

Russian wireless operators

Inflection point is still elusive

■ Raising subscriber estimates . . . again

We upgrade our Russian subscriber estimates on the back of February 2004 subscriber numbers. Our revised year-end nationwide penetration target is 44%, and our estimated penetration ceiling is now 80%. We are not through the inflection point on the S-shaped penetration curve either in Moscow or the regions.

■ Underlying ARPU upgraded

By keeping our blended ARPU for MTS and VimpelCom largely unchanged we are upgrading our underlying estimates on the back of an exceptionally strong macro backdrop. We believe usage rates may still surprise on the upside—there is significant safety margin built into our bottom-up ARPU forecasts.

■ Rally expected to run further

We believe that the Russian wireless "catch-up" game is not over yet—we expect further consensus upgrades. Although the risk/reward profile of MTS and VimpelCom is losing its shine due to their exceptionally strong share price performance, we believe that the rally has further to run.

■ Valuation: expanding multiples and earnings upgrades

Our revised DCF-based price targets are \$131 for MTS (up from \$114) and \$111 for VimpelCom (\$94). We maintain our Buy ratings on both stocks. Comparative valuations benefit both from continuing upgrades of Russian wireless estimates and multiple expansion in the sector.

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Subscriber estimate upgrade

We raise our 2004 and market “ceiling” penetration forecasts

When we raised our 2004 year-end Russian penetration rate estimate to 40% just over four months ago in our “Russian wireless review II” report of October 28, 2003, (with the consensus at 31% at the time) we did not expect to have to reconsider this target in early March. However, on the back of ACM Consulting’s recently published February cellular subscriber statistics, we upgrade our year-end forecast to 44%. We are also raising our Russian market penetration “ceiling” estimates from 70% to 80%.

We raise our year-end penetration forecast from 40%–44% and our penetration “ceiling” from 70% to 80%

Table 1: Russian wireless penetration, 1999–2011E

	1999	2000	2001	2002	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E
Penetration	0.9%	2.3%	5.4%	12.4%	25.0%	44.0%	57.0%	66.0%	72.0%	76.0%	78.0%	79.0%	80.0%
Penetration added	0.4%	1.4%	3.1%	7.0%	12.6%	19.0%	13.0%	9.0%	6.0%	4.0%	2.0%	1.0%	1.0%

Source: Brunswick UBS estimates

As we have previously argued, we believe Russia has entered the wireless penetration S-curve lift phase. Therefore, growth is very fast at the moment (particularly in absolute terms), and frequent estimate adjustments should be expected. We are trying to stay ahead of the Russian wireless penetration “catch-up” game—the consensus 2004 year-end penetration rate forecast is currently 35%–36% and we would expect further upgrades later in the year.

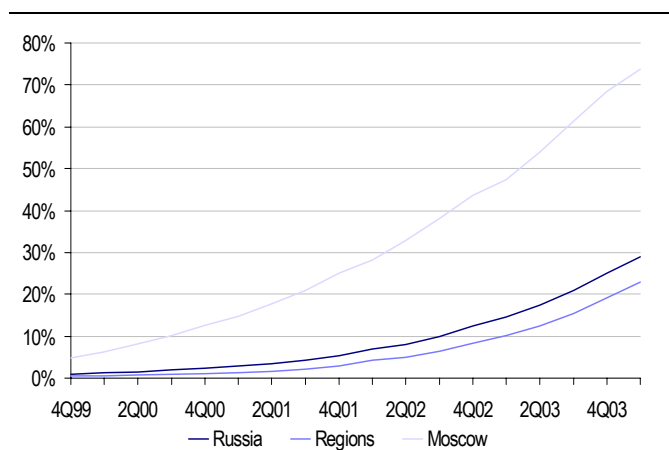
We expect consensus upgrades later in the year

Still no sign of a slowdown

According to ACM Consulting’s data—which has proven quite accurate historically—the penetration rate in Russia at the end of February was 27.5%, with 2.5 percentage points of penetration added in 2M04. For comparison, penetration added in 2M03 was 1.4 percentage points.

