



20 July 2007

## **CELLULAR MARKET OF UZBEKISTAN: RESULTS OF 1<sup>ST</sup> HALF OF 2007**

- Rates of growth of cellular communication market in the first half of 2007 have decreased by 14.6 percentage points in comparison with the similar period of the last year.
- According to results 1st half of 2007, the number of subscribers of company "Uzdunrobota" has increased in 1.34 times, "Unitel" - in 1.6 times and other companies in 1.14 times.
- From January to June 2007, market share of "Uzdunrobota" has decreased by 1.33%, while share of "Unitel" has grown by 4.53%. As a whole, for the 1st half of 2007, the cumulative market shares of companies "Coscom", "Perfectum Mobile" and "Uzbektelekom Mobile" have decreased from 18.5% to 15.3%.
- Since 2001 up to present moment, market share of "Uzdunrobota" has increased by 16.32%, while share of "Unitel" has grown by 5.29% at the same time when market shares of other operators of cellular communication has decreased by 21.62%.

### **Dynamics of cellular communication market in first half of 2007.**

Rates of growth of cellular communication market of Uzbekistan in the first half of 2007 have decreased by 14.6% in comparison with the similar period of the last year. For the first 6 months of 2007, the quantity of subscribers of mobile communication has grown by 37.6% (in first half of 2006 it was 52.2%), having reached 3.74 million people. The greatest growth of subscribers of cellular communication was observed in January - February (231.9 and 242.7 thousand people respectively) and in June (207.1 thousand people), while the least growth was in April (62.1 thousand people). If to consider a growth of user's base on 5 operators operating in the country, it can be seen that according to results of January-June period, the number of subscribers of company "Uzdunrobota" has increased in 1.34 times, while users' base of "Unitel" and other companies as a whole has increased in 1.6 and 1.14 times respectively. From January up to March 2007, the market share of LLC "Unitel" (trade mark "Beeline") has grown rapidly. This, in our opinion is connected with active advertising policy conducted by the company in the beginning of this year on promotion of the new tariff plan "Vse svoi", which provides free-of-charge entering calls from any cellular operators on mobile phones. One more factor was transition of a part of subscribers from another cellular operator "Coscom".

However, after introduction of the another new tariff plan "First" by company "Uzdunrobota" in 14<sup>th</sup> of February 2007 providing the same terms as "Vse svoi" (Beeline), on reception of calls from mobile phones, gap in a gain of subscribers between two leading operators has essentially reduced.

Furthermore, after renewal of activity "Coscom" and beginning of active measures on return and deduction of subscribers by it, the number of subscribers "Unitel" in April was reduced almost on 39 000 people.

In our opinion, sharp growth in user's base of company "Uzdunrobota" in May-June 2007 is connected with wider network of dealer items of the company on all country of Uzbekistan and high quality of communication service in comparison with other GSM operators, especially in regions of the country.

It is necessary to note that in June 2007, essential rate of growth of the market of cellular communication and sharp increase in number of subscribers of all operators was observed. In our

opinion, this is connected with active promotion of new tariff plans by all operators of cellular communication ("Red" by IP "Uzdunrobota"; "Gorod" by LLC "Unitel"; "Krug obsheniya", "Family"; "Ochen horoshiy" by Coscom, "Lider" and "Region" by "Perfectum Mobile").

