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# Group financial results for the third quarter year 2011

Investor conference call – November 21, 2011

Mr. Andrei Dubovskov, President, Chief Executive Officer  
Mr. Alexey Kornya, Vice President, Chief Financial Officer



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## **Financial and corporate highlights**

Key financial and operating results

Appendix

- Group highlights for the period
- Group financial highlights
- Group capital expenditures
- Group balance sheet
- Debt obligations and composition
- Subscriber base dynamics
- 3i Strategy



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# Group highlights for the third quarter 2011 and recent events

## Q3 2011 highlights

- Completion of the dividend payment of RUB 14.54 per ordinary MTS share (approximately \$1.04 per ADR\*) for the 2010 fiscal year, amounting to a total of RUB 30.05 bln (approximately \$1.08 bln or 78% of US GAAP net income)
- Secondary placement of the series 02 ruble bond on the Moscow Interbank Currency Exchange (“MICEX”) in the total amount of RUB 6.3 bln
- Indicative offer to Sistema JSFC for the acquisition of Sistema Inventure CJSC (“Sistema Inventure”), which directly owns 29% of the voting stock of Moscow City Telephone Network (“MGTS”)
- Acquisition of Altair, the largest cable TV provider and leading broadband provider in Tula for RUB 680.0 mln\*\*
- Amendment of the Group’s organizational structure and appointments of Mr. Aleksander Popovskiy to the position of Vice President, Chief Operating Officer, Mr. Vadim Savchenko to the position of Vice President, Sales and Customer Service, and Ms. Nataliya Bereza to the position of Vice President, Human Resources
- Appointment of Mr. Vasyly Latsanych to the position of MTS Vice President, Marketing
- Appointment of Ivan Zolochovsky to the position of General Director of Business Unit “MTS Ukraine” and Kirill Dmitriev to the position of Director of the North-West Macro-Region of MTS in Russia

## Thereafter

- Acquisition of TVT, leading provider of cable TV and fixed broadband services in the Republic of Tatarstan, for \$162.9 mln\*\*\*

\*According to the Russian Central Bank exchange rate of 27.8964 RUB/USD as of April 27, 2011. The dividend amount is set in Russian rubles by the Board of Directors; U.S. dollar amounts provided for reference using the foreign exchange rate as of April 27, 2011

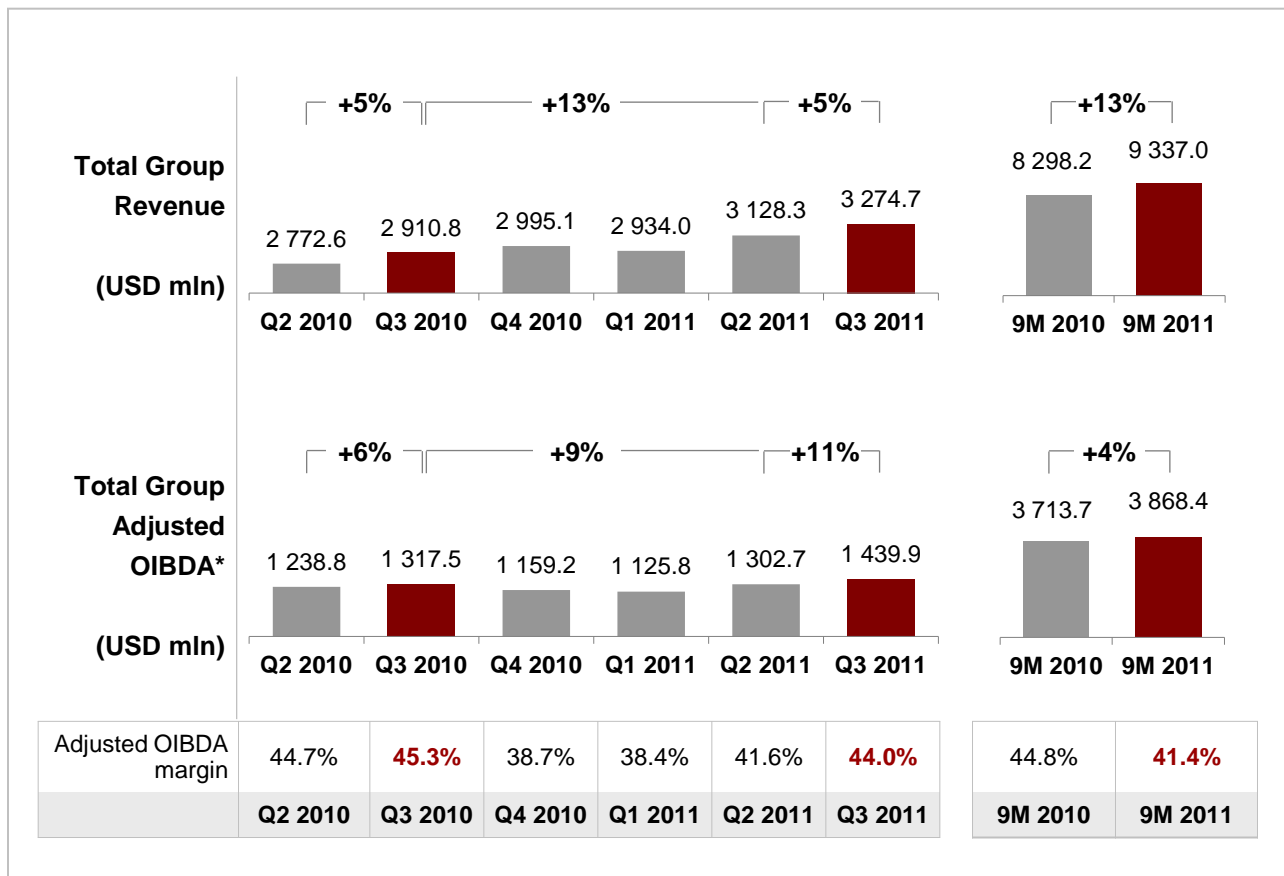
\*\*The price includes assumption of Altair’s net debt

\*\*\*MTS also assumed net debt in the amount of \$17.1 mln



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# Group financial highlights



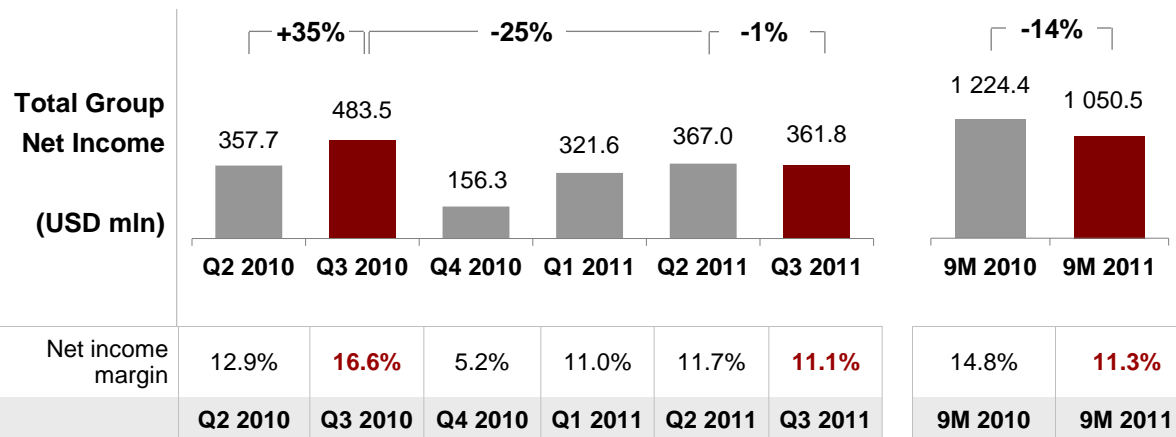
- Solid sequential and annual revenue growth due to seasonality and sustained growth in voice and data consumption
- Absolute OIBDA increase in Q3 2011 reflective of seasonal revenue growth, continued optimization of operating expenses and a decrease in sales and marketing expenses due to focus on higher-value subscriber additions in Russian market

\*Adjusted OIBDA represents operating income before depreciation & amortization, impairment of long-lived and other assets. For further information, please see the Appendix for definitions and reconciliations



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# Group financial highlights

