

Creating Value in Ukraine

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VimpelCom
Analyst &
Investor Day

It's all about Creating Value

VimpelCom's value creation philosophy is based on Performance Management and Empowered BU Management



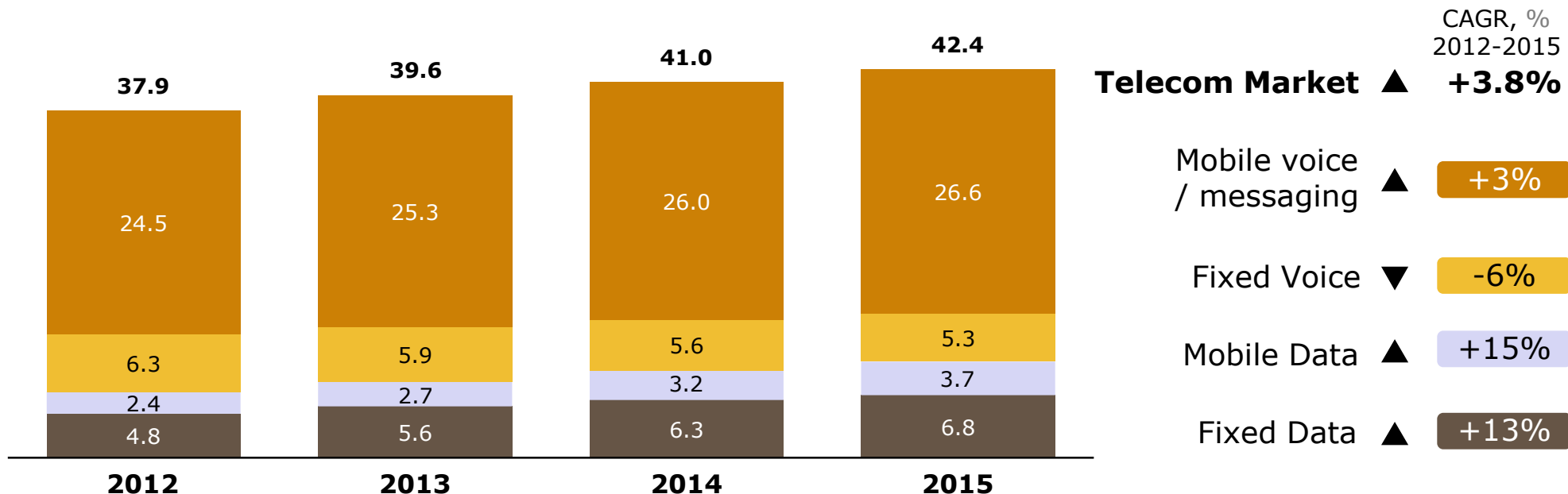
What it IS about

- Focus on ensuring leadership in mobile
- Growth in mobile data and fixed broadband
- Differentiate as true integrated operator
- Maintain high profitability
- Maximizing cash

A Market with Substantial Growth Opportunities

Ukrainian Telecoms Market Dynamics*

(Revenues in UAH billion)



Telecom market expected to grow 3.8% CAGR 2012 - 2015, mainly driven by Data Growth

* Source: Ukraine Statistic Committee 2012, Ukraine analysis

Competitive Situation and Market Trends

Mobile

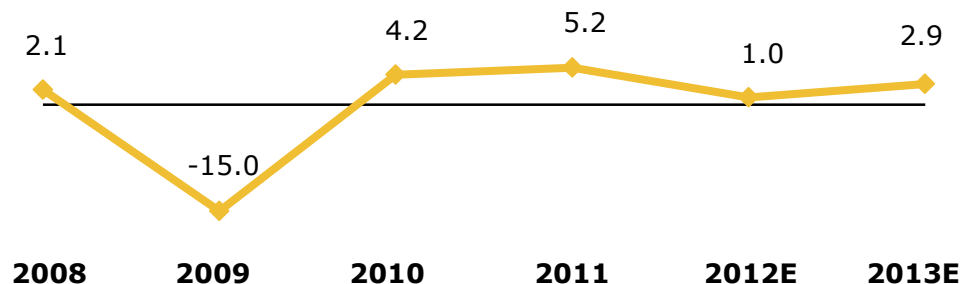
- Kyivstar, MTS and Astelit (brand "Life") are the major players
- Kyivstar is the leading integrated operator in Ukraine with #1 in mobile and #2 in fixed residential broadband
- Penetration 120%, ~87% pre-paid market
- Mostly bucket pricing with high MOU of ~500 market average
- In absence of large-scale 3G, CDMA players grew to ~8% share m.data

