



22th March 2010

## CELLULAR MARKET OF UZBEKISTAN RESULTS OF 2009

- **The number of cellular communication users has increased by 29% after four years of doubling;**
- **MTS secured first place by number of users, revenues and operational indicators;**
- **About one half of the number of packages are for corporate clients;**
- **«UCell» increased number of users by 89,1% to 5,07 mln. peoples;**
- **«Beeline» decreased base by 8,5% or 309,4 thous. peoples, but still second by revenues and quality of base;**
- **100% penetration is planning now after 2016;**
- **With optimistic forecasts total revenues of cellular operators may exceed 1 bln USD.**

*In all calculations we used information of operators, AC&M Consulting and State commission of radiofrequencies or collected from other official sources.*

**The number of cellular communication users has increased by 29% and reached 15.793 mln people**

In general during 2009, the cellular operators have achieved significant market expansion both in terms of quality and quantity. The number of cellular communication users has increased by 29% and reached 15.793 mln people, which appeared to be less than our

forecast of 50% growth. The decrease in the growth rate, following four years of over 100% growth rates, has not been foreseen to be this sharp. It can be said that at this stage nearly all potential users of cellular communication have their subscriptions, meaning that further growth is possible through attracting other minor groups of users, who are not very frequent users of cellular communication (pensioners, rural population in mid and far distant areas, low income level people), as well as through registration of additional numbers in the networks of current operators or their competitors. Registration with the competitor operators' networks could be done with an aim of getting access to additional services and more attractive specialized packages. Thus, we can expect even greater competition among operators in the development of more attractive packages for special groups of potential users, introduction of unique solutions, which have significant competitive advantage in the market and etc.

The user base of MTS- Uzbekistan rose by 25.3% and reached 7.07 mln people, though the highest growth has been demonstrated by "UCell", which has increased the number of its users by 89,1% up to 5.07 mln users. "Beeline" has experienced decrease in the number of customers by 8.5% or 309.4 thousand people. Perfectum Mobile customer base has increased by 12.9% up to 0.3 mln people, while UzMobile has increased the number of its users by 1.5 times up to 0,035 mln people.

All operators continue to improve both standard cellular services and additional services via Internet using standard and 3G networks. In addition, they are attempting to integrate more sophisticated services such as mobile television, a mixture of cellular and fixed communication, USB-internet modems and etc.

At the end of the year the companies have been offering 81 packages, including 38 corporate packages. The most number of packages has been introduced by "Beeline", which offers 10 different packages for its corporate and individual clients. The company offers the most number of corporate packages among all operators, which may be due to dynamic merger of cellular and fixed communication operators on the bases of two companies owned by "Beeline" in Uzbekistan.



The most number of packages for individuals is offered by MTS-Uzbekistan. At the same time the company offers the least number of corporate packages. However, the company holds the second place with respect to the total number of packages.

It should be noted that, such rapidly developing company as "Ucell" is an outsider by the total number of packages. The company offers only 12 packages, including 7 packages for corporate clients.

Perfectum Mobile is the only operator which has offered both user groups some identical packages, the other CDMA-operator UzMobile surprisingly holds the third place by the total number of packages.

Significant number of corporate packages is driven by the interest of cellular companies to increase the number of the corporate clients, who are capable of generating large cash flow streams.

**Number of packages**

	Number of packages		
	private	corporate	total
<b>MTS-Uzbekistan</b>	13	6	<b>19</b>
<b>Beeline</b>	10	10	<b>20</b>
<b>UCell</b>	5	7	<b>12</b>
<b>Perfectum Mobile</b>	11	9*	<b>13</b>
<b>UzMobile</b>	11	6	<b>17</b>

\* - some are available for private  
 Source: operators, AC "Avesta Research"

**UCell attracted about 62% of new users, but «Beeline» lost about 8,5% of base**

The number of cellular communication users in Uzbekistan as of January 1, 2010 was equal to 15.79 mln people. During 2009 the subscriber base has increased by about 3.55 mln users. However, if one excludes the reduction in the number of "Beeline" users by 309.4 thousand people, then the number of new users subscribed in 2009 could be corrected to 3.86 mln

