NYSE

# VimpelCom Annual Report 1998

NYSE

Годовой отчет
Annual Report 1998



# Company profile

VimpelCom is a leading provider of cellular telecommunications services in Russia, operating under the "Bee Line" brand name, one of the most recognized brand names in the Russian cellular telecommunications industry. VimpelCom prides itself on its dedication and commitment to its subscribers, its high quality of cellular services and its expansive licensed territory, which continued to grow in 1998.

As a pioneer in the Russian cellular communications industry, VimpelCom introduced the AMPS/ D-AMPS and GSM-1800 standards to Russia, leading the conversion of military and avionics frequencies into commercial use frequencies. VimpelCom again is at the forefront of technology, developing one of the world's first dual band GSM-900/1800 networks in the Moscow market.

VimpelCom's primary market is the City of Moscow and the surrounding Moscow Region, an area covering a population of over 15 million. In Moscow, VimpelCom estimates that as of December 31, 1998, its subscriber market share was approximately 44% and its subscriber base was over 124,000. VimpelCom's licensed territory (including licenses under which VimpelCom has not yet commenced operations) covers a total population of approximately 100 million people, or approximately 70% of the Russian population.

VimpelCom completed its IPO in November 1996 and its ADSs are listed on the New York Stock Exchange (NYSE) under the symbol "VIP". VimpelCom was the first and is currently one of only three Russian companies listed on the NYSE.

VimpelCom continues to expand its cellular communications and other telecommunications services with the objective of creating long term growth and value for its shareholders.

next

NYSE

Годовой отчет
Annual Report 1998



# Letter to shareholders

Dear Shareholders:

As a result of the Russian economic crisis, 1998 was the most difficult and challenging year for VimpelCom since we began full-scale commercial operations in 1994. The economic crisis has had a negative effect on our operations and financial performance and has forced the Company to develop creative solutions in an effort to restore growth. Despite the difficulties encountered by Russia and the Company in 1998, we were able to achieve a number of accomplishments, which we expect will position the Company well for the future. In April, we received four new GSM-1800 licenses, which significantly increased the overall population covered in our licensed territories. Just four months later, we received frequencies and the right to provide GSM-900 cellular services in Moscow and the Central and Central Black Earth region of Russia. We culminated the year in December by entering into a strategic alliance with Telenor, Norway's leading telecommunications provider. As a result of these positive developments, we continue to remain optimistic about the Company's long-term prospects.

At the onset of the economic crisis in August, we immediately introduced strict crisis management measures including daily cash flow control, expense reductions (including payroll and headcount reductions), and a revision to our investment plans. As soon as officially permitted, we introduced dollar equivalent unit billing to minimize the Company's exposure to ruble devaluation. As a result, our subscribers now pay their bills at the prevailing U.S. dollar-ruble exchange rate on the date that payment is made. Management has also been successful in reducing certain supplier prices as well as renegotiating the Company's commission arrangements with its network of dealers.

In addition, VimpelCom launched a prepaid card program in October 1998 in an effort to reduce bad debt and eliminate monthly fees and connection costs to our subscribers. Our new prepaid card program is designed to reach a broader spectrum of potential subscribers, including the more price sensitive customer segments. Prepaid "Bee Plus" cards simplify the usage of cellular phones by eliminating deposits and monthly bills and allowing subscribers to control their spending.

The economic fallout quickly resulted in a significant decline in disposable income and many Russian companies were forced to downsize or close their doors. During the fourth quarter of 1998, we saw our sales figures reduced. The number of subscribers either leaving our network or which we disconnected due to non-payment substantially increased. As a result of these and other factors, the number of VimpelCom subscribers declined from its August peak of over 140,000 to approximately 124,000 at year end. Subscriber loss and reduced traffic volume ultimately resulted in a reduction in service revenues during the same period. Although total operating revenues and EBITDA for 1998 grew to US$376.0 million and US$144.1 million, respectively, we ended the year with a net loss of US$4.7 million. The primary reasons for our 1998 loss were the sharp devaluation of the ruble in August and September, which halved our accounts receivable, as well as our write down of approximately US$26.3 million of GKOs (Russian government short-term treasury bills) which the Russian government effectively defaulted on in August and other securities. The Company, similar to many other enterprises, financial institutions and investment funds, had viewed such GKOs as a reliable investment and hedge against inflation and was not able to foresee the August default.

In 1998, the Russian equity market was the worst performing market in the world. This was in sharp contrast to 1997, when Russia had the best performing equity market in the world. VimpelCom's ADS price also suffered last year, falling from a high of US$59 7/16 in May to a low of US$4 5/16 in October. However, our ADSs rallied in the fourth quarter of 1998 in conjunction with the Russian equity market, to close the year at US$12 15/16.

During 1998, the Company also experienced a loss in market share, which fell from 52% at the end of 1997 to 44% at the end of 1998 (Company estimates). We believe that our loss in market share in 1998 was primarily attributable to our inability to provide cellular services using the GSM-900 standard for most of the year. In the Moscow wireless market, GSM-900 is presently viewed as the most advanced, pan-European cellular standard. For most of 1998, GSM-900 was only offered in Moscow by our main competitor. However, in August 1998, our Moscow GSM-1800 license was amended, permitting us to operate a dual band GSM-900/1800 network. We commenced the initial operation of our GSM-900 network in October 1998 and expect to complete the build out of our dual band network in the Moscow License Area in the second half of 1999. Upon such completion, we believe our former disadvantage will be eliminated and the Company will be in a much better position to compete more effectively.

During 1998, we significantly increased the overall population covered within our licensed territories. In April 1998, we were awarded four new regional GSM-1800 licenses, which greatly expanded our potential reach across Russia. Our licenses now cover a total population area of approximately 100 million people (approximately 70% of Russia's population). While Moscow remains the prime area of our business at present, regional expansion will feature as an important part of the Company's strategy in the future.

Shortly after the award of our new regional GSM-1800 licenses, we began negotiations with potential strategic investors to provide us with the infusion of capital required for the build out of our networks and access to the latest technological and marketing expertise. We ultimately selected Telenor, Norway's leading telecommunications company, largely based on its mass market expertise, success in developing Norway into one of the world's most penetrated cellular markets, and extensive European operations. Telenor is also highly experienced in the Russian telecommunications marketplace. In consideration for a strategic minority position in the Company, Telenor is expected to infuse approximately US$162 million into VimpelCom. This infusion of capital will strengthen our market position, allowing us to move faster to market with a number of strategic projects. The Telenor transaction was overwhelmingly approved by our shareholders in January 1999 and we expect the transaction to close by June 1999, subject to the fulfillment of various regulatory approvals and conditions precedent. Telenor has already become a member of the VimpelCom family, as three Telenor directors were elected to the Company's Board at our shareholder meeting in January and certain Telenor specialists are on the ground in Moscow working closely with our managers and employees.

## Looking Ahead

We will continue to face challenges in 1999, as little positive improvement in the Russian economy is expected during the first half of this year. Although we expect 1999 will be another difficult year for Russia, we are cautiously optimistic that the Russian government will manage the crisis effectively and will not compromise basic market principles. Strong and decisive action is still needed on the part of the Russian government in order to significantly improve the country's economic situation.

VimpelCom's primary objectives for 1999 are to halt the decline in our market share, increase both our subscriber base and the efficiency of our operations in Moscow and strive for a return to profitable growth. The Company's main task in 1999 is to build a dual-band GSM-900/1800 network in Moscow and the surrounding Moscow Region as a fully competitive GSM product and to position it as VimpelCom's main network. This objective is expected to be achieved in the second half of 1999. At the same time, VimpelCom's D-AMPS network will continue to serve as a high quality cellular network and an important source of revenue for the Company in the years to come. As the dual-band GSM-900/1800 network becomes fully developed, VimpelCom's D-AMPS network will be positioned as a less expensive network for the more price sensitive subscribers. Extensive use of prepaid cards and other promotions are also planned to increase VimpelCom's subscriber base and further develop the Moscow cellular market. In 1999, VimpelCom will begin the development of its regional GSM-1800 license areas on a selective basis, considering such factors as financial viability, market potential, local environment and competition. As Russian economic conditions improve, regional projects are anticipated to play an even greater role in VimpelCom's development. Furthermore, consistent with our history as a market pioneer, we intend to enter new, complementary business lines that will add to our growth.

Through hard work and dedication, we strongly believe that all of these goals are attainable this year. We are confident that our focus, drive and energy will create a more dynamic VimpelCom, increasing value to our shareholders over the long term.

As always, we will continue to share our progress with you throughout the year in implementing our plans for 1999 and in positioning VimpelCom for future success as we move toward a new millennium.

Augie K. Fabela II
Chairman of the Board

Dr. Dmitri B. Zimin
President and Chief Executive Officer

back next

NYSE

Годовой отчет
Annual Report 1998



# The effect of the Russian economic crisis

The Russian economic crisis has dramatically set back a number of developments which were achieved by Russia following the dissolution of the Soviet Union. In 1998, Russia was also plagued by political uncertainty and instability, as two successive governments were replaced by President Boris Yeltsin. The crisis has sent shock waves throughout the country and has had an adverse effect on VimpelCom, as well as on the Russian cellular telecommunications industry as a whole.

Russia's problems in 1998 were largely due to a number of fiscal imbalances. In 1998, spending by the Russian government continued to outpace revenue generation. As a partial solution to this problem, the Russian government continued to finance its deficits through the issuance of short-term treasury bills (GKOs). World oil and other commodity prices, on which Russia depends so heavily as a source of government revenues, continued to fall. The Central Bank's hard currency reserves, which were used to support the ruble, gradually were diminishing as well. And although the Asian financial crisis did not immediately impact the Russian market until late 1997, it gradually took its effect in 1998 through the loss of investor confidence in emerging markets, including Russia.

On August 17, 1998, the Russian government announced that it would not meet its GKO obligations (at the time, worth approximately US$43 billion). The Russian government also announced an extension of the ruble trading corridor, a 90-day moratorium on payment of foreign debt, and a rescheduling of all domestic debt due before the end of 1999. The Russian government's actions amounted to a de facto devaluation of the ruble and a de facto default on its sovereign domestic debt, resulting in a meltdown of Russia's equity and debt markets. In the third quarter of 1998, Russia's equity market declined approximately 75% and in 1998, it was the worst performing market in the world.

Before August 17, 1998, the Russian government had relied on GKOs and other debt instruments to finance its deficits, but the collapse of the GKO market appears to have eliminated this option for the foreseeable future. Thereafter, the Russian government printed money to pay off certain back wages, pensions and a portion of Russia's debt. Controlling inflation had been one of Russia's greatest economic successes in 1996 and 1997; in 1998, however, yearly inflation increased to approximately 84.4%, most of which occurred in the last four months of the year. 1999 is expected to be another difficult year for Russia as inflation is forecasted to remain relatively high (but lower than 1998 levels) and GDP is anticipated to further contract.

Following his confirmation as Prime Minister in September, Yevgeny Primakov formed a coalition government, which included the appointment of Soviet-era government officials such as Yuri Maslyukov as First Deputy Prime Minister and Viktor Gerashchenko as the head of the Central Bank of Russia. In its first six months in office, the Primakov Government has restored a degree of political and economic stability.

### The Russian Cellular Telecommunications Industry

The ramifications of the economic crisis for the Russian cellular industry have been realized through a sharp increase in the number of non-paying subscribers, reduced minutes of airtime use per subscriber and, consequently, reduced revenues. A growing number of subscribers have either voluntarily disconnected their phones or have been involuntarily disconnected as a result of prolonged non-payment. Competition in the Russian cellular market is increasing as Russian cellular operators are utilizing new marketing efforts to retain subscribers and also to entice new ones. However, at the same time, negative investor sentiment as a result of the economic crisis will limit access to capital for many Russian companies, which will slow the rate of development of the Russian economy as a whole and the telecommunications industry in particular. As a result, a number of Russian cellular operators are currently concentrating on existing markets and attempting to develop the most economically viable options for building out new networks. Considering these factors, a number of analysts specializing in the Russian cellular industry have modified their growth forecasts and presently foresee a slowing down in the development of the industry.

NYSE

Годовой отчет
Annual Report 1998



# Expansion across Russia: Vimpelcom receives new GSM licenses

licenses. Following on the heels of the Company's regional AMPS expansion in 1997, 1998 developments focused on the acquisition of new GSM licenses. The Company was highly successful in its efforts, receiving four new GSM-1800 licenses and the frequencies and right to build a dual band GSM-900/1800 network in Moscow and in the Central and Central Black Earth Region of Russia.

## GSM-1800

In April 1998, VimpelCom was awarded four new GSM-1800 licenses. These licenses were issued to VimpelCom by the State Committee on Communications and Informatization of the Russian Federation (SCCI) as a result of a competitive tender. As part of the tender, VimpelCom's GSM-1800 license for Moscow was also reissued. A total of 16 licenses were awarded by the SCCI to operate GSM-1800 cellular networks. Two licenses were issued in each of eight areas ("super regions") which, in the aggregate, comprise the territory of the Russian Federation.

Specifically, VimpelCom was awarded GSM-1800 licenses for the following four Russian "super regions":

- **The Central and Central Black Earth Region**, which encompasses 17 administrative regions, has a population of approximately 26 million. VimpelCom's main competitor in the Moscow market will compete with VimpelCom for subscribers in the Central and Central Black Earth Region.
- **The Volga Region**, which encompasses 12 administrative regions, has a population of approximately 24 million. VimpelCom's main competitor in the Samara license area will compete with VimpelCom for subscribers in the Volga Region.
- **The North Caucasus Region**, which encompasses 10 administrative regions, has a population of approximately 18 million. A company developing a nationwide NMT-450 analog cellular standard network will compete with VimpelCom for subscribers in the North Caucasus Region.
- **The Siberian Region**, which encompasses 11 administrative regions, has a population of approximately 16 million. The same company competing in the North Caucasus Region will compete with VimpelCom for subscribers in the Siberian Region.

The Central and Central Black Earth, Volga and North Caucasus Regions, together with VimpelCom's Moscow license area, form a contiguous territory in the European part of Russia, covering a population of approximately 84 million.

The new GSM-1800 licenses expanded the total population covered by VimpelCom's licensed territories from 28 million to approximately 100 million people. As a result of these developments, the Company's license area (including licenses under which VimpelCom has not yet commenced operations) now cover approximately 70% of the population of the Russian Federation. The new GSM-1800 licenses will provide VimpelCom with new opportunities to continue its business strategy of expanding its operations across Russia which VimpelCom will pursue to the extent such opportunities are economically viable.

## GSM-900

In August 1998, VimpelCom's GSM-1800 licenses for Moscow and the Central and Central Black Earth Region of Russia were amended, allowing the Company to build dual band GSM-900/1800 networks using 2 x 3 MHz of bandwidth in the 900 MHz frequency range in each of these areas. VimpelCom began providing dual band GSM-900/1800 services in Moscow in

October 1998.

Dual-band GSM-900/1800 networks are presently considered to be the most advanced and cost efficient cellular networks. They are especially efficient in Russia, where densely populated large cities are surrounded by sparsely populated rural areas. The dual band technology offers the most efficient solution using the GSM-900 to provide a wide coverage zone while GSM-1800 secures the necessary capacity in more densely populated areas of large cities.

VimpelCom's Moscow license area, which includes the City of Moscow and the surrounding Moscow region, along with the Central and Central Black Earth Region, represent the core of Russia with a population of more than 40 million people. This area constitutes a tremendous potential for growth driven by the strength of Moscow as the capital and industrial and financial center of the country, and Nizhny Novgorod, a large industrial center and the third most populous Russian city after Moscow and St. Petersburg. VimpelCom considers its acquisition of 900 MHz in addition to 1800 MHz frequencies to be an extremely important strategic development which will enable it to roll out and operate the most advanced GSM-900/1800 network in this vital area of the country.

back next

NYSE

Годовой отчет
Annual Report 1998



# Vimpelcom's strategic alliance with Telenor

Worldwide consolidation within the telecommunications industry has been occurring with ever increasing speed over the last few years. The global telecommunications industry has been marked by several mergers, new alliances and cross ownership structures, which have dramatically altered the landscape for fostering competition. These transformations have assisted telecommunications companies in reducing overall costs through synergies and economies of scale, accelerating progress in technology and product development and providing attractive integrated service offerings to their customers.

Once VimpelCom was awarded its four new GSM-1800 licenses, it became clear that the time was right to seek an experienced, strategic partner to help develop these licenses and thus transform VimpelCom into a national cellular telecommunications provider. In December 1998, VimpelCom signed a strategic investment agreement with Telenor, Norway's leading telecommunications company. Under the terms of the agreement, Telenor is expected to purchase newly-issued shares of VimpelCom Common Stock representing 25.7% of VimpelCom's total voting power (31.6% of VimpelCom's Common Stock) for approximately US $162 million or US$18.19 per share (US$13.64 per ADS). The transaction was overwhelmingly approved on January 29, 1999, at VimpelCom's extraordinary shareholder meeting where three Telenor designees were also elected to the nine member VimpelCom Board of Directors. VimpelCom expects to close the transaction by June 1999, subject to the fulfillment of various regulatory approvals and conditions precedent.

