



# Mobile TeleSystems

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New York  
June 29, 2005

# Safe Harbor



Some of the information in this presentation may contain projections or other forward-looking statements regarding future events or the future financial performance of MTS, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify forward looking statements by terms such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “will,” “could,” “may” or “might” the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. We refer you to the documents MTS files from time to time with the U.S. Securities and Exchange Commission, specifically, the Company’s most recent Form 20-F. These documents contain and identify important factors, including those contained in the section captioned “Risk Factors,” that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, potential fluctuations in quarterly results, our competitive environment, dependence on new service development and tariff structures; rapid technological and market change, acquisition strategy, risks associated with telecommunications infrastructure, risks associated with operating in Russia, volatility of stock price, financial risk management, and future growth subject to risks.

# Market Growth



## Mobile Market Growth in Russia and Ukraine

- ◆ Russian penetration
- Ukrainian penetration

### Subscriber CAGR for 2001-2004:

- Russia ~110%
- Ukraine ~160%



Source: MTS, AC&M-Consulting

- Several years of +100% annual subscriber growth
- ... driven by broadening coverage, price declines and positive momentum in the economy
- Telecoms outperformed other industries: 2004 telecom revenue growth 38% in Russia; 60% in Ukraine
- Consolidation of Russian market by three main players; two in Ukraine
- SIM penetration outpaced actual market penetration: subscriber growth likely to stay strong throughout 2005

# Mobile Industry's SWOT



## Strengths

- Limited number of well-funded strong players
- Unregulated end-user pricing
- Declining 2-2.5 G equipment prices

## Opportunities

- Existing customers' revenue-generating potential: limit price erosion, pick-up in usage, VAS and FMC services
- Continued subscriber growth
- Further market consolidation

## Weaknesses

- Low prices
- Fragmented regional markets
- Low regional per capita incomes
- Relatively high CAPEX requirements

## Threats

- Further pricing pressure
- Introduction of 'unfriendly' regulation
- Slowdown in overall economic activity

# Regulatory Changes



## REGULATORY INITIATIVES

## OPPORTUNITIES

## POTENTIAL THREATS

Universal Service Fund

- Mobile operators can potentially receive money back from the fund

- Reduction in margins

Calling Party Pays (CPP)

- Penetration growth
- ARPU growth

- Incompatibility of billing systems
- Difficulties with money collection
- Additional CAPEX (due to traffic growth)
- Unfavorable interconnect terms
- Pressure on margins

Mobile Number Portability (MNP)

- Attracts subscribers from other networks

- Higher churn
- Additional CAPEX/OPEX

Mobile Virtual Network Operator (MVNO)

- Additional revenues

- Additional CAPEX
- ARPU decline; higher churn

# Leading Mobile Phone Operator in Russia and CIS



- Strong subscriber growth continues on the back of:
  - increasing regional coverage
  - aggressive pricing
  - rise in multiple SIM ownership
- 2005 likely to be the last year of strong penetration growth in Russia
- Penetration expectations at +80% in Russia and +50% in Ukraine at YE '05

MTS' Consolidated Subscriber Base 2000-May 2005 (mln)



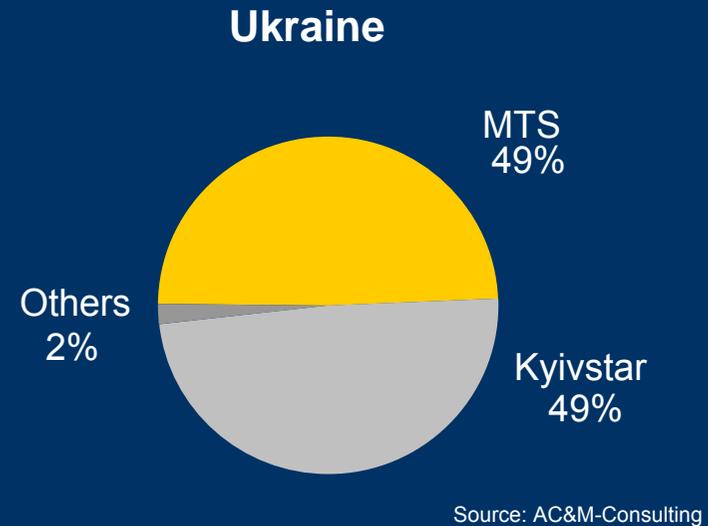
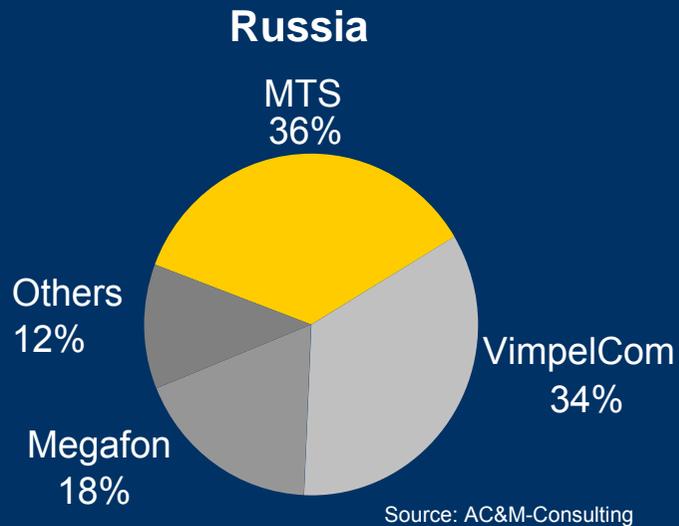
Source: MTS

