pay a fixed rates of 8.13% and receive a variable interest rate of 6m LIBOR | June 2019 | 733 | 60 |
| Swap agreement with VTB bank to pay a fixed rate of 8.2% and receive a variable interest rate of 6m LIBOR | June 2019 | 2,191 | 181 |

Foreign Currency Risk

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on data published by the CBR. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

| Years ended December 31, | Rubles per U.S. dollar | | | Period End |
|--------------------------|------------------------|-------|------------------------|------------|
| | High | Low | Average ⁽¹⁾ | |
| 2009 | 36.43 | 28.67 | 31.72 | 30.24 |
| 2010 | 31.78 | 28.93 | 30.37 | 30.48 |
| 2011 | 32.68 | 27.26 | 29.38 | 32.20 |
| 2012 | 34.04 | 28.95 | 30.97 | 30.37 |
| 2013 | 33.47 | 29.93 | 31.98 | 32.73 |

(1)

The average of the exchange rates on the last business day of each full month during the relevant period.

| | Rubles per U.S. dollar | |
|----------------|------------------------|-------|
| | High | Low |
| July 2013 | 33.32 | 32.31 |
| August 2013 | 33.25 | 32.86 |
| September 2013 | 33.47 | 31.59 |
| October 2013 | 32.48 | 31.66 |
| November 2013 | 33.19 | 32.08 |
| December 2013 | 33.26 | 32.63 |
| January 2014 | 35.24 | 32.66 |
| February 2014 | 36.05 | 34.60 |
| March 2014 | 36.65 | 35.45 |

Source: CBR.

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The exchange rate between the ruble and the U.S. dollar quoted by the CBR for April 24, 2014 was 35.66 rubles per U.S. dollar.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the hryvnia and the U.S. dollar, based on data published by the National Bank of Ukraine. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

| Years ended December 31, | Hryvnias per U.S. dollar | | | |
|--------------------------|--------------------------|------|------------------------|------------|
| | High | Low | Average ⁽¹⁾ | Period End |
| 2009 | 8.01 | 7.61 | 7.81 | 7.99 |
| 2010 | 8.01 | 7.89 | 7.94 | 7.96 |
| 2011 | 7.99 | 7.93 | 7.97 | 7.99 |
| 2012 | 7.99 | 7.98 | 7.99 | 7.99 |
| 2013 | 7.99 | 7.99 | 7.99 | 7.99 |

(1)

The average of the exchange rates on the last business day of each full month during the relevant period.

| | Hryvnias per U.S. dollar | |
|----------------|--------------------------|------|
| | High | Low |
| July 2013 | 7.99 | 7.99 |
| August 2013 | 7.99 | 7.99 |
| September 2013 | 7.99 | 7.99 |
| October 2013 | 7.99 | 7.99 |
| November 2013 | 7.99 | 7.99 |
| December 2013 | 7.99 | 7.99 |
| January 2014 | 7.99 | 7.99 |
| February 2014 | 9.99 | 7.99 |
| March 2014 | 10.95 | 9.24 |

Source: National Bank of Ukraine.

The exchange rate between the hryvnia and the U.S. dollar quoted by the National Bank of Ukraine for April 24, 2014 was 11.51 hryvnias per U.S. dollar.

We have exposure to fluctuations in the value of the U.S. dollar relative to the Russian ruble, Ukrainian hryvnia, Turkmen manat and Armenian dram, which are the functional currencies in our countries of operation. As a result, we may face translation losses, increased debt service payments and increased capital expenditures and operating costs should these currencies depreciate against the U.S. dollar.

In 2009, we entered into two foreign currency option agreements to manage our exposure to changes in currency exchange rates related to our U.S. dollar-denominated debt obligations. Under the agreements, we have put and call option rights to acquire \$80.0 million of U.S. dollars (RUB 2,538 million) at rates within a range specified in the contracts. The first option agreement to acquire \$40.0 million (RUB 1,269 million) expired in 2010 and was not exercised, whereas the second option agreement to acquire \$40.0 million (RUB 1,269 million) expired unexercised in April 2011. In 2010, we additionally entered into foreign currency option agreements to manage our exposure to changes in currency exchange rates related to our U.S. dollar-denominated eurobonds. Under these agreements, we had put and call option rights to acquire \$250.0 million (RUB 7,592 million) at rates within a range specified in the contracts. These contracts were not designated for hedge accounting purposes and expired unexercised in January 2012.

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A significant part of our capital expenditures, borrowings and certain operating costs (roaming expenses, cost of customer equipment and other costs) are either denominated in U.S. dollars or tightly linked to the U.S. dollar exchange rate, and our U.S. dollar-denominated debt represents our primary future risk of exchange loss in U.S. dollar terms. A decline in the value of the ruble, hryvnia, manat or dram versus the U.S. dollar would result in currency remeasurement losses as the amount of these currencies required to repay U.S. dollar-denominated debt increases. In addition, if any of the ruble, hryvnia, manat or dram declines against the U.S. dollar and tariffs cannot be maintained for competitive or other reasons, our revenues and operating margins could be materially adversely affected and we could have difficulty repaying or refinancing our U.S. dollar-denominated indebtedness and financing our capital expenditures and operating costs.

A portion of our capital expenditures, borrowings and certain operating costs (roaming expenses, costs of customer equipment and other costs) are also denominated in euros. We currently do not hedge against the risk of decline in the ruble, hryvnia, manat or dram against the euro because settlements denominated in euros are not significant.

We would experience a currency exchange loss of RUB 12,124 million on our U.S. dollar-denominated net monetary liabilities as a result of a hypothetical 20.0% increase in the ruble/hryvnia/manat/dram to U.S. dollar exchange rate at December 31, 2013. We would experience a currency exchange gain of RUB 946 million in the fair value of our euro-denominated net monetary liabilities as a result of a hypothetical 20.0% increase in the ruble/hryvnia/manat/dram to euro exchange rate at December 31, 2013. We are unable to estimate future loss of earnings as a result of such changes.

Item 12. Description of Securities Other Than Equity Securities

(Only Items 12.D.3-4 are applicable.)

D. American Depositary Shares

3.

Fees and charges that a holder of American Depositary Receipts may have to pay, either directly or indirectly.

| Category | Depositary Actions | Associated Fee |
|--|--|---|
| (a) Depositing or substituting the underlying shares | Each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock split declared by the Company, or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or the deposited securities | \$5.00 for each 100 ADSs (or portion thereof) |

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| Category | Depository Actions | Associated Fee |
|--|---|--|
| (b) Receiving or distributing dividends | Distribution of stock dividends | \$5.00 for each 100 ADSs (or portion thereof) |
| (c) Selling or exercising rights | Distribution of cash | \$0.02 or less per ADS (or portion thereof) |
| | Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities | \$5.00 for each 100 ADSs (or portion thereof) |
| (d) Withdrawing an underlying security | Acceptance of ADRs surrendered for withdrawal of deposited securities or cancellation or reduction of ADSs for any other reason | \$5.00 for each 100 ADSs (or portion thereof) |
| (e) Transferring, splitting or grouping receipts | Transfers, combining or grouping of depository receipts | \$1.50 per ADS |
| (f) General depository services, particularly those charged on an annual basis | Other services performed by the depository in administering the ADRs | \$0.02 per ADS (or portion thereof) per calendar year which may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADSs as of the record date or record dates set by the depository during each calendar year and shall be payable at the sole discretion of the depository by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions |
| | Custodian and share register related issues, including, without limitation, any inspections of the share register maintained by the Russian share registrar or other confirmation of holdings of deposited securities | \$0.01 or less per ADS (or portion thereof) per year which fee shall be assessed against holders of record as of the date set by the depository not more often than once each calendar year |

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| Category | Depository Actions | Associated Fee |
|--------------------------------|---|---|
| (g) Expenses of the depository | <p>Certain fees and expenses incurred by the depository bank and certain taxes and governmental charges in connection with:</p> <p>compliance with foreign exchange control regulations or any law or regulation relating to foreign investment;</p> <p>depository or its custodian's compliance with applicable law, rule or regulation;</p> <p>stock transfer or other taxes and other governmental charges;</p> <p>cable, telex, facsimile transmission or delivery charges;</p> <p>if applicable, transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities (which are payable by persons depositing shares or holders withdrawing deposited securities);</p> <p>expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency);</p> | <p>Charges to be assessed against holders as of the record date or dates set by the depository and payable at the sole discretion of the depository by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions</p> |

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| Category | Depositary Actions | Associated Fee |
|----------|--------------------|----------------|
|----------|--------------------|----------------|

any other charge payable by depositary or its agents including, without limitation, the custodian, or the agents of the depositary's agents in connection with the servicing of the shares or other deposited securities

4. All fees and other direct and indirect payments made by the depositary to the foreign issuer of the deposited securities.

The Depositary has agreed to reimburse to us or pay on our behalf certain reasonable expenses related to our ADS program and incurred by us in connection with the program (such as NYSE listing fees, legal and accounting fees incurred with preparation of Form 20-F and ongoing SEC compliance and listing requirements, investor relations expenses, among others). The amounts the Depositary reimbursed or paid are not performe related to the fees collected by the depositary from ADS holders.

As part of its service to us, the Depositary has agreed to waive fees for the standard costs associated with the administration of our ADS program, associated operating expenses and investor relations advice estimated to total \$0.2 million.

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PART II

Item 13. *Defaults, Dividend Arrearages and Delinquencies*

None.

Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds*

None.

Item 15. *Controls and Procedures*

(a)

Disclosure Controls and Procedures.

As of the end of the period covered by this Annual Report on Form 20-F, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934).

Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective, as of December 31, 2013, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions about required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

(b)

Management's annual report on internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting refers to a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our board of directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

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Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control-Integrated Framework (1992).

As a result of management's evaluation of our internal control over financial reporting, management concludes that internal control over financial reporting as of December 31, 2013 was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited and assessed as effective by independent registered public accounting firm ZAO Deloitte & Touche CIS, who has also audited and reported on our consolidated financial statements.

There were no changes in our internal control over financial reporting during the year-ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c)

Attestation Report of Independent Registered Public Accounting Firm.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of OJSC Mobile TeleSystems:

We have audited the internal control over financial reporting of Mobile TeleSystems OJSC and subsidiaries (the "Group") as of December 31, 2013, based on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Group and our report dated March 17, 2014 expressed an unqualified opinion on those financial statements.

/s/ ZAO Deloitte & Touche CIS
Moscow, Russia
March 17, 2014

(d) *Changes in internal control over financial reporting.*

Management has evaluated, with the participation of our CEO and CFO, whether any changes in our internal control over financial reporting that occurred during the period covered by this annual report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, management has concluded that no such changes have occurred.

Item 16A. *Audit Committee Financial Expert*

Our Board of Directors has determined that Thomas Holtrop is an "audit committee financial expert" as defined in Item 16A of Form 20-F. Mr. Holtrop is "independent" as defined in Rule 10A-3 under the Exchange Act and current New York Stock Exchange listing rules applicable to us. For a description of Mr. Holtrop's experience, please see "Item 6. Directors, Senior Management and Employees - A. Directors and Senior Management - Key Biographies."

Item 16B. *Code of Ethics*

The current version of our Code of Ethics was adopted on February 13, 2014. Our Code of Ethics applies to all of our officers, directors and employees. The new Code of Ethics did not substantively alter any of its requirements as compared with the code of ethics that was in effect prior to the approval of the new Code of Ethics.

A copy of our Code of Ethics is available on our website at www.mtsgsm.com.

Item 16C. *Principal Accountant Fees and Services*

ZAO Deloitte & Touche CIS has served as our Independent Registered Public Accounting Firm for each of the fiscal years in the two-year period ended December 31, 2012 and 2013, respectively, for which audited financial statements appear in this Annual Report on Form 20-F. The following table

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presents the aggregate fees billed for professional services and other services by ZAO Deloitte & Touche CIS and its affiliates in 2012 and 2013, respectively.

| | Year ended December 31, | |
|--------------------|---|----------------|
| | 2013 | 2012 |
| | (in thousands of Russian rubles) | |
| Audit Fees | 130,196 | 123,837 |
| Audit-Related Fees | 3,460 | 1,950 |
| Tax Fees | 1,098 | 1,154 |
| All Other Fees | 949 | |
| Total | 135,703 | 126,941 |

Audit Fees

The Audit Fees for the years ended December 31, 2013 and 2012 were for the reviews and integrated audits of our consolidated financial statements prepared in accordance with U.S. GAAP, reviews and audits of the financial statements of our public subsidiaries prepared in accordance with U.S. GAAP, statutory audits and services associated with the documents issued in connection with securities offerings. Integrated audits include all services necessary to form an opinion on our consolidated financial statements and to report on our internal controls over financial reporting.

Audit-Related Fees

The Audit-Related Fees for the years ended December 31, 2013 and 2012 mainly included fees for agreed-upon procedures related to audited financial statements.

Tax Fees

The Tax Fees for the years ended December 31, 2013 and 2012, respectively, include the fees principally related to tax compliance services.

All Other Fees

All Other Fees for the year ended December 31, 2013, primarily relate to a seminar on corporate governance and quality review of segregation of duties for purchasing cycle in MTS Ukraine.

Audit Committee Pre-Approval Policies and Procedures

The Sarbanes-Oxley Act of 2002 required us to implement a pre-approval process for all engagements with our independent public accountants. In compliance with Sarbanes-Oxley requirements pertaining to auditor independence, our Audit Committee pre-approves the engagement terms and fees of ZAO Deloitte & Touche CIS and its affiliates for all audit and non-audit services, including tax services. Our Audit Committee pre-approved the engagement terms and fees of ZAO Deloitte & Touche CIS and its affiliates for all services performed for the fiscal year ended December 31, 2013.

Item 16D. Exemption from the Listing Standards for Audit Committees

Not Applicable.

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Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not repurchase any ADSs in the year ended December 31, 2010, 2011 and 2012.

A total of 8,000 MTS ordinary shares representing 0.0004% of our issued share capital were repurchased for RUB 1.96 million (\$70,000 as of March 31, 2011) as a part of our reorganization during 2011. See "Item 3. Key information A. Selected Financial Data." These shares were sold pursuant to the requirements of applicable Russian legislation in 2012.

A total of 90,881 MTS ordinary shares representing 0.004% of our issued share capital were repurchased for RUB 19.7 million as a part of our reorganization during 2013. These shares were sold pursuant to the requirements of applicable Russian legislation in March 2014.

See also "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders."

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

We are a company organized under the laws of the Russian Federation and qualify as a foreign private issuer as such term is defined in Rule 3b-4 of the Exchange Act. In accordance with the NYSE corporate governance rules, listed companies that are foreign private issuers are permitted in some circumstances to follow home country practice in lieu of the provisions of the corporate governance rules contained in Section 303A of the NYSE Listed Company Manual that are applicable to U.S. companies. In addition, foreign private issuers listed on the NYSE must disclose any significant ways in which their corporate governance practices differ from those followed by U.S. companies listed on the NYSE. With regard to our corporate governance practices, these differences can be summarized as follows:

For U.S. companies, the NYSE standards require that a majority of directors be independent, as determined by the board. Russian law does not require that a majority of our directors be independent. Of our nine directors, three have been determined by the board to be independent in accordance with the independence standards set forth in SEC Rule 10A-3 and Section 303A.02 of the NYSE Listed Company Manual.

For U.S. companies, the NYSE standards require that the audit committee have a minimum of three members. Russian law does not contain such a requirement. Our audit committee comprises of three members.

For U.S. companies, the NYSE standards require that non-management directors meet at regularly scheduled executive sessions without management. Russian law does not contain such a requirement. However, our audit committee and remuneration and nomination committee comprises of independent directors, who meet on a regular basis in connection with their work on these committees.

For U.S. companies, the NYSE standards require that listed companies have a nominating/corporate governance committee and a compensation committee, each composed entirely of independent directors and having a written charter specifying the committee's purpose and responsibilities, as well as annual performance evaluations of the committee.

We do not currently have a nominating/corporate governance committee. We have a corporate conduct and ethics committee comprising of directors and members of management that is responsible for developing and implementing standards for corporate governance and ethics and making recommendations to the Board of Directors on developing our strategy in the area of corporate

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governance and ethics. This committee is also responsible for conducting annual performance evaluations of the Board of Directors.

We have a remuneration and nomination committee comprising of three independent directors. This committee functions pursuant to bylaws approved by the Board of Directors specifying the committee's purpose, duties and responsibilities. The committee is primarily responsible for recommending appointments to key managerial posts, developing a set of requirements and criteria for directors and management executives and developing a remuneration structure and compensation levels for the Board of Directors, the audit committee and management executives (including the CEO).

For U.S. companies, the NYSE standards require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions. Under Russian law, such approval from shareholders is not required, and our equity compensation plans and material revisions thereto are currently approved by the Board of Directors.

For U.S. companies, the NYSE standards require the adoption and disclosure of corporate governance guidelines addressing certain subjects. Our corporate governance guidelines are consistent with what is required under Russian law and are set forth in our Charter, in the bylaw on our Board of Directors and in the bylaws of our various committees.

In accordance with the corporate governance rules of the NYSE applicable to foreign private issuers, we also disclose these differences between our corporate governance practices and those required by the NYSE of listed U.S. companies on our Internet website at www.mtsgsm.com.

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PART III

Item 17. *Financial Statements*

See instead Item 18.

Item 18. *Financial Statements*

The following financial statements, together with the report of ZAO Deloitte & Touche CIS, are filed as part of this annual report on Form 20-F.

| | Page |
|---|-------------------|
| <u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u> | <u>F-1</u> |
| <u>CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2013 AND 2012 AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011:</u> | |
| <u>Consolidated statements of financial position as of December 31, 2013 and 2012</u> | <u>F-2 - F-3</u> |
| <u>Consolidated statements of operations and comprehensive income for the years ended December 31, 2013, 2012 and 2011</u> | <u>F-4</u> |
| <u>Consolidated statements of changes in shareholders' equity for the years ended December 31, 2013, 2012 and 2011</u> | <u>F-5</u> |
| <u>Consolidated statements of cash flows for the years ended December 31, 2013, 2012 and 2011</u> | <u>F-6 - F-7</u> |
| <u>Notes to the consolidated financial statements</u> | <u>F-8 - F-69</u> |

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Item 19. Exhibits

| Exhibits No. | Description |
|---------------------|--|
| 1.1 | Charter of Mobile TeleSystems OJSC, restated version No. 11, as approved by the General Meeting of Shareholders of Mobile TeleSystems OJSC held on June 25, 2013 (English translation).* |
| 1.2 | Code of Corporate Conduct and Business Ethics of Mobile TeleSystems OJSC approved by the Board of Directors of Mobile TeleSystems OJSC on February 13, 2014. |
| 2.1 | Deposit Agreement, dated as of July 6, 2000, by and among, MTS, Morgan Guaranty Trust Company of New York (as depositary), and holders of ADRs is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F. |
| 2.2 | Amendment No. 1 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(2) to Form F-6 (Registration No 333-12008). |
| 2.3 | Amendment No. 2 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(3) to Form F-6 (Registration No 333-121240). |
| 2.4 | Amendment No. 3 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(4) to Form F-6 (333-145190). |
| 2.4. | Amendment No. 4 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(5) to Form F-6 (Registration No. 333-166178). |
| 4.1 | Indenture dated as of January 28, 2005 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.3 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004, on Form 20-F. |
| 4.2 | Indenture dated as of October 14, 2003 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.1 to the Annual Report filed pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F. |
| 4.3 | Loan Agreement between Mobile Telesystems Open Joint-Stock Company and MTS International Funding Limited dated June 21, 2010 is incorporated herein by reference to Exhibit 4.3 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009, on Form 20-F. |
| 4.4 | Non-Revolver Credit Facility Agreement No. 9656 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated September 2009 (English Translation) is incorporated herein by reference to Exhibit 4.4 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009, on Form 20-F. |
| 4.5 | Non-Revolver Credit Facility Agreement No. 9657 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated September 2009 (English Translation) is incorporated herein by reference to Exhibit 4.5 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009, on Form 20-F. |

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| Exhibits No. | Description |
|---------------------|--|
| 4.6 | Non-Revolving Credit Facility Agreement No. 5361 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated December 13, 2010 (English Translation) is incorporated herein by reference to Exhibit 4.7 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010, on Form 20-F. |
| 4.7 | Revolving Credit Facility Agreement No. 5455 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated September 30, 2011 (English Translation) is incorporated herein by reference to Exhibit 4.8 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011, on Form 20-F. |
| 4.8 | Revolving Credit Facility Agreement No. 2011/83-1 between ING Bank (EURASIA) ZAO (Closed Joint Stock Company) and Mobile TeleSystems Open Joint Stock Company dated July 13, 2011 is incorporated herein by reference to Exhibit 4.9 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011, on Form 20-F. |
| 4.9 | Revolving Credit Facility Agreement No. 207/1 TP between Gazprombank (Open Joint-Stock Company) and Mobile TeleSystems Open Joint Stock Company dated July 29, 2011 (English Translation) is incorporated herein by reference to Exhibit 4.10 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011, on Form 20-F. |
| 4.10 | Facility Agreement for Mobile TeleSystems Open Joint Stock Company arranged by CALYON, ING Bank N.V., Nordea Bank AB (PUBL) dated November 2009 is incorporated herein by reference to Exhibit 4.10 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012, on Form 20-F. |
| 4.11 | Revolving Credit Facility Agreement about short-term credits between ZAO KB Citibank and Mobile TeleSystems Open Joint Stock Company dated May 10, 2012 (English Translation) is incorporated herein by reference to Exhibit 4.11 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012, on Form 20-F. |
| 4.12 | Revolving Credit Facility Agreement No. RK/038/11 for Mobile TeleSystems Open Joint Stock Company arranged by Joint Stock Commercial Bank "Rosbank" dated July 24, 2012 (English translation) is incorporated herein by reference to Exhibit 4.12 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012, on Form 20-F. |
| 4.13 | Facility Agreement between Mobile TeleSystems Open Joint Stock Company, Citibank Europe PLC, AB Svensk Exportkredit (PUBIL), Citibank International PLC and Citibank International PLC dated March 7, 2014 (English Translation). |
| 4.14 | Supplemental Agreement No. 2011/83-2/2 dated July 13, 2012 to Agreement on Granting of Credit Facility No. 2011/83-1 between ING Bank (EURASIA) ZAO (Closed Joint Stock Company) and Mobile TeleSystems Open Joint Stock Company dated July 13, 2011. |
| 4.15 | Supplemental Agreement No. 2011/83-2/4 dated July 11, 2013 to Agreement on Granting of Credit Facility No. 2011/83-1 between ING Bank (EURASIA) ZAO (Closed Joint Stock Company) and Mobile TeleSystems Open Joint Stock Company dated July 13, 2011. |

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| Exhibits No. | Description |
|---------------------|---|
| 4.16 | Addendum to the Facility Agreement No. RK/038/11 dated July 24, 2012 between Joint-Stock Commercial Bank "Rosbank" (Open Joint-Stock Company) and Mobile TeleSystems Open Joint Stock Company dated October 26, 2012 (English Translation). |
| 4.17 | Addendum No. 2 to Facility Agreement No. RK/038/11 dated July 24, 2012 between Joint-Stock Commercial Bank "Rosbank" (Open Joint-Stock Company) and Mobile TeleSystems Open Joint Stock Company dated August 9, 2013 (English Translation). |
| 4.18 | Non-Revolving Credit Facility Agreement No. 5362 between Open Joint-Stock Company Sberbank of Russia and Open Joint-Stock Company Mobile TeleSystems dated December 13, 2010 (English Translation). |
| 4.19 | Addendum No.1 to the Agreement on the Opening of a Non-Revolving Line of Credit No. 5362 dated December 13, 2010 between Open Joint-Stock Company Sberbank of Russia (Sberbank of Russia OJSC) and Open Joint-Stock Company Mobile TeleSystems dated September 30, 2011 (English Translation). |
| 4.20 | Addendum No.2 to Agreement No.5362 on the Opening of a Non-Revolving Line of Credit dated December 13, 2010 between Open Joint-Stock Company Sberbank of Russia (Sberbank of Russia OJSC) and Open Joint-Stock Company Mobile TeleSystems (Mobile TeleSystems OJSC) dated August 5, 2013 (English Translation). |
| 4.21 | Addendum No.3 to the Agreement on the Opening of a Non-Revolving Line of Credit dated December 13, 2010 between Open Joint-Stock Company Sberbank of Russia (Sberbank of Russia OJSC) and Open Joint-Stock Company Mobile TeleSystems No. 5362 dated December 9, 2013 (English Translation). |
| 4.22 | Addendum No. 1 to Agreement No. 5361 on the Opening of a Non-Revolving Line of Credit dated 13 December 2010 between Open Joint-Stock Company Sberbank of Russia (Sberbank of Russia OJSC) and Open Joint-Stock Company Mobile TeleSystems dated September 30, 2011 (English Translation). |
| 4.23 | Addendum No. 2 to Agreement No. 5361 on the Opening of a Non-Revolving Line of Credit dated 13 December 2010 between Open Joint-Stock Company Sberbank of Russia (Sberbank of Russia OJSC) and Open Joint-Stock Company Mobile TeleSystems (Mobile TeleSystems OJSC) dated August 5, 2013 (English Translation). |
| 4.24 | Addendum No. 3 to Agreement No. 5361 on the Opening of a Non-Revolving Line of Credit dated 13 December 2010 between Open Joint-Stock Company Sberbank of Russia (Sberbank of Russia OJSC) and Open Joint-Stock Company Mobile TeleSystems dated December 9, 2013 (English Translation). |
| 4.25 | MTS License No. 50789 for provision of mobile radiotelephone communication services using IMT-2000/UMTS mobile radiotelephone networks in the Russian Federation (English translation) is incorporated herein by reference to Exhibit 4.53 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F. |
| 4.26 | MTS Ukraine License No. 720189 for provision of communication services using the NMT-450, GSM-900, PSN and DCS-1800 networks (English translation) is incorporated herein by reference to Exhibit 4.54 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F. |

