

Creating Value in Russia

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Group Executive Vice President and Head of Russia

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Strong free cash flow generation

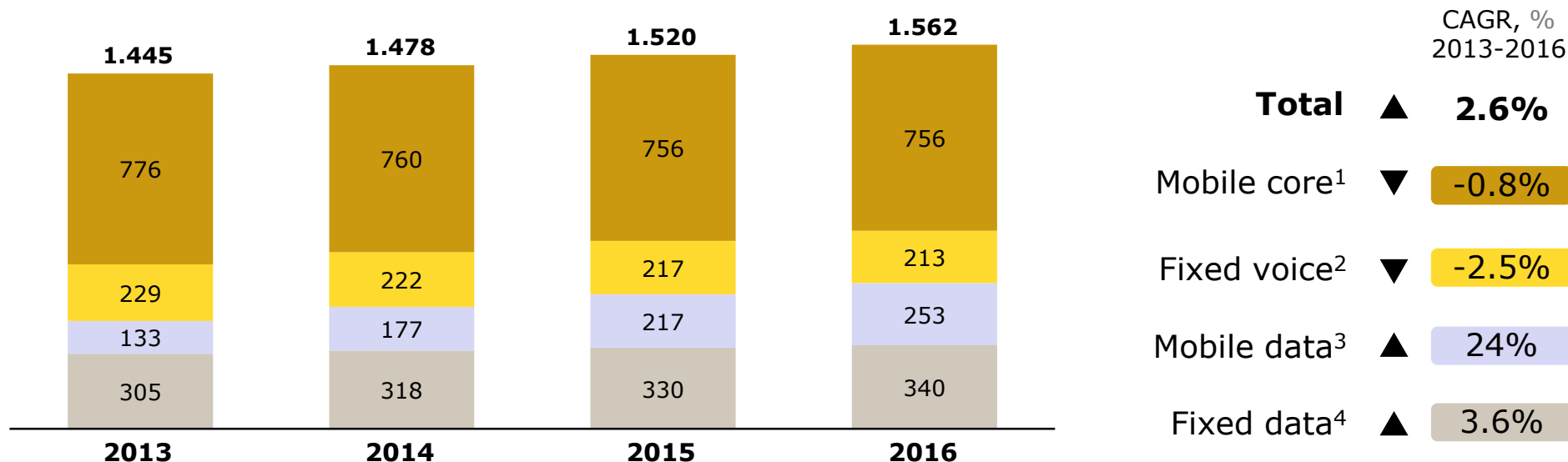
- Good quality mobile network
- Strong mobile data revenue growth
- High EBITDA margin
- Robust cash flow generation
- Customer focus



Mobile data to grow in Russia with 24% CAGR

Market dynamics*

(Revenues in RUB billion)



Telecom market expected to grow with 2.6% CAGR 2013 - 2016, driven by mobile data

* Source: Company estimates

¹ Voice revenue + messaging + roaming

² B2B voice + B2C voice

³ Mobile Data + Other VAS + Content & M-Commerce + M2M

⁴ B2B non-voice + RBB + Pay TV

Russian telecom market

Mobile¹

- ~87% prepaid market
- ~170% penetration
- 3 major players (MTS, Megafon and VimpelCom) with comparable market shares
- ARPU ~USD 10

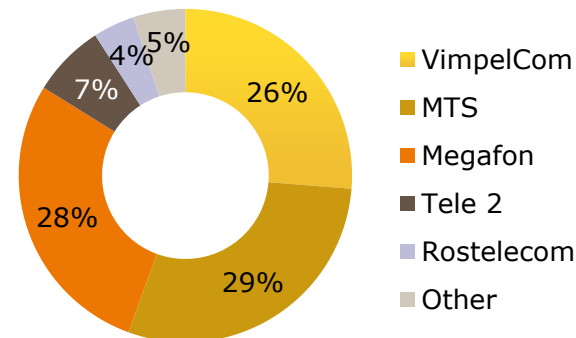
Fixed¹

- Rostelecom is still dominant market leader
- Voice traffic declining due to fixed-to-mobile substitution
- Residential broadband penetration ~54% and growing by ~2% per quarter

