

Mobile Consumer Market Survey 2012 – Russia



5
continents

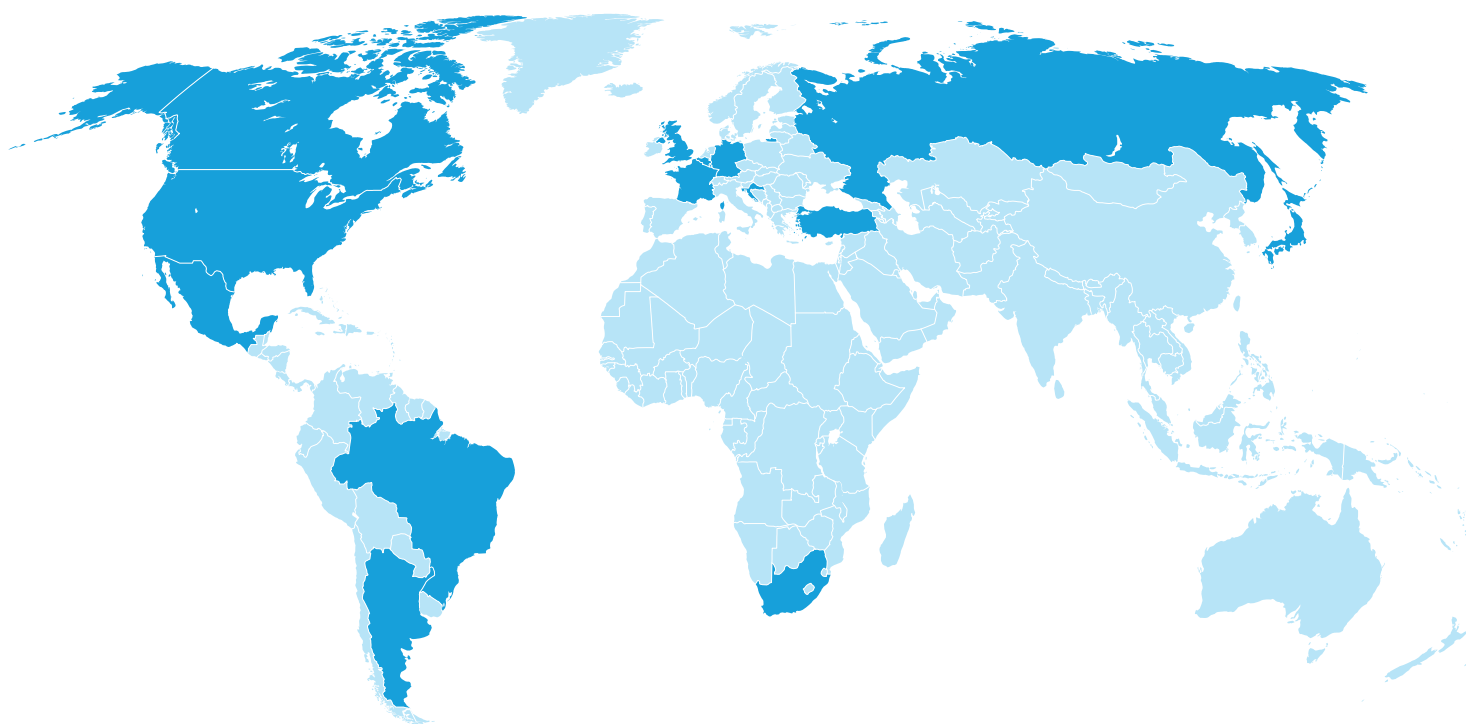
Subscriber
profile

15
countries

Most popular
devices & apps

26,960
respondents

Customer preferences
& expectations



Foreword

It's obvious that we live in the era of mobile technology. Years ago, cell phones were the size of a suitcase; today we are not surprised with gadgets integrated into watches or even glasses. Portability has become the most noticeable win of modern microelectronics and industrial design. Nowadays, Russians may easily own at least four portable devices: a laptop, cell phone, tablet, digital camera and a DVD/MP3-player, for example. Every day, the functionalities of these devices are getting more comprehensive, covering a broader spectrum of communicative options.

In 2012, Deloitte included Russia in its annual Mobile Consumer Market Survey for the first time. A total of 27 thousand responded, including 2 thousand local subscribers. While the results for Russia largely describe trends among urban population rather than the population as a whole, we nevertheless believe our findings provide those in the industry with plenty of food for thought.

The survey provides insight into how people tend to use the gadgets available today, which brands they prefer, which services they like and which want to be changed. Our findings will not just interest mobile operators and electronics distributors, but also professionals in the finance, retail, media, e-commerce and government sectors, as modern telecommunication technologies play an increasingly important role in their business. We hope you will find the survey results informative and would be happy to further discuss any of the findings highlighted in the report.



Olga Tabakova
Partner,
CIS Technology, Media &
Telecommunications Industry Leader



Anton Shulga
Partner,
CIS Telecommunications Industry Leader

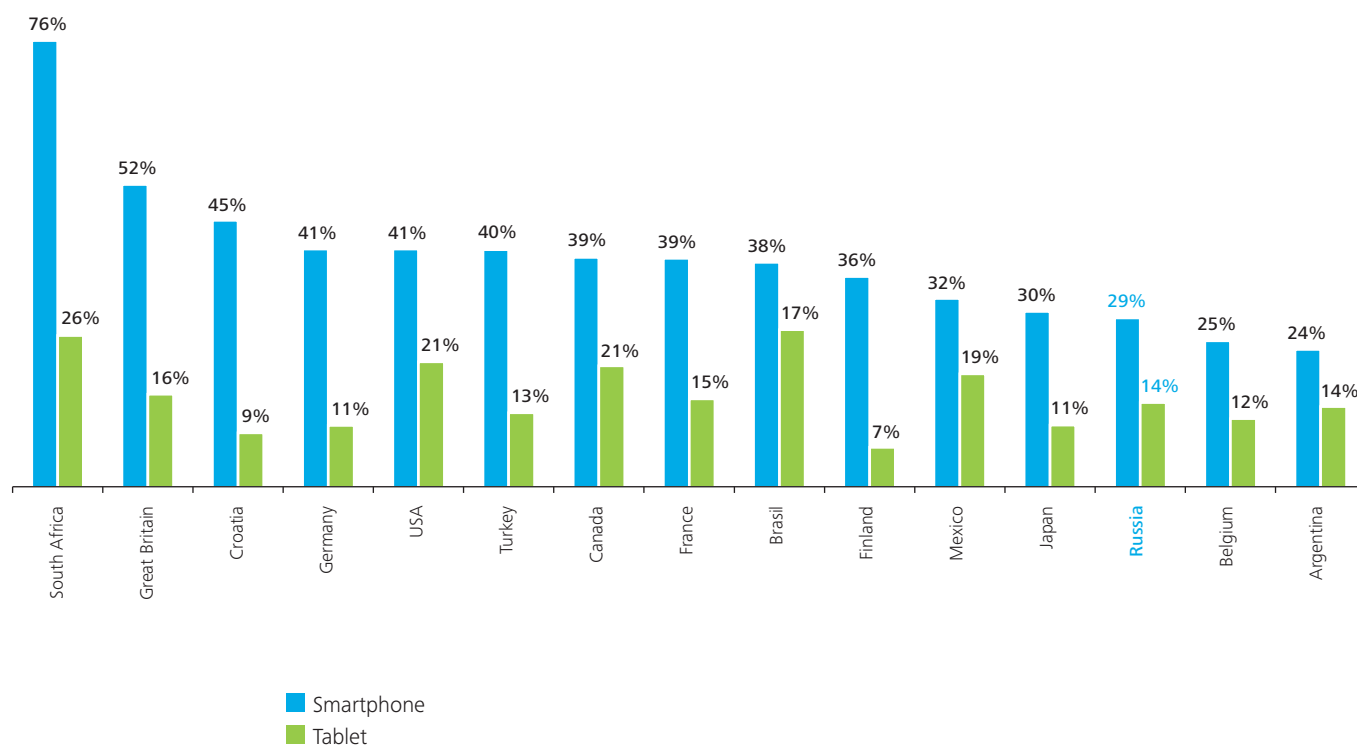
*Deloitte conducted the Global Mobile Consumer Survey over May and June 2012, during which a total of 26,060 mobile phone users in 15 countries responded to it online. Results for Belgium, Canada, Finland, France, Germany, Japan, the UK and the United States are nationally representative. Results for Argentina, Brazil, Croatia, Mexico, Russia, South Africa and Turkey are more representative of urban professionals. All sample sizes per country were 2,000+ except Belgium, Finland, Croatia and Turkey (1,000).