Fixed

- Major competitors: Ukrtelecom (incumbent), Volia, Vega, Datagroup, with major share scattered over dozens of local-area networks
- Fixed broadband growth rate >20%, market is fragmented, with potential for consolidation

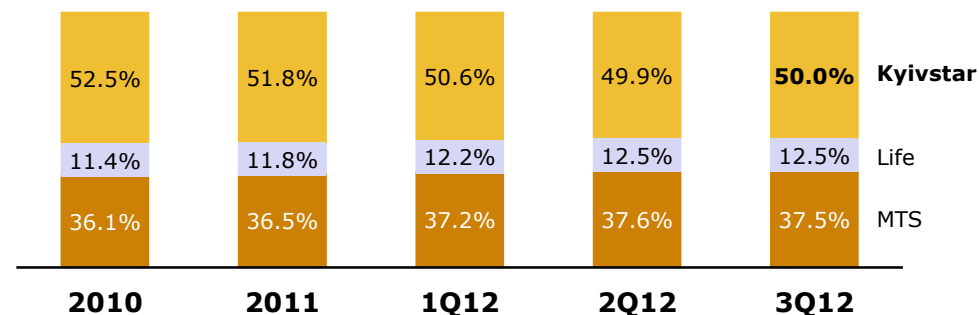
GDP Trend

(%)