Telenor's experience in developing and implementing new products, value added services and marketing techniques and positioning different cellular networks in the same market will enhance VimpelCom's strong competitive position in the Moscow and Russian markets. Telenor's experience in creating a mass cellular market will be very useful over the next few years as the Moscow cellular market matures. In addition to cellular expertise, Telenor is an experienced provider of wireline telephone services, Internet and satellite communications. This experience and practical knowledge will help VimpelCom develop into an operator providing a variety of complementary telecommunications services.

VimpelCom and Telenor will exchange technical know-how and marketing expertise pursuant to services agreements. VimpelCom is expected to benefit from Telenor's experience in penetrating and developing the cellular communications mass market and Telenor intends to benefit from VimpelCom's extensive engineering expertise. VimpelCom and Telenor believe that the combined expertise of the alliance will give VimpelCom the competitive advantage necessary to position itself as a leading telecommunications group in Russia and the CIS.

Recently, Telenor and Telia, Sweden's leading telecommunications company, signed a letter of intent to merge into a new company. The parties will have equal voting rights, thereby ensuring equal influence. The new company will become one of the leading telecommunications groups in Northern Europe with annual revenues of approximately US$10 billion. VimpelCom considers this to be a favorable development which will provide the Company with access to an even larger telecommunications group, thus increasing opportunities for expanded cooperation.

back next

NYSE

Годовой отчет
Annual Report 1998



# Investor relations

VimpelCom has continued to demonstrate transparency through its active investor relations program and meeting with investor groups and analysts regularly in order to present the Company's accomplishments and value. As a result, VimpelCom has established a large base of analyst coverage, with reports published within the last year by world-class investment banks and brokerages such as Goldman Sachs, Morgan Stanley Dean Witter, Merrill Lynch, Donaldson, Lufkin & Jenrette, Salomon Smith Barney, Deutsche Morgan Grenfell, Brunswick Warburg, ABN AMRO, Dresdner Kleinwort Benson, Bear Stearns, MFK Renaissance, Arnhold and S. Bleichroeder, Daiwa and others.

back next

NYSE

Годовой отчет
Annual Report 1998



# Financial highlights

*(Dollar amounts in thousands, except per share)*

| (US GAAP) | 1998 | 1997 | 1996 |
|---|---|---|---|
| **Operating Results** | | | |
| Total operating revenues | **375,957** | 305,930 | 213,230 |
| Net operating revenues (1) | **360,998** | 293,934 | 204,169 |
| Operating income | **101,839** | 86,822 | 70,474 |
| *% net operating revenues* | **28.2%** | *29.5%* | *34.5%* |
| Net (loss) income | **(4,715)** | 61,076 | 44,896 |
| *% net operating revenues* | **(1.3%)** | 20.8% | 22.0% |
| Net (loss) income per common share (2) | **US$(0.24)** | US$3.17 | US$2.53 |
| Net (loss) income per ADS equivalent (3) | **US$(0.18)** | US$2.38 | US$1.90 |
| EBITDA (4) | **144,108** | 112,060 | 85,923 |
| *% net operating revenues* | **39.9%** | 38.1% | 42.1% |
| **Consolidated Balance Sheet Data** *(Dollar amounts in thousands)* | | | |
| Cash, cash equivalents and Short-term investments | **16,646** | 38,502 | 48,954 |
| Working capital (deficit) | **(46,259)** | 17,628 | 35,109 |
| Property and equipment, net | **416,036** | 347,653 | 179,808 |
| Total assets | **536,067** | 483,098 | 298,889 |
| Total debt including current portion | **192,330** | 158,352 | 71,713 |
| Total liabilities | **333,131** | 275,447 | 152,314 |
| Total shareholders' equity | **202,936** | 207,651 | 146,575 |
| **Statistics** | | | |
| End of period subscribers: | | | |
| Moscow License Area | **124,037** | 110,140 | 56,584 |
| The Regions (5) | **11,525** | 6,092 | 2,630 |
| Total Subscribers | **135,562** | 116,232 | 59,214 |
| Total Employees (6) | **1,332** | 1,280 | 1,094 |
| Market share - Moscow License Area (7) | **44%** | 52% | 56% |

1. Net operating revenues after deduction of revenue based taxes.
2. Net (loss) income per share of common stock for 1996 has been adjusted to reflect the provisions of U.S. Statement of Financial Accounting Standard No. 128.
3. Net (loss) income per share of common stock has been adjusted by a factor of 1.33 to determine net income per ADS equivalent as each ADS is equivalent to three quarters of one share of common stock.
4. Operating income before depreciation, amortization and 1996 non-recurring charges.
5. The regions include Samara and other areas with operational AMPS networks.
6. VimpelCom and its principal subsidiaries.
7. Based on the Company's estimates of active subscribers (namely, subscribers who have made payments in the last two months) on its networks and on the networks of the other wireless telecommunications providers in the Moscow License Area. Published subscriber data of other wireless telecommunications providers in the

Moscow License Area and other available estimates of market share for the Moscow License Area include both active subscribers and inactive subscribers (namely, subscribers who have not made payments in the last two months). Such estimates result in a lower market share for the Company.

back next

NYSE

Годовой отчет Annual Report 1998



# Summary financial data

The summary financial data set forth below present historical consolidated financial information of VimpelCom at December 31, 1998, 1997 and 1996 and for the years then ended and has been derived from VimpelCom's audited consolidated financial statements and the notes thereto (the "Financial Statements") included elsewhere in this Annual Report. The summary financial data should be read in conjunction with the Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | Years Ended December 31, | | |
|---|---|---|---|
| | **1998** | **1997** | **1996** |
| | *(dollar amounts in thousands, except per share and per ADS amounts)* | | |
| **Consolidated Statement of Operations Data:** | | | |
| **Operating revenues:** | | | |
| Service revenues and connection fees | **US$344,793** | US$271,352 | US$173,188 |
| Sales of handsets and accessories | **30,372** | 31,934 | 35,316 |
| Installation and equipment contracts | **792** | 2,644 | 4,726 |
| Total operating revenues | **375,957** | 305,930 | 213,230 |
| Less revenue-based taxes | **(14,959)** | (11,996) | (9,061) |
| Net operating revenues | **360,998** | 293,934 | 204,169 |
| **Operating expenses:** | | | |
| Service costs | **73,736** | 63,475 | 38,501 |
| Cost of handsets and accessories sold | **24,844** | 26,028 | 21,988 |
| Cost of installation and equipment contracts | **411** | 1,971 | 4,680 |
| Selling, general and administrative expenses | **93,539** | 80,188 | 50,667 |
| Depreciation and amortization | **42,269** | 25,238 | 10,549 |
| Provision for doubtful accounts | **24,360** | 10,212 | 7,310 |
| Total operating expenses | **259,159** | 207,112 | 133,695 |
| **Operating income** | **101,839** | 86,822 | 70,474 |
| **Other income and expenses:** | | | |
| Other income | **2,146** | 1,646 | - |
| (Loss) gain on interest and securities | **(9,242)** | 6,441 | 27,603 |

| | | | |
|---|---|---|---|
| Write-down of Russian government securities | **(17,067)** | - | - |
| Interest expense | **(14,382)** | (9,071) | (32,957) |
| Net foreign exchange (loss) gain | **(48,125)** | 1,835 | 267 |
| Total other income (expenses) | **(86,670)** | 851 | (5,087) |
| **Income before income taxes and minority interest** | **15,169** | 87,673 | 65,387 |
| Provision for income taxes | **17,101** | 26,827 | 20,477 |
| Minority interest in net earnings (losses) of subsidiaries | **2,783** | (230) | 14 |
| **Net (loss) income** | **US$(4,715)** | US$61,076 | US$44,896 |
| Net (loss) income per common share (1) | **US$(0.24)** | US$3.17 | US$2.53 |
| Weighted average common shares outstanding (thousands) (2) | **19,280** | 19,280 | 17,739 |
| Net (loss) income per ADS equivalent (3) | **US$(0.18)** | US$2.38 | US$1.90 |
| **Other Data:** | | | |
| EBITDA (4) | **US$144,108** | US$112,060 | US$85,923 |
| As % of net operating revenues | **39.9%** | 38.1% | 42.1% |

| | As of December 31, | | |
|---|---|---|---|
| | **1998** | **1997** | **1996** |
| | *(in thousands)* | | |
| **Consolidated Balance Sheet Data:** | | | |
| Cash, cash equivalents and short?term investments. | **US$16,646** | US$38,502 | US$48,954 |
| Working capital (deficit). | **(46,259)** | 17,628 | 35,109 |
| Property and equipment, net. | **416,036** | 347,653 | 179,808 |
| Total assets. | **536,067** | 483,098 | 298,889 |
| Total debt including current portion (5). | **192,330** | 158,352 | 71,713 |
| Total liabilities. | **333,131** | 275,447 | 152,314 |
| Total shareholders' equity. | **202,936** | 207,651 | 146,575 |

| | As of and for the Years Ended December 31 | | |
|---|---|---|---|
| | **1998** | **1997** | **1996** |
| **Selected Industry Operating Data:** | | | |
| Estimated population of Moscow License Area (6) | **15,261,000** | 15,210,200 | 15,210,200 |
| Estimated Moscow License Area subscribers (7) | **281,000** | 210,640 | 100,000 |
| Moscow License Area penetration(8) | **1.84%** | 1.38% | 0.66% |
| **Selected Group Operating Data (9):** | | | |

| | | | |
|---|---|---|---|
| End of period subscribers: | | | |
| Moscow License Area | **124,037** | 110,140 | 56,584 |
| The Regions (10) | **11,525** | 6,092 | 2,630 |
| Total subscribers | **135,362** | 116,232 | 59,214 |
| Market share of total Moscow License Area | | | |
| Subscribers (11) | **44.1%** | 56.6% | 52. 3% |
| Estimated coverage of Moscow License Area (sq. km) (12) | | | |
| D-AMPS | **36,700** | 24,244 | 7,800 |
| GSM | **4,034** | 998 | - |
| Average monthly minutes airtime usage per subscriber (13) | **295** | 376 | 423 |
| Average monthly service revenue per subscriber (14) | **US$215** | US$277 | US$323 |
| Churn rate(15) | **53.6%** | 15.9% | 16.1% |
| Number of operational base stations: | | | |
| D-AMPS | **272** | 214 | 104 |
| GSM | **244** | 162 | - |

1. Net (loss) income per common share for 1996 has been adjusted to reflect the provisions of U.S. Financial Accounting Standard No. 128 ("FAS No. 128").
2. Weighted average common shares outstanding in 1998, 1997 and 1996 have been recalculated to reflect the provisions of FAS No. 128.
3. Net (loss) income per share of common stock has been adjusted by a factor of 1.33 to determine net (loss) income per ADS equivalent, as each ADS is equivalent to three-quarters of one share of common stock.
4. EBITDA, which represents operating income before depreciation, amortization and the non-recurring compensation charge of US$4.9 million incurred in 1996, should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under U.S. GAAP. VimpelCom believes that EBITDA is viewed as a relevant supplemental measure of performance in the cellular industry.
5. Includes bank loans and equipment financing.
6. The Moscow License Area includes the City of Moscow and the area constituting the Moscow Oblast (the "Moscow Region"). Population statistics provided for 1996 were given by the State Statistics Committee of the Russian Federation ("Goskomstat") as of December 1996. As no reliable population statistics are available for 1997, the population numbers for 1997 are shown as the same for 1996 and have been used to derive penetration rates. Population statistics for 1998 were published in the "Geography of Russia 1998" by the Scientific Publishing House Bolyshaya Russkaya Encyclopedia.
7. Based on the Group's estimates of active subscribers (namely, subscribers who have made payments in the last two months) on its networks and on the networks of the other wireless telecommunications providers in the Moscow License Area. Published data on the number of subscribers of other wireless telecommunications providers include both active subscribers and inactive subscribers (namely, subscribers who have not made payments in the last two months).
8. Total estimated Moscow License Area subscribers expressed as a percentage of the estimated population of the Moscow License Area.
9. All data is for the Moscow License Area, except where indicated.
10. Represents subscribers in the Samara, Kaluga, Karelia, Ryazan, Tver, Ulyanovsk and Vladimir AMPS license areas.
11. Based on the Company's estimates of active subscribers (namely, subscribers who have made payments in the last two months) on its networks and on the networks of the other wireless telecommunications providers in the Moscow License Area. Published subscriber data of other wireless telecommunications providers in the Moscow License Area and other available estimates of market share for the Moscow License Area include both active subscribers and inactive subscribers (namely, subscribers who have not made payments in the last two months). Such estimates result in a lower market share for the Company.
12. The Moscow License Area is 47,000 square kilometers.

13. Average monthly minutes of airtime usage per subscriber is calculated for each month in such period, by dividing the total number of minutes of usage for incoming and outgoing calls during such month by the average number of VimpelCom subscribers during that month.
14. Average monthly service revenue per subscriber is calculated for each month in such period, by dividing the VimpelCom service revenue during such month, excluding revenue from sales of handsets and accessories and connection fees, by the average number of VimpelCom subscribers during that month.
15. VimpelCom defines the "churn rate" as the total number of subscribers disconnected from the VimpelCom network in a given period expressed as a percentage of the midpoint of the number of VimpelCom subscribers at the beginning and end of such period.

# Management's discussion and analysis of financial condition and results of operations

The following is a discussion of the consolidated financial condition and results of operations of Open Joint Stock Company "Vimpel-Communications" ("VimpelCom"), together with KB Impuls, an open joint stock company organized under the laws of the Russian Federation ("KBI"), in which VimpelCom holds an 88% ownership interest, and VimpelCom's other subsidiaries and majority-owned joint venture entities (collectively, VimpelCom or the "Group") as of December 31, 1998 and for the years ended December 31, 1998, 1997 and 1996 and of certain factors that Management believes are likely to affect VimpelCom's prospective financial condition. The following should be read in conjunction with the consolidated financial statements and the notes appearing elsewhere in this Annual Report, which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

## Overview

The Group, operating under the "Bee Line" brand name, is one of the largest providers of cellular telecommunications services in Russia, including the City of Moscow and the area constituting the Moscow Oblast (the "Moscow Region"). The City of Moscow, together with the Moscow Region (the "Moscow License Area") is currently VimpelCom's primary market. The Group holds licenses to operate cellular networks using the AMPS/D-AMPS and GSM-900/1800 standards covering a total population of approximately 100 million (70% of the population of the Russian Federation). The Group operates the only D-AMPS 800 MHz cellular network in the Moscow License Area and holds licenses to operate AMPS networks in eight additional AMPS license areas (Kaluga, Karelia, Ryazan, Samara, Tver, Ulyanovsk, Vladimir and Vologda), some of which are adjacent to Moscow. Since June 1997, the Group has also provided GSM-1800-based cellular services in the Moscow License Area. In April 1998, the State Committee of the Russian Federation on Communications and Informatization (the "SCCI") re-issued a GSM-1800 license for the Moscow License Area to the Group and awarded the Group four new licenses in a competitive tender in which a total of 16 licenses were awarded to operate GSM-1800 cellular networks in eight areas which, in the aggregate, comprise the territory of the Russian Federation. The Group expects to commence operations in the four new GSM license areas (Central and Central Black Earth, Volga, North Caucasus and Siberian regions) by the fourth quarter of 1999 in accordance with the terms of the GSM-1800 licenses to the extent such operations are economically viable. In August 1998, the SCCI amended the Group's GSM-1800 licenses for the Moscow License Area and the Central and Central Black Earth license area, permitting the Group to provide dual band GSM-900/1800-based cellular services in such license areas. The Group began providing such services in October 1998 in the Moscow License Area.

In December 1998, VimpelCom announced that it had signed an agreement with Telenor East Invest AS, a wholly-owned subsidiary of Telenor AS (collectively, "Telenor"), Norway's leading telecommunications company, whereby Telenor would purchase a strategic interest in VimpelCom. Under the terms of the proposed transaction, Telenor would acquire 8,902,201 newly-issued shares of common stock of VimpelCom ("Common Stock") for approximately US $162 million or US$18.19 per share of Common Stock (US$13.64 on an American Depositary Share ("ADS") equivalent basis). The transaction was approved by an extraordinary general meeting of VimpelCom's shareholders (the "EGMS") on January 29, 1999 and is subject to regulatory approvals and certain other conditions precedent to closing, which, if met, will result in the closing of the transaction by June 1, 1999. Upon issuance, the shares would represent approximately 25.7% of VimpelCom's total outstanding voting capital stock or approximately 31.6% of the total outstanding Common Stock. This capital infusion will be used by VimpelCom to continue the build out of the Group's GSM networks in the Moscow License Area, pay certain frequency fees, make opportunistic acquisitions, develop an Internet business, further develop its fiber optic network and begin the evolutionary development of the Group's regional GSM licenses. At the January 1999 EGMS, three Telenor designees were elected to the nine-member VimpelCom Board of Directors.

In 1999, the Group's main task will be the build-out of its GSM-900/1800 dual band network in the Moscow License Area. In addition, the Group expects to begin the development of its GSM License Areas on a selective basis by commencing operations in several cities in the Central and Central Black Earth license area. Further, it is the intention of the Group to gradually develop other complementary communication services, in particular, to further develop its fiber networks and to develop an Internet business.

