

# Creating Value in Ukraine

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Group Executive Vice President and Head of Ukraine

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## Market leader with strong cash flow

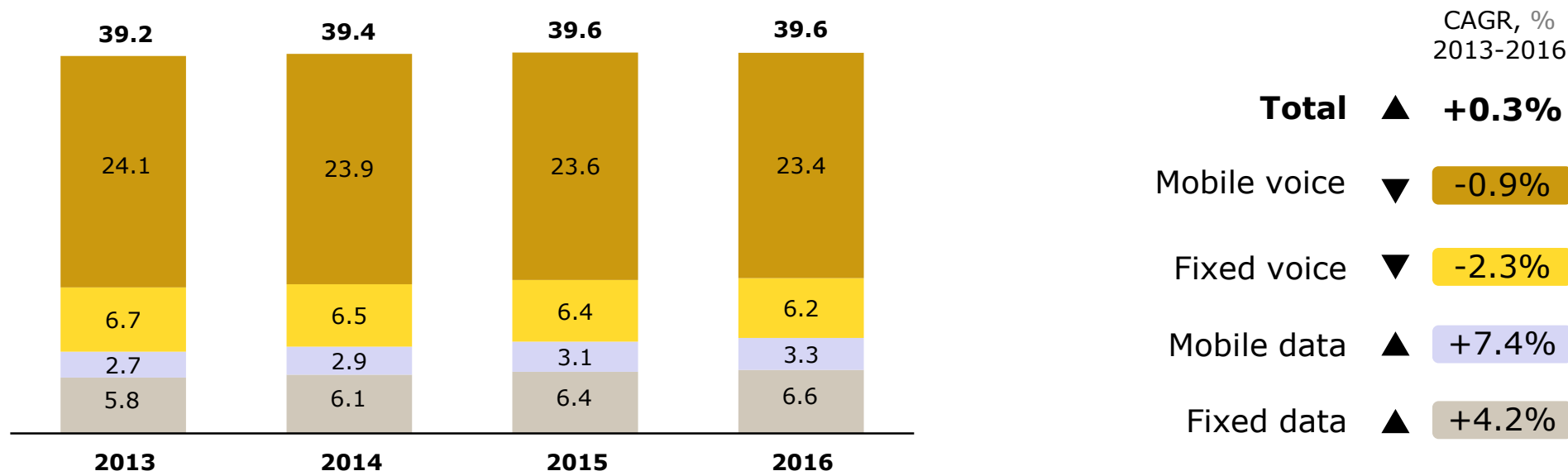
- Leadership position in mobile
- Attractive growth in the fastest growing segment, mobile data
- High margins and cash flows
- Transformation towards Operational Excellence by reloading commercial strategy and operational governance



# Mobile data market to grow by 7.4% CAGR<sup>1</sup>

## Market dynamics<sup>2</sup>

(Revenues in UAH billion)



**Telecom market expected to grow 0.3% CAGR 2013 - 2016, with mobile data being key growth driver**

<sup>1</sup> Assumes no 3G in Ukraine

<sup>2</sup> Source: UBU analysis

# Kyivstar is the market leader in mobile

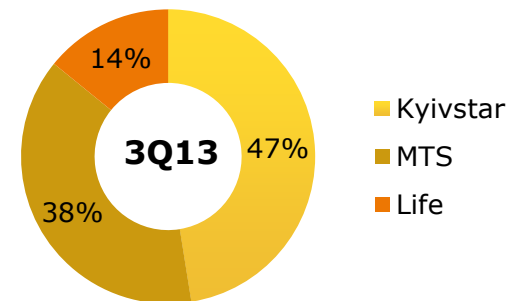
## Mobile

- Major players are Kyivstar, MTS and Astelit ("Life" brand)
- Kyivstar is the leading integrated operator with #1 in mobile and #2 in fixed residential broadband
- Penetration ~120%, ~87% pre-paid market
- Mostly bucket pricing with high MOU of ~500
- In absence of large scale 3G, CDMA players grew data revenues to ~8% of mobile revenues

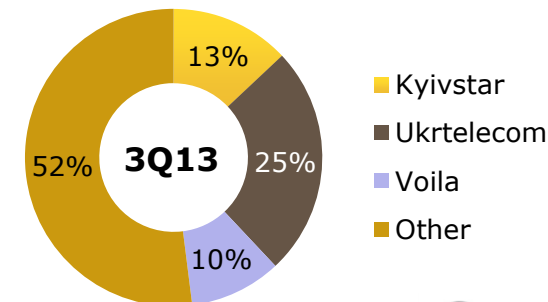
## Fixed

- Major competitors: Ukrtelecom, Volia, Vega, Datagroup
- Fixed broadband growth >20%; fragmented market with potential for consolidation

