

**Mobile TeleSystems**

**Q1 2005  
Financial and Operating Results  
Management Presentation**

**June 2005**

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## *Operating Highlights*

- Continued strong subscriber growth with 4.5 million new customers added during Q1 2005
- 3.64m new customers added in April and May, bringing MTS' total consolidated subscriber base to 42.32m as of May 31, 2005
- Leading position maintained in each of MTS' national operating markets – Russia, Ukraine, Belarus and Uzbekistan

## *Financial Highlights*

- Consolidated revenues up 32% y-o-y to \$1.1bn
- Consolidated OIBDA\* up 22% y-o-y to \$537m (OIBDA margin of 51%)
- Consolidated net income up 12% y-o-y to \$232m
- Free cash-flow positive with \$50m

## *Dividends Declared*

- Annual dividends of approx. \$1.03 per ADR for the 2004 fiscal year, amounting to a total of \$409.5m, was recommended for approval by the BoD at the AGM to be held on June 21, 2005

## *Inclusion to the MSCI*

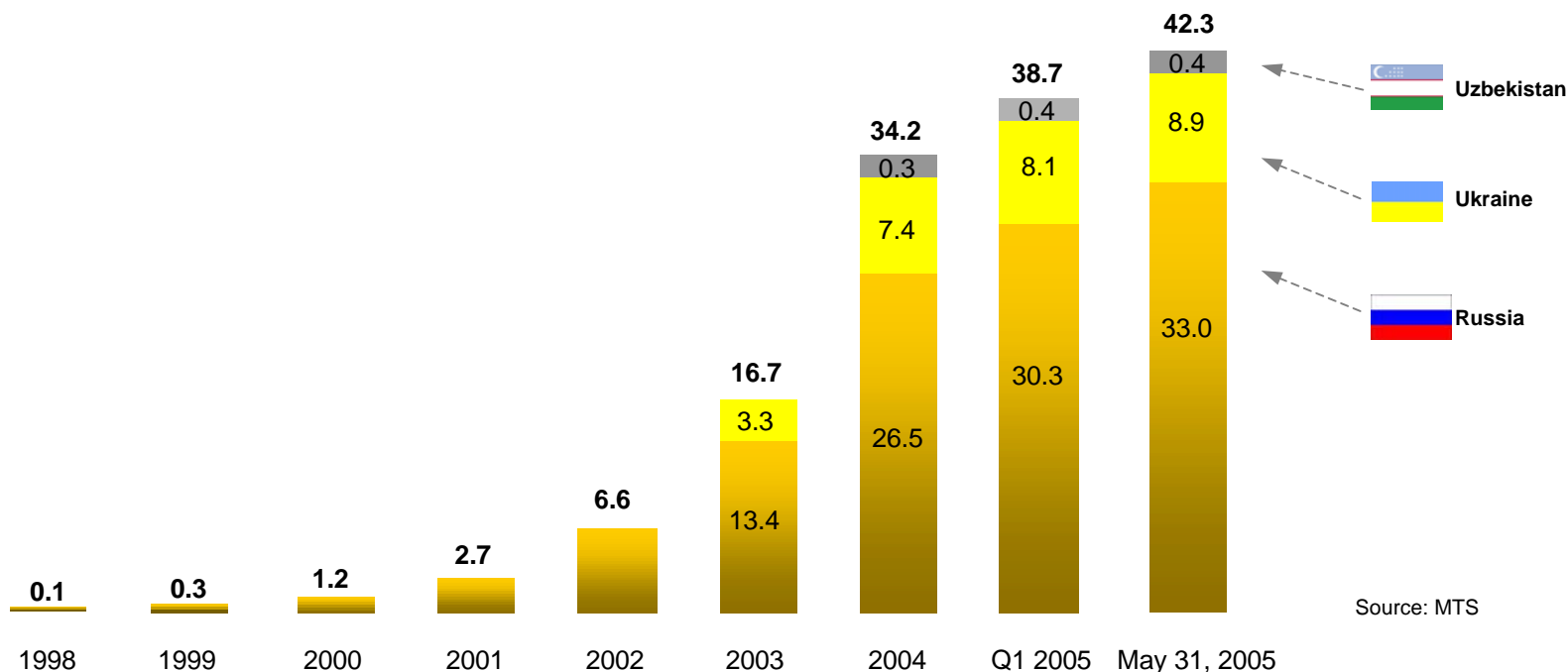
- MTS added to MSCI EM Index, effective May 31, 2005