### *Revenues*

VimpelCom's principal sources of revenues are airtime usage fees, monthly access fees, connection fees and sales of handsets and accessories. Airtime usage fees include fees collected for all outgoing calls and incoming calls, except incoming calls from another VimpelCom subscriber. VimpelCom's net operating revenues have increased annually since it began full-scale commercial operations in 1994 and were US$361.0 million, US$293.9 million and US$204.2 million in 1998, 1997 and 1996 respectively. Prior to the onset of the Russian economic crisis, VimpelCom's revenue growth reflected Russian market conditions, where the relative unavailability and low quality of wireline telecommunications services yielded high usage rates and relatively price-insensitive demand. As a consequence, VimpelCom was able to increase its revenues primarily by increasing the number of its subscribers. As a result of the economic crisis, demand for the Group's cellular services slowed and the Group's churn rate increased sharply, resulting in a net loss of subscribers in the fourth quarter of 1998. However, notwithstanding the difficult operating conditions created by the economic crisis, the Group experienced a 13% increase in its subscriber base during 1998. VimpelCom's subscriber base in the Moscow License Area was 124,037 as of December 31, 1998, an increase from 110,140 as of December 31, 1997 and 56,584 as of December 31, 1996.

Similar to the experience of other providers of wireless services in more mature cellular markets, VimpelCom's total service revenues have increased on an annual basis, but VimpelCom's average monthly service revenues per subscriber and average monthly usage per subscriber have declined over time with the addition of new subscribers who generally tend to have lower airtime usage than earlier subscribers. Average monthly service revenue per subscriber was US$215, US$277 and US$323 in 1998, 1997 and 1996, respectively, representing annual decreases of 22% in 1998 and 14% in 1997. The decreases in average monthly service revenue per subscriber during 1998, 1997 and 1996 were primarily due to a decrease in airtime usage. The more pronounced decline in average monthly service revenue per subscriber in 1998 was due to the economic crisis in Russia, the first effects of which were felt by the Group in the fourth quarter of 1998 and which resulted in the Group experiencing a sharp decline in airtime usage by its subscribers in the fourth quarter of 1998. Management expects these trends to continue in 1999, largely due to the expected continued weakness of the Russian economy and the Group's introduction of prepaid card services and other reduced tariff plans aimed at price-sensitive subscribers. VimpelCom's average monthly airtime usage per subscriber has remained high as compared to most Western countries. For example, in the United States, the average monthly airtime usage per subscriber was approximately 121 minutes in 1998 and 110 minutes in each of 1997 and 1996. VimpelCom's average monthly airtime usage per subscriber was 295 minutes, 376 minutes and 423 minutes in 1998, 1997 and 1996, respectively, representing annual decreases of 22% in 1998 and 11% in 1997. The more pronounced decline in average airtime usage per subscriber in 1998 was due to the economic crisis in Russia, the first effects of which were felt by the Group in the fourth quarter of 1998 and which resulted in the Group experiencing a sharp decline in airtime usage by its subscribers in the fourth quarter of 1998.

Revenues from connection fees and revenues from the sale of handsets and accessories to subscribers have declined as a percentage of VimpelCom's net operating revenues, reflecting a larger subscriber base and a reduction in the price of handsets and connection fees. Revenues from connection fees represented approximately 1%, 5% and 13% of VimpelCom's net operating revenues in 1998, 1997 and 1996, respectively. Revenues from the sale of handsets and accessories as a percentage of VimpelCom's net operating revenues were 8.4%, 10.9% and 17.3% in 1998, 1997 and 1996, respectively. Management expects revenues from connection fees and revenues from the sale of handsets and accessories to continue to decline in importance as sources of revenue for VimpelCom, as has been experienced in other cellular markets around the world, as a growing subscriber base contributes service revenues and as connection fees and handset prices are reduced as a means of maintaining and increasing the Group's market share in light of the economic crisis and growing competition among operators in the Moscow License Area.

Due to the economic crisis in Russia, the Group's churn rate for 1998 was an extraordinarily high 53.6%, as compared to 15.9% and 16.1% in 1997 and 1996, respectively. The churn rate includes subscribers involuntarily terminated by VimpelCom for failure to make required payments. In 1998, subscribers who were involuntarily terminated represented approximately 67% of the total number of subscribers whose service was disconnected. The industry average churn rate in the United States in 1998 was over 24%. In light of the present economic climate in Russia, Management expects the Group's churn rate to remain high during 1999 before stabilizing.

### *Expenses*

VimpelCom's principal operating expenses are (i) selling, general and administrative expenses, which include expenses of acquiring subscribers, (ii) service costs, which consist primarily of interconnection costs (payments to interconnect suppliers for transmitting local, long distance and international calls on the other networks) but do not include any labor costs (which are included in selling, general and administrative expenses), (iii) depreciation and amortization charges relating primarily to the ongoing investment in network equipment and the use of line capacity (property and equipment are amortized over periods ranging from five to twenty years), (iv) the cost of handsets and accessories sold to dealers and subscribers, (v) equipment maintenance contracts and (vi) frequency usage fees, including GSM-900 frequency payments (such expenses will be amortized over the ten-year life of the license).

In 1998, VimpelCom recorded a net operating loss of US$4.7 million, its first annual net loss since the commencement of full scale commercial operations in June 1994. VimpelCom had reported net income of US$61.1 million and US$44.9 million in 1997 and 1996, respectively, and net income margins of 20.8% and 22.0% for 1997 and 1996, respectively. The Group's net loss in 1998 was primarily due to losses on foreign exchange, which arose as a result of the sharp decline of the ruble relative to the US dollar in the last five months of 1998, as well as the Group's write-down of approximately US$26.3 million of its GKO holdings (Russian government short-term treasury bills) and losses on other securities trading. The Group, similar to many other enterprises, financial institutions and investment funds, had viewed GKOs as a reliable investment and hedge against inflation and was not able to foresee the August 1998 default. The Group will recover some of the losses on its GKO holdings upon the conclusion of the ongoing rescheduling process between GKO investors and the Russian Government (the "Government"). The amount of such write-back is expected to be small in relation to the value of the Group's GKO holdings at the time of the Government's default. Despite the economic crisis, the Group's operating margin in 1998 was 28.2% compared to 29.5% in 1997 and 34.5% in 1996. The decline in the Group's operating margin in 1998 compared to 1997 and 1996 was primarily due to higher provisions for doubtful accounts receivable and higher depreciation and amortization charges which more than offset the improvement in service margins achieved in 1998. The improvement in service margins achieved in 1998 were due to better volume discounts for airtime negotiated with third party service providers.

The gross margin on the sale of handsets and accessories was 18.2% in 1998, 18.5% in 1997 and 38.0% in 1996. Unlike providers of cellular telecommunications services in the United States and Western Europe, VimpelCom has been able to maintain positive gross margins on the sale of handsets and accessories during these periods, as the decrease in the price of handsets and accessories has been offset to some extent by reductions in their cost. Management expects that gross margins on sales of handsets and accessories will continue to decline as VimpelCom reduces prices of handsets and accessories in order to expand subscriber enrollment, as is the case in more mature cellular markets where providers often subsidize handsets in order to boost subscriber enrollment. The prices of handsets and accessories are expected to decline more rapidly in 1999 than in 1998 and 1997 as Management plans to continue to develop and introduce more price-sensitive products as a means of maintaining and increasing the Group's market share in light of the Russian economic crisis and growing competition among operators in the Moscow License Area. For example, in the first quarter of 1999, the Group is offering some handsets for as little as US$99 each as part of a promotion, which is substantially lower than the average selling price of handsets in 1998.

The Group's strategy has involved the design, implementation and operation of a unified D-

AMPS network in the Moscow License Area while at the same time commencing the build out of its strategically important GSM technology. At the end of 1998, the Group's build out of its Moscow D-AMPS network was substantially complete.

In 1998, total capital additions amounted to approximately US$109.6 million, which included approximately US$69.5 million for network equipment (including other telephone equipment and network equipment acquired under financing agreements), approximately US$18.7 million for line capacity, approximately US$3.0 million for fiber optic cabling, approximately US$18.4 million for other capital expenditures including buildings and leasehold improvements. In 1998, the Group also made a US$5.5 million partial payment for the GSM-900 frequencies it received for the Moscow License Area and the Central and Central Black Earth license area. The balance of US$24.5 million is to be paid by December 31, 1999.

In 1999, in line with the Group's overall strategy of maintaining market leadership, the Group plans to build out its dual-band GSM-900/1800 network in the Moscow License Area by increasing the number of base stations and significantly extending the coverage area. In 1999, total capital expenditures related to the continued development of the Group's GSM-900/1800 networks in the Moscow License Area and other expenditures related to the Group's networks are expected to amount to approximately US$60.0 million. In addition, in 1999, the Group plans to spend approximately US$9.0 million for the initial development of its regional GSM networks by commencing operations in several cities in the Central and Central Black Earth license areas. Such licenses generally require start of service of the networks in the GSM license areas by October 1999 but do not have any requirements relating to the coverage, level of service or number of subscribers at such time. In addition to the start of service requirements, the GSM-1800 licenses require service to commence in the capital cities and certain large cities of the GSM license areas by 2001. In addition, during 1999, the Group is expected to complete the schedule of payments relating to its GSM-900 frequencies totaling US$24.5 million.

Management believes that the combination of D-AMPS and GSM technologies will enable it to compete more effectively, and that the combination of the networks will provide the spectrum capacity to enable the Group to substantially increase the number of subscribers and to lower the average operating cost per subscriber. Lower costs may be achieved as a result of potential synergies between the Group's D-AMPS and GSM networks which include (i) the use of existing distribution networks, administrative systems, business processes, customer service centers and information and billing systems, (ii) joint purchases of equipment and facilities, including towers, buildings, power supplies, antennas, leased lines and microwave and fiber optic equipment and (iii) common business development, corporate services and financing.

Management expects that funds for its network equipment acquisitions and other capital expenditures will come from a combination of internally generated cash flows from operations, proceeds from the Telenor transaction and vendor and bank financings.

The Group's future growth and results of operations will depend significantly on a variety of factors, including (i) the Group's ability to attract new subscribers, (ii) the rate of growth of the subscriber base, (iii) revenues generated from subscribers, (iv) the economic and political situation in Russia, (v) tariff structures, (vi) interconnection fees, (vii) the Group's ability to control expenditures relating to constructing and expanding the Group's networks, (viii) the regulatory environment, (ix) the range and type of services offered, (x) the development of and services provided to the Group's subscriber base and (xi) the extent of competition in the wireless market.

back next

NYSE

Годовой отчет Annual Report 1998



# Results of Operations

The following table sets forth, for the periods indicated, the percentage which certain amounts bear to net operating revenues.

| | As of and for the Years Ended December 31 | | |
|---|---|---|---|
| | 1998 | 1997 | 1996 |
| **Consolidated Statement of Operating Data:** | | | |
| **Operating revenues:** | | | |
| Service revenues and connection fees | 95.5% | 92.3% | 84.8% |
| Sales of handsets and accessories | 8.4 | 10.9 | 17.3 |
| Installation and equipment contracts | 0.2 | 0.9 | 2.3 |
| Total operating revenues | 104.1 | 104.1 | 104.4 |
| Less revenue-based taxes | (4.1) | (4.1) | (4.4) |
| Net operating revenues | 100.0% | 100.0% | 100.0% |
| **Operating expenses:** | | | |
| Service costs | 20.4% | 21.6% | 18.9% |
| Cost of handsets and accessories sold | 6.9 | 8.8 | 10.7 |
| Cost of installation and equipment contracts | 0.2 | 0.7 | 2.3 |
| Selling general and administrative expenses | 25.9 | 27.3 | 24.8 |
| Depreciation and amortization | 11.7 | 8.6 | 5.2 |
| Provision for doubtful accounts | 6.7 | 3.5 | 3.6 |
| Total operating expenses | 71.8% | 70.5% | 65.5% |
| **Operating income** | 28.2% | 29.5% | 34.5% |
| **Other income and expenses:** | | | |
| Other income | 0.6% | 0.6% | - |
| (Loss) gain on securities | (2.6) | 2.2 | 13.5 |
| Write-down of Russian government securities | (4.7) | - | - |
| Interest expense | (4.0) | (3.1) | (16.1) |
| Net foreign exchange (loss) gain | (13.3) | 0.6 | 0.1 |
| Total other income and expenses | (24.0)% | 0.3% | (2.5)% |
| **Income before income taxes and minority interest** | 4.2% | 29.8% | 32.0% |
| Provision for income taxes | 4.7% | 9.1% | 10.0% |
| Minority interest in net earnings (losses) of subsidiaries | 0.8 | (0.1) | ------- |
| **Net (loss) income** | (1.3)% | 20.8% | 22.0% |

***Year Ended December 31, 1998 Compared to Year Ended December 31, 1997***

VimpelCom's total operating revenues (before deduction of revenue-based taxes) for the year ended December 31, 1998 increased 23% to US$376.0 million from US$305.9 million in 1997, primarily due to the growth in the number of subscribers. Service revenues and connection fees increased 27% to US$344.8 in 1998 from US$271.4 million in 1997 and represented approximately 95% of total operating revenues in 1998 as compared to 92% in 1997. In 1998, gross revenues from the sale of handsets and accessories were US$30.4 million, lower than the US$31.9 million reported in 1997. Such amount represented approximately 8% of total operating revenues in 1998 as compared to approximately 11% in 1997. Management expects connection fees and revenues from the sale of handsets and accessories to continue to decline in importance as sources of revenue for VimpelCom as a growing existing subscriber base contributes service revenues and as connection fees and handset prices are reduced as a means of maintaining and increasing the Group's market share in light of the Russian economic crisis and growing competition among operators in the Moscow License Area, as has been experienced in other cellular markets around the world.

In 1998, revenue-based taxes increased 25% to US$15.0 million, compared to US$12.0 million in 1997. The increase in revenue-based taxes was due primarily to higher revenues. These taxes are not income taxes, but are levied as a percentage of revenues.

In 1998, the gross margin on the sale of handsets and accessories was 18.2%, a slight reduction from the 18.5% gross margin achieved in 1997. Management expects the gross margin on sales of handsets and accessories to continue to decrease as VimpelCom lowers handset prices as a means of maintaining and increasing the Group's market share in light of the Russian economic crisis and growing competition among operators in the Moscow License Area. This is similar to experiences in more mature cellular markets where companies often subsidize handsets in order to boost subscriber enrollment.

Selling, general and administrative expenses increased 17% to US$93.5 million in 1998 compared to US$80.2 million in 1997, but declined as a percentage of net operating revenues to 25.9% in 1998 compared to 27.3% in 1997. The increase in selling, general and administrative expenses primarily reflects the overall increase in the level of business activity in 1998 prior to the Russian financial crisis, compared to 1997, including increased expenditures in advertising, marketing, dealer commissions and other customer-related and administrative facilities. In response to the Russian financial crisis, the Group introduced a series of measures which led to a reduction in selling, general and administrative expenses in the fourth quarter of 1998 as compared to each of the first three quarters of 1998.

VimpelCom recorded a US$24.4 million provision for doubtful accounts receivable in 1998, an increase of 139% compared to US$10.2 million in 1997. The increase in the provision for doubtful accounts receivable was largely due to the economic crisis in Russia which resulted in customers taking longer to pay their bills and an increase in the number of customers from whom the Company believed payment was unlikely. Provision for doubtful accounts receivable represented 6.7% of net operating revenues in 1998, compared to 3.5% in 1997. The Group continues to believe the method used to compute the provision for doubtful accounts receivable is conservative and more than adequate based upon its experiences to date.

In 1998, depreciation and amortization of network equipment, telephone line capacity, building and other asset charges was US$42.3 million, a 68% increase compared to US$25.2 million in 1997. This increase was due to the increased depreciable asset base resulting from the Group's continuing capital investments in its networks and the amortization of the GSM-900 frequency fees incurred by the Group during 1998. The Group expects to make significant capital expenditures over the next few years as it continues to expand its existing GSM 900/1800 network in the Moscow License Area and commences the gradual development of its regional GSM licenses. Accordingly, depreciation and amortization expenses are expected to continue to continue to increase.

VimpelCom generated operating income of US$101.8 million in 1998, an increase of 17% compared to US$86.8 million in 1997. This increase was primarily due to the increase in subscribers. The operating margin (operating income as a percentage of net operating revenues) in 1998 was 28.2%, slightly lower than the 29.5% reported in 1997. The decline in the Group's operating margin in 1998 compared to 1997 and 1996 was primarily due to higher provisions for doubtful accounts receivable and higher depreciation and amortization charges which more than offset the improvement in service margins achieved in 1998. The improvement in service margins achieved in 1998 were due to better volume discounts for airtime negotiated with third party service providers.

Total net other expenses in 1998 were US$86.7 million compared to US$0.9 million in 1997. Other income was US$2.1 million in 1998, primarily representing investment income from the Group's interest in its 50% joint venture, Bee-Line Samara, compared to US$1.6 million in 1997. Net interest expense in 1998 was US$40.7 million, compared to US$2.6 million in 1997. The higher net interest expense was due to a combination of higher interest expense amounting to US$14.4 million and losses sustained on securities trading including the write-down of the Group's GKO holdings (short-term Russian government treasury bonds), following the Government's decision in August 1998 to default on these obligations. The Group's foreign currency exchange loss in 1998 was US$48.1 million compared to a foreign currency gain of US $1.8 million in 1997. The foreign exchange loss in 1998 was due primarily to the significant decline in the ruble as compared to the U.S. dollar during the last five months of the year. In 1997, the ruble was relatively stable against the U.S. dollar and the foreign currency exchange gain was primarily due to the strength of the U.S. dollar over the Swedish Krona and arose on re-valuing outstanding loans payable in Swedish Krona to an equipment supplier.

