

**Mobile TeleSystems**

**Second Quarter 2005  
Financial and Operating Results  
Management Presentation**

**August 30, 2005**

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# Key highlights

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## ***Financial highlights: strong financial performance***

- Revenues up 35% y-o-y to \$1,237m
- OIBDA up 25% y-o-y to \$652m (OIBDA margin 53%)
- Net income up 14% y-o-y to \$304m
- Free cash-flow positive with \$63m for H1 2005

## ***Operating highlights: robust subscriber growth, ARPU increase***

- ARPU growth in all markets
- Subscriber additions of 5.38m in Q2 2005; 14.1m YTD
- Acquisition in Turkmenistan increased license coverage footprint by 6.6m
- 48.23m consolidated subscribers as of August 29, 2005

# Strong underlying growth



US\$ mln	Q2/05	Change Y-o-Y	Change Q-o-Q
Revenues	1,236.6	34.7%	17.0%
OIBDA	651.6	24.9%	21.4%
OIBDA margin	52.7%	-4.1pp	+1.9pp
Net income	303.9	13.6%	30.7%

# Sequential margin increase



US\$ mln	Q2/05	Q1/05	Change	Q2/04	Change
<b>Russia</b>					
Revenues	928.4	802.8	15.6%	728.0	27.5%
OIBDA	491.0	415.0	18.3%	413.7	18.7%
OIBDA margin	52.9%	51.7%	1.2pp	56.8%	-3.9pp
Net income	209.4	171.4	22.2%	209.1	0.1%
<b>Ukraine</b>					
Revenues	290.1	238.3	21.7%	190.5	52.3%
OIBDA	147.9	112.2	31.8%	107.8	37.2%
OIBDA margin	51.0%	47.1%	3.9pp	56.6%	-5.6pp
Net income	88.9	58.0	53.3%	58.4	52.2%
<b>Uzbekistan</b>					
Revenues	20.4	17.5	16.6%	N/A	N/A
OIBDA	12.6	9.7	29.9%	N/A	N/A
OIBDA margin	61.8%	55.4%	6.4pp	N/A	N/A
Net income	5.6	3.0	86.7%	N/A	N/A
<b>Intercompany elimination</b>					
Revenues	(2.4)	(1.5)	60.0%	(0.3)	700.0%
<b>Consolidated</b>					
Revenues	1236.6	1057.0	17.0%	918.2	34.7%
OIBDA	651.6	536.9	21.4%	521.5	24.9%
OIBDA margin	52.7%	50.8%	1.9pp	56.8%	-4.1pp
Net income	303.9	232.5	30.7%	267.5	13.6%

- Sequential growth in consolidated OIBDA margin
- OIBDA margin in Russia affected by USO<sup>1</sup> payment of \$8m
- Sequential OIBDA margin increases in Ukraine and Uzbekistan

<sup>1</sup>USO – Universal Service Fund  
(1.2% of service revenues)

