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## Group financial results for the second quarter 2012

Investor conference call – August 28, 2012

Mr. Andrei Dubovskov, President, Chief Executive Officer

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## Financial and corporate highlights

Key financial and operating results

Appendix

- News summary and recent events
- Group financial highlights
- Group balance sheet and Free Cash Flow
- Group capital expenditures
- Group debt
- Subscriber base dynamics
- Re-launch of operations in Turkmenistan
- 3i Strategy



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## Group news summary for Q2 2012 and recent events

### Q2 2012 highlights

- Acquired a 100% stake in Tascom CJSC, a market leader in providing telecommunication services to corporate clients in Moscow and the Moscow region, for \$38.3 mln\*
- Agreed to a memorandum of understanding with other telecommunications operators to jointly lay and operate an underwater fiber-optic cable Sakhalin-Magadan-Kamchatka. Total length of the cable is approximately 2,000 km
- Signed a shareholders agreement with AFK Sistema to jointly develop and manage the multimedia content portal Stream.ru (formerly Omlet.ru), resulting in the reduction of MTS's stake in LLC Stream from 100% to 45% and subsequent deconsolidation of the asset

### Thereafter

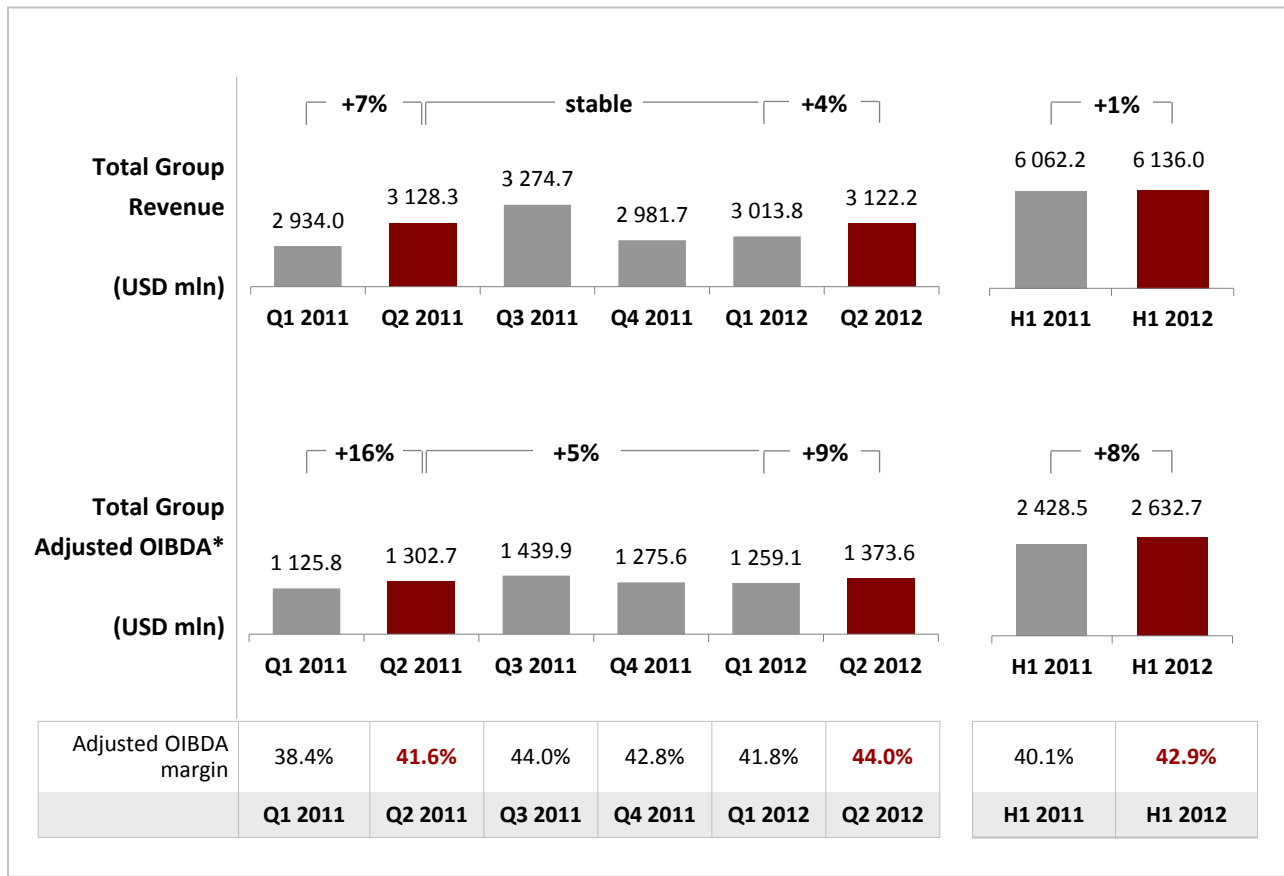
- Obtained license and frequencies to provide LTE telecommunication services in Russia in the FDD (frequency division duplexing) standard
- Announced the withdrawal of operating licenses of Uzdunrobita FE LLC ("MTS-Uzbekistan"), MTS's wholly owned subsidiary in Uzbekistan
- Completed the dividend payment of RUB 14.71 per ordinary MTS for the 2011 fiscal year, amounting to a total of RUB 30.4 bln
- Received licenses and agreed upon legal and technical conditions to resume operations in Turkmenistan
- Repurchased the series 05 ruble-denominated bond in the amount of approximately RUB 13.2 bln and changed the bond's coupon rate from an annual rate of 14.25% to 8.75%
- Acquired a 100% stake in Elf group of companies, a fixed broadband and pay-TV services provider in Belgorod and the Belgorod region, for RUB 220 mln
- Acquired a 100% stake in LLC "Intercom", a broadband and cable TV provider in the Mari El Republic, for RUB 90 mln

\*Acquisition through MTS' subsidiary MGTS. Additional payment of \$6.9 mln is deferred for 12 months and is contingent upon fulfillment of certain agreed requirements. MGTS also assumed net debt of Tascom in the amount of \$9.7 mln



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# Group financial highlights: Revenue and OIBDA



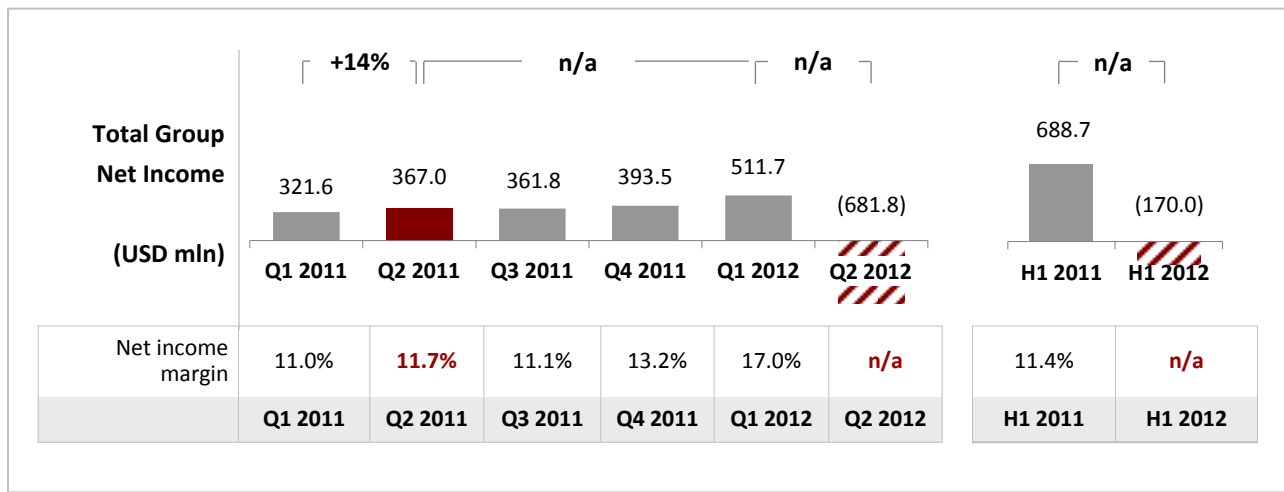
- Quarter-over-quarter revenue growth due to positive seasonality and overall increased consumption of voice and data products
- Year-over-year revenue dynamics impacted by negative local currency volatility vs. US dollar in all markets of operation
- Strong year-over-year OIBDA improvement as a result of operating expenses optimization, improvement in interconnect balance and growth in high-margin data revenues

\*Adjusted OIBDA represents operating income before depreciation and amortization, impairment of long-lived and other assets and tax and antimonopoly claims in Uzbekistan. For further information, please see the Appendix for definitions and reconciliations