Diagram №1

**Growth rate of subscribers' base of cellular operators in 1H2007**

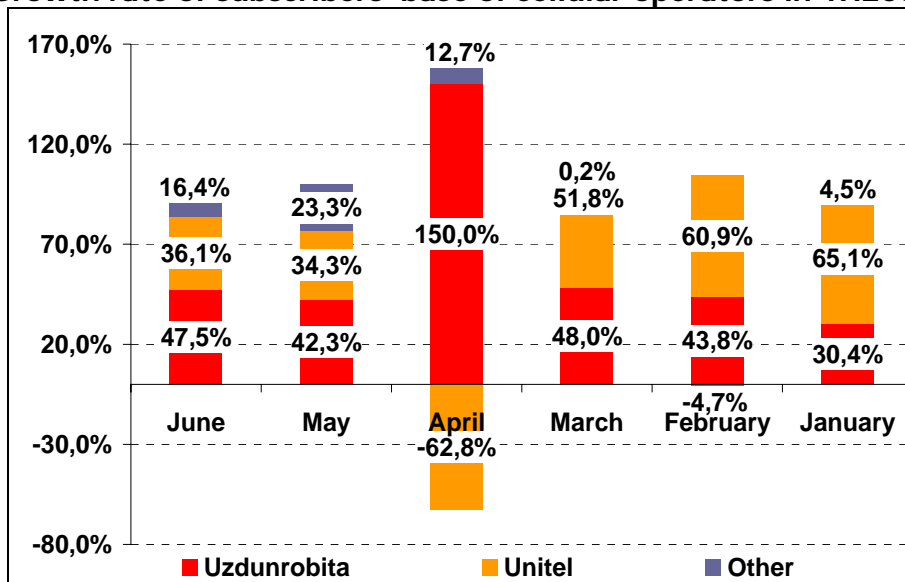


Table № 1

**Quantity of cellular communication users in January-June 2007**

	June	May	April	March	February	January
Uzdunrobota	1 945 955	1 847 549	1 795 914	1 702 720	1 626 749	1 520 463
Unitel	1 224 844	1 150 100	1 108 229	1 147 206	1 065 305	917 559
Others	573 286	539 265	510 823	502 931	502 591	513 903
<b>Total</b>	<b>3 744 085</b>	<b>3 536 914</b>	<b>3 414 966</b>	<b>3 352 857</b>	<b>3 194 645</b>	<b>2 951 925</b>

Source: «AC&M Consulting», [www.gkrch.uz](http://www.gkrch.uz), AC «Avesta Research»

Table №2

**Growth of subscribers' base in January-June 2007**

	June	May	April	March	February	January
Uzdunrobota	98 406	51 635	93 194	75 971	106 286	70 547
Unitel	74 744	41 871	-38 977	81 901	147 746	151 015
Others	34 021	28 442	7 892	340	-11 312	10 358
<b>Total</b>	<b>207 171</b>	<b>121 948</b>	<b>62 109</b>	<b>158 212</b>	<b>242 720</b>	<b>231 920</b>

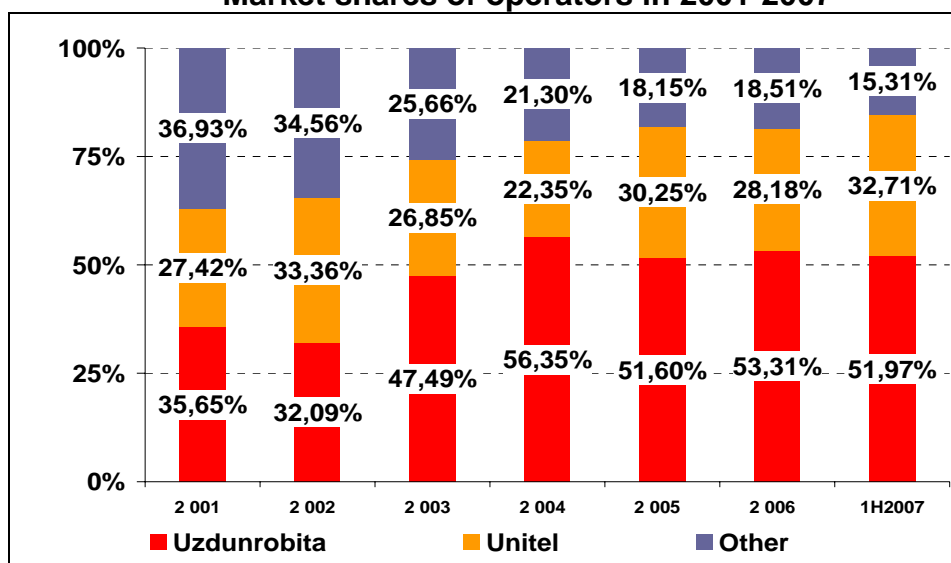
Source: «AC&M Consulting», [www.gkrch.uz](http://www.gkrch.uz), AC «Avesta Research»

**Market shares and positions of main players in it**

A consolidation process in the sector and a replacement of small operators can be observed. Since 2001 up to present, the market share of "Uzdunrobota" has increased by 16.32 p.p., while the market share of "Unitel" rose by 5.29 p.p. At the same time, market shares of other operators have decreased by 21.62 p.p. During six years, operators "UzMacom" and "SkyTel" have exited the market and the share "Coscom" has been reduced from 22.2 percent (in 2001) to 11.0 percent nowadays.

