# Russia Analyst Site Visit

Moscow, May 29th 2013

VimpelCom
Analyst Site Visit
**Moscow**

# Program

| Time (Moscow) | Event |
| --- | --- |
| 11.00 – 11.05 | Welcome |
| 11.05 – 11.25 | Trends in Russian market and VimpelCom Value Agenda |
| 11.25 – 11.45 | Driving Operational Excellence and improving network quality in Russia |
| 11.45 – 12.00 | Coffee break |
| 12.00 – 12.20 | Creating Value in Russia |
| 12.20 – 12.50 | Increasing Efficiencies in Russia |
| 12.50 – 14.00 | Q&A with all management |
| 14.00 – 15.00 | Lunch |
| 15.00 – 17.00 | Transportation and visit to “Know How” monobrand store |
| 17.00 | Drinks and dinner |

# Disclaimer

This presentation contains “forward-looking statements”, as the phrase is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to the timing and impact of the company’s initiatives and objectives described in the presentation, including in relation to 3G roll out and LTE development, as well as anticipated developments in the market in Russia and the Company's anticipated performance. The forward-looking statements included in this presentation are based on management’s best assessment of the Company’s strategic and financial position and of future market conditions and trends. These discussions involve risks and uncertainties. The actual outcome may differ materially from these statements as a result of continued volatility in the economies in our markets, unforeseen developments from competition, governmental regulation of the telecommunications industries, general political uncertainties in our markets and/or litigation with third parties. There can be no assurance that such risks and uncertainties will not have a material adverse effect on the Company. Certain factors that could cause actual results to differ materially from those discussed in any forward-looking statements include the risk factors described in the Company’s Annual Report on Form 20-F for the year ended December 31, 2012 filed with the U.S. Securities and Exchange Commission (the “SEC”) and other public filings made by the Company with the SEC, which risk factors are incorporated herein by reference. The Company disclaims any obligation to update developments of these risk factors or to announce publicly any revision to any of the forward-looking statements contained in this release, or to make corrections to reflect future events or developments.

# Trends in Russian market and VimpelCom Value Agenda

Moscow, May 29th 2013

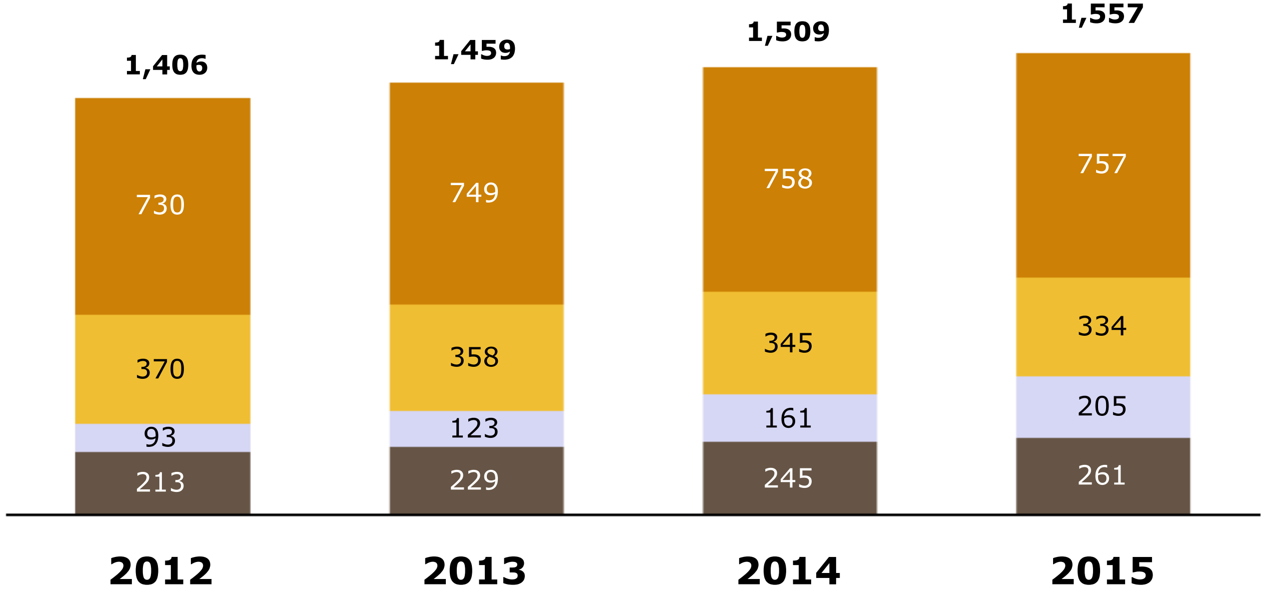
VimpelCom
Analyst Site Visit
**Moscow**

Anton Kudryashov
Group Executive Vice President and Head of Business Unit Russia

# Mobile data to grow in Russia with 30% CAGR

## Russian Telecoms Market Dynamics*

(Revenues in RUB billion)



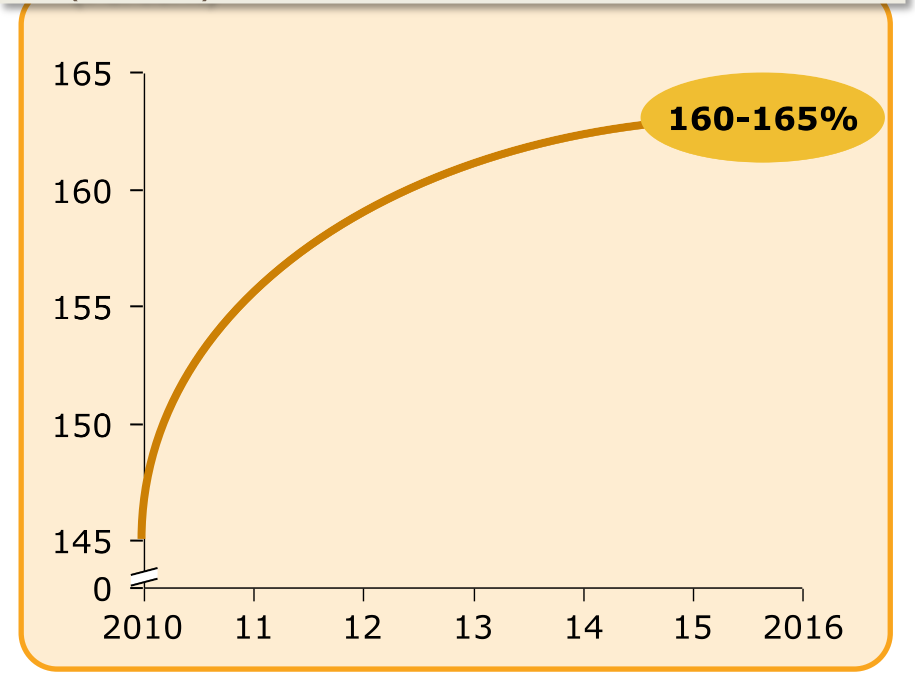

| | | CAGR, % 2012-2015 |
|---|---|---|
| **Telecom Market** | ▲ | **+3.5%** |
| Mobile voice + messaging | ▲ | +1% |
| Fixed Voice | ▼ | -3% |
| Mobile Data | ▲ | +30% |
| Fixed Data | ▲ | +7% |

