

# Mobile TeleSystems



**Q1 2004**

## **Financial and Operating Results Management Presentation**

**June 16, 2004**

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## □ Unprecedented growth

- In Q1 2004 MTS' consolidated subscriber base increased by 2.5m, or 15%, from 16.7m to 19.2m users as of March 31, 2004. YTD subscriber base increased by 5.2m to 21.9m as of June 15, 2004
- License coverage expanded from 186.3m to 200.6m POPs during Q1 2004 as a result of new license allocations to MTS
- In Q1 2004, revenue was up 81.3% y-on-y to \$808.7m; OIBDA\* was up 96.0% to \$440.7m; and net income was up 159.1% to \$207.8m. On a q-on-q basis, revenue was up 4.8%; OIBDA\* was up 10.0%; and net income was up 36.1%
- Record OIBDA\* margin of 54.5% in Q1 2004
- Net cash provided from operating activities less CAPEX and cash paid for acquisition of subsidiaries became positive in Q1 2004\*\*

## □ Expansion into the regions and neighboring countries

- Previously acquired local cellular operators such as Primtelefon, in which MTS holds a 50% stake, and Uraltel were transferred to the MTS brand to increase synergies of nationwide operations

## □ Improved access to debt markets and share liquidity

- Effective March 29, 2004, Regulation S GDRs fungible into ADRs
- MTS' credit rating by Standard and Poor's raised from B+/Outlook Stable to BB-/Outlook Stable in April 2004

\*OIBDA represents operating income before depreciation and amortization. See Appendix A for definitions of OIBDA and reconciliations to operating income

\*\*See Appendix B for reconciliations to net cash provided by operating activities

# Strong Subscriber Base Growth Continues



MTS' Consolidated Subscriber Base, 1998-2004 (m)



- ❑ During Q1 2004 MTS added around 2.5m new customers to its consolidated subscriber base and provided services to a total of 19.2m subscribers as of March 31, 2004
- ❑ In addition, MTS' local cellular operators\* in Russia provided services to 163,837 users and its joint-venture in Belarus to 592,579 users
- ❑ YTD, MTS' consolidated subscriber base increased by 5.2m to reach 21.93m as of June 15, 2004

\*MTS owns 50% stakes in Primtelefon, a local mobile operator in the Far Eastern and Siberian regions of Russia, and in Volgograd Mobile and Astrakhan Mobile, local mobile operators in the Volga part of Russia. MTS does not consolidate these companies

# License Coverage

- During Q1 2004 the license coverage of the Company and its subsidiaries (including unconsolidated subsidiaries) increased from 186.3m to 200.6m as the Company received GSM licenses to operate in eleven new regions in Russia with a total population of 14.3m, thus covering 87 out of 89 Russian regions (excluding the Penza Region and the Republic of Chechnya)
- MTS' operational regions extended to 60 at YE 2003 and to 62 at the end of Q1 2004, following launches in Samara and Irkutsk in February. The Company is planning to operate in 77 regions by YE 2004
- MTS' license area in Russia covers 142.7m people (98.2% of the country's population). Together with Ukraine and Belarus, MTS' license area is home to over 200m people

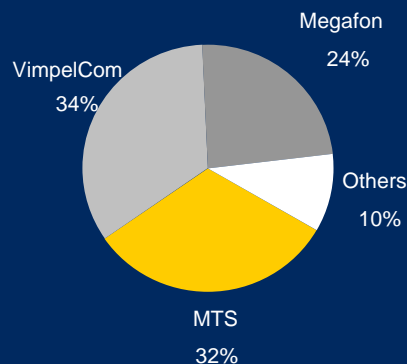


# Market Growth: Russia

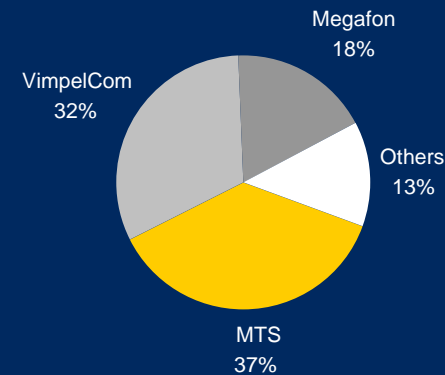


- ❑ The number of mobile phone users in Russia was 42.3m as of March 31, 2004, with mobile penetration of 29.1%\*
- ❑ By May 31, 2004, the number of subscribers further increased by 4.6m, to reach 46.9m, with mobile penetration of 32.3%\*
- ❑ MTS remained the dominant operator in Russia with a stable market share of 37% compared to 32% for VimpelCom and 18% for MegaFon\*
- ❑ Pre-paid *Jeans* subscribers accounted for 56% of total subscribers at the end of Q1 2004 (44% at YE 2003 and 63% as of May 31, 2004)