Survey questions were written by Deloitte member firms with input from wider mobile telecommunications industry (industry associations, operators, handset vendors, service providers, regulatory authorities, investment banks, analysts and content creators). The multinational online research program was managed by YouGov.

Tablets penetration at 14%, smartphones at 29%

Our survey shows tablet penetration in Russia is keeping up with that in developed countries. Widely available across a comprehensive price range, tablets seem to have formed a new product niche while smartphones typically remain an expensive alternative to traditional cell phones.

Penetration



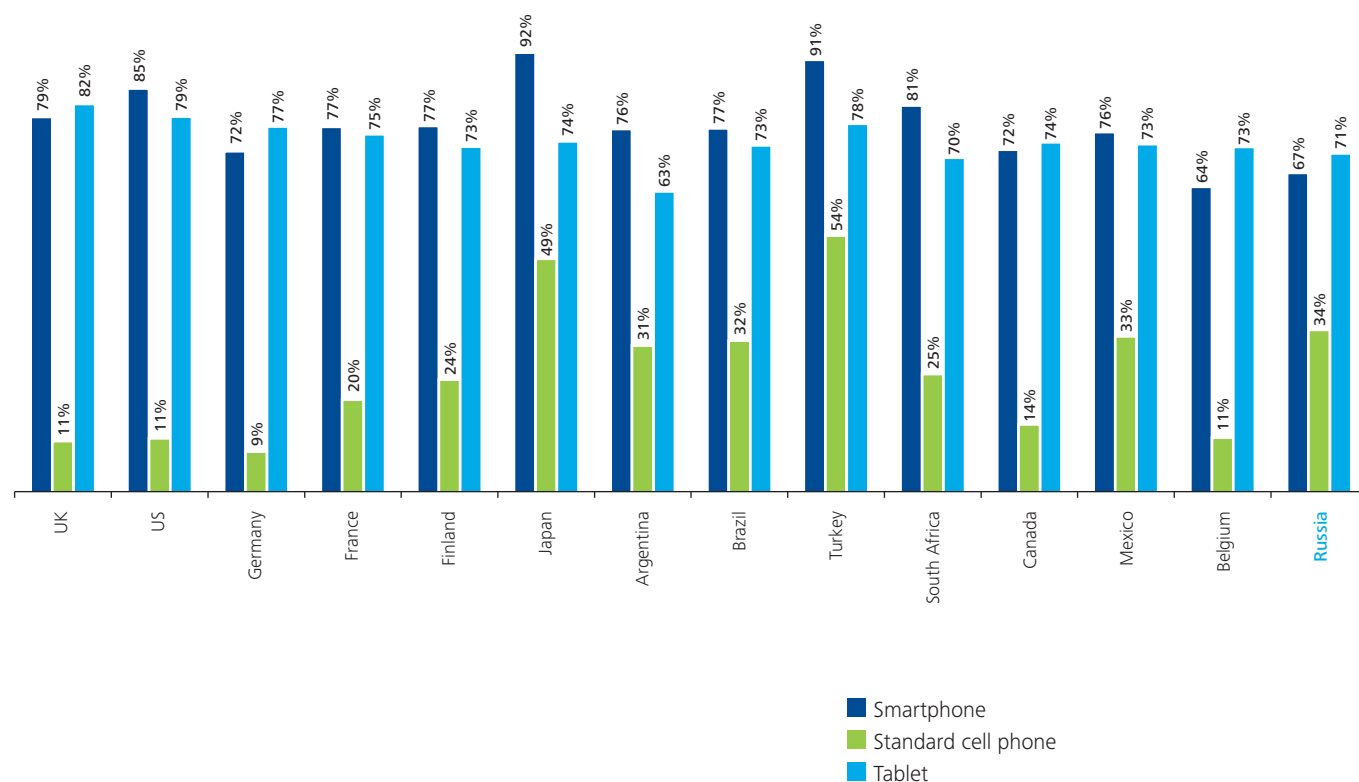
Only 43% of portable devices used to go online

Internet connectivity in Russia is comparable to that in other countries across the sample. It is notable the situation is explained by two factors balancing each other:

- high Internet connectivity of traditional cell phone users, and
- relatively low penetration of smartphones which are more often used for going online (67% against 34% for traditional cell phones)

Therefore deeper penetration of smartphones in the future could help increase wireless broadband ARPU as well as mobile operator VAS revenues in general.

Internet connectivity



Russian subscribers well informed about 4G services

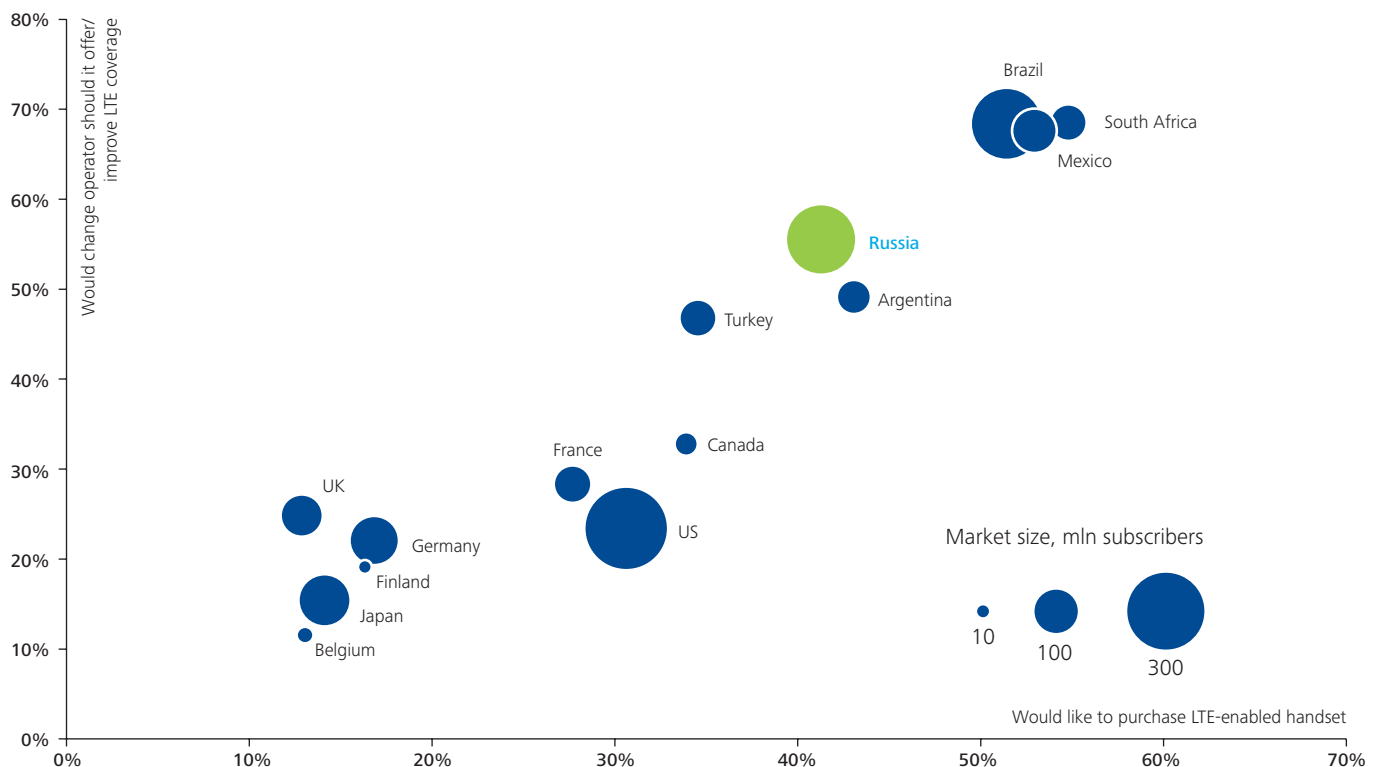
52% of respondents indicated that they are willing to switch carrier in the next 12 months should LTE connectivity be provided. In Western Europe and the US the comparable figure is lower, varying from 10% to 30%. The reason could be the prevalence of long-term contracts in the West that “bind” subscribers to a particular carrier, as well as the particularly high awareness of Russian subscribers of 4G services.

