

# Annual Report 1996

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VimpelCom is the largest cellular communications provider in Russia, dominating the Moscow market after only three years of operation. The company has been profitable from the beginning of its commercial operations. A pioneer in its market, VimpelCom brought the AMPS/D-AMPS and GSM-1800 standards to Russia, developed "Bee Line" into the country's most renowned cellular brand, and became the first Russian company to be listed on the New York Stock Exchange. Continuing to meet consumer needs, this year VimpelCom plans to launch commercially the first Personal Communications Services network (GSM-1800) which will significantly increase the variety of services offered to our customers, and, over the long term, address the wireless mass market in Russia.

## FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands, except per ADS)

	1994	1995	1996
<b>Operating Results</b>			
Total revenues	27,974	100,917	213,230
Net operating revenues (1)	27,820	97,123	204,169
Operating income	17,485	45,376	70,474
%	62.8%	46.7%	34.5%
Net income	9,521	27,621	44,896
%	34.2%	28.4%	22.0%
Net income per ADS equivalent	US\$ 0.43	US\$ 1.19	US\$ 1.94
EBITDA (2)	17,984	48,480	85,923
%	64.6%	49.9%	42.1%
<b>Consolidated Balance Sheet Data</b>			
Cash, cash equivalents and short-term investments	3,744	19,919	48,954
Working capital (deficit)	7,722	(5,384)	35,109
Property and equipment, net	11,515	70,233	179,808
Total assets	34,316	122,598	298,889
Total debt including current portion	8,140	46,819	71,713
Total liabilities	19,380	79,201	152,314
Total shareholders' equity	14,936	43,397	146,575
<b>Statistics</b>			
End of period subscribers			
Subscribers Moscow License Area	5,358	22,553	56,584
The Regions	N/A	435	2,630
Employees (3)	177	598	1,094
Market share (4)	26%	49%	56%

1 Net operating revenues after deduction of revenue based taxes

2 Operating income before depreciation, amortization and 1996 non-recurring charges

3 VimpelCom and its principal subsidiaries

4 Source: EMC World Cellular Database

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## Letter to Shareholders



**Augie K. Fabela II, Dr. Dmitri B. Zimin**

We are pleased to report that 1996 was a year of great achievement for VimpelCom. We once again made history by becoming the first Russian company to list on the New York Stock Exchange. The market responded resoundingly to VimpelCom, our growth prospects, our strong management team, and innovative approach to the Russian market. Since the company went public, VimpelCom's market capitalization grew rapidly from less than \$530 million to more than \$800 million in the first quarter of 1997.

Operationally, 1996 was also a banner year. During the year the number of subscribers grew over 150% to over 56,500. This growing subscriber base and expanded network made us the largest cellular operator in Russia. Market share in Moscow grew to approximately 56% at the end of 1996. Last year, our subscribers averaged 423 monthly minutes of use, significantly higher than in other developing markets. This illustrates both high quality service and a characteristic unique to Russia, where many customers use cellular as their main form of telephone communication.

During 1996 the technical capacity of our D-AMPS network increased from 25,000 to up to 65,000. We also greatly expanded our coverage in the Moscow Region. At the end of 1996 the coverage was over 7,800 square kilometers as compared to 1,400 square kilometers at the end of 1995. We are continuing to increase capacity in advance of demand and extending the network into the neighboring regions where we have operating licenses.

Strategically, we have positioned VimpelCom to remain the leader in Russian wireless telecommunications as the market develops and expands. In line with this, our strategy is to build large-scale networks with the lowest fixed cost per subscriber to provide advanced high-quality services. While continuing to build out and expand our D-AMPS network, we are launching a PCS network. Last fall, we acquired approximately 88% of KB Impuls, the first Russian company to receive a license to operate a PCS network in the Moscow License Area.

The PCS license has the largest spectrum capacity of any cellular license in Moscow, and will allow us to tap the wireless mass market without fear of capacity constraints. We have already started operations of the PCS network in a test mode, and we expect to launch the network commercially in the second quarter of 1997.

All of this translated into excellent results last year for our shareholders. In 1996 our earnings per ADS equivalent rose 63% to \$1.94, total operating revenues increased by 111% to \$213.2 million, and EBITDA rose 77% to \$85.9 million.

