



Telecom Montenegro

Privatisation Strategy

August 2004

Table of Contents

Section 1 Privatisation of Montenegro Telecom

Section 2 Privatisation Methodologies and Case Studies

Section 3 Strategic Investors

Section 4 Telecommunications Market

Section 5 Liberalisation

Section 6 Transaction Process

Summary Recommendation

Our analysis of CGT and the international telecommunications markets leads us to recommend an international tender for CGT in Autumn of 2004.

A privatised CGT together with a strong partner will bring benefits for the company, the economy and the citizens of Montenegro.

How to privatise

- To introduce a strong partner to face the challenges of liberalisation, we suggest launching an international tender geared primarily to strategic operators

How much to sell

- A premium valuation will be paid for a controlling stake and due to timing issues. We suggest selling a 51% shareholding

To whom

- The universe of potential investors who are interested and able in acquiring telecommunications assets is now larger than two years ago. An international tender will attract the most serious bidders

Is timing important

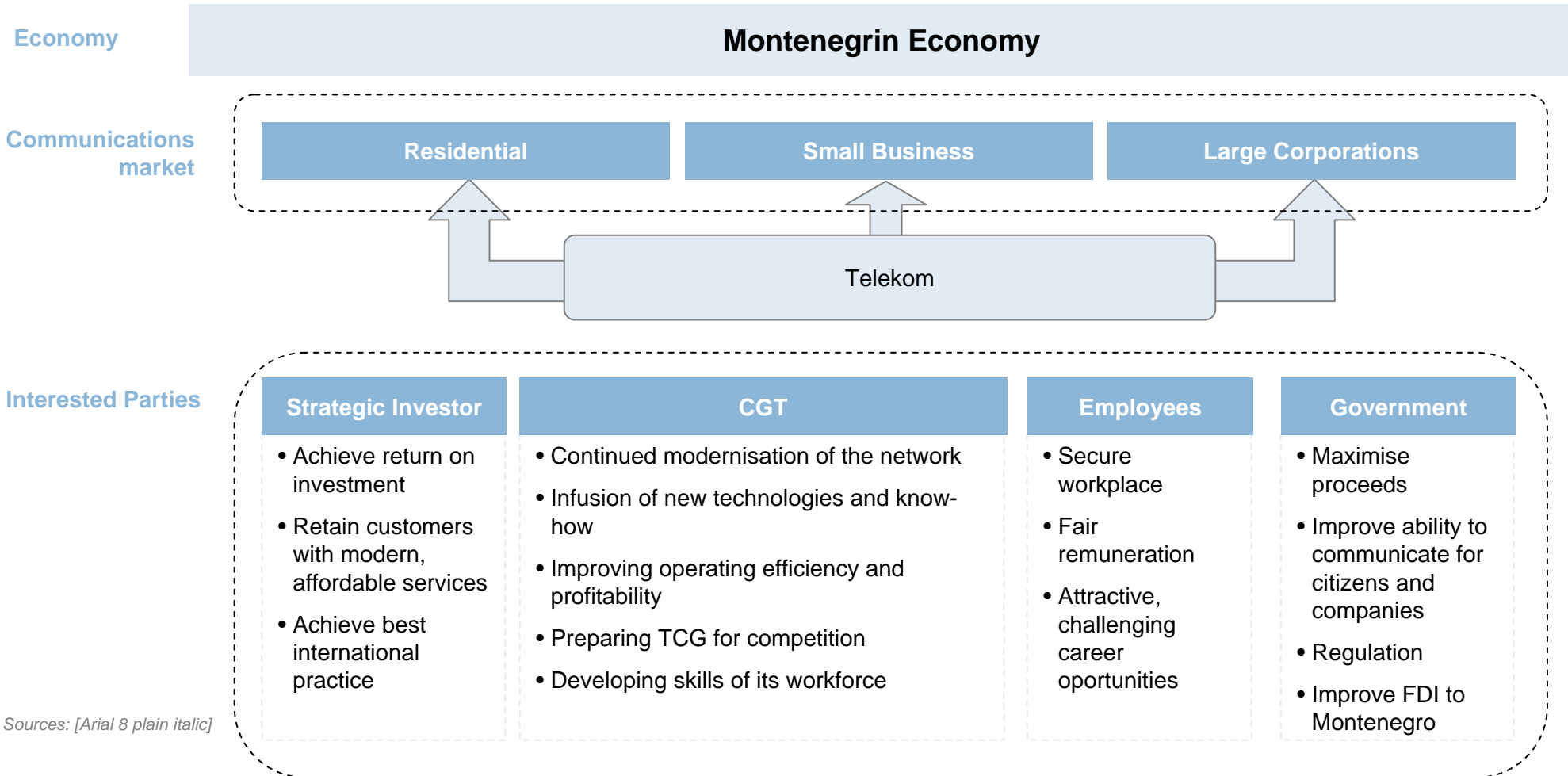
- Success is dependent upon having the right combination of demand from the market, technical attractiveness of the company for sale, and growth prospects. These are all present in the Montenegrin market now

Privatisation of Telecom Montenegro

Telecoms privatisation is beneficial for the country and its citizens as it transfers one of the country's largest companies under commercial management