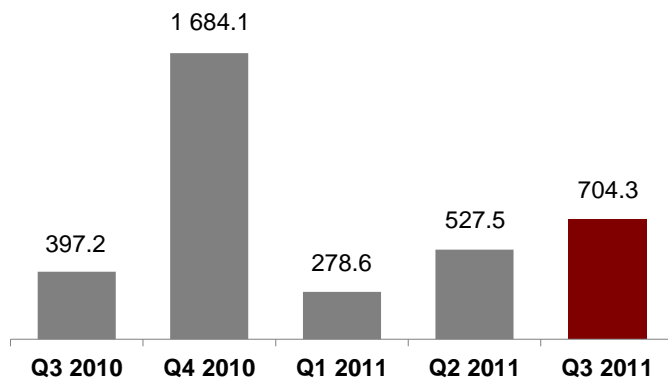


- Depreciation of the Russian ruble versus the US dollar resulted in a non-cash foreign exchange loss of \$191 mln that negatively impacted the bottom line in Q3 2011



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## Group capital expenditures



Russia	328.1	1 505.5	241.1	438.7	<b>642.0</b>
Ukraine	27.4	50.6	19.3	11.3	<b>31.7</b>
Uzbekistan	19.6	95.5	16.4	62.5	<b>24.9</b>
Turkmenistan	17.1	14.6	n/a	n/a	<b>n/a</b>
Armenia	5.0	17.8	1.8	15.0	<b>5.7</b>
Group	397.2	1 684.1	278.6	527.5	<b>704.3</b>
- as % of revenue	13.6%	56.2%	9.5%	16.9%	<b>21.5%</b>
<b>(in USD mln)</b>	<b>Q3 2010</b>	<b>Q4 2010</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>

- Capital expenditures for the quarter total \$704.3 mln
- The Company continues to build out its 3G and backhaul networks. CAPEX-to-sales ratio for the full year 2011 are expected to come in line with the 22-24% guidance
- MTS has expanded its 3G network bringing the total number of 3G base stations to over 18,100 and extending coverage to over 2,700 population centers in Russia. The length of the MTS backhaul networks exceeds 117,000 km



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## Group balance sheet

Balance sheet (USD mln unless noted)	As of Dec 31, 2010	As of Sep 30, 2011
Cash and cash equivalents	\$927.7	\$1 473.3
Short-term investments	\$333.6	\$108.8
Total debt	\$7 160.6	\$7 249.7
Long-term debt	\$6 403.5	\$6 162.7
Short-term debt	\$757.1	\$1 087.0
Net debt*	\$5 899.3	\$5 667.6
Shareholders' equity	\$4 156.8	\$3 747.8
Total assets	\$14 478.0	\$14 218.7
LTM OIBDA*	\$4 872.9	\$5 027.6
Net debt/assets	0.4x	0.4x
Net debt/equity	1.4x	1.5x
Net debt/LTM OIBDA*	1.2x	1.1x

- \$1.5 bln in cash at the end of Q3 2011 in anticipation of further debt repayments, capital expenditures and other corporate needs
- Free cash flow\* of over \$1.4 bln for the nine months of 2011

\*See reconciliations of net debt, LTM OIBDA and free cash flow to consolidated financial statements in the appendix



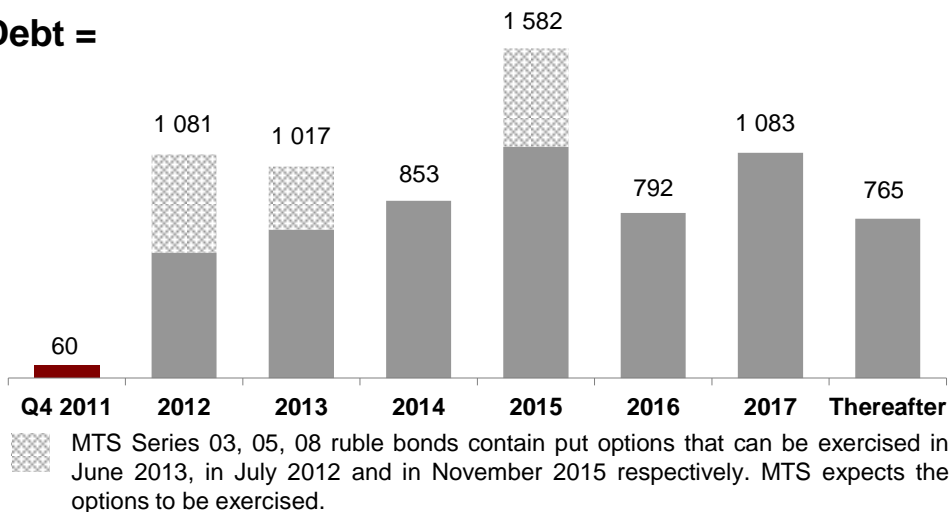


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# Debt obligations at the end of Q3 2011

## Debt Repayment Schedule (USD mln)

**Total Group Debt = \$7.2 bln**



- In July 2011 MTS completed a secondary placement of its series 02 ruble bond on the Moscow Interbank Currency Exchange raising approximately RUB 6.3 bln

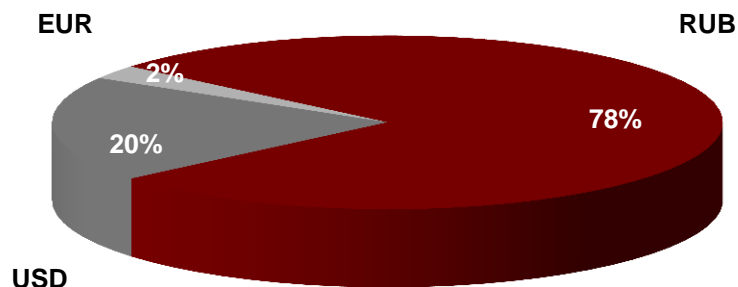
## Key principal repayments (USD mln)

2012 Eurobond*		400						
2020 Eurobond								750
	<b>Q4 2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Thereafter</b>

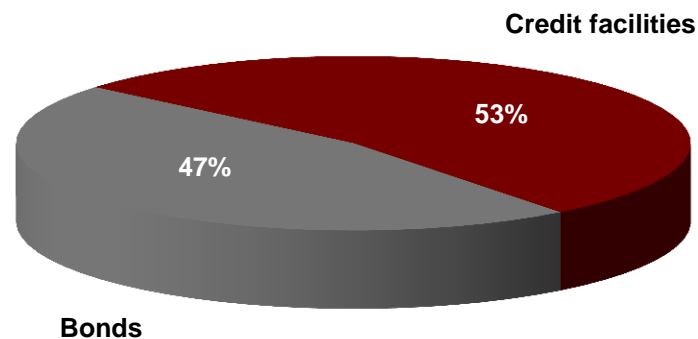
\*Amounts before discounts

## Debt composition at the end of Q3 2011

Debt composition by currency Q3 2011\*



Debt composition by type Q3 2011



- Debt composition reflective of the Company's preference for RUB-denominated financing with Eurobonds contributing to the USD portion
- MTS continues to optimize its debt portfolio by:
  - Increasing the tenor of its debt instruments
  - Working towards lowering the cost of certain debt instruments through repayments, reissuances and negotiations with our bilateral lenders
  - Sustaining an optimal ruble/dollar balance to match revenues and account for necessary capital investments

\*Debt composition by currency includes FOREX hedging in the amount of \$250 mln as of Q3 2011



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## Group subscriber base dynamics during the quarter

MTS subscribers (mln unless noted)	Q2 2011	Q3 2011	% change
Russia:			
- mobile	71.08	70.12	-1.4%
- households passed, 000s	10 079	10 415	3.3%
- broadband Internet, 000s	1 957	2 032	3.8%
- pay TV, 000s	2 635	2 741	4.0%
Ukraine*	18.82	19.26	2.3%
Uzbekistan	9.43	9.97	5.7%
Armenia	2.51	2.46	-2.0%
Belarus**	4.78	4.84	1.3%
<b>Total mobile</b>	<b>106.62</b>	<b>106.65</b>	<b>stable</b>

\*Including CDMA subscribers

\*\*MTS owns a 49% stake in Mobile TeleSystems LLC, a mobile operator in Belarus, which is not consolidated

- In Russia, MTS sustained its leading mobile market share in Q3 2011
- In Russia, MTS continues to stabilize gross SIM-card sales in an effort to push more quality sales through its own retail network, improve churn and mitigate competitive factors on the market
- Fixed subscriber base numbers, impacted by Company's M&A activity and redefinition of acquired companies' subscriber definitions with those of MTS
- Growth in the Company's CIS markets driven by strong net adds in Uzbekistan



