

MTS

Upgrade to Buy 1

Recent share price weakness . . .

MTS' share price is down 17% in the last month and 21% from its April 5 peak of \$138.

. . . creates an attractive buying opportunity

In our view, this creates an attractive buying opportunity. We believe the fundamentals of the Russian cellular story remain very solid and are expecting further consensus estimates upgrades later in 2004.

Valuation: We reiterate our price target of \$149

We reiterate our DCF-based price target of \$149, suggesting forecast excess return of 32.0%. On the back of the recent share price weakness we upgrade MTS from Neutral 1 to Buy 1.

| Highlights (US\$m) | 12/02 | 12/03 | 12/04E | 12/05E | 12/06E |
|---------------------|-------|-------|--------|--------|--------|
| Revenues | 1,362 | 2,546 | 3,709 | 4,608 | 5,076 |
| EBIT | 464 | 923 | 1,376 | 1,798 | 1,954 |
| Net income (UBS) | 277 | 517 | 822 | 1,120 | 1,232 |
| EPS (UBS, US\$) | 2.78 | 5.19 | 8.25 | 11.23 | 12.36 |
| Net DPS (UBS, US\$) | 0.00 | 1.15 | 1.82 | 4.13 | 8.42 |

| Profitability & Valuation | 5-yr hist. av. | 12/03 | 12/04E | 12/05E | 12/06E |
|---------------------------|----------------|-------|--------|--------|--------|
| EBIT margin % | 34.1 | 36.2 | 37.1 | 39.0 | 38.5 |
| ROIC (EBIT) % | - | 36.5 | 37.7 | 41.7 | 41.9 |
| EV/EBITDA x | - | 5.5 | 6.7 | 5.1 | 4.4 |
| PE (UBS) x | - | 11.2 | 13.2 | 9.7 | 8.8 |
| Net dividend yield % | - | 2.0 | 1.7 | 3.8 | 7.7 |

Source: Company accounts, Thomson Financial, Brunswick UBS estimates. BUBS EPS is adjusted by adding back goodwill amortisation. Valuations: based on an average share price that year, (E): based on a share price of US\$108.79 on 17 May 2004; Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items.

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Global Equity Research

Russia

Wireless Communications

Rating **Buy 1**

Prior: Neutral 1

Price target **US\$149.00**
Unchanged

Price **US\$108.79**

RIC: MBT.N BBG: MBT US

18 May 2004

Trading data

| | |
|--------------------------|------------------|
| 52-wk. range | US\$137.82-47.64 |
| Market cap. | US\$10.8bn |
| Shares o/s | 100m |
| Free float | 22% |
| Avg. daily volume ('000) | 282 |
| Avg. daily value (US\$m) | 32.8 |

Balance sheet data 12/04E

| | |
|----------------------|--------------|
| Shareholders' equity | US\$2.37bn |
| P/BV (UBS) | 4.6x |
| Net cash (debt) | (US\$1.69bn) |

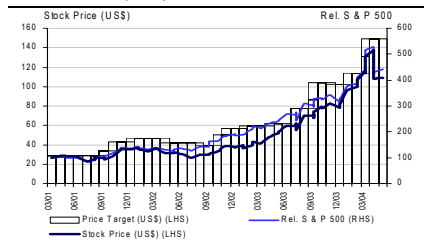
Forecast returns

| | |
|-----------------------------|--------|
| Forecast price appreciation | +37.0% |
| Forecast dividend yield | 3.8% |
| Forecast stock return | +40.8% |
| Market return assumption | 8.8% |
| Forecast excess return | +32.0% |

EPS (UBS, US\$)

| | 12/04 | | | 12/03 |
|--------|-------|-------|-------|--------|
| | From | To | Cons. | Actual |
| 12/04E | - | 8.25 | - | - |
| 12/05E | - | 11.23 | - | - |

Performance (US\$)



