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Russian mobile market: Prospects for further growth



Renaissance Capital Conference, Moscow, Russia
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Sustained profitability in Russia

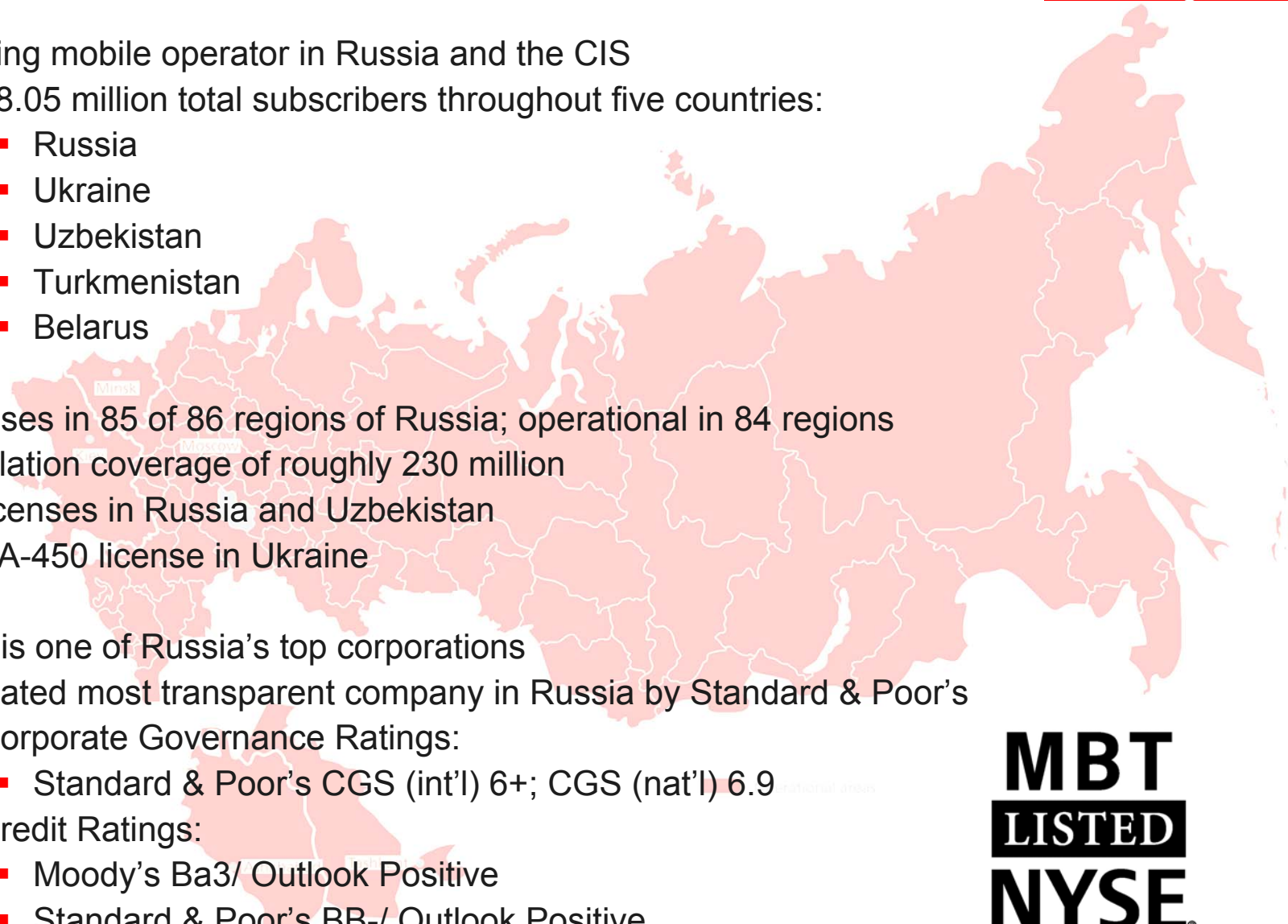
Total shareholder returns

Key takeaways



MTS Today

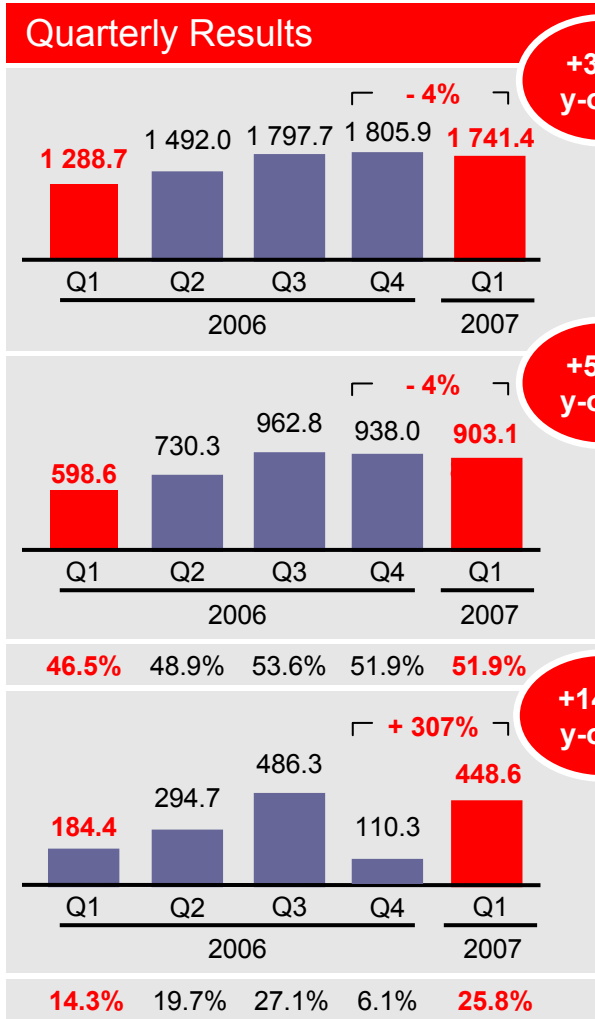
- Leading mobile operator in Russia and the CIS
 - 78.05 million total subscribers throughout five countries:
 - Russia
 - Ukraine
 - Uzbekistan
 - Turkmenistan
 - Belarus
- Licenses in 85 of 86 regions of Russia; operational in 84 regions
- Population coverage of roughly 230 million
- 3G licenses in Russia and Uzbekistan
- CDMA-450 license in Ukraine
- MTS is one of Russia's top corporations
 - Rated most transparent company in Russia by Standard & Poor's
 - Corporate Governance Ratings:
 - Standard & Poor's CGS (int'l) 6+; CGS (nat'l) 6.9
 - Credit Ratings:
 - Moody's Ba3/ Outlook Positive
 - Standard & Poor's BB-/ Outlook Positive