Share of Organic Net Additions in Russia in Q1 2004

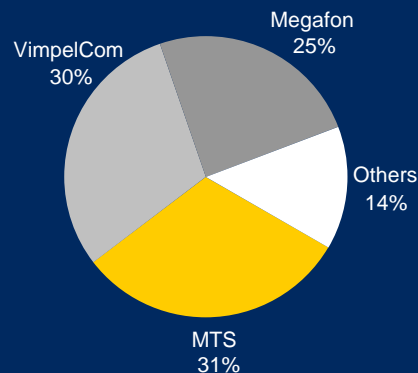


Market Share in Russia at the End of Q1 2004

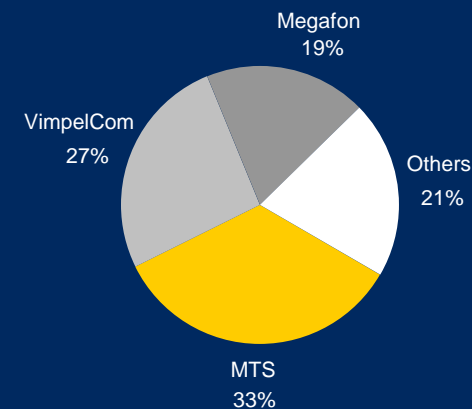


Source: MTS, AC&M-Consulting

Share of Organic Net Additions in the Regions\* in Q1 2004



Market Share in the Regions at the End of Q1 2004



\*Excluding Moscow and St. Petersburg License Areas

Source: MTS, AC&M-Consulting

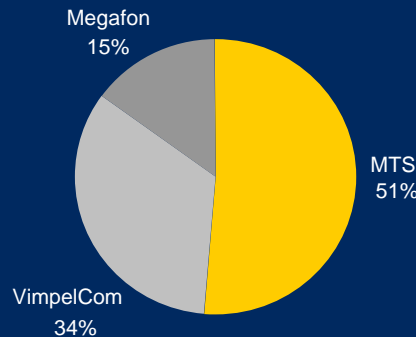
\*According to AC&M Consulting

# Market Growth: Moscow and St. Petersburg

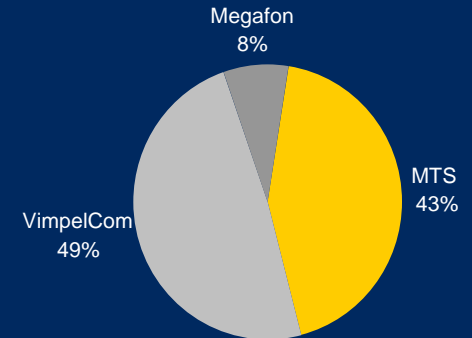


- As of the end of Q1 2004 mobile penetration in Moscow and St. Petersburg increased to 73% and 62% from 68% and 56% respectively at YE 2003\*
- As of May 31, 2004, the mobile penetration numbers for Moscow and St. Petersburg were 77.4% and 66.9% respectively\*
- During Q1 2004 the Company accounted for a 51% share of market net additions in the Moscow market (compared to 43% in 2003)\*
- MTS retained its 43% market share in the Moscow market, which further increased to 45% as of May 31, 2004\*
- Competition in the St. Petersburg market continued to be fierce, but MTS' market share remained at the 33% level, both at the end of Q1 and May 31, 2004\*

