

The background of the slide is a photograph of a large exhibition stand for Mobile TeleSystems (MTS). The stand is constructed from a green metal frame and features large, 3D block letters for the 'MTS' logo in blue, orange, and white. Below the logo, the text 'GSM' is visible in blue. The stand is set against a backdrop of a cityscape. The overall scene is brightly lit, suggesting an indoor exhibition space.

**Mobile TeleSystems**

**Q2 2004**

**Financial and Operating Results  
Management Presentation**

**August 31, 2004**

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# Disclaimer

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Some of the information in this presentation may contain projections or other forward-looking statements regarding future events or the future financial performance of MTS, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify forward looking statements by terms such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “will,” “could,” “may” or “might” the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. We refer you to the documents MTS files from time to time with the U.S. Securities and Exchange Commission, specifically, the Company’s most recent Form 20-F/A. These documents contain and identify important factors, including those contained in the section captioned “Risk Factors,” that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, potential fluctuations in quarterly results, our competitive environment, dependence on new service development and tariff structures; rapid technological and market change, acquisition strategy, risks associated with telecommunications infrastructure, risks associated with operating in Russia, volatility of stock price, financial risk management, and future growth subject to risks.

# Highlights of Q2 2004



- ❑ Strong financial results
  - MTS' consolidated subscriber base increased by 3.6m (19%), from 19.2m to 22.8m users as of June 30, 2004
  - Y-o-y, revenue was up 52% to \$918.2m, OIBDA\* was up 60% to \$521.5m and net income was up 108% to \$267.5m. On a q-on-q basis, revenue was up 14%, OIBDA\* was up 18% and net income was up 29%
  - Free cash flow\* positive for both Q2 and H1 2004 (\$293m for the first six months of the year)
  - All-time high OIBDA\*\* margin of 56.8%
- ❑ Consolidation of minorities in Russia
  - MTS increased its ownership in its Omsk (to 91%) and Khabarovsk (to 100%) subsidiaries in April 2004 and in Primtelefon (to 100%) in July 2004, spending \$41.5m on the three companies
- ❑ Acquisition of a 74% stake in Uzdunrobita at the beginning of August 2004 marked MTS' entry into another promising CIS market
  - Population of 25.2m and mobile penetration of only 1.5% provides ample opportunity for expansion
- ❑ License coverage
  - Following MTS' acquisition in Uzbekistan, the Company's license coverage grew to over 225m POPs (87 out of 89 regions in Russia and the entire territories of Ukraine, Belarus and Uzbekistan)
  - MTS' operational regions in Russia currently extend to 63 (60 at YE 2003; 62 at the end of Q1 2004). The Company is planning to operate in 74 regions by YE 2004
- ❑ Rating upgrades
  - Standard and Poor's raised MTS' credit rating from B+/Outlook Stable to BB-/Outlook Stable in April 2004
  - MTS' Corporate Governance Rating raised to 7+ in July 2004 by the S&P

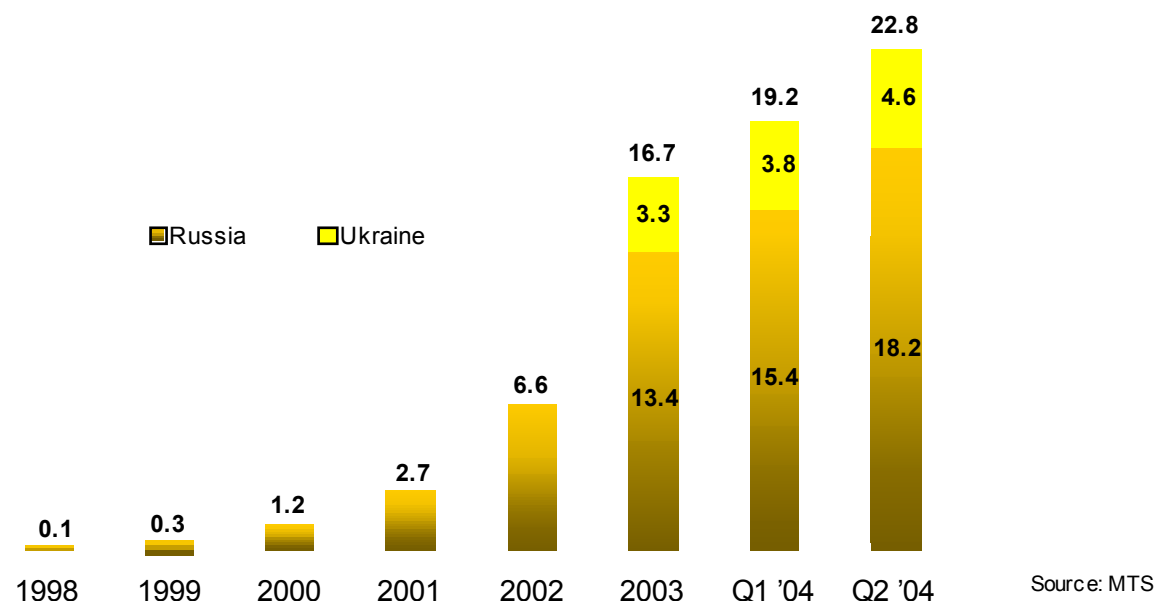
\*See Appendix B for reconciliations to net cash provided by operating activities

