

telenor

Kyivstar 2007

Meeting with investors – 13th March 2008

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# Key Highlights in Quarter & FY 2007 - Market

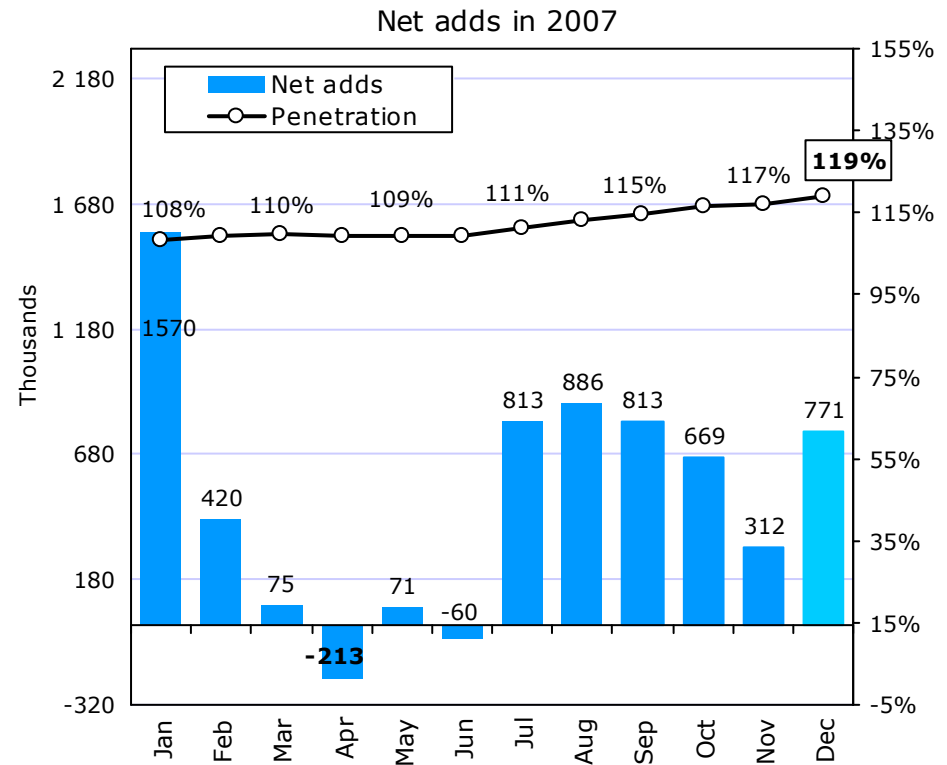
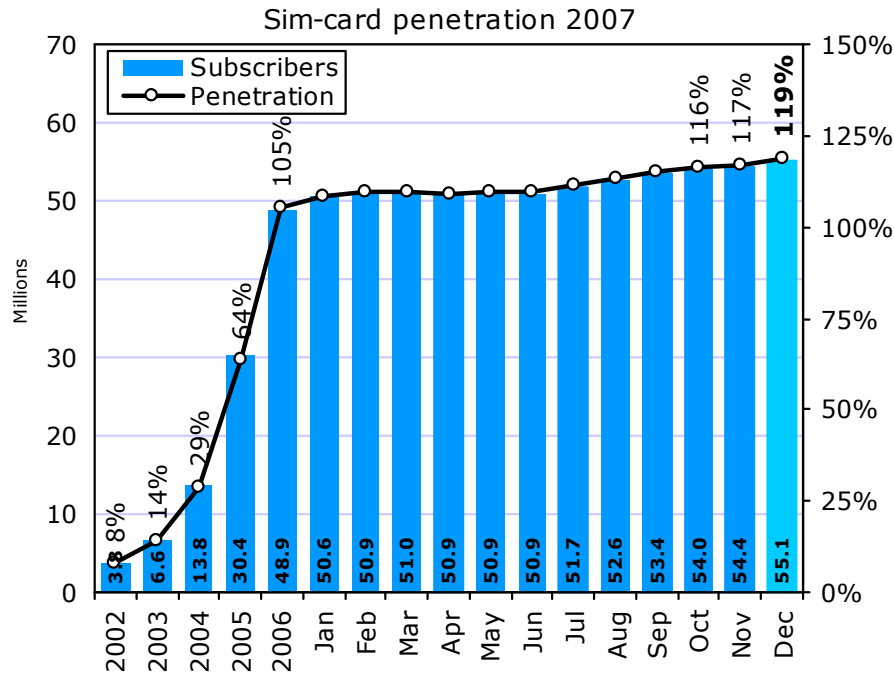
**Kyivstar delivered an encouraging performance in Q4 and full year 2007 in an increasingly competitive environment delivering strong revenue and operational cash flow growth, while retaining high revenue and subs market share :**