This year, we will continue to invest heavily in developing our networks, using the remaining proceeds from the initial public offering along with long-term financing, including vendor financing, debt instruments and available cash to expand capacity and coverage with the strongest focus on quality. In 1996, VimpelCom invested over \$120 million (including capital leases and other vendor financing) on the build out of its networks and other capital expenditures.

Our Bee Line brand name has become one of the most recognizable trademarks in Russia. It is supported by a strong advertising and public relations campaign. It is also used by 20 other national AMPS operators who license the brand name for use throughout Russia, and 2 AMPS operators from the CIS.

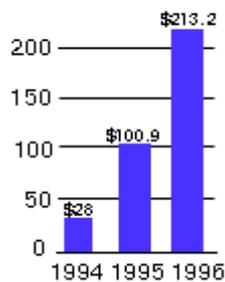
VimpelCom recognizes its role as one of Moscow's leading companies and takes this responsibility seriously. In 1996, we established the "Bee Line Charity Fund" which has already donated over \$500,000 to a variety of important causes, including assistance to hospitals, churches, kindergartens, disabled people, scholarships for students, and the sponsorship of cultural events. We also worked

together with the City of Moscow to set up an easy access for our customers to the emergency service delivery center by dialing the international code 911 on their mobiles.

### Challenges for 1997

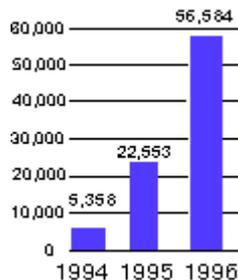
Our greatest challenge in 1997 will be to launch the new PCS network commercially and integrate it within our existing operations. While we expect costs will rise as we build out a high-quality, high-capacity network, over the long term we expect to achieve economies of scale by operating the two networks with certain common departments and infrastructures. We believe VimpelCom is well prepared for the increased competition we expect in 1997. We are confident that we can maintain our leadership position by relying on our strong brand equity, visionary management, and our reputation for quality, service and reliability.

As the wireless mass market develops in coming years, we plan to maintain and enhance high-quality wireless communications services and introduce an assortment of value-added features and services. We believe that Russia's macro-economic and market conditions are ripe for continued strong demand for communications services as purchasing power increases.



#### RAPID GROWTH IN TOTAL REVENUES

US\$ in millions in US GAAP



#### RAPID CROWTH IN SUBSCRIBERS

Moscow D-AMPS Subscribers

We felt honored by the strong reception from the investment community and the confidence of our new shareholders. The entire VimpelCom team remains dedicated to generating value for our current and future shareholders. We take our commitment to shareholders as earnestly as our dedication to providing the citizens of Russia with the country's best wireless telecommunications services. We look forward to a bright 1997!

Augie K. Fabela II  
Chairman of the Board

Dr. Dmitri B. Zimin  
President and Chief Executive Officer

## Revitalized Russian Economy

In 1996, Russia saw a year of progress and development. Boris Yeltsin's re-election in July as President reassured the world that democracy in Russia is here to stay. The economy responded positively to the election news. Inflation dropped from 131% in 1995 to 22% in 1996, and the market capitalization of the Russian stock market doubled in real dollar terms. Russia received its first debt rating, placing it as a better credit risk than Brazil and Argentina. Investors responded by making Russia's first Eurobond a resounding success. Current economic indicators are positive and GDP is expected to grow in 1997 for the first time since the beginning of market reforms.

### Moscow

Much of the country's wealth and business development is centered in and around Moscow, VimpelCom's primary operating area. Official statistics show that per capita income is over three times higher in Moscow than in Russia as a whole. A metropolitan area of over 15 million people, Moscow itself is home to 120,000 private companies which together employ over 1.5 million people. As disposable incomes grow, the number of consumer goods and luxury items purchased in Moscow continues to increase. And while the Moscow region has just over 10% of Russia's population, it has approximately 50% of the country's cellular subscribers.