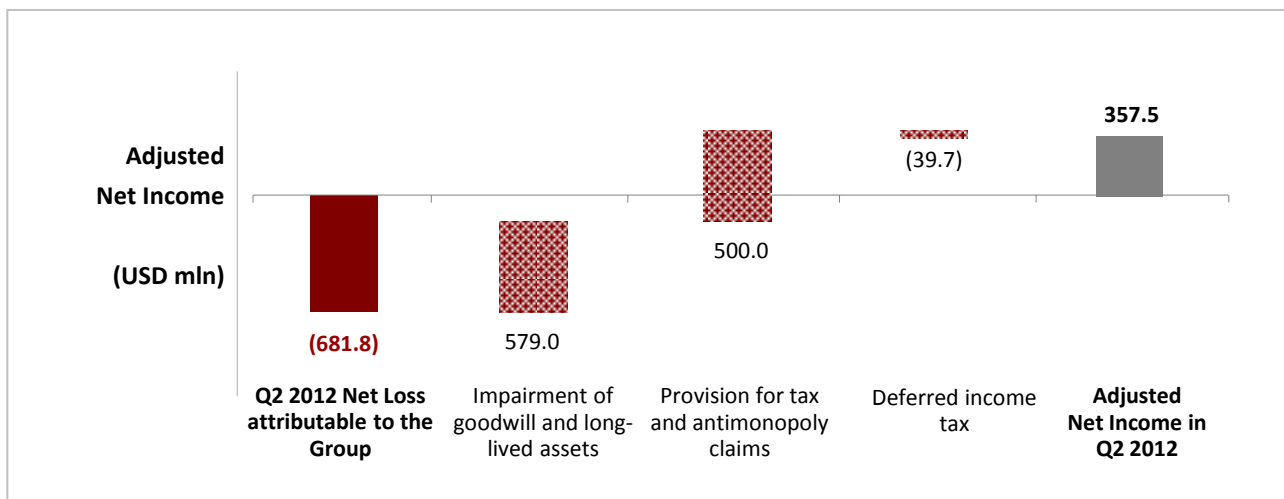


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## Group financial highlights: Net Income



- Non-cash impairment for goodwill and long-lived assets of \$579 mln and provision for tax and antimonopoly claims of \$500 mln recorded in the second quarter resulting from the suspension of operations in Uzbekistan in July 2012

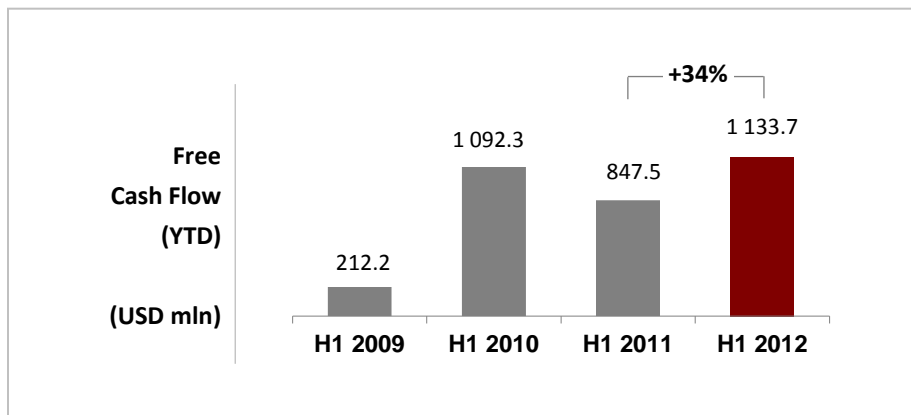


- Negative impact from the currency fluctuations during the quarter with a non-cash foreign currency loss of \$198.9 mln in Q2 2012



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## Group balance sheet and Free Cash Flow



Balance sheet (USD mln unless noted)	As of Dec 31, 2011	As of Jun 30, 2012
Cash and cash equivalents	\$1 850.8	\$881.0
Short-term investments	\$86.2	\$837.9
Total debt	\$8 715.2	\$7 345.1
Long-term debt	\$7 559.5	\$6 240.6
Short-term debt	\$1 155.7	\$1 104.5
Net debt*	\$6 778.2	\$5 626.2
LTM Adjusted OIBDA*	\$5 144.1	\$5 348.3
Net debt/LTM Adjusted OIBDA	1.3x	1.1x

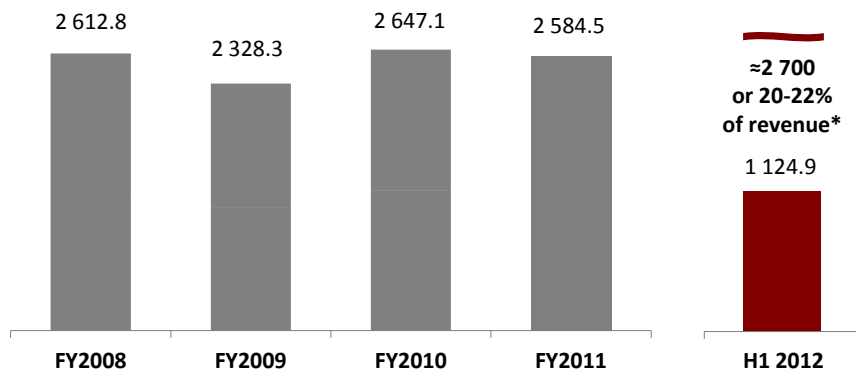
- Free cash flow\* of \$1.1 bln for the first half of 2012
- Decline in cash on hand due to increase in short-term investments in preparation for debt repayments
- Rise in short-term investments due to preparation for FY2011 dividend payout
- Decline in net debt/LTM OIBDA due to improving operating performance

\*See reconciliations of net debt, LTM OIBDA and free cash flow to consolidated financial statements in the appendix; certain figures, like Free Cash Flow, are subject to currency volatility between the US dollar and currencies of those markets where MTS operates.



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## Group capital expenditures



- Capital expenditures for the first half of 2012 came in at \$1 124.9 mln
- Continuation of 3G network build-out in Russia with a total of 25 000 3G base stations at the end of Q2 2012
- Modernization of regional fixed-line networks
- GPON project in Moscow

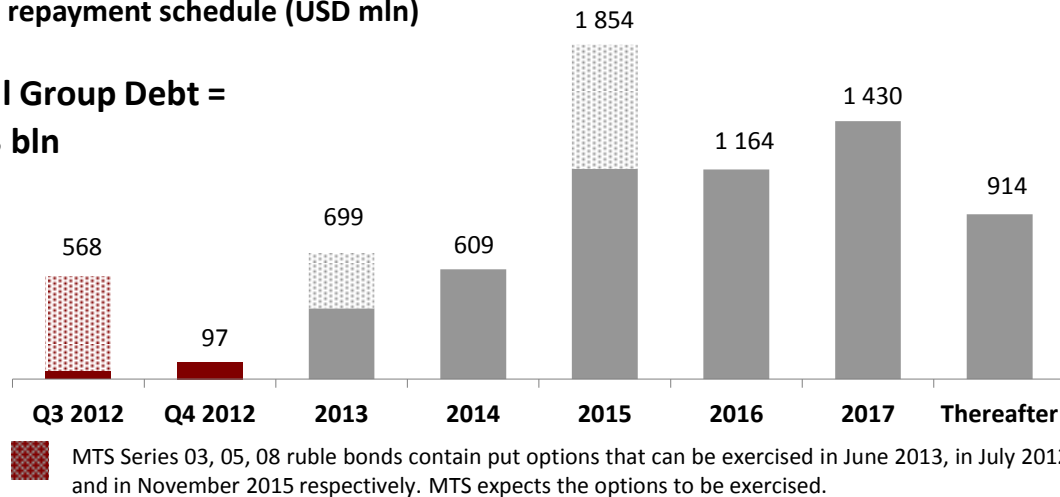
Russia	1 784.7	1 389.7	2 260.0	2 245.7	1 000.5
Ukraine	595.6	377.4	154.9	148.0	40.2
Uzbekistan	139.7	460.3	157.9	145.7	80.8
Turkmenistan	58.2	52.4	44.4	n/a	n/a
Armenia	34.6	48.5	29.9	45.0	3.4
Group	2 612.8	2 328.3	2 647.1	2 584.5	1 124.9
- as % of revenue	22.0%	23.7%	23.4%	21.0%	18.3%
<b>(in USD mln)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>H1 2012</b>

\* Estimated CAPEX spend for 2012E



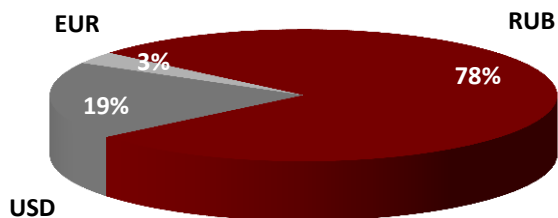
## Debt repayment schedule (USD mln)

**Total Group Debt =  
\$7.3 bln**

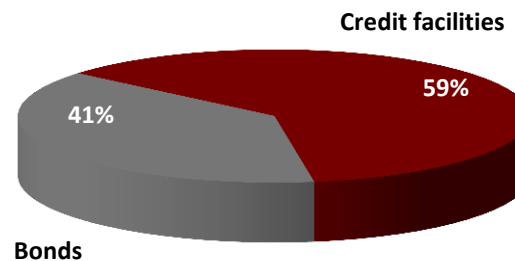


- Debt optimization initiatives created a portfolio with manageable principal repayment schedules in the short- and medium-term
- In July 2012, MTS repurchased the series 05 ruble-denominated bond in the amount of approximately RUB 13.2 bln

## Debt composition by currency Q2 2012\*



## Debt composition by type Q2 2012



- Debt composition reflective of the Company's internal target of maintaining 70% of its portfolio in ruble-denominated instruments