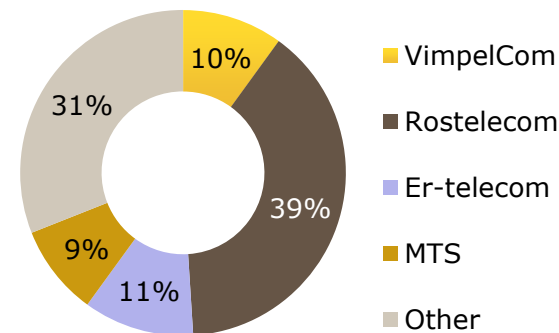
¹ Source: Informa

² Source: official reporting of B3, T2, Rostelecom, others - BU Russia estimates < 4 >

Mobile market share (including Rostelecom)²
(Service revenue), %



Fixed broadband market share²
(on subs), %



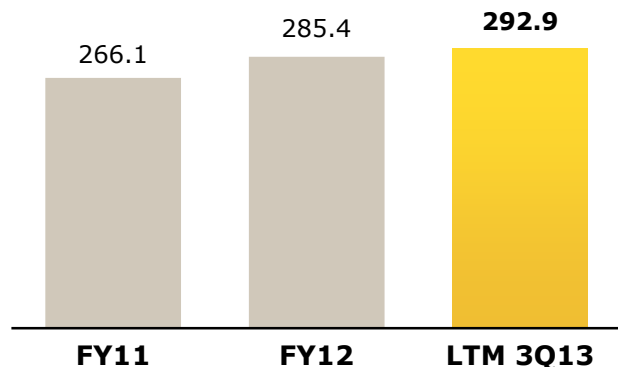
Regulatory issues 2014

- MNP effective from December 2013
 - ▶ Moderate impact expected
- Content regulation
 - ▶ Regulatory requirement to get customer approval for any VAS request
- Tech neutrality – 1800 band available for LTE deployment
 - ▶ In the long-run tech neutrality is positive for all players as data growth will require more spectrum.
- Introduction of legal requirement to allow MVNOs
 - ▶ We expect low impact in 2014

Stable EBITDA margin and strong cash flows

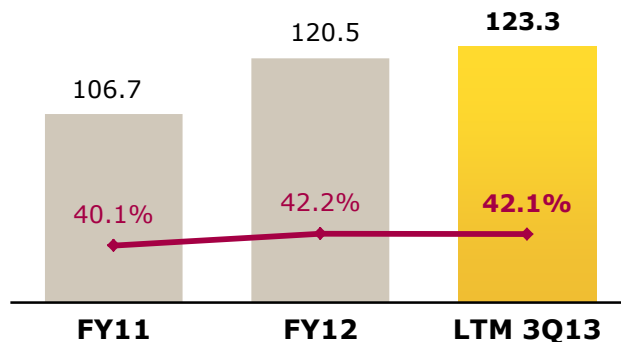
Total revenues

(RUB billion)



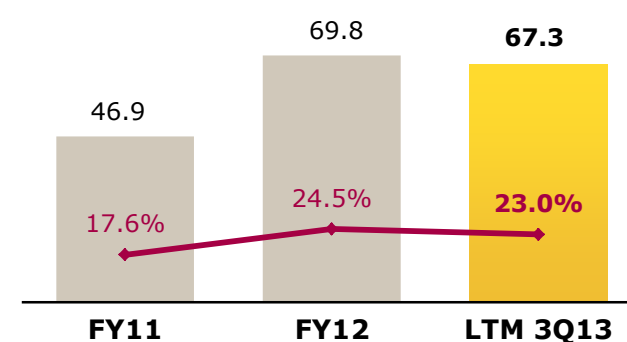
EBITDA & EBITDA margin

(RUB billion)



Cash flow¹ &

cash flow margin (RUB billion)



- Growing revenues due to strong mobile data revenue growth
- EBITDA margin and cash flows stabilized as savings from Operational Excellence program re-invested in data network and expansion of owned mono-brand stores

¹ Cash flow defined as EBITDA - CAPEX

What have we delivered since last A&I Conference?