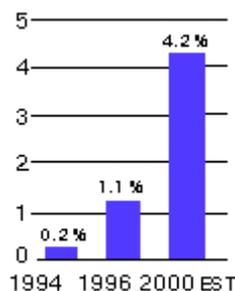
### Russian Telecom

Telecommunications continues to be one of the leading growth sectors in the Russian economy. The Russian market for these services has grown 350% in real dollar terms since 1992, with current spending of \$4.5 billion. Within the sector, cellular has been one of the fastest growing segments, accounting for 9% of the total telecom market and growing by an estimated \$400 million in 1996. However, Russian spending on basic telephone services still accounts for only about 1.1% of total GDP, half the world average. Current GDP indicates that spending in the telecommunications sector could grow by approximately 70% within the next three years.

Demand is abundant. In 1996, there were approximately 10 million people on the waiting list for basic phone service in Russia, three times greater than the aggregate of other European emerging markets.

### Cellular

While cellular penetration is growing, it's still significantly lower than other emerging markets. Total Russian cellular subscribers grew from 89,000 in 1995 to around 200,000 by the end of 1996. Yet penetration in Russia remains quite low at 0.13%, compared to 4.61% in Hungary and 16.3% in the mature U.S. market.



MOSCOW CITY CELLULAR PENETRATION

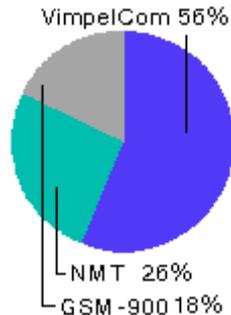
Source: Strategis Group

In the City of Moscow, cellular penetration increased from 0.5% in 1995 to 1.1% in 1996. Experts estimate that cellular penetration in Moscow will reach over 4% by the year 2000.

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## Bee Line - Russia's Best Known Cellular Network

In 1996, VimpelCom became the largest cellular operator in Russia. Subscribers grew by more than 150% reaching to over 56,500. At the end of 1996, VimpelCom's market share in the Moscow License Area was approximately 56%.



### MOSCOW MARKET LEADER

Market Share %

VimpelCom has not only developed the premier cellular service in Russia, but also contributed to resolving an important social task. We have developed employment opportunities through our customer care centers and retail outlets, and burgeoning relationships with partners both large and small, from manufacturing and engineering to advertising. Many highly skilled scientists, engineers and technicians stranded after the end of the cold war have found challenging careers in Bee Line.

Our success has been achieved by a customer-driven management team focusing on three competitive advantages: technical superiority, customer service and strong brand name recognition.

### Technical Superiority

Our digital AMPS network (D-AMPS) provides customers with extremely high sound quality and value-added services (conference call, voice mail, fax mail, "constant touch") which are not yet available on the Russian wireline networks and only partially available on the competing cellular networks. We expect to remain at the forefront of introducing innovative services. We were the first cellular operator to install digital cellular in Moscow in 1994 which provided privacy of communications and a three-fold increase in capacity compared to analog. In the summer of 1996, we installed an authentication technique which has become a perfect barrier against handset cloning. We were able to reduce fraud in our network to a negligible level and to eliminate PIN-codes for international dialing. We also added "Navigator," a state-of-the-art voice mail system with unique services, such as fax mail and a "find-me" service, which enables customers to be found through their busy day.

Today, our D-AMPS network which uses Ericsson equipment covers the entire City of Moscow and over 7,800 square kilometers in the Moscow Region with over 100 base stations installed. A second switching center and new base stations, currently being installed in Moscow, will increase our potential capacity to approximately 90,000 subscribers in the second quarter of 1997. Further capacity growth is planned in the second half of 1997. While our core service area is Moscow, in line with our regional strategy we have also started to install base stations in Tver which are being connected to our Moscow switch, and plan to link it to Vladimir, Ryazan and Kaluga, our regional license areas bordering the Moscow area.

We are expanding our own fiber optic network in Moscow designed to connect base stations to the switches of both the D-AMPS and the new PCS networks. This will greatly increase quality and reliability of our services and make us less dependent on third-party providers for critical links in our system.