# Low CAPEX per new subscriber

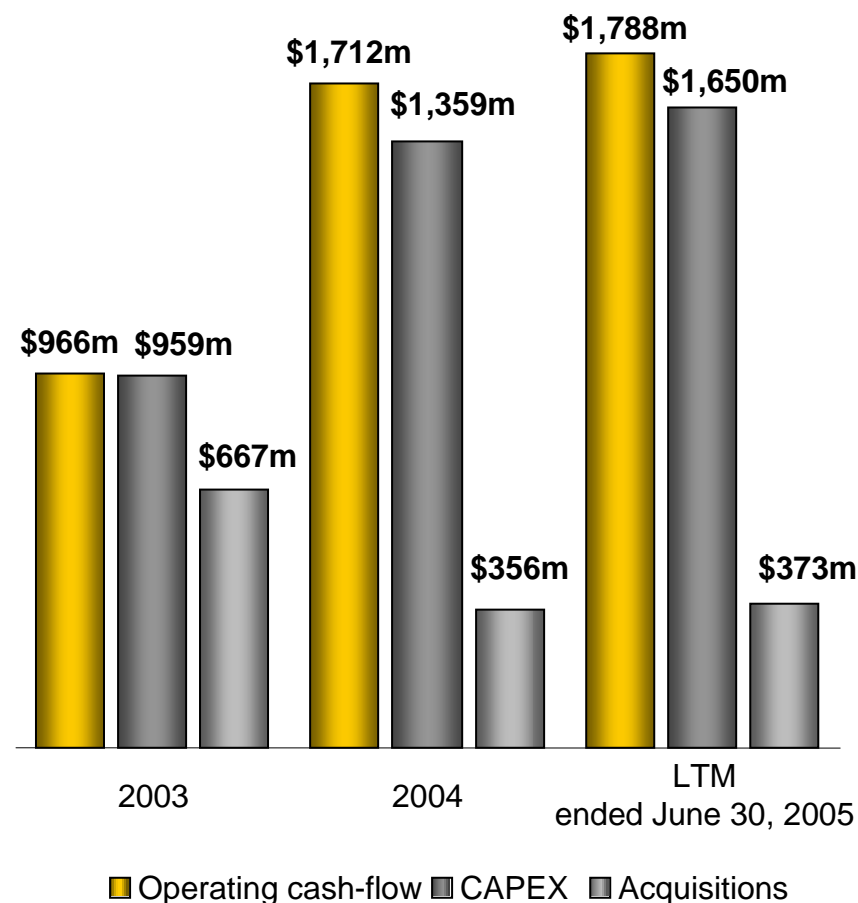


US\$ mln	Q2/05	H1/05
Capital expenditure on PP&E	315	647
Russia	187	410
Ukraine	118	225
Uzbekistan	10	12
Capital expenditure on intangible assets	21	120
Total capital expenditure	336	767
Total capital expenditure per new net subscriber	\$69	\$78

# Positive cash flow dynamics



- Strong operating cash-flow generation
- Free cash flow positive in H1 2005 with \$63m
- Focus on delivering positive cash flow



# Reduced relative debt level



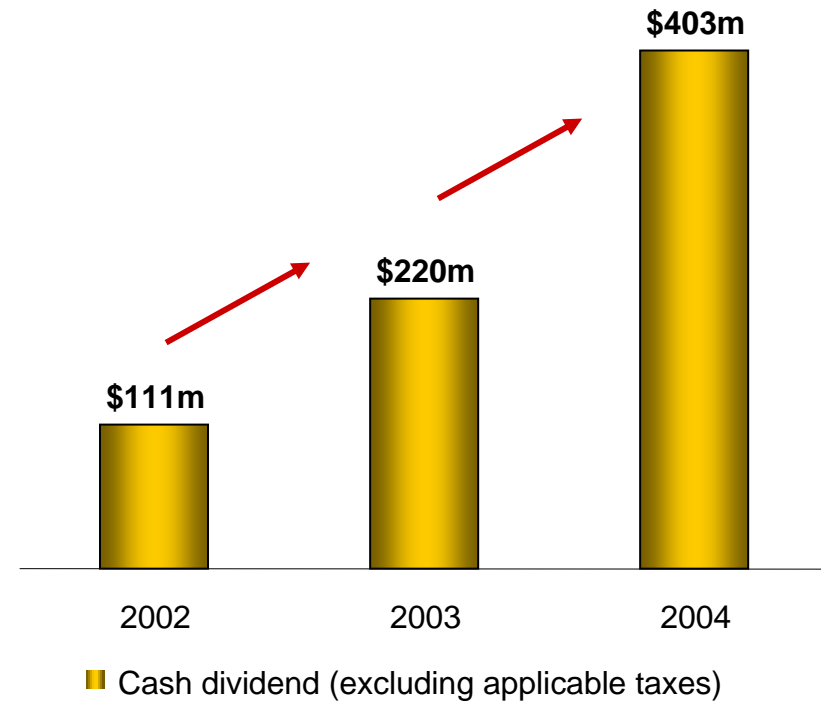
US\$ mln	Dec 31/04	Jun 30/05
Total debt	1,937	2,360
Cash, cash equivalents & ST investments	348	728
Net debt	1,590	1,631
Net debt / Assets	0.3x	0.2x
Net debt / Equity	0.6x	0.6x
Net debt / LTM OIBDA	0.8x	0.7x



