

МТС оператор связи 

Navigating through a Competitive Market

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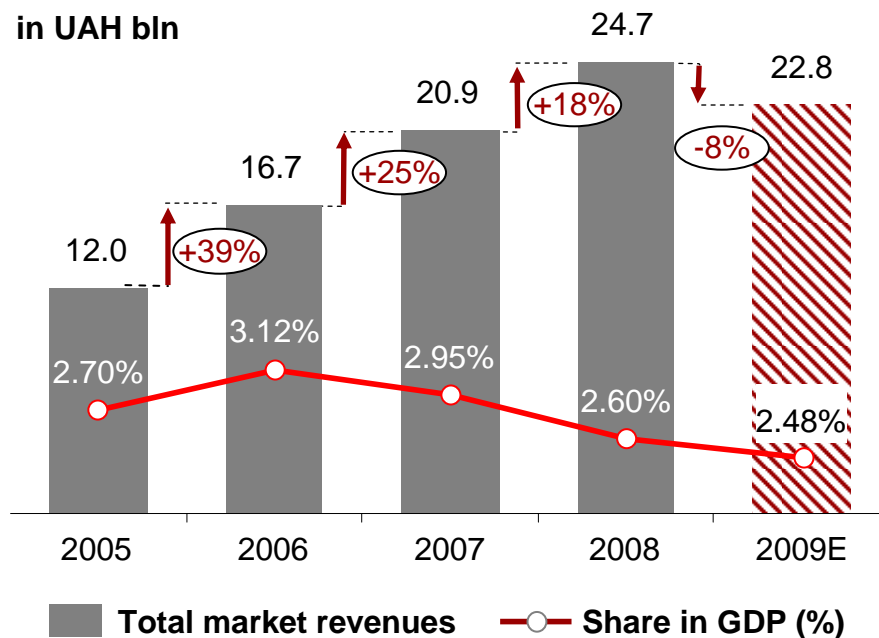


Mobile industry and market trends

| Trends | | Description |
|--------|----------------------------|--|
| 1 | Economy | <ul style="list-style-type: none"> ▪ Slow recovery of the economy and services consumption is expected ▪ National currency devaluation increases cost of capital expenses |
| 2 | Market growth | <ul style="list-style-type: none"> ▪ Decline of population's income and limited benefits from further price decreases with already high usage levels led to a deceleration of market's growth ▪ VAS, including data services, are the main drivers of revenue growth |
| 3 | Competition | <ul style="list-style-type: none"> ▪ Competition in the market remains high while consolidation is expected ▪ Proliferation of "zero" tariffs with top-up commitments |
| 4 | Mobile broadband potential | <ul style="list-style-type: none"> ▪ Rapid growth of usage, incl. services based on CDMA technology ▪ Development of mobile broadband is limited by lack of UMTS licenses |
| 5 | Regulatory environment | <ul style="list-style-type: none"> ▪ Unstable regulatory situation obstructs long-term planning ▪ Delays in UMTS licensing |

Ukrainian mobile market

Mobile market revenue* and share in nominal GDP, %



- Ukrainian mobile market demonstrated double-digit growth prior to the global economic crisis
- Telecom industry's share in GDP remains significant despite some deceleration of its growth in 2006-2008 and expected negative growth in 2009
- 8% decline is expected in mobile market's revenues in 2009 on the back of lower consumption of services as a result of economic recession and deterioration of business activity – however, this is smaller than the 14% decrease in real GDP projected for 2009**