- **The market is reaching saturation. Q-o-Q sim-penetration growth was +4% up to 119%.**
- **Life continues to adopt an aggressive stance on the market with “0-price” communication – reaching 16% of the market share. MTS suffers most from competitive pressure with no subs base growth in 2007. Despite this pressure, KS showed +2.1M yearly subs base growth and retained subscriber market share at 42.5% at end December (-1.4% vs December 2006) increasing the gap with MTS to 3.6M subscribers or 6.5% market share. Q4 share in subs fell 0.7% vs Q3 2007.**
- **The positive news is that the market is becoming more revenue oriented and the competition moving from doing great discounts to the communication of lowest price.**
- **With our increasing focus on revenue, Kyivstar retained revenue market share at 51% in line with Q4 2006 (Kyivstar estimate)**

# Key Highlights in Quarter & FY 2007 - Kyivstar

- **Total revenues in local currency increased by over 23% vs Q4 2006 mainly due to the increased subscription base and supported by ARPU growth.**
- **ARPU in local currency stabilized during 2007 and showed a small increase of + 1.6% over the year due to a 16% growth in AMPU over the year up to 148 min in Q4. This offset a lesser decline in APPM as Kyivstar continued to retain premium prices on the market throughout the year. Q4 however showed a - 2.5% decline, driven by falling APPM down from 0,30 UAH in Q3. This was due mostly to internal migration to cheaper tariffs [response to competition] and will remain a challenge in 2008**
- **A slightly higher EBITDA margin in Q4 [55.6%] vs Q4 2006 [54.8%] drove an increase in EBITDA of 25% Q-on-Q. A full year EBITDA margin of 58.3% resulted in EBITDA up > 23% vs 2006 in local currency**
- **Capex reflected the usual increased Q4 activity but the full year Capex showing a reduction of > 20% vs 2006.**
- **Full year 2007 Operational cash flow was almost at 39% of revenues up from 26%. The presented figures are preliminary at this stage.**
- **Kyivstar has over \$1Bln cash equivalent and is exploring possible repayment of Eurobonds**

# Mobile sim-cards penetration\*



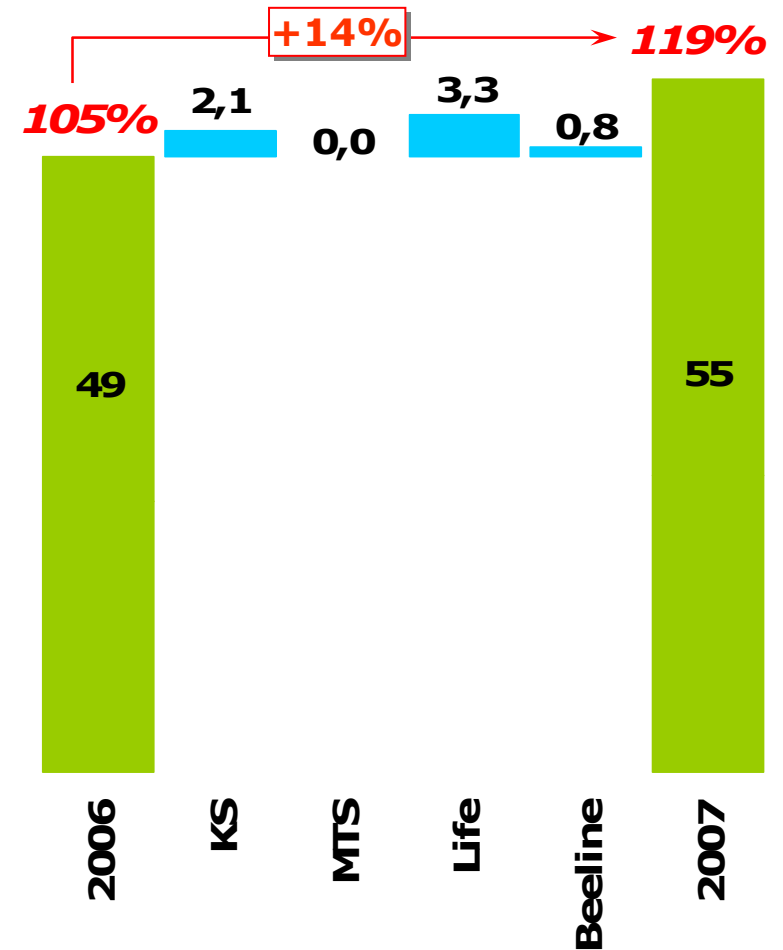
## Comments

- Falling market growth is the result of market saturation and the fight of operators for their revenues