Diagram №2

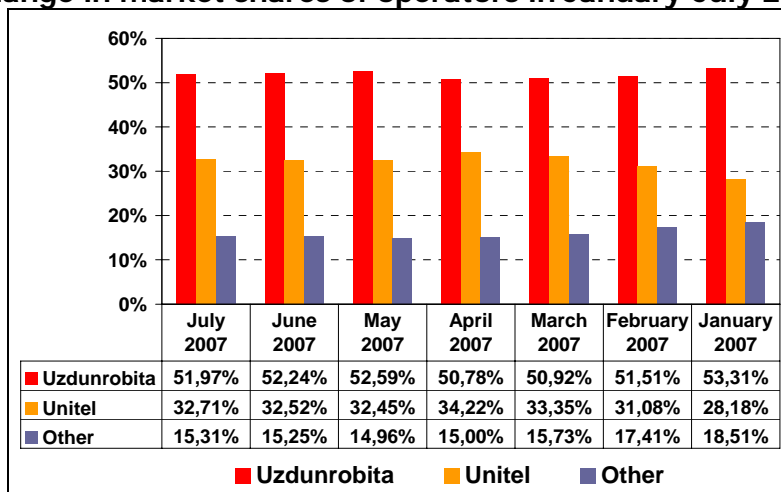
**Market shares of operators in 2001-2007**



From January to June 2007 year the market share of Uzdunrobota decreased by 1.33%, and share of Unitel increased by 4.53%/ Generally in the first six months of 2007 the consolidated share of «Coscom», «Perfectum Mobile» и «UzbekTelecom Mobile» decreased from 18.45% to 15.3%. In our opinion the market share of «Coscom» is about 11.0%, «Perfectum Mobile» - 4,5%, and «UzbekTelecom Mobile» - 0,3%. In our opinion, the share of «Uzdunrobota» will be more 50%, the share of «Unitel» will be about 32,0%, and market share of «Coscom» increase to 11,0%.

*Diagram №3*

**Change in market shares of operators in January-July 2007**



**Big transactions in the market**

For the last 6 months two large transactions in telecommunication sector, in particular in field of mergers and acquisitions have been observed. On 29th of June it became known that Joint Stock Company "MTS" has bought the rest of 26% shares of "Uzdunrobota" (trade mark "MTS-Uzbekistan") for \$250 million, having increased its shares in the company up to 100%. Shares have been purchased from private investor. It is important to mention that in August 2004, JSC "MTS" has purchased 74% shares of "Uzdunrobota" for \$121 million.

Price of "Uzdunrobota" for almost 3 years has increased on the average in 5.9 times. This is results of fast rate of growth of cellular communication market of Uzbekistan and presence of good prospects of



its further development. On the other hand, if in 2004, MTS has paid \$777 per subscriber, now this cost is \$520.

In the beginning of July of current year it became known that Swedish-Finnish company TeliaSonera has reached an agreement on purchasing 100% shares of the American company "MCT Corp.", which owns shares in cellular communication operators in Uzbekistan (joint venture "Coscom"), in Tajikistan (Indigo-Tajikistan, Somoncom) and in Afghanistan (Telecom Development Company Afghanistan (Roshan)). Cost of the transaction has made \$300 million. The price paid per one subscriber has made \$385. Settlement cost of joint venture "Coscom" has made \$151.5 million.

It is necessary to note that costs of one subscriber of "Coscom" paid by TeliaSonera is low in comparison with expenses borne on purchase of one subscriber of other cellular communication operators in Uzbekistan. For instance, in August 2004, JSC "MTS" paid USD777 per subscriber, when purchasing 74%t shares of "Uzdunrobita" (total amount of transaction USD121 million), while in June of this year, JSC "MTS" paid USD520 per one subscriber, when purchasing the remainder of 26% of shares (total amount of transaction: USD250 million). Thus, the value of "Uzdunrobita" during almost 3 years has increased by 5.9 times and is now at about USD1,0 billion.