\*\*OIBDA represents operating income before depreciation and amortization. See Appendix A for definitions of OIBDA and reconciliations to operating income

# MTS: Subscriber Base Growth



MTS' Consolidated Subscriber Base, 1998-Q2 2004 (m)



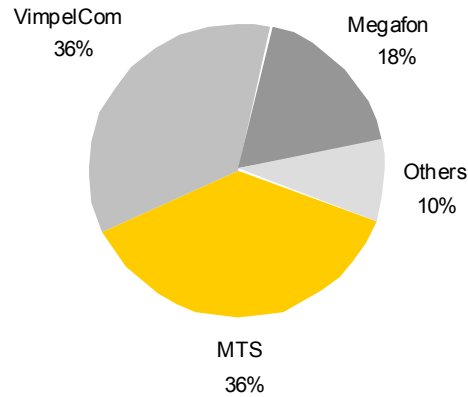
- ❑ During Q2 2004 MTS added approximately 3.6m new customers (3.4m organically plus 0.2m added with the consolidation of Primtelefon) to its consolidated subscriber base and provided services to a total of 22.78m subscribers as of June 30, 2004
- ❑ In addition, MTS' unconsolidated joint-venture in Belarus increased by 0.15m customers during Q2 2004, providing its services to 0.74m subscribers as of June 30, 2004
- ❑ YTD, MTS' consolidated subscriber base increased by 8.80m to reach 25.50m (20.00m in Russia, 5.26m in Ukraine and 0.25m in Uzbekistan) as of August 30, 2004

# Market Growth: Russia

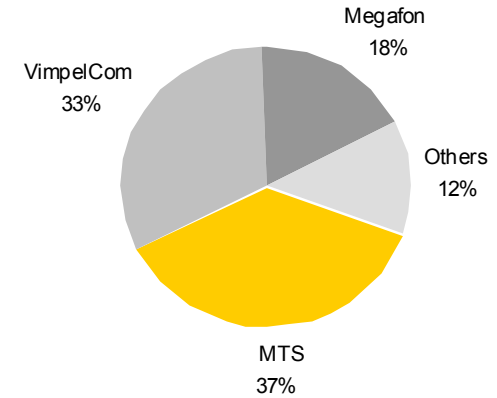


- During Q2 2004 the number of mobile phone users in Russia increased by 7.2m to reach 49.5m (mobile penetration of 34.1%)
- At the end of Q2 2004 MTS remained the leading operator in Russia with a stable market share of 37% compared to 33% for VimpelCom and 18% for Megafon
- Pre-paid *Jeans* subscribers accounted for 65% of total subscribers at the end of Q2 2004 (44% at YE 2003)