MBT
LISTED
NYSE



Group financial highlights



- Strong Group growth with Russia and Central Asian operations
- Increased profitability through optimized marketing and advertising spending
- Improvements in bottom line returns through effective financial management, including reduction in external financing and greater contribution of minority operations

MTS continues to deliver profitable growth and greater returns through its 3+1 Strategy



3+1 Strategy



Leadership Growth Value Creation

*MTS measures ROIC as (net income + interest expense + depreciation expense) / closing (equity + minority interest + long-term financial obligations)



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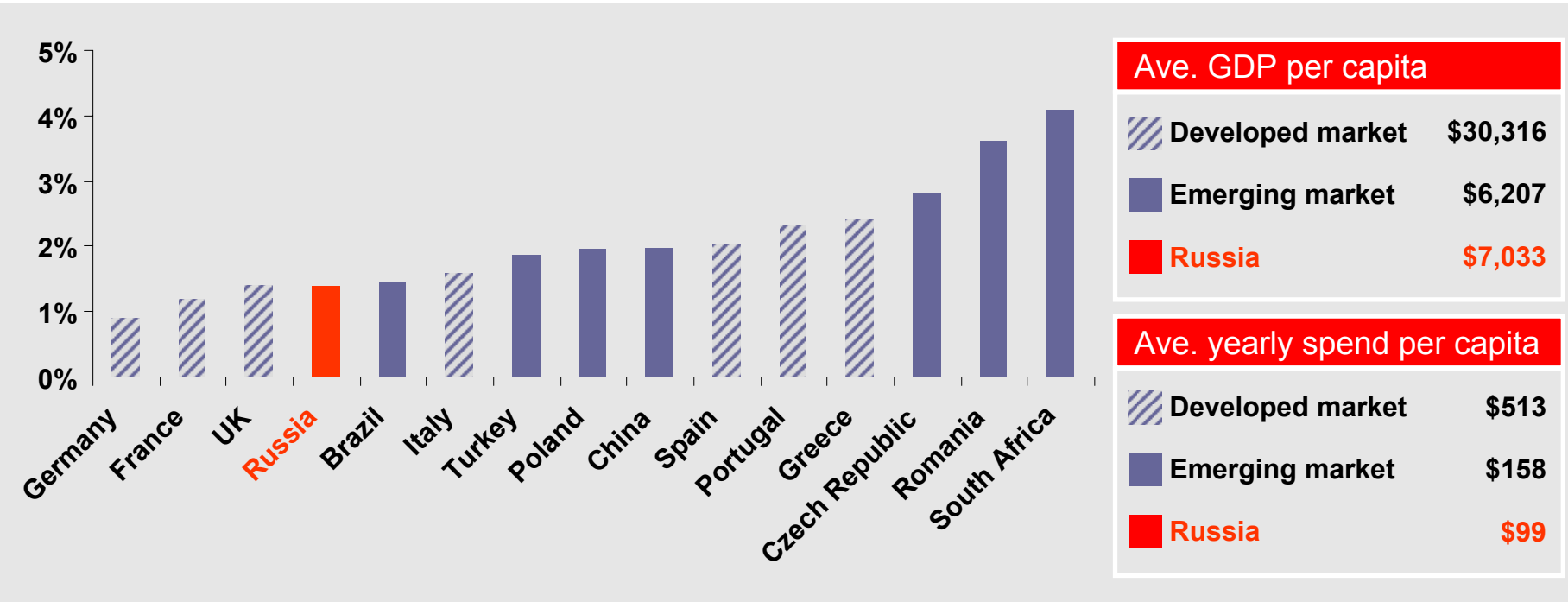
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Current wireless spending in Russia

Wireless spend as % of nominal GDP* 2006



* Goldman Sachs Research estimates, EIU, IMF World Economic Outlook Database, Merrill Lynch, Company estimates