Source: Brunswick UBS
www.brunswickubs.com

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

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■ MTS

Mobile Tele Systems (MTS) is the largest cellular operator in Russia, with 19.2 million network subscribers, of which 15.3 million in Russia, as of March 2004. The company has licences in 87 regions in Russia, covering a population of 143 million people, and as of March 2003, it operated GSM networks in 59 of these regions. With Ukraine and Belarus, MTS's licensed population reaches 200 million. In Moscow, MTS competes with two GSM operators, VimpelCom and MegaFon (under the Sonic Duo brand). First-mover advantage allowed MTS to secure a market share of over 50% in the lucrative corporate user segment.

■ Statement of Risk

In our view the key risks to MTS' 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 growth management risk.

■ Analyst Certification

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UBS Investment Research Global Ratings: Definitions and Allocations

| 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 | 41% | 36% |
| 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 | 50% | 31% |
| 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 | 9% | 31% |

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 March 2004.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

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Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

| Company Name | Reuters | Rating | Price |
|---------------------------------------|---------|--------|------------|
| MTS | MBT.N | Buy 1 | US\$108.79 |
| VimpelCom ^{1,2,3,4,5} | VIP.N | Buy 2 | US\$89.72 |

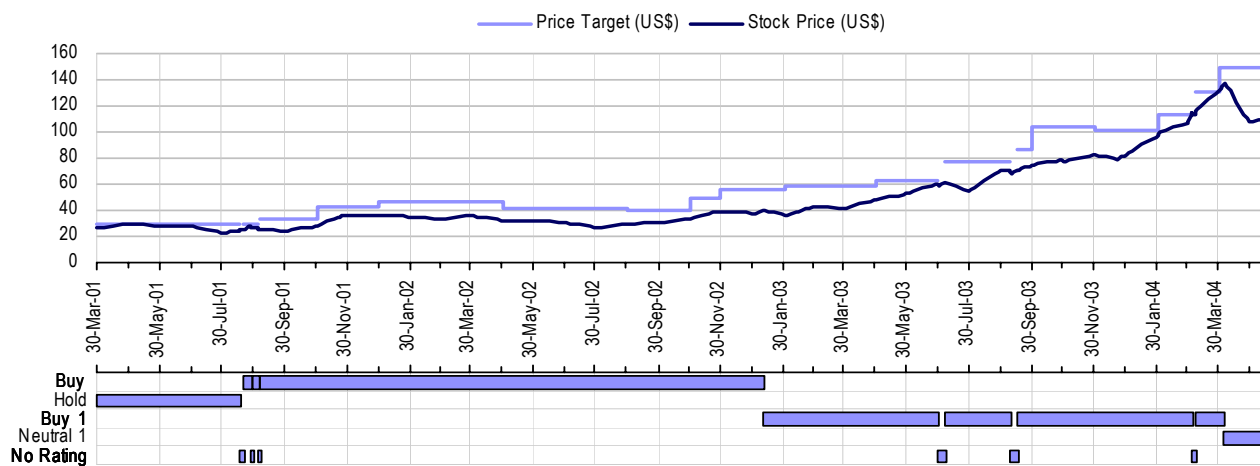
Price(s) as of 17 May 2004. Source: UBS.

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2. 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.
3. 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.
4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.
5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company within the next three months.

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

MTS (US\$)



Source: UBS; as of 17 May 2004.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research 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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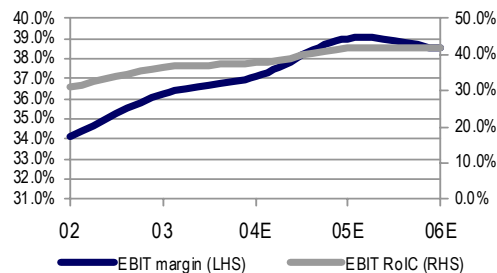
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MTS

