Ukraine Mobile Telecom: Current Investment Opportunities & Challenges

MTS Ukraine CFO

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Content

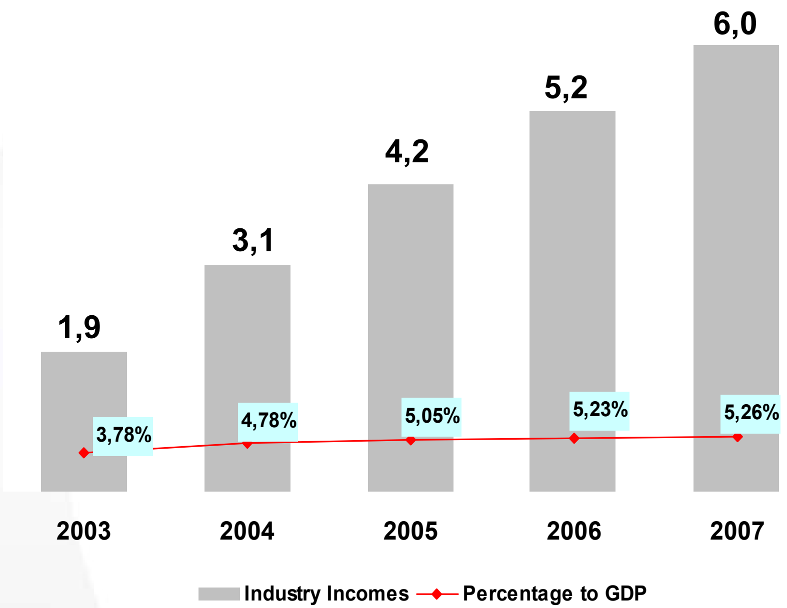
Mobile Communications in the Telecom Industry of Ukraine

MTS Ukraine Within the Market

Current Opportunities & Challenges

Telecommunication Industry in the Economy of Ukraine

Telecommunications Industry Revenue vs. Nominal GDP ($ bn.)*



- Telecommunication industry operators' revenue tripled during the last 5 years and reached $ 6 billion in 2007
- Revenue CAGR 26%
- Industry revenue percentage to GDP grew every year to reach 5,26% in 2007

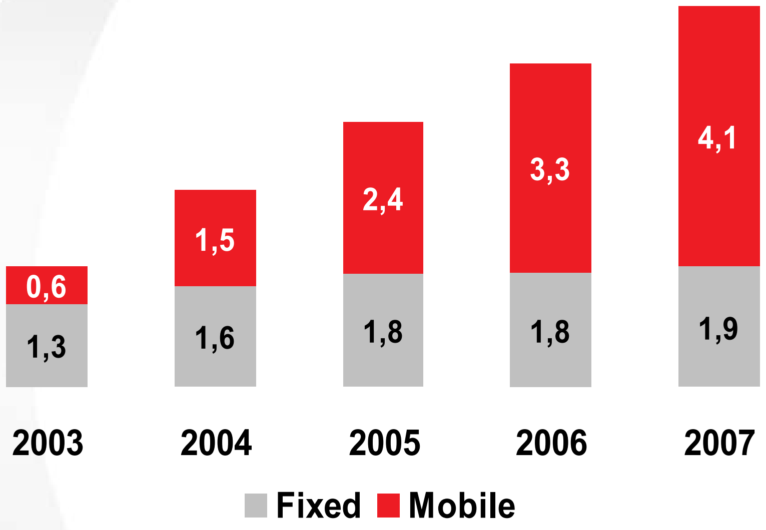
- Telecommunications industry's role in Ukrainian economy is significant, and becoming even more important as it:
  - Creates infrastructure for development of other sectors
  - Provides employment to more than 270 thousand people
  - Serves as substantial source of tax proceeds and government + local budget revenue

*Industry revenue as reported by the State Committee for Statistics of Ukraine

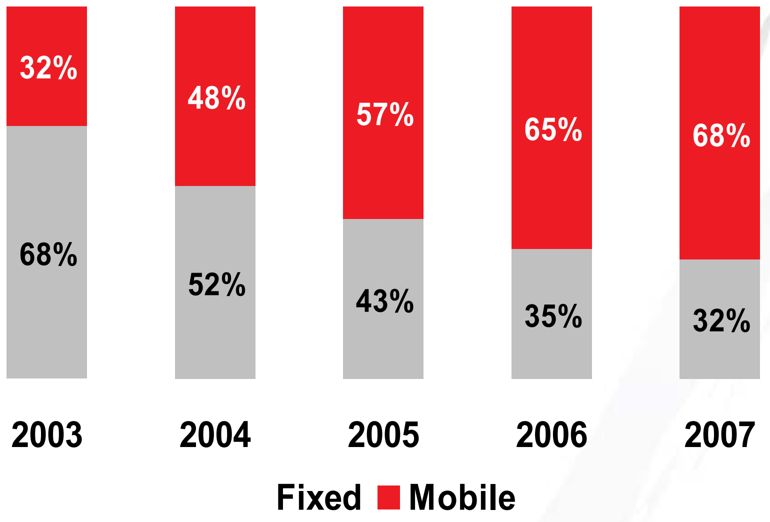
Telecom is a significant sector in economy of Ukraine