**Telecom market expected to grow 3.5% CAGR 2012 - 2015, mainly driven by Mobile Data**

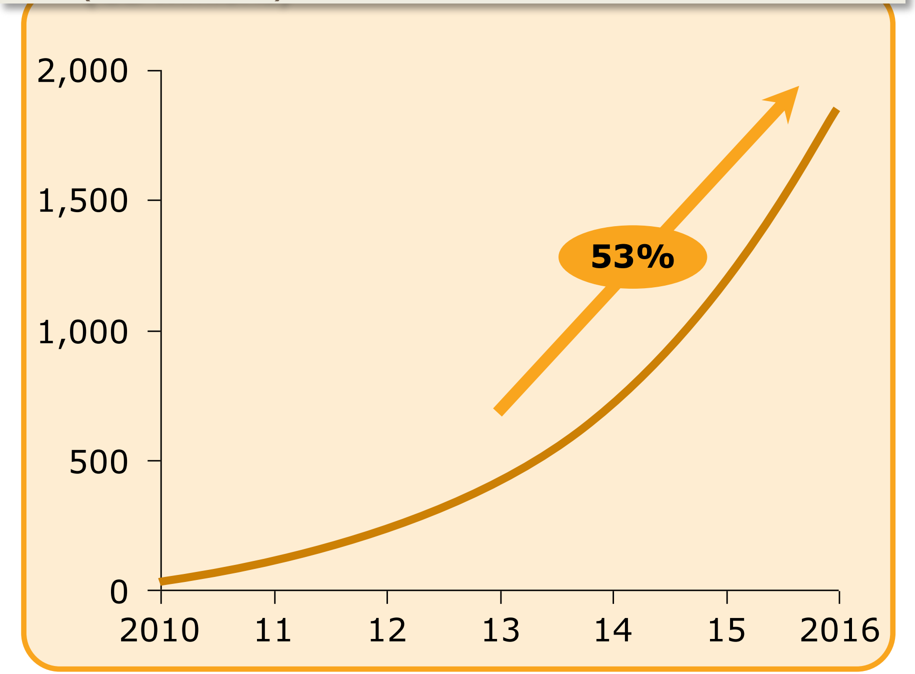
** Source: Company estimates*

# Russian telecom is mature and fueled by mobile data

**Mobile services penetration**
(Percent)




**Data traffic dynamics in Russia**
(GB millions)

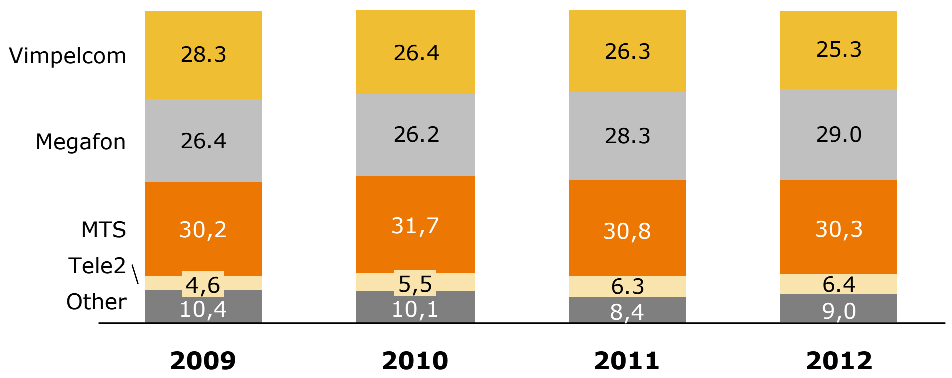


# Competitive Situation and Market Trends

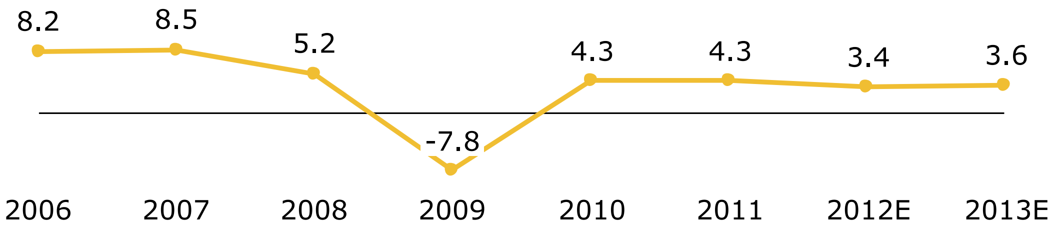
**Mobile***
- ~90 % pre-paid market
- 165% penetration
- 3 major players (Megafon, MTS and VimpelCom) with comparable market shares
- ARPU around USD 10

**Fixed***
- Rostelecom is still dominant incumbent (with ~42 % subs market share incl. daughter companies)
- Voice traffic declining due to fixed-to-mobile substitution
- Residential broadband penetration ~42% and still growing by ~1.3-1.6% per quarter

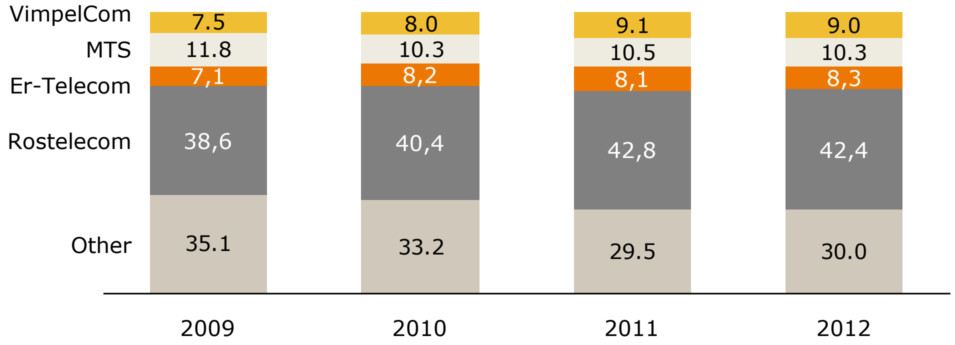
## Mobile market share*
(on Revenues), %




## GDP Trend**
%




## Fixed broadband market share*
(on subs), %




* Source: Informa
** Source: RosStat, Ministry of Economic Development of Russia, Deputy minister of Economic Development of Russia

# Mobile Access is the Core Product but New Mindset is Needed

- Data network is the key
- High value subscribers coupled with customer satisfaction is increasingly important
- Data services must be priced on speed of access with volume
- Winners will be Mobile Telcos with the right cost base and greater capital efficiency
- Tower sharing, outsourcing and network sharing are a new reality
- Partnerships with OTTs will be qualifier factor

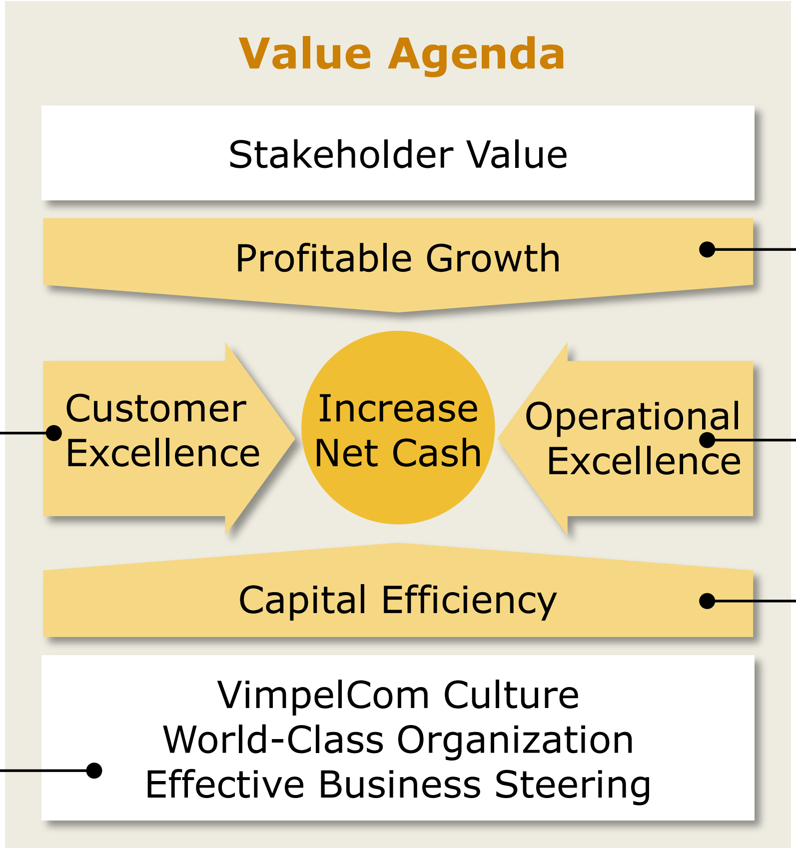
# 10 Strategic Initiatives Pursued to Achieve Russian Objectives

1 **Create Superior Customer Experience**
Improve network quality and launched a comprehensive Customer Experience Program

2 **Optimize Distribution**
Roll out self owned monobrand network, smart pricing and JV Euroset

3 **Develop Superior Pricing Capabilities**
Streamline tariff portfolio and focus on on-net and data bundles

10 Set performance culture




4 **Win in Mobile Data**
Focus on small & medium screens

5 **Grow Beyond the Core (MFS, OTTs)**
Partnership with Alfa Bank – RURU, active in Remote Payments, Proximity Payments and Micro Loans. Google play launched in December and Facebook partnership

6 **Drive Cost Efficiency**
Operational Excellence Initiatives continue in 2013 after strong execution in 2012

7 Optimize geographic portfolio

8 **Increase Network Sharing**
CAPEX optimization in 2013 as a result of network sharing and efficiency projects

9 Optimize capital structure

# Driving Operational Excellence and improving network quality in Russia

Moscow, May 29th 2013

Kjersti Wiklund
Chief Operating Officer Business Unit Russia

VimpelCom
Analyst Site Visit
**Moscow**

# Content

**Operational Excellence projects and Capital Efficiency**

Network quality catch up

# Key objective of the Operational Excellence program is driving growth with maximal cost efficiency

## Objectives of the Operational Excellence program

- Driving growth with maximal cost efficiency
- Consistent generation of improvement initiatives across functions
- Management of comprehensive portfolio of small and "big ticket" initiatives
- Building strong program governance to ensure rigorous execution

# Approach: 3 waves of operational improvement journey

**Example of "big ticket" levers**

**Structural transformation**
***2011-2012***

- Domestic acquisitions
- Outsourcing of Network maintenance
- Shared service center
- Reorganization
- Real estate sale-leaseback

**Direction and control**
***2012***

- Head count reduction (norming/delayering)
- Non-FTE Opex program
- Retail turnaround
- Customer experience program
- Payment commission

**Frontline transformation (Lean)**
***2013-***

- Continue implementation of- and secure run-rate impact from existing initiatives
- Lean in Network field force
- Lean in HQ (end to end process optimization)
- Further outsourcing

**OE 1.0 – top-down project-based change**

- Top management driven
- Few big levers
- Project-based change
- One-off step improvements

**OE 2.0 – Bottom-up frontline transformation**

- Front-line manager driven
- Many small levers
- Changing daily
- Continuous improvement

# Strong execution of Operational Excellence program supports delivery of competitive customer experience

## Focus on Capex efficiency enables catching up to completion with lower Capex/revenue levels

- **Capex efficiency continuously improved from an end-to-end perspective** and optimized within Operational Excellence, by levers such as
  - Data traffic management (DPI)
  - TRX utilization (balancing of network workload)
  - Network sharing
  - Warehouse cleanup
  - Procurement optimization
- **Customer oriented investments** for priority regions/ clusters are targeted to immediate return on investment and quality impact
- **Later roll out ensures taking advantage of price erosion** and capacity increase for same investment

## Already resulting in visible customer experience impact

- On par with the leader or number two in TRIM index[1]
- Drive tests show Vimpelcom best in voice[2] with significantly less base stations than competition, and amongst top 2 for data in priority regions