Good familiarity with 4G is both the result of regulator efforts (five operators were permitted to roll out LTE networks in the 2600MHz and 800MHz spectra mid-2012) and operator marketing activities (as of Q4 2012 Yota, MegaFon and MTS have been heavily promoting these new products).

We believe that operators will take advantage of the innovative nature of 4G services and the technological edge of LTE-enabled networks as key selling points to retain and increase their market shares, while there are a few other features clearly distinguishing the product from a subscriber’s viewpoint.

The structure of demand for cell phones also shows subscribers’ keenness for LTE. Familiarity with benefits of mobile broadband and greater availability of high quality handsets should enable rapid take-off of LTE in Russia in 2013.

Subscriber attitude towards LTE

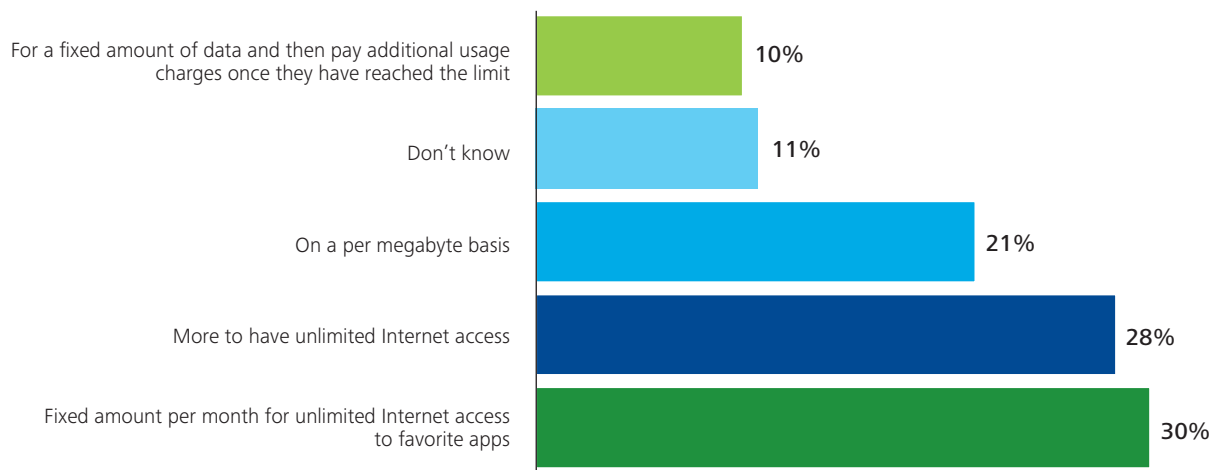


Unlimited data plans lead the hype

28% of those surveyed indicated that they are willing to pay a premium for unlimited Internet access. Interestingly, despite widely available quasi-unlimited data plans and tariff options (normally they allow several gigabytes of data at maximum speed, which then gets capped afterwards) around half of subscribers believe they are paying for traffic while only 42% of respondents think otherwise. Growth in subscribers' Internet activity could lead to an increased load for networks and, as a consequence, lower service quality, thus further investments in network capacity will probably be required.

Another option that could prove popular with subscribers according to 30% of the mobile internet users surveyed is unlimited access to individual applications. Over 40% of respondents in Russia named e-mail, social networks and VoIP as the most highly-demanded applications in this regard.

Russian customers prefer to pay

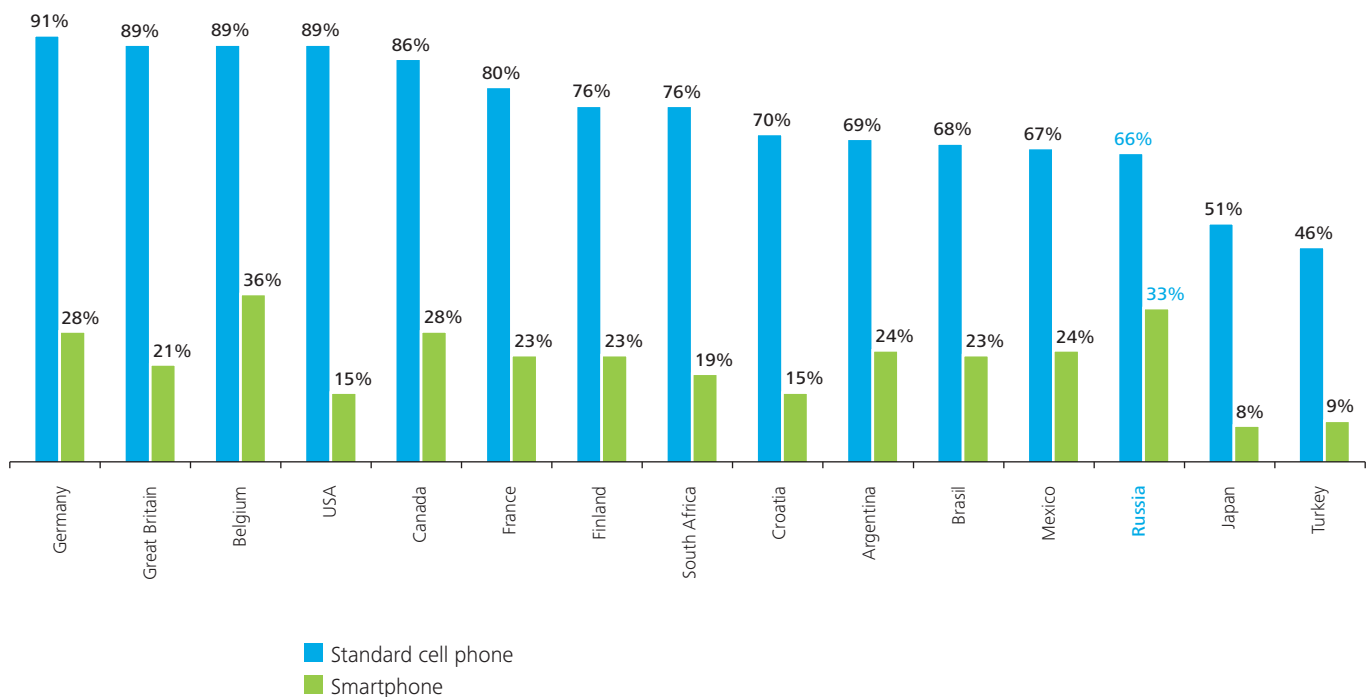


One third of smartphone owners do not use handsets to access Internet

Smartphones are becoming unceasingly popular among the young, while older people tend to stick to traditional cell phones. Compared to owners of traditional handsets, the share of smartphone users going online is much higher (67% vs. 34%). However a third of smartphone owners still use only a fraction of the functionality of their “intelligent” devices. While Russia significantly lags behind the other countries