- Telecom Privatisation is typically the most important transaction for a country
 - Telecoms companies are usually the largest employers and payers of taxes in the country
 - Increases profile of country for further privatisations and inward investment
 - Commercialises the communication market, leading to better services, more fairly priced
 - Modern communication services play a major role in the future economic growth of the economy
- EU regulations require that telecommunication markets become liberalised
 - Liberalisation attracts competition which will take away market share from CG telekom
 - A commercially operated, internationally privatised CG Telekom will be better positioned to compete in the newly defined market
- Telecommunications markets have improved in recent years and the major strategic investors are now able to pay full value for strategic acquisitions
- CG Telekom, with its strategic position next to the regulated markets of Kosovo, Bosnia, Albania and Serbia will have added value to investors looking to use CG as a base for potential international expansion into these additional growth markets
- Fixed line operators are facing declining markets in Western Europe as competition increases from alternative operators and mobile providers. As liberalisation comes to Montenegro, CG Telecom's value will decline in the future

Telecommunications is a core driver of the economy



Sources: [Arial 8 plain italic]

Privatisation Objectives

European governments have been privatising their state owned telecoms enterprises for over 20 years

When deciding to privatise their telecommunications sector, governments usually are driven by the following main two objectives:

- Raising cash proceeds for the company or for the state budget
- Preparing the company for the future with a strong strategic or financial partner

Other Objectives:

- EU and WTO requirements require privatisation
- Telecoms in private sector perform better and operate more efficiently
- Proceeds from sale can be used for investment in telecommunications services or for other public good
- Expansion of the access network
- Accelerated modernisation of the network
- Introduction of new technologies
- Improve efficiency and profitability
- Retain dominant market share in an increasingly competitive market
- Prepare for competition with know-how of a strategic partner
- Offer better training and career possibilities to its workforce
- Improve access to international funding with attractive terms

Sources: [Arial 8 plain italic]

Privatisation Benefits

The benefits of privatising a country's telecommunications operator are two fold:

General: benefits that occur simply by completing a successful privatisation

Specific: benefits that a particular partner can bring to the operator

The general benefits of privatisation include:

- An improved, market - driven system for delivering services
- Better effectiveness and efficiency of allocating resources
- Overall economic stimulation
- Employment growth, and
- Less reliance on government resources (financial and administrative)
- Improved infrastructure to serve the developing e-society and e-economy of the country

The specific benefits of privatisation via a trade sale include:

- Assistance with launch of new services
- Improved negotiating ability with suppliers
- Insight to international markets and trends
- Access to international training possibilities
- Managerial assistance in the first few years after privatisation

Timing for a privatisation is now beneficial

It is now an excellent time to sell telecommunications assets

- Equity market valuations have recovered
- Telecommunications valuations have increased over the past 2 years
- Investors have the financing ability and strategic objective to make acquisitions again
- Montenegrin market is not yet fully liberalised which makes Telekom more valuable as it can still operate as a monopoly while it prepares itself for competition
- Neighboring markets (Kosovo, Albania, Srpska) are still behind Montenegro and strategic investors will value this
- Cash proceeds from a trade sale now will be greater than dividends from a state-owned telecommunications company into the future
- A trade sale at a later date will likely be lower as future competitive forces on the domestic market will diminish Telekom's market share and financial performance

Sources: [Arial 8 plain italic]

Competing Transactions

It will be better for Montenegro to get the privatisation started before neighboring countries

- There are several telecommunications privatisations scheduled to start in South East Europe in the near future:
 - Albania – Albtelecom
 - Republika Srpska – Srpska Telekom
 - Serbia – Serbian Telecom re-privatisation

- While no schedule has yet been determined for these transactions, various government officials have announce plans to begin them in the Autumn of 2004.

- It will enhance the value of Montenegro Telecom to have its privatisation process officially started or even completed before these other transactions for the following reasons:
 - Competing transactions can divert investor interest away from Montenegro Telecom
 - Capital and Management to complete transactions is limited, once they are committed to another transaction, potential investors cannot invest in other transactions
 - Montenegro can serve as a strategic center to exploit these markets if they are unprivatised

Table of Contents

Section 1 Privatisation of Montenegro Telecom

Section 2 Privatisation Methodologies and Case Studies

Section 3 Strategic Investors

Section 4 Telecommunications Market

Section 5 Liberalisation

Section 6 Transaction Process

Privatisation Methodologies

Most governments have chosen the option of selling a controlling stake to strategic partner

A Strategic Sale is the only choice to privatise Telecom Montenegro

	Advantages	Examples
Strategic Sale (Trade Sale)	<ul style="list-style-type: none"> ▪ Investment commitments from partner ▪ Receive operational expertise ▪ Increase quality and choice of services ▪ Enhance company valuation ▪ Forms alliance with international operator ▪ Receive premium for controlling stake 	Belgium Hungary Macedonia Slovakia Czech Republic Poland
Public Offering	<ul style="list-style-type: none"> ▪ Raises new capital for company ▪ Widely spread ownership ▪ Boosts domestic capital markets ▪ Maintenance of government control 	Germany United Kingdom Netherlands Greece

- Several telecommunications privatisations have combined both methodologies whereby a strategic investor acquired a controlling shareholding in the first step and a public offering was launched several years later.
- Due to the lack of an international and sizeable stock exchange in Montenegro, a Public Offering is not an option.