Structure of Industry Revenue: Fixed vs. Mobile

Fixed & Mobile Communications Revenue ($, bn.)*



Fixed vs. Mobile Communications Revenue as % of Total Telecom Revenue



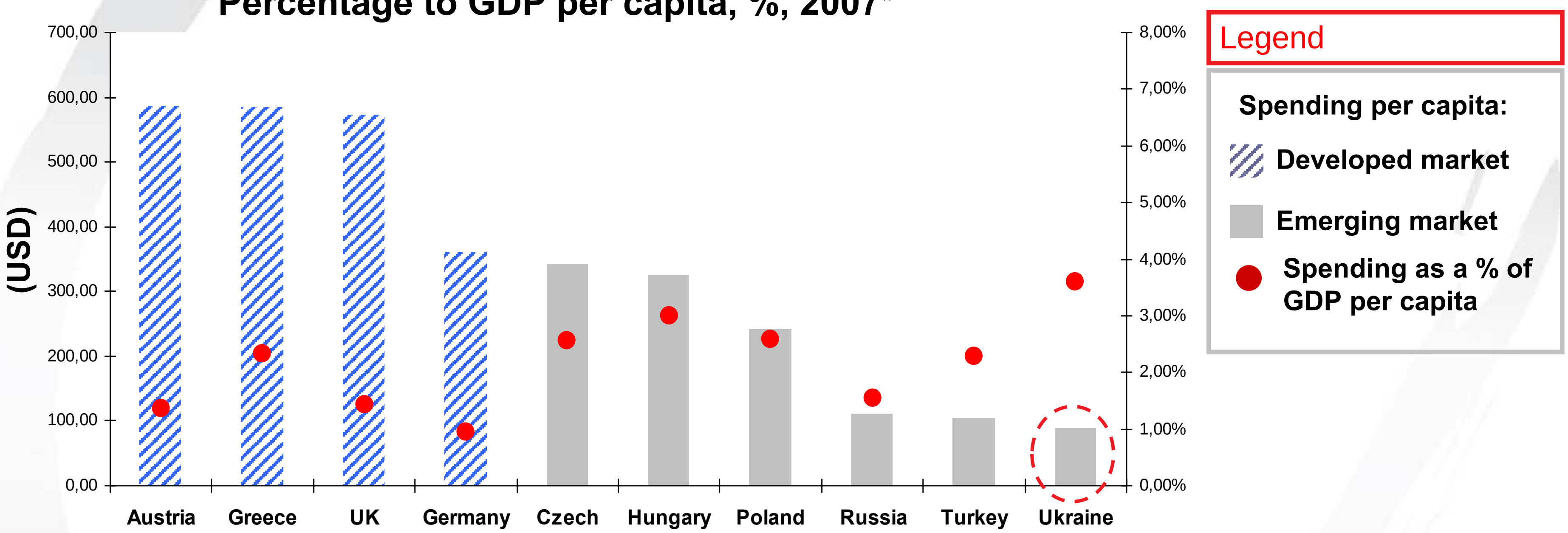
- Mobile communications' share in total telecom industry revenue increased from 32% to 68% between 2003 and 2007 and served as the principal industry growth driver during the last 5 years

*Mobile Communications Revenue in 2007 as reported by the State Committee for Statistics of Ukraine

Mobile is a key growth factor of overall Telecom industry

Wireless Spending as a Percentage of GDP per capita in Various Countries

Annual Wireless Spending per capita, (USD) and Spending Percentage to GDP per capita, %, 2007*

