MTS Strategy: Data + Differentiation + Dividends

Investor Day – February 4, 2014

Mr. Andrei Dubovskov
President
Chief Executive Officer

MTS

from words to digits

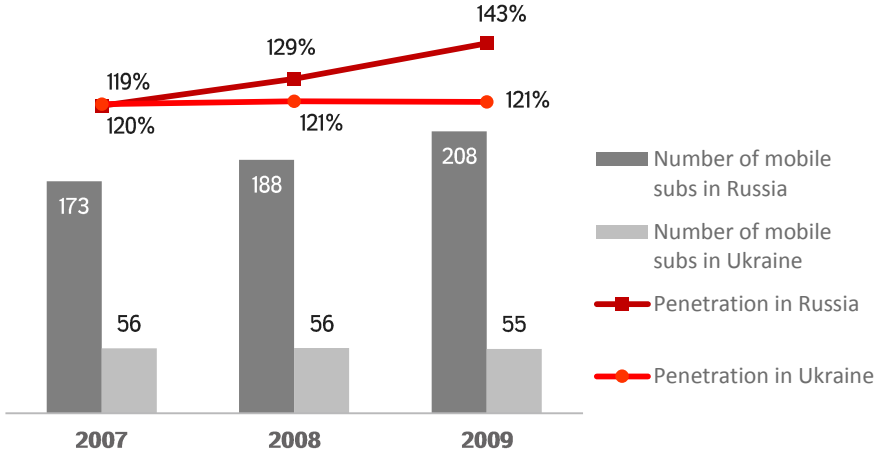
Safe harbor

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,” and 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 undertake or 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, the severity and duration of current economic and financial conditions, including volatility in interest and exchange rates, commodity and equity prices and the value of financial assets; the impact of Russian, U.S. and other foreign government programs to restore liquidity and stimulate national and global economies, our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so, strategic actions, including acquisitions and dispositions and our success in integrating acquired businesses, 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, governmental regulation of the telecommunications industries and other risks associated with operating in Russia and the CIS, volatility of stock price, financial risk management and future growth subject to risks.

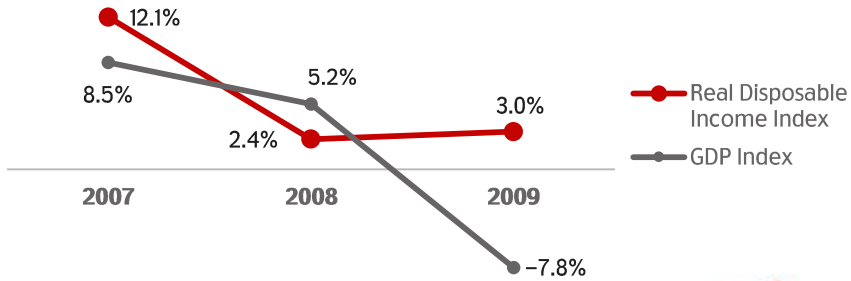
MTS 2009: changing markets

- In 2009 MTS launched its 3i Strategy – Integration, Innovation and the Internet
- MTS core markets were changing:
  - Russian and Ukrainian markets effectively mature
  - Macroeconomic environment prompted consolidation in distribution and put into question traditional growth through subscriber addition
- MTS acquires licenses to provision UMTS/3G services in Russia and other markets of operation
  - Introduction of iPhone and subsequent launch of Android OS created new markets – and new demand – for data services
- MTS needed to identify longer-term drivers for growth and focus company resources in leveraging key company capabilities