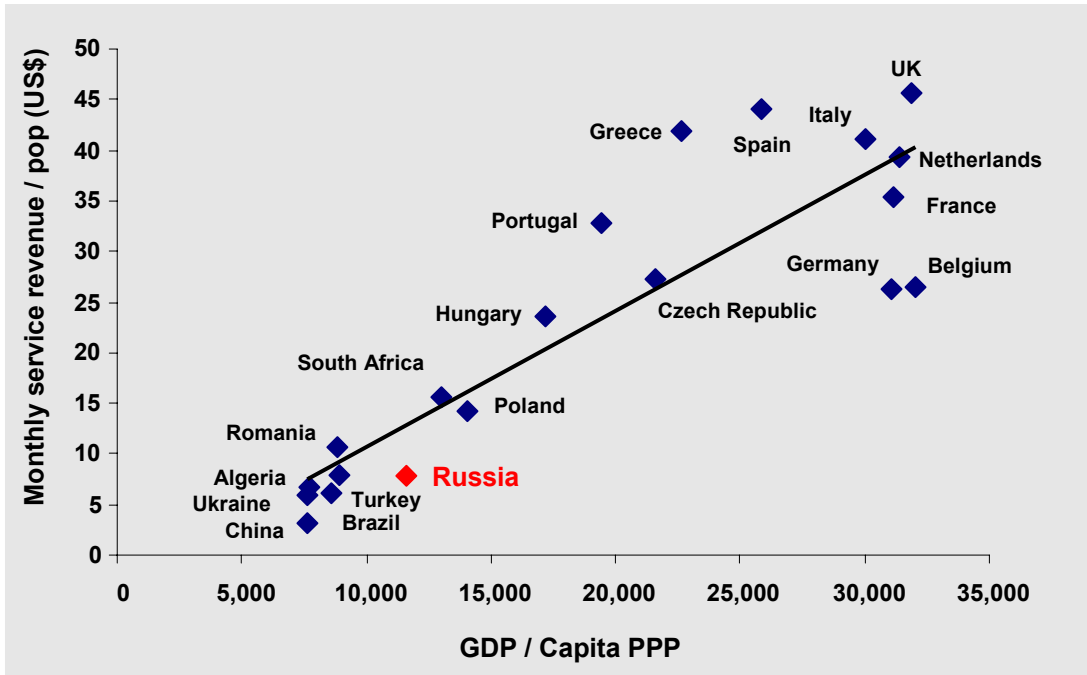
- Spending on mobile telephony in Russia lags other emerging markets around the world
 - As % of GDP, Russian spending at levels of developed markets
 - Absolute value of Russian mobile spend significantly lower than all markets

Relative spending levels in other developing markets indicate an opportunity exists to increase share of overall consumer spend



The potential wireless spending in Russia

Wireless spend vs. GDP per capita at PPP*



* Goldman Sachs Research estimates, IMF World Economic Outlook Database, Company estimates

- On a purchasing power parity (PPP) basis, comparing service revenues and GDP per capita indicates that consumers worldwide willingly spend more on wireless telephony
- The wireless sector in Russia is set to benefit in the near future from:
 - Sustained development of the Russian economy
 - Real income growth
 - Increased consumer consumption

Consumer spending capacity indicates potential growth of wireless market in Russia



Russia – bucking worldwide trends

APPM (US\$)	Q1 2006	Q1 2007
Asia Pacific	0.12	0.11
Europe	0.23	0.22
North America	0.07	0.06
Emerging Europe	0.12	0.10
Latin America	0.14	0.14
Russia	0.05	0.06

*Merrill Lynch Global Wireless Matrix, Company estimates

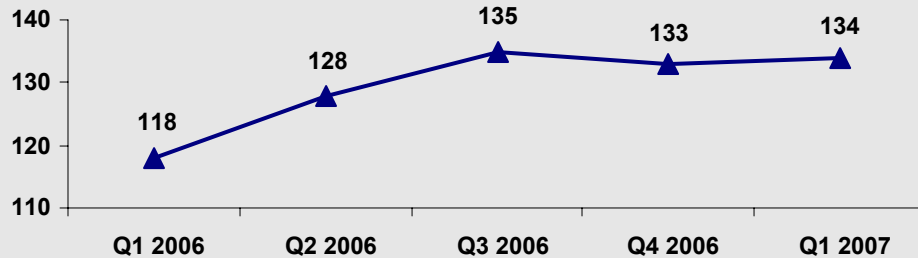
- Russia is one of the few markets with stable APPM
- Key macroeconomic factors:
 - Expansion of the Russian economy (5-7% in 2007)
 - Increasing consumer spending (est. 8-10% in 2007)
 - Double-digit nominal GDP growth (est. 30-40% by 2008)
 - Continued ruble appreciation versus the dollar

Operators seek to capitalize on effective tariff increases by stimulating usage

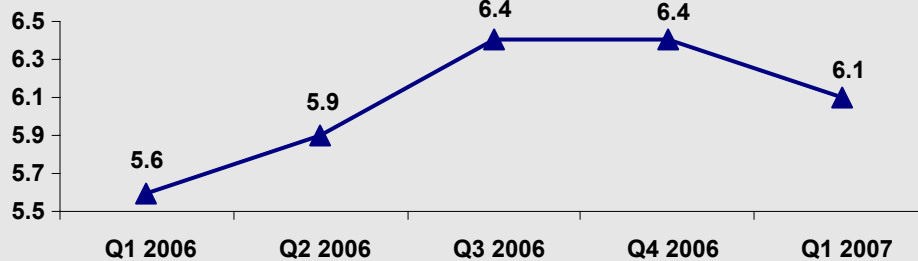


Short-term growth driver: stimulating usage

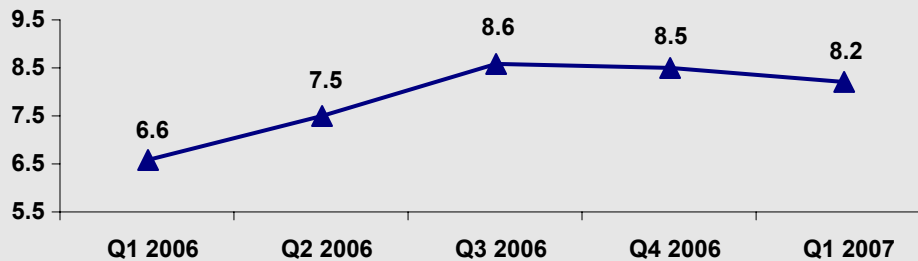
MOU MTS Russia (min)



APPM MTS Russia (US¢)



ARPU MTS Russia (US\$)