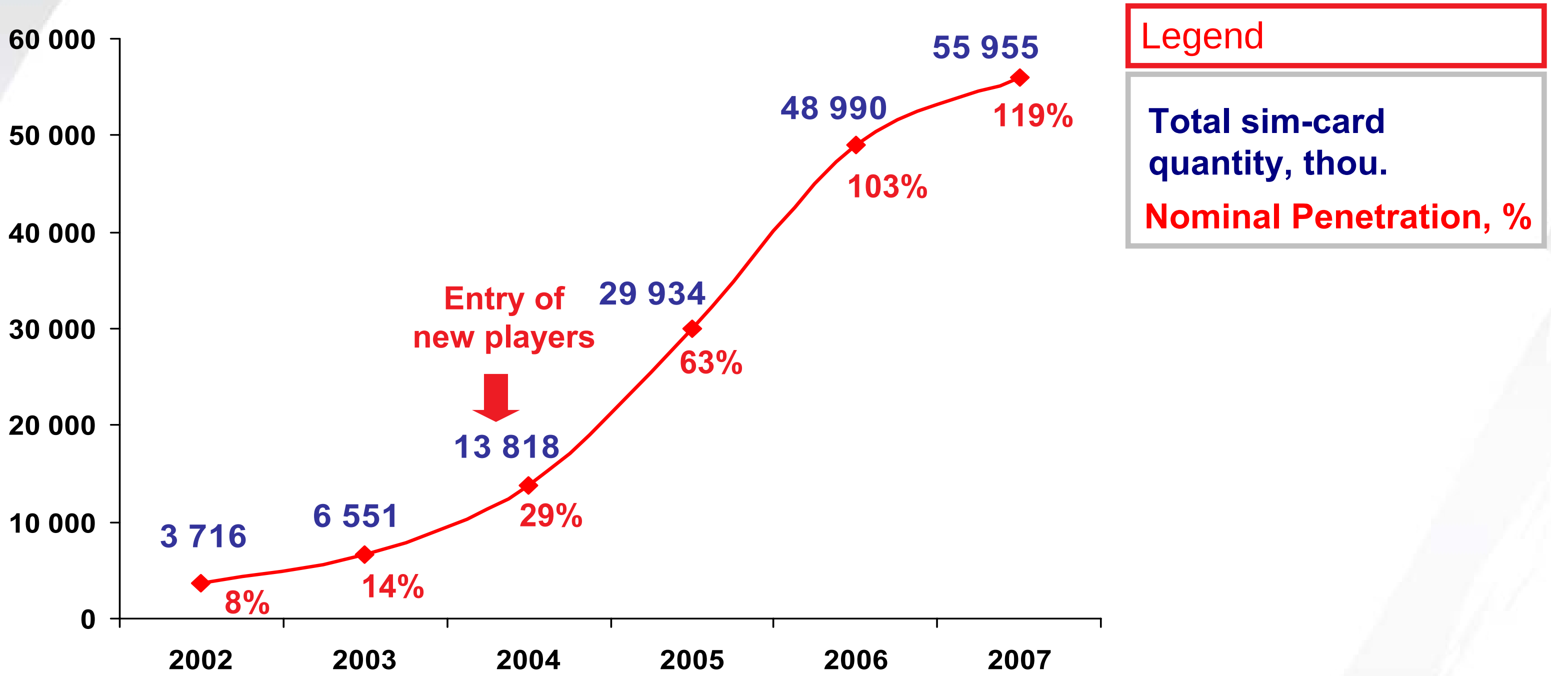


- As a percentage of GDP per capita, Ukrainian spending on mobile telephony is far ahead of levels of other emerging markets
- However, Ukrainian mobile spend per capita in absolute terms is significantly lower than that of other emerging and developed markets
- Low level of per capita mobile spend with the lowest prices in European region indicate an opportunity for increase in mobile services consumption

*According to Merrill Lynch 1Q 2007 Global Wireless Matrix Data

Mobile Communication Penetration

Sim-cards Penetration to Population*



Entry of new market players, price decreases and CPP implementation drove rapid penetration growth

*According to Company's estimates

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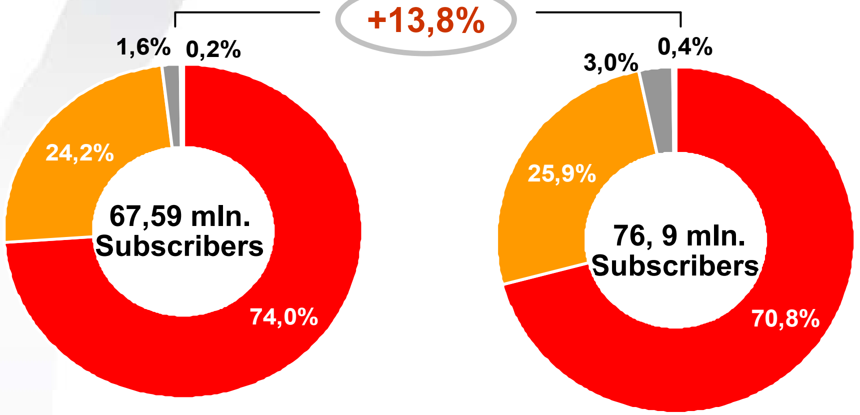
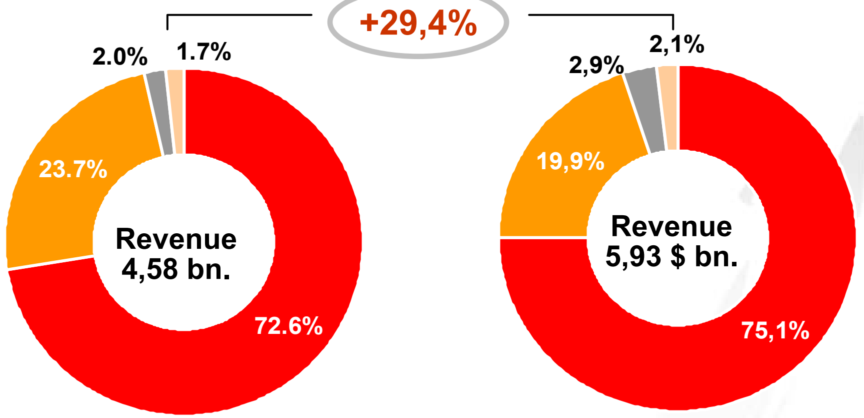
MTS Group at Glance: Key Operating & Financial Indicators