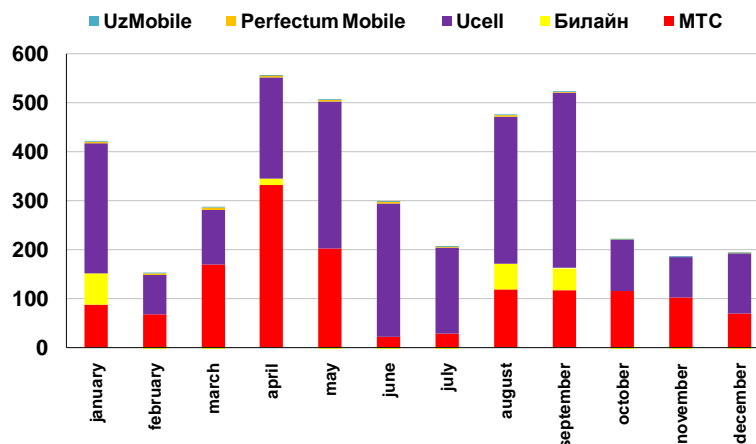
people.

"Ucell" has contributed the most to the growth of the cellular communication users. It has managed to attract nearly 2.4 mln new users during 2009, which makes up almost 61.9% of all new users in the sector. The second place belongs to MTS-Uzbekistan with its 36.9% of new users in the sector, which is equal to 1.43 mln people. The share of CDMA-operators rounded to 1.1-1.2% of new users in the sector.

Nearly 36.7% of new users were attracted in the second quarter of the year, another 32.6% - in the third quarter, which are traditionally the most efficient quarters for cellular companies. The least number of new customers was connected in the last quarter, which is due to the record breaking decline in the number of "Beeline" users and reduced activity from "Ucell". On average, 0.32 mln new users were subscribing in 2009 compared to 0.55 mln new users in 2008.



## Increase of the number of users in 2009, thous. peoples

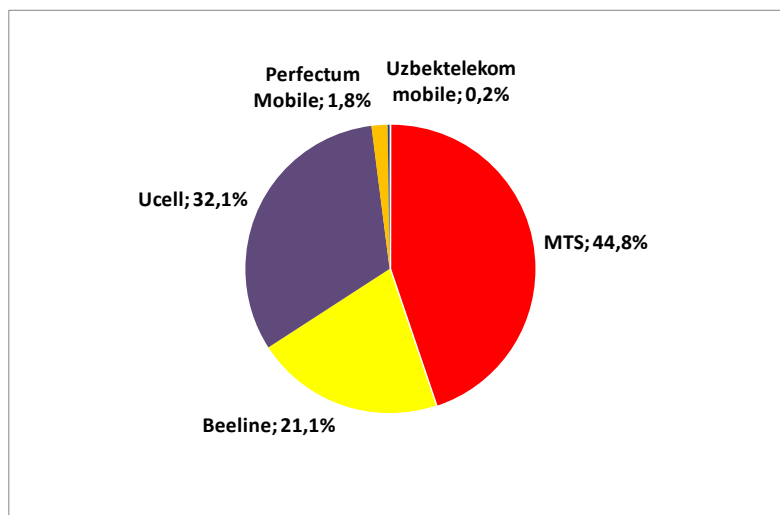


Source: operators, "AC&M Consulting", AC "Avesta Research"

### UCell is the second on market

Market share of "Ucell" by the number of users has increased the most and has reached 32.1% at the end of 2009 (21.9% in 2008). During the year – in may, – the company overtook "Beeline" as the second biggest operator by the number of users; the market share of "Beeline" has dropped from 29.7% to 21.1% year on year at the end of 2009. The market share of the market leader - "MTS-Uzbekistan" has decreased by 1.3 percentage point: at the beginning of the year the company was servicing 46.1% of all cellular communication users, than by the end of the year this figure has dropped to 44.8%. The share of CDMA-operators shrunk from 2.3% to 2%.