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| Exhibits No. | Description |
|---------------------|--|
| 4.27 | MTS Ukraine License No. 120375 for provision of communication services using the CDMA-450 network (English translation) is incorporated herein by reference to Exhibit 4.55 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F. |
| 4.28 | MTS License No. 97617 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Tatarstan Republic (English translation) is incorporated herein by reference to Exhibit 4.23 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012, on Form 20-F. |
| 4.29 | MTS License No. 99903 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Bashkortostan Republic (English translation) is incorporated herein by reference to Exhibit 4.24 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012, on Form 20-F. |
| 4.30 | MTS License No. 96039 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Krasnodar Region (English translation) is incorporated herein by reference to Exhibit 4.25 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012, on Form 20-F. |
| 4.31 | MTS License No. 765 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Armenia Republic (English translation) is incorporated herein by reference to Exhibit 4.50 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F. |
| 4.32 | MTS License No. 94560 for provision of leased communications circuits services in the territory of the Russian Federation (English translation) is incorporated herein by reference to Exhibit 4.35 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011, on Form 20-F. |
| 4.33 | MTS Ukraine License No. 546038 for provision of mobile communication services with the right for telecommunication networks maintenance and operation and for telecommunication channels leasing throughout Ukraine (English translation). |
| 4.34 | MTS Ukraine License No. 269377 for provision of mobile communication services with the right for telecommunication networks maintenance and operation and for telecommunication channels leasing throughout Ukraine (English translation). |
| 4.35 | MTS Ukraine License No. 286185 for construction and maintenance of communication networks with movable facilities and provision of services of network usage in Ukraine (English translation). |
| 4.36 | MTS License No. 83904 for provision of cable casting communication services in the territory of Moscow (English translation). |
| 4.37 | MTS License No. 92135 for provision of local telephone communication services using payphones in the territory of Moscow Region (English translation). |
| 4.38 | MTS License No. 94369 for provision of local telephone communication services using payphones in the territory of Moscow (English translation). |

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| Exhibits No. | Description |
|---------------------|---|
| 4.39 | MTS License No. 95256 for provision of data communication services for the purpose of voice data transfer in the territory of Moscow Region (English translation). |
| 4.40 | MTS License No. 105546 for provision of telecommunication services for provision of communication channels in the territory of Ingushetia Republic, Kabardino-Balkar Republic, Karachaevo-Cherkesia Republic and Volgograd Region (English translation). |
| 4.41 | MTS License No. 105547 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of Buryatiya Republic (English translation). |
| 4.42 | MTS License No. 105548 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of Saratov Region (English translation). |
| 4.43 | MTS License No. 105966 for provision of mobile radiotelephone communication services in the territory of Belgorod Region, Bryansk Region, Vladimir Region, Voronezh Region, Ivanovo Region, Kaluga Region, Kostroma Region, Kursk Region, Lipetsk Region, Nizhny Novgorod Region, Orel Region, Ryazan Region, Smolensk Region, Tambov Region, Tver Region, Tula Region and Yaroslavl Region (English translation). |
| 4.44 | MTS License No. 105967 for provision of mobile radiotelephone communication services in the territory of Buryatiya Republic, Sakha Republic (Yakutia), Trans-Baikal territory, Kamchatka Region, Primorsky Region, Khabarovsk Region, Amur Region, Irkutsk Region, Magadan Region, Sakhalin Region, Jewish Autonomous Region, Chukotsk Autonomous Region and provision of mobile radiotelephone communication services (IMT-2000/UMTS) in the territory of the Khabarovsk Region (English translation). |
| 4.45 | MTS License No. 105968 for provision of mobile radiotelephone communication services in the territory of Udmurt Republic, Perm Region, Kirov Region, Kurgan Region, Orenburg Region, Sverdlovsk Region, Tyumen Region, Chelyabinsk Region, Khanty-Mansiysk Autonomous District-Yugra and Yamalo-Nenetsk Autonomous Region (English translation). |
| 4.46 | MTS License No. 105969 for provision of mobile radiotelephone communication services of land mobile radio communication network GSM-900/1800 and IMT-2000/UMTS (radiofrequency 890-915 MHz, 935-960 MHz, 1710-1785 MHz, 1805-1880 MHz) in the territory of the Moscow (English translation). |
| 4.47 | MTS License No. 105970 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Karelia Republic, Arkhangelsk Region, Vologda Region, Kaliningrad Region, Leningrad Region, Murmansk Region, Nizhny Novgorod Region, Pskov Region, St. Petersburg and Nenets Autonomous District Region (English translation). |
| 4.48 | MTS License No. 105971 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Adygeya Republic (English translation). |
| 4.49 | MTS License No. 108058 for provision of data communication services excluding data communication services for the purposes of voice data communication in the territory of the Krasnoyarsk Region (English translation). |
| 4.50 | MTS License No. 108059 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Krasnoyarsk Region (English translation). |

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| Exhibits No. | Description |
|---------------------|--|
| 4.51 | MTS License No. 108060 for provision of telecommunication services for provision of communication channels in the territory of the Tatarstan Republic (English translation). |
| 4.52 | MTS License No. 108061 for provision of telecommunication services for provision of communication channels in the territory of the Kalmykia Republic and Severnaya Osetia-Alania Republic (English translation). |
| 4.53 | MTS License No. 108062 for provision of telecommunication services for provision of communication channels in the territory of the Krasnoyarsk Region (English translation). |
| 4.54 | MTS License No. 108063 for provision of telecommunication services for provision of communication channels in the territory of the Republic of Bashkortostan (English translation). |
| 4.55 | MTS License No. 108064 for provision of telecommunication services for provision of communication channels in the territory of the Kemerovo Region and Tomsk Region (English translation). |
| 4.56 | MTS License No. 108065 for provision of telematic communication services in the territory of the Krasnoyarsk Region (English translation). |
| 4.57 | MTS License No. 108069 for provision of local telephone communication services using payphones in the territory of the Moscow (English translation). |
| 4.58 | MTS License No. 108639 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Tomsk Region (English translation). |
| 4.59 | MTS License No. 108752 for provision of data communication services for the purposes of voice data communication in the territory of the Sverdlovsk Region and Khanty-Mansiysk Autonomous District-Yugra (English translation). |
| 4.60 | MTS License No. 108753 for provision of data communication services for the purposes of voice data communication in the territory of the Nenets Autonomous District (English translation). |
| 4.61 | MTS License No. 108754 for provision of data communication services for the purposes of voice data communication in the territory of the Tatarstan Republic (English translation). |
| 4.62 | MTS License No. 108755 for provision of data communication services for the purposes of voice data communication in the territory of the Vladimir Region and Ryazan Region (English translation). |
| 4.63 | MTS License No. 108756 for provision of data communication services for the purposes of voice data communication in the territory of the Jewish Autonomous Region and Chukotsk Autonomous Region (English translation). |
| 4.64 | MTS License No. 109133 for provision of intra-zone telephone communication services in the territory of the Khanty-Mansiysk Autonomous District-Yugra (English translation). |
| 4.65 | MTS License No. 109136 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Khanty-Mansiysk Autonomous District-Yugra (English translation). |
| 4.66 | MTS License No. 109138 for provision of fixed line network mobile radio communication services in the territory of the Khanty-Mansiysk Autonomous District-Yugra (English translation). |

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| Exhibits No. | Description |
|---------------------|--|
| 4.67 | MTS License No. 109139 for provision of data communication services for the purposes of voice data communication in the territory of the Khanty-Mansiysk Autonomous District-Yugra (English translation). |
| 4.68 | MTS License No. 109413 for provision of mobile radiotelephone communication services (IMT-MC-450) in the territory of the Khanty-Mansiysk Autonomous District-Yugra (English translation). |
| 4.69 | MTS License No. 109493 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Chuvashia Republic (English translation). |
| 4.70 | MTS License No. 109494 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Mari-El Republic (English translation). |
| 4.71 | MTS License No. 110499 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Tyva Republic (English translation). |
| 4.72 | MTS License No. 110696 for provision of intra-zone telephone communication services in the territory of the Ivanovo Region (English translation). |
| 4.73 | MTS License No. 110698 for provision of air broadcasting communication services (2,500-2,700 MHz) in the territory of Nizhny Novgorod (English translation). |
| 4.74 | MTS License No. 110700 for provision of data communication services for the purposes of voice data communication in the territory of the Samara Region (English translation). |
| 4.75 | MTS License No. 110701 for provision of data communication services for the purposes of voice data communication in the territory of the Tver Region (English translation). |
| 4.76 | MTS License No. 110704 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of Tyumen Region, Yamalo-Nenetsk Autonomous Region (English translation). |
| 4.77 | MTS License No. 110705 for provision of air broadcasting communication services in the territory of Arkhangelsk (2,500-2,700 MHz, not more than 13 frequency channels), Koryazhma, the Arkhangelsk Region(2,500-2,700 MHz, not more than 16 frequency channels) (English translation). |
| 4.78 | MTS License No. 110707 for provision of intra-zone telephone communication services in the territory of the Perm Region (English translation). |
| 4.79 | MTS License No. 110708 for provision of data communication services for the purposes of voice data communication in the territory of the St. Petersburg (English translation). |
| 4.80 | MTS License No. 110710 for provision of intra-zone telephone communication services in the territory of the Ulyanovsk Region (English translation). |
| 4.81 | MTS License No. 110711 for provision of intra-zone telephone communication services in the territory of the Chelyabinsk Region (English translation). |
| 4.82 | MTS License No. 110713 for provision of intra-zone telephone communication services in the territory of Tyumen Region, Yamalo-Nenetsk Autonomous Region (English translation). |

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| Exhibits No. | Description |
|---------------------|---|
| 4.83 | MTS License No. 110716 for provision of data communication services for the purposes of voice data communication in the territory of the Perm Region (English translation). |
| 4.84 | MTS License No. 110717 for provision of data communication services for the purposes of voice data communication in the territory of the Krasnodar Region (English translation). |
| 4.85 | MTS License No. 110718 for provision of fixed line mobile radio communication services in the territory of the Orenburg Region (English translation). |
| 4.86 | MTS License No. 110719 for provision of air broadcasting communication services (2,500-2,700 MHz, 24 frequency channels) in the territory of Ivanovo (English translation). |
| 4.87 | MTS License No. 110721 for provision of public network mobile radio communication services in the territory of the Rostov Region (English translation). |
| 4.88 | MTS License No. 110724 for provision of air broadcasting communication services (2,500-2,700 MHz, not more than 21 frequency channel) in the territory of Kaluga (English translation). |
| 4.89 | MTS License No. 110725 for provision of data communication services for the purposes of voice data communication in the territory of the Astrakhan Region (English translation). |
| 4.90 | MTS License No. 110729 for provision of data communication services for the purposes of voice data communication in the territory of the Udmurt Republic (English translation). |
| 4.91 | MTS License No. 110735 for provision of intra-zone telephone communication services in the territory of the Voronezh Region (English translation). |
| 4.92 | MTS License No. 110736 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Ulyanovsk Region (English translation). |
| 4.93 | MTS License No. 110738 for provision of air broadcasting communication services (2,500-2,700 MHz, not more than 18 frequency channels) in the territory of Izhevsk, the Udmurt Republic (English translation). |
| 4.94 | MTS License No. 110739 for provision of air broadcasting communication services in the territory of Severodvinsk, the Arkhangelsk Region (English translation). |
| 4.95 | MTS License No. 110740 for provision of intra-zone telephone communication services in the territory of the Samara Region (English translation). |
| 4.96 | MTS License No. 110741 for provision of intra-zone telephone communication services in the territory of the Kursk Region (English translation). |
| 4.97 | MTS License No. 110742 for provision of data communication services for the purposes of voice data communication in the territory of the Tambov Region (English translation). |
| 4.98 | MTS License No. 110743 for provision of local telephone services using public access in the territory of the Rostov Region (English translation). |
| 4.99 | MTS License No. 110744 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Tambov Region (English translation). |
| 4.100 | MTS License No. 110748 for provision of data communication services for the purposes of voice data communication in the territory of Tyumen Region, Yamalo-Nenets Autonomous Region (English translation). |

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| Exhibits No. | Description |
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| 4.101 | MTS License No. 110869 for provision of intra-zone telephone communication services in the territory of the Rostov Region (English translation). |
| 4.102 | MTS License No. 110870 for provision of intra-zone telephone communication services in the territory of the Severnaya Osetia-Alania Republic (English translation). |
| 4.103 | MTS License No. 110871 for provision of intra-zone telephone communication services in the territory of the Krasnodar Region (English translation). |
| 4.104 | MTS License No. 110872 for provision of telecommunication services for provision of communication channels in the territory of the Rostov Region (English translation). |
| 4.105 | MTS License No. 111326 for provision of cable casting communication services in the territory of the Moscow Region (English translation). |
| 4.106 | MTS License No. 111594 for provision of telematic communication services in the territory of the Khanty-Mansiysk Autonomous District-Yugra (English translation). |
| 4.107 | MTS License No. 111595 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Khanty-Mansiysk Autonomous District-Yugra (English translation). |
| 4.108 | MTS License No. 111596 for provision of telecommunication services for provision of communication channels in the territory of the Khanty-Mansiysk Autonomous District-Yugra (English translation). |
| 4.109 | MTS License No. 111597 for provision of cable casting communication services in the territory of the Khanty-Mansiysk Autonomous District-Yugra (English translation). |
| 4.110 | MTS License No. 111800 for provision of data communication services excluding data communication services for the purposes of voice data communication in the territory of the Altai Republic (English translation). |
| 4.111 | MTS License No. 111801 for provision of mobile radiotelephone communication services (GSM-900) in the territory of the Astrakhan Region (English translation). |
| 4.112 | MTS License No. 111802 for provision of telecommunication services for provision of communication channels in the territory of Komi Republic, Kostroma Region, Moscow Region, Tver Region, Moscow (English translation). |
| 4.113 | MTS License No. 111816 for provision of telecommunication services for provision of communication channels in the territory of: Moscow Region, Moscow (English translation). |
| 4.114 | MTS License No. 111818 for provision of data communication services excluding data communication services for the purposes of voice data communication in the territory of the Moscow (English translation). |
| 4.115 | MTS License No. 112544 for provision of air broadcasting communication services in the territory of Yekaterinburg (English translation). |
| 4.116 | MTS License No. 112630 for provision of mobile wireless communication services in the territory of the Moscow Region; Moscow (English translation). |
| 4.117 | MTS License No. 112865 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Moscow (English translation). |

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| Exhibits No. | Description |
|---------------------|--|
| 4.118 | MTS License No. 113017 for provision of air broadcasting communication services in the territory of Rostov-on-Don city (English translation). |
| 4.119 | MTS License No. 113535 for provision of mobile radiotelephone communication services (GSM-1800) in the territory of the Kabardino-Balkar Republic (English translation). |
| 4.120 | MTS License No. 113536 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Kemerovo Region (English translation). |
| 4.121 | MTS License No. 113537 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Moldova Republic (English translation). |
| 4.122 | MTS License No. 113538 for provision of mobile radiotelephone communication services (GSM-1800) in the territory of the Kalmykia Republic (English translation). |
| 4.123 | MTS License No. 113539 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Chuvashia Republic (English translation). |
| 4.124 | MTS License No. 113540 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Dagestan Republic (English translation). |
| 4.125 | MTS License No. 113541 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Ingushetia Republic (English translation). |
| 4.126 | MTS License No. 113542 for provision of mobile radiotelephone communication services (GSM-1800) in the territory of the Ulyanovsk Region (English translation). |
| 4.127 | MTS License No. 113543 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Kemerovo Region (English translation). |
| 4.128 | MTS License No. 113544 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Stavropol Region (English translation). |
| 4.129 | MTS License No. 113545 for provision of mobile radiotelephone communication services (GSM-900/1800) in the territory of the Karachaevo-Cherkesia Republic (English translation). |
| 4.130 | MTS License No. 113546 for provision of mobile radiotelephone communication services (GSM-1800) in the territory of the Altai Republic (English translation). |
| 4.131 | MTS License No. 113547 for provision of mobile radiotelephone communication services (GSM-1800) in the territory of the Tyva Republic (English translation). |
| 4.132 | MTS License No. 114619 for provision of air broadcasting communication services in the territory of Norilsk (2,500 - 2,700 MHz, 12 channels), Dudinka (2,500 - 2,700 MHz, 12 channels) (English translation). |
| 4.133 | MTS License No. 114620 for provision of intra-zone telephone communication services in the territory of the Astrakhan Region (English translation). |
| 4.134 | MTS License No. 114621 for provision of intra-zone telephone communication services in the territory of the Kemerovo Region (English translation). |
| 4.135 | MTS License No. 114622 for provision of intra-zone telephone communication services in the territory of the Arkhangelsk Region (English translation). |
| 4.136 | MTS License No. 114623 for provision of intra-zone telephone communication services in the territory of the Vologda Region. |

(English translation).

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| Exhibits No. | Description |
|---------------------|---|
| 4.137 | MTS License No. 114624 for provision of intra-zone telephone communication services in the territory of the Kaliningrad Region (English translation). |
| 4.138 | MTS License No. 114625 for provision of intra-zone telephone communication services in the territory of the Murmansk Region (English translation). |
| 4.139 | MTS License No. 114626 for provision of intra-zone telephone communication services in the territory of the St. Petersburg (English translation). |
| 4.140 | MTS License No. 114627 for provision of intra-zone telephone communication services in the territory of the Komi Republic (English translation). |
| 4.141 | MTS License No. 114628 for provision of intra-zone telephone communication services in the territory of the Karelia Republic (English translation). |
| 4.142 | MTS License No. 114629 for provision of intra-zone telephone communication services in the territory of the Novgorod Region (English translation). |
| 4.143 | MTS License No. 114630 for provision of air broadcasting communication services in the territory of Tver, the Tver Region (2,500 - 2,700 MHz, not more than 24 frequency channels) (English translation). |
| 4.144 | MTS License No. 115176 for provision of intra-zone telephone communication services in the territory of the Volgograd Region (English translation). |
| 4.145 | MTS License No. 115207 for provision of local telephone services except for local telephone services using payphones and public access facilities in the territory of the Moscow Region (English translation). |
| 4.146 | MTS License No. 115208 for provision of data communication services, except for data communication services for the purpose of voice data transfer in the territory of the Moscow Region (English translation). |
| 4.147 | MTS License No. 116023 for provision of local telephone communication services, excluding local telephone communication services using payphones and shared-access facilities in the territory of the Penza Region (English translation). |
| 4.148 | MTS License No. 116564 for provision of fixed line network mobile radio communication services in the territory of the Yamalo-Nenets Autonomous Region (English translation). |
| 4.149 | MTS License No. 117190 for provision of air broadcasting communication services in the territory of Taganrog, the Rostov Region (2,500 - 2,700 MHz, not more than 12 frequency channels) (English translation). |
| 4.150 | MTS License No. 117814 for provision of intra-zone telephone communication services in the territory of the Kurgan Region (English translation). |
| 4.151 | MTS License No. 117815 for provision of data communication services for the purposes of voice data communication in the territory of the Arkhangelsk Region (English translation). |
| 4.152 | MTS License No. 117816 for provision of data communication services for the purposes of voice data communication in the territory of the Krasnoyarsk Region (English translation). |
| 4.153 | MTS License No. 117817 for provision of data communication services for the purposes of voice data communication in the territory of the Novosibirsk Region (English translation). |

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| Exhibits No. | Description |
|---------------------|--|
| 4.154 | MTS License No. 117818 for provision of data communication services for the purposes of voice data communication in the territory of the Leningrad Region (English translation). |
| 4.155 | MTS License No. 117819 for provision of data communication services for the purposes of voice data communication in the territory of the Nizhny Novgorod Region (English translation). |
| 4.156 | MTS License No. 117820 for provision of data communication services for the purposes of voice data communication in the territory of the Omsk Region (English translation). |
| 4.157 | MTS License No. 117821 for provision of data communication services for the purposes of voice data communication in the territory of the Smolensk Region (English translation). |
| 4.158 | MTS License No. 117822 for provision of data communication services for the purposes of voice data communication in the territory of the Novgorod Region (English translation). |
| 4.159 | MTS License No. 117823 for provision of data communication services for the purposes of voice data communication in the territory of the Tula Region (English translation). |
| 4.160 | MTS License No. 117824 for provision of data communication services for the purposes of voice data communication in the territory of the Volgograd Region (English translation). |
| 4.161 | MTS License No. 117825 for provision of data communication services for the purposes of voice data communication in the territory of the Kemerovo Region (English translation). |
| 8.1 | List of Subsidiaries of Mobile TeleSystems OJSC. |
| 12.1 | Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 12.2 | Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 13.1 | Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 13.2 | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial statements from the Annual Report on Form 20-F of Mobile TeleSystems OJSC for the year ended December 31, 2013, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated statements of financial position, (ii) consolidated statements of operations, (iii) consolidated statements of changes in shareholders' equity, (iv) consolidated statements of cash flows and (v) notes to the consolidated financial statements.** |

*

Approved General Meeting of Shareholders of Mobile TeleSystems OJSC held on June 25, 2013 and became effective upon registration with the Federal Tax Service on July 10, 2013.

**

The following financial statements from the Annual Report on Form 20-F of Mobile TeleSystems OJSC for the year ended December 31, 2013, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated statements of financial position, (ii) consolidated statements of operations, (iii) consolidated statements of changes in shareholders' equity, (iv) consolidated statements of cash flows and (v) notes to the consolidated financial statements.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 24, 2014

MOBILE TELESYSTEMS OJSC

By: /s/ Andrei A. Dubovskov

Name: Andrei A. Dubovskov
Title: President and Chief Executive Officer

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**OJSC MOBILE
TELESYSTEMS
AND SUBSIDIARIES**

Consolidated Financial Statements

As of December 31, 2013 and 2012 and for
the Years Ended December 31, 2013, 2012 and 2011

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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| <u>Consolidated statements of changes in shareholders' equity for the years ended December 31, 2013, 2012 and 2011</u> | <u>F-5</u> |
| <u>Consolidated statements of cash flows for the years ended December 31, 2013, 2012 and 2011</u> | <u>F-6 - F-7</u> |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Mobile TeleSystems OJSC:

We have audited the accompanying consolidated statements of financial position of Mobile TeleSystems OJSC and subsidiaries (the "Group") as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mobile TeleSystems OJSC and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2013 based on the criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 17, 2014 expressed an unqualified opinion on the Group's internal control over financial reporting.