The provision for income taxes for 1998 was US$17.1 million, compared to US$26.8 million in 1997. The Group's effective tax rate in 1998 was 112.7% compared to a rate of 30.6% in 1997. The Group's higher effective tax rate for 1998 compared to 1997 was primarily due to the increase in disallowed expenses for income tax purposes under Russian law (including advertising, loss on foreign exchange and the write-down of Russian government securities) and the effect of timing differences between the basis of computing income under Russian tax principles and U.S. GAAP.

Provisions for income taxes were comprised of a current income tax charge of US$16.6 million for 1998 and US$11.4 million in 1997, and deferred taxes of US$0.5 million for 1998 and US $15.4 million in 1997, which arise due to differences between the basis of computing income under Russian tax principles and U.S. GAAP.

VimpelCom recorded a net loss of US$4.7 million in 1998, as compared to net income of US $61.1 million in 1997, due to the factors discussed above.

### *Year Ended December 31, 1997 Compared to Year Ended December 31, 1996*

VimpelCom's total operating revenues (before deduction of revenue-based taxes) for the year ended December 31, 1997 increased by 43% to US$305.9 million from US$213.2 million in 1996 primarily due to the growth in the number of subscribers. Service revenues and connection fees grew by 57% from US$173.2 million in 1996 to US$271.4 million in 1997 and represented approximately 92% of net operating revenues as compared to 85% in 1996. In 1997, gross revenues from the sale of handsets and accessories declined by 10% from US $35.3 million in 1996 to US$31.9 million. Such amount represented 11% of net operating revenues in 1997 as compared to 17% in 1996.

In 1997, revenue-based taxes increased by 32% to US$12.0 million compared to US$9.1 million in the corresponding period in 1996. The increase in revenue-based taxes was due primarily to higher revenues. These taxes are not income taxes, but are levied as a percentage of revenues.

During 1997, the gross margin on the sale of handsets and accessories was 18%, a reduction from 38% in 1996. During the fourth quarter of 1997, VimpelCom ran a series of promotions to attract new subscribers which resulted in lower gross margins on sales of handsets and accessories for 1997 compared to prior years and the first three months of 1998. The sales margin on connection and service revenues was slightly lower in 1997 than in 1996 due primarily to the reduction in connection fees charged to subscribers.

Selling, general and administrative expenses increased 58% to US$80.2 million in 1997 from US $50.7 million in 1996. This increase primarily reflects the overall increase in the level of business activity in 1997 compared to 1996, including increased expenditures in advertising, marketing, dealer commissions and other customer-related and administrative facilities. In addition, 1997 includes start-up costs relating to the new GSM-1800 network.

VimpelCom recorded a US$10.2 million provision for doubtful accounts receivable in 1997 compared to US$7.3 million in 1996. The increase in the provision for doubtful accounts receivable was due primarily to the increase in the level of business activity in 1997 and represented 3.5% of net operating revenues compared to 3.6% in 1996.

Depreciation and amortization of network equipment, telephone line capacity, building and other asset charges in 1997 was US$25.2 compared to US$10.5 million in 1996. This increase is due to the increased depreciable asset base resulting from the Group's continuing capital investments.

VimpelCom generated operating income of US$86.8 million in 1997, an increase of 23% compared to US$70.5 million in 1996. This increase was primarily due to the increase of subscribers. The operating margin (operating income as a percentage of net operating revenues) in 1997 was 29.5% as compared to 34.5% in 1996. This decline was due to higher operating expenses (including depreciation and amortization) and a reduction in the margin on sale of handsets, as described above.

Total net other income was US$0.9 million in 1997 compared to a total net other expense of US $5.1 million in 1996. Other income was US$1.6 million in 1997, US$1.2 million of which comprises investment income from the Group's interest in its 50% joint venture, Bee Line-Samara. Net interest expense was US$2.6 million in 1997, as compared to US$5.4 million in 1996. The lower net interest charge was due to higher interest income. The foreign currency exchange gain was US$1.8 million in 1997 compared to a foreign currency gain of US$0.3 million in 1996. This foreign currency exchange gain was primarily due to the increase of the US dollar compared to the Swedish Krona and arose on re-valuing outstanding loans payable in Swedish Krona to an equipment supplier.

The provision for income taxes for 1997 was US$26.8 million, compared to US$20.5 million in 1996. The effective tax rate in 1997 was 30.6% compared to a rate of 31.3% in 1996. The lower tax rate in 1997 was primarily due to the amount and mix of expenses classified as allowed and disallowed expenses for income tax purposes under Russian law and on certain timing differences between the basis of computing income under Russian statutory principles and U.S. GAAP, and the benefit of having interest income taxed at a lower rate than the statutory rate applied to operating income of 35%.

Provisions for income taxes were comprised of a current income tax charge of US$11.4 million for 1997 and US$5.1 million in 1996, and deferred taxes of US$15.4 million for 1997 and US $15.4 million in 1996, which arise due to temporary differences between the basis of computing income under Russian tax principles and U.S. GAAP.

VimpelCom's net income grew 36% from US$44.9 million in 1996 to US$61.1 million in 1997 due to the factors discussed above.

back next

NYSE

Годовой отчет
Annual Report 1998



# Liquidity and Capital Resources

VimpelCom operates a capital and marketing-intensive business which has grown over the last few years and which will continue to demand significant investments over the next few years. In 1998, VimpelCom's financial condition and results of operations were adversely affected by the sharp decline in the ruble against the U.S. dollar, which reduced the U.S. dollar equivalent of the Group's net monetary assets denominated in rubles (including cash and cash equivalents and short-term investments), and by the decision of the Government to effectively default on its GKO obligations. The Government's default resulted in the Group having to write-down its GKO holdings and other investments by approximately US$26.3 million. These two factors largely resulted in the Group recording its first annual net loss since the start of commercial operations in 1994. The Group will write-back some of its GKO holdings upon the conclusion of the ongoing rescheduling process between GKO investors and the Government. However, the amount of such write-back is expected to be small in relation to the value of the Group's GKO holdings at the time of the Government's default.

Prior to 1998, VimpelCom had been profitable and had generated positive cash flows from its operations which had enabled it to meet its day-to-day operational cash requirements. Despite the Russian economic crisis and the loss of monetary assets as described above, the Group ended 1998 with cash and cash equivalents of US$14.5 million and short-term investments of US$2.2 million. The Group has met and continues to meet all of its short-term liabilities. Through 1998, VimpelCom had also relied heavily on vendor financing for the development of its networks, and, to a lesser extent, on short-term bank borrowings for financing. In January 1998, ING Bank N.V. ("ING Bank") agreed to fund a five-year US$110.0 million credit facility to the Group in the form of LM Ericsson Telephone Company and its affiliates (collectively, "Ericsson") transferring ultimate collection rights under the Ericsson Agreements (as defined herein) from Ericsson to ING Bank. This credit was used in 1998 to refinance existing vendor financing and reduced the Group's reliance on vendor financing to fund its D-AMPS network equipment purchases.

In June 1998, the Group obtained a one-year US$10.0 million loan from Citibank T/O, a Russian licensed bank which is a subsidiary of Citibank ("Citibank"). The purpose of the loan was to meet short-term working capital needs. The Citibank loan bears interest at an annual rate of the London Interbank Offered Rate ("LIBOR") plus 4%, which is to be paid semi-annually by the Group. The Group anticipates repaying the principal and remaining interest on the Citibank loan by June 1999 in accordance with the terms of its agreement with Citibank. In August 1998, VimpelCom obtained a six-month US$4.6 million loan from Commercial Bank Platina ("Platina Bank") to meet short-term working capital needs. The Platina Bank loan bore interest at an annual rate of 20%, which was payable monthly. The Group repaid the Platina Bank loan in full in October 1998. Due to the introduction of stricter foreign exchange controls by the Central Bank of Russia (the "Central Bank") in December 1998, VimpelCom entered into an agreement with Platina Bank whereby VimpelCom is permitted to buy U.S. dollars with its surplus rubles by taking out short-term hard currency loans with the bank (up to US$2.0 million outstanding at any time). At December 31, 1998, VimpelCom had US$0.8 million of indebtedness to Platina Bank as a result of loans granted pursuant to such agreement. In addition, in January 1999, VimpelCom entered into a US$27.8 million standby credit facility with Commercial Bank "Sberegatelny Bank of the Russian Federation" ("Sberbank"), the largest Russian bank. The annual rate of interest on the Sberbank credit facility varies between 15.0% and 19.5% and is payable quarterly. The Sberbank credit facility is available until May 15, 1999 and if drawn down, principal would be repayable in quarterly installments starting in November 1999 and the final payment of principal and interest would be due in November 2000. As security for this facility, 1,850,000 shares of Common Stock have been pledged to Sberbank by a legal entity controlled by VimpelCom's President and Chief Executive Officer. If the Sberbank credit is drawn down in an amount in excess of US$18.0 million, further security will be required by Sberbank in the form of a pledge of equipment and immovable property valued at US$5.0 million.

On December 1, 1998, VimpelCom and Telenor signed an agreement whereby Telenor is expected to purchase a strategic interest in VimpelCom. Under the terms of the proposed transaction, Telenor would acquire 8,902,201 newly-issued shares of Common Stock for approximately US$161.9 million or US$18.19 per share of Common Stock (US$13.64 on an ADS equivalent basis). The transaction was approved by the EGMS on January 29, 1999 and is subject to regulatory approvals and certain other conditions precedent to closing. The closing of the transaction is expected to occur by June 1, 1999. Upon issuance, the shares will represent approximately 25.7% of VimpelCom's total outstanding voting capital stock or approximately 31.6% of the total outstanding Common Stock. This capital infusion will be used by VimpelCom to continue the build out of the Group's GSM network in the Moscow License Area, pay certain frequency fees, make opportunistic acquisitions, develop an Internet business, further develop its fiber optic network and begin the evolutionary development of the Group's regional GSM licenses.

On November 20, 1996, VimpelCom completed its initial public offering (the "IPO"), the net proceeds of which were US$63.3 million and were used to (i) repay certain outstanding indebtedness, (ii) purchase line capacity, (iii) purchase equipment, (iv) finance the build out of the GSM-1800 network in the Moscow License Area, (v) expand the Group's fiber optic transmission network and (vi) finance working capital needs.

VimpelCom's consolidated statements of cash flows classify cash flows into three broad categories: cash flows from operating activities, financing activities and investment activities.

Net cash flows from operating activities were US$92.8 million, US$82.8 million and US$72.0 for 1998, 1997 and 1996, respectively. The increased cash flow in 1998 reflects the strong operating income generated in 1998 prior to the onset of the Russian financial crisis, and the overall effect on the Group of other changes in working capital and other assets and liabilities.

Financing activities of VimpelCom used net cash of US$12.6 million in 1998 and generated net cash of US$6.1 million and US$25.2 million in 1997 and 1996, respectively. Cash flows from financing activities include cash flow from capital contributions, bank loans and repayments, vendor financing transactions and net proceeds from the IPO. In 1998, the Group borrowed US $15.6 million from banks and repaid US$15.8 million in bank loans. In addition, in 1998, the Group repaid US$12.4 million in vendor lease financing contracts. In 1997, the Group had net inflows of short-term bank borrowings of US$7.2 million and repaid US$5.1 million in vendor lease financing contracts. In 1996, the IPO provided VimpelCom with net cash proceeds of US $63.3 million, net repayment under vendor financing contracts amounted to US$7.8 million and a net amount of US$14.7 million was repaid to local banks to pay down certain bank loans. In addition, in 1996, VimpelCom repurchased treasury stock totaling US$18.0 million which was subsequently given in consideration for the acquisition of KBI.

Each year, VimpelCom has continued to invest in its networks, purchase line capacity and generally upgrade its infrastructure to enable it to meet subscriber growth in the market. Net cash used in investment activities and the purchase of property and equipment totaled US$72.5 million in 1998, US$107.8 million in 1997 and US$72.8 million in 1996. In 1998, purchase of property and equipment amounted to US$67.0 million. In addition, the Group also made a US $5.5 million partial payment for the GSM-900 frequencies it received for the Moscow License Area and the Central and Central Black Earth license area. In 1997, purchase of property and equipment amounted to US$107.8 million. In 1996, purchase of property and equipment amounted to US$73.9 million and proceeds from other investments were US$1.1 million.

VimpelCom had a working capital deficit, defined as current assets less current liabilities, of US $46.3 million as of December 31, 1998, a decrease of US$63.9 million from a working capital surplus of US$17.6 million at December 31, 1997. The decrease in working capital in 1998 was due to a combination of factors, including the substantial loss incurred on the Group's GKO and other Russian investments, the sharp increase in accounts payable resulting from the acquisition of frequencies for the Group's GSM-900 licenses and, in general, a much sharper drop in other current assets in relation to current liabilities. As of December 31, 1997, VimpelCom had working capital of US$17.6 million, a decrease of US$17.5 million from US $35.1 as of December 31, 1996. This decrease in working capital was due primarily to an increase in subscriber deposits, an increase in short-term borrowings and a reduction in cash and short-term investments from the net proceeds of the IPO.

VimpelCom had US$14.5 million of cash and cash equivalents and had US$2.2 million in short-term investments at December 31, 1998.

For the development of its D-AMPS network, VimpelCom has relied significantly on vendor financing provided by AB LM Ericsson Finans with terms that Management believes are commercially advantageous for the Group. The value of equipment acquired from financing agreements from Ericsson was US$34.9 million in 1998, US$55.7 million in 1997 and US$41.5 million in 1996. As of December 31, 1998, VimpelCom had acquired equipment pursuant to eight equipment supply agreements with Ericsson (the "Ericsson Agreements") with a total value of approximately US$175.0 million. The Ericsson Agreements have either related supplier credit facilities or sale and lease arrangements with options to purchase the equipment. In January 1998, agreements between Ericsson and ING Bank were entered into at the request of Ericsson as part of its risk management strategy which transferred ultimate collection rights under the Ericsson Agreements from Ericsson to ING Bank. While VimpelCom will continue to make payments to Ericsson, VimpelCom is subject to certain defined debt covenant restrictions, including several related to financial condition. In addition, certain of VimpelCom's assets relating to its D-AMPS network in the Moscow License Area, including cash, trade accounts receivable and telephone line capacity, have been pledged to Ericsson as collateral to the extent needed to fulfill VimpelCom's obligations in the event of default. VimpelCom shares held by VimpelCom's President and Chief Executive Officer, an entity controlled by him, and four individual shareholders (including three members of management) were also pledged as collateral. Equipment supplied under these agreements has been accounted for as capital leases. As of December 31, 1998, VimpelCom's indebtedness to Ericsson was US$91.2 million.

In connection with the build out of the GSM-900/1800 network in the Moscow License Area, KBI has entered into the Alcatel Agreements. As part of the purchase price for such equipment, KBI issued to Alcatel common shares representing approximately 12% of the capital stock of KBI after giving effect to such issuance. Pursuant to the Alcatel Agreements, Alcatel is permitted to designate one representative on the board of directors of KBI. In addition, it is the intention of VimpelCom to appoint one Telenor representative to the board of directors of KBI. VimpelCom has an option to purchase from Alcatel 5,784 shares of KBI (representing 6.3% of the outstanding shares of KBI) at any time before April 2001, for US$10.9 million plus interest at a variable rate based on LIBOR for U.S. dollars. In addition, in certain circumstances, VimpelCom has a right of first refusal with respect to Alcatel's transfer of such shares. In addition, at any time upon occurrence of certain events of default, Alcatel has the option to sell up to 100% of its KBI shares to VimpelCom for an amount up to US$21.8 million plus interest at a variable rate based on LIBOR for U.S. dollars (the "Put Price"). In the event that Alcatel elects to sell less than 100% of such shares to VimpelCom, the Put Price will be reduced proportionately. Furthermore, after April 2001, Alcatel has the option to sell 50% of its KBI shares to VimpelCom for 50% of the Put Price. In order to make hard currency payments for such shares, VimpelCom would need to obtain an appropriate permission from the Central Bank. VimpelCom has also agreed to guarantee certain payments to be made by KBI to Alcatel in connection with the Alcatel Agreements. Management believes that the terms of such financing are commercially advantageous for the Group. As of December 31, 1998, KBI's indebtedness through Alcatel was US$90.4 million (which includes VimpelCom's option to purchase shares of KBI from Alcatel pursuant to the Alcatel Agreements). On June 30, 1998, KBI ordered the third phase of equipment valued at US$22.2 million. On April 5, 1999, KBI and Alcatel amended this agreement so that the equipment for the third phase would not fall under the original supplier credit terms, but would be paid in cash within 30 days of delivery of equipment. The Group expects to pay US$18.5 million for equipment under the third phase in 1999.