# Maintain Market Leadership



- Subscriber and revenue leadership maintained in Russia and Ukraine
- Entrance of new players in Ukraine - Astelit and URS - with estimated 265k and 123k subs, respectively, as of May 2005
- Aim to retain market leadership with prime focus on revenues

Market Share by Subscribers



# Expansion into the CIS



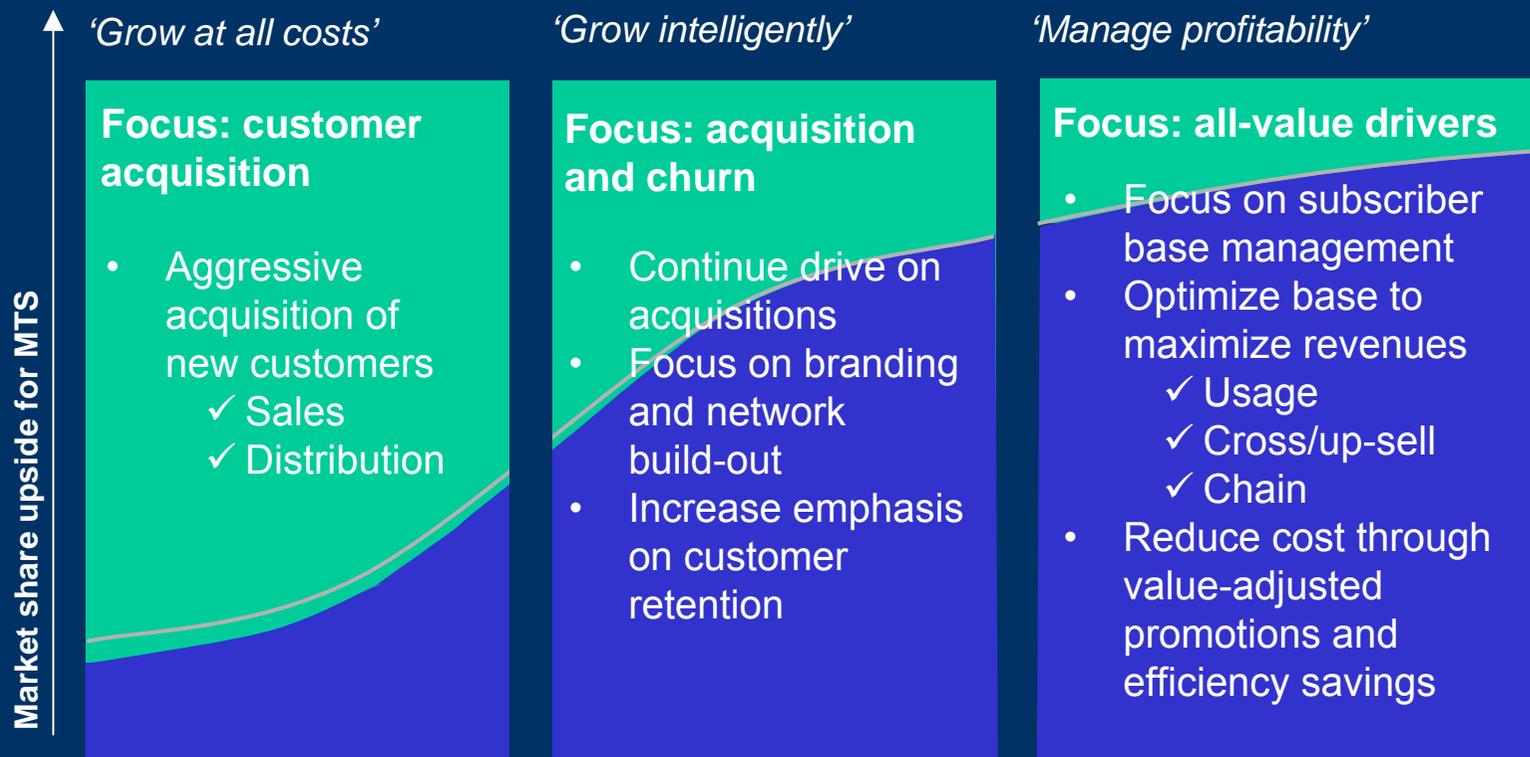
- CIS countries offer significant growth potential – good macroeconomic outlook; relatively low mobile and fixed-line penetration