Share of Organic Net Additions in Moscow in Q1 2004

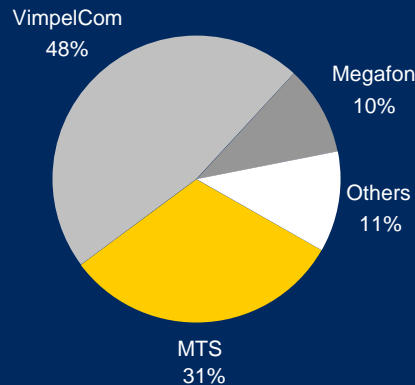


Market Share in Moscow at the End of Q1 2004

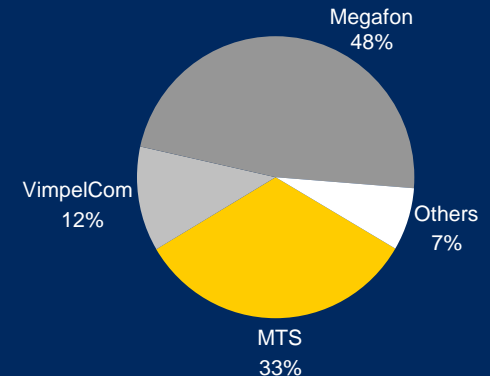


Source: MTS, AC&M-Consulting

Share of Organic Net Additions in St. Petersburg in Q1 2004



Market Share in St. Petersburg at the End of Q1 2004



Source: MTS, AC&M-Consulting

\*According to AC&M Consulting

# Market Growth: Subscribers Breakdown



## Subscribers, end-of-period (thousands)

Region	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004
Moscow License Area	2 035,4	2 084,6	2 351,2	2 688,2	3 082,3	3 540,4	4 132,8	4 487,5	4 936,3	5 389,3
<i>Growth</i>		2%	13%	14%	15%	15%	17%	9%	10%	9%
Central (ex. Moscow)	276,1	334,0	420,8	541,9	701,4	798,2	985,7	1 286,0	1 642,1	1 999,1
<i>Growth</i>		21%	26%	29%	29%	14%	23%	30%	28%	22%
Volga	33,9	46,7	212,7	287,8	381,6	446,1	817,7	1 102,2	1 416,8	1 780,8
<i>Growth</i>		38%	356%	35%	33%	17%	83%	35%	29%	26%
St Petersburg Licence Area	46,4	264,1	400,5	565,2	775,5	834,4	941,4	1 055,1	1 180,5	1 285,0
<i>Growth</i>		469%	52%	41%	37%	8%	13%	12%	12%	9%
North-West (ex. St Petersburg)	28,4	36,0	55,6	91,1	152,6	223,0	370,9	539,4	684,9	817,8
<i>Growth</i>		27%	55%	64%	67%	46%	66%	45%	27%	19%
South	na	482,4	541,7	726,1	885,7	993,5	1 103,9	1 303,4	1 503,4	1 665,4
<i>Growth</i>		na	12%	34%	22%	12%	11%	18%	15%	11%
Urals	52,6	58,8	99,2	164,3	202,1	232,9	347,2	501,8	720,2	925,7
<i>Growth</i>		12%	69%	66%	23%	15%	49%	45%	44%	29%
Siberia	151,1	189,9	244,8	309,0	390,3	442,2	500,0	905,8	1 086,6	1 221,8
<i>Growth</i>		26%	29%	26%	26%	13%	13%	81%	20%	12%
Far East	26,3	31,2	40,6	54,0	73,2	90,6	118,8	159,9	208,7	260,4
<i>Growth</i>		19%	30%	33%	36%	24%	31%	35%	31%	25%
Total	2 650,3	3 527,8	4 367,0	5 427,7	6 644,7	7 601,3	9 318,4	11 341,1	13 379,5	15 345,2
<i>Growth</i>		33%	24%	24%	22%	14%	23%	22%	18%	15%
Unconsolidated subsidiaries	-	-	-	-	-	-	-	114,4	123,1	163,8

Source: MTS

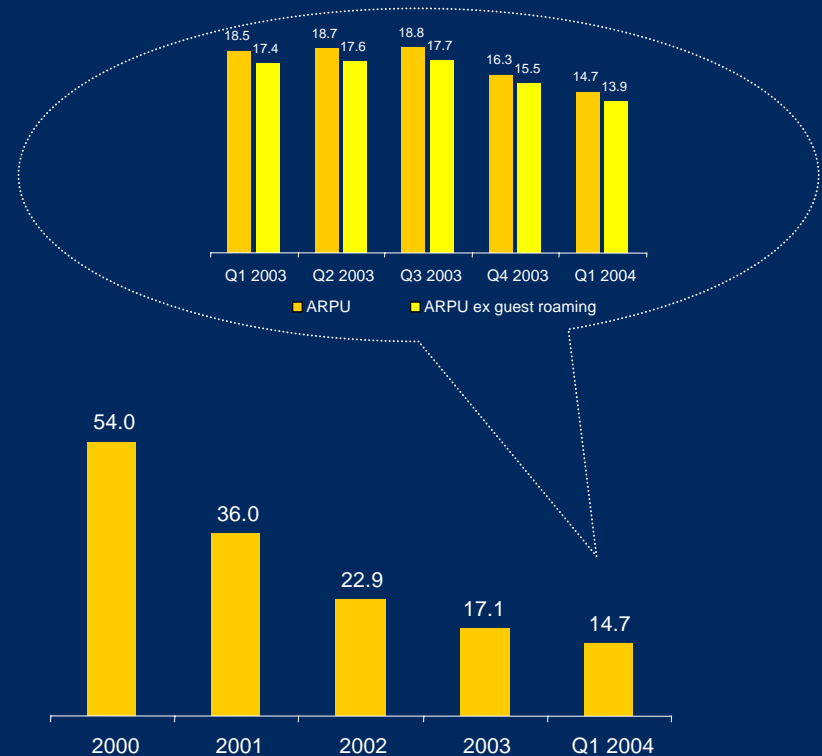


# MTS in Russia: Key Figures (ARPU)



- ARPU from pre-paid *Jeans* customers increased from \$9.3 in Q4 2003 to \$9.6 in Q1 2004; for the same period, ARPU from *MTS* customers declined from \$20.1 to \$19.8
- However, as the result of an increased share of pre-paid subscribers in the customer mix, the blended ARPU declined in Q1 2004 to \$14.7 compared to \$16.3 in the previous quarter
- ARPU from VAS in Q1 2004 was at \$1.6 (11% of total ARPU) compared to \$1.4 (9% of total ARPU) in the previous quarter

