МТС оператор связи MTS

Growth in the Russian wireless market

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Moscow, Russia

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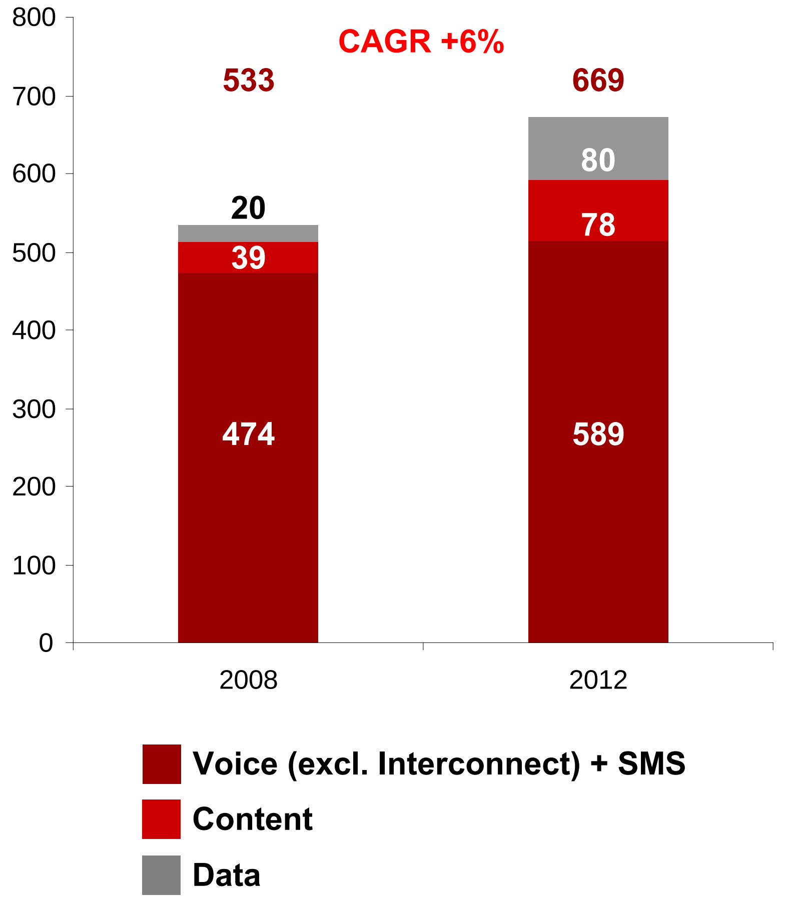
Mobile market developments in Russia

Mobile market, RUB bln

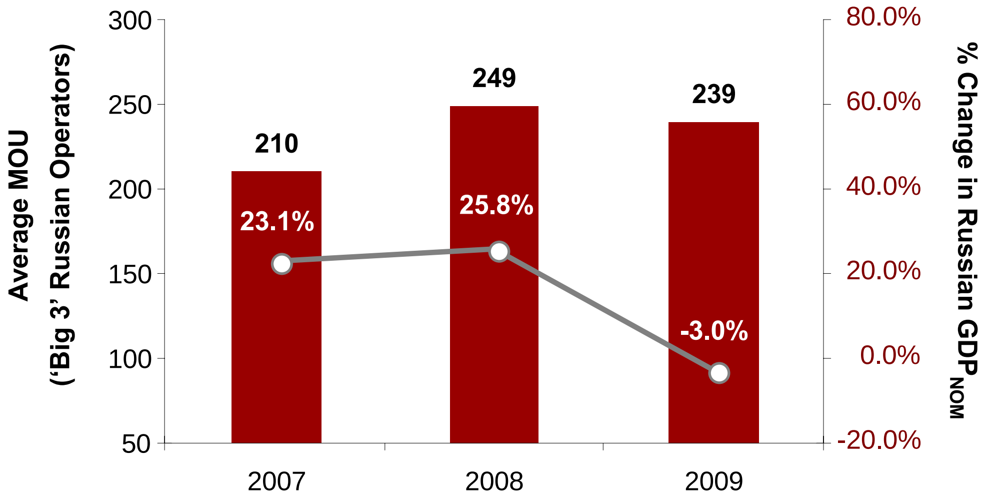


- MTS believes the market for mobile products and services will grow at CAGR 6% from 2009 – 2012
- In absolute terms, voice+SMS (+24%) will continue to drive the market through corporate adoption, organic growth factors and greater overall usage
- Data will exhibit the fastest growth (CAGR 41%) as 3G terminals proliferate, networks improve and demand for Internet access expands
- Content services will grow at CAGR 19% through the introduction of mobile applications, greater availability of downloadable products and third-party services