\*Debt composition by currency includes FOREX hedging in the amount of \$300 mln as of Q2 2012



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## Group subscriber base dynamics during the quarter

MTS subscribers (mln unless noted)	Q1 2012	Q2 2012	% change
<b>Total mobile</b>	<b>105.49</b>	<b>105.56</b>	<b>stable</b>
Russia:			
- mobile	69.38	69.59	stable
- households passed, 000s	11 448	11 507	stable
- broadband Internet, 000s	2 238	2 285	2.1%
- pay TV, 000s	2 971	2 937	-1.1%
Ukraine*	19.39	19.64	1.3%
Uzbekistan**	9.53	9.00	-5.6%
Armenia	2.23	2.31	3.6%
Belarus***	4.96	5.02	1.2%

\*Including CDMA subscribers

\*\*Starting October 2011 MTS switched from 6 months to 3 months subscriber accounting policy in Uzbekistan

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

- In Russia, MTS continues to focus on mobile subscriber quality and churn optimization by focusing on sales through its own channels and motivating third-party dealers to drive top-offs
- Increase in a number of broadband subscribers due to modernization of fixed-line networks in the regions
- Number of pay TV subscribers impacted by reconciliation of acquired companies' subscriber definitions with those of MTS

## Re-launch of operations in Turkmenistan

- MTS reached an agreement with Turkmenistan authorities to relaunch its network in September 2012
- Key figures:
  - CAPEX to restart network: \$1.5 mln
  - CAPEX required 2012-2015: <\$40 mln
- Key targets:
  - No. of subscribers 2012: 440,000
  - Est revenue 2012: 9.4 mln manat (\$3.3 mln)



### Key facts about Turkmenistan\*

- Population: 5.4 mln
- Population density: 11 per km<sup>2</sup>
- GDP<sub>real</sub> growth 2012-2013: 8.0%

\*Source: IMF, July 2012



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## 3i: MTS strategy

Strategic direction	Tactics	Key benefits
<p data-bbox="150 475 324 508"><b>Integration</b></p> <p data-bbox="63 568 396 639">New pipelines and customer touch-points</p>	<ul data-bbox="440 518 1335 629" style="list-style-type: none"><li>▪ Seamless user experience for all segments</li><li>▪ Rapid broadband infrastructure (fixed/3G/LTE) deployment</li><li>▪ Integrated sales channels</li></ul>	<p data-bbox="1561 701 1856 768">Increasing customer lifetime value</p> <p data-bbox="1561 865 1856 932">Generating shareholder returns</p>
<p data-bbox="170 718 305 751"><b>Internet</b></p> <p data-bbox="79 792 378 896">Smarter pipelines to capture additional value</p>	<ul data-bbox="440 761 1039 872" style="list-style-type: none"><li>▪ Enhanced connectivity</li><li>▪ Compelling Internet user experience</li><li>▪ Best-in-class content apps and services</li></ul>	
<p data-bbox="150 961 324 993"><b>Innovation</b></p> <p data-bbox="59 1049 401 1120">Differentiation through product and service mix</p>	<ul data-bbox="440 1003 1387 1115" style="list-style-type: none"><li>▪ Delivery of exclusive devices</li><li>▪ Cutting-edge products and services for all customer segments</li><li>▪ End-to-end user experience at home, at work and on the move</li></ul>	



**MTS**

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Financial and corporate highlights

**Key financial and operating results**

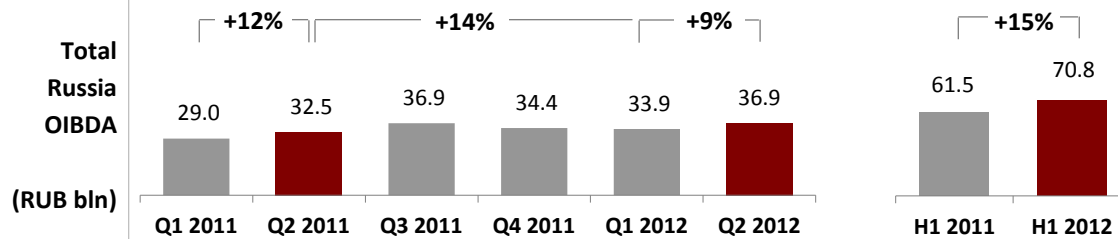
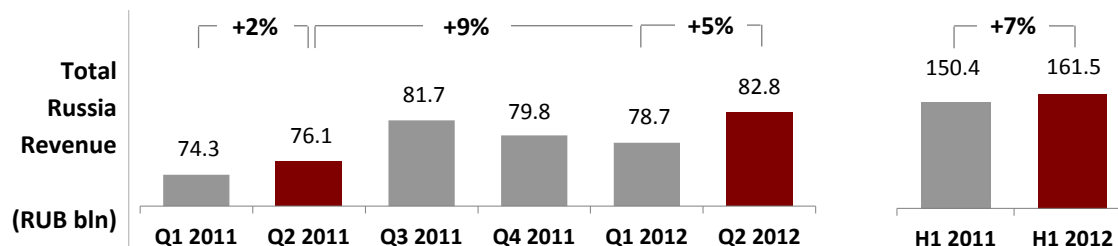
Appendix

- Russia
- Ukraine
- Uzbekistan
- Armenia



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# Russia financial highlights



OIBDA margin	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
	39.1%	<b>42.7%</b>	45.1%	43.2%	43.1%	<b>44.6%</b>

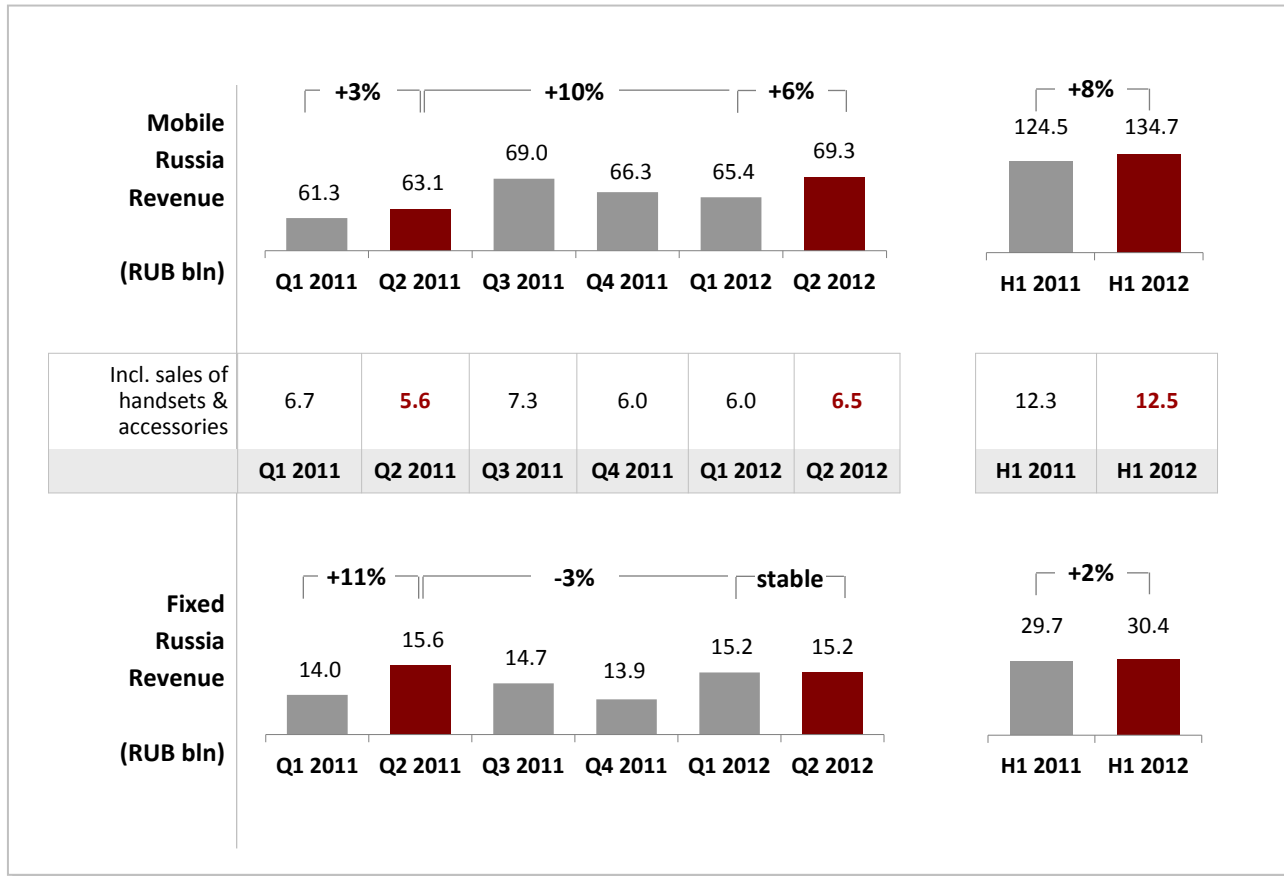
OIBDA margin	H1 2011	H1 2012
	40.9%	<b>43.9%</b>

- Year-over-year revenue growth as a result of increased voice and data usage
- OIBDA margin year-over-year improvement attributable to on-going cost optimization, decrease in churn and an increase in the share of high-margin data revenues