Sources: [Arial 8 plain italic]

Telecommunications Privatisation in CEE

Selling a controlling stake to strategic partner has usually been the first step

Country	Company	Year	Methodology	%	Strategic Partner
Bulgaria	BTC	2004	Trade Sale		Financial Investors
Croatia	HT	1999	Trade Sale	35	DT
		2001	Trade Sale	16	DT
Czech	Cesky	1995	Trade Sale	27	KPN Swisscom
		1995	IPO	15	Institutional Investors
Estonia	Esti Telekom	1992	Trade Sale	49	Telia Sonera
		1999	IPO	23.7	Institutional Investors
Hungary	Matav	1993	Trade Sale	31	DT Ameritech
		1995	Trade Sale	37	DT Ameritech
		1997	IPO	26	Institutional Investors
		1999	SPO	6	Institutional Investors
Latvia	Lattelecom	1993	Trade Sale	49	C+W, Sonera
Lithuania	Lietuvos Telekomas	1992	Trade Sale	49	Telia Sonera
		2000	IPO	25	Institutional Investors
Macedonia	Maktel	2001	Trade Sale	51	DT
Poland	TPSA	1998	IPO	15	Institutional Investors
		2000	Trade Sale	35	FT
Romania	Romtelecom	1998	Trade Sale	60	OTE
Serbia	Serbian Telekom	1997	Trade Sale	49	OTE and Telecom Italia
Slovakia	Slovak Telekom	2000	Trade Sale	51	DT

Sources: [Arial 8 plain italic]

Transaction Profile

Investors will expect certain aspects of the transaction

- Strategic investors prefer controlling shareholdings and will value majority shareholdings with a premium
- Privatisations where less than 51% has been sold required either:
 - Call options to allow the strategic investor to acquire a controlling stake at a later stage,
 - Clauses in the shareholder agreement allowing the strategic investor to exercise operational control, or
 - A combination of both
- Strategic investors are primarily interested in acquiring integrated operators including all operations including:
 - Switching infrastructure,
 - Access network,
 - Transmission network
 - Mobile operations, and
 - Internet operations

Table of Contents

Section 1 Privatisation of Montenegro Telecom

Section 2 Privatisation Methodologies and Case Studies

Section 3 **Strategic Investors**

Section 4 Telecommunications market

Section 5 Liberalisation

Section 6 Transaction process

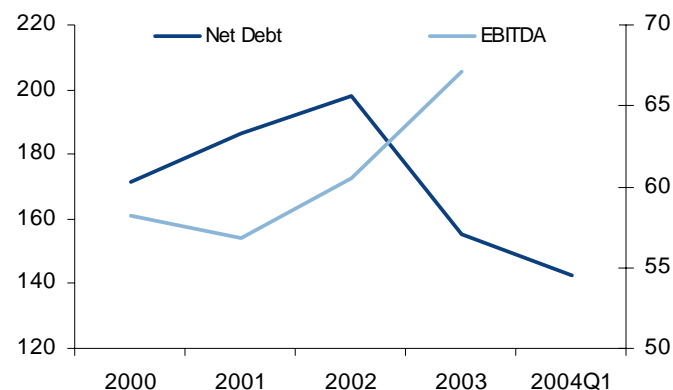
Telecom operators are now able to invest

Recent events

- Rapid expansion of late 1990's led to over-investment in the telecoms sector
- Financial distress and numerous bankruptcies of telecommunications companies arose in 2000-2001
- Expansion trend was reversed and a period of divestment and balance sheet restructuring began
- Focus on cost cutting and restructuring resulted in lower debt levels and improved profitability
- Valuation levels have improved and capital markets are again open to telecommunications companies
- Many major telecommunications companies are looking for stable growth opportunities

Telecom companies can make strategic acquisitions again and are no longer financially constrained

Aggregate¹ Net Debt and EBITDA, €bn²



Aggregate¹ Net Debt / EBITDA ratio



Notes:

¹ Companies included into calculations: Deutsche Telekom, France Telecom, KPN, OTE, Portugal Telecom, Telekom Austria, Tele Denmark, Telecom Italia, Croatian Telecom, Matav, and Telecom Slovenije

² Exchange rates as at end of respective periods

Potential Strategic Investors (1)

Deutsche Telekom	Company	Country	Stake
Fixed line operators	Croatian Telecom	Croatia	51
	Matav	Hungary	59
	- Macedonian Telecom	Macedonia	51
	Slovak Telecom	Slovakia	51
Alternative	Prago Net	Czech Republic	100
Mobile	T-Mobile Austria	Austria	100
	T-Mobile Czech	Czech Republic	61
	T-Mobile Hungary	Hungary	100
	- MobiMak	Macedonia	100
	HT Mobile	Croatia	100
OTE	Company	Country	Stake
Fixed line operators	Telecom Serbia	Serbia	20
	Romtelecom	Romania	54
	Armentel	Armenia	90
Mobile	Cosmote	Greece	59
	Cosmofon	Macedonia	100
	Globul	Bulgaria	100
	AMC	Albania	83

Sources: [Arial 8 plain italic]

Potential Strategic Investors (2)

