МТС оператор связи MTS

Effective Financial Management at MTS

Analyst and Investor Day – October 19, 2009
Moscow, Russia

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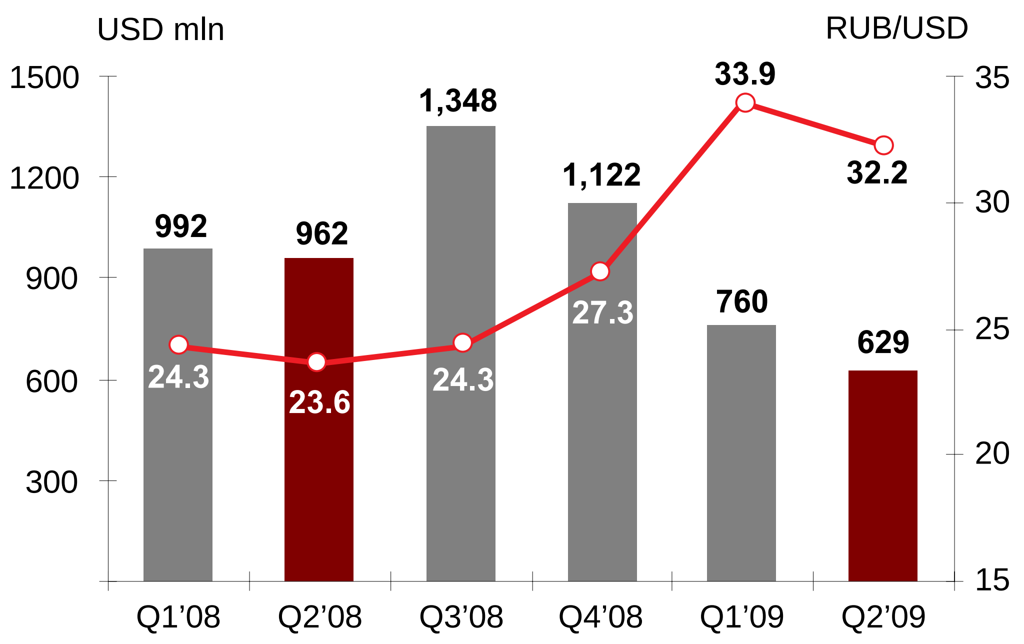
acting Chief Financial Officer

Operating Cash Flow (OCF) – strong despite fall in ruble value

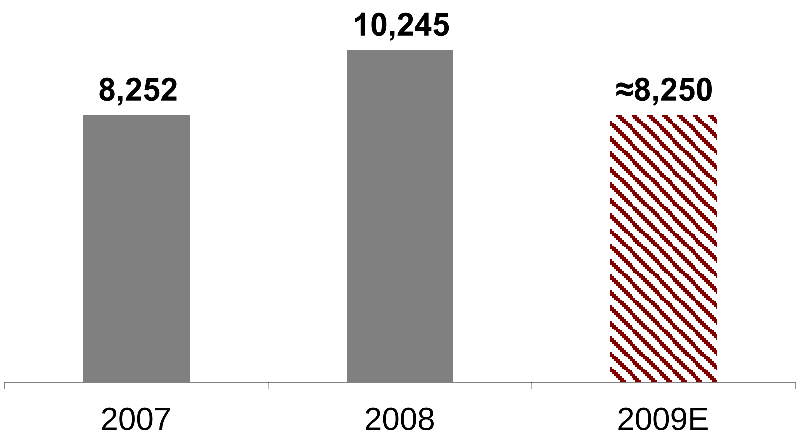
Operating cash flow and RUB/USD fluctuations



- MTS continues to generate strong Operating Cash Flow in the worsened market environment
- MTS expects improving cash flows due to:
  - Improving operating environment
  - Stable macroeconomic indicators
  - Growth of underlying business

Group outlook for 2009E – revenue and OIBDA

Total Group revenue (USD mln)



Group revenue expected to reach $8.25 bln for the FY 2009

The Company expects single-digit year-over-year ruble revenue growth in Russia and a single-digit year-over-year revenue reduction in hryvna revenue in Ukraine for the FY 2009