ARPU in Russia (US\$)



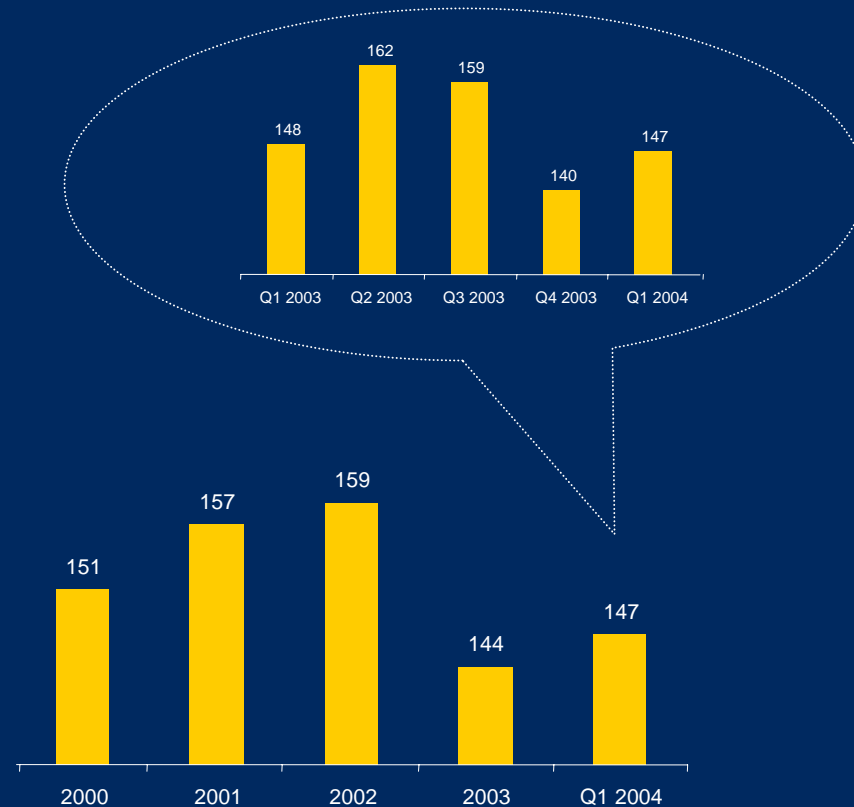
Source: MTS

# MTS in Russia: Key Figures (MOU)



- ❑ MOU from both *Jeans* and *MTS* customers increased in Q1 2004 compared to the previous quarter, from 84 minutes to 106 minutes for *Jeans* and from 169 minutes to 189 minutes for *MTS*
- ❑ The increase in usage is largely due to an increase in number of calls within the network, as well as to the increase of regional pre-paid *Jeans* customers in the customer mix (regional *Jeans* customers generally talk more than *Jeans* customers in Moscow as the per-minute tariffs in the regions are lower)

MOU in Russia (minutes)



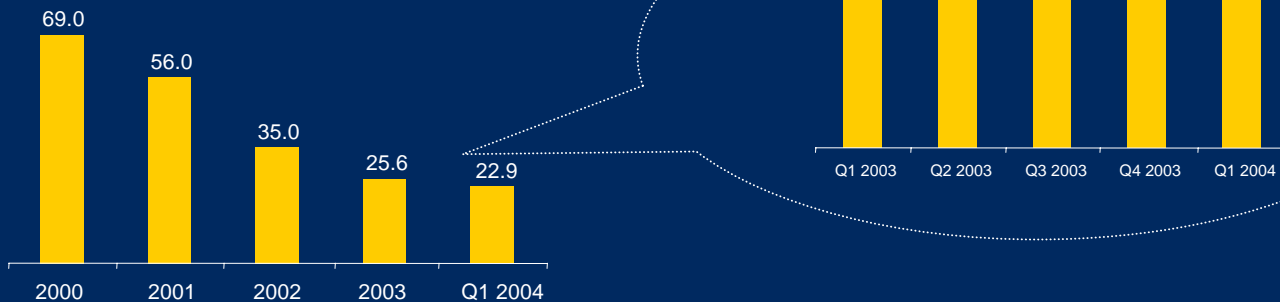
Source: MTS

# MTS in Russia: Key Figures (SAC & Churn)



- SAC per gross additional subscriber continued to decline due to lower dealer commissions for mass-market subscribers, increased economies of scale bringing advertising cost per gross addition down and the cheaper cost of attracting subscribers in the regions

