

Internet site: [www.mtsgsm.com/ir](http://www.mtsgsm.com/ir)  
email address: [ir@mts.ru](mailto:ir@mts.ru)

Leonid Melamed, President, Chief Executive Officer  
Vsevolod Rozanov, Vice President, Chief Financial Officer

# Group financial results for the first quarter 2007



Investor Conference Call – May 31, 2007



# Contents

## Financial and corporate highlights

- Group highlights Q1 2007
- Group financial highlights
- 3+1 strategy

Key period developments

Key financial and operating results

Appendix



## Group highlights Q1 2007

### Group financial highlights

- Revenues up 35% Y-o-Y to \$1,741 mln
- OIBDA up 51% Y-o-Y to \$903 mln; OIBDA margin of 51.9%
- Net income up 143% Y-o-Y to \$449 mln
- Free cash-flow at \$512 mln

### Recent corporate highlights

- Mrs. Cynthia Gordon appointed CMO in January 2007
- Mr. Pavel Pavlovsky appointed Head of MTS Ukraine in February 2007
- 3G license received in Russia in April 2007
- 3G license received in Uzbekistan in April 2007
- Dividend for FY2006 proposed for approval at the AGM in the amount of \$747 million or \$1.87 per ADR
- Dividend policy adopted by BoD determining payout ratio of 50% of net income

### Recent industry highlights

- 3G licenses allocated to the 'Big Three' operators in April 2007



# Group financial highlights

## Quarterly Results

	Q1	Q2	Q3	Q4	Q1
	2006				2007
<b>Total Group Revenue (USD mln)</b>	1 288.7	1 492.0	1 797.7	1 805.9	1 741.4
				- 4%	+35% y-on-y
<b>Total Group OIBDA (USD mln)</b>	598.6	730.3	962.8	938.0	903.1
				- 4%	+51% y-on-y
<b>OIBDA Margin</b>	46.5%	48.9%	53.6%	51.9%	51.9%
<b>Total Group Net Income (USD mln)</b>	184.4	294.7	486.3	110.3	448.6
				+ 307%	+143% y-on-y
<b>Net Inc Margin</b>	14.3%	19.7%	27.1%	6.1%	25.8%
<i>ex Bitel</i>				23.8%	

- Strong Group growth with Russia and Central Asian operations only offset by seasonal usage trends and increased competition in Ukrainian market

- Improved profitability through optimized marketing and advertising spending

- Improvements in bottom line returns through effective financial management, including reduction in external financing and greater contribution of minority operations

 Amended impact of write-off of Bitel LLC  
For full reconciliation, see Appendix

**MTS continues to implement its 3+1 strategy and deliver profitable growth**





# Contents

Corporate and financial highlights

## Key period developments

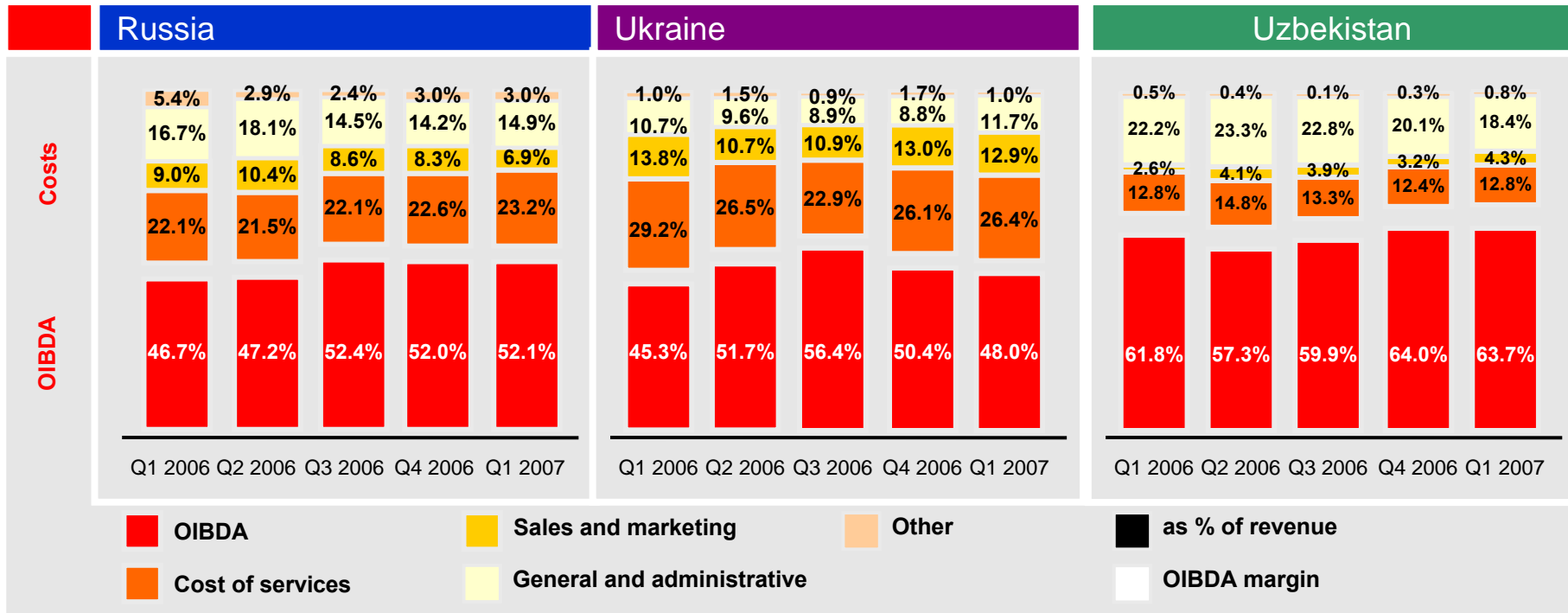
- Margins:
  - Strong group-wide OIBDA growth
  - Improved bottom-line profitability
- Dividends: market-leading shareholder returns
- 3G
  - Mobile broadband outlook for Russia and CIS
  - Incremental effect
- Ukraine: investing in 2006 to grow in 2007

Key financial and operating results

Appendix



# Continual OIBDA improvement throughout Group



- OIBDA improvement through rationalization of sales, marketing and G&A expenses

- Reduction of costs through promotion of on-net calling and decrease in handset subsidies

- Success managing growth as OIBDA keeps pace with rise in revenue as low-penetrated market develops

**Strong OIBDA performance in each of our business units validates our common Group approach to our markets and creates a healthy base for growth**