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

# Subscriber Base Growth



MTS' Consolidated Subscriber Base, 1998 - May 31, 2005 (m)



- During Q1 2005, MTS added approximately 4.46m new customers to its consolidated subscriber base, providing services to a total of 38.69m subscribers (30.25m in Russia; 8.08m in Ukraine; 0.35m in Uzbekistan) at the end of Q1 2005, and to 42.32m subscribers (33.01m in Russia; 8.93m in Ukraine; 0.39m in Uzbekistan) as of May 31, 2005
- In addition, MTS' unconsolidated joint-venture in Belarus provided services to 1.40m subscribers at the end of Q1 2005, and 1.52m as of May 31, 2005
- YTD, MTS' consolidated subscriber base increased by 3.64m to reach 42.32m as of May 31, 2005

# Recent Marketing Initiatives



## *Russia*

- In Q1 2005 subscribers continued to spend promotional bonus minutes received during Q4 2004 as part of a holiday season subscriber acquisition campaign
- In March 2005 new *JEANS* subscribers were awarded \$10 worth of free traffic deferred over a six-month period: this promotion, which expired at the end of May, was aimed at increasing customer loyalty and new subscriber acquisition
- In April 2005 a new corporate tariff plan was launched, *MTS Team*, aimed at strengthening MTS' position in the Small Office, Home Office (SOHO) segment
- An array of new services are being planned for commercial launch by year-end: Ring Back Melody, BlackBerry, Mobile Television and Location-Based Services

## *Ukraine*

- The *Jeans-Winter* promotion that offered subscribers free on-net calls on five pre-selected numbers ended on February 28, 2005
- Loyalty program for pre-paid customers launched in Q1 2005: customers collect points that can be exchanged for free traffic or specific tariff plan spending
- New line of tariff plans launched in April and May for all MTS products in Ukraine (*Post-Paid Private*, *Post-Paid Business*, *SimSim* and *Jeans*) is much simpler, more transparent and better designed to fit particular segment requirements

# Key Operating Indicators – Russia



- Continued strong subscriber growth momentum: 3.71m subscribers added in Q1 2005, and 2.76m during April-May: total subscriber base of 33.01m at the end of May 2005
- Leading market share maintained in both Russia and Moscow
- Churn declined year-on-year as a result of focus on subscriber loyalty and retention
- MOU decline driven by:
  - Dilution of subscriber mix by low usage customers
  - Negative seasonal factors (less working days in January and February, and lower subscriber activity during winter months)
- ARPU continued to decline as a result of:
  - Lower MOU
  - Effect of bonus minutes received by subscribers in Q4 2004 that continued to be spent during Q1 2005
- SAC per gross new subscriber continued to decline

	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Total Russian market (mln)	85.6	74.4	59.0	49.5	42.3
Mobile penetration	59%	51%	41%	34%	29%
Number of subscribers (mln)	30.3	26.5	20.8	18.1	15.3
Market share nationwide	35%	36%	35%	37%	37%
Market share - Moscow	44%	44%	45%	46%	43%
Market share - St Petersburg	32%	32%	32%	33%	33%
Market share - rest of country	33%	33%	32%	33%	34%
Share of <i>Jeans</i> customers	81%	77%	71%	65%	57%
Quarterly churn	6.7%	6.3%	6.7%	7.7%	10.0%