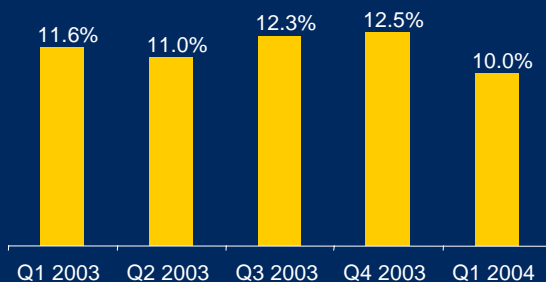
SAC in Russia (US\$)



Source: MTS

- Churn rate was 10.0% in Q1 2004, down from 12.5% in the previous quarter, mainly because of the increased focus on subscriber loyalty and new relationships with the dealers, whereby commissions are aligned with revenue from customers

Quarterly Churn in Russia



Source: MTS

# Recent Marketing Initiatives



- ❑ Retention of existing subscribers is an important part of MTS' strategy
- ❑ In April 2004 MTS was the first mobile operator in Russia to introduce a term-contract concept, whereby subscribers sign an annual contract and receive a 15% discount on all local and mobile calls (a penalty applies for an early breach of contract)

.....при условии заключения дополнительного соглашения на год.

СКИДКА **15%**  
НА ВСЕ ЗВОНКИ

ДЛЯ ТЕХ КТО ГОВОРИЛ, ГОВОРИТ И БУДЕТ ГОВОРИТЬ.....



**люди говорят**

С 12 апреля 2004 вы можете получить скидку 15% на все местные и мобильные вызовы сроком на целый год!

Для этого нужно:

- стать абонентом МТС.Оптим, МТС.Бизнес или МТС.VIP
- подать заявление установленной формы
- и непрерывно пользоваться услугами МТС в течение последующего года\*

На 15% увеличивается число включенных минут!

Для безлимитных тарифов – 15% скидка на абонентскую плату!

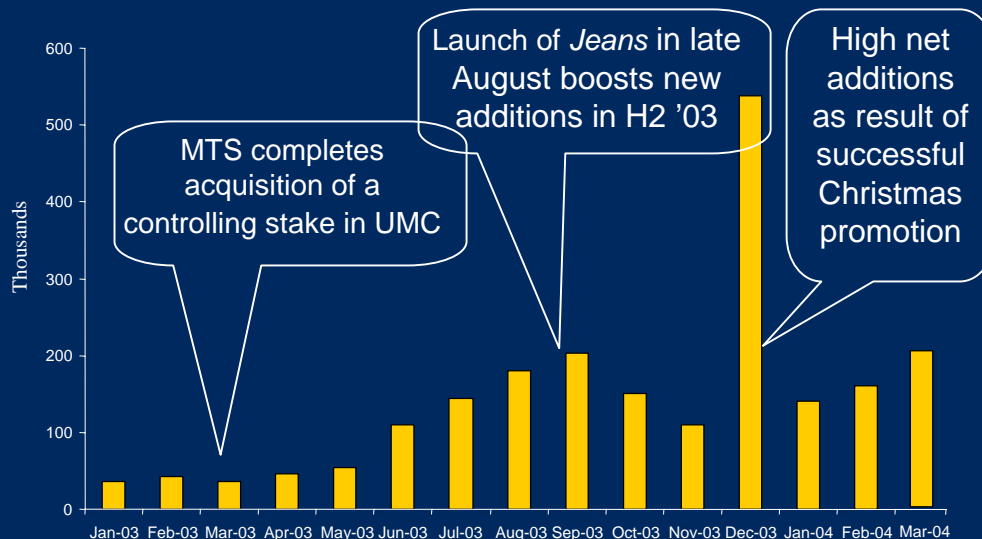
\* Более подробную информацию об условиях предоставления скидки вы можете получить на сайте, в офисах комплексного обслуживания и по телефону справочной службы своего региона.

# Market Growth: Ukraine



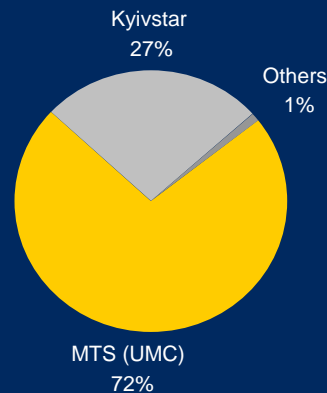
- During Q1 2004 the number of mobile phone users in Ukraine increased by around 0.7m to 7.2m, a penetration of 15.3%, up from 13.8% at YE 2003\*
- As of May 31, 2004, the number of subscribers in Ukraine reached approximately 8.0 million, with mobile penetration of 16.2%\*
- In Q1 2004 the Company's market share increased to 53% from 51% at YE 2003, with 72% share of market net additions during the quarter. The Company's market share continued to increase, reaching 55% as of May 31, 2004\*
- 81% of UMC's customers used pre-paid at the end of Q1 2004 (79% at YE 2003 and 82.1% as of May 31, 2004)