## Bottom-line improvements

Statement of operations in USD thou unless noted	Q1 2006	Q1 2007	Change	Driver for improvements
Net operating income	334,221	597,215	78.7%	
Currency exchange/translation loss (income)	(11,161)	(28,669)	156.9%	▪ Transition to ruble as functional currency and ruble appreciation in Russia
Interest income	(3,747)	(7,623)	103.4%	▪ Increase in cash deposits on hand
Interest expense	42,075	37,870	-10.0%	▪ Reduction in external financing
Other expense/(income)	17,666	(27,301)	-254.5%	▪ Write-offs in Q1 2006 for bad debt and one-time receivables adjustment and growth in Belarus earnings in Q1 2007
Income before provision for taxes	289,388	622,938	115.3%	
Provision for income tax	102,908	168,091	63.3%	▪ Growth in earnings requires greater tax provision
Effective tax rate	35.6%	27.0%	-8.6pp	
Minority interest (income)/expense	2,056	6,266	204.8%	▪ Growth in contribution from Uzbekistan operations
Net income	184,424	448,581	143.2%	

**Enhanced profitability through strengthened financial management and operational improvements enhances shareholder returns**

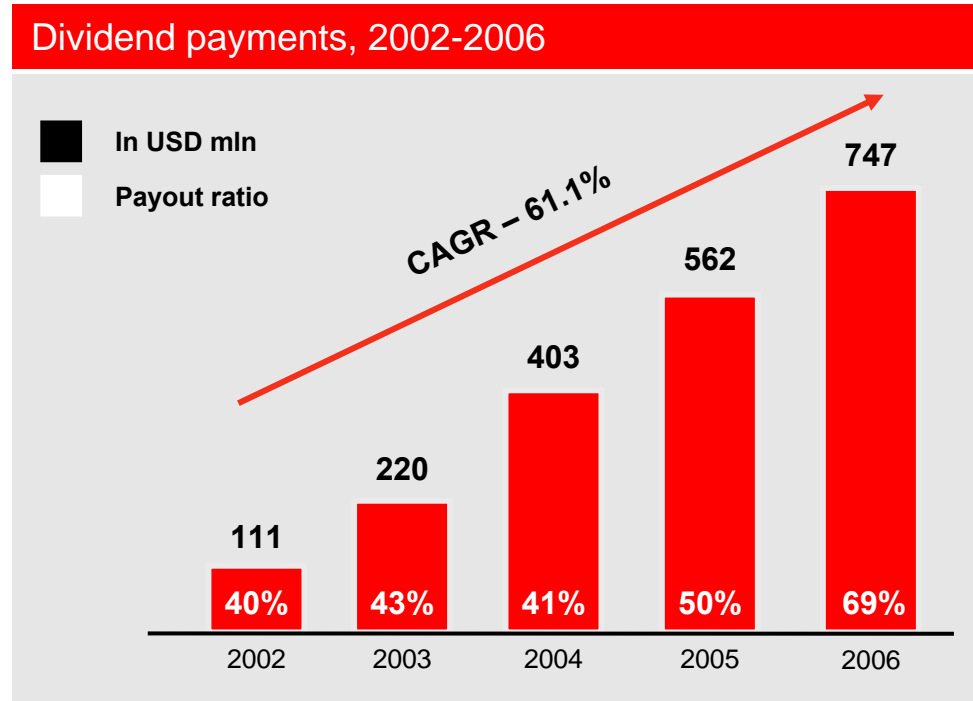




## Dividends: market-leading shareholder returns

### Key points of new MTS dividend policy

- As a goal, MTS aims to maintain its practice of returning a minimum of 50% of annual US GAAP net income to our shareholders through dividend payments
- Some considerations which may influence the dividend include:
  - Earnings growth and outlook
  - Operating and financing needs
  - Capital expenditure requirements
  - Cash flow from operations
  - Debt levels
  - Potential acquisitions or expansion



**MTS continuously strives to maximize value to shareholders**



# 3G: mobile broadband outlook for Russia & CIS

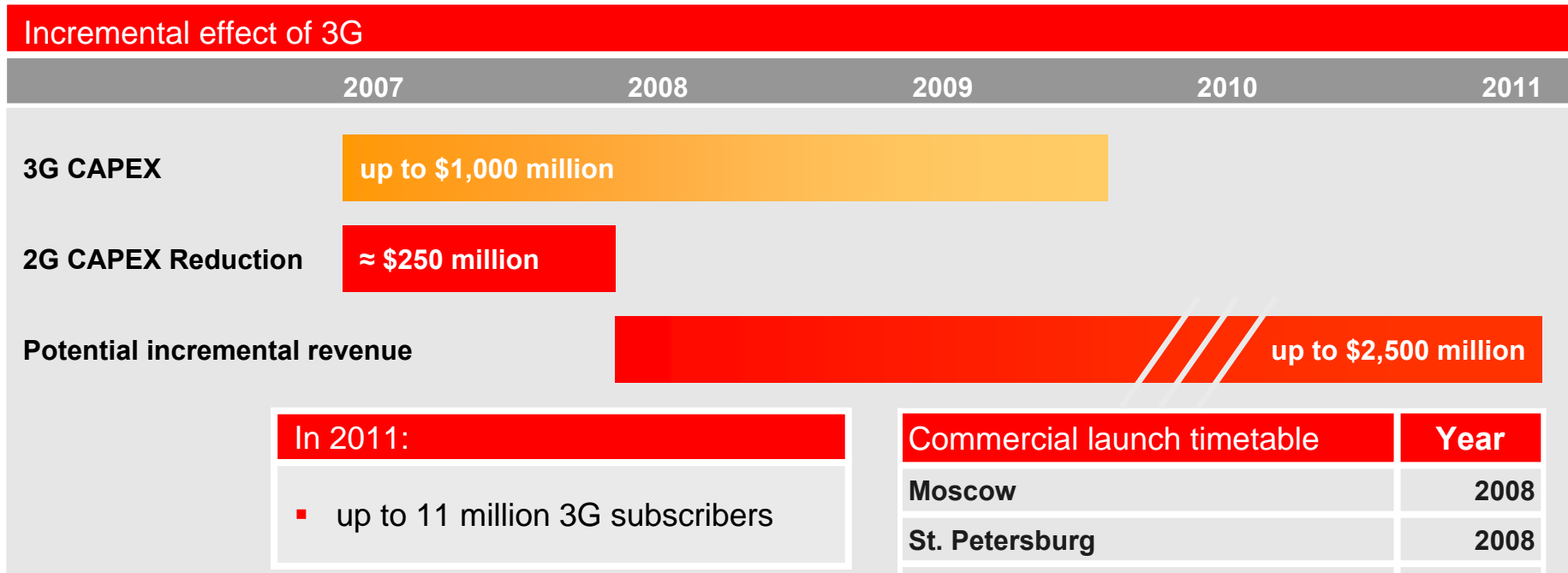
Key 3G elements	Europe at Launch	Russia at Launch	
Handset availability	Few devices available	264 HSPA-enabled devices <sup>1</sup>	<ul style="list-style-type: none"> <li>1.6 mln UMTS handsets in Russian market<sup>3</sup></li> <li>Spectrum clearance costs insignificant compared to \$129 billion<sup>4</sup> spend by European mobile operators for 3G licenses</li> <li>High-speed packet access enables a broader range of products and a better customer experience</li> <li>Fixed broadband penetration<sup>2</sup>:                             <ul style="list-style-type: none"> <li>Russia 3.5% (2006)</li> <li>Moscow 25.9% (2006)</li> </ul> </li> <li>Use as capacity relief</li> <li>Internet as the killer application</li> <li>Powerful retention tool</li> </ul>
License costs	High costs	Minimal costs	
Data speed	Low transfer speed	Full broadband with HSPA	
Fixed-broadband substitution	Multiple data access points	Low Penetration	
Lessons from Europe	Environment in Russia and CIS is better suited to a successful launch and widespread adoption		