Country	Population (m)	Penetration (%)		Presence		
		Fixed-line	Mobile	MTS	VimpelCom	Megafon
Russia	142.6	25%	64%	#1	#2	#3
Ukraine	47.5	21%	36%	#1		
Uzbekistan	26.5	7%	2%	#1		
Kazakhstan	14.8	16%	19%		#2	
Belarus	10.0	32%	30%	#1		
Azerbaijan	8.1	13%	19%			
Tajikistan	7.0	4%	2%			#1
Kyrgyzstan	5.0	8%	6%			
Georgia	5.0	21%	21%			
Turkmenistan	6.6	6%	1%	#1		
Armenia	3.8	15%	5%			
Moldavia	3.6	21%	22%			

(as of YE 2004 except for Russia, Ukraine, Belarus, and Uzbekistan for which information is as of May 31, 2005)

Source: MTS, AC&M-Consulting

# Driving Value by 'Segmenting' Regional Operating Strategies



Number of regions at market stage

8

52

9

Share of MTS' 2004 revenues in Russia

1%

33%

66%

Source: MTS

# Development of Value-Added Services



- VAS now around 13% of revenues
- Blackberry being localized with MTS in preparation for Q4 launch
- i-mode scheduled for introduction in Q4 2005 under exclusive agreement with NTT DoCoMo:

- New handsets
- New services
- New content



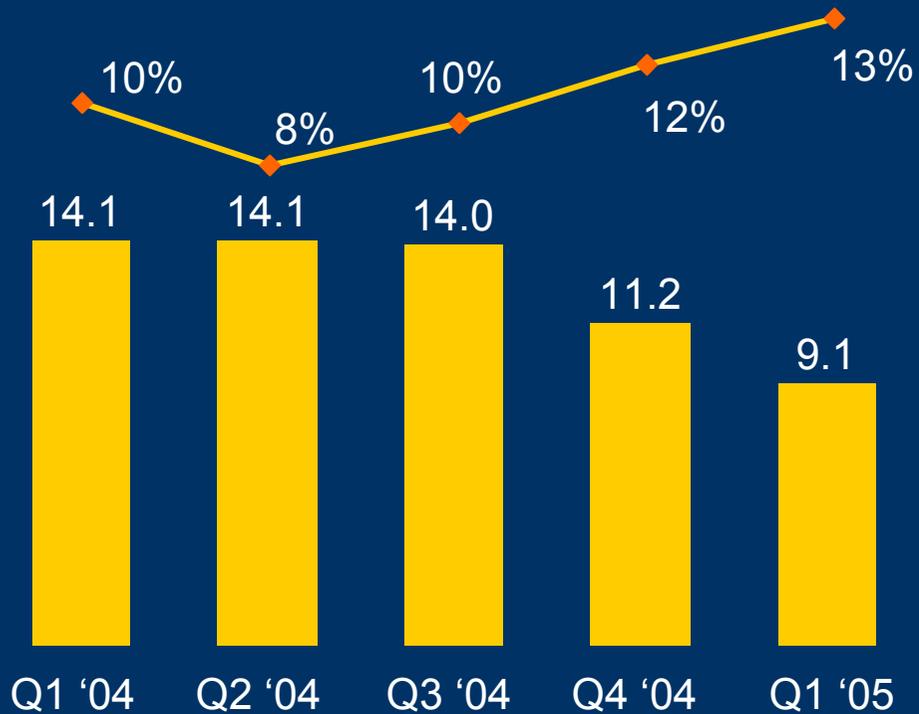
Additional revenues



# ARPU Dynamics



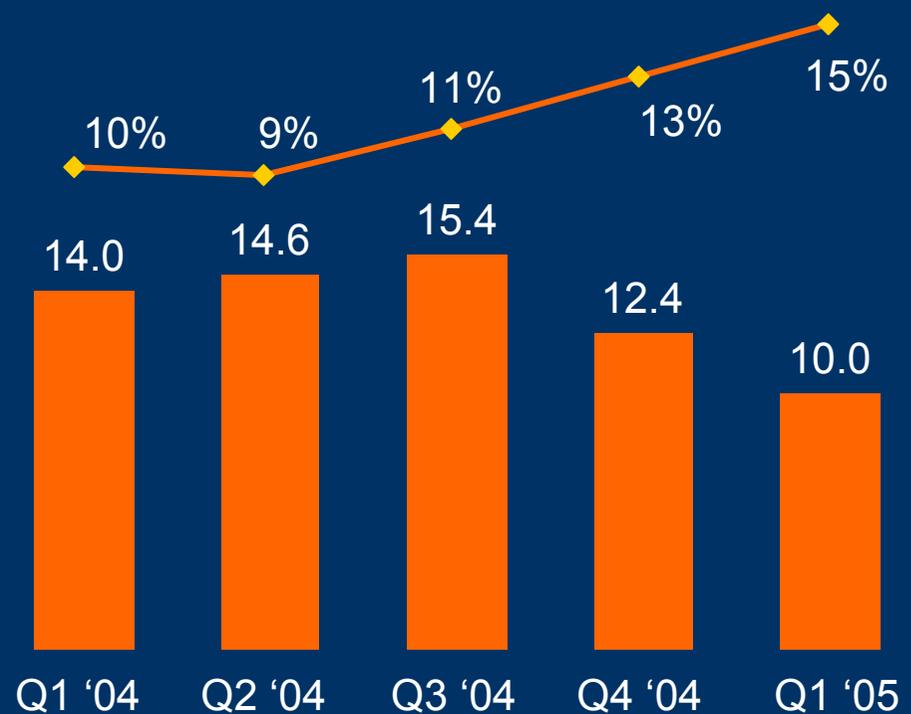
### ARPU in Russia (US\$)



—◆— Non-voice % of total ARPU

Source: MTS

### ARPU in Ukraine (US\$)



—◆— Non-voice % of total ARPU

Source: MTS

- **ARPU decline in Q1 was due to negative seasonal factors (fewer working days; lower subscriber activity) and various promotions (bonus minutes in Russia and free on-net calls on five pre-selected numbers in Ukraine)**

# SAC Dynamics



### SAC in Russia (US\$)



Source: MTS

### SAC in Ukraine (US\$)



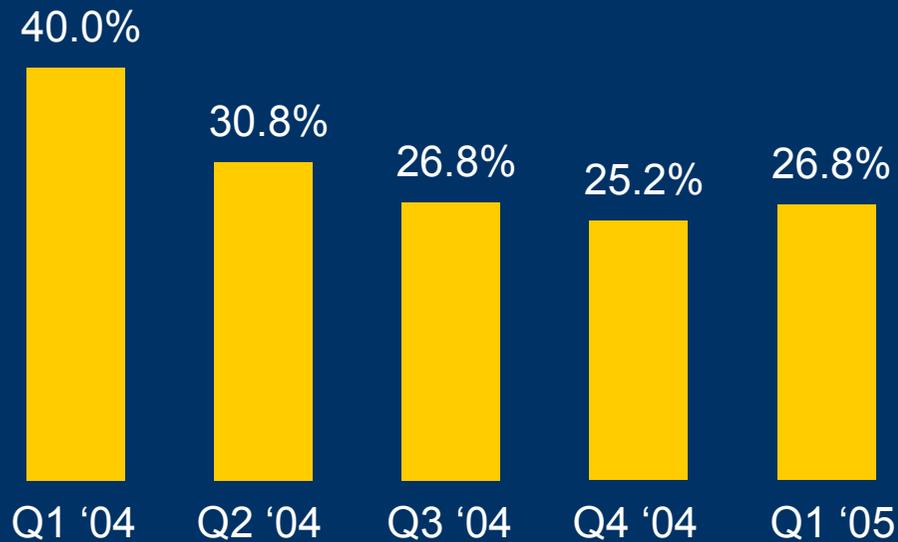
Source: MTS

- **Subscriber acquisition cost continues to decline**
- **No handset subsidies in Russia**
- **SAC increase in Q1 was due to one-offs and increased share of post-paid customers in new additions**

# Churn Dynamics

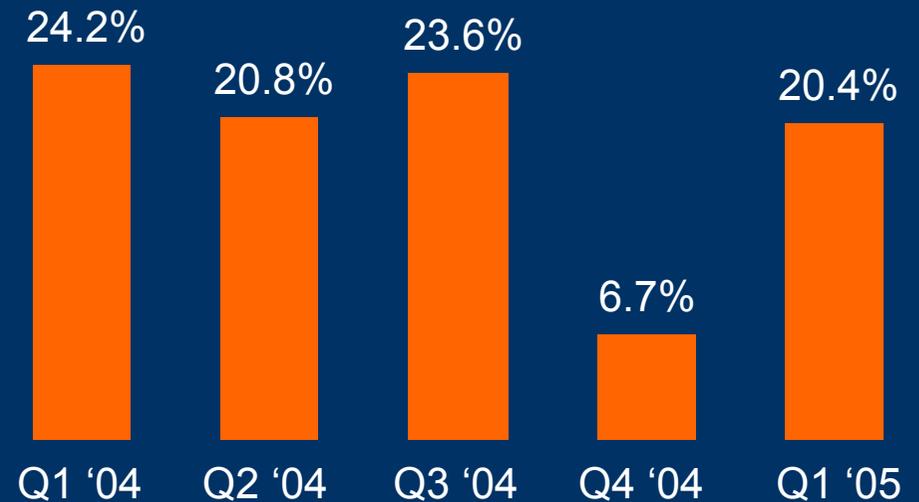


### Annualized Churn Rate in Russia



Source: MTS

### Annualized Churn Rate in Ukraine



Source: MTS

- Churn has stabilized over the past several quarters
- 2005 churn expected at 30%