### *Future Capital Requirements*

In June 1998, the Group obtained a one-year US$10.0 million loan from Citibank. The purpose of the loan was to meet short-term working capital needs. The Citibank loan bears interest at an annual rate of LIBOR plus 4%, which is to be paid semi-annually by the Group. The Group anticipates repaying the principal and remaining interest on the Citibank loan by June 1999 in accordance with the terms of its agreement with Citibank. Due to the introduction of stricter foreign exchange controls by the Central Bank in December 1998, VimpelCom entered into an agreement with Platina Bank whereby VimpelCom is permitted to buy U.S. dollars with its surplus rubles by taking out short-term hard currency loans with the bank (up to US$2.0 million outstanding at any time). At December 31, 1998, VimpelCom had US$0.8 million of indebtedness to Platina Bank as a result of loans granted pursuant to such agreement. In January 1999, VimpelCom entered into a US$27.8 million standby credit facility with Sberbank, the largest Russian bank. The annual rate of interest on the Sberbank credit facility varies between 15.0% and 19.5% and is payable quarterly. The Sberbank credit facility is available until May 15, 1999, and if drawn down, principal would be repayable in quarterly installments starting in November 1999 and the final payment of principal and interest would be due in November 2000. As security for this facility, 1,850,000 shares of Common Stock has been pledged to Sberbank by a legal entity controlled by VimpelCom's President and Chief Executive Officer. If the Sberbank credit is drawn down in an amount in excess of US$18.0 million, further security will be required by Sberbank in the form of a pledge of equipment and immovable property valued at US$5.0 million.

On December 1, 1998, VimpelCom and Telenor reached an agreement for Telenor to purchase 25.7% of VimpelCom's voting stock in consideration for a cash payment of approximately US $162.0 million, subject to regulatory approvals and certain other conditions precedent. The proceeds are expected to be available to VimpelCom in accordance with an agreed payments schedule, with the first payment commencing in June 1999. With accrued interest, the Group will receive approximately US$142.6 million in 1999 and approximately US$22.7 million in 2000. This capital infusion will be used by VimpelCom to continue the build out of the Group's GSM network in the Moscow License Area, pay certain frequency fees, make opportunistic acquisitions, develop an Internet business, further develop its fiber optic network and begin the evolutionary development of the Group's regional GSM licenses.

VimpelCom had outstanding capital leases with Ericsson totaling US$91.2 million as of December 31, 1998 with US$17.5 million payable in 1999 and the remainder payable through 2003. The Ericsson capital leases bear interest at a variable rate based on three-month LIBOR plus 4.5% per annum. One of the conditions precedent to the closing of the Telenor transaction is the Group's obtaining of a waiver by Ericsson of certain provisions of the Ericsson Agreements relating to, among other things, the issuance of new shares of Common Stock to Telenor. In consideration for such waiver, Management has offered to make a one-time prepayment of the outstanding capital leases in the amount of US$10.0 million. In addition, KBI's indebtedness to Alcatel at December 31, 1998 was US$90.4 million (which includes VimpelCom's option to purchase shares of KBI from Alcatel pursuant to the Alcatel Agreements). The first payment to Alcatel under this agreement falls due in 2000 in the amount of US$14.9 million.

Historically, the SCCI issued frequency allocations to licensed Russian cellular telecommunications operators at no cost. However, on June 2, 1998, the Government enacted Decree #552 ("Decree #552") pursuant to which all entities using radio frequency spectrum for a specified list of communications services (including the services provided by the Group) are required effective September 1, 1998, to pay a fee for the usage of such radio frequency spectrum. The amount of the fee for, among other things, organizations which are using radio frequency spectrum as of September 1, 1998 (such as the Group for its D-AMPS and GSM-1800 networks) was to be determined by the Government. On August 1, 1998, a decision of the SCCI (consented to by various governmental agencies) amended the Group's GSM-1800 licenses for the Moscow License Area and the Central and Central Black Earth license area allowing the Group to build dual band GSM-900/1800 networks in each of these areas (the "August 1 Decision"). Pursuant to the August 1 Decision (approved by former First Deputy Prime Minister Nemtsov on August 4, 1998), the Group was directed to pay US$30.0 million to the Russian Space Agency within 25 days of the date of the issuance of the relevant license amendments and allocation of frequencies for the GSM-900/1800 networks. On August 26, 1998, in accordance with Decree #552 and the August 1 Decision, the Group paid US$5.5 million of the US$30.0 million fee to the Russian Space Agency. On September 16, 1998, a Protocol of Amendments to the August 1 Decision was approved by First Deputy Prime Minister Yuri Maslyukov to allow the Group to reschedule its remaining payments to the Russian Space Agency. On April 7, 1999, the Group reached an agreement to pay the remaining amount due to the Russian Space Agency in installments by November 30, 1999.

The cellular telecommunications industry is highly capital intensive, requiring significant amounts of capital to construct networks and purchase line capacity. Management expects that total capital expenditures, including non-network expenditures for VimpelCom and KBI will continue to be substantial over the next few years, approximating US$69.0 million in 1999 and US$80.0 million in 2000. The Group's design, implementation and build out of its GSM 900/1800 network in the Moscow License Area will require significant capital expenditures over the next five years. VimpelCom was awarded four new GSM-1800 licenses by the SCCI in April 1998 and is planning the gradual build out of its networks in these GSM license areas over the next five years to the extent economically viable. At this time, the Group has not designed the GSM-1800 networks and cannot estimate the dates of completion or cost. The GSM-1800 licenses generally require start of service of the GSM-1800 networks in the GSM License Areas by October 1999, but do not have any requirements relating to the coverage or level service or number of subscribers at that time. The GSM-1800 licenses also require service to commence in certain cities in the GSM license areas by 2001. At present, Management is planning to commence the build out of the Group's GSM-1800 licenses by initially targeting two cities in the Central and Central Black Earth license area. Capital expenditures for the build out of its GSM-1800 networks in the Central and Central Black Earth license area will not commence until the fourth quarter of 1999 and should amount to approximately US$9.0 million in 1999.

Management believes that existing cash balances, cash flows from operations, proceeds from the Telenor transaction, existing and future vendor financings, bank borrowings and credit facilities will provide sufficient financial resources to meet planned capital expenditures and to meet the Group's financial obligations for the remainder of 1999 and 2000. The Group estimates that the US$69.0 million of capital expenditures anticipated for 1999 will be funded with cash from operations and proceeds from the Telenor transaction. The Group estimates that the US $80.0 million of capital expenditures anticipated for 2000 will be funded with cash from operations, remaining proceeds from the Telenor transaction and other sources. In addition to its existing business commitments, the Group's strategy is to continue to consider potential opportunities in telecommunications business in Russia by entering into joint ventures, making acquisitions or obtaining additional licenses. Management believes that the Group can obtain necessary financing for such opportunities through additional borrowings or the issuance of debt or possibly equity.

back next

NYSE

Годовой отчет
Annual Report 1998



# Basis of Presentation of Financial Results

VimpelCom maintains its records and prepares its statutory financial statements in accordance with Russian accounting principles and tax legislation. The consolidated financial statements herein have been prepared from the Russian accounting records for presentation in accordance with U.S. GAAP. The consolidated financial statements and results differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments not recorded in VimpelCom's books, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. The principal adjustments relate to: (i) revenue recognition; (ii) recognition of interest expense and other operating expenses; (iii) valuation and depreciation of property and equipment; (iv) foreign currency translation; (v) deferred income taxes; (vi) capitalization and amortization of telephone line capacity; (vii) valuation allowances for unrecoverable assets; (viii) capital leases; and (ix) consolidation and accounting for subsidiaries.

The consolidated financial statements include the accounts of VimpelCom and all of its majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. Investments in other affiliated companies in which VimpelCom has at least 20% ownership and does not have management control are accounted for under the equity method.

VimpelCom pays taxes computed on income reported for Russian tax purposes. This computation is based on Russian tax rules which differ substantially from U.S. GAAP. Certain items that are capitalized under U.S. GAAP are recognized under Russian accounting principles as an expense in the year paid. As a consequence, VimpelCom's effective tax charge is different under Russian tax rules than under U.S. GAAP.

back next

NYSE

Годовой отчет
Annual Report 1998



# Inflation

Throughout the mid-1990s, various Russian governments attempted to implement policies of economic reform and stabilization. Such policies had resulted in reduced, although still significant levels of annual inflation which decreased from 130% in 1995 to 22% in 1996 and to 11% in 1997. Controlling inflation had been one of Russia's greatest economic successes in the mid 1990s. In 1998, however, yearly inflation increased to approximately 84.4%, most of which occurred in the last four months of the year. The Group's equipment and services are valued in U.S. dollar equivalent units, thereby mitigating the effects of the devaluation of the ruble. However, such pricing has not been able to fully offset the effects of inflation because substantially all collections are in rubles. In addition, the Group is experiencing increased costs in hard currency terms due to the devaluation of the ruble. If the Group is unable to increase prices in line with inflation, due to competitive pressures or otherwise, it may have a materially adverse effect on the Group.

back next

# Year 2000

The "Year 2000" issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Computer equipment, software and other devices that are time-sensitive may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process billing transactions or engage in normal business activities. The inability of business processes to function correctly in the year 2000 could have serious adverse effects on companies and entities throughout the world.

*State of Readiness*

During 1998 and 1999, the Group has been utilizing, and intends to continue utilizing, internal and external resources to test, correct or reprogram its computer equipment and software to ensure that such equipment and software with time-sensitive technology will be able to distinguish the year 1900 and the year 2000 and will function properly with respect to all dates without the need to manually reset internal clocks after December 31, 1999 (referred to as "Year 2000 Compliant"). In1998, VimpelCom established a working group to plan and implement its Year 2000 compliance initiative (the "Millennium Project"). In addition to professionals within the Group, VimpelCom has engaged third parties to assist in the completion of various phases of the Millennium Project.

The Millennium Plan consists of four phases: (i) assessment and analysis of critical and non-critical systems and equipment; (ii) remediation of systems and equipment through strategies that include the enhancement of new and existing systems, upgrades to operating systems and modifications to existing systems; (iii) testing of systems and equipment; and (iv) contingency planning regarding possible adverse scenarios and the potential financial impact to the Group's results of operations and financial position.

In the second quarter of 1998, the Millennium Project commenced work on resolving the Year 2000 problem for certain of the Group's more critical systems. Analysis of less critical systems began in the fourth quarter of 1998, along with testing and an overall risk analysis of VimpelCom's systems. Such testing, modification and replacement is expected to be completed in July 1999. The Group's administrative and billing system program modules and interfaces are presently being tested by the Group for Year 2000 Compliance and expected to be completed by the end of July 1999..Further, the Group is also testing the Year 2000 Compliance of all internal network components, including, but not limited to servers, network software and hardware and management and monitoring systems which ensure the operation of all information systems for the Group. Again, this work is expected to be completed by the end of July 1999. Following such completion and for the remainder of 1999, VimpelCom intends to continue monitoring its existing systems and will analyze and test any newly-acquired systems. Any decision to purchase and implement new systems includes the requirement that such systems be Year 2000 Compliant and contain a warranty.

The Group's business involves the supply of cellular telecommunications services to its subscribers. To the extent that the Group maintains an inventory of goods for sale (e.g., cellular telephone equipment sold to subscribers for its cellular telecommunications services), it does not manufacture such inventory, but resells goods supplied by internationally-recognized manufacturers of such goods. Part of the Millennium Project's analysis has involved contacting the manufacturers of equipment and producers of software and review of materials published by such parties to assess the parties' Year 2000 Compliance. Except in a few instances, the Group's inventory of goods has been found to be Year 2000 Compliant, and the Group is taking steps to upgrade or replace those items of its inventory which are not Year 2000 Compliant.

*Cost*

The total costs of addressing the "Year 2000" problem within the Group are expected to be funded from operations. The estimated expense of the Millennium Project is US$0.7 million, approximately US$0.1 million of which had been incurred as of March 31, 1999 and had been paid for out of internally generated cash flows. The total costs of the Millennium Project and the date on which VimpelCom believes it will complete the Year 2000 modifications are based on Management's best estimates, which were derived using numerous assumptions of future events, including the continued availability of certain resources and other factors. There can be no assurance, however, that these estimates will be achieved and actual results may differ materially from those anticipated. The Group's consolidated financial statements as of December 31, 1998 and for the three years ended December 31, 1998, 1997 and 1996 do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts or classifications of liabilities that may result from the outcome of this uncertainty.

*Risks*

There can be no assurance that VimpelCom will be completely successful in its efforts to address Year 2000 issues. If some of VimpelCom's products and services are not Year 2000 Compliant, or if any of its counterparts on whom it relies to provide telecommunications services are not Year 2000 Compliant, VimpelCom could suffer lost sales or other negative consequences, including, but not limited to, diversion of resources, damage to its reputation, increased service costs and litigation, any of which could materially adversely affect VimpelCom's business operations or financial condition. VimpelCom is highly dependent on third parties, such as its suppliers, service providers and other business partners. If these or other third parties fail to adequately address Year 2000 issues, VimpelCom could experience a negative impact on its business operations or financial condition.

The Group's principal Year 2000 risk arises from the fact that it is dependent for the completion of its calls upon a variety of other traffic carriers and roaming partners who provide interconnection and termination services. Since in many instances there are a variety of routes over which traffic may be carried, it is not possible for the Group to verify that each entity which could be involved in providing telecommunications services to the Group's subscribers will be Year 2000 Compliant. To a large extent, the Group is reliant in these circumstances on the actions of other telecommunications operators and service providers to ensure that they, and their counterparts are Year 2000 Compliant. While the Group believes that the parties providing these services which are based in the United States and other Western countries are expected to be substantially Year 2000 Compliant, the Year 2000 compliance and readiness of Russian and other CIS companies with whom the Group's operating business more frequently interacts appears to be substantially behind that of Western counterparts. The Group has been unable to determine with any degree of certainty the extent to which its interconnect partners in Russia and the CIS are Year 2000 Compliant, because many of such parties have generally been reluctant to share this information. The Group believes that many Russian and other CIS companies on whom the Group depends may be substantially non-compliant. The likelihood that such companies will be able to become Year 2000 Compliant seems low, given the limited amount of time remaining in 1999, the severe funding constraints faced by such parties and the possible lack of government pressure on such parties. Accordingly, there can be no assurance that the Group's operating business will not experience disruptions in their operations as a result of interconnect parties not being able to complete calls or pass traffic. While the Group is unable to predict the extent or duration of such disruptions, the possibility exists that they could be extensive and could take considerable time to correct. An additional risk is the likelihood that billing systems of Russian and CIS interconnect companies may also be disrupted, resulting in such companies being unable to collect from their customers or to make timely settlements with the Group. Accordingly, the Group believes that there is a considerable risk that it may experience disruptions in providing telecommunications services and those disruptions may be substantial. Any such disruptions could have a material adverse effect on the Group.

As noted above, VimpelCom has initiated formal communications with its significant suppliers to determine the extent to which it is vulnerable to those third parties' failure to remedy their own Year 2000 Compliance issues. The Group's Moscow D-AMPS and GSM systems are based on a network of radio base stations connected to switches by VimpelCom's point-to-point microwave network and fiber optic network and coordinated with system software. At present, the Group's D-AMPS network uses three Ericsson switches. All of the Group's D-AMPS base stations utilize Ericsson equipment and technology. The Group's Moscow GSM system uses one Alcatel switch and the Group's GSM base stations utilize Alcatel equipment and technology. According to written representations made to the Group by Ericsson in the fourth quarter of 1998, all of the Group's software releases for its switches and base stations are either Year 2000 compliant or will be Year 2000 compliant upon the installation of new operational and control systems (which is expected to be completed by July 1999). Further, according to written representations made to the Group by Alcatel, their switch software is already Year 2000 compliant and software for base stations and base station controllers will be Year 2000 compliant by the end of April 1999.

In addition, it is unclear as to the extent that the Russian government and other organizations who provide significant infrastructure services within the Russian Federation have addressed the Year 2000 issue. Furthermore, the current Russian economic crisis could adversely affect the ability of the Russian government and such organizations to adequately fund Year 2000 compliance programs. There can be no assurance that the systems of the Russian government or of other organizations on which VimpelCom relies will be timely converted and would not have a material adverse effect on VimpelCom and its systems.

The Group has investigated the possibility of obtaining insurance against liability arising out of claims that products or services supplied are not Year 2000 Compliant, but has determined that such insurance is not obtainable upon terms which are sufficiently comprehensive and/or is only obtainable upon terms which are uneconomical given the level of perceived risk, and accordingly has elected not to pursue such insurance.

While almost all new contracts for products or services entered into by the Group have contained some form of Year 2000-related warranty, such warranties are limited to recovering direct losses, and not indirect or consequential losses, such as loss of revenue or profits. As a result, the actual efficacy of such warranties may be limited.

*Contingency Plans*

Although VimpelCom has not developed comprehensive contingency or liquidity plans to address situations that may result if VimpelCom or any of the third parties upon which it is dependent is unable to achieve Year 2000 readiness, the Millennium Project will be ongoing and its ultimate scope, as well as the consideration of contingency plans, will continue to be evaluated as new information becomes available.

NYSE

Годовой отчет
Annual Report 1998



# Foreign Currency Translation

VimpelCom reports to the Russian tax authorities in rubles and its accounting records are maintained in that currency. The consolidated financial statements herein have been prepared in accordance with U.S. GAAP and are stated in U.S. dollars. Accordingly, transactions and balances not already measured in U.S. dollars (primarily Russian rubles and Swedish Krona) have been remeasured into U.S. dollars in accordance with the relevant provisions of U.S. Financial Accounting Standard ("FAS") No. 52, "Foreign Currency Translation", as applied to entities in highly inflationary economies. Under FAS No. 52, revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the balance sheet date. Exchange gains and loses arising from re-measurement of monetary assets and liabilities that are not denominated in U.S. dollars are credited or charged to operations.