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## 3i: MTS strategy

Strategic direction	Tactics	Key benefits
<b>Integration</b> New pipelines and customer touch-points	<ul style="list-style-type: none"><li>▪ Seamless user experience for all segments</li><li>▪ Rapid broadband infrastructure (fixed/3G/LTE) deployment</li><li>▪ Integrated sales channels</li></ul>	Increasing customer lifetime value  Generating shareholder returns
<b>Internet</b> Smarter pipelines to capture additional value	<ul style="list-style-type: none"><li>▪ Enhanced connectivity</li><li>▪ Compelling Internet user experience</li><li>▪ Best-in-class content apps and services</li></ul>	
<b>Innovation</b> Differentiation through product and service mix	<ul style="list-style-type: none"><li>▪ Delivery of exclusive devices</li><li>▪ Cutting-edge products and services for all customer segments</li><li>▪ End-to-end user experience at home, at work and on the move</li></ul>	




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Financial and corporate highlights

**Key financial and operating results**

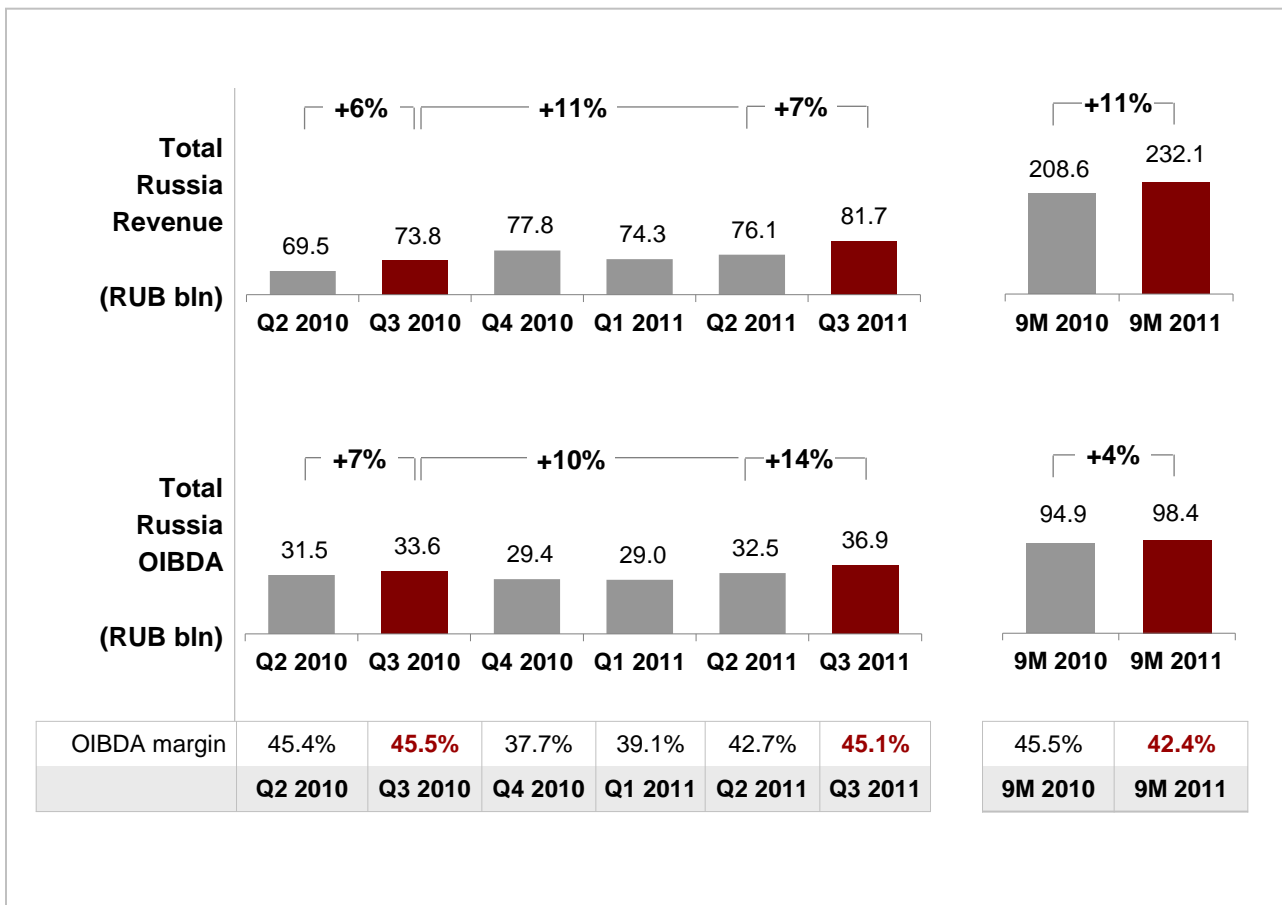
Appendix

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- Russia
  - Ukraine
  - Uzbekistan
  - Armenia



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# Russia financial highlights

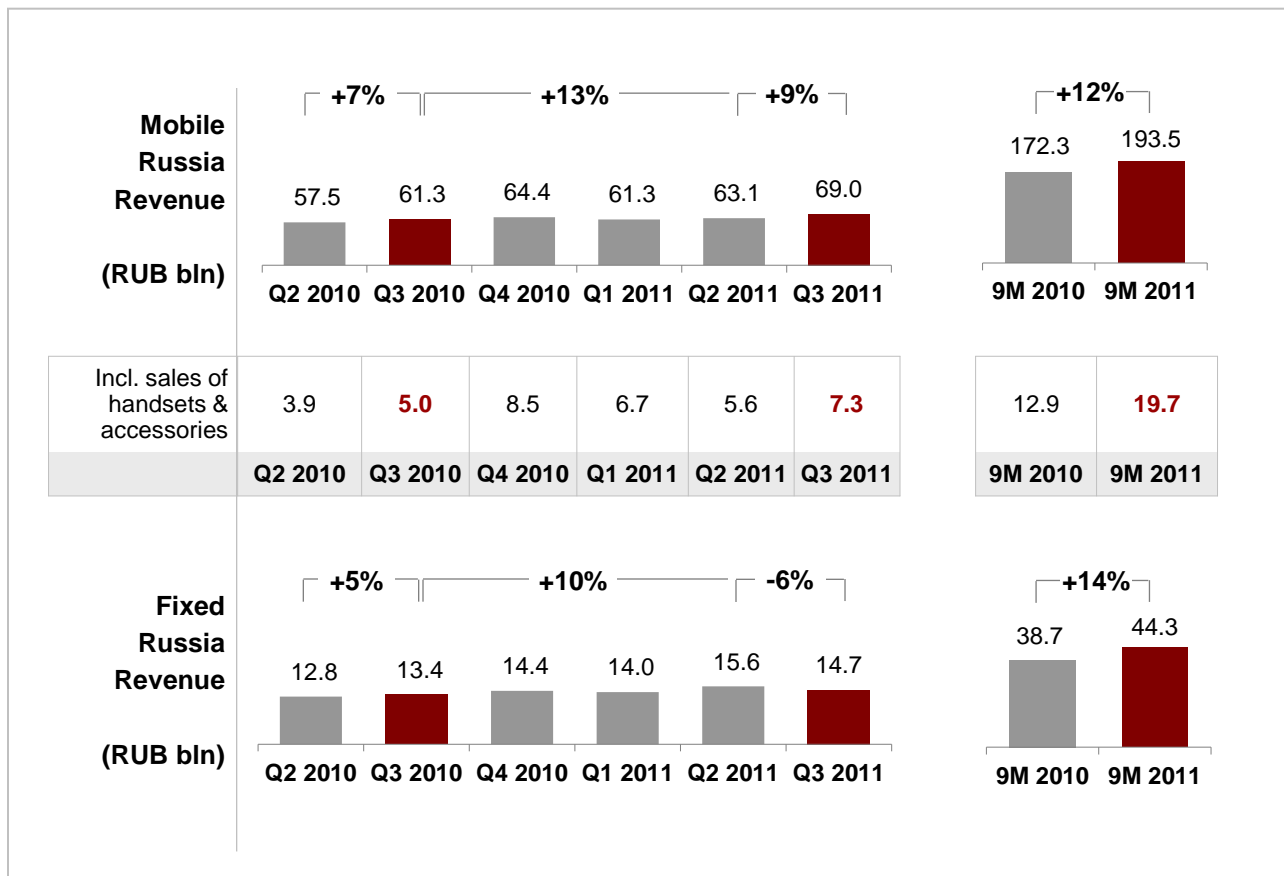


- Revenue y-o-y growth attributable to overall increased voice and data usage and greater contribution from sales of handsets and modems
- Sequential quarterly improvement in OIBDA margin due to optimization of operating, sales and marketing expenses, improvement of interconnect balance, and the growing consumption of data products



