

# Ukraine

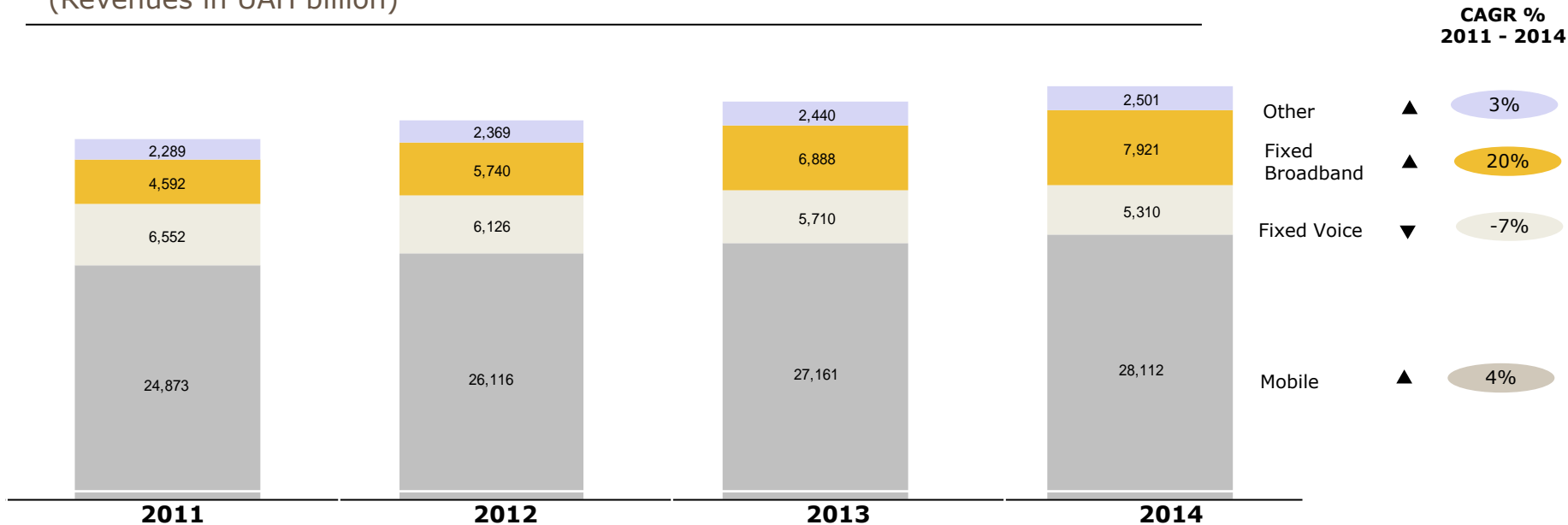
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# Market Industry Trends Ukraine

## Total Ukraine telecom market dynamics

(Revenues in UAH billion)



**Telecom market expected to grow 5% CAGR 2011-2014, mainly driven by Fixed Broadband**

# Market and Competitive Scenario

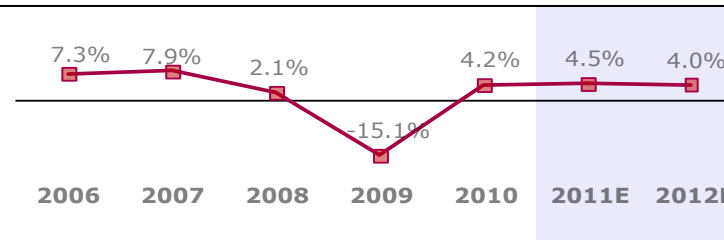
## Mobile\*:

- Major players: Kyivstar, MTS, Astelit (brand "Life"). Kyivstar is the leading multiplay operator in Ukraine, with a #1 position in mobile and a #3 position in fixed.
- Key consumer trends: high MOU due to proliferation of free on-net pricing model, 30-40% growth in mobile data
- Regulatory: pressure on MTR, delays in 3G license auction
- Value chain: Minor progress in network sharing due to the absence of massive roll-out, no consolidation in retail

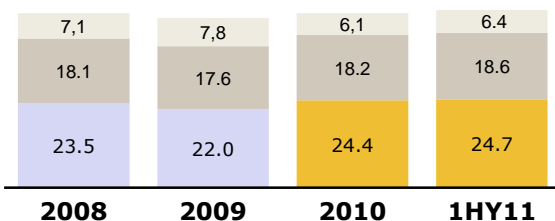
## Fixed\*:

- Major competitors: Ukrtelecom (incumbent), Vega, Volia, Datagroup
- Kyivstar is the 3rd (behind Ukrtelecom and Volia) but the fastest growing operator in mass market broadband
- In fixed voice Kyivstar is focused on the B2B segment where we compete with Ukrtelecom and Datagroup

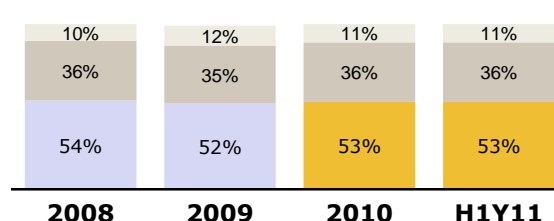
## Ukrainian GDP Trend\*\* (Percentage %)



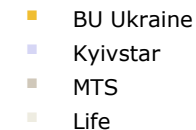
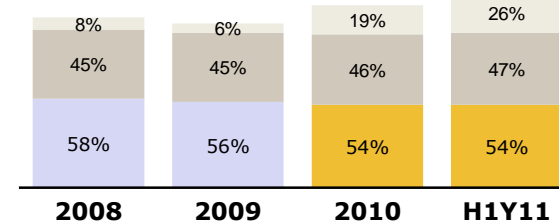
## Mobile Subscriber base (million)



## Total Revenue Market Share (Percentage %)

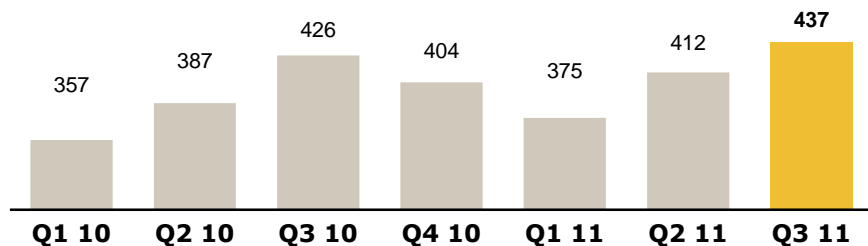


## EBITDA margin (Percentage %)

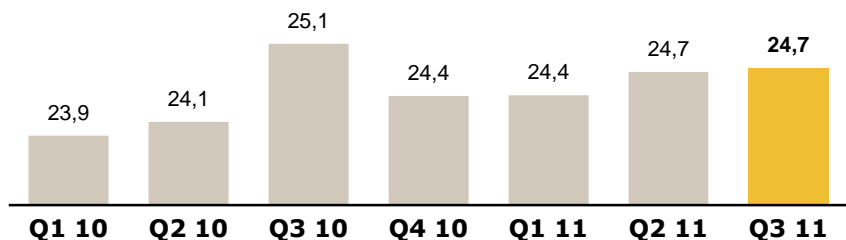


# Today's Performance

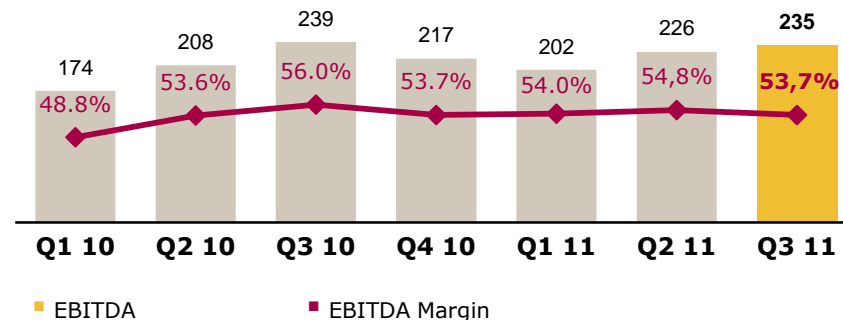
## Revenues\* (USD million)



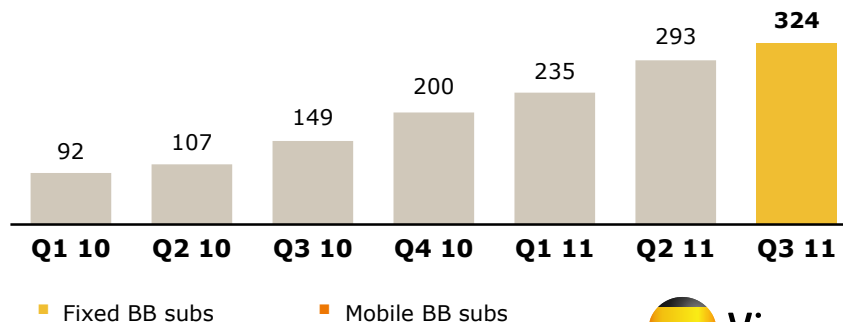
## Mobile subscribers\* (million)



