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MTS' Uzbek Division Files for Bankruptcy

By Rachel Nielsen

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Customers waiting in line at an MTS office in Tashkent, the Uzbek capital.

With the Uzbek division of Mobile TeleSystems filing for bankruptcy in the face of a $600 million government fine, the mobile giant is facing a struggle to maintain a presence in the Central Asian country, where its employees have been prosecuted and its assets seized.

Yet Uzbekistan will remain an important sales area for MTS, and the company's activities there shouldn't be consigned to the dustbin just yet, an analyst said.

"You can't yet talk about a total departure from the market" in Uzbekistan, said Maxim Savvatin, a mobile analyst for iKS-Consulting, a Moscow-based firm that researches telecommunications in the Commonwealth of Independent States.

That said, the bankruptcy filing represents "a pretty substantial loss," he said.

Uzbekistan is home to about 28 million people, giving it the biggest population in Central Asia in an area about as large as Sweden. Kazakhstan, by comparison, has far more land but about

10 million fewer people.

Because of the potential scale of its cell phone market, Uzbekistan is "unquestionably important" for MTS, Savvatin said.

MTS said in a Wednesday press release that the Uzbek division, which is called Uzdunrobita and is 100 percent owned by MTS, "is continuing to protect its interests in accordance with Uzbekistan's laws."

But it added that MTS "also reserves the right to use all possible legal tools at the international level to recover the losses incurred as a result of the illegal actions against" Uzdunrobita.

The fines against Uzdunrobita resulted from court cases in Tashkent in September and November. The pressure against the Uzbek division began to intensify in the summer last year after Uzdunrobita's general director fled the country, Vedomosti reported.

Next, Uzbek police arrested a handful of Uzdunrobita managers, while anti-monopoly and tax authorities lodged complaints against the Uzbek division.

MTS said Wednesday that for the second half of 2012, it took a $579 million write-off for its Uzbek assets and had a $500 million reserve for anti-monopoly and legal costs.

As a result of its Uzbekistan woes, MTS, which is listed on the New York Stock Exchange, has taken $1.08 billion in write-offs on its net profit.

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