Key assumptions:

- Stability of exchange rates of national currencies
- Stable macroeconomic conditions in the operating markets

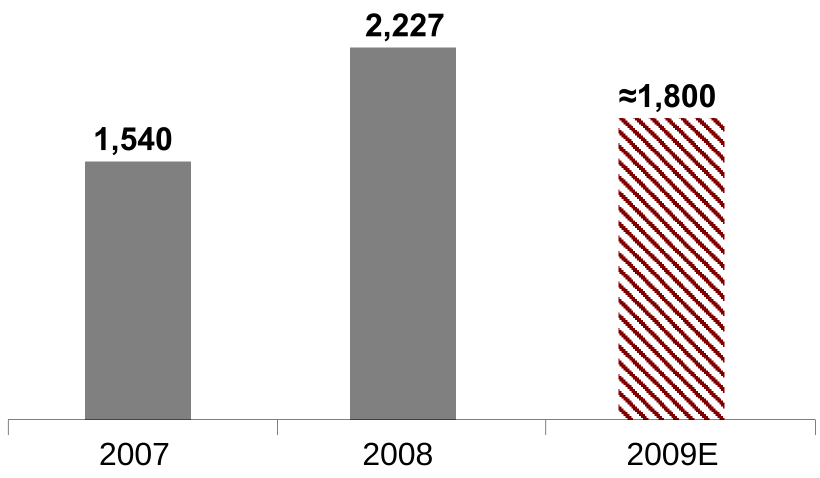
OIBDA margin for FY 2009 expected to be in the high 40%s range

Key drivers of margin pressure:

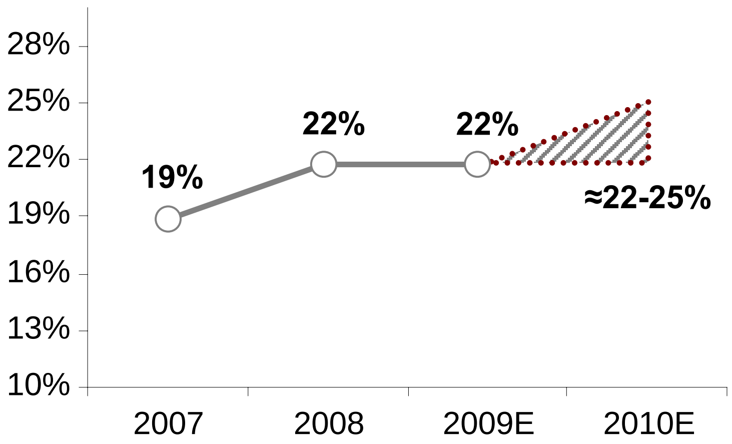
- Growing retail business
- Costs inflation
- Impact of macroeconomic volatility on markets

Group CAPEX outlook for 2009E

Group CAPEX (USD mln)



Short-term CAPEX target of 22-25% of revenue



Raising CAPEX guidance for 2009E to $1.8 bln:

- Russian ruble appreciation largest driver in increased spend
- Additional spending in Central Asian markets to accommodate increasing traffic
- Threat of inflation justifies accelerated spending on CAPEX in Central Asia
- Final CAPEX figure will depend upon many factors including currency volatility, vendor terms, availability of credit, project implementation schedules and other developments MTS cannot accurately predict

Funding policy key principals

- **Balanced currency structure of liabilities with a preference for a ruble denominated funding at a reasonable cost**