## EBITDA and EBITDA Margin\* (USD million)



## Broadband subscribers\* (thousands)

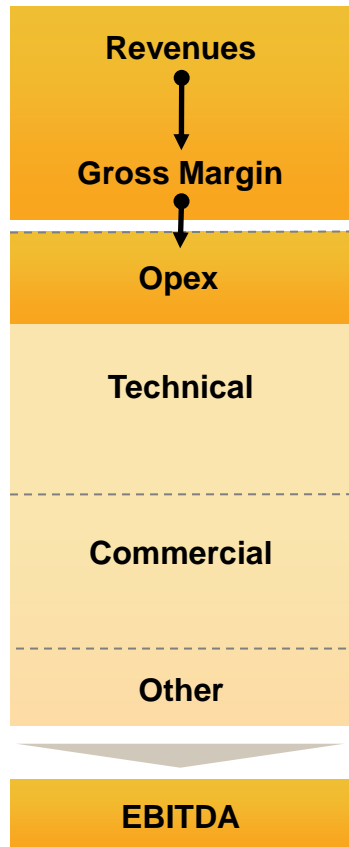


\* Pro forma figures for 1Q 10 and 2Q 10

# Addressing Current Situation

## Current Situation

## Actions



- Macroeconomic growth does not drive recovery in telecom
- Mobile segment saturation with declining rate of revenue growth requires us to launch / develop non-mobile businesses putting pressure on margins and capex
- Regulatory environment is challenging (delay in 3G license, SMP and MTR regulation, increase in regulatory charges)

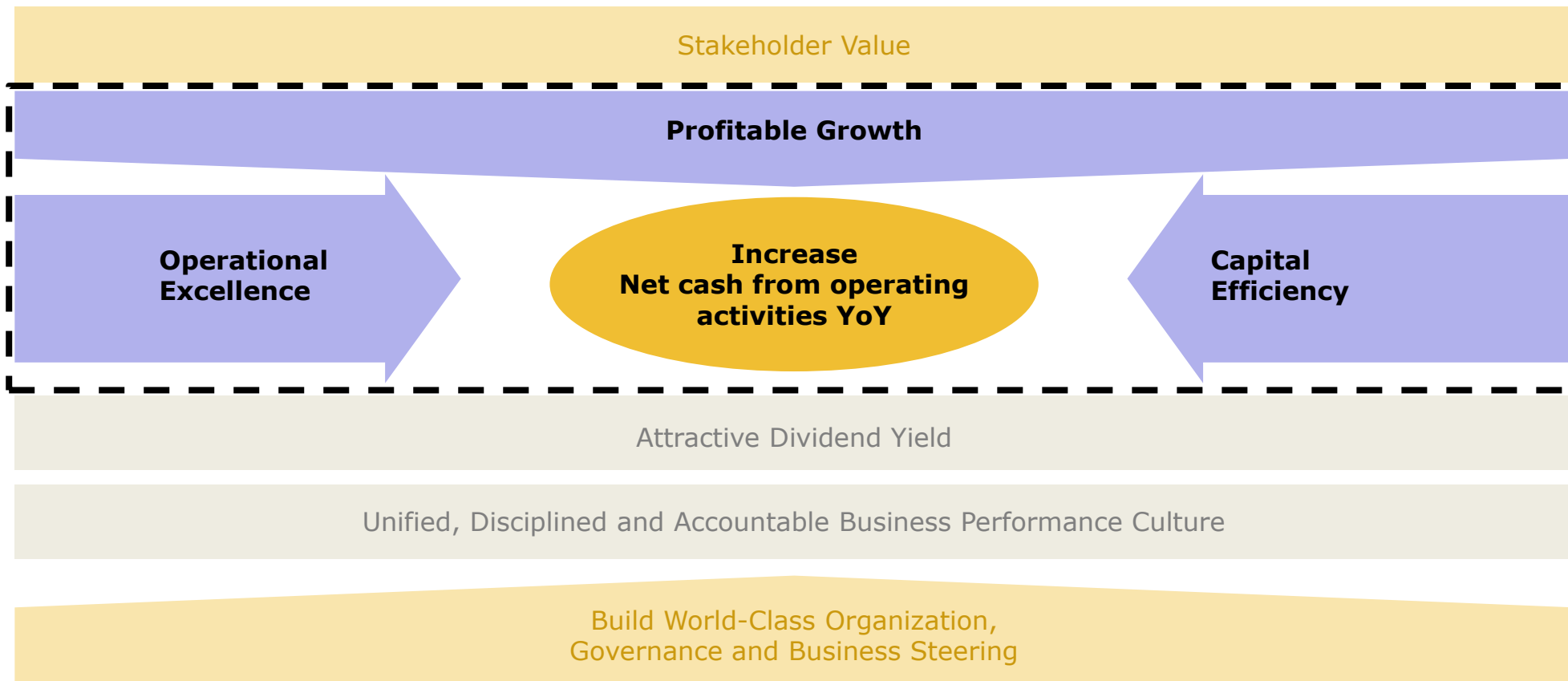
- Growth of mobile network to cater for growing traffic and development of fixed businesses drive maintenance opex
- Significant share of opex is not driven by volume but by inflation and are very hard to control (electricity rate, frequency fees, regulator charges, etc)