2007

## Market penetration growth of 14%

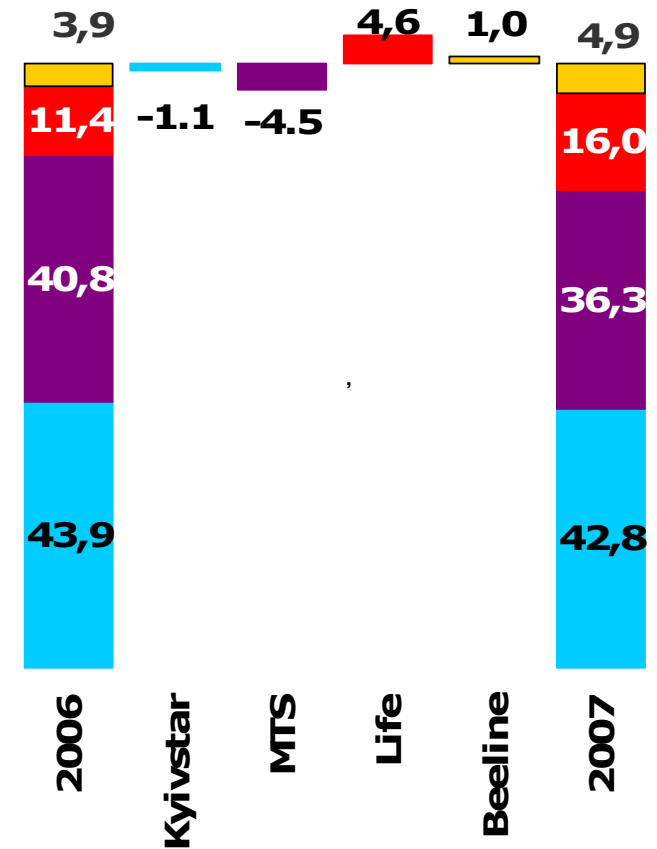
- Market close to saturation, growth rates were 3 times lower (14% vs. 42%)
- KS gets 34% of market nets -> gap with main competitor 3.6M subs
- Aggressive and clear positioning of Life gives opportunity to control 53% of market net adds
- MTS has lost market share
- Importance of profitable subs retention is growing



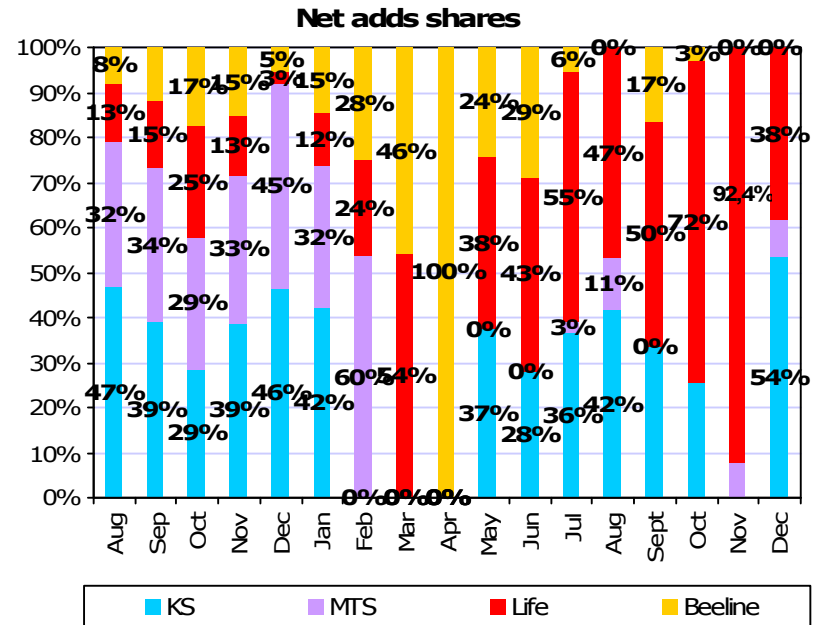
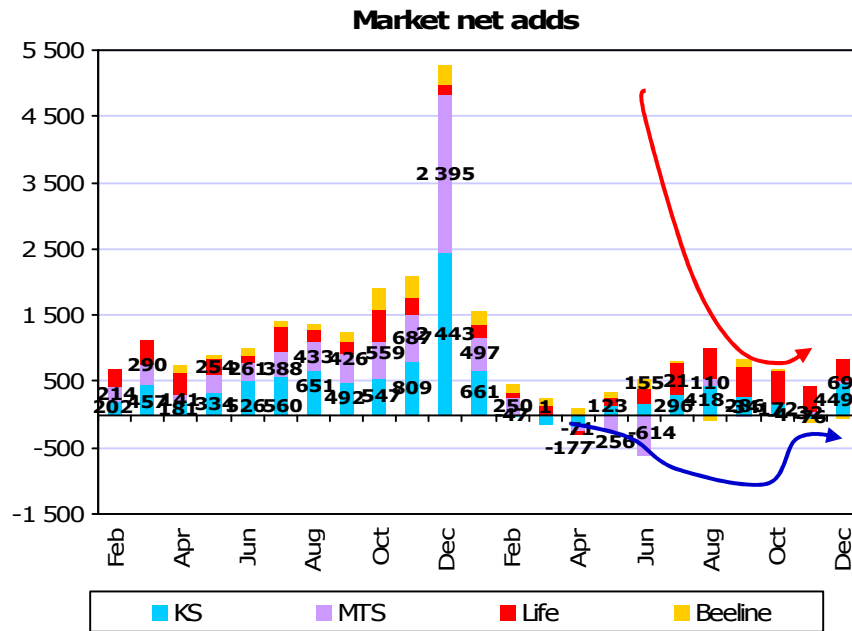
2007

## Kyivstar keeps stable leading position in SIMs

- Big pressure of Life ("0"-price) -> constant growth of the market share and active subs base
- Still Life is the only operator with unclear churn policy on the market
- Supporting revenue and keeping premium prices on the market KS was successful in protecting subs market share
- Operators have different churn policies
- High level of multi-sim users (44%) on the market