- Launch of new products designed to encourage greater usage and take advantage of CPP introduction drives MOU trends upward from Q1 2006
- Stabilization of average price per minute as function of improving macroeconomic situation
- Increasing usage at a higher per minute rate leads to improving ARPUs in spite of the addition of over 7 million new subscribers from Q1 2006 to Q1 2007

Utilization of same drivers that led to year-on-year 41% revenue growth in MTS Russia



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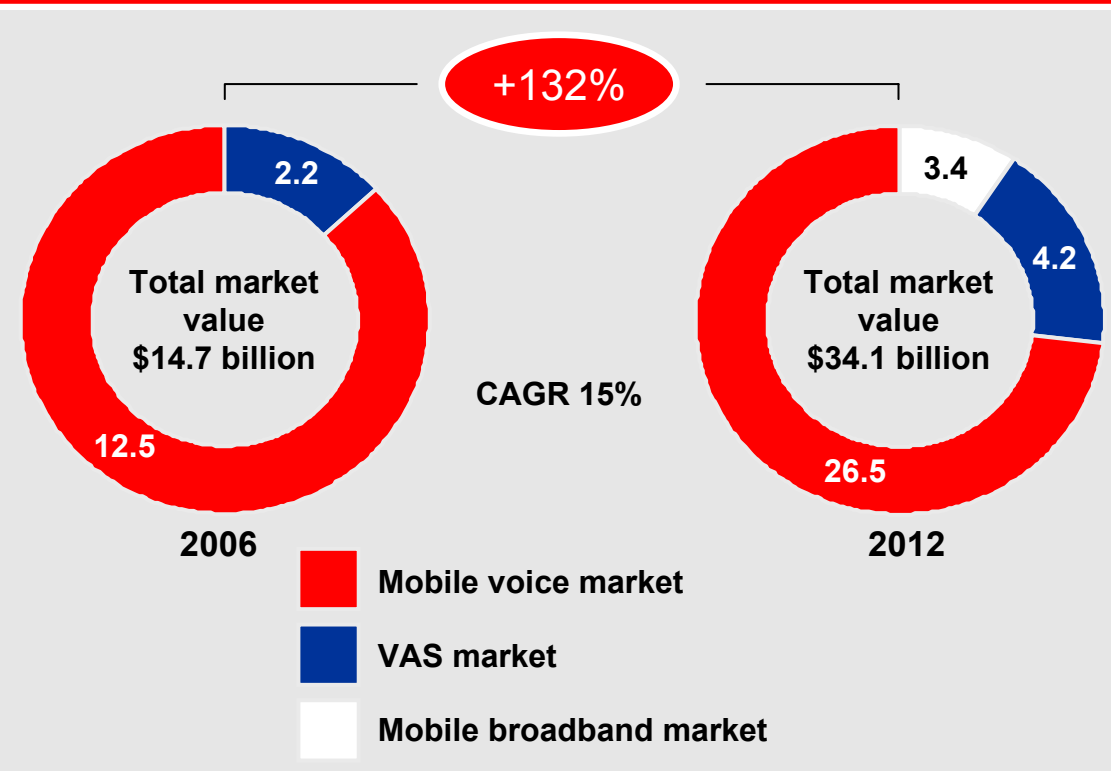
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Key takeaways



Medium- to long-term prospects: voice and data

Overall market value growth in Russia (US\$ bn)



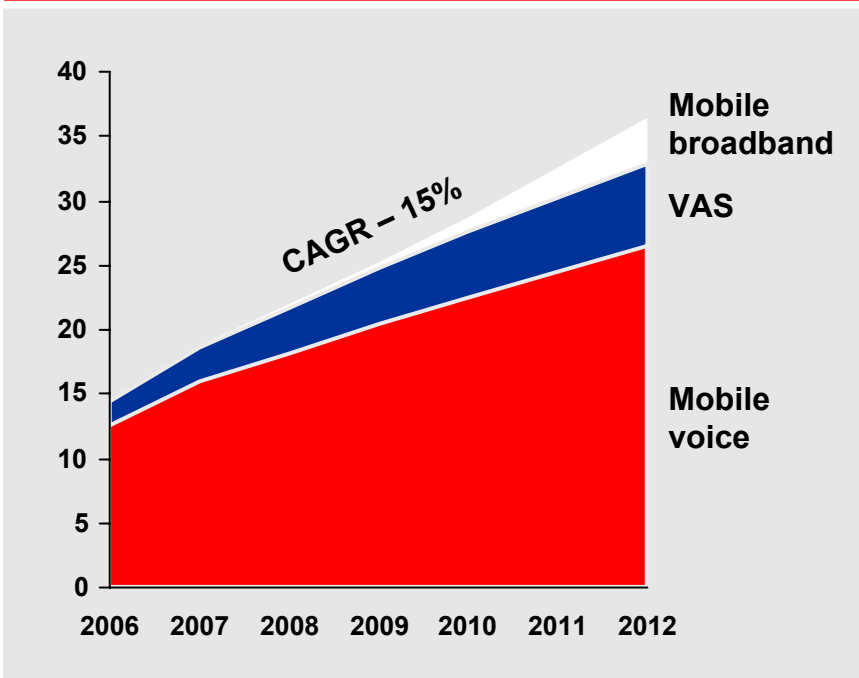
- **Voice** market will remain main growth driver for MTS for the next 3 years
- **Internet access and other VAS** will surpass voice services in terms of relative and absolute growth by 2010-2012
- **Investment** needed to leverage this market growth potential will require at least **\$14-15 billion** in the next five years

With networks running at high utilization rates, the market requires greater investment to meet future growth