/s/ ZAO Deloitte & Touche CIS

Moscow, Russia
March 17, 2014, except for Note 28,
as to which the date is April 24, 2014

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012

(Amounts in millions of Russian Rubles, except share amounts and per share amounts)

| | Note | December 31, 2013 | 2012 |
|---|-------|----------------------|----------------|
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 5 | 30,612 | 22,014 |
| Short-term investments (including available-for-sale securities at fair value of 4,154 and nil, respectively), including related party amounts of 9,235 and 101, respectively | 6 | 14,633 | 4,034 |
| Trade receivables, net of allowance for doubtful accounts of 3,753 and 3,461, respectively | 7 | 34,554 | 33,372 |
| Accounts receivable, related parties | 22 | 965 | 336 |
| Inventory and spare parts | 8 | 8,498 | 8,586 |
| Prepaid expenses, including related party amounts of 123 and 60, respectively | | 9,811 | 9,905 |
| Deferred tax assets | 21 | 7,933 | 6,998 |
| VAT receivable | | 6,651 | 5,415 |
| Other current assets | | 3,019 | 1,702 |
| Total current assets | | 116,676 | 92,362 |
| PROPERTY, PLANT AND EQUIPMENT , net of accumulated depreciation of 293,389 and 242,886, including advances to related parties of 367 and 1,024, respectively | | | |
| | 9 | 270,660 | 271,781 |
| LICENSES , net of accumulated amortization of 3,194 and 4,060, respectively | 3, 10 | 3,202 | 3,293 |
| GOODWILL | 3, 11 | 32,704 | 32,428 |
| OTHER INTANGIBLE ASSETS , net of accumulated amortization of 58,153 and 47,994, including advances to related parties of 232 and 279, respectively | 3, 12 | 38,423 | 37,727 |
| DEBT ISSUANCE COSTS , net of accumulated amortization of 2,375 and 3,184, respectively | | 2,023 | 3,574 |
| INVESTMENTS IN AND ADVANCES TO ASSOCIATES | 13 | 13,393 | 5,532 |
| OTHER INVESTMENTS , including related party amounts of 743 and 3,024, respectively | 14 | 4,392 | 5,814 |
| OTHER NON-CURRENT ASSETS , including restricted cash of nil and 115, deferred tax assets of 862 and 2,186, respectively | 21 | 4,051 | 2,467 |
| Total assets | | 485,524 | 454,978 |

The accompanying notes are an integral part of these consolidated financial statements.

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

AS OF DECEMBER 31, 2013 AND 2012

(Amounts in millions of Russian Rubles, except share amounts and per share amounts)

| | Note | December 31, | |
|---|------|----------------|----------------|
| | | 2013 | 2012 |
| CURRENT LIABILITIES: | | | |
| Accounts payable, related parties | 22 | 3,315 | 2,338 |
| Trade payables | | 23,864 | 22,588 |
| Subscriber prepayments and deposits | | 17,884 | 16,548 |
| Debt, current portion | 15 | 7,564 | 17,422 |
| Notes payable, current portion | 15 | 17,462 | 10,039 |
| Deferred connection fees, current portion | 17 | 1,604 | 1,463 |
| Income tax payable | | 997 | 728 |
| Accrued liabilities | 20 | 27,674 | 25,438 |
| Provision for claims in Uzbekistan | 4 | | 8,031 |
| Bitel liability | 27 | | 6,718 |
| Other payables (including capital lease obligations of 38 and 163, respectively) | | 1,498 | 2,092 |
| Total current liabilities | | 101,862 | 113,405 |
| LONG-TERM LIABILITIES: | | | |
| Notes payable, net of current portion | 15 | 85,282 | 70,737 |
| Debt, net of current portion | 15 | 108,792 | 133,695 |
| Deferred connection fees, net of current portion | 17 | 2,045 | 2,354 |
| Deferred taxes | 21 | 21,202 | 10,670 |
| Retirement and post-retirement obligations | | 1,059 | 1,212 |
| Property, plant and equipment contributions | | 2,428 | 2,684 |
| Other long-term liabilities (including capital lease obligations of 10 and 49, respectively) | | 3,869 | 3,932 |
| Total long-term liabilities | | 224,677 | 225,284 |
| Total liabilities | | 326,539 | 338,689 |
| Commitments and contingencies | 27 | | |
| Redeemable noncontrolling interest | 24 | 2,932 | 2,298 |
| SHAREHOLDERS' EQUITY: | | | |
| Common stock (2,066,413,562 shares issued as of December 31, 2013 and 2012, 777,396,505 of which are in the form of ADS as of December 31, 2013 and 2012) | 23 | 207 | 207 |
| Treasury stock (77,582,378 and 77,494,385 common shares at cost as of December 31, 2013 and 2012) | | (24,482) | (24,462) |
| Additional paid-in capital | | 3,019 | 283 |
| Accumulated other comprehensive loss | | (15,030) | (13,676) |

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| | | |
|---|----------------|----------------|
| Retained earnings | 188,217 | 148,371 |
| Total equity attributable to the Group | 151,931 | 110,723 |
| Nonredeemable noncontrolling interest | 4,122 | 3,268 |
| Total equity | 156,053 | 113,991 |
| Total liabilities and equity | 485,524 | 454,978 |

The accompanying notes are an integral part of these consolidated financial statements.

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in millions of Russian Rubles, except share amounts and per share amounts)

| | Note | Years ended December 31, | | |
|---|------|--------------------------|----------------|----------------|
| | | 2013 | 2012 | 2011 |
| NET OPERATING REVENUES | | | | |
| Services revenue and connection fees (including related party amounts of 1,113 and 492 and 396, respectively) | | 371,950 | 349,338 | 322,546 |
| Sales of handsets and accessories | | 26,493 | 28,902 | 26,025 |
| Total net operating revenues | | 398,443 | 378,240 | 348,571 |
| OPERATING EXPENSES | | | | |
| Cost of services, excluding depreciation and amortization shown separately below (including related party amounts of 1,186 and 692 and 466, respectively) | | 83,777 | 83,051 | 74,753 |
| Cost of handsets and accessories | | 22,636 | 25,042 | 26,286 |
| General and administrative expenses (including related party amounts of 2,047 and 2,097 and 1,843, respectively) | 25 | 85,458 | 77,977 | 69,181 |
| Allowance for doubtful accounts | | 3,106 | 2,606 | 3,189 |
| Sales and marketing expenses (including related party amounts of 1,853 and 1,941 and 2,444, respectively) | | 22,861 | 21,667 | 24,800 |
| Depreciation and amortization expense | | 73,253 | 67,910 | 63,932 |
| Other operating expense / (income) (including related party amounts of 370 and (116) and 16, respectively) | | 5,594 | 6,193 | 6,135 |
| Net operating income | | 101,758 | 93,794 | 80,295 |
| CURRENCY EXCHANGE AND TRANSACTION LOSS / (GAIN) | | 5,473 | (3,952) | 4,403 |
| OTHER (INCOME) / EXPENSES | | | | |
| Interest income (including related party amounts of 742 and 172 and 445, respectively) | | (2,793) | (2,588) | (1,850) |
| Interest expense, net of capitalized interest (including related party amounts of nil and 367 and 12, respectively) | | 15,498 | 17,673 | 19,333 |
| Equity in net income of associates | 13 | (2,472) | (869) | (1,430) |
| Other (income) / expenses, net (including gain of (11,087) related to Bitel settlement in 2013) | 27 | (10,636) | 688 | 180 |
| Total other (income) / expenses, net | | (403) | 14,904 | 16,233 |
| Income from continuing operations before provision for income taxes | | 96,688 | 82,842 | 59,659 |
| PROVISION FOR INCOME TAXES | 21 | 19,633 | 19,384 | 15,526 |
| NET INCOME FROM CONTINUING OPERATIONS | | 77,055 | 63,458 | 44,133 |

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| | | | | |
|--|----|----------------|----------------|---------------|
| NET INCOME / (LOSS) FROM DISCONTINUED OPERATIONS | 4 | 3,733 | (32,846) | 1,806 |
| NET INCOME | | 80,788 | 30,612 | 45,939 |
| LESS: NET INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST | | (949) | (970) | (3,624) |
| NET INCOME ATTRIBUTABLE TO THE GROUP | | 79,839 | 29,642 | 42,315 |
| OTHER COMPREHENSIVE (LOSS) / INCOME, NET OF TAX | | | | |
| Currency translation adjustment | | (2,877) | (2,211) | 2,165 |
| Unrealized gain on derivatives, net of tax of (361) and (64) and (54) | 18 | 1,445 | 255 | 216 |
| Unrecognized actuarial gain / (loss), net of tax of (46) and 38 and (47) | | 185 | (152) | 188 |
| Other comprehensive (loss) / income, net of tax | | (1,247) | (2,108) | 2,569 |
| TOTAL COMPREHENSIVE INCOME | | 79,541 | 28,504 | 48,508 |
| LESS: TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST | | (1,056) | (772) | (3,749) |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE GROUP | | 78,485 | 27,732 | 44,759 |
| Weighted average number of common shares outstanding, in thousands basic and diluted | | 1,988,849 | 1,988,919 | 1,970,953 |
| Earnings per share attributable to the Group basic and diluted, RUB | | | | |
| EPS from continuing operations | | 38.27 | 31.42 | 20.55 |
| EPS from discontinued operations | | 1.88 | (16.51) | 0.92 |
| Total EPS | | 40.14 | 14.90 | 21.47 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**

(Amounts in millions of Russian Rubles, except share amounts)

| | Common stock | | Treasury stock | | Additional paid-in capital | Accumulated other comprehensive (loss) | Retained earnings | Total equity attributable to the Group | Non- redeemable noncontrolling interest | Total equity | Redeemable noncontrolling interest |
|--|----------------------|------------|---------------------|-----------------|----------------------------------|---|----------------------|---|--|-----------------|--|
| | Shares | Amount | Shares | Amount | | | | | | | |
| Balances at January 1, 2011 | 1,993,326,138 | 199 | (76,456,876) | (26,084) | | (14,210) | 135,330 | 95,235 | 31,451 | 126,686 | 2,650 |
| Net income | | | | | | | 42,315 | 42,315 | 3,425 | 45,740 | 199 |
| Other comprehensive income / (loss), net of tax | | | | | | 2,444 | | 2,444 | 30 | 2,474 | 95 |
| Dividends declared by MTS | | | | | | | (28,919) | (28,919) | | (28,919) | |
| Dividends to noncontrolling interest | | | | | | | | | (5,701) | (5,701) | (154) |
| Change in fair value of noncontrolling interest of K-Telecom | | | | | | | 195 | 195 | | 195 | (195) |
| Acquisition of own stock | | | (8,000) | (2) | | | | (2) | | (2) | |
| Exercise of put option in Comstar-UTS | | | | | | | 360 | 360 | | 360 | |
| Comstar-UTS merger | 73,087,424 | 8 | (1,031,849) | 1,624 | 9,912 | | | 11,544 | (11,232) | 312 | |
| Acquisition of noncontrolling interest in Comstar-UTS | | | | | | | (1,262) | (1,262) | (3,391) | (4,653) | |
| Acquisition of noncontrolling interest in MGTS (Note 3) | | | | | (9,780) | | | (9,780) | (11,188) | (20,968) | |
| Increase in ownership in subsidiaries (Note 3) | | | | | (22) | | | (22) | (542) | (564) | |
| Balances at December 31, 2011 | 2,066,413,562 | 207 | (77,496,725) | (24,462) | 110 | (11,766) | 148,019 | 112,108 | 2,852 | 114,960 | 2,595 |
| Net income | | | | | | | 29,642 | 29,642 | 694 | 30,336 | 276 |
| Other comprehensive (loss) / income, net of tax | | | | | | (1,910) | | (1,910) | 41 | (1,869) | (239) |
| Dividends declared by MTS | | | | | | | (29,257) | (29,257) | | (29,257) | |
| Dividends to noncontrolling interest | | | | | | | | | | | (367) |
| Change in fair value of noncontrolling interest of K-Telecom | | | | | | | (33) | (33) | | (33) | 33 |

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| | | | | | | | | | | |
|--|-------|---|-----|--|--|-----|--|-------|--|-------|
| Sale of own stock | 2,340 | 0 | | | | 0 | | 0 | | |
| Repurchase of own shares by MGTS (Note 23) | | | 57 | | | 57 | | (319) | | (262) |
| Disposal of Stream (Note 3) | | | 116 | | | 116 | | | | 116 |

Balances at December 31, 2012 **2,066,413,562** **207** **(77,494,385)** **(24,462)** **283** **(13,676)** **148,371** **110,723** **3,268** **113,991** **2,298**

| | | | | | | | | | | |
|--|--|--|----------|------|-------|----------|----------|------------|----------|--------------|
| Net income | | | | | | 79,839 | 79,839 | 693 | 80,532 | 256 |
| Other comprehensive (loss) / income, net of tax | | | | | | (1,354) | (1,354) | 10 | (1,344) | 97 |
| Issuance of Stock Options (Note 2) | | | 94 | | | | 94 | | 94 | |
| Dividends declared MTS | | | | | | (39,419) | (39,419) | | (39,419) | |
| Dividends to noncontrolling interest | | | | | | | | | | (293) |
| Acquisition of own stock | | | (90,881) | (20) | | | (20) | | (20) | |
| Change in fair value of noncontrolling interest of K-Telecom | | | | | | (574) | (574) | | (574) | 574 |
| Sale of own stock | | | 2,888 | 0 | 1 | | 1 | | 1 | |
| Disposal of Business-Nedvizhimost (Note 3) | | | | | 2,641 | | 2,641 | 151 | 2,792 | |

Balances at December 31, 2013 **2,066,413,562** **207** **(77,582,378)** **(24,482)** **3,019** **(15,030)** **188,217** **151,931** **4,122** **156,053** **2,932**

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011****(Amounts in millions of Russian Rubles)**

| | Years ended December 31, | | |
|--|--------------------------|----------------|----------------|
| | 2013 | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | 80,788 | 30,612 | 45,939 |
| Net (income) / loss from discontinued operations | (3,733) | 32,846 | (1,806) |
| Net income from continuing operations | 77,055 | 63,458 | 44,133 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 73,253 | 67,910 | 63,932 |
| Currency exchange and transaction loss / (gain) | 5,473 | (3,952) | 4,403 |
| Debt issuance cost amortization | 784 | 952 | 839 |
| Amortization of deferred connection fees | (1,921) | (2,287) | (2,838) |
| Equity in net income of associates | (2,472) | (869) | (1,430) |
| Allowance for doubtful accounts | 3,106 | 2,606 | 3,189 |
| Inventory obsolescence expense | 660 | 759 | 827 |
| Deferred tax expense | 9,671 | 3,290 | 496 |
| Other non-cash items | (192) | 461 | 137 |
| Changes in operating assets and liabilities: | | | |
| Increase in trade receivables | (3,474) | (8,489) | (6,145) |
| Increase in inventory and spare parts | (592) | (61) | (349) |
| Increase in prepaid expenses and other current assets | (2,966) | (727) | (507) |
| (Increase) / decrease in VAT receivable | (1,190) | 673 | (1,118) |
| Increase in trade payables, accrued liabilities and other current liabilities | 8,136 | 9,365 | 132 |
| (Decrease) / increase in liability for Bitel | (7,238) | 241 | 68 |
| Dividends received | 1,831 | 1,526 | 1,250 |
| Net cash provided by operating activities continuing operations | 159,924 | 134,856 | 107,019 |
| Net cash (used in) / provided by operating activities discontinued operations | (547) | (2,733) | 6,543 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 159,377 | 132,123 | 113,562 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Acquisition of subsidiaries, net of cash acquired | | (1,937) | (6,569) |
| Purchases of property, plant and equipment | (67,146) | (79,836) | (64,015) |

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| | | | |
|--|-----------------|-----------------|-----------------|
| Purchases of intangible assets | (14,429) | (7,947) | (8,787) |
| Proceeds from sale of property, plant and equipment and assets held for sale | 418 | 395 | 663 |
| Purchases of short-term investments | (37,623) | (33,474) | (14,844) |
| Proceeds from sale of short-term investments | 27,785 | 31,548 | 22,278 |
| Purchase of other investments | (703) | (2,100) | (1,614) |
| Proceeds from sales of other investments | | 2,029 | 140 |
| Investments in and advances to / from associates, net | (5,088) | | 90 |
| Net cash used in investing activities continuing operations | (96,786) | (91,322) | (72,658) |
| Net cash provided by / (used in) investing activities discontinued operations | 115 | (2,045) | (4,552) |
| NET CASH USED IN INVESTING ACTIVITIES | (96,671) | (93,367) | (77,210) |

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011****(Amounts in millions of Russian Rubles)**

| | Years ended December 31, | | |
|--|---------------------------------|-----------------|----------------|
| | 2013 | 2012 | 2011 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Cash payments for the acquisitions of subsidiaries from entities under common control and noncontrolling interests | | (261) | (26,517) |
| Contingent consideration paid on acquisition of subsidiaries | | (20) | (390) |
| Proceeds from issuance of notes | 25,651 | | 6,380 |
| Repayment of notes | (6,195) | (25,561) | (1,381) |
| Notes and debt issuance cost | (193) | | (2,171) |
| Reimbursement of debt issuance cost | 959 | | |
| Capital lease obligation principal paid | (202) | (213) | (275) |
| Dividends paid | (39,706) | (29,626) | (34,783) |
| Proceeds on sale of Business-Nedvizhimost to Sistema, net of cash disposed | 3,068 | | |
| Cash deconsolidated on the loss of control over Stream | | (227) | |
| Proceeds from loans | 353 | 17,955 | 61,795 |
| Loan principal paid | (38,996) | (37,394) | (8,659) |
| Other financing activities | 116 | 1 | 371 |
| Net cash used in financing activities continuing operations | (55,145) | (75,346) | (5,630) |
| NET CASH USED IN FINANCING ACTIVITIES | (55,145) | (75,346) | (5,630) |
| Effect of exchange rate changes on cash and cash equivalents | 1,037 | (985) | 594 |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | 8,598 | (37,575) | 31,316 |
| CASH AND CASH EQUIVALENTS, beginning of the year | 22,014 | 59,589 | 28,273 |
| CASH AND CASH EQUIVALENTS, end of the year | 30,612 | 22,014 | 59,589 |
| Less: cash and cash equivalents from discontinued operations, end of the year | | (411) | (4,880) |
| CASH AND CASH EQUIVALENTS from continuing operations, end of the year | 30,612 | 21,603 | 54,709 |
| SUPPLEMENTAL INFORMATION: | | | |
| Income taxes paid | 11,590 | 17,050 | 15,045 |

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| | | | |
|---|--------|--------|--------|
| Interest paid | 15,979 | 19,104 | 18,606 |
| Non-cash investing and financing activities: | | | |
| Contributed property, plant and equipment | 19 | 32 | 197 |
| Amounts owed for capital expenditures | 3,908 | 3,502 | 7,375 |
| Payables related to business acquisitions | 11 | 277 | 221 |

The accompanying notes are an integral part of the consolidated financial statements.

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in millions of Russian Rubles, unless otherwise stated)

1. DESCRIPTION OF BUSINESS

Business of the Group Open Joint-Stock Company Mobile TeleSystems ("MTS OJSC", or "the Company") was incorporated on March 1, 2000, through the merger of MTS CJSC and Rosico TC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow license area in 1994 and then began expanding through Russia and the CIS. MTS OJSC's majority shareholder is Joint-Stock Financial Corporation Sistema or "Sistema".

In these notes, "MTS" or the "Group" refers to Mobile TeleSystems OJSC and its subsidiaries.

The Group provides a wide range of telecommunications services including voice and data transmission, internet access, pay TV, various value added services through wireless and fixed lines, as well as selling equipment and accessories. The Group's principal operations are located in Russia, Ukraine, Turkmenistan and Armenia. During 2004-2012 the Group also operated in Uzbekistan.

MTS completed its initial public offering in 2000 and listed its shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol "MBT". Since 2003 common shares of MTS OJSC have been traded on the Open Joint-Stock Company "Moscow Exchange MICEX-RTS" ("Moscow Exchange").

Since 2009, the Group has been developing its own retail network, operated by Russian Telephone Company CJSC ("RTC"), a wholly owned subsidiary of MTS OJSC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Accounting principles The Group's entities maintain accounting books and records in local currencies of their domicile in accordance with the requirements of respective accounting and tax legislation. The accompanying consolidated financial statements have been prepared in order to present MTS' financial position and its results of operations and cash flows in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and are expressed in terms of Russian Rubles.

The accompanying consolidated financial statements differ from the financial statements used for statutory purposes in that they reflect certain adjustments, not recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, acquisition accounting, depreciation and valuation of property, plant and equipment, intangible assets and investments.

Basis of consolidation The consolidated financial statements include the accounts of the Company, as well as entities where the Company has operating and financial control, most often through the direct or indirect ownership of a majority voting interest. Those ventures where the Group exercises significant influence but does not have operating and financial control are accounted for using the equity method. Investments in which the Group does not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method and included in long-term investments in the consolidated statements of financial position. The consolidated financial statements also include accounts of variable interest entities ("VIEs") in which the Group is deemed to

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

be the primary beneficiary. An entity is generally a VIE if it meets any of the following criteria: (i) the entity has insufficient equity to finance its activities without additional subordinated financial support from other parties, (ii) the equity investors cannot make significant decisions about the entity's operations or (iii) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity or receive the expected returns of the entity and substantially all of the entity's activities involve or are conducted on behalf of the investor with disproportionately few voting rights. All significant intercompany transactions, balances and unrealized gains and losses on transactions have been eliminated.

As of December 31, 2013 and 2012, the Company had investments in the following significant legal entities:

| | Accounting method | December 31, | |
|--|----------------------|--------------|--------|
| | | 2013 | 2012 |
| MTS Turkmenistan | Consolidated | 100.0% | 100.0% |
| MTS Bermuda ⁽²⁾ | Consolidated | 100.0% | 100.0% |
| MTS Finance | Consolidated | 100.0% | 100.0% |
| MTS Ukraine | Consolidated | 100.0% | 100.0% |
| RTC | Consolidated | 100.0% | 100.0% |
| Sibintertelecom | Consolidated | 100.0% | 100.0% |
| TVT | Consolidated | 100.0% | 100.0% |
| SibGroupInvest | Consolidated | 100.0% | 100.0% |
| Sistema Telecom | Consolidated | 100.0% | 100.0% |
| Elf Group | Consolidated | 100.0% | 100.0% |
| Intercom | Consolidated | 100.0% | 100.0% |
| Zheleznogorsk City Telephone Communications ("ZhelGorTeleCom") | Consolidated | 100.0% | 100.0% |
| Pilot | Consolidated | 100.0% | 100.0% |
| TVKiK | Consolidated | 100.0% | 100.0% |
| Metro-Telecom | Consolidated | 95.0% | 95.0% |
| MGTS | Consolidated | 94.6% | 94.6% |
| K-Telecom | Consolidated | 80.0% | 80.0% |
| Comstar-Regions ⁽¹⁾ | Consolidated | | 100.0% |
| Infocentr ⁽¹⁾ | Consolidated | | 100.0% |
| Altair ⁽¹⁾ | Consolidated | | 100.0% |
| Uzdunrobita ⁽³⁾ | Deconsolidated | | 100.0% |
| MTS International Funding Limited ("MTS International") | Consolidated | VIE | VIE |
| Intellect Telecom | Equity | 47.3% | 47.3% |
| Stream | Equity | 45.0% | 45.0% |
| MTS Belarus | Equity | 49.0% | 49.0% |
| MTS Bank | Equity | 26.3% | 1.7% |

(1) Merged with MTS OJSC on April 1, 2013.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011****(Amounts in millions of Russian Rubles, unless otherwise stated)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

(2) A wholly-owned subsidiary established to repurchase the Group's ADSs.

(3) Deconsolidated on April 22, 2013.

The Group consolidates MTS International, a private company organized and existing as a private limited company under the laws of Ireland, which qualified as a variable interest entity under Financial Accounting Standards Board Accounting Standards Codification ("ASC") 810, Consolidation. The Group is the primary beneficiary of MTS International. MTS International was established for the purpose of raising capital through the issuance of debt securities on the Irish Stock Exchange followed by transferring the proceeds through a loan facility to the Group. In 2010 and 2013, MTS International issued \$750 million 8.625% notes due in 2020 and \$500 million 5.0% notes due in 2023, respectively (Note 15). The notes are guaranteed by MTS OJSC in the event of default. While the Group does not hold any equity in MTS International, it has concluded that it is the primary beneficiary by virtue of the fact that it has the power to direct the activities of MTS International that most significantly impact its performance and by virtue of the guarantee that exists which means the Group has the obligation to absorb losses of MTS International that could potentially be significant to MTS International.

The table below summarizes the assets and liabilities of MTS International as of December 31, 2013 and 2012:

| | December 31, | |
|--|---------------------|---------------|
| | 2013 | 2012 |
| Cash and cash equivalents | 1 | 1 |
| Intercompany Receivable from MTS OJSC ⁽¹⁾ | 41,035 | 22,829 |
| Total assets | 41,036 | 22,830 |
| Interest payable ⁽²⁾ | 123 | 50 |
| Notes payable due 2020 and 2023 ⁽³⁾ | 40,912 | 22,779 |
| Other payables | 1 | 1 |
| Total liabilities | 41,036 | 22,830 |

(1) Eliminated in the Group consolidated statements of financial position.

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- (2) Relates to MTS International Notes due 2020 and 2023, included in accrued liabilities in the Group consolidated statements of financial position.
- (3) Included in notes payable, net of current portion, in the Group consolidated statements of financial position (Note 15).