The ruble is not convertible outside of Russia and has been very volatile in the past. From 1995 until August 17, 1998, the Government and the Central Bank had successfully kept the ruble trading within a fixed band. However, after the Government's announcement on August 17, 1998 to widen the ruble corridor to plus or minus 9.5 rubles per dollar, the value of the ruble plummeted from approximately 6.2 rubles per dollar to approximately 20 rubles per dollar. Although the ruble slightly recovered in September 1998 and October 1998, the Government's announcement that it would print more rubles to pay back wages resulted in a renewed decline of the ruble. As of April 8, 1999, one dollar was worth approximately 25.1 rubles. There can be no assurance that the exchange rate will not deteriorate further or at a more rapid pace.

VimpelCom engages to a limited extent in hedging or other transactions intended to manage risks relating to fluctuations in foreign currency exchange rates, inflation or interest rates. In addition, to minimize the risk of ruble fluctuations and consequent devaluation, VimpelCom has adopted a number of measures, including listing tariffs for customers and calculating customers' monthly bills in U.S. dollar equivalent units while requesting payment in rubles, in accordance with applicable law. As a result, subscribers now pay their bills at the prevailing U.S. dollar-ruble exchange rate on the date that payment is made. Subscribers are also charged a 3% surcharge to cover the cost of converting rubles to U.S. dollars. VimpelCom has significant foreign currency liabilities, primarily associated with purchase of network equipment. Certain of the Ericsson Agreements require amounts due to be paid in Swedish Krona and U.S. dollars. In addition, under the Alcatel Agreements, KBI will remit payments to Alcatel in U.S. dollars. Under applicable law and based upon permissions received from the Central Bank, VimpelCom and its affiliated companies are permitted to buy hard currency to settle such contracts; provided, however, that VimpelCom would need to obtain appropriate permission from the Central Bank in connection with exercise of the options to purchase and sell the shares of KBI in connection with the Alcatel Agreements.

back

NYSE

Годовой отчет Annual Report 1998



# Report of Independent Auditors

*The Board of Directors and Shareholders*
*Open Joint Stock Company "Vimpel-Communications"*

We have audited the accompanying consolidated balance sheets of Open Joint Stock Company "Vimpel-Communications" ("VimpelCom") as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of VimpelCom's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Open Joint Stock Company "Vimpel-Communications" at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in the United States of America.

*Ernst & Young (CIS) Limited*
*Moscow, Russian Federation*
*March 26, 1999*

back next

NYSE

Годовой отчет
Annual Report 1998



# Consolidated Balance Sheets

| | December 31, 1998 | 1997 |
|---|---|---|
| | *(In thousands)* | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (Note 3) | **US$ 14,479** | US$ 14,333 |
| Short-term investments | **2,167** | 24,169 |
| Trade accounts receivable, net of allowance for doubtful accounts of US$13,010 in 1998 and US$5,803 in 1997 *(Note 10)* | **34,354** | 41,487 |
| Inventory | **8,864** | 8,723 |
| Other current assets *(Note 4)* | **12,513** | 25,713 |
| Total current assets | 72,377 | 114,425 |
| Property and equipment, net *(Notes 5 and 7)* | **416,036** | 347,653 |
| Due from related parties *(Note 11)* | 1,648 | 2,572 |
| Other assets | **46,006** | 18,448 |
| Total assets | US$ 536,067 | US$ 483,098 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | **US$ 36,573** | US$ 12,287 |
| Accrued liabilities | **7,537** | 5,852 |
| Customer deposits | **46,214** | 51,738 |
| Bank loan *(Note 6)* | **10,754** | 11,001 |
| Equipment financing, current portion *(Note 7)* | **17,501** | 10,389 |
| Deferred income taxes *(Note 9)* | **57** | 5,530 |
| Total current liabilities | **118,636** | 96,797 |
| Deferred income taxes *(Note 9)* | **41,151** | 35,201 |
| Equipment financing, less current portion *(Note 7)* | **164,075** | 136,962 |
| Minority interest | **9,269** | 6,487 |
| Commitments and contingencies *(Note 12)* | – | – |
| Shareholders' equity *(Note 8)*: | | |
| Convertible voting preferred stock (.005 rubles nominal value per share), 10,000,000 shares authorized; 6,426,600 shares issued and outstanding | – | – |
| Common stock (.005 rubles nominal value per share), 90,000,000 shares authorized; 19,280,000 shares issued and outstanding | **86** | 86 |
| Additional paid-in capital | **64,340** | 64,340 |
| Retained earnings | **138,510** | 143,225 |
| Total shareholders' equity | **202,936** | 207,651 |
| Total liabilities and shareholders' equity | **US$ 536,067** | US$ 483,098 |

*See accompanying notes.*

NYSE

Годовой отчет
Annual Report 1998



# Consolidated Statements of Operations

| | Years ended December 31, | | |
|---|---|---|---|
| | **1998** | **1997** | **1996** |
| | *(In thousands, except per share (ADS) amounts)* | | |
| **Operating revenues:** | | | |
| Service revenues and connection fees | **US$ 344,793** | US$ 271,352 | US$ 173,188 |
| Sales of handsets and accessories | **30,372** | 31,934 | 35,316 |
| Installation and equipment contracts | **792** | 2,644 | 4,726 |
| Total operating revenues | **375,957** | 305,930 | 213,230 |
| Revenue-based taxes | **(14,959)** | (11,996) | (9,061) |
| Net operating revenues | **360,998** | 293,934 | 204,169 |
| **Operating expenses:** | | | |
| Service costs | **73,736** | 63,475 | 38,501 |
| Cost of handsets and accessories sold | **24,844** | 26,028 | 21,988 |
| Cost of installation and equipment contracts | **411** | 1,971 | 4,680 |
| Selling, general and administrative expenses | **93,539** | 80,188 | 50,667 |
| Depreciation and amortization | **42,269** | 25,238 | 10,549 |
| Provision for doubtful accounts | **24,360** | 10,212 | 7,310 |
| Total operating expenses | **259,159** | 207,112 | 133,695 |
| **Operating income** | **101,839** | 86,822 | 70,474 |
| Other income and expenses: | | | |
| Write-down of Russian governmentsecurities | **(17,067)** | – | – |
| (Loss) gain on trading securities | **(9,242)** | 6,441 | 27,603 |
| Interest expense | **(14,382)** | (9,071) | (32,957) |
| Other income | **2,146** | 1,646 | – |
| Net foreign exchange (loss) gain | **(48,125)** | 1,835 | 267 |
| Total other income and expenses | **(86,670)** | 851 | (5,087) |
| **Income before income taxes and minority interest** | **15,169** | 87,673 | 65,387 |
| Provision for income taxes *(Note 9)* | **17,101** | 26,827 | 20,477 |
| Minority interest in net earnings (losses) of subsidiaries | **2,783** | (230) | 14 |
| **Net (loss) income** | **US$ (4,715)** | US$ 61,076 | US$ 44,896 |
| **Net (loss) income per common share** | **US$ (0.24)** | US$ 3.17 | US$ 2.53 |

| | | | |
|---|---|---|---|
| **Weighted average common shares outstanding *(Note 8)*** | **19,280** | 19,280 | 17,739 |
| **Net (loss) income per ADS equivalent** | **US$ (0.18)** | US$ 2.38 | US$ 1.90 |

*See accompanying notes.*

back next

NYSE

Годовой отчет
Annual Report 1998



# Consolidated Statements of Shareholders' Equity

**Years ended December 31, 1998, 1997 and 1996**

| | **Common Stock** | | **Additional paid-in** | **Retained** | |
|---|---|---|---|---|---|
| | **Shares** | **Amount** | **capital** | **Earnings** | **Total** |
| | *(In thousands, except shares)* | | | | |
| Balances at December 31, 1995 | 12,314,000 | US$ 80 | US$ 6,064 | US$ 37,253 | US$ 43,397 |
| Net proceeds from initial public offering of common stock | 2,598,600 | 2 | 63,249 | – | 63,251 |
| Issuance of common stock to management as compensation | 346,000 | – | 4,900 | – | 4,900 |
| Acquisition of treasury stock | (1,266,000) | – | (18,000) | – | (18,000) |
| Issuance of common and treasury stock to effect acquisition of subsidiary | 5,287,400 | 4 | 8,127 | – | 8,131 |
| Net income | – | – | – | 44,896 | 44,896 |
| Balances at December 31, 1996 | 19,280,000 | 86 | 64,340 | 82,149 | 146,575 |
| Net income | – | – | – | 61,076 | 61,076 |
| Balances at December 31, 1997 | 19,280,000 | 86 | 64,340 | 143,225 | 207,651 |
| Net loss | – | – | – | **(4,715)** | **(4,715)** |
| **Balances at December 31, 1998** | **19,280,000** | **US$ 86** | **US$ 64,340** | **US$ 138,510** | **US$ 202,936** |

*See accompanying notes.*

back next

NYSE

Годовой отчет
Annual Report 1998



# Consolidated Statements of Cash Flows

| | **Years ended December 31,** | | |
|---|---|---|---|
| | **1998** | **1997** | **1996** |
| | *(In thousands)* | | |
| | **Operating activities** | | |
| Net (loss) income | **US$ (4,715)** | US$ 61,076 | US$ 44,896 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Depreciation of property and equipment | **42,269** | 25,238 | 10,549 |
| Mark-to-market adjustments for short-term investments | **10,267** | 264 | (1,294) |
| Issuance of common stock to managementas compensation | – | – | 4,900 |
| Provision for deferred taxes | **477** | 15,392 | 15,356 |
| Loss (gain) on foreign currency translation | **48,125** | (1,835) | (267) |
| Provision for doubtful accounts | **24,360** | 10,212 | 7,310 |
| Minority interest in net earnings (losses) of subsidiaries | **2,783** | (230) | 14 |
| Changes in operating assets and liabilities: | | | |
| Short-term investments | **11,735** | (8,795) | (3,269) |
| Trade accounts receivable | **(46,797)** | (23,580) | (24,165) |
| Inventory | **(141)** | (51) | (4,529) |
| Other current assets | **(2,618)** | (12,418) | (2,325) |
| Due from related parties | **(690)** | 110 | (1,156) |
| Accounts payable | **7,164** | 384 | 5,910 |
| Customer deposits | **(5,524)** | 13,973 | 26,037 |
| Accrued liabilities | **6,067** | 3,049 | (5,975) |
| Net cash provided by operating activities | **92,762** | 82,789 | 71,992 |
| **Financing activities** | | | |
| Capital contributions | – | – | 63,251 |
| Acquisition of treasury shares | – | – | (18,000) |
| Proceeds from bank loans | **15,585** | 34,999 | 57,493 |
| Repayments of bank loans | **(15,832)** | (27,754) | (72,200) |
| Repayments of lease obligations | **(12,350)** | (5,098) | (7,827) |
| Withdrawals from (deposits to) restricted cash accounts | – | – | 2,519 |
| Net proceeds from joint venture | – | 3,926 | – |
| Net cash (used in) provided by financing activities | **(12,597)** | 6,073 | 25,236 |
| **Investing activities** | | | |
| Purchases of property and equipment | **(67,041)** | (106,756) | (61,118) |
| Purchases of other assets | **(5,500)** | (1,089) | (12,738) |
| Other proceeds | – | – | 1,100 |

| | | | |
|---|---|---|---|
| Net cash used in investing activities | **(72,541)** | (107,845) | (72,756) |
| Effect of exchange rate changes on cash and cash equivalents | **(7,478)** | – | – |
| **Net increase (decrease) in cash** | **146** | (18,983) | 24,472 |
| **Cash and cash equivalent at beginning of year** | **14,333** | 33,316 | 8,844 |
| **Cash and cash equivalent at end of year** | US$ 14,479 | US$ 14,333 | US$ 33,316 |
| **Supplemental cash flow information** | | | |
| Cash paid during the period: | | | |
| Income tax | **US$ 17,747** | US$ 9,379 | US$ 2,525 |
| Interest | **10,209** | 6,891 | 35,595 |
| Non-cash activities: | | | |
| Equipment acquired under financing agreements, including capitalized interest | **42,578** | 86,282 | 37,299 |
| Accounts payable for equipment and license | **23,170** | 1,330 | 1,643 |
| Equipment contributed to capital (Note 7) | – | – | 21,758 |
| Shares issued to acquire subsidiary | – | – | 8,131 |
| Stock compensation (Note 8) | – | – | 4,900 |

*See accompanying notes.*

back next

NYSE

Годовой отчет Annual Report 1998



# 1. Organization, Basis of Presentation and Significant Accounting Policies

## Description of Business

Open Joint Stock Company "Vimpel-Communications" ("VimpelCom") was registered in the Russian Federation on September 15, 1992 as a closed joint stock company, re-registered as an open joint stock company on July 28, 1993 and began full-scale commercial operations in June 1994. On November 20, 1996, VimpelCom completed an initial public offering ("IPO") of its shares in the United States of America via the issuance of American Depositary Shares ("ADS"), each of which represents three-quarters of one share of VimpelCom's common stock. The proceeds of the IPO totaled US$63,251, net of related expenses of US$7,778. As of December 31, 1998, 38% of VimpelCom's outstanding common stock was owned by VimpelCom's President and Chief Executive Officer, and two legal entities controlled by VimpelCom's President and Chief Executive Officer; 55% by the holders of the ADSs; and 7% by others.

On December 1, 1998, VimpelCom and Telenor East Invest AS ("Telenor"), a wholly-owned subsidiary of Telenor AS, a Norwegian telecommunications company owned by the Norwegian government, signed an agreement under which Telenor will purchase a strategic investment interest in VimpelCom, subject to certain regulatory approvals and conditions precedent. Under the terms of the proposed transaction, Telenor will acquire 8,902,201 newly-issued shares of VimpelCom's common stock, which, upon issuance, will represent 25.7% of VimpelCom's total outstanding voting capital stock and 31.6% of VimpelCom's total outstanding common stock for US$162,000. (On January 20, 1999, Telenor AS and Telia, a Swedish telecommunications company, signed a letter of intent to merge into a new company, to be registered in Sweden, which will be 60% owned by the Swedish government and 40% owned by the Norwegian government, although the two governments will have equal voting rights. Upon the merger, an initial public offering is expected after which Telenor AS and Telia will each retain a 33.4% interest in the new company.) On January 29, 1999, the agreement between VimpelCom and Telenor was approved by a majority of VimpelCom's shareholders. As of March 26, 1999, the agreement has received the permission of the Central Bank of the Russian Federation ("CBRF") and the Ministry for Anti-Monopoly Policy and Support for Entrepreneurship of the Russian Federation and is still subject to the approval of the Russian Federal Commission on Securities Market and a waiver of certain conditions of the agreement between VimpelCom, Ericsson Project Finance AB and AB LM Ericsson Finans (Note 7). The closing of the transaction is expected to occur by June 1, 1999.

VimpelCom operates an AMPS/D-AMPS mobile telephone system under a license issued by the State Committee of the Russian Federation for Communications and Informatization. In November 1997, this license, which expires in November 2007, replaced the license held by Closed Joint Stock Company Makrocom ("Makrocom"), an entity 95% owned by VimpelCom. VimpelCom increased its ownership in Makrocom to 95% in August 1996 for a cash payment of US$36. Revenues are earned by providing wireless telecommunications services and selling cellular telephones and accessories under the trade name "Bee-Line" in the city of Moscow, the Moscow region, and other regions of the Russian Federation. VimpelCom has also been granted AMPS licenses to operate cellular networks in the Kaluga, Karelia, Ryazan, Tver, Ulyanovsk, Vladimir and Vologda license areas. VimpelCom's subsidiary, Bee-Line Samara, was granted a license to operate an AMPS cellular network in the Samara region.

On September 30, 1996, VimpelCom acquired 88% of the common stock of Open Joint Stock Company KB Impuls ("KBI"), an entity controlled by the President and Chief Executive Officer of VimpelCom, through the exchange of 5,287,400 shares of VimpelCom common stock and 4,170,000 shares of VimpelCom preferred stock. An additional 2,256,600 shares of VimpelCom preferred stock were issued on November 15, 1996 to effect the acquisition of KBI. Of the shares issued to effect the transaction, 1,266,000 common shares were repurchased from an existing shareholder in May 1996, while the remaining common shares and all of the preferred shares were newly issued.

KBI was established in March 1991 and has been involved in the development and provision of wireless telecommunications services under the trade name "Bee-Line" in Russia. KBI was granted the first license to provide Personal Communications Services ("PCS") using the GSM-1800 system in the Moscow license area and began full-scale commercial operations in June 1997. The PCS license expires in April 2008.

In April 1998, VimpelCom was awarded four new GSM-1800 licenses, covering the Central and Central Black Earth, Volga, North Caucasus and Siberian regions of the Russian Federation.

In August 1998, VimpelCom and KBI received amendments to the original GSM-1800 licenses for the Moscow License Area and the Central and Central Black Earth License Area of Russia, to operate dual band GSM 900/1800 networks in these license areas. The cost of the amendments was US$30,000, of which US$5,500 was paid in 1998 and the balance of which is to be paid in full by December 31, 1999.