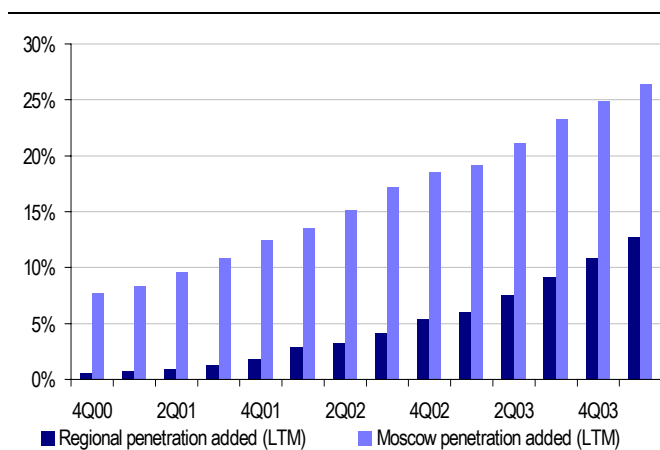
Wireless subscriber growth in Russia is still in the acceleration phase

Chart 1: Russian wireless penetration rates, 4Q99–1Q04E



Source: Company reports, ACM Consulting; Brunswick UBS estimates

Chart 2: Russian LTM penetration added, 4Q00–1Q04E



Source: Company reports, ACM Consulting; Brunswick UBS estimates

In other words, wireless subscriber growth in Russia is still in the acceleration phase. We believe that we have not reached the inflexion point on the penetration S-curve either in the regions or even in Moscow. For example, cumulative penetration added in Moscow in 2M04 was 3.3 percentage points, compared to 2.8 percentage points a year ago. For the regions, the corresponding numbers were 2.4 and 1.2 percentage points respectively.

Annualizing the first two months' data, we get full-year 2004 penetration added of 15.3 percentage points for Russia as a whole, 19.8 for Moscow and 14.5 for the regions (compared to our previous estimates of 15.0, 18.5 and 14.5 respectively). However, we believe that a straight-line annualization of the first two months' data underestimates the likely subscriber growth in 2004 for two key reasons:

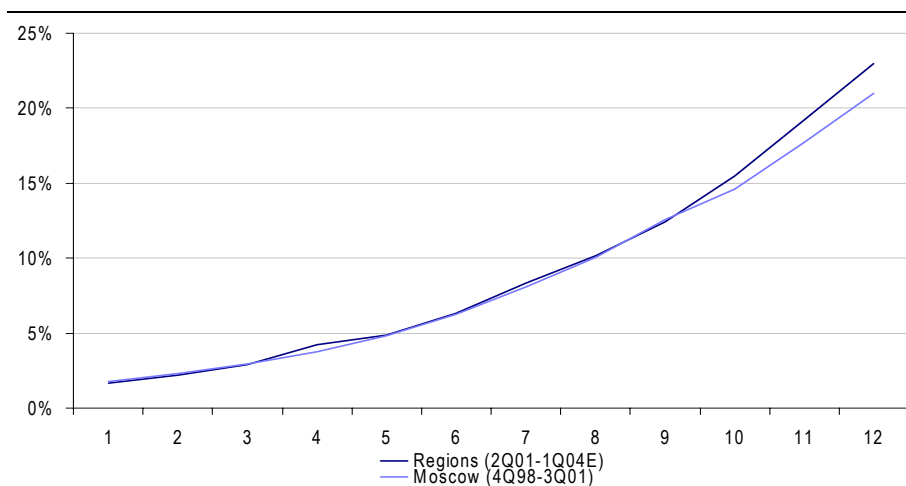
- In terms of subscriber additions, the first quarter tends to be the weakest in the year (particularly the first two months) both in Russia and in the majority of other markets;
- Since we are still in the acceleration phase (particularly in the regions), penetration added later in the year is likely to be higher than in 2M04, even if all other things are equal.

Therefore, our revised forecast of 2004 penetration added in Russia, Moscow and the regions are 19.0, 20.5 and 18.8 percentage points respectively, implying year-end penetration rates of 44%, 89% and 38% correspondingly.

Exceptionally strong macro backdrop boosts addressable market

It is interesting to note that the subscriber growth in the regions has so far been stronger than in Moscow two and a half years ago.

Chart 3: Regional penetration take-off compared to Moscow 2.5 years ago



Source: Company data, ACM Consulting; Brunswick UBS estimates.