France Telecom	Company	Country	Stake
Fixed line operators	TPSA	Poland	34
Alternative	Wind Telecomunicazioni	Italy	27
Mobile	Orange	France	99,9
	PTK Centertel	Poland	56,4
	Voxtel	Moldova	54
	Orange Slovenko	Slovakia	64
	Orange Romania	Romania	68
	One	Austria	17
Tele Denmark	Company	Country	Stake
Fixed line operators	HTCC	Hungary	31
	Contactel	Czech Republic	100
Mobile	TDC Mobile	Denmark	100
	Bite	Lithuania	100
	Polkomtel	Poland	19,6
	One	Austria	15

Sources: [Arial 8 plain italic]

Potential Strategic Investors (3)

Telekom Austria	Company	Country	Stake
Fixed line operators	COL	Czech Republic	100
Mobile	Mobilkom Austria	Austria	100
	VIP net	Croatia	99
	Simobil	Slovenia	75
Telia Sonera	Company	Country	Stake
Fixed line operators	Eesti Telekom	Estonia	49
	Lattelekom	Latvia	49
Mobile	OmniTel	Lithuania	35
	Turkcell	Turkey, Ukraine	37
	Megafon	Russia	44
	EMT	Estonia	49
	LMT	Latvia	49
	Moldcell	Moldova	100
	Geocell	Georgia	82
	K-Cell	Kazakhstan	51
AzerTel	Azerbaijan	80	

Sources: [Arial 8 plain italic]

Potential Strategic Investors (4)

Telecom Slovenia	Company	Country	Stake
Fixed line operators	SiOL	Slovenia	100
Mobile	Mobitel	Slovenia	100

Antel Holdings	Company	Country	Stake
Fixed line operators	Macomnet	Russia	45
	Mezhdunarodnaya	Russia	99
	Rascom	Slovakia	49
	Magistral Telecom	Russia	64
Alternative	GTS	CEE	100

Sistema Telecom	Company	Country	Stake
Fixed line operators	MGTS	Russia	56
	Comstar UTS	Russia	23
	AMT	Russia	100
	MTT	Russia	100
Mobile	MTS	Russia	50
	P-Com	Russia	68
	MCC	Russia	11

Sources: [Arial 8 plain italic]

Table of Contents

Section 1 Privatisation of Montenegro Telecom

Section 2 Privatisation Methodologies and Case Studies

Section 3 Strategic Investors

Section 4 **Telecommunications Market**

Section 5 Liberalisation

Section 6 Transaction Process

Telecommunications Trends

Current trends are negative: Several factors are making the competitive environment more difficult for fixed line operators

Competition

- After an initial shake-out in European markets, restructuring and de-leveraging of surviving operators are now positioned for more aggressive price discounting
- Resellers remain very active throughout Europe

Regulation

- Call-by-call since 1998
- Carrier pre-selection introduced in 2000
- Local call pre-selection introduced in 2003 in Germany

Technology

- Voice over IP and Voice over DSL both offer cheaper alternatives to switched telephony
- Growth in DSL lines will lead to reduction of “second” lines

Mobile Substitution

- Voice revenues – Increasing mobile penetration and competitive pricing
- Internet access - 2G and 2.5G networks already becoming significant platforms for free Dial-up
- Content – 3G networks are expected to begin rolling out in 2004

Unbundling

- More pressure on fixed line carriers as local loop unbundling is gaining headway in UK and Germany

Fixed line voice markets are shrinking in Western Europe

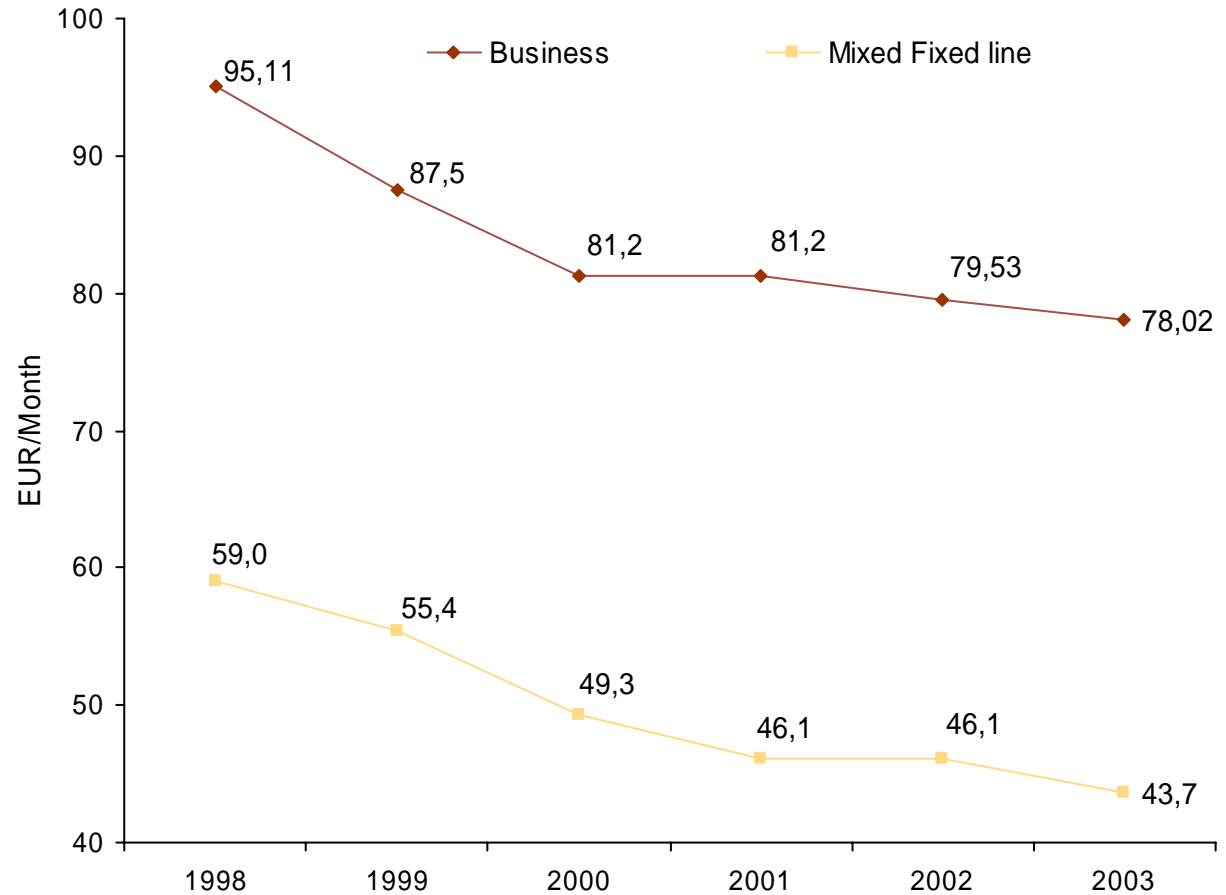
Traditional wireline revenues are falling with voice and narrowband access the worst hit