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# Russia revenue breakdown

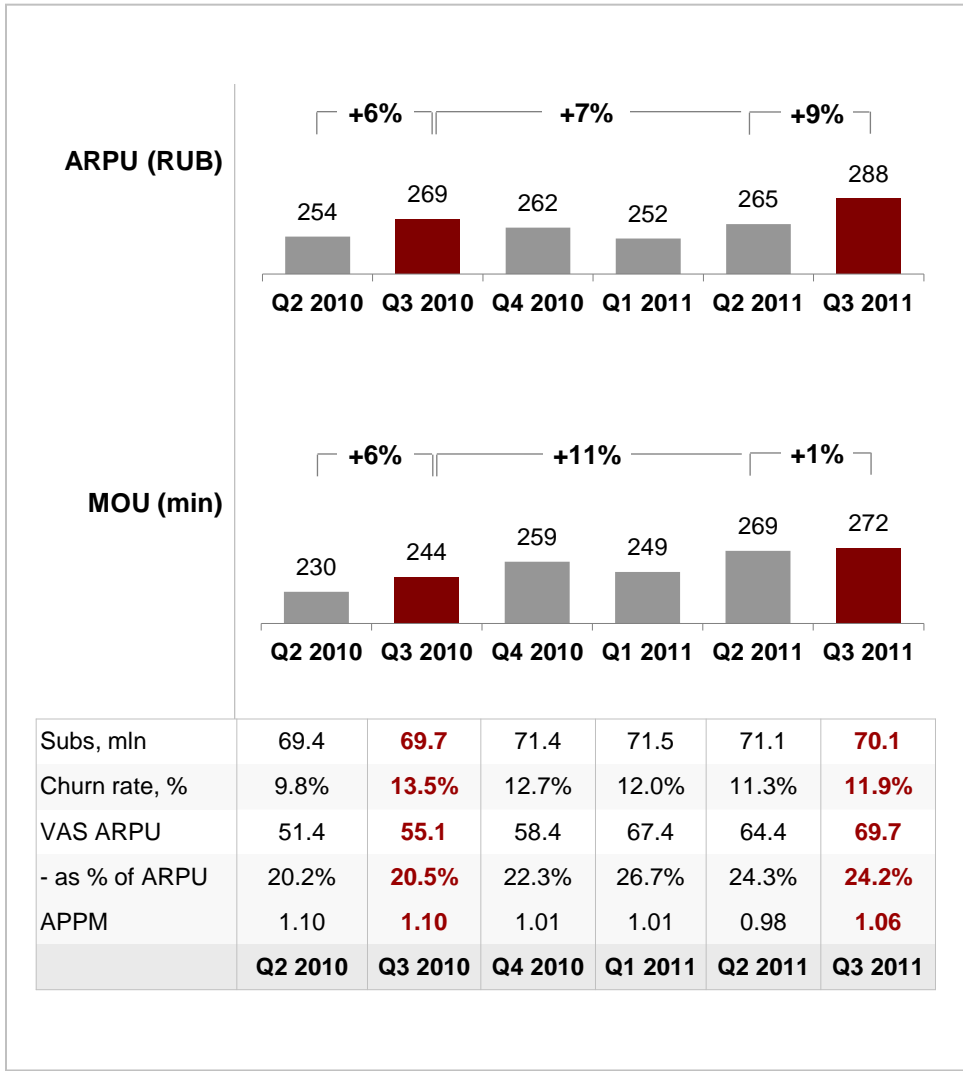


- Sequential increase in mobile revenue due to seasonally higher contribution from roaming revenues and growth in sales of handsets and modems
- Fixed revenue y-o-y dynamic enhanced by Company's M&A activity, subscriber growth, network modernization and increasing consumption of DLD/ILD services
- Quarterly decrease in fixed-line revenue impacted by seasonally lower revenue in the residential segment



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# Russia mobile operating indicators



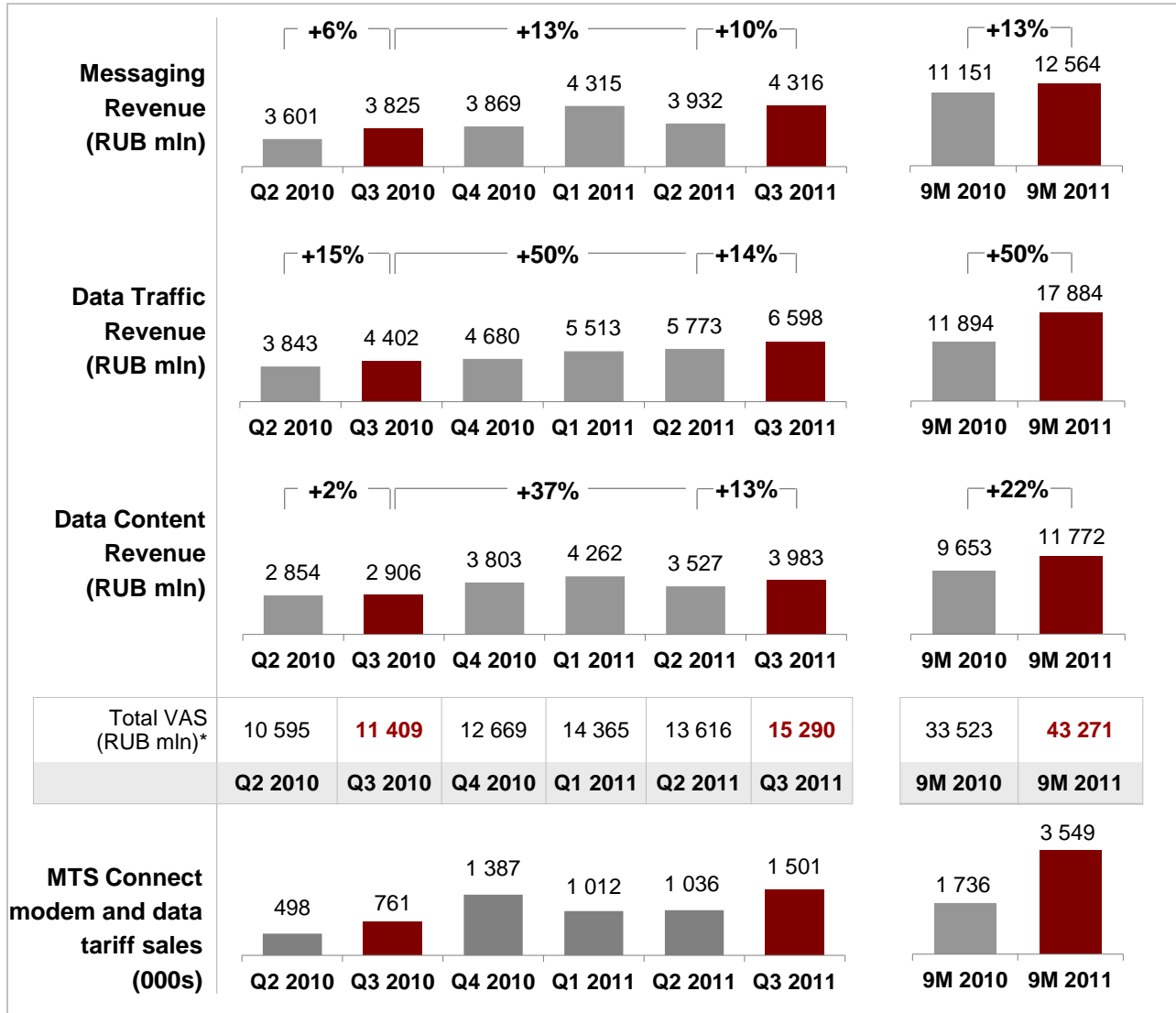
- ARPU q-o-q growth due to seasonally higher revenues from roaming and long-distance/international calling
- Strong y-o-y MOU growth as a result of the Company's continued focus on subscriber quality and efforts to stimulate on-net usage
- Y-o-Y improvement in the quarterly churn attributable to Company's focus on subscriber quality and retention
- Growth in absolute VAS ARPU as a result of positive seasonal dynamics, take-up in data usage enhanced by rising smartphone penetration, roll-out of the 3G networks and proliferation of USB modems
- APPM improvement due to seasonal factors and higher-value subscriber additions





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# Russia mobile operating indicators\*