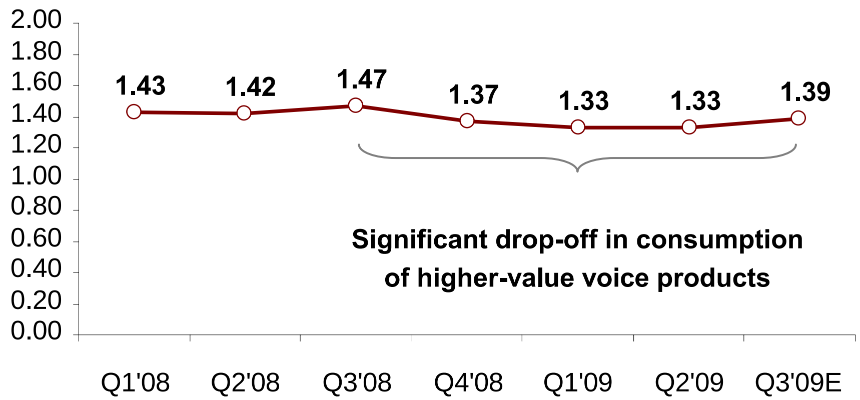
Sources: BCG, J&P, AC&M, ComNews Research, Mforum Analytics, Pyramid Research and MTS data

Mobile voice: impact of crisis and pricing

MOU/GDP$_{NOM}$ 2007 - 2009



Pricing in Russia



- Examining MOU and GDP$_{NOM}$ indicates that the Russian economic environment will slow voice growth in 2009-2010

- The economic situation has provided the leading operators with the opportunity to increase pricing throughout Russia to offset:
  - A decline in macroeconomic indicators
  - Less consumption of higher-value products like roaming, long distance and off-net minutes
  - Overall decreased business activity

Source: Merrill Lynch Wireless Matrix Q2 2009; Company filings; MTS estimates

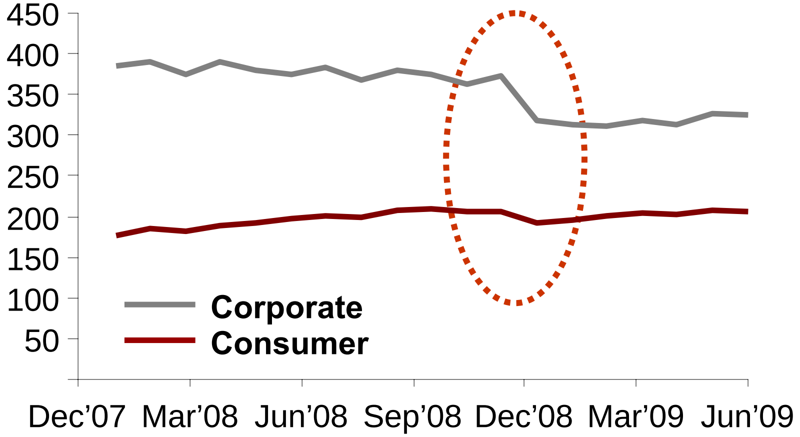
Focus 2009+: developing subscriber share in changing environment

- Changes in operating environment necessitate MTS to refocus its commercial strategies:
  - Bankruptcy and consolidation in retail markets
  - Macroeconomic factors
  - High penetration