Fixed line valuations are declining as revenue growth slows

	2002A	CAGR 2002-05E	Comments
PSTN voice	36,4	- 6%	Resale likely to weigh on market share, mobile substitution increasing threat
PSTN access	30,6	1,4%	Tariff rebalancing largely at an end, DSL required to defend access base
Broadband	4,8	44%	European household penetration to reach 25% by 2005E
Dial-up Internet	11,3	- 10%	Cannibalisation of dial-up revenues by broadband
Corporate data	30,8	1%	Macro growth should boost revenues, altnets more geared into growth areas
Other (inc wholesale, equipment)	10	2%	Increasing volumes drive interconnect revenues
Total	124	- 0,2%	

Competition has forced down EU tariffs

New operators entering the market lead to falling tariffs and lower revenues



Indicative monthly expenditure for a set amount of usage and traffic pattern for business lines and average total lines

Competitive Effect in Western Europe

New operators enter the market and take market share away from the incumbent

- Since the liberalisation of telecom markets in Western Europe, new operators have entered the market, taking market share away from the incumbents

% Market Share Lost

	Revenue	International Minutes
Austria	38%	59%
Great Britain	36%	68%
Germany	26%	58%
Switzerland	25%	40%
France	24%	36%
Italy	15%	20%

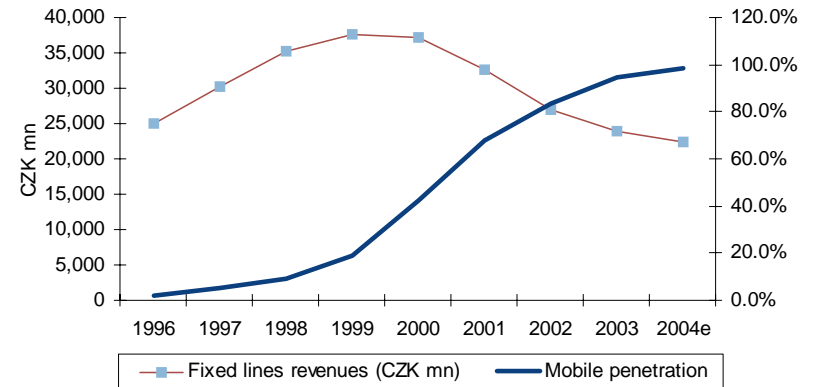
Fixed Mobile Substitution

The largest threat to fixed line telephony is from Fixed mobile substitution

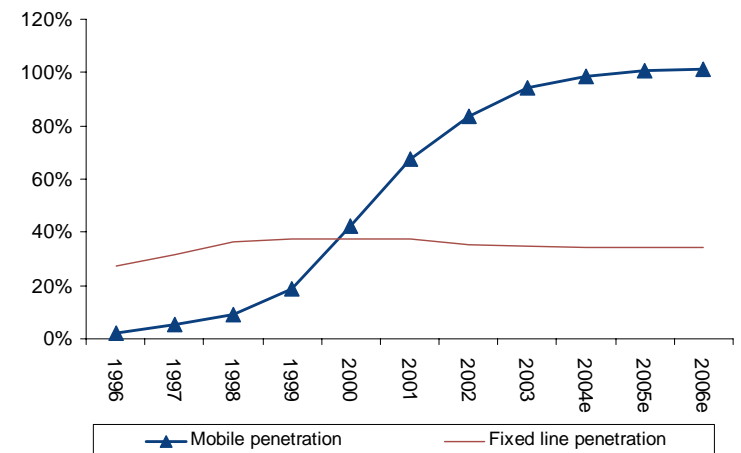
Telecom Montenegro faces an increased threat from Pro-Monte now that Telenor has consolidated its shareholding

- The advent of mobile services has significantly impacted fixed line revenues in the Czech Republic, the CEE market with the highest mobile penetration
- One can see a larger impact on revenues than on subscribers because the effects of mobile substitution are first noticed in usage. The second step is a reduction in fixed subscriber numbers
- The decline in a fixed line subscribers is expected to continue as mobile operators offer increasingly competitive internet access and data services