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## We Focus on Customer Needs

## **Customer Service**

As Russia has moved into a more competitive market economy, customer satisfaction has become a critical element for success. VimpelCom prides itself on being one of the first telecommunications companies in Moscow to offer customers a wide range of service and convenience. Our subscribers have access to broad roaming capabilities and 90 points of sale in Moscow. At their disposal are the first 24-hour, seven-day-a-week customer service center, the first "911" emergency service, even a "concierge" service for information ranging from train schedules to restaurant reservations. Bee Line serves customers while they travel both domestically and abroad. Today, where it is still difficult to get a basic phone line in many regions outside of Moscow, Bee Line subscribers can make and receive calls in 39 regions of the country stretching from St. Petersburg to Petropavlovsk-Kamchatski and covering 9 time zones. We are also the only domestic cellular operator to offer roaming to the U.S. and Canada. In fact, Bee Line was the official cellular phone used by the Russian national team at the 1996 Olympic Games in Atlanta.

## **The Bee Line Brand Name - Russia's Dominant Cellular Brand**

The Bee Line brand name was launched in 1994, when there were few Russian brands in the market. Recognized today by over 60% of Muscovites, it has become synonymous with superior cellular service. The brand has been licensed by 22 operators throughout Russia and the CIS, presenting our customers with an informal nationwide network.

Usage is an important barometer of customer satisfaction, especially since the Bee Line customer often uses our service as a substitute for a landline phone. On average, our subscribers spoke approximately 423 minutes per month in 1996. This was approximately four times higher than customers in the US and most European countries.

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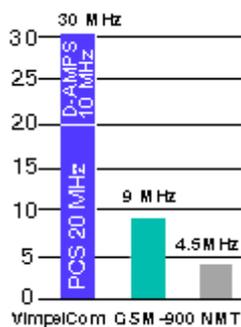
## **PCS - The Future Mass Market**

Personal Communications Services (PCS) are communications networks providing a sophisticated range of digital wireless communications using the same technology as cellular in higher frequency ranges which allow the most efficient utilization of basic cellular principles. In Europe and Asia, PCS operates in the 1800 MHz frequency range using the GSM-1800 standard (formerly called DCS-1800), where broader frequency bands are available to serve more subscribers than can be accommodated in lower ranges by traditional cellular service.

In 1995, KB Impuls, which is now a VimpelCom subsidiary, was commissioned by the Russian Ministry of Communications to carry out a research and development project in cooperation with institutions of the Ministry of Defense in order to clear the way for PCS to Russia. It carried out extensive electromagnetic compatibility research and set up protocols for spatial and frequency separation of PCS and other radio equipment in the 1800 MHz frequency range. As a result of this work, KB Impuls was awarded the first PCS license in Russia using the GSM-1800 standard to build and operate a PCS network in and around Moscow. With the large amount of spectrum allocated (2x20 MHz), VimpelCom will have the capacity to bring PCS using GSM technology to more than one million subscribers in the City of Moscow alone.

Introduction of our Moscow PCS network will capitalize on our existing strong brand equity, resources and experience in the market. Phase I of the project is being completed and commercial operations are set to begin in the second quarter of 1997. The Phase I network includes a switch, ten base station controllers and 115 base stations, which will cover practically the entire territory of the City of Moscow and provide technical capacity of about 40,000 subscribers. Our multi-phase equipment contract with Alcatel calls for total technical capacity of 380,000 subscribers by the end of 1999.

PCS handsets are available from global suppliers, including Ericsson, Motorola, Nokia and Nortel. In fact, handsets operating in dual-band GSM-900 and GSM-1800 have been announced by Motorola and other manufacturers are expected to follow suit. This will make roaming between GSM-1800 and GSM-900 networks totally transparent.



SPECTRUM ALLOCATION

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## Our Management and Resources

When VimpelCom was founded in 1992, our staff was comprised of a small group of scientists who had spent their careers developing advanced technology for radio electronics and defense equipment, including the Russian antiballistic missile defense system. The company's core was then made up of many key members of today's senior management, including our President and Chief Executive Officer, Dr. Dmitri Zimin; Vice President of Corporate Affairs, Konstantin Kuzovoy; Vice President of Finance, Tatiana Filonova; Chief Engineer, Vladimir Volinsky; and Vice President of Network Operations, Maintenance and Development, Vladimir Mukhin.