Share of Organic Net Additions in Russia in Q2 2004

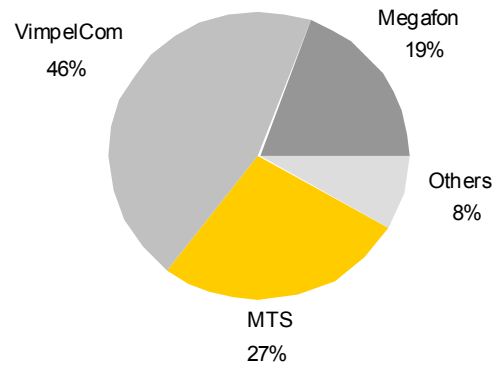


Market Share in Russia at the end of Q2 2004

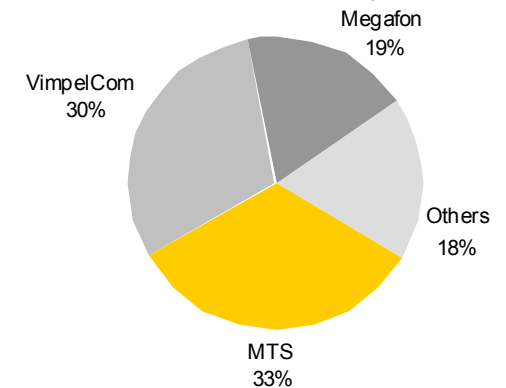


Source: MTS, AC&M-Consulting

Share of Organic Net Additions in the Regions\* in Q2 2004



Market Share in the Regions at the end of Q2 2004



Source: MTS, AC&M-Consulting

Note: All market statistics according to AC&M-Consulting

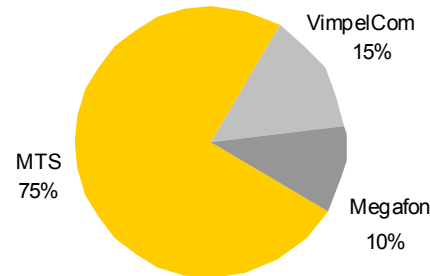
\*Excluding Moscow and St. Petersburg License Areas

# Market Growth: Moscow and St. Petersburg

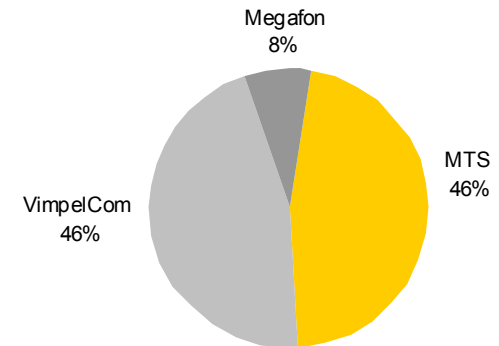


- ❑ At the end of Q2 2004 mobile penetration for Moscow and St. Petersburg was at 79% and 70% respectively
- ❑ MTS became the market leader in Moscow with an increased market share from 42% at YE 2003 to 46% at the end of Q2 2004, due to enhanced brand perception and its high standard of service and network provision
- ❑ During Q2 2004 MTS successfully protected its 33% market share in St. Petersburg

Share of Organic Net Additions in Moscow in Q2 2004

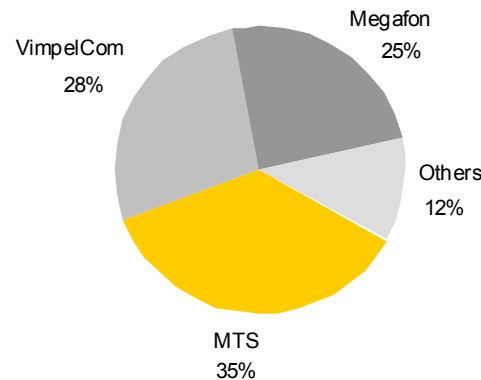


Market Share in Moscow at the end of Q2 2004

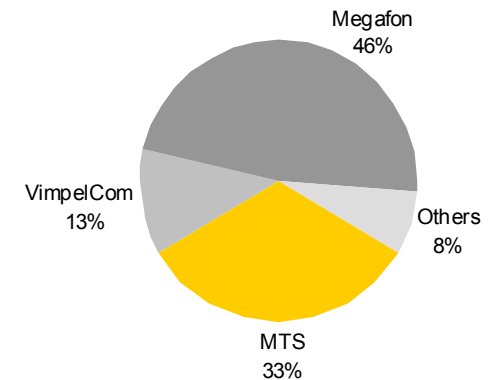


Source: MTS, AC&M-Consulting

Share of Organic Net Additions in St. Petersburg in Q2 2004



Market Share in St. Petersburg at the end of Q2 2004



Source: MTS, AC&M-Consulting

Note: All market statistics according to AC&M-Consulting

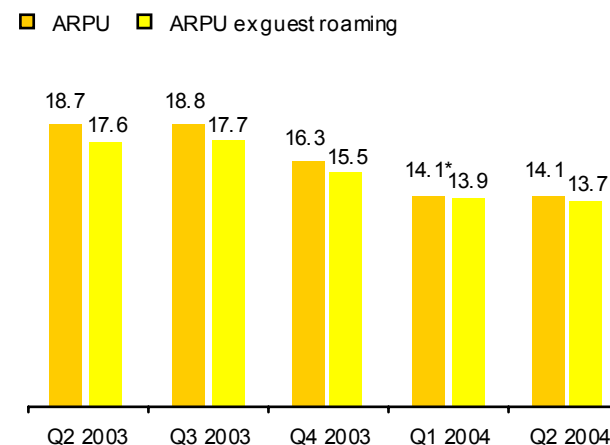
\*Note: Other operators excluded due to insignificant size

