

# Creating Value in Russia

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Group Executive Vice President and Head of Russia



**VimpelCom**

Analyst &  
Investor Day

# It's all about Creating Value

VimpelCom's value creation philosophy is based on Performance Management and Empowered BU Management



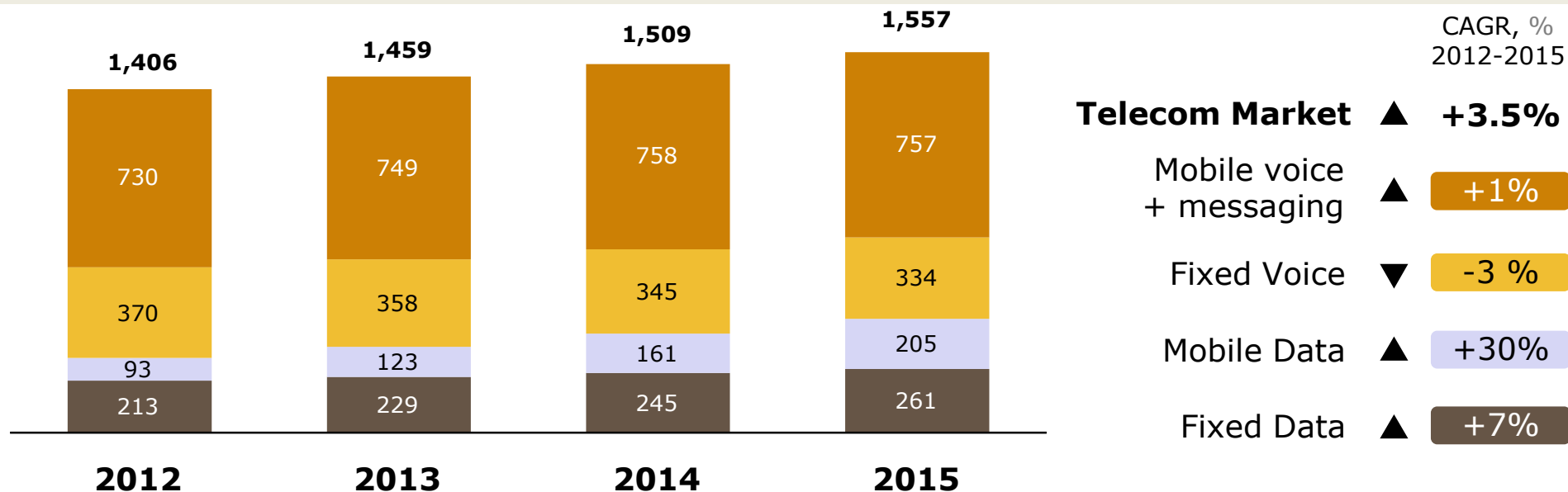
## What it IS about

- Focus on profitable growth
  - ▶ Grow in mobile data
  - ▶ Increase efficiencies by strong execution of the operational excellence program and efficient network roll out
- Improve customer excellence

# Mobile Data to Grow in Russia with 30% CAGR

## Russian Telecoms Market Dynamics\*

(Revenues in RUB billion)



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

# Competitive Situation and Market Trends

## Mobile\*

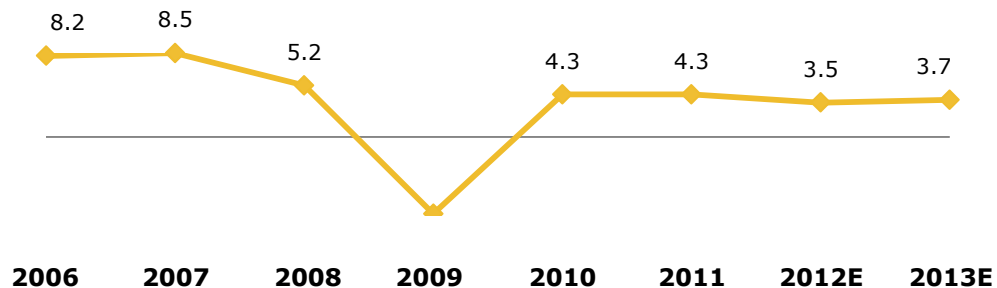
- ~83 % pre-paid market
- 164% penetration
- 3 major players (Megafon, MTS and VimpelCom) with comparable market shares
- ARPU USD 10

## Fixed\*

- Rostelecom is still dominant incumbent (with ~41 % subs market share)
- Voice traffic declining due to fixed-to-mobile substitution
- Residential broadband penetration ~42% and still growing by ~2% per quarter