## Competition: net adds and shares of NA\*



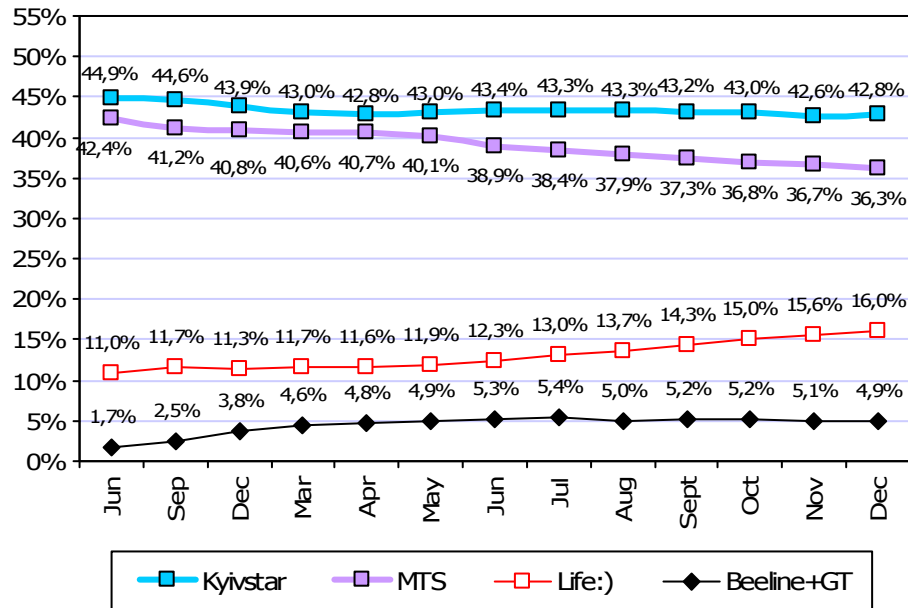
### Comments:

- KS has shown good results in Dec'07: 54% in NA.
- Beeline has shown negative results in December as well as in October.

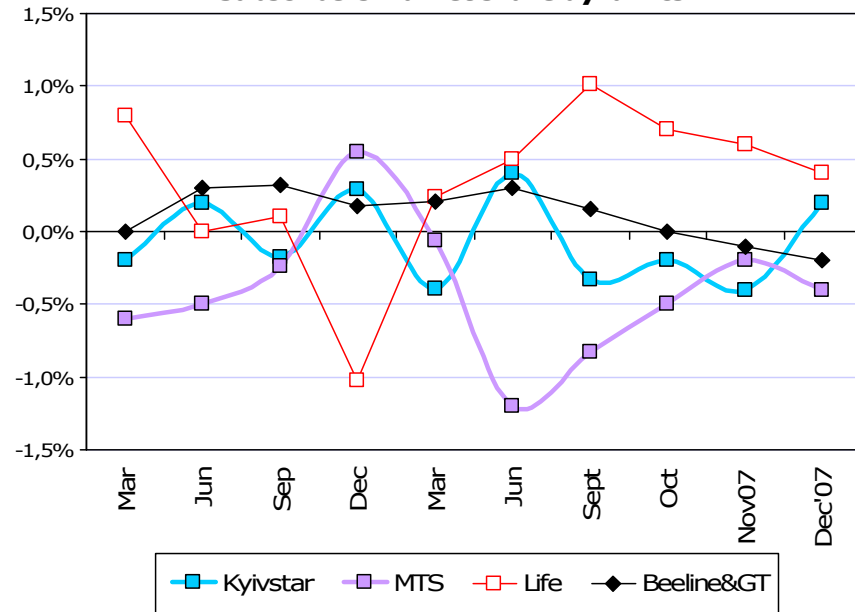


## Competition: market shares dynamics, 2006-2007\*

### Subscribers market share dynamics



### Subscribers market share dynamics



### Comments

- In December Kyivstar's market share has increased to 42,8% (+0,2%).
- MTS market share continues to decrease, this month down to 36,3% (-0,4%).
- Life :) continues to increase market share -> 16,0% (+0,4%).
- Beeline & GT constantly decrease market share -> 4,9% (-0,2%)
- KS keeps leading position in market share in December.