**Adoption can be high due to a better customer experience in terms of speed, handset functionality and proven product portfolios**

<sup>1</sup>Global mobile Suppliers Association; <sup>2</sup>Direct Info, 2006, by number of households; <sup>3</sup>MForum Analytics, <sup>4</sup>International Herald Tribune, 31 July 2006; MTS analysis



# 3G: incremental effect in Russia



- Provides a foundation for true mobile broadband:
- Innovative products catering to our core clients: corporate users and high net-worth individuals
  - Reinforces brand values of quality and reliability
  - Ensures continuing customer loyalty
  - Greater efficiency in CAPEX spending

**As both a revenue-generating function and loyalty mechanism, 3G is a strategic necessity for MTS**



## Ukraine: investing in 2006 to grow in 2007

	Q1 2006	Change	Q1 2007
Revenue	\$317 mln	+ 11%	\$351 mln
OIBDA	\$143.7 mln	+ 17%	\$168.4 mln
OIBDA margin	45.3%	+ 2.7pp	48.0%
CAPEX	\$67.0 mln	+ 63%	\$109.5 mln
No. of base stations	6,075	+ 56%	9,474
No. of subscribers	14.5 mln	+ 43%	20.8 mln
Points of sale	33,943	+ 28%	43,351
Territory covered	91%	+ 4.0pp	95%
Population covered	95%	+ 4.0pp	99%

▪ Investing in our market for our future:

- Promoting on-net traffic using new tariffs
- Building own transmission capacity to reduce leased line costs and support new service offerings
- Optimizing existing network through coverage and capacity improvements
- Rolling out CDMA-2000 technology to offer fixed and mobile broadband internet access

▪ Introduce MTS Brand in Q2 2007:

- Catalyst for bringing value-centric services and products to market
- Operational efficiency for strategic success
- Network capabilities to meet demands of marketing plans and brand values
- Complement existing technological capabilities with innovative new services

**Laying a foundation for ARPU stabilization and future growth**



## Key takeaways

Margins: process excellence throughout the organization improving profitability

3G: by investing now in 3G technologies, we can realize strong incremental revenue gains and strengthen loyalty among our core users

Ukraine: laying a foundation for ARPU stabilization and future growth

Dividends: while MTS seeks growth in its markets, we will focus on the bottom line to maximize shareholder return



# Contents

Corporate and financial highlights

Key period developments

Key financial and operating results

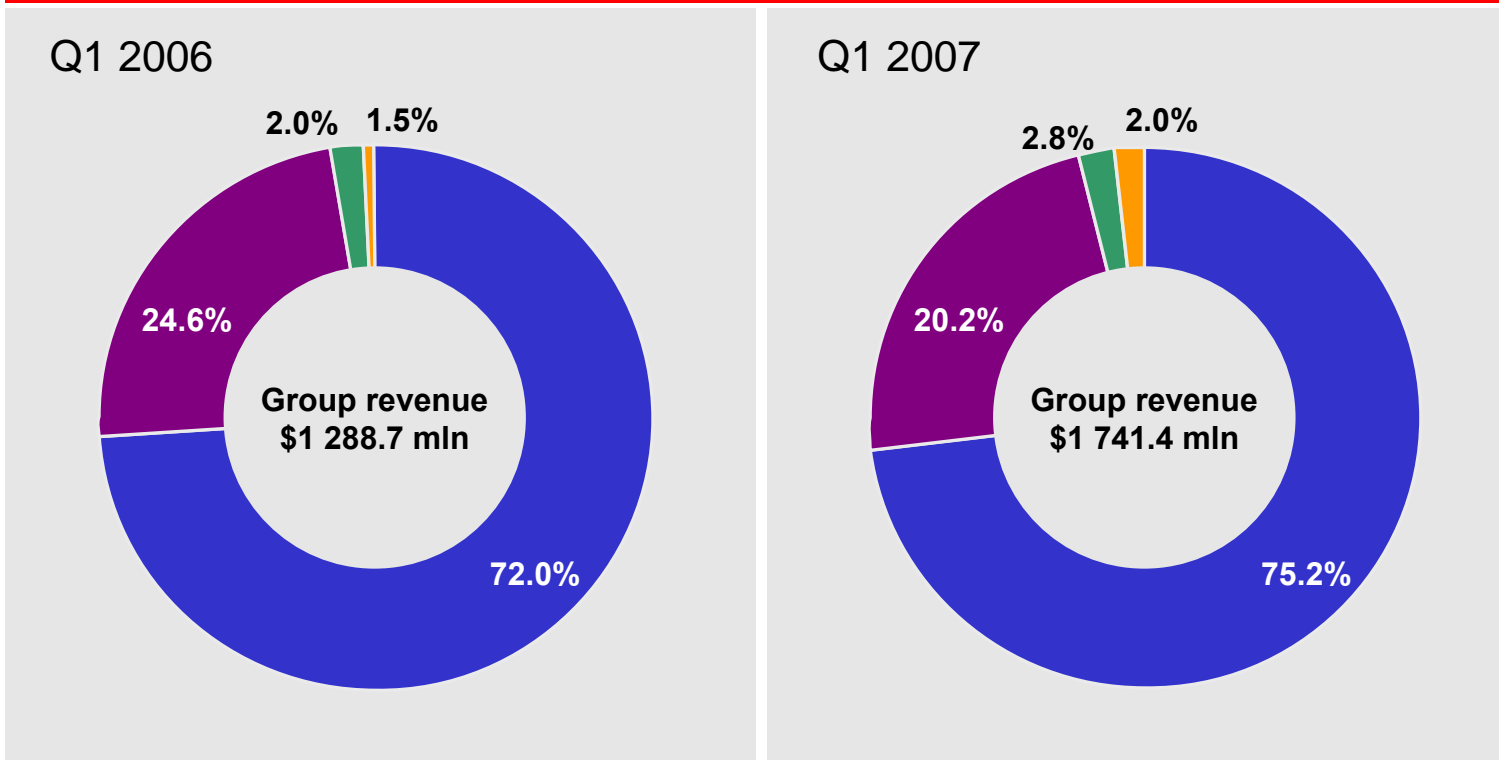
- MTS Group
- Russia
- Ukraine
- Uzbekistan
- Turkmenistan