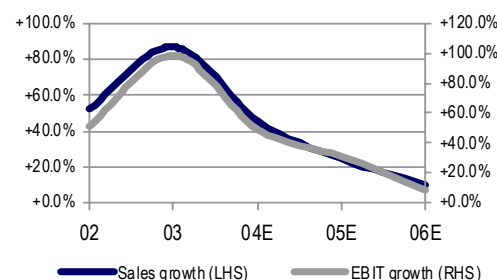
| Per share (US\$) | 12/02 | 12/03 | 12/04E | 12/05E | 12/06E |
|--|--------|---------|---------|---------|---------|
| EPS | 2.78 | 5.19 | 8.25 | 11.23 | 12.36 |
| CEPS | 4.88 | 9.36 | 14.12 | 18.84 | 21.49 |
| Net DPS | 0.00 | 1.15 | 1.82 | 4.13 | 8.42 |
| BVPS | 13.06 | 17.30 | 23.74 | 30.84 | 34.78 |
| Profit & loss (US\$ m) | | | | | |
| Sales | 1,362 | 2,546 | 3,709 | 4,608 | 5,076 |
| EBITDA | 674 | 1,339 | 1,961 | 2,556 | 2,864 |
| EBIT | 464 | 923 | 1,376 | 1,798 | 1,954 |
| Pre-tax profit | 427 | 831 | 1,214 | 1,660 | 1,855 |
| Net income (UBS adj.) | 277 | 517 | 822 | 1,120 | 1,232 |
| Cash flow (US\$ m) | | | | | |
| EBIT | 464 | 923 | 1,376 | 1,798 | 1,954 |
| Depreciation & amortisation | 210 | 416 | 585 | 758 | 910 |
| Change in NWC | (22) | (8) | 4 | (12) | (36) |
| Other (operating) | (92) | (27) | (0) | (0) | 0 |
| Operational cash flow | 560 | 1,303 | 1,965 | 2,544 | 2,828 |
| Tax paid | (110) | (242) | (340) | (465) | (520) |
| Capital expenditure | (698) | (1,910) | (1,400) | (1,260) | (1,071) |
| Net interest | (37) | (91) | (162) | (137) | (99) |
| Dividends paid | 0 | (115) | (181) | (411) | (840) |
| Net (acquisitions) / disposals | 0 | 0 | 0 | 0 | 0 |
| Other items | (29) | (95) | 0 | (0) | 0 |
| Change in net debt | (314) | (1,150) | (118) | 271 | 299 |
| Operating free cash flow (OpFCF) (US\$ m) | | | | | |
| Core EBITDA | 674 | 1,339 | 1,961 | 2,556 | 2,864 |
| Less: Maintenance capex | (195) | (312) | (560) | (504) | (428) |
| Less: Maintenance NWC | 0 | 0 | 0 | 0 | 0 |
| OpFCF | 479 | 1,027 | 1,401 | 2,052 | 2,436 |
| Balance sheet (US\$ m) | | | | | |
| Net tangible fixed assets | 1,856 | 3,272 | 4,087 | 4,589 | 4,750 |
| Net intangible fixed assets | 0 | 0 | 0 | 0 | 0 |
| Net working capital | (37) | (29) | (33) | (22) | 14 |
| Total invested capital (IC) | 1,819 | 3,243 | 4,054 | 4,567 | 4,764 |
| Financial & other fixed assets | 307 | 692 | 692 | 692 | 692 |
| Net cash / (debt) | (420) | (1,570) | (1,687) | (1,416) | (1,117) |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Minority interests | (65) | (48) | (100) | (176) | (279) |
| Shareholders' funds | 1,302 | 1,725 | 2,366 | 3,074 | 3,467 |
| Profitability | | | | | |
| EBITDA margin | 49.5% | 52.6% | 52.9% | 55.5% | 56.4% |