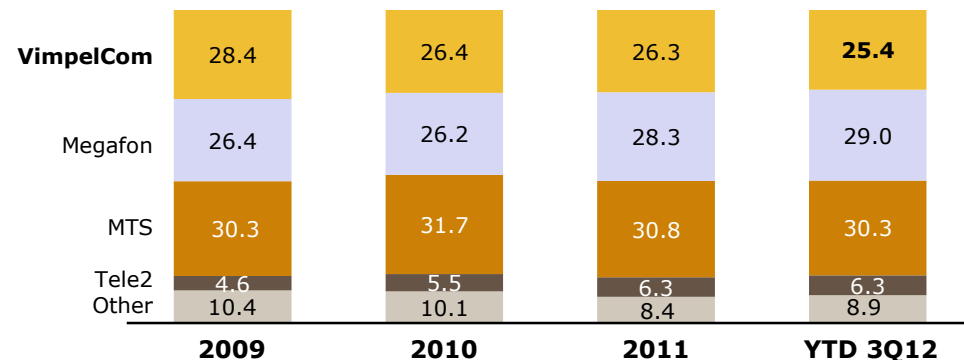
## GDP Trend\*\*

%



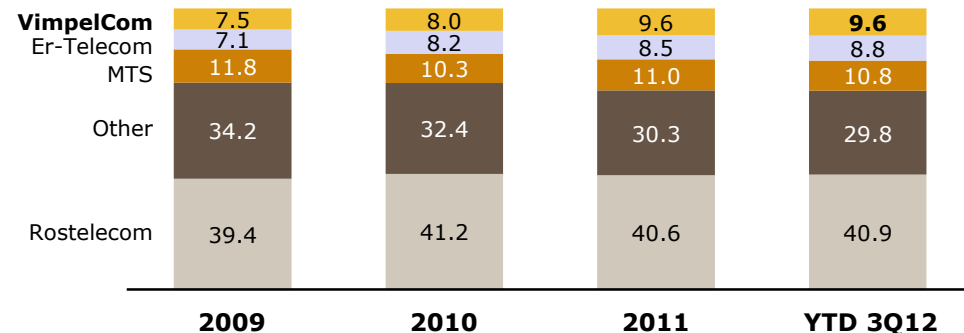
## Mobile market share\*

(on Revenues), %



## Fixed broadband market share\*

(on subs), %



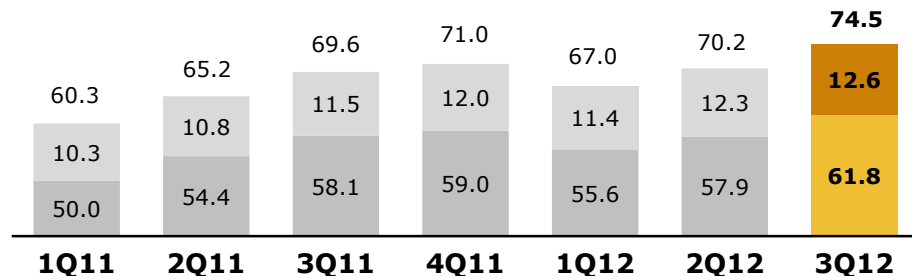
\* Source: Informa

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

# Operational Performance Turnaround in 2012

## Revenues

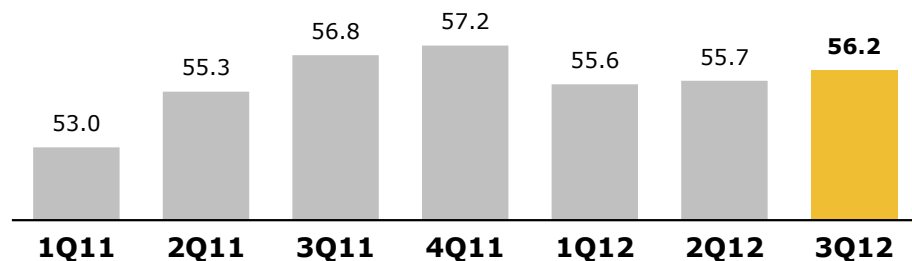
(RUB billion)



