

Russia

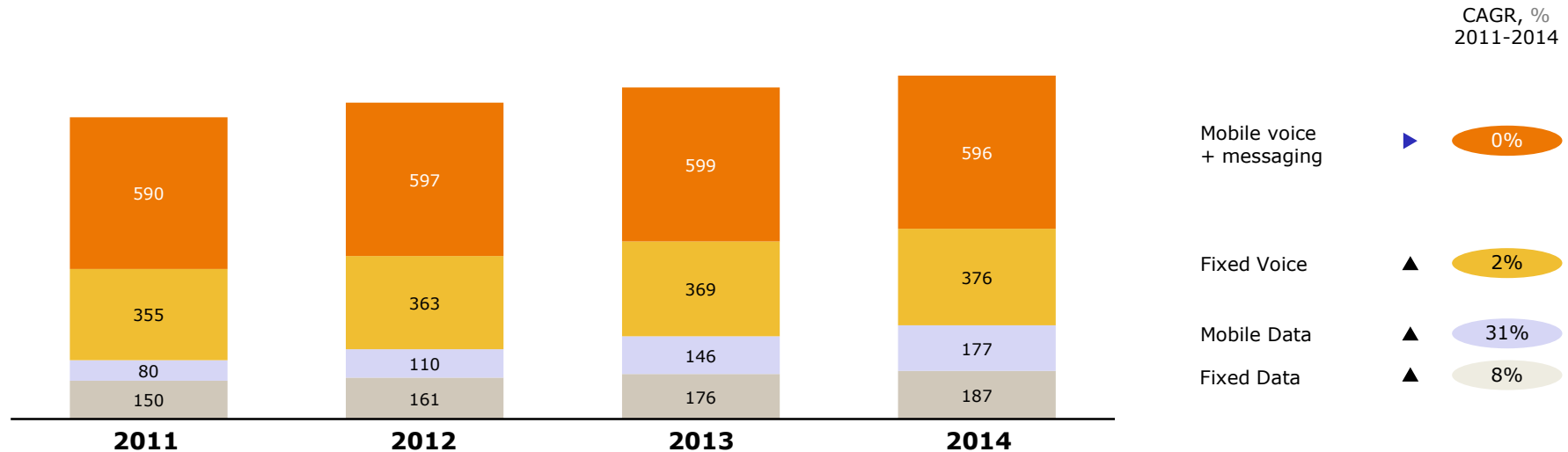
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Market Industry Trends for Russia

Total Russian telecom market dynamics*

(Revenues in RUR billion)



Russian Telecom market expected to grow 4% CAGR 2011 - 2014, mainly driven by Mobile Data

Competitive Situation and Market Trends

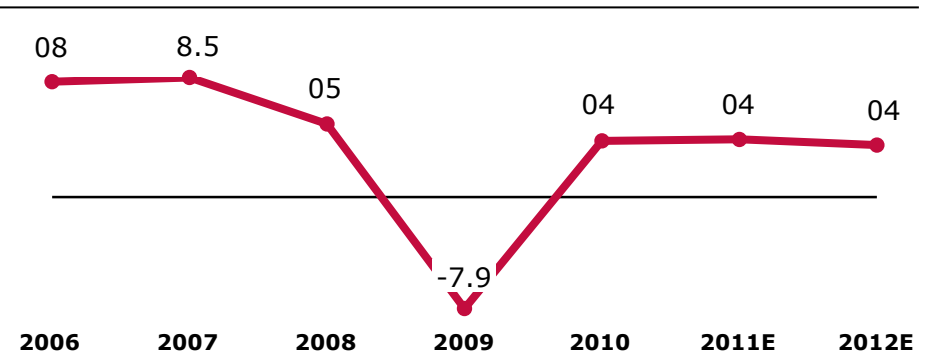
Mobile*:

- 84 % pre-paid market
- 160% penetration
- 3 major players (Megafon, MTS and VimpelCom) with comparable market shares
- ARPU USD 10

Fixed*:

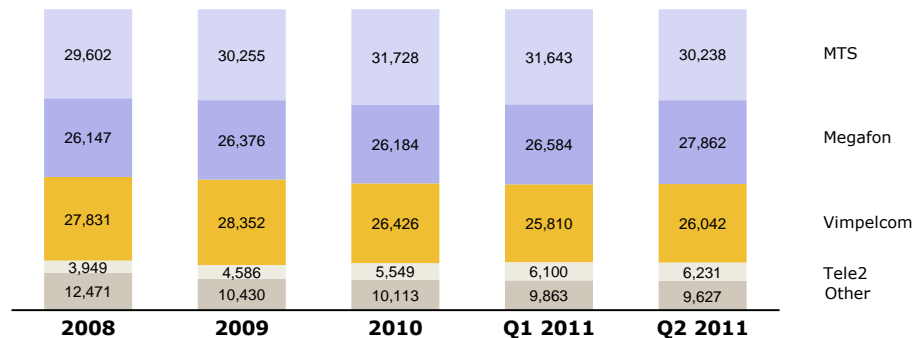
- Rostelecom is still dominant incumbent (with 39 % subs market share)
- Voice traffic declining due to fixed-to-mobile substitution

Russian GDP Trend, %**



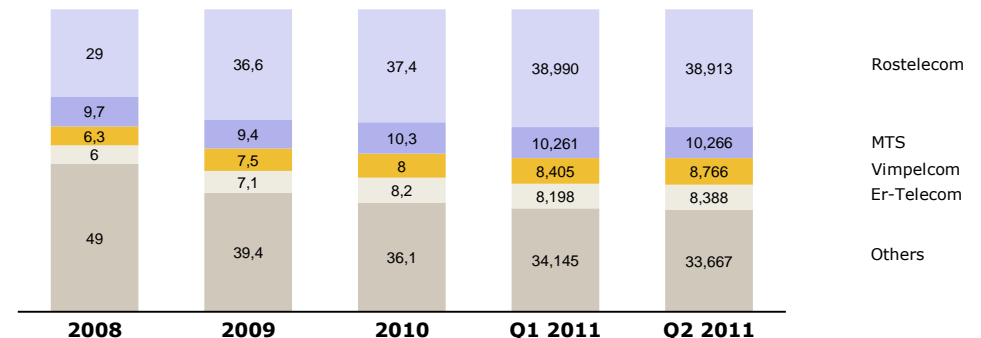
Mobile market share*

(on Revenue), %



Fixed broadband market share*

(on subs), %

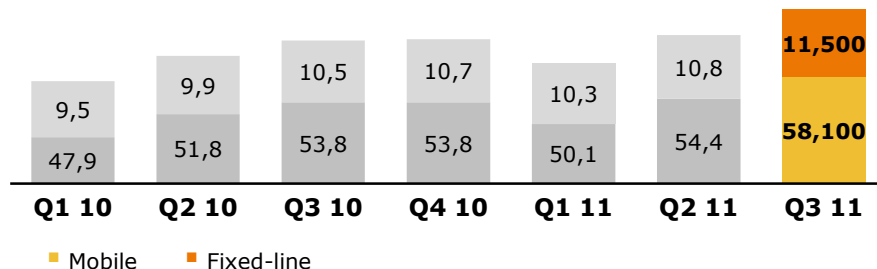


* Source: Informa

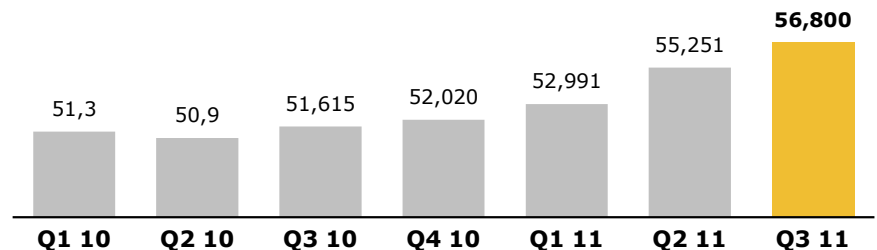
** Source: RosStat, Ministry of Economic Development of Russia, Prime Minister of Russia