### Political, Economic and Financial Uncertainties

On August 17, 1998, the Russian government temporarily suspended the repayment of state securities and secondary trading was subsequently halted. In addition, the government imposed a 90 day moratorium on the service and repayment of certain borrowings by Russian corporate entities to Western financial institutions.

Subsequent to August 17, 1998, official currency trading continued sporadically as the exchange rate of the ruble, relative to other currencies, declined in unofficial trading to levels beyond which the Russian government had promised to support it. Many banks suspended currency exchange operations. The CBRF assumed control of several larger Russian banks. The ultimate recoverability of bank balances is uncertain given the existing financial and economic crisis and given that deposits held at Russian banks are not insured. Management continually monitors the status of banks where deposits are maintained.

A plan for the settlement of already past due state securities has been finalized and put into place but it remains unclear how the Russian government will meet its upcoming debt obligations. VimpelCom's investments in Russian government securities were written down in 1998 to reflect management's estimate of recoverability. The consequences of the events of August 17, 1998 and the subsequent political and economic uncertainties, including government-imposed restrictions on currency conversion, continuing devaluation of the ruble against the US dollar and other foreign currencies, growing inflation, reduction in consumer purchasing power and related demand, may continue to adversely affect Russia generally and VimpelCom specifically for an unknown period of time.

In the months following the onset of the economic and financial crisis, VimpelCom lost a significant number of subscribers, mostly through involuntary disconnection of service. In addition, service usage levels have decreased for continuing subscribers. Management has been unable to determine the extent to which the crisis will continue to impact its financial position and future operations but believes that the crisis will not have an additional adverse impact on VimpelCom's financial position and future operations.

### Basis of Presentation

VimpelCom maintains its records and prepares its financial statements in accordance with Russian accounting and tax legislation. The accompanying consolidated financial statements have been prepared from the Russian accounting records for presentation in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, not recorded in VimpelCom's books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments relate to: (1) revenue recognition; (2) recognition of interest expense and other operating expenses; (3) valuation and depreciation of property and equipment; (4) foreign currency translation; (5) deferred income taxes; (6) capitalization and amortization of telephone line capacity; (7) valuation allowances for unrecoverable assets; (8) capital leases; and (9) consolidation and accounting for subsidiaries.

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of VimpelCom and its majority-owned subsidiaries Closed Joint Stock Company RTI Service-Svyaz and KBI, and KBI's majority-owned subsidiary, Closed Joint Stock Company Impuls KB. All intercompany accounts and transactions have been eliminated. As of December 31, 1998 and 1997, VimpelCom also had equity interests in Makrocom (95%), Open Joint Stock Company N-Tecs ("N-Tecs") (65%), Open Joint Stock Company Bee-Line Samara (50%), LLC Optimum Communications (50%), LLC Telecomservice (51%), Open Joint Stock Company Bee-Line Vladimir (55%), Open Joint Stock Company Bee-Line TV (51%), and Closed Joint Stock Company Firma Kurier (50%). These subsidiaries have been accounted for under the equity method.

### Foreign Currency Translation

VimpelCom reports to the Russian tax authorities in rubles ("RUR") and the accounting records are maintained in that currency. The accompanying consolidated financial statements have been prepared in US dollars. Transactions and balances not already measured in US dollars (primarily Russian rubles and Swedish krona) have been remeasured into US dollars in accordance with the relevant provisions of US Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation" as applied to entities in highly inflationary economies.

Under SFAS No. 52, revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the balance sheet date. Exchange gains and losses arising from remeasurement of monetary assets and liabilities that are not denominated in US dollars are credited or charged to operations.

The ruble is not a convertible currency outside the territory of Russia. Within Russia, its official exchange rates are determined daily by the CBRF and were considered to be a reasonable approximation of market rates until mid-August 1998. Since that date, liquidity in the CBRF currency and interbank trading markets has varied and, as a result, market rates have diverged from the CBRF rate. The official rates have been used for translation purposes in the accompanying consolidated financial statements as the underlying market rates cannot be objectively determined.

The exchange rates used on ruble denominated transactions and balances for translation purposes as of December 31, 1998, 1997 and 1996 for one US dollar were RUR 20.65, RUR 5.96 and RUR 5.56, respectively. As of March 26, 1999, the rate had changed to RUR 24.18. The effect of this devaluation of the ruble on monetary assets and liabilities has not been determined.

On January 1, 1998, the CBRF introduced a new ruble to replace existing rubles. The new ruble has been redenominated so that one new ruble is equivalent to one thousand old rubles. The old ruble continued in circulation until December 31, 1998 and will be accepted as legal tender until December 31, 2002. All ruble amounts reflected in these financial statements are stated in new rubles.

### Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

### Cash and Cash Equivalents

VimpelCom considers all highly liquid investments with a remaining maturity of 90 days or less at the time of purchase to be cash equivalents. Cash equivalents are carried at cost which approximates fair value.

### Short-term Investments

Short-term investments consist primarily of promissory notes and Russian government securities. Short-term investments are considered to be trading securities and are stated at fair value, with unrealized gains and losses included in (loss) gain on trading securities.

### Inventory

Inventory consists of telephones and accessories for resale and is stated at the lower of cost or market. Cost is computed using the average cost method.

### Property and Equipment

Property and equipment is stated at historical cost. Telecommunications equipment, including equipment acquired under capital leases, is depreciated using the straight line method over a period of nine and one-half years. Buildings and leasehold improvements are depreciated using the straight line method over estimated useful lives of twenty years. Office and measuring equipment, and vehicles and furniture are depreciated using the straight line method over estimated useful lives ranging from five to ten years.

VimpelCom capitalizes payments made to third party suppliers to acquire access to and for use of telephone lines. These payments are amortized on a straight line basis over ten years.

### Revenue Recognition

VimpelCom earns service revenues for usage of its cellular system and from installation and maintenance of satellite and cellular communications equipment. Revenue is recognized when the service is rendered. Sales of handsets and accessories are recognized upon delivery. Revenues from installation projects are recognized upon project completion. Revenues are stated net of value-added taxes charged to customers.

Service revenues and connection fees include late payment fees and other fees assessed to subscribers who pay in rubles aggregating US$13,473, US$10,060 and US$6,926 for the years ended December 31, 1998, 1997 and 1996, respectively.

### Advertising

VimpelCom expenses the cost of advertising as incurred. Advertising expenses for the years ended December 31, 1998, 1997 and 1996 were US$9,669, US$8,615 and US$6,414, respectively.

### Deferred Taxes

VimpelCom computes and records income tax in accordance with SFAS No. 109.

### Investment Incentive Deductions

Investment incentive deductions are accounted for as a reduction of current taxable income in the year in which the deduction arises.

### Government Pension Funds

VimpelCom contributes to the Russian Federation state pension fund, medical insurance fund and employment fund on behalf of its employees. VimpelCom's contribution was 34% of employees' salaries and was expensed as incurred. Total amounts expensed in connection with contributions to the state pension fund for the years ended December 31, 1998, 1997 and 1996 were US$8,256, US$6,002 and US$4,450, respectively.

### Net Income Per Common Share

Net income per common share for all periods presented has been determined in accordance with SFAS No. 128, "Earnings per Share", by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Basic earnings per share and earnings per share assuming dilution are the same. Net income per share of common stock has been adjusted by a factor of 1.33 to determine net income per ADS equivalent as each ADS is equivalent to three-quarters of one share of common stock.

### Concentration of Credit Risk

Trade accounts receivable consist of amounts due from customers for airtime usage, equipment sales and installation projects. VimpelCom requires deposits as collateral for airtime usage. Equipment sales are typically paid in advance of delivery. VimpelCom has limited credit risk arising from its trade accounts receivable due to the large number of its subscribers, which was in excess of 120,000 as of December 31, 1998.

VimpelCom deposits available cash with several Russian banks. Management continually monitors the status of banks where deposits are maintained.

### Fair Value of Financial Instruments

The fair market value of financial instruments, consisting of cash and cash equivalents, short-term investments, trade accounts receivable, obligations under accounts payable and bank loans, which are included in current assets and current liabilities is considered to be the carrying value.

It is not practicable to estimate the fair value of equipment financing liabilities due to the current instability in the Russian economy and its effect on interest rates appropriate for determining fair value. Management believes, however, that the fair value of equipment financing liabilities does not exceed carrying value.

### Reclassifications

Certain restatements have been made to the prior years' consolidated financial statements to conform to the current year presentation.

### Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income", requires the reporting of comprehensive income in addition to net income (loss) from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income but as an adjustment to shareholders' equity. VimpelCom does not have comprehensive income items.

### New Accounting Pronouncements

In June 1997, SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", was issued. SFAS No. 131 provides guidance as to providing financial and descriptive information about a company's operating segments and is effective for years beginning after December 15, 1997. For management information purposes, VimpelCom is considered to operate in a single segment.

In March 1998, Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", was issued. SOP 98-1 provides guidance that requires capitalization of certain costs incurred during an internal use software development project, and is effective for fiscal years beginning after December 15, 1998. SOP 98-1 is not expected to have a material impact on VimpelCom's financial position or results of operations.

NYSE

Годовой отчет Annual Report 1998



# 2. Acquisitions

The acquisitions of KBI and Makrocom described in Note 1 have been accounted for using the purchase method at the historical carrying value of each.

The results of operations of KBI and Makrocom have been included in the accompanying consolidated statements of income and cash flows as though the acquisitions were completed on January 1, 1996 as the operations of these businesses were not material in relation to VimpelCom's consolidated results of operations. For the period January 1, 1996 through the acquisition dates, KBI's and Makrocom's net income amounted to US$105 and US$168, respectively.

back next

NYSE

Годовой отчет
Annual Report 1998



# 3. Cash and Cash Equivalents

**Cash and cash equivalents consisted of the following at December 31:**

| | 1998 | 1997 |
|---|---|---|
| Rubles | **US$ 6,966** | US$ 9,560 |
| US dollars | **7,513** | 140 |
| Bills of exchange | - | 4,633 |
| | **US$ 14,479** | US$ 14,333 |

back next

NYSE

Годовой отчет
Annual Report 1998



# 4. Other Current Assets

**Other current assets consisted of the following at December 31:**

| | 1998 | 1997 |
|---|---|---|
| Value added tax | **US$ 6,006** | US$ 15,232 |
| Prepaid taxes | **1,614** | 4,215 |
| Advances to supplierse | **4,893** | 6,266 |
| | **US$ 12,513** | US$ 25,713 |

back next

NYSE

Годовой отчет
Annual Report 1998



# 5. Property and Equipment

**Property and equipment consisted of the following at December 31:**

| | **1998** | **1997** |
|---|---|---|
| Telecommunications equipment held under capitallease agreements | **US$ 182,249** | US$ 140,136 |
| Telecommunications equipment | **148,492** | 96,045 |
| Telephone line capacity | **72,919** | 54,192 |
| Building and leasehold improvements | **31,162** | 23,330 |
| Office and measuring equipment | **14,200** | 8,075 |
| Vehicles | **1,485** | 1,227 |
| Furniture | **2,652** | 1,812 |
| Total cost | **453,159** | 324,817 |
| Accumulated depreciation | **(78,334)** | (38,414) |
| Assets under construction *(Note 7)* | **41,211** | 61,250 |
| | **US$ 416,036** | US$ 347,653 |

Accumulated depreciation on telecommunications equipment held under capital lease agreements amounted to US$35,110 and US$18,310 at December 31, 1998 and 1997, respectively.

back next

NYSE

Годовой отчет
Annual Report 1998



# 6. Bank Loan

The bank loan outstanding at December 31, 1998 consisted of amounts due under a US $10,000 line of credit and a US$2,000 line of credit. The loans accrue interest at the US dollar London Interbank Offered Rate ("LIBOR") plus 4.0% and 5.1% per annum, respectively.

The weighted average interest rate on VimpelCom's outstanding bank loans as of December 31, 1998 and 1997 was 8.8% and 10.0%, respectively.

As of December 31, 1998, VimpelCom had no other unused lines of credit.

back next

NYSE

Годовой отчет
Annual Report 1998



# 7. Equipment Financing

*Ericsson*

VimpelCom has entered into eight equipment supply agreements with Ericsson Radio Systems AB ("Ericsson") with respect to equipment purchases and expansion of the AMPS network with a maximum total value of US$193,600. The Ericsson agreements have either related supplier credit facilities or sale and lease arrangements with options to purchase the equipment. Six shareholders entered into pledge agreements dated January 27, 1998. Under these pledge agreements, 13.5% of VimpelCom's outstanding shares of common stock held by these shareholders has been pledged as security against the supplier credit facility and capital lease obligations.

The two phases of the first expansion agreement were financed by supplier credit facilities which accrued interest at a rate of 12.63% per annum. In connection with the subsequent agreements, VimpelCom entered into supply agreement assignments whereby VimpelCom assigned all its rights, title, and interest to the equipment acquired under the second, third, and fourth expansions to AB LM Ericsson Finans, and its rights, title, and interest to the equipment acquired under the fifth, sixth, seventh and eighth expansions to Ericsson Project Finance AB. In addition, VimpelCom entered into agreements with AB LM Ericsson Finans to lease this equipment. The second, fifth, sixth, seventh and eighth expansion agreements are denominated in US dollars and the outstanding principal accrues interest at LIBOR plus 4.5%. The third and fourth expansion agreements are denominated in Swedish krona and the outstanding principal accrues interest at the Stockholm Interbank Offered Rate ("STIBOR") plus 4.5%. As of December 31, 1998, the three month LIBOR and three month STIBOR were 4.076% and 3.563%, respectively. Under these agreements, VimpelCom has various options at specified dates to purchase the leased equipment. Equipment supplied under these agreements has been accounted for as capital leases.

In January 1998, agreements between Ericsson Project Finance AB, AB LM Ericsson Finans, (collectively, "Ericsson Finance") and ING Bank N.V., a Dutch bank serving as a facility agent for a syndicate of banks, transferred ultimate collection rights under the Ericsson equipment supply agreements from Ericsson Finance to ING Bank N.V. While VimpelCom continues to make payments to Ericsson Finance, VimpelCom is subject to certain defined debt covenant restrictions, including several related to financial condition. In addition, certain of VimpelCom's assets, including cash, trade accounts receivable, and telephone line capacity, have been pledged to Ericsson Finance as collateral to the extent needed to fulfill VimpelCom's scheduled obligations in the event of default. As of December 31, 1998, the aggregate carrying value of assets pledged amounted to US$91,460.

*Alcatel*

KBI entered into an agreement with Alcatel SEL AG ("Alcatel") for the purchase and installation in four phases of mobile telecommunications network equipment with a total contract value of US$135,000. In order to finance the transaction, KBI and Alcatel entered into a deferred payment agreement in the aggregate principal amount of US$113,242 plus interest (the "Alcatel Agreement"). In addition, Alcatel received shares of KBI's common stock representing the remaining 12% of the outstanding capital stock of KBI after giving effect to such issuance. These shares were valued at US$21,758 in accordance with the market value of the equipment and services to be provided, adjusted for put and call options attached to the issuance.

The put and call options represent 50% of the shares and have been recorded as an equipment financing obligation in the accompanying consolidated balance sheets. VimpelCom has an option to purchase from Alcatel 50% of the newly issued KBI shares at any time before April 2001 for US$10,879 plus interest at the US dollar LIBOR rate. Furthermore, in certain circumstances, VimpelCom has a right of first refusal with respect to Alcatel's transfer of these shares. In addition, at any time upon occurrence of certain events of default, Alcatel has the option to sell up to 100% of the KBI shares to VimpelCom for an amount up to US$21,758 plus interest at the US dollar LIBOR rate (the "Put Price"). In the event that Alcatel elects to sell less than 100% of these shares to VimpelCom, the Put Price will be reduced proportionately. Furthermore, after April 2001, Alcatel has the option to sell 50% of the KBI shares to VimpelCom for 50% of the Put Price.

The Alcatel Agreement requires interest to be paid at the US dollar LIBOR rate plus 4.0% over a period to be determined by the timing of the initiation of the four different phases of the Alcatel Agreement. Financing of the contract by Alcatel provides for repayment of Phase 1 and Phase 2 to commence no later than four years from the date of the contract. For the first phase, initiated in 1996, two annexes have been signed. The first annex related to equipment valued at US $21,758 which was contributed in kind to the charter capital of KBI. The second annex related to a delivery of equipment valued at US$21,511 under the equipment financing agreement. For the second phase, initiated in 1997, one annex was signed for equipment valued at US$47,598. For the third phase, initiated in 1998, one annex was signed for equipment valued at US$22,233 and to be acquired in 1999.

Repayments of amounts due under the Alcatel Agreement for the first and second phases are to begin after a grace period of three years from the date of acceptance of the related equipment and services, however, this grace period expires no later than May 26, 2000. The grace periods for the third and fourth phases expire two years and one year, respectively, after the date of acceptance of the phases. Principal and interest repayments are to be made in eight semi-annual installments beginning May 27, 2000.

The supply agreement for the first and second phases is financed by a supplier credit facility in the amount of US$69,109, which accrues interest at the US dollar LIBOR rate plus 4.0% per annum. During 1998 and 1997, interest of US$2,455 and US$2,186, respectively, was capitalized and interest of US$4,382 and US$1,378, respectively, was accrued under these phases. No interest was capitalized in 1996.