Fixed line revenues vs. mobile penetration



Fixed vs. Mobile Penetration



Sources: [Arial 8 plain italic]

Wireline Defensive Actions

Incumbents have struggled to increase fixed line penetration since 2000

Internet

- Pushing an internet product was effective until the early 2000's
- Dial-up has become a commodity and is now usually free

Now they are fighting to remain at the same level by offering new services

DSL

- The battle between DSL and CATV BB is ongoing with DSL in the lead
- Market already expecting partial cannibalisation of fixed-line BB by wireless solutions

The roll out of new services will require substantial investment

Mobile bundling

- Several alternatives have launched mobile bundling promotions
- Mobile market is becoming too competitive to be burdened with other price point considerations

Video

- Many fixed-line telecommunications operators are attempting to bundle video (SBC/Echostar) or offer a type of VOD (TA)
- Network upgrades are expensive and telecommunications companies have proven to be poor managers of media content

IT services

- Leverage customer access and networking expertise to offer IT services and systems integration. On average, 24% of incumbent wire-line revenues comes from corporate data
- Largest sub-section, Leased Lines, is shrinking. IP-VPN is growing but requires investment.

Table of Contents

Section 1 Privatisation of Montenegro Telecom

Section 2 Privatisation Methodologies and Case Studies

Section 3 Strategic Investors

Section 4 Telecommunications Market

Section 5 **Liberalisation**

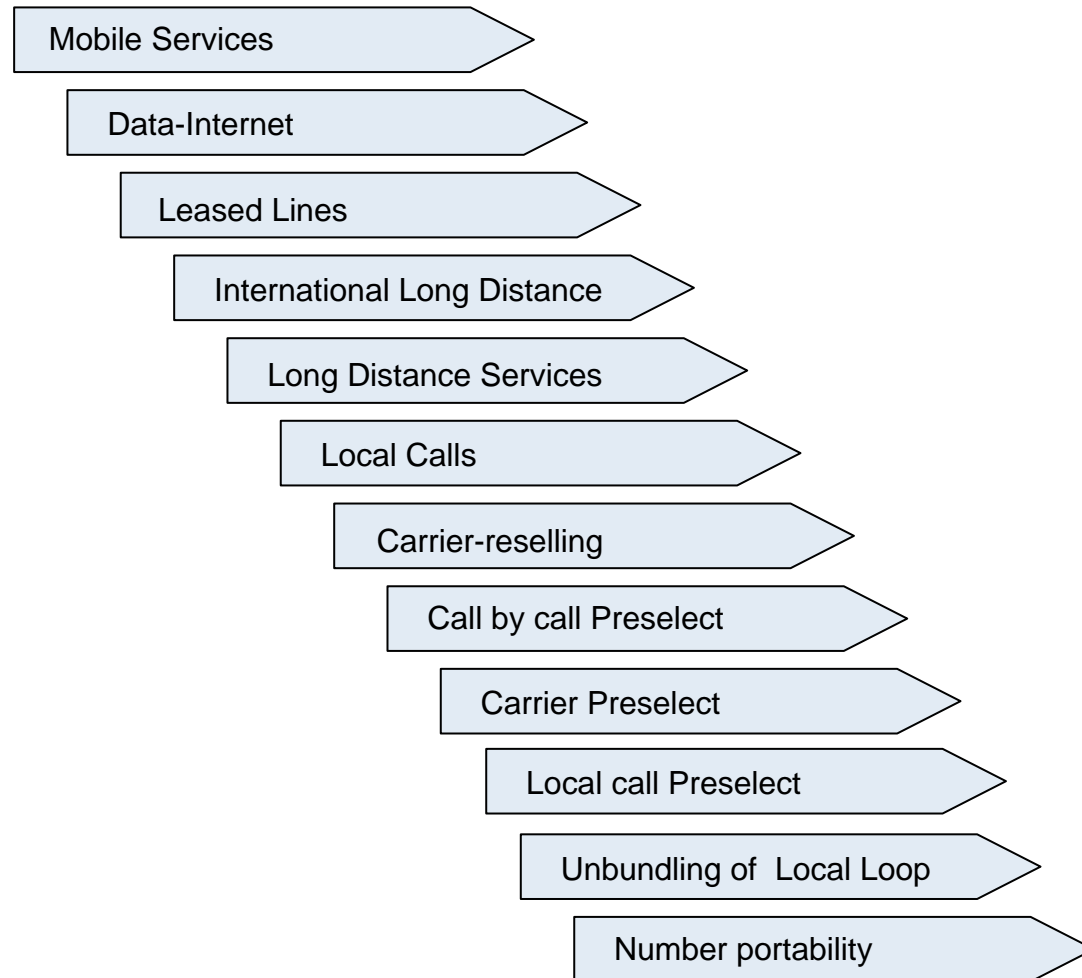
Section 6 Transaction Process

Liberalisation Timeline for Telecommunications

There are many steps to full telecoms liberalisation. Montenegro is only at the beginning of this process

Liberalisation will come to Montenegro and bring more competition to the telecoms market

More competition will lead to a smaller market share and less profit for Telecom Montenegro which will decrease its value



Sources: *[Arial 8 plain italic]*

Liberalisation – Effects, Trends in Other Markets

An open telecom market will come to Montenegro soon

Montenegro has higher international call tariffs than most CEE countries which is a sign that the market is not fully liberalised and tariffs are not balanced.