# Increasing returns to shareholders



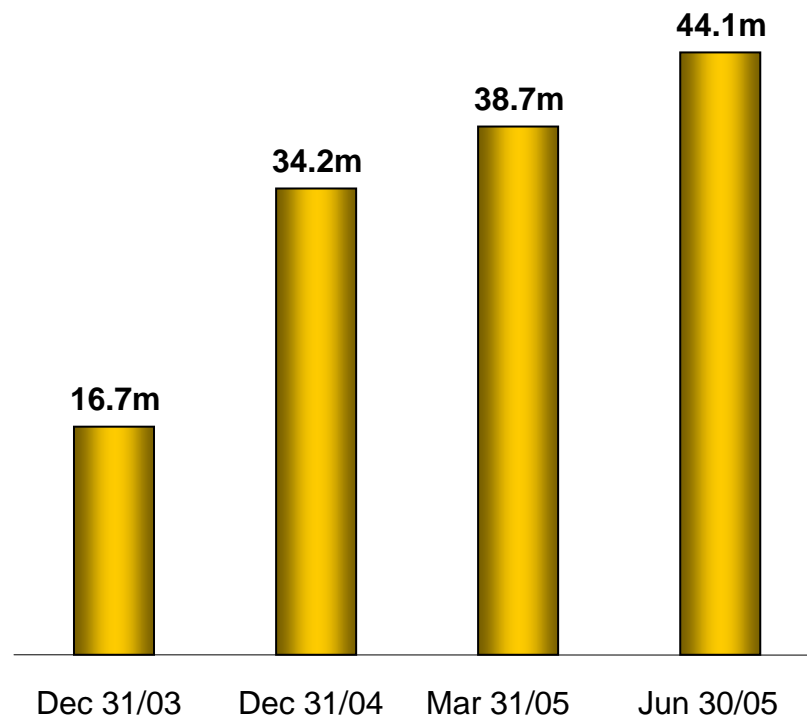
- 2004 dividends approx. \$403m approved by AGM in June 2005
- 3-year track record of 40+% of net earnings pay-out
- ADR holders will receive 2004 dividends in September



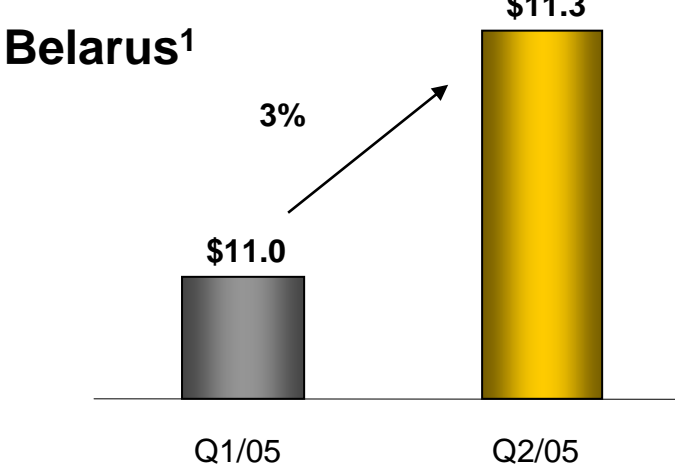
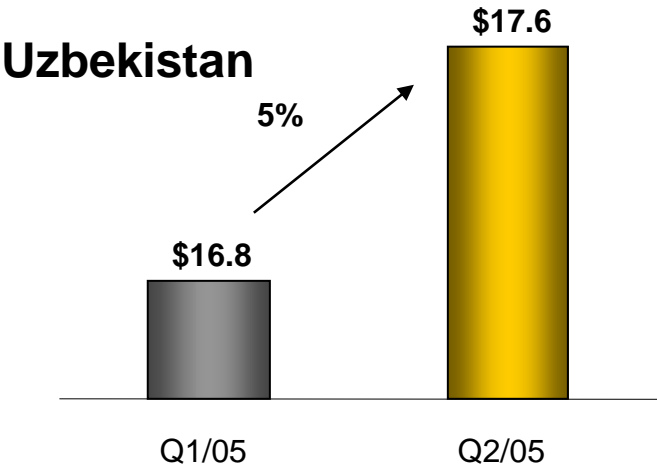
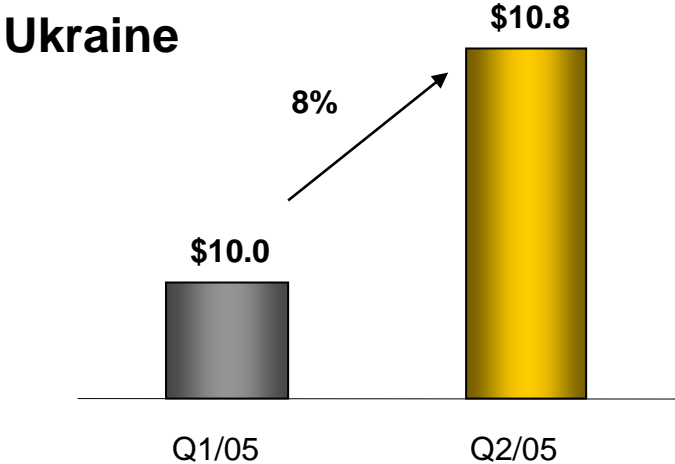
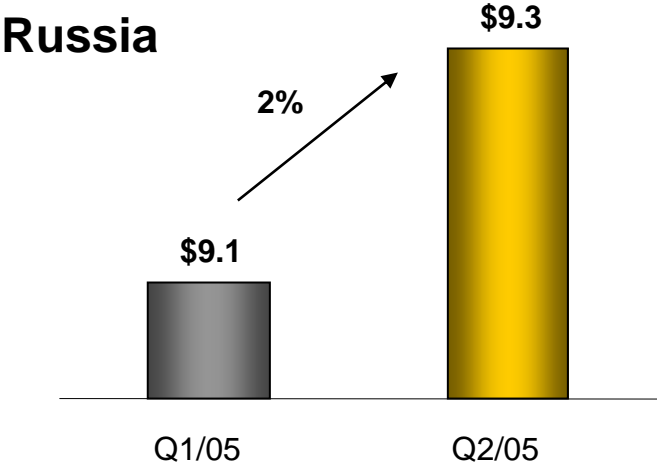
# Robust subscriber growth



