

**Mobile TeleSystems**

**Third Quarter 2005**

**Financial and Operating Results  
Management Presentation**

**November 23, 2005**



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# Key highlights

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## ***Financial highlights: solid financial performance***

- Revenues up 27% y-o-y to \$1,385m
- OIBDA up 16% y-o-y to \$738m (OIBDA margin 53.3%)
- Net income \$347m
- Free cash flow positive with \$130m for 9M 2005

## ***Operating highlights: strong subscriber growth, operational expansion***

- Subscriber additions of 6.29m in Q3 2005; 19.02m YTD
- 53.24m consolidated subscribers as of November 22, 2005
- Operational in 83 regions in Russia following 4 new greenfield launches

# Strong underlying growth



US\$ m	Q3/05	Change Y-o-Y	Change Q-o-Q
Revenues	1,384.7	27.5%	12.0%
OIBDA	737.6	16.2%	13.2%
OIBDA margin	53.3%	-5.1pp	0.6pp
Net income	347.4	2.7%	14.3%

# Sequential margin increase



US\$ m	Q3/05	Q2/05	Change	Q3/04	Change
<b>Russia</b>					
Revenues	1015.2	928.4	9.3%	848.9	19.6%
OIBDA	542.6	491.0	10.5%	492.7	10.1%
OIBDA margin	53.4%	52.9%	0.6pp	58.0%	-4.6pp
Net income	240.4	209.4	14.8%	259.7	-7.5%
<b>Ukraine</b>					
Revenues	335.7	290.1	15.7%	241.2	39.2%
OIBDA	168.2	147.9	13.7%	136.7	23.1%
OIBDA margin	50.1%	51.0%	-0.9pp	56.7%	-6.6pp
Net income	94.5	88.9	6.3%	78.6	20.1%
<b>Uzbekistan</b>					
Revenues	23.0	20.4	12.9%	10.1	127.6%
OIBDA	14.6	12.6	15.8%	5.4	169.1%
OIBDA margin	63.4%	61.8%	1.6pp	53.5%	9.8pp
Net income	7.5	5.6	34.1%	-0.1	-
<b>Turkmenistan</b>					
Revenues	15.8	-	-	-	-
OIBDA	12.1	-	-	-	-
OIBDA margin	76.6%	-	-	-	-
Net income	5.1	-	-	-	-
<b>Intercompany elimination</b>					
Revenues	-5.0	-2.4	-	-13.8	-
<b>Consolidated</b>					
Revenues	1384.7	1236.6	12.0%	1086.4	27.5%
OIBDA	737.6	651.6	13.2%	634.8	16.2%
OIBDA margin	53.3%	52.7%	0.6pp	58.4%	-5.2pp
Net income	347.4	303.9	14.3%	338.3	2.7%

- Sequential growth in consolidated OIBDA margin
- Payment to USF<sup>1</sup> in Russia of \$13m
- High OIBDA margin in Turkmenistan