Market liberalisation

	Czech	Hungary	Poland	Montenegro
Market opening	January 2001	December 2001	November 2001	
Carrier pre-selection	July 2002	July 2002	October 2003	
Carrier selection	July 2002	July 2002	October 2004	
Fixed line number portability	January 2003	January 2004	January 2003	
Local loop unbundling	September 2003	March 2002	January 2004	
Mobile number portability	April 2005e	May 2004	Not available	

Fixed line tariffs comparison

	Czech	Hungary	Poland	Montenegro
Monthly rental fee (EUR)	9.3	10.1	7.4	2.56
Local call per minute	8.3	2.6	6.1	0.003
Long distance call per minute	8.3	7.5	8.5	0.037
Call from fixed to mobile per minute	17.5	19.6	24.4	0.276
Call to Germany per minute	11.8	17.6	25.5	0.46
Call to USA per minute	13.7	26.5	42.6	0.84

Sources: Raiffeisen and individual companies

Tariff Re-balancing (1)

Tariff re-balancing was an issue for every telecom company that went through privatisation

- Telephony services in most countries were originally provided by state-owned companies with public objectives:
 - Universal service
 - Cheap local telephony
- Low tariffs resulted in the neglect of the local loop because revenues did not match costs and were even loss-making. Operators earned little from local residential users so were not motivated to invest in the access network.
- The only way for telecommunications companies to re-coup their investment was to charge high rates for long distance and international calls → the few users of these services overpaid and subsidized the many users of local services who were paying rates below what it cost the company to provide them.
- If markets become liberalised (EU and WTO requirement) before tariffs are re-balanced, new competitors enter the market and only offer long distance services. This takes away business from the incumbent who must continue to offer low priced local services and bear the investment costs.

- A balanced tariff regime reflects the true costs of the service that is used
- Network operators are incentivised to invest in new services for the residential user
- Only new competitors who can offer valuable services enter the market and are rewarded for new investment and services

Sources: [Arial 8 plain italic]

Tariff Re-balancing (2)

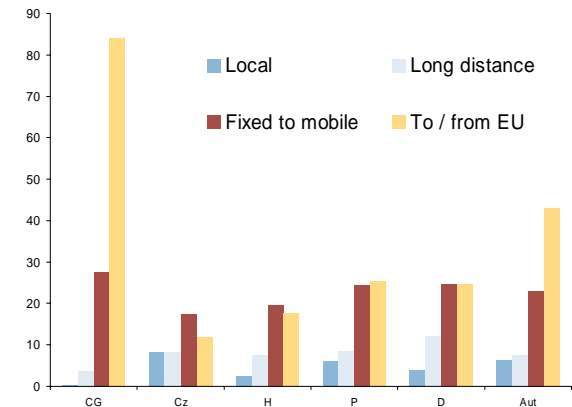
CG T will need to re-balance its tariffs to ensure its long term success

- Montenegro Telecom’s tariffs are currently un-balanced
- Local call tariffs are so low that CGT loses money providing this service
- A high international tariff is required to subsidise the minimal revenues from local calls

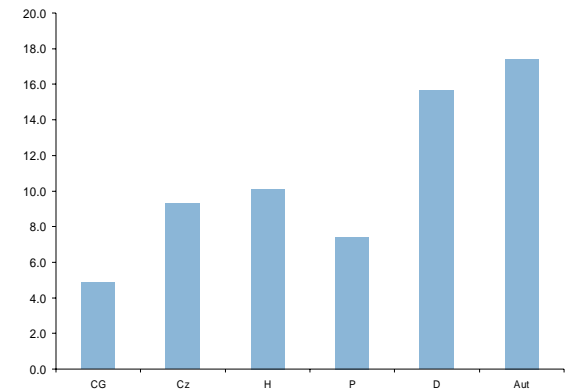
Without re-balancing:

- When the market is liberalised, new operators will only offer international services without investing in the network
- Montenegro Telecom will lose revenues from international calls but will still be forced to provide services in the loss making local market

Call tariffs in €cents



Monthly fixed fee in EURO



Sources: [Arial 8 plain italic]

Table of Contents

Section 1 Privatisation of Montenegro Telecom

Section 2 Privatisation Methodologies and Case Studies

Section 3 Strategic Investors

Section 4 Telecommunications Market

Section 5 Liberalisation

Section 6 **Transaction Process**

The role of RIAG as a sell-side advisor on a potential transaction

RIAG's team has the international background, experience and outstanding know-how to handle a sell-side assignment according to best practice

Market the company

- Coordinate company information (auditors report, b-plan, legal review)
- Consolidate financials
- Prepare the offering materials (information memorandum, valuation)
- Identify potential investors and bring them into process

Manage the process

- Create competitive environment for buyers
- Coordinate the buyers due diligence (data room)
- Help buyers get the information they need to submit a bid
- Manage the flow of information