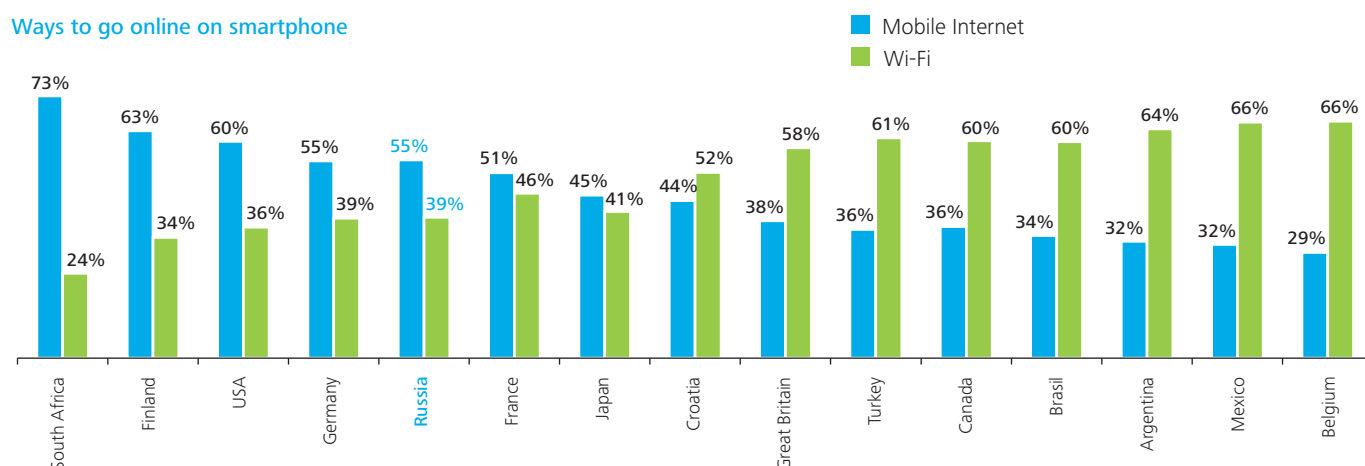
in our sample in this respect, the fact that traditional cell phones users, on the contrary, are much more active compared to the rest of the world is quite inspiring. As smartphones get cheaper, we believe the next wave of consumers which cannot afford a smartphone today will adopt more of their future devices’ functionality understanding benefits of mobile Internet.

Subscribers not going online

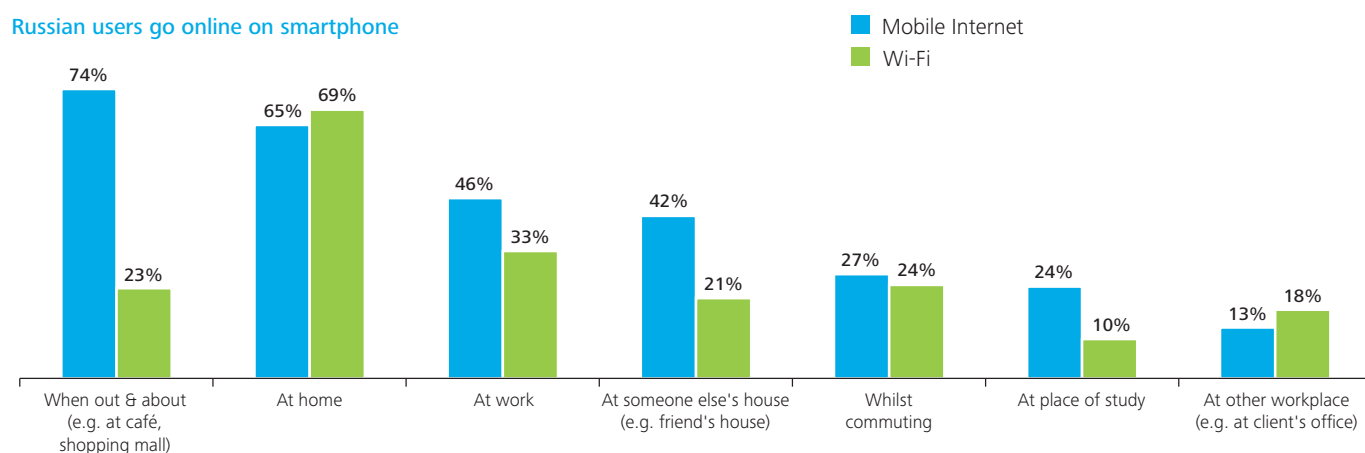


Wi-Fi is less often used to access Internet in Russia than in other countries

Ways to go online on smartphone



Russian users go online on smartphone



Unlike in the West, where Wi-Fi is typically used to access Internet at home, in Russia public hot spots are much more popular. However, there are still about 30-40% of smartphone and tablet users and 65% of traditional cell phone owners who do not use Wi-Fi.

Nevertheless, our survey indicates that Russian subscribers are among the most active users of mobile Internet (including at home) in the world, second only to South African subscribers. The same is true for laptops – only 43% of devices use Wi-Fi (the lowest result in our sample after Japan) and 19% utilise a mobile network (the highest level except for Finland).

We believe that, coupled with the growth in traffic, this tendency is good for operators, although it can require significant investments into infrastructure that has a longer pay-back period amid intensifying competition in the data services segment. According to our data, carriers respond by showing increasing interest in limited data plans and Wi-Fi bypass projects. Operators all around the world are heavily invest in Wi-Fi hotspots in public areas to complement their mobile networks.

Russian tablet owners prefer 3G-enabled devices

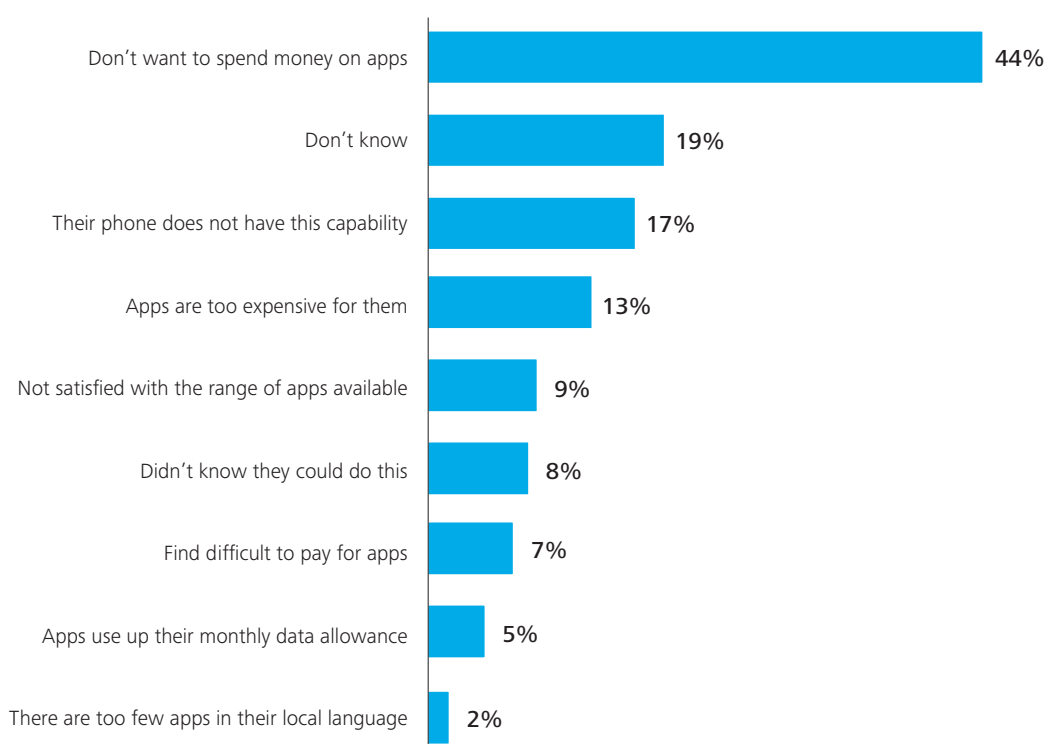
Although tablet penetration in Russia (14%) is on par with that of developing countries, the average profile of a tablet user is markedly different:

- Two thirds of tablet owners prefer 3G-enabled models (the highest result in our sample after South America);
- 36% of tablet users access Internet via mobile networks – the highest level across our sample;
- Russian subscribers tend to use most of their tablets' features, demonstrating the highest levels of familiarity with their devices than in any other region surveyed;

- Despite just 41% of respondents in Russia using only the basic features of their tablets compared to a global average of 51%, Russian subscribers do not normally leverage the entire application ecosystem because it uses up money and creates more traffic.

We believe the subscriber specifics we have described may encourage operators to develop proprietary application ecosystems for tablets that will be available as a part of future tariff offerings.

Reasons for not downloading apps in Russia



Around 40% of tablet adopters use laptops less

Market research shows it is too early to see tablets as a substitute to laptops just yet. Only 7% of respondents owning both devices said that they had almost given up using a laptop after purchasing a tablet, while 33% admitted that they now open their laptops less frequently than they used to. Other respondents said their laptop usage had not

been “impacted” in any way, while 12% said that they had started to use their laptops even more frequently. Nevertheless, we believe that the boundaries between these two mobile devices will gradually erode as more and more laptops feature detachable touchscreen displays which can then be used by themselves as tablets.