In the beginning of 2006, the Russian operator JSC "Vypelcom" bought 100 percent of shares of two Uzbek operators, LLC "Unitel" and LLC "Bakri Uzbekistan Telecom " (trade mark - "Buztel") for USD270 million, thus, having paid about USD735 per subscriber. Earlier, in September 2004, a consortium of Greek investors and the European Bank for Reconstruction and Development got full control of "Daewoo Unitel", paying USD73.5 million, or on average USD250 per subscriber.

TeliaSonera - is the leading telecommunication company in the Scandinavian states and in Baltics. The largest shareholders of company "TeliaSonera" are the governments of Sweden (37.3%) and Finland (13.7%), Swedbank Robur (2.2%), Cevian Capital (1.6%), SEB (1.5%), Nordea (1.3%), SHB/SPP (1.2 %) and Skandia Liv (1%). The proceeds of the holding in the first quarter 2007 have made \$3.35 billion, while net profit \$587 million. In May of this year, 8% shares of company "TeliaSonera" have been sold for \$2.68 billion. Thus, total price of the company makes about \$33.5 billion.

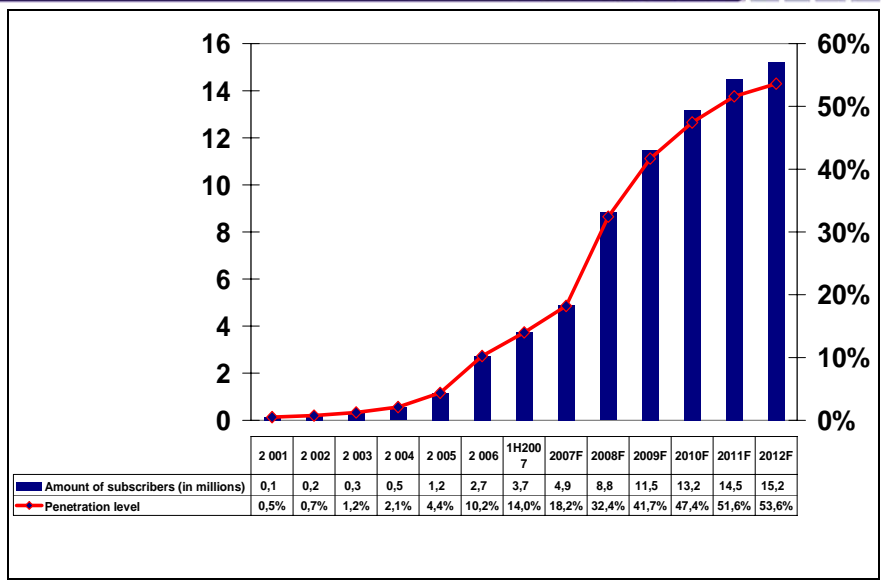
In our opinion, arrival of company "TeliaSonera" to Uzbekistan, Tajikistan an Afghanistan market is connected first of all with falling rates of growth and attractiveness of European telecommunication markets, in particular the market of fixed communication occurred in view of their saturation. Moreover, increasing attractiveness of Central Asian markets in particular Uzbek market was served as another result of arrival of "TeliaSonera" to Central Asia.

## Potential of sector

At the beginning of July 2007, the level of penetration of cellular communication in Uzbekistan was 14.0%. According to our assumptions, by end of this year the number of subscribers of mobile communication in Uzbekistan will reach 4.9 million users. Furthermore, year by year, the growth rates for new subscribers will decrease. By 2010, 13.2 mobile users are expected (penetration level 47.4%), while by 2015 this number may reach 15.2 million (penetration level 53.6%). Taking into account the level of revenues gained from one subscriber (ARPU), USD12,0, the annual market capacity of cellular communication stays now at approximately USD538 million, while by 2012, it will go up to USD2.2 billion.

*Diagram №4*

## Forecast of cellular market development by 2012



We expect that after "TeliaSonera's " market entry in Uzbekistan, the competition in the market will increase sharply and market shares of the two other main companies, "Uzdunrobita" and "Unitel", will decrease. Especially it will be observed in 2008.



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