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

# Low CAPEX per new subscriber

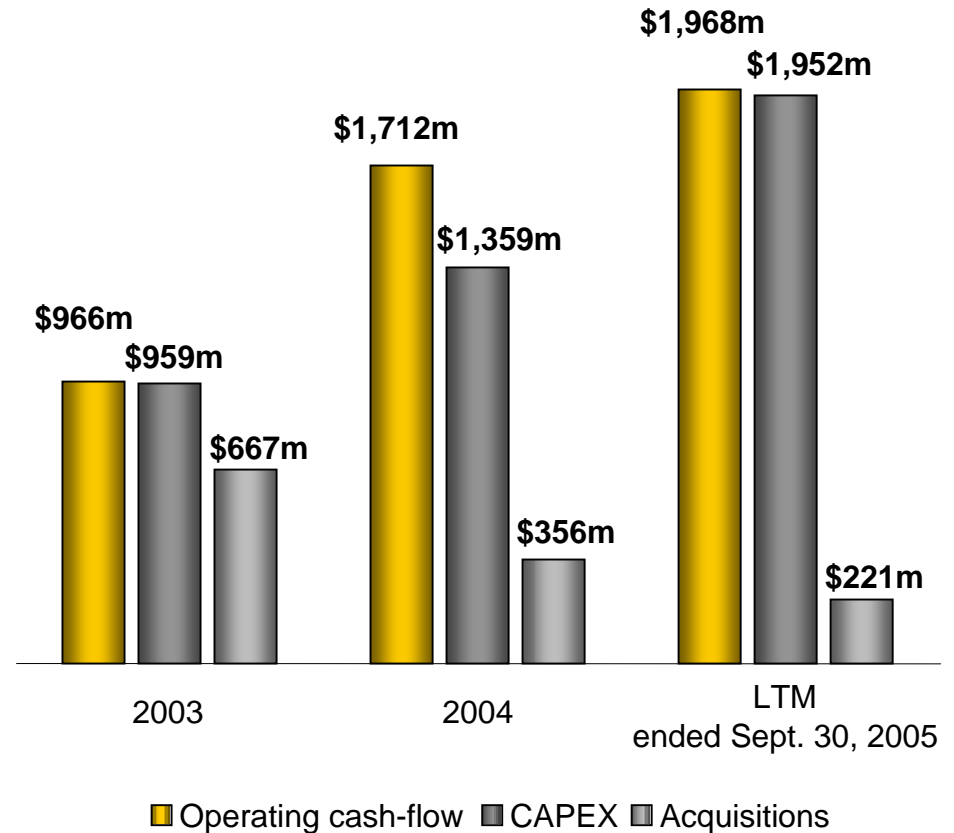


US\$ m	Q3/05	9M/05
Capital expenditure on PP&E	500	1,146
Russia	406	816
Ukraine	79	304
Uzbekistan	15	26
Capital expenditure on intangible assets	107	227
Total capital expenditure	606	1,373
Total capital expenditure per new net subscriber	\$97	\$84

# Positive cash flow dynamics



- Continued investments in future growth
- Free cash flow positive in 9M 2005 with \$130m



# Reduced relative debt level



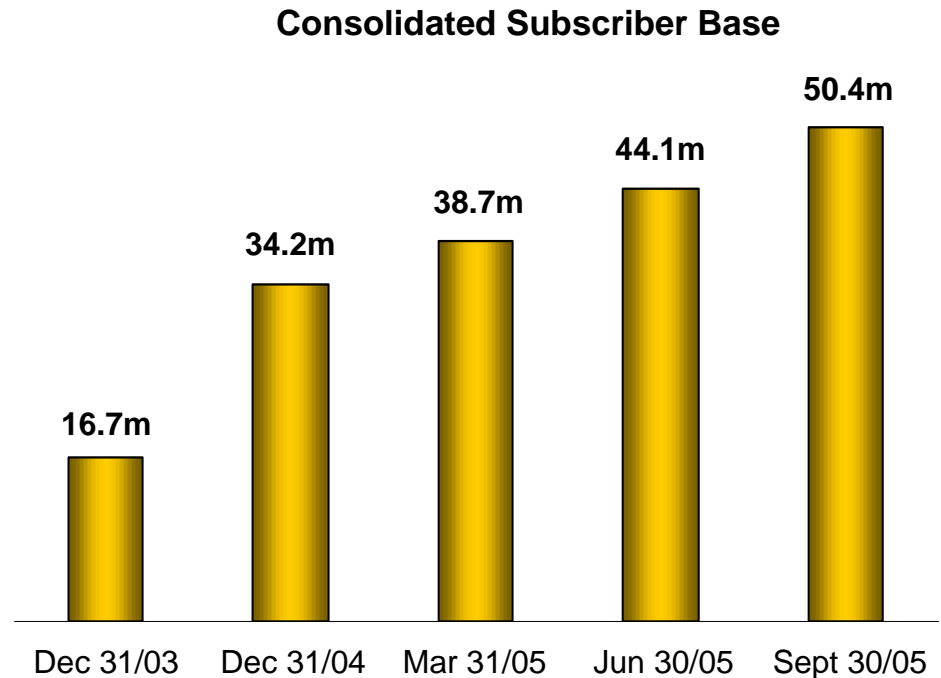
US\$ m	Dec 31/04	Sept 30/05
Total debt	1,937	2,311
Cash, cash equivalents & ST investments	348	557
Net debt	1,590	1,754
Net debt / Assets	0.3x	0.3x
Net debt / Equity	0.6x	0.6x
Net debt / LTM OIBDA	0.8x	0.7x