- Q2 2005 – 5.4m net additions
- YTD – 14.1m net additions
- Consolidated subscriber base 48.23m as of August 29, 2005



# Sequential growth in ARPU



<sup>1</sup>MTS owns a 49% stake in Belarus operator, Mobile TeleSystems LLC, which is not consolidated

# Acquisition in Turkmenistan



- 51% stake in BCTI, a leading mobile phone operator in Turkmenistan, acquired for \$28.05m (end of June 2005)
- Remaining 49% stake will be acquired by February 2006<sup>1</sup>
- Turkmenistan market provides significant growth opportunity

## Quick Facts

Population of Turkmenistan <sup>2</sup>	6.6m
Penetration <sup>3</sup>	
Mobile	~ 1%
Fixed-line	~ 6%
BCTI customer base	59,000

<sup>1</sup>Subject to certain conditions

<sup>2</sup>According to the National Institute of Government Statistics of Turkmenistan

<sup>3</sup>According to to the World Fact Book of the Central Intelligence Agency

# Marketing initiatives: Russia

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- Mar-May promotional \$10 airtime deferred over six-month period to new *JEANS* subscribers, aimed at increasing customer loyalty and new subscriber acquisition
- April new *MTS Team* corporate tariff plan launched, aimed at strengthening MTS' position in SOHO segment
- Jun-Aug *Summer JEANS* offer reintroduced, providing discounted per-minute rates for a one-time subscription fee
- June new *HOT JEANS* tariff plan offers free monthly fees and low per-minute prices within home networks on holidays, weekends and nights
- Jul-Aug promotional \$10 airtime deferred over five-month period for up to 5 new customer referrals, shared between existing and new customer

# Marketing initiatives: Ukraine

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- April            new *SIM-SIM* pre-paid tariffs launched
- May             new post-paid and *JEANS* pre-paid tariffs introduced
- Jun-Aug        new *JEANS* promotion launched whereby pre-paid subscribers offered free on-net calls to four pre-selected *JEANS* numbers
- Jun-Aug        *Together More, Together Better* promotion offering \$10 airtime deferred over four-month period for up to three new customer referrals; new customer also receives promotional \$10 airtime deferred over four-month period