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# Russia revenue breakdown

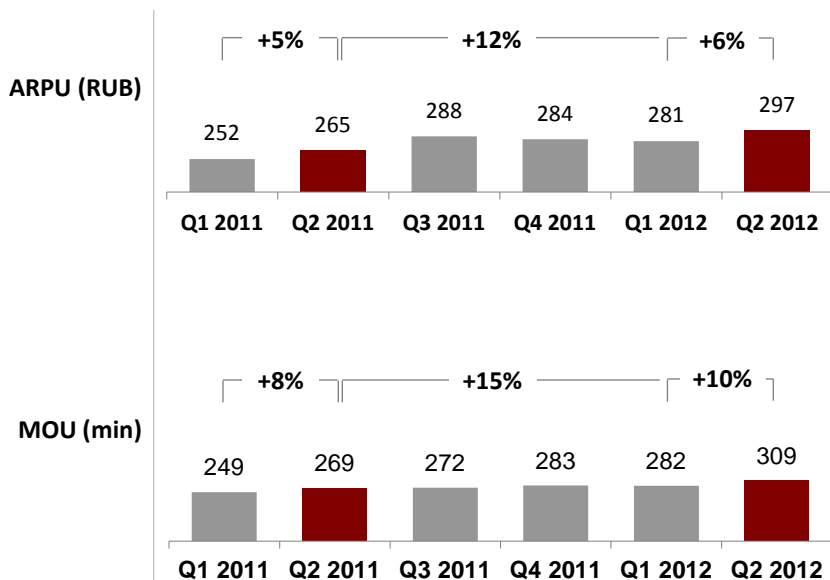


- Mobile service revenue year-over-year growth as a result of sequential increase in voice and data usage, as well as greater contribution from sales of handsets with a growing share of higher-priced smartphones in the sales mix
- Year-over-year decline in fixed revenue impacted by a decrease of both residential and corporate ARPUs on the back of increased competition and the addition of lower value customers



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## Russia mobile operating indicators



Subs, mln	71.5	<b>71.1</b>	70.1	70.0	69.4	<b>69.6</b>
Churn rate, %	12.0%	<b>11.3%</b>	11.9%	12.3%	11.3%	<b>10.5%</b>
VAS ARPU	67.4	<b>64.4</b>	69.7	72.8	81.7	<b>77.5</b>
- as % of ARPU	26.7%	<b>24.3%</b>	24.2%	25.7%	29.1%	<b>26.1%</b>
APPM	1.01	<b>0.98</b>	1.06	1.00	0.99	<b>0.96</b>
	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>	<b>Q4 2011</b>	<b>Q1 2012</b>	<b>Q2 2012</b>

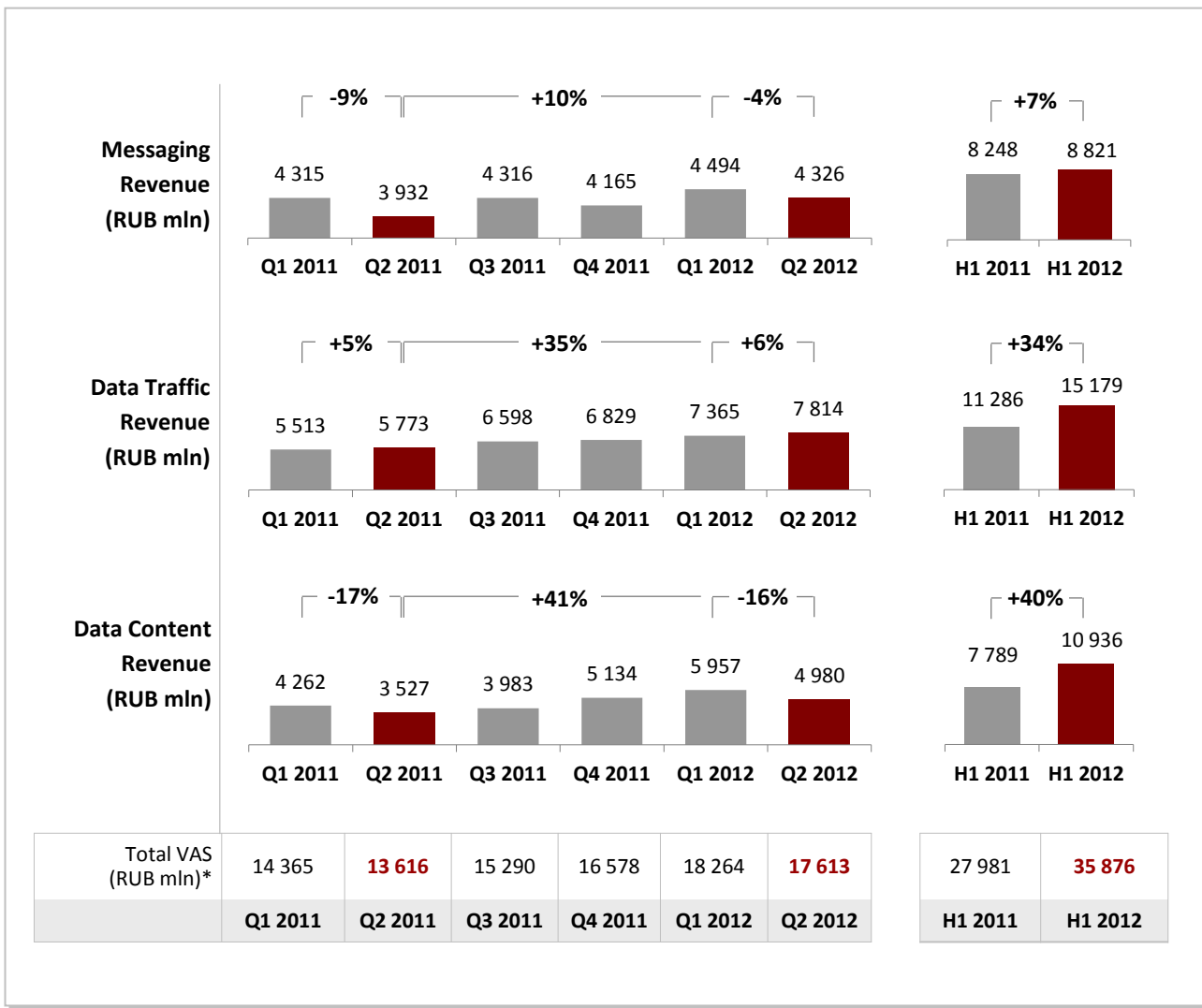
- Strong year-on-year ARPU growth driven by the Company's focus on higher-quality subscriber acquisition and retention, as well as reflective of efforts aimed at voice and data consumption increase
- MOU growth in line with ARPU developments and retention efforts aimed at mass-market subscribers
- Continuous churn improvement as a result of change in dealer relations to focus more on top-offs rather than attraction of a low-quality subscribers through a massive SIM-card sales





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# Russia mobile operating indicators\*



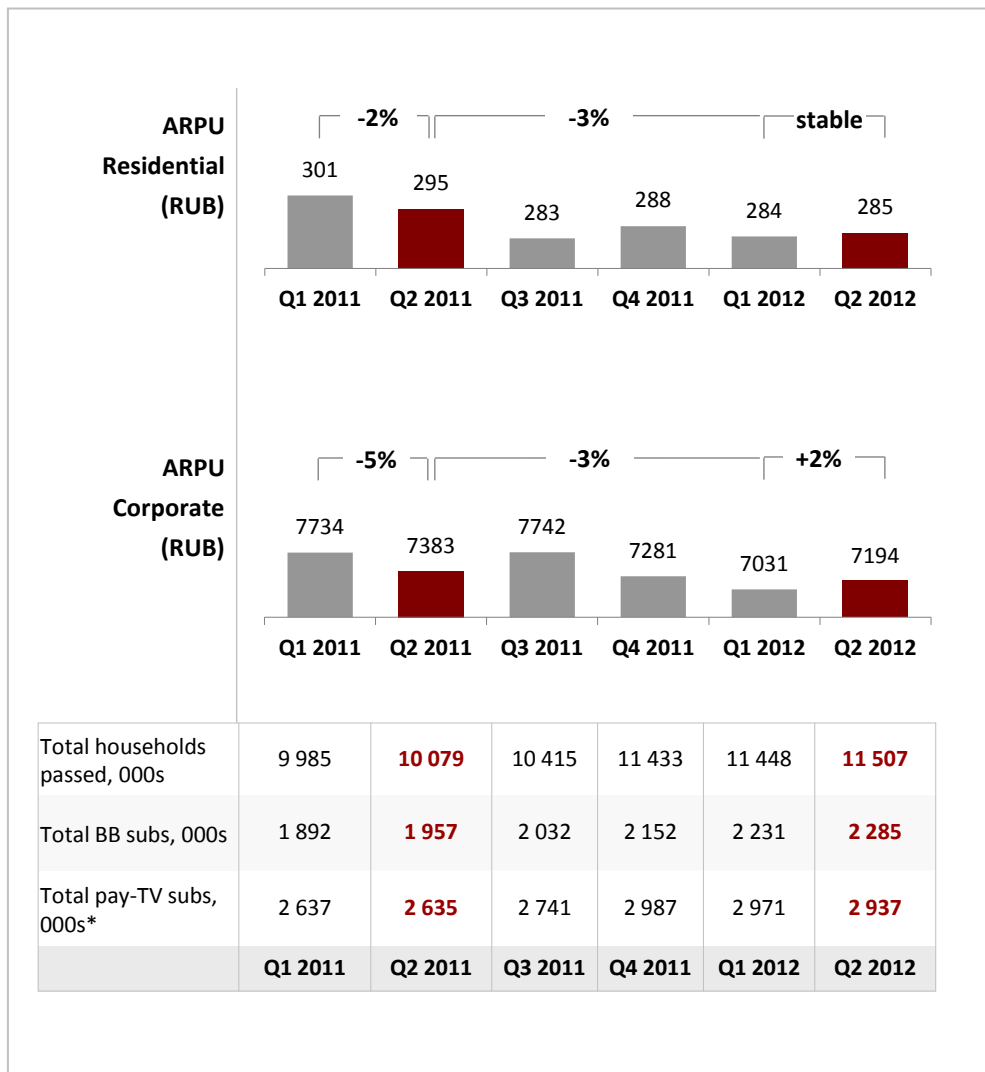
- Key initiatives included:
  - Launch of “Unlimited Internet for a day” service to stimulate data usage
- Decrease in content revenues in Q2 2012 due to seasonality, the discontinuation of SMS – promotions and intensification of anti-fraud activities