1 Regular external customer satisfaction research; data from survey performed 2H 2012; Referring to all touch points with clients, overall satisfaction, and network data and voice satisfaction of ~7000 users from each of Big 3 operators
2 Accessibility (Call setup success rate) and retainability (Drop call rate), Speech quality according to independent drive tests in 2102

# Key reasons for success

- Setting common shared targets
- Rigorously exploiting all improvement levers
- Strong PMO with value tracking processes and tools
- Lead through the line and build capabilities

# Content

Operational Excellence projects and Capital Efficiency

**Network quality catch up**

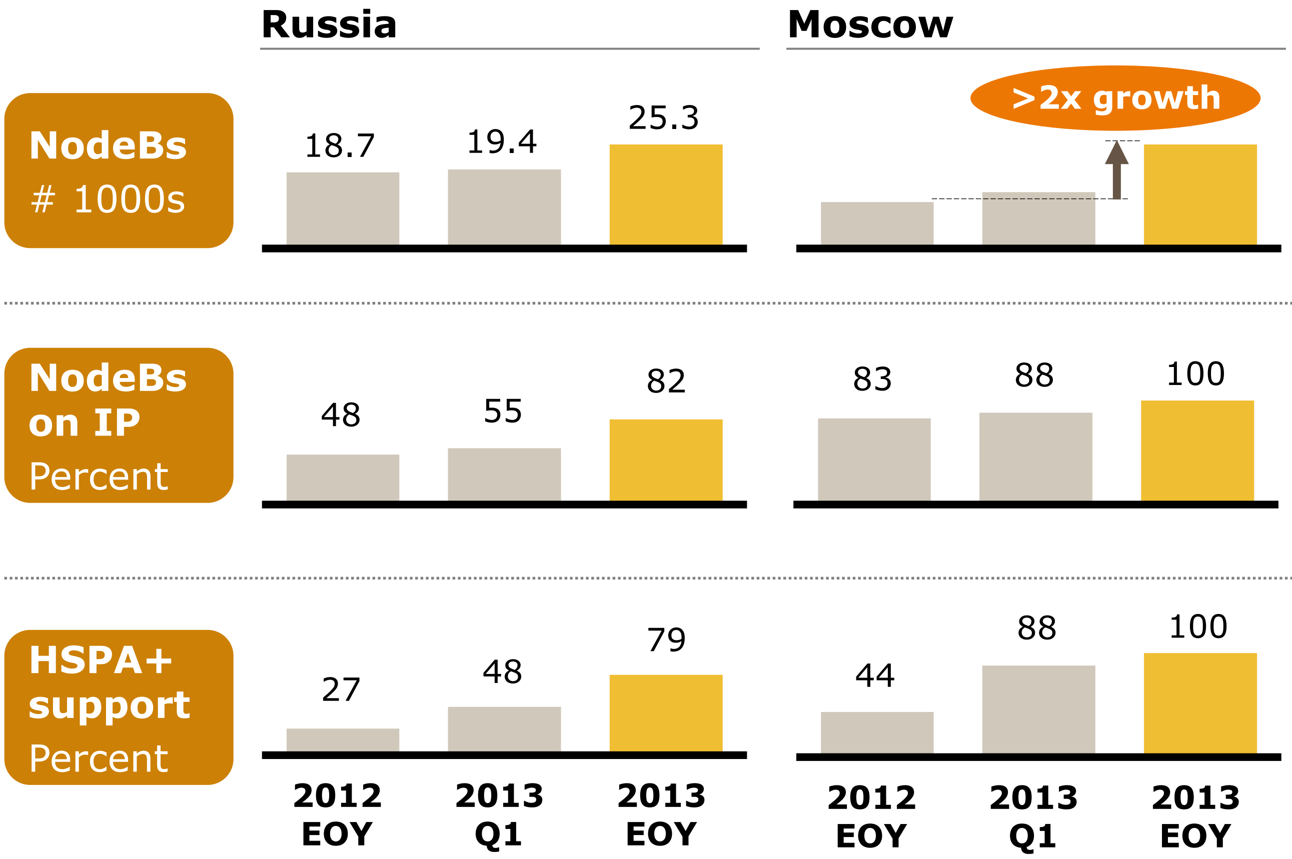
# Increased investments to significantly improve network quality

## Objectives of network quality improvement program

- **Targeted investments in network quality**
  - Increased investments (CAPEX/revenue of 22%) supported by CAPEX efficiency initiatives target to improve network quality across Russia
  - Priority investments in 9 strategic regions (60% of revenue and EBITDA) and high priority clusters (94% of revenue and EBITDA)
  - Special focus on quality in Moscow

# Momentum in 2013 3G roll out will ensure significant increase in NW quality throughout Russia

Actual
Plan




## Comment

- Russia: ~700 NodeBs launched in 1Q13 (2 times more than 1Q12)
- Moscow: Installed NodeBs increased by +21% in 1Q13 vs. 2012 EOY

- By EOY full parity in 3G data service will be reached in Moscow

- During 1Q13, average end-user data speed in Moscow region increased by >25%





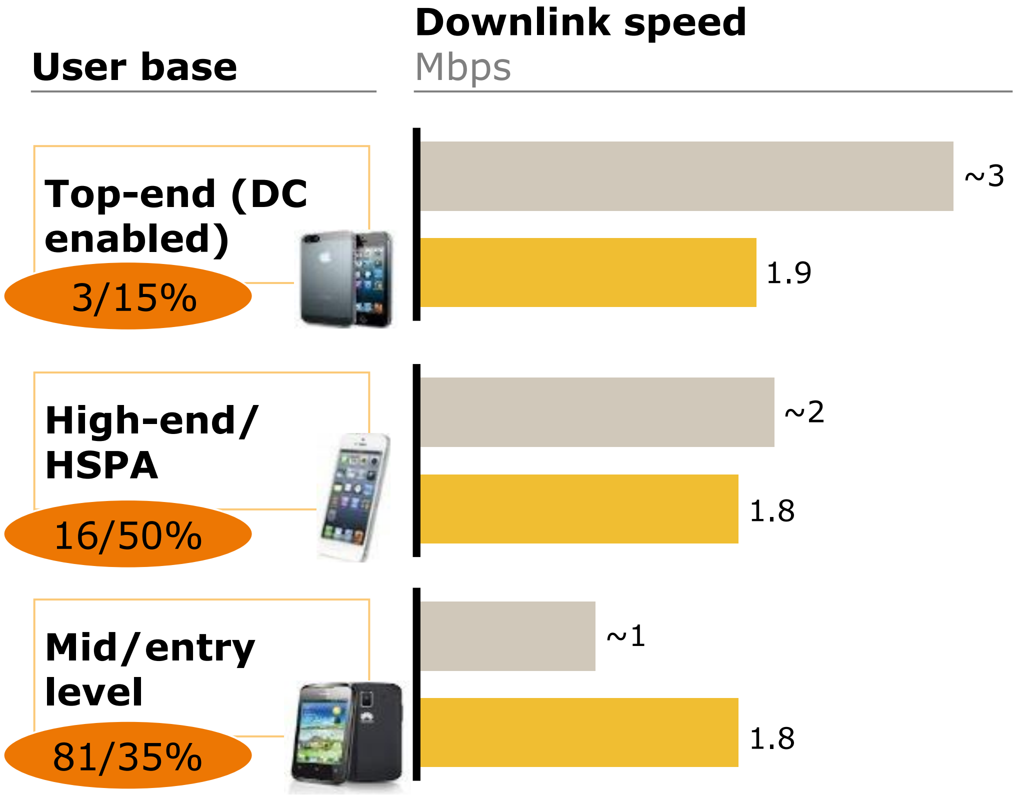
VimpelCom

# Data speed in Moscow is sufficient for majority of users, and will be for all target users by EOY 2013

X / Y% Subscriber share / Data revenue share

Required d-link speed[1]

Vimpelcom d-link speed[2]




- VimpelCom has satisfactory service levels for Entry- and Mid-level mobile users
- Satisfactory service levels for majority of services for High-end mobile users
- Top-end smartphone users (supporting dual carrier) are not able to use their devices seamlessly for streaming services
- By the end of 2013, the Top-end customers will see significant improvement as
  - HSPA+ will be supported throughout the full network
  - Dual carrier will be supported by 50% of NodeB in Moscow and 30% NodeB Moscow Oblast

1 All services split into 3 classes according to ETSI TS 102 250-2 and 3GPP TS 23.107 with recommended required data rates per class of service which provide normal user experience
2 Basaed on drive test results

# Quality optimization in Moscow is performed on a cluster-by-cluster basis with significant involvement of equipment vendors

## Measures to significantly increase network quality in Moscow

- Optimization/tuning within RAN, Core, and Transport network
- Aggressive additional roll out of 2G and 3G with 2nd carried, including swap of obsolete equipment to most modern one
- 100% IPzation
- UMTS900 in oblast
- Quality monitoring and assurance

## Project approach

- Optimization is performed cluster-by-cluster basis
- Equipment vendors are heavily involved in optimization activities
- Lean project is an ”enabler” which changes processes, performance management model, and mindsets of all personnel in Moscow Technical Department

# Commercial LTE service launched in Moscow

## LTE roll out in Moscow

- Commercial LTE service launched in Moscow this Monday
- The first segment of the LTE network covers the territory within the Garden Ring
- Will increase #of LTE stations in Moscow 15 times by the end of 2013 to cover the whole city
- Existing Transport and Core networks are used to ensure smooth interoperability with 2G/3G network, with functional and capacity upgrades to support LTE