## Competition: tariff plans, 2007

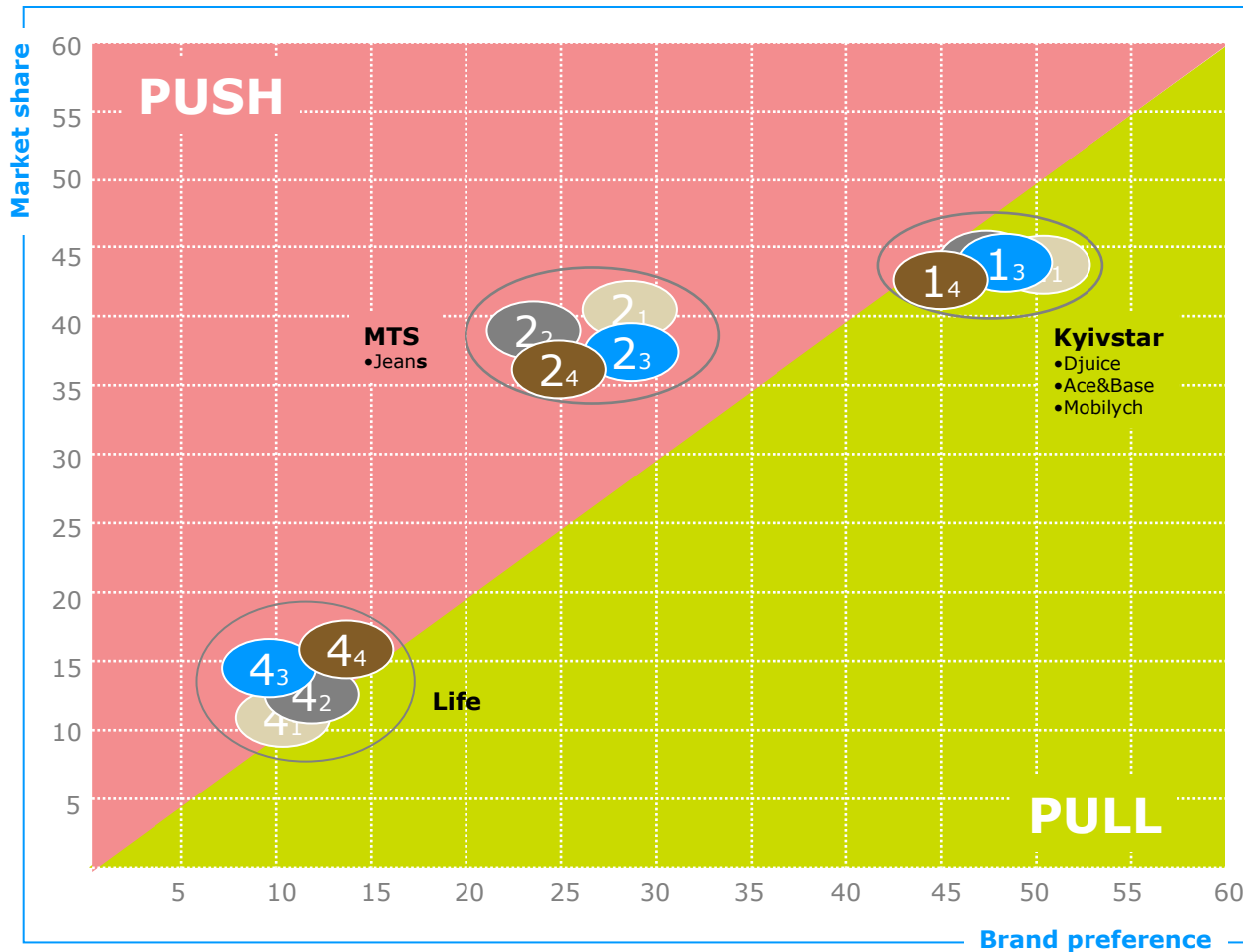
KS traffic distribution	KS The Best (NY)	MTS First prepaid (NY)	MTS Free prepaid (NY)	MTS Kopeyka prepaid	Djuice fun (NY)	Djuice talk (NY)	JEANS Holiday (NY)	Mobilych	Free life:)	Beeline Govorun	Beeline Be closer
CSF	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0	0	0	0.39
On-net calls 40%	<b>0.00</b> at week-ends and Holidays	* Monthly 1000 free min off peak without CSF	* Monthly 1000 free min off peak without CSF	<b>0.01/0.15</b> ****	<b>0.65/0</b> ****	<b>0.20/0</b> ****	<b>0.25/0</b> ***** (at JEANS and MTS numbers)	***0/0.20	**0/0.25	<b>0.10/0.01</b>	0.39
F&F 35%	<b>2x0.07</b>	2x0.05	2x0.05	<b>2x 0.05</b>	3x 0.05	3x 0.05	3 x 0,03/0** *** (at JEANS and MTS numbers)	No	No	1 (PSTN)x 0.35	<b>0.09</b> at all numbers of any chosen fixed/mob operator
Other networks 25%	<b>0,85</b>	0.95/0.50	0.70/0.35	<b>0.65/0.90</b>	0.65	0.85	0.90	0.70	1.00	<b>0.69/0.39</b>	0.39

### Comments

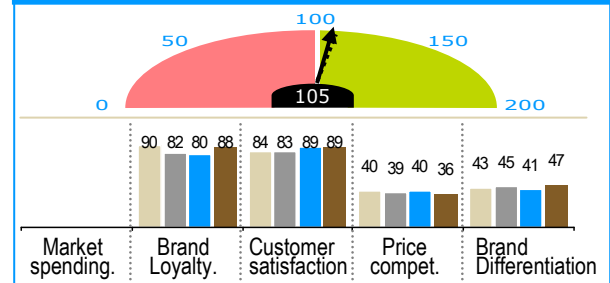
- MTS has launched new tariff plan "Kopeyka" with very cheap on-net calls – 0.01/0,15 UAH/min.
- KS has strengthened "The Best" tariff plan by proposing free on-net calls at week-ends and Holidays.
- Life has changed conditions in the "Free life:)" tariff plan – on not recharging account for UAH 25 monthly, on-net calls are tarified for 0,25 UAH/min. CSF is absent in any case.