UMC's Net Additions, 2003-Q1 2004

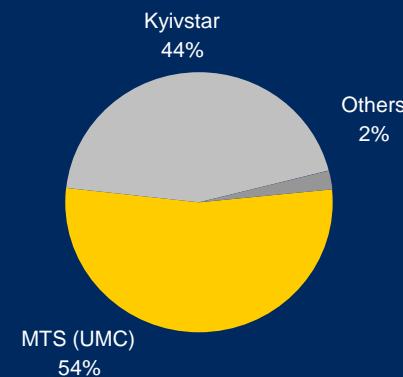


Source: MTS

Shares of Organic Net Additions in Ukraine in Q1 2004



Market Shares in Ukraine at the End of Q1 2004



Source: MTS, AC&M-Consulting

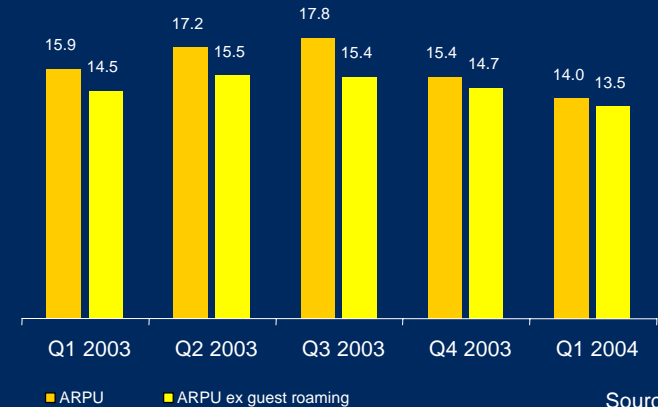
\*According to AC&M-Consulting, Dragon Capital

# MTS in Ukraine: Key Figures

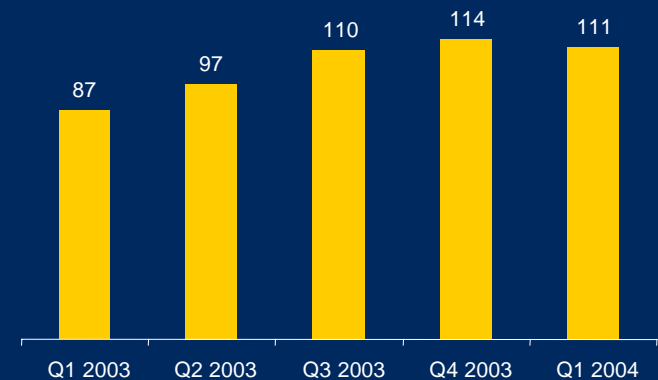


- ❑ In Q1 2004 ARPU declined to \$14.0 (post-paid ARPU of \$35.4; pre-paid ARPU of \$8.8) from \$15.4 (post-paid ARPU of \$37.6; pre-paid ARPU of \$9.0) in the previous quarter
- ❑ ARPU from VAS in Q1 2004 was at \$1.4 (10% of total ARPU) in Ukraine, compared to \$0.9 (6% of total ARPU) in Q4 2003
- ❑ ARPU decreased in Q1 2004 as a result of a change in a customer mix towards more pre-paid subscribers and a reduction in tariffs in 2003
- ❑ In Q1 2004 MOU decreased slightly to 111 minutes (post-paid MOU of 229 minutes; pre-paid MOU of 83 minutes) from 114 minutes (post-paid MOU of 220 minutes; pre-paid MOU of 84) in Q4 2003

ARPU in Ukraine (US\$)



MOU in Ukraine (minutes)

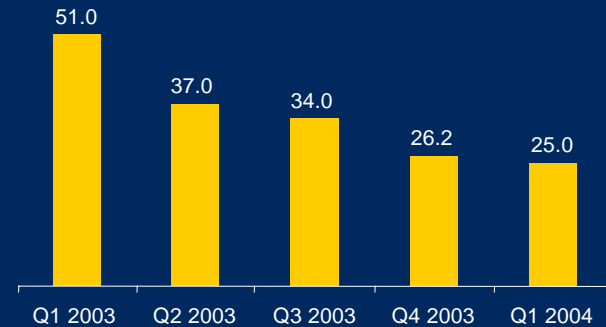


# MTS in Ukraine: Key Figures (cont'd)



- ❑ UMC's SAC declined during 2003 due to the lower costs of acquiring mass-market subscribers, increased economies of scale and effective CRM activities. This trend continued in Q1 2004 with a SAC of \$25.0, down from \$26.2 in Q4 2003
- ❑ UMC's churn rate of 6.0% declined in Q1 2004 compared to the previous quarter's churn rate of 6.5%, significantly lower than in Russia