## Other LTE license obligations fulfillment

- 6 subjects of RF to be launched in 2013
  - Adygea Republic
  - Altay Republic
  - Astrakhan region
  - Ingushetia Republic
  - Kaliningrad region
  - Kalmykia Republic
- Suppliers chosen, equipment ordered, construction started
- Significant economies reached as a result of LTE tender to further support Capex efficiency program

# Next steps

Continue strong execution of renewed portfolio of Operational Excellence initiatives

Implement targeted network quality improvement goals in 2013

Commercial launch of LTE services in Moscow, and 6 other regions

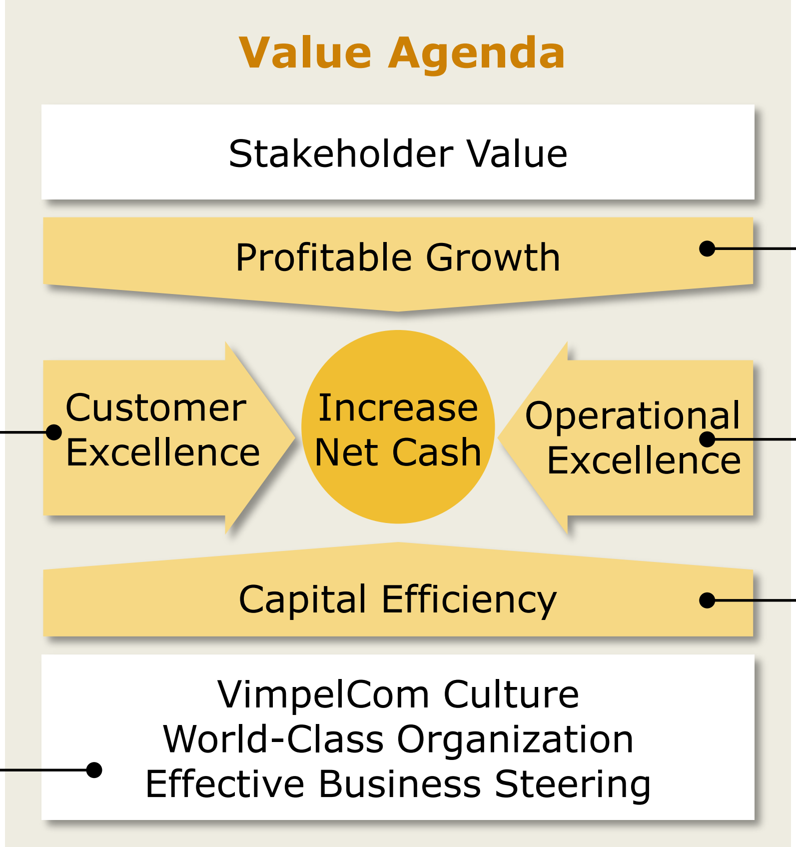
# Creating Value in Russia

Moscow, May 29th 2013

VimpelCom
Analyst Site Visit
**Moscow**

Stanislav Oleynik
Chief Strategy Officer Business Unit Russia

# 10 Strategic Initiatives Pursued to Achieve Russian Objectives




1 **Create Superior Customer Experience**
Improve network quality and launched a comprehensive Customer Experience Program

2 **Optimize Distribution**
Roll out self owned monobrand network, smart pricing and JV Euroset

3 **Develop Superior Pricing Capabilities**
Streamline tariff portfolio and focus on on-net and data bundles

4 **Win in Mobile Data**
Focus on small & medium screens

5 **Grow Beyond the Core (MFS, OTTs)**
Partnership with Alfa Bank – RURU, active in Remote Payments, Proximity Payments and Micro Loans. Google play launched in December and Facebook partnership

6 **Drive Cost Efficiency**
Operational Excellence Initiatives continue in 2013 after strong execution in 2012

7 Optimize geographic portfolio

8 **Increase Network Sharing**
CAPEX optimization in 2013 as a result of network sharing and efficiency projects

9 Optimize capital structure

10 Set performance culture

# 1 Become the best in customer experience in 2015-2016

| *Aspirations* | 2013-2014<br>*Fixing the basics* | 2015-2016<br>*Superior customer experience* |
|---|---|---|
| **Product aspirations** | Closing the gap in 3G network | Parity in LTE, testing new solutions in adjacencies |
| **Customer Experience aspirations** | Best CE for high-ARPU subs | Best CE for High and Medium value subs |
| **Performance aspirations** | Reverting the trend in RMS, start gaining RMS | Profitable growth in revenue market share |

# 1 Holistic approach to improve customer experience

| Stream | Initiative | Target segment: High value | Target segment: Low value |
|---|---|---|---|
| Offering projects | • Postpaid launch with low barriers to join | ✓ | ✓ |
| | • Targeted marketing for customers with high probability to churn | ✓ | ✗ |
| | • Loyalty program to increase SIM stickiness | ✓ | ✓ |
| Technical and IT projects | • Close the gap in 3G network | ✓ | ✓ |
| | • Tool for targeted network improvements (SQM) | ✓ | ✗ |
| | • Tool for CE oriented network investments (SQM) | ✓ | ✗ |
| Customer Service projects | • Roll out of own monobrand stores | ✓ | ✓ |
| | • Work with new customers "Welcome to Beeline Guide" | ✓ | ✓ |
| | • Reduce internal churn through smooth SIM replacement procedures | ✓ | ✓ |
| | • Self-service in stores (tablets, terminals) | ✓ | ✓ |
| WEB & Self-Service | • New web-site | ✓ | ✓ |
| | • New self-care | ✓ | ✓ |
| | • New mobile application | ✓ | ✗ |
| Other - NPS | • Closed feedback loop in Get Help | ✓ | ✗ |
| | • Closed feedback loop in Use | ✓ | ✗ |
| | • Closed feedback loop in Join | ✓ | ✗ |

# 1 Continued strong Beeline brand remains at heart of our customer experience

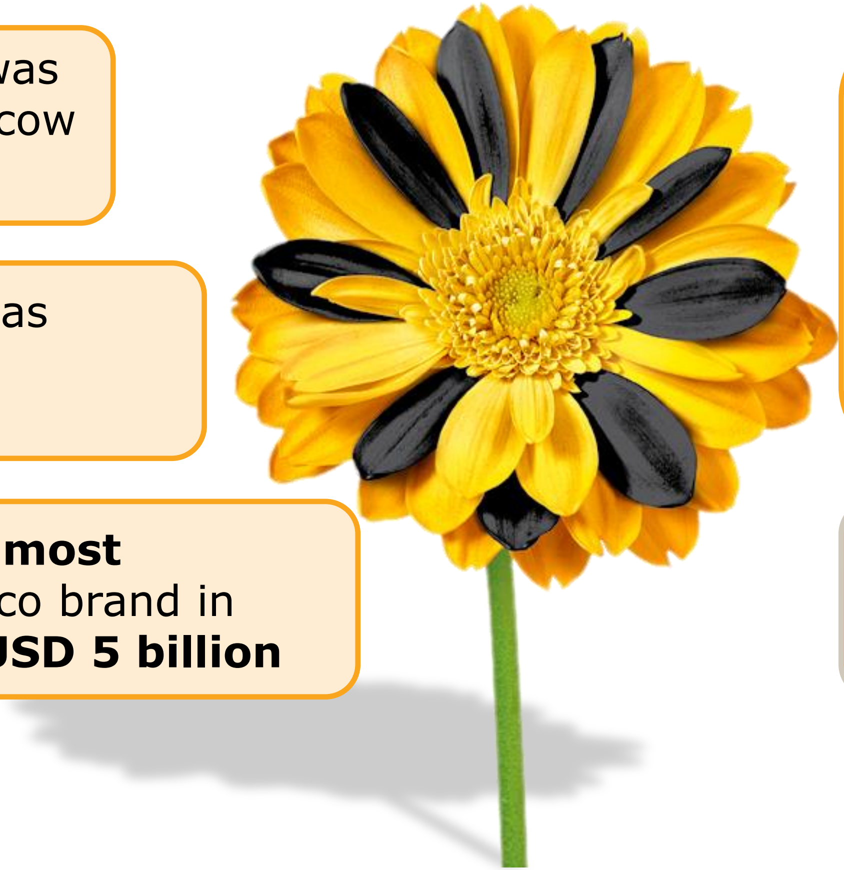
BEELINE GSM

Beeline brand was founded in Moscow in **1992**

Beeline®

In **2005** it was successfully rebranded

Beeline **is the most expensive** telco brand in Russia worth **USD 5 billion**



**Beeline values:**

- ✓ Optimism
- ✓ Friendliness
- ✓ Simplicity
- ✓ Trend-setting

Beeline brand is **#1 in top of mind** awareness

# 2 Develop online channel to optimize distribution

Online / Other

| Focus areas | Strategic approach | Online channels: web | Online channels: app | Online channels: USSD | Strategic aspiration, Percent: 2012 (Online / Other) | Strategic aspiration, Percent: 2015 (Online / Other) |
|---|---|---|---|---|---|---|
| **Sales of SIMs** | ▪ Sell special tariffs that can't be bought offline<br>▪ Package with social network services / co-brand | + | | | 0% / 100% | 10% / 90% |
| **Sales of Devices** | ▪ Pilot "Buy online – collect in store" format<br>▪ Develop superior online store | + | | | 0% / 100% | 20% / 80% |
| **Retention** | ▪ Hassle-free website with personal account<br>▪ Apps for key operating systems | + | + | + | 26% / 74% | 50% / 50% |
| **Upsell with VAS** | ▪ User-friendly "tap & buy" apps<br>▪ Special promotions | + | + | + | 0% / 100% | 25% / 75% |
| **Cash Collection** | ▪ Push online top-ups<br>▪ Promote link with credit/debit cards | + | + | + | 4% / 96% | 25% / 75% |