■ Mobile ■ Fixed-line

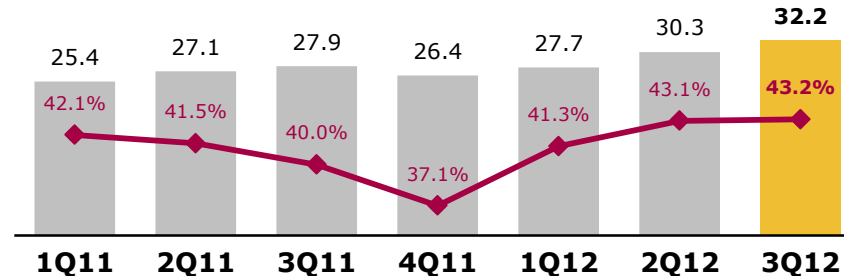
## Mobile subscribers

(million)



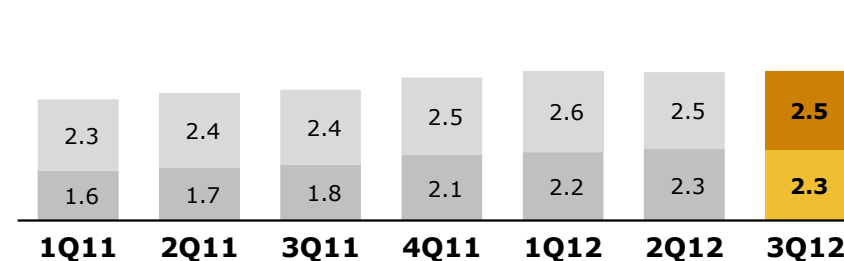
## EBITDA and EBITDA Margin

(RUB billion)



## Broadband subscribers

(million)