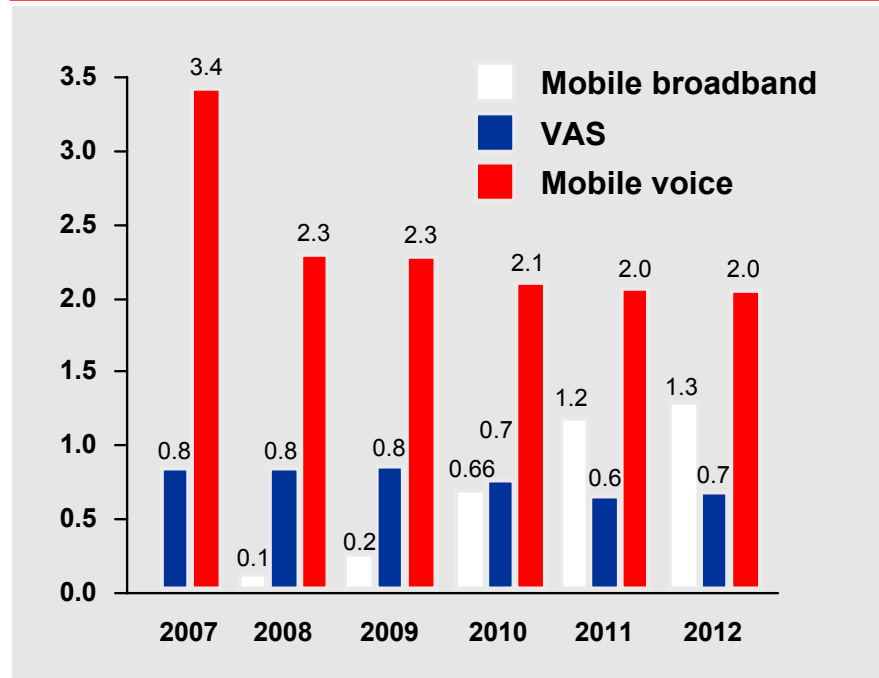


Russian market development in coming years

Overall market revenue potential (US\$ bn)



Y-o-Y market growth (US\$ bn)



- With broadband accounting for \$3.4 billion and VAS for \$6.4 billion by 2012, increased data revenue requires similar evolution of mobile networks

- While voice growth will stabilize, mobile broadband will increase revenues as technology and capacity become available in market

Russia will continue to grow thru 2012 at double-digit rates due to voice (CAGR 13%), data (CAGR 22%) and mobile broadband (CAGR 142%)

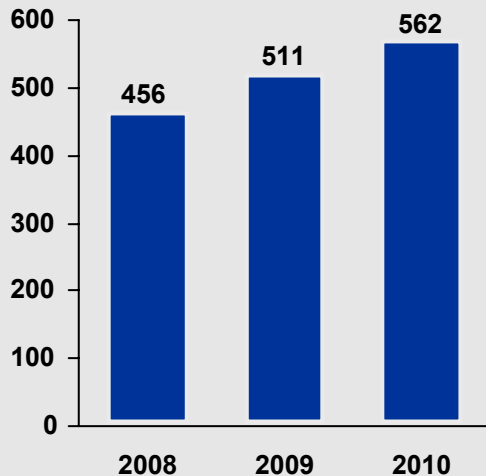


Key drivers of the Russian mobile voice market

Increasing consumer spending

Net disposable income

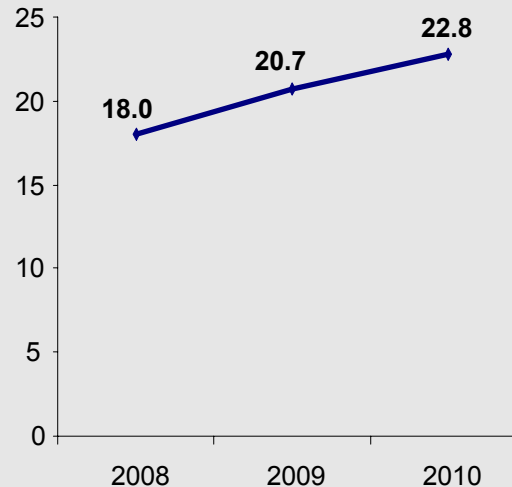
■ Monthly disposable income US\$ mln



- Expanding Russian economy
- Rise in nominal GDP
- Continued ruble appreciation

Fixed-mobile-substitution

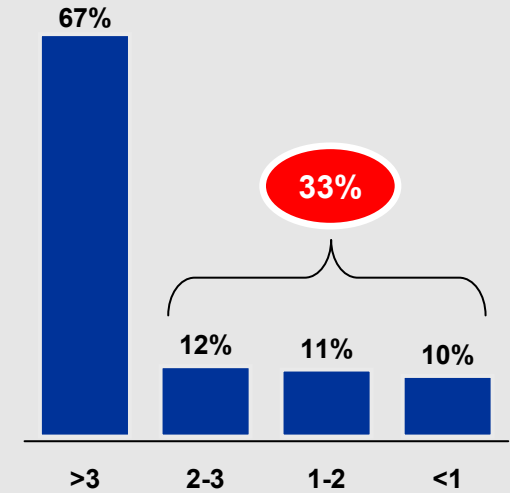
% of mobile-only users



- Rise in mobile-only users mirrors similar market developments around the world

Technology adoption

Usage experience (years)



