

**Management Presentation of**  
**Mobile TeleSystems'**  
**Third Quarter 2002**  
**Financial Results**

**December 16, 2002**

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# *Agenda and MTS presentation team*

## **I. Overview of MTS' strategy**

*Mikhail Smirnov, President and CEO*

## **II. Strategy for the mass market**

*Mikhail Susov, First Vice President*

## **III. Financial and operational performance**

*Willem van Bommel, Vice President*

## *Presentation highlights*

- ❑ MTS announced continued growth in revenues, EBITDA and net income in Q3 2002
- ❑ Year-to-date MTS subscriber base has more than doubled to 6.22 million through largely organic growth of operations
- ❑ In November MTS launched a new product *Jeans* with the aim to gain the leading position in the mass market segment in Moscow and nationwide
- ❑ MTS has restated its Q4 2001, FY2001, Q1 2002 and Q2 2002 financial statements as the Company has reallocated the changed its approach to purchase price for a number of its completed acquisitions

# *MTS is the largest mobile operator in Central and Eastern Europe\**

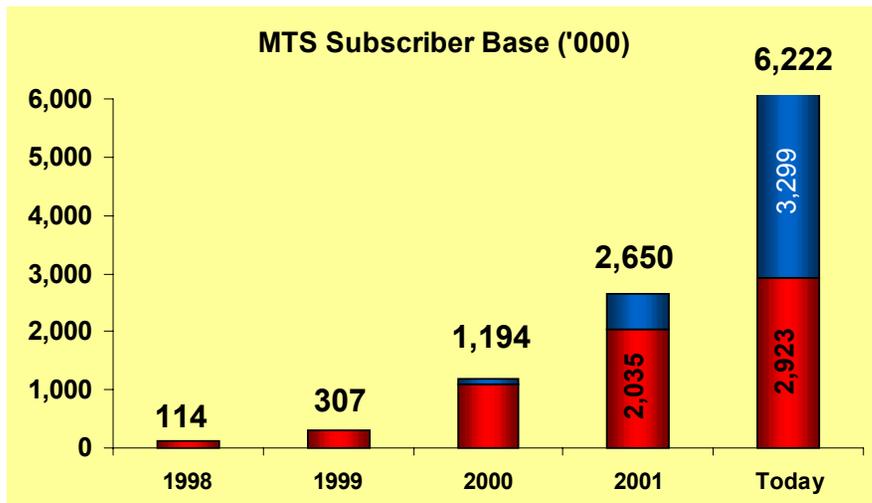


\* in terms of subscribers

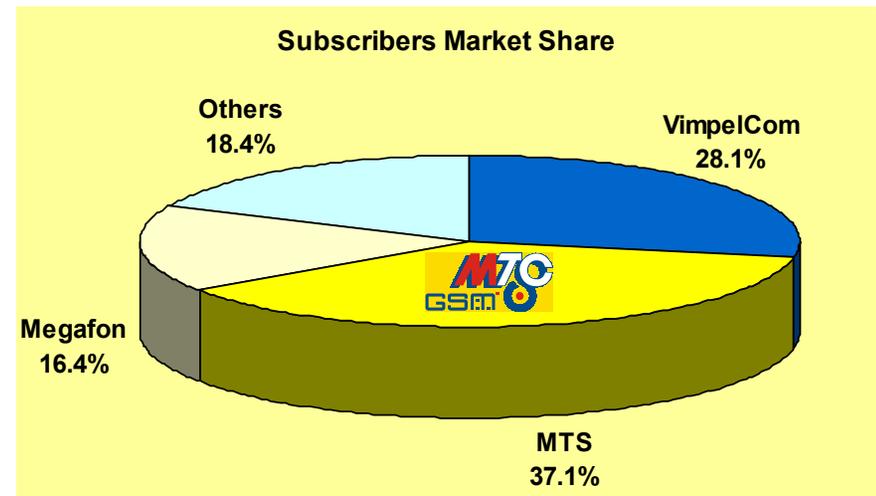
Source: Schroders SalomonSmithBarney

## *MTS: Maintaining leading position in the Russian market*

- ❑ Subscriber base has more than doubled from YE2001 to reach 6.22m
- ❑ Licence footprint covers a population of 103.1m in Russia (72% of the country's population) and 10m in Belarus
- ❑ Operations in 46 out of 56 regions under the licence footprint