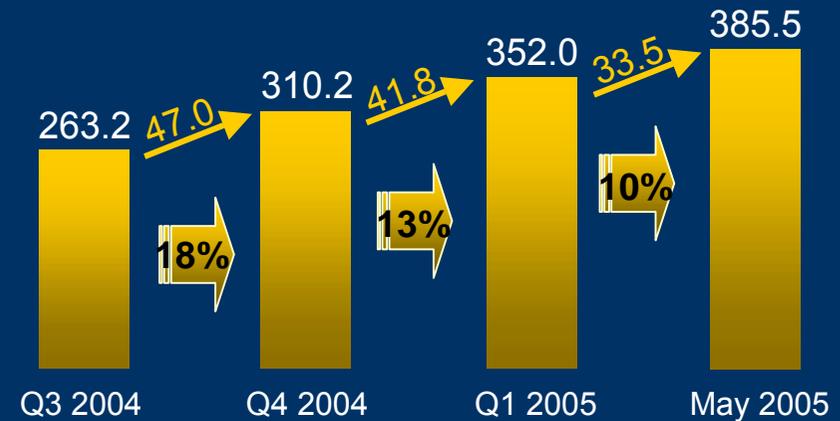
- Churn drop in Q4 was due to changes in methodology
- 2005 churn expected at 25%

# Uzbekistan – Set for Growth in 2006



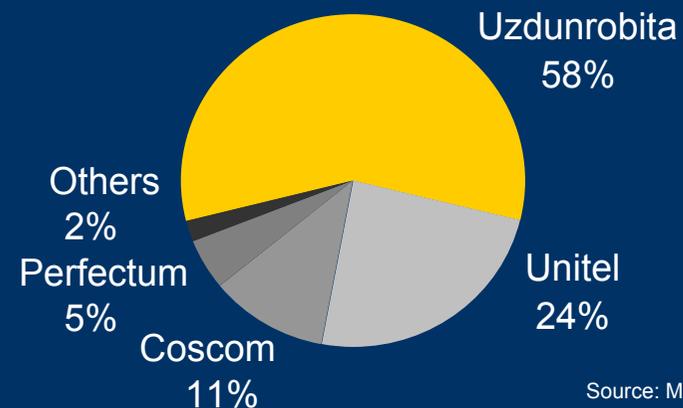
- Leading market share of 58%
- Penetration of just 2%
- Plans to stimulate market growth through:
  - Network build-out
  - Launch of pre-paid tariffs
  - Enhancement of distribution channels
  - Re-branding to MTS

Subscriber Growth in Uzbekistan  
(thousand)



Source: MTS

Market Share by Subscribers



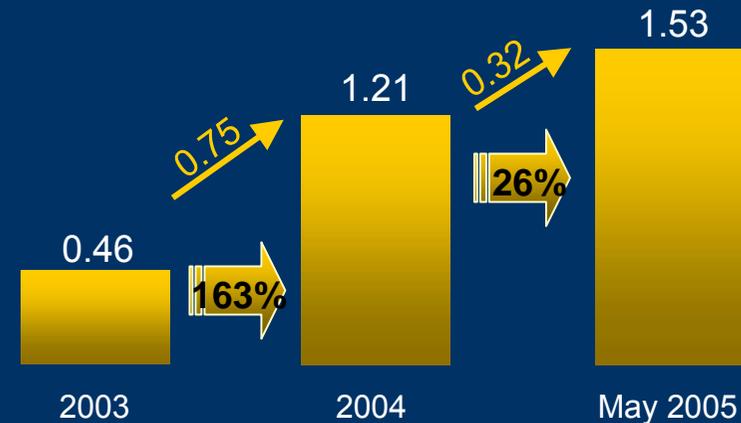
Source: MTS

# Belarus – an Unconsolidated Success Story



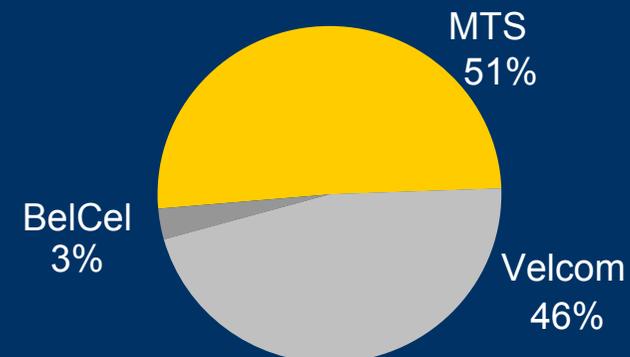
- Leader in terms of subscribers since September 2004
- Continuous strong subscriber growth
- OIBDA margin of over 50%
- So far no progress on ownership consolidation