Appendix



# Group revenue

## Revenue contribution per country



**Growing contribution from the CIS operations evident, but competition in Ukrainian market is impacting the subsidiary's revenue contribution**



## Group balance sheet

Balance Sheet in USD mln unless noted	As of 31 Dec 2006	As of 31 Mar 2007
Cash and cash equivalents	\$220.0	\$643.9
Short-term investments	\$56.0	\$106.3
Total debt	\$3 078.5	\$3 038.2
Long-term debt	\$2 927.8	\$2 487.6
Short-term debt	\$150.7	\$550.6
Net debt*	\$2 802.5	\$2 288.0
Shareholders' equity	\$3 751.8	\$4 621.3
Total assets	\$8 573.9	\$9 476.5
LTM OIBDA	\$3 229.7	\$3 534.2
Net debt/assets	0.3x	0.2x
Net debt/equity	0.7x	0.5x
Net debt/LTM OIBDA	0.9x	0.6x

\*See reconciliations of net debt, LTM OIBDA and free cash flow to consolidated financial statements in the appendix

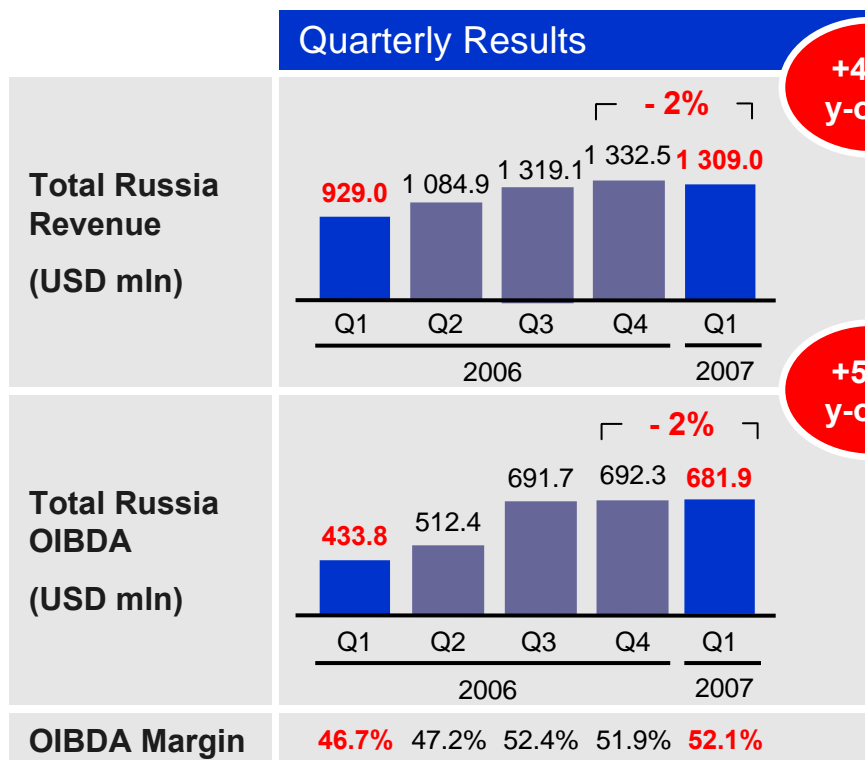
- Significant increase in Company's cash position in anticipation of 3G spending and dividend payments
- Free cash flow\* positive in Q1 2007 with \$512 million
- No ADRs added through our Share repurchase program during the period
- $ROIC_{(LTM)} = 37.0\%$

**Rising cash position and low debt provide flexibility to satisfy future corporate needs**





## Russia: financial results

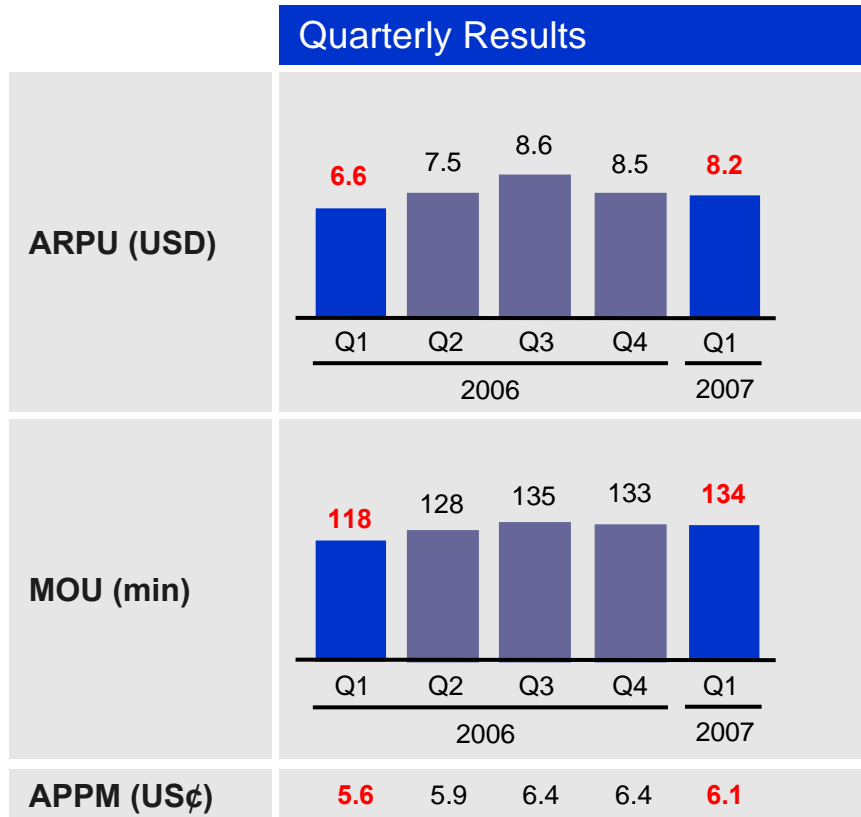


- Growth in voice and data usage and impact of new tariff structures introduced in Q3 – Q4 2006
- OIBDA improvements driven by rationalization of advertising expenses and reduction in dealer commissions, resulting in a decline in subscriber acquisition costs per new addition