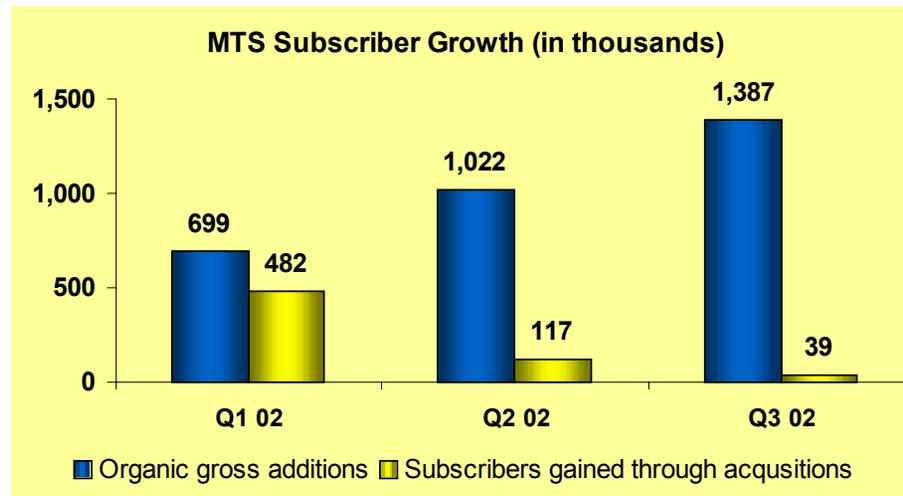
Source: MTS



Source: AC&M Consulting as of Nov. 30, 2002

# *The majority of MTS subscriber growth is organic*

- The majority of MTS' new subscribers are obtained through an organic growth of the Company's operations to meet increased market demand



Source: MTS

## ***MTS regional expansion strategy: Greenfield build out***

- During H2 2002 MTS started new operations in five regions of Russia with a total population of 9.6m

<b>Region</b>	<b>Population (mln)</b>	<b>Date of Launch</b>
Arkhangelsk	1.40	30-Jul-02
Chelyabinsk	3.60	15-Aug-02
Vologda	1.30	5-Sep-02
Tumen	3.30	10-Sep-02
Nenets Autonomous region	0.04	12-Nov-02
<b>Total</b>	<b>9.64</b>	

Source: MTS

- In the near future MTS plans to launch operations in another two regions, Kurgan (population 1.1m) and Orenburg (population 2.2m), thereby, expanding its network to 48 Russian regions

# ***MTS regional expansion strategy: Expansion of regional franchise through acquisitions***

- ❑ 2002 acquisitions have increased the Company's licence footprint by 8.07m people

Company	Date of Acquisition	Stake Acquired	Price (US\$ mln)	Region	Population Under Licence (mln)	Subscribers Today
Dontelecom	September 2002	100%	22.5	Rostov	4.30	39,590
Mobicom Barnaul	July 2002	100%	2.4	Altai Region	2.70	-
				Republic of Tyva	0.10	-
Bit	October 2002	100%	0.9	Sakhalin	0.58	-
				Chukotka	0.07	-
				Republic of Kalmykia	0.31	-
<b>Total</b>			<b>25.8</b>		<b>8.07</b>	<b>39,590</b>

Source: MTS

## ***MTS regional expansion strategy: Consolidation of minority stakes***

- During H2 2002 MTS increased its ownership in two significant regional ventures: Kuban GSM and Telecom 900