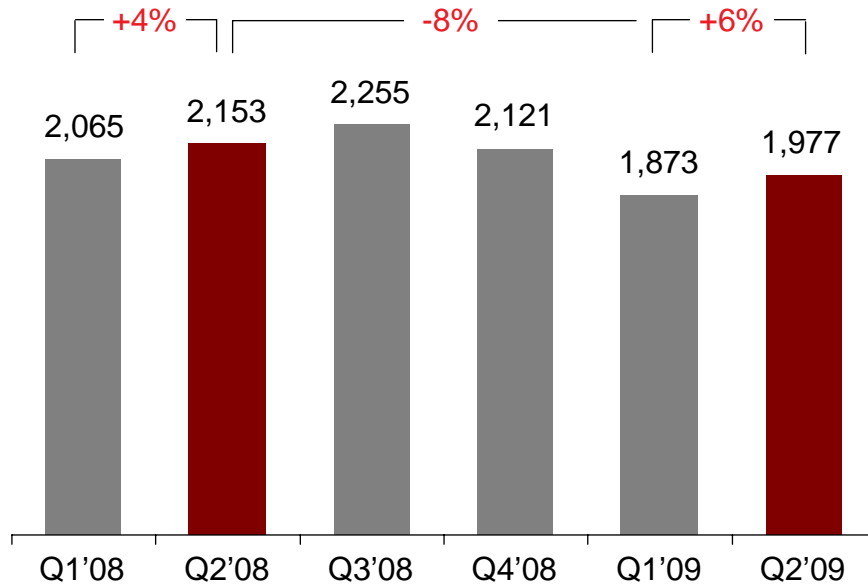
*Source: Goskomstat, mobile cellular services revenue excluding VAT

**Source: IMF forecast

Crisis impact on MTS Ukraine revenue dynamics

MTS Ukraine revenue dynamics

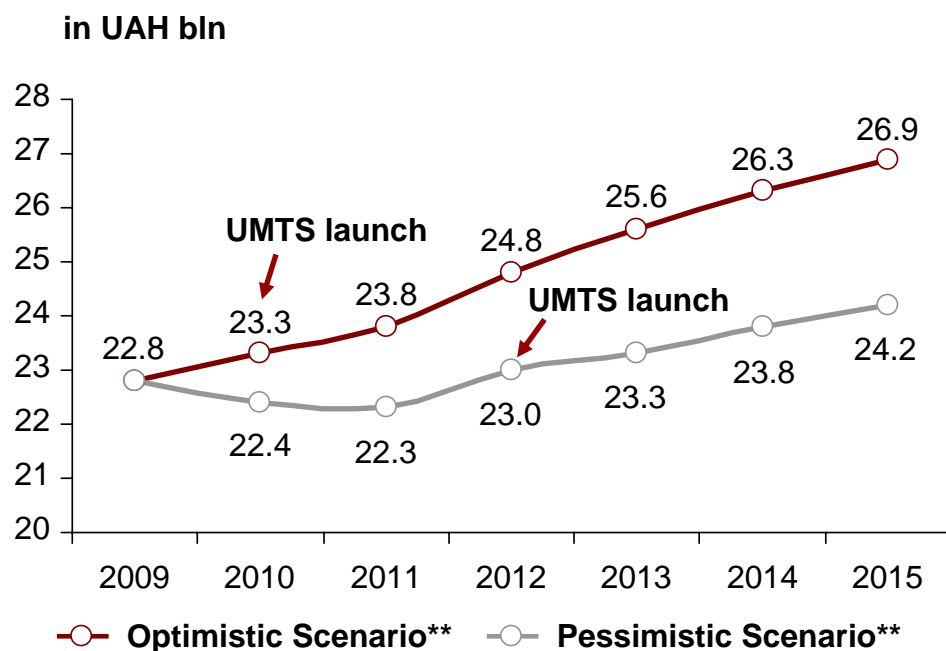
in UAH mln



- Overall revenues in Q2 2009 were down by 8% y-o-y reflecting unfavorable macroeconomic conditions:
 - Corporate clients quickly reacted to the crisis and adjusted their levels of consumption downwards
 - Revenue from mass market pre-paid customers was slightly below the level of previous year in Q1 2009, however, at the end of Q2 2009 their consumption rebounded
- In Q2 2009 overall revenue grew by 6% vs. Q1 2009 that was 2 percentage points greater (in absolute figures as well) than in the same period of previous year – we see this trend continuing in the future

Market outlook

Mobile market revenue forecasts 2009-2015*



- Although the mobile market is close to saturation and is approaching maturity, growth is expected to turn positive once economy and consumption recover
- The pace of growth will depend to a large degree on the macroeconomic environment and overall business activity
- Introduction of products and services based on UMTS could further boost overall market growth and increase its revenues
- Pace of UMTS network roll-out by major operators as well as an introduction of VAS and data products and services will determine the development of the mobile market

* Estimates of MTS Ukraine, mobile services revenue excluding VAT

** Optimistic scenario assumes more favorable macroeconomic environment and commercial launch of UMTS services by major operators in 2010, while pessimistic scenario assumes delays in licensing, commercial launch of UMTS services in 2012 and slower economic recovery



