

Ukraine

Key facts

Summary financial

UAH mln	2012	2011	YoY
Revenue	13,392	13,078	2%
EBITDA	6,867	6,953	-1%
EBITDA margin	51.3%	53.2%	
Mobile subscribers ('000)	25,960	24,776	5%
Fixed broadband subscribers ('000)	613	397	54%

Business Unit Strategy

Our strategy is to deliver sustainable cash flow generation through improved positioning as the largest integrated telecom operator in Ukraine with growing subscriber base predominantly using bundled tariff plans and further expansion of non-mobile business coupled with lean cost management and capital efficiencies.

Priorities

- Maintain leadership in mobile
- Deliver the best customer experience
- Deliver growth in mobile and fixed data, content services
- Maintain cost efficiencies



Igor Lytovchenko

Head of the Ukraine Business Unit

“The Ukrainian Business Unit invested in its market position in 2012 with the successful transition of our mobile subscribers to bundled tariff plans. We will continue to invest in new pockets of growth and stay strongly committed to the Value Agenda to create value for our stakeholders.”

Telecom market expected to grow 4% CAGR* 2012-2015, mainly driven by mobile data and fixed broadband

15% CAGR

Mobile Data Revenue Growth 15% CAGR* 2012-2015

* Source: Ukraine Statistic Committee 2012, Ukraine analysis.

The year in review

VimpelCom’s Ukraine Business Unit went through a transition period in 2012, in which the Company successfully migrated its mobile subscribers to bundled tariff plans and solidified its market position in the mobile segment. Additionally, fixed-line revenues demonstrated double digit growth as a result of strong performance in fixed broadband.

Total revenue increased 2% to UAH 13.4 billion in 2012, driven by growth in both mobile and fixed-line businesses. Mobile revenues grew by 2% to UAH 12.3 billion, driven by the successful transition to bundled tariff plans and 5% growth of the mobile subscriber base to 26.0 million. The Company has transitioned around three quarters of subscribers to bundled tariff plans, with this process expected to be finalized in 2013. Strong growth in sales of handsets also added to the growth in mobile revenues during the year.

Fixed-line revenues increased 10% to UAH 1.1 billion as a result of strong FTTB revenue growth of 74%, which was primarily driven by growth in the fixed broadband subscriber base of 54% to 613 thousand. Kyivstar continued to outgrow the market, achieving our target of becoming the number one alternative broadband provider and the largest integrated telecom operator in Ukraine. Following completion of the rollout, investment in the FTTB network slowed in 2012.

EBITDA margin declined to 51.3% in 2012 from 53.2% in 2011, primarily due to temporary ARPU decline in mobile business related to the migration of high-value customers to our market level bundled offers and growth in OPEX as a result of increasing frequency fees and electricity costs.

Despite the lack of a 3G license, data users exceeded 40% of the total subscriber base with smartphone penetration growing to 18%, resulting in 11% data revenue growth to UAH 921 million.

Focus on ensuring sustainable revenue growth

Kyivstar aims to continue delivering profitable growth on targeted markets via a segment oriented value offer proposition, enhanced with advanced pricing models and new service offerings.

The Company identifies the following key strategic priorities in the consumer segment:

- Stimulate consumption and upsell low and medium ARPU clients following the transition to bundled tariff plans;
- Grow in mobile data through attractive offerings and partnerships;
- Extend market share in FTTB after becoming the largest alternative broadband provider in Ukraine;
- Maintain leadership in multimedia and enhance further development of content services offerings and consumption;
- Reinforce multichannel retail and distribution model with competitive offerings and best practice processes

Key initiatives in the business segment include:

- Provide integrated mobile-fixed offerings to businesses
- Reinforce sales efforts with targeted value offerings and best in class sales processes
- Introduce new services for B2B to increase the value offered
- Improve presence at key business locations

Opportunities for the future

The Ukraine Business Unit is delivering good results through the execution of the Value Agenda. The Value Agenda for 2013-2015 is based on four pillars aimed at increasing net cash flow from operations:

Profitable Growth

Despite lack of 3G, content services and fixed and mobile Internet are the drivers of profitable growth. To that end, we introduced special data bundles for small-screen users in 2012 that, together with promotion of smartphones, will support future mobile data revenue growth. Furthermore, fixed broadband is rapidly developing and Kyivstar aims to capitalize on this trend to further increase its market share.

Customer Excellence

The Company has improved the “value for money” position by the transition to bundled tariffs, coupled with the highest network quality and has set up a dedicated customer experience management unit to create superior customer experience. In addition, Kyivstar will continue to optimize its distribution mix and enhance delivery of consistent customer experience throughout all touchpoints and the customer lifecycle.

Operational Excellence

Kyivstar has identified and will continue cost improvement initiatives across all business unit functions. Examples of these initiatives include network outsourcing, network modernization, promotion of on-net traffic and further rightsizing of headcount.

Capital Efficiency

Kyivstar will continue to focus on increasing efficiency of CAPEX management. With the roll out of the FTTB network completed, our primary initiative to support CAPEX efficiencies going forward will be focused on high capacity utilization in mobile, and data traffic management and network sharing.