Source: MTS, AC&M Consulting

	Q1 2005	FY 2004	Q4 2004	Q3 2004	Q2 2004	Q1 2004
ARPU (US\$)	9.1	12.2	11.2	14.0	14.1	14.1
<i>MTS</i> ARPU	20.5	20.3	22.6	24.2	21.4	19.8
<i>Jeans</i> ARPU	5.9	8.1	7.3	9.3	9.6	9.6
ARPU ex guest roaming (US\$)	9.0	12.0	10.9	13.7	13.7	13.9
ARPU from VAS (US\$)	1.2	1.3	1.3	1.4	1.2	1.5
VAS as % of total ARPU (US\$)	13%	11%	12%	10%	8%	10%
MOU (minutes)	138	157	164	168	160	147
<i>MTS</i> MOU	247	222	273	235	216	189
<i>Jeans</i> MOU	109	125	127	137	124	106
SAC per gross new subscriber (US\$)	18.2	21.0	19.4	21.3	21.4	22.9
Dealer commission	12.6	13.9	12.8	12.5	14.6	16.7
Advertising & marketing	5.6	7.1	6.6	8.9	6.8	6.3

Source: MTS

# Key Operating Indicators – Ukraine



- 0.7m subscribers added in Q1 2005, and 0.8m during April-May: total subscriber base of 8.93m at the end of May 2005
- Market share decreased from 53% to 50% as a result of increased number of players and aggressive promotions by competition
- ARPU decline due to:
  - Same negative seasonal factors that influenced the Company's ARPU in Russia
  - Promotion that ended in February, whereby pre-paid customers offered free on-net calls on five pre-selected numbers
  - Political turbulence at the end of 2004 that led to a decline in consumer spending at the beginning of 2005, resulting in a short-term negative effect on economic activity
- SAC increase in Q1 2005 due to non-recoverable import VAT on handset subsidies (new law introduced on January 1, 2005 and subsequently cancelled on March 31, 2005), and increased share of post-paid customers in new additions compared to Q4 2004

	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Total Ukrainian market (mln)	16.1	13.8	10.6	8.4	7.2
Mobile penetration	34%	29%	22%	17%	15%
Number of subscribers (mln)	8.1	7.4	5.5	4.6	3.8
Market share nationwide	50%	53%	52%	55%	53%
Share of pre-paid customers ( <i>Jeans &amp; SIM-SIM</i> )	87%	86%	83%	83%	81%
Quarterly churn	5.1%	1.7%	5.9%	5.2%	6.0%

Source: MTS, AC&M Consulting

	Q1 2005	FY 2004	Q4 2004	Q3 2004	Q2 2004	Q1 2004
ARPU (US\$)	10.0	12.6	12.4	15.4	14.6	14.0
Post-paid ARPU	33.8	37.5	37.2	43.3	39.0	35.4
Pre-paid ARPU	6.4	7.9	8.0	9.7	9.3	8.8
ARPU ex guest roaming (US\$)	9.9	12.2	12.1	14.6	14.1	13.5
ARPU from VAS (US\$)	1.5	1.4	1.6	1.7	1.4	1.4
VAS as % of total ARPU (US\$)	15%	11%	13%	11%	9%	10%
MOU (minutes)	130	114	127	136	127	111
Post-paid MOU	299	287	327	333	284	229
Pre-paid MOU	104	82	92	96	93	83
SAC per gross new subscriber (US\$)	22.1	18.6	15.4	20.7	17.8	25.0
Dealer commission	4.3	4.6	2.8	5.6	5.7	6.0
Advertising & promotion	5.3	3.7	4.7	3.3	2.6	3.6
Handset subsidy	9.9	7.9	5.5	9.7	7.1	12.3
SIM card & voucher cost	2.6	2.5	2.4	2.2	2.4	3.0

Source: MTS

# Key Operating Indicators – Uzbekistan & Belarus



## Uzbekistan

- Approximately 42 thousand subscribers added in Q1 2005
- Leading 58% market share sustained
- 386 thousand customers at the end of May 2005

