

What Is Next For Mobile Industry In Russia?

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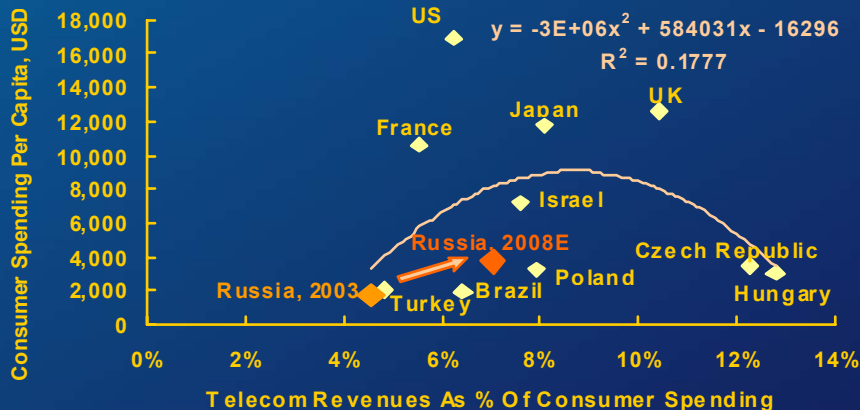
17 November, 2004

What Is Next?

I. 1-2 Years Of Strong Penetration Growth

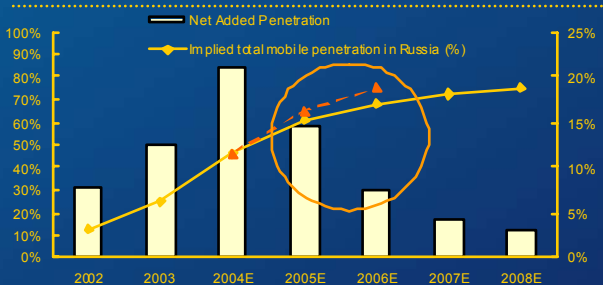
Strong Economic Growth...

- We forecast 5.8% and 9.7% CAGR for 03-08 for GDP & disposable income respectively
- Redistribution of consumer basket towards services

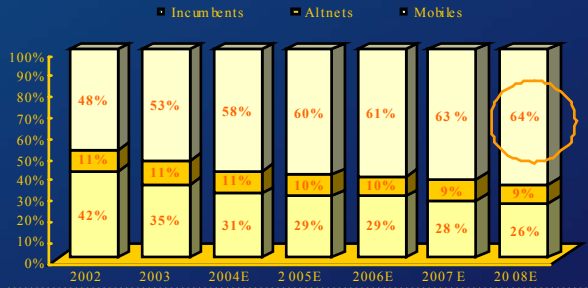


...Supports Strong Penetration Growth

- We expect mobile penetration to reach 70% by the end of 2006



- Mobile revenues are to comprise 64% of total telecom revenues by 2008

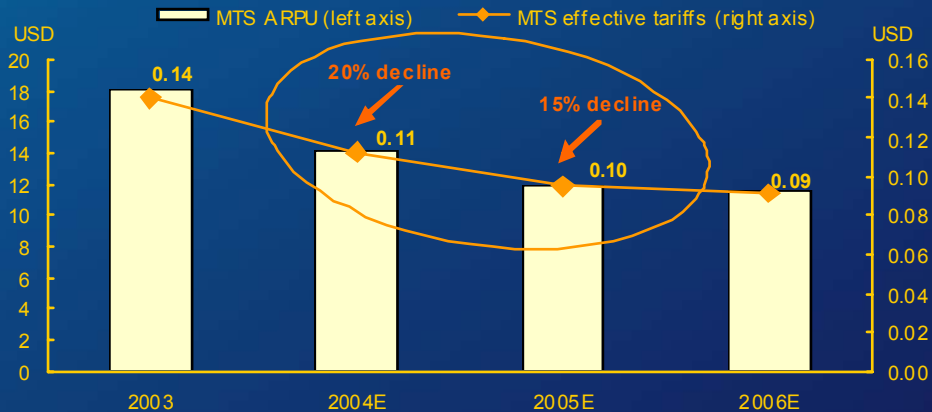


Competition For New Subscribers

- **Pricing:** Remains the main driver of growth
- **Brand Management:** Mobile phone is becoming more than just communication device

Mobile Tariffs Low But Still Declining

- No competition in SAC but rather in tariffs
- Entering new regions
- Growth in Pre-paid subs



A POP QUIZ

1: Why 3G services offered by Vodafone were not successful?

- ✓ Limited handsets and poor applications
- ✓ No brand & wrong marketing
- ✓ Now Re-branding and strong marketing push are creating demand



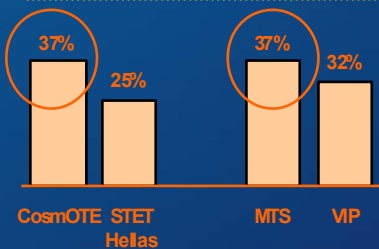
2: Why Renault and Porsche stock trade with 50% premium on any multiple to peers?