# MTS in Russia: Key Figures (ARPU)



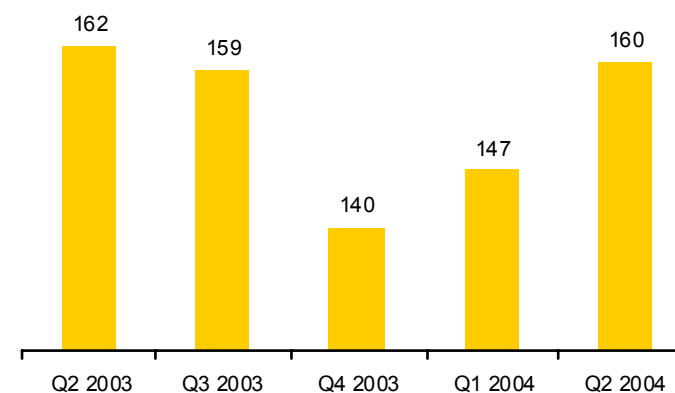
- ❑ ARPU from pre-paid *Jeans* customers increased from \$9.2 in Q1 2004 to \$9.6 in Q2 2004; during the same period, ARPU from *MTS* customers increased from \$19.2 to \$21.4. Blended ARPU remained unchanged at \$14.1 due to the change in customer mix towards more *Jeans* customers signed to the network
- ❑ ARPU from VAS in Q2 2004 was at \$1.2 (8.5% of total ARPU), compared to \$1.46 (10.4% of total ARPU); the first quarter is seasonally one of the strongest quarters for the VAS usage
- ❑ MOU from both *Jeans* and *MTS* customers increased in Q2 2004 compared to the previous quarter, from 106 minutes to 124 minutes for *Jeans* and from 189 minutes to 216 minutes for *MTS*
- ❑ The increase in usage is partially due to a number of marketing initiatives aimed at encouraging customers to use their mobile phones more often

ARPU in Russia (US\$)



Source: MTS

MOU in Russia (minutes)



Source: MTS

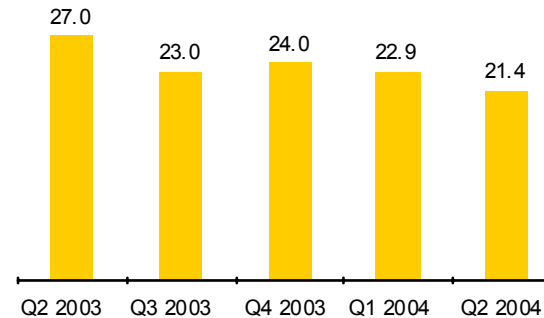
\*Note: Originally released as \$14.7. Number revised due to subsequent reclassification in intercompany balances with no effect on total service revenues

# MTS in Russia: Key Figures (SAC & Churn)



- ❑ SAC per gross additional subscriber declined due partially to the new dealer commission payment scheme introduced in Moscow in February 2004, whereby commissions to dealers are deferred for up to one year, replacing the one-time commission payment scheme, in addition to the lowering of commission in certain regions

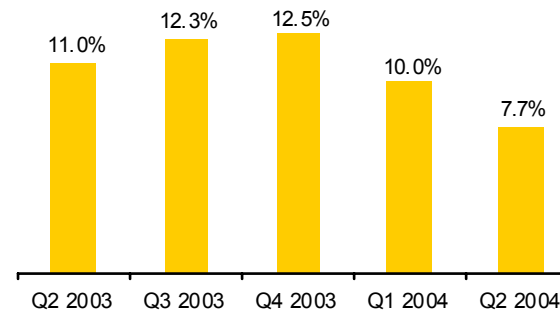
SAC in Russia (US\$)



Source: MTS

- ❑ Churn rate was 7.7% in Q2 2004, down from 10.0% in the previous quarter, mainly as a result of the launch of the Company's new loyalty programs (in particular, discounts to subscribers signing term-contracts) and the new relationship with its dealers

Quarterly Churn in Russia



Source: MTS



# Recent Marketing Initiatives



- ❑ Retention of existing subscribers remains an important part of MTS' strategy
- ❑ In April 2004 MTS was the first mobile operator in Russia to introduce a term-contract concept, whereby subscribers who sign an annual contract receive a 15% discount on all local and mobile calls (a penalty applies for an early breach of contract)
- ❑ This offer was extended at the beginning of August 2004 to enable customers to receive a 50% discount on the calls (however, the monthly fee is subject to an increase of up to \$4.99)