SAC in Ukraine (US\$)



Source: MTS

Quarterly Churn in Ukraine

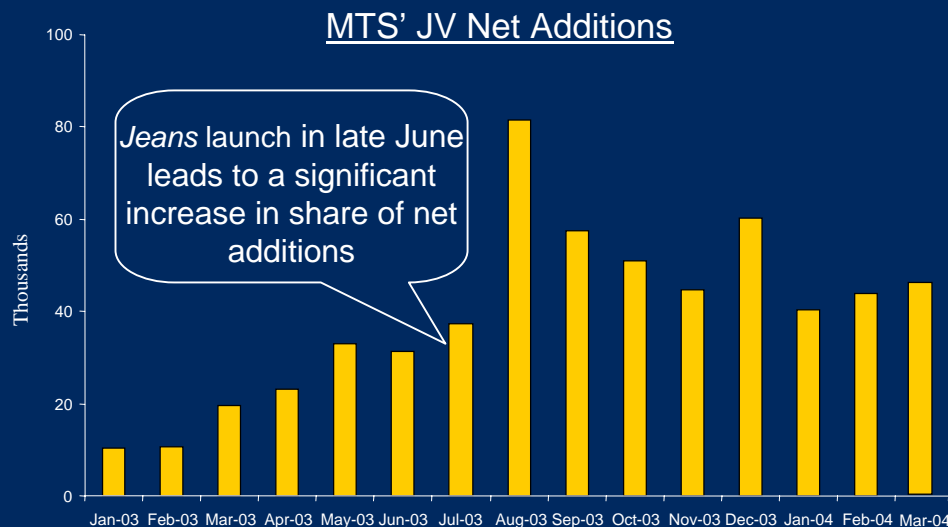


Source: MTS

# Market Growth: Belarus

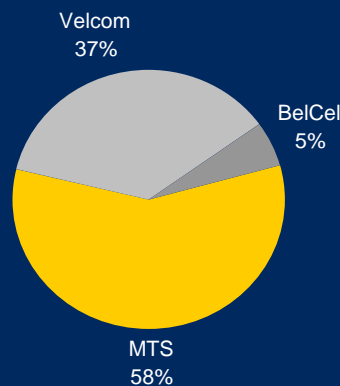


- ❑ In Q1 2004 the number of mobile phone subscribers totaled 1.3m and mobile penetration increased to 13.4%\*, up from 11.2% at YE 2003
- ❑ As of May 31, 2004, the number of subscribers reached 1.5m, with mobile penetration of 15.2%
- ❑ MTS' 49%-owned joint-venture provided services to 592,579 subscribers and further increased its market share from 42% at YE 2003 to 44% by the end of Q1 2004. The share of market net additions was 58%
- ❑ As of May 31, 2004, the Company's market share increased to 45%
- ❑ Because of its minority ownership in the joint-venture, MTS does not consolidate its Belarus operations into its financial or operating numbers

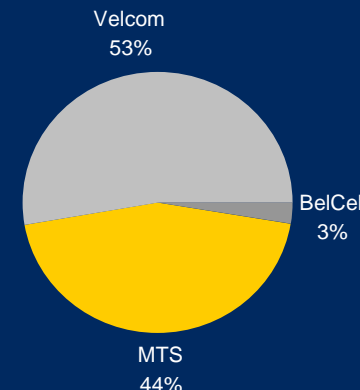


Source: MTS

Share of Organic Net Additions in Belarus in Q1 2004



Market Share in Belarus at the End of Q1 2004



Source: MTS, AC&M-Consulting

\*According to AC&M-Consulting



# Financials: Russia and Ukraine



US\$ mln	Q1 2004	Q4 2003	Change Q-on-Q	Q1 2003	Change Y-on-Y
Revenues	808.7	771.7	4.8%	446.1	81.3%
Operating income	306.8	272.8	12.5%	149.6	105.1%
OIBDA*	440.7	400.6	10.0%	224.8	96.0%
Net income	207.8	152.7	36.1%	80.2	159.1%
Operating margin	37.9%	35.3%	-	33.5%	-
OIBDA margin*	54.5%	51.9%	-	50.4%	-
Net margin	25.7%	19.8%	-	18.0%	-

Source: MTS

US\$ mln	Q1 2004		Q4 2003		Growth	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
Revenues	653.9**	154.8	629.2**	142.5	3.9%	8.6%
<i>Percent of MTS' revenues</i>	80.9%	19.1%	81.5%	18.5%	-	-
Depreciation and amortization	108.1	25.8	106.8	21.0	1.2%	22.9%
Net operating income	249.1	57.7	226.6	46.2	9.9%	24.9%
Net income	165.0	42.8	129.7	23.0	27.2%	86.1%
<i>Percent of MTS' net income</i>	79.4%	20.6%	84.9%	15.1%	-	-
OIBDA*	357.2	83.5	333.4	67.2	7.1%	24.3%
<i>OIBDA margin*</i>	54.6%	53.9%	53.0%	47.2%	-	-