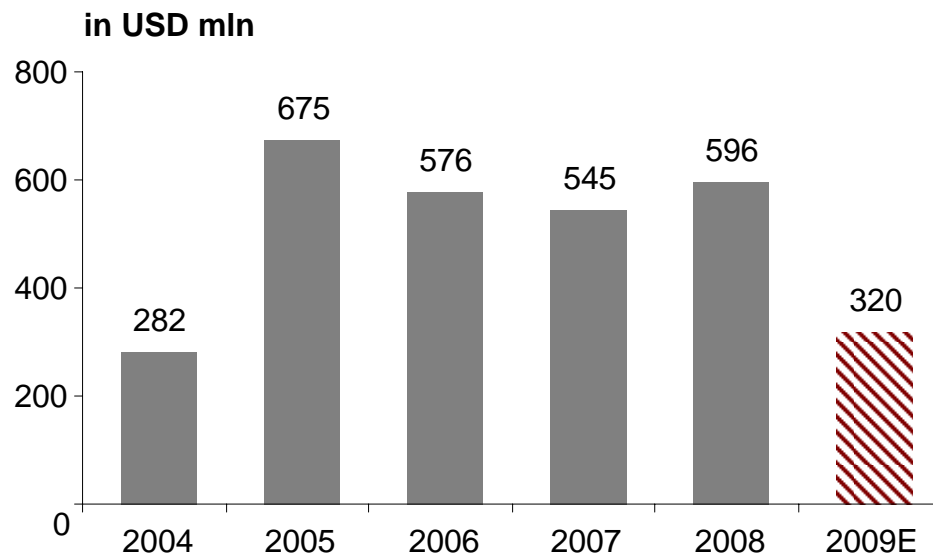
MTS Ukraine successful strategy execution

- Starting in July 2007, MTS Ukraine successfully implemented a number of strategic measures that contributed to the overall strengthening of subscriber base quality, improvement in brand perception and an increase in subscriber activity levels

| | |
|---|--|
| Rebranding | <ul style="list-style-type: none">MTS conducted the largest ever rebranding in Ukraine that improved perception and led to higher subscriber gross adds |
| Launch of new tariff line with free on net calls | <ul style="list-style-type: none">Launch of free on-net calls with monthly top-up commitments helped further grow customer base, increase usage and subscriber loyalty |
| Network development | <ul style="list-style-type: none">Investments in network capacity allowed MTS Ukraine to maintain a high quality of service while achieving a significant traffic increase of over 70% year-on-year in Q2 2009 |
| Dealers commissions | <ul style="list-style-type: none">Revision of dealer commissions structure and conditions with the emphasis on active subscribers attraction led to an improvement of subscribers base quality |
| Innovative products and services | <ul style="list-style-type: none">Launch and promotion of innovative services led to a steadily improving perception of MTS as the most dynamic and innovative operator* |