1. Substantially improved mobile data network: at par with peers in key regions
2. Improved distribution: tripled number of owned mono-brand stores
3. New management appointed to implement phase 2 of the transformation
4. Rolled out LTE in Moscow Oblast and 6 other regions
5. Grew penetration of bundles in our subscriber base
6. Continued Operational Excellence savings, supporting EBITDA margin
7. Stable cash flow, despite significant CAPEX



Transformation Phase 2 : Customer focus

2012/2013

Phase 1

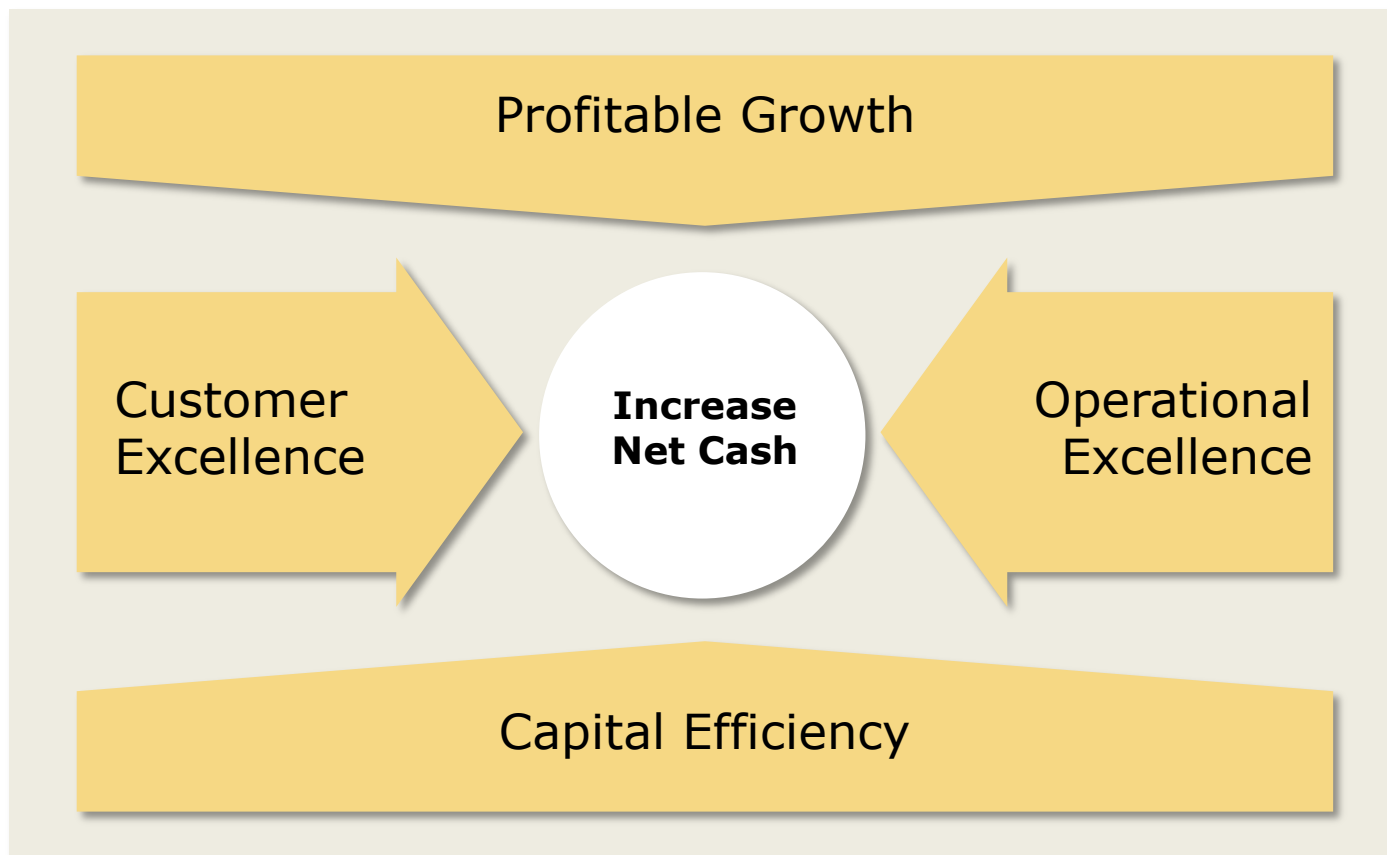
- Fixing the basics
- Reaching par in mobile data network quality in key regions
- Roll-out owned mono-brand stores
- Operational Excellence 1.0