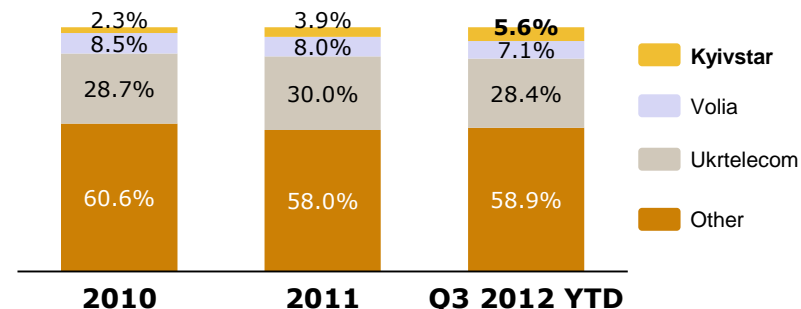
Mobile Market Share¹

(on Revenues), %



Fixed Broadband Market Share¹

(on subs), %

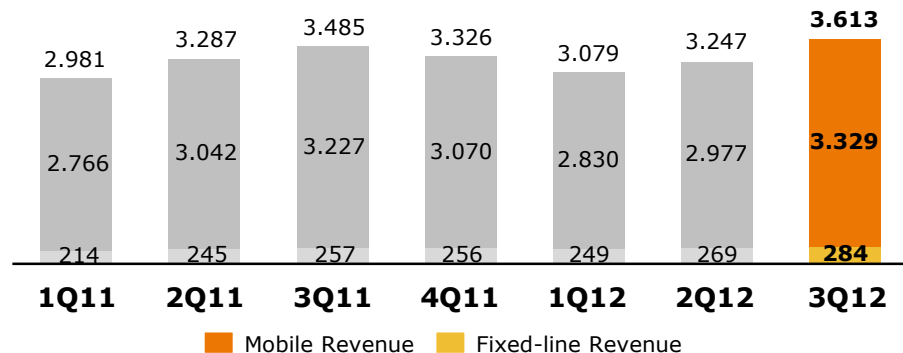


¹ Source: Ukraine Statistic Committee 2012, Ukraine analysis

Improvements in Operational Performance

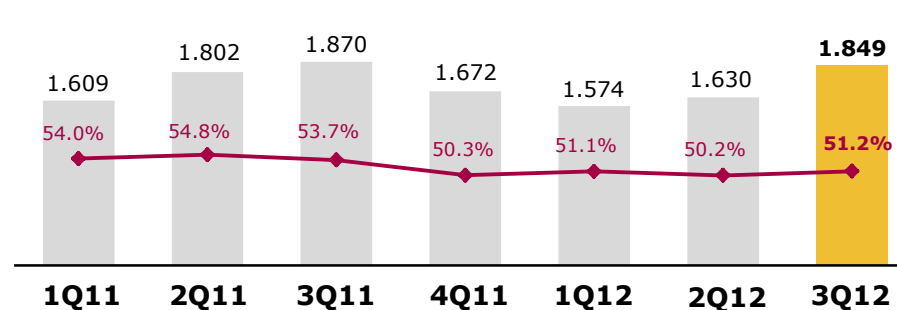
Revenues

(UAH billion)



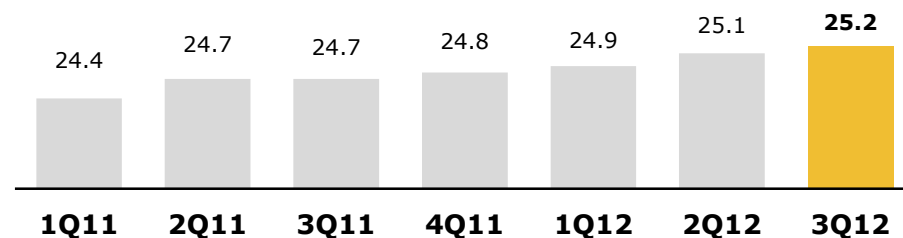
EBITDA and EBITDA Margin

(UAH billion)



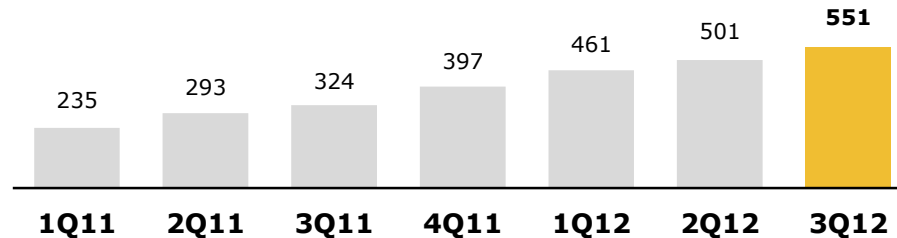
Active Mobile subscribers (3 months), EOP

(million)



Broadband subscribers, EOP

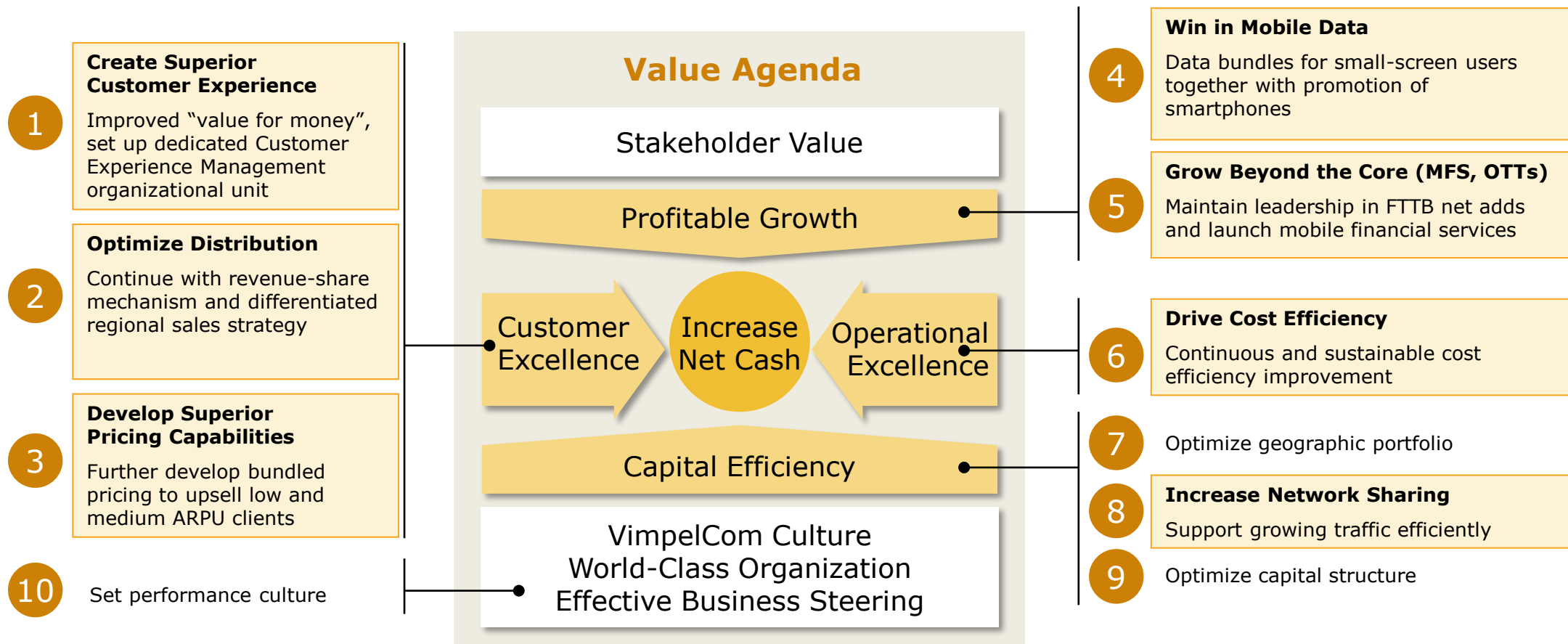
(thousands)