Amounts outstanding in connection with VimpelCom's equipment financing consisted of the following at December 31:

| | **1998** | **1997** |
|---|---|---|
| Capital lease obligations | **US$ 91,187** | US$ 76,880 |
| Supplier credit facilities | **69,109** | 56,028 |
| Accrued interest | **10,401** | 3,564 |
| Put and call option | **10,879** | 10,879 |
| | **181,576** | 147,351 |
| Less current portion | **(17,501)** | (10,389) |
| Total long-term equipment financing | **US$ 164,075** | US$ 136,962 |

Future minimum payments under capital lease obligations and supplier credit facilities are as follows:

| | |
|---|---|
| 1999 | **US$ 25,133** |
| 2000 | **42,049** |
| 2001 | **62,796** |
| 2002 | **45,990** |
| 2003 | **29,580** |
| Thereafter | **14,130** |
| Total minimum payments | **219,678** |
| Amounts representing interest | **(59,382)** |
| Present value of net minimum payments | **160,296** |

| | | |
|---|---|---|
| Less current portion | | **(17,501)** |
| | **US$** | **142,795** |

back next

NYSE

Годовой отчет Annual Report 1998



# 8. Shareholders' Equity

During September and November 1996, an aggregate 6,426,600 shares of preferred stock were issued to VimpelCom's President and Chief Executive Officer or to entities controlled by him in conjunction with the acquisition of KBI. Each share of preferred stock entitles its holder to one vote, to receive a fixed dividend of .001 ruble per share per year, and to receive a fixed liquidation value of .005 rubles per share in the event of VimpelCom's liquidation, to the extent there are sufficient funds available. As of December 31, 1998, this liquidation preference amounted to approximately US$2 at the official year end exchange rate. Each share of preferred stock is convertible into one share of common stock at any time after June 30, 2016 at the election of the holder upon payment to VimpelCom of a conversion premium equal to 100% of the market value of one share of common stock at the time of conversion. With the approval of three-quarters of the board of directors, VimpelCom has the right to purchase, and the holders of the preferred stock have the obligation to sell, all or a portion of the preferred stock at a purchase price of .005 rubles per share. Pursuant to contractual arrangements with VimpelCom, all shares of preferred stock are subject to transfer restrictions until June 30, 2016.

VimpelCom's 19,280,000 shares of common stock issued and outstanding as of December 31, 1998 include 5,287,400 shares issued in September and November 1996 for the acquisition of 88% of the common stock of KBI, and 2,598,600 shares issued in the form of ADSs in the IPO in November 1996. The shares issued in exchange for the common stock of KBI include 1,266,000 shares repurchased from a shareholder in May 1996, while the remaining shares were newly issued. Each share of common stock, except for treasury shares, entitles its holder to participate in shareholder meetings, to receive dividends in such amounts as have been validly determined by the board of directors or the shareholders, and in the event of VimpelCom's liquidation, to receive part of VimpelCom's assets to the extent there are sufficient funds available.

VimpelCom has reserved 1,000,000 common shares for the establishment of a management stock option plan. As of March 26, 1999, no formal stock option plan has been formulated.

During 1995, VimpelCom acquired 346,000 shares of treasury stock when two shareholders to which such shares were originally issued failed to pay the amount due. VimpelCom transferred the nominal value of such shares to its charter capital account. In February 1996, the Board of Directors approved the sale of these treasury shares to four members of management for the nominal value of .005 rubles per share to satisfy a prior agreement relating to the establishment of stock-based compensation. Based on the market value of the common stock as of the date of the sale of the treasury shares, compensation expense of US$4,900 and an increase to additional paid-in capital of the same amount were recorded.

All references to the number of common shares in the accompanying consolidated financial statements have been adjusted to reflect an increase in authorized common shares from 12,660,000 to 90,000,000 shares, the authorization of 10,000,000 preferred shares and the effects of a 200-for-one stock split approved in August 1996.

The weighted average number of common shares outstanding used in the determination of net income per common share was calculated as follows:

| | **1998** | **1997** | **1996** |
|---|---|---|---|
| Total shares outstanding | **19,280,000** | 19,280,000 | 12,314,000 |
| Effect of common stock shares issued by VimpelCom during the twelve month period immediately preceding VimpelCom's initial public offering in November 1996 as if they were outstanding for all periods presented | – | – | 5,287,400 |

| | | | |
|---|---|---|---|
| Issuance of 346,000 treasury shares as compensation, issued February 29, 1996 | – | – | 288,000 |
| Acquisition of 1,266,000 treasury shares, May 15, 1996 | – | – | (474,750) |
| Issuance of common stock in IPO, issued November 15, 1996 | – | – | 324,825 |
| | **19,280,000** | 19,280,000 | 17,739,475 |

In accordance with Russian legislation, VimpelCom can distribute all profits as dividends or transfer them to reserves. Dividends may only be declared from accumulated undistributed and unreserved earnings as shown in the Russian statutory financial statements, not out of amounts previously transferred to reserves. Dividends are subject to a 15% withholding tax which may be reduced or eliminated by double tax treaties. Transfers to reserves have been insignificant through December 31, 1998. At December 31, 1998 and 1997, retained earnings which are distributable under Russian legislation amounted to 295 million rubles (US$14,288) and 234 million rubles (US$39,796), respectively.

A condition precedent under one of VimpelCom's lease agreements with AB LM Ericsson Finans (Note 7) allows VimpelCom to pay dividends only if they do not affect VimpelCom's ability to fulfill its obligations under the agreement.

back next

NYSE

Годовой отчет
Annual Report
1998



# 9. Income Taxes

The income tax provision consisted of the following for the years ended December 31:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Current income taxes | **US$ 16,624** | US$ 11,435 | US$ 5,121 |
| Deferred taxes | **477** | 15,392 | 15,356 |
| | **US$ 17,101** | US$ 26,827 | US$ 20,477 |

A reconciliation between the statutory rate and the effective income tax rate is as follows for the years ended December 31:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Income tax expense computed on income before taxes at statutory tax rate of 35% | **US$ 5,309** | US$ 30,686 | US$ 22,885 |
| Investment incentive deductions | **(5,647)** | (10,475) | (799) |
| Non-deductible expenses | **32,542** | 9,438 | 3,478 |
| Non-taxable income | **(21,074)** | (1,534) | - |
| Change in valuation allowance | **5,971** | - | - |
| Effect of 15% tax rate applied to interest income earned on bills of exchange | - | (1,288) | (5,087) |
| Income tax expense reported in accompanying consolidated financial statements | **US$ 17,101** | US$ 26,827 | US$ 20,477 |

The deferred tax balances were calculated by applying the presently enacted statutory tax rate applicable to the period in which the temporary differences between the tax basis of assets and liabilities are expected to reverse. The amounts reported in the accompanying consolidated financial statements at December 31 consisted of the following:

| | 1998 | 1997 |
|---|---|---|
| **Deferred tax assets:** | | |
| Accrued operating expenses | **US$ 9,553** | US$ 5,451 |
| Depreciation | **17,857** | 7,883 |
| Loss carry-forwards | **12,452** | - |
| | **39,862** | 13,334 |
| Valuation allowance | **(7,256)** | (1,285) |
| | **32,606** | 12,049 |
| **Deferred tax liabilities:** | | |
| Revenue accrual, net of bad debts | **12,100** | 9,697 |
| Capital lease payments in excess of amortization | **26,107** | 18,953 |
| Telephone line capacity | **23,718** | 15,099 |
| Capitalized expenses | **11,889** | 9,031 |
| | **73,814** | 52,780 |
| Net deferred tax liabilities | **41,208** | 40,731 |

| | | |
|---|---|---|
| Less current portion | **(57)** | (5,530) |
| Total long-term net deferred tax liability | **US$ 41,151** | US$ 35,201 |

Under current Russian legislation, net operating loss carry-forwards may be carried forward for use against future income in separate 20% increments with one increment available for use in each of the following five years. In addition, its use is further restricted to a maximum of 50% of the taxable income in any single year. Tax loss carry-forwards may be eroded by future devaluation in the ruble. Tax losses available for carry-forward totaled approximately US $35,575 at December 31, 1998 and expire in the years ended December 31 as follows:

| | |
|---|---|
| 1999 | **US$ 7,115** |
| 2000 | **7,115** |
| 2001 | **7,115** |
| 2002 | **7,115** |
| 2003 | **7,115** |
| 2003 | **US$ 35,575** |

back next

NYSE

Годовой отчет
Annual Report 1998



# 10. Valuation and Qualifying Accounts

The following summarizes the changes in the allowance for doubtful accounts for the years ended December 31, 1996, 1997 and 1998:

| | |
|---|---|
| Balance as of December 31, 1995 | US$ 2,692 |
| Provision for bad debts | 8,772 |
| Accounts receivable written off | (7,358) |
| Balance as of December 31, 1996 | 4,106 |
| Provision for bad debts | 12,254 |
| Accounts receivable written off | (10,557) |
| Balance as of December 31, 1997 | 5,803 |
| Provision for bad debts | **29,232** |
| Accounts receivable written off | **(19,441)** |
| Foreign exchange loss | **(2,584)** |
| Balance as of December 31, 1998 | **US$ 13,010** |

The provision for bad debts included in the accompanying consolidated statements of operations is net of related value-added taxes of US$4,872, US$2,042 and US$1,462 for the years ended December 31, 1998, 1997 and 1996, respectively.

back next

NYSE

Годовой отчет
Annual Report 1998



# 11. Related Party Transactions

Balances due from related parties, which are equity investees, consisted of the following as of December 31:

| | 1998 | 1997 |
|---|---|---|
| Bee-Line Samara | **US$ 228** | US$ 1,323 |
| Optimum Communications | **338** | 714 |
| LLC Restline | **550** | - |
| N-Tecs and other | **532** | 535 |
| | **US$ 1,648** | US$ 2,572 |

Transactions between VimpelCom and its related parties consist primarily of sales of equipment and services to the related parties, none of which are material to the financial results of VimpelCom.

back next

# 12. Commitments and Contingencies

*Commitments*

As of December 31, 1998, VimpelCom has entered into agreements for the purchase of additional telephone line capacity for US$13,608, representing 31,500 lines by December 26, 2007. These agreements will require VimpelCom to pay additional subscription fees of US $0.015 per month for each telephone line supplied under the agreements and in use.

As of December 31, 1998, VimpelCom has outstanding commitments for the purchase of equipment from Alcatel amounting to US$22,233.

*Contingencies*

Legislation regarding foreign currency transactions and taxation in the Russian Federation is constantly evolving as the government manages the transformation from a command to a market-oriented economy. There were many new tax and foreign currency laws and related regulations introduced during 1998 and through March 26, 1999 which were not always clearly written and their interpretation is subject to the opinions of the local tax inspectors, CBRF officials and the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities and between the CBRF and Ministry of Finance are not unusual. VimpelCom believes that it has paid or accrued all taxes that are applicable for current and prior years. Where practice concerning the provision of taxes is unclear, VimpelCom has accrued tax liabilities based on management's best estimate.

VimpelCom's operations and financial position will continue to be affected by Russian political developments, including the application of existing and future legislation, tax regulations, cancellation of license rights, and expropriation of property. VimpelCom does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Russia.

VimpelCom's ability to generate revenues in Moscow and the Moscow region is dependent upon the operation of the mobile telephone systems under its licenses. VimpelCom's AMPS/D-AMPS license to operate in the city of Moscow and the Moscow region expires in November 2007, while the GSM licenses expire in April 2008. Resolution No. 642, dated June 5, 1994, of the Government of the Russian Federation defines the circumstances under which a license may be revoked. Under this resolution, grounds for termination are both broad and subjective and there is little precedent upon which to determine the practical likelihood of termination.

VimpelCom is dependent upon a small number of suppliers, principally Ericsson and Alcatel, for purchases of mobile telephone equipment. Similarly, as there is only a small number of telephone line capacity suppliers in Moscow, VimpelCom purchases telephone line capacity primarily from five suppliers: Telmos; Sovintel; TeleCommunications of Moscow; AO ASVT; and MTU Inform.

Presidential Decree No. 221, dated February 28, 1995, "On Measures for Streamlining State Regulation of Prices (Tariffs)" and its implementing Governmental Decree No. 239 dated March 7, 1995 provide that the prices and tariffs on certain telecommunications services to be established by the Government of the Russian Federation are subject to state regulation. Governmental Decision No. 1559, dated December 28, 1998, as amended, has established that the following communication services are subject to price controls by the executive authorities of the Russian Federation: subscription charges; installation fees; and charges for local and inter-city calls.

VimpelCom's licenses to operate cellular networks in the regions (not including Moscow and the

Moscow region) include a condition to make non-returnable contributions to the development of the public switched telecommunications network of the Russian Federation. The amount of contribution is unspecified and will be agreed with or determined by the respective local administrations. VimpelCom has made no significant payments and it is not possible to determine the amount that will eventually become payable.

NYSE

Годовой отчет Annual Report 1998



# 13. Impact of Year 2000 (Unaudited)

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of VimpelCom's computer programs that have time-sensitive software which is not "Year 2000 Compliant" may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process billing transactions or engage in normal business activities.

There can be no assurance that VimpelCom will be completely successful in its efforts to address Year 2000 issues. If some of VimpelCom's products and services are not Year 2000 compliant, VimpelCom could suffer lost sales or other negative consequences, including, but not limited to, diversion of resources, damage to its reputation, increased service costs and litigation, any of which could materially adversely affect VimpelCom's business operations or financial statements.

VimpelCom is also dependent on third parties such as its suppliers, service providers and other business partners. If these or other third parties fail to adequately address Year 2000 issues, VimpelCom could experience a negative impact on its business operations or financial statements. VimpelCom has initiated formal communications with its significant suppliers to determine the extent to which it is vulnerable to those third parties' failure to remedy their own Year 2000 compliance issues. In particular, it is unclear as to the extent that the Russian government and other organizations who provide significant infrastructure services within the Russian Federation have addressed the Year 2000 issue. Furthermore, the current crisis discussed in Note 1 could adversely affect the ability of the government and such organizations to fund adequate Year 2000 compliance programs. There is no guarantee that the systems of the government or of other organizations on which VimpelCom relies will be timely converted and would not have an adverse effect on VimpelCom and its systems.

VimpelCom has completed an assessment and will have to test and possibly modify or replace portions of its software so that its computer systems will function properly with respect to dates in the year 2000 and thereafter. The total cost of testing and modification or replacement, which will be funded from operations, is not expected to be material.

The project is expected to be completed in June 1999, which is prior to any anticipated impact on VimpelCom's operating systems. Management believes that, with modifications to existing software and conversions to new software, the Year 2000 issue will not pose significant operational problems for its computer systems. If, however, such modifications and conversions are not made, or are not completed timely, the Year 2000 issue could have a material impact on VimpelCom's operations.

Although VimpelCom has not developed comprehensive contingency or liquidity plans to address situations that may result if VimpelCom or any of the third parties upon which it is dependent is unable to achieve Year 2000 readiness, VimpelCom's Year 2000 compliance program will be ongoing and its ultimate scope, as well as the consideration of contingency plans, will continue to be evaluated as new information becomes available.

The costs of the project and the date on which VimpelCom believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived using numerous assumptions of future events, including the continued availability of certain resources and other factors. There can be no guarantee, however, that these estimates will be achieved and actual results may differ materially from those anticipated. The accompanying consolidated financial statements as of December 31, 1998 and 1997 and for the three years in the period ended December 31, 1998 do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts or classifications of liabilities that may result from the outcome of this uncertainty.

back next

NYSE

Годовой отчет Annual Report 1998



# 14. Quarterly Financial Data (Unaudited)

The following table sets forth selected highlights for each of the fiscal quarters during the years ended December 31, 1998 and 1997 (dollars in thousands, except per share data):

| | March 31 | June 30 | Sept. 30 | Dec. 31 | Year |
|---|---|---|---|---|---|
| **1998** | | | | | |
| Total operating revenues | **US$ 92,419** | **US$ 103,491** | **US$ 103,941** | **US$ 76,106** | **US$ 375,957** |
| Operating income | **28,331** | **30,449** | **30,783** | **12,276** | **101,839** |
| Net income (loss) | **16,526** | **13,675** | **(43,903)** | **8,987** | **(4,715)** |
| Net income (loss) per common share | **0.86** | **0.71** | **(2.28)** | **0.47** | **(0.24)** |
| **1997** | | | | | |
| Total operating revenues | US$ 66,729 | US$ 71,258 | US$ 77,994 | US$ 89,949 | US$ 305,930 |
| Operating income | 20,315 | 19,712 | 19,393 | 27,402 | 86,822 |
| Net income | 16,809 | 15,808 | 14,275 | 14,184 | 61,076 |
| Net income per common share | 0.87 | 0.82 | 0.74 | 0.74 | 3.17 |

back next

NYSE

Годовой отчет
Annual Report 1998



# 15. Subsequent Events (Unaudited)

On January 20, 1999, Sberegatelny Bank of the Russian Federation provided VimpelCom with a US$27,750 line of credit. Withdrawals can be made prior to May 15, 1999 and all repayments must be made prior to November 15, 2000. Interest on amounts outstanding accrue at a variable rate between 15.0% and 19.5%. The line of credit is collateralized by VimpelCom's shares held by an entity controlled by VimpelCom's President and Chief Executive Officer and, if the line of credit is drawn down in an amount in excess of US$18,000, certain items of buildings and equipment will also be pledged. As of March 26, 1999, no withdrawals had been made.

back