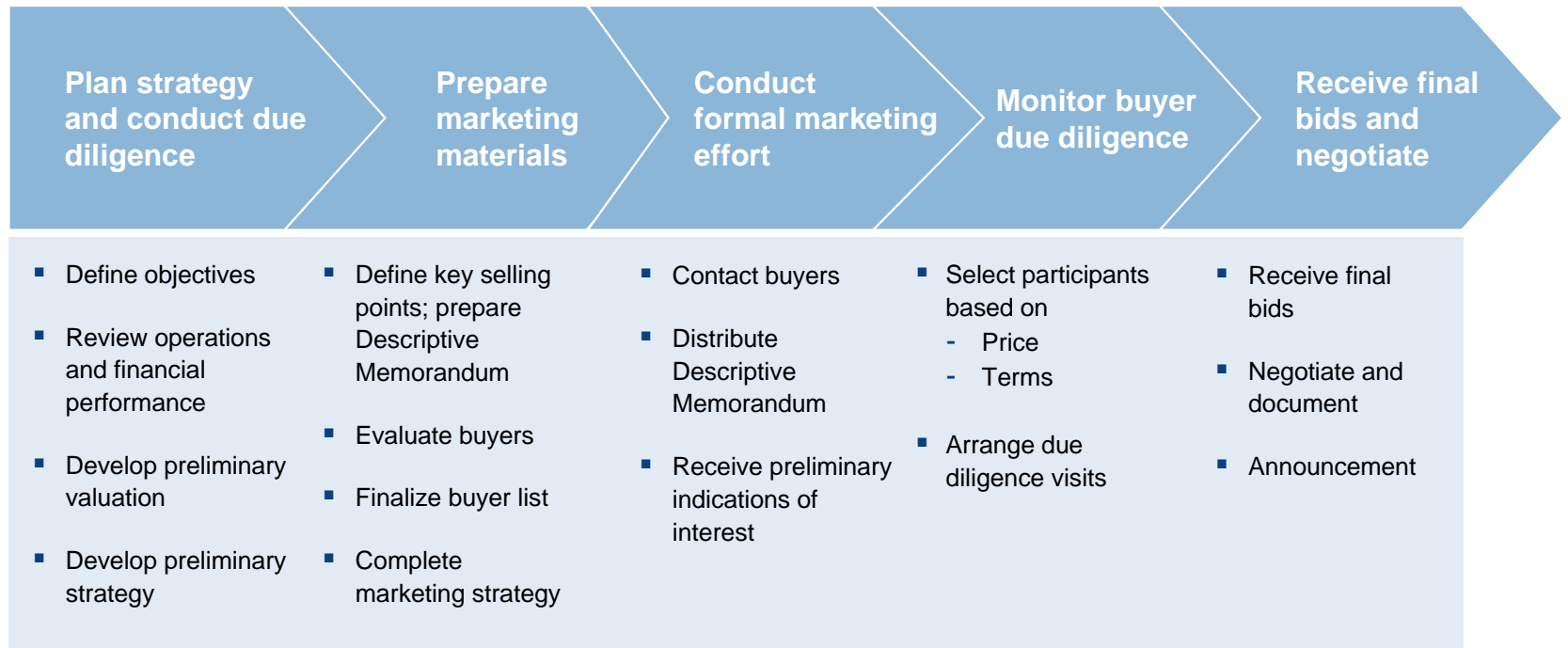
Negotiate with buyers

- Act as client's representative on key contract terms
- Push buyers on purchase price
- Serve as buffer between sellers and investors

Advise on course of action

- Provide fairness opinion if needed
- Determine if value received is acceptable/fair

The Sales Process



This presentation was prepared by:

Andrei C. Krikliwy
Director

E-mail: ack@riag.at

T +43 (0) 1 710 54 00 43

M +43 (0) 699 17 10 54 43

Ivan Bajic
Project Director

E-mail: ivanriag@eunet.yu

T +43 (0) 1 710 54 00 xx

M +43 (0) 699 17 10 54 xx

Raiffeisen Investment AG

A-1010 Wien

Tegetthoffstraße 1

E-mail: info@riag.at

T +43 (0) 1 710 54 00 60

F + 43 (0) 1 710 54 00 39

Disclaimer

This presentation was prepared by Raiffeisen Investment AG exclusively for the benefit and internal use of the Recipient in order to indicate, on a preliminary basis, the feasibility of a possible transaction or transactions. This presentation is incomplete without reference to, and should be viewed solely in conjunction with oral briefing provided by Raiffeisen Investment AG. The presentation is proprietary to Raiffeisen Investment AG and may not be disclosed to any third party or used for any other purpose without the prior written consent of Raiffeisen Investment AG.

The information in this presentation reflects prevailing conditions and our views as of this date, which are accordingly subject to change. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all the information from public sources or information which was provided to us by or on behalf of the Recipient or which was otherwise reviewed by us. In addition, our analyses are not and do not purport to be appraisals of the assets, stock or the business of Targets. Even when this presentation contains a kind of appraisal, it should be considered preliminary, suitable only for the purpose described herein and not be disclosed or otherwise used without the prior written consent of Raiffeisen Investment AG. The information in this presentation does not take into account the effects of a possible transaction or transactions involving a potential change of control, which may have significant valuation and other effects.

No responsibility or liability whatsoever is accepted by any person for any errors, misstatements or omissions in this presentation or any other such document or information. Neither this presentation nor any of the information contained herein constitutes an offer or an invitation to purchase or acquire any share in Targets or any interest therein, nor shall it form the basis of any contract for the sale of an interest in the business of Targets.