The MTS International Notes due 2020 and 2023 and related interest payable are fully covered by intercompany receivables from MTS OJSC. MTS International does not perform any other activities except those required for notes servicing. The Group bears all costs incurred by MTS International in connection with the notes' maintenance activities. Such costs for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 2,535 million, RUB 2,011 million and RUB 1,950 million,

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

respectively, and were included in interest expense reported by the Group in the consolidated statements of operations and comprehensive income.

Functional currency translation methodology As of December 31, 2013, the functional currencies of Group entities were as follows:

For entities incorporated in the Russian Federation, MTS Bermuda, MTS Finance and MTS International the Russian Ruble ("RUB");

For MTS Ukraine the Ukrainian Hryvna;

For MTS Turkmenistan the Turkmenian Manat;

For K-Telecom the Armenian Dram;

For MTS Belarus the Russian Ruble.

In 2013, the Group changed its reporting currency from the U.S. Dollar ("USD") to the Russian Ruble. The Group believes that reporting in Russian Rubles allows for greater transparency with respect to reporting the Group's financial and operating performance as such reporting more closely reflects the profile of the Group's revenues and operating income, a major portion of which are generated in Russian Rubles. In accordance with authoritative guidance, comparative information was restated in Russian Rubles. Remeasurement of the financial statements into functional currencies, where applicable, and translation of financial statements into Russian Rubles has been performed as follows:

For entities whose records are not maintained in their functional currencies, monetary assets and liabilities have been remeasured at the period-end exchange rates. Non-monetary assets and liabilities have been remeasured at historical rates. Revenues, expenses and cash flows have been remeasured at average rates. Remeasurement differences resulting from the use of these rates have been accounted for as currency exchange and translation gains and losses in the accompanying consolidated statements of operations and comprehensive income.

For entities whose records are maintained in their functional currency, which is other than the reporting currency, all year-end assets and liabilities have been translated into U.S. Dollars at the period-end exchange rate set by local central banks. Subsequently U.S. Dollars balances have been translated into Russian Rubles at the period-end exchange rate set by the Central Bank of Russia. Revenues and expenses have been translated at the average exchange rate for the period using cross-currency exchange rate via U.S. Dollar as described above. Translation differences resulting from the use of these rates are reported as a component of other comprehensive income.

Management estimates The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Significant estimates include the allowance for doubtful accounts and inventory obsolescence, valuation allowance for deferred tax assets for which it is more likely than not the assets will not be realized, the valuation of assets acquired and liabilities assumed in business combinations and income tax benefits, the recoverability of investments and the valuation of goodwill, intangible assets, other long-lived assets, redeemable noncontrolling interest, certain accrued liabilities and financial instruments.

Cash and cash equivalents Cash and cash equivalents represent cash on hand and in bank accounts and short-term investments, including term deposits, having original maturities of less than three months. The cost of these investments approximates fair value.

Short-term investments and loans Short-term investments mainly represent investments in a mutual investment fund and time deposits which have original maturities in excess of three months and are repayable in less than twelve months. The investment in the mutual investment fund was classified as an available-for-sale financial asset in the consolidated statements of financial position with unrealized gains of RUB 154 million recorded in other comprehensive income. Deposits are recorded at cost, which approximates fair value (Note 6).

Other investments and loans Long-term financial instruments consist primarily of investments and loans. Since quoted market prices are not readily available for all of the long-term financial instruments held by the Group, estimates of fair value are computed incorporating various unobservable market inputs. The Group reviews these investments for indicators of impairment on a regular basis. The investments in companies over which the Group has no significant influence are carried at cost. The Group does not evaluate cost-method investments for impairment unless there is an indicator of impairment.

Property, plant and equipment Property, plant and equipment, including improvements, are stated at cost. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life. Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

Other intangible assets Other intangible assets primarily consist of billing, telecommunication, accounting and office software as well as numbering capacity and customer base. These assets are assets with finite useful lives. They are recognized at cost and amortized on a straight-line basis over their estimated useful lives.

Accounts receivable Accounts receivable are stated net of allowance for doubtful accounts.

Allowance for doubtful accounts The Group provides an allowance for doubtful accounts based on management's periodic review with respect to the recoverability of trade receivables, advances given, loans and other receivables. Such allowance reflects specific cases, collection trends or estimates based on evidence of collectability. For changes in the allowance for doubtful accounts receivable see Note 7.

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Inventory and spare parts Inventory is stated at the lower of cost or market value. Inventory cost is determined using the weighted average cost method. Handsets and accessories held for sale are expensed when sold. The Group regularly assesses its inventories for obsolete and slow-moving stock.

Value-added tax ("VAT") Value-added tax related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed from the state, subject to certain restrictions, against VAT related to sales.

Income taxes Income taxes of the Group's Russia-incorporated entities have been computed in accordance with Russian legislation. The corporate income tax rate in Russia is 20%. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their respective jurisdictions. Deferred tax assets and liabilities are recognized for differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making such determination, the Group considers all available information, including future reversals of existing taxable temporary differences, projected taxable income, tax strategies and recent financial results.

Uncertain tax positions are recognized in the consolidated financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes.

The Group recognizes interest and penalties related to unrecognized tax benefits and penalties within income taxes.

Asset retirement obligations The Group calculates asset retirement obligations and an associated asset retirement cost when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group recorded the present value of asset retirement obligations as other long-term liabilities in the consolidated statements of financial position.

License costs License costs are being amortized during the initial license period without consideration of possible future renewals, subject to periodic review for impairment, on a straight-line basis over the period of validity, which varies from three to fifteen years.

Goodwill For acquisitions before January 1, 2009 goodwill represents the excess of the consideration paid over the fair market value of the net identifiable assets acquired in business combinations and is not amortized. For acquisitions after January 1, 2009 goodwill is determined as the

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in millions of Russian Rubles, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. The Group determines whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with the authoritative guidance on intangible assets, and comparing the carrying amount of the reporting unit to its fair value. If an impairment of goodwill has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. During the year ended December 31, 2012 the Group recognized goodwill impairment in amount of RUB 3,523 million related to Uzdunrobita litigation (Note 4) which is included in net income / (loss) from discontinued operations.

Impairment of long-lived assets The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to their carrying amount. When the undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the assets down to fair value, measured by estimating the discounted net future cash flows expected to be generated from the use of the assets. None of the Group's long-lived assets were impaired in 2013. An impairment loss in the amount of RUB 16,514 million for the year ended December 31, 2012 was recognized by the Group subsidiaries in Uzbekistan as a result of the events described in Note 4 and included in net income / (loss) from discontinued operations.

Subscriber prepayments The Group requires the majority of its customers to pay in advance for telecommunications services. All amounts received in advance of services provided are recorded as a subscriber prepayment liability and are not recognized as revenues until the related services have been provided to the subscriber.

Treasury stock Shares of common stock repurchased by the Group are recorded at cost as treasury stock and reduce the shareholders' equity in the Group's consolidated financial statements.

Revenue recognition Revenue includes all revenues from the ordinary business activities of the Group. Revenues are recorded net of value-added tax and recognized in the accounting period in which they are earned in accordance with the realization principle.

Revenues derived from wireless, local telephone, long distance, data and video services are recognized when services are provided. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or period of time (monthly subscription fees).

Content revenue is presented net of related costs when the Group acts as an agent of the content providers while gross revenue and related costs are recorded when the Group acts as a primary obligor in the arrangement.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Upfront fees received for connection of new subscribers, installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the estimated average subscriber life, as follows:

| | |
|---|--------------------|
| Mobile subscribers | 7 months - 5 years |
| Residential wireline voice phone subscribers | 15 years |
| Residential subscribers of broadband internet service | 1 year |
| Other fixed line subscribers | 3 - 5 years |

The Group calculates an average life of mobile subscribers for each region in which it operates and amortizes connection fees based on the average life specific to that region.

Regulated services Regulated services provided by the Group primarily consist of local telephone services and services rendered to other operators, such as traffic charges, connection fees and line rental services. Changes in the rate structure for such services are subject to the Federal Tariff Service approval.

Revenue from regulated tariff services represented approximately 5.7%, 6.5% and 6.5% of the consolidated revenue for the years ended December 31, 2013, 2012 and 2011, respectively. This does not include revenue attributable to discontinued operations (Note 4).

Customer incentives Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (free minutes and discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both trade receivables and service revenue.

The Group regularly provides special incentives to its retail customers. Generally the Group sells mobile devices of worldwide known brands with an offer of free telecommunication services for a time period from one to twelve months. Such arrangements with a customer provide for two deliverables – a mobile device delivered immediately and mobile services to be consumed in the future. Both deliverables in the arrangement qualify as separate units of accounting. The consideration received from a customer is allocated between the deliverables based on their standalone value on the market, which is deemed to be a vendor-specific objective evidence of selling price. Revenue on the devices sales is recognized at the moment of their sale, and the revenue on provision of free telecommunication services is deferred and recognized in line with their consumption by a subscriber. Revenue generated from multiple-element arrangements in the amount of RUB 3,276 million was recognized in the consolidated statements of operations and comprehensive income for the year ended December 31, 2013. The amounts recognized for the years ended December 31, 2012 and 2011 were not significant. The Group's multiple-element arrangements stipulate no performance-, cancellation-, termination- and refund-type provisions.

Prepaid cards The Group sells prepaid cards to subscribers separately from the handset. Prepaid cards, used as a method of cash collection, are accounted for as customer advances. These cards allow subscribers to make a predetermined allotment of wireless phone calls and / or take advantage of other

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

services offered by the Group, such as short messages and value-added services. Revenue from the sale of prepaid cards is deferred until the service is rendered to the customer, whereby the customer uses the airtime or the card expires.

Roaming discounts The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group accounts for discounts received from and granted to roaming partners in accordance with the authoritative guidance on customer payments and incentives. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Group accounts for discounts received as a reduction of roaming expenses and rebates granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statements of financial position.

Sales and marketing expenses Sales and marketing expenses consist primarily of dealers' commissions and advertising costs. Dealers' commissions are linked to revenues received during the six-month period from the date a new subscriber is activated by a dealer. The Group expenses these costs as incurred. Advertising costs for the years ended December 31, 2013, 2012 and 2011, were RUB 8,463 million, RUB 7,908 million and RUB 8,817 million, respectively.

Retirement benefit and social security costs The Group contributes to the local state pension and social funds on behalf of all its employees.

In Russia all social contributions paid during the year ended December 31, 2013 are represented by payments to governmental social funds, including the Pension Fund of the Russian Federation, the Social Security Fund of the Russian Federation and the Medical Insurance Fund of the Russian Federation. The contributions are expensed as incurred. The amount of social contributions recognized by the Group in Russia amounted to RUB 7,535 million, RUB 6,512 million and RUB 5,877 million in 2013, 2012 and 2011, respectively.

MGTS, a subsidiary of the Group, has historically offered its employees certain benefits upon and after retirement. The cost of such benefits includes interest costs, current service costs, amortization of prior service costs and net actuarial loss / gain. The expense is recognized during an employee's years of active service with MGTS. The recognition of expense for retirement pension plans is impacted by estimates made by management such as discount rates used to value certain liabilities, expected return on assets, future rates of compensation increase and other related assumptions. The Group accounts for pension plans in accordance with the requirements of the Financial Accounting Standards Board ("FASB") authoritative guidance on retirement benefits.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

In Ukraine, Turkmenistan and Armenia the subsidiaries of the Group are required to contribute a specified percentage of each employee's payroll up to a fixed limit to the local pension, unemployment and social security funds. Payments to the pension fund in Ukraine amounted to RUB 2,803 million, RUB 2,493 million and RUB 2,250 million for the years ended December 31, 2013, 2012 and 2011, respectively. Amounts contributed to the pension funds in Turkmenistan and Armenia were not significant.

Redeemable noncontrolling interest From time to time, to optimize the structure of business acquisitions and to defer payment of the purchase price, the Group enters into put and call option agreements to acquire the remaining noncontrolling stakes in newly acquired subsidiaries. As these put and call option agreements are not freestanding, the underlying shares of such put and call options are classified as redeemable securities and are accounted for at redemption value which is the fair value of redeemable noncontrolling interests as of the reporting date. The fair value of redeemable noncontrolling interests is measured using discounted future cash flows techniques, subject to applicable caps. The noncontrolling interest is measured at fair value using a discounted cash flow technique utilizing significant unobservable inputs ("Level 3" significant unobservable inputs of the hierarchy established by the U.S. GAAP guidance). Changes in the redemption value of redeemable noncontrolling interests are accounted for in the Group's retained earnings. Redeemable noncontrolling interests are presented as temporary equity in the consolidated statements of financial position.

Financial instruments and hedging activities The Group uses derivative instruments, including interest rate and foreign currency swaps, to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them as either other current or other non-current assets or liabilities in the consolidated statements of financial position. Cash flows from derivatives are classified according to their nature. The Group reviews its fair value hierarchy classifications on a quarterly basis. Changes in significant observable valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities. During the years ended December 31, 2013, 2012 and 2011, no reclassifications occurred. The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments ("Level 2" of the hierarchy established by the U.S. GAAP guidance).

The Group designates derivatives as either fair value hedges or cash flow hedges in case the required criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statements of operations and comprehensive income together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. Gains and losses associated with the related hedged items are recognized in the consolidated statements of operations and comprehensive income, depending on their nature.

The gain or loss relating to the ineffective portion is recognized immediately in earnings in the consolidated statements of operations and comprehensive income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are included in the consolidated statements of operations and comprehensive income (Note 18).

Assets and liabilities related to multiple derivative contracts with one counterparty are not offset by the Group.

The Group does not use financial instruments for trading or speculative purposes.

Fair value of financial instruments The fair market value of financial instruments, consisting of cash and cash equivalents, short-term investments, receivables and payables, which are included in current assets and liabilities, approximates the carrying value of these items due to the short-term nature of these amounts. The fair value of issued notes as of December 31, 2013 is disclosed in Note 15 and is based on quoted prices in active markets ("Level 1" of the hierarchy established by the U.S. GAAP guidance).

Based on current market interest rates available to the Group for long-term borrowings with similar terms and maturities, the Group believes that the fair value of other fixed rate debt including capital lease obligations and the fair value of variable rate debt approximated its carrying value as of December 31, 2013.

Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities;

Level 3 No observable pricing inputs in the market.

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Group's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Stock-based compensation The Group accounts for stock-based compensation under the authoritative guidance on share-based compensation. Under the provisions of this guidance, companies must calculate and record the cost of equity instruments, such as stock options awarded to employees for services received, in the statements of operations and comprehensive income. The cost of the equity instruments is to be measured based on the fair value of the instruments on the date they are granted (with certain exceptions) and recognized over the period during which the employees are required to provide services in exchange for equity instruments. Compensation cost related to phantom stock

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

options granted to the Group's employees recognized in the consolidated statements of operations and comprehensive income for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 483.0 million, RUB 1,445.8 million and RUB 470.2 million, respectively.

Concentration of credit risk Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, trade accounts receivable, financing receivables and derivatives. The Group maintains cash and cash equivalents, investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographical regions, and the Group's policy is designed to limit exposure to any one institution. As part of its risk management processes, the Group performs periodic evaluations of the relative credit standing of the financial institutions.

Concentrations of credit risk with respect to trade receivables are limited due to a highly diversified customer base, which includes a large number of individuals, private businesses and state-financed institutions.

New and recently adopted accounting pronouncements In July 2012, the FASB updated the authoritative guidance on testing indefinite-lived intangible assets for impairment. The update permits the entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The guidance is effective for all entities for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance did not have a significant impact on the Group's consolidated financial statements.

In March 2013, the FASB issued the authoritative guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or group of assets within a foreign entity or of an investment in a foreign entity. This new guidance requires that the parent releases any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance is effective for fiscal years and interim reporting periods within those fiscal years beginning after December 15, 2013. The amendments described in the update are to be applied prospectively to derecognition events occurring after the effective date; prior periods are not to be adjusted. The adoption of this guidance is not expected to have a material impact on the Group's consolidated financial statements.

3. BUSINESS ACQUISITIONS AND DISPOSALS

Disposal in 2013

Disposal of Business-Nedvizhimost In December 2013, the Group sold a 51% stake in Business-Nedvizhimost CJSC to Sistema, a majority shareholder of the Group, for a price of RUB 3.2 billion. Business-Nedvizhimost owns and manages 76 real estate sites and 44 real estate facilities throughout Moscow with a total area of roughly 178,000 sq. m. After the loss of control over the subsidiary, the

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Group deconsolidated Business-Nedvizhimost and applied for its remaining 49% interest using the equity method of accounting. The disposal was accounted for as a transaction under common control directly in equity.

Acquisitions and disposals in 2012

Acquisitions of controlling interests in regional fixed line operators In 2012, as part of its program of regional expansion, the Group acquired controlling interests in a number of fixed line operators in certain regions of Russia. The purchase price for these acquisitions was paid in cash. The acquisitions were accounted for using the acquisition method of accounting.

The following table summarizes the purchase price allocation for regional fixed line operators acquired during the year ended December 31, 2012:

| | Elf Group | Intercom | ZhelGorTeleCom | Pilot & TVKiK | Total |
|--|------------------|-----------------|-----------------------|--------------------------|--------------|
| Month of acquisition | August | August | October | October | |
| Region of operations | Central region | Volga region | Central region | Central region | |
| Ownership interest acquired | 100% | 100% | 100% | 100% | |
| Current assets | 6 | 9 | 4 | 3 | 22 |
| Property, plant and equipment | 49 | 11 | 3 | 21 | 84 |
| Goodwill | 172 | 62 | 115 | 55 | 404 |
| Customer base | 45 | 29 | 54 | 22 | 150 |
| Current liabilities | (44) | (15) | (13) | (6) | (78) |
| Non-current liabilities | (9) | (6) | (11) | (4) | (30) |
| Fair value of contingent consideration | (28) | (10) | (5) | | (43) |
| Consideration paid | 191 | 80 | 147 | 91 | 509 |

The Group's consolidated financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed.

Customer base intangibles recognized as a result of the acquisitions are being amortized over a period ranging from 7 to 9 years depending on the type of subscribers.

The recognition of goodwill in the amount of RUB 404 million from the acquisitions is due to the economic potential of the markets in which the acquired companies operate and synergies arising from the acquisitions. Goodwill is attributable to the "Russia" segment.

Tascom In May 2012, the Group acquired a 100% stake in Tascom CJSC ("Tascom"), a market leader in providing telecommunication services to corporate clients in Moscow and the Moscow region, for RUB 1,437 million. The seller has indemnified the Group against all losses which arise in connection with liability for taxation matters relating to the pre-acquisition period. As of the acquisition date the Group recorded a provision for tax liabilities and a related indemnification asset in the

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amount of RUB 236 million relating to this warranty. As of December 31, 2013 the amount of indemnification asset and related provision for tax liabilities was reduced to RUB 139 million.

The Group also should pay to the seller any amounts received for the services rendered by Tascom prior to the acquisition date, capped at RUB 400 million this contingent consideration arrangement was recorded at fair value of RUB 170 million which was determined based on unobservable inputs ("Level 3" of the hierarchy established by the U.S. GAAP guidance). The fair value was measured as the best estimate of all possible outcomes. During 2012-2013, the contingent consideration in the amount of RUB 170 million was completely paid to the seller.

The acquisition was accounted for using the acquisition method of accounting. The summary of the purchase price allocation for the acquisition was as follows:

| | |
|--|--------------|
| Current assets | 489 |
| Property, plant and equipment | 586 |
| Goodwill | 1,098 |
| Customer base | 168 |
| Other non-current assets | 188 |
| Current liabilities | (815) |
| Non-current liabilities | (107) |
| Fair value of contingent consideration | (170) |
| Consideration paid | 1,437 |

The excess of the consideration paid over the value of net assets acquired in the amount of RUB 1,098 million was allocated to goodwill which was attributable to the "Russia" segment and is not deductible for income tax purposes. Goodwill is mainly attributable to the expected synergies from increase of market share and reduction of capital expenditures to be made by the Group to construct optical fiber network.

Disposal of Stream In May 2012, MTS and Sistema signed a shareholders agreement with respect to the management of Stream LLC ("Stream"), which owns and manages Stream.ru. In addition Sistema contributed RUB 496.1 million into Stream's charter capital giving it an ownership of 55% of Stream, thereby reducing MTS's direct ownership in Stream from 100% to 45%. After a loss of control over the subsidiary, the Group deconsolidated Stream and accounted for its interest using the equity method. The disposal was accounted for as transaction under common control directly in equity.

Acquisitions in 2011

Increase of stake in MGTS In December 2011, the Group acquired 29% of the ordinary shares of MGTS from Sistema through acquisition of Sistema-Invenchur for RUB 10.56 billion. In addition the Group assumed debt in the amount of RUB 10.41 billion due and payable by the end of 2011. MGTS is Moscow's incumbent fixed line operator that initially joined the Group as a result of Comstar acquisition. Upon completion of the transaction the Group's ownership stake in MGTS increased to

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99.01% of ordinary shares and 69.7% of preferred shares, which overall totals 94.1% of MGTS charter capital. The transaction was accounted for directly in equity.

Acquisitions of controlling interests in regional fixed line operators In 2011, as part of its program of regional expansion, the Group acquired controlling interests in a number of fixed line operators in certain regions of Russia. The purchase price for these acquisitions was paid in cash. The acquisitions were accounted for using the acquisition method of accounting.

The following table summarizes the purchase price allocation for regional fixed line operators acquired during the year ended December 31, 2011:

| | Inteleca Group | Infocentr | Altair | TVT | Total |
|----------------------------------|---------------------------|------------------|-------------------|-----------------|----------------|
| Month of acquisition | April | April | August | October | |
| Region of operations | Sibir region | Ural region | Central region | Volga region | |
| Ownership interest acquired | 100% | 100% | 100% | 100% | |
| Current assets | 25 | 80 | 94 | 237 | 436 |
| Property, plant and equipment | 307 | 72 | 109 | 2,156 | 2,644 |
| Goodwill | 303 | 411 | 372 | 3,509 | 4,595 |
| Customer base | 63 | 135 | 381 | 230 | 809 |
| Other non-current assets | 1 | | 47 | 59 | 107 |
| Current liabilities | (128) | (239) | (162) | (799) | (1,328) |
| Non-current liabilities | (25) | (28) | (92) | (299) | (444) |
| Consideration paid | 546 | 431 | 749 | 5,093 | 6,819 |

The Group's consolidated financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed.

Customer base recognized as a result of the acquisitions is amortized over a period ranging from 8 to 14 years depending on the type of subscribers.

The recognition of goodwill in the amount of RUB 4,595 million is due to the economic potential of the markets in which the acquired companies operate and synergies arising from the acquisitions. Goodwill is attributable to the "Russia" segment.

4. OPERATIONS IN UZBEKISTAN

In June 2012, the authorities of the Republic of Uzbekistan commenced repeat audits of previously audited financial and operating activities of MTS' wholly owned subsidiary Uzduunrobita. On July 17, 2012, Uzduunrobita suspended its services in Uzbekistan pursuant to the order of the

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State Agency for Communications and Information of Uzbekistan (the "SACI") temporarily suspending the operating license of Uzdunrobita for a period of ten business days. This suspension was subsequently extended to three months due to the decision of the Tashkent Economic Court of July 30, 2012.

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4. OPERATIONS IN UZBEKISTAN (Continued)

On August 6 and 7, 2012, fourteen regional antimonopoly departments of the Republic of Uzbekistan simultaneously held hearings and declared that Uzdunrobota had violated antimonopoly laws, consumer protection laws and laws governing advertisements. In total, the claims of the regional antimonopoly departments against Uzdunrobota amounted to approximately RUB 2,558 million. This amount was subsequently reduced by the superior antimonopoly regulator to RUB 416 million in the aggregate. The disputes with the antimonopoly authorities were dismissed after payments were made by Uzdunrobota pursuant to the Appeal Decision (as defined below).

On August 13, 2012, the Tashkent Economic Court granted the petition of the SACI to terminate all operating licenses of Uzdunrobota permanently. This decision was subsequently upheld by the appeals and cassation instance courts on August 27, 2012 and April 4, 2013, respectively.

Notwithstanding the fact that a tax audit of Uzdunrobota's operations for the period of 2007-2010 was completed in February 2012 and did not reveal any serious violations, further tax audits were conducted and purported to find alleged violations of licensing regulations as well as income and other tax legislation resulting in the imposition of additional taxes and fines totaling approximately RUB 28,776 million. This amount was subsequently reduced to RUB 21,390 million in the aggregate. Whether these taxes and sanctions can be claimed by the Uzbek tax authorities from Uzdunrobota under bankruptcy procedures (discussed below) is uncertain in light of the decisions made by the High Economic Court and the Regional Economic Courts of Appeals between April 4, 2013 and April 11, 2013. With limited exceptions, those decisions dismissed the obligation of the regional tax authorities to enforce the financial sanctions. The decisions, however, do not cover any obligation of the local tax authorities to collect the additional taxes.