The 2M04 data suggests penetration added of 15.3 percentage points for Russia in 2004

Our new forecasts imply year-end nationwide penetration of 44%

Subscriber growth in the regions is stronger than in Moscow 2.5 years ago

We are not trying to suggest that “ceiling” penetration rates in the regions are likely to be higher than in the Russian capital. However, we believe that Chart 3 proves that the macroeconomic backdrop is crucial for the proliferation of wireless services and that continued strong GDP growth combined with significant real ruble appreciation keeps expanding the overall addressable wireless market in Russia. With GDP per capita in the regions averaging one-third of Moscow levels, only the difference in macroeconomic backdrop between today and three years ago can explain the rapid take-off of mobile services in the regions.

We believe Russia’s strong macroeconomic backdrop is crucial for the proliferation of wireless services

On the back of the very strong macroeconomic outlook and in line with the upgrade of our short-term subscriber estimates in the country, we raise our penetration “ceiling” forecast for Russia from 70% to 80%. We would like to point out once again that we do not mean that 8 out of 10 Russians will have a mobile phone by 2011. Similarly, we note that 9.5 out of 10 people in the Czech Republic (a 95% penetration rate)—including babies and the elderly—as well as 11 out of 10 in Israel (a 110% penetration rate) do not have a cellular phone each.

We raise our penetration “ceiling” forecast for Russia from 70% to 80%

An adjustment here is needed for inactive subscribers and the proliferation of dual and triple SIM-card ownership. Given very high churn rates, this adjustment will be particularly significant in Russia. We believe an 80% “reported” penetration rate in the country would be equivalent to “physical” penetration of around 50%.

Upgrade of underlying ARPU

In the majority of wireless markets the rule of thumb so far has been that analysts tend to underestimate subscriber growth and overestimate ARPU (primarily due to the negative impact of the proliferation of dual and triple SIM cards). We are very much aware of this phenomenon and, and therefore intend to continue to closely monitor Russian ARPU dynamics for any signs of “excessive” ARPU erosion.

However, despite the upgrade of our subscriber forecasts, we are not changing our medium-to-long-term ARPU estimates for either VimpelCom or MTS and actually upgrade our 2004 ARPU projections for them by 3%. In any wireless market, there are typically two trends defining blended ARPU: erosion of the average number on the back of subscriber mix dilution and growth in the underlying ARPU of the existing subscribers. We are not trying to suggest that the subscriber mix dilution phenomenon is going to develop differently in Russia to other markets. Instead, we are trying to note that the market might be underestimating the rate of ARPU growth of the existing mobile users in Russia.

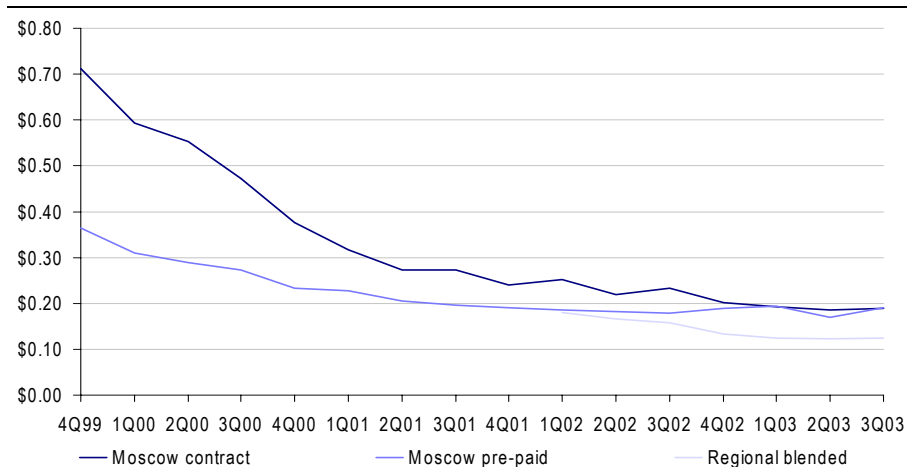
Where is ARPU growth coming from?

Pricing: clear signs of stabilization

Clearly, pricing is unlikely to support ARPU going further. However, as we have previously argued (see our “Russian wireless review II” report of October 28, 2003), effective yield per minute in Russia is quite low by industry standards and the downside here is *relatively* limited.

More importantly, over the last year or so, a clear trend of pricing stabilization has developed on the Russian wireless market (see Chart 4). Because of continuing strong ruble appreciation, there is no need for operators to lower their tariffs (Russian cellular operators are still pricing in dollars)—prices are falling in the eyes of customers and operators are struggling to accommodate the demand for mobile services as it is.

