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Rostelecom Mulls $4Bln Mobile Investment

By The Moscow Times

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National operator Rostelecom could invest $3 billion to $4 billion to develop mobile networks in the next four years as the state-run company seeks a bigger share of the wireless Internet market.

"Mobile data services are growing at a very serious rate, and we plan to focus our main efforts in this segment in particular," chief executive Alexander Provotorov said in an interview. "Mobile voice services have stopped growing."

Rostelecom, which took over regional fixed-line companies last year, aims to gain 22 percent of the mobile wide-band Internet market by 2015, according to its website. The operator has less than 2 percent of the market now, while the country's three biggest mobile operators have 95 percent, according to Advanced Communications & Media. The market may more than double to 160 billion rubles ($5.4 billion) by 2015 from 75 billion rubles last year, Oksana Pankratova, a partner at the research company, said by phone.

Rostelecom plans to start developing LTE networks, for faster data transmission, in Russia's largest cities without waiting for a federal licensing round, as is MegaFon, one of the three biggest mobile operators. Rostelecom agreed last year to work with Scartel, which operates under the Yota brand and has the necessary frequencies.

Talks are in progress with MegaFon and its larger competitors Mobile TeleSystems and VimpelCom about collaborating on network development, Provotorov said.

"All the operators are keen to find ways to consolidate the huge expenses and are ready to share their infrastructure," Provotorov said. "It costs about $3 billion to $4 billion to develop a nationwide mobile network, while the figure would be far higher for a fixed-line network like Rostelecom's. The investment required would be unbelievable."

Rostelecom, which reported revenue of 276 billion rubles in 2010, has already started building 3G infrastructure in 27 regions, including Moscow, Yekaterinburg and Irkutsk, he said.

The operator is still seeking regulatory approval to list in London, which may happen in the first half of this year after consolidated results for 2011 are ready, Provotorov said. A listing may still be shelved, he said.

"The listing for us is not a goal in itself, but a way to give investors access to our shares and to achieve maximum liquidity," Provotorov said. A London listing may no longer be necessary if the merger of Russia's two biggest bourses MICEX and RTS, and the creation of a central depositary boost liquidity at home, he said.

Rostelecom is now focusing on setting up web cameras at more than 91,000 polling stations for the March 4 presidential election. Prime Minister Vladimir Putin ordered the move to fight fraud after nationwide protests against the results of the Dec. 4 parliamentary elections. So far 25,000 devices have been installed, according to the company's website.

The state-run operator was awarded the 13 billion ruble contract as there was no time to hold a tender before the presidential vote. The project may cost as much as 30 billion rubles and Rostelecom may be responsible for the difference, UralSib Financial Corp. said Jan. 16.

Part of the investment has already been planned into Rostelecom's investment program for the next several years and would have been carried out regardless of the government contract, Provotorov said.

"It's a great contract for the company," Provotorov said. "I don't know other telecoms contracts worth as much."

Last week, Rostelecom's Mobitel unit agreed to buy almost 3.9 percent of the Russian telecommunications operator's stock for 19 billion rubles ($630 million) as the company carries out a buyback.

Mobitel signed a forward agreement to buy 63.9 million ordinary shares from Renaissance Securities for 10.7 billion rubles, according to a Rostelecom regulatory filing. The unit signed a similar agreement to buy 49.7 million shares for 8.3 billion rubles from VTB Capital.

The stakes represent 3.9 percent of the company's ordinary shares at an average price of 167

rubles each, according to Bloomberg calculations.

Rostelecom's board approved a buyback of no more than $500 million at an Oct. 31 meeting. The company is purchasing the stock for strategic acquisitions or a secondary sale, according to the operator's website.

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