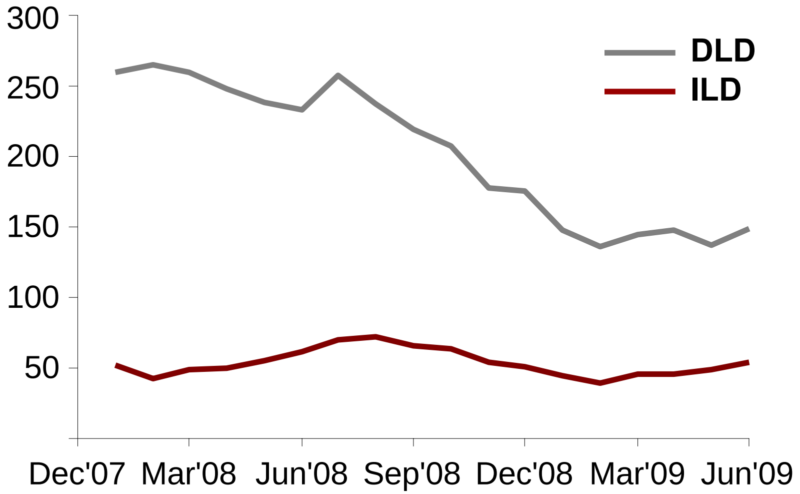
		Strategy	Targets
1	**Retention**	**▪ Maintain leading market share in subscribers by retaining and increasing loyalty of existing customer base through ATL and CRM programs** **▪ Provide best customer experience for MTS subscribers**	**Reduction of churn**
2	**Acquisition**	**▪ Secure leadership in new adds through strong tariff propositions and development of own and alternative sales channels**	**Leadership in number of subscribers**
3	**Demand Stimulation**	**▪ Grow usage and stimulate demand for VAS, data and content through introducing new innovative services** **▪ Safeguard against fall in voice usage through MOU stimulating propositions**	**Revenue leadership**

Retention: understanding traffic patterns

MOU dynamics normalized for seasonality (min)*



Domestic and int’l long distance traffic (mln min)



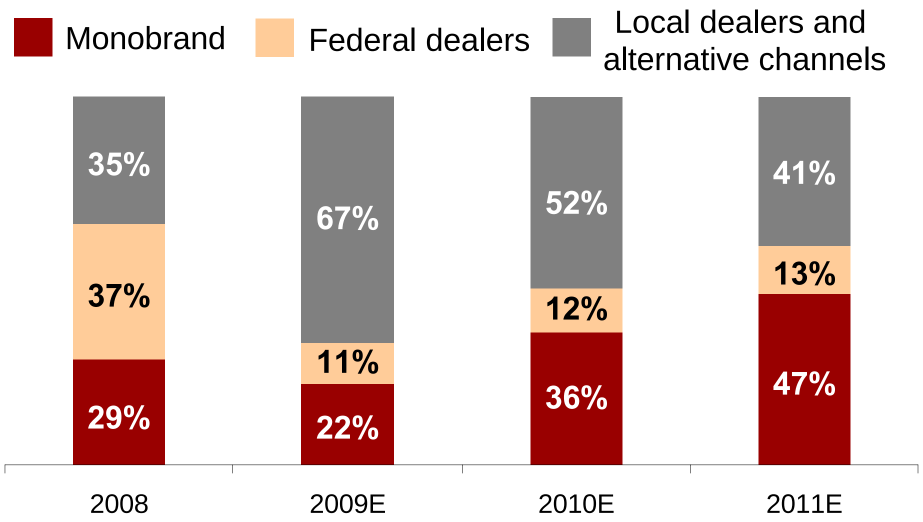
- Looking back on the worst of the crisis period, the consumer market has shown relative resilience to the crisis effects compared to the corporate market
- Corporate usage was down due to overall less business activity and a decrease in consumption of higher-value products and services (e.g. roaming, long distance)
- Decrease in consumption necessitates that operators focus on retaining subscribers to ensure activity in the network when the economy resumes its growth

*Months are adjusted for common seasonal variations including number of days, type of day, etc