MTS Ukraine capital investments

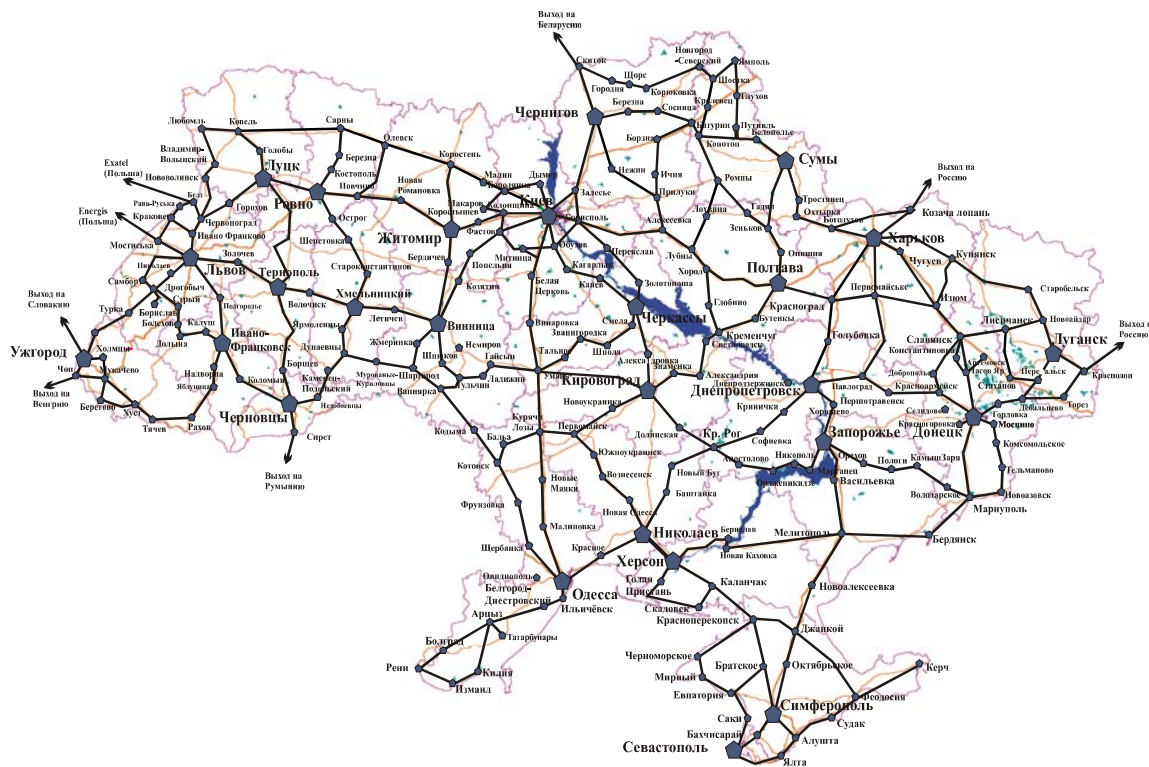
MTS Ukraine capital investments in 2004-2009E



- MTS is one of the largest investors in Ukraine with \$2.7 billion of total investments in the past 5 years
- In 2004-2007 investments were allocated mostly to radio-subsystems (coverage extension and network capacity)
- Since mid-2007 and to date investments have been mostly targeted at IT systems, switching sub-system capacity and back-bone network to prepare for 3G roll-out and introduction of new services
- Investment attractiveness of Ukrainian mobile market has worsened because of economic recession and significant national currency devaluation
- While 2G network Capex is moving to a maintenance level, MTS Ukraine plans to continue reasonable investments in network development and quality improvement
- Future level of capital investments could increase should we obtain a UMTS license

Developing own backbone to decrease cost of services

MTS Ukraine backbone network*



- Company's backbone network currently covers the whole territory of Ukraine (MTS invested over \$180 mln in 2006-2008)
- An own backbone network creates a number of benefits for MTS Ukraine:
 - Reduction of dependence on leased lines and protection against rates increases
 - Build-up of back-up capacity
 - Ability to plan network capacity according to the level of traffic load
 - Renting out free capacity to gain additional revenue
 - Ability to use network for convergent services for large corporate clients
 - Decrease of OPEX and cost of services (in Q2 2009 leased lines expenses at MTS Ukraine per unit of traffic were almost zero)

*As of September 2009

Key strategic priorities for MTS Ukraine in 2010-2012

| Goals | Initiatives | Priorities |
|---|--|---|
| 1 Growth of active subscriber base | <ul style="list-style-type: none"> ▪ Improvement of price and quality perception ▪ Increase in effectiveness of subscriber retention measures ▪ Development of distribution channels ▪ Considering regional differences in commercial activity | Grow subscriber base and maintain quality network |
| 2 Monetizing existing subscriber base | <ul style="list-style-type: none"> ▪ Stimulating consumption ▪ Promotion of VAS and content services ▪ Promotion of Internet access and data transfer services | Generate revenue and increase customer profitability |
| 3 Optimal customer experience in sales and service | <ul style="list-style-type: none"> ▪ Improvement of customer satisfaction in all sales and service touch points ▪ Offering one-stop shopping experience | Improve customer satisfaction to increase loyalty |
| 4 Broadband development | <ul style="list-style-type: none"> ▪ Generating revenue growth from CDMA broadband services ▪ Rolling out UMTS network (pending license acquisition) ▪ Employing an opportunistic fixed broadband M&A strategy | Develop additional sources of revenue growth |
| 5 Effective organization | <ul style="list-style-type: none"> ▪ Improvement of cost-efficiency, business processes and effectiveness of investments | Improve return to shareholders (FCF and CAPEX / Sales) |