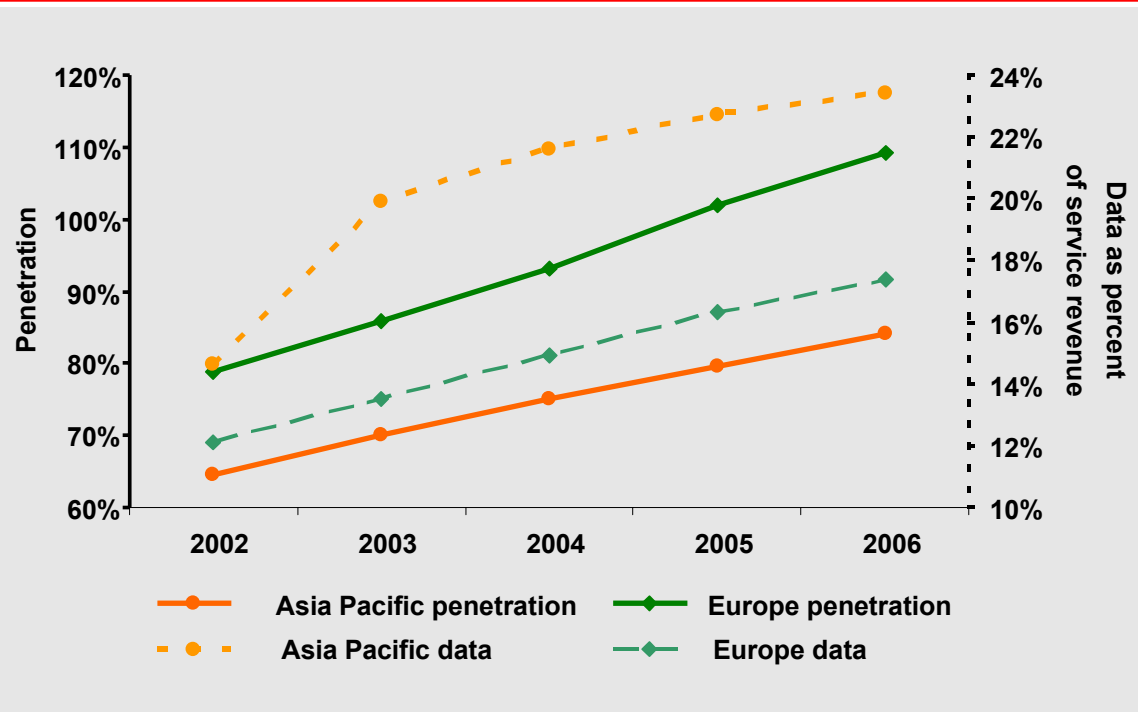
- Fully one-third of Russian users are recent adopters of both mobile voice and data technology

Key drivers will ensure voice revenue growth at the level $\approx 10\%$ for the next three years



Developed market data trends

Penetration levels vs. data as percent of service revenue*



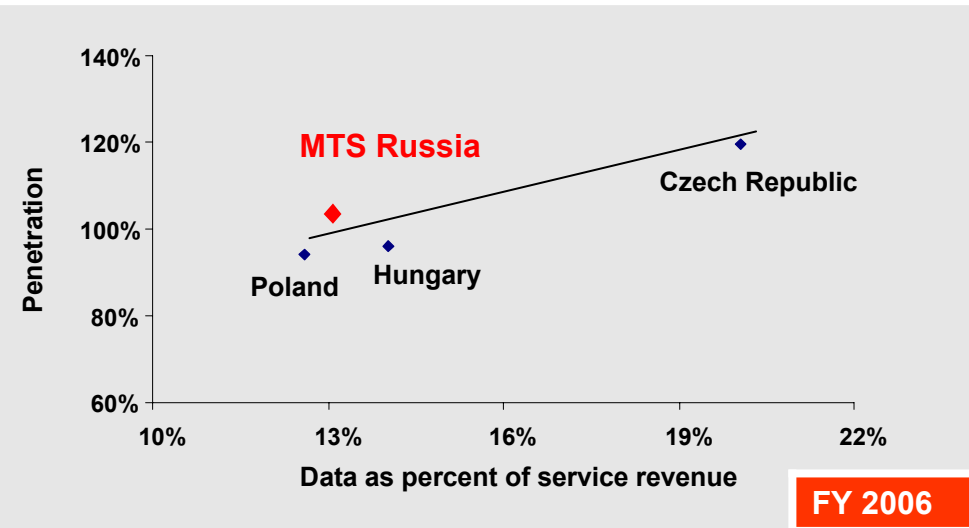
- Trends in developed markets show that as penetration increases, data revenues rise as a result of:
 - Product and technology innovation
 - Rising adoption rates
 - Lower-priced handsets and services
 - Improved network performance

Other developing markets suggest demand for data services increases and constitutes a higher percentage of service revenue as markets mature and reach high levels of penetration



Emerging market data trends

MTS Russia vs. Eastern Europe, 2006



- With similarly high levels of penetration but higher ARPUs, Eastern European markets provide an indication of what role data could play in the future of MTS Russia

FY 2006	ARPU (US\$)	Data ARPU (US\$)
Czech Republic	22.4	4.5
Hungary	22.5	3.2
Poland	19.6	2.5
Russia	7.5	1.0

As Russia penetration continues to rise, peer markets suggests data services – including mobile broadband – can exceed 20% of revenues by 2012

* Company estimates, Merrill Lynch Global Matrix data



3G: mobile broadband outlook for Russia

Key 3G elements	Europe at Launch	Russia at Launch	
Handset availability	Few devices available	264 HSPA-enabled devices ¹	<ul style="list-style-type: none"> 1.6 mln UMTS handsets in Russian market³
License and equipment costs	High costs	Minimal costs	<ul style="list-style-type: none"> Spectrum clearance costs insignificant compared to \$129 billion⁴ spent in Europe Equipment costs falling as seen by increased competition and industry consolidation
Data speed	Low transfer speed	Full broadband with HSPA	<ul style="list-style-type: none"> High-speed packet access enables a broader range of products and a better customer experience
Fixed-broadband substitution	Multiple data access points	Low Penetration	<ul style="list-style-type: none"> Fixed broadband penetration²: <ul style="list-style-type: none"> Russia 3.5% (2006) Moscow 25.9% (2006)
Lessons from Europe	Environment in Russia and CIS is better suited to a successful launch and widespread adoption		<ul style="list-style-type: none"> Use as capacity relief Internet as the killer application Powerful retention tool