Source: MTS

\*OIBDA represents operating income before depreciation and amortization. See Appendix A for definitions of OIBDA and reconciliations to operating income

\*\*Net of intercompany eliminations

# MTS' CAPEX and Leverage



- In Q1 2004 MTS' total CAPEX was \$232.2m
  - The Company spent \$213.4m on property, plant and equipment (of which \$31.6m spent in Ukraine)
  - Purchases of intangible assets during the quarter totaled \$18.8m (of which \$6.5m purchased in Ukraine)

## MTS' Leverage

US\$ mln	YE 2003	Q1 2004
Cash and cash equivalents	\$90.4	\$278.9
ST investments	\$245.0	\$80.0
Total debt	\$1 660.3	\$1 622.9
LT debt	\$950.1	\$941.0
ST debt	\$710.3	\$681.9
Net debt**	\$1 325.0	\$1 264.0
Stockholders' equity	\$1 723.9	\$1 939.6
Total assets	\$4 225.4	\$4 421.5
OIBDA*	\$1 338.5	\$440.7
Net debt / Assets	0.3x	0.3x
Net debt / Equity	0.8x	0.7x
Net debt / OIBDA*	1.0x	n/a

Source: MTS

\*See Appendix A for definitions of OIBDA and reconciliations to operating income

\*\*See Appendix C for reconciliations of net debt to balance sheets

## Progress

## Next steps

### Organizational structure

- Approved structure for Corporate and Macro-Regional Levels
- Approved headcount projections

- Adaptation of the organizational structures on regional level

### Business process redesign

- Defined and described key cross-functional processes and key internal functional processes

- Development of detailed process maps and templates for HQ, macro-regions and regions

### Key performance indicators

- Approved list of KPIs for each functional block to department level

- Development of KPI methodology and process automation (Strategic Performance Management Module)

### HR and key appointments

- New HR structure presented and approved
- Hired new VP for Sales and Services, CIO and Director of HR

- Build capability in HR skill set
- Creation of performance-linked compensation schemes

### Macro-regional structures

- Approved responsibility matrix for macro-regions
- Appointment of key positions in macro-regions
- Launched two new macro-regions: “Moscow” and “North-West”

- Preparation of regional transition plans
- Launch of new management systems in all of the macro-regions

*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	1999	2000	2001	2002	2003	Q1 2003	Q4 2003	Q1 2004
Operating income	115.6	139.0	324.1	464.4	922.6	149.6	272.8	306.8
Add: depreciation and amortization	53.8	87.7	133.3	209.7	415.9	75.2	127.8	133.9
OIBDA	169.4	226.7	457.4	674.1	1 338.5	224.8	400.6	440.7

US\$ mln	FY 2003		Q4 2003		Q1 2004	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
Operating income	790.9	131.7	226.6	46.2	249.1	57.7
Add: depreciation and amortization	349.5	66.4	106.8	21.0	108.1	25.8
OIBDA	1 140.4	198.1	333.4	67.2	357.2	83.5

# Appendix A (cont'd)



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

	1999	2000	2001	2002	2003	Q1 2003	Q4 2003	Q1 2004
Operating margin	32.3%	26.0%	36.3%	34.1%	36.2%	33.5%	35.3%	37.9%
Add: depreciation and amortization as a percentage of revenues	15.0%	16.4%	14.9%	15.4%	16.3%	16.9%	16.6%	16.6%
OIBDA margin	47.3%	42.3%	51.2%	49.5%	52.6%	50.4%	51.9%	54.5%

	FY 2003		Q4 2003		Q1 2004	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
Operating margin	36.7%	33.4%	36.0%	32.4%	38.1%	37.3%
Add: depreciation and amortization as a percentage of revenues	16.3%	16.9%	17.0%	14.8%	16.5%	16.6%
OIBDA margin	53.0%	50.3%	53.0%	47.2%	54.6%	53.9%

Free cash flow can be reconciled to our consolidated statements of cash flows as follows:

US\$ mln	Q1 2004	Q1 2003
Net cash provided by operating activities	303	128
Less:		
Purchase of PP&E	213	99
Purchase of intangible assets	19	14
Investments in advances to associates	-	10
Acquisition of subsidiaries, net of cash acquired	9	151
Free cash flow	62	(146)

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

US\$ mln	As of March 31, 2004	As of December 31, 2003
Current portion of LT debt and of capital lease obligations	682	710
LT debt	933	942
Capital lease obligations	8	8
Total debt	1 623	1 660
Less:		
Cash and cash equivalents	279	90
ST investments	80	245
Net debt	1 264	1 325