# Ukraine - Brands

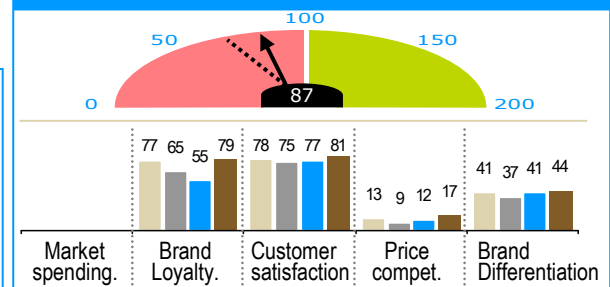
- The Q4 results confirm that Kyivstar remains stable. Despite a decrease in brand preference it keeps a positive KPI index. In 2004 Kyivstar had a 56% market share, but entry of Life in 2005 has stabilized the market share at 40-45%. Kyivstar keeps a high score on price perception even though it has experienced a small decrease since Q3
- Life has had a stable growth every quarter in 2007, ending with a total market share of 16% (a growth on almost 40%)
- Beeline is remains stable at a 5% market share and 4% brand preference



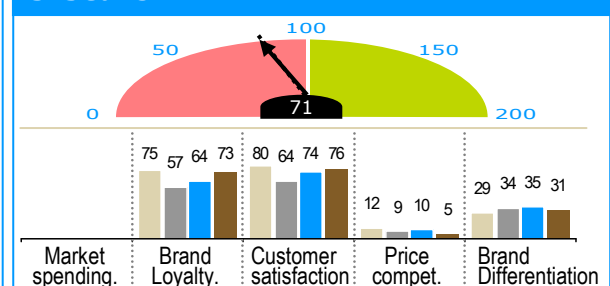
## 1. Kyivstar group



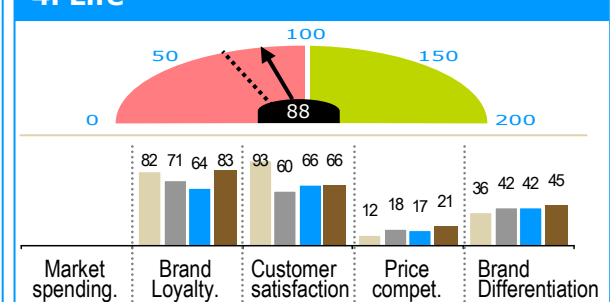
## 2. MTS



## 3. Jeans



## 4. Life



Усі тарифи Київстар

# Спілкуйся як удома, куди б ти не летів.

Надійний роумінг від лідера  
мобільного зв'язку України.



[www.kyivstar.net](http://www.kyivstar.net)

“Communicate as if you are at home - wherever you go “

# Є ПОКРИТТЯ

Покриття «КИЇВСТАР» охоплює 94 % території нашої країни,  
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Ліцензія Державного комітету зв'язку та інформатизації України № 009503 від 12.04.01

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# ТУРБОТА

Юлія Купець – оператор Центру телефонного обслуговування абонентів «Київстар»



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“ Care”

# НАДІЙНІСТЬ

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[www.kyivstar.net](http://www.kyivstar.net) (044) 466-0-466



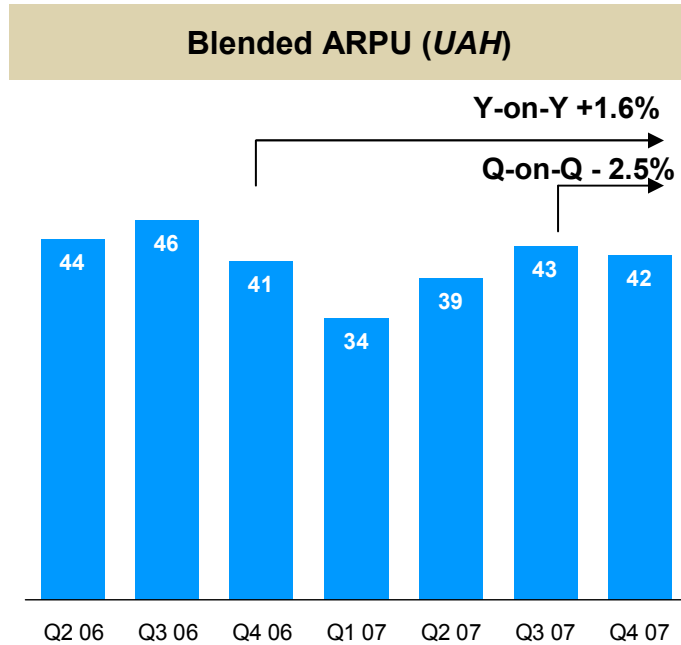
“Reliability”