# Delivering new experience



- i-mode launch in September 2005 will provide for:
    - New handsets
    - New services
    - New content
- ➔ Additional revenues
- Blackberry being localized with MTS in preparation for Q4 launch



# Key operating indicators: Russia (1/2)



- Strong subscriber growth
- Leading market share in Russia and Moscow
- Churn declined y-o-y as a result of active CRM campaigns

	Q2/05	Q1/05	Q4/04	Q3/04	Q2/04
Total Russian market (mln)	97.6	85.6	74.4	59.0	49.5
Mobile penetration	67%	59%	51%	41%	34%
Number MTS subscribers (mln)	34.1	30.3	26.5	20.8	18.1
Market share nationwide	35%	35%	36%	35%	37%
Market share - Moscow	44%	44%	44%	45%	46%
Market share - St Petersburg	32%	32%	32%	32%	33%
Market share - rest of country	33%	33%	33%	32%	33%
Share of <i>JEANS</i> customers	83%	81%	77%	71%	65%
Quarterly churn	6.8%	6.7%	6.3%	6.7%	7.7%



# Key operating indicators: Russia (2/2)



- Premium customer MOU up; blended slightly down q-o-q due to:
  - Discontinued free air-time promotions
  - Change in customer mix
- ARPU up q-o-q due to:
  - Discontinued promotions
  - Positive seasonal factors
  - Increased premium customer usage
- SAC per gross new subscriber almost unchanged q-o-q

	Q2/05	Q1/05	Q4/04	Q3/04	Q2/04
ARPU (US\$)	9.3	9.1	11.2	14.0	14.1
MTS ARPU	23.4	20.5	22.6	24.2	21.4
JEANS ARPU	6.0	5.9	7.3	9.3	9.6
ARPU ex guest roaming (US\$)	9.1	9.0	10.9	13.7	13.7
ARPU from VAS (US\$)	1.0	1.2	1.3	1.4	1.1
VAS as % of total ARPU	11%	13%	12%	10%	8%
MOU (minutes)	134	138	164	168	160
MTS MOU	282	247	273	235	216
JEANS MOU	102	109	127	137	124
SAC per gross new subscriber (US\$)	18.4	18.2	19.4	21.3	21.4
Dealer commission	11.3	12.6	12.8	12.4	14.6
Advertising & marketing	7.1	5.6	6.6	8.9	6.8

*Notable increase in usage of premium customers*

# Key operating indicators: Ukraine (1/2)



- Strong subscriber growth
- Market share only slightly decreased due to strengthening competition

	Q2/05	Q1/05	Q4/04	Q3/04	Q2/04
Total Ukrainian market (mln)	19.4	16.1	13.8	10.6	8.4
Mobile penetration	41%	34%	29%	22%	17%
Number of MTS subscribers (mln)	9.5	8.1	7.4	5.5	4.6
Market share nationwide	49%	50%	53%	52%	55%
Share of pre-paid customers (JEANS and SIM-SIM)	88%	87%	86%	83%	83%
Quarterly churn	5.7%	5.1%	1.7% <sup>1</sup>	5.9%	5.2%

<sup>1</sup>The significant decrease in the quarterly churn rate to 1.7% can be largely attributed to the adoption in Ukraine of the churn policy used by MTS in Russia, whereby pre-paid customers are defined as churning after six months of inactivity, rather than the previous three month criteria. Under the previous churn calculation, quarterly churn rate in Q4 2004 was at 7.2%

# Key operating indicators: Ukraine (2/2)



- Post-paid customer MOU up; blended slightly down q-o-q for the same reasons as in Russia
- ARPU increase due to:
  - Discontinued promotions
  - Post-paid subscribers generating more traffic
  - Political stabilization
- SAC decrease due to reduction in handset subsidies and dealer commission