Progress on Actions and Main Achievements

Achievements in 2012	
<p>Revenues</p> <p>↓</p> <p>Service Margin</p>	<ul style="list-style-type: none"> Major transition from pay-as-you-go to bundles on target (75% share using bundles), revenue market share at ~50% and subscribers MS ~ 48% in 2012. Upsell of low and middle ARPU subscribers Reached #2 position in FTTB and became leader in net ads. YTD 3Q12 +64% FTTB subs growth and +75% revenue growth YoY Double digit growth in mobile data revenues via data bundles and promotion of smartphones Maintained corporate client base at 2011 level in large accounts (LA), and revenue via convergent cross-sales in B2B 3G license release is still under discussion
OPEX	
Technical	<ul style="list-style-type: none"> Ongoing network modernization (YTD 3Q12 > 400 sites swapped) Over 50 synergy initiatives completed, networks integrated, sites and equipment reused, redundant infrastructure optimized URS 900Mhz frequencies transferred to Kyivstar in July 2012 Total 9M12 structural OPEX savings reached over MUAH 200
Commercial	<ul style="list-style-type: none"> Transition to bundles on target and strategy is to upsell low and medium ARPU subscribers Completed restructuring of B2C distribution system with revenue share model, sales staff incentive system, etc Started to implement "sales push" program in B2B covering SME and LA sub-segments Completed repositioning of Dj Juice brand as a fighter brand to third player
Other	<ul style="list-style-type: none"> Completed integration of organizational structure of Kyivstar and VimpelCom Ukraine within Synergy Project, with the focus to integrate unique competences and efficiencies to ensure high performance and productivity Executed planned headcount optimization through integration, delayering, and workload norming to assure proper allocation of resources and lean processes
EBITDA	

10 Strategic Initiatives Pursued to Achieve Group Objectives



Customer Excellence

Advanced customer understanding

Strategic initiative

Description of initiative

1 Create superior customer experience

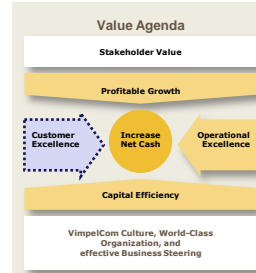
- Improved “value for money” position by transition to bundles coupled with stable highest network quality
- Set up dedicated Customer Experience Management org.unit
- Launch Customer Base Management project to enable 25 million individual campaigns and customer lifecycle management

2 Optimize distribution (channel mix and cost)

- Continue with revenue-share mechanism and ARPU targets for dealer commissions and differentiated regional sales strategy
- Update sales force motivation within own retail, grow own retail
- “Sales push” program in B2B covering SME and LA sub-segments