### Market shares (01.01.2010)



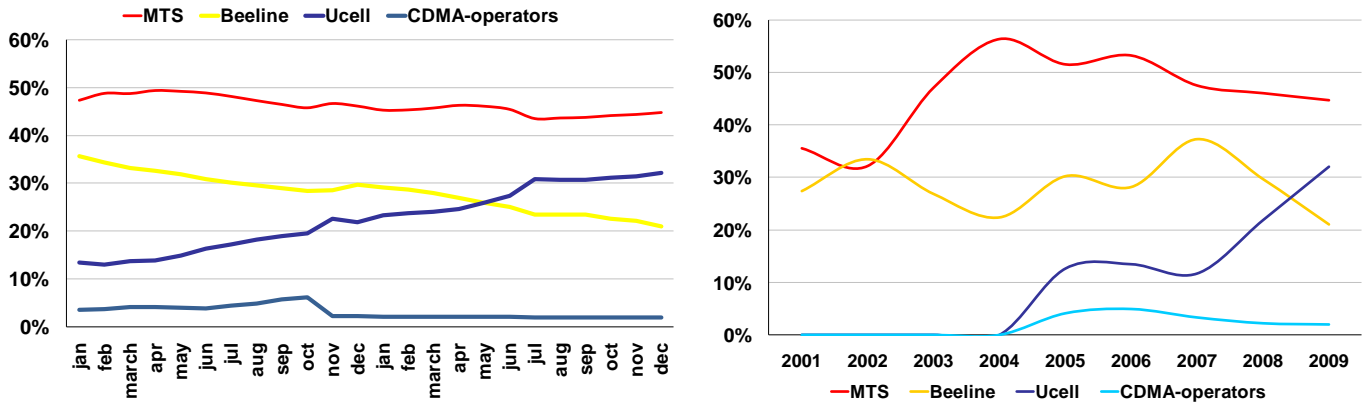
Source: operators, "AC&M Consulting", AC "Avesta Research"

The market share of MTS-Uzbekistan by the number of users has changed in different directions throughout the year, with the shallowest point coming in April-September, when its share shrunk to 43.8%. However, in the fourth quarter MTS-Uzbekistan has managed to somewhat regain its positions. "Beeline" has been losing ground consecutively during the latest 12 months, with the last growth in the number of users being registered back in December, 2008. Exactly opposite picture is seen with "Ucell", which is registering growth of its subscriber base for 13 months in a row.

Looking at the market shares by the number of users for the latest years, one can note a dynamic growth of the market share of "Ucell" with simultaneously decline in the market shares of other companies has begun in 2007, after a new management team had arrived to the company.



## Market shares

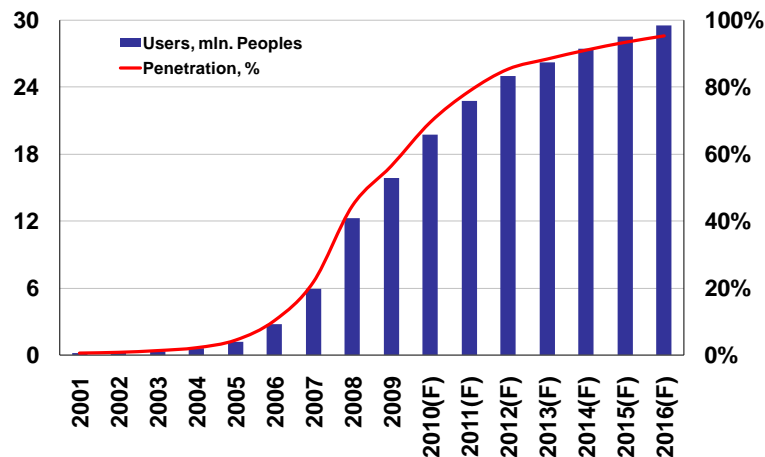


Source: operators, "AC&M Consulting", AC "Avesta Research"

### 100% penetration is delayed

In our forecasts for the previous year, we have been making provision that the total market subscriber base growth would slow down to the level of 50% per year, while in each of the preceding 4 years this figure stood at over 100%. In fact the actual figures were lower than our expectations; the subscriber base has increased by only 29% in 2009 with the penetration rate of about 56.4%. Such small growth rate is mainly due to decrease in the number of users of "Beeline", and somewhat to the effects of the world financial crisis, which has limited the users' expenditures on cellular communication. The latter, in turn, may push the companies to postpone their investment plans periods and force changes in the available packages. We forecast that the penetration rate of 100% will become a reality only after 2016, when the penetration rate will reach 95.2% in line with our forecasts. By the end of 2010, the growth in the subscriber base may be equal to 25% and taking the total to 19.7 mln users, which will correspond to 69.5% of the country's population.