	Q2/05	Q1/05	Q4/04	Q3/04	Q2/04
ARPU (US\$)	10.8	10.0	12.4	15.4	14.6
Post-paid ARPU	37.4	33.8	37.2	43.3	39.0
Pre-paid ARPU	7.0	6.4	8.0	9.7	9.3
ARPU ex guest roaming (US\$)	10.6	9.9	12.1	14.6	14.1
ARPU from VAS (US\$)	1.5	1.5	1.6	1.7	1.3
VAS as % of total ARPU	14%	15%	13%	11%	9%
MOU (minutes)	118	130	127	136	127
Post-paid MOU	354	299	327	333	284
Pre-paid MOU	84	104	92	96	93
SAC per gross new subscriber (US\$)	14.2	22.1	15.4	20.7	17.8
Dealer commission	2.8	4.3	2.8	5.6	5.7
Advertising & promotion	4.4	5.3	4.7	3.3	2.6
Handset subsidy	4.4	9.9	5.5	9.6	7.1
SIM card & voucher cost	2.6	2.6	2.4	2.2	2.4

# Key operating indicators: Uzbekistan & Belarus



## *Uzbekistan*

- Steady subscriber growth
- Increasing usage
- Leading market share

Uzbekistan	Q2/05	Q1/05	Q4/04	Q3/04
Total Uzbek market ('000)	702.0	610.0	538.5	483.8
Mobile penetration	3%	2%	2%	2%
Number of MTS subscribers ('000)	398.4	352.0	310.2	263.2
Market share nationwide	57%	58%	58%	54%
ARPU (US\$)	17.6	16.8	18.4	19.9
MOU (minutes)	432	413	419	408

## *Belarus*

*(MTS' unconsolidated joint-venture)*

- Steady subscriber growth
- Positive usage trends
- Market share increased

Belarus	Q2/05	Q1/05	Q4/04	Q3/04	Q2/04
Total Belarus market (mln)	3.2	2.8	2.4	2.0	1.6
Mobile penetration	32%	28%	24%	20%	16%
Number of MTS subscribers (mln)	1.6	1.4	1.2	1.0	0.7
Market share nationwide	51%	50%	49%	49%	46%
ARPU (US\$)	11.3	11.0	12.1	13.3	13.9
MOU (minutes)	448	410	426	421	448

# Outline of Q2 2005 results

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- Robust financial performance
- Strong subscriber growth
- Tariff stabilization in Russia
- Implementation of VAS to boost revenues (i-mode, Blackberry)

# Appendix



*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	Q2 2004				Q1 2005				Q2 2005			
	Consolidated	Russia	Ukraine	Uzbekistan	Consolidated	Russia	Ukraine	Uzbekistan	Consolidated	Russia	Ukraine	Uzbekistan
Operating income	371.7	291.1	80.6	-	338.7	257.6	76.4	4.7	434.7	315.7	111.2	7.8
Add: depreciation and amortization	149.8	122.6	27.2	-	198.2	157.4	35.8	5.0	216.9	175.3	36.7	4.9
OIBDA	521.5	413.7	107.8	-	536.9	415.0	112.2	9.7	651.6	491.0	147.9	12.7

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

US\$ mln	Q2 2004				Q1 2005				Q2 2005			
	Consolidated	Russia	Ukraine	Uzbekistan	Consolidated	Russia	Ukraine	Uzbekistan	Consolidated	Russia	Ukraine	Uzbekistan
Operating margin	40.5%	40.0%	42.3%	-	32.0%	32.1%	32.1%	26.9%	35.2%	34.0%	38.3%	38.2%
Add: depreciation and amortization as a percentage of revenues	16.3%	16.8%	14.3%	-	18.8%	19.6%	15.0%	28.6%	17.5%	18.9%	12.7%	23.7%
OIBDA margin	56.8%	56.8%	56.6%	-	50.8%	51.7%	47.1%	55.5%	52.7%	52.9%	51.0%	61.9%

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

US\$ mln	As of Dec. 31, 2004	As of June 30, 2005
Current portion of LT debt and of capital lease obligations	379.4	406.1
LT debt	1553.8	1951.5
Capital lease obligations	3.9	2.0
Total debt	1937.1	2359.6
Less:		
Cash and cash equivalents	274.2	637.2
ST investments	73.4	91.2
Net debt	1589.5	1631.2

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

US\$ mln	Six Months Ended Dec. 31, 2004	Six Months Ended June 30, 2005	Twelve Months Ended June 30, 2005
	A	B	C=A+B
Net operating income	740.5	773.4	1513.9
Add: depreciation and amortization	392.2	415.1	807.3
OIBDA	1132.7	1188.5	2321.2