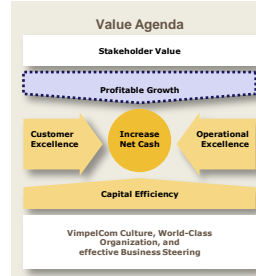
3 Develop superior pricing capabilities

- Further develop bundled pricing to upsell low and medium ARPU clients; utilize Dj Juice as fighter brand to aggressive price moves
- Updated pricing strategy based on extensive market research and conjoint analysis to update three year pricing strategy



Profitable Growth

Realize upside potential in profitable mobile data



Strategic initiative

Description of initiative

4

Win in mobile data

- Data bundles for small-screen users together with promotion of smartphones helped increase data users to >40% of total base with 18% smartphones penetration and double-digit revenue growth
- Introduce content and application bundles, supported with upsells and sales motivation
- Push digital content distribution and launch own application store within Google Play
- Launch Opera products

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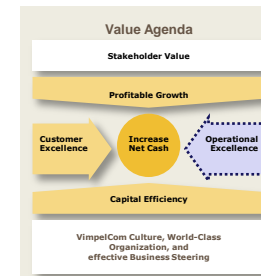
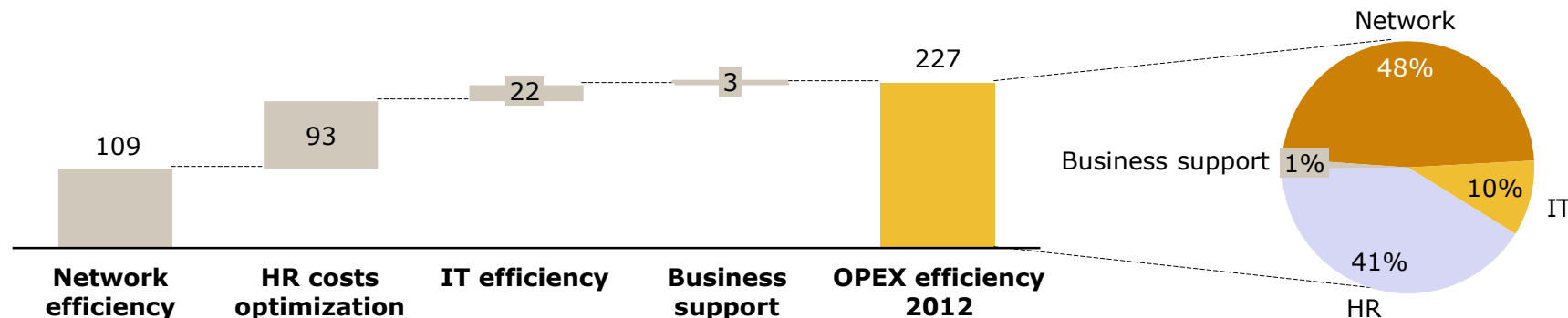
Grow beyond the core

- Maintain leadership in FTTB net adds aiming at >45% revenue growth YoY
- Introduce video content for FTTB customers
- Launch mobile financial services (peer-to-peer money transfer, utility payments, etc)

Operational Excellence

Continuous and sustainable cost efficiency improvement

6 Based on 9 month 2012 results more than UAH 200 million structural OPEX savings realized



Key cost improvement initiatives identified for 2013 across all business unit functions

Network & IT:

- Energy efficiency / power saving features and rent optimization
- Networks maintenance and vendor support efficiencies; increase in scope of infrastructure sharing and outsourcing
- Improving IT efficiency and virtualization

Sales & Marketing:

- Promotion of on-net tariffs
- ARPU-linked commissions
- Optimize communication and advertising mix

HR:

- Strengthen corporate culture and leadership pipeline as means to improve productivity, sustain change and continuous improvement
- Delayering and standardization activities

G&A:

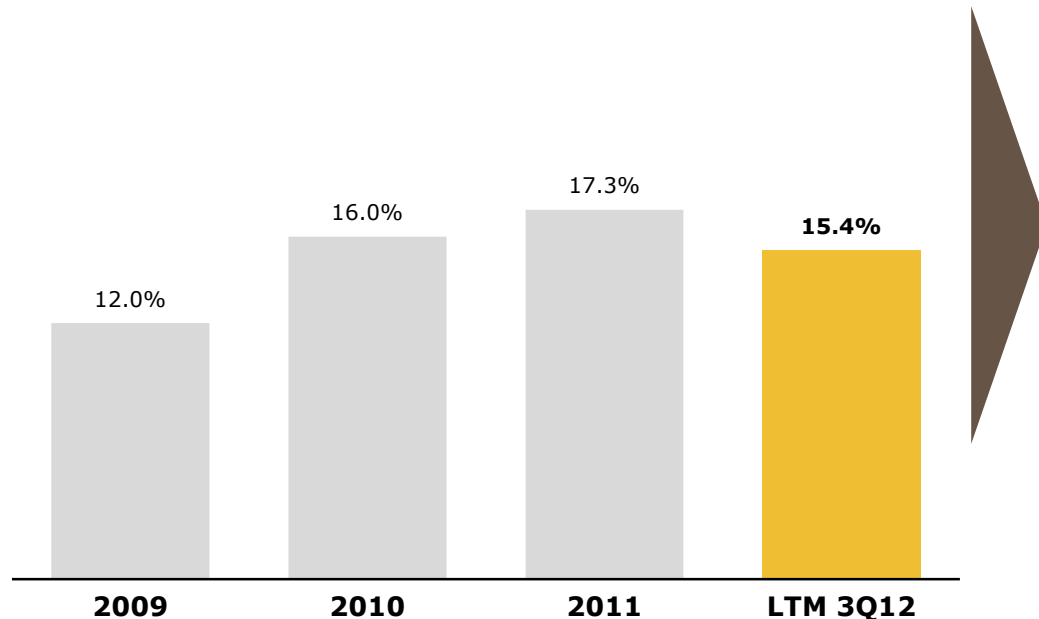
- Logistics optimization and warehouse cleanup
- Relocating core network sites from rented premises to owned ones
- Optimization of office maintenance and services, representation costs and professional fees

Capital Efficiency

Support growing traffic efficiently

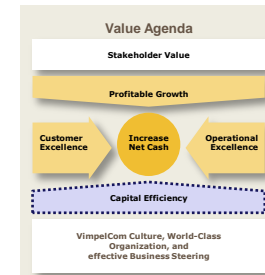
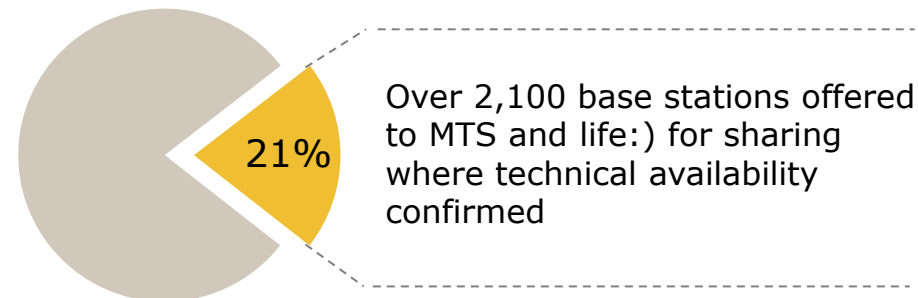
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CAPEX to Revenue ratio



* 2009 data for Kyivstar only

- Improving trend in CAPEX/Revenue ratio, with completion of FTTB rollout
- High level of capital efficiency ensured through:
 - ▶ Refocus on core mobile with high capacity and site utilization, data traffic management systems, infrastructure sharing, and spare parts management solutions
 - ▶ Investment portfolio management based on business / product profitability and their contribution to the overall cash flow and margins
 - ▶ Leveraging VimpelCom global procurement capabilities in both direct and indirect spend
- Proactive network sharing initiated by Kyivstar



Ensure Leading Position and Maximize Cash Flows

- #1 mobile operator
- Growing market share in fixed broadband
- Win in mobile data market share
- Maintain superior profitability
- Maintain unique performance culture

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