MTS 2009: FULL PENETRATION IN RUSSIA AND UKRAINE



RUSSIA: WORSENING MACROECONOMIC ENVIRONMENT



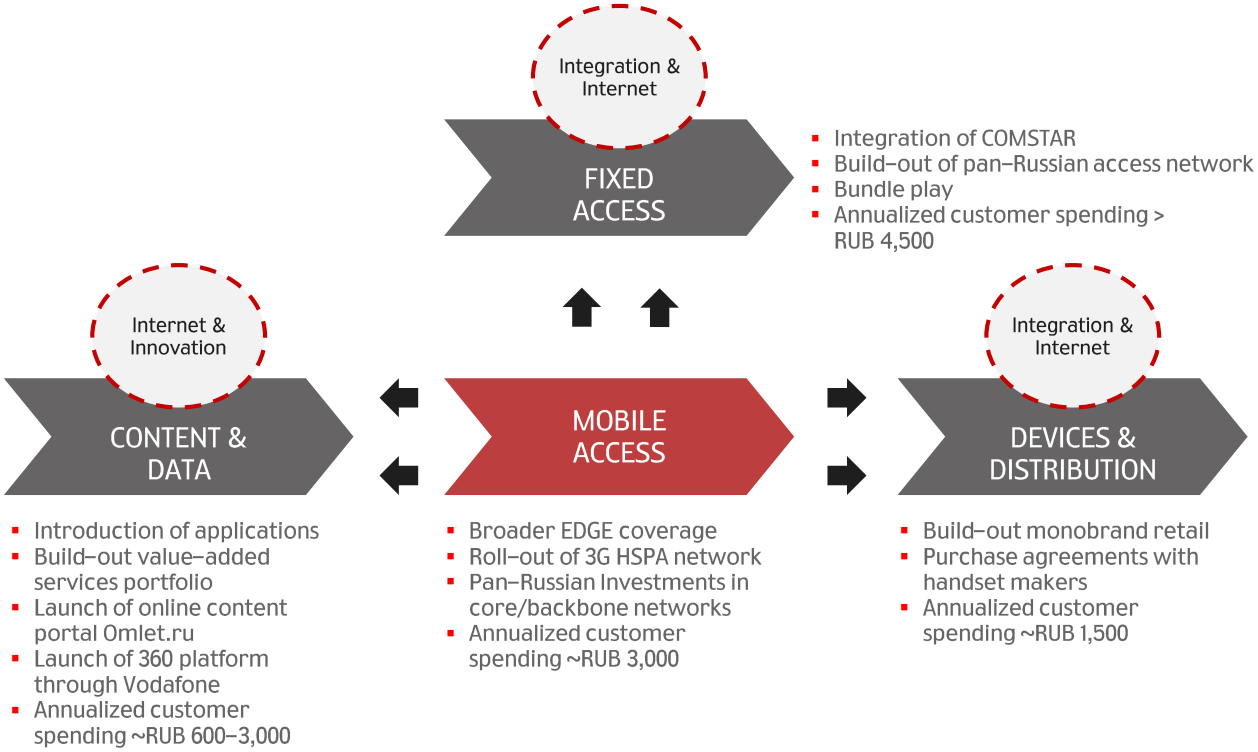
MTS 2009: a strategic view forward

- In response MTS shifted its focus from 'subscriber acquisition' to a retention model:
  - Network development
    - Leverage 3G/LTE to unlock potential of data market
  - Convergent model
    - Acquisition of Comstar and 15 other assets to build and develop a fixed-line/convergent business
  - Proprietary distribution
    - Build out of MTS retail to gain control of distribution
    - Develop a retail platform to upsell customers on smartphones and value-added services