### Mobile market share (Service revenue), %



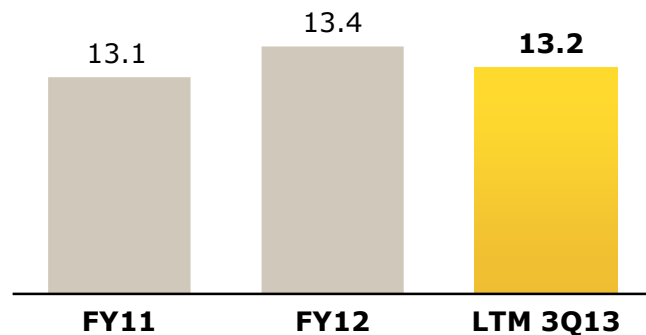
### Fixed broadband market share (on subs), %



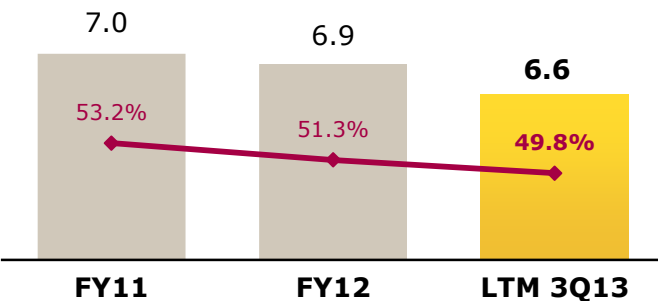
# Continued strong cash flow generation despite pressures

## Taking measures to improve performance

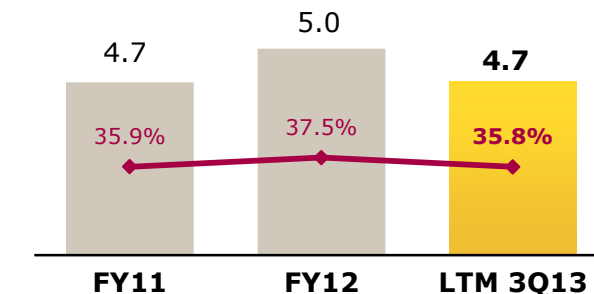
### Total revenues (UAH billion)



### EBITDA & EBITDA margin (UAH billion)



### Cash flow<sup>1</sup> & cash flow margin (UAH billion)



■ EBITDA ■ EBITDA margin

- Pressure on results primarily as customers switched to lower priced bundled tariff plans and lack of up-selling
- EBITDA margin and cash flow margin still at high levels

<sup>1</sup> Cash flow defined as EBITDA - CAPEX

# Progress on actions and main achievements

## Achievements in 2013

- Kyivstar is the mobile market leader with ~47% revenue market share
- Mobile data revenues growing more than 10% YoY in 9M13
- Commercial investments to secure mobile market potential in a highly competitive market
- Ongoing network modernization
- Operational excellence program continues to deliver improved cost performance

## Challenges for 2014

**"#Kyivstar Reload" transformation program launched**

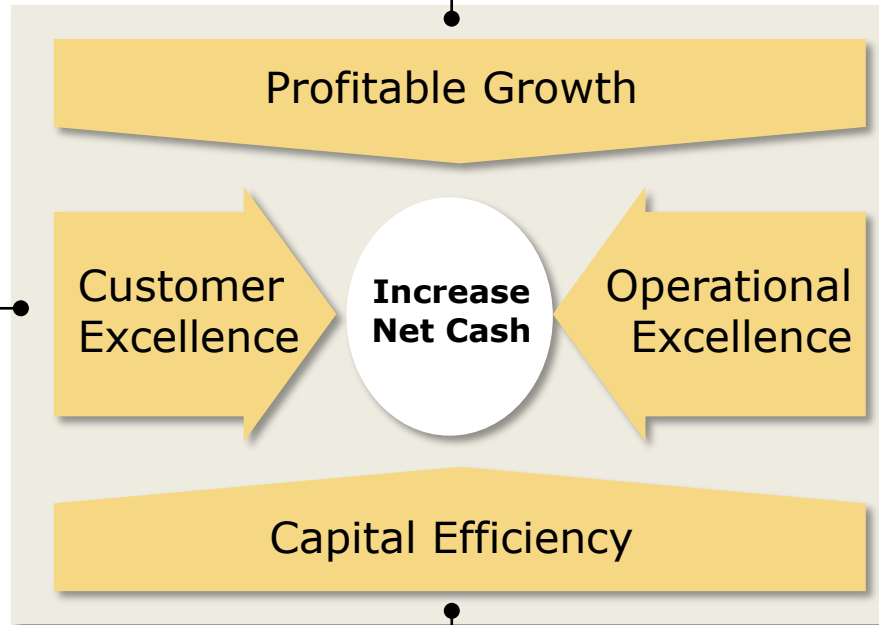
# Strategic initiatives pursued to achieve group objectives: Kyivstar Reload as part of the value agenda