### Forecast of number of users up to 2016



Source: operators, "AC&M Consulting", SCRF, SSC, AC "Avesta Research"

### Volume of market

This and the next 2 sections provide the overview of financial and operating results of cellular communication operators working in Uzbekistan. The data is obtained from quarterly and annual reports of parent companies – "MTS", "VimpelCom" and "TeliaSonera". Some data for certain

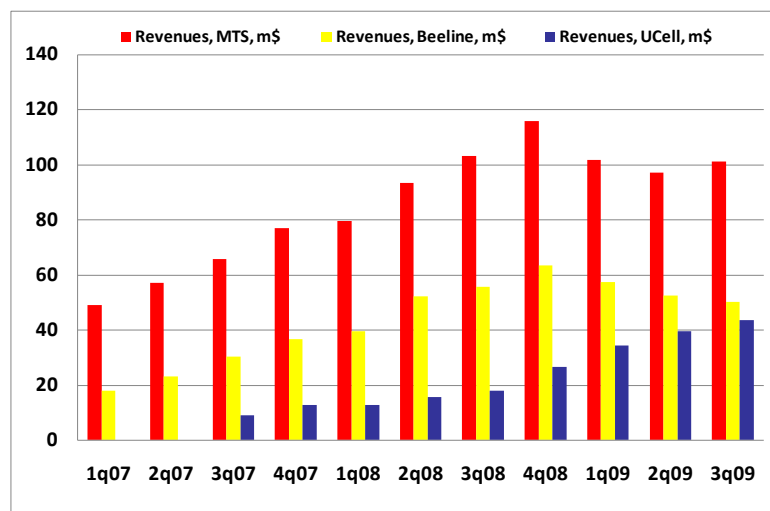


operators is not provided, or is incomplete. In a set of cases the direction and the dynamics of the market leader's development is taken as a guideline for the whole market, due to unavailability of verified information on the other market players. Financial results of "MTS-Uzbekistan" and "Beeline" for the 4th quarter are own estimates.

The aggregate revenue of cellular operators at the end of 2009 may reach 790 mln USD, 13.8% more than in 2008. Furthermore, the market share of the biggest three operators, disclosing their financial results, will go up to 97.9% in 2009 from 97.5% in 2008. Market share of MTS-Uzbekistan has declined to 51.4% in 2009 compared to 56.5% in 2008, despite an estimated revenue increase in absolute terms by 3.4% up to 404.7 mln USD. We estimate that revenue of "Beeline" has decreased by 2.3% down to 205.6 mln USD. While the main reason behind slower revenue growth of "MTS-Uzbekistan" is declining ARPU, "Beeline" is also being hampered by the reductions in its subscriber base. This in turn has led to a market share by revenue of 26.1%. The decrease of the two operators' market shares has been matched by the significant growth of "Ucell", which has claimed 2.2 times more revenue than in the previous year or nearly 160.2 mln USD as their market share by revenue rose from 10.5% to 20.4%. Revenues of CDMA-operators have made up nearly 16.5 mln USD collectively, which is 5.7% lower than in the previous year.

Taking into account declining ARPU, which has decreased by 52.2 USD and has reached 157.4 USD per user among the leading three companies, it can be forecast that the industry revenue will grow by 20-25% and will reach 930-970 mln USD in 2009. Furthermore, if operators will be able to slow down the fall in ARPU by means of greater penetration of cellular services into the everyday life of users and a more dynamic use of additional services, than the total industry revenue may exceed 1 bln USD.

## Revenues of GSM-operators<sup>^</sup> (MUSD)



Source: operators, AC "Avesta Research"

It should be noted that "Beeline" is losing positions to "Ucell" by the number of users but is superior in terms of revenue, which means that the "Beeline" users are spending much more on their cellular communication, while it may also imply that its subscriber base is of "higher quality" in terms of inactive users. The difference in the user statistics can be explained by different periods of termination of inactive users. This also applies to MTS, which is the undisputed leader by revenue and ARPU. In the fourth quarter of 2009, the revenues of "Beeline" and "Ucell" have remained nearly on the same level, as in the third quarter – 50.2 mln USD and 43.2 mln USD, respectively.