3i STRATEGY – ANALYST DAY OCTOBER 2009

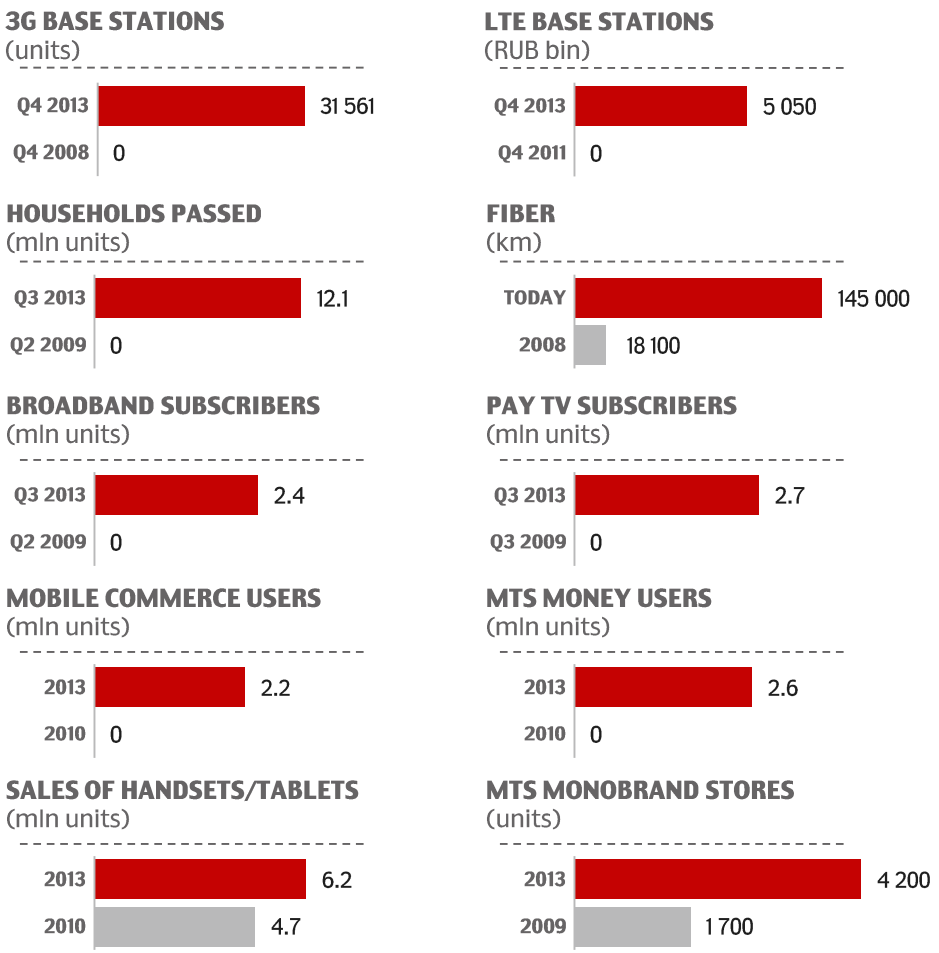
MTS: Strategic evolution along value chain

- Changing competitive landscape and market environment necessitates that MTS evolve its business



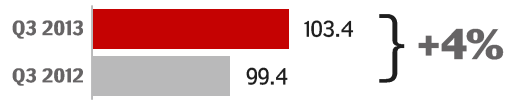
MTS successfully implements 3i Strategy

- 2009 – 2013: MTS successfully implements 3i Strategy
- MTS offers market's leading networks for mobile and home connectivity:
  - 31,560 3G HSPA+/Dual Carrier and 5,050 LTE base stations
  - Over 12 mln households passed with FTTB/FTTH technology
- MTS retail build-out provides leverage over retailers and platform to upsell customers on data services
  - Network of over 4,000 mono-brand stores
  - Over 45% of SIM cards distributed through MTS stores
  - Sales of handsets and tablets exceeded 6.2 mln units in 2013
- MTS expands into complementary businesses with launch of *MTS Money* and expansion of financial services
  - Over RUB 12 bln in loans
  - 2.56 mln MTS Money customers
  - 2.20 mln mobile commerce users

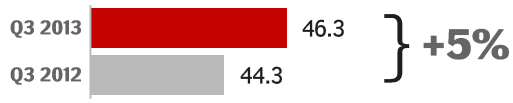


MTS today

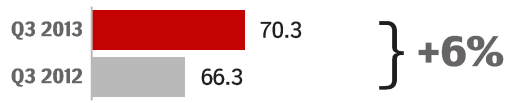
CONSOLIDATED REVENUE
(RUB bin)



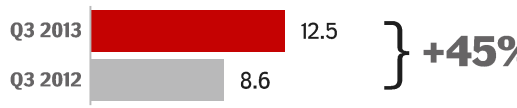
CONSOLIDATED OIBDA
(RUB bin)



