The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

New Rostelecom Management Plans Assault on Mobile Market

By Guennadi Moukine

August 14, 2013



Rostelecom plans to form a separate management arm for its mobile business, aggressively expand its share of the 3G market and get one up on its rivals by rolling out a 4G LTE network on the basis of its 450 MHz wireless infrastructure, already available in 73 Russian regions.

Together, this is a strategic change of direction for the state-owned telecom giant, experts said Wednesday, brought about by Rostelecom's new management.

Despite 3 percent growth in its subscriber base last year, the company's turnover from its mobile business suffered a 5 percent decline in the first quarter of 2013. Better management would do much to increase profitability, Timur Nigmatullin, an analyst from Investcafe, said Wednesday.

"It appears that the previous management was not interested in developing the mobile business. The company had frequency licenses but didn't use them. The company's new

strategy includes development of the new generation networks," iKS-Consulting mobile analyst Maxim Savvatin, said.

The news coincided with an announcement from the international mobile standards consortium, 3GPP, that the 450 MHz spectrum, currently used by Rostelecom's 100-percent subsidiary Sky Link to supply wireless internet, is a suitable base for 4G LTE, catapulting Rostelecom into an advantageous position in that new market.

The 450 MHz spectrum, however, is yet to be approved by the Communications and Press Ministry's as a basis for 4G LTE. Rostelecom said it has already tested the technology and was ready to start lobbying the regulator.

Despite its promising future, demand for 4G LTE remains low. Only a small number of people have compatible gadgets, meaning that it will be some time before the full return on any investment can be realized, Nigmatullin said.

Because of this, the short term part of Rostelecom's strategy is to focus on 3G networks. The company still has time to complete for 3G customer against other operators, said Denis Kuskov, head of the Information Analysis Agency TelecomDaily.

According to a mobile market survey conducted by Deloitte, smartphone penetration in Russia was 29 percent at the end of last year, compared with 41 percent in Germany and 52 percent in Britain.

Earlier this year, Rostelecom President Sergei Kalugin said the goal was to eventually capture 10 percent of Moscow's mobile market. The company's current share is 0.6 percent, while the bulk of the market is split between MTS, with 38 percent, VimpelCom, which has 35 percent, and MegaFon coming in third with 27 percent, Interfax reported.

"Rostelecom is positioning itself as a discount mobile service provider, similar to Tele2 Russia. Because of that, going ahead with 3G is more in line with the company's strategy," Nigmatullin said.

If the approach is successful, the company may look into possible mergers or acquisitions with other providers in order to increase the value of the company prior to the expected privatization of the government's stake in 2014. In such a scenario, the main target would be Tele2 Russia, Nigmatullin said.

Savvatin agreed: "It would be a logical development. Tele2 has a strong position in many regions. Together they would be able to complete against the big three," he said.

Contact the author at g.moukine@imedia.ru

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