# Market Summary 2007

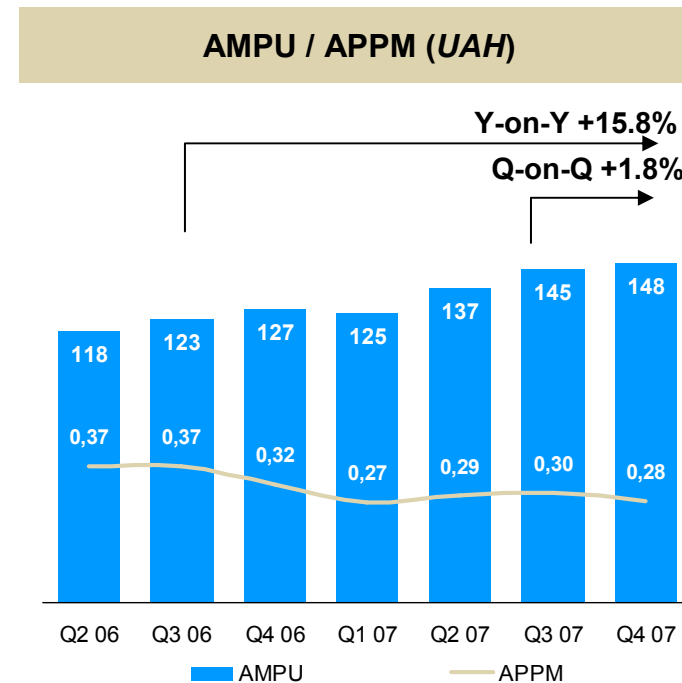
- **Kyivstar revenue share growth +0.8% to 51,9%**
- **KS has taken 55% in revenue net adds**
- **Kyivstar keeps position #1 in Gross Sales (keeps 35%)**
- **Kyivstar keeps position #2 in Net adds (keeps 34%)**
- **Kyivstar keeps leading position in SIMs (-1,1% in 2007 – 42,8%)**



# Key drivers – ARPU and AMPU



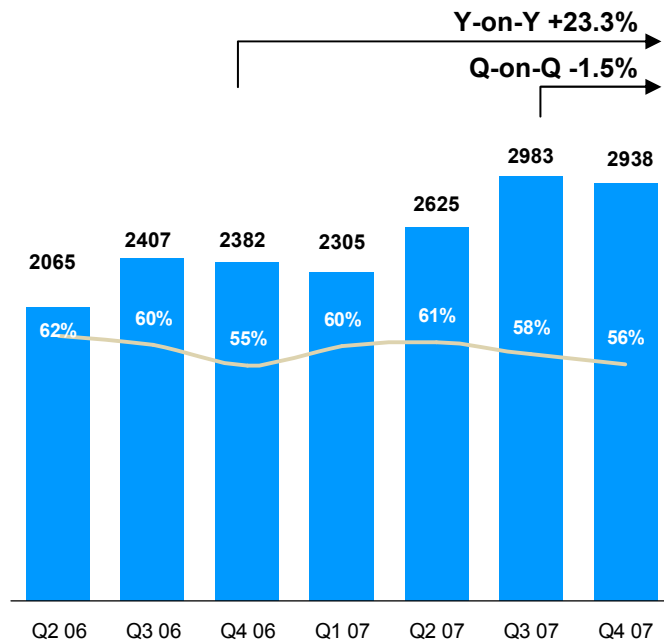
- Growing migrations from old rate plans to new-ones with lower APPM has resulted on KS ARPU in 4Q (Q-o-Q -2.5%).
- Still, Y-on-Y growth was +1.6% due to usage grows and KS attempts to hold highest prices on the market.



- After price drop during 2006 winter campaign KS stabilized APPM and kept price level -> returning ARPU on the level of Y2006 end.
- Usage stimulation resulted to constant AMPU growth on +15.8% for the Y'07.
- Still Q-on-Q +1.8% usage growth hasn't yet compensated APPM decrease of migrated old->new rate plans subs in Q4'07 .

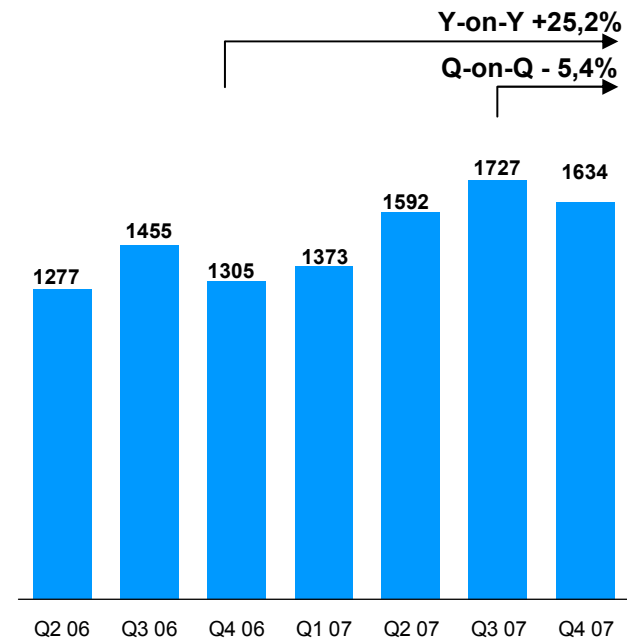
# Financials – Revenue and EBITDA

## Revenues (mUAH) / EBITDA %



- In spite of APPM decrease in 4Q **mobile revenue** stays almost on the level of 3Q. This is due to the higher # of subs offsetting the marginal decline in ARPU.