| EBIT margin | 34.1% | 36.2% | 37.1% | 39.0% | 38.5% |
| EBIT RoC | 31.0% | 36.5% | 37.7% | 41.7% | 41.9% |
| Net RoE | 23.9% | 34.2% | 40.2% | 41.2% | 37.7% |
| Interest cover (EBIT) | 12.5x | 10.1x | 8.5x | 13.1x | 19.8x |
| Dividend cover (net) | NA | 4.5x | 4.5x | 2.7x | 1.5x |
| Productivity | | | | | |
| Labour % sales | 9.8% | 9.6% | 10.0% | 9.9% | 10.1% |
| Depreciation % sales | 15.4% | 16.3% | 15.8% | 16.5% | 17.9% |
| Capex % sales | 51.3% | 75.0% | 37.7% | 27.3% | 21.1% |
| Invested capital turnover | 0.9x | 1.0x | 1.0x | 1.1x | 1.1x |
| Tax rate | 25.8% | 29.2% | 28.0% | 28.0% | 28.0% |
| Net debt / total equity | 30.7% | 88.6% | 68.4% | 43.6% | 29.8% |
| Momentum | | | | | |
| Sales growth | +52.5% | +87.0% | +45.7% | +24.2% | +10.2% |
| EBIT growth | +51.4% | +98.7% | +49.1% | +30.7% | +8.7% |
| Net earnings growth | +33.7% | +86.6% | +59.0% | +36.2% | +10.0% |
| Dividend growth | NM | NM | +57.9% | +127.1% | +104.2% |
| Value* | | | | | |
| Market capitalisation (US\$ m) | 3,269 | 5,814 | 10,843 | 10,843 | 10,843 |
| Plus: Core net debt / (cash) | 263 | 995 | 1,629 | 1,552 | 1,267 |
| Plus: Pension provisions | - | - | - | - | - |
| Plus: Buy out of minorities | 613 | 613 | 613 | 613 | 613 |
| Less: Non-core assets | - | - | - | - | - |
| Enterprise value (EV, avg) | 4,145 | 7,422 | 13,085 | 13,008 | 12,723 |
| EV/Sales (core) | 3.04x | 2.91x | 3.53x | 2.82x | 2.51x |
| EV/EBITDA (core) | 6.1x | 5.5x | 6.7x | 5.1x | 4.4x |
| EV/EBIT (core) | 8.9x | 8.0x | 9.5x | 7.2x | 6.5x |
| EV/OpFCF | 8.6x | 7.2x | 9.3x | 6.3x | 5.2x |
| EV/Invested capital | 2.8x | 2.9x | 3.6x | 3.0x | 2.7x |
| P/CE | 6.7x | 6.2x | 7.7x | 5.8x | 5.1x |
| P/E | 11.8x | 11.2x | 13.2x | 9.7x | 8.8x |
| Dividend yield (net) | 0.00% | 1.97% | 1.67% | 3.79% | 7.74% |
| P/BV (average) | 2.5x | 3.4x | 4.6x | 3.5x | 3.1x |

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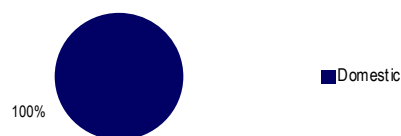
Profitability (EBIT margins & RoC)



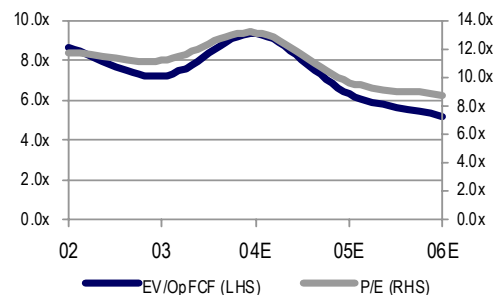
Momentum (Sales & EBIT growth)



Geographic exposure (Sales)



Value (EV/OpFCF & P/E)



Source: UBS estimates. *Historical valuations are based on an average for the year share price. Current & future valuations are based on a share price of US\$108.79 on 17/05/2004