## Commercial strategy:

- New products & services

## Commercial strategy:

- Offers and pricing
- Churn
- Optimized sales & service channels
- Image & positioning



## Lean operations

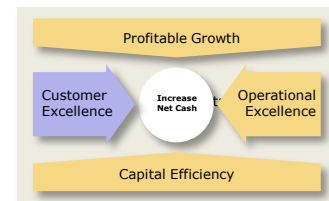
## Lean operations

## New organization

## Enablers:

- Enhanced culture & values
- Sharper performance management & robust operational governance

# Customer Excellence



**Granular commercial strategy with clearly shaped priorities**

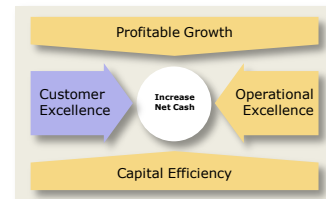


**Enabled by reloaded business model, governance and first class organization**

**Commercial strategy:  
value based management with laser focus on the customer**



# Customer Excellence



## Offers and pricing - Superior pricing frameworks

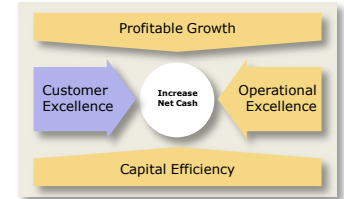
- Re-balanced tariff portfolio including data and introduce differentiation in ATL tariffs
- Differentiate the tariffs by regions, new strategy for public versus private pricing / promotional activities



## Churn - Turnaround customers' base management

- Segmented portfolio of offers and the offer assignment strategy
- Optimized number of customer contacts; pragmatic, efficient and targeted communications with customers
- Improved loyalty programs

# Customer Excellence



## Optimized sales & service channels

- Competitively incentivized POS and salesforce
- Rationalized distribution portfolio with close steering on POS level; increased monobrand attractiveness

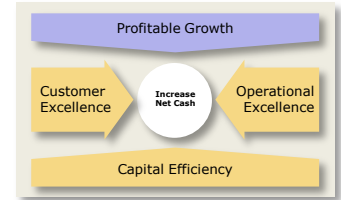


## Image and positioning

- Consolidate Kyivstar brand equity positioning in the market around Kyivstar's core brand values (network quality, value for money, active care)
- Regain customer confidence and perception on Kyivstar offers as being simple, transparent and fair

# Profitable Growth

New products & services



## Win in mobile data (incl. devices)

- Growth of mobile data penetration through customer-oriented pricing

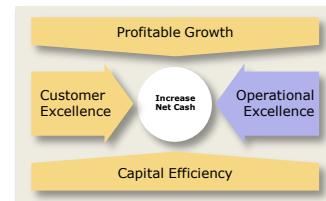


## Growth beyond the core

- Continue investing in MFS & direct relationships with biggest merchants
- Partnerships with biggest handset manufacturers

**Strong fundamentals for future growth and returns**

# Operational Excellence Enablers

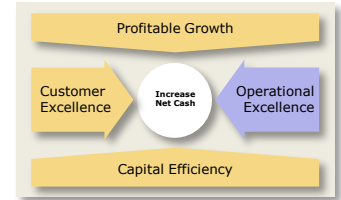


- Enhanced corporate culture and renewed customer centricity as key cultural values
- Performance management
- High employee engagement
- New operational governance and decision-making framework



# Operational Excellence

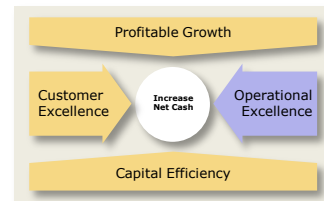
## Lean operations



- “One step resolution” of customers’ requests
- Process & policy re-engineering with new operating model
- Maintained continuous and sustainable cost efficiency improvement cycle
  - ▶ Employing cutting edge energy efficiency, data and capacity management
  - ▶ Revenue assurance instruments to further improve business operations

# Operational Excellence

## Moving to a new organization

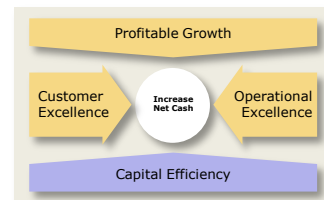


- Implementation of a new operating model with functional centralization
- Previously employed regional matrix structure turned to be inefficient in such highly saturated market
- New operating model enables us to significantly reduce management layers, streamline decision making and enhance customer satisfaction



# Capital Efficiency

Elevate Kyivstar's capacity to be ready for the future



- Smart investment philosophy enabling Kyivstar to maintain effective CAPEX to Revenue ratio, without sacrificing its network modernization program



## Ensure leading position and cash flow optimization

- Grow our leadership position in mobile
- Capitalize on mobile data revenue growth
- Maintain high margins and cash flows
- Transform operations and organization

**Creating value in Ukraine**



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