

INTERVIEW WITH YOTA

Participants:

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You guys have created a lot of buzz about your recent move to LTE. You are one of pioneers of 4G mobile broadband, especially WiMAX – why have you announced your decision regarding LTE before the ecosystem has been established?

First, I would like to answer this question from an infrastructure perspective. According to our analysis, and the existing understanding, LTE release 8 is a more productive technology showing a higher sector performance and higher spectrum utilization efficiency. These are very important considerations in terms of economics. The more subscribers that you can serve simultaneously in one sector, the more benefits from the economics perspective you might have. Second consideration: you are right that the ecosystem and user equipment are in the very beginning stages, but we are quite sure that since LTE is supported and considered as the next move for most large mobile operators such as Verizon Wireless, AT&T, NTT Docomo, and others, the speed of how the ecosystem grows will be quite high, and we expect that next year (probably in the second half) we will see devices of different form factors in the market.

Assuming that Qualcomm has announced the convergence 3G-LTE chip to be released in Q2 2011, we hope and predict that this will drive not only the USB modem form factor ecosystem, but also mobile headsets ecosystem including PDA's and Smartphones. I think this ecosystem will build a growth much faster than the mobile WiMAX ecosystem.

You have been one of the leaders to establishing the roadmap for 802.16m, but today you are saying that 802.16m, is less evolving than LTE?

LTE release 8 is commercialized already, we have seen infrastructure equipment that is proven and working, while for 802.16m we expect that this should be approved as standard this year but if it does not happen this year it will be done most likely in 2011 or even later.

Are you satisfied with the prospects of Nokia Siemens Networks on LTE?

We are not working with Nokia Siemens Networks, we are now tracking two infrastructure vendors, both from Asia, and although we cannot disclose the names at the moment, we will be announcing them within two weeks.

One rumor was that you made that announcement because you were having financial difficulties, and that Qualcomm was ready to invest in Yota in exchange of that announcement which is hurting the WiMAX ecosystem.

That's not the case – that is just speculation by one of our competitors or a journalist. We announced in November 2009 we had reached the operational breakeven point, and after that we have been showing a positive market EBIDTA. In the first half of this year we have had a very good performance in EBIDTA. From the operational perspective we have financial efficiency, and this allow us to attract an open market financing and we are successfully executing this strategy, so we are not having any problems for external financing to support the expansion.

Do you have any investors, such as Qualcomm?

No we do not have investors; Qualcomm is not an investor.

In other words you don't need money to deploy LTE?

Of course we do, but we get this money from the market in forms of bank loans right now.

Can you clarify the spectrum situation? My understanding is that you are going to deploy FDD-LTE, but the Russian regulator does not allow FDD, and you are required to deploy Russian equipment... Can you clarify the spectrum regulatory situation in your country?

Actually the utilization of Russian equipment norm dictated by the regulator is not applied to us. This applies to other operators that have won the spectrum auction that has been held at the beginning of this year for the 2.3GHz and 2.4GHz frequency bands. One of the requirements of this auction was the use of domestic equipment but we have not participated in this auction, so that's not a requirement for us. Regarding FDD or TDD, I cannot tell what type of LTE we will be deploying until we clarify the licensing issue with government officials; I think that we will determine what type of LTE we will use in a 1 or 2 time frame. We so far have enough spectrums to run LTE in the new markets, we have enough spectrums to run WiMAX and LTE in parallel in the existing markets were we have already commercially deployed mobile WiMAX. We are allowed to use up to 70MHz of spectrum in the 2.5-2.6GHz band.

What is the regulator saying in terms of FDD or TDD is there any restriction?

There is no specific restriction, but we need to clarify some situations a little bit further.

Does it make sense though, in the long run to deploy FDD LTE in parallel with WiMAX TDD? That would cause interference among base stations and transition to LTE will be smoother I think if deploying TD-LTE...

Yes you are right, but as far as we know from the infrastructure side TD-LTE is not supported quite well right now in terms of commercially available infrastructure equipment. The other point is that we have only 5 markets deployed with WiMAX TDD, and we have the availability and spectrum to deploy LTE in 180 new markets and cities in Russia. So, WiMAX TDD is not a big deal. Of course those 5 cities have a very big population, but we are quite sure that we can resolve the issues, and that we can deploy WiMAX TDD and LTE in those 5 markets.

Right now it is hard to say whether TDD or FDD, we have done field tests and we will do co-existing tests in real field environment within 2 or 3 weeks. By the end of summer we will have the complete picture of what issues, if any, arise.

In terms of a roadmap you have mentioned that you will announce a vendor in 2-3 weeks... have you done any trials now?

No, we have passed the laboratory trials and have purchased the equipment already. Actually this week we have received the first shipment of the equipment and have started to deploy it already in a city called Kazan, we have fully prepared and installed the transport network here, and we are planning to deploy 150 base stations and make the test launch on the 30th of August.

