Advanced Communications & Media

2005 Cellular Market Update

2005 was another year of intensive subscriber growth for Russian cellular operators. As the regional expansion within the country is almost over, largest players turned abroad, particularly to neighboring CIS countries, capitalizing on growing popularity of mobile services in those markets. Although in some cases this move is still seen as staking the territory, most important CIS markets already play a visible role in intensifying competition between top Russian operators.

Thus, by the end of 2005 MTS had presence in Ukraine (UMC), Belarus, Uzbekistan (Uzdunrobita), Turkmenistan (Barash Communications) and Kyrgyzstan (Bitel) while Vimpelcom controlled KaR-Tel, 2nd-largest GSM operator in Kazakhstan, and had subsidiaries in Ukraine (WellCOM) and Tajikistan (Tacom). MegaFon, third-largest Russian operator, thus far has not been as active as its peers with presence outside Russia only in Tajikistan through TT-Mobile. However, MegaFon is expected to shortly launch service in Kyrgyzstan.

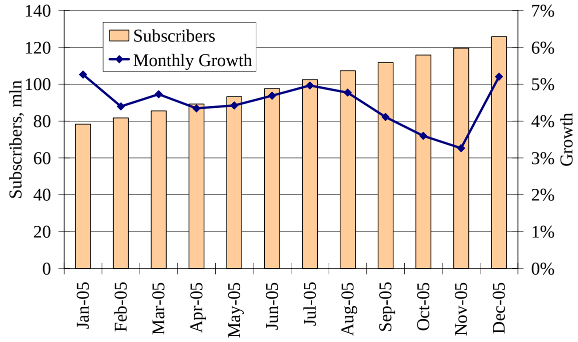
This document provides data on 2005 subscriber base dynamics[1] of largest Russian cellular operators with particular focus on their operations in Russia and Ukraine.

Russia

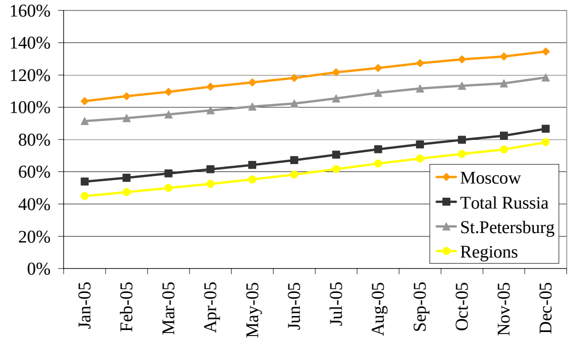
Summary

Total number of cellular subscribers in Russia reached 125.8 mln bringing cellular penetration in the country to 86.6%. as of December 31, 2005. Over 51 mln subscribers were added by mobile operators to the counter in 2005, the highest number of annual net additions in Russian history.

Subscriber Growth



Penetration



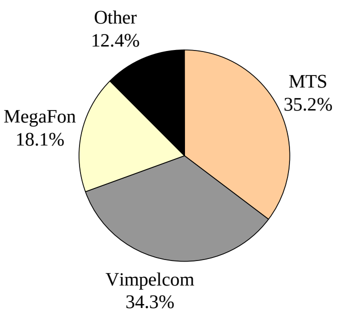
Despite the record annual result, December sales of 2005 did not reach 2004 level – 6.2 mln of new subscriptions sold during Christmas campaign is only the second-highest monthly net additions figure (compared to 8.3 mln a year ago), which may be considered as a strong evidence of upcoming market saturation.

[1] Please refer to Important Note on Subscriber Accounting Policy section below for detailed definitions of subscriber base and penetration calculation.

Net additions in December 2005 similar to December 2004 were driven rather by promotional sales and marketing offers (‘family packages’ of double SIM-cards, gifting, bonuses on the account, etc.) than by sales of new handsets as it was during 2003-2004.