Today's Performance

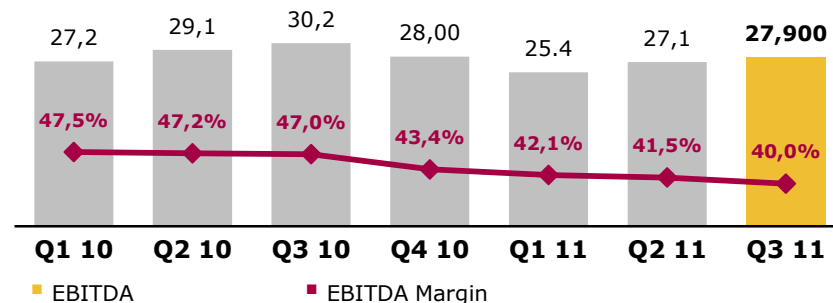
Revenues (RUR billion)



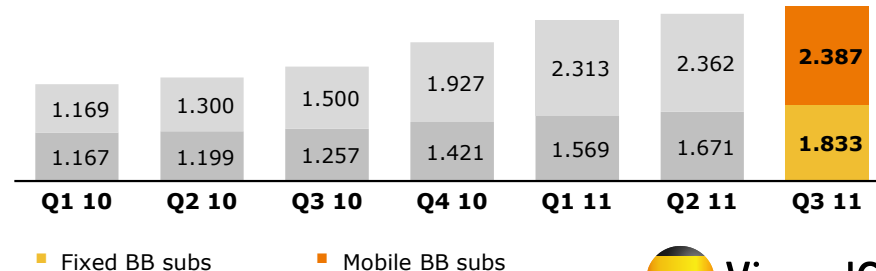
Mobile subscribers (million)



EBITDA and EBITDA Margin (RUR billion)



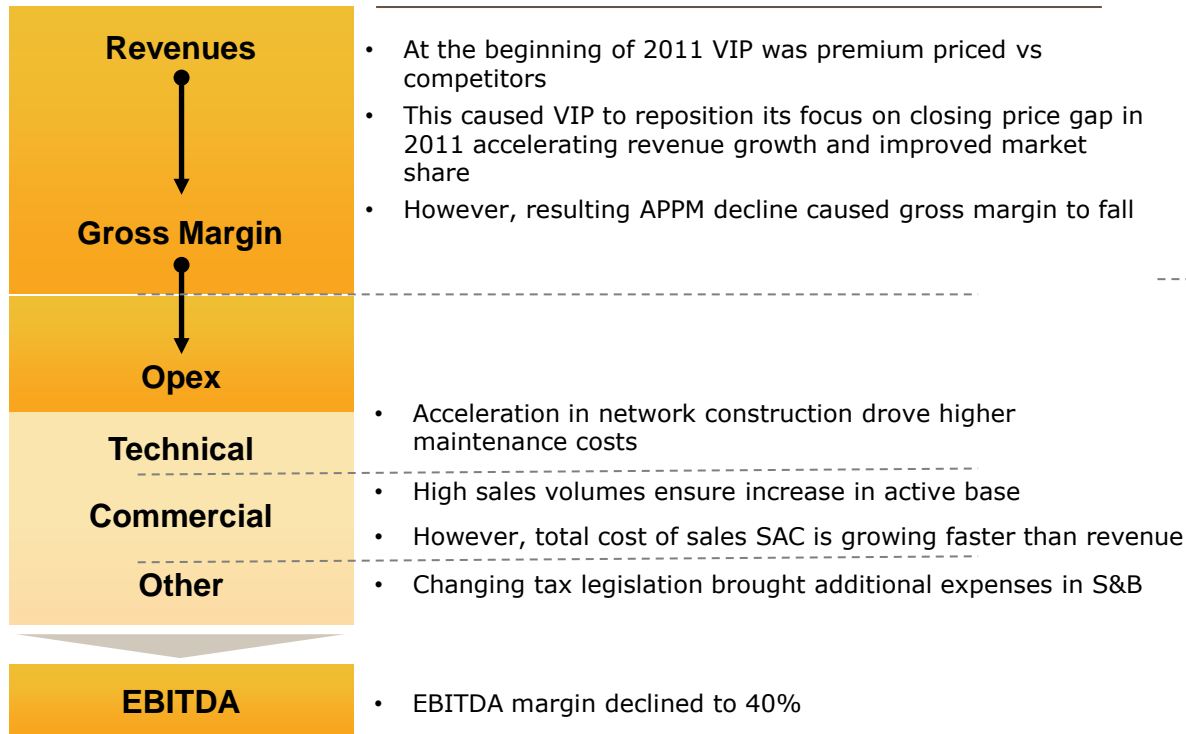
Broadband subscribers (thousands)