MTS Group Subscribers Base Dynamics (3Q 2006 – 3Q 2007)



Growth of MTS Group revenue (3Q 2006 - 3Q 2007)



Russia

Uzbekistan

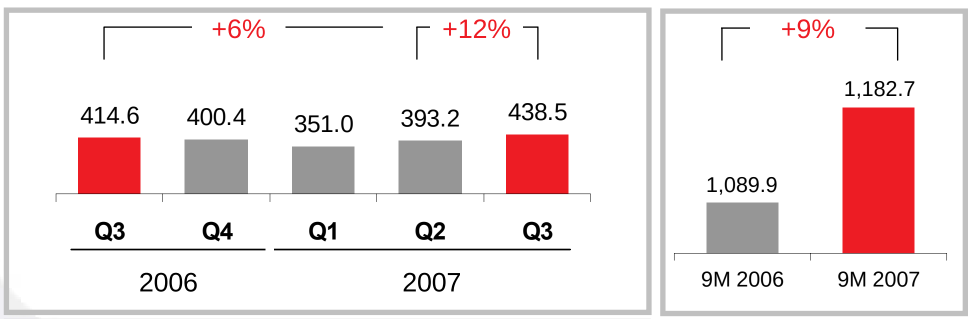
Ukraine

Turkmenistan

MTS Ukraine Key Financial Highlights

Total Ukraine Revenue

(USD mln)



	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	9M 2006	9M 2007
OIBDA Margin	56.4%	50.4%	48.0%	50.6%	50.1%	51.6%	49.6%

Source: MTS data

(1) Excluding Armenia and Belarus

MTS Ukraine is a significant group member

MTS Ukraine overview

- Key facts about MTS Ukraine:
  - Network coverage reached 95% of territory with 99% of population*
  - 11 582 BTS installed*
  - 16 839 km of fiber optic lines laid*
  - 3,108 employees*
- Key market indicators of MTS Ukraine:
  - Subscribers: 19,906,120**
  - Subscriber market share: 37,1%**
  - Leadership in postpaid segment with over 55% subscriber market share*

* Source: Company's data as of December 2007

** Company's data as of Q3 2007

MTS Ukraine Within the Market

The Beginning

- November, 1992 – incorporation of “Ukrainian Mobile Communications”. Company receives a license and frequencies. Rollout of network in NMT- 450i standard starts
- July, 1993 – first mobile call in UMC network made by President of Ukraine Leonid Kravchuk

GSM Era

- **September, 1997 UMC starts the first GSM-900 standard network in Kiev**
- **February, 2001 after obtaining a license, UMC starts GSM-1800 network rollout. Subscribers reach 500 000 mark**

Time of Changes

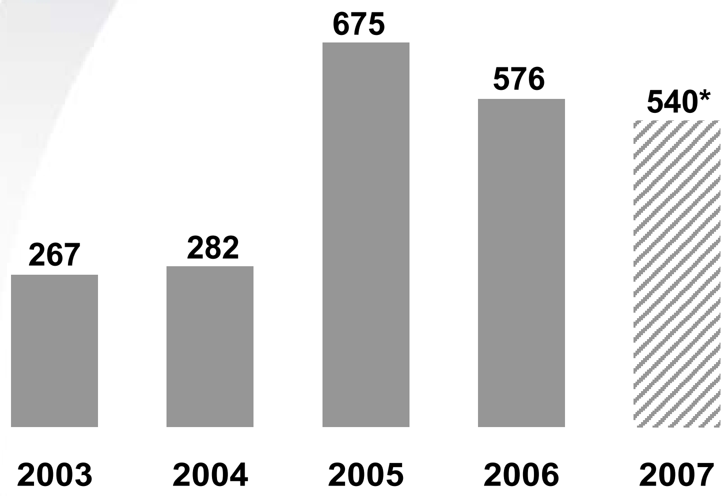
- **March-July 2003 – “Mobile TeleSystems” acquires 100% of UMC stock through a series of transactions**
- **August 2005 UMC announces that its subscriber base exceeds 10 mln. mark**