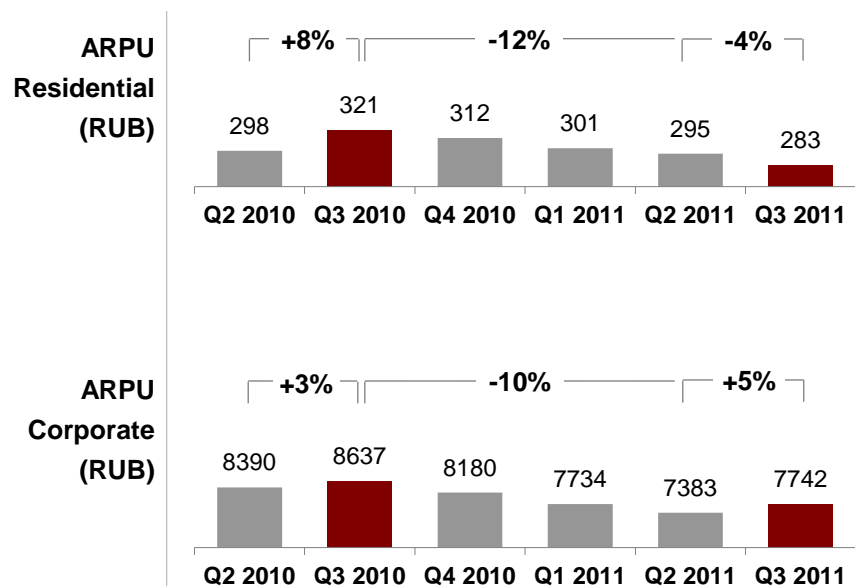
- Key initiatives in Q3 2011:
  - Launch of Mobile TV
  - Launch of sales of 21.6 mbs USB modems
  - Promo campaign Two months of unlimited internet for free with MTS-Connect and 3G and WiFi routers
  - Launch of promo campaign – one year of unlimited internet free of charge with the purchase of the HTC Mozart smartphone
- Strong increase in content revenues due to the launch of the new MTS-branded applications
- Healthy growth in messaging revenues due to seasonal factors and launch of new SMS bundles
- Continued strong modem and data tariff sales

\*Does not include revenue from SMS and data bundles, which is included in airtime revenue



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## Russia fixed operating indicators



- Residential ARPU q-o-q decline due to the seasonal factors with a generally lower subscriber activity during Summer
- Corporate ARPU y-o-y decrease reflects competition on corporate market; q-o-q growth due to an increase in Internet and data usage, as well as seasonally strong business activity in September

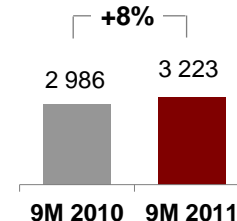
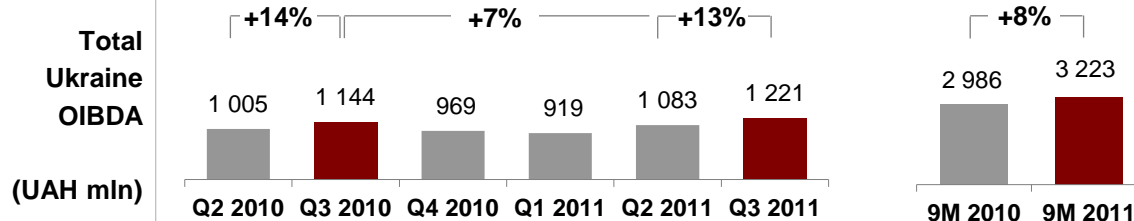
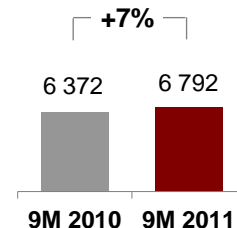
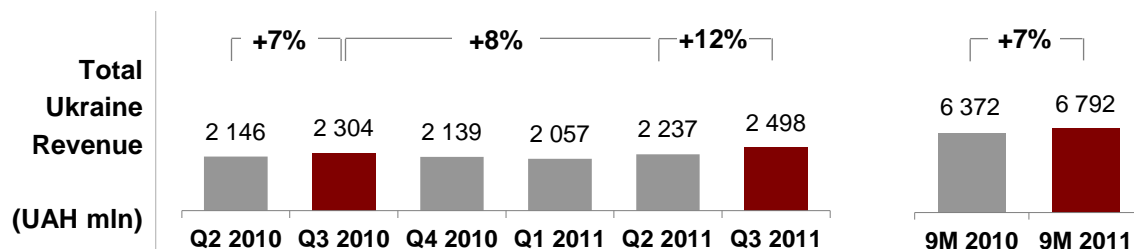
Total households passed, 000s	7 942	<b>7 799</b>	9 890	9 985	10 079	<b>10 415</b>
Total BB subs, 000s	1 437	<b>1 466</b>	1 805	1 892	1 957	<b>2 032</b>
Total pay-TV subs, 000s*	1 835	<b>1 853</b>	2 580	2 637	2 635	<b>2 741</b>
	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>

\*Figures retrospectively adjusted in line with MTS definitions



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# Ukraine financial highlights



OIBDA margin	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011
	46.8%	<b>49.7%</b>	45.3%	44.7%	48.4%	<b>48.9%</b>

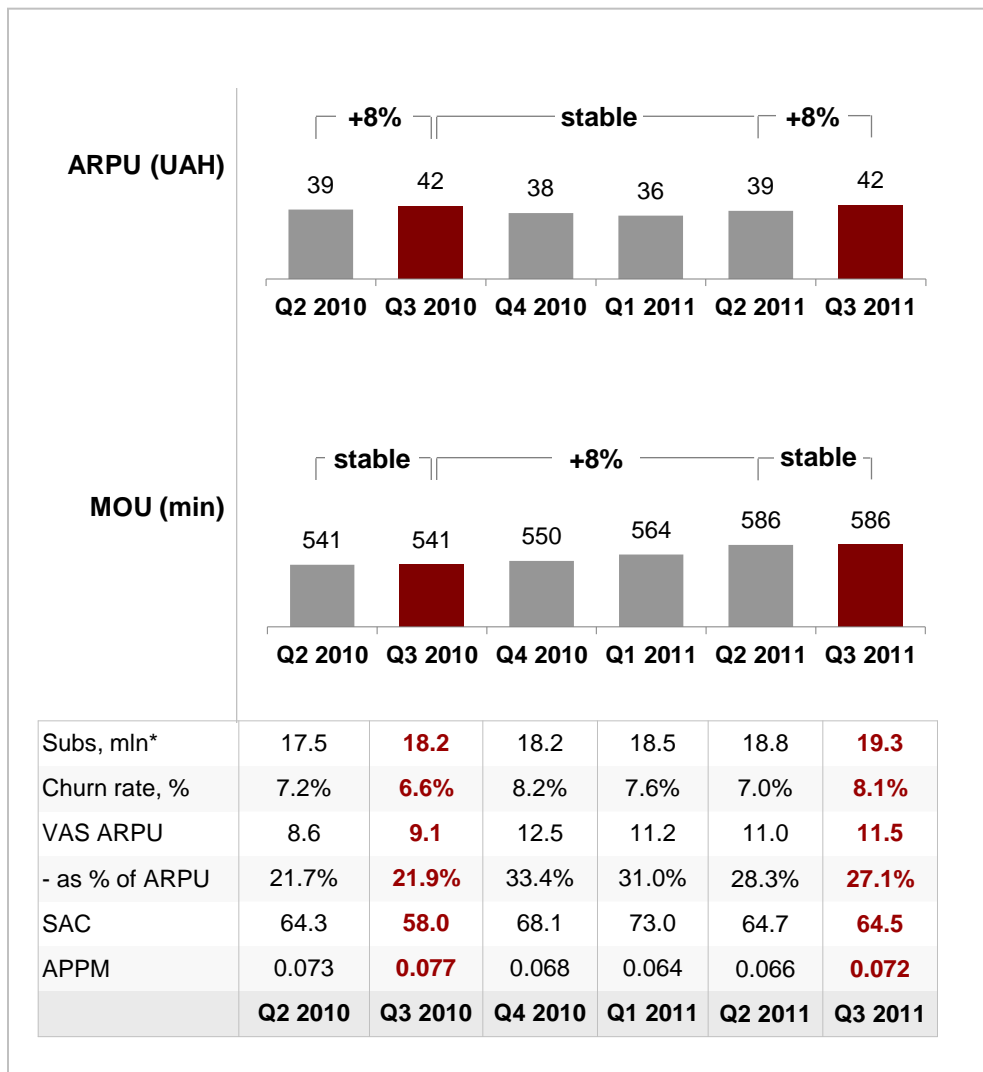
OIBDA margin	9M 2010	9M 2011
	46.9%	<b>47.4%</b>

- Revenue increase during the quarter due to positive seasonal factors, including greater contribution from roaming revenues
- Absolute OIBDA y-o-y growth in-line with top-line increase and indicative of sustained improvements in Company execution and overall stability in the market