# Robust subscriber growth



- Q3 2005: 6.3m net additions
- YTD: 19.02m net additions
- Consolidated subscriber base: 53.24m as of November 22, 2005



# Expansion strategy



- FSU countries offer significant growth potential
  - Good macro-economic outlook
  - Relatively low mobile and fixed-line penetration

Country	Population (m)	Penetration (%)		MTS Presence
		Fixed-line	Mobile	
Russia	143.2	25%	80%	√
Ukraine	47.5	21%	52%	√
Uzbekistan	26.5	7%	3%	√
Kazakhstan	15.1	16%	19%	
Belarus	9.8	32%	38%	√
Azerbaijan	8.4	13%	19%	
Tajikistan	6.9	4%	2%	
Turkmenistan	6.6	6%	1%	√
Kyrgyzstan	5.1	8%	9%	
Georgia	4.4	21%	21%	
Armenia	3.2	15%	5%	
Moldavia	3.6	21%	22%	

(as of YE 2004 except for Russia, Ukraine, Belarus, and Uzbekistan, for which information is as of October 31, 2005)

# Marketing initiatives: Russia



- Jun-Nov new *HOT JEANS* tariff plan offering free monthly fees and low per-minute prices within home networks on holidays, weekends and nights
- Jun-Aug *Summer JEANS* offer reintroduced, providing discounted per-minute rates for a one-time subscription fee
- Jul-Aug promotional \$10 airtime deferred over a five-month period for up to five new customer referrals (shared between existing and each new customer)
- Jun-Sep *VIP* and *Exclusive* subscribers offered a discount in a specific month as compensation for roaming during the vacation period
- Aug-Oct *Become the 50 millionth subscriber* promotion offers prizes and a chance to win an apartment
- Oct-Nov *JEANS Open* offers *Super JEANS* subscribers free incoming calls provided they switch during Oct 5-18, 2005
- From Oct updated line of tariff plans (*JEANS*, *Profi* and *Exclusive*; also corporate plans, such as *Team* and *Corporation*)

# Marketing initiatives: Ukraine

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- Jun-Aug new *JEANS* promotion launched, whereby pre-paid subscribers benefit from free on-net calls to four pre-selected *JEANS* numbers
- Jun-Aug *Together More, Together Better* offers promotional \$10 airtime deferred over a four-month period for up to three new customer referrals (to both existing and each new customer)
- Sep 2005 new *Sim-Sim Econom* tariff plan launched offering a flat rate of \$0.15 for any calls within Ukraine
- Sep-Nov free service package offering monthly post-paid subscribers 10 minutes, 10 SMS and 10 MMS over the next 10 months
- Sep-Nov *Get the Luck!* promotion for *JEANS* subscribers whereby \$2 are credited to a subscriber for each of the first 5 recharges using any voucher

# Delivering new experiences

- i-mode launched in Moscow and St Petersburg in September 2005
  - Platform for sustained differentiation
  - New growth prospects
- Ring-back tone service launched in Moscow in September 2005
- Progress on BlackBerry localized version launch
  - Competitive advantage
  - Premium subscriber loyalty



# Key operating indicators: Russia (1/2)



- Strong subscriber growth
- Leading market share in Russia and Moscow
- Churn fell as result of active CRM campaigns; expected to normalize in Q4/05

	Q3/05	Q2/05	Q1/05	Q4/04	Q3/04
Total Russian market (mln)	111.7	97.6	85.6	74.4	59.0
Mobile penetration	77%	67%	59%	51%	41%
Number MTS subscribers (mln)	38.9	34.1	30.3	26.5	20.8
Market share nationwide	35%	35%	35%	36%	35%
Market share - Moscow	45%	44%	44%	44%	45%
Market share - St Petersburg	33%	32%	32%	32%	32%
Market share - rest of country	32%	33%	33%	33%	32%
Share of <i>JEANS</i> customers	87%	83%	81%	77%	71%
Quarterly churn	2.9%	6.8%	6.7%	6.3%	6.7%