Under MTS Brand

- **August, 2007 – UMC officially announces transition to MTS brand. Scope of the advertising campaign to support rebranding is unprecedented in Ukraine**
- **September, 2007 – MTS Ukraine launches first CDMA-450 REV A network in Ukraine and offers its customers wireless broadband internet access**
- **October 2007 – MTS Ukraine becomes the first operator in CIS countries to launch BlackBerry® solution, which enables protected mobile access to corporate email and other e-resources**

MTS Ukraine Capital Investments

MTS Ukraine Capital Investments
Historic Volume, $ mln



- MTS Ukraine cumulative CapEx within last 5 years was around $ 2,4 bn.
- Investments were aimed mainly at the extension of network coverage and network capacity improvement

- MTS Ukraine plans further development of CDMA, BlackBerry® and other new technologies and products
- Capital investment of up to $ 600 mln. is planned for 2008. The focus of the investment will be on further network development, launch of new products, and quality improvement
- MTS Ukraine is prepared to invest more. Should we obtain a UMTS license, investment amount could increase due to development of infrastructure, network rollout, and license payment

*Capital Investment in 2007 is an estimate

MTS is one of the largest investors in Ukraine

Market & Industry Development Trends in 2007

✓ Penetration	▪ Slowing penetration growth shifts focus of market participants from new customers acquisition to customer development and usage growth stimulation in order to leverage consumer spend potential
✓ Usage	▪ Even though usage is still lagging behind other comparable European countries, there has been moderate growth in mobile services consumption
✓ Competition	▪ Aggressive price policy of market players in the 1st half of 2007 led to drop of average price per minute. In the 2nd half of 2007 prices stabilized
✓ VAS & Data Services	▪ SMS usage is flat because of substitution by cheap voice. Demand for data services has been increasing

Growth of mobile communication industry is driven by moderate increase in voice services usage and rapid uptake of data services

3 + 2 Strategy

Vision	#	Priority	Actions
Always delivering more for our customers **Leading communication brand in the CIS** **Creating exceptional shareholder value**	1	Capture growth potential in core markets	▪ Drive revenue stimulation ▪ Provide unique customer experience ▪ Deliver superior quality
	2	Value creation in developing markets	▪ Drive market growth in CIS ▪ Enlarge CIS footprint ▪ Investigate other selective opportunities
	3	Development of mobile broadband in CIS	▪ Roll-out 3G in Russia and Uzbekistan ▪ Acquire licenses in CIS countries ▪ Offer attractive data services portfolio
	+1	Cost efficiency	▪ Focus on cost and process efficiency ▪ Leverage synergies throughout Group ▪ Exploit optimal technology solutions
	+2	MTS Group development	▪ Build-up Group organization ▪ Attract and retain best-in-class employees ▪ Nurture distinctive corporate culture

More for our customers | **More for our shareholders** | **More for our employees**

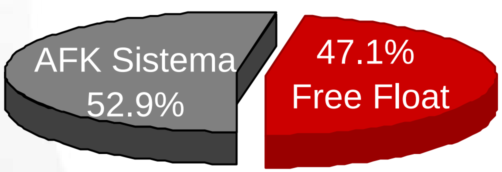
Ukraine constitutes a core market for MTS Group

MTS Ukraine: core market in a global footprint

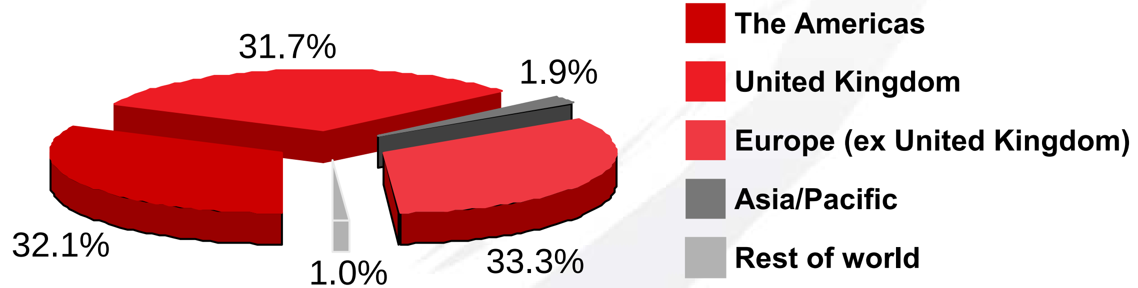
MTS Ukraine: core market in a global footprint