During September-October of 2012, RUB 201 million were seized from Uzdunrobota's bank accounts by the Uzbek State and applied to settle a portion of the State's alleged claims.

On September 17, 2012, the Tashkent City Criminal Court issued a ruling in favor of the Uzbek state authorities authorizing the confiscation of all assets of Uzdunrobota based on a criminal court's verdict which the Tashkent City Criminal Court issued against four employees of Uzdunrobota, despite the Uzdunrobota was not itself a party to such proceedings. Prior to this ruling, the Uzbek law enforcement agencies had frozen all of Uzdunrobota's assets, including cash held in local bank accounts.

On November 8, 2012, the Appellate Instance of the Tashkent City Criminal Court allowed Uzdunrobota's appeal challenging the verdict of the Tashkent City Criminal Court dated September 17, 2012. The appeals court found that all damages (taxes, sanctions, unpaid licenses duties and damages to customers) suffered by the State must be compensated by Uzdunrobota. The amount of damages was calculated and determined on the basis of all of the aforementioned claims against Uzdunrobota existing as of November 8, 2012, which amounted to RUB 18,375 million to be paid in eight equal monthly instalments (the "Appeal Decision").

In accordance with applicable Uzbek laws, Uzdunrobota petitioned the Deputy General Prosecutor to challenge the Appeal Decision before the Supreme Court of Uzbekistan and grant a stay of enforcement of the Appeal Decision. Uzdunrobota's petition was rejected by the General Prosecutor's Office on December 25, 2012.

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Following this rejection, Uzdurobita immediately filed a further petition to appeal to the Supreme Court of Uzbekistan with the Chairman of the Supreme Court of Uzbekistan. On January 23, 2013, the Company was notified that the matter had been submitted by the Supreme Court for consideration by the Chairman of the Tashkent City Court. On May 2, 2013, the Chairman of the Tashkent City Court rejected Uzdurobita's petition.

In order to comply with the Appeal Decision, Uzdurobita paid two scheduled installments in November and December 2012 totaling RUB 4,584 million. On January 14, 2013, subsequent to the payment of a portion (RUB 242 million) of the third installment due in January 2013 with all cash remaining in Uzdurobita's bank accounts, Uzdurobita filed a petition for voluntary bankruptcy with the Tashkent Economic Court due to its inability to meet its further obligations arising out of the Appeal Decision. On January 18, 2013, the Court initiated bankruptcy proceedings and appointed an external temporary supervisor over Uzdurobita, and scheduled a further bankruptcy hearing which took place on April 22, 2013.

Considering the adverse impact of such circumstances on the Group's ability to conduct operations in Uzbekistan, the Group tested goodwill and other long-lived assets attributable to Uzbekistan for impairment upon first receiving notification of the investigations. As a result, an impairment loss on the long-lived assets presented in the table below was recorded in the consolidated statements of operations and comprehensive income for the year ended December 31, 2012. In 2013 after the loss of control over Uzdurobita these losses were assigned to discontinued operations:

| | Impairment loss |
|--|------------------------|
| Property, plant and equipment | 8,438 |
| Licenses | 2,709 |
| Rights to use radio frequencies | 2,523 |
| Numbering capacity | 1,190 |
| Software and other intangible assets | 1,654 |
| Goodwill | 3,523 |
| Total impairment loss related to goodwill and long-lived assets | 20,037 |

The Group used a probability-weighted valuation technique to determine the fair value of the long-lived assets as of December 31, 2012, which was determined based on unobservable inputs ("Level 3" of the hierarchy established by U.S. GAAP guidance). In calculating the future cash flows for use in the assessment of the fair value of long-lived assets, the Group used forecasts for the Uzbekistan telecommunication market and Uzdurobita's position in that market. The forecasts were based on all available internal and external information, including growth projections and industry experts' estimates.

Separate to the impairments recognized, a liability of RUB 12,706 million relating to the claims was recorded with an associated charge to the consolidated statements of operations and comprehensive income for the year ended December 31, 2012 as the minimum of a range of probable

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losses according to management's estimations, as required by U.S. GAAP if no estimate within a range is more likely than any other.

On April 22, 2013, the Tashkent Economic Court declared Uzdurobota bankrupt and initiated six-month liquidation procedures which, as far as the Group is able to comprehend, are still in process (the period has been prolonged several times). In accordance with the terms of local liquidation procedures, Uzdurobota's CEO was relieved of his duties and all of the oversight and governance over Uzdurobota was transferred to the liquidation administrator. As a result the Group lost control over the subsidiary and deconsolidated Uzdurobota.

In July 2013, two rounds of auctions were set and held in relation to the sale of assets of Uzdurobota and all of its branches. All auctions were recognized as having failed due to the absence of any applications by interested bidders.

The Group believes that the claims of the Uzbek state authorities against Uzdurobota that resulted in the initiation of its bankruptcy are unfounded. The Group reserves its right to pursue all available legal options in Uzbekistan and internationally to defend itself, protect its investments and fully recover damages or obtain other relief including from any party involved in depriving MTS of its business and assets in Uzbekistan.

MTS has filed a claim against the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes ("ICSID"), which is part of the World Bank Group, in Washington, D.C. The claim was registered on November 15, 2012. The tribunal was formed on August 29, 2013 and first procedural hearings took place in November 2013.

The results of operations of Uzdurobota are reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income and consolidated statements of cash flows for all periods presented. Consolidated statement of financial position was not retrospectively adjusted on discontinued operations and includes Uzbekistan as of December 31, 2012. The gain on disposal recognized in the amount of RUB 3,682 million related to the recycling from accumulated other comprehensive income of the cumulative translation adjustment attributable to Uzdurobota. The results of discontinued operations of Uzdurobota for the year ended December 31, 2013, 2012 and 2011 were as follows:

| | Years ended December 31, | | |
|---|--------------------------|-----------------|--------------|
| | 2013 | 2012 | 2011 |
| Total revenues | | 8,357 | 12,919 |
| Income / (loss) before income tax | 1,109 | (34,171) | 1,841 |
| Income tax (expense) / benefit | (1,058) | 1,325 | (35) |
| Gain on disposal, net of tax | 3,682 | | |
| Income / (loss) from discontinued operations, net of tax | 3,733 | (32,846) | 1,806 |

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011****(Amounts in millions of Russian Rubles, unless otherwise stated)****4. OPERATIONS IN UZBEKISTAN (Continued)**

The carrying amount of assets and liabilities related to Uzdunrobita as of April 22, 2013 (the date of deconsolidation) and December 31, 2012 was as follows:

| | April 22, 2013 | December 31, 2012 |
|---------------------|-------------------|----------------------|
| Current assets | 341 | 755 |
| Non-current assets | 9,615 | 10,524 |
| Total assets | 9,956 | 11,279 |

| | | |
|---------------------|-------|--------|
| Current liabilities | 9,956 | 11,279 |
|---------------------|-------|--------|

| | | |
|--------------------------|--------------|---------------|
| Total liabilities | 9,956 | 11,279 |
|--------------------------|--------------|---------------|

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2013 and 2012 comprised the following:

| | December 31, | |
|--|---------------|---------------|
| | 2013 | 2012 |
| Ruble current accounts | 5,900 | 7,401 |
| Ruble deposit accounts | 14,215 | 3,550 |
| U.S. Dollar current accounts | 1,336 | 1,261 |
| U.S. Dollar deposit accounts | 7,503 | 1,519 |
| Euro current accounts | 395 | 5,061 |
| Euro deposit accounts | 136 | |
| Hryvna current accounts | 87 | 266 |
| Hryvna deposit accounts | 276 | 2,343 |
| Uzbek som current accounts | | 363 |
| Turkmenian manat current accounts | 697 | 175 |
| Armenian dram current accounts | 67 | 75 |
| Total cash and cash equivalents | 30,612 | 22,014 |

6. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2013 comprised the following:

| Type of investment | Annual interest rate | Maturity date | Amount |
|--|-----------------------------|---------------------------|---------------|
| Deposits | 4.2 - 14.0% | February 2014 - July 2014 | 5,377 |
| Deposits at MTS Bank (related party) (Note 22) | 8.7% | June 2014 | 5,081 |
| Mutual investment fund "Reservnyi", managed by "DIK" (related parties) (Note 22) | | Upon request | 4,154 |
| Other | | | 21 |
| Total short-term investments | | | 14,633 |

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Short-term investments as of December 31, 2012 comprised the following:

| Type of investment | Annual interest rate | Maturity date | Amount |
|-------------------------------------|----------------------|---------------------|--------------|
| Deposits | 4.1 - 9.0% | January - June 2013 | 4,034 |
| Total short-term investments | | | 4,034 |

The Group considers credit risk for short-term investments to be low.

7. TRADE RECEIVABLES, NET

Trade receivables as of December 31, 2013 and 2012 comprised the following:

| | December 31, | |
|---------------------------------|---------------|---------------|
| | 2013 | 2012 |
| Roaming | 15,875 | 15,601 |
| Subscribers | 12,548 | 11,313 |
| Interconnect | 2,847 | 3,390 |
| Dealers | 2,127 | 2,457 |
| Other | 4,910 | 4,072 |
| Allowance for doubtful accounts | (3,753) | (3,461) |
| Trade receivables, net | 34,554 | 33,372 |

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended December 31, 2013, 2012 and 2011:

| | 2013 | 2012 | 2011 |
|--|--------------|--------------|--------------|
| Balance, beginning of the year | 3,461 | 3,122 | 3,671 |
| Allowance for doubtful accounts charge | 3,366 | 2,257 | 2,941 |
| Accounts receivable written off | (3,074) | (1,918) | (3,490) |
| Balance, end of the year | 3,753 | 3,461 | 3,122 |

8. INVENTORY AND SPARE PARTS

Inventory and spare parts as of December 31, 2013 and 2012 comprised the following:

| | December 31, | |
|---|---------------------|--------------|
| | 2013 | 2012 |
| Handsets and accessories | 7,436 | 7,230 |
| SIM cards and prepaid phone cards | 395 | 166 |
| Spare parts for telecommunication equipment | 305 | 715 |
| Advertising and other materials | 362 | 475 |
| Total inventory and spare parts | 8,498 | 8,586 |

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Other materials mainly consist of stationary, fuel and auxiliary materials.

Obsolescence expense for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 660 million, RUB 759 million and RUB 827 million, respectively, and was included in general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income. Spare parts for base stations included in inventory are expected to be utilized within the twelve months following the statements of financial position date.

9. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2013 and 2012 was as follows:

| | Useful lives, years | December 31, | |
|---|------------------------|----------------|----------------|
| | | 2013 | 2012 |
| Network, base station equipment and related leasehold improvements | 5 - 17 | 445,857 | 391,737 |
| Office equipment, computers and other | 3 - 15 | 42,121 | 39,743 |
| Buildings and related leasehold improvements (including leased assets of 28 and 26, respectively) | 20 - 59 | 25,496 | 25,114 |
| Vehicles (including leased assets of 942 and 991, respectively) | 3 - 7 | 3,139 | 2,865 |
| Property, plant and equipment, at cost (including leased assets of 970 and 1,017, respectively) | | 516,613 | 459,459 |
| Accumulated depreciation (including leased assets of 793 and 557, respectively) | | (293,389) | (242,886) |
| Construction in progress and equipment for installation | | 47,436 | 55,208 |
| Property, plant and equipment, net | | 270,660 | 271,781 |

Depreciation expense during the years ended December 31, 2013, 2012 and 2011 amounted to RUB 58,599 million, RUB 54,766 million and RUB 50,873 million, respectively.

Depreciation of the assets recorded as capital leases amounted to RUB 276.1 million, RUB 287.8 million and RUB 280.4 million, respectively. Interest expense accrued on capital lease obligations for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 181.5 million, RUB 135.2 million and RUB 53.7 million.

10. LICENSES

In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group has been granted access to various telecommunication licenses through acquisitions. In foreign subsidiaries, the licenses are granted by the local communication authorities.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011****(Amounts in millions of Russian Rubles, unless otherwise stated)****10. LICENSES (Continued)**

As of December 31, 2013 and 2012, the recorded values of the Group's telecommunication licenses were as follows:

| | December 31, | |
|--------------------------|---------------------|--------------|
| | 2013 | 2012 |
| Armenia | 5,982 | 5,580 |
| Russia | 291 | 274 |
| Ukraine | 123 | 1,499 |
| | | |
| Licenses, at cost | 6,396 | 7,353 |
| Accumulated amortization | (3,194) | (4,060) |
| | | |
| Licenses, net | 3,202 | 3,293 |

Amortization expense for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 544 million, RUB 662 million and 1,142 million, respectively.

The Group's operating licenses do not provide for automatic renewal. As of December 31, 2013, all licenses covering the territories of the Russian Federation were renewed. The cost to renew the licenses was not significant. The weighted-average period until the next renewal of licenses in the Russian Federation is four years.

License for the provision of telecommunication services in Ukraine was renewed in 2013 and is valid until 2026. License for the provision of telecommunication services in Armenia is valid until 2019. The license in Turkmenistan was suspended by the Turkmenistan Ministry of Communications in December 2010 which resulted in the cessation of the Group's operational activity in Turkmenistan. However, in July 2012, the Turkmenistan Ministry of Communications granted to the Group GSM and 3G licenses for a three-year term and the Group recommenced its operations in Turkmenistan. The license for the provision of telecommunication services in Uzbekistan was withdrawn in August 2012 (Note 4).

Based on the cost of amortizable operating licenses existing at December 31, 2013 and current exchange rates, the estimated future amortization expenses for the five years ending December 31, 2018 and thereafter are as follows:

| Estimated amortization expense in the year ended December 31, | |
|--|-----|
| 2014 | 531 |
| 2015 | 531 |
| 2016 | 533 |
| 2017 | 531 |
| 2018 | 530 |
| Thereafter | 546 |

Total **3,202**

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in millions of Russian Rubles, unless otherwise stated)

10. LICENSES (Continued)

The actual amortization expense reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

Operating licenses contain a number of requirements and conditions specified by legislation. The requirements generally include targets for service start date, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

11. GOODWILL

The change in the net carrying amount of goodwill for the years ended December 31, 2013 and 2012 by reportable segments was as follows:

| | Russia | Ukraine | Uzbekistan ⁽¹⁾ | Other | Total |
|-------------------------------------|---------------|------------|---------------------------|--------------|----------------|
| Balance at January 1, 2012 | | | | | |
| Gross amount of goodwill | 28,249 | 171 | 3,495 | 4,415 | 36,330 |
| Accumulated impairment loss | (1,466) | | | | (1,466) |
| | 26,783 | 171 | 3,495 | 4,415 | 34,864 |
| Acquisitions (Note 3) | 1,502 | | | | 1,502 |
| Impairment loss (Note 4) | | | (3,523) | | (3,523) |
| Currency translation adjustment | | (9) | 28 | (434) | (415) |
| Balance at December 31, 2012 | | | | | |
| Gross amount of goodwill | 29,751 | 162 | 3,523 | 3,981 | 37,417 |
| Accumulated impairment loss | (1,466) | | (3,523) | | (4,989) |
| | 28,285 | 162 | | 3,981 | 32,428 |
| Disposals | (23) | | | | (23) |
| Currency translation adjustment | | 12 | | 287 | 299 |
| Balance at December 31, 2013 | | | | | |
| Gross amount of goodwill | 29,728 | 174 | | 4,268 | 34,170 |
| Accumulated impairment loss | (1,466) | | | | (1,466) |

| | | | |
|--------|-----|-------|--------|
| 28,262 | 174 | 4,268 | 32,704 |
|--------|-----|-------|--------|

(1)

The results of operations in Uzbekistan are reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income for all periods presented (Note 4). Uzbekistan does not represent a separate reportable segment and thus is included in "Other" category within the segment reporting note (Note 26).

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Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011****(Amounts in millions of Russian Rubles, unless otherwise stated)****12. OTHER INTANGIBLE ASSETS**

Intangible assets as of December 31, 2013 and 2012 comprised the following:

| | Useful lives, years | December 31, 2013 | | | December 31, 2012 | | |
|--|---------------------|----------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
| | | Gross carrying value | Accumulated amortization | Net carrying value | Gross carrying value | Accumulated amortization | Net carrying value |
| Billing and telecommunication software | 1 to 20 | 55,738 | (38,258) | 17,480 | 51,160 | (34,441) | 16,719 |
| Acquired customer base | 4 to 31 | 8,757 | (3,622) | 5,135 | 8,987 | (3,023) | 5,964 |
| Rights to use radio frequencies | 1 to 15 | 9,850 | (4,905) | 4,945 | 9,563 | (3,841) | 5,722 |
| Accounting software | 1 to 5 | 4,330 | (3,021) | 1,309 | 3,692 | (2,139) | 1,553 |
| Numbering capacity | 2 to 15 | 3,623 | (2,849) | 774 | 3,614 | (2,176) | 1,438 |
| Office software | 1 to 10 | 9,309 | (3,582) | 5,727 | 5,050 | (1,927) | 3,123 |
| Other | 1 to 10 | 4,577 | (1,916) | 2,661 | 2,605 | (447) | 2,158 |
| | | 96,184 | (58,153) | 38,031 | 84,671 | (47,994) | 36,677 |
| Prepayments for intangible assets | | 392 | | 392 | 1,050 | | 1,050 |
| Total other intangible assets | | 96,576 | (58,153) | 38,423 | 85,721 | (47,994) | 37,727 |

As a result of the limited availability of local telephone numbering capacity in Moscow and the Moscow region, the Group entered into agreements for the use of telephone numbering capacity with other telecommunications operators in the region. The costs of acquired numbering capacity with a finite contractual life are amortized over a period of two to ten years in accordance with the terms of the contracts to acquire such capacity.

On December 26, 2012, the State Duma passed a law on the portability of a cellphone number by a subscriber when changing service provider. In connection with this law the Group reclassified numbering capacity with indefinite useful lives in amount of RUB 1,298 million to numbering capacity with finite contractual lives and amortizes it over two years.

Amortization expense for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 14,110 million, RUB 12,482 million and RUB 11,917 million, respectively. Based solely on the cost of amortizable intangible assets existing at December 31, 2013 the estimated future amortization expenses for the five years ending December 31, 2018 and thereafter are as follows:

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| Estimated amortization expense in the year ended December 31, | |
|--|---------------|
| 2014 | 13,062 |
| 2015 | 9,640 |
| 2016 | 6,399 |
| 2017 | 3,743 |
| 2018 | 1,563 |
| Thereafter | 3,624 |
| Total | 38,031 |

The actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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(Amounts in millions of Russian Rubles, unless otherwise stated)

12. OTHER INTANGIBLE ASSETS (Continued)

Weighted-average amortization period for billing and telecommunication software acquired during the years ended December 31, 2013 and 2012 is four years.

13. INVESTMENTS IN AND ADVANCES TO ASSOCIATES

As of December 31, 2013 and 2012, the Group's investments in and advances to associates comprised the following:

| | December 31, | |
|--|---------------|--------------|
| | 2013 | 2012 |
| MTS Belarus equity investment | 5,013 | 5,019 |
| MTS Bank equity investment | 5,476 | |
| MTS Bank loan ⁽¹⁾ | 2,100 | |
| Business-Nedvizhimost equity investment | 410 | |
| Intellect Telecom equity investment | 163 | 287 |
| Stream equity investment | 231 | 226 |
| Total investments in and advances to associates | 13,393 | 5,532 |

(1)

The loan was reclassified to investments in and advances to associates upon MTS Bank recognition as the Group's associate in 2013.

Intellect Telecom In November 2010, MGTS acquired a 43.8% interest in Intellect Telecom from one of the subsidiaries of Sistema for \$12.4 million (RUB 378.5 million at the date of transaction). Intellect Telecom is a research and development innovation center in the field of telecommunications. In March 2011, MGTS acquired a further 6.14% interest in Intellect Telecom in exchange for building of a business center in Moscow City with net book value of \$0.8 million (RUB 23.9 million at the date of transaction), thus increasing its share in Intellect Telecom to 49.95%.

Stream After loss of control over the subsidiary in May 2012, the Group deconsolidated Stream and accounted for the investment using the equity method of accounting (Note 3).

Business-Nedvizhimost In September 2013, MGTS, the Group's subsidiary, spun off Business-Nedvizhimost CJSC from its wholly-owned subsidiary MGTS-Nedvizhimost and, in December 2013, sold a 51% stake in Business-Nedvizhimost to Sistema. After the loss of control over the subsidiary, the Group deconsolidated Business-Nedvizhimost and accounted for the investment using the equity method of accounting.

MTS Bank In April 2013, the Group acquired a 25.1% stake in Open Joint Stock Company "MTS Bank" ("MTS Bank") through the purchase of MTS Bank's additional share issuance for RUB 5,089 million. As a result of the transaction, the Group's effective ownership in MTS Bank increased to 26.3%, as MTS OJSC previously owned an interest of 1.7% (such original interest decreased to 1.2% due to additional share issuance) in MTS Bank through its subsidiary MGTS. In September 2012, the Group provided a 10-year subordinated loan to MTS Bank in the

amount of RUB 2,100 million at 8.8% p.a.

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The financial position and results of operations of MTS Bank as of and for the year ended December 31, 2013 (since acquisition) were as follows:

| | 2013 |
|-------------------------|-------------|
| Total assets | 224,446 |
| Total liabilities | (201,077) |
| Noncontrolling interest | (1,924) |
| Total interest income | (18,266) |
| Total interest expense | 7,737 |
| Operating profit | (1,036) |
| Net income | (868) |

Summarized financial position and results of operations of other equity method investees as of and for the year ended December 31, 2013 were as follows:

| | MTS Belarus | Intellect Telecom | Stream | Business- Nedvizhimost (since deconsolidation) |
|-------------------------------|--------------------|--------------------------|---------------|---|
| Total current assets | 5,867 | 140 | 485 | 313 |
| Total non-current assets | 6,539 | 483 | 214 | 749 |
| Total assets | 12,406 | 623 | 699 | 1,062 |
| Total current liabilities | (3,161) | (267) | (206) | (181) |
| Total non-current liabilities | | (14) | | (50) |
| Total liabilities | (3,161) | (281) | (206) | (231) |
| Revenue | (14,310) | (357) | (738) | (13) |
| Gross profit | (10,271) | (66) | (253) | (8) |
| Net (income) / loss | (4,649) | 81 | (9) | (5) |

Summarized financial position and results of operations of equity method investees as of and for the year ended December 31, 2012 were as follows:

| | MTS Belarus | Intellect Telecom | Stream (since deconsolidation) |
|---------------------------|--------------------|--------------------------|---|
| Total current assets | 4,229 | 89 | 381 |
| Total non-current assets | 6,517 | 484 | 265 |
| Total assets | 10,746 | 573 | 646 |
| Total current liabilities | (1,629) | (141) | (154) |

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| | | | |
|-------------------------------|----------------|--------------|--------------|
| Total non-current liabilities | | (9) | |
| Total liabilities | (1,629) | (150) | (154) |
| Revenue | (11,197) | (182) | (60) |
| Gross (profit) / loss | (8,055) | 45 | 84 |
| Net (income) / loss | (2,109) | 159 | 188 |
| | | F-33 | |

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The Group's share in the total earnings or losses of associates was included in other income in the accompanying consolidated statements of operations and comprehensive income. For the years ended December 31, 2013, 2012 and 2011 this share of earnings amounted to income of RUB 2,472 million, RUB 869 million and RUB 1,430 million, respectively.

14. OTHER INVESTMENTS

As of December 31, 2013 and 2012, the Group's other investments comprised the following:

| | Annual interest rate | Maturity date | December 31, | |
|--|-------------------------|------------------|--------------|--------------|
| | | | 2013 | 2012 |
| Loan receivable from Mr. P. Fattouche and Mr. M. Fattouche | 6% | 2015 | 2,946 | 2,734 |
| Loan receivable from MTS Bank (related party) (Note 22) ⁽¹⁾ | | | | 2,100 |
| Loan Participation Notes EMIS BV | 6% | 2015 | 699 | |
| Promissory notes of Sistema (Note 22) | 0.0% | 2017 | 618 | 618 |
| Investments in ordinary shares (related parties) (Note 22) | | | 125 | 306 |
| Other | | | 4 | 56 |
| Total other investments | | | 4,392 | 5,814 |

(1) Reclassified to Investments in and advances to associates upon MTS Bank recognition as the Group's associate in 2013.

The Group does not discount promissory notes and loans granted to related parties, interest rates on which are different from market rates. Accordingly, fair value of such notes and loans may be different from their carrying value.