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## Ukraine operating indicators



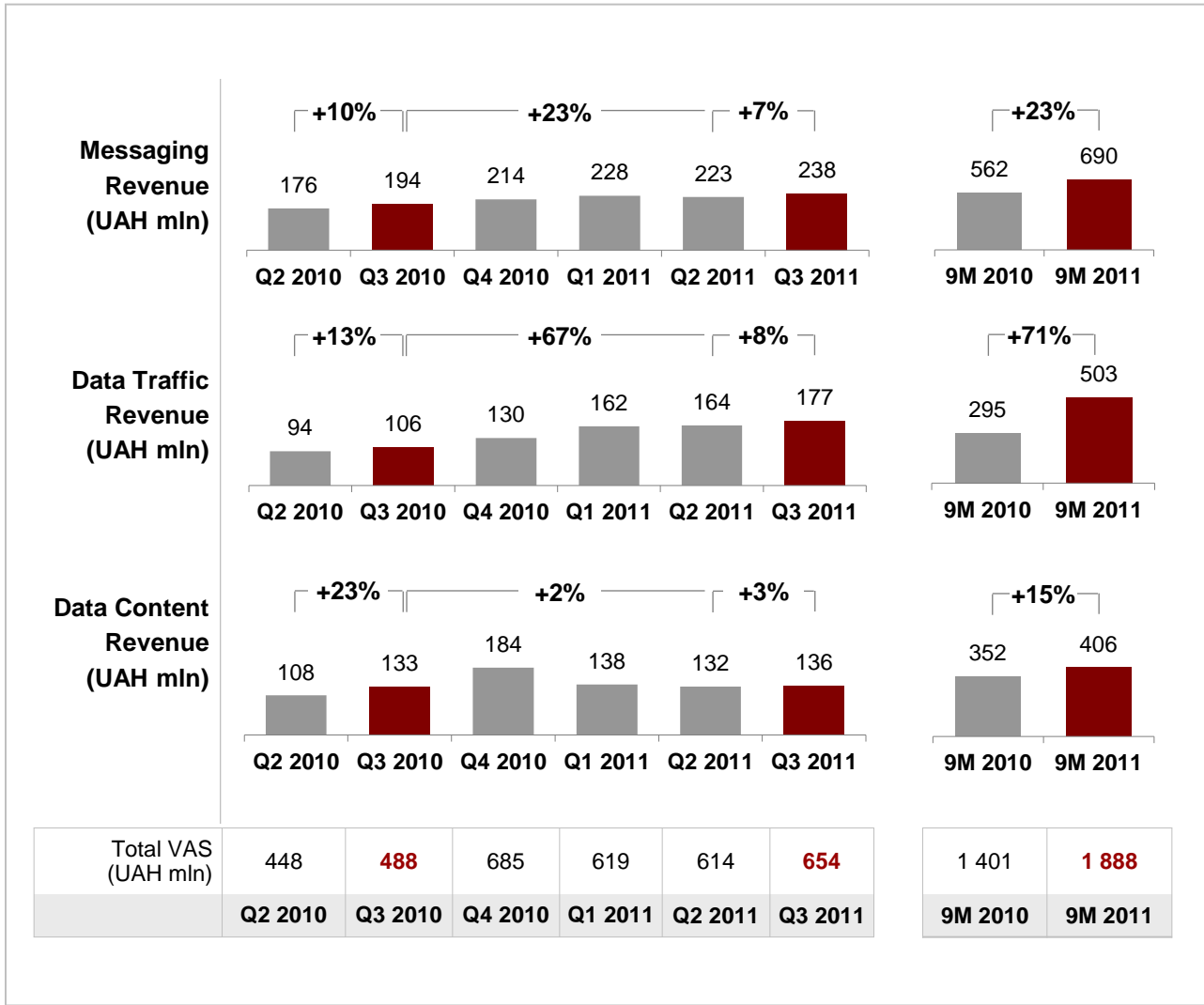
- ARPU growth for the quarter reflective of positive seasonal revenue trend
- Strong y-o-u usage growth due to the efforts aimed at stimulating subscribers' activity
- Revenue from VAS impacted by positive seasonal factors and active promo campaigns

\*Including CDMA subscribers starting Q1 2011



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# Ukraine operating indicators

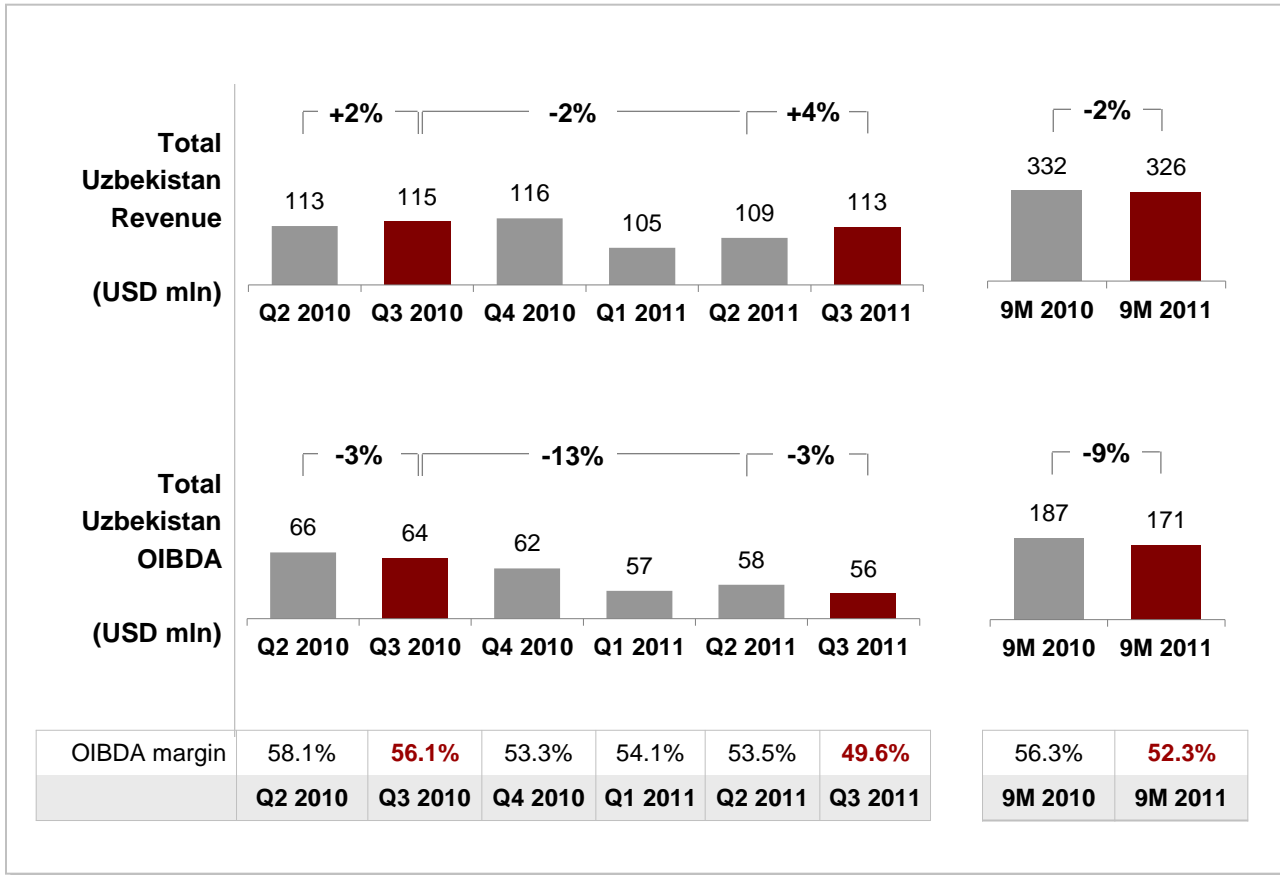


- Key initiatives in Q3 2011:
  - Launch of new MTS Connect tariff plans
  - New LBS games Hunter, Season of Hunting
  - New functionality of LBS service enabling parents monitor location of children
  - Free ringtones from MUZON
  - New SMS quizzes



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# Uzbekistan financial highlights