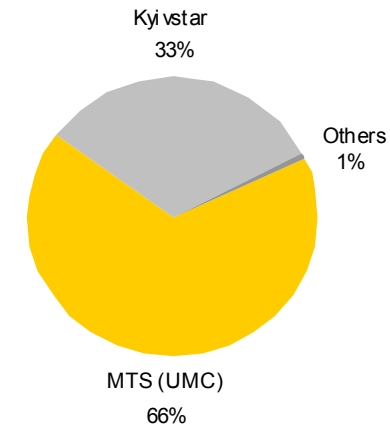


# Market Growth: Ukraine



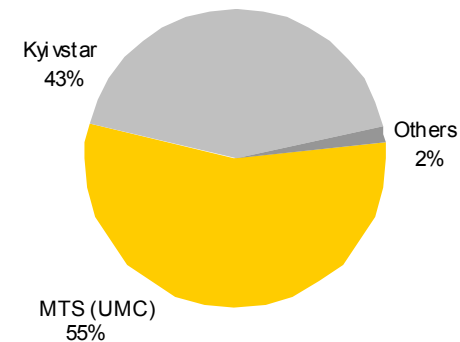
- ❑ At the end of Q2 2004 the number of subscribers in Ukraine reached approximately 8.4m (mobile penetration of 17%)
- ❑ The Company's market share continued to increase, reaching 55% at the end of Q2 2004 from 51% at YE 2003
- ❑ 83% of UMC's customers used pre-paid (*Jeans* and *SIM-SIM*) at the end of Q2 2004 (79% at YE 2003)

Share of Organic Net Additions in Ukraine in Q2 2004



Source: MTS

Market Shares in Ukraine at the end of Q2 2004



Source: MTS, AC&M-Consulting

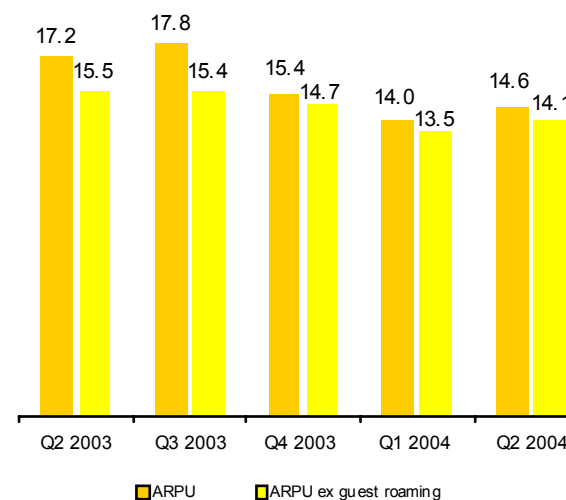
Note: All market statistics according to AC&M-Consulting and Dragon Capital

# MTS in Ukraine: Key Figures

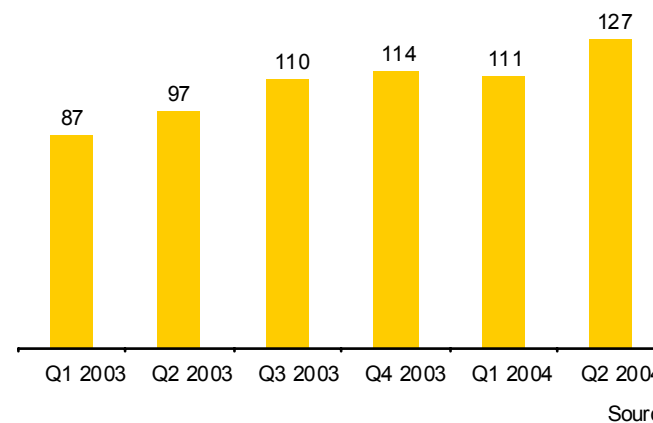


- ❑ In Q2 2004 ARPU increased to \$14.6 (post-paid ARPU of \$39.0; pre-paid ARPU of \$9.4) from \$14.0 (post-paid ARPU of \$35.4; pre-paid ARPU of \$8.8) in the previous quarter
- ❑ ARPU from VAS in Q2 2004 was at \$1.4 (9.4% of total ARPU) in Ukraine, and stayed unchanged when compared to \$1.4 (9.8% of total ARPU) in Q1 2004
- ❑ ARPU increased in Q2 2004 mainly due to an increase in usage highlighting the overall trend of increasing usage, following a slight decline in Q1 2004 (seasonally the weakest quarter in terms of usage)
- ❑ In Q2 2004 MOU increased to 127 minutes (post-paid MOU of 284 minutes; pre-paid MOU of 93 minutes) from 111 minutes (post-paid MOU of 229 minutes; pre-paid MOU of 83 minutes) in Q1 2004

ARPU in Ukraine (US\$)



MOU in Ukraine (minutes)