# 2 New mid-sized “digital” format with enhanced customer experience

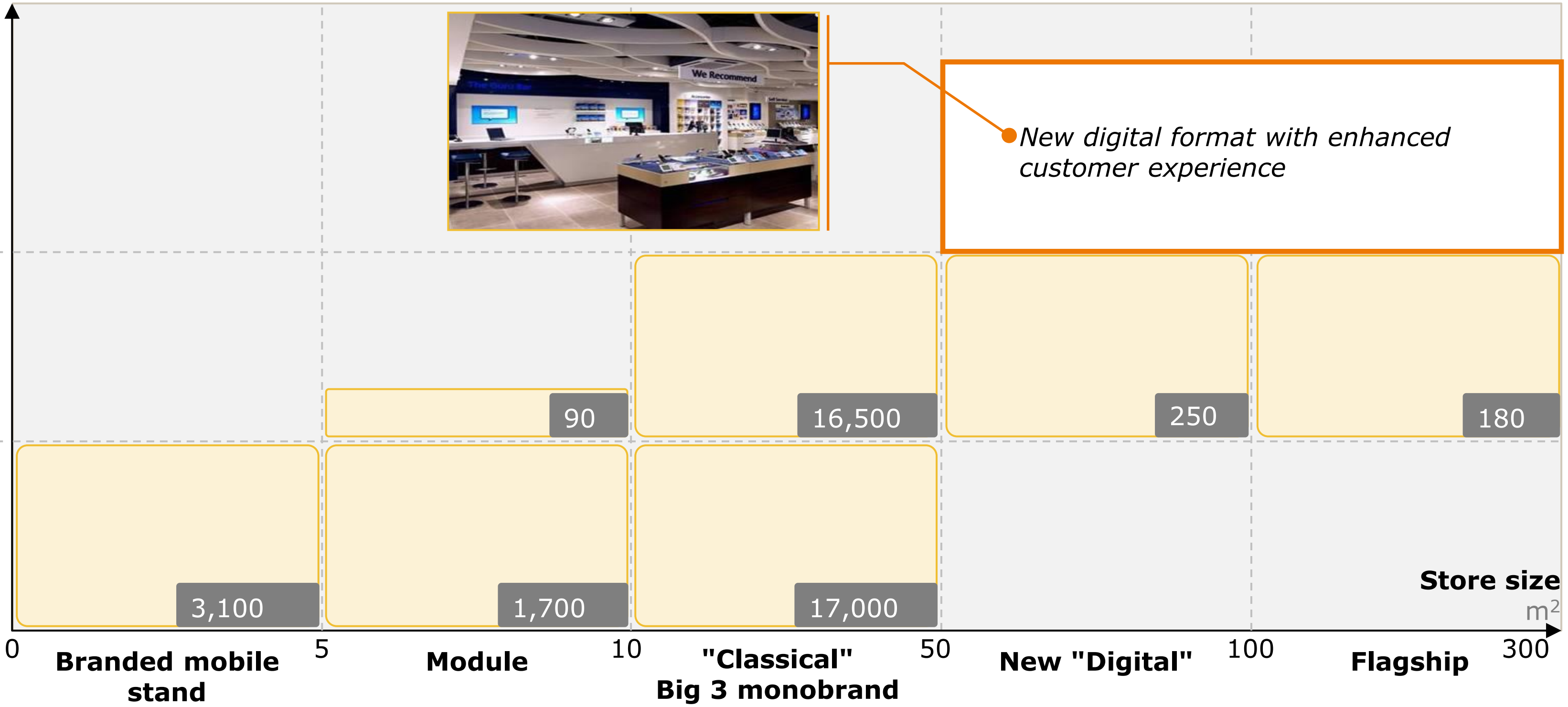
Existing telco players positioning

**Customer experience**

**Enhanced**
- Triple play, B2B, bundles, advanced connectivity
- "Touch and feel" displays
- Modern design

**Medium**
- Basic + netbooks, tablets
- Nice closed cabinets
- Medium quality interior

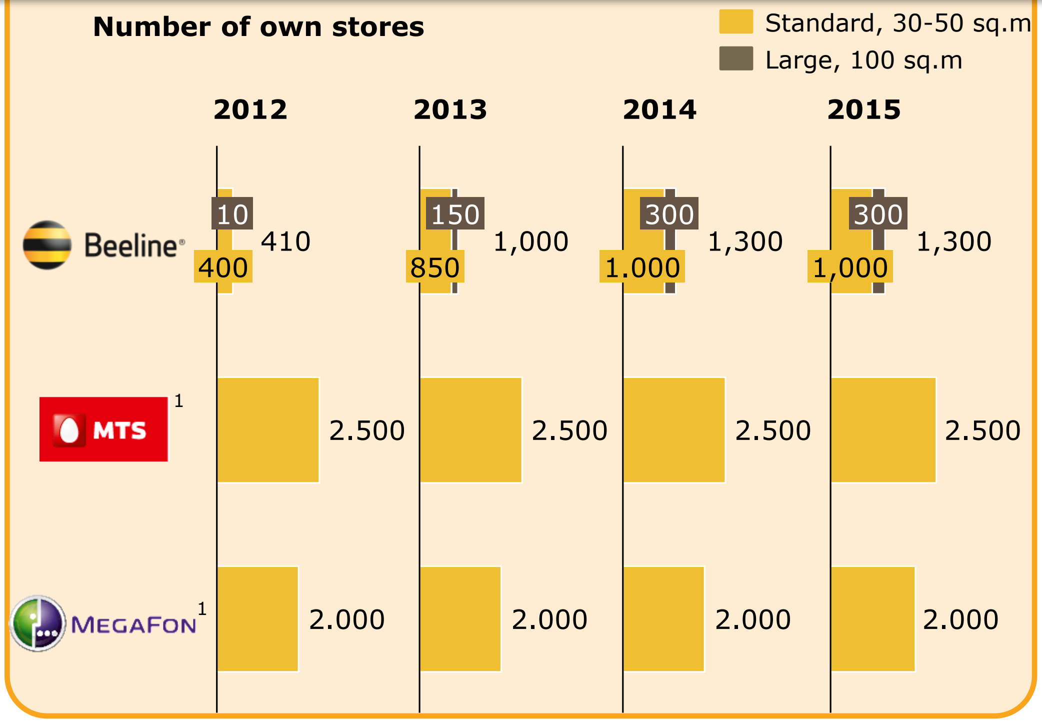
**Basic²**
- Cell phones, SIMs, phone covers
- Closed cabinets
- "Cheap" materials