2014/2016

Phase 2

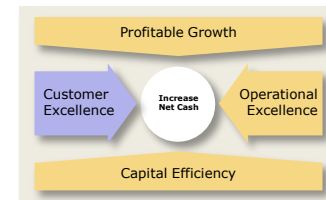
- Build customer centric organization
- Focus on Customer Excellence
- Cultural transformation
- Further improvements in mobile data network quality
- Operational Excellence 2.0

Strategic initiatives pursued to achieve group objectives



Customer Excellence

NPS as primary tool for improvements and measurement



Company wide NPS

- Strategic tool used for benchmarking
- KPI for management performance
- Customer loyalty and satisfaction



Market research department,
VimpelCom

Beeline™

NPS customer touch-point

- Operational tool
- Measure NPS on each level
- Actionable improvements



CUSTOMER CARE

Call center
social media



WEB

Self-care



SALES

Mono-brand
stores



OFFERING

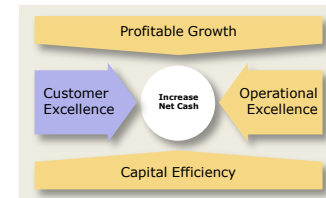
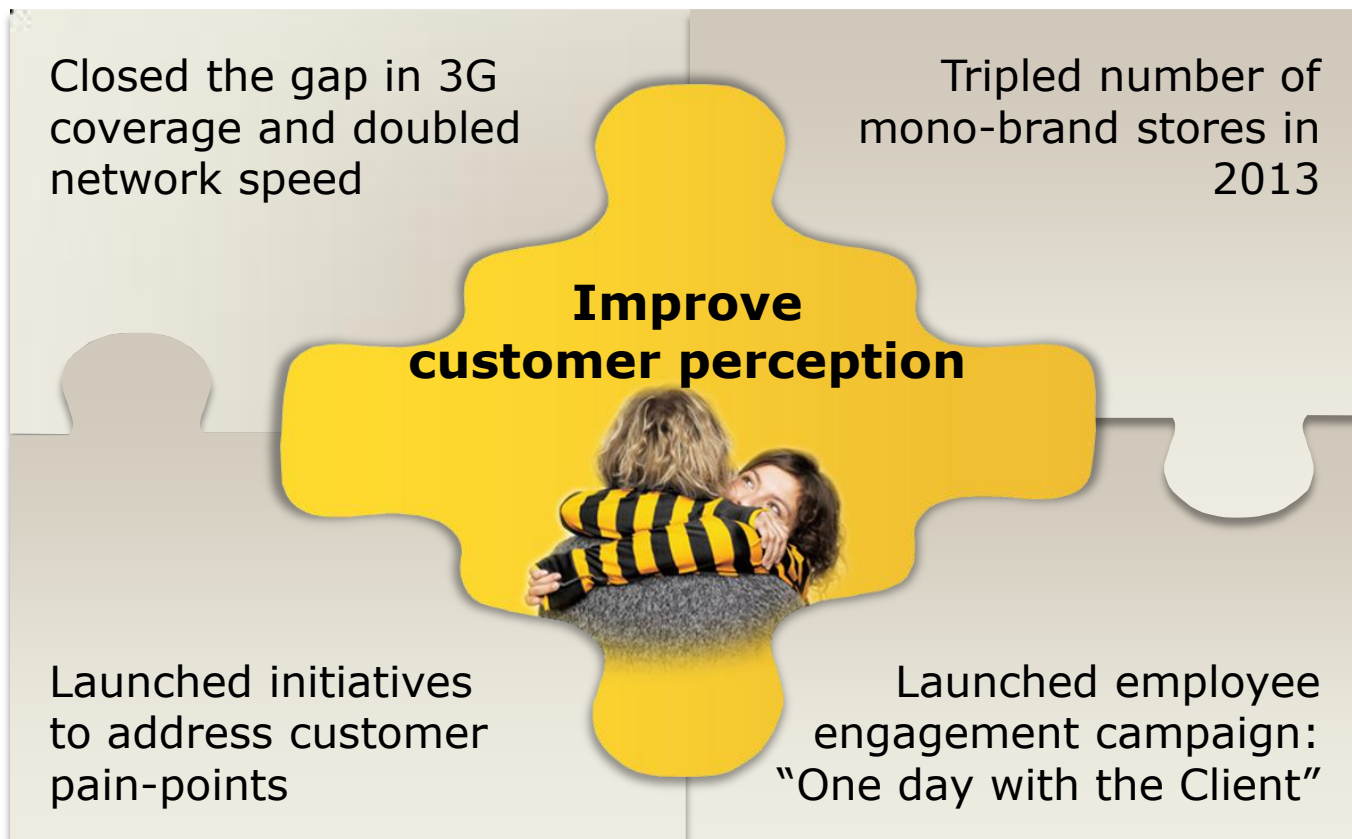
Outbound
targeted
marketing