\*Does not include revenue from SMS and data bundles, which is included in airtime revenue



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## Russia fixed operating indicators



- Residential ARPU year-on-year decline due to the overall decrease of prices on the Internet and pay-TV market
- Corporate ARPU year-on-year decrease indicative of the competitive pressures on the corporate market, convergent offers aimed at optimization of customers expenses, as well as a low share of value-added services

\*Figures retrospectively adjusted in line with MTS definitions; does not include collective access subscribers

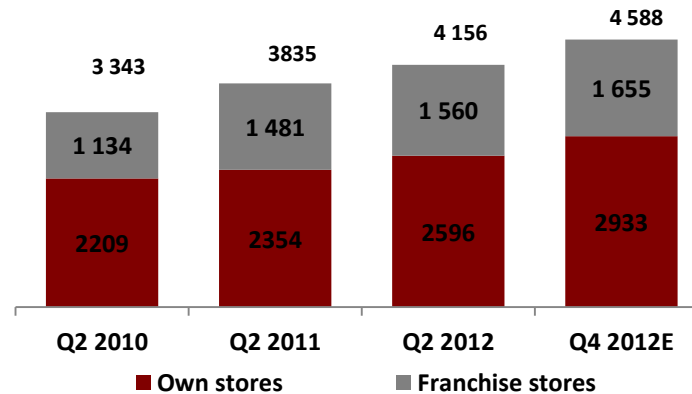


a step ahead

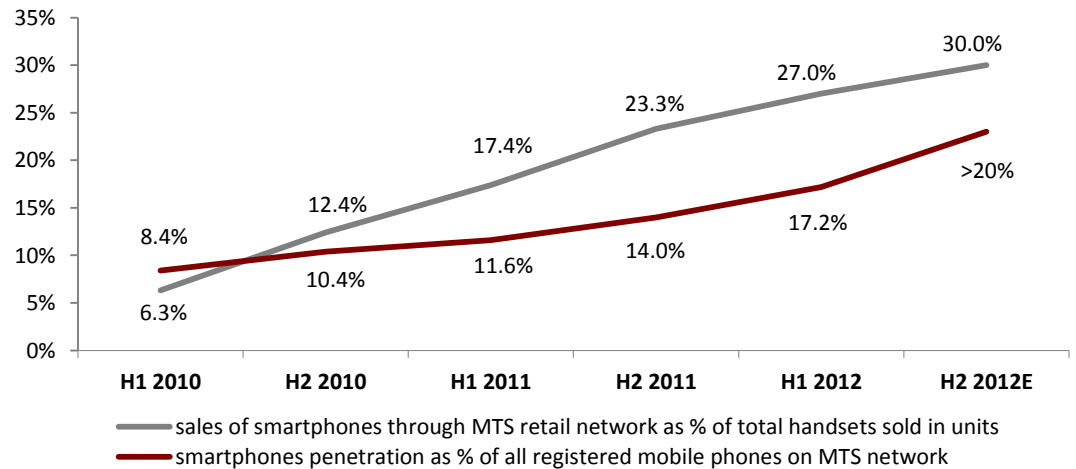
# MTS retail network development

- MTS continues to expand its retail chain with a focus on smaller markets to drive sales of higher-margin data products and services
- At the end of Q2 2012, MTS retail network comprised 4,156 stores, including 1,560 franchised outlets. MTS plans to increase its retail footprint by up to 500 stores till the end of the year, of which 60 will be flagship locations
- Sales increased by 8% quarter-over-quarter in terms of units sold in Q2 2012
- Sales of smartphones in the sales mix advanced by 10pp year-over-year in terms of units sold in H1 2012

Expansion of the MTS retail network, 2010 – 2012



Smartphones\* sales and penetration, 2010 – 2012

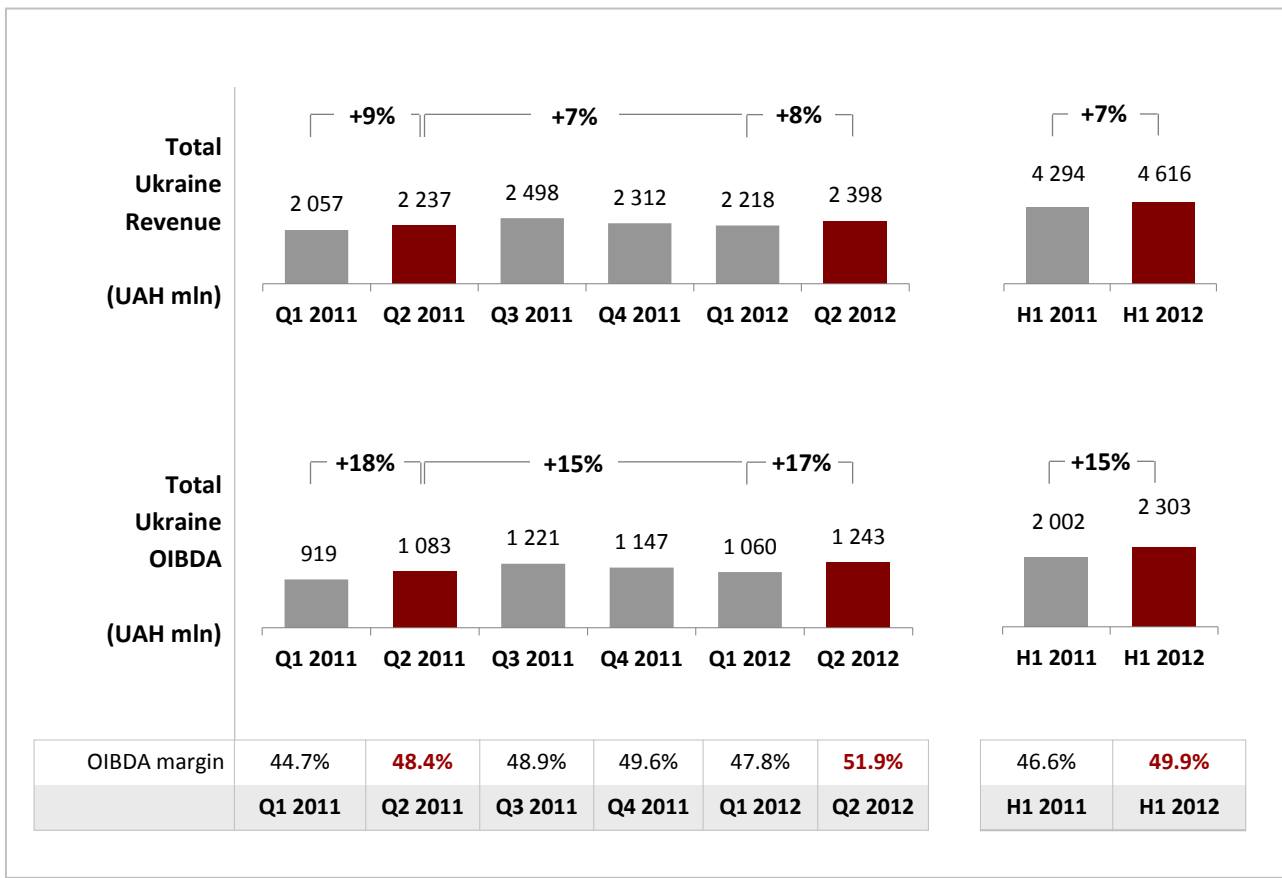


\*MTS defines a smartphone as a handset with one of the following operating systems: iOS, Android, Windows, Blackberry OS, Symbian, Linux or Bada



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# Ukraine financial highlights