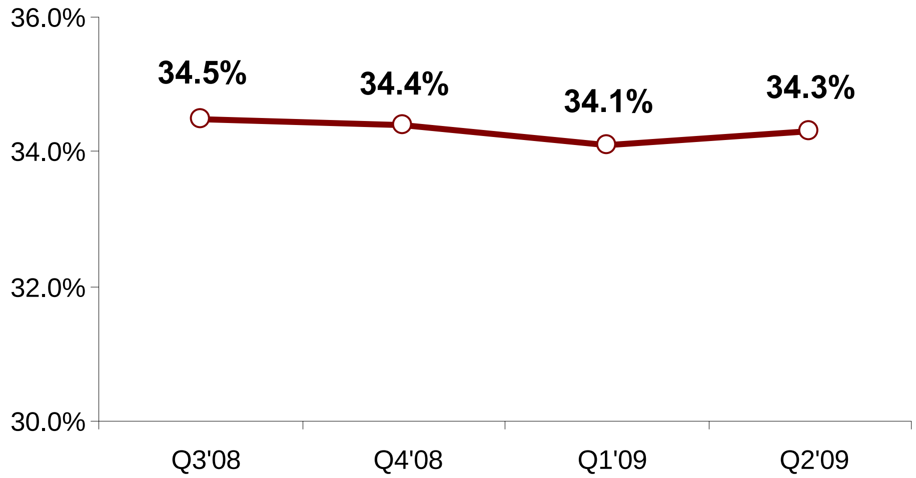
Source: Company data

Acquisition: changing distribution mix to sustain subscriber share

Estimated share of sales by channel



Stable market share* development 2008 - 2009



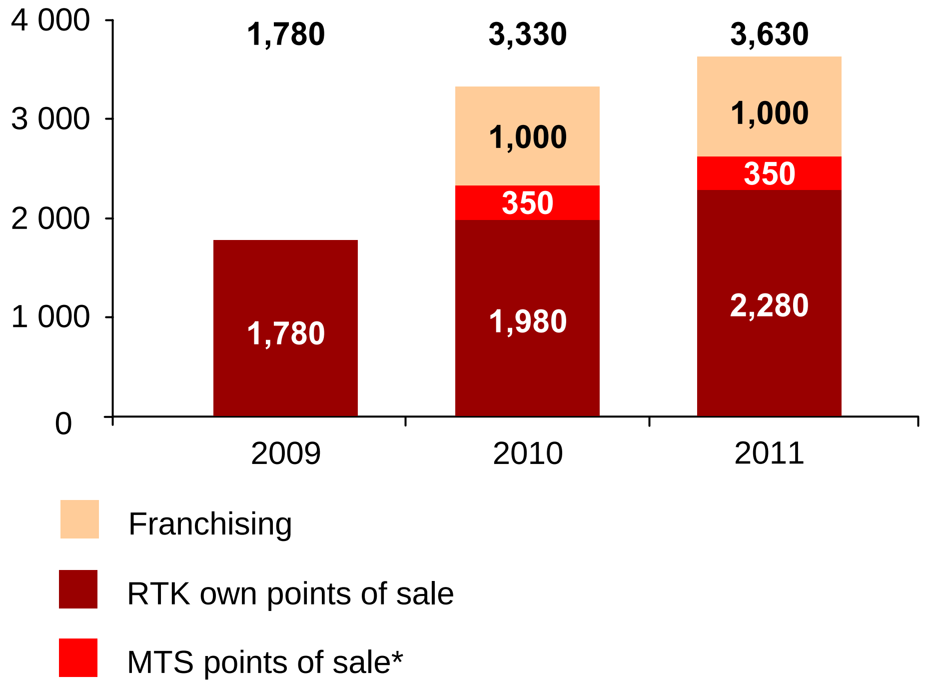
- Change in distribution dictated by:
  - High penetration
  - Changes in competitive landscape on the back of Euroset acquisition
  - Bankruptcies of large federal retailers
  - Development of alternative sales channels
  - Need to develop customer value through monobrand retail sales

- MTS has successfully utilized alternative channels to maintain leading market share
- Focus on investments in monobrand to drive growth through MTS-branded stores
  - Acquisition of Telefon.Ru
  - Acquisition of Eldorado
  - Acquisition of Teleforum
  - Management contract with Svyaznoy
  - Leverage of Vodafone partnership

*Source: AC&M-Consulting

Monobrand build out

Dynamics of a number of monobrand chain points of sale in 2009-2011
(as at the end of period), units



- In 2009, MTS established a separate subsidiary, RTK, to build out and develop its proprietary retail networks
- RTK continues to increase its geographic footprint and in 2010 will begin assuming the operations of all MTS-owned storefronts and franchisees