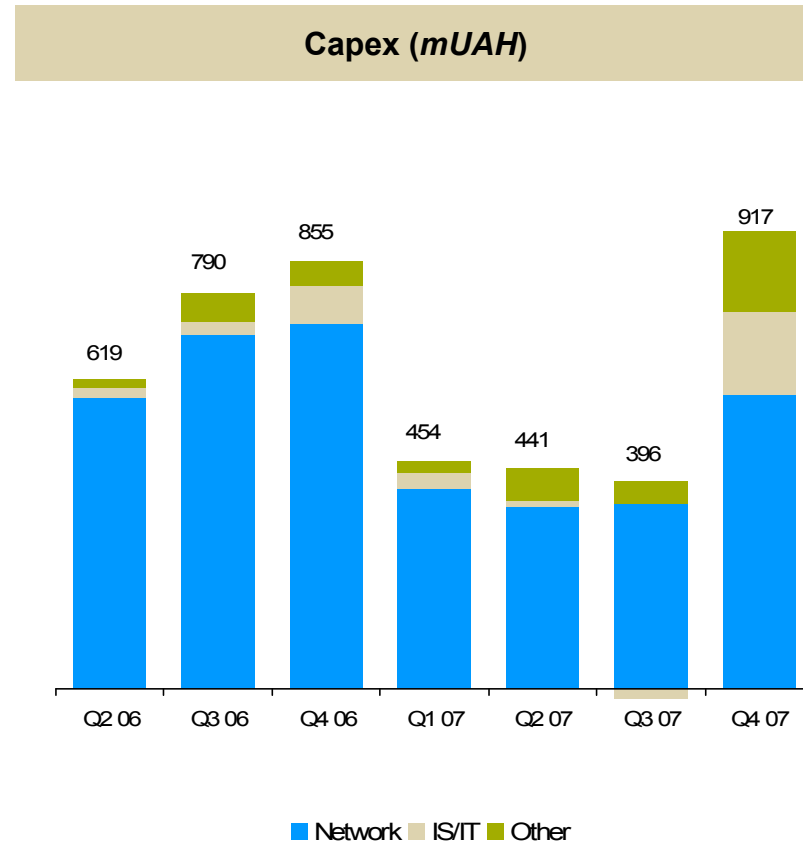
## EBITDA (mUAH)



- Comments to development
  - Q-o-Q EBITDA down 5% vs Q3 in line with expectations and increased marketing activity
  - Y-o-Y growth of 25% reflects growth in average subs during the year

# Financials – Capex

- Capex reflects efforts to complete essential purchases of capex in Q4 that had fallen significantly behind plan during the first 3 quarters of 2007



# Regulatory update

## Issue

## Comments

NCRC has issued Kyivstar additional license in GSM-900 for 3 regions

- This gives KS additional channels and capacity capability in these much needed regions. Others are currently OK.

Kyiv district administrative court has delivered a decision, whereby obliged NCRC to grant to Kyivstar a 3G license. This decision has been appealed.

- No date appointed for the hearing. We expect resistance from MTS and Astelit to prevent KS gaining a licence unless they receive one too.

Antimonopoly Committee has initiated proceedings, with intent to recognize all mobile operators, incl., Kyivstar, as SMP operators, while rendering mobile networks access service.

- This was originally initiated by the minor players e.g. Beeline and Golden in an attempt to reduce interconnect rates. This would have negative financial implications for KS.
- No date yet set for hearings

National Roaming and number portability

- Currently drafts are with Supreme Council [Parliament]
- We expect these drafts may come into effect but not earlier than Jan 2009

# Outlook 2008

## **Main market assumptions**

- Ukraine real GDP growth will slow to 4.5%, with cost inflation forecast at 16% - demanding increased focus on cost and headcount management
- As growth slows, penetration increases marginally from 119% to 123% in 2008
- Market Revenue Growth is anticipated to be around 10% during the year
- Fierce price competition and transition to cheaper tariff plans may see APPM fall. Anticipated increase in AMPU will offset this. ARPU may grow after a year of stabilization.
- No negative regulatory assumptions have been made although a potential reduction in interconnect rates remains a concern

## **Kyivstar goals**

- Kyivstar would target retaining high brand preference around the current level 47% and remains focused on revenue market share.
- Subscriber market share may fall marginally as a result with 3<sup>rd</sup> tier operators taking low value customers with cheap prices
- Revenue will continue to grow for the core business and VAS
- Pricing initiatives and good cost management should see %age EBITDA margin stay high
- 3G expenditure will be limited and is dependent on a licence