MEDALLIA
Customer
experience,
VimpelCom



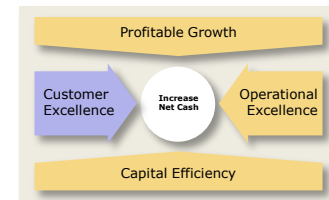
Customer Excellence

Creating a superior customer experience

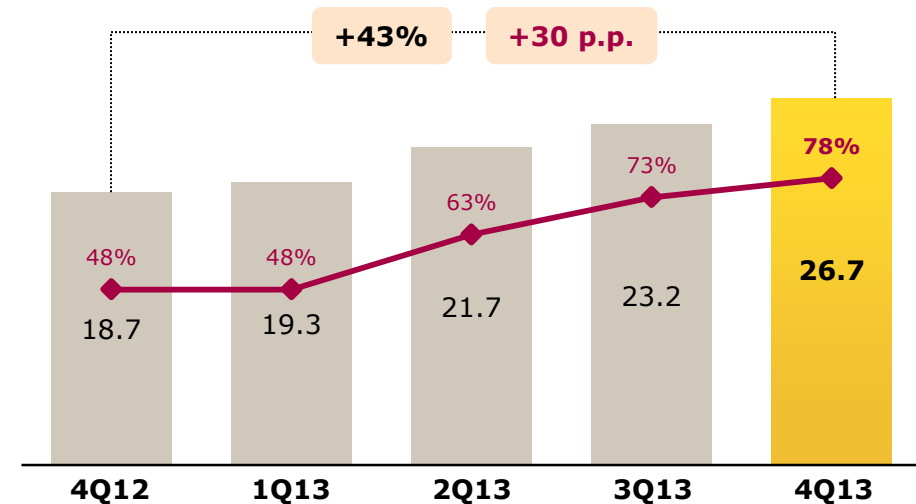


Customer Excellence

Network quality at par with peers

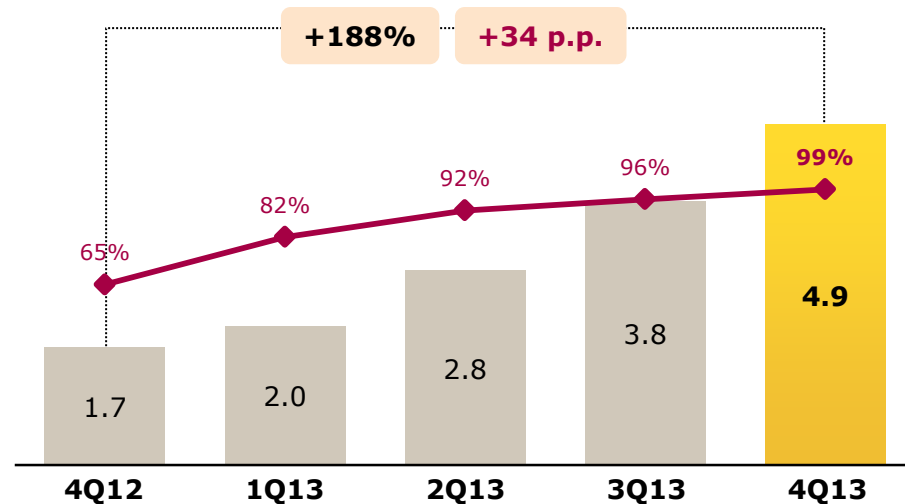


Russia



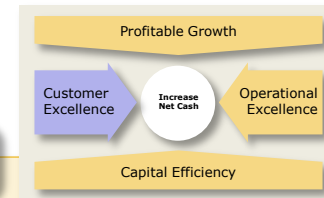
◆ HSPA+ coverage
 ■ 3G base stations (K units)

Moscow

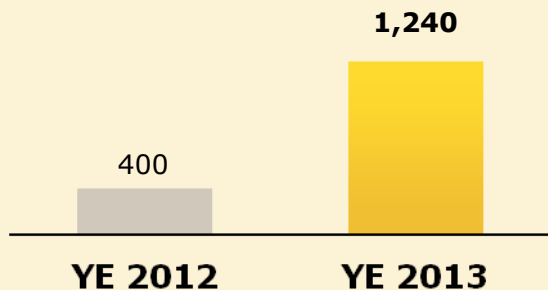


Customer Excellence

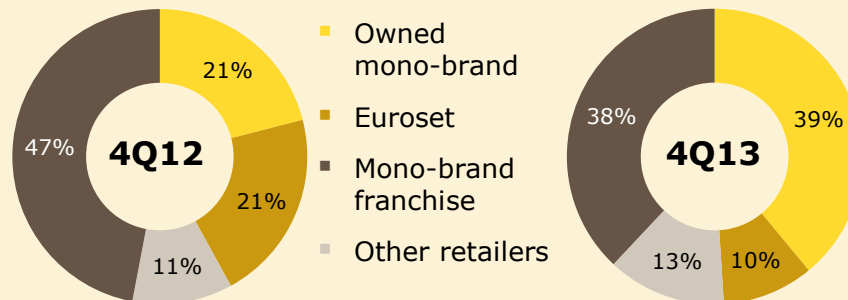
Owned mono-brand stores tripled



Owned mono-brand stores



Increased distribution via mono-brand stores



Provide service to subscribers

Decrease churn



Stimulate data through access to devices

Key facilitator to sell data



Diversify distribution

Decrease churn and increase active sales



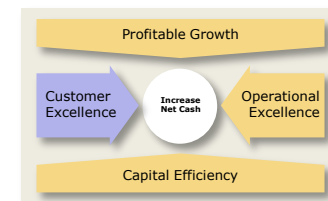
Enhance marketing communication

Increase awareness and loyalty



Customer Excellence

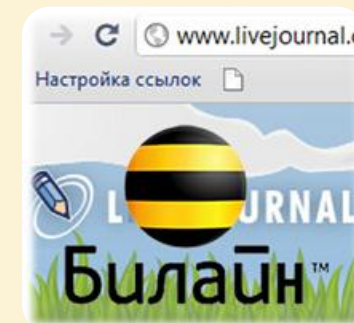
New value proposition supported by clear communication