**We continue to realize profitable growth on the Russian market**



## Russia: operating indicators

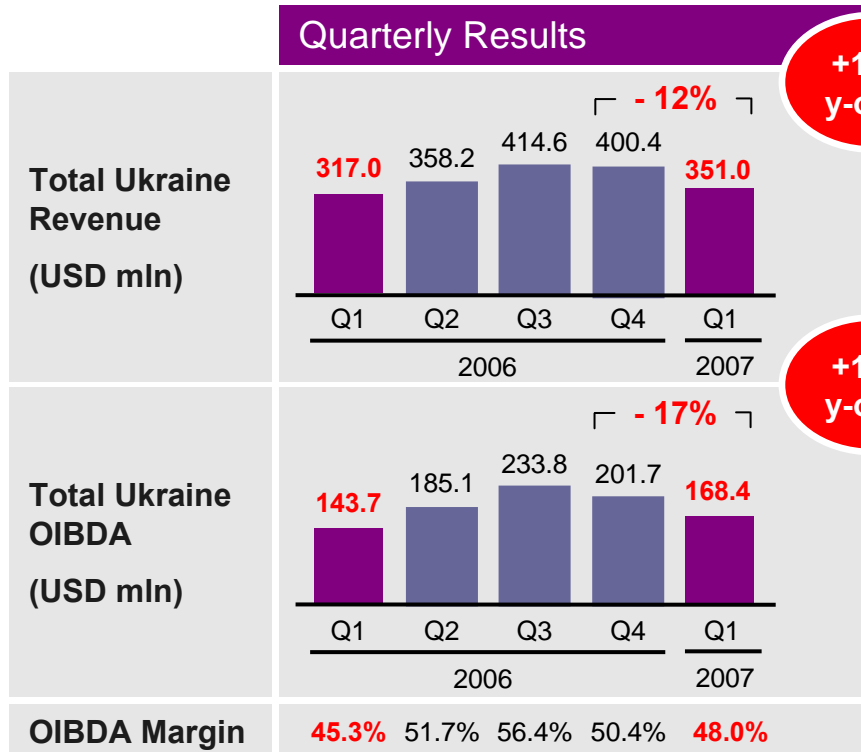


- Slight seasonal decline in ARPU due to fewer working days and less calendar days
- 14% year-on-year growth due to introduction of and migration of users to new tariffs aimed at stimulating greater usage and driving revenue growth

**Greater usage and higher price per minute the result of new tariffs introduced in 2006**



# Ukraine: financial results

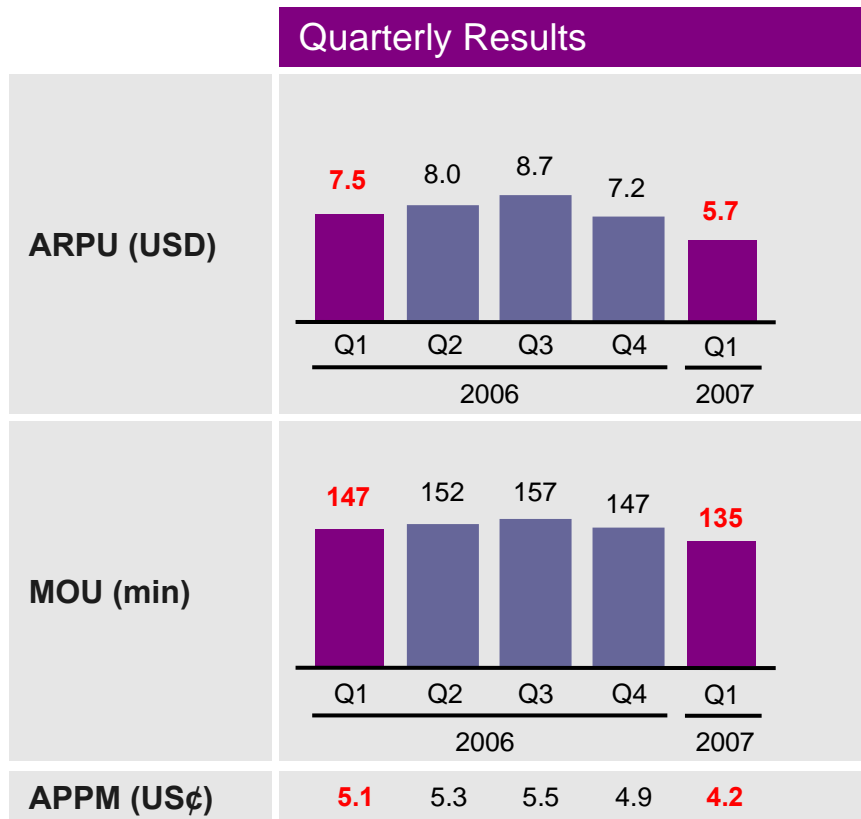


- Revenue growth slowed by increasing competitiveness on market and seasonal impact on usage
- Year-on-year improvement in OIBDA stems from cost initiatives begun in 2006 including promotion of on-net traffic, continued deployment of proprietary transmission network and reduction in handset subsidies