*In 2010, MTS will transfer the 350 MTS-owned points of sale to RTK to augment its mono-brand retail network

Effect of monobrand retail on MTS P&L

RTK (MTS retail subsidiary)		MTS (including older retail holdings)	
+	**Sales of handsets, SIM cards and accessories** ▪ Increasing customer value by marketing handsets aligned with tariff plans and services under the MTS brand	+	**Service revenue** ▪ Binding tariffs to handsets sales designed to promote value-added services ▪ Higher ARPU and increased customer loyalty
-	**Cost of goods sold** ▪ Less wholesale costs of handsets and accessories	+	**Sales & Marketing expenses** ▪ Lower third-party dealer commissions by leveraging proprietary distribution channels
-	**General & Administrative expenses** ▪ Additional operating costs associated with the development & operation of new retail sites	+	**Reduced churn** ▪ Fewer sales through dealers reduces churn ▪ Each % of churn ≈ 20-40 bps of OIBDA

ZERO NET OIBDA by YE2010*
No forecasted below-OIBDA impact

Improved service revenues
Enhanced service revenue profitability

Increased OIBDA
Higher shareholder return

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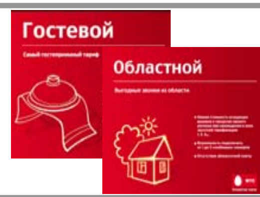
Demand stimulation: simplifying the tariff mix to promote usage

	Tariff Category	Value Proposition	Targets and Core Offerings	
1	3 core federal tariffs	To meet key customers' needs	▪ On-net ▪ Frequent calls ▪ Long calls	
2	Up to 4 tariffs for specific segments	To meet the needs of a specific lifestyle segment	▪ Youth ▪ Seniors ▪ Kids / Women	
3	1-2 regional tariffs	To meet the needs based on regional and geographic factors	▪ Guest workers ▪ Tourists	

▪ Additional initiatives aimed at promoting demand:

- Core tariffs suit subscriber demands in the regions through use of an attractive array of options such as favorite numbers, close user groups, long distance calls, SMS / data and off-peak usage
- MTS' core tariffs ease customer choice and add flexibility to service portfolio while specific segment offers help increase customer satisfaction

Demand stimulation: targeting key segments

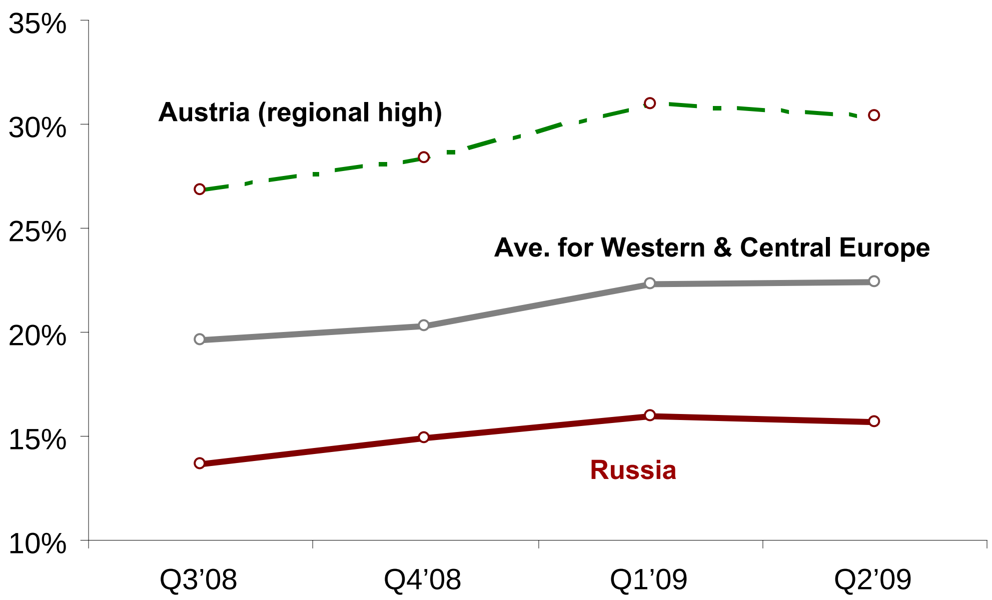
Segment	Subscribers, %	Revenue, %	ARPU*	MOU (min)*
Corporate	7%	19%	16.7	355
High value	3%	11%	19.5	820
Youth	8%	16%	8.6	492