Chart 4: VimpelCom—Effective yield per minute (ARPU/AMOU), 4Q99–3Q03



Source: Company reports.

We leave our medium-to-long-term ARPU estimates for VimpelCom and MTS unchanged . . .

. . . but upgrade our 2004 ARPU projections by 3%

Flat prices are becoming increasingly more affordable

Volumes: potentially underestimated growth driver

We believe that substantial growth in the usage rates of existing subscribers could be the next positive surprise in the Russian wireless story. Combined with stable pricing, we believe it could produce much more resilient ARPU than one would expect in a market growing as fast as Russian mobile. We believe there are four key drivers here and consider them separately below.

We believe increased usage could be the next positive surprise in the Russian wireless story

Increasing spending power of the population

In our view, strong GDP growth and real ruble appreciation are the most important factors likely to support usage going forward. We expect Russian GDP per capita in US dollar terms to increase by almost 30% in 2004 and another 20% in 2005. We also believe that, at this stage, the risk to our estimates is on the upside. By 2006 we project GDP per capita of \$5,300.

Strong GDP growth and real ruble appreciation are the most important factors likely to support usage going forward

With pricing very low by EMEA standards, people increasingly feel that a mobile phone is not just a luxury, and once they can afford it use it because it is just very convenient.

Supportive effect of gradual network rollouts

Russia is rather different from other (at least European) markets in terms of the network rollout model. While the majority of wireless operators tend to offer very extensive geographic coverage in a country before accelerating subscriber growth, this is impossible in Russia because of its vast territories.

Russia's gradual network rollout is supportive for increasing usage, as existing customers can now use their phones in more places

Therefore, Russian wireless operators tend to aggressively grow their subscriber base as they expand their coverage from the centers of the large cities into the suburbs and oblasts surrounding the cities and improve the coverage of major roads in the regions. As a result, not only do they gain access to a new subscriber base, but they also see significant growth in the usage rates of the existing customers, as they can use their phones in their summer houses, driving between major regional centers, etc. This is rather specific to the Russian market.

Mobile cannibalization

However, there is nothing unusual about mobile cannibalization. Voice traffic is migrating from fixed-line to mobile networks all over the globe, and Russia is not likely to be an exception. We believe that wireless penetration exceeding wireline is one of the key catalysts for mobile cannibalization (due to the "networking" effect). In the Russian regions, we believe this is likely to happen in 2H04E.

We expect wireless penetration to exceed wireline in the regions in 2H04

Proliferation of value-added services

According to MTS and VimpelCom, value-added services (VAS) account for only 5% of their overall service revenues, compared to the 15% European average (the same figure is typical for mature emerging markets, such as the Czech Republic). We believe that the proliferation of VAS should prove supportive of the overall ARPU levels in Russia. The fact that the 3Q03 5% average was broken down by operators into 10%–11% in Moscow and 3% in the regions supports this view.

Russian VAS revenues are significantly lower than the European average, suggesting further upside is possible

We are not just guessing—look at Moscow

While the macro environment has so far been genuinely supportive of regional usage rates, we believe that wireless usage volumes in Moscow benefited from all of the above factors. As a result, VimpelCom says that blended AMOU in the contract and prepaid segments increased by 68% and 20% respectively between 3Q00 and 3Q03—despite 243% and 933% growth in the number of subscribers in those categories and the accompanying dilution effect.

Blended AMOU has increased, while subscriber growth has skyrocketed

We have to accept that pricing erosion (see Chart 4) has been another supportive factor in Moscow that we are unlikely to see in the regions at this stage. However, we do believe that the Moscow data provides convincing support to our argument.

There is still significant safety cushion in our bottom-up forecasts

In our “Russian wireless review II: Revenues” report of October 28, 2003 we indicated that there was a 30% “safety margin” built into our bottom-up cellular forecasts from the point of view of our top-down macro assumptions. In other words, based on the experience of other markets, we estimated that by 2007, when the domestic wireless market is likely to start saturating, the market would be capable of supporting ARPU 30% higher than the average \$9.3 we had in our model n(based on 2007 expected GDP per capita of \$5,500).