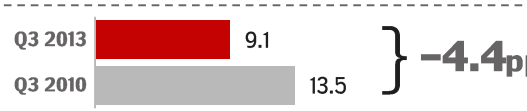
MOBILE SERVICE REVENUE IN RUSSIA
(RUB bin)



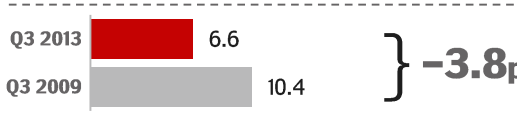
DATA REVENUE IN RUSSIA
(RUB bin)



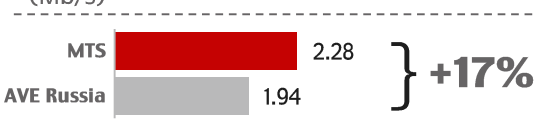
CHURN RATE RUSSIA
(as %)



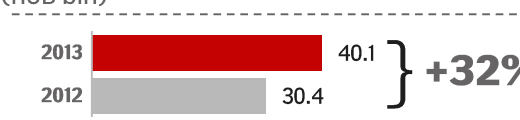
CHURN RATE UKRAINE
(as %)



AVE DOWNLINK SPEED
(Mb/s)



DIVIDENDS PAID OUT
(RUB bin)



*According to *SpeedTest* Data provided by OOKLA

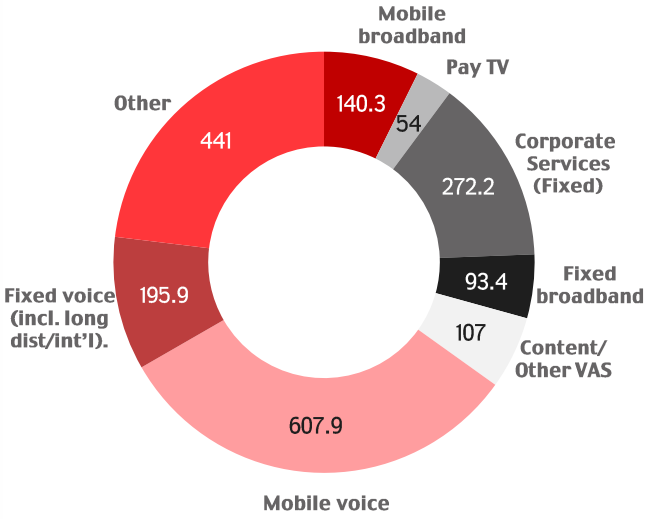
- Highest rate of growth in mobile data revenues in the market
- Lowest rate of churn in core markets
  - 440 bps reduction in past 3 years
- Network leadership
  - Fastest 3G/LTE networks in Russia
  - #2 broadband provider in Russia*
  - #3 Pay TV provider in Russia*
- Leading telecommunications brand in the CIS market
  - Top–ranked in BRANDZ™ Top 100 Most Powerful Brands, a ranking published by the Financial Times and Millward Brown, for 6 years in a row
- Most experienced and stable management team
  - Members of management board boast 70 years of experience in MTS and 125 years of collective experience in the telecommunications sector

Russian market growth: 2013E – 2016E

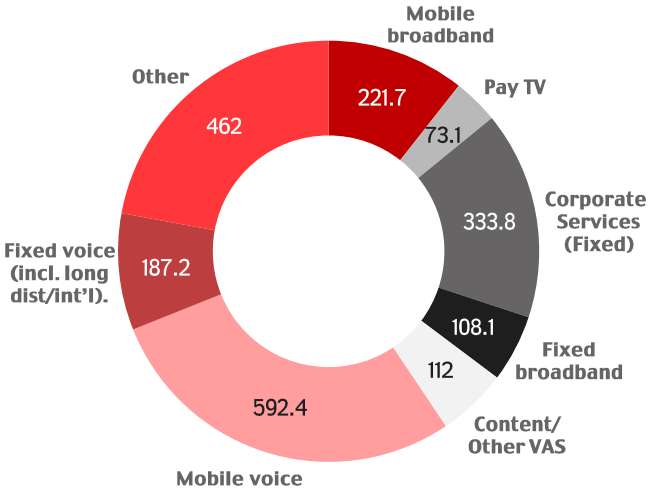
- MTS ideally positioned to capture growth in Russian telecommunications market by leveraging key strengths:
  - Best-in-class networks
  - Fixed-line convergent services
  - Market-leading retail platform