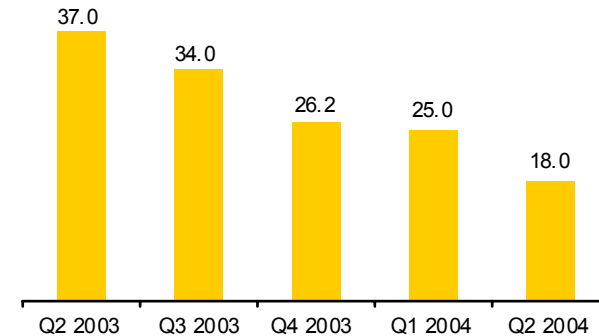


# MTS in Ukraine: Key Figures (cont'd)



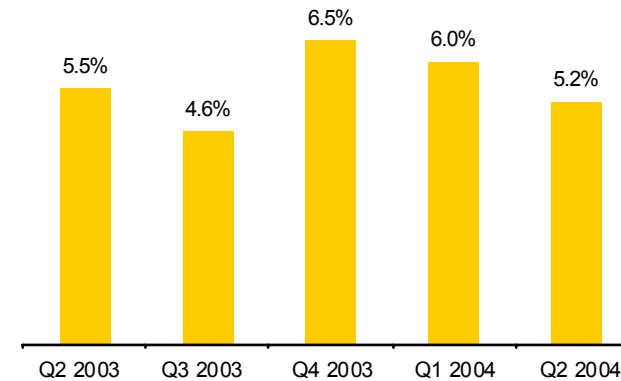
- ❑ UMC's SAC declined from \$25.0 in Q1 2004 to \$18.0 in Q2 2004 due to an increased percentage of pre-paid subscribers in the mix of gross additions and economies in contract subscriber acquisition costs
- ❑ UMC's churn rate during Q2 2004 declined further to reach 5.2% compared to the previous quarter's churn rate of 6.0%, significantly lower than in Russia due to continued emphasis on customer loyalty

SAC in Ukraine (US\$)



Source: MTS

Quarterly Churn in Ukraine



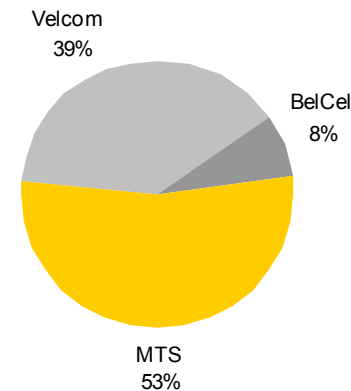
Source: MTS

# Market Growth: Belarus



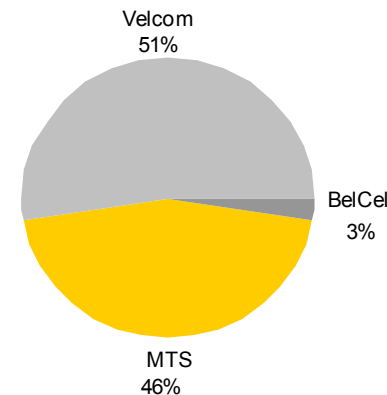
- ❑ During Q2 2004 the number of mobile phone users in Belarus reached 1.6m (mobile penetration of 16%)
- ❑ MTS' 49%-owned joint-venture provided services to 0.74m subscribers and further increased its market share from 44% at YE 2003 to 46% at the end of Q2 2004
- ❑ Because of its minority ownership in the joint-venture, MTS does not consolidate its operations in Belarus into its financial or operating numbers