- Key initiatives: Corporates
  - Greater client customization of corporate tariffs
  - New tariff with ability to add employee relatives to corporate tariffs
  - Same corporate number and tariff for laid off employees
  - Curator program for SMBs
- Key initiatives: High value
  - *Maxi Plus* tariff for entry-level “high value” customers
  - Launch of *MTS Bonus* program for loyal subscribers
  - Exclusive high-end devices through MTS retail chain (Nokia N97, HTC Hero, Blackberry devices)
- Key initiatives: Youth
  - *Red Energy* tariff launch accompanies by large-scale marketing campaign
  - Omlet.ru launch
  - Seasonal roaming promotions

*For the month of June 2009

Wireless data: Russia continues to lag Europe

VAS as % of ARPU (Russia vs. Europe)



- Wireless content and data consumption continues to lag Western and Central Europe
- Key factors
  - Relatively low 3G handset penetration
  - Late build-out of 3G/HSPA networks
  - Low PC/laptop penetration
  - Macroeconomic factors

Source: Merrill-Lynch Wireless Matrix Q2 2009; MTS estimates

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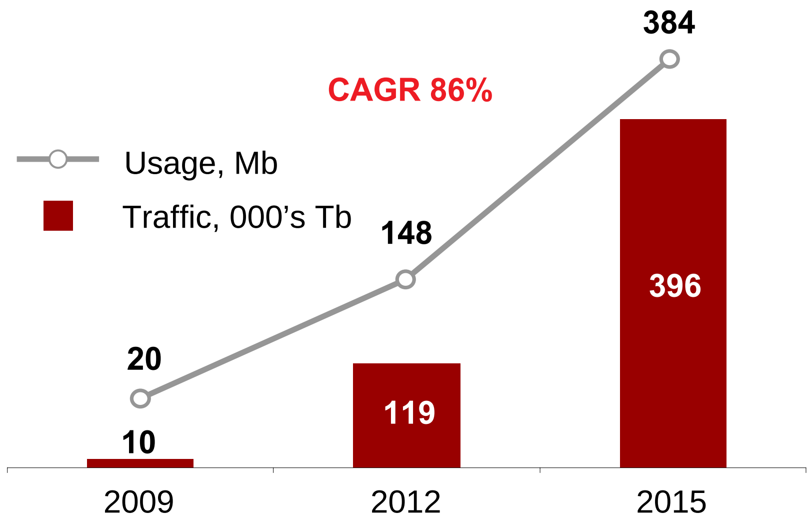
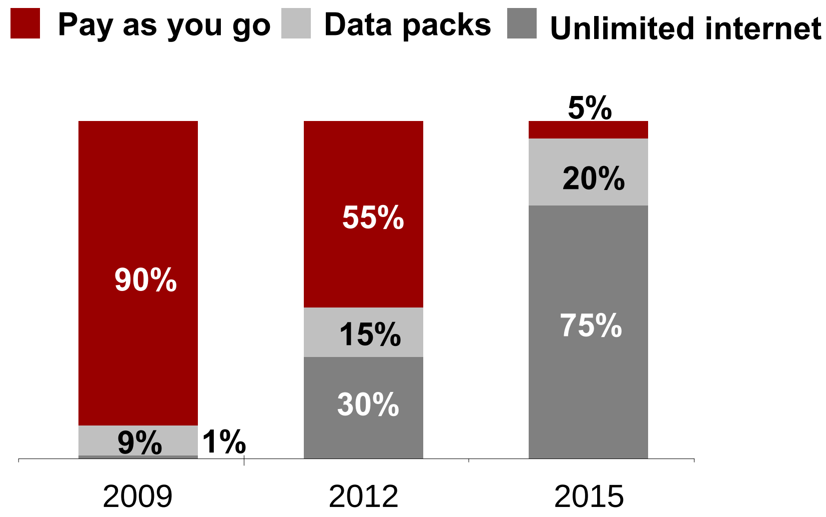
Wireless Data: significant growth opportunities in Russian market