- New value proposition
- New slogan for the Beeline brand



- New campaign to improve customer perception

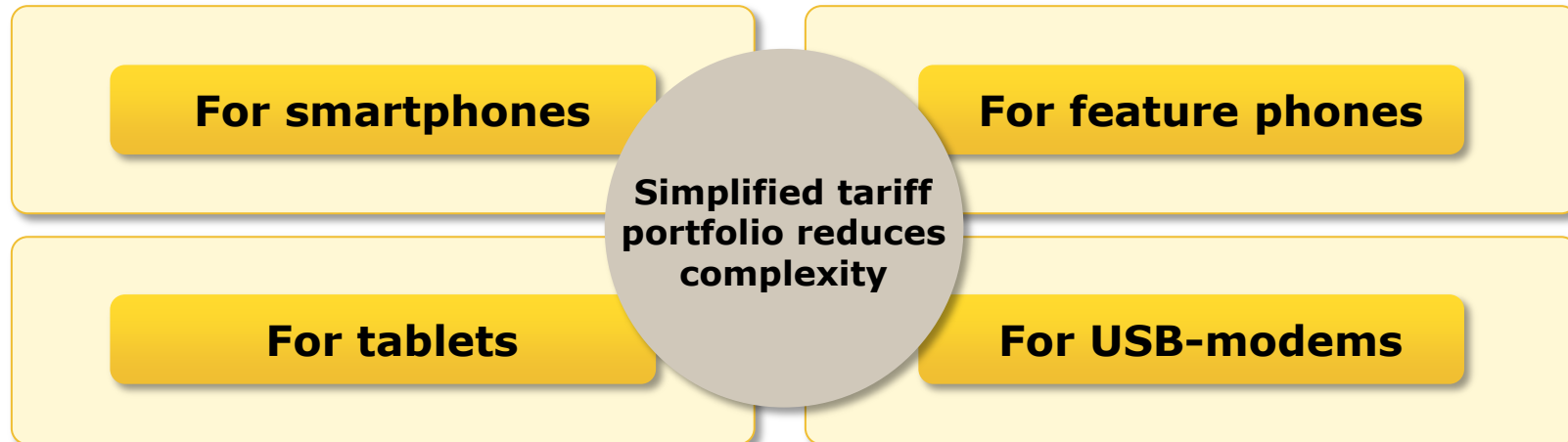
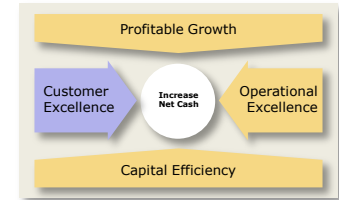


- Live Journal CEO Beeline (popular blog in Russia)

Customer Excellence

Simplify pricing

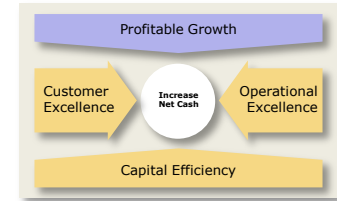
- Continuously shrink tariff portfolio to simplify customer choices
 - ▶ Currently we have 4 bundle price plans and 1 on-net offering, plus special offerings for tablets, dongles
 - ▶ Our target is to sufficiently reduce number of different options, while still addressing specific needs



Profitable Growth

Accelerated LTE network roll out

Expect to cover half of population by end of 2015



LTE network roll out plan

Today

LTE commercially launched in Moscow and 6 license regions

Phase I

LTE to be launched in 19 regions in 1H14 (Phase 1), including St. Petersburg, Moscow Oblast, Ekaterinburg, N. Novgorod, Rostov-na-Donu, etc.

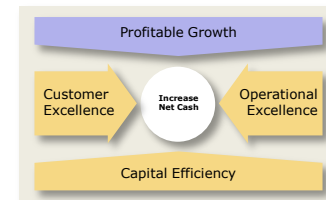
Phase II

Launch of LTE in more regions in 2H14 (60 regions, Phase 2) if supported by market demand

