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◆ Changes On The Western Front

Since the beginning of the year, TransTeleCom Company (TTK), one of Russia's largest telcos, has increased technical coverage of its broadband network in the most western region of the country – the Kaliningrad by 10%. As of the end of April 2014, technical coverage of local broadband network spanned 67,000 households in 910 apartment blocks.

The highest penetration of Internet access services from TTK in the region (more than 50%) was registered in Baltiysk. In Kaliningrad (formerly called Königsberg in Prussia) penetration of broadband service in technical network coverage reached 20%.

“We plan to connect another 190 apartment blocks in Moskovsky and Leningradsky districts of Kaliningrad in the near future”, commented Gennady Schukin, director general of TTK-Kaliningrad. ◆

◆ Broadband Speeds Quadrupled

Average speed of broadband connections in Russia has more than quadrupled over the past 2 years, while the price for such services has reduced in the same measure, reported mobile retailer Svyaznoy. According to their calculations, in the first quarter 2014, average speed of broadband Internet was 45 Mbps, compared with 31 Mbps and 11 Mbps one and two years earlier, respectively. These figures were identified through the analysis of several dozen thousands of contracts sold through Svyaznoy's retail outlets and its online store, explained Maria Zaikina, a spokesperson for the company. She asserted that over the past 2 years, average speed of broadband has

more than quadrupled, and also mentioned that the retailer markets services from about 50 providers.

The retailer has also calculated average prices for broadband. 1 Mbps cost \$2.7 per month in the 1st quarter 2012, \$0.86 – in the 1st quarter 2013, while today it costs subscribers only \$0.67, which means that over 2 years, cost of broadband connection has shrunk to a quarter. Svyaznoy attributes the price cut to increasing competition among service providers. A few years ago, such companies were few, if not one in some regions, but today customers everywhere have a wide choice. ◆

❖ **Space Saboteurs**

An inter-body governmental commission investigating the recent crash of Proton-M rocket, which was supposed to carry Express-AM4R satellite to the orbit, considers the failure of a bearing unit in the turbine pump assembly as the most likely version of the accident, communicated head of the commission Alexander Danilyuk, first deputy CEO of TSNIIMASH. “The sabotage version has not been ruled out”, he added.

The inter-body commission comprises 24 experts from the Federal Space Agency (Roscosmos), Ministry of Defence, the United Rocket and Space Corporation, Keldysh Research Center, Technomash, TSNII for Aerospace Forces, and other organizations. Preliminary analysis ruled out all but 4 versions of the failure, related to the malfunctioning of the steering engine in the third stage, including “destruc-

tion of the turbo-pump bearing fastener; depressurization of the fuel supply line; a failure of the fuel flow regulator due to fuel contamination and a clogged fuel filter”, says a statement released by Roscosmos. All the versions are being analyzed, but investigators are inclined to believe a third stage engine glitch was at fault.

The investigation has found “no violations” at the Voronezh-based Khimavtomatika Design Bureau, which manufactures third stage engines for Proton space rockets, and at the Khrunichev State Space Research and Production Center.

According to the press service of Russian Satellite Communications Company, which commissioned Express-AM4R, the lost satellite cost about 150m Euro (7.135bn rub.), and combined value of the satellite and Proton-M booster was about 203m Euro. ❖

❖ **LTE Roaming For Fans**

Russia’s largest mobile operator MTS has launched LTE roaming in Brazil. The company’s subscribers will be able to use high-speed data services in the local Claro LTE network already during the FIFA World Cup, which will take place in Brazil from June 12 to July 13.

The roaming between MTS and Claro networks will be FDD-based (Frequency Division Duplex). This modification of LTE technology is employed in all Russian networks of MTS, although in Moscow the company also operates a TDD-based network (Time Division Duplex).

MTS launched its first Russian LTE network in Moscow in 2012. It currently operates LTE networks in 28 regions of Russia. The company

plans to take this number up to 74 regions by the end of 2014, and the plans for 2015 envisage LTE roll-outs in all remaining regions of the country.

MTS started to provide international LTE roaming services in November 2013. Apart from Brazil, the company’s clients can use 4G/LTE networks in 10 other countries, including the UK, Canada, Switzerland, Norway, South Korea, the Saudi Arabia, the U.S.A., France, Hong Kong and the Netherlands. ❖

◆ **Mobile Frequency Auctions**

Russian Government approved new rules of mobile frequency allocation. The decree signed by Prime Minister Dmitry Medvedev was published on May 24th. It says that in regions where the number of potential service providers is limited by the available spectrum resource, licenses will be allocated through an auction. According to an explanatory note issued with the government's decree, such method of frequency allocation will fuel investment appeal of telecommunications industry, along with ensuring transparency of the bidding process.