Uzbekistan	Q1 2005	Q4 2004	Q3 2004
Total Uzbek market (thousands)	610.0	538.5	483.8
Mobile penetration	2%	2%	2%
Number of subscribers (thousands)	352.0	310.2	263.2
Market share nationwide	58%	58%	54%
ARPU (US\$)	16.8	18.7	19.9
MOU (minutes)	413	419	408

Source: MTS

## Belarus (MTS' unconsolidated joint-venture)

- Approximately 0.2m subscribers added in Q1 2005
- Market share improved from 49% to 50% during Q1 2005
- 1.52m customers at the end of May 2005

Belarus	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Total Belarus market (mln)	2.8	2.4	2.0	1.6	1.3
Mobile penetration	28%	24%	20%	16%	14%
Number of subscribers (mln)	1.4	1.2	1.0	0.7	0.6
Market share nationwide	50%	49%	49%	46%	44%
ARPU (US\$)	11.0	12.1	13.3	13.9	13.8
MOU (minutes)	410	426	421	448	386

Source: MTS, AC&M Consulting



# Financial Highlights by Country of Operation



US\$ mln	Q1 2005	Q4 2004	Change	Q1 2004	Change
<b>Russia</b>					
Revenues	802.8	818.8	(2.0%)	648.2	23.8%
OIBDA	415.0	373.1	11.2%	357.2	16.2%
OIBDA margin	51.7%	45.6%	-	55.1%	-
Net income	171.4	127.0	34.9%	165.0	3.9%
<b>Ukraine</b>					
Revenues	238.3	245.9	(3.1%)	154.8	53.9%
OIBDA	112.2	114.8	(2.3%)	83.5	34.4%
OIBDA margin	47.1%	46.7%	-	53.9%	-
Net income	58.0	43.4	33.7%	42.8	35.6%
<b>Uzbekistan</b>					
Revenues	17.5	16.7	4.7%	N/A	N/A
OIBDA	9.7	10.0	(3.0%)	N/A	N/A
OIBDA margin	55.5%	60.0%	-	N/A	N/A
Net income	3.0	3.8	(21.1%)	N/A	N/A
<b>Intercompany elimination</b>					
Revenues	(1.5)	(1.7)	(10.0%)	(0.3)	400.0%
<b>Consolidated</b>					
Revenues	1057.0	1079.7	(2.1%)	802.7	31.7%
OIBDA	536.9	497.9	7.8%	440.7	21.8%
OIBDA margin	50.8%	46.1%	-	54.9%	-
Net income	232.5	174.3	33.4%	207.8	11.9%

- The consolidation of three operators acquired at the end of 2004 (Gorizont RT, Telesot-Alaniya and Sibintertelecom) had a \$16.6m positive effect on revenues, an \$8.2m positive effect on OIBDA and a \$3.8 negative effect on net income

Source: MTS

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

# Free Cash-Flow Dynamics



- Q1 2005 was free cash-flow positive with approximately \$50m (after acquisitions)
- At the end of the quarter MTS' cash, cash equivalents and short-term investments amounted to \$791m to be spent on planned acquisitions in Russia and the CIS as well as dividends for 2004

US\$ mln	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005
Net cash provided by operating activity	303.0	487.8	490.4	430.4	482.7
Cash expenditures on PP&E and intangible assets	(232.2)	(243.6)	(304.4)	(578.7)	(431.0)
Other	(0.4)	(0.7)	(1.1)	1.8	0.4
Free cash-flow before acquisitions	70.4	243.5	184.9	(146.5)	52.0
Acquisitions (net of cash acquired)	(8.5)	(12.3)	(151.4)	(183.5)	(2.1)
Free cash-flow after acquisitions	61.9	231.1	33.6	(330.1)	49.9