Our new forecasts shrink our 30% safety margin to 20%

In this note we do not want to go through the details of the spending power sensibility and ARPU “floor” tests we have discussed at length in “Russian Wireless Review II.” However, the end result of the upgrade of our subscriber estimates in this note (with generally unchanged medium to long-term ARPU forecasts) is a shrinkage of the 30% “safety margin” to around 20%.

We now project ARPU of \$9.4 in Russia at an 80% “reported” penetration level compared to \$23 in Hungary today (80% penetration rate) and \$19 in the Czech Republic (95% penetration rate). At the same time, we believe that Russian GDP per capita in 3–4 years will be similar to the Czech Republic and Hungary today.

Rally has further to run

While the share prices of the main Russian wireless operators have almost quadrupled in the last two years, we believe the rally has further to run.

We see further upside in Russian cellular, even from today's high share prices

Fundamental view

There are two reasons why we believe—from a fundamental perspective—the risk to the consensus estimates for VimpelCom and MTS is still on the upside:

- The resilience of oil prices implies that macroeconomic growth in Russia in 2004 could be strong, even compared to the relatively optimistic forecasts priced in by the market today. For example, the average oil price year-to-date is \$32/bbl compared to our year-average forecast of \$24.5/bbl. As a result, we believe that the risk to our current GDP growth, exchange rate and credit expansion forecasts is on the upside. The valuation argument aside (see below), we still believe that wireless remains one of the most leveraged plays on Russian macroeconomic growth.
- Since we are not through the inflexion point on the S-shaped penetration curve in Russia, we believe that consensus subscriber estimates are still likely to keep being revised upwards, at least for another two or three quarters. Historically, subscriber growth has proved to be the key value driver in the wireless sector. Therefore, as long as operators keep beating market expectations, we expect share price performance to remain strong.

Technical view

In our view there are also a few technical factors that bode well for MTS and VimpelCom:

- Liquidity in the Russian equities market remains exceptionally strong, with more and more global investors putting it on their radar screens. At the same time, Russia's weighting in the average global portfolio is still very low. Combined with the very strong macro outlook and increasing risk tolerance among investors, this creates a positive backdrop for Russian equities in our view. As some of the most transparent businesses in Russia and with some of the largest market caps, we believe MTS and VimpelCom are likely to benefit from this.
- We believe that investors in the telecoms sector are currently warming up to wireless, particularly in emerging markets, due to continuous upwards revisions of GEM cellular penetration “ceilings” (Mexico's America Movil, Nigeria and South Africa's MTN, Philippines' PLDT, and Indonesia's Indosat are among prominent examples here). This generates additional interest in MTS and VimpelCom for those investors looking for stories with the potential for positive surprises in subscriber growth.

In our view, the risk/reward profile of MTS and VimpelCom is losing its shine due to exceptionally strong share price performance. However, we believe there is still 20%–25% upside to their current market prices. We maintain our **Buy 1** rating on MTS and **Buy 2** on VimpelCom.

We maintain our Buy 1 rating on MTS and Buy 2 on VimpelCom

Valuation update

DCF

Summaries of our revised DCF valuations for VimpelCom and MTS are presented in Tables 2 and 3 below. Our price targets for Russian cellular operators are DCF-based.

We raise our price target for MTS from \$114 to \$131 . . .

Table 2: MTS—DCF valuation summary

Assumed long-term (beyond 2011) FCF growth rate	3.0%
WACC	11.0%
Present value of forecast period cashflows (2004–11), \$ m	5,678
Terminal value, \$ m	9,034
Total EV, \$ m	14,712
Less net debt, \$ m	(1,254)
Less minorities, \$ m	(588)
Associates, \$m	150
Estimated equity value, \$m	13,047
Per ADR, \$	131

Sources: Brunswick UBS estimates

On the back of our estimates upgrades, we raise our target price for MTS from \$114 to \$131.

Table 3: VimpelCom—DCF valuation summary

Assumed long-term (beyond 2011) FCF growth rate	3.0%
WACC	10.5%
Present value of forecast period cashflows (2004–11), \$ m	2,391
Terminal value, \$ m	5,810
Total EV, \$ m	8,202
Less net debt, \$ m	(661)
Less minorities, \$ m	(105)
Estimated equity value, \$m	7,545
Per ADR, \$	111

Sources: Brunswick UBS estimates.

Our revised price target for VimpelCom is \$111 (up from \$94 previously).