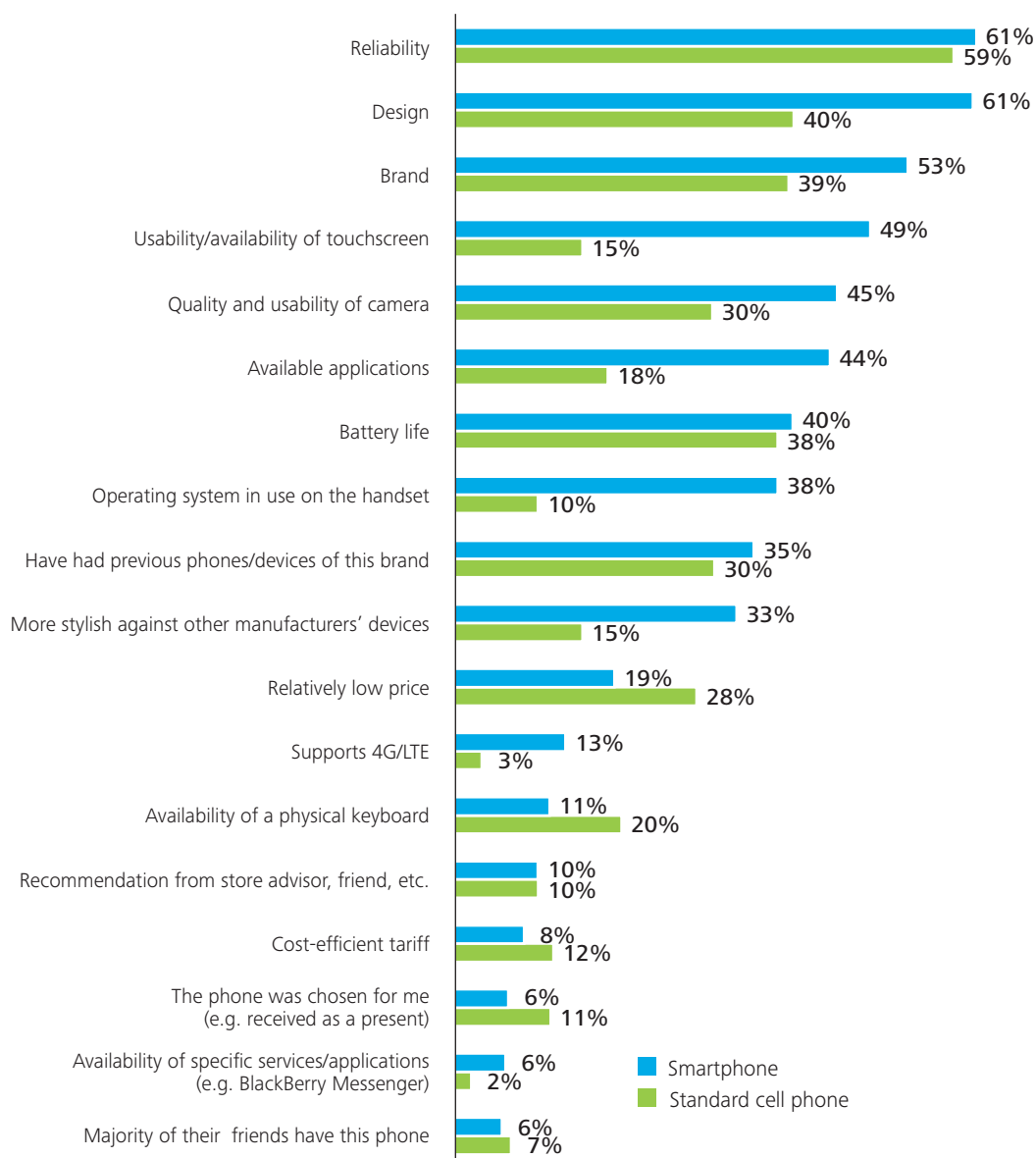


Reliability and good design most important qualities of ideal handsets among Russians

Survey results indicate that display quality, camera resolution, operating system and application kit available are among the most crucial characteristics for subscribers when choosing a new smartphone. As for traditional mobile phone users, price is the key point. Both subscriber groups choose reliability, design and brand (over half of respondents) as the most important factors

influencing their decision. At the same time, about 10% of respondents tend to choose a mobile phone based upon peer recommendations or the popularity of specific models within their social environment. Approximately 35% of subscribers prefer not to change brand when replacing their old device.

Consider important when choosing device in Russia

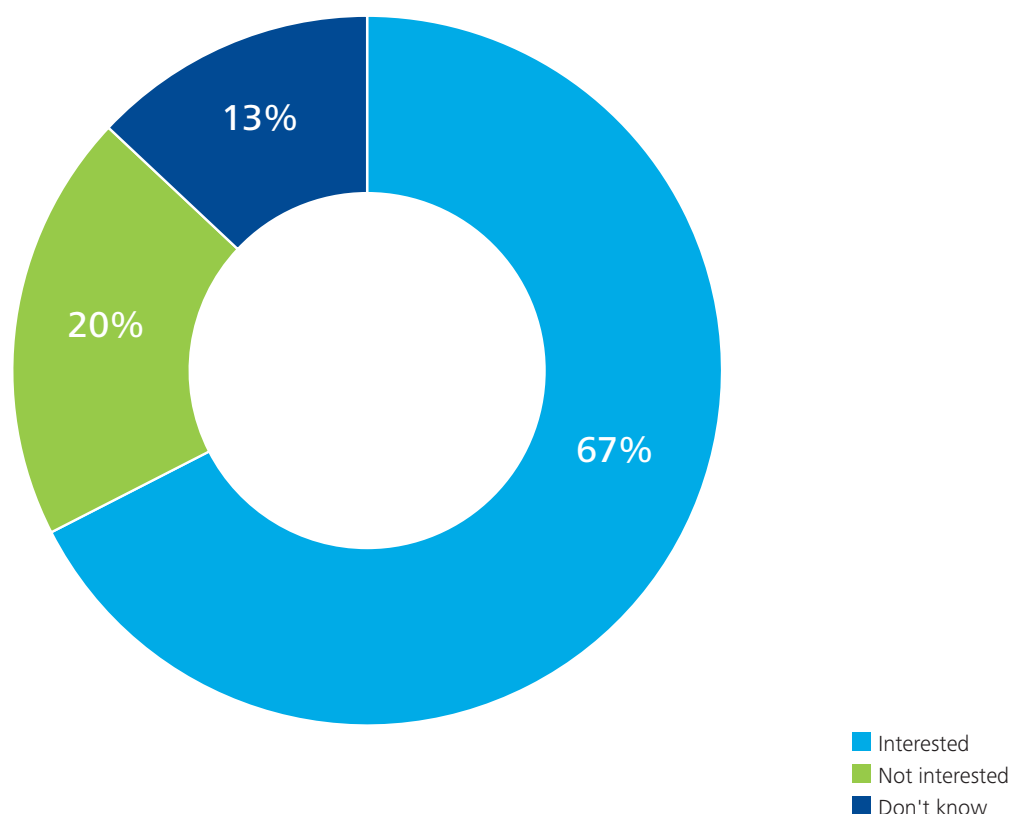


One third of respondents shocked by their phone bill at least once during last 12 months

There are no prizes for knowing that roaming services cost a tidy penny. Cellular providers have been struggling to improve subscriber notification systems so their clients are reminded in a timely manner when they enter a roaming zone with higher charges applicable.