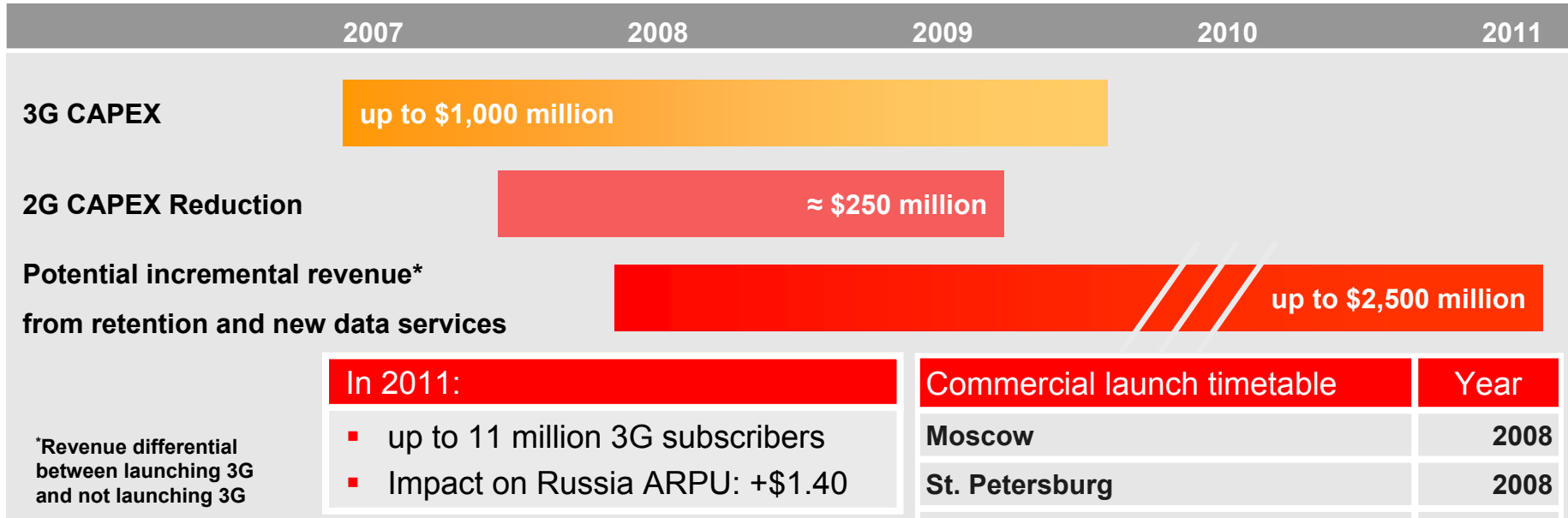
Adoption can be high due to a better customer experience in terms of speed, handset functionality and proven product portfolios

¹Global mobile Suppliers Association; ²Direct Info, 2006, by number of households; ³MForum Analytics, ⁴International Herald Tribune, 31 July 2006; MTS analysis



3G: incremental effect in Russia for MTS

Incremental effect of 3G



Provides a foundation for true mobile broadband:

- Innovative products catering to our core clients: corporate users and high net-worth individuals
- Reinforces brand values of quality and reliability
- Ensures continuing customer loyalty
- Greater efficiency in CAPEX spending

As both a revenue-generating function and loyalty mechanism, 3G is a strategic necessity and attractive opportunity for further growth

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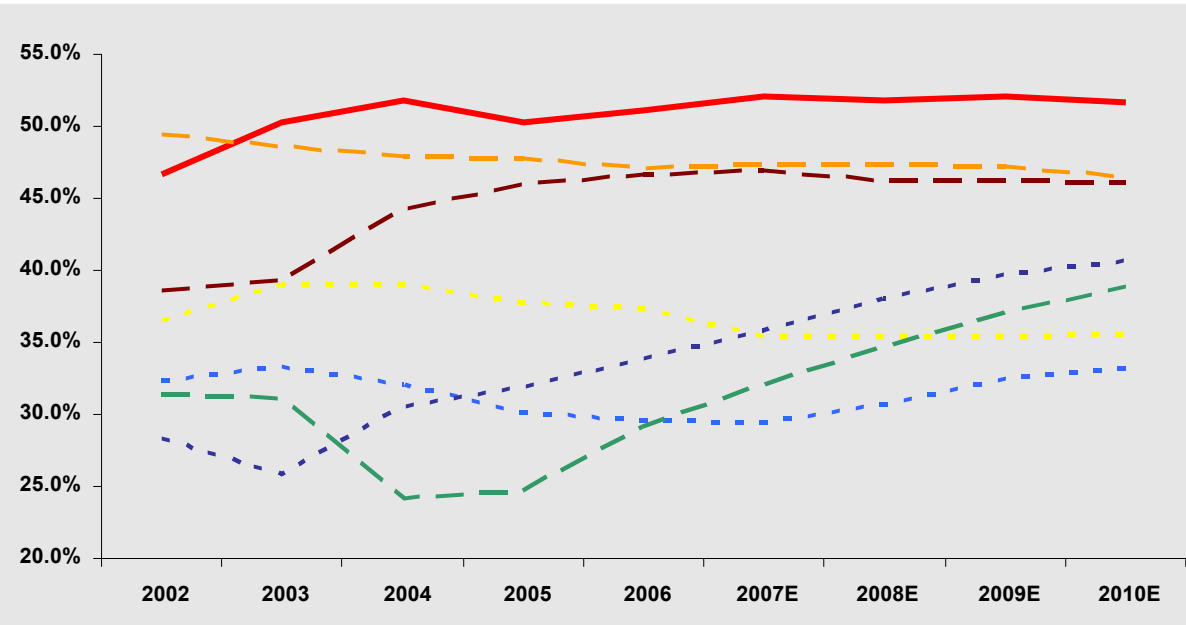
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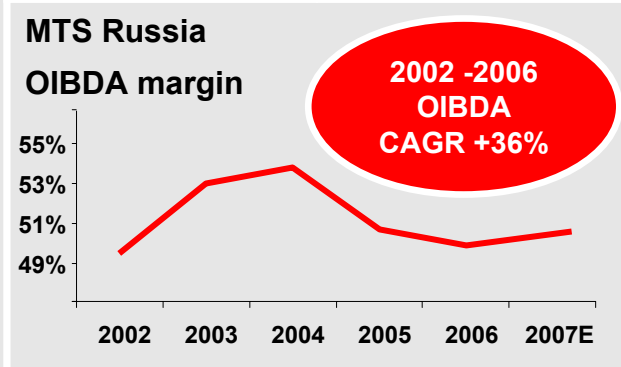
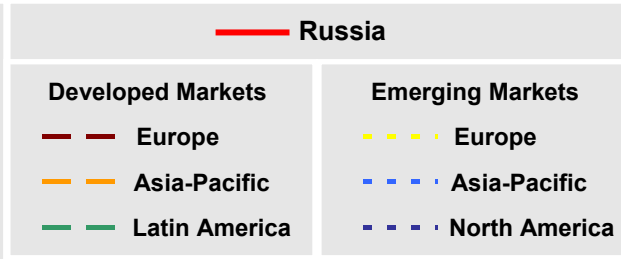