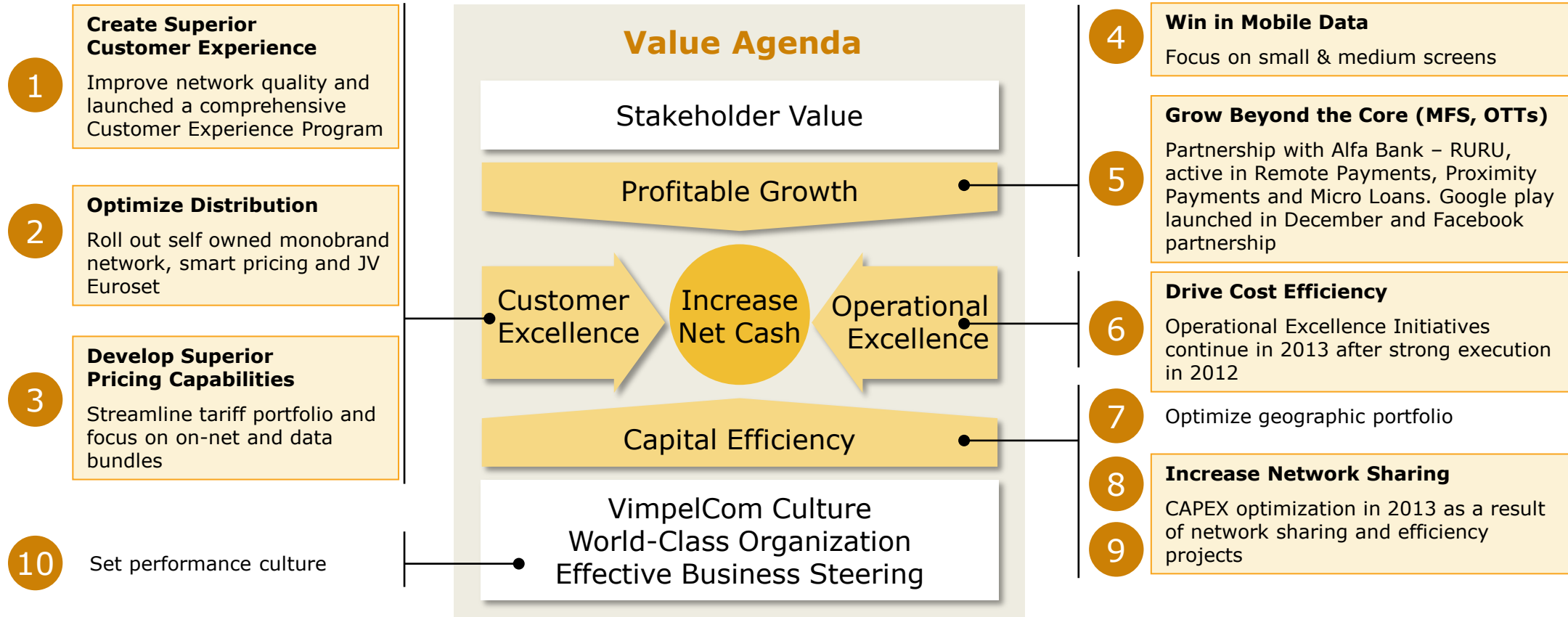


■ Fixed BB subs ■ Mobile BB subs

# Progress on Actions Announced

	Achievements in 2012
<p>Revenues</p> <p>↓</p> <p>Service Margin</p>	<ul style="list-style-type: none"> <li>• On net traffic share increased by 2 p.p. up to 59%</li> <li>• Launch of "all inclusive" price plan in 4Q11, growing to 4% share of subscribers in 3Q12</li> <li>• Data share in mobile service revenue grew by 2.5 p.p. YoY to 11% in 3Q12. Smartphone penetration on Beeline network is 15%</li> <li>• Data users grew by 2.6 p.p to 37.3% in 2012</li> <li>• Improved quality of sales with new sales service margin 64% vs. 58% in 2011</li> <li>• Churn improved in 3Q12 from 66% to 61 %</li> <li>• Comprehensive churn reduction program launched</li> </ul>
OPEX	
Technical	<ul style="list-style-type: none"> <li>• Network sharing, outsource network maintenance</li> <li>• Business process redesign</li> <li>• Headcount optimization</li> </ul>
Commercial	<ul style="list-style-type: none"> <li>• Improved efficiency in advertising</li> <li>• Revenue sharing model introduced</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Shared service center established in Yaroslavl</li> <li>• More than doubled our initial target for annual savings of RUB 5 billion in 2012. More initiatives launched for 2013</li> </ul>
EBITDA	

# 10 Strategic Initiatives Pursued to Achieve Group Objectives

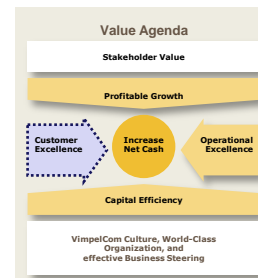


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# Customer Excellence

## Create superior customer experience

- Set Superior Client Experience as a key strategic goal
- Launched comprehensive Customer Experience Program, focused on resolving the painpoints and differentiating on lovepoints
- Collection and analysis of customers' and employees' feedback and translate into cross-functional actions
- Developed operational plans:
  - ▶ Mobile network quality and perception improvement
  - ▶ Customer care in Contact Center and Offices
  - ▶ Offering tuned to the defined Customer Segments
  - ▶ Further development and promotion Self service channels
- Employee engagement program





## 1

# Customer Excellence

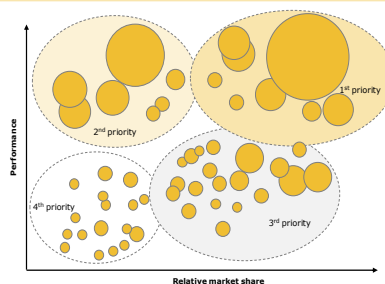
## Improve network quality

### Improve network ...

- In 2013 substantially boost data network performance, both in coverage and speed
- Aim to increase number of Node Bs by 30%
- Share of IP backhaul is expected to double by YE 2013

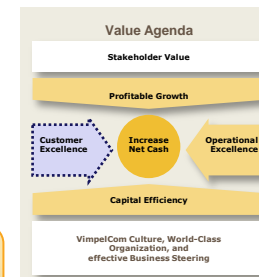
### ... by setting priorities at the regional level...

- CAPEX investments in 2013 will be driven by regional cluster model
- Cluster-based approach will allow to prioritize network investments in the most efficient way



### ... and tracking customer experience

- Network is the most important touchpoint for key segments
- Measuring impact of improved network performance on customer experience
- Customer experience KPIs will be included in the executive dashboard and used for performance management target setting



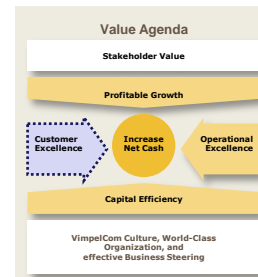
# Customer Excellence

## Roll out self owned monobrand stores and smart pricing

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### Optimize distribution

- Introduced revenue sharing model with dealers which resulted in improved quality of sales and lower sales commissions.
- Increased stake in Euroset to 50%, equal stakes with Megafon and full revenue sharing with Euroset from 2013.
- Doubled own monobrand stores in 2012, plan to expand further in 2013
- Piloting and rolling out new monobrand store formats with enhanced customer experience
- Developing online channel tailored to segment needs