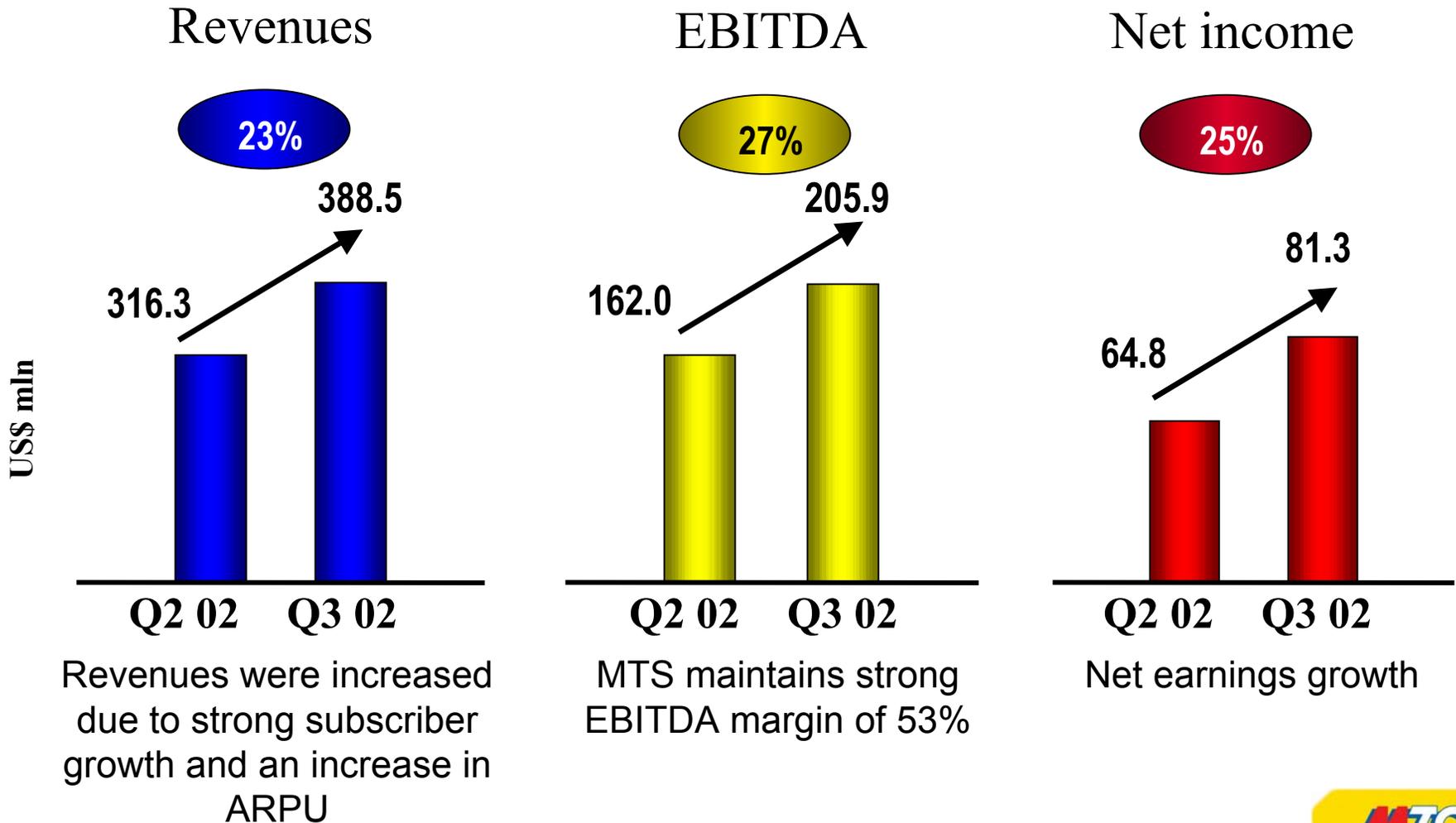
Company		Increase in Ownership	Price (US\$ mln)	Region	Population Under Licence (mln)	Subscribers Today
Telecom 900	Uraltel (53.17% stake)	From 81% to 100% through purchase of an additional 19% stake	6.9	Sverdlovsk	4.54	146,385
	Siberia Cellular Systems 900 (51% stake)			Novosibirsk and the Republic of Altay	2.92	260,038
	Far East Cellular Systems 900 (60% stake)			Khabarovsk	1.49	51,460
Kuban GSM		From 51% to 60% through additional shares buy out	30.9	Krasnodar	4.99	791,283
<b>Total</b>			<b>37.8</b>		<b>13.94</b>	<b>1,249,166</b>