- **Interest rate risks hedging with a preference for fixed rate liabilities**

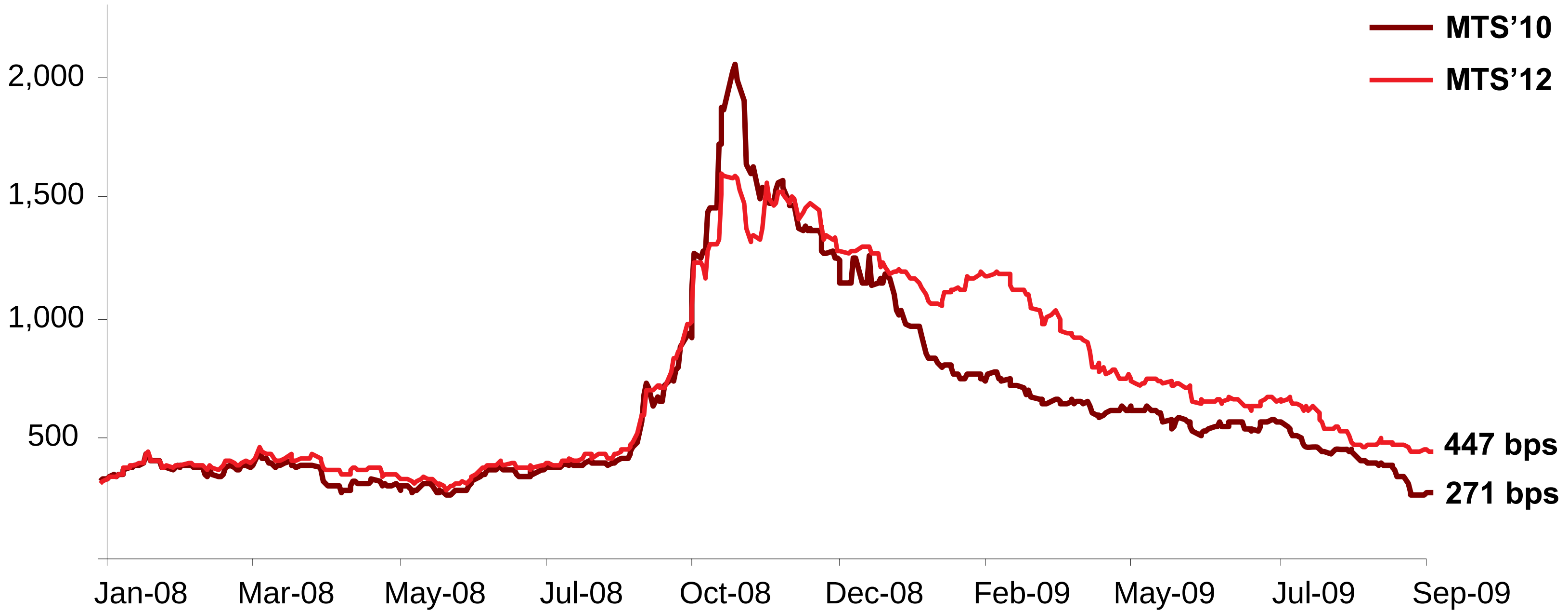
- **Average maturity is not shorter than 2 years**

- **Balanced debt structure by type of a lender or an instrument with a combination of bullet and amortizing instruments**

- **All funding and cash management business are granted on a competitive basis through a tender process**

MTS average credit spreads

MTS credit spreads 2008 – 2009 (bps)



Source: RBS

- MTS' spreads have undergone a significant tightening – MTS'10 is trading around 271 bps vs. 2,052 bps at the end of October 2008
- Current levels compare well with the pre-crisis spreads of 2008 and before
- Analysts expect an improvement over the next couple of months, as funds are increasing their positions globally and Emerging Markets assets converge closer to European counterparts, but the room for further improvement is becoming limited

Maintaining liquidity and financial flexibility

Financial sources attraction in 2009

May
- RUB 15 bln bond placement with a maturity in 2014
- Signing a $587* mln syndicated loan facility agreement

June
- Raising EUR 413 mln loan from EBRD, NIB and EIB**

July
- Oversubscription to the syndicated loan signed in May by nearly $100 mln
- RUB 15 bln bond placement with a maturity in 2016

August
- RUB 12 bln Sberbank loan attraction

September
- RUB 47 bln Sberbank loan attraction

- Strong fundamentals of business, as well as successful cooperation with local and international banks, enabled MTS to attract financing in volatile credit markets throughout the year
- Additional financial flexibility in turn allows MTS to better manage its cash flows, execute on investment programs and meet future obligations