So you have already selected the vendor, you are just to announce it in two weeks?

Yes, we are launching our first network on the 30th of August, within 2 months.

How are you going to transition your +500,000 WiMAX devices to LTE?

We are discussing right now an interesting scenario with our infrastructure vendor that will help us minimize our CAPEX investment to deploy a parallel network in our existing 5 markets. From the OPEX perspective we have sites in those 5 cities that are fully ready to deploy LTE and the increasing in OPEX per site or base station we expect to be of no more than 15% to 20% per base station, which is not a big deal, we are ok with OPEX.

Talking about the migration or transition, our spectrum holdings allow us to continue using WiMAX with the three carriers that we have been working with right now, and deploying LTE network using 2x10MHz at the beginning and then 2x20MHz.

In terms of timeframe, our consideration is that despite we have a number of devices in different form factors, actually the major number of our users, or 80% use USB dongles. According to our observation the USB dongle life cycle does not exceed 18 months. This means that if we launch the two networks in parallel we can expect that the major part of our users they will migrate from WiMAX to LTE within a year and a half, if we give additional stimulation, we can speed up this migration if it is necessary.

So pretty much, in two more years from now you would have phased out completely WiMAX?

Yes. Our plan is to launch both networks in parallel on existing 5 cities in October-November of 2011, and I expect that we can completely phase out mobile WiMAX by the end of the year 2013.

How much spectrum do you currently have per market?

We have up to 70MHz; of course the situation varies from city to city. This was a city by city allocation. We did not participated in the auction that was held in Russia in the beginning of this year, but we did participate in the auction that was held in 2007, in a way of buying companies with MMDS spectrum. This spectrum has no expiration date but we need to defend this spectrum by the end of this year.

Talking about your subscribers, what is the latest subscriber count?

By the end of May 2010, we reached 546,000 active WiMAX subscribers on the network. By June 2010, I expect we reached the 600,000, and we have an aggressive target by the end of 2010.

What has been the churn rate that you have experienced?

The percentage of customers that unsubscribe, minus the percentage of customers that have reactivated for May our churn rate was 2.93%.

How many POPs are you covering with WiMAX?

23 million POPs covered in our existing 5 markets. We do not have any plans to continue deploying WiMAX in the new cities, of course we will expand coverage in existing 5 markets, but that would only account for additional 1 or 2 million POPs covered with WiMAX. Talking about the next 35-40 cities that we plan to cover with LTE in 2011 and 2012, we think we will add another 30 to 40 million POPs to existing 23 million.

You announced that by the end of 2010 you would be launching in additional 15 cities, is that plan still ongoing?

We announced that at the end of 2009, we initially planned to launch in additional 15 cities by the end of this year, but since we later decided to switch from WiMAX to LTE, we had to reduce the number of cities for this year, and right now we are planning to only launch in 5 new cities, and those cities will be with LTE this year.

What cities will those be?

Kazan, Samara, Novosibirsk, those three cities are 100% verified and confirmed. The other two cities will likely be Yurkatelemburck and Pirm (Not sure how to write these names)

Is your deal with Samsung for additional order of 1,000 base stations still effective?

Yes it is still effective because we need to provide enough network capacity on the existing markets as our subscription base grows.

How many base stations have you deployed for WiMAX?

2,080 base stations from Samsung (confidential).

You said earlier that about 80% of your subscribers were using USB dongle. The remaining 20% is split between laptops and HTC handsets?

Yes, 80% are USB dongles, 12% are laptops, and the rest 8% is shared among HTC handsets, and Yota Egg router.

What applications are consuming most bandwidth?

I don't have the statistics by application at this moment, but in general all the applications and services we offer consuming not more that 6 – 8 % of the total bandwidth available. Per user, the average consumption per month is 10.3GB per month (May).

This is a very high amount consumed by your users. What strategy are you implementing to control the traffic consumed by your users? Are you using traffic caps, or are you offering all-you-can-eat plans to your users?

No we are not implementing any traffic caps, we pursue the all you-can-eat strategy. The only thing that we are doing right now is that we are intellectually managing the peer-to-peer traffic, in the assumption that if we exceed in a particular base station or radio network the peer-to-peer traffic, does not allow other type of traffic such as skype, youtube and other type of traffic to a full extent. But if the base station is ok, we do not put any constrain on peer-to-peer traffic.

Are you considering any traffic offload alternatives, such as femtocells?

We are not looking at any alternative solution so far because we have room for installing additional base stations in the congestion areas, and by doing so we can solve the major traffic congestions issues. But if we need additional approaches we will use them. So far we are not doing so; our strategy is to deploy more base stations or sectors in the congested areas.

How much CAPEX do you anticipate for this year?

The CAPEX per city might vary, of you take a city of 1 million people and you have to build your own transport network the CAPEX per city would be from US\$5 to US\$8 million.