In December 2010, the Group granted a \$90.0 million (RUB 2,777 million at the date of transaction) loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche, the holders of a 20% noncontrolling stake in K-Telecom, the Group's subsidiary in Armenia. Simultaneously, the Group signed an amendment to the put and call option agreement for the remaining 20% stake. According to the amendment, the call exercise price shall be reduced by deducting any outstanding balance on the loan amount and all accrued and unpaid interest and any other sums due and outstanding under the loan agreement at the time of exercise (Note 26). Interest accrued on the loan to Mr. Pierre Fattouche and Mr. Moussa Fattouche for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 172.7 million, RUB 174.1 million and RUB 120.5 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations and comprehensive income. The fair value of the loan approximates its carrying value due to the marketable interest rate.

In August 2013, the Group invested \$21.3 million (RUB 703 million at the date of transaction) in Loan Participation Notes issued by EMIS BV (effective issuer Renaissance Capital). The Notes bear an interest of 6% per annum and are due in 2015. The Notes are classified as held to maturity and carried at amortized cost. The fair value of the notes approximates their carrying value due to the marketable interest rate.

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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(Amounts in millions of Russian Rubles, unless otherwise stated)

14. OTHER INVESTMENTS (Continued)

The Group considers credit risk for other investments in loan receivable and notes to be low.

15. BORROWINGS

Notes As of December 31, 2013 and 2012, the Group's notes consisted of the following:

| | Currency | Interest rate | December 31, | |
|---|----------|---------------|----------------|---------------|
| | | | 2013 | 2012 |
| MTS International Notes due 2020 (Note 2) | USD | 8.625% | 24,547 | 22,779 |
| MTS International Notes due 2023 (Note 2) | USD | 5.00% | 16,365 | |
| MTS OJSC Notes due 2020 | RUB | 8.15% | 15,000 | 15,000 |
| MTS OJSC Notes due 2014 | RUB | 7.60% | 13,619 | 13,619 |
| MTS OJSC Notes due 2017 | RUB | 8.70% | 10,000 | 10,000 |
| MTS OJSC Notes due 2023 | RUB | 8.25% | 10,000 | |
| MTS OJSC Notes due 2015 | RUB | 7.75% | 7,537 | 7,537 |
| MTS OJSC Notes due 2018 | RUB | 7.50% | 3,844 | 9,610 |
| MTS OJSC Notes due 2016 | RUB | 8.75% | 1,788 | 1,788 |
| MTS OJSC Notes due 2015 (A series) | RUB | 10.00% | 12 | |
| MTS OJSC Notes due 2016 (B series) | RUB | 8.00% | 12 | |
| MTS OJSC Notes due 2022 (V series) | RUB | 5.00% | 12 | |
| MTS OJSC Notes due 2013 | RUB | 7.00% | | 429 |
| Plus: unamortized premium | | | 8 | 14 |
| Total notes | | | 102,744 | 80,776 |
| Less: current portion | | | (17,462) | (10,039) |
| Total notes, long-term | | | 85,282 | 70,737 |

The Group has an unconditional obligation to repurchase certain MTS OJSC Notes at par value if claimed by the noteholders subsequent to the announcement of sequential coupon. The dates of the announcement for each particular note issue are as follows:

| | |
|-------------------------|---------------|
| MTS OJSC Notes due 2018 | December 2014 |
| MTS OJSC Notes due 2020 | November 2015 |
| MTS OJSC Notes due 2023 | March 2018 |

The notes therefore can be defined as callable obligations under the FASB authoritative guidance on debt, as the holders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons. The FASB authoritative guidance on debt requires callable obligations to be disclosed as maturing in the reporting period, when the demand for repurchase could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The Group discloses the notes as maturing in 2014 (MTS OJSC Notes due

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2018), in 2015 (MTS OJSC Notes due 2020) and in 2018 (MTS OJSC Notes due 2023) in the aggregated maturities schedule as these are the reporting periods when the noteholders will have the unilateral right to demand repurchase.

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In June 2013, the Group changed the coupon rate for MTS OJSC Notes due 2018 from 8.00% to 7.00%. Following the announcement of new coupon rates the Group repurchased MTS OJSC Notes due 2018 at the request of eligible noteholders in the amount of RUB 1,875 million.

In December 2013, the Group changed the coupon rate for MTS OJSC Notes due 2018 from 7.00% to 7.50%. Following the announcement of new coupon rates the Group repurchased MTS OJSC Notes due 2018 at the request of eligible noteholders in the amount of RUB 3,891 million.

The fair values of notes based on the market quotes as of December 31, 2013 at the stock exchanges where they are traded were as follows:

| | Stock exchange | % of par | Fair value |
|----------------------------------|-----------------------|-----------------|-------------------|
| MTS International Notes due 2020 | Irish stock exchange | 118.60 | 29,113 |
| MTS International Notes due 2023 | Irish stock exchange | 93.75 | 15,342 |
| MTS OJSC Notes due 2020 | Moscow Exchange | 100.70 | 15,105 |
| MTS OJSC Notes due 2014 | Moscow Exchange | 100.15 | 13,639 |
| MTS OJSC Notes due 2017 | Moscow Exchange | 101.47 | 10,147 |
| MTS OJSC Notes due 2023 | Moscow Exchange | 101.00 | 10,100 |
| MTS OJSC Notes due 2015 | Moscow Exchange | 100.14 | 7,557 |
| MTS OJSC Notes due 2018 | Moscow Exchange | 100.30 | 3,855 |
| MTS OJSC Notes due 2016 | Moscow Exchange | 101.25 | 1,810 |

| | | | |
|--------------------|--|--|----------------|
| Total notes | | | 106,668 |
|--------------------|--|--|----------------|

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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15. BORROWINGS (Continued)

Bank loans and other debt As of December 31, 2013 and 2012, the Group's loans from banks and financial institutions consisted of the following:

| | Maturity | Interest rate (actual at December 31, 2013) | December 31, | |
|---|-------------|---|----------------|----------------|
| | | | 2013 | 2012 |
| USD-denominated: | | | | |
| Calyon, ING Bank N.V., Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG | 2013 - 2020 | LIBOR +1.15% (1.50%) | 26,132 | 28,040 |
| Skandinaviska Enskilda Banken AB | 2013 - 2017 | LIBOR +0.23% - 1.8% (0.57% - 2.15%) | 4,238 | 5,072 |
| HSBC Bank plc and ING BHF Bank AG | 2013 - 2014 | LIBOR +0.3% (0.65%) | 394 | 965 |
| Citibank International plc and ING Bank N.V. | 2013 | LIBOR +0.43% (0.77%) | | 574 |
| HSBC Bank plc, ING Bank and Bayerische Landesbank | 2013 | LIBOR +0.3% (0.65%) | | 800 |
| Commerzbank AG, ING Bank AG and HSBC Bank plc | 2013 | LIBOR +0.3% (0.65%) | | 659 |
| ABN AMRO Bank N.V. | 2013 | LIBOR +0.35% (0.70%) | | 191 |
| Other | 2013 - 2014 | Various | 258 | 91 |
| | | | 31,022 | 36,392 |
| EUR-denominated: | | | | |
| Bank of China | 2013 - 2016 | EURIBOR + 1.95% (2.34%) | 2,435 | 2,905 |
| Credit Agricole Corporate Bank and BNP Paribas | 2013 - 2018 | EURIBOR + 1.65% (2.04%) | 1,557 | 1,671 |
| LBBW | 2013 - 2017 | EURIBOR + 0.75% (1.14%) | 839 | 938 |
| ABN AMRO Bank N.V. | 2013 | EURIBOR + 0.35% (0.74%) | | 139 |
| Other | 2013 | Various | | 62 |
| | | | 4,831 | 5,715 |
| RUB-denominated: | | | | |
| Sberbank ⁽¹⁾ | 2020 | 8.45% | 80,000 | 100,000 |
| Bank of Moscow | 2013 | 8.25% | | 4,000 |
| Notes in REPO | 2013 | 6.13% | | 4,485 |
| Other | 2013 - 2023 | Various | 395 | 525 |
| | | | 80,395 | 109,010 |
| AMD-denominated: | | | | |
| ASHIB | 2014 | 13.45% | 108 | |
| | | | 108 | |
| Total bank loans and other debt | | | 116,356 | 151,117 |

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| | | |
|---|----------------|----------------|
| Less: current portion | (7,564) | (17,422) |
| Total bank loans and other debt, long-term | 108,792 | 133,695 |

-
- (1) In December 2010, the Group entered into two Sberbank non-revolving credit line facilities in the amount of RUB 60 billion and RUB 40 billion respectively. In July 2013, the Group repaid RUB 20 billion of the RUB 40 billion credit facility. In December 2013, the tenor of the credit agreements was increased from December 2017 until March 2020, while the annual interest rate on both lines was lowered from 8.50% to 8.45%. The interest rate for the period starting from October 23, 2013 till December 31, 2014 also depends on the volume of turnover in the bank accounts of certain entities of the Group. In case the average volume falls below a certain limit, the interest rate is increased by 1% to 9.45%.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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15. BORROWINGS (Continued)

In addition, Sberbank is entitled to voluntarily revise the interest rate on the lines as a result of and proportionate to the change in the refinancing rate set by the Central Bank of Russia.

Borrowing costs and interest capitalized Borrowing costs include interest incurred on existing indebtedness and debt issuance costs. Interest costs for assets that require a period of time to prepare them for their intended use are capitalized and amortized over the estimated useful lives of the related assets. The capitalized interest costs for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 1,942 million, RUB 1,792 million and RUB 1,497 million, respectively, and were recorded as additions to the cost of network and base station equipment within property, plant and equipment in the consolidated statements of financial position. Debt issuance costs are capitalized and amortized over the term of the respective borrowings using the effective interest method.

Interest expense, net of amounts capitalized and amortization of debt issuance costs, for the years ended December 31, 2013, 2012 and 2011 was RUB 14,714 million, RUB 16,721 million and RUB 18,494, respectively.

Compliance with covenants Bank loans and notes of the Group are subject to certain covenants limiting the Group's ability to incur debt, create liens, dispose assets, sell or transfer lease properties, enter into loan transactions with affiliates, delist notes, delay coupon payments, merge or consolidate with another entity or convey its properties and assets to another entity, sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas, or be subject to a judgment requiring payment of money in excess of \$10 million (RUB 327 million as of the reporting date), which continue unsatisfied for more than 60 days without being appealed, discharged or waived or the execution thereof stayed.

The Group is also required to comply with certain financial ratios, maintain ownership in certain subsidiaries and to take all commercially reasonable steps necessary to maintain the rating of the notes assigned by Moody's and Standard & Poor's.

Also, the noteholders of MTS International Notes due 2020 and MTS International Notes due 2023 have the right to require the Group to redeem the notes at 101% of their principal amount, plus accrued interest, if the Group experiences a change in control.

If the Group fails to meet these covenants, after certain notice and cure periods, the debtholders can accelerate the debt to be immediately due and payable.

The Group was in compliance with all existing notes and bank loan covenants as of December 31, 2013.

As of December 31, 2013, the Group did not have any pledged assets.

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Available credit facilities As of December 31, 2013, the Group's total available unused credit facilities amounted to RUB 5 billion and related to the following credit lines:

| | Maturity | Interest rate | Available till | Available amount |
|------------------|-----------------|------------------------------------|-----------------------|-------------------------|
| ING Bank Eurasia | 2014 | MosPrime / LIBOR / EURIBOR + 1.50% | July 2014 | 2,500 |
| Rosbank | 2014 | MosPrime + 0.75% | July 2014 | 2,500 |
| Total | | | | 5,000 |

In addition, the Group has a credit facility made available by Citibank at MosPrime + 1.50% interest rate with the available amount set up on request and to be repaid within 182 days.

The following table presents the aggregated scheduled maturities of principal on notes and bank loans outstanding for the five years ending December 31, 2018 and thereafter:

| | Notes | Bank loans and other debt |
|--|----------------|----------------------------------|
| Payments due in the year ending December 31, | | |
| 2014 | 17,462 | 7,564 |
| 2015 | 22,558 | 11,669 |
| 2016 | 1,800 | 26,590 |
| 2017 | 10,000 | 20,264 |
| 2018 | 10,000 | 19,420 |
| Thereafter | 40,924 | 30,849 |
| Total | 102,744 | 116,356 |

16. ASSET RETIREMENT OBLIGATIONS

As of December 31, 2013 and 2012, the estimated present value of the Group's asset retirement obligations and change in liabilities were as follows:

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| | 2013 | 2012 |
|--|--------------|--------------|
| Balance, beginning of the year | 2,763 | 2,245 |
| Liabilities incurred in the current period | 303 | 264 |
| Accretion expense | 97 | 293 |
| Revisions in estimated cash flows | (453) | (15) |
| Currency translation adjustment | 33 | (24) |
| | | |
| Balance, end of the year | 2,743 | 2,763 |

Revisions in estimated cash flows are attributable to the change in the estimated inflation rate and cost of dismantling of assets.

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Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011****(Amounts in millions of Russian Rubles, unless otherwise stated)****17. DEFERRED CONNECTION FEES**

Deferred connection fees for the years ended December 31, 2013 and 2012, were as follows:

| | 2013 | 2012 |
|---|--------------|--------------|
| Balance, beginning of the year | 3,817 | 3,931 |
| Payments received and deferred during the year | 1,714 | 1,914 |
| Amounts amortized and recognized as revenue during the year | (1,921) | (2,287) |
| Currency translation adjustment | 39 | 259 |
| Balance, end of the year | 3,649 | 3,817 |
| Less: current portion | (1,604) | (1,463) |
| Non-current portion | 2,045 | 2,354 |

The Group defers initial connection fees paid by subscribers for the activation of network service as well as one time activation fees received for connection to various value added services. These fees are recognized as revenue over the estimated average subscriber life (Note 2).

18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**Cash flow hedging**

In 2009, 2008 and 2007, the Group entered into variable-to-fixed interest rate swap agreements to manage the exposure of changes in variable interest rate related to its debt obligations. The instruments qualify for cash flow hedge accounting under U.S. GAAP requirements. Each interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective hedges. Interest rate swap contracts outstanding as of December 31, 2013 mature in 2014-2015.

In aggregate the Group entered into interest rate swap agreements designated to manage the exposure of changes in variable interest rate relate to 1.1% of the Group's USD- and Euro- denominated bank loans outstanding as of December 31, 2013.

In addition to the above, the Group has also entered into several cross-currency interest rate swap agreements. These contracts hedged the risk of both interest rate and currency fluctuations and assumed periodic exchanges of both principal and interest payments from RUB-denominated amounts to USD- and Euro- denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. Cross-currency interest rate swap contracts mature in 2019-2020.

The Group entered into cross-currency interest rate swap agreements designated to manage the exposure of changes in variable interest rate and currency exchange rate for 33.5% of its USD- and Euro- denominated bank loans outstanding as of December 31, 2013.

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18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

The following table presents the fair value of the Group's derivative instruments designated as hedges in the consolidated statements of financial position as of December 31, 2013 and 2012.

| | Statements of financial position location | December 31, | |
|------------------------------------|---|--------------|--------------|
| | | 2013 | 2012 |
| Asset derivatives | | | |
| Cross-currency interest rate swaps | Other non-current assets | 1,825 | 94 |
| Interest rate swaps | Other non-current assets | 12 | 41 |
| Total | | 1,837 | 135 |
| Liability derivatives | | | |
| Interest rate swaps | Other long-term liabilities | (389) | (386) |
| Interest rate swaps | Other payables | (32) | (17) |
| Total | | (421) | (403) |

The following table presents the effect of the Group's derivative instruments designated as hedges in the consolidated statements of operations and comprehensive income for the years ended December 31, 2013, 2012 and 2011. The amounts presented include the ineffective portion of derivative instruments and the amounts reclassified into earnings from accumulated other comprehensive income.

| | Location of loss recognized | Years ended December 31, | | |
|------------------------------------|--|-----------------------------|--------------|--------------|
| | | 2013 | 2012 | 2011 |
| Interest rate swaps | Interest expense | (184) | (429) | (398) |
| Cross-currency interest rate swaps | Currency exchange and transaction loss | (777) | (235) | (120) |
| Total | | (961) | (664) | (518) |

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The following table presents the amount of ineffective portion of Group's derivative instruments designated as hedges in the consolidated statements of operations and comprehensive income for the years ended December 31, 2013, 2012 and 2011.

| | Location of gain / (loss) recognized | Years ended December 31, | | |
|------------------------------------|--|-----------------------------|--------------|------------|
| | | 2013 | 2012 | 2011 |
| Interest rate swaps | Interest (expense) / income | (28) | (183) | 233 |
| Cross-currency interest rate swaps | Currency exchange and transaction gain | | | 55 |
| Total | | (28) | (183) | 288 |

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Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011****(Amounts in millions of Russian Rubles, unless otherwise stated)****18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)**

In May 2013, the Group repaid the full amount due under the HSBC bank credit facility granted to MTS OJSC in 2004 with an original maturity in November 2013. The voluntary prepayment of principal and interest in the amount of RUB 102 million (\$3.2 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In May 2013, the Group repaid the full amount due under the Citibank credit facility granted to MTS OJSC in 2005 with an original maturity in May 2014. The voluntary prepayment of principal and interest in the amount of RUB 686 million (\$21.8 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In April 2013, the Group repaid the full amount due under the HSBC bank credit facility granted to MTS OJSC in 2004 with an original maturity in October 2013. The voluntary prepayment of principal and interest of RUB 132 million (\$4.2 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In March 2013, the Group repaid the full amount due under the HSBC bank credit facility granted to MTS OSJC in 2004 with an original maturity in September 2013. The voluntary prepayment of principal and interest in the amount of RUB 276 million (\$8.9 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

In February 2011, the Group repaid the full amount due under the Barclays bank credit facility granted to MTS OJSC in 2005 with an original maturity in 2014. The voluntary prepayment of principal and interest in the amount of RUB 1,373 million (\$46.3 million) resulted in an immediate termination of the hedging relationship between designated interest rate swap agreements and the credit facility.

After the termination of hedging relationships any amounts accumulated in other comprehensive income and associated with the prepaid debt have been reclassified into earnings, going forward those derivatives are marked to market through earnings.

The following table presents the amount of accumulated other comprehensive loss reclassified into earnings during the years ended December 31, 2013, 2012 and 2011 due to termination of hedging relationships.

| | Location of (loss) recognized | Years ended December 31, | | |
|---------------------|-------------------------------|-----------------------------|------|-------------|
| | | 2013 | 2012 | 2011 |
| Interest rate swaps | Interest expense | (33) | | (58) |
| Total | | (33) | | (58) |

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18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

The following table presents the effect of the Group's interest rate swap agreements designated as hedges in accumulated other comprehensive income for the years ended December 31, 2013, 2012 and 2011.

| | 2013 | 2012 | 2011 |
|---|--------------|--------------|--------------|
| Accumulated derivatives income / (loss), beginning of the year, net of tax of 4 and (60) and (113), respectively | 21 | (241) | (453) |
| Fair value adjustments on hedging derivatives, net of tax of 138 and (29) and (9), respectively | 691 | (204) | (100) |
| Amounts reclassified into earnings during the period, net of tax of 151 and 93 and 62, respectively | 755 | 466 | 312 |
| Accumulated derivatives income / (loss), end of the year, net of tax of 293 and 4 and (60), respectively | 1,467 | 21 | (241) |

As of December 31, 2013, the outstanding hedging instruments were highly effective. Approximately RUB 322 million of net loss is expected to be reclassified into net income during the next twelve months.

Cash inflows and outflows related to hedging instruments were included in cash flows from operating and financing activities in the consolidated statements of cash flows for the years ended December 31, 2013, 2012 and 2011.

Non-designated derivative instruments

Foreign currency options In 2010 and 2009, the Group entered into foreign currency option agreements to manage the exposure to changes in currency exchange rates related to USD-denominated debt obligations. According to the agreements, the Group had a combination of put and call option rights to acquire \$330.0 million (RUB 10,022 million) at rates within a range specified in contracts. These contracts were not designated for hedge accounting purposes. These currency option agreements matured in 2012.

The following table presents the effect of the Group's derivative instruments not designated as hedges on the consolidated statements of operations and comprehensive income for the years ended December 31, 2013, 2012 and 2011.

| Location of gain / (loss) recognized | Years ended December 31, | | |
|--------------------------------------|-----------------------------|------------|-----------|
| | 2013 | 2012 | 2011 |
| Foreign currency options | | (4) | 96 |
| Total | | (4) | 96 |

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18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Fair value of derivative instruments

The Group measured assets and liabilities associated with derivative agreements at fair value Level 2 on a recurring basis. There were no assets and liabilities associated with derivative agreements measured at fair value Level 1 and Level 3 as of December 31, 2013 and 2012 (Note 2 and 19).

The following fair value hierarchy table presents information regarding the Group's assets and liabilities associated with derivative agreements as of December 31, 2013 and 2012:

| | Significant other observable inputs (Level 2) as of December 31, 2013 | Significant other observable inputs (Level 2) as of December 31, 2012 |
|--|--|--|
| <i>Assets</i> | | |
| Interest rate swap agreements | 12 | 41 |
| Cross-currency interest rate swap agreements | 1,825 | 95 |
| <i>Liabilities</i> | | |
| Interest rate swap agreements | (421) | (403) |

19. FAIR VALUE MEASUREMENTS

According to U.S. GAAP requirements the Group records derivative instruments, redeemable noncontrolling interest, contingent consideration and investment in a mutual investment fund at fair value on a recurring basis.

The following tables summarize those assets and liabilities measured at fair value on a recurring basis:

| | Significant observable inputs (Level 1) as of December 31, 2013 | Significant other observable inputs (Level 2) as of December 31, 2013 | Significant unobservable inputs (Level 3) as of December 31, 2013 |
|--|--|--|--|
| <i>Assets</i> | | | |
| Mutual investment fund "Reservnyi" (Note 6 and 22) | 4,154 | | |
| Derivative instruments (Note 18) | | 1,837 | |
| <i>Liabilities</i> | | | |
| Derivative instruments (Note 18) | | (421) | |
| Contingent consideration | | | (11) |
| Redeemable noncontrolling interest (Note 24) | | | (2,932) |

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19. FAIR VALUE MEASUREMENTS (Continued)

| | Significant other observable inputs (Level 2) as of December 31, 2012 | Significant unobservable inputs (Level 3) as of December 31, 2012 |
|--|--|--|
| Assets | | |
| Derivative instruments (Note 18) | 136 | |
| Liabilities | | |
| Derivative instruments (Note 18) | (403) | |
| Contingent consideration | | (277) |
| Redeemable noncontrolling interest (Note 24) | | (2,298) |

Changes in the Group's net assets and earnings resulted from fair value measurements of Level 3 assets and liabilities were not significant for the years ended December 31, 2013 and 2012. There were no realized and unrealized gains and losses on Level 3 assets and liabilities for the years ended December 31, 2013 and 2012.

The fair value measurement of the Group's derivative instruments is based on the observable yield curves for similar instruments. The redeemable noncontrolling interest was measured at fair value using a discounted cash flow technique. The fair value of contingent consideration was determined as the best estimate of all possible outcomes of the contingency. The inputs are based on all available internal and external information, including growth projections and industry experts' estimates, where applicable.

The most significant quantitative inputs used to measure the fair value of redeemable noncontrolling interest as of December 31, 2013 and 2012 are presented in the table below:

| Unobservable inputs | December 31, | |
|---------------------|---------------------------|---------------------------|
| | 2013 | 2012 |
| Discount rate | 12% | 12% |
| Revenue growth rate | 0.7% - 1.2% (av. 0.9%) | 0.5% - 1.0% (av. 0.7%) |
| OIBDA margin | 49.4% - 50.7% (av. 49.8%) | 44.0% - 45.5% (av. 44.6%) |

There were no transfers between levels within the hierarchy for the years ended December 31, 2013 and 2012.

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Group records assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. No impairment charges were recognized in the consolidated statements of operations and comprehensive income for the year ended December 31, 2013. The losses recognized on assets measured at fair value on a nonrecurring basis for

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the year ended December 31, 2012 are summarized below. In 2013, these losses were assigned to discontinued operations (Note 4):

| | 2012 |
|--------------------------------------|---------------|
| Property, Plant and Equipment | 8,438 |
| Licenses | 2,709 |
| Rights to use radio frequencies | 2,523 |
| Numbering capacity | 1,190 |
| Software and other intangible assets | 1,654 |
| Goodwill | 3,523 |
| Total | 20,037 |

As of December 31, 2012, the fair value of the impaired property, plant and equipment, other intangible assets, licenses and goodwill amounted to RUB 7,782 million, RUB 1,558 million, nil and nil, respectively.