2013E – 2016E CAGR ≈3%

2013E
(RUB bln)



2016E
(RUB bln)



Russian market (RUB bln)	2013E	2016E	CAGR
Total Market	**1,912**	**2,091**	**3%**
Mobile broadband	140.3	221.7	+16%
PayTV	54.0	73.1	+11%
Corporate services	272.2	333.8	+7%
Fixed broadband	93.4	108.1	+5%
Content/Other VAS	107.0	112.0	+2%
Mobile voice	607.9	592.4	–1%
Fixed voice	195.9	187.2	–2%
Other	441.0	462.0	+2%

* voice, sms, interconnect, connection fee and other services
** including other VAS

3D Strategy: leveraging strengths & opportunities

	TRADITIONAL TELECOMMUNICATIONS BUSINESS			NEW BUSINESSES
KEY MTS GROWTH OPPORTUNITIES	GROWTH IN MOBILE BROADBAND	GROWTH IN FIXED BROADBAND/PAY TV	GROWTH IN CONVERGENT CORPORATE SERVICES	PAYMENT OPTIONS AND MOBILE BANKING
KEY MTS STRENGTHS	Largest subscriber base Fastest mobile network speeds Sustained efficiency and cash flow generation	Strongest presence in high-value & corporate segment FTTB/FTTH services in 180 major Russian cities Clear dividend policy	Highest customer loyalty ratings Digital Moscow Track record of success	Most advanced retail platform in market Strong position in Ukraine/CIS markets Leadership in mobile banking space Top brand

MTS 3D STRATEGY

DATA

- Provide customers with fastest, most reliable data networks
- Increase data penetration in our subscriber base
- Ensure customers have the best connectivity experience in their homes, workplace and places in between

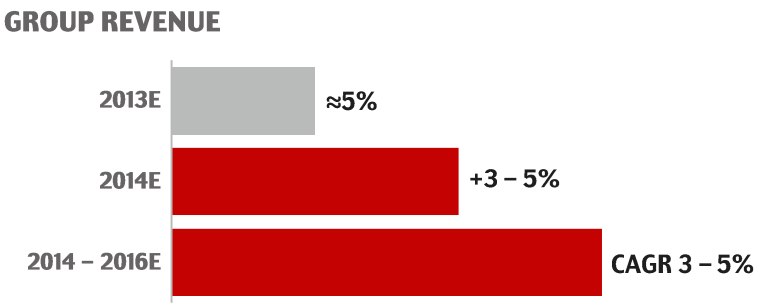
DIFFERENTIATION

- Offer customers unique products and services to enhance their digital lives
- Establish Moscow as world-class in terms of connectivity and network access
- Ensure a best-in-class customer experience to improve loyalty throughout our markets of operation

DIVIDENDS

- Improve continuously the operational efficiency of MTS
- Enhance shareholder returns

MTS Group forecast 2014 – 2016E



- Management establishes revenue growth guidance for the Group of 3–5%
- Key factors which may influence topline revenue growth for the group include:
  - Increase in voice usage through tariffs designed to drive on–net usage and improve customer loyalty
  - Growth in data revenues through higher penetration of smartphones and modems
  - Development of retail product platform and sales of tablets and handsets
  - Growth in broadband/pay TV market will offset decline in fixed voice at MGTS unit
  - Stable market developments in Ukraine
- Macroeconomic developments in core markets may impact the topline revenue performance of the company:
  - Lower voice calling due to less economic activity
  - Lower revenues from roaming as people travel less
  - Slower uptake of smartphones due to lower disposable income or higher interest rates on PoS credit
- Certain additional services, like MTS Money, do not impact revenue directly as contributions from this segment will be recognized as net income attributable to non–controlling interest
  - MTS reiterates that contribution from financial services like MTS Money will constitute at least 5% of net income by FY2017