. . . and VimpelCom from \$94 to \$111

Relative valuation

We do not find MTS and VimpelCom expensive relative to other cellular operators (see Table 4). In fact, factoring in their fast growth and superior operational characteristics, we believe they remain undervalued relative to their global counterparts. We believe that P/E is the most appropriate multiple for Russian wireless operators, as it captures the superior capital efficiency of MTS and VimpelCom relative to their peer group, while their depreciation does not distort the multiple.

We find MTS and VimpelCom undervalued relative to their global counterparts

Recent strong share price performance has resulted in Russian wireless multiples expanding. However, one has to bear in mind that the multiples expanded across the sector (particularly in emerging markets—see Table 4). Moreover, one has to bear in mind the further potential for MTS and VimpelCom's estimate upgrades.

Table 4: MTS, VimpelCom and global wireless sector multiple expansion, Dec-03–Mar-04

	2004E				2005E			
	EV/EBITDA		P/E		EV/EBITDA		P/E	
	Dec 03	Mar 04	Dec 03	Mar 04	Dec 03	Mar 04	Dec 03	Mar 04
MTS	5.3	7.0	10.1	13.5	3.8	5.1	7.7	10.2
VimpelCom	6.2	7.6	11.9	14.4	4.3	5.4	8.1	9.9
Russian average	5.7	7.3	11.0	13.9	4.1	5.2	7.9	10.0
Asia-Pacific average	5.5	5.8	14.7	15.0	4.9	5.1	12.9	13.0
LatAm average	5.4	6.3	12.8	15.2	4.7	5.7	10.3	12.5
EMEA average	5.3	6.2	11.7	13.0	4.2	4.9	9.8	10.3
Global average	5.9	6.2	16.5	20.3	5.4	5.7	13.8	15.0

Source: UBS and Brunswick UBS estimates

Appendix 1: MTS financials, 2000–06E, \$ m (US GAAP)

Income statement

	2000	2001	2002	2003E	2004E	2005E	2006E
Revenues	535.7	893.2	1,361.8	2,551.8	3,708.9	4,607.8	5,076.0
EBITDA	226.7	439.9	674.1	1,337.2	1,900.3	2,429.2	2,752.3
Operating profit	139.0	306.7	464.4	927.0	1,358.2	1,737.0	1,929.0
Pretax profit	134.8	302.4	427.3	833.3	1,231.6	1,636.3	1,864.7
Net profit	90.0	207.4	277.2	537.4	841.8	1,111.6	1,254.2
<i>Operating margin</i>	26%	34%	34%	36%	37%	38%	38%
<i>EBITDA margin</i>	42%	49%	50%	52%	51%	53%	54%
<i>Net margin</i>	17%	23%	20%	21%	23%	24%	25%

Source: Company data; Brunswick UBS estimates

Cashflow statement

	2000	2001	2002	2003E	2004E	2005E	2006E
Operating cashflow	190.9	424.1	412.8	972.9	1,447.2	1,869.6	2,125.8
Investing cashflow	(423.3)	(535.8)	(697.9)	(1,670.0)	(1,336.0)	(1,135.6)	(1,022.0)
Financing cashflow	298.5	255.5	100.8	690.9	(111.2)	(720.9)	(1,108.7)
Net change in cash	65.8	143.8	(185.0)	(6.2)	(0.0)	13.1	(4.9)

Source: Company data; Brunswick UBS estimates

Balance sheet

	2000	2001	2002	2003E	2004E	2005E	2006E
Cash and marketable securities	75.8	219.6	34.7	28.5	28.5	41.6	36.7
Accounts receivable	44.3	52.8	85.5	174.8	254.0	315.6	347.7
Fixed assets	729.7	1,240.3	1,855.9	3,115.7	3,909.6	4,353.0	4,551.7
Other non-current assets	251.5	215.4	307.3	600.0	600.0	600.0	600.0
Total assets	1,101.3	1,728.1	2,283.3	3,919.0	4,792.2	5,310.2	5,536.1
Accounts payable	43.7	112.2	122.6	199.7	297.3	358.1	350.2
Loans (including capital leases)	52.8	325.7	454.5	1,254.5	1,304.5	1,004.5	729.5
Other liabilities	203.8	256.8	338.8	620.0	620.0	620.0	620.0
Minority Interest	0.0	13.6	65.4	74.5	119.5	186.0	274.3
Shareholders equity	801.1	1,019.8	1,302.0	1,770.4	2,450.9	3,141.7	3,562.2
Total liabilities and shareholders equity	1,101.3	1,728.1	2,283.3	3,919.0	4,792.2	5,310.2	5,536.2