Source: MTS

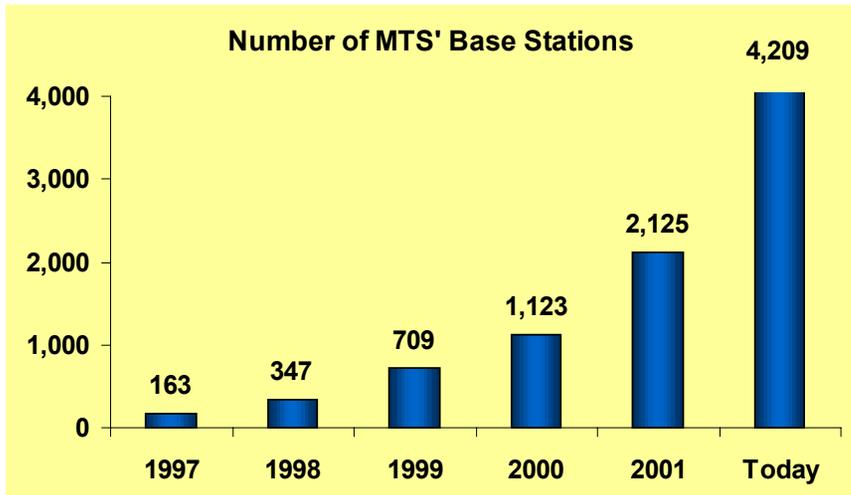
## *Exploiting growth opportunities in the CIS market*

- ❑ In June 2002 MTS' 49% joint venture commenced operations in Belarus and today the joint venture has 29,170 subscribers in this neighbouring country
- ❑ In early November MTS signed agreements to acquire 57.7% of UMC, a leading mobile operator in Ukraine for \$194.2m. If completed, the acquisition will allow MTS to:
  - Expand into the developing cellular market of Ukraine
  - Acquire a leading mobile operator in Ukraine
  - Increase its licence territory and thereby potential market
  - Increase its subscriber base by 1.6m
  - Take advantage of various operational synergies

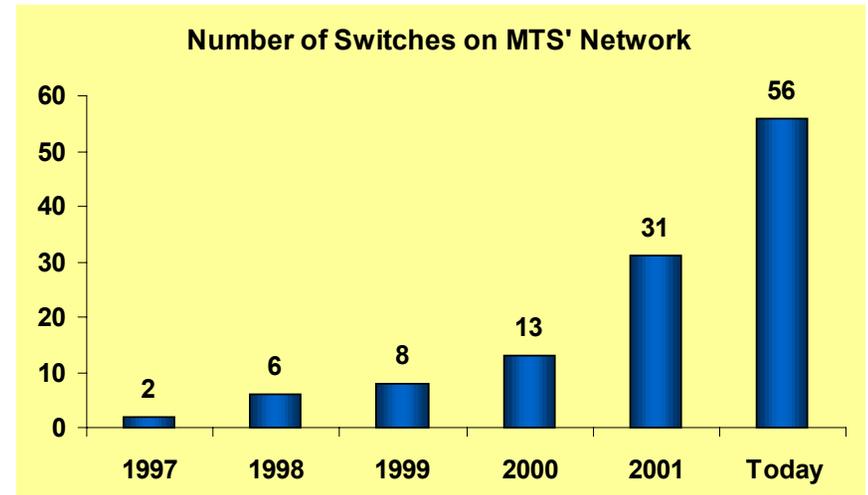
# MTS in Q3 2002: Maintaining strong profitability