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### Develop superior pricing capabilities

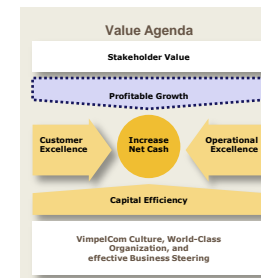
- Streamlined tariff portfolio
- Focusing on both on-net and data bundles
- Introducing new generation data pricing, monetizing quality of service

## 4

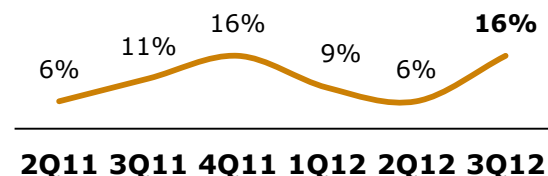
## Profitable growth

### Driving mobile data; Focus on small & medium screens

- Focus on small and medium screen
  - ▶ Prices of data per Gb are higher and less network capacity needed
- Increase smartphones penetration and usage
  - ▶ Roll out self owned monobrand stores, educate customers, increase product & service offering
  - ▶ Current smartphone penetration on Beeline NW 15%
  - ▶ Promote free apps, stimulating subs to start data usage
- Improve network quality and launch LTE in Moscow and 6 regions in 2013
- Offer smart data price plans: increase bundled price plans
  - ▶ Share of bundle subscribers relatively low, but growing rapidly
  - ▶ Upsell data packages



**Small screen internet revenues  
QoQ growth**



## 5

## Profitable growth

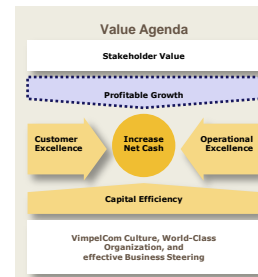
Grow beyond the core; Leading by innovation

### Mobile Financial Services

- Partnership with Alfa Bank: RURU and co-branded credit cards
- Active in Remote Payments, Proximity Payments and Micro Loans
- Expected growth in 2013: up to 3 million users and revenue growth 150%
- Near Field Communication transportation services launch in 2013 for big cities (primary Moscow and Kazan) in partnership with BIG3
- Piloting with micro finance organization for micro loans services development

### OTT

- Google Play expected to achieve 1.5 million active users in 2013
- Partnership with Facebook
- Direct billing with key OTT application store players
- Plans to develop own mobile OTT solution



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# Operational Excellence

## Initiatives continue in 2013

### Marketing

- Improve efficiency in advertising
- CPA margin improvement
- CE margin improvement

### Financial & Support

- Shared Service Center operational in Yaroslavl

### Technical & IT

- Network maintenance outsourcing
- Transport network optimization
- Network sharing
- Increase productivity across functions

### HR

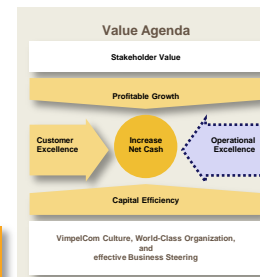
- Business process redesign
- Rationalization reporting structure
- Headcount optimization

### B2B

- Roaming cost optimization
- Commission optimization
- Wholesale service margin optimization

### B2C

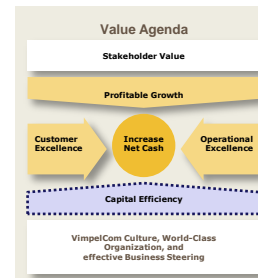
- Contribution margin
- Payments commission optimization



## 8 Capital Efficiency

### Network sharing and efficiency projects

- Realize synergies in infrastructure transport network sharing as an integrated operator
- CAPEX optimization initiatives 2012, that will be increased in 2013
  - ▶ Procurement & Logistics optimization
  - ▶ Common transport network construction with competitors
  - ▶ Enhanced efficiency in the network planning using optimum TRX utilization ratio guideline
  - ▶ Passive RAN Sharing with other operators
  - ▶ Implementation of new technologies allowing to increase capacity using existing network resources (DPI, Direct tunnelling, etc) and IT resources (Servers virtualization)
  - ▶ Close focus on optimization of warehouse stock turnover



## Achieving sustainable profitable growth

- Sustainable turnaround in Russia
- Catching up in network quality in 2013
- Optimize distribution to support data strategy and customer experience
- Strong growth of data revenues, targeting small and medium screens
- Focus on profitability

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