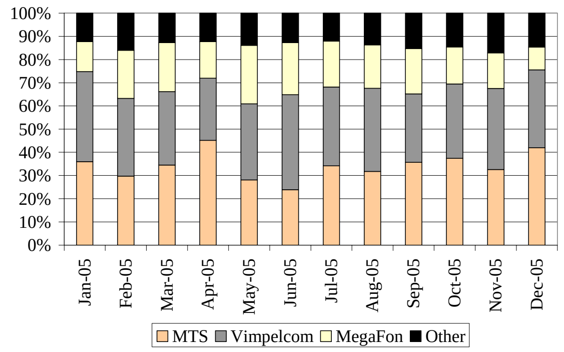
The “Big Three” operators (MTS, Vimpelcom and MegaFon) dominated the market winning the largest share in net additions from regional players, although it’s too early to say that the game is over for regional companies, which all together managed to maintain more than 12% market share in 2005.

2005 Market Breakdown



TOTAL: 125.76 mln subs

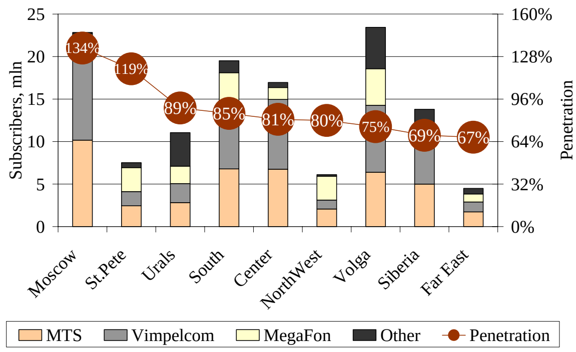
Share in Net Additions in Russia



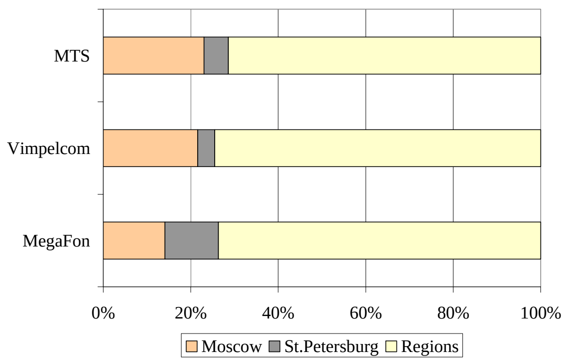
Although Moscow and St.Petersburg remain important markets for all operators, regional networks significantly outnumbered both capitals in terms of new subscribers attracted in 2005.

As the penetration in largest cities already over 100%, it becomes quite clear that there are almost no new users left in those areas. Regional markets remain the only option for some physical network expansion at the moment. Most underdeveloped macro regions in terms of cellular penetration are Far East and Siberia.

Cellular Penetration by Macro-Region



Subscriber Base Decomposition



Key Developments

Below are the most important market developments of 2005:

- Regional expansion of the “Big Three” is completed. MTS now has operations in 82 Russian regions, Vimpelcom and MegaFon operate 78 and 77 regional networks respectively. Vimpelcom finally managed to establish presence in regions of Far East. MTS and Vimpelcom significantly expanded their foreign operations.
- MTS acquired stakes in Uzdunrobita, leading operator in Uzbekistan, and Barash Communications of Turkmenistan. The company also purchased 51% of Bitel GSM of Kyrgyzstan. MTS’ 49% subsidiary in Belarus is a local market leader.

- After a long dispute between Vimpelcom's shareholders over entering Ukrainian market, the company finally established its local presence through acquisition of WellCOM in November 2005[2].
- Competition for the market share has shifted from physical expansion of the networks and acquisition of regional players to the customer care and VAS segment. All three major players started to introduce more and more additional services and launched customer loyalty programs.
- Vimpelcom has re-branded its Beeline network.
- MTS launched I-mode and all operators started upgrading their GPRS services to EDGE.
- Consolidation of Svyazinvest cellular assets resulted in strong positions of its operating subsidiaries in Urals and Siberia.