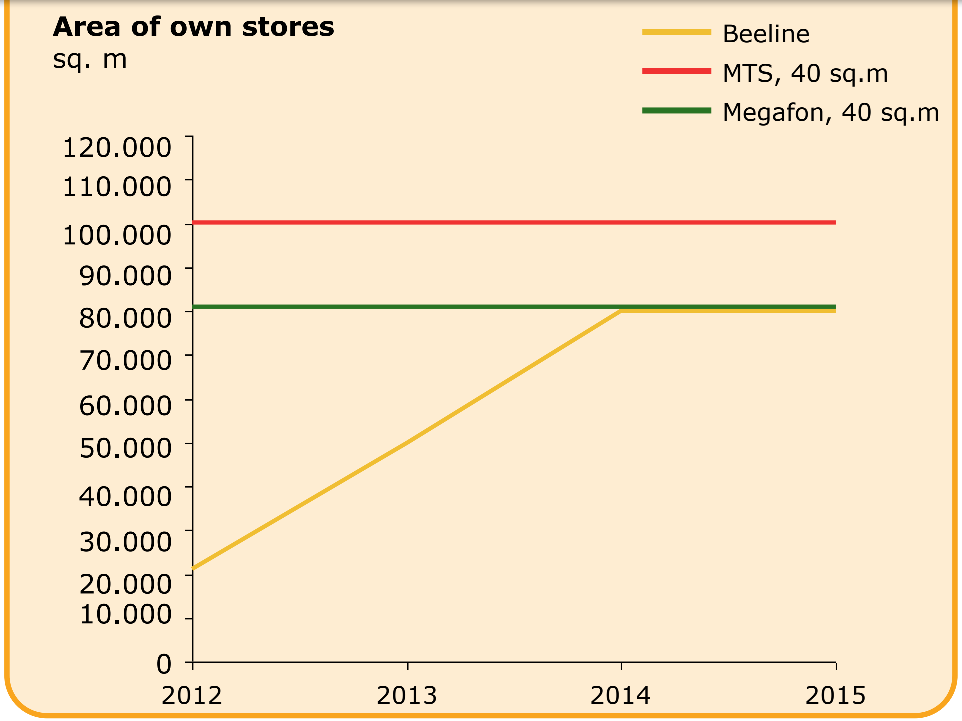

1 VIP, MTS, MF, Evroset, Svyaznoy
2 Description doesn’t take into account branded mobile stand

# 2 Bridging the gap in own monobrand stores in a smart way

**We will have much lower number of operator stores …**

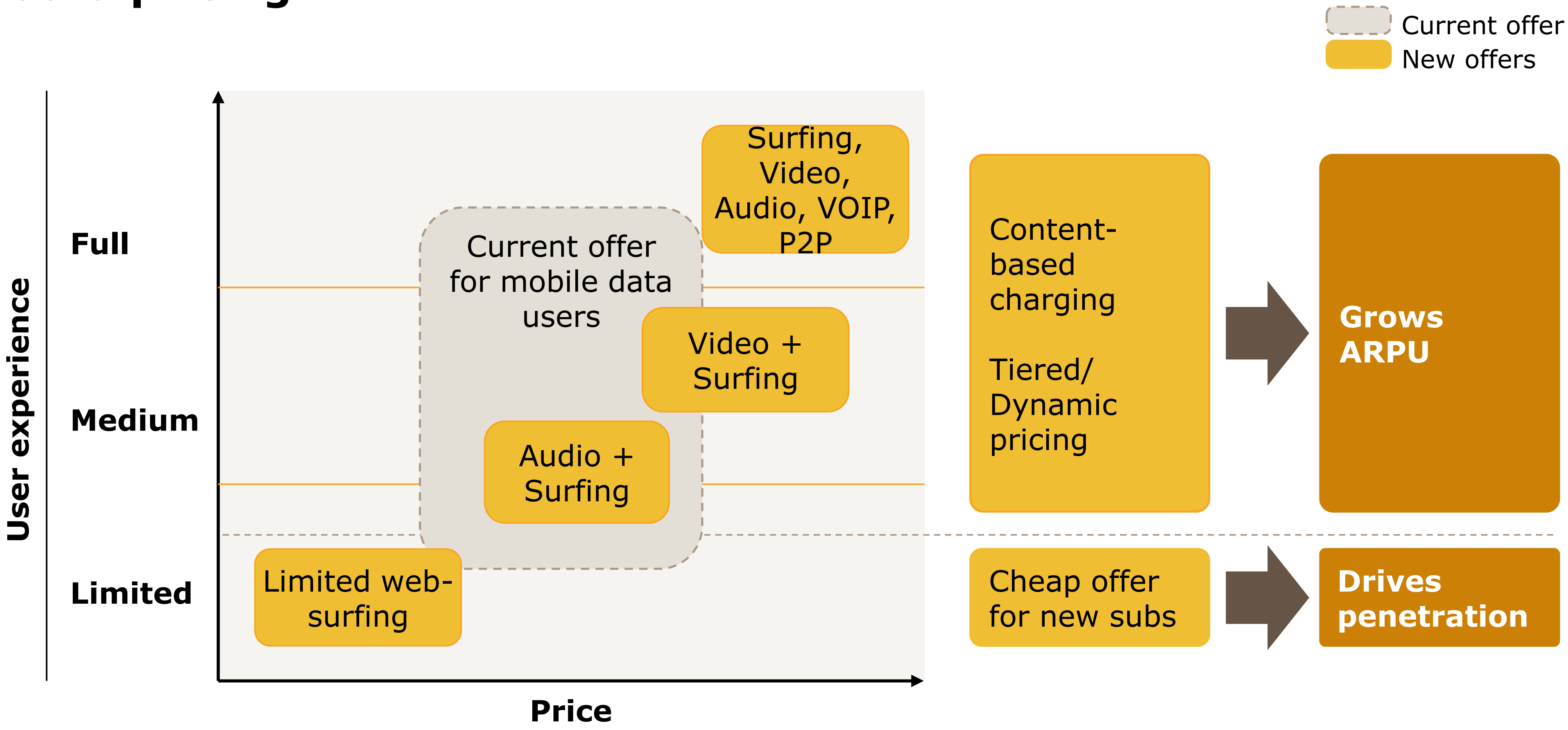



**… while comparable number of sq. meters**




1 Assuming flat number of stores for 2012-2015

# 3 Attract subscribers and grow ARPU of existing users by smart data pricing








VimpelCom

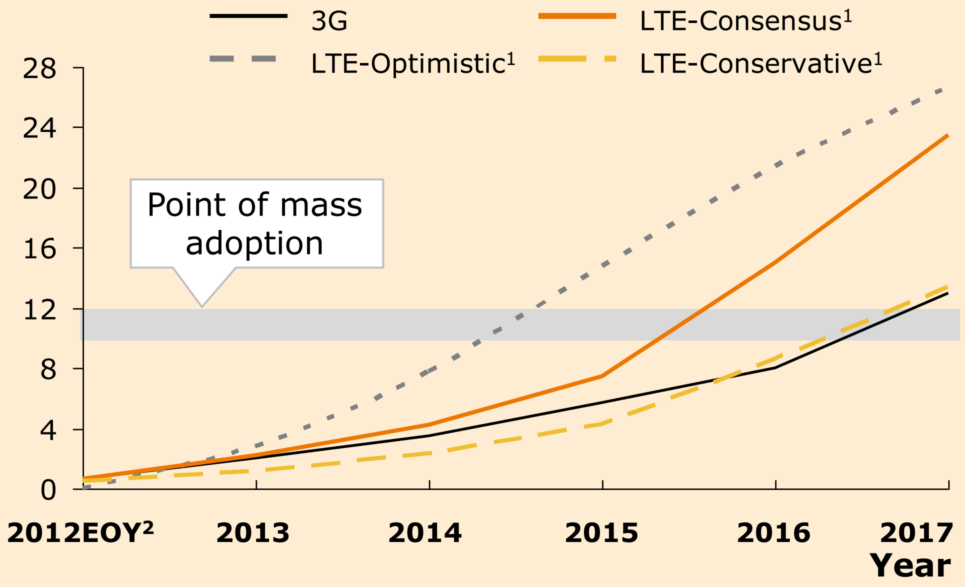
# 4 Small screen and medium screen are strategic mobile data segments

<table>
<tr><th></th><th>Small screen<br>(strengthen leadership)</th><th>Medium screen<br>(increase focus)</th><th>Large screen<br>(use free capacity network, grow APPMB)</th></tr>
<tr><td>Network</td><td colspan="3">• Close 3G gap by 2014</td></tr>
<tr><td>Segments</td><td colspan="2">• Focus on “performers” and “fun seeking youngsters”</td><td>• Focus on “away from home users” and business segment “on the way”</td></tr>
<tr><td>Pricing</td><td colspan="2">• Provide bundle tariffs<br>• Introduce tier based pricing<br>• Offer “entry level” tariffs to drive penetration<br>• Distinguish SS and MS in tariff plans</td><td>• Target profitable sub-segments with reasonable consumption volumes</td></tr>
<tr><td rowspan="3">Distribution and devices</td><td colspan="3">• Grow own retail<br>• Provide excellent user experience, educate customers</td></tr>
<tr><td>• Drive sales of devices with high MBOU</td><td></td><td rowspan="2">• Offer dual-mode 3G/4G dongles as soon as LTE networks will be available<br>• Market combined 4G/3G mobile broadband product</td></tr>
<tr><td colspan="2">• Partner with device OEMs, software vendors and service providers for customized offers and joint promotions<br>• Develop and promote own pre-installed mobile software applications</td></tr>
<tr><td>Regional approach</td><td colspan="3">• Market share targets for each segment and each region individually<br>• Focus on strategic regions</td></tr>
</table>

# 4 Selective LTE rollout to optimize investments while meeting customer demand

## LTE device penetration is expected to reach a point of mass adoption (8-10%) by 2016

**Device penetration journey in Russia**
Percent of all devices




## Vimpelcom's approach to LTE

**LTE coverage will be provided where and when it is needed on the comfort level for our target segments:**

- Build LTE in Moscow to be at par with competition
- Establish LTE presence in every big city
- Expand coverage in a smart way targeting relevant locations
- Market combined LTE and 3G (DC-HSPA+) mobile broadband

1 Conservative: iKS-Consulting, consensus: J'son & Partners, optimistic: Strategy Analytics
2 Years correspond to 4G penetration; 3G evolution curve is shown with respective offset

# Creating Value in Russia

- Become the best operator in customer experience
- Improving distribution channel
- Grow ARPU by smart data pricing
- Focus in mobile data on small and medium screen
- Selective roll out of LTE

