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MegaFon Said to Weigh Tele2 Buy-Up Plan

By Rachel Nielsen

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Garsdale, the parent company of mobile operator MegaFon, has made a proposal to VimpelCom and Mobile TeleSystems under which Garsdale would buy up Tele2 Russia and then split the company's assets among MegaFon, VimpelCom and MTS, Vedomosti reported Thursday.

Garsdale made its overtures to the other two members of the big three Russian mobile operators before the New Year's holidays, the newspaper reported, citing undisclosed sources close to Garsdale and Tele2, the Swedish telecom giant and owner of Tele2 Russia.

VimpelCom has given its tentative agreement to such a plan, while MTS is reluctant to purchase Tele2's assets with MegaFon as a middleman, other sources said.

Garsdale denied that any negotiations had occurred. "Garsdale has not and is not holding any talks with any of the aforementioned parties on buying the Russian business of mobile

operator Tele2," Garsdale said in a statement, Interfax reported Thursday.

Spokespeople for Tele2 Russia, MTS and Vimpelcom all declined to comment on the supposed deal. A MegaFon spokeswoman could not be reached.

Last month MegaFon had openly discussed its interest in snapping up the assets of Tele2 Russia, which analysts have valued at $3.5 billion to $4 billion.

In an interview with Bloomberg, MegaFon board of directors member Vladimir Streshinsky had said the mobile giant was interested in buying Tele2 Russia assets, but such an acquisition should be made jointly with other mobile operators.

"Tele2 positions itself as a discounter, and fully combining it with MegaFon could potentially destroy this competitive advantage without adding customers for MegaFon," Streshinsky said.

Tele2's Russian subscriber base of 22 million compares with about 71 million for MTS, 56 million for VimpelCom and about 63 million for MegaFon, according to industry tracker AC&M. Rostelecom, the state-owned fixed-line company, is in fifth place with about 14 million.

Sell-off rumors have been swirling since Tele2 failed to receive any of the four blocs of 4G spectrum that the government awarded this summer. Those blocs instead went to the big three and Rostelecom.

Without the 4G license in Russia and the next-generation content services it enables, Tele2's growth prospects have dimmed, leading to speculation that the Swedish firm would part with its Russian assets.

A sale is a reasonable option for Tele2 given the importance of 4G services to revenue growth, said Ksenia Arutyunova, an analyst with Rye, Man & Gor Securities. Also, "it is difficult for Tele2 to run its Russian assets effectively given the stiff competition in the telecom market," she said.

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