# Expansion of MTS Infrastructure



Source: MTS



Source: MTS

## *MTS' strategy for growth new marketing initiative aimed at the mass market*

- ❑ In line with MTS' strategy for further growth, the Company announced a new brand and tariff plan targeted at the mass-market during November 2002
- ❑ "Jeans" is the brand used to target the mass market; MTS plans to retain the "MTS" brand for marketing middle and heavy users as well as corporate clients



- Target audience: low end of mass market
- Key feature: no monthly fee but higher per-minute rate
- Churn policy: 183 days



- Target audience: middle- and high-end users
- Key feature: wider ranger of services; lower per minute rate
- Churn policy: 61 days



# MTS: Continued growth in the regions

Region	Subs at 31.12.02	Subs at 31.03.02	Subs at 30.06.02	Subs at 30.09.02
Moscow License Area	2,035.4	2,084.6	2,351.2	2,688.2
<i>Growth</i>		2%	13%	14%
Central (ex. Moscow)	276.1	334.0	420.8	541.9
<i>Growth</i>		21%	26%	29%
Volga	33.9	46.7	212.7	287.8
<i>Growth</i>		38%	356%	35%
St Petersburg Licence Area	46.4	264.1	400.5	565.2
<i>Growth</i>		469%	52%	41%
North-West (ex. St Petersburg)	28.4	36.0	55.6	91.1
<i>Growth</i>		27%	55%	64%
South	N/a	482.4	541.7	726.1
<i>Growth</i>		N/a	12%	34%
Urals	52.6	58.8	99.2	164.3
<i>Growth</i>		12%	69%	66%
Siberia	151.1	189.9	244.8	309.0
<i>Growth</i>		26%	29%	26%
Far East	26.3	31.2	40.6	54.0
<i>Growth</i>		19%	30%	33%
Belarus	0.0	0.0	3.9	14.2
<i>Growth</i>		N/a	N/a	267%
<b>Total</b>	<b>2,650.3</b>	<b>3,527.8</b>	<b>4,370.9</b>	<b>5,441.9</b>
<i>Growth</i>		33%	24%	25%

Central region includes MTS operations in Belgorod, Bryansk, Ivanovo, Kaluga, Kostroma, Kursk, Lipetsk, Orel, Ryazan, Smolensk, Tambov, Tula, Tver, Vladimir, Voronezh, Yaroslavl regions; North-West includes MTS operations in Arkangelsk, Kaliningrad, Petrozavodsk, Murmansk, Novgorod, Pskov, Vologda regions and the Republic of Komi; Volga includes MTS operations in the Republic of Bashkortostan, in Kirov and Udmurtiya Republic; South includes MTS operations in the Krasnodar region, Rostov-on-Don and the Republic of Adygeya; Urals includes MTS operations in Ekaterinburg, Chelyabinsk, Tyumen and Perm regions; Siberia includes MTS operations in Novosibirsk, Omsk, Altay region; Far East includes MTS operations in Khabarovsk and Amur regions.

Source: MTS

MTS added 482,420 subs via consolidation of Kuban GSM at the end of Q1 2002 and 116,809 subs via consolidation of BM Telecom on May 13, 2002, and 40,000 subs via consolidation of Dontelecom in Q3 2002



## ***30% market share in North West Russia after eleven months of operations***

- ❑ MTS acquired Telecom XXI, a GSM licence holder for the North West licence area (including the city of St Petersburg), in May 2001
- ❑ Commercial operations were launched on December 12, 2001 and today MTS has over 780,000 subscribers in the licence area
- ❑ Operations broke even at EBITDA level at the beginning of Q2; bottom line positive as of June



Source: MTS, AC&M-Consulting

# **Composition of MTS' Moscow subscriber base**

	<b>Business and wealthy individuals (Moscow 7-digit number)</b>	<b>Mass market (federal, 11-digit number)</b>
Subscriber share	10.0%	90.0%
Service revenue share	33.8%	66.2%
ARPU (US\$)	96.4	22.1
MOU (minutes)	390	167