Wireless data traffic and usage



Data services dynamics



- Penetration of data services to grow from 24% in 2009 to 44% in 2015
- Drivers include:
  - Rising Internet usage
  - Growth of mobile applications
  - Rising demand for local and international content
  - Proliferation of data-usage devices

- Customer-friendly pricing will stimulate penetration
- MTS' retail network will aid in:
  - Up-selling value-added services and data plans
  - Increase penetration of 3G-enabled handsets

Based on BCG, J&P, AC&M, ComNews Research, Mforum Analytics, Pyramid Research and MTS data

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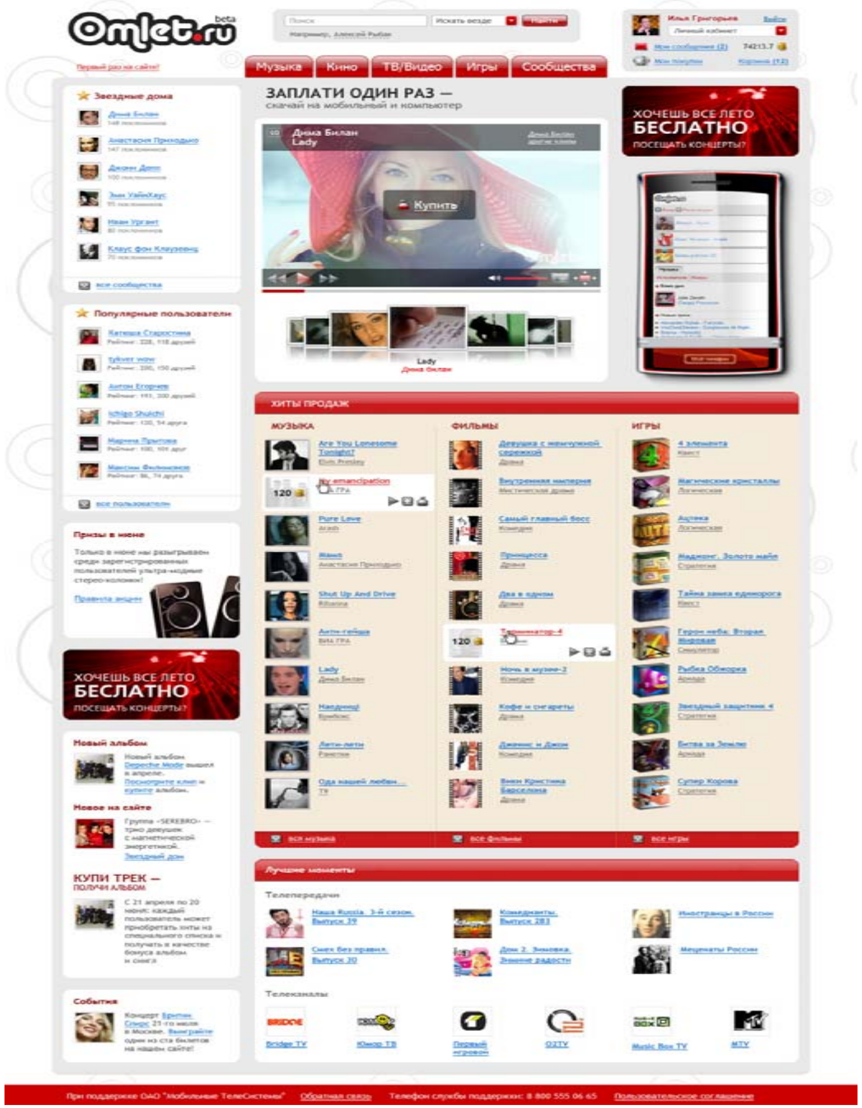
Stimulating content consumption: Omlet.ru



- The largest operator-independent content store in Russia
- Expansive collection of licensed music tracks, videos (movies and TV channels) and games
- Embedded UGC / social networking platform
- Interoperability between mobile devices and PCs / laptops
- Flexibility in terms of access network (e.g. EDGE vs. 3G) and phone model
- Available for customers of other networks
- Official blogs / profiles of celebrities on the portal stimulating content consumption
- Over 3.2 million visitors and around 100,000 registered users since the test launch in April 2009