
2008 Will Be Rich In Marketing Initiatives

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- In the fall of 2007, MTS acquired 80% of VivaCell shares and concluded an option agreement for the purchase of the remaining 20% share. What have you learnt about your Armenian acquisition in the course of these few months?

- First of all, I would like to use this opportunity to congratulate the residents of Armenia on the New Year and Christmas, wish them health, happiness and well-being. We are glad that in 2007 VivaCell became a part of MTS Group. In the course of the recent few months, we made certain that the Company has well-debugged business-processes and executive discipline. There is a very competent management in VivaCell, which knows the market and is fully ready for competition.

- According to you, what is the "strength" of VivaCell and what, on the contrary, needs to be improved?

- The strength of the Company, as I have already mentioned, is its management. We will be improving the technical infrastructure of the operator, including the billing systems. We also plan to extend the line of tariff plans, since today it is quite modest. For example, there are no accumulating tariffs, which provide for the decrease of cost of conversations after a certain volume of conversation minutes. In 2008, we will first of all implement such tariff plans.

We believe that it is also necessary to define the marketing strategy of VivaCell, which would answer the question, where the Company is moving in 2008 and where it sees itself in the course of the following few years. In the nearest future, the management of VivaCell and the specialists from the corporative center of MTS will conclude the elaboration of such a long-term marketing strategy of VivaCell.

- Does this mean that VivaCell will continue managing using the local personnel and you will not be sending specialists from Moscow to Yerevan?

- We are not planning to make any fundamental changes in the leadership of the Company. For now, we are only planning to strengthen the marketing team of VivaCell, including a professional team of MTS. In our group, programs of experience exchange between subdivisions and countries are arranged well. We are planning to attract technical specialists from Moscow for the work on individual projects in VivaCell. In their turn, their Armenian colleagues will regularly visit the Moscow educational centers to increase their qualification.

- During a news conference in Yerevan you noted that by the end of the year VivaCell will be working, basing on the existing marketing plans and the corrections will be initiated starting from 2008. Should we expect any "revolutionary" changes in the marketing policy of VivaCell?

- The year of 2008 will be rich in marketing initiatives. As expected from the leader of the market, we will actively introduce new tariff plans and additional services to the market. I believe that we are going to have an interesting and rich year in marketing actions.

- Within the framework of agreements, the signature of which was announced in September, the sides agreed that MTS would provide VivaCell with a loan at the sum of 140mln euro for repaying the existing debts and funding the

investment program. What are the priority directions for investments in Armenia?

- As we made it clear while announcing the acquisition, a part of the provided loan will be directed to repay the existing debts of VivaCell. This year, the investments in Armenia will make tens of millions of dollars. In the first place, the investments will be directed to the development of infrastructure, modernization of billing, improvement of the connection quality and development of Internet access services, basing on GPRS/EDGE.

Besides, investments are planned in the construction of the 3G network and the own fiber-optic transport network.

- If possible, can you tell us about the plans of provision of broadband Internet access services in detail?

- In October, we gained a frequency range for 3G network, and now we are elaborating in detail a business plan for the launch of the third generation network. We examine where the most demand in the services of high-speed Internet access is. This will condition where exactly we will be first of all developing the services, based on 3G - in the capital or in other regions. Besides, we examine what services exactly will be in demand - transmission of voice, video-calls or data transmission. The preliminary term for putting 3G networks into operation is the fall of 2008. However, the final decision on the format of services will be made very soon.

- In September, you said that MTS would study the issue of carrying out a re-branding of VivaCell. Have you already realized a research on the given issue? When can we expect the final decision?

- VivaCell has a very strong brand, one of the best national brands, which requires that we make very careful and weighted decisions. We should clearly realize that MTS brand will become a push for business growth in Armenia, as it happened, for example, in Uzbekistan, Ukraine or in Belarus. On the other hand, we want to be sure that the re-branding, if it is necessary, will not be just a change of a signboard or a logotype, but will also create additional opportunities for our subscribers, for example, privileged international calls for MTS subscribers in all the countries of presence, privileged roaming in the MTS network, etc. At present, we are realizing a research on the expediency of re-branding of VivaCell, and by mid 2008, we will voice our plans.

- The owner of "ArmenTel" is the Russian "VimpelCom" operator, which is considered the "number one" rival of MTS in Russia. Does this fact add certain acuteness in your competition with "ArmenTel" in Armenia?

- "VimpelCom" is present in many markets, where we work: in Russia, Ukraine and in Uzbekistan. In all the markets, we are successfully competing.

- Despite the fact that the number of subscribers of VivaCell is twice more than the number of "ArmenTel" subscribers, the ARPU index of "ArmenTel" is higher than the one of VivaCell. What is the reason?

- I cannot comment on these numbers, since the methods of ARPU estimation may be different. Nevertheless, the monthly income per one subscriber in "ArmenTel" is not much higher. For example, following the results of the third quarter, in VivaCell the given index made \$15,7, and in "ArmenTel" - \$17,6. This is first of all conditioned by historical reasons: since "ArmenTel" entered the market of mobile communication almost 10 years ago, and VivaCell worked in Armenia a little longer than two years, this is reflected in the structure of the subscriber base. We are elaborating such

product offers, which would attract the subscribers, stimulate new connections and promote the increase of the service use by the existing customers.

- About a year ago, "Comstar" company, which is included in AFK "Sistema", purchased the Armenian "Cornet" internet provider, which announces its intentions to develop WiMAX technology in Armenia. Is a certain convergence of VivaCell and "Cornet" services possible?

- Realization of convergent projects is possible, we are ready to consider proposals on realization of such services and assess their expediency, including the possible joint projects with "Comstar-OTS".

- VivaCell traditionally allocates large financial means for charity, supporting not only particularly social projects, but also, for example, participates in reestablishment of social-economic infrastructures in the regions of Armenia. What is the attitude of MTS for such activity of Vivacell?

- Due to volume national projects, VivaCell became one of the leaders in the sphere of corporate social responsibility. In medium-term prospect, we will be supporting the projects, which are already initiated and are in the process of realization. At that, we would like the activities of VivaCell in this direction correspond to the single platform of MTS in the sphere of corporate social responsibility. And we will be studying with pleasure and using the experience of our Armenian colleagues, jointly elaborating new directions and projects in the sphere of CSR.

- What main tasks do you set for VivaCell for 2008?

- VivaCell faces the tasks of further consolidation of the business - growth of the number of subscribers, preservation of the share in the market and the increase of consumable services.

- What is your assessment of the potential of the Armenian market? Following the results of the third quarter of 2007, it was announced that the number of VivaCell subscribers in Armenia already reached 1,1mln - does this mean that the satiation of the market is within sight?

- Despite the fact that the penetration in Armenia has already exceeded 50%, the potential of growth of mobile connection market is not sufficiently high yet. Firstly, the use of services yet remains at a low level. If in Uzbekistan the subscribers on average talk 565 minutes on the cell phone per month, in Belarus - 430 minutes, in Turkmenistan - 299 minutes, in Armenia - it is less than 200 minutes.

Secondly, there are great opportunities in Armenia for the development of value added services. Today the offer of the given services is limited, and we work to enlarge the line of such products. For example, we plan in the nearest future to implement the services GOOD'OK, when the person calling hears music instead of the hooter. Therefore, even after reaching high level of penetration of mobile connection, additional services may become a locomotive for growth. But there is a long way, by the highest standards, before the satiation of the market in Armenia takes place. For example, in Russia, the penetration of mobile connection exceeded 100% long time ago, but the market continues growing, including the growth at the expense of increase of service use.