**Maintaining profitability in an increasingly competitive market**



## Ukraine: operating indicators

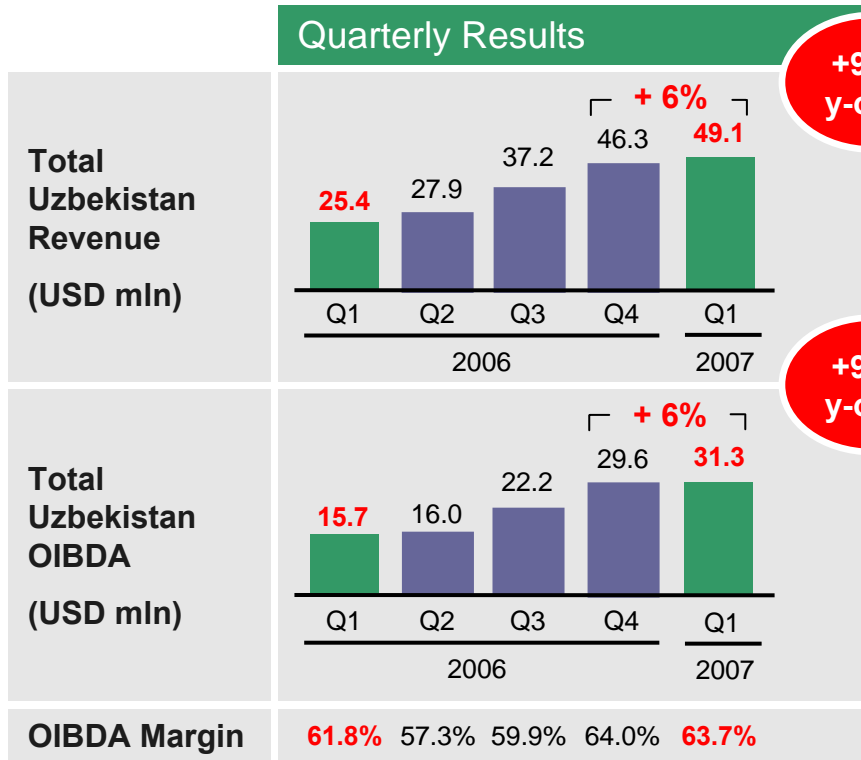


- Retention of 40% subscriber market share
- Decrease in ARPU from pricing pressure in the market and high number of net adds in Q4 2006
  
- Usage tempered by seasonal factors including fewer number of calendar days and the New Year holidays

**Seasonal usage trends and increasing competition depressing ARPU and MOU, but we maintained our market share**



# Uzbekistan: financial results

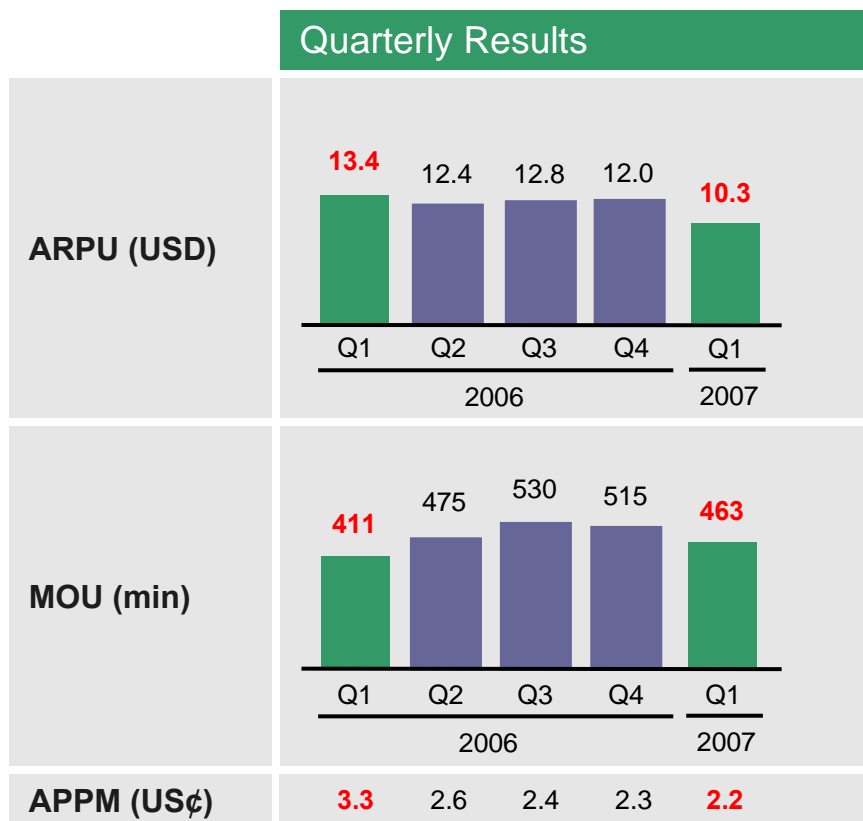


- Continued network rollout and subscriber growth of 17% led to q-on-q growth in spite of seasonal affect in usage
- Successfully managed growth as OIBDA keeps pace with rise in revenue as market develops

**MTS continues to hold its market leadership as we continue to build out our network**



## Uzbekistan: operating indicators

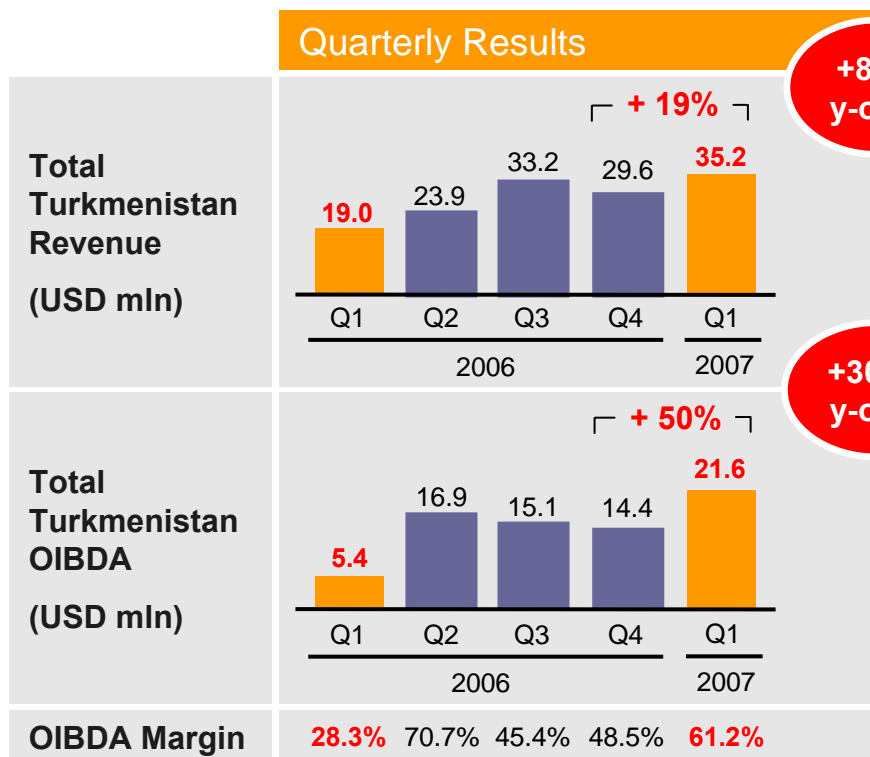


- Subscriber growth placing downward pressure on ARPU
- Seasonal q-on-q decline overshadowed by y-on-y increase due to introduction of competitive tariffs in the marketplace