Share of Organic Net Additions in Belarus in Q2 2004



Source: MTS

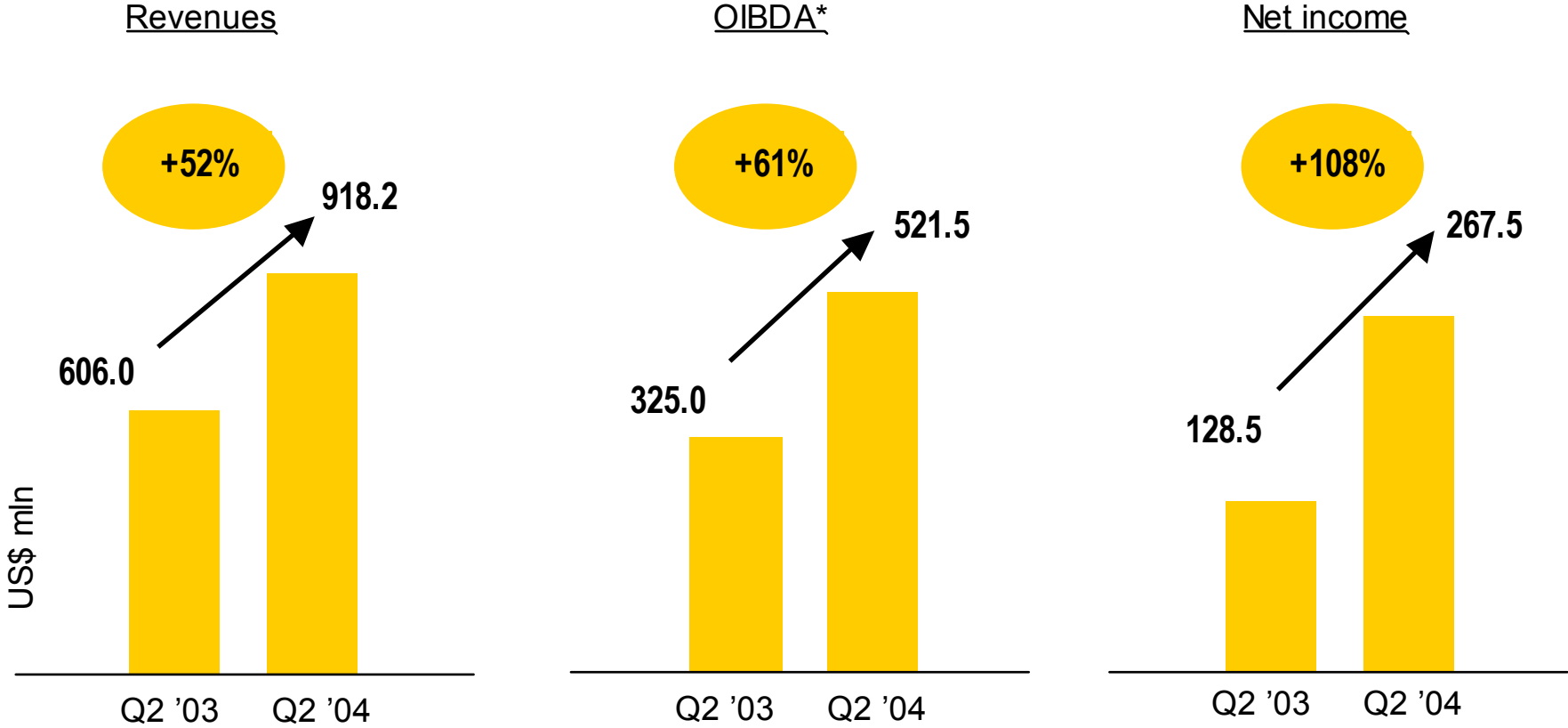
Market Share in Belarus at the end of Q2 2004



Source: MTS, AC&M-Consulting

Note: All market statistics according to AC&M-Consulting

# Financials: Income Statement Highlights



\*OIBDA represents operating income before depreciation and amortization. See Appendix A for definitions of OIBDA and reconciliations to operating income

# Financials: Russia and Ukraine



US\$ mln	Q1 2004		Q2 2004		Growth	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
Revenues	648.0**	154.8	727.7**	190.5	12.3%	23.1%
<i>Percent of MTS' revenues</i>	80.7%	19.3%	79.3%	20.7%	-	-
OIBDA*	357.2	83.5	413.7	107.8	15.8%	29.1%
<i>OIBDA margin*</i>	55.1%	53.9%	56.8%	56.6%	-	-
Net operating income	249.1	57.7	291.1	80.6	16.9%	39.7%
Net income	165.0	42.8	209.1	58.4	26.7%	36.4%
<i>Percent of MTS' net income</i>	79.4%	20.6%	78.2%	21.8%	-	-

\*OIBDA represents operating income before depreciation and amortization. See Appendix A for definitions of OIBDA and reconciliations to operating income

\*\*Net of intercompany eliminations

# MTS' Entry into the Uzbek Market



- ❑ On August 2, 2004 MTS completed its acquisition of a 74% stake in Uzdurobita, a leading mobile phone operator in Uzbekistan with a 51% market share, for \$121.0m
- ❑ MTS also signed a three year put and call agreement to purchase the remaining stake subject to a minimum price of \$37.7m
- ❑ Uzbekistan ranks third in terms of population in the Commonwealth of Independent States (CIS) with 25.2m inhabitants
- ❑ The country's mobile phone market is at an early stage of development, providing MTS with a significant growth opportunity (mobile penetration of only 1.5% and fixed line penetration of 7.5%)
- ❑ As of August 30, 2004, the Uzbek company provided services to 0.25m users

US\$ mln	2003
Revenues	\$32.6
Operating income*	\$3.1
Net income	\$1.1
Net debt	\$12.0
ARPU	\$23.0

(Based on unaudited financial statements in accordance with US GAAP)