OIBDA margin comparison

OIBDA margin forecast*



Legend



* Merrill Lynch Global Wireless Matrix, Company estimates

- High OIBDA in Russia a function of:
 - No handset subsidies
 - Scale effect of market size and scope
 - Low labor costs
 - Benign competitive environment
- Improved MTS Russia OIBDA:
 - Establishment of multiple P&L centers
 - Improved sales and marketing practices
 - Management of salary costs
 - Stabilized pricing environment

MTS takes advantage of favorable market conditions to deliver strong OIBDA growth

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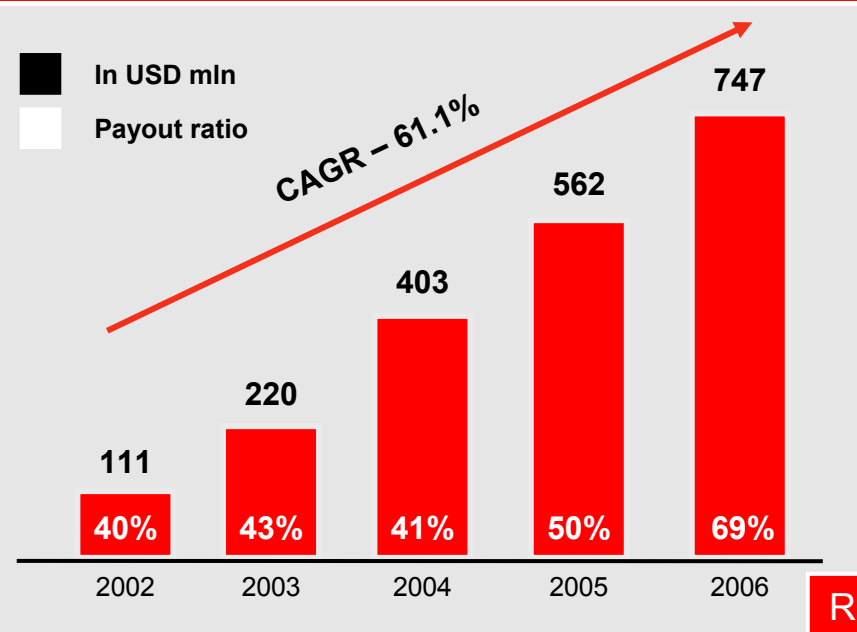
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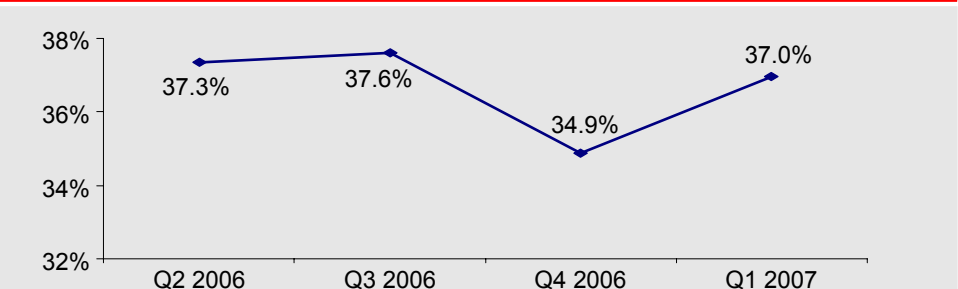
Market-leading shareholder returns

Dividend payments, 2002-2006



- As a goal, MTS aims to maintain its practice of returning a minimum of 50% of annual US GAAP net income to our shareholders through dividend payments

ROIC (LTM), Q2 2006 – Q1 2007



MTS leverages our key market through effective financial management to deliver the maximum shareholder return



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Key takeaways on MTS and the Russian market

Low consumer spending of $\approx 1.5\%$ of nominal GDP suggest potential growth of Russian wireless market

Short term growth drivers consist of usage-stimulating products and services that have yielded 41% year-on-year growth in MTS' Russian market

In the medium- to long-term, Russia will continue to grow thru 2012 at double-digit rates due to voice (CAGR 13%), data (CAGR 22%) and mobile broadband (CAGR 142%)

Potential retention and data revenue growth of up to \$2.5 billion thru 2011 indicates an opportunity for MTS to evolve its network and realize strong returns on its investment

MTS takes advantage of favorable market conditions to deliver strong CAGR OIBDA growth of 36% since 2002

MTS leverages our key market through effective financial management to deliver CAGR dividend payout growth of 61% since 2002



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