



Russian Equity Research

‘Mobile Reinvention’ of the Soviet Union

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Key points

- **The CIS with its 135 mln population would be a natural extension of growth for Russian wireless operators**
- **Going forward, we expect the ‘average’ penetration in CIS countries to reach 54%, growing to the high 70s for the best economies**
- **Russian mobile operators are better positioned to win the M&A race in CIS countries compared to foreign players**
- **Some Eastern European and Middle Eastern countries also look promising and may be explored**

CIS: The Second Russia?

• Population similar to Russia

- CIS countries have a combined population of 135 mln excluding Russia (143 mln).
- Russian language is widely spoken.

• GDP growth of up to 14%

- There are four countries with a level of GDP per capita 'close' to that of Russia.
- GDP growth varies from 4% to 14% but from a very low base.

CIS Countries



Source: Alfa Bank estimates

CIS Countries Overview

Area	Population	Urban population	Population density	Population below poverty	GDP - annual growth (2003)	GDP per capita, 2003	GDP per capita, (PPE), 2003
sq km / 000	mln people	%	ppl per sq km	%	%	\$	\$
Armenia	29.8	3.2	64%	107	43%	14%	3,607
Azerbaijan	86.6	8.2	50%	95	50%	11%	3,606
Belarus	207.6	9.9	71%	48	42%	7%	6,012
Georgia	69.7	4.6	52%	66	55%	11%	2,569
Kazakhstan	2,717.3	14.9	57%	5	20%	9%	6,556
Kyrgyzstan	198.5	5	35%	25	41%	7%	1,714
Moldova	33,843	4.2	46%	124	23%	6%	1,504
Russia	17,075.2	143.4	73%	8	21%	7%	9,195
Tadjikistan	143.1	6.3	25%	44	60%	6%	1,119
Turkmenistan	488.1	4.9		10	34%	5%	5,884
Ukraine	603.7	48.4	67%	80	29%	9%	5,472
Uzbekistan	447.4	25.6	37%	57	28%	4%	389

Source: World Bank, Central Intelligence Agency (CIA), Alfa Bank estimates

CIS mobile market: Waiting for Russians

- **Mobile development is at a very early stage**

- Penetration ranges from only 2% up to 16%.
- Mobile penetration exceeds wireline in only two countries (Georgia and Azerbaijan).

- **'Big Three' are present in only four CIS countries**

- We expect further expansion in 2005.

CIS Mobile Market Snapshot

	Mobile Penetration (2Q04) %	# of real players	Estimated ARPU (2003) \$	Estimated ARPU (2004E) \$	Change %	Fx Line Penetration (2003) %
Armenia	4.5%	1	21	15	-29%	18%
Azerbaijan	16.1%	2	16	13	-19%	11%
Belarus	15.9%	2	20	15	-25%	31%
Georgia	16.9%	2	15	16	7%	14%
Kazakhstan	12.4%	2	17	13	-24%	14%
Kyrgyzstan	4.3%	2	14	10	-29%	8%
Moldova	14.0%	2	9	9	0%	17%
Russia	34.1%	3	15	13	-13%	25%
Tajikistan	0.5%	2	45	35	-22%	4%
Turkmenistan	0.3%	1	45	35	-22%	8%
Ukraine	17.6%	2	14	12	-14%	22%
Uzbekistan	1.6%	3	30	20	-33%	7%

Source: World Bank, Central Intelligence Agency (CIA), Alfa Bank estimates, A C&M consulting

54% average penetration in CIS by 2012E

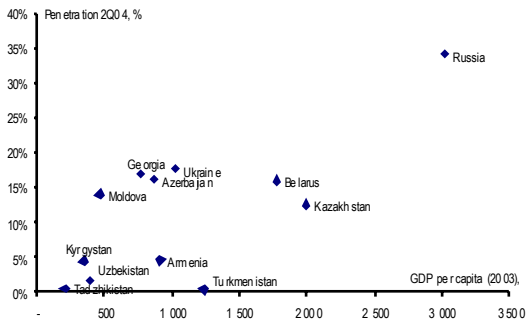
• High market concentration and lack of competition limit penetration growth

- This kept ARPU at a rather high level compared with the Russian average of \$15 in 2003
- This is even more impressive when expressed as a percentage of GDP per capita – ranging from 0.9% to 21.8%