The Group used a probability-weighted valuation technique to determine the fair value of the long-lived assets. The fair value of long-lived assets was determined based on unobservable inputs ("Level 3" of the hierarchy established by the U.S. GAAP guidance). In calculation of future cash flows for the assessment of the fair value of long-lived assets the Group used forecasts of Uzbekistan telecommunication market and Uzdurobita's position on that market. The forecasts were based on all available internal and external information, including growth projections and industry experts' estimates.

The carrying amounts of cash and cash equivalents; short-term investments; accounts receivable; accounts payable and accrued expenses approximate their fair values because of the relatively short-term maturities of these financial instruments.

The fair value of notes payable is estimated based on quoted prices for those instruments ("Level 1" of the hierarchy established by the U.S. GAAP guidance). As of December 31, 2013 and 2012, the fair value of notes payable, including the current portion, amounted to RUB 106,668 million and RUB 86,657 million, respectively.

The fair value of bank loans and other debt is estimated using discounted cash flows and market-based expectations for interest rates, credit risk and the contractual terms of the debt instruments ("Level 2" of the hierarchy established by the U.S. GAAP guidance). As of December 31, 2013 and 2012, the fair value of bank loans and other debt, including the current portion, approximates their carrying value and amounted to RUB 116,356 million and RUB 151,323 million, respectively.

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20. ACCRUED LIABILITIES

| | December 31, | |
|---------------------------------------|---------------|---------------|
| | 2013 | 2012 |
| Accruals for services | 9,911 | 9,963 |
| Accruals for taxes | 8,355 | 6,546 |
| Accrued payroll and vacation | 7,247 | 6,928 |
| Interest payable on debt | 1,792 | 1,582 |
| Accruals for payments to social funds | 369 | 419 |
| Total accrued liabilities | 27,674 | 25,438 |

21. INCOME TAX

Provision for income taxes for the years ended December 31, 2013, 2012 and 2011 was as follows:

| | Years ended December 31, | | |
|--|--------------------------|---------------|---------------|
| | 2013 | 2012 | 2011 |
| Income from continuing operations before provision for income taxes | | | |
| Russia | 77,502 | 71,626 | 53,164 |
| Other jurisdictions | 19,186 | 11,216 | 6,495 |
| Total income from continuing operations before provision for income taxes | 96,688 | 82,842 | 59,659 |
| Current income tax expense | | | |
| Russia | 7,557 | 13,790 | 13,471 |
| Other jurisdictions | 2,405 | 2,304 | 1,559 |
| Total current income tax expense | 9,962 | 16,094 | 15,030 |
| Deferred income tax expense | | | |
| Russia | 8,487 | 2,312 | 133 |
| Other jurisdictions | 1,184 | 978 | 363 |
| Total deferred income tax expense | 9,671 | 3,290 | 496 |

| | | | |
|---|---------------|---------------|---------------|
| Total provision for income taxes | 19,633 | 19,384 | 15,526 |
|---|---------------|---------------|---------------|

The statutory income tax rates in jurisdictions in which the Group operates for the fiscal years of 2013, 2012 and 2011 were as follows: Russia, Armenia 20.0%, Turkmenistan 8.0%. During the years ended December 31, 2013, 2012 and 2011 the Ukraine tax rate was 19.0%, 21.0% and 23.0%, respectively. For the year ended December 31, 2014 the Ukraine tax rate is 18.0% and it is expected to decrease to 17.0% and 16.0% for the years ended December 31, 2015 and 2016, respectively.

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The Russia statutory income tax rate reconciled to the Group's effective income tax rate for the years ended December 31, 2013, 2012 and 2011 was as follows:

| | 2013 | 2012 | 2011 |
|---|--------------|--------------|--------------|
| Statutory income tax rate for the year | 20.0% | 20.0% | 20.0% |
| Adjustments: | | | |
| (Income) / expenses not liable for tax purposes | (0.5) | 2.0 | 2.9 |
| Change in unrecognized tax benefits | | (0.5) | (0.2) |
| Settlements with tax authorities | (0.3) | 0.4 | (0.5) |
| Earnings distribution from subsidiaries | 1.8 | 1.5 | 3.0 |
| Effect of change in tax rate in Ukraine | (0.1) | 0.2 | 0.8 |
| Loss carryforward utilisation | | (0.3) | |
| Different tax rate of foreign subsidiaries | (0.5) | | |
| Other | (0.1) | 0.1 | |
| Effective income tax rate | 20.3% | 23.4% | 26.0% |

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21. INCOME TAX (Continued)

Temporary differences between the tax and accounting bases of assets and liabilities gave rise to the following deferred tax assets and liabilities as of December 31, 2013 and 2012:

| | December 31, | |
|---|-----------------|-----------------|
| | 2013 | 2012 |
| Assets / (liabilities) arising from tax effect of: | | |
| Deferred tax assets | | |
| Depreciation of property, plant and equipment | 1,229 | 2,948 |
| Deferred connection fees | 1,115 | 1,143 |
| Accrued expenses for services | 6,291 | 4,825 |
| Inventory obsolescence | 265 | 683 |
| Loss carryforward | 5,880 | 6,689 |
| Impairment of long-lived assets | | 1,067 |
| Other | 1,242 | 1,067 |
| Valuation allowance | (5,504) | (4,952) |
| Total deferred tax assets | 10,518 | 13,470 |
| Deferred tax liabilities | | |
| Licenses acquired | (774) | (786) |
| Depreciation of property, plant and equipment | (12,735) | (7,273) |
| Customer base | (1,027) | (1,133) |
| Other intangible assets | (2,995) | (1,695) |
| Debt issuance cost | (405) | (519) |
| Potential distributions from / to Group's subsidiaries / associates | (4,553) | (3,403) |
| Other | (436) | (147) |
| Total deferred tax liabilities | (22,925) | (14,956) |
| Net deferred tax (liability) / asset | (12,407) | (1,486) |
| Net deferred tax asset, current | 7,933 | 6,998 |

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| | | |
|---------------------------------------|----------|----------|
| Net deferred tax asset, non-current | 862 | 2,186 |
| Net deferred tax liability, long-term | (21,202) | (10,670) |

The Group has the following significant balances for income tax losses carryforward and related operating losses as of December 31, 2013 and 2012:

| Jurisdiction | Period for carry-forward | December 31, | | | |
|------------------------------------|--------------------------|------------------|--------------|------------------|--------------|
| | | 2013 | | 2012 | |
| | | Operating losses | Tax losses | Operating losses | Tax losses |
| Luxembourg (MGTS Finance S.A.) | Unlimited | 14,064 | 4,101 | 13,053 | 3,789 |
| Russia (Comstar-Regions and other) | 2014-2023 | 8,897 | 1,779 | 14,499 | 2,900 |
| Total | | 22,961 | 5,880 | 27,552 | 6,689 |

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Management established the following valuation allowances against deferred tax assets where it was more likely than not that some portion of such deferred tax assets will not be realized:

| Valuation allowances | December 31, | |
|---|--------------|--------------|
| | 2013 | 2012 |
| Sale of investment in Svyazinvest | 2,160 | 2,089 |
| Operating loss in Luxemburg (MGTS Finance S.A.) | 3,086 | 2,863 |
| Other | 258 | |
| Total | 5,504 | 4,952 |

The following table summarizes the changes in the allowance against deferred tax assets for the years ended December 31, 2013, 2012 and 2011:

| | Balance, beginning of the period | Charged to costs and expenses | Impact of foreign currency translation adjustments | Balance, end of the period |
|------------------------------|--|-------------------------------------|---|-------------------------------|
| Year ended December 31, 2013 | 4,952 | 258 | 294 | 5,504 |
| Year ended December 31, 2012 | 5,250 | | (298) | 4,952 |
| Year ended December 31, 2011 | 5,059 | | 191 | 5,250 |

For the remaining balances for income tax losses carryforward realization is dependent on generating sufficient taxable income prior to expiration of the losses carryforward. Although realization is not assured, management believes that it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of December 31, 2013 and 2012, the Group recognized deferred income tax liabilities of RUB 2,511 million and RUB 1,653 million, respectively, for income taxes on future dividend distributions from foreign subsidiaries (MTS Ukraine and K-Telecom) which are based on RUB 36,245 million and RUB 34,420 million cumulative undistributed earnings of those foreign subsidiaries in accordance with local statutory accounting regulations (unaudited) because such earnings are intended to be repatriated.

As of December 31, 2013, 2012 and 2011, the Group included accruals for uncertain tax positions in the amount of RUB 518 million, RUB 321 million and RUB 526 million, respectively, as a component of income tax payable.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | 2013 | 2012 | 2011 |
|---|------------|------------|------------|
| Balance, beginning of the year | 321 | 526 | 426 |
| Additions based on tax position related to the current year | 366 | | 268 |
| Additions based on tax positions related to prior years | 1 | 66 | 78 |
| Additions based on tax of acquired entities | | 10 | 151 |
| Reduction in tax positions related to prior years | (170) | (220) | (152) |
| Settlements with tax authorities | | (61) | (245) |
| Balance, end of the year | 518 | 321 | 526 |

Accrued penalties and interest related to unrecognized tax benefits as a component of income tax expense for the years ended December 31, 2013, 2012 and 2011 amounted to a reversal of RUB 53 million, a reversal of RUB 36 million and a charge of RUB 2 million, respectively, and were included in income tax expense in the accompanying consolidated statements of operations and comprehensive income. Accrued interest and penalties were included in income tax payable in the accompanying consolidated statements of financial position and totaled RUB 97 million and RUB 150 million as of December 31, 2013 and 2012, respectively. The Group does not expect the unrecognized tax benefits to change significantly over the next twelve months.

22. RELATED PARTIES

Related parties include entities under common ownership and control with the Group, affiliated companies and associated companies.

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As of December 31, 2013 and 2012, accounts receivable from and accounts payable to related parties were as follows:

| | December 31, | |
|---|--------------|------------|
| | 2013 | 2012 |
| Accounts receivable: | | |
| Sitronics N, a subsidiary of Sistema | 337 | 74 |
| MTS Belarus, an associated company of the Group | 304 | 25 |
| MTS Bank, an associated company of the Group | 128 | 137 |
| Stream, an associated company of the Group | 59 | |
| NVision Group, subsidiaries of Sistema | 33 | 66 |
| Other related parties | 104 | 34 |
| Total accounts receivable, related parties | 965 | 336 |

| | | |
|---|--------------|--------------|
| Accounts payable: | | |
| NVision Group, subsidiaries of Sistema | 1,605 | 1,230 |
| MTS Bank, an associated company of the Group | 697 | 364 |
| Maxima, a subsidiary of Sistema | 307 | 304 |
| MTS Belarus, an associated company of the Group | 208 | 34 |
| Smart Cards Group, subsidiaries of Sistema | 201 | 178 |
| Other related parties | 297 | 228 |
| Total accounts payable, related parties | 3,315 | 2,338 |

The Group has neither the intent nor the ability to offset the outstanding accounts payable and accounts receivable with related parties under the terms of existing agreements.

As of December 31, 2013 and 2012, advances given to related parties were as follows:

| | December 31, | |
|--|--------------|-------|
| | 2013 | 2012 |
| Advances for property, plant and equipment: | | |
| NVision Group, subsidiaries of Sistema | 352 | 1,024 |
| Other related parties | 15 | |

| | | |
|---|------------|--------------|
| Total advances for property, plant and equipment | 367 | 1,024 |
|---|------------|--------------|

Advances for intangible assets:

| | | |
|---|-----|-----|
| NVision Group, subsidiaries of Sistema | 144 | 191 |
| Geoinformatika, a subsidiary of Sistema | 88 | 88 |

| | | |
|---|------------|------------|
| Total advances for intangible assets | 232 | 279 |
|---|------------|------------|

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22. RELATED PARTIES (Continued)**Operating transactions:**

For the years ended December 31, 2013, 2012 and 2011, operating transactions with related parties were as follows:

| | Years ended December 31, | | |
|---|-----------------------------|--------------|--------------|
| | 2013 | 2012 | 2011 |
| Revenues from related parties: | | | |
| MTS Bank, an associated company of the Group (mobile, call center services, commission for bank cards distribution) | 378 | 88 | 19 |
| Sitronics N, a subsidiary of Sistema (construction of fiber optic link) | 288 | 26 | 46 |
| MTS Belarus, an associated company of the Group (roaming and interconnection services) | 149 | 209 | 192 |
| NVision Group, subsidiaries of Sistema (fixed line services) | 75 | 77 | 85 |
| Jet Air Group, subsidiaries of Sistema (rent) | 60 | | |
| Medsi Group, subsidiaries of Sistema (mobile and call center services) | 48 | 28 | 27 |
| Other related parties | 115 | 64 | 27 |
| Total revenues from related parties | 1,113 | 492 | 396 |
| | | | |
| Operating expenses incurred on transactions with related parties: | | | |
| Maxima, a subsidiary of Sistema (advertising) | 1,757 | 1,902 | 2,407 |
| NVision Group, a subsidiary of Sistema (IT consulting) | 1,083 | 1,115 | 1,415 |
| Stream, an associated company of the Group (content services) | 711 | | |
| MTS Bank, an associated company of the Group (commission related expenses) | 413 | 55 | 83 |
| AB Safety, a subsidiary of Sistema (security services) | 354 | 344 | 296 |
| Elavius, a subsidiary of Sistema (transportation services) | 347 | 351 | |
| MTS Belarus, an associated company of the Group (roaming and interconnection services) | 278 | 424 | 309 |
| Other related parties | 513 | 423 | 259 |
| Total operating expenses incurred on transactions with related parties | 5,456 | 4,614 | 4,769 |

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22. RELATED PARTIES (Continued)**Investing and financing transactions:**

During the years ended December 31, 2013 and 2012 the Group made certain investments in and provided loans to related parties. Respective balances are summarized as follows:

| | December 31, | |
|---|--------------|----------------------|
| | 2013 | 2012 |
| Loans to, promissory notes and investments in shares of related parties: | | |
| Short-term investments (Note 6) | | |
| Deposits at MTS Bank | 5,081 | 101 |
| Investment fund "Reservnyi", managed by "DIK", a subsidiary of Sistema | 4,154 | |
| Total short-term investments in related parties | 9,235 | 101 |
| Other investments (Note 14) | | |
| Sistema, promissory notes | 618 | 618 |
| MTS Bank, an associated company of the Group (Note 13) | | 2,100 ⁽¹⁾ |
| Total other investments to related parties | 618 | 2,718 |
| Investments in shares (Note 14) | | |
| Sistema Mass Media, a subsidiary of Sistema | 117 | 117 |
| MTS Bank, an associated company of the Group (Note 13) | | 159 ⁽¹⁾ |
| Other | 8 | 30 |
| Total investments in shares of related parties | 125 | 306 |

- (1) Reclassified to investments in and advances to associates upon MTS Bank recognition as the Group's associate in 2013.

Open Joint-Stock Company "MTS Bank" ("MTS Bank") The Group has a number of loan agreements and also maintains certain bank accounts with MTS Bank, an associated company of the Group. As of December 31, 2013 and 2012, the Group's cash position at MTS Bank amounted to RUB 11,297 million and RUB 8,161 million, respectively, including short-term deposits in the amount of RUB 5,081 million and RUB 101 million, respectively. Interest accrued on loan receivable, the deposits and cash on current accounts for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 742 million, RUB 172 million and RUB 445 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations and comprehensive income. Interest expense on the funds raised from MTS Bank for the year ended December 31, 2012 amounted to RUB 363 million and was included as a component of interest expense in the accompanying consolidated statements of operations and comprehensive income.

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22. RELATED PARTIES (Continued)

Sistema In November 2009, the Group accepted a promissory note, issued by Sistema, as repayment of a loan principal and interest accrued to date under the agreement with Sistema-Hals (Note 14). The note is interest free and repayable in 2017. As of December 31, 2013 and 2012, the amount receivable of RUB 618 and RUB 618 million was included in other investments in the accompanying consolidated statements of financial position.

Doveritelnaja Investizionnaja Kompanija ("DIK") In April and May 2013, the Group invested RUB 4.0 billion in Investment fund "Reservnyi" managed by "DIK", a subsidiary of Sistema. As of December 31, 2013, unrealized gain in the amount of RUB 154 million was recognized as other comprehensive income in the accompanying consolidated statements of operations and comprehensive income.

Investments in ordinary shares As of December 31, 2013 and 2012, the Group had several investments in shares of subsidiaries and affiliates of Sistema totaling RUB 125 million and RUB 306 million, respectively, included in other investments in the accompanying consolidated statements of financial position. The main investment is 3.14% of Sistema Mass-Media, a subsidiary of Sistema.

Smart Cards Group During the years ended December 31, 2013, 2012 and 2011, the Group purchased from Smart Cards Group, subsidiaries of Sistema, SIM cards and prepaid phone cards for approximately RUB 765 million, RUB 842 million and RUB 2,336 million, respectively.

NVision Group During the years ended December 31, 2013, 2012 and 2011, the Group acquired from NVision Group, subsidiaries of Sistema, telecommunications equipment, software and billing systems (FORIS) for approximately RUB 13,394 million, RUB 12,898 million and RUB 14,783 million, respectively, and incurred expenses of RUB 1,083 million, RUB 1,115 million and RUB 1,415 million, respectively, under an IT consulting agreement.

As of December 31, 2013 and 2012, the advances given to NVision Group amounted to RUB 496 million and RUB 1,215 million, respectively. These amounts were included into property, plant and equipment and intangible assets in the accompanying consolidated statements of financial position.

23. STOCKHOLDERS' EQUITY

Share capital The Company's charter capital is represented of 2,066,413,562 ordinary shares of which 1,998,831,184 and 1,988,919,177 were outstanding as of December 31, 2013 and 2012, respectively. The total shares in treasury stock comprised 77,582,378 and 77,494,385 as of December 31, 2013 and 2012, respectively.

Each ADS represents 2 ordinary shares. As of December 31, 2013, the Group repurchased 33,997,667 ADSs.

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23. STOCKHOLDERS' EQUITY (Continued)

Noncontrolling interest The Group's equity was affected by changes in the respective subsidiaries' ownership interests as follows:

| | Years ended December 31, | | |
|--|--------------------------|---------------|---------------|
| | 2013 | 2012 | 2011 |
| Net income attributable to the Group | 79,839 | 29,642 | 42,315 |
| Transfers from the noncontrolling interest | | | |
| Decrease in own equity due to acquisition of noncontrolling interest in Comstar-UTS | | | (1,262) |
| Increase in own equity resulted from exchange of MTS shares for noncontrolling interest in Comstar-UTS | | | 11,544 |
| Increase in own equity due to exercise of the put option on Comstar-UTS shares | | | 360 |
| Decrease in own equity due to acquisition of noncontrolling interest in MGTS | | | (9,780) |
| Increase in own equity due to acquisition of own shares by MGTS | | 57 | |
| Increase of ownership in subsidiaries | | | (22) |
| Net transfers from the noncontrolling interest | | 57 | 840 |
| Net income attributable to the Group and transfers from the noncontrolling interest | 79,839 | 29,699 | 43,155 |

Accumulated other comprehensive loss The following table represents accumulated other comprehensive loss balance, net of tax⁽¹⁾, for the years ended December 31, 2013, 2012 and 2011:

| | Currency translation adjustment | Unrealized (gains) / losses on derivatives | Unrecognized actuarial (gains) / losses | Accumulated other comprehensive (income) / loss |
|---|---------------------------------|--|---|---|
| Balance at January 1, 2011 | 13,257 | 450 | 503 | 14,210 |
| Recognized in other comprehensive income | (2,054) | (216) | (174) | (2,444) |
| Balance at December 31, 2011 | 11,203 | 234 | 329 | 11,766 |
| Recognized in other comprehensive loss / (income) | 2,021 | (255) | 144 | 1,910 |

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| | | | | |
|---|---------------|----------------|------------|---------------|
| Balance at December 31, 2012 | 13,224 | (21) | 473 | 13,676 |
| Recognized in other comprehensive loss / (income) | 2,975 | (1,445) | (176) | 1,354 |
| Balance at December 31, 2013 | 16,199 | (1,466) | 297 | 15,030 |

(1) Tax amounts on items in other comprehensive (income) / loss are not significant and therefore are not reported separately.

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23. STOCKHOLDERS' EQUITY (Continued)

The following table represents changes in the balances of accumulated other comprehensive loss by components for the year ended December 31, 2013:

| | Currency translation adjustment | Unrealized (gains) / losses on derivatives | Unrecognized actuarial (gains) / losses | Accumulated other comprehensive (income) / loss |
|--|---------------------------------------|--|---|--|
| Balance at December 31, 2012 | 13,224 | (21) | 473 | 13,676 |
| Other comprehensive loss / (income) | 6,657 | (861) | | 5,796 |
| Less: tax expense | | 172 | | 172 |
| Amounts reclassified to net income | (3,682) ⁽¹⁾ | (945) | (220) | (4,847) |
| Less: tax expense | | 189 | 44 | 233 |
| Net other comprehensive loss / (income) | 2,975 | (1,445) | (176) | 1,354 |
| Balance as of December 31, 2013 | 16,199 | (1,466) | 297 | 15,030 |

(1) The currency translation adjustment of RUB 3,682 million included as income from discontinued operations in consolidated statement of operations and comprehensive income.

Dividends In 2013, the Board of Directors approved a dividend policy, whereby the Group shall aim to make minimum dividend distribution payments to shareholders for the calendar years 2013-2015 in the amount equal to at least 75% of Free cash flow for the relevant financial period or, if greater, RUB 40.0 billion per year. Free cash flow is defined by cash flows from operating activities less cash paid (received) for acquisition or disposal of property, plant and equipment, intangible assets and other adjustments.

The dividend can vary depending on a number of factors, including the outlook for earnings growth, capital expenditure requirements, cash flows from operations, potential acquisition opportunities, as well as the Group's debt position.

The Group may take decisions on dividend payout based not only on financial year-end results but also based on interim results for three, six or nine months of the fiscal year. Annual dividend payments, if any, must be recommended by the Board of Directors and approved by the shareholders.

In accordance with Russian laws, earnings available for dividends are limited to profits determined under Russian statutory accounting regulations, denominated in Russian Rubles, after certain deductions. The net income of MTS OJSC for the years ended December 31, 2013, 2012 and 2011 that is distributable under Russian legislation totaled RUB 55,999 million (unaudited), RUB 42,949 million and RUB 54,129 million, respectively.

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The following table summarizes the Group's declared cash dividends in the years ended December 31, 2013, 2012 and 2011:

| | Years ended December 31, | | |
|--|--------------------------|--------|--------|
| | 2013 | 2012 | 2011 |
| Dividends declared (including dividends on treasury shares of 1,538 and 1,140 and 1,127, respectively) | 40,956 | 30,397 | 30,046 |
| Dividends, RUB per ADS | 39.64 | 29.42 | 29.08 |
| Dividends, RUB per share | 19.82 | 14.71 | 14.54 |

As of December 31, 2013 and 2012, dividends payable were RUB 57.0 million and RUB 70.0 million, respectively.

MGTS' preferred stock MGTS, a subsidiary of MTS, had 15,574,492 preferred shares outstanding at December 31, 2013 and 2012. In June 2012, the General shareholders' meeting of MGTS approved the reorganization of MGTS in a form of spin-off of MGTS-N JSC, a newly established wholly-owned subsidiary, and a merger of both MTS-P JSC, a subsidiary of MTS, and UTS-MGTS JSC with MGTS. In September 2012, the Group completed the MGTS' shares buyback related to this reorganization. A total of 82,891 common and 391,358 preferred shares of MGTS were repurchased for RUB 260.8 million.

MGTS' preferred shares carry guaranteed non-cumulative dividend rights amounting to the higher of (a) 10% of MGTS' net profit as determined under Russian accounting regulations and (b) the dividends paid on common shares. No dividends may be declared on common shares before dividends on preferred shares are declared. If the preferred dividend is not paid in full in any year the preferred shares also obtain voting rights, which will lapse after the first payment of the dividend in full. Otherwise, preferred shares carry no voting rights except on resolutions regarding liquidation or reorganization of MGTS and changes / amendments to MGTS' charter restricting the rights of holders of preferred shares. Such resolutions require the approval of 75% of the preferred shareholders. In the event of liquidation, dividends to preferred shareholders that have been declared but not paid have priority over ordinary shareholders.

In June 2013 and 2012, at MGTS' annual shareholders meeting the decision was made not to pay dividends on preferred shares for 2012 and 2011. Therefore the holders of preferred shares obtained voting rights.

In May 2011, MGTS' annual shareholders meeting approved dividends on ordinary and preferred shares totaling RUB 18,961 million for 2010. As of December 31, 2013 and 2012, dividends payable were RUB 48.6 and RUB 63.8 million, respectively.