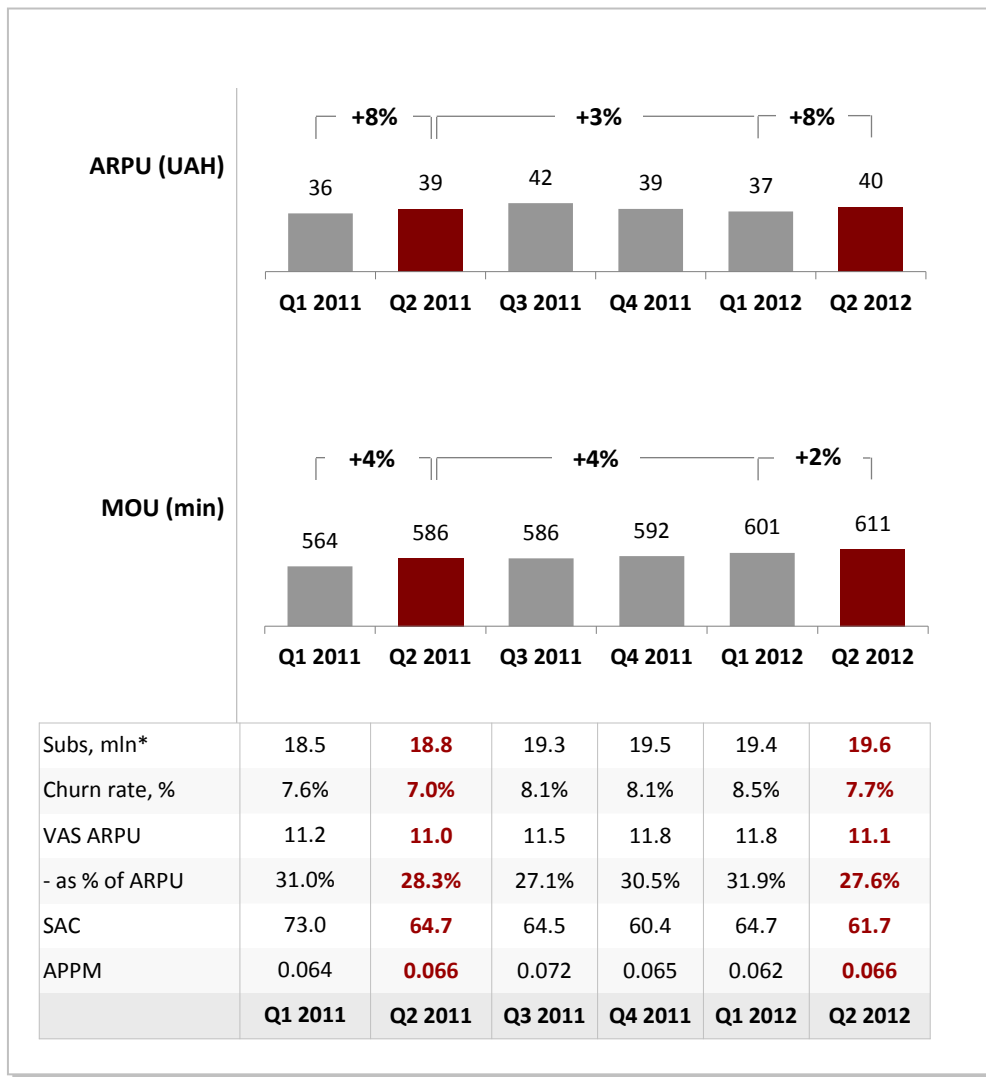


- Year-over-year revenue performance reflective of usage increase and greater contribution from guest roaming revenues due to Euro 2012 football championship held in Ukraine
- OIBDA growth outpaces revenue dynamic due to cost discipline and rational competition
- OIBDA margin growth in Q2 2012 impacted by a one-off reserve correction related to interconnect settlements in the amount of UAH 48.1 mln



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## Ukraine operating indicators



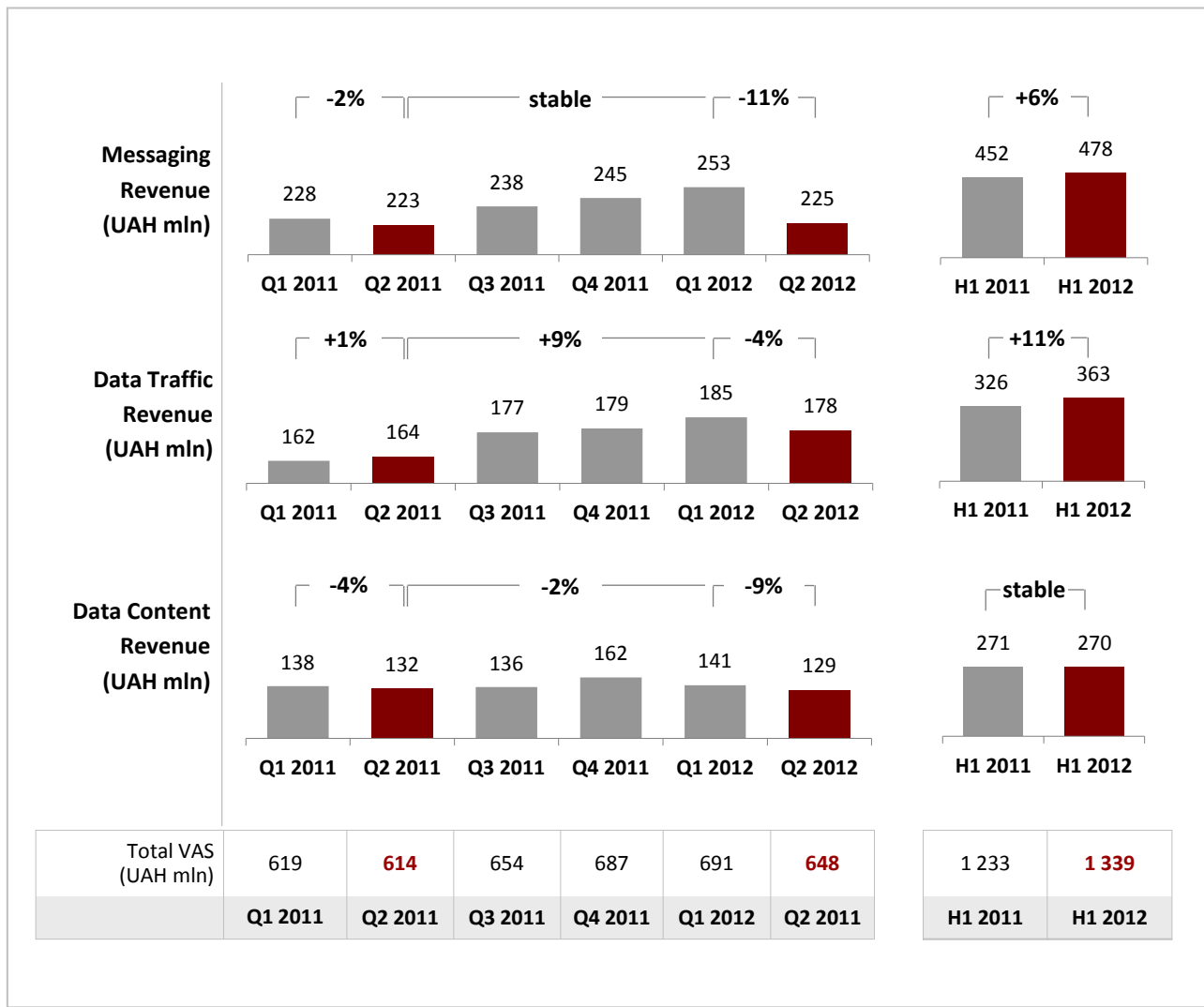
- Quarter-over-quarter ARPU growth reflects positive seasonality
- Usage growth due to seasonal increase in subscriber activity
- Reduction in churn as a result of continuous focus on subscriber loyalty despite increased competitive pressures

\*Including CDMA subscribers starting Q1 2011



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# Ukraine operating indicators