- MTS Ukraine is second-largest market for MTS Group
  - MTS ranks as seventh-largest mobile in the world based on subscribers
  - Footprint spans six countries: Russia, Ukraine, Belarus, Uzbekistan, Turkmenistan, Armenia
  - Rated most transparent company in CIS by Standard & Poor's 2005 - 2007
  - Corporate Governance Ratings:
    - Standard & Poor's CGS (Int'l scale) 6+; CGS (Russian scale) 6.9
- Fourth company from the CIS to list on the NYSE (2000)
  - 47.1% free-float make MTS one of the largest depositary receipt programs in the world and the most liquid equity in the CIS
  - MTS boasts over 25 covering sell-side analysts, dedicated researchers at leading advisory firms, over 400 institutional investors and thousands of individual shareholders

MTS Shareholder Structure



MTS Geographical Distribution of Free Float



Global footprint of MTS operations and investor base ensure that Ukraine is seen by the world's top investors, financial institutions and TMT specialists

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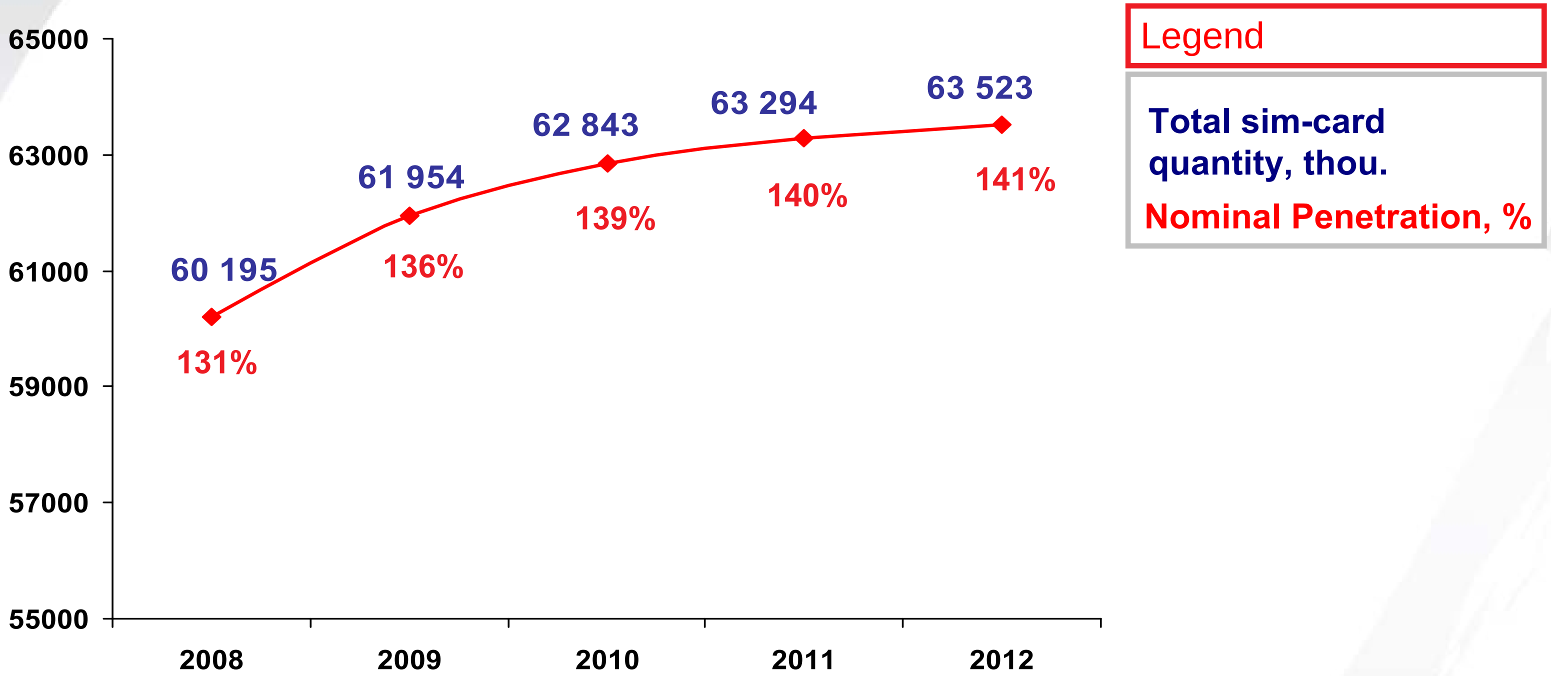
Expected Penetration Growth