Addressing Current Situation

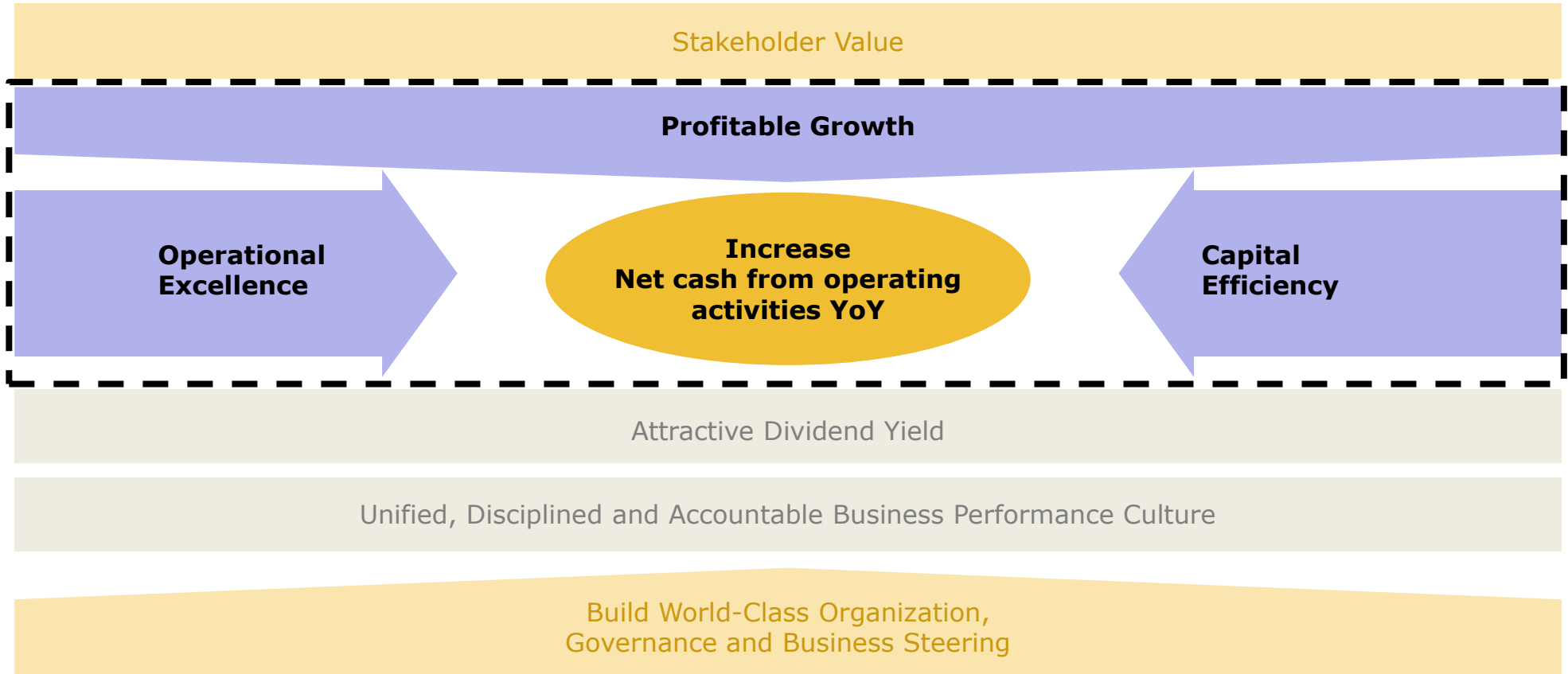
Current Situation

Actions



- On net traffic stimulation
 - Active promotions in small screen data segment
 - Improve customer loyalty and actively manage churn
 - Optimized sales mix to improve contribution margin in sales
-
- Operational excellence program aimed at driving cost savings of at least RUR 5 billion in 2012, including following projects:
 - ▶ Network sharing and outsourcing initiatives to decrease network maintenance costs
 - ▶ Optimized structure of dealer commissions
 - ▶ Optimized cash collection

Focus in Value Agenda 2012-2014



1 Focus on ensuring sustainable revenue growth



Core strategic objective is to achieve sustainable growth by finding the optimal balance between focusing on margins and capturing market share

Growing revenue streams

Mature revenue streams

Products

Approach

- Mobile Data
- Fixed data (FTTB) IP VPN and IPTV
- Mobile VAS

- Focus on capturing market growth, improving overall margin with high-marginal data revenue
- Focus on 2 biggest pockets of growth in mobile VAS:
 - M2M
 - M-commerce






- Mobile Voice + messaging
- Wholesale
- Fixed voice B2C
- Fixed voice B2B

- Sustain revenue
- Focus on margin and cash flow
- Use opportunity to capture part of the Fixed voice B2C market (where we are not currently present) by offering VoIP services to FTTB internet subscribers

1 Leveraging fast-growing revenue streams



Market CAGR,
% 2011-14 Product portfolio approach

Mobile Broadband	 Small screen <ul style="list-style-type: none"> • Provide sufficient speed in 3G, enhance EDGE in priority branches • Drive penetration of smartphones in Active Base 	 Medium screen <ul style="list-style-type: none"> • Provide unlimited tariffs (tailored for medium screen) for excellent user experience • Unlimited WiFi packages 	 Large screen <ul style="list-style-type: none"> • Provide sufficient speed in 3G • Start offloading traffic to WiFi • Bundle with Fixed Broadband