Ready to adjust LTE network roll out based on market demand

Profitable Growth

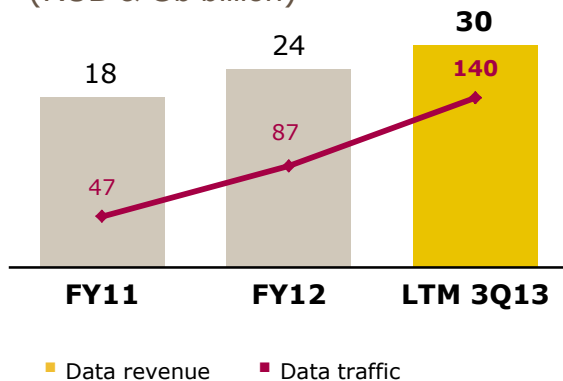
Driving mobile data



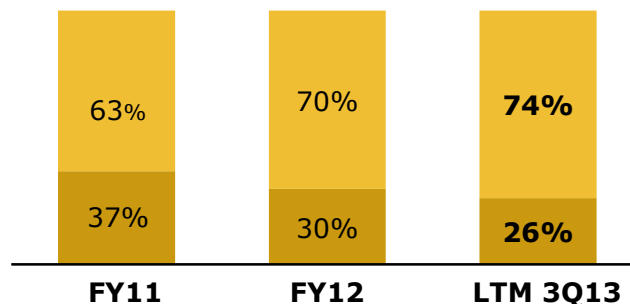
- Focus on small and medium screens
- Increase smartphone penetration and usage
- Improved network quality and LTE launch in Moscow and 6 regions
- Increased bundled price plans twofold

Data revenue & traffic growth

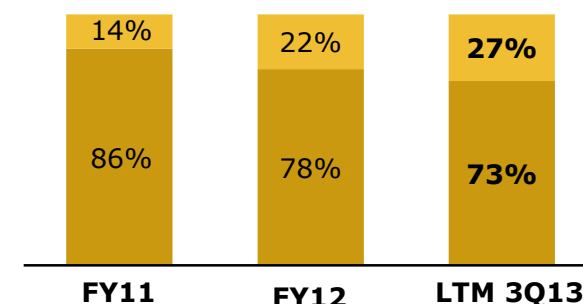
(RUB & Gb billion)



Data revenue

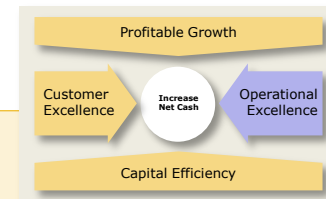


Traffic split



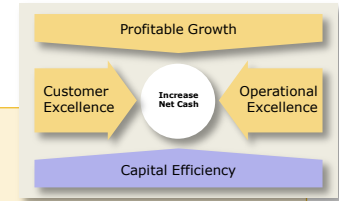
Operational Excellence 2.0

- Improved decision making processes and performance management
- Effective personnel management and development of organizational capabilities
- Network sharing, network maintenance outsourcing
- Supply chain optimization
- Shared service center for Finance, HR and Procurement
- Improve efficiency while improving customer service



Capital Efficiency

- Growing level of CAPEX requires improvements in investment allocation & prioritization processes
 - ▶ Increased level of accountability
 - ▶ Improvement of quality of investment cases and decisions taken
 - ▶ Greater focus on project management
 - ▶ Focus on monitoring and post investment reviews
 - ▶ Tighter control
- Optimization of investment portfolio
- Thorough expertise of each investment case
- Investment projects standardization
- Network sharing and outsourcing



Exploring new growth areas

Mobile financial services

Expected MFS growth in 2014: up to 5 million users and revenue growth 40%

- New mobile & loyalty card, cash loans, money transfers in mono-brand
- Launch MFS mobile app



OTT

- Direct billing with key OTT application store players
 - ▶ Google Play direct billing achieved 100,000 active users

Big data opportunities

- Customer experience improvement
- Up-sell and cross-sell of own services
- Partnerships to offer more relevant services

Digitization

- Growth of online top-up channels from 23% to 29%
- Self-care apps development
- Online sales

Moving to a customer centric organization

- Close the customer perception gap
- Customer centric organization and cultural transformation
- Initiatives to improve efficiency while improving customer service
- New customer value proposition
- New business model to create sustainable growth base
- Exploring new growth areas

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