Subscriber Watch

Top-10 Russian Cellular Operators

The table below contains a list of largest Russian cellular operators in terms of total subscribers. Apart of Russian operations it also includes data on activities outside the country.

Operator	2005 Subscribers	2004 Subscribers	2005 Growth, %
MTS	60,328,122	35,390,389	70%
Russia	44,218,269	26,492,436	67%
Moscow	10,181,300	7,516,169	35%
Ukraine (UMC)	13,327,267	7,373,530	81%
Uzbekistan (Uzdunrobita)	580,288	310,177	87%
Turkmenistan (Barash Communications)	68,333	n.a.	n.a.
Kyrgyzstan (Bitel GSM)	n.a.	n.a.	n.a.
Belarus (non-consolidated)	2,133,965	1,214,246	76%
Vimpelcom	45,415,792	26,583,303	71%
Russia	43,098,663	25,724,647	68%
Moscow	9,309,037	7,476,869	25%
Kazakhstan (KaR-Tel)	2,050,280	858,656	139%
Ukraine (WellCOM)	256,849	n.a.	n.a.
Tajikistan (Tacom)	10,000	n.a.	n.a.
MegaFon	22,835,985	13,647,807	67%
Russia	22,764,402	13,599,916	67%
Moscow	3,202,342	1,817,314	76%
Tajikistan (TT-Mobile)	71,583	47,891	49%
Uralsvyazinform	3,674,241	2,058,100	79%
Tele2	3,120,000	1,343,269	132%
SMARTS Group	2,801,062	1,815,000	54%
Sibirtelecom	1,979,257	1,001,940	98%
N.Novgorod Cellular	1,044,483	656,441	59%
Cellular Communications MOTIV	835,953	405,467	106%
New Telephone Company	501,250	262,205	91%

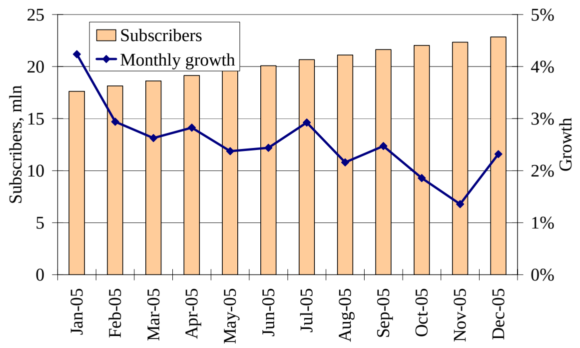
[2] In January 2006 Vimpelcom also entered Uzbekistan market buying into Buztel and Unitel, two local GSM operators (which would take Vimpelcom to #2 position in the country after Uzdunrobita (MTS)).

Moscow

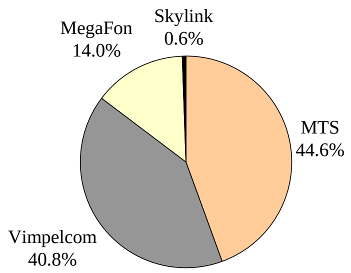
Moscow market grew by 35% in 2005 after it passed 100% penetration mark in January 2005. With 22.8 mln subscribers posted by mobile operators, Moscow is the largest Russian regional market in absolute terms.

MTS maintained some advantage in monthly net additions over its main rival, Vimpelcom, though the results were very close. This advantage helped the company to keep leading positions in the Moscow License Area. Although Vimpelcom won the leadership in March 2005, MTS quickly overtook it and was able to hold and slightly strengthen its positions in the capital throughout the rest of the year. It is important to note that MegaFon improved its positions from 11% of the market in December 2004 to 14% by the end of 2005.

