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Tele2 Pursues 4G Inclusion Against Odds

By Rachel Nielsen

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Sweden's Tele2 is committed to taking part in the Russian government's auction of wireless spectrum that will likely be the basis for a 4G network, though industry observers say Tele2's chances of winning frequencies are slim.

"Currently, the terms for the tender to allocate frequencies for LTE network construction are being prepared," Tele2 Russia's communications director, Alexander Bakhorin, said in an e-mailed statement. "Tele2 will take part in the tender."

The company told Interfax in December that it planned to bid for an LTE license. Interfax reported at the time that the terms of the LTE tender proposed by the 4G Consortium — a group composed of Russian telecom giants Mobile TeleSystems, VimpelCom, MegaFon and Rostelecom — will "practically guarantee" that those four win the bids.

Renaissance Capital analyst Ivan Kim said those telecom majors are in the best position

to come out on top in the LTE tender because of their heft. As for Tele2 Russia, "they aren't likely to win," he said.

The tender hasn't begun yet, even though telecom watchers expected it to take place in February.

Tele2 Russia has modestly increased its market share in St. Petersburg and the regions. According to figures from Dec. 31, the latest available from ACM-Consulting, Tele2 had a 17 percent market share in the northern capital, up from 16.1 percent a year earlier. Outside St. Petersburg and Moscow, its market share was 10 percent, up from 9.5 percent a year earlier.

"They are cheaper. That's why they are gaining market share," Kim said of Tele2 Russia.

Overall, the wireless provider has the fourth-largest number of mobile subscribers in Russia, with 20.6 million at the end of December. By comparison, Rostelecom had just 12.6 million, while MegaFon had more than 62 million and VimpelCom and MTS each had more than 100 million, ACM-Consulting said. There are close to 230 million valid SIM cards in Russia, according to ACM-Consulting.

Compared with the smaller wireless providers in Russia, such as SkyLink, Smarts Group and Motiv, Tele2 Russia is "likely to grow ahead of other players," Kim said. But its market share will never rival that of MTS, VimpelCom's Beeline or MegaFon, he predicted.

Tele2 Russia doesn't have a presence in Moscow because it doesn't have a license for the capital and for the Moscow region, Bakhorin said.

Tele2 also is at a disadvantage in the wireless data segment because it lacks 3G licensing that would give it faster transmission, Kim said. Tele2's wireless data rate is roughly 500 kilobytes per second, while a good figure is considered 4 megabytes per second — eight times faster.

Separately, Neocorp has sued a Tele2 subsidiary, Austrian-registered Tele2 Russia VOL Holding, in Moscow Arbitration Court for 2.73 billion rubles ($92 million), Vedomosti reported Monday.

Last year, Neocorp had filed a similar lawsuit against the same subsidiary, seeking arbitration through Stockholm's chamber of commerce, Vedomosti said. That suit sought to force Tele2 to fulfill an agreement to buy a mobile telecom holding for $38 million. Neocorp's owners include Russian industrialist Yevgeny Roitman.

Bakhorin said "none of the companies that are part of Tele2 Russia Group has or had any agreements with Neocorp."

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