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In September 2007, the Group acquired an 80% stake in International Cell Holding Ltd, the 100% indirect owner of K-Telecom, Armenia's mobile phone operator, and signed a call and put option agreement to acquire the remaining 20% stake. In December 2010, the Group signed an amendment to the put and call option agreement. According to the amended option agreement, the price for the remaining 20% stake option will be determined by an independent investment bank subject to a cap of EUR 200 million. The put option can be exercised during the period from the next business day following the date of settlement of all liabilities under the loan agreement (Note 14) up to December 31, 2016. The call option can be exercised during the period from July 1, 2010 up to December 31, 2016. If both the call notice and the put notice are served on the same day then the put notice shall be deemed exercised in priority to the call notice. The noncontrolling interest was measured at fair value using a discounted cash flow technique and amounted to RUB 2,932 million and 2,298 million as of December 31, 2013 and 2012, respectively (Note 19). The fair value was determined based on unobservable inputs ("Level 3" of the hierarchy established by the U.S. GAAP guidance).

25. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2013, 2012 and 2011 comprised the following:

| | Years ended December 31, | | |
|--|--------------------------|---------------|---------------|
| | 2013 | 2012 | 2011 |
| Salaries and social contributions | 45,790 | 40,486 | 35,468 |
| Rent | 14,677 | 13,334 | 11,297 |
| General and administrative | 7,955 | 8,016 | 7,981 |
| Taxes other than income | 6,374 | 5,422 | 3,976 |
| Repair and maintenance | 6,217 | 6,364 | 5,715 |
| Billing and data processing | 2,035 | 1,726 | 1,761 |
| Consulting expenses | 1,569 | 1,689 | 1,964 |
| Inventory obsolescence | 660 | 759 | 827 |
| Insurance | 181 | 181 | 192 |
| Total general and administrative expenses | 85,458 | 77,977 | 69,181 |

26. SEGMENT INFORMATION

In 2012, the Group aligned its business into three reportable segments of Russia, Ukraine and Uzbekistan based on the business activities in different geographical areas to effectively manage both the mobile and the fixed line operations as an integrated business. The Russian reportable segment arose due to the aggregation of two similar operating segments: MTS Russia and MGTS Russia.

In 2013, the results of operations of Uzbekistan are reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income for all periods presented. The segment reporting for the years ended December 31, 2012 and 2011 was restated accordingly. The statement of financial position was not retrospectively restated and therefore as of

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26. SEGMENT INFORMATION (Continued)

December 31, 2012 captions of statement of financial position in the "Other" category include Uzbekistan.

The Group provides a wide range of mobile and fixed line voice and data telecommunications services in Russia and Ukraine, including transmission, broadband, pay TV and various value-added services, i. e. both mobile and fixed line services to customers across multiple regions.

The "Other" category does not constitute a reportable segment. It includes both the results of a number of other operating segments that do not meet the quantitative thresholds for separate reporting, such as Armenia, Turkmenistan, and the headquarters.

Other unallocated expenses such as interest (income) / expense, equity in net income of associates, other (income) / expenses and currency exchange and transaction loss / (gain) are shown for purposes of reconciling the Group's segment measure, net operating income, to the Group's consolidated total for each of the periods presented.

The intercompany eliminations presented below primarily consist of sales transactions between segments conducted in the normal course of operations.

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Financial information by reportable segment is presented below:

| | Years ended December 31, | | |
|---|--------------------------|----------------|----------------|
| | 2013 | 2012 | 2011 |
| Net operating revenues from external customers: | | | |
| Russia | 352,930 | 336,771 | 310,759 |
| Ukraine | 37,665 | 36,118 | 32,466 |
| Other | 7,848 | 5,351 | 5,346 |
| Total net operating revenues from external customers | 398,443 | 378,240 | 348,571 |
| | | | |
| Including revenue from mobile services | 339,883 | 322,517 | 294,947 |
| Including revenue from fixed line services | 58,560 | 55,723 | 53,624 |
| Intersegment operating revenues: | | | |
| Russia | 1,964 | 1,178 | 1,016 |
| Ukraine | 2,067 | 1,604 | 1,254 |
| Other | 1,281 | 1,030 | 588 |
| Total intersegment operating revenues | 5,312 | 3,812 | 2,858 |
| | | | |
| Depreciation and amortization expense: | | | |
| Russia | 62,825 | 56,235 | 51,321 |
| Ukraine | 8,896 | 9,571 | 10,169 |
| Other | 1,589 | 2,104 | 2,441 |
| Intercompany eliminations | (57) | | 1 |
| Total depreciation and amortization expense | 73,253 | 67,910 | 63,932 |
| | | | |
| Operating income: | | | |
| Russia | 94,873 | 91,773 | 81,530 |

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| | | | |
|---------------------------|---------|---------|---------|
| Ukraine | 11,745 | 9,647 | 5,946 |
| Other | (4,803) | (7,625) | (7,216) |
| Intercompany eliminations | (57) | (1) | 35 |

Net operating income **101,758** **93,794** **80,295**

Net operating income 101,758 93,794 80,295

| | | | |
|---|----------|---------|---------|
| Currency exchange and transaction loss / (gain) | 5,473 | (3,952) | 4,403 |
| Interest income | (2,793) | (2,588) | (1,850) |
| Interest expense | 15,498 | 17,673 | 19,333 |
| Equity in net income of associates | (2,472) | (869) | (1,430) |
| Other (income) / expense, net | (10,636) | 688 | 180 |

Income from continuing operations before provision for income taxes and noncontrolling interest **96,688** **82,842** **59,659**

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26. SEGMENT INFORMATION (Continued)

| | Years ended December 31, | |
|---|-----------------------------|---------------|
| | 2013 | 2012 |
| Additions to long-lived assets: | | |
| Russia | 70,162 | 77,647 |
| Ukraine | 8,856 | 5,692 |
| Other | 1,849 | 3,742 |
| Total additions to long-lived assets | 80,867 | 87,081 |

| | December 31, | |
|------------------------------------|----------------|----------------|
| | 2013 | 2012 |
| Long-lived assets ⁽¹⁾ : | | |
| Russia | 308,336 | 301,343 |
| Ukraine | 24,107 | 22,994 |
| Other | 12,546 | 20,892 |
| Total long-lived assets | 344,989 | 345,229 |

| | | |
|---------------------|----------------|----------------|
| Total assets: | | |
| Russia | 431,257 | 391,560 |
| Ukraine | 38,586 | 38,060 |
| Other | 15,681 | 25,358 |
| Total assets | 485,524 | 454,978 |

- (1) Comprises property, plant and equipment, licenses, goodwill and other intangible assets.

27. COMMITMENTS AND CONTINGENCIES

Capital commitments As of December 31, 2013, the Group had executed purchase agreements of approximately RUB 34,728 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Operating leases The Group has entered into non-cancellable agreements to lease space for telecommunications equipment, offices and transmission channels, which expire in various years up to 2068. Rental expenses under the operating leases of RUB 14,677 million, RUB 13,334 million and RUB 11,297 million for the years ended December 31, 2013, 2012 and 2011, respectively, are included in operating expenses in the accompanying consolidated statements of operations and comprehensive income. Rental expenses under the operating leases of RUB 7,583 million, RUB 7,207 million and RUB 6,720 million for the years ended December 31, 2013, 2012 and 2011, respectively, are included in cost of services in the accompanying consolidated statements of operations and comprehensive income.

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Future minimum lease payments due under these leases for the five years ending December 31, 2018 and thereafter are as follows:

| Payments due in the years ended December 31, | |
|---|--------------|
| 2014 | 4,684 |
| 2015 | 723 |
| 2016 | 356 |
| 2017 | 230 |
| 2018 | 198 |
| Thereafter | 1,371 |
| Total | 7,562 |

Taxation Russia and the CIS countries currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia and the CIS countries that are more significant than those typically found in countries with more developed tax systems.

Generally, according to Russian and Ukrainian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2013, tax declarations of MTS OJSC and other subsidiaries in Russia and Ukraine for the preceding three fiscal years were open for further review.

In December 2010, the Russian tax authorities completed a tax audit of MTS OJSC for the years ended December 31, 2007 and 2008. Based on the results of this audit, the Russian tax authorities determined that RUB 353.9 million in additional taxes, penalties and fines were payable by the Group. The resolution did not come into force as the Group prepared and filed a petition with the Federal Tax Service to declare the tax authorities' resolution to be invalid. In September 2011, the Federal Tax Service partially satisfied the Group's petition, decreasing the amount of additional taxes, penalties and fines payable by the Group by RUB 173.9 million. The Group filed an appeal for RUB 84.2 million of the remaining RUB 180.0 million with the Moscow Arbitrate Court. In August 2013, the Moscow Arbitrate Court issued a ruling to partly grant the Group's claim, which was subsequently confirmed by the Arbitrate Appeal Court in November 2013. However, the Group appealed the decision of the Arbitrate Appeal Court in the Federal Arbitrate Court of Moscow District, which issued a ruling to partly grant the Group's claim in March 2014. The Group is considering its further actions.

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27. COMMITMENTS AND CONTINGENCIES (Continued)

In June 2013, the Russian tax authorities completed a tax audit of MTS OJSC for the years ended December 31, 2009, 2010 and 2011. Based on the results of this audit, the Russian tax authorities determined that RUB 253.4 million in additional taxes, penalties and fines were payable by the Group. The claim was accrued in full amount in the consolidated financial statements for the year ended December 31, 2013 and final amounts due were paid in January 2014. In December 2013, the Group appealed the resolution of this assessment to the Federal Tax Service, and, further to its refusal to grant the appeal, the Group is considering appealing to the Moscow Arbitrate Court.

The Group purchases supplemental software from foreign suppliers of telecommunications equipment in the ordinary course of business, which is subject to customs regulation. In addition pricing of revenue and expenses between each of the Group's subsidiaries and various discounts and bonuses to the Group's subscribers in the course of performing its marketing activities may be subject to transfer pricing rules. Management believes that it has adequately provided for tax and customs liabilities in the accompanying consolidated financial statements. As of December 31, 2013 and 2012, the provision accrued for taxes other than income tax and customs settlements amounted to RUB 2,278 million and RUB 804 million, respectively. In addition, the accrual for unrecognized income tax benefits, potential penalties and interest recorded in accordance with the authoritative guidance on income taxes totaled RUB 615 million and RUB 471 million as of December 31, 2013 and 2012, respectively. However, the risk remains that the relevant tax and customs authorities could take differing positions with regard to interpretive issues and the effect could be significant.

3G license In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MTS a license to provide 3G services in the Russian Federation. The 3G license was granted subject to certain capital and other commitments. The major conditions are that the Group is required to (i) build a certain number of base stations that support 3G standards, (ii) have commenced providing services in Russia by a certain date, and (iii) build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting the license. Management believes that as of December 31, 2013 the Group is in compliance with these conditions.

LTE license In July 2012, the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media allocated MTS the necessary license and frequencies to provide LTE telecommunication services in Russia. Under the terms and conditions of the LTE license, the Group is obligated to fully deploy LTE networks within seven years, commencing from January 1, 2013, and deliver LTE services in each population center with over 50,000 inhabitants in Russia by 2019. Also, the Group is obligated to invest at least RUB 15 billion annually toward the LTE roll-out until the network is fully deployed. Management believes that as of December 31, 2013 the Group is in compliance with these conditions.

Bitel In December 2005, MTS Finance acquired a 51.0% stake in Tarino Limited ("Tarino"), from Nomihold Securities Inc. ("Nomihold"), for RUB 4,322 million (\$150.0 million at exchange rate for December 2005) in cash based on the belief that Tarino was at that time the indirect owner, through its wholly owned subsidiaries, of Bitel LLC ("Bitel"), a Kyrgyz company holding a GSM 900/1800 license for the entire territory of Kyrgyzstan.

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27. COMMITMENTS AND CONTINGENCIES (Continued)

Following the purchase of the 51.0% stake, MTS Finance entered into a put and call option agreement with Nomihold for the remaining 49.0% interest in Tarino shares and a proportional interest in Bitel shares ("Option 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 RUB 4,898 million (\$170.0 million at exchange rate for December 2005).

Following a decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's corporate offices were seized by a third party. As the Group did not regain operational control over Bitel's operations in 2005, it accounted for its 51.0% investment in Bitel at cost as at December 31, 2005. The Group appealed the decision of the Kyrgyz Supreme Court in 2006, but the court did not act within the time period permitted for appeal. The Group 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 of Kyrgyzstan informed the Group that there were no grounds for involvement by the Prosecutor General's office in the dispute and that no legal basis existed for the Group to appeal the decision of the Kyrgyz Supreme Court. Consequently, the Group wrote off the costs relating to the purchase of the 51.0% stake in Bitel, which was reflected in its annual consolidated financial statements for the year ended December 31, 2006. Furthermore, with the impairment of the underlying asset, a liability of RUB 4,476 million (\$170.0 million as of December 31, 2006) was recorded with an associated charge to non-operating expenses.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell the Option Shares for RUB 4,526 million (\$170.0 million at exchange rate for November 2006) to MTS Finance. In January 2007, Nomihold commenced an arbitration proceeding against MTS Finance in the London Court of International Arbitration ("LCIA") in order to compel MTS Finance to purchase the Option Shares. Nomihold sought specific performance of the put option, unspecified monetary damages, interest, and costs. In January 2011, LCIA made an award in favor of Nomihold satisfying Nomihold's specific performance request and ordered MTS Finance to pay to Nomihold the award ("Award") including RUB 5,115 million (\$170.0 million at exchange rate for January 2011) for the Option Shares and RUB 178 million (\$5.9 million at exchange rate for January 2011) in damages, bearing interest until Award is satisfied. In addition to the RUB 4,476 million (\$170.0 million as of December 31, 2006) liability related to this case and accrued in the year ended December 31, 2006, the Group recorded an additional loss in the amount of RUB 224 million (\$7.2 million at exchange rate for the year ended December 31, 2012), RUB 94 million (\$3.2 million at exchange rate for the year ended December 31, 2011) and RUB 1,239 million (\$40.8 million at exchange rate for the year ended December 31, 2010) in the consolidated financial statements for the years ended December 31, 2012, 2011, and 2010, respectively, representing damages, other costs and interest accrued on the awarded sums. The total liability accrued amounted to RUB 7,236 million (\$221 million as of June 22, 2013).

On January 26, 2011, Nomihold obtained a freezing order in respect of the Award from the English High Court of Justice which, in part, restricted MTS Finance from dissipating its assets.

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27. COMMITMENTS AND CONTINGENCIES (Continued)

Additionally, MTS Finance was granted permission to appeal the Award, but the Appeal Court imposed conditions upon the appeal. MTS Finance sought to have the conditions lifted, however, the Supreme Court of England upheld the decision of the Appeal Court.

Further on February 1, 2011, Nomihold obtained an order of the Luxemburg District Court enforcing the Award in Luxembourg. This order was appealed by MTS Finance.

As an issuer of RUB 11,201 million (\$400.0 million as of January 28, 2005) Notes due 2012 pursuant to an Indenture dated January 28, 2005 (as amended) ("the Notes"), MTS Finance was due to redeem the principal of the Notes and pay the final coupon payment on January 30, 2012. However as a result of the freezing order, MTS OJSC applied to and obtained from the English Court an order authorizing both payments to be made by MTS OJSC rather than MTS Finance ("the Direct Payments"). The Direct Payments to noteholders by the trustee under the Indenture were made on or around January 28, 2012.

The Direct Payments were made despite an obligation under an intercompany loan agreement dated January 28, 2005 between MTS OJSC and MTS Finance ("the Intercompany Loan Agreement") to process the payments through MTS Finance. However, because MTS Finance was subject to a freezing order and not capable of transferring funds to the trustee for distribution and because MTS OJSC owed obligations to the noteholders as guarantor under the Indenture, MTS OJSC made the Direct Payments to the noteholders pursuant to an order of the English Court.

In relation to the obligations under the Intercompany Loan Agreement, MTS OJSC and MTS Finance have agreed to refer to arbitration under the Rules of LCIA the question of whether under the Intercompany Loan Agreement itself there remains an obligation to make any further payments to MTS Finance in light of the Direct Payments. On February 9, 2012, MTS OJSC received a request for arbitration from MTS Finance. The hearing took place at the end of January 2013. The award has clarified the rights between the parties under the Intercompany Loan Agreement. MTS OJSC was denying that any further payments were due under the Intercompany Loan Agreement. The arbitration was conducted under the Rules of LCIA.

In March 2013, Nomihold obtained initial permission from the English Commercial Court to serve proceedings out of the jurisdiction on MTS. Nomihold purported that MTS was liable to compensate it for a number of allegedly tortious wrongs, relating in part to recent proceedings in an international arbitration tribunal constituted under the rules of LCIA between Nomihold and MTS Finance, in the total amount exceeding RUB 6,662 million (\$215 million at exchange rate for March 2013). MTS denied any allegation of wrongdoing and considered the claims made by Nomihold without merit and inadmissible before the English courts.

In addition, three Isle of Man companies affiliated with the Group (the "KFG Companies"), were named as defendants in lawsuits filed by Bitel in the Isle of Man seeking the return of dividends received from Bitel by these three companies in the first quarter of 2005 in the amount of approximately RUB 776 million (\$25.2 million at exchange rate for March 2013) plus compensatory damages, and to recover approximately RUB 114 million (\$3.7 million at exchange rate for March 2013) in losses and accrued interest.

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27. COMMITMENTS AND CONTINGENCIES (Continued)

In January 2007, the KFG Companies asserted counterclaims against Bitel, and claims against other defendants, including Altimo LLC ("Altimo"), Altimo Holdings & Investments Limited ("Altimo Holdings"), CP-Crédit Privé SA and Fellowes International Holdings Limited, for the wrongful misappropriation and seizure of Bitel. The defendants sought to challenge the jurisdiction of the Isle of Man courts to try the counterclaims asserted by the KFG Companies.

On March 10, 2011, the Judicial Committee of the UK Privy Council ruled in favor of the KFG Companies and confirmed the jurisdiction of the Isle of Man courts to try the counterclaims asserted by the KFG Companies against various defendants, including Sky Mobile, Altimo and Altimo Holdings, for the wrongful misappropriation and seizure of Kyrgyz telecom operator Bitel and its assets.

On June 30, 2011, the KFG Companies obtained from the Isle of Man court a general asset freezing injunction over the assets of Altimo and Altimo Holdings. The general freezing injunction against Altimo Holdings was replaced on November 30, 2011 by a specific freezing injunction over (i) Altimo Holding's interest in its Dutch subsidiary, Altimo Coöperatief U.A., and (ii) VimpelCom common shares worth RUB 15,661 million (\$500 million as of November 30, 2011) (in April 2013 increased to RUB 28,197 million (\$900 million at exchange rate for April 2013)) that Altimo Coöperatief U.A. has lodged with the Isle of Man court. The KFG Companies were proceeding with their counterclaims in the Isle of Man.

In a separate arbitration proceeding initiated against the KFG Companies by Kyrgyzstan Mobitel Investment Company Limited ("KMIC"), under the rules of LCIA, the arbitration tribunal in its award found that the KFG Companies breached a transfer agreement dated May 31, 2003 (the "Transfer Agreement"), concerning the shares of Bitel. The Transfer Agreement was made between the KFG Companies and IPOC International Growth Fund Limited ("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 the acquisition of the KFG Companies by MTS Finance. 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 conclusion of the Isle of Man proceedings.

In June 2013, an agreement was reached between Altimo, Altimo Holdings, MTS OJSC, MTS Finance, Nomihold and other associated parties to settle all disputes that have arisen from investments in Bitel ("the Agreement"). The Agreement covers matters involving a number of parties and legal proceedings, including those in the Isle of Man, London, Luxembourg and other jurisdictions. Pursuant to the Agreement all proceedings between the parties and their associated parties have been discontinued and waived, and MTS OJSC received a total payment of RUB 4,909 million (\$150 million at exchange rates at the dates of payments) ("Settlement Payment"). All parties made the necessary submissions to the respective courts and tribunals to document the settlement, which, among other actions, fully discharged any and all outstanding obligations under the Award rendered by LCIA against MTS Finance in January 2011, as well as settled the tripartite LCIA arbitration between MTS OJSC,

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27. COMMITMENTS AND CONTINGENCIES (Continued)

MTS Finance and Nomihold and a tort action filed by Nomihold against MTS OJSC in the English Courts.

The Group released provision of RUB 7,236 million (\$221 million), comprising RUB 5,566 million (\$170 million) set by LCIA to exercise the put option for acquisition of the remaining 49% stake in Bitel plus RUB 1,670 million (\$51 million) in damages, interest and other costs that had been provided for in relation to the dispute with Nomihold. The release of the provision was recognized as non-operating income in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2013, being the same line item through which the initial charge was taken.

The Group recognized a gain of RUB 4,911 million (\$150 million) with respect to the Settlement Payment in the consolidated statement of operations and comprehensive income for the year ended December 31, 2013, of which RUB 1,060 million (\$32.4 million) was recognized as operating income, and RUB 3,851 million (\$117.6 million) as non-operating income on a pro-rata basis with respect to the expenses previously incurred and recognized in relation to the Bitel dispute.

Litigation in Ukraine In August 2012, the Group received from MTS LLC, based in Ukraine, a claim regarding dismissal of international registration of four of the Group trademarks on the territory of Ukraine. The claim was fully dismissed by Economic Appeal Court of Kiev in December 2013. Since then, the Group expects no negative consequences.

Other litigation In the ordinary course of business, the Group is a party to various legal, tax and customs proceedings, and subject to claims, certain of which relate to developing markets and evolving fiscal and regulatory environments in which MTS operates. Management believes that the Group's liability, if any, in all such pending litigation, other legal proceeding or other matters will not have a material effect upon its financial condition, results of operations or liquidity of the Group.

28. SUBSEQUENT EVENTS

Political and economic crisis in Ukraine Subsequent to year end, key aspects of the Ukrainian economy continued to deteriorate. Opposing groups have organized protests in Kyiv and other regions of the country. A referendum on the status of Crimea was held on March 16, 2014 followed by Crimea's acceding to the Russian Federation on March 21, 2014. These protests and the related unrest have caused a deterioration of Ukraine's credit ratings and depreciation of the national currency. The political tension in Ukraine remains high and in case of further escalation, conflict or imposition of any sanctions applicable to the Group's operations could result in a negative impact on our business in Ukraine including on its financial position and results of operations, and such impact, if any, could be significant.

Raising financing from Citibank Europe and Swedish Export Credit Corporation On March 12, 2014, the Group entered in a credit facility agreement with Citibank Europe PLC and Swedish Export Credit Corporation for up to \$300 million (RUB 10,920 million at the date of transaction). The credit facility will be used for the development of the Group's mobile networks through purchases of equipment from Ericsson. The facility will be made available in one tranche with maturity in July 2024. The interest rate

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28. SUBSEQUENT EVENTS (Continued)

is LIBOR + 0.9%. The amounts may be drawn by the Company over the next 12 months and will be linked to equipment purchases for the development of LTE networks.

Depreciation of the Russian Ruble During the period from December 31, 2013 to April 17, 2014, the Russian Ruble further depreciated by 10% and 11% against the U.S. Dollar and the Euro, respectively. Since a portion of the Group's capital expenditures, borrowings and certain operating costs are denominated in U.S. Dollars and Euros, this and any further devaluation could adversely affect the Group's results of operations in 2014. The Group would experience an estimated currency exchange loss of RUB 4.3 billion on its U.S. Dollar- and Euro-denominated net monetary liabilities as a result of a hypothetical 10% and 11% depreciation of the Russian Ruble against the U.S. Dollar and Euro at December 31, 2013, respectively. This sensitivity analysis includes only outstanding U.S. Dollar- and Euro- denominated monetary items.

Repurchase of Notes In March 2014, the Group repurchased part of MTS International Notes due 2020 with nominal value of USD 50.2 million (RUB 1,819 million at the date of transaction).

Disposal of Business-Nedvizhimost In April 2014, the Group sold a 49% stake in Business-Nedvizhimost to Sistema for cash consideration of RUB 3.1 billion to be paid by June 30, 2014. Before the disposal an ownership interest in Business-Nedvizhimost was held by MGTS-Nedvizhimost CJSC, a subsidiary of MGTS, and was accounted for by the Group using the equity method (Note 3).

Raising financing from Sberbank On April 11, 2014 the Group signed an agreement with Sberbank to open a non-revolving credit line for a total amount of RUB 20 billion. The credit line matures in July 2015 and bears an annual interest rate of 9.96%. The line will be used to support general corporate needs.

Investigations into former operations in Uzbekistan In March 2014, the Group received requests for the provision of information from the United States Securities and Exchange Commission and the United States Department of Justice relating to an investigation of the Group's former subsidiary in Uzbekistan (Note 4). As the aforementioned US government investigations are at an early stage, the Company cannot predict the outcome of the investigations, including any fines or penalties that may be imposed, and such fines or penalties could be significant.