Subscribers and Growth



Market Breakdown



TOTAL: 22,842,679 subs

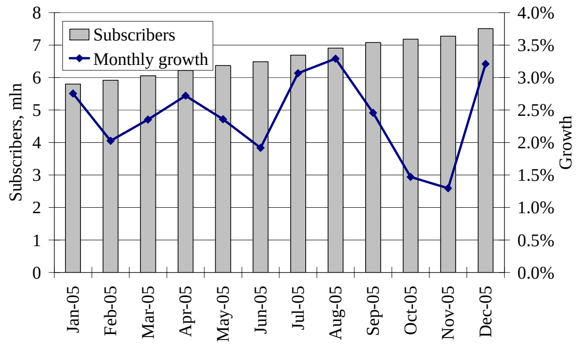
Monthly market growth in MLA tends to decline as the market effectively reached saturation level. New subscriptions now mainly produced by volatile fraction of users following marketing initiatives by operators.

St.Petersburg

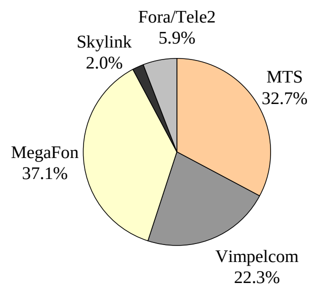
With mobile services penetration in the region at 118% as of December 31, 2005, St.Petersburg remains the second-largest and second-developed Russian cellular region. Market growth in the area tends to decline, though in December the penetration grew by ample 3.7% adding more than 230,000 new subscribers to cellular networks.

Although MegaFon has lost some market share in the region from 43% a year ago to 37%, the company's position on its native market remains quite strong. Vimpelcom was the most aggressive competitor, especially in the second half of 2005, improving its market share from modest 17% in 2004 to visible 22% by the end of 2005. Vimpelcom also dominated net additions in the region for three last months in a row and managed to win almost 45% of new subscriptions in December.

Subscribers and Growth



Market Breakdown



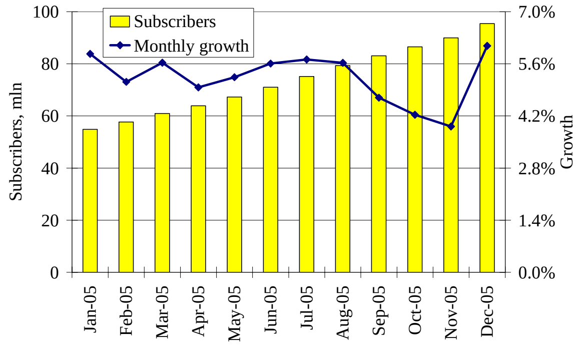
TOTAL: 7,508,220 subs

Russian Regions

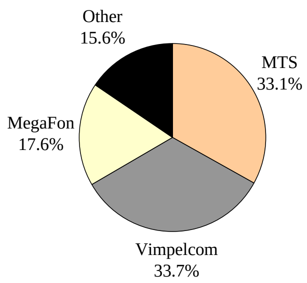
Regional networks' growth in 2005 was spectacular – total number of subscribers grew by 85%, reaching 95.4 mln. The growth rate more than doubled compared to 42% market jump of year 2004. Impressive 44 mln of new subscribers were enlisted by cellular operators through the year. Cellular penetration in Russian regions outside Moscow and St.Pete was at 78% as of December 31, 2005.

The market shares left almost unchanged – all operators from the "Big Three" lost some fraction of the percent to other players and this may be recognized as a success of smaller regional companies – one could expect that market leaders may reach better results