	 Internet <ul style="list-style-type: none"> • Increase coverage of existing cities with currently used FTTB technology • Investigate other technologies for possible connection of low-storey houses • Improve network quality (Channel capacity & reservation) 	 IP TV <ul style="list-style-type: none"> • Addressable audience - 93% of total FTTB Russia subs base • Offer best features and innovative products (#1 IPTV in Functionality ranking in Russia) • Protect Broadband ARPU by product bundling 	
	M-Commerce <ul style="list-style-type: none"> • Enter e-payment market with RURU project (in cooperation with one of largest Russian banks Alfa Bank) • Cooperate with BIG 3 Mobile Operators • Pilot NFC based transport services 	M2M <ul style="list-style-type: none"> • Enter Consumer Electronics market • Develop integrated M2M solutions in strategic partnership with key system integrators 	

+31%

+8%

+42%

1 Ensuring profitable growth by being #1 in brand preference

Persistent Effort to Improve Customer Satisfaction and Secure #1 Position in Brand preference

Customer Experience

- Increase level of Customer Satisfaction
- Develop and implement strategic programs to improve Customer Experience for both fixed and mobile
- Keep a strong focus on customer retention to decrease existing churn rate
- Secure #1 position in Brand preference by building clear Brand differentiation
- Continue the build up of "Beeline community" offline and online

New value-based Segmentation



Brand and CRM

- Build clear differentiation on the **Core Brand Values** across key touch points
- Apply new segmentation to develop products tailored to customer needs
- Enhance loyalty program for "heavy users" segment