# Increasing Efficiencies in Russia

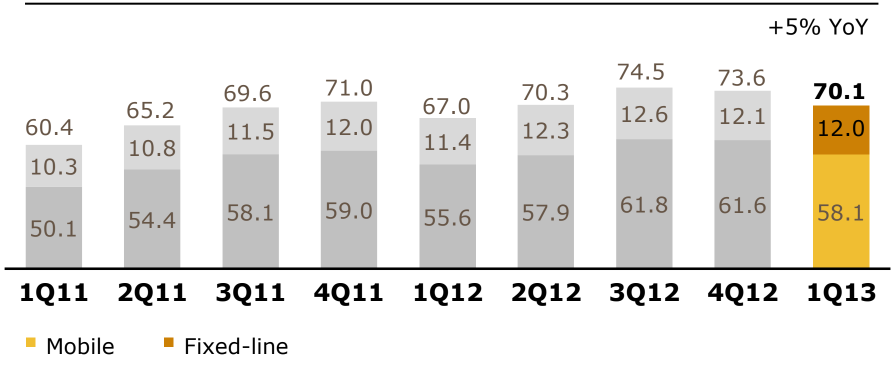
Moscow, May 29th 2013

Dmitriy Afinogenov
Chief Financial Officer Business Unit Russia

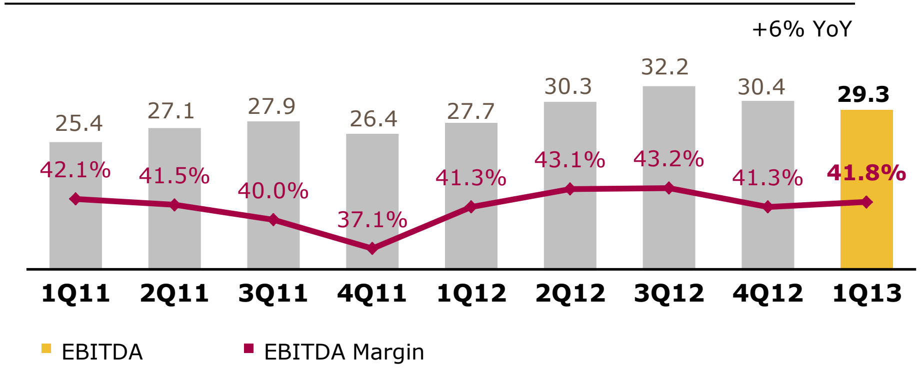
VimpelCom
Analyst Site Visit
**Moscow**

# Continued positive operational development

## Revenues
(RUB billion)




## EBITDA and EBITDA Margin
(RUB billion)



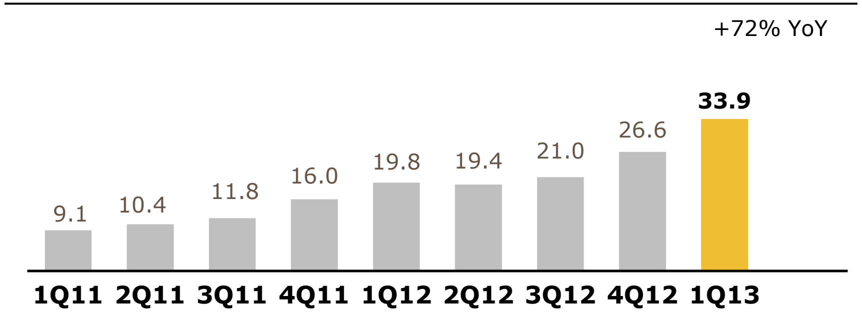

**Highlights:**

- Mobile data revenue CAGR of 36% from 1Q11
- EBITDA margin turnaround from 2Q12
- More than double the gross savings target of the Operational Excellence program in 2012; continue to execute on the Operational Excellence program in 2013
- CAPEX/Revenues will increase substantially in 2013 to ~22% from 18% in 2012

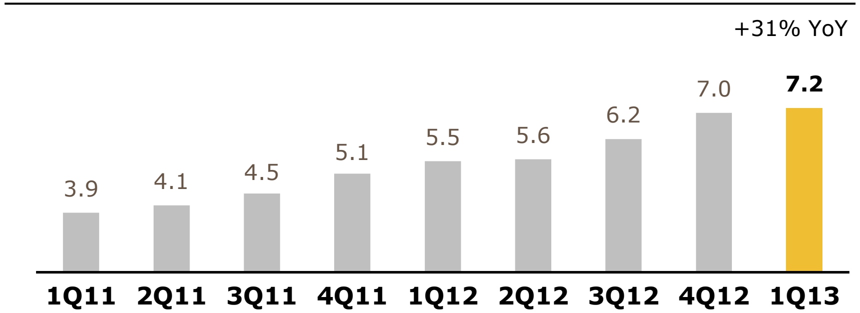
* *CAPEX excluding licenses*

# Strong data growth in Russia

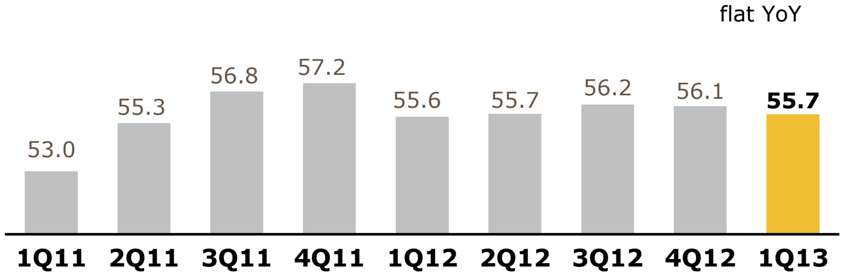
## Subscriber data traffic mobile
(billion GBs)



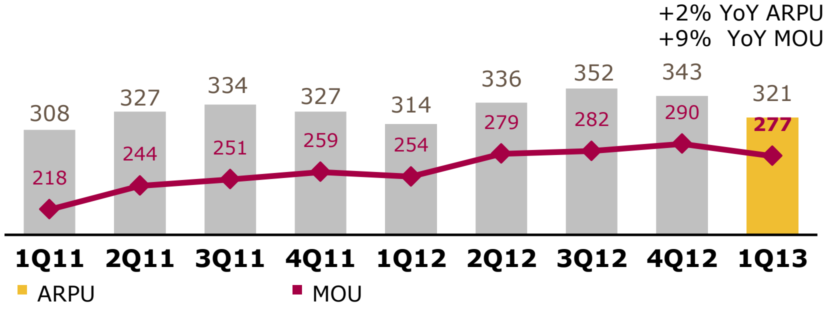

## Mobile Data Revenue*
(RUB billion)




## Mobile subscribers
(million)




## ARPU and MOU
(RUB) (min)

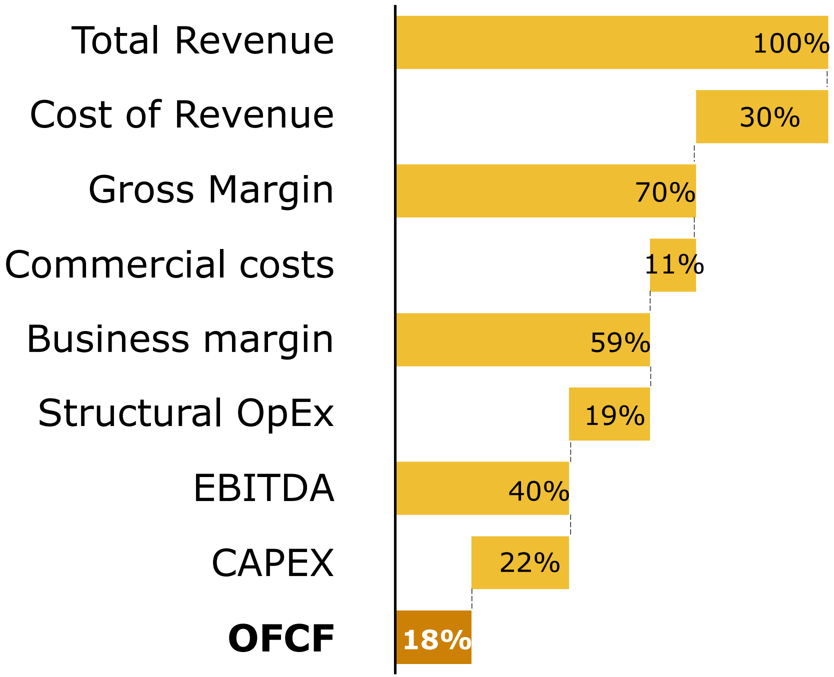



* *Does not include data revenue in roaming*


VimpelCom

# Granular P&L Focus. Optimized distribution costs and structural opex ensure improvement in marginality in 2012 by 2pp

## VimpelCom FY11




## Levers to be used

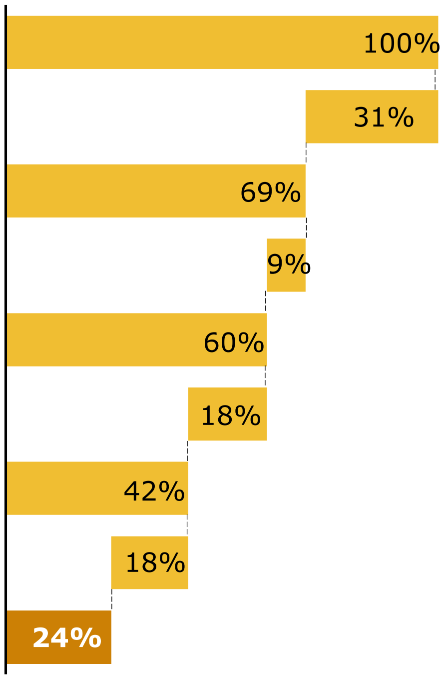
A Superior pricing and profitable growth

B Optimize distribution and reduce churn

C Operational excellence

D CAPEX efficiency

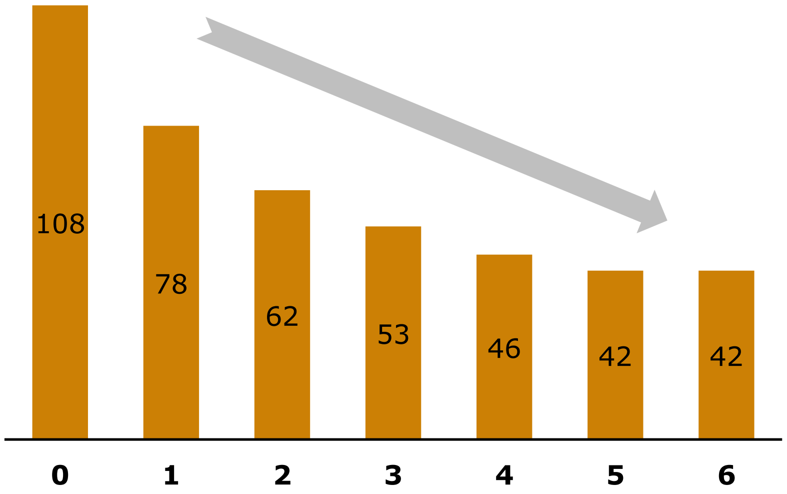
## VimpelCom FY12



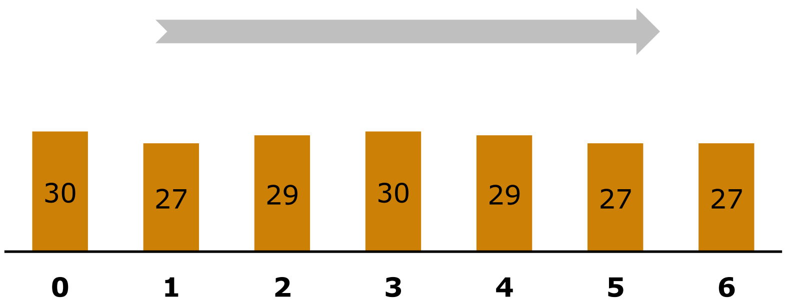
# Effect of the revenue sharing model on the cost of distribution