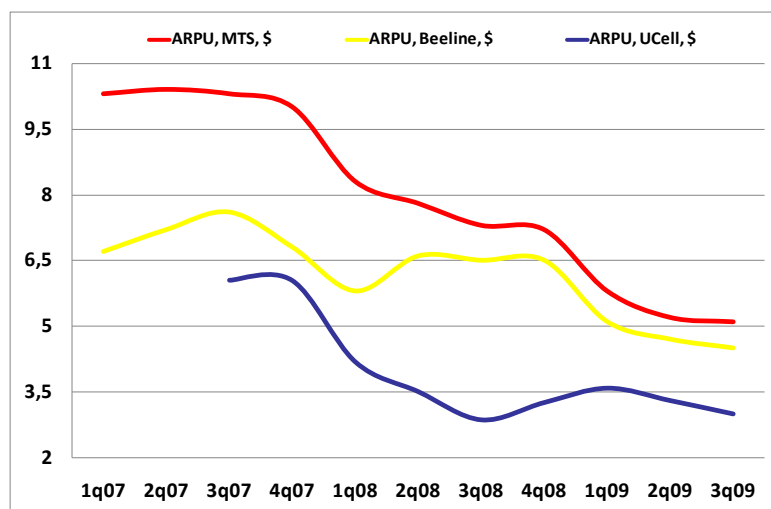
<sup>^</sup> For MTS and Beeline – "Revenues", for UCell – "Net Sales"

## ARPU\*

The ARPU indicator of "MTS-Uzbekistan" has been decreasing starting from the third quarter of 2007 or for 9 quarters in a row. Back then it was equal to 10.3 USD per user, while in the third quarter of 2009 it has dropped to 5.1 USD per user. The same indicator for "Beeline" has been falling for the last 4 quarters and reached 4.5 USD per user.

The ARPU indicator for "UCell" was not provided by the company and was calculated by AC "Avesta Research". Up to the third quarter of 2008 the ARPU has been decreasing from 6.1 USD per user down to 2.9 USD per user, and then has increased up to 3.6 USD per user in the first quarter of 2009. In the last quarter of the year the ARPU might have reached 2.8 USD.

**ARPU of GSM-operators (USD)**



Source: operators, AC "Avesta Research"

## MoU\*

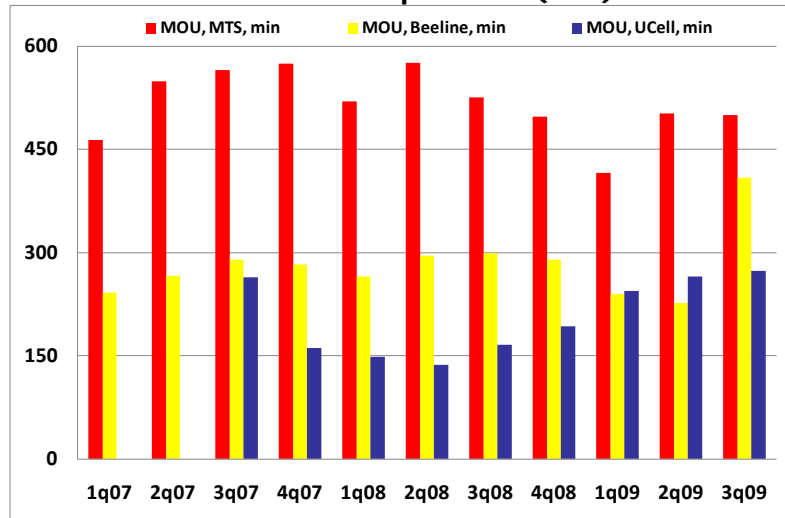
MoU of "Beeline" and "MTS-Uzbekistan" shows a tendency of a downward trend in the first quarter and follows up with growth in the consequent periods. The stable growth of this indicator over 2009 has been demonstrated only by "Ucell", while the other operators in the two of the first three quarters of 2009 have seen decrease in voice traffic. At the end of the third quarter, the lowest MoU value among the GSM-operators was demonstrated by "Ucell", however it was still ahead of "Beeline" throughout the first half of 2009, and the change is due to sharp growth of MoU of "Beeline" – by 81%, up to 409 minutes. The undisputed leader by this indicator throughout the whole time frame under consideration was "MTS-Uzbekistan" with precisely 500 minutes at the end of the third quarter of 2009. Moreover, the average MoU indicator for almost three years makes up 516 minutes and points out the stability of the voice traffic in the "MTS-Uzbekistan" network.

\* ARPU – average revenues per unit

\* MoU – minutes of use.



**MoU of GSM-operators (min)**



Source: operators, AC "Avesta Research"



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