The other dampener of client spirits is overrunning the minutes or data traffic covered by a service plan. Currently, almost two thirds of respondents are interested in a service that allows them to establish a maximum monthly spending limit for their mobile

Attitude towards service allowing to set up a maximum phone bill limit in Russia

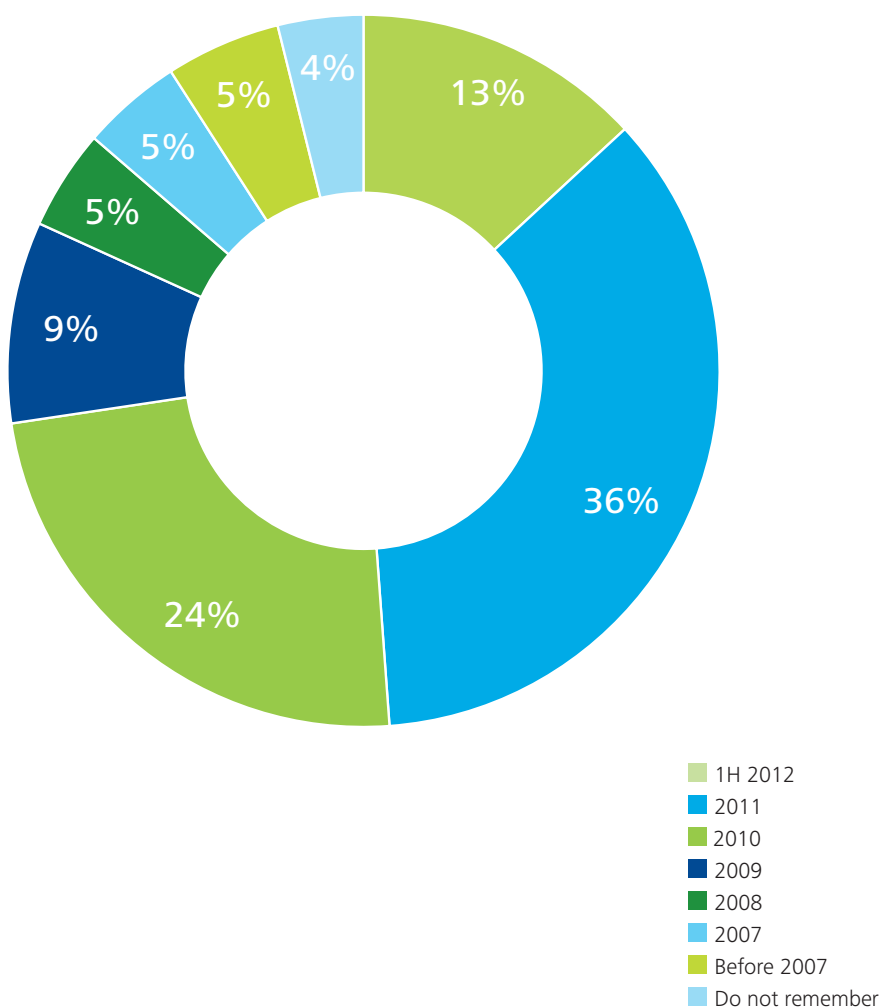


Average lifespan for mobile phones in Russia approximately 3 years

Similar to subscribers from the other countries in the sample, around 75% of respondents in Russia change their mobile phones once every three years. The lifespan matches J'Son & Partners 2011 statistics

for Russia showing mobile phone turnover to be once every 2.4 years ("Estimation of Telecommunication and Media Retail market in Russia and CIS", January 2011).

Russian subscribers purchased their last mobile phone in

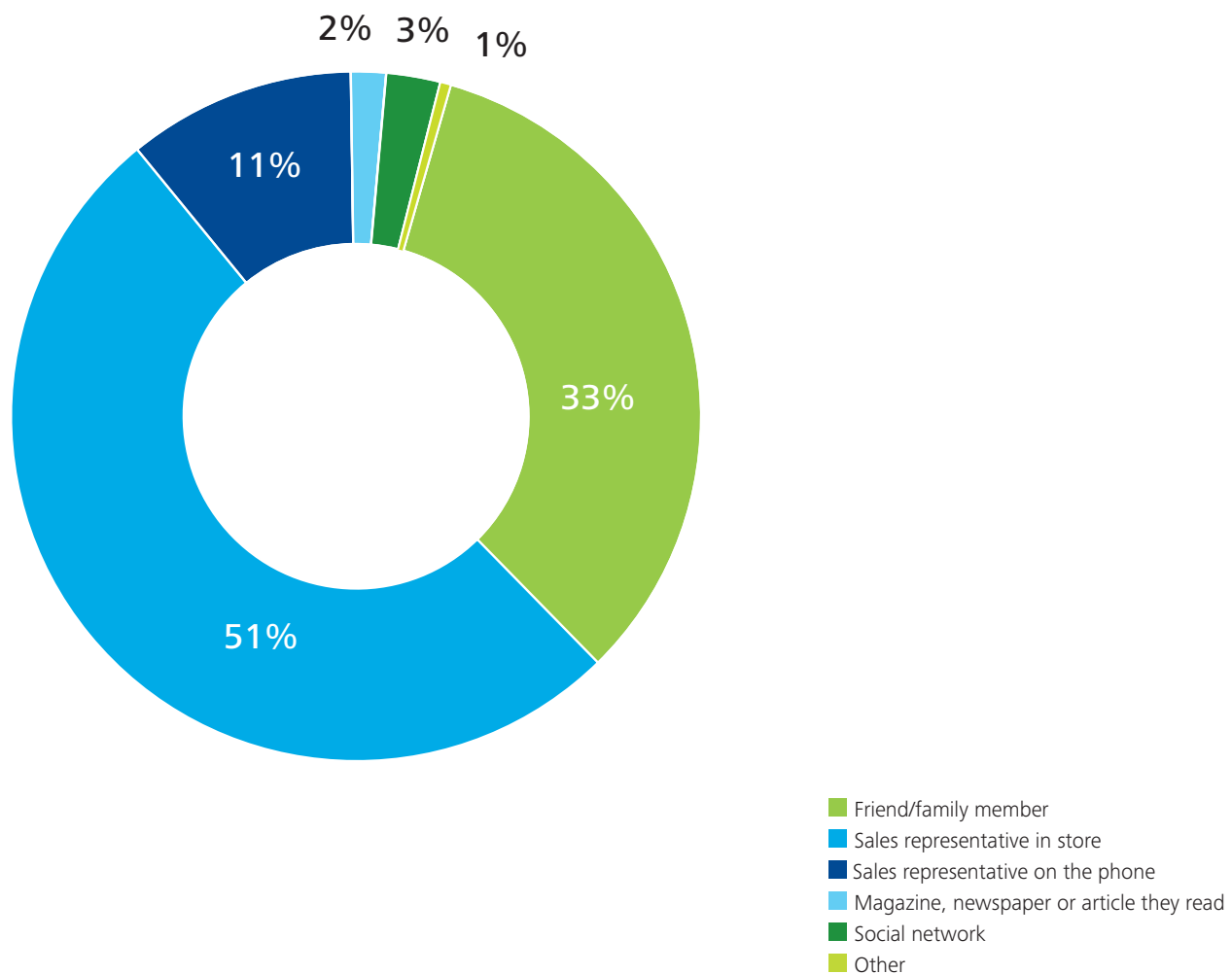


Only 10% of mobile handsets are purchased based on recommendation

Other countries in the sample show similar retail statistics while in terms of the influence of salespeople, Russia is among the leaders (51% of respondents are influenced by salespeople's advice). We believe this is because of the high share of off-line sales and an inherent customer psychology. A client

of Deloitte, a leading mobile phone retailer, considers personal contact with a salesperson still to be a critical factor in retail: in case a mobile device fails to meet the promised characteristics, it is easier for a customer to be able to give it back to a particular salesperson.