Sim-cards Penetration to Population*

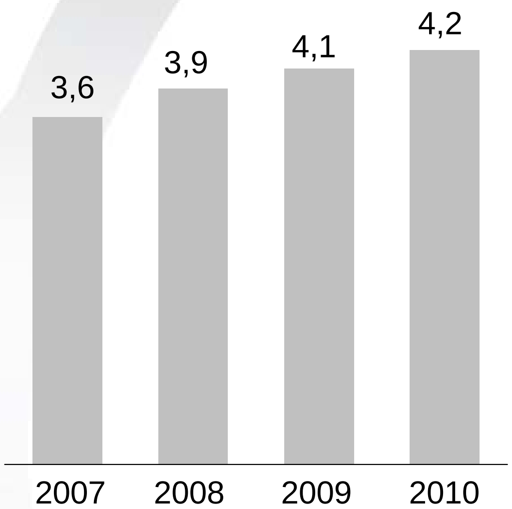


Mobile penetration growth will slow down and is expected to become practically flat in 2010

*According to Company's estimates

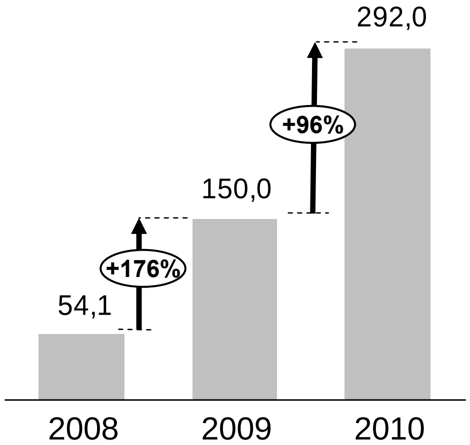
Expected Market Volume Growth Potential 2007-2010

Revenue From Voice Services ($ bn.)*



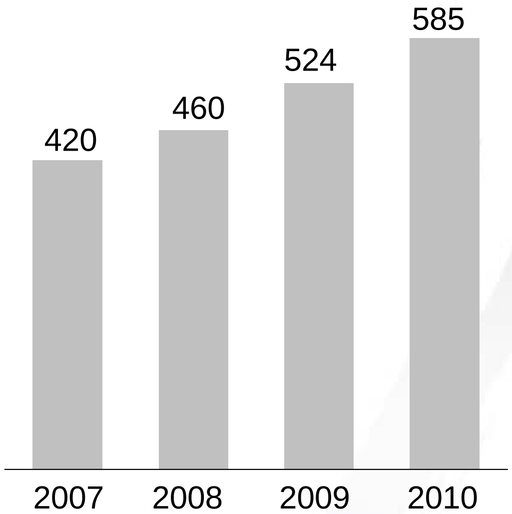
- Moderate growth due to:
  - Slight penetration increase
  - Fixed to Mobile Substitution
  - Population income Increase

Revenue from Mobile Broadband ($ mln.)**



- Rapid growth driven by:
  - Increase of PC and notebooks users
  - Internet penetration growth
  - Increase of demand for high-speed broadband access

VAS Revenue ($ mln.)*



- Increase of content services share in total VAS Revenues

*According to company's estimations

**Revenue from mobile broadband is not included in total VAS Revenue

Further market growth will be driven by slight increase in usage of voice and VAS services and rapid uptake of mobile broadband

Expected Market Development Trends Summary

✓ Penetration	▪ Real user penetration will reach 70-75% by 2010. Population will be fully covered, and only few segments will remain unaddressable (children under the age of 10, elderly, low income people)
✓ Usage	▪ Growth of voice services and VAS consumption along with population income increase and continuing fixed to mobile substitution
✓ Competition	▪ Market will move from price to brand and products/services quality competition
✓ VAS & Data Services	▪ Technologies and networks development along with competitive prices will stimulate demand for broadband access ▪ Mobile broadband market growth will far exceed voice services market growth rate

Further growth of operators' income is possible through extension of services portfolio and their usage stimulation

MTS Ukraine Strategy Overview

МТС

The "4-Layer-Strategy"