Our founding staff's expertise was augmented by major Russian and American influences. Our co-founder and American partner, FGI Wireless Ltd., led by its Chairman and Chief Executive Officer Augie K. Fabela II, facilitated VimpelCom's rapid transformation into a market-driven company with a special focus on marketing and advertising, sales and customer care, Western standard corporate governance and transparency in finance and accounting. In these key business areas, Western practices were successfully implemented by our management team in the context of the Russian environment.

We expanded our technical skills and knowledge of the Russian market with the addition of some of Russia's best minds in radio electronics and software engineering. Together, they defined our high-tech profile and developed our network's superb quality.

Management quickly developed a reputation among regulators, and the industrial and financial establishment as a skilled, reliable, trustworthy and preferred partner. Based on this, the VimpelCom team was commissioned to undertake a number of pioneering ventures, most notably the opening of the 800 MHz and 1800 MHz frequency bands for commercial use.

Education is of paramount importance at VimpelCom, since we operate in a country which five years ago had no comprehension of a free market economy. For the over 1,000 VimpelCom employees, ongoing education is conducted in training courses, seminars and international conferences taught by a variety of local and international experts. Our continued success depends on each employee's ability to learn quickly and use newly absorbed ideas.

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## Our NYSE Listing Makes History

Our listing on the New York Stock Exchange (NYSE) was a watershed event for us at VimpelCom as we became the first Russian company to list on the Big Board.

In early 1996, management recognized that capital requirements for our expansion could no longer be satisfied only by vendor financing and expensive short-term bank loans. We were able to proceed with a listing, in part, because we had a history of U.S. GAAP accounting and were able to present our businesses to investors.

A month-long roadshow introduced our vision of Russian wireless and our dynamic management team to international investors in 23 cities in Europe and the United States. Trading began on

November 15, 1996, and by the end of the first quarter of 1997, VimpelCom shares had appreciated more than 50%. Our successful entry into the global capital markets has shown that we are not only recognized at home, but also compared to some of the leading telecom companies in the world.

VimpelCom has set up an active investor relations program to meet U.S. Securities and Exchange Commission, NYSE and Russian regulatory obligations, and to keep the investment community informed of company developments. Our listing is just the beginning in our commitment to investors, and management is dedicated to steadily increasing shareholder value.

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## BOARD OF DIRECTORS



Augie K. Fabela II  
Chairman of the  
Board of Directors



Dmitri B. Zimin  
President and Chief Executive  
Officer, VimpelCom



Oleg G. Belov  
General Director,  
Rostelecom



Mike Buinycky  
Director of Finance and  
Compliance, VimpelCom



Gary G. Drook  
Former President of  
Ameritech Network  
Services



Yegor T. Gaidar  
Director of Institute of Economy  
of Transitional Period, Former  
Acting Prime Minister of Russia



Valery P. Goldin  
Vice President of  
International  
Relations, VimpelCom



Konstantin S. Kuzovoy  
Vice President of Corporate  
Affairs, VimpelCom

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## SENIOR MANAGEMENT

Dmitri B. Zimin

President and Chief Executive Officer

Konstantin S. Kuzovoy  
Vice President of Corporate Affairs

Tatiana N. Filonova  
Vice President of Finance

Mike Buinycky  
Director of Finance and Compliance

Vladimir E. Mukhin  
Vice President of Network Operations, Maintenance and Development

Vladimir V. Volinsky  
Chief Engineer

Konstantin I. Ashitkov  
Director of Administration

Valery P. Goldin  
Vice President of International Relations

Guerman Khanenko  
Vice President of Regional Projects

Anatoly P. Shakhmatov  
Vice President of Public Relations

Vladimir M. Bychenkov  
Chief Accountant

Sergei A. Griaznov  
Chief of Customer Service

Alexander V. Manin  
Chief of Marketing Department

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## **CORPORATE INFORMATION**

Independent Auditors  
Ernst & Young (CIS) Limited

Depository Bank  
The Bank of New York

CUSIP # 68370R109

Custodial Bank  
ING Bank Eurasia

Primary trading information NYSE: VIP

Russian Trading System: VIPM

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