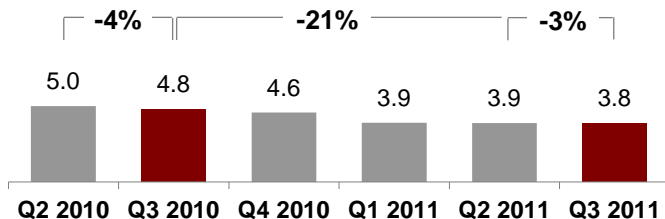
- Revenue growth due to strong subscriber additions, seasonal hike in usage, a surge in data traffic on the back of 3G network expansion adoption of data products and launch of sales of the USB modems
- OIBDA q-o-q decrease as a result of higher dealer commissions due to growth in subscriber additions, increase in interconnect expenses



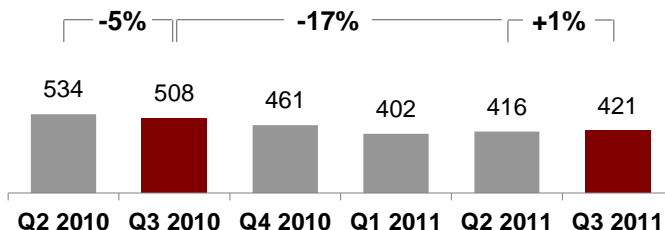
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# Uzbekistan operating indicators

ARPU (USD)



MOU (min)



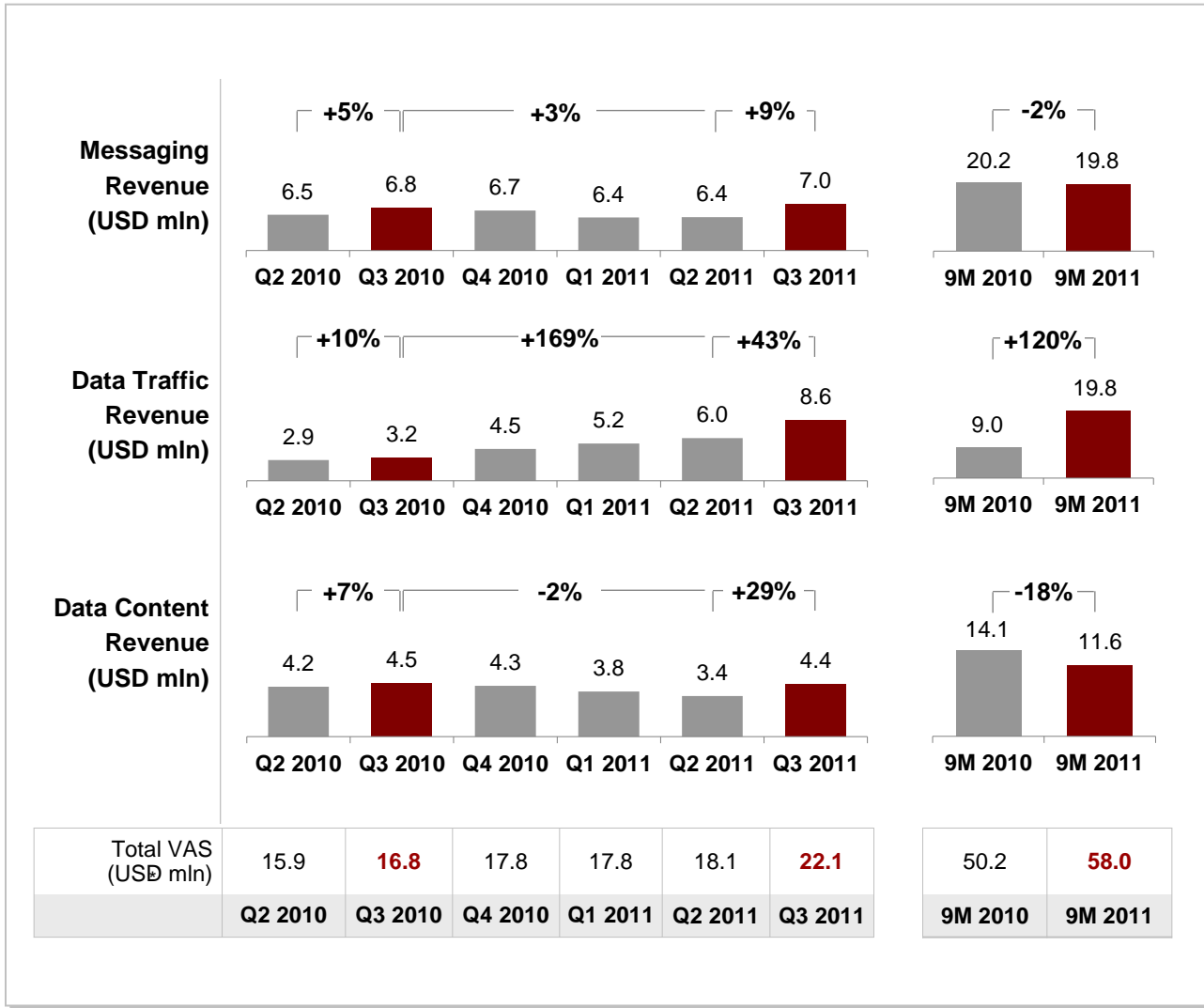
Subs, mln	7.6	<b>8.2</b>	8.8	9.1	9.4	<b>10.0</b>
Churn rate, %	6.1%	<b>7.2%</b>	6.0%	9.2%	6.9%	<b>9.3%</b>
SAC	6.0	<b>7.8</b>	8.1	7.4	7.7	<b>6.5</b>
APPM	0.01	<b>0.01</b>	0.01	0.01	0.01	<b>0.01</b>
	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>

- A slight ARPU decline due to the launch of new tariffs stimulating on-net calling
- MOU dynamics in line with the seasonal trends
- Continued growth in net subscriber additions during the quarter



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# Uzbekistan operating indicators



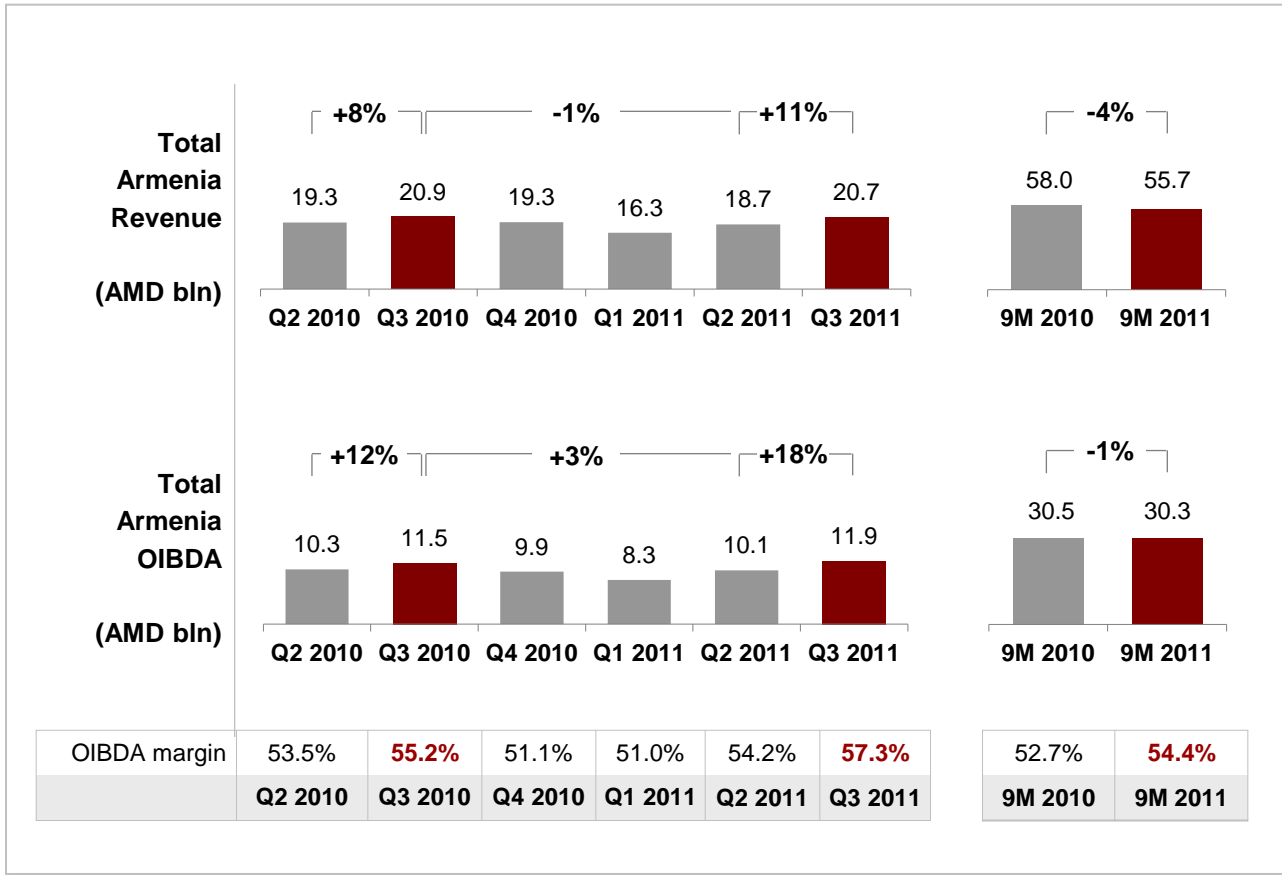
- Key initiatives in Q3 2011:
  - Strong sales of USB modems
  - Launch of SMS-notifications about the results of the university entrance exams
  - Launch of an SMS-notification service that informs parents about children's performance at schools
  - Launch of MTS-service, a free Java application enabling users to manage their tariff plans, services and ringtones