• Addressable market for mobile services in CIS countries could reach 70%+

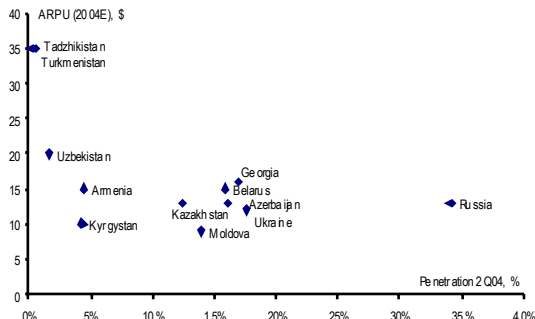
- ... in the cases of Ukraine, Belarus and Kazakhstan, and should reach only 40-50% in other countries

CIS – Penetration & GDP Per Capita



Source: World bank, AC&M consulting, Company data

CIS – ARPU & Penetration



Source: World bank, AC&M consulting, Company data

Who is there already?

- **MTS has the biggest presence,...**

- ...although Kazakhstan showed that VimpelCom is ready to pay a premium to MTS' offer.

- **Presence of foreign investors is limited**

- Scandinavians are the only sizeable investors in CIS markets.
- Only eight of twelve CIS countries have international strategic investor/s in the mobile market.

'Big Three' Exposure to CIS

Investor	Company	Ownership	Subscribers (3Q04) <i>mln subs</i>	Estimated market share %	Penetration (2004E) %	
Belarus	MTS	MTS-Belarus (unconsolidated)	49%	970	48%	23%
Kazakhstan	VimpelCom	KaR-Tel	100%	676.5	35%	17%
Tadzhikistan	Megafon	TT-Mobile	75%	28	77%	0.7%
Ukraine	MTS	UMC	100%	5530	54%	24%
Uzbekistan	MTS	Uzdunrobita	74%	260	55%	2%

Source: Company data, AC&M consulting, AlfaBank estimates

Foreign Investors in the CIS Mobile Market

Country	Network	Ownership %	Total subscribers (2Q04) <i>mln</i>	Proportionate subscribers (2Q04) <i>mln</i>	
Deutsche Telekom	Russia/ Ukraine/Belarus/ Uzbekistan	MTS	25%	23.53	5.88
Telenor	Russia/ Kazakhstan Ukraine	VimpelCom Kyivstar	27% 64%	16.30 3.22	4.40 2.06
Telia (Fintur)	Russia/ Tajikistan Kazakhstan	Megafon GSM Kazakhstan	34% 38%	9.05 1.16	3.08 0.44
	Azerbaijan	Azercell	38%	1.08	0.41
	Georgia	Geocel	62%	0.36	0.22
	Moldova	Moldcell	66%	0.21	0.14
	Tadzhikistan	TT Mobile	33%	0.02	0.01
France Telecom	Moldova	Voxtel	54%	0.34	0.19

Source: EMC, Company data, AC&M consulting, AlfaBank estimates

Central and Eastern Europe: Next step after CIS?

- Only 4 CEE markets may be potentially interesting for Russian investors
 - These are Bosnia and Herzegovina (31% penetration), Bulgaria (51%), Macedonia (38%) and Romania (37%).
 - These countries have a combined population of 42.2 mln and 41% weighted penetration.

Major Mobile Players in CEE (and selected Middle East) Countries

	Population <i>mln people</i>	GDP per capita (2003) \$	Mobile penetration (2Q04) %	No of players
Albania	3.2	1 932	36%	2
Bosnia and Herzegovina	4.1	1 682	31%	3
Bulgaria	7.8	2 538	51%	2
Croatia	4.5	6 356	59%	2
Czech Republic	10.2	8 375	98%	3
Estonia	1.4	6 210	83%	3
Hungary	10.1	8 182	74%	3
Latvia	2.3	4 167	61%	2
Lithuania	3.5	5 273	76%	3
Macedonia, FYR	2.0	2 296	38%	2
Poland	38.2	5 487	51%	3
Romania	22.2	2 719	37%	3
Serbia and Montenegro	8.1	2 366	53%	4
Slovak Republic	5.4	5 922	74%	2
Slovenia	2.0	13 383	94%	3
India	1 064.4	563	4%	
Iran	66.4	2 061	6%	
Kuwait	2.4	14 848	80%	
Lebanon	4.5	4 224	19%	
Pakistan	148.4	464	3%	
Saudi Arabia	22.5	8 366	36%	
Syria	17.4	1 238	9%	

Source: Company data, E.MC, Alfa Bank estimates

Up to \$600 mln could be spent in CIS in 2005

• Four markets are interesting in terms of M&A short-term

- Operators in Georgia, Azerbaijan, Kyrgyzstan and Uzbekistan could be the primary acquisition targets.