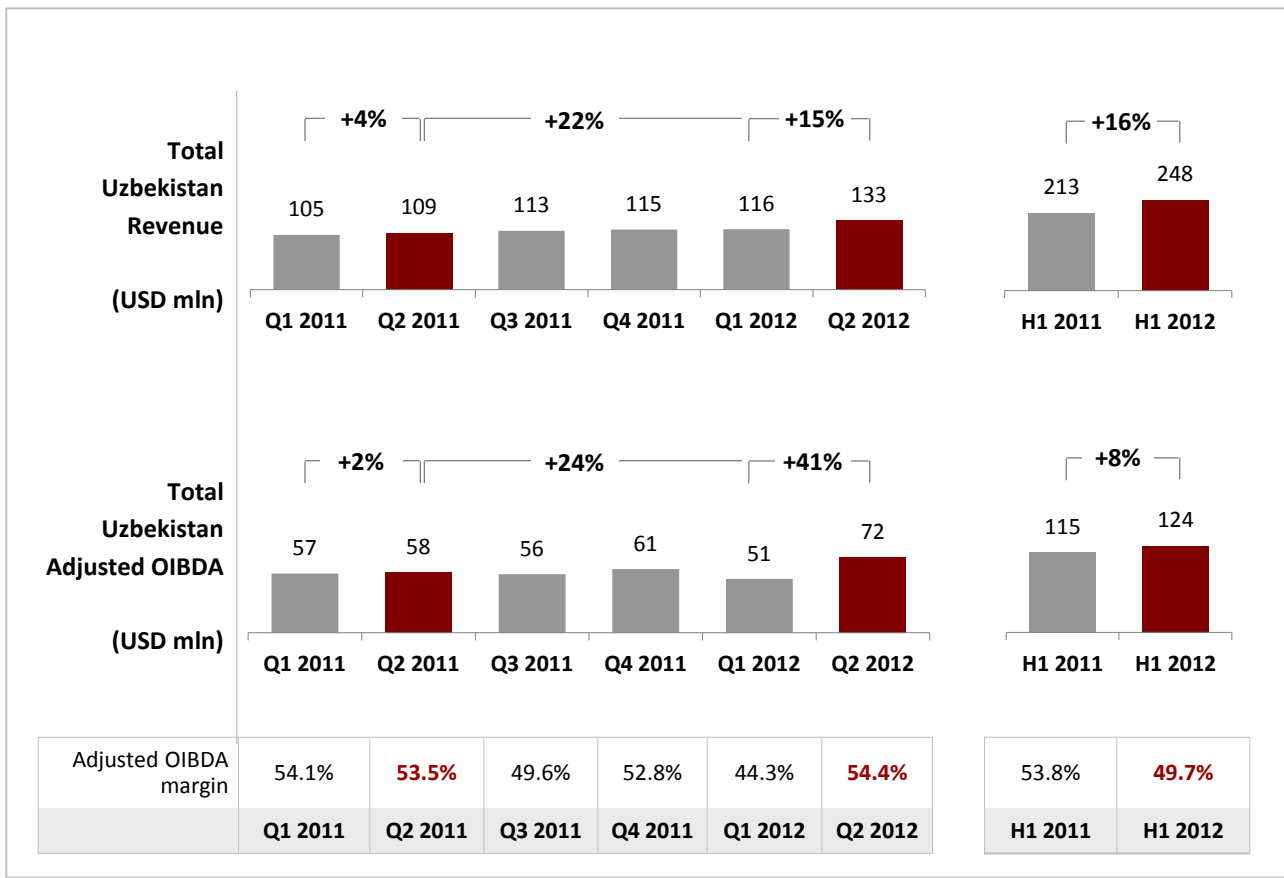
- Decline in messaging attributable to seasonality\*
- Data traffic growth driven year-over-year by sales of CDMA-based modems
- Content revenues lower due to pull-back on promotions
- Key initiatives in Q2 2012:
  - Launch of EuroGOOD’OK 2012 service for the period of Euro 2012 football championship
  - Launch of a new Internet bundle – 300 Mb for UAH 50 for 30 days

\*Messaging revenue in Q1 2012 included recognition of the revenues from the services ordered in 2011, normalized for this one-off, messaging revenue is in line with the seasonal trends



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# Uzbekistan financial highlights

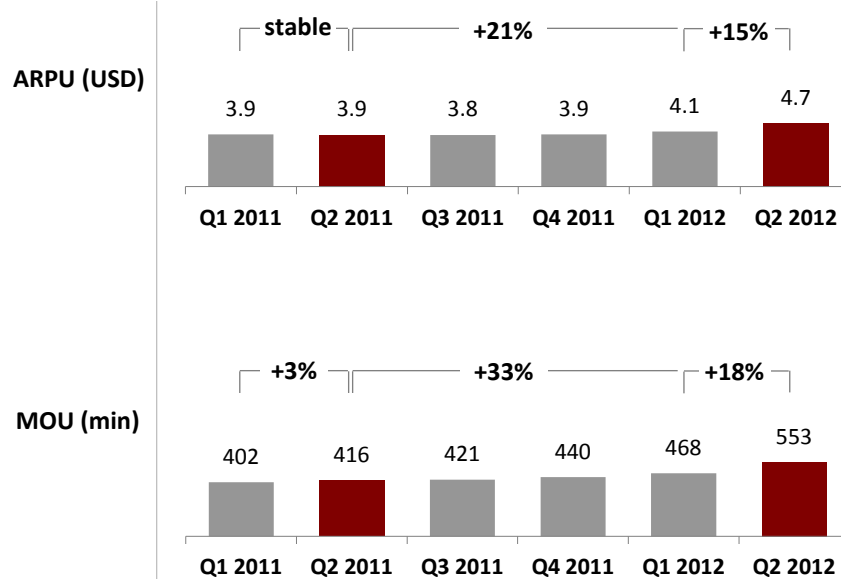


- Quarterly revenue growth reflective of positive seasonality and an overall increase in voice and data usage
- Quarter-over-quarter OIBDA dynamics impacted by operating and sales and marketing cost saving initiatives



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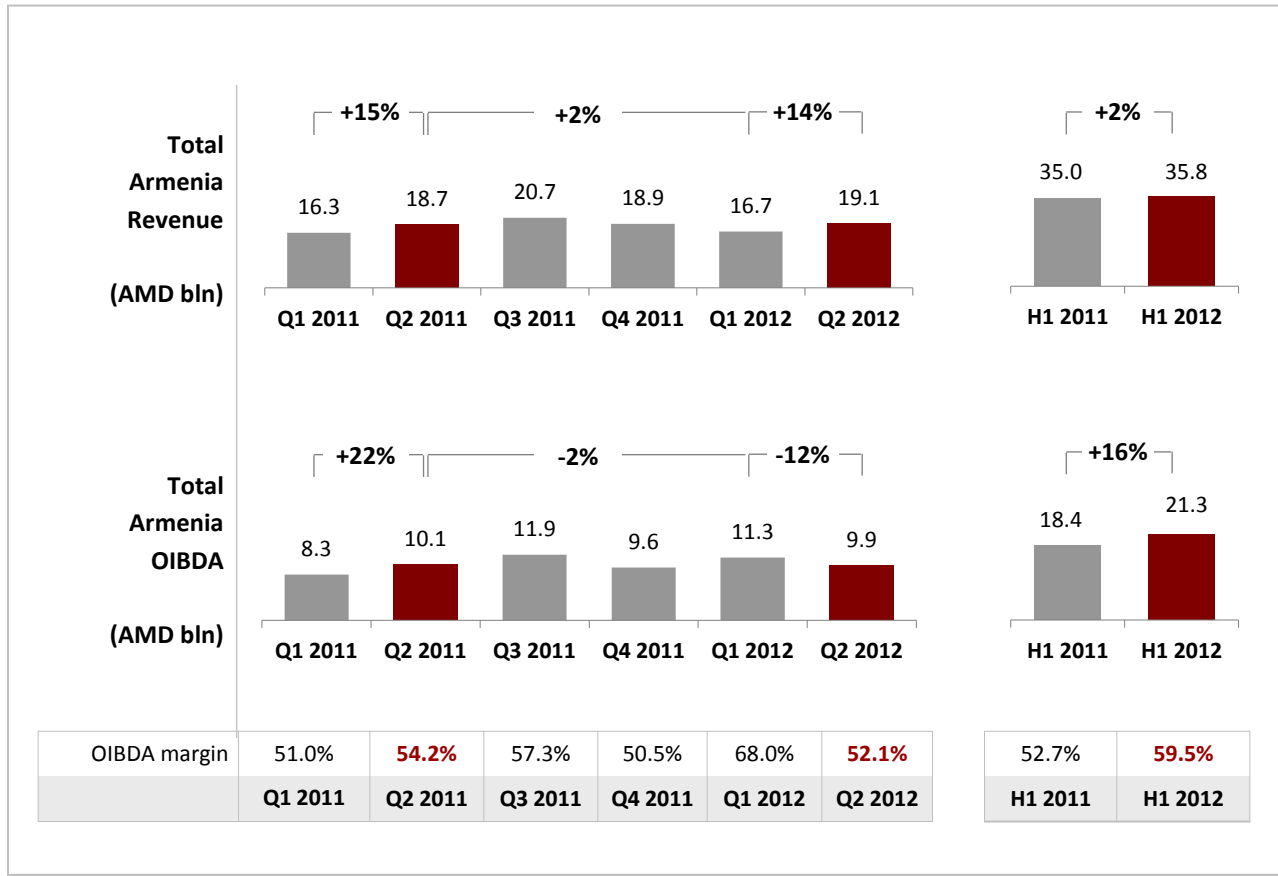
## Uzbekistan operating indicators



Subs, mln	9.1	<b>9.4</b>	10.0	9.3	9.5	<b>9.0</b>
Churn rate, %	9.2%	<b>6.9%</b>	9.3%	20.2%	11.9%	<b>19.1%</b>
SAC	7.4	<b>7.7</b>	6.5	5.6	6.1	<b>4.7</b>
APPM	0.01	<b>0.01</b>	0.01	0.01	0.01	<b>0.01</b>
	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012

- Year-over-year ARPU dynamics reflective of an increase in data revenues, introduction of fixed monthly subscriber fees and an overall increase in voice usage
- Strong year-over-year MOU growth as a result of activities to stimulate on-net calling





- Quarterly revenue growth impacted by positive seasonal factors and improving competitive environment