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# Armenia financial highlights



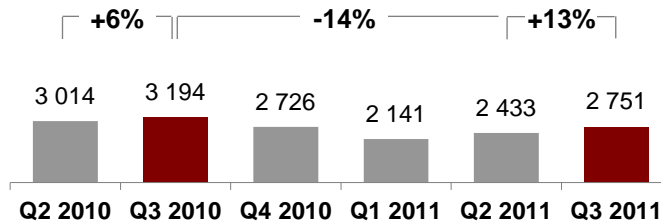
- Revenue growth on the back of seasonally high usage, improvement of interconnect balance and an increase in guest and own roaming revenues
- Strong OIBDA q-o-q dynamics reflective of topline growth and lower operating expenses due to cost cutting exercise



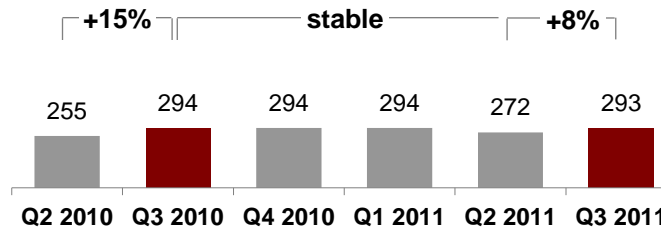
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# Armenia operating indicators

ARPU (AMD)



MOU (min)



Subs, 000s	2 126.4	<b>2 192.3</b>	2 461.0	2 549.7	2 509.8	<b>2 461.8</b>
Churn rate, %	8.5%	<b>7.7%</b>	7.0%	6.7%	8.5%	<b>10.0%</b>
SAC	7 192.0	<b>6 719.4</b>	3 867.8	6 005.4	8 237.3	<b>7 625.3</b>
APPM	11.8	<b>10.9</b>	9.3	7.3	8.9	<b>9.4</b>
	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>

- ARPU growth as a result of seasonally higher APPM and usage
- Quarterly usage growth due to positive seasonal factors



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Financial and corporate highlights

Key financial and operating results

## Appendix



- Definitions and reconciliations



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## Appendix – Definitions and Reconciliations

**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. Due to the rounding and translation practices, US dollar and functional currency margins, as well as other non-GAAP financial measures, may differ.

**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:

	Q3 2010					Q2 2011					Q3 2011				
USD mln	Group	RUS	UKR	UZB	ARM	Group	RUS	UKR	UZB	ARM	Group	RUS	UKR	UZB	ARM
Operating income	803.7	728.1	59.8	31.5	8.8	672.2	676.9	49.2	21.3	4.2	852.8	829.3	66.3	14.8	12.3
Add: D&A	513.8	368.4	85.0	32.9	22.8	630.5	484.0	86.6	36.8	22.9	587.1	439.1	86.8	41.2	19.9
OIBDA	1,317.5	1,096.5	144.8	64.4	31.5	1,302.7	1,160.9	135.9	58.1	27.1	1,439.9	1,268.4	153.1	56.0	32.2

	Q3 2010					Q2 2011					Q3 2011				
	Group	RUS	UKR	UZB	ARM	Group	RUS	UKR	UZB	ARM	Group	RUS	UKR	UZB	ARM
Operating margin	27.6%	30.2%	20.5%	27.5%	15.3%	21.5%	24.9%	17.5%	19.6%	8.4%	26.0%	29.5%	21.2%	13.1%	21.8%
Add: D&A	17.7%	15.3%	29.2%	28.6%	39.8%	20.1%	17.8%	30.9%	33.9%	45.8%	18.0%	15.6%	27.7%	36.5%	35.4%
OIBDA margin	45.3%	45.5%	49.7%	56.1%	55.2%	41.6%	42.7%	48.4%	53.5%	54.2%	44.0%	45.1%	48.9%	49.6%	57.3%



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## Appendix – Definitions and Reconciliations

**Net debt** represents total debt less cash and cash equivalents and short-term investments. Our net debt calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare our periodic and future liquidity within the wireless telecommunications industry. 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.

USD mln	As of Dec 31, 2010	As of Sep 30, 2011
Current portion of LT debt and of capital lease obligations	757.1	1,087.0
LT debt	6,392.6	6,155.7
Capital lease obligations	10.9	7.0
Total debt	7,160.6	7,249.7
Less:		
Cash and cash equivalents	927.7	1,473.3
ST investments	333.6	108.8
Net debt	5,899.3	5,667.6

**Free cash flow** is represented by net cash from operating activities less cash used for certain investing activities. Free cash flow is commonly used by investors, analysts and credit rating agencies to assess and evaluate our performance over time and within the wireless telecommunications industry. Because free cash flow is not based in US GAAP and excludes certain sources and uses of cash, the calculation should not be looked upon as an alternative to our Consolidated statement of cash flows or other information prepared in accordance with US GAAP.

USD mln	For nine months ended Sep 30, 2010*	For nine months ended Sep 30, 2011
Net cash provided by operating activities	2,755.7	2,988.4
Less:		
Purchases of property, plant and equipment	(725.5)	(1,308.3)
Purchases of intangible assets	(237.6)	(202.2)
Proceeds from sale of property, plant and equipment	6.0	20.8
Proceeds/ (purchases) of other investments	839.8	7.5
Investments in and advances to associates	(1.5)	3.0
Acquisition of subsidiaries, net of cash acquired	(154.1)	(57.3)
Free cash flow	2,482.8	1,451.9

\*Free cash flow was retrospectively adjusted for nine months ended Sep 30, 2010



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## Appendix – Definitions and Reconciliations

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

USD mln	Three months ended Dec 31, 2010	Nine months ended Sep 30, 2011	Twelve months ended Sep 30, 2011
	A	B	C = A + B
Net operating income	493.0	2,088.9	2,581.9
Add: depreciation and amortization	528.3	1,779.6	2,307.9
Add: impairment loss of long-lived and other assets	137.8	-	137.8
Adjusted OIBDA*	1,159.2	3,868.4	5,027.6

\*Adjusted OIBDA results for six months ended Dec 31, 2010 do not include long-lived and other assets impairment loss \$137.8 mln in Q4 2010



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## Appendix – Definitions and Reconciliations

**Average monthly service revenue per subscriber (ARPU).** We calculate our ARPU by dividing our service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of our subscribers during that period and dividing by the number of months in that period.

**Average monthly minutes of usage per subscriber (MOU).** MOU is calculated by dividing the total number of minutes of usage during a given period by the average number of our subscribers during the period and dividing by the number of months in that period.

**Subscriber.** We define a “subscriber” as an individual or organization whose account shows chargeable activity within sixty one days in the case of post-paid tariffs, or one hundred and eighty three days in the case of our pre-paid tariffs, or whose account does not have a negative balance for more than this period.

**Churn.** We define our “churn” as the total number of subscribers who cease to be a subscriber as defined above during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber’s request), expressed as a percentage of the average number of our subscribers during that period.

**Subscriber acquisition cost (SAC).** We define SAC as total sales and marketing expenses and handset subsidies for a given period. Sales and marketing expenses include advertising expenses and commissions to dealers. SAC per gross additional subscriber is calculated by dividing SAC during a given period by the total number of gross subscribers added by us during the period.



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## Appendix – Adjusted OIBDA definition

According to the SEC definition Sec. 103 EBIT and EBITDA, measures that are calculated differently than those described as EBIT and EBITDA in the materials should not be characterized as "EBIT" or "EBIDTA." Instead, the titles of these measures should clearly identify the earnings measure being used and all adjustments. MTS reports adjusted OIBDA due to its treatment of the impairment of long-lived and other assets that relates to Q4 2010.





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