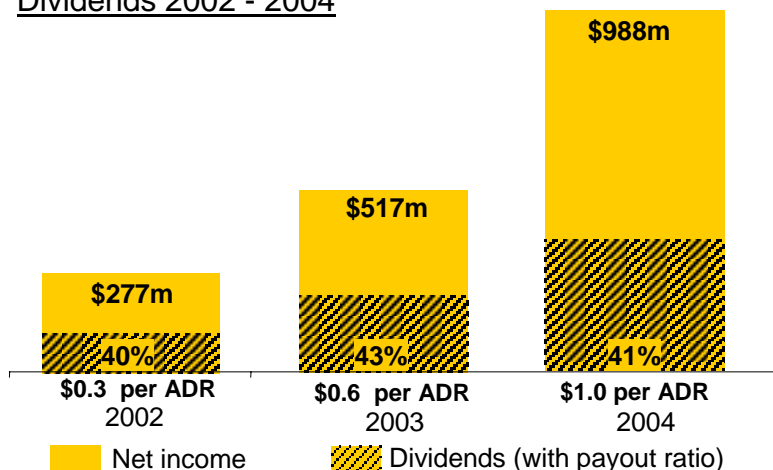
Source: MTS

# CAPEX and Leverage



- CAPEX for Q1 2005 amounted to \$432m, of which:
  - \$332m cash expenditures on PP&E (\$224m in Russia; \$107m in Ukraine; \$2m in Uzbekistan)
  - \$99m cash expenditures on intangibles assets (\$90m in Russia; \$9m in Ukraine; \$0.1m in Uzbekistan)
- For FY 2005 the Company plans to spend \$2.0bn on CAPEX (excluding acquisitions)
- Record high dividends announced for 2004

## Dividends 2002 - 2004



Source: MTS

## MTS' Leverage

US\$ mln	December 31, 2004	March 31, 2005
Cash and cash equivalents	\$274.2	\$708.3
ST Investments	\$73.4	\$83.2
Total debt	\$1,937.1	\$2,330.2
LT Debt	\$1,557.7	\$1,975.4
ST Debt	\$379.4	\$354.8
Net debt*	\$1,589.5	\$1,538.7
Stockholders' equity	\$2,523.3	\$2,759.3
Total assets	\$5,581.2	\$6,299.5
LTM OIBDA**	\$2,094.8	\$2,191.1
Net debt/ Assets	0.3x	0.2x
Net debt/ Equity	0.6x	0.6x
Net debt/ OIBDA	0.8x	0.7x

Source: MTS

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

\*\*LTM OIBDA represents the last twelve months of rolling OIBDA; see Appendix for reconciliations to our consolidated statements

Per ADR dividend amount adjusted to 1:4 ADR split that was completed at the beginning of 2005

Dividends for 2004 to be approved by the AGM on June 21, 2005

# Accounting Corrections for Q4 & FY 2004



- As a result of recent financial statement restatements by many other companies with U.S. listing and the publication of a letter by the Chief Accountant of the U.S. SEC in February of 2005 regarding the interpretation of longstanding lease accounting principles, MTS has corrected its accounting practices for the leasehold improvements in Q4 2004. The primary effect of this accounting correction was to accelerate to earlier periods depreciation expenses with respect to certain components of previously capitalized leasehold improvements
- The cumulative effect of the accounting correction was reflected in a net charge to net income of \$34.9m in Q4 2004, of which \$21.4m relates to the period 1998 to 2003. The net cumulative charge is comprised of a \$44.5m increase in depreciation expense related primarily to depreciation of capitalized leasehold improvements expenses for base stations, a \$1.4m decrease in the equity net income from MTS-Belarus (also related to depreciation of capitalized leasehold improvements expenses for base stations positions), and an \$11m increase related to additional deferred tax benefit due to the change in accounting base for property, plant and equipment. All components of the net charge are non-cash and do not impact historical or future cash-flow or the timing of payments under the related leases