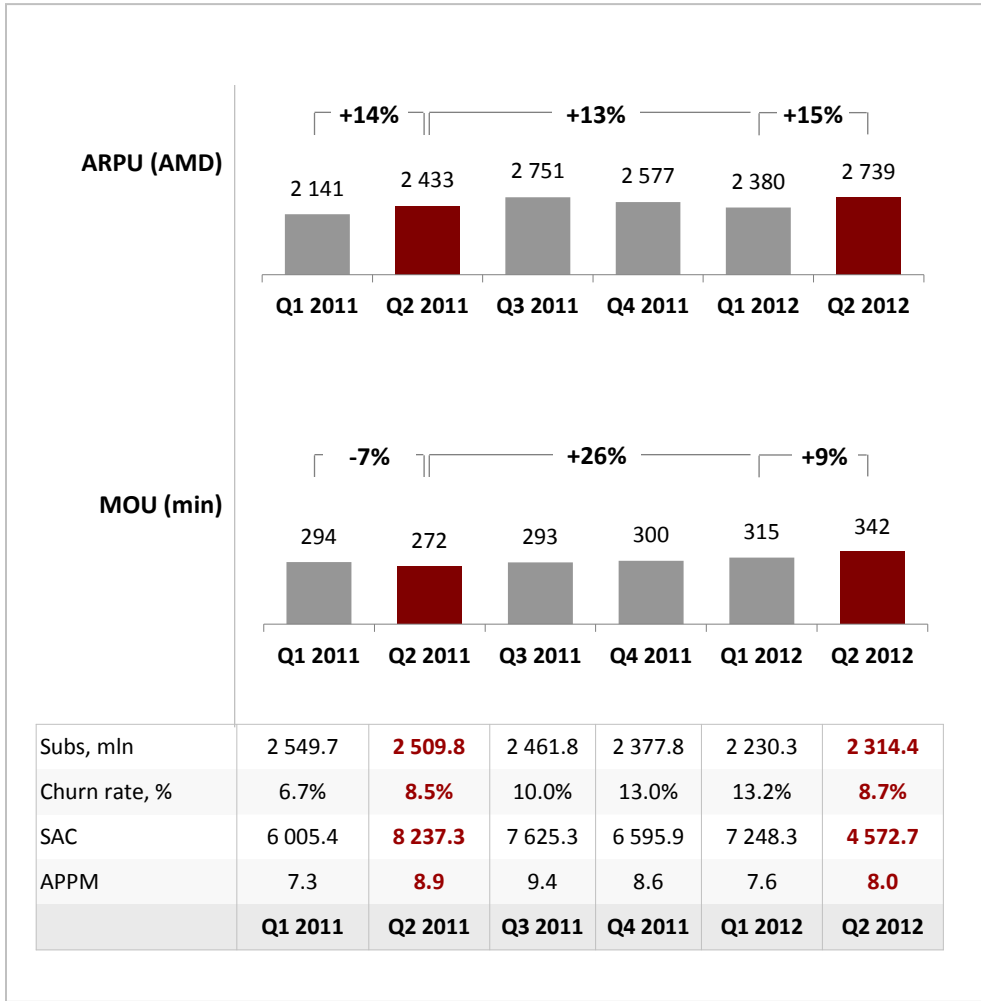
- Quarter-over-quarter OIBDA dynamics inline with revenue and seasonal trends when adjusted for a one-off in Q1 2012\*

\*One-off effect from equipment swap resulting in the recognition of an additional AMD 3.52 bln of OIBDA in Q1 2012



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## Armenia operating indicators



- Quarterly ARPU growth reflective of positive seasonal trends and Company's efforts to retain and attract higher-value subscribers
- Rise in MOU indicative of on-net usage stimulation to improve customer loyalty



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# Contents

Financial and corporate highlights

Key financial and operating results

**Appendix**



- Definitions and reconciliations



a step ahead

## Appendix – Definitions and Reconciliations

**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. Due to the rounding and translation practices, US dollar and functional currency margins, as well as other non-GAAP financial measures, may differ.

**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:

USD mln	Q2 2011					Q1 2012					Q2 2012				
	Group	RUS	UKR	UZB	ARM	Group	RUS	UKR	UZB	ARM	Group	RUS	UKR	UZB	ARM
Operating income	672.2	676.9	49.2	21.3	4.2	649.7	660.2	49.3	6.6	11.6	(284.4)	745.3	79.8	(1,050.7)	8.3
Add: D&A	630.5	484.0	86.6	36.8	22.9	609.5	463.7	83.3	44.7	17.7	579.0	442.8	75.8	44.0	16.4
Add: Impairment	-	-	-	-	-	-	-	-	-	-	579.0	-	-	579.0	-
Add: Tax and antimonopoly claims	-	-	-	-	-	-	-	-	-	-	500.0	-	-	500.0	-
Adjusted OIBDA	1,302.7	1,160.9	135.9	58.1	27.1	1,259.1	1,123.9	132.6	51.3	29.2	1,373.6	1,188.1	155.6	72.3	24.7

	Q2 2011					Q1 2012					Q2 2012				
	Group	RUS	UKR	UZB	ARM	Group	RUS	UKR	UZB	ARM	Group	RUS	UKR	UZB	ARM
Operating margin	21.5%	24.9%	17.5%	19.6%	8.4%	21.6%	25.3%	17.8%	5.7%	26.9%	(9.1%)	27.9%	26.6%	(790.9)%	17.6%
Add: D&A	20.1%	17.8%	30.9%	33.9%	45.8%	20.2%	17.8%	30.0%	38.6%	41.1%	18.6%	16.6%	25.3%	33.1%	34.4%
Add: Impairment	-	-	-	-	-	-	-	-	-	-	18.5%	-	-	435.8%	-
Add: Tax and antimonopoly claims	-	-	-	-	-	-	-	-	-	-	16.0%	-	-	376.4%	-
Adjusted OIBDA margin	41.6%	42.7%	48.4%	53.5%	54.2%	41.8%	43.2%	47.8%	44.3%	68.0%	44.0%	44.5%	51.9%	54.4%	52.0%



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## Appendix – Definitions and Reconciliations

**Net debt** represents total debt less cash and cash equivalents and short-term investments. Our net debt calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare our periodic and future liquidity within the wireless telecommunications industry. 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.

USD mln	As of Dec 31, 2011	As of Jun 30, 2012
Current portion of LT debt and of capital lease obligations	1,155.7	1,104.5
LT debt	7,554.0	6,237.1
Capital lease obligations	5.5	3.5
Total debt	8,715.2	7,345.1
Less:		
Cash and cash equivalents	1,850.8	881.0
ST investments	86.2	837.9
Net debt	6,778.2	5,626.2

**Free cash flow** is represented by net cash from operating activities less cash used for certain investing activities. Free cash flow is commonly used by investors, analysts and credit rating agencies to assess and evaluate our performance over time and within the wireless telecommunications industry. Because free cash flow is not based in US GAAP and excludes certain sources and uses of cash, the calculation should not be looked upon as an alternative to our Consolidated statement of cash flows or other information prepared in accordance with US GAAP.

USD mln	For six months ended Jun 30, 2011	For six months ended Jun 30, 2012
Net cash provided by operating activities	1,669.2	2,274.3
Less:		
Purchases of property, plant and equipment	(660.6)	(1,021.0)
Purchases of intangible assets	(145.6)	(103.8)
Proceeds from sale of property, plant and equipment	8.3	2.2
Proceeds from sale of other investments	7.0	14.7
Investments in and advances to associates	3.0	-
Acquisition of subsidiaries, net of cash acquired	(33.8)	(32.7)
Free cash flow	847.5	1,133.7



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## Appendix – Definitions and Reconciliations

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

USD mln	Six months ended Dec 31, 2011	Six months ended Jun 30, 2012	Twelve months ended Jun 30, 2012
	A	B	C = A + B
Net operating income	1,572.8	365.3	1,938.1
Add: D&A	1,142.8	1,188.4	2,331.2
Add: Impairment		579.0	579.0
Add: Tax and antimonopoly claims		500.0	500.0
Adjusted OIBDA	2,715.6	2,632.7	5,348.3



a step ahead

## Appendix – Definitions and Reconciliations

**Average monthly service revenue per subscriber (ARPU).** We calculate our ARPU by dividing our service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of our subscribers during that period and dividing by the number of months in that period.

**Average monthly minutes of usage per subscriber (MOU).** MOU is calculated by dividing the total number of minutes of usage during a given period by the average number of our subscribers during the period and dividing by the number of months in that period.

**Subscriber.** We define a “subscriber” as an individual or organization whose account shows chargeable activity within sixty one days in the case of post-paid tariffs, or one hundred and eighty three days in the case of our pre-paid tariffs, or whose account does not have a negative balance for more than this period.

**Churn.** We define our “churn” as the total number of subscribers who cease to be a subscriber as defined above during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber’s request), expressed as a percentage of the average number of our subscribers during that period.

**Subscriber acquisition cost (SAC).** We define SAC as total sales and marketing expenses and handset subsidies for a given period. Sales and marketing expenses include advertising expenses and commissions to dealers. SAC per gross additional subscriber is calculated by dividing SAC during a given period by the total number of gross subscribers added by us during the period.



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## Appendix – Adjusted OIBDA definition

According to the SEC definition Sec. 103 EBIT and EBITDA, measures that are calculated differently than those described as EBIT and EBITDA in the materials should not be characterized as "EBIT" or "EBIDTA." Instead, the titles of these measures should clearly identify the earnings measure being used and all adjustments. MTS reports adjusted OIBDA due to its treatment of the impairment of long-lived and other assets that relates to Q4 2010.





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## Contact information

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