Source: MTS

# *Financial and Operational Performance*

## ***MTS in Q3: Maintaining strong growth and profitability***

US\$ mln	Third Quarter			Second Quarter		Nine Months Ended		
	2002	2001	Growth	2002	Growth	Sep 30, 2002	Sep 30, 2001	Growth
Revenues	388.5	262.6	48%	316.3	23%	952.5	634.8	50%
Operating income	147.9	107.0	38%	112.9	31%	340.6	238.4	43%
Net income	81.3	78.4	4%	64.8	26%	191.9	144.6	33%
EBITDA	205.9	142.0	45%	162.0	27%	491.4	304.3	61%
Operating margin	38%	41%		36%		36%	38%	
Net margin	21%	30%		20%		20%	23%	
EBITDA margin	53%	54%		51%		52%	48%	
Capex	117.8	125.4	-6%	113.8	4%	351.9	268.6	31%

Source: MTS

Note: MTS' net income for Q3 2001 was increased by \$22 million as the Company recognised a correspondent deferred tax benefit due to the reduction in the statutory income tax from 35% to 24% that became effective from January 1, 2002.

# *MTS restatement of Q4 and FY2001 financial statements*

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
<b>At December 31, 2001:</b>			
Property plant and equipment, net	841,308	14,748	856,056
Licenses, net	297,490	(20,541)	276,949
Other intangible assets, net	83,507	738	84,245
Total assets	1,732,547	(5,055)	1,727,492
Deferred taxes	72,192	(4,687)	67,505
Minority interest	12,999	1,445	14,444
Retained earnings	462,628	(1,537)	461,091
Total liabilities and shareholder's equity	1,732,547	(5,055)	1,727,492
<b>For the year ended December 31, 2001:</b>			
Depreciation and Amortization	133,143	175	133,318
Net operating income	334,284	(10,175)	324,109
Total other expense (income), net	5,223	(10,000)	(4,777)
Income before provision for income taxes and minority interest	327,190	(568)	326,622
Provision for Income Taxes	97,414	47	97,461
Minority Interest	6,614	922	7,536
Net income	207,366	(1,537)	205,829
Earnings per share – net income (basic and diluted)	0.105	(0.001)	0.104



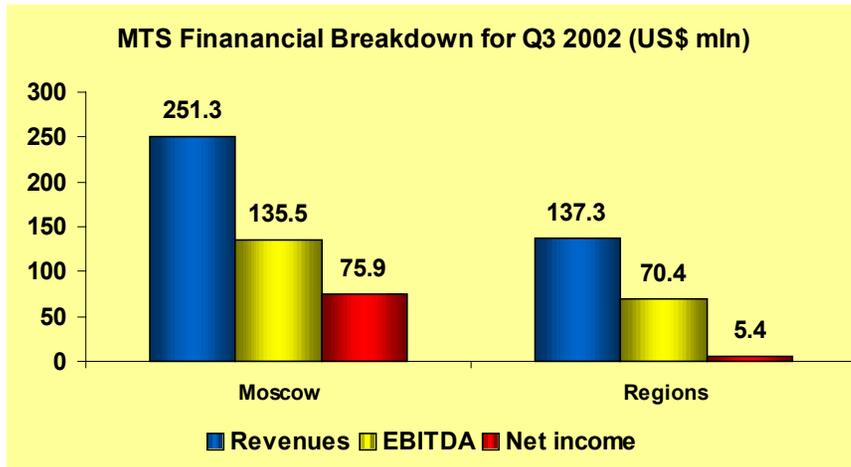
# ***MTS restatement of H1 2002 financial statements***