**Strong market position supported by continued subscriber growth and positive usage trends**



## Turkmenistan: financial results



- Subscriber growth of 8% during the quarter drove revenue growth

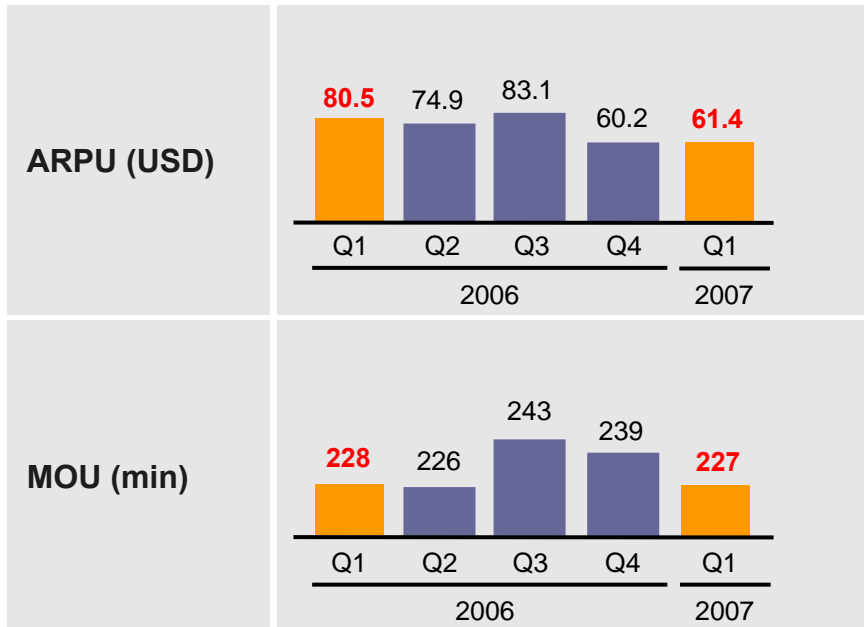
- Improved OIBDA as the result of revenue growth and lower operating costs

**Continued growth in the market with improved profitability**



## Turkmenistan: operating indicators

Quarterly Results



- ARPU showed great resilience in spite of increase in subscribers
- MOU drawn downward by seasonal factors

Maintaining usage levels as network build continues





# Contents

Corporate and financial highlights

Key period developments

Key financial and operating results

Appendix



## Group revenue

Revenue and contribution per country			
in USD mln	Q1 06	Q4 06	Q1 07
<b>Russia</b>	929.0	1 332.5	1 309.0
- contribution	72.1%	73.8%	75.2%
<b>Ukraine</b>	317.0	400.4	351.0
- contribution	24.6%	22.2%	20.2%
<b>Uzbekistan</b>	25.4	46.3	49.1
- contribution	2.0%	2.6%	2.8%
<b>Turkmenistan</b>	19.0	29.6	35.2
- contribution	1.5%	1.6%	2.0%
<b>Intercompany eliminations</b>	(1.8)	(2.9)	(2.9)
<b>Group revenue</b>	<b>1 288.7</b>	<b>1 805.9</b>	<b>1 741.4</b>



## Group OIBDA

<b>OIBDA and margin per country</b>			
<b>in USD mln</b>	<b>Q1 06</b>	<b>Q4 06</b>	<b>Q1 07</b>
<b>Russia</b>	433.8	692.3	681.9
- margin	46.7%	51.9%	52.1%
<b>Ukraine</b>	143.7	201.7	168.4
- margin	45.3%	50.4%	48.0%
<b>Uzbekistan</b>	15.7	29.6	31.3
- margin	61.8%	64.0%	63.7%
<b>Turkmenistan</b>	5.4	14.4	21.6
- margin	28.3%	48.5%	61.2%
<b>Group</b>	<b>598.6</b>	<b>937.9</b>	<b>903.1</b>
- margin	<b>46.5%</b>	<b>51.9%</b>	<b>51.9%</b>



## Group net income

<b>Quarterly net income and margin per country</b>			
<b>in USD mln</b>	<b>Q1 06</b>	<b>Q4 06</b>	<b>Q1 07</b>
<b>Russia</b>	120.9	10.0*	362.2
- margin	13.0%	0.8%	27.7%
<b>Ukraine</b>	62.0	100.0	63.8
- margin	19.6%	25.0%	18.2%
<b>Uzbekistan</b>	6.1	16.0	16.8
- margin	23.9%	34.6%	34.3%
<b>Turkmenistan</b>	(4.5)	(15.7)	5.6
- margin	-	-	15.9%
<b>Group</b>	<b>184.4</b>	<b>110.3*</b>	<b>448.6</b>
- margin	<b>14.3%</b>	<b>6.1%*</b>	<b>25.8%</b>

\*Reflecting an amendment to our FY 2006 financial statements



## Group CAPEX

<b>CAPEX per country</b>			
<b>in USD mln</b>	<b>Q1 06</b>	<b>Q4 06</b>	<b>Q1 07</b>
<b>Russia</b>	258.6	316.7	110.3
- as % of revenue	27.8%	23.8%	8.4%
<b>Ukraine</b>	67.0	185.2	109.5
- as % of revenue	21.1%	46.3%	31.2%
<b>Uzbekistan</b>	8.8	3.2	2.7
- as % of revenue	34.6%	6.9%	5.5%
<b>Turkmenistan</b>	0.9	7.6	1.4
- as % of revenue	4.7%	25.7%	4.0%
<b>Group</b>	<b>335.3</b>	<b>512.7</b>	<b>223.9</b>
- as % of revenue	<b>26.0%</b>	<b>28.4%</b>	<b>12.9%</b>



## Russia: operating indicators

US\$ unless noted	Q1 06	Q4 06	Q1 07
<b>ARPU</b>	6.6	8.5	8.2
<b>Post-paid ARPU</b>	24.8	28.0	28.0
<b>Pre-paid ARPU</b>	4.0	4.6	4.4
<b>ARPU ex guest roaming</b>	6.5	8.3	8.0
<b>ARPU from VAS</b>	0.9	1.1	1.1
<b>VAS as % of ARPU</b>	14%	13%	13%
<b>Minutes of Usage (MOU)</b>	118	133	134
<b>Post-paid MOU</b>	327	455	456
<b>Pre-paid MOU</b>	92	99	98
<b>SAC per gross new subscriber</b>	18.7	29.1	26.2
<b>Dealer commission</b>	9.4	13.3	12.7
<b>Advertising &amp; marketing</b>	9.3	15.8	13.5
<b>Churn</b>	6.3%	5.1%	6.1%