Source: Company data; Brunswick UBS estimates

Appendix 2: VimpelCom financials, 2000–06E, \$ m (US GAAP)

Income statement

	2000	2001	2002	2003E	2004E	2005E	2006E
Revenues	274.1	422.6	768.5	1,345.4	2,116.9	2,777.6	3,185.2
EBITDA	52.0	148.5	322.3	594.3	961.4	1,343.9	1,575.6
Operating profit	(74.5)	87.1	224.8	410.1	687.3	966.0	1,113.1
Pretax profit	(92.1)	65.8	177.7	343.9	607.2	881.9	1,044.2
Net profit	(77.8)	47.3	129.6	231.9	431.2	627.5	742.3
<i>Operating margin</i>	-27%	21%	29%	30%	32%	35%	35%
<i>EBITDA margin</i>	19%	35%	42%	44%	45%	48%	49%
<i>Net margin</i>	-28%	11%	17%	17%	20%	23%	23%

Source: Company data; Brunswick UBS estimates

Cashflow statement

	2000	2001	2002	2003E	2004E	2005E	2006E
Operating cashflow	8.5	107.7	207.9	387.1	687.2	982.2	1,197.6
Investing cashflow	(84.8)	(231.3)	(578.3)	(700.0)	(1,032.5)	(929.3)	(789.9)
Financing cashflow	193.2	115.7	489.9	158.5	300.0	(100.0)	(413.8)
Net change in cash	116.5	(7.9)	119.5	(154.4)	(45.3)	(47.0)	(6.1)

Source: Company data; Brunswick UBS estimates

Balance sheet

	2000	2001	2002	2003E	2004E	2005E	2006E
Cash and marketable securities	152.1	144.2	263.7	109.3	64.0	17.0	10.9
Accounts receivable	40.6	49.7	75.4	184.3	290.0	380.5	436.3
Fixed assets	435.8	606.4	1,101.7	1,617.4	2,210.8	2,762.2	3,089.5
Other non-current assets	71.8	125.6	252.0	252.0	252.0	252.0	252.0
Total assets	700.3	925.8	1,692.8	2,163.1	2,816.8	3,411.7	3,788.8
Accounts payable	28.4	42.7	80.2	145.5	227.1	287.1	326.1
Loans (including capital leases)	222.8	277.7	650.6	660.6	960.6	860.6	760.6
Other liabilities	80.0	97.0	200.8	200.8	200.8	200.8	200.8
Minority Interest	0.5	0.3	98.5	171.6	12.6	20.0	29.5
Shareholders equity	368.6	508.1	662.7	984.6	1,415.7	2,043.3	2,471.8
Total liabilities and shareholders equity	700.3	925.8	1,692.8	2,163.1	2,816.8	3,411.7	3,788.8

Source: Company data; Brunswick UBS estimates

■ Statement of Risk

In our view the key risks to MTS and VimpelCom's business model remain the extent to which subscriber mix dilution and competition erode ARPU and the potential need to significantly increase capex to accommodate regional growth and maintain the competitiveness of coverage. Other potential risks include regulation (high Universal Service Fund fees, renewal of original GSM licenses and 3G licensing, potential introduction of new players to the market, etc), potential pressure on margins from intensifying competition (e.g. the introduction of handset subsidies), as well as political risks.

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UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	38%	35%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	51%	32%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	11%	26%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 31 December 2003.

Companies mentioned

Company Name	Reuters	Rating	Price
America Movil ^{10a}	AMXL.MX	Suspended	P20.27
Indosat	ISAT.JK	Buy 2	Rp18,550
MTN Group Ltd	MTNJ.J	Neutral 2 (RRD)	RCnt3,220
MTS	MBT.N	Buy 1	US\$113.50
PLDT	TEL.PS	Buy 2	P955.00
Russia ^{9a}			
VimpelCom ^{3,9b,10b}	VIP.N	Buy 2	US\$91.61

Price(s) as of 8 March 2004. Source: UBS.

3. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past three years.