* The syndicated loan facility is denominated in both dollars and euros. The actual amounts are $295 mln for facility A and EUR 214.5 mln for facility B (translated to USD using USD/EUR exchange rate of 1.3591 as of May 18, 2009)

** European Bank for Reconstruction and Development (EBRD), Nordic Investment Bank (NIB) and European Investment Bank (EIB)

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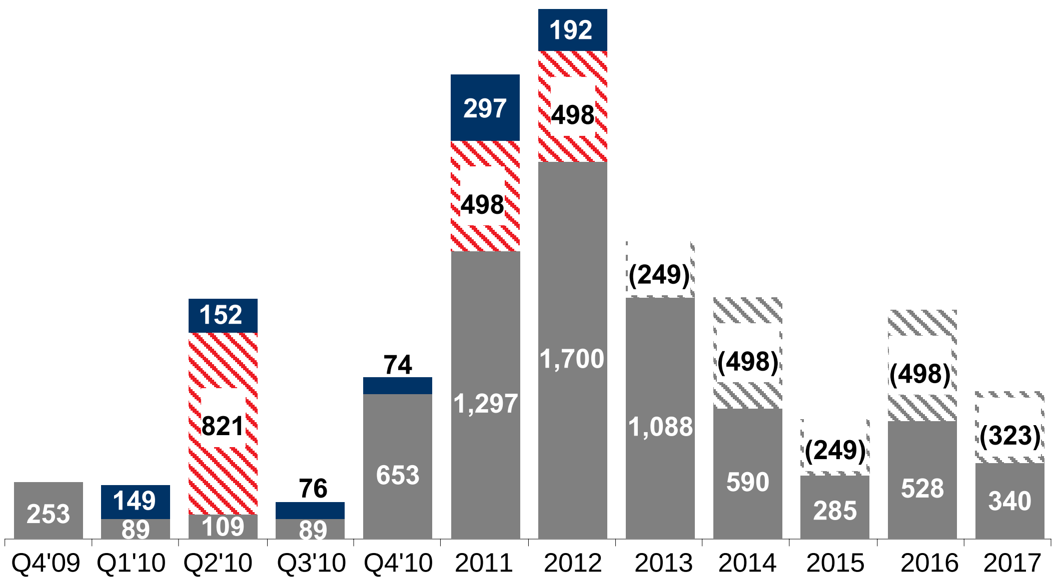
MTS' debt maturity profile

Debt repayment schedule as of Q3 2009 (USD mln)*



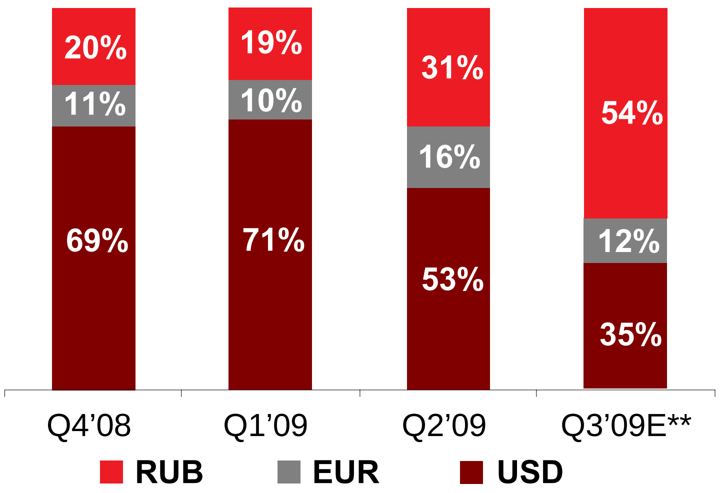
MTS' three ruble bonds placed in 2008 contain put options that can be exercised from April through June 2010. The ruble bonds placed in 2009 contain put options that can be exercised in May 2011 and in July 2012. MTS expects the options to be exercised, thereby increasing 2010-2012 debt and decreasing long-term debt

- MTS total debt as of the end of Q3 2009 amounts to $7.0 bln
- Additional Comstar's debt of $1.0 bln will be consolidated to MTS debt portfolio starting Q4 2009
- Effective work with banks and development of new banking partnerships made it possible for MTS to refinance its existing syndicated loan facility agreement and restructure its Gazprombank loan:
  - Decrease the interest rates
  - Extend the maturity period
  - Translate part of the loan into Russian rubles