## Ukraine: operating indicators

US\$ unless noted	Q1 06	Q4 06	Q1 07
<b>ARPU</b>	7.5	7.2	5.7
Post-paid ARPU	33.0	33.2	30.3
Pre-paid ARPU	4.8	4.9	3.7
ARPU ex guest roaming	7.3	7.1	5.6
ARPU from VAS	1.3	1.1	0.7
VAS as % of ARPU	17%	15%	13%
<b>Minutes of Usage (MOU)</b>	147	147	135
Post-paid MOU	386	420	398
Pre-paid MOU	122	123	114
<b>SAC per gross new subscriber</b>	14.4	7.8	11.2
Dealer commission	3.3	2.1	3.4
Advertising & marketing	7.9	2.8	5.6
Handset subsidy	1.5	0.6	0.6
SIM card & voucher cost	1.7	2.3	1.5
<b>Churn</b>	6.1%	8.2%	7.8%



## Uzbekistan & Turkmenistan: operating indicators

### Uzbekistan

US\$ unless noted	Q1 06	Q4 06	Q1 07
ARPU	13.4	12.0	10.3
Minutes of Usage (MOU)	411	515	463
SAC per gross new subscriber	3.2	3.1	4.1
Churn	19.2%	10.7%	16.8%

MTS employs a two-month inactive churn policy in Uzbekistan

### Turkmenistan

US\$ unless noted	Q1 06	Q4 06	Q1 07
ARPU	80.5	60.2	61.4
Minutes of Usage (MOU)	228	239	227
SAC per gross new subscriber	23.3	37.7	47.7
Churn	0.7%	5.1%	6.1%





## Belarus: operating indicators

US\$ unless noted	Q1 06	Q4 06	Q1 07
ARPU	9.8	9.8	9.3
Minutes of Usage (MOU)	433	440	423
SAC per gross new subscriber	15.1	14.7	14.9
Churn	4.7%	5.4%	6.8%

**MTS owns a 49% stake in Mobile TeleSystems LLC, a mobile operator in Belarus, which is not consolidated**



# Reconciliation

- 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\$ mln	Q1 2006					Q4 2006					Q1 2007				
	Consolidated	Russia	Ukraine	Uzbekistan	Turkmenistan	Consolidated	Russia	Ukraine	Uzbekistan	Turkmenistan	Consolidated	Russia	Ukraine	Uzbekistan	Turkmenistan
Operating income	334.2	229.9	92.9	9.9	1.5	648.8	479.0	137.6	22.1	10.1	597.2	463.6	92.9	23.6	17.2
Add: depreciation and amortization	264.4	203.9	50.8	5.8	3.9	289.2	213.3	64.1	7.5	4.3	305.9	218.3	75.5	7.7	4.4
OIBDA	598.6	433.8	143.7	15.7	5.4	938.0	692.3	201.7	29.6	14.4	903.1	681.9	168.4	31.3	21.6

OIBDA margin can be reconciled to our operating margin as follows:

	Q1 2006					Q4 2006					Q1 2007				
	Consolidated	Russia	Ukraine	Uzbekistan	Turkmenistan	Consolidated	Russia	Ukraine	Uzbekistan	Turkmenistan	Consolidated	Russia	Ukraine	Uzbekistan	Turkmenistan
Operating margin	25.9%	24.8%	29.3%	39.0%	7.7%	35.9%	35.9%	34.4%	47.8%	33.9%	34.3%	35.4%	26.5%	48.0%	48.8%
Add: depreciation and amortization as a percentage of revenues	20.6%	21.9%	16.0%	22.8%	20.6%	16.0%	16.0%	16.0%	16.2%	14.6%	17.6%	16.7%	21.5%	15.7%	12.4%
OIBDA margin	46.5%	46.7%	45.3%	61.8%	28.3%	51.9%	51.9%	50.4%	64.0%	48.5%	51.9%	52.1%	48.0%	63.7%	61.2%

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

US\$ mln	As of Dec 31, 2006	As of Mar 31, 2007
Current portion of LT debt and of capital lease obligations	150.7	550.6
LT debt	2924.5	2484.9
Capital lease obligations	3.3	2.7
Total debt	3078.5	3038.2
Less:		
Cash and cash equivalents	220.0	643.9
ST investments	56.0	106.3
Net debt	2802.5	2288.0

FCF can be reconciled to our consolidated balance sheets as follows:

US\$ mln	As of Mar 31, 2006	As of Mar 31, 2007
Net cash provided by operating activities	372.6	736.1
Less:		
Purchases of property, plant and equipment	(297.2)	(206.5)
Purchases of intangible assets	(38.1)	(17.4)
Purchases of other investments	(2.8)	-
Investments in and advances to associates	-	-
Acquisition of subsidiaries, net of cash acquired	(23.6)	-
Free cash-flow	10.9	512.2

LTM OIBDA can be reconciled to our consolidated statements of operations as follows:

US\$ mln	Year ended Dec 31, 2006	Three months ended Mar 31, 2006	Nine months ended Dec 31, 2006
	A	B	C=A-B
Net operating income	2133.7	334.2	1799.5
Add: depreciation and amortization	1096.0	264.4	831.6
OIBDA	3229.7	598.6	2631.1
OIBDA for the three months ended March 31, 2007			903.1
LTM OIBDA at March 31, 2007			3534.2



## Amendment to financial statements

Balance sheet (US\$ thou)	As previously reported as of 31 Dec 2006	As amended as of 31 Dec 2006
Accrued expenses and other current liabilities	954,710	1,124,710
Total current liabilities	1,550,304	1,720,304
Total liabilities	4,607,358	4,777,358
Retained earnings	3,324,367	3,154,367
Total shareholders' equity	3,921,781	3,751,781

Statement of operations (US\$ thou)	For the three months ended December 31, 2006		For the year ended December 31, 2006	
	As previously reported	As amended	As previously reported	As amended
Bitel liability and investments write-off	-	320,000	-	320,000
Other expenses / (income)	168,197	18,197	157,830	7,830
Total other expenses, net	206,448	376,448	321,920	491,920
Income before provision for income taxes and minority interest	453,526	283,526	1,835,867	1,665,867
Net income	280,328	110,328	1,245,738	1,075,738
Earnings per share - basic and diluted, USD	0.14	0.06	0.63	0.54

Statement of cash flows (US\$ thou)	As previously reported for the year ended 31 Dec 2006	As amended for the year ended 31 Dec 2006
Net income	1,245,738	1,075,738
Bitel liability and investments write-off	150,000	320,000