Strategic & Financial Goals

Shareholders value

Revenue

OIBDA ≥ 50%

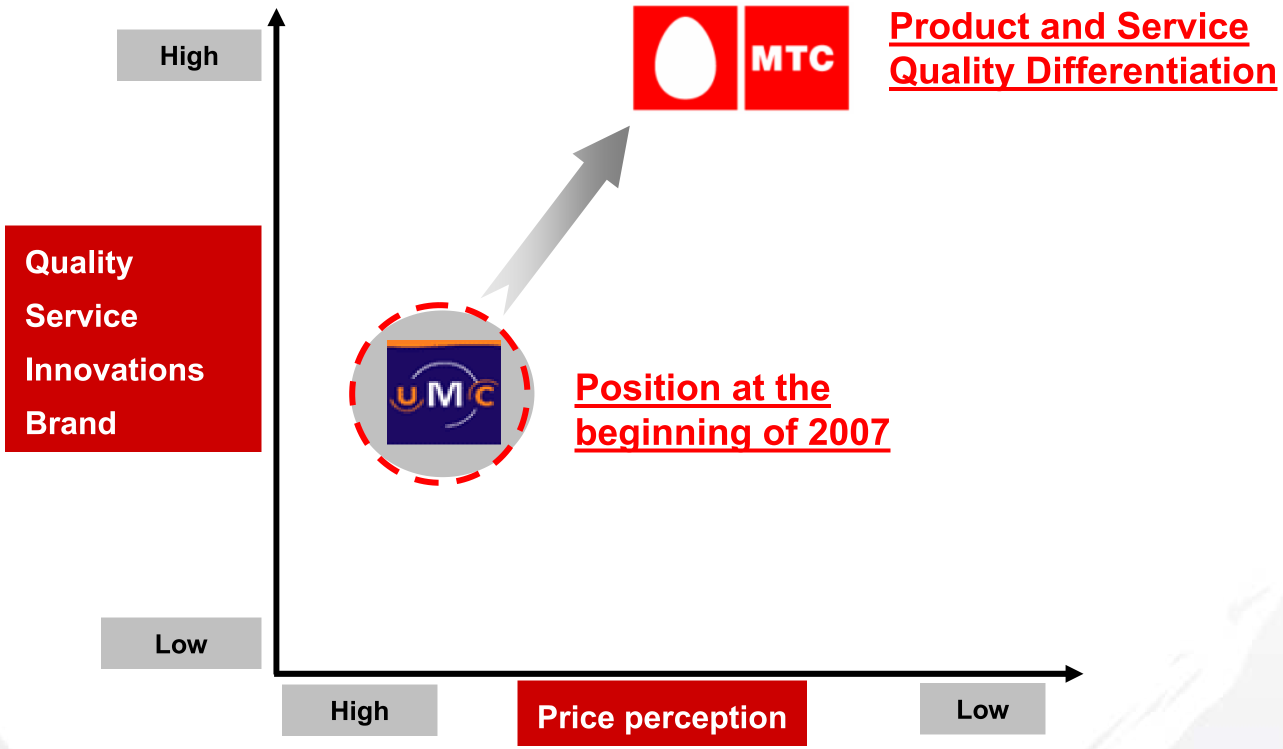
Key Strategic Objectives

- BEST BRAND AND CUSTOMER EXPERIENCE
- QUALITY AND GROWTH OF CUSTOMER BASE
- COSTS EFFICIENCY & PROCESSES OPTIMIZATION
- BEST-IN-CLASS EMPLOYEES

MTS Ukraine Strategy is a recipe for managed profitable growth

MTS Ukraine Target Market Positioning

Strategic positioning



Focus on delivering high quality service and product

Creating Strategic Advantage – Main Differentiation Ideas

In order to be efficient, differentiation should be supported by creation of a number of strategic advantages:

Strategic Differentiation Ideas	
SCALE	Unique opportunity to change the playing field into much larger size – Eastern Europe / group of countries
SCOPE	Creation of diverse offers along with specialized customer benefits, in order to enhance price attractiveness
SERVICE	Differentiation through development and deployment of competitive advantage in quality and completeness of service

Existing Challenges and Development Issues

Move to EU market principles	▪ Ukraine has made an important step on the way to implementation of EU market principles and foreign investments encouragement with the signing of WTO accession protocol ▪ We expect that WTO membership will become an important driver for improvement in government policy transparency, business climate, overall legislation and industry regulations. However, some challenges for investment in telecom sector still exist.
Challenges and Obstacles	▪ Clarity in Ukrtelecom privatization and issuance of UMTS license ▪ Slow frequencies spectrum clearance ▪ Shortage of qualified workforce ▪ Imperfect and restrictive banking legislation impeding development of m-banking and m-commerce ▪ Underdeveloped court system
MTS Cooperation with Government	▪ New Government of Ukraine has shown that it seriously intends and already is taking steps to work on the above challenges ▪ MTS in its turn as an industry-leading player is ready to cooperate with the Government and engage more actively to remove existing obstacles for investment and further drive economic development

MTS Ukraine is fully supportive of Government's efforts to embrace greater transparency and facilitate on further economic development

Summary Conclusions

- Telecommunications sector is important for Ukrainian economy, and mobile communications have been the principal industry growth driver during the last 5 years
- Entry of new market players, price decreases, and CPP implementation drove rapid penetration growth. However, the growth is currently slowing and expected to become practically flat within the next few years
- In the future, growth of mobile telecom will be driven by moderate increase in usage of voice services and rapid uptake of mobile broadband
- Further growth of operators' revenue will be possible through extension of services portfolio and their usage stimulation
- As market is moving from price competition, telecom operators will tend to focus on other points of differentiation such as brand and product/services quality
- MTS Ukraine is prepared to cooperate with the Government of Ukraine to remove existing obstacles for investment and further drive overall economic development

Thank you for your attention!

For further information

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