<b>Six months ended June 30, 2002:</b>	<b>As previously reported</b>	<b>Adjustment</b>	<b>As restated</b>
Property plant and equipment, net	1,069,743	72,456	1,142,199
Licenses, net	465,326	(75,669)	389,657
Goodwill, net	22,411	(21,878)	533
Other intangible assets, net	81,344	9,340	90,684
<b>Total assets</b>	<b>2,031,430</b>	<b>(15,751)</b>	<b>2,015,679</b>
Deferred connection fees	47,339	(329)	47,010
Deferred tax liability	116,290	(16,785)	99,505
<b>Total long-term liabilities</b>	<b>521,637</b>	<b>(17,114)</b>	<b>504,523</b>
Minority interest	43,015	5,919	48,034
Retained earnings	572,944	(4,556)	568,388
<b>Total liabilities and shareholders equity</b>	<b>2,031,430</b>	<b>(15,751)</b>	<b>2,015,679</b>
Depreciation and Amortization	92,784	(2,106)	90,678
Net operating income	192,738	2,106	194,844
Provision for Income taxes	53,826	128	53,954
Minority Interest	9,691	4,997	14,688
<b>Net income</b>	<b>110,620</b>	<b>(3,019)</b>	<b>107,601</b>

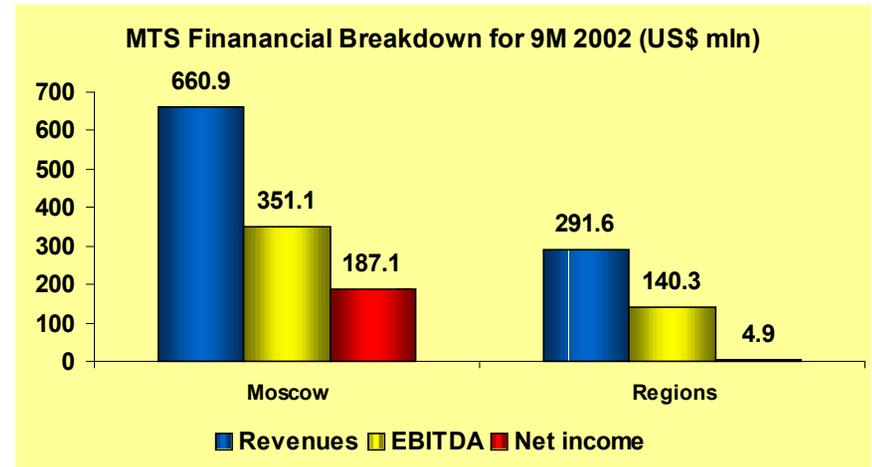
Source: MTS



# Profitability of MTS regional operations



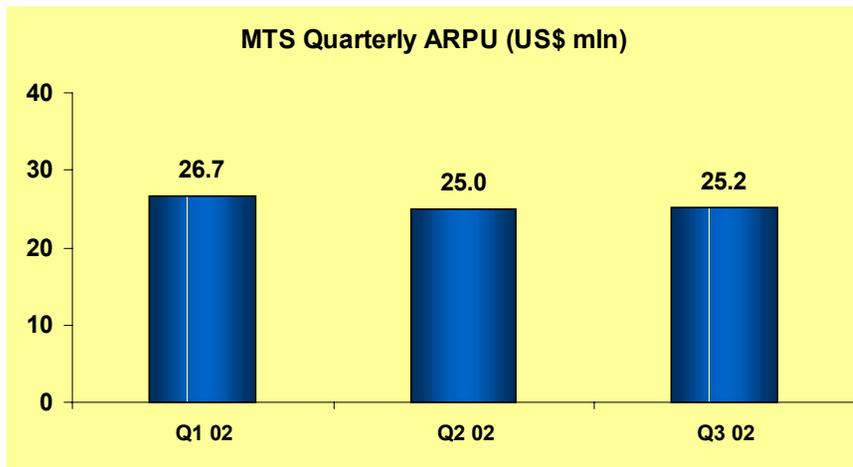
Source: MTS



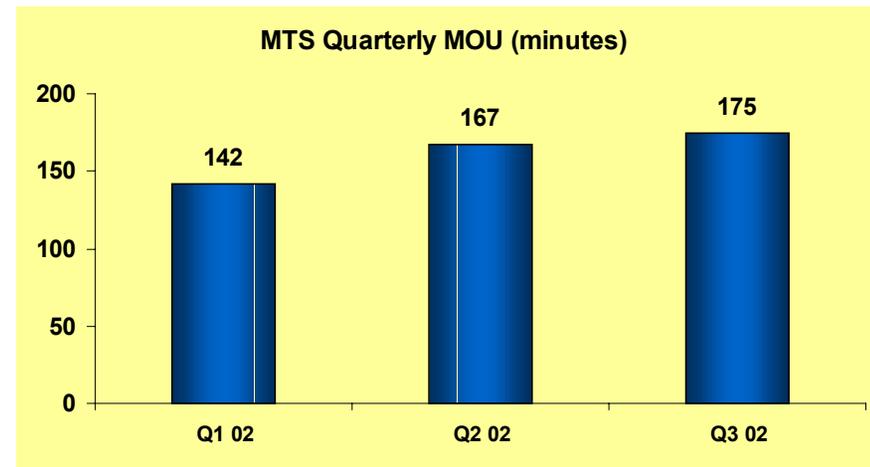
Source: MTS

