

Russia

Key Facts

Summary Financial

RUB mln	2012	2011	YoY
Revenue	285,375	266,087	7%
EBITDA	120,478	106,681	13%
EBITDA margin	42.2%	40.1%	
Mobile subscribers ('000)	56,110	57,224	-2%
Fixed broadband subscribers ('000)	2,378	2,073	15%

Business Unit Strategy

VimpelCom's goal in Russia is to reach sustainable profitable growth by leveraging all revenue streams and increasing operational efficiency, while reducing churn and cost of sales. To achieve these goals, the Company launched thoroughly designed initiatives, including Operational Excellence and Customer Experience programs targeted to deliver results at multiple levels of the business structure.

Priorities

- Enhance network capacity and quality
- Create lean and cost-efficient operations
- Reduce churn and increase customer loyalty
- Invest in new pockets of growth



Anton Kudryashov
Head of the Russia Business Unit

"VimpelCom demonstrated an operational turnaround in 2012, driven by our increased focus on profitable growth and increasing net cash. We plan to continue strong execution of our Value Agenda in the coming years, which we believe will create additional value for VimpelCom's stakeholders."

Mobile Internet continues to be one of the fastest growing revenue streams

30% CAGR

Mobile Internet expected to grow in 2012-15*

* Source: Company estimates.

The year in review

VimpelCom demonstrated positive developments in operating performance in 2012 as the Company continued to execute on its strategy to deliver profitable growth.

In 2012, total revenue in Russia increased a solid 7% to RUB 285.4 billion and EBITDA grew strongly by 13% to RUB 120.5 billion. EBITDA margin improved to 42.2%, an increase of 2.1 percentage points. This improvement was driven by strong execution of the Company's Operational Excellence program, which delivered stronger results than expected and more than doubled its initial target of RUB 5 billion in annualized savings. Cost and other efficiencies were achieved by reducing commercial costs through introduction of a revenue sharing model with our distributors, completion of projects related to network maintenance, outsourcing and network sharing, and optimization of organizational structure. More operational excellence initiatives have been launched in 2013, with others expected throughout the year.

Mobile revenues were supported by a continued uplift in mobile data usage during 2012, with mobile data revenues increasing 38% to RUB 24.3 billion driven by an 83% increase in mobile data traffic. VimpelCom's initiatives to stimulate data usage for small and medium screen users by promoting bundles resulted in a strong increase in bundle subscribers to 2.1 million. The Company continues to improve network quality in order to support the growth of mobile data customers and offer the best customer experience by optimizing and accelerating roll out of the network. Additionally, on July 12, 2012, VimpelCom was awarded a license to provide services over the LTE standard within the radio frequency band of 813.5-821/854.5-862MHz across Russia. VimpelCom has already commenced modernization of its network to make it LTE-compatible. The Company expects to offer up-to-date, customized services with high-speed Internet access to its customers on cutting-edge 4G technology and to launch LTE in Moscow and six Russian regions in 2013.

Fixed Broadband revenues increased by 35% in 2012 to RUB 11.7 billion as a result of the growth in the fixed-line broadband subscriber base of 15%, to more than 2.3 million subscribers. As a result of the Company's Operational Excellence program, efficiency of the FTTB business increased and EBITDA margin improved. In this segment, VimpelCom is focusing on improving customer value by offering value-added services like IPTV in addition to basic fixed-line Internet access.

In December 2012, VimpelCom increased its stake in Russian mobile retailer Euroset to 50.0% by acquiring 0.1% of Euroset. As a result, VimpelCom and Lefbord, a company owned by Megafon and Garsdale Services Investment, have equal economic and governance rights in Euroset. The increased stake will enable VimpelCom to increase the efficiency of its distribution model, in particular by optimizing its dealer commission structure and introducing a full revenue sharing agreement.

Focus on ensuring sustainable profitable growth

One of the pillars of VimpelCom's strategy is focused on achieving sustainable profitable growth in the Russian market. The Company believes this can be realized by:

- Improving margins through the promotion of higher margin data service revenue streams and rebalancing tariff plans in favor of on-net calls and bundled offerings;
- Growing the number of own monobrand stores in order to serve customers better, increasing smartphone penetration and stimulating data usage;
- Increasing customer loyalty through improvements in network quality, enhancing the Beeline brand and upgrading customer service through the customer experience program; and
- Improving productivity and operations through initiatives in the Value Agenda, including on-going and new initiatives in the Operational Excellence program.

Opportunities for the future

The Value Agenda for 2013-2015 in Russia is based on the four key pillars targeted at increasing net cash flow from operations:

Customer Excellence

VimpelCom has established Customer Excellence as a key strategic priority and, to that end, launched a comprehensive Customer Experience Program aimed at increasing customer loyalty. This program, among others, is focused on improving network quality, customer care and our offerings to subscribers, all of which are designed to increase customer satisfaction across our products and services in all business segments.

Operational Excellence

Going forward, we will continue initiatives in our Operational Excellence program aimed at curtailing costs in the areas of marketing, financial and support, technical and IT, human resources, B2B and B2C.

Profitable Growth

VimpelCom's profitable growth strategy is centered on mobile data revenues from small and medium screens, the most attractive segment in terms of growth rates and capital returns. The roll out of the self-owned monobrand store network to 1,200 stores in 2013 from 400 in 2012 will support our mobile data strategy, along with the introduction of smart data pricing through the offering of bundled tariff plans.

An additional pocket of profitable growth and the fastest growing segment in mobile is Mobile Financial Services. In this field, VimpelCom has a partnership with Alfa Bank under the brand RURU and is active in remote payments and proximity payments. Additionally, RURU offers co-branded credit cards. Finally, the introduction of various OTT services offers another pocket of profitable growth. VimpelCom established collaborative partnerships with Google Play, Facebook, Microsoft and Opera Mini, and now offers direct billing with key OTT application store players.

Capital Efficiency

Our network is the biggest item on the cost side, so this deserves the Company's focus. Network sharing remains the main project in the coming years, next to other efficiency projects in this area such as implementation of new technologies, procurement and logistics optimization.