Subscriber Growth in Belarus (mln)



Source: MTS

Market Share by Subscribers



Source: AC&M-Consulting 15

# Financials – Positive Annual Growth



- Strong annual growth in 2005
- Double-digit growth expected for 2006
- Revenue drivers as core markets mature:
  - Usage increase
  - Additional services to customers
  - Subscriber growth in new markets
- Managing costs in high-inflation environment

	US\$ mln	Q1 2005	Q1 2004	Growth
<b>Group Revenues</b>		1,057.0	802.7	32%
Russia		802.8	648.2	24%
Ukraine		238.3	154.8	54%
Uzbekistan		17.5	na	na
<b>Group OIBDA</b>		536.9	440.7	22%
Russia		415.0	357.2	16%
Ukraine		112.2	83.5	34%
Uzbekistan		9.7	na	na
<b>Group Net Income</b>		232.5	207.8	12%
Russia		171.4	165.0	4%
Ukraine		58.0	42.8	36%
Uzbekistan		3.0	na	na

Source: MTS

# Quarterly Revenue Dynamics



- Stimulation of subscriber growth affected top-line dynamics
- Negative seasonal factors
- Expected return to sequential revenue growth in Q2 2005

US\$ mln	Q1 2005	Q4 2004	Growth	Q3 2004	Growth
Group Revenues	1,057.0	1,079.7	-2%	1,086.4	-1%
Russia	802.8	818.8	-2%	848.9	-4%
Ukraine	238.3	245.9	-3%	241.2	2%
Uzbekistan	17.5	16.7	5%	na	na

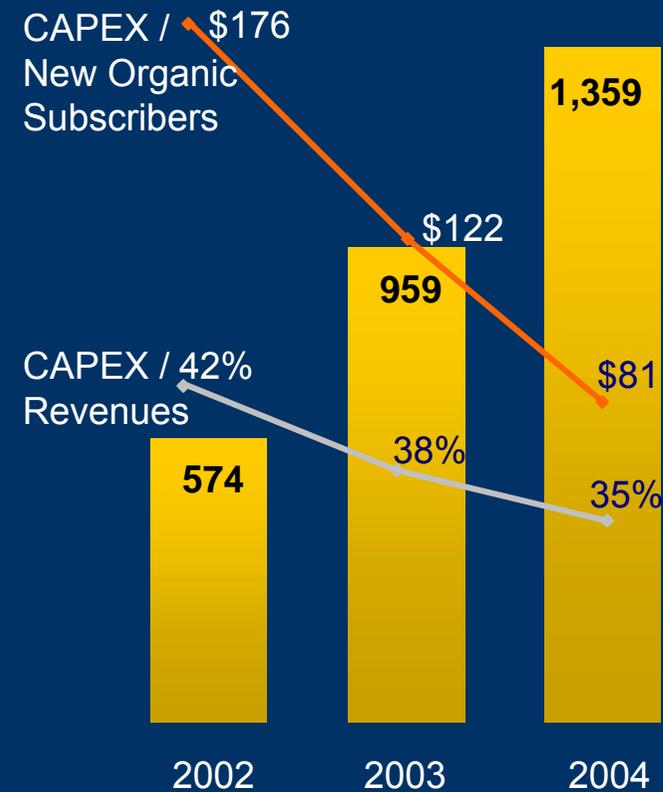
Source: MTS

# Capital Expenditure Driven by Growth of Subs and Usage



- \$2bn CAPEX planned for 2005:
  - Russia \$1,450m
  - Ukraine \$500m
  - Uzbekistan \$50m
- Main investments in coverage (~15%), capacity (~35%), and IT & new technologies (~30%)
- As core markets mature CAPEX will start to decline

MTS Group CAPEX (US\$ mln)



Source: MTS

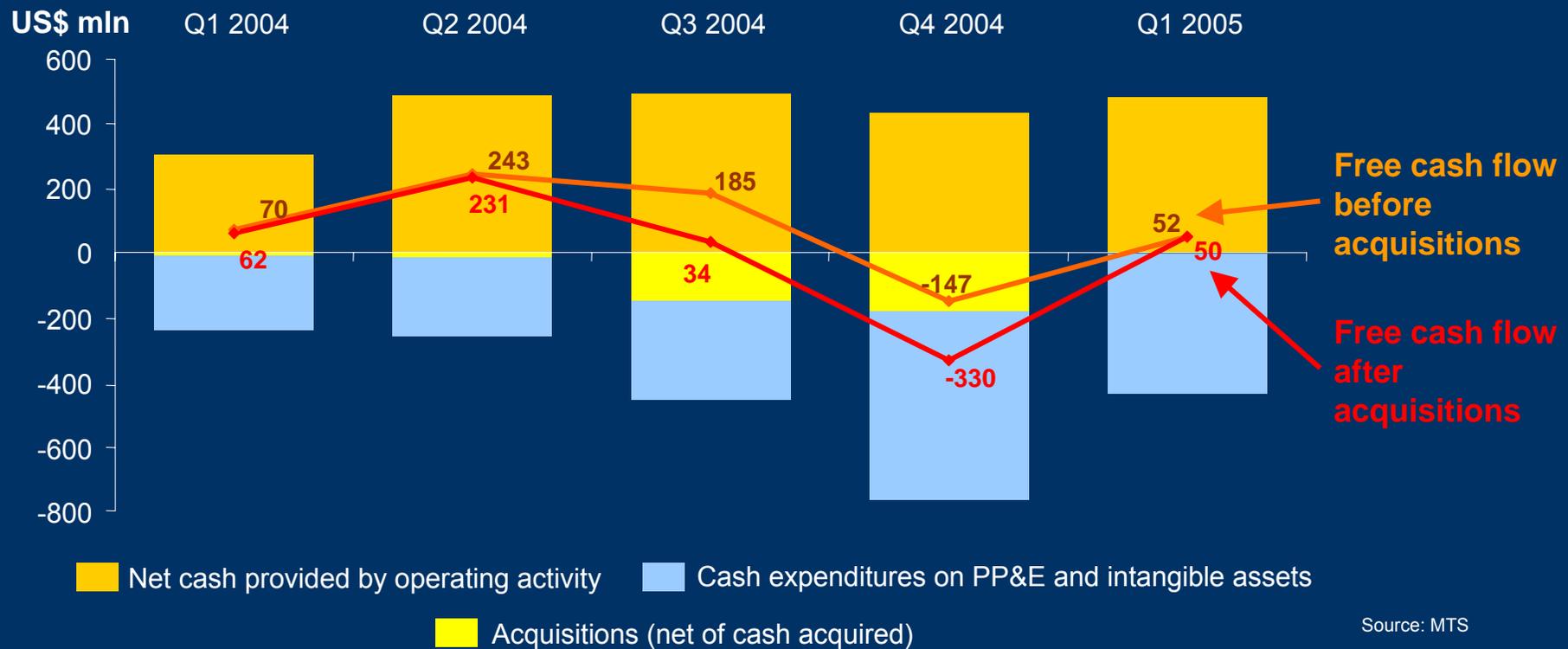
# Free Cash Flow Dynamics



- Free cash flow positive in Q1 2005

**Net debt** \$1.5bn  
**Net debt/ LTM OIBDA** 0.7x  
**Net debt/Equity** 0.6x

As of March 31, 2005



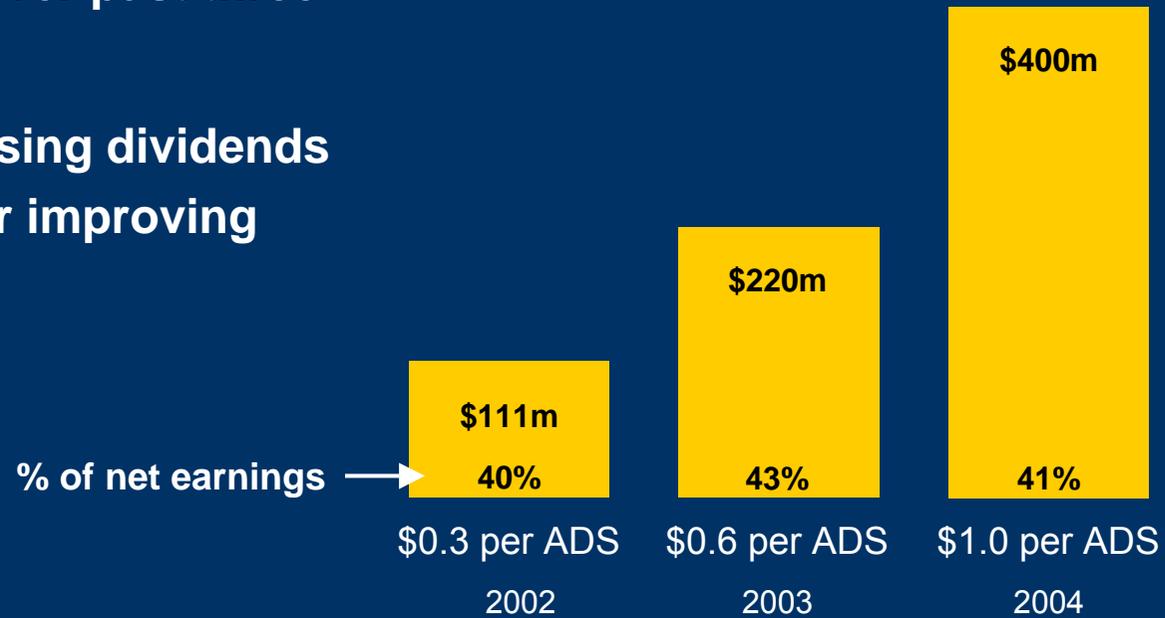
Source: MTS

# Increasing Returns to Shareholders



- Dividend payout ratio around 40% of US GAAP earnings over past three years
- Committed to increasing dividends per share and further improving shareholder value

Dividends 2002 - 2004

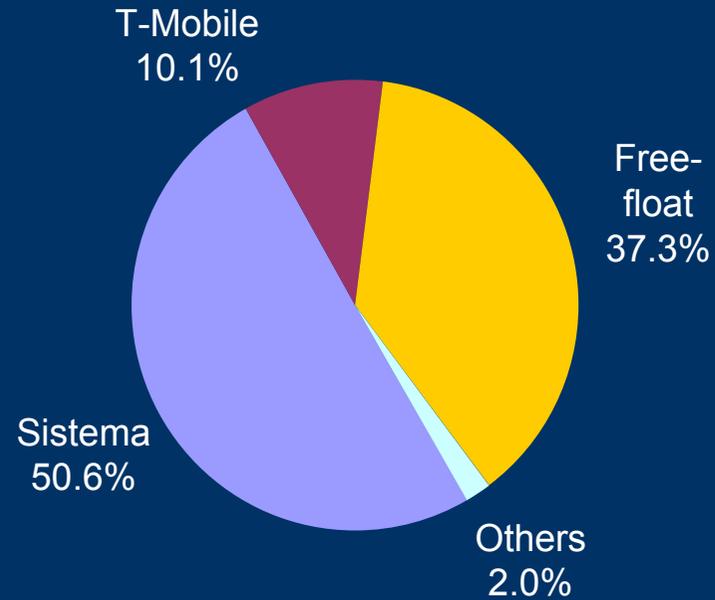


Source: MTS

# MTS Shareholder Structure



- MTS stock is listed on the NYSE since June 2000; listing on MICEX in Russia since October 2003
- T-Mobile, a 10% shareholder in MTS, has agreed to a lockup until mid-August 2005 on its remaining holding
- Recent change in shareholder structure had no influence on the Company's overall strategy
- MTS' ADRs added to MSCI EM Index, effective May 31, 2005



Source: MTS

# Summary



- **2005 will be another strong year of subscriber and revenue growth**
- **MTS is committed to staying ahead of its competition**
- **Price environment still competitive, but key players have upper hand in stabilizing tariffs in key regions**
- **2005 likely to be the last year of heavy CAPEX into 2-2.5 G network**
- **Seriously monitoring potential regulatory changes**
- **Significant opportunities to further drive shareholder returns**

# Appendix



*Non-GAAP financial measures.* This presentation includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

*Operating Income Before Depreciation and Amortization (OIBDA).* OIBDA represents operating income before depreciation and amortization. OIBDA margin is defined as OIBDA as a percentage of our net revenues. OIBDA may not be similar to OIBDA measures of other companies, is not a measurement under accounting principles generally accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of operations. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of mobile operators and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our OIBDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the wireless telecommunications industry. OIBDA can be reconciled to our consolidated statements of operations as follows:

US\$ million	Q1 2005				Q1 2004		
	Consolidated	Russia	Ukraine	Uzbekistan	Consolidated	Russia	Ukraine
Net operating income	338.7	257.6	76.4	4.7	306.8	249.1	57.7
Add: depreciation and amortization	198.2	157.4	35.8	5.0	133.9	108.1	25.8
OIBDA	536.9	415.0	112.2	9.7	440.7	357.2	83.5

Net debt can be reconciled to our consolidated balance sheets as follows:

US\$ million	As of March 31, 2005
Current portion of debt and of capital lease obligations	354.8
Long-term debt	1,972.8
Capital lease obligations	2.6
Total debt	2,330.2
Less:	
Cash and cash equivalents	(708.3)
Short-term investments	(83.2)
Net debt	1,538.7

# Appendix



Last twelve month (LTM) OIBDA can be reconciled to our consolidated statements of operations as follows:

US\$ million	Year Ended	Three month	Nine month
	December 31, 2004	ended March 31, 2004	ended December 31, 2004
	A	B	C=A-B
Net operating income	1,419.1	306.8	1,112.3
Add: depreciation and amortization	675.7	133.9	541.8
OIBDA	2,094.8	440.7	1,654.2
OIBDA for the three months ended March 31, 2005			536.9
LTM OIBDA at March 31, 2005			2,191.1