## *An increase in ARPU was achieved in Q3 on the back of higher mobile usage and increased roaming revenues*

- ❑ ARPU in the Moscow market remained flat at \$31, while ARPU in the regions increased from \$18 in Q2 2002 to \$19 in Q3 2002
- ❑ Usage in the Moscow market increased from 164 minutes in Q2 2002 to 172 in Q3 2002, while usage in the regions went up from 171 minutes to 178 minutes over the same period



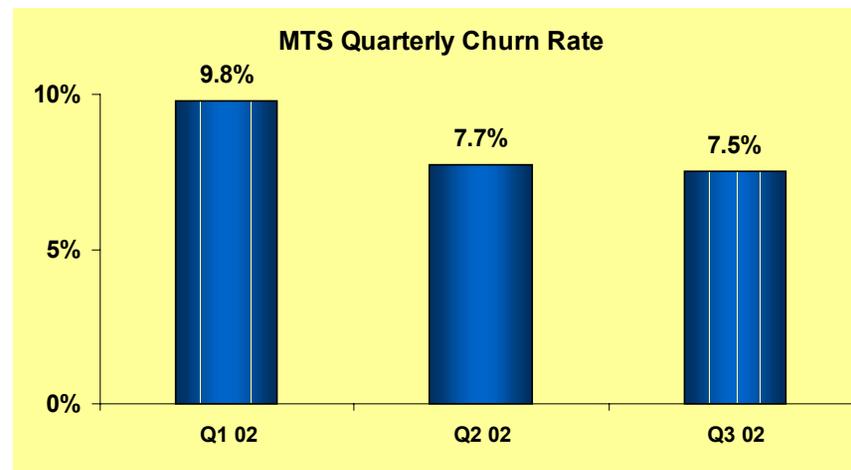
Source: MTS



Source: MTS

## *Continued improvement in churn rate*

- Increasing customer loyalty and reducing churn rate are important priorities for MTS management team. Steps taken to enhance the MTS brand in the Moscow have already resulted in a decrease in the churn rate



Source: MTS

# Subscriber acquisition cost breakdown

	Q3 2002	Q2 2002	Change, %	Q3 2001	Change, %
Per new gross additional subscriber (US\$)					
Advertising and promotion	7.9	11.0	-28%	12.0	-34%
Handset subsidy	0.4	1.0	-57%	7.0	-94%
Dealer commission	24.4	27.0	-9%	30.0	-19%
Total SAC	32.8	39.0	-16%	49.0	-33%
Total SAC (US\$ mln)					
Advertising and promotion	10.9	10.8	1%	19.9	-45%
Handset subsidy	0.6	0.9	-36%	11.6	-95%
Dealer commission	33.9	27.8	22%	49.7	-32%
Total SAC	45.4	39.5	15%	81.1	-44%
Gross new additional subscribers	1,386,556	1,022,217	36%	603,900	130%

Source: MTS

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