- Significant reduction of commissions for past two years helped to compensate for NW opex growth, but resulted in the lowest rates vs competition – such levels are not sustainable in future

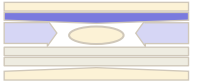
Overall ambition of EBITDA margin management is to achieve sustainable structural opex saving from mobile network swap/outsourcing projects to compensate for margin decline from fixed businesses and finance commercial and organizational priorities/challenges.

- Pricing excellence in mobile and transition to bundles to defend subscriber and revenue market shares
- Aggressive FTTB roll-out and leadership in net adds
- Integrated mobile-fixed offers to B2B segment
- Sale of user devices to stimulate data usage
- Stimulate 3G license release and network roll-out
- Transformational projects currently under development: network swap, network outsourcing, potential NW sharing
- Local synergies delivery + Global synergies delivery
- Frequency related synergies, if we are able to transfer URS frequencies to Kyivstar and/or if refarming becomes possible
- Consumers show preference for a bundle pricing model and are significantly increasing usage of voice, data and multimedia services, which needs to be monetized
- Further develop a multichannel retail and distribution model
- Implement organizational development and talent retention programs to further improve integrated corporate culture, employee productivity and motivation

# Focus in Value Agenda 2012-2014



# 1 Profitable Growth



Deliver profitable revenue growth in segments where we are the market leader and improve market share in segments where we are in the top 3, explore new pockets of growth.

**Consumer Segment**

**Business Segment**

<b>Products</b>	<b>Approach and key initiatives</b>
<ul style="list-style-type: none"><li>• Mobile Voice</li><li>• Mobile Data (EDGE)</li><li>• FTTB</li><li>• Multimedia &amp; VAS</li><li>• Devices</li></ul>	<ul style="list-style-type: none"><li>• Implement Bundle Strategy with focus on increasing voice and data consumption</li><li>• Accelerate 3G license acquisition and network roll-out</li><li>• Build Djuce as a Virtual Arena for music, video, games, and communities to become</li><li>• Finalize roll-out of FTTB to addressable market and become the #1 alternative</li><li>• Maintain leadership in multimedia</li><li>• Build a multichannel retail and distribution model</li></ul>
<ul style="list-style-type: none"><li>• Mobile Voice</li><li>• Mobile Data (EDGE)</li><li>• Fixed Voice</li><li>• Fixed Data</li><li>• Wholesale</li><li>• Data-center</li><li>• Call-center</li></ul>	<ul style="list-style-type: none"><li>• Focus on providing a wider portfolio of services to existing customer base (cross-sale synergies)</li><li>• Explore new pockets of growth:<ul style="list-style-type: none"><li>▶ high-speed mobile data-based services</li><li>▶ proactive fiber optics roll-out to business customers</li><li>▶ datacenters, cloud-based services, contact centers and network security</li></ul></li><li>• Operational improvements in value proposition management, sales management and go-to-market processes to increase revenue</li></ul>

## 2 Operational Excellence

Synergy + network transformation



### Strategic project

### Scope

Marketing  
Workstream

Technical  
Workstream

Business Support  
Functions

**Synergy /  
Global Synergy**  
(ongoing)

Focus on

- Up- and Cross-sale opportunities
- Roaming
- FTTB

Focus on

- Site and equipment re-use, core and transport networks optimization
- Global technical and procurement synergies

Focus on

- Corporate culture integration
- Process and IT integration

**Transformation**  
(scoping and  
analysis)

Focus on

- Product, service, segment profitability management
- Retail Strategy
- Device Strategy

Focus on

- Network SWAP
- Network Outsourcing

Focus on

- Adopt motivation system to reflect focus on long-term sustainable growth and efficiency
- Operational improvements