# Key operating indicators: Russia (2/2)



- Continuous growth in usage and ARPU of premium customers
- Blended MOU down due to change in customer mix
- ARPU down in line with usage decline
- SAC per gross new subscriber almost unchanged q-o-q

	Q3/05	Q2/05	Q1/05	Q4/04	Q3/04
ARPU (US\$)	8.9	9.3	9.1	11.2	14.0
<i>MTS</i> ARPU	25.7	23.4	20.5	22.6	24.2
<i>JEANS</i> ARPU	5.7	6.0	5.9	7.3	9.3
ARPU ex guest roaming (US\$)	8.7	9.1	9.0	10.9	13.7
ARPU from VAS (US\$)	0.9	1.0	1.2	1.3	1.4
VAS as % of total ARPU	11%	11%	13%	12%	10%
MOU (minutes)	130	134	138	164	168
<i>MTS</i> MOU	309	282	247	273	235
<i>JEANS</i> MOU	99	102	109	127	137
SAC per gross new subscriber (US\$)	18.6	18.4	18.2	19.4	21.3
Dealer commission	10.8	11.3	12.6	12.8	12.4
Advertising & marketing	7.8	7.1	5.6	6.6	8.9

# Key operating indicators: Ukraine (1/2)



- Strong subscriber growth continues
- Market share down due to intensified competition

	Q3/05	Q2/05	Q1/05	Q4/04	Q3/04
Total Ukrainian market (mln)	23.5	19.4	16.1	13.8	10.6
Mobile penetration	49%	41%	34%	29%	22%
Number of MTS subscribers (mln)	10.9	9.5	8.1	7.4	5.5
Market share nationwide	47%	49%	50%	53%	52%
Share of pre-paid customers (JEANS and SIM-SIM)	89%	88%	87%	86%	83%
Quarterly churn	6.2%	5.7%	5.1%	1.7% <sup>1</sup>	5.9%

<sup>1</sup>The significant decrease in 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)



- Seasonal pick up in usage and ARPU in the contract segment
- Pre-paid ARPU unchanged sequentially
- Free on-net calls for 4 pre-selected numbers boosted pre-paid usage
- SAC increased slightly due increased share of contract subscribers in new additions during Q3/05

	Q3/05	Q2/05	Q1/05	Q4/04	Q3/04
ARPU (US\$)	10.8	10.8	10.0	12.4	15.4
Post-paid ARPU	40.2	37.4	33.8	37.2	43.3
Pre-paid ARPU	7.0	7.0	6.4	8.0	9.7
ARPU ex guest roaming (US\$)	10.4	10.6	9.9	12.1	14.6
ARPU from VAS (US\$)	1.5	1.5	1.5	1.6	1.7
VAS as % of total ARPU	14%	14%	15%	13%	11%
MOU (minutes)	132	118	130	127	136
Post-paid MOU	392	354	299	327	333
Pre-paid MOU	98	84	104	92	96
SAC per gross new subscriber (US\$)	15.7	14.2	22.1	15.4	20.7
Dealer commission	3.6	2.8	4.3	2.8	5.6
Advertising & promotion	6.3	4.4	5.3	4.7	3.3
Handset subsidy	3.5	4.4	9.9	5.5	9.6
SIM card & voucher cost	2.3	2.6	2.6	2.4	2.2

# Key operating indicators: Uzbekistan & Belarus



## Uzbekistan

- Steady subscriber growth
- Increase in ARPU q-on-q
- Leading market share

Uzbekistan	Q3/05	Q2/05	Q1/05	Q4/04	Q3/04
Total Uzbek market ('000)	804.3	702.0	610.0	538.5	483.8
Mobile penetration	3%	3%	2%	2%	2%
Number of MTS subscribers ('000)	486.9	398.4	352.0	310.2	263.2
Market share nationwide	61%	57%	58%	58%	54%
ARPU (US\$)	18.3	17.6	16.8	18.4	19.9
MOU (minutes)	437	432	413	419	408