Subscribers and Growth



Market Breakdown

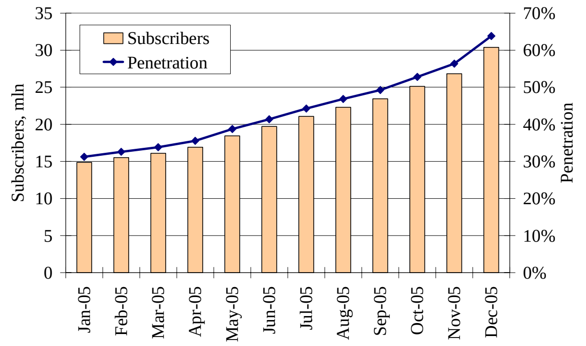


TOTAL: 95.4 mln subs

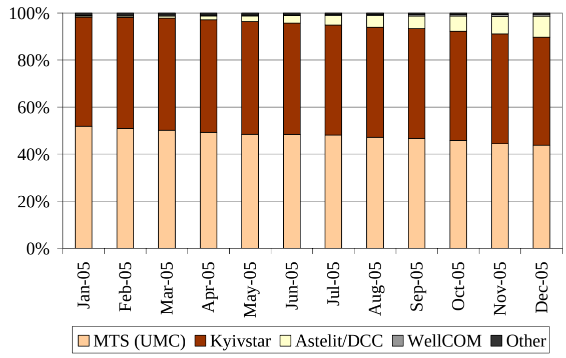
Ukraine

Ukrainian market remains a de-facto duopoly by Kyivstar (controlled by Vimpelcom's shareholders Telenor and Altimo) and UMC (owned by MTS) despite the rising competition from Astelit (DCC) and prospective growth of Vimpelcom-backed WellCOM. Following active growth path the market more than doubled in 2005 reaching almost 64% of penetration or 30.3 mln subscribers. December 2005 added record-high 3.6 mln and there is still some room for growth in the country.

Subscribers and Penetration



Market Share Development



Long-awaited arrival of Vimpelcom to the local market through purchasing of WellCOM in late 2005 did not affect the breakdown of forces. Obviously in 2006 the company will try to find a way to improve its market share, though that would require a significant effort.

Growth of Turkcell-backed Astelit has been achieved mainly at the expense of the low incremental ARPU (reportedly below $5). Astelit launched services in February and it remains to be seen how many subscribers the company has at the moment since it applies very liberal churn policy (subscriber is counted as active for 13 months further after its account hits $0 level). Therefore, the company never churned off subscribers to date and its' ~9% of the market share may shrink as soon as the outflow is registered.

Important Note on Subscriber Accounting Policy

Subscriber Count. All subscriber data included herein effectively represent the number of subscriptions (valid SIM-cards) as reported by operators or estimated by AC&M according to the accounting policy adopted by mobile services providers. Churn policies differ from one operator to another, which adds some discrepancy to comparative figures.

Therefore, the number of cellular subscribers to which we refer in the present report means a total quantity of valid subscriptions that mobile operators consider active and which can be served and charged according to providers' internal rules.

The common market practice of calculating total number of subscribers based on figures reported by cellular operators' results in a difference between number of valid subscriptions and real number of cellular users. There are two main reasons which lead to this difference:

1. Subscribers in one operator's network may be counted as active for longer period compared to another network. Summing these numbers leads to inconsistency of figures reported as a total subscriber base since the posted numbers are calculated by different rules.
2. A user may own several subscriptions from one or different providers simultaneously or switch from one operator to another within the churn period. This leads to a multiple count of the same user in combined figures.

Overlapping of these two factors makes next to impossible to understand the exact number of cellular users based on figures reported by operators. The size of the difference is a subject of standalone discussion and is not covered within the present report.

Having said this we emphasize that it is important to understand the difference between reported figures and a number of physical cellular users and do not mix these concepts while making calculations and market evaluations of any kind.

Penetration. Penetration figures for Russia are calculated based on official data of 2002 population census as reported by State Statistics Committee (Goscomstat): 145 mln for total Russia population, 17 mln for Moscow License area and 6.3 mln for St.Petersburg. According to different unofficial sources, the population of the Moscow region is significantly higher (22-23 mln) due to a high number of migrants while St.Petersburg population is over 7 mln.

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