Russian users choose mobile phone based on recommendation from

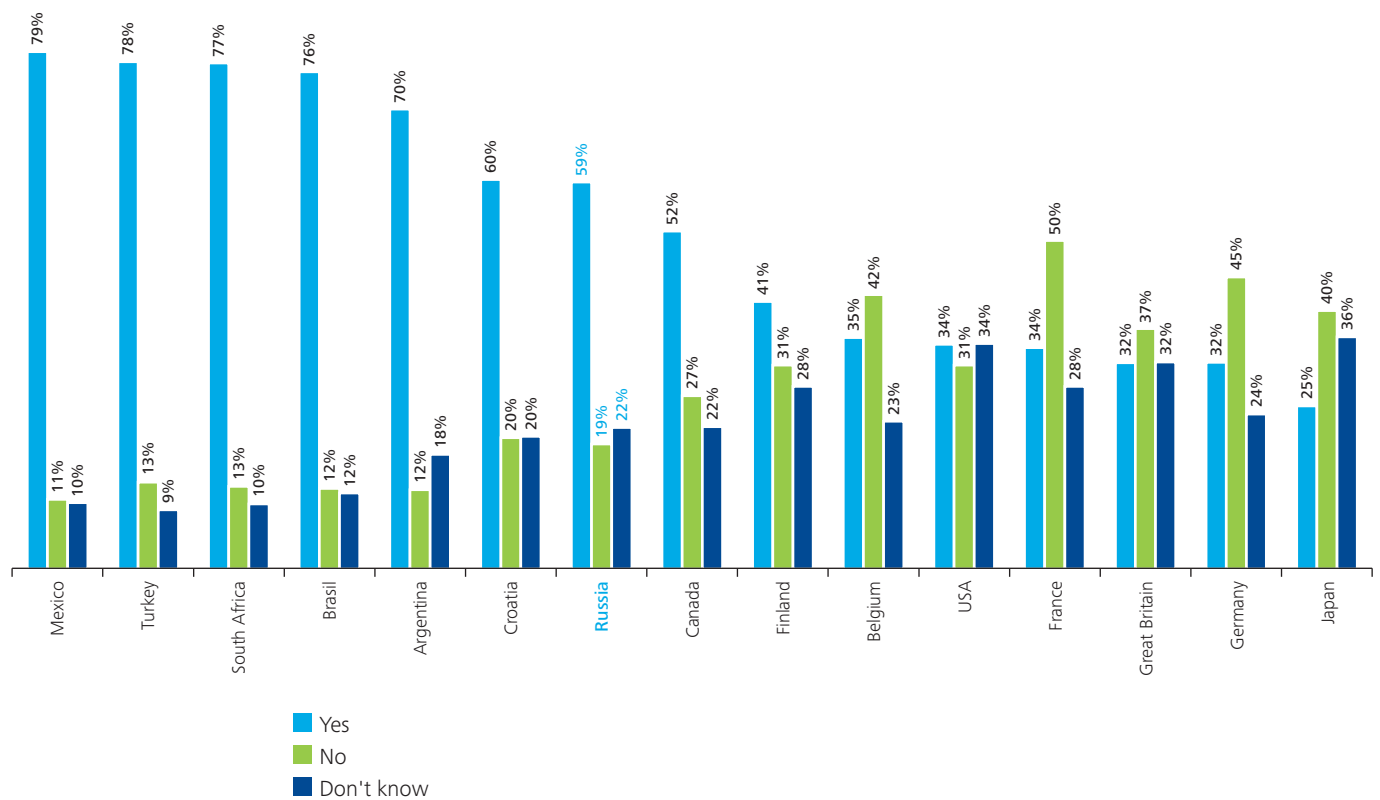


In terms of mobile VAS usage, Russia is similar to developing countries in the sample, while it leaves developed countries far behind

Developing countries are among the most active VAS users in the globe: their subscribers regularly spend on the available value-added services such as IMs, video calls and VoIP. Only 27% of Russian users think it is unreasonable to pay for VAS, while for the sample

developed countries, the average was 51%. We believe Russian subscribers' appetite for value-added services that have no impact on chargeable traffic creates a healthy environment for service providers to develop their own application ecosystems.

Ready to download apps if app downloads/updates were not included in monthly data allowance

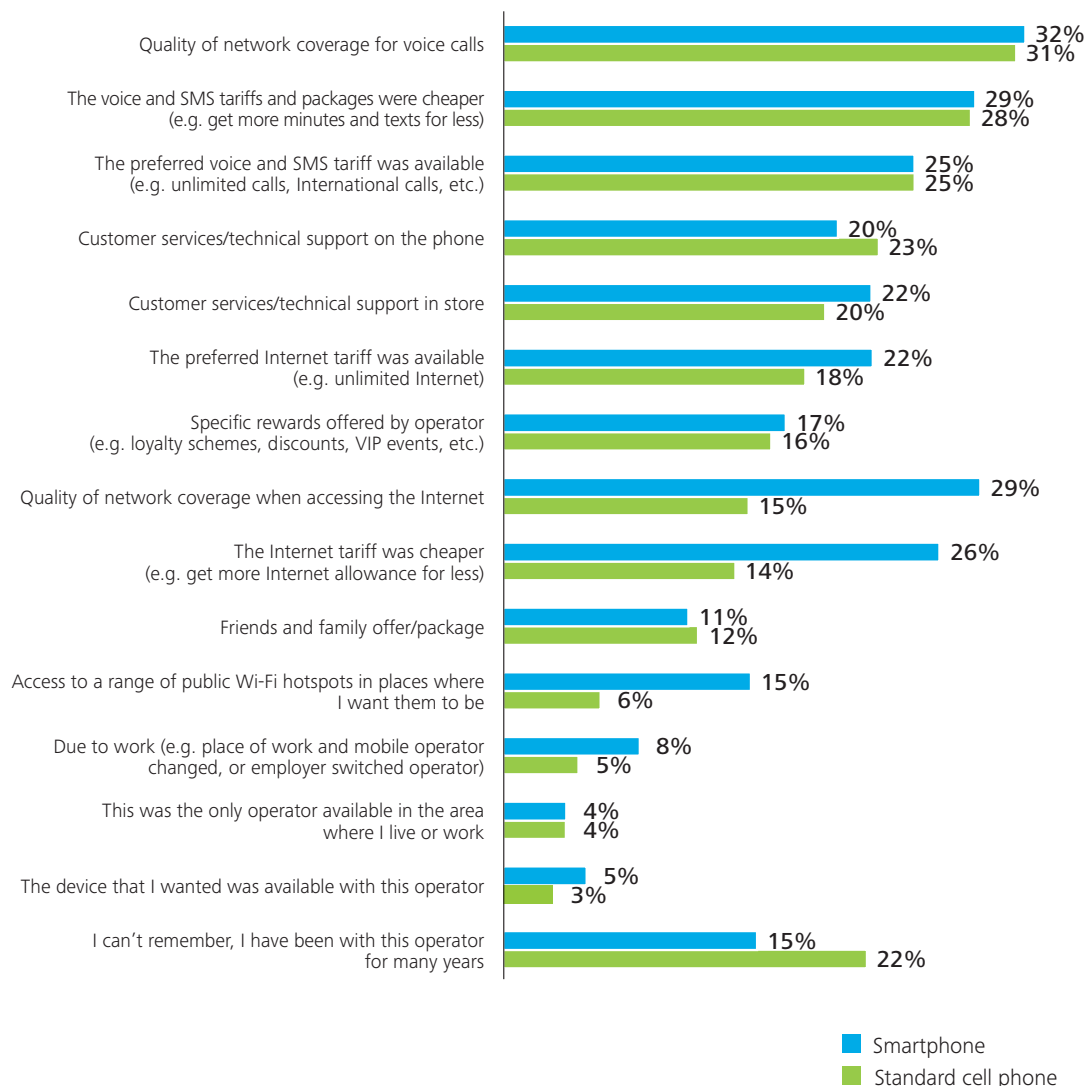


Similar to sample countries, only 28% of Russian subscribers changed carrier in last 3 years

Our survey results cast some light on the nature of the high churn rate that is a huge factor in the Russian market (40–63% across major mobile providers in 2011). On the one hand, the market is full of subscribers prone (for various reasons) to frequently switching service contracts (driven, until recently, by mobile phone retailers) which triggers an increased churn rate. On the other hand, there is still a chance of them not switching carriers when buying another service contract. We believe the optimisation of dealer contracts and a focus on loyalty programmes will make it possible to lower acquisition costs.

The survey results demonstrate that network pricing and quality of voice transmission are still crucial when traditional mobile phone users look for a new service provider. As the share of smartphones grows, we anticipate that similar factors will be critical for the data transmission segment (they are currently among the top three incentives).