- ✓ Power of Brand

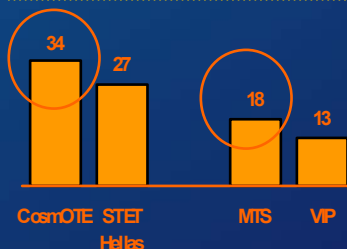
Strong Brand – Clear Advantage

- Higher market share
- Lower churn & better customer loyalty
- Better subscriber mix & higher ARPU
- Better margins

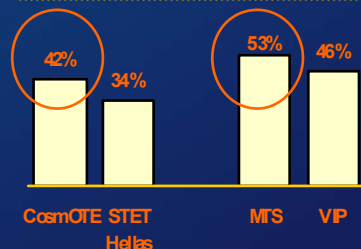
Market Share, 2003



ARPU, \$, 2003



EBITDA margin, %, 2003



Best Mobile Brands In Russia



- Expensive – successful people
- Prestige & Stability
- Quality
- Reliability
- Young & Saucy

- Value for Money - middle class
- Client – Orientation
- Honesty & Trustworthiness
- Innovation
- Young & Dynamic

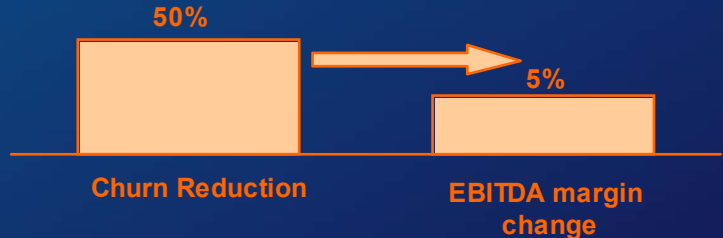
Brand Management – Subscriber Retention Is the Key

Brand

- ✓ Subscriber needs – is a priority
- ✓ Emphasize international expertise
- ✓ More dynamics & technology

**Sales &
Marketing**

- ✓ Customers segmentation
- ✓ Improvement in customer services
- ✓ More simple tariff plans



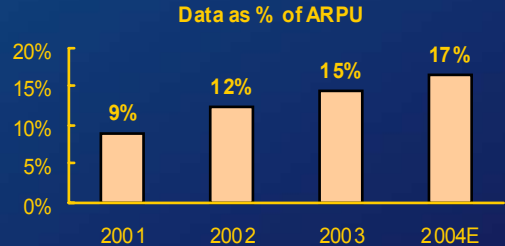
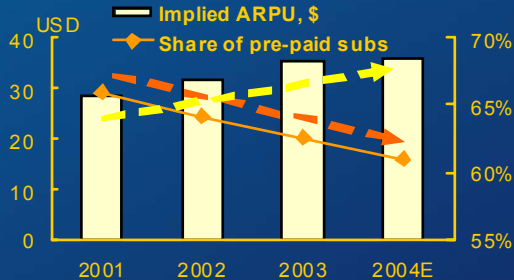
What Is Next?

II. Market Saturation And New Opportunities

European Experience

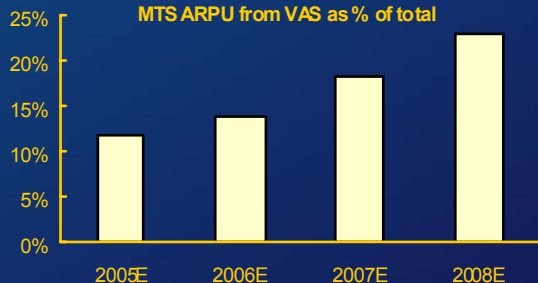
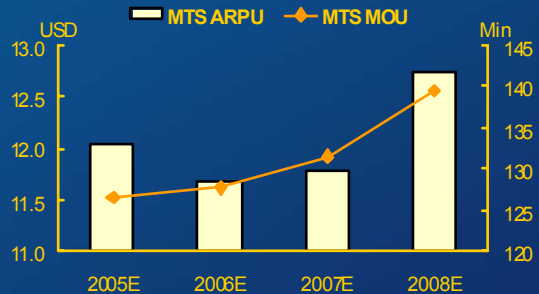
Market is saturated...
Looking for growth

- ✓ Increase in Post-paid subs
- ✓ Competition in subsidies
- ✓ VAS & 3G



Russia In The LT

- Growth in consumer spending - growing MOU
- Growth in VAS (even w'out 3G) – 11% of total ARPU after 1H04
- Stable margins



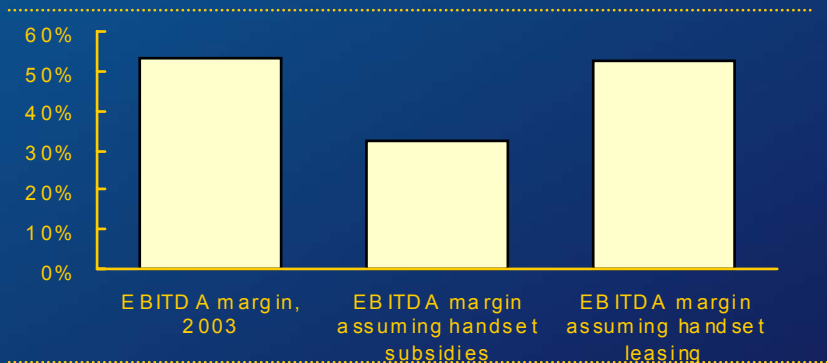
3G In Russia



3G leaves more potential upsides than downsides

Handset Subsidies? - Not In Russia

- No number portability
- High-end subscribers are relatively loyal
- Low-end subscribers in Russia on average generate 50% lower ARPU compared to western peers
- However handset leasing (credit) could be introduced



Summary & Conclusion

- Mobile sector is one of the fastest growing in Russia
- We expect strong growth in mobile penetration in the next 1-2 years
- Operators compete in pricing and increasingly in brands
- Stronger ARPU may come with market saturation
- Profitability likely to stay flat
- 3G leaves more potential upsides than downsides