9a. UBS Limited is acting as sovereign advisor to the Government of the Russian Federation.

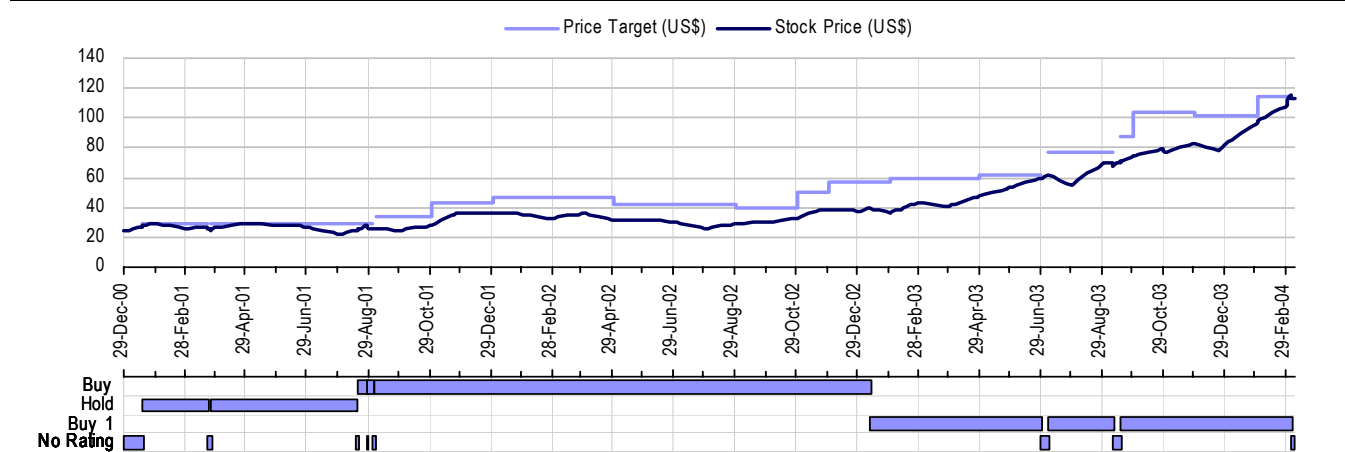
9b. UBS Limited is acting as financial advisor to VimpelCom in relation to the proposed merger between VimpelCom and its 55.3% owned subsidiary, VimpelCom Region.

10a. Within the past three years, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.

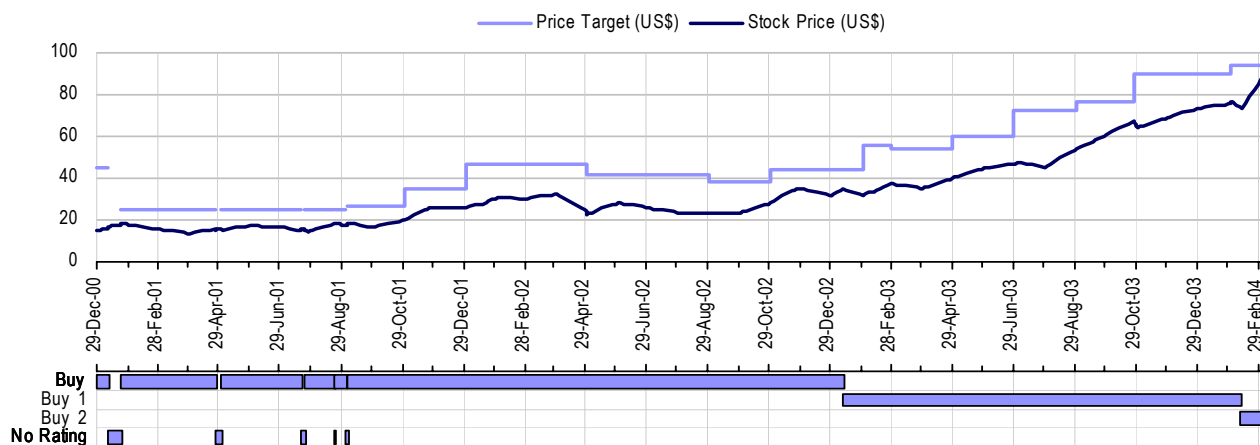
10b. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

MTS (US\$)



VimpelCom (US\$)



Source: UBS; as of 8 March 2004.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'Global ratings: Definitions and allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

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