• Russians are prepared to pay a premium

- Recent deals in Uzbekistan and Kazakhstan show that both MTS and VimpelCom are ready to pay a premium to their own multiples.

Comparative M&A Transactions in Russia and the CIS, 2002 – 2004

	Date	Price	Stake acquired	EV	Net debt	MC	Subs	Pop	Sales	EBITDA	EV/ Sub	EV/ Pop	EV/ Sales	EV/ EBITDA	Acquired by
		\$ mln	%	\$mln	\$mln	\$mln	mln	mln	\$ mln	\$ mln	\$	\$			
BM-Telecom	May-02	41.0	100.0%	67.4	26.4	4.10	0.100	4.10	42.4	26.3	674	16.4	1.6	2.6	MTS
Kuban GSM	Apr-02	71.4	51.0%	170.0	30.0	140.0	0.500	5.57	106.5	53.4	340	30.5	1.6	3.2	MTS
OrenSot	Jul-02	14.0	78.0%	17.9	0.0	17.9	0.046	2.18	13.0	5.8	389	8.2	1.4	3.1	VIP
DonTelecom	Sep-02	15.0	66.7%	27.5	5.0	22.5	0.039	4.40	19.4	8.1	705	6.3	1.4	3.4	MTS
Extel	Nov-02	25.0	100.0%	35.0	10.0	25.0	0.105	0.96	20.0	11.0	333	36.6	1.8	3.2	VIP
Eniseyletecom	Jan-03	12.5	49.0%	25.5	0.0	25.5	0.070	2.97	18.9	10.3	364	8.6	1.3	2.5	Siberia Telecom
BaykalWestCom	Jan-03	8.5	49.0%	24.6	7.3	17.3	0.056	2.58	16.5	8.3	439	9.5	1.5	3.0	Siberia Telecom
TAIF-Telecom	Apr-03	61.0	51.0%	139.7	20.1	119.6	0.240	3.80	55.2	30.4	582	36.8	2.5	4.6	MTS
Sib Challenge	Aug-03	45.4	100.0%	53.6	8.2	45.4	0.118	3.00	28.8	15.3	454	17.9	1.9	3.5	MTS
TCC	Sep-03	47.0	100.0%	51.0	4.0	47.0	0.173	1.05	22.0	12.0	295	48.6	2.3	4.3	MTS
Kuban GSM	Sep-03	107.0	47.3%	251.2	25.0	226.2	1.170	5.57	139.1	69.7	215	45.1	1.8	3.6	MTS
StarTeleSot	Jan-03	38.4	90.0%	53.3	10.6	42.7	0.261	2.73	33.4	18.7	204	19.5	1.6	2.9	VIP
SSS-900	Nov-03	28.6	30.0%	98.7	3.4	95.3	0.320	2.70	63.6	31.1	308	36.6	1.6	3.2	MTS
Printelefon	Jun-04	31.0	50.0%	69.9	7.9	62.0	0.190	1.140	34.3	19.7	368	6.1	2.0	3.5	MTS
DTI	Jun-04	73.3	93.5%	86.9	8.5	78.4	0.310	2.70	55.0	27.0	280	32.2	1.6	3.2	VIP
TAIF-Telecom	Oct-04	63.0	47.3%	142.5	9.3	133.2	0.596	3.80	55.3	26.7	239	37.5	2.6	5.3	MTS
UMC	Nov-02	194.2	57.7%	383.4	46.8	336.6	1.520	48.40	307.7	160.0	252	7.9	1.2	2.4	MTS
Kievstar GSM	Sep-02	31.0	7.7%	510.0	107.4	402.6	1.200	48.40	256.0	142.0	425	10.5	2.0	3.6	Alfa Telecom
Uzdunrobita	Jul-04	121.0	74.0%	175.5	12.0	163.5	0.210	25.60	64.0	43.0	836	6.9	2.7	4.1	MTS
KaR-Tel	Sep-04	350.0	10.0%	425.0	75.0	350.0	0.600	14.90	108.0	52.0	708	28.5	3.9	8.2	VIP

Note: Revenue and EBITDA are of the deal year. Source: Company data, Alfa Bank estimates