Key reasons for choosing a carrier in Russia



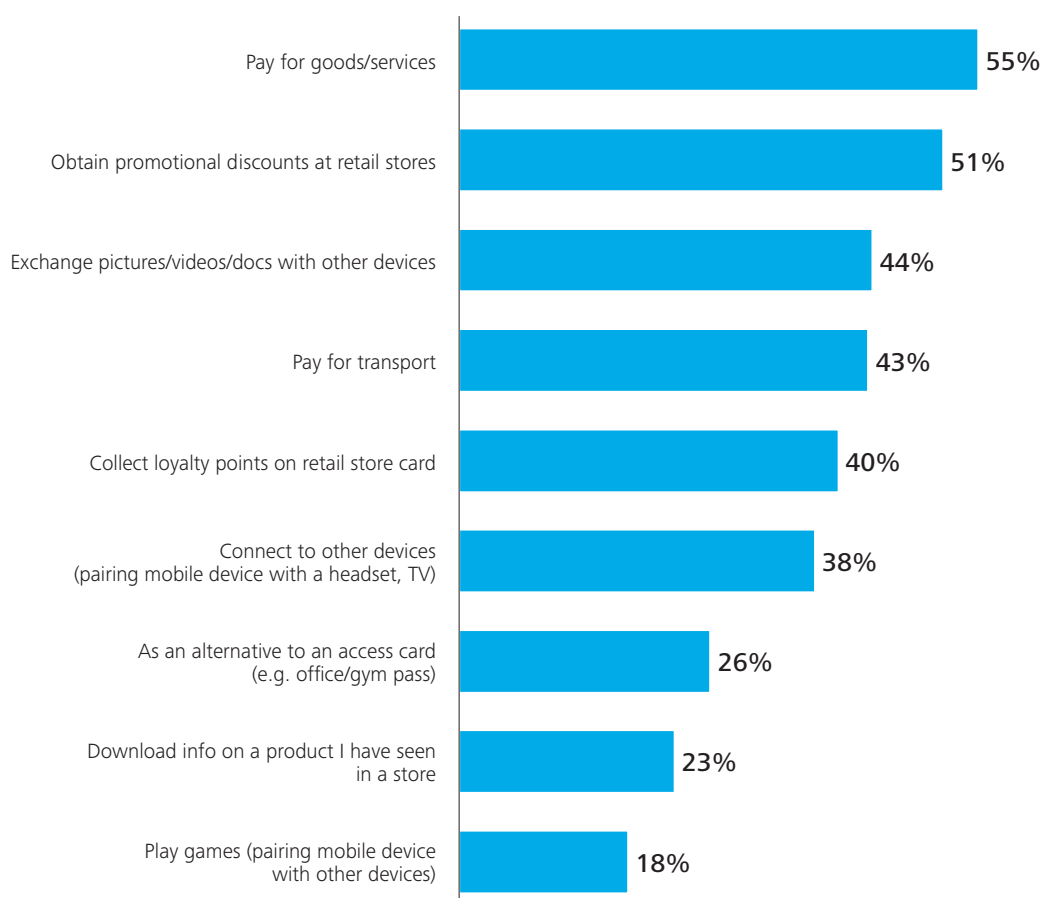
One third of Russian subscribers ready to use phones for payments

Our survey indicates that the Russian market is ready for m-commerce:

- 30% of subscribers are sure their next mobile phone will support NFC;
- Another 41% of subscribers would prefer to have an NFC-module in their next mobile phone;
- Over 50% of them are ready to use their mobile phones to pay for goods/services and to make the most of retailer loyalty programmes.

Across other developing countries, the balance in the market appears to be similar: their subscribers are twice as more inclined to use NFC than users in developed countries. The high levels of readiness for and acceptance of m-commerce can be explained to an extent by the penetration of alternative, non-cash payment instruments such as credit cards. So basically, Russian consumers can “skip” the credit card stage going straight to NFC payments.

Russian subscribers intend to use NFC-enabled devices to



Contacts

United Kingdom

Jolyon Barker

Global Technology, Media & Telecommunications
Industry Leader Deloitte Touche Tohmatsu Limited
+44 20 7007 18 18
jrbarker@deloitte.co.uk

Paul Lee

Director of Global Technology, Media &
Telecommunications Deloitte Research
+44 20 7303 0197
paullee@deloitte.co.uk

CIS and Russia

Olga Tabakova

Partner, CIS Technology, Media & Telecommunications
Industry Leader
Audit Department
+7 (495) 787 0663
otabakova@deloitte.ru

Anton Shulga

Partner, CIS Telecommunications Industry Leader
Financial Advisory Services Department
+7 (495) 580 9710
ashulga@deloitte.ru

Vladimir Kozyrev

Director
Audit Department
+7 (495) 787 06 00, ext. 3447
vkozyrev@deloitte.ru

Ksenia Chermenskaya

Senior Manager
Financial Advisory Services Department
+7 (495) 787 06 00, ext. 2008
kchermenskaya@deloitte.ru

Damir Khousainov

Senior Manager
Audit Department
+7 (495) 787 06 00, ext. 3185
dkhousainov@deloitte.ru

Our offices

Russia

Moscow

5 Lesnaya St.
Moscow, 125047
Russia
Tel.: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01

St. Petersburg

Business Center "Gustaf"
Lit. K, 36/40 Sredniy Prospect,
St. Petersburg, 199004
Russia
Tel.: +7 (812) 703 71 06
Fax: +7 (812) 703 71 07

Ufa

Business Center
"Aleksandrovskiy passage"
20 Karla Marksa St.
Ufa, 450077, Russia
Tel.: +7 (347) 226 72 92
Fax: +7 (347) 226 72 93

Yuzhno-Sakhalinsk

Business Center "Sfera"
78 Chekhova St.
Yuzhno-Sakhalinsk, 693000
Russia
Tel.: +7 (4242) 46 30 55
Fax: +7 (4242) 46 30 56

Azerbaijan

Baku

Business Center "Landmark III"
96 Nizami St., 8th floor
Baku, AZ1010
Azerbaijan
Tel.: +994 (12) 598 29 70
Fax: +994 (12) 598 29 75

Belarus

Minsk

51 Korolya St.
Minsk, 220004
Belarus
Tel.: +375 (17) 200 03 53
Fax: +375 (17) 200 04 14

Georgia

Tbilisi

36A Lado Asatiani St.
Tbilisi, 0105
Georgia
Tel.: +995 (32) 24 45 66
Fax: +995 (32) 24 45 69

Ukraine

Kyiv

Deloitte Business Center
48-50A Zhylyanska St.
Kyiv, 01033
Ukraine
Tel.: +38 (044) 490 90 00
Fax: +38 (495) 490 90 01

Kazakhstan

Aktau

Renaissance Aktau Hotel
9 Microdistrict, 1st Floor
Aktau, 130000
Republic of Kazakhstan
Tel.: +7 (7292) 30 06 84/88
Fax: +7 (7292) 30 06 82

Almaty

Almaty Financial District, Bldg. B
36 Al Farabi Ave.
Almaty, 050059
Republic of Kazakhstan
Tel.: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41

Astana

Business Center "ABS Center"
12 Samal Microdistrict
Offices 6-11, 11th Floor
Astana, 010000
Republic of Kazakhstan
Tel.: +7 (7172) 58 04 80/81;
58 03 90; 59 14 10/11
Fax: +7 (7172) 58 03 90

Atyrau

Renaissance Atyrau Hotel
15B Satpayeva St.
Atyrau, 060011
Republic of Kazakhstan
Tel.: +7 (7122) 58 62 40/42
Fax: +7 (7122) 58 62 41

Kyrgyzstan

Bishkek

40 Manas Ave.
Bishkek, 720001
Kyrgyz Republic
Tel.: +996 (312) 60 09 99
Fax: +996 (312) 60 09 90

Tajikistan

Dushanbe

110 Rudaki Ave., Apt. 10
Dushanbe, 734003
Republic of Tajikistan
Tel.: +992 (37) 224 40 52

Uzbekistan

Tashkent

Business Center "Inconel"
75 Mustakillik Ave.
Tashkent, 100000
Republic of Uzbekistan
Tel.: +998 (71) 120 44 45/46
Fax: +998 (71) 120 44 47

Turkmenistan

Ashgabat

54, Turkmenbashi Ave.
Ashgabat, 744017
Turkmenistan
Tel.: +993 (12) 45 83 19

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/ru/about for a detailed description of the legal structure of Deloitte CIS.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.