2 Operational Excellence

Improve margin



Strategic project

Scope



**Operational
Excellence**

Technical
improvement

- Focus on
- Outsourcing
 - Transport network
 - RAN sharing

Marketing
Enhancement

- Focus on
- B2B & B2C sales
commission

Process & Structure
Optimization

- Focus on
- Organizational
effectiveness
 - Supply chain optimization
 - Service office migration

Key Areas

Direct Costs

ST&A

Main projects

- Transport Network Optimization
- Interconnect cost optimization
- CPA margin

- Dealer commissions optimization
- Payment commission
- Outsourcing

Savings in 2012

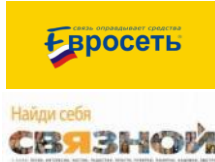
**At least
RUR 5 Billion**



2 Operational Excellence

Distribution and Cash Collection

Multibrand
points of sale



18%*
14%*

Monobrand
points of sale



30%*



Internet: shops,
i-banking, ATM

Alternative
channels
of distribution



38%*

**One of the largest and the most diversified
distribution network with focus on improving
Contribution margin for all channels**

2 Improving network efficiency



National coverage



Mobile network

- **GSM network: reached 90+% population coverage** with 2G (29 K base stations)
- Plan to reach 95% population coverage in 2012-2013 with new sites development
- Plan to roll-out 3G in regions by developing new sites and extending capacities on existing to capture mobile data growth (currently 11K base stations)

Fixed network

- **We reached 62%* of direct population coverage** in all major Russian cities (90 cities)
- Traffic compression technologies – giving 10-15% extra channel capacity
- Efficient CAPEX investment in transport network will decrease rental fees

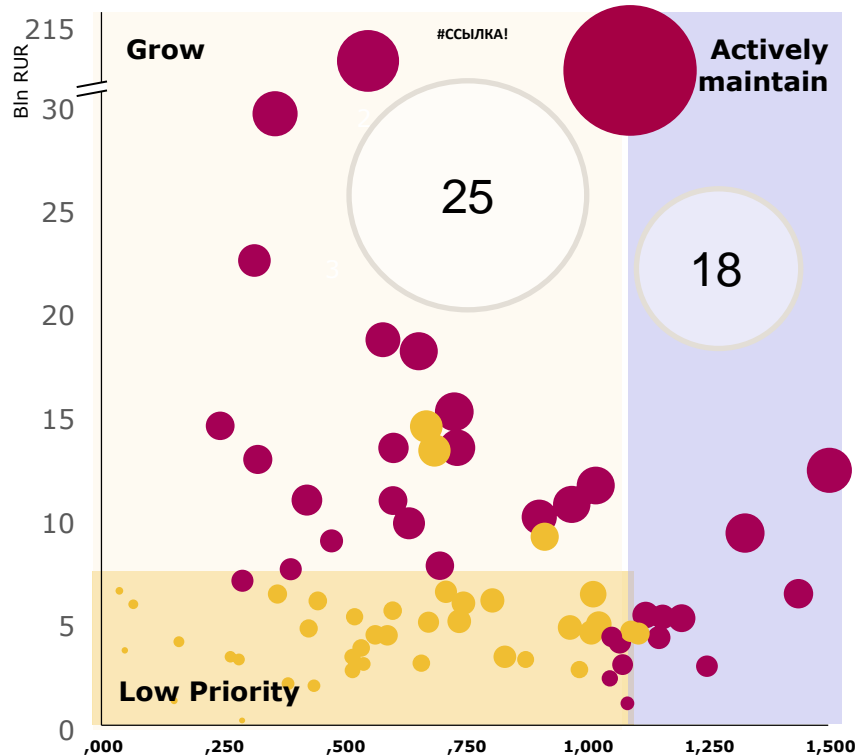
Backbone

- Optimized costs by sharing **fiber optic backbone** with competition and negotiating prices
- Transport network reached 33 thousand km of Domestic Long Distance (DLD)