Since 1990s, frequency resource for mobile communications was allocated either without a tender, or through a tender, the conditions of which were nearly always dissatisfying to industry players. Thus, regionals carriers, including Tele2 Russia, back then owned by Swe-

den's Tele2, slammed the tender for 4G frequencies held in the summer 2012, which distributed the available resource between MTS, MegaFon, VimpelCom and Rostelecom.

The Big Three operators note that their expenditure on spectrum resource will increase manifold, because the highest bidder will win. "This expenditure could be justified, if the Government actually put up for tender any free bands. But in reality, frequencies allocated to develop LTE in Russia are often occupied by the military and aeronavigation, and they need to be cleared, which would cost operators hundreds of millions of dollars", said a source in one of mobile companies.

The nearest LTE auction will allocate the 2570-2620 MHz band. The State Commission for Radio Frequencies (SCRF) instructed Roskomnadzor to hold bidding by or before the second quarter 2014. ◆

◆ **Wi-Fi In Train Stations**

9 railway stations in Moscow, along with 69 stations in other cities of Russia will launch pay Wi-Fi services with a peak speed of 10 Mbps, communicated head of telecom sector at Railway Stations Directorate Dmitry Pisarenko. As before, visitors will also be able to use free Wi-Fi services with a time and speed limit, which is enough to check your e-mail, but not download audio- or video files.

Paid access to the Internet will cost \$1.5 for 1 hour, \$2.5 for 2 hours, \$3.75 for 3 hours, and \$9.8 for 8 hours. To activate the service, users will

have to send a text message to the number 3116. The provider of Wi-Fi services is Vokzal-Infocom.

Leading analyst of Mobile Research Group Eldar Murtazin said that prices for Internet access in the train station were "reasonable", keeping in mind the investment poured into the required infrastructure. According to the expert, equipment of one railway station alone, Lenigradsky or Yaroslavsky, for instance, may cost \$100-250 thousand. Network operation will cost another \$29 thousand per month, and additional services will consume even more money. ◆

◇ **LTE Dreams Coming True**

At the beginning of the 2nd quarter 2014 Russia had about 2 million 4G (LTE) subscribers, says a study released by J'son & Partners Consulting. LTE networks in Russia have been evolving in accordance with an optimistic forecast from two years ago, explains head of Wireless department of J'son & Partners Consulting Vitaly Solonin. He expects that LTE subscriber base will hit 3 million this year, and by 2018 it will reach 20 million. In regions, where LTE networks have been deployed more than a year ago, annual traffic and operators' earnings from data services are nearly half as much compared to other regions. Over a year, traffic increased 61% and operators' earnings' were up by 31% on average in regions with active LTE networks, compared with 47% and

20% in regions which don't have LTE yet. J'son & Partners also quoted MegaFon's report stating that over the year from April 1, 2013 till March 31, 2014 LTE traffic in the operator's network was up 4.5 times, and its share in total traffic has reached 39%. However, it's early to say that LTE has changed operators' profit pattern, keeping in mind the amount of investment which has already been poured into network roll-outs and which remains to be spent. Russia's largest mobile service provider MTS doesn't expect LTE to make a notable contribution into their earnings until 5 years from now, when penetration of LTE devices among users of mobile Internet is projected to reach 48%. ◇

◇ **Crimean Frequencies Allocated To The Unknown**

In the end of May, the State Commission for Radio Frequencies allocated spectrum in Crimea, formerly controlled by the Ukrainian subsidiary of MTS, to the fameless company K-Telecom. MTS has a subsidiary with the same name.

The spectrum in question is 900 and 1800 MHz GSM frequency, which is basically already used by MTS in Crimea, and frequencies for 3G.

SPARK-Interfax database of legal entities lists four K-Telecom companies, three of them registered in Sverdlovsk region and one in Moscow. The latter was incorporated on May 15th, and is a 100%

subsidiary of MTS. MTS' K-Telecom Ltd didn't get any frequency allocations from SCRF, said a spokesperson for the operator Elena Kokhanovskaya and declined to discuss spectrum allocations in Crimea. An executive of a telecom carrier, operating in Crimea, has heard that K-Telecom, which was awarded frequencies, was registered in Krasnodar territory on May 23rd, but such company couldn't be found in SPARK-Interfax. MTS-Ukraine, the Ukrainian branch of MTS, is acting under the licenses issued by the Ukrainian authorities. The transitional period, when both Ukrainian, and Russian laws will be effective in Crimea, will last until Jan. 1st, 2015. ◇

RDIF Will Pay For Pan-Russian Broadband

Russian Direct Investment Fund (RDIF) and its partners among