The Moscow Times
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Rostelecom May Use Discount to Get Toehold in Moscow

By The Moscow Times

June 17, 2012



Rostelecom is putting itself on a collision course with Russia's big three mobile operators. **Dmitry Abramov**

Rostelecom may enter the lucrative Moscow mobile market with discounts of up to 20 percent, likely starting a price war that will hit the three big established operators' profit margins.

The former long-distance monopoly, transformed last year into a multiservice provider by merging with seven regional operators, wants to boost its share of mobile, broadband and pay-TV markets to offset a fall in its core fixed-line business.

Management told an analysts' briefing last week that it planned to take up to 10 percent of the Moscow mobile market by 2015 and launch a 3G mobile network there by early next year.

That means challenging the Big Three telecom operators — MTS, MegaFon and VimpelCom

— in a market that, by some estimates, accounted for up to a third of their combined Russian mobile revenues last year.

Analysts cited management as saying that Rostelecom could offer a 20 percent discount to win Moscow subscribers.

"It will be negative for the market, since other operators will likely have to take countermeasures to retain subscribers, which will reduce profitability," Otkritie analyst Alexander Vengranovich said.

"There have always been fears that Rostelecom would enter new markets as a discounter. But in the case of Moscow, where it has to invest heavily in network rollout and marketing, Rostelecom will itself suffer most," he said.

Cell-phone-number portability, being considered by the telecom regulatory agency, would support Rostelecom's plan, analysts said.

Rostelecom chief executive Alexander Provotorov refused to comment on pricing. He said the company would offer cellular service packaged with cable TV, fixed broadband and intrazone telephony in markets where it has a stronger position.

"By combining these products, we are planning to compete with existing operators," Provotorov said at a news conference following the company's annual meeting.

Rostelecom, along with the other top three operators, is expected to be awarded a 4G license at an ongoing tender.

That would help it secure future cash flows from mobile broadband because growth in voice revenues is limited by high mobile penetration.

Analysts said many questions in Rostelecom's mobile strategy remain.

"It is a question of whether [competitors' losses] will be quality subscribers or users who often switch operators," said Anna Lepetukhina of Troika Dialog. "If Rostelecom wins over those disloyal users, that doesn't still mean that other operators will necessarily respond with price cuts — unless [Rostelecom] poses a serious threat and wins over quality subscribers."

Rating agency Fitch, which last month rated Rostelecom BBB- with a stable outlook, said that the company is only a niche player in the mobile market and that its plans entail "significant execution risks."

"Organic development is likely to be costly and does not necessarily ensure a desired market share," Fitch said.

Rostelecom also aims to grow its share of Russia's broadband market from just under 40 percent to 50 percent by 2015.

It has also set targets of acquiring 30 percent of the cable-TV market and 22 percent of the wireless broadband market in subscriber terms, up from 25 percent and 9 percent respectively.

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