3 Increasing Capital Efficiency with segmented approach



2012 Market size estimate



1H 2011 VIP MS in Revenue divided by MS of the biggest competitor
Size represents branch revenue 1H' 2011

x High-priority branches
 x Second priority branches

2 high-priority branch clusters

There are **2 major types of branches** that require different strategies:

1. Branches we should **grow** MS
(Where we are *not* leaders on the market)
2. Branches we should **actively maintain** MS
(We *are* leaders on the market)

43 priority branches

We have identified 43 first-priority branches (out of 79) based on **2 key criteria:**

- Beeline market position and
- market potential in 2012

Competitive strength (e.g. own transport network) in these regions will be also used as an additional filter to rank branches

Having mapped branches to clusters, we have:

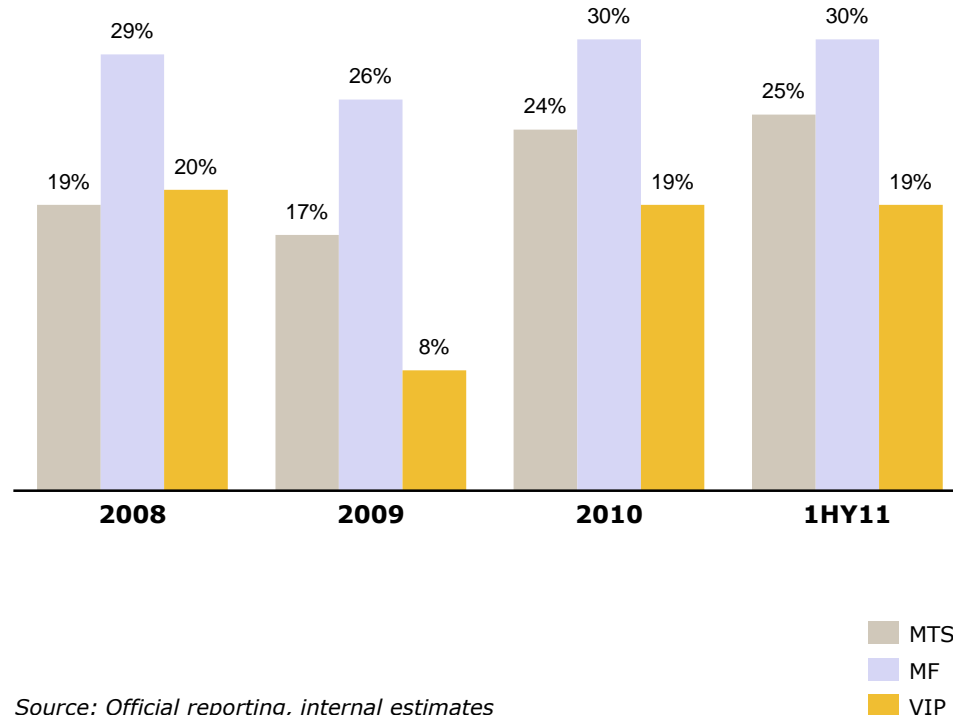
- 25 in GROW cluster
- 18 in ACTIVELY MAINTAIN cluster

These branches account for 82% in Market size 2011

3 Capital Efficiency



Capex to Revenue ratio (Percentage %)



- Capex to revenue ratio is a good proxy for measuring Capex efficiency
- Being an integrated operator should allow us to realize synergies in infrastructure
- Maintaining Capex efficiency will be addressed by Capex optimization initiatives in 2012:
 - ▶ Procurement optimization
 - ▶ Common transport network construction with competitors
 - ▶ Enhanced efficiency in the network planning
 - ▶ Effective and efficient Capex spending

Conclusions

- Deliver on the Value Agenda
- Maintain top-line growth in mobile and fixed-line segments with rational market approach
- Addressing the key issues with Operational Excellence and Customer Experience programs
- Deliver profitable growth
- Leverage group scale and knowledge to invest efficient in growth

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