## Cumulative cost of distribution as a percentage of revenue
(%)

### SIM sold in January 2011

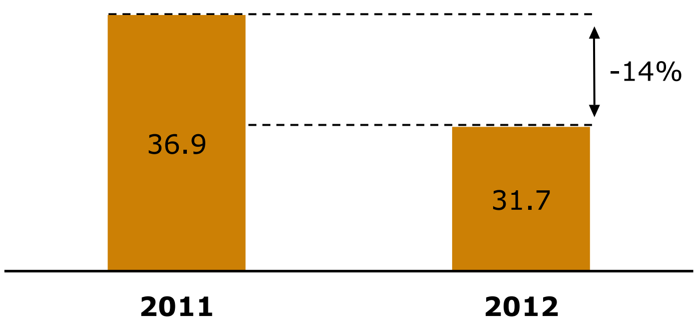



### SIM sold in January 2013

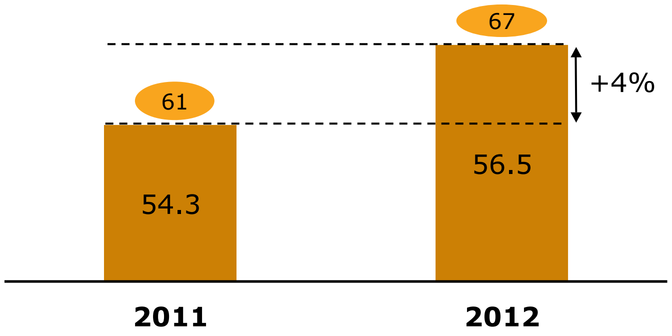


# Increased profitability in B2C sales through implementation of revenue sharing model and optimizing sales mix

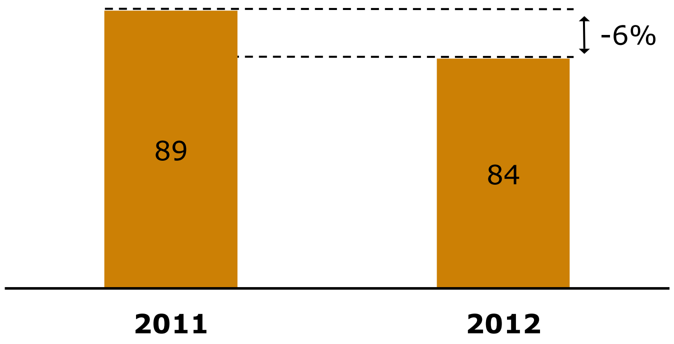
**SIM Sales**
(SIM million)



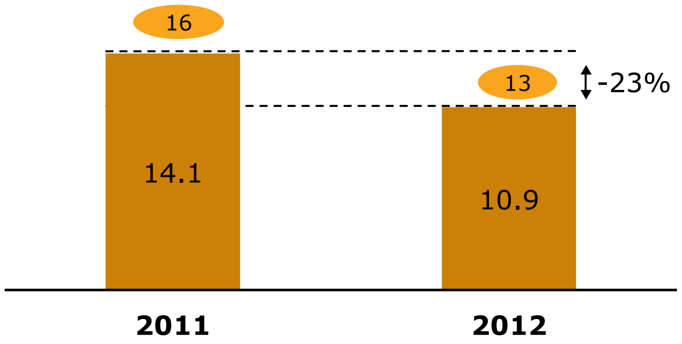

**Service Margin from SIM sold**
(RUB billion)




**Revenue from SIM Sold**
(RUB billion)



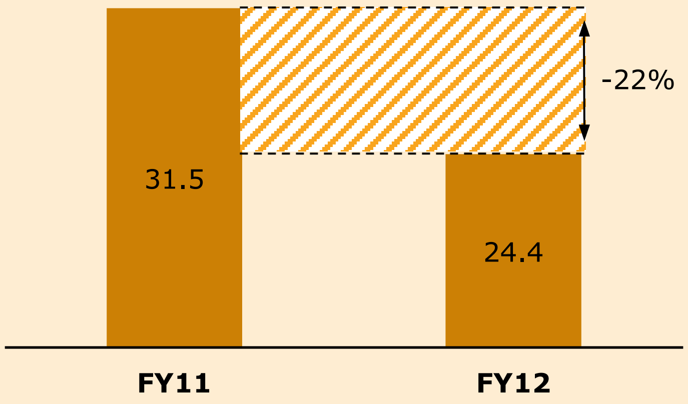

**Cost of Distribution**
(RUB billion)



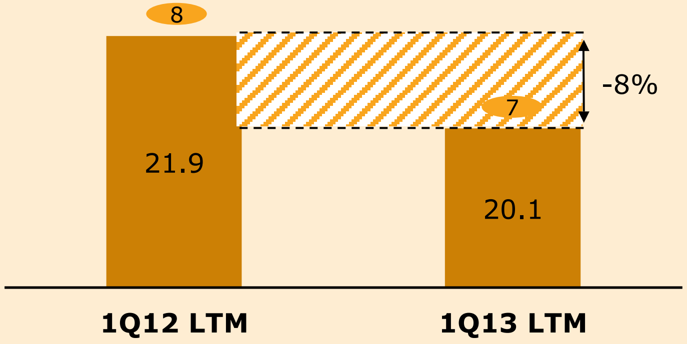

% to Revenue

# Headcount optimization improves efficiency of organization and reduces HR costs by 8% y-o-y

**HeadCount**
(Thousands)



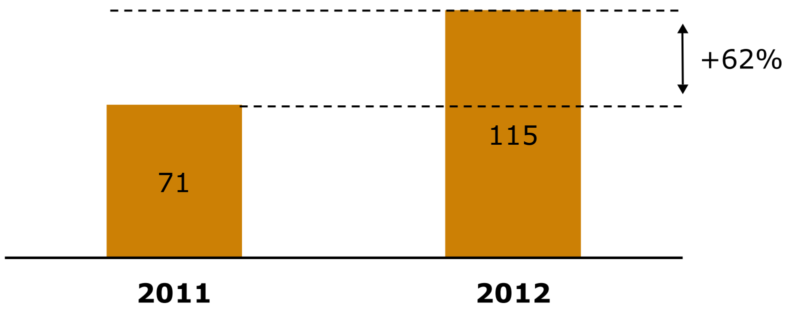

**HR costs**
(RUB billion)



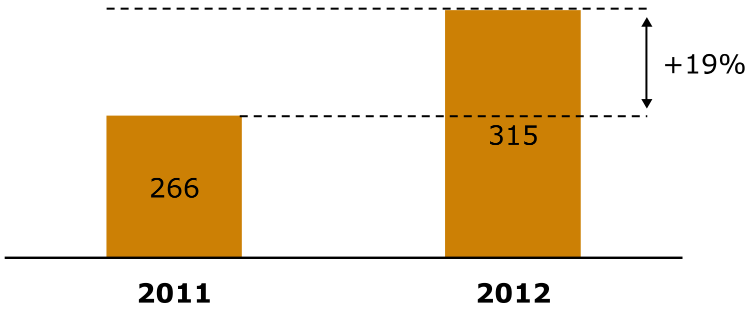

% to Revenue

# Productivity and cost efficiency in network operations

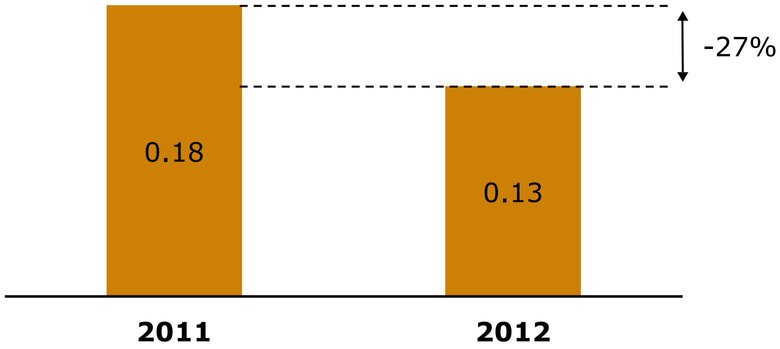
**Equivalent Traffic**
(MB bn)



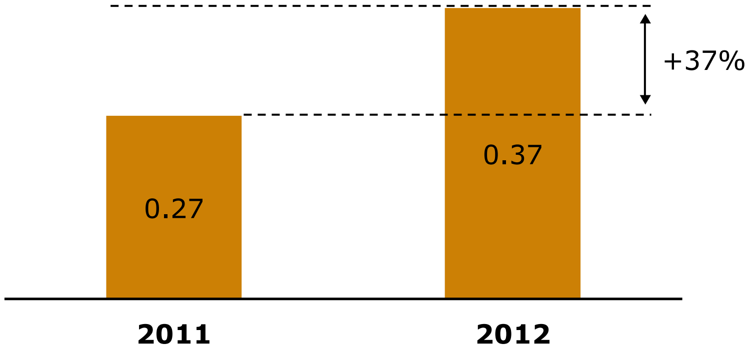

**# of Network Elements**
(2G and 3G, thousands)




**Mobile Network OPEX per MB**
(RUB)




**Traffic per Network Element**
(MB millions)



# Increasing efficiencies in Russia

- Granular P&L focus with improved cash flows
- Continued Positive Operational Development
- Strong data growth in Russia
- Increased profitability of new sales
- Headcount optimization improve efficiency
- Productivity and cost efficiency in network operations