## Belarus

*(MTS' unconsolidated joint-venture)*

- Steady subscriber growth
- Resilient ARPU
- Market share maintained

Belarus	Q3/05	Q2/05	Q1/05	Q4/04	Q3/04
Total Belarus market (mln)	3.6	3.2	2.8	2.4	2.0
Mobile penetration	36%	32%	28%	24%	20%
Number of MTS subscribers (mln)	1.8	1.6	1.4	1.2	1.0
Market share nationwide	51%	51%	50%	49%	49%
ARPU (US\$)	11.3	11.3	11.0	12.1	13.3
MOU (minutes)	440	448	410	426	421

# New appointments



- **Eric Franke – First Vice President and Chief Operating Officer**

- Worked at Ericsson (Netherlands) from 1982, then at Koning&Hartman Company from 1984; appointed Director of Mobile Communications at Ericsson in 1988, then Vice-President for Russia and the CIS in 1994; in 1998 appointed Director of Mobile Communications at Golden Telecom; in March 2001 appointed Director General of UMC



- **Mikhail Shamolin – Vice President, Sales and Customer Service**

- Worked at McKinsey&Co. from 1998-2004; appointed Managing Director of the Ferroalloys Division at Interpipe Corp. (Ukraine) from 2004-2005



- **Grzegorz Esz – Deputy Chief Marketing Officer**

- Worked as Deputy Chief Marketing Officer at ERA Company, the largest GSM operator in Poland; worked in the IT and telecommunications fields for ten years



# Strategy for growth

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- Remain best-quality operator in terms of network and service
- Further expand already leading share in corporate and HVPC segments
- Grow presence in the mass market segment (especially in regions with low penetration)
- Increase emphasis on VAS
- Expand business footprint by pursuing M&A opportunities in Russia, FSU republics, and beyond

# 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\$ m	Q3 2004				Q2 2005				Q3 2005				
	Consolidated	Russia	Ukraine	Uzbekistan	Consolidated	Russia	Ukraine	Uzbekistan	Consolidated	Russia	Ukraine	Uzbekistan	Turkmenistan
Operating income	467.7	360.2	107.5	0.0	434.7	315.7	111.2	7.8	496.0	346.8	128.3	9.2	11.7
Add: depreciation and amortization	167.1	132.5	29.2	5.4	216.9	175.3	36.7	4.9	241.6	195.8	39.9	5.4	0.4
OIBDA	634.8	492.7	136.7	5.4	651.6	491.0	147.9	12.7	737.6	542.6	168.2	14.6	12.1

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

	Q3 2004				Q2 2005				Q3 2005				
	Consolidated	Russia	Ukraine	Uzbekistan	Consolidated	Russia	Ukraine	Uzbekistan	Consolidated	Russia	Ukraine	Uzbekistan	Turkmenistan
Operating margin	43.0%	43.1%	44.5%	0.0%	35.2%	34.0%	38.3%	38.2%	35.8%	34.3%	38.2%	40.0%	74.0%
Add: depreciation and amortization as a percentage of revenues	15.4%	15.9%	12.2%	53.5%	17.5%	18.9%	12.7%	23.7%	17.5%	19.4%	11.9%	23.4%	2.6%
OIBDA margin	58.4%	59.0%	56.7%	53.5%	52.7%	52.9%	51.0%	61.9%	53.3%	53.7%	50.1%	63.4%	76.6%

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

US\$ m	As of Dec. 31, 2004	As of Sept. 30, 2005
Current portion of LT debt and of capital lease obligations	379.4	403.5
LT debt	1553.8	1905.2
Capital lease obligations	3.9	2.6
Total debt	1937.1	2311.3
Less:		
Cash and cash equivalents	274.2	470.4
ST investments	73.4	87.0
Net debt	1589.5	1753.9

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

US\$ m	Three Months Ended Dec. 31, 2004	Nine Months Ended Sept. 30, 2005	Twelve Months Ended Sept. 30, 2005
	A	B	C=A+B
Net operating income	272.9	1269.4	1542.3
Add: depreciation and amortization	225.0	656.6	881.6
OIBDA	497.9	1926.0	2423.9