Source: MTS, Uzdurobita

Note: All market statistics are according to AC&M-Consulting

\*Amortization and depreciation amounted to \$16.1m in 2003



# MTS' CAPEX and Leverage



- In Q2 2004 MTS' total CAPEX was \$243.6m
  - The Company spent \$221.8m on property, plant and equipment (of which \$50.0m spent in Ukraine)
  - Purchases of intangible assets during the quarter totaled \$21.8m (of which \$12.1m purchased in Ukraine)
- Total CAPEX for H1 2004 (including intangibles) amounted to \$475.9m; for FY 2004 the Company plans to spend \$1.4bn on CAPEX
- MTS' stable financial position and strong balance sheet allowed the Company to pay dividends to its shareholders: the Company's Shareholders' Meeting on June 24, 2004 decided on a dividend payout of approximately \$220m (42.5% of US GAAP net income for 2003), or \$2.22 per ADR

## MTS' Leverage

US\$ mln	YE 2003	June 30, 2004
Cash and cash equivalents	\$90.4	\$289.9
ST investments	\$245.0	\$59.0
Total debt	\$1 660.3	\$1 398.3
LT debt	\$950.0	\$936.8
ST debt	\$710.3	\$461.5
Net debt**	\$1 324.9	\$1049.4
Stockholders' equity	\$1 723.9	\$1 988.4
Total assets	\$4 225.4	\$4 533.9
OIBDA*	\$1 338.5	\$521.5
Net debt / Assets	0.3x	0.2x
Net debt / Equity	0.8x	0.5x
Net debt / LTM OIBDA***	1.0x	0.6x

Source: MTS

\*See Appendix A for definitions of OIBDA and reconciliations to operating income

\*\*See Appendix C for reconciliations of net debt to balance sheets

\*\*\*LTM OIBDA represents the last twelve months of rolling OIBDA. See Appendix D for reconciliations to our consolidated statements

# Appendix A



*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.

*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:

US\$ mln	1999	2000	2001	2002	2003		Q2 2003	Q1 2004	Q2 2004
Operating income	115.6	139.0	324.1	464.4	922.6		225.4	306.8	371.7
Add: depreciation and amortization	53.8	87.7	133.3	209.7	415.9		99.6	133.9	149.8
OIBDA	169.4	226.7	457.4	674.1	1 338.5		325.0	440.7	521.5

US\$ mln	FY 2003		Q1 2004		Q2 2004	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
Operating income	790.9	131.7	249.1	57.7	291.1	80.6
Add: depreciation and amortization	349.5	66.4	108.1	25.8	122.6	27.2
OIBDA	1 140.4	198.1	357.2	83.5	413.7	107.8

# Appendix A (cont'd)



OIBDA margin can be reconciled to our operating margin as follows:

	1999	2000	2001	2002	2003		Q2 2003	Q1 2004	Q2 2004
Operating margin	32.3%	26.0%	36.3%	34.1%	36.2%		37.2%	38.2%	40.5%
Add: depreciation and amortization as a percentage of revenues	15.0%	16.4%	14.9%	15.4%	16.3%		16.4%	16.7%	16.3%
OIBDA margin	47.3%	42.3%	51.2%	49.5%	52.6%		53.6%	54.9%	56.8%

	FY 2003		Q1 2004		Q2 2004	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
Operating margin	36.7%	33.4%	38.1%	37.3%	40.0%	42.3%
Add: depreciation and amortization as a percentage of revenues	16.3%	16.9%	16.5%	16.6%	16.8%	14.3%
OIBDA margin	53.0%	50.3%	54.6%	53.9%	56.8%	56.6%

# Appendix B



Free cash flow can be reconciled to our consolidated statements of cash flows as follows:

US\$ mln	Six months ended June 30, 2004	Six months ended June 30, 2003
Net cash provided by operating activities	790.8	395.3
Less:		
Purchase of PP&E	435.2	325.8
Purchase of intangible assets	40.7	57.4
Investments in and advances to associates	1.1	17.2
Acquisition of subsidiaries, net of cash acquired	20.8	301.8
Free cash flow	293.0	(306.9)

# Appendix C



Net debt can be reconciled to our consolidated balance sheets as follows:

US\$ mln	As of June 30, 2004	As of March 31, 2004	As of Dec. 31, 2003
Current portion of LT debt and of capital lease obligations	461	682	710
LT debt	930	933	942
Capital lease obligations	7	8	8
Total debt	1 398	1 623	1 660
Less:			
Cash and cash equivalents	290	279	90
ST investments	59	80	245
Net debt	1 049	1 264	1 325

# Appendix D



LTM OIBDA at June 30, 2004, can be reconciled to our consolidated statements of operations as follows:

US\$ mln	
OIBDA for the six months ended December 31, 2003	788.7
OIBDA for the six months ended June 30, 2004	962.2
LTM OIBDA at June 30, 2004	1 750.9