	Before corrections	After corrections	Before corrections	After corrections
	Year ended		Three months ended	
US\$ mln	December 31, 2004		December 31, 2004	
<b>Income statement</b>				
Depreciation and amortization	631.3	675.7	180.5	225.0
Net operating income	1,463.5	1,419.1	317.3	272.9
Other expense (income)	(34.9)	(33.5)	(12.9)	(11.5)
Total other expense (income), net	51.3	52.7	13.1	14.5
Income before provision for income taxes and minority interest	1,418.8	1,372.9	308.2	262.3
Provision for income taxes	365.7	354.7	96.1	85.1
Net income	1,022.7	987.9	209.1	174.3
<b>Cash-flow</b>				
Net income	1,022.7	987.9		
Depreciation and amortization	631.3	675.7		
Equity in net income of associates	(25.6)	(24.1)		
Deferred taxes	(65.0)	(76.0)		
<b>As of</b>				
<b>December 31, 2004</b>				
<b>Balance sheet</b>				
Property, plant and equipment	3,278.8	3,234.3		
Investments in and advances to associates	82.6	81.2		
Total assets	5,627.1	5,581.2		
Deferred income taxes	171.4	160.4		
Total long-term liabilities	1,776.8	1,765.8		
Total liabilities	3,006.8	2,995.8		
Retained earnings	1,948.4	1,913.6		
Total shareholders' equity	2,558.2	2,523.3		
Total liabilities and shareholders' equity	5,627.1	5,581.2		

Source: MTS

# 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	2000	2001	2002	2003	2004		Q1 2005	Q4 2004	Q1 2004
Net operating income	139.0	324.1	464.4	922.6	1419.1		338.7	272.9	306.8
Add: depreciation and amortization	87.7	133.3	209.7	415.9	675.7		198.2	225.0	133.9
OIBDA	226.7	457.4	674.1	1338.5	2094.8		536.9	497.9	440.7

US\$ mln	2004			Q4 2004			Q1 2005		
	Russia	Ukraine	Uzbekistan	Russia	Ukraine	Uzbekistan	Russia	Ukraine	Uzbekistan
Net operating income	1096.8	317.9	4.4	196.4	72.1	4.4	257.6	76.4	4.7
Add: depreciation and amortization	539.8	124.9	11.0	176.7	42.7	5.6	157.4	35.8	5.0
OIBDA	1636.6	442.8	15.4	373.1	114.8	10.0	415.0	112.2	9.7

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

US\$ mln	2000	2001	2002	2003	2004		Q1 2005	Q4 2004	Q1 2004
Net operating margin	25.9%	36.3%	34.1%	36.2%	36.5%		32.0%	25.3%	38.2%
Add: depreciation and amortization as a percentage of revenues	16.4%	14.9%	15.4%	16.3%	17.4%		18.8%	20.8%	16.7%
OIBDA margin	42.3%	51.2%	49.5%	52.6%	53.9%		50.8%	46.1%	54.9%

US\$ mln	2004			Q4 2004			Q1 2005		
	Russia	Ukraine	Uzbekistan	Russia	Ukraine	Uzbekistan	Russia	Ukraine	Uzbekistan
Net operating margin	36.1%	38.2%	16.4%	24.0%	29.3%	26.4%	32.1%	32.1%	26.9%
Add: depreciation and amortization as a percentage of revenues	17.8%	15.0%	41.1%	21.6%	17.4%	33.6%	19.6%	15.0%	28.6%
OIBDA margin	53.9%	53.2%	57.5%	45.6%	46.7%	60.0%	51.7%	47.1%	55.5%

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

US\$ mln	As of March 31, 2005	As of Dec. 31, 2004
Current portion of LT debt and of capital lease obligations	354.8	379.4
LT debt	1972.8	1553.8
Capital lease obligations	2.6	3.9
Total debt	2330.2	1937.1
Less:		
Cash and cash equivalents	708.3	274.2
ST investments	83.2	73.4
Net debt	1538.7	1589.5

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

US\$ mln	Year Ended	Three months ended	Nine months ended
	Dec 31, 2004	Mar 31, 2004	Dec 31, 2004
	<b>A</b>	<b>B</b>	<b>C=A-B</b>
Net operating income	1419.1	306.8	1112.3
Add: depreciation and amortization	675.7	133.9	541.8
OIBDA	2094.8	440.7	1654.2
OIBDA for the three months ended			
March 31, 2005			536.9
LTM OIBDA at March 31, 2005			2191.1