**Operational  
Excellence 3+**  
(to start in 2012)

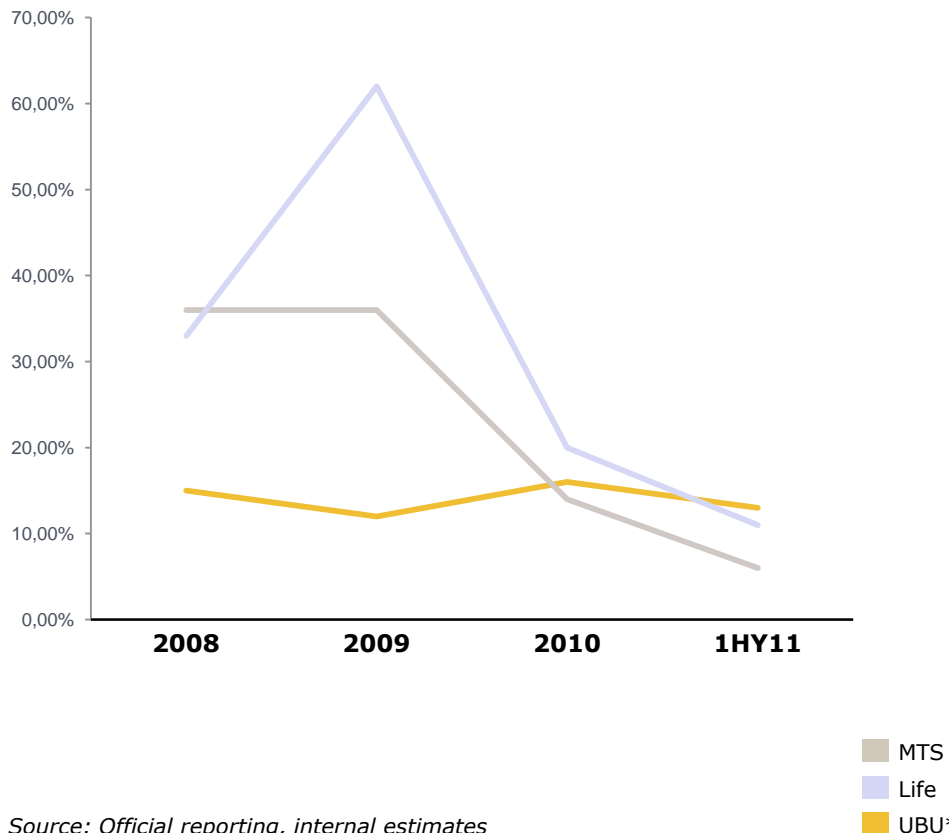
- Focus on analysis of current run rate and new operational excellence opportunities
- Increase organizational effectiveness in line with motivation system adaptations
- Develop tools and methodologies to support continuous improvement and "lean" processes
- Optimize internal decision making process (reduce bureaucracy and time-to-decision)



### 3 Capital Efficiency



#### CAPEX to Revenue ratio



- Kyivstar has been the leader in capital efficiency in the Ukrainian market, investing more effectively than our competitors while maintaining market leadership
- Increase in capex in 2010-2011 is driven by growing voice and data consumption, and significant FTTB roll-out
- Future capex needs are driven by the need to increase network capacity and maintain quality in mobile, development of FTTB and B2B Fixed business, potential 3G license acquisition and roll-out
- Capex efficiency is to be maintained through:
  - ▶ Rigorous investment portfolio management process for capex approval, prioritization, release and review
  - ▶ Global procurement synergies
  - ▶ Transformational projects currently under development – network swap, network outsourcing, potential network sharing
  - ▶ Frequency related synergies, if we are able to transfer URS frequencies to Kyivstar and/or if competitors agree to re-farming

# Conclusions

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- 1. Challenging context:** macroeconomic growth does not drive recovery in telecom, mobile segment saturation, regulatory environment is challenging
- 2. Strong demand and usage:** consumers show preference for a bundle pricing model and are significantly increasing usage of voice, data and multimedia services, which the operators need to monetize
- 3. Broadband land-grabbing:** fixed broadband is in a period of “turf wars”, while development of mobile broadband is hampered by the lack of 3G licenses
- 4. Balanced strategy:** Kyivstar is continuing to implement a balanced strategy of cash flow maximization with gradual transition to bundled mobile offers, development of non-mobile businesses, coupled with lean cost management to deliver best possible cash flows at a cost of minor loss in core mobile market share
- 5. Key priorities for 2012:**
  - 1. Pricing excellence** and move to bundles in mobile
  - 2. 3G license** and network roll-out
  - 3. FTTB** roll-out and leadership in net adds
  - 4. Cost efficiencies** through local and global synergies and network transformation
  - 5. Corporate culture** integration and motivation system

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