*Q3 2009 estimations are preliminary and may change

Effective management of debt structure

Debt composition by currency*



- In 2007, MTS pre-registered first ruble bonds in a concerted effort to rebalance its debt portfolio to match is primary functional currency
- MTS achieved its goal of greater than 50% ruble-denominated debt through additional borrowings
- Beginning in Q2 2009, MTS began hedging some liabilities by means of cross-currency swaps
- 2010 maturities of credit lines and a Eurobond may provide MTS with additional opportunities to balance its currency exposure

* Debt composition by currency does not include FX hedging as of Q2 2009 and Q3 2009

** Q3 2009 estimations are preliminary and may change

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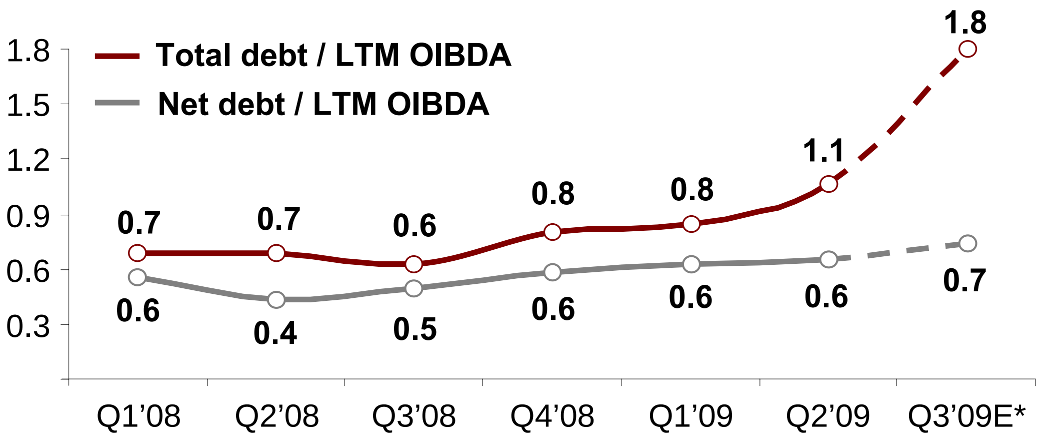
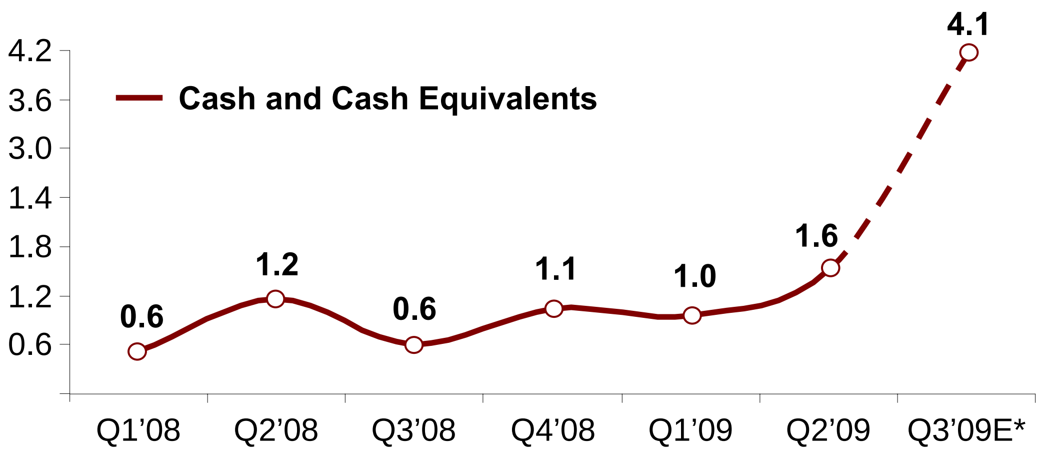
Leverage and cash balances in 2008 and 2009

MTS leverage



MTS cash balance (USD bln)

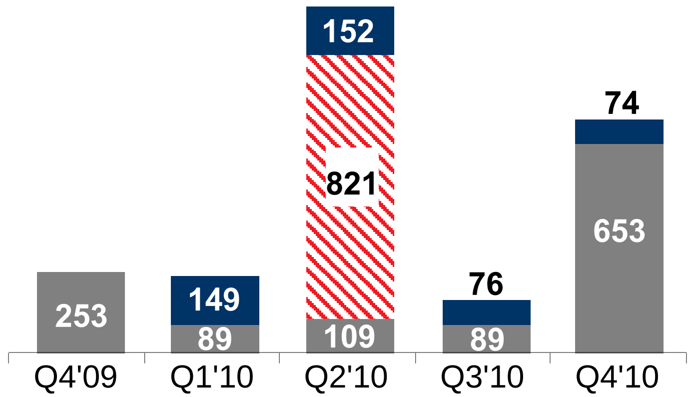


- Increase in total debt due to the Company's ability to take advantage of momentary openings in credit markets
- Cash and cash equivalents accumulation for general corporate needs, dividend payments and debt obligations execution
- Q3'09 estimations do not include payments for a 51% stake in Comstar and dividend payments for 2008

* Q3 2009 estimations are preliminary and may change

Retaining a healthy cash balance

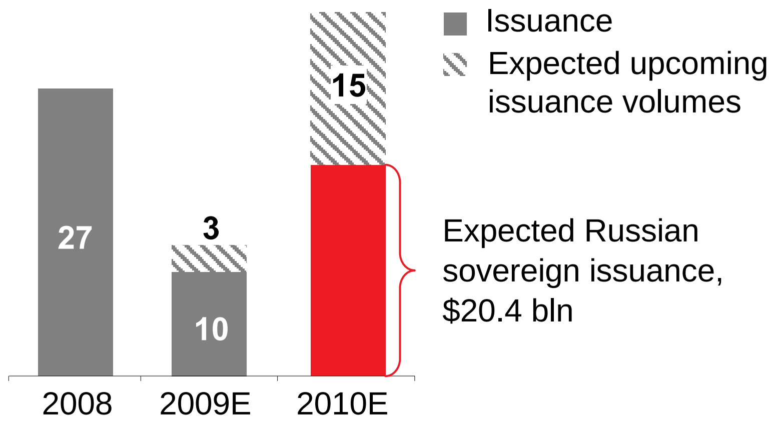
Debt maturity until 2010 (USD mln)



MTS Comstar

MTS' three ruble bonds placed in 2008 contain put options that can be exercised from April through June 2010. MTS expects the options to be exercised

Change in CIS new issuance (USD bln)



Source: RBS

- Given the uncertain conditions in the credit markets MTS is retaining cash on balance sheet to be used for:
  - Debt repayments
  - Operating cash cushion accumulation
  - CAPEX plans execution
  - Dividend payments (FY 2008)
  - Potential debt restructuring
- MTS expects greater debt issuance volumes in 2010 but the return of the Russian Government to international debt markets may cause "crowding out" effect for private issuers

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Ongoing cost optimization initiatives to sustain profitability

	Cost	Short- and medium-term (2008-2009)	Long-term (2010+)
1	Cost of Service	▪ LD/ILD network launch ▪ Renegotiation of roaming agreements ▪ On-net calling promotions ▪ 0.5 pp OIBDA improvement	▪ Second stage of LD/ILD network project will provide $90 mln OPEX savings
2	Sales and Marketing	▪ Reduction of advertising and marketing expenses ▪ 0.2 pp OIBDA improvement	▪ Development of controlled distribution channel to maintain leadership in gross additions
3	Process centralization & optimization	▪ Unification of regional structure ▪ Macro-region structure simplification ▪ Consolidation of back-office functions of Corporate Center and Business Unit Russia	▪ Procurement centralization ▪ Shared service centers ▪ Call centers reorganization ▪ Network
4	Organizational change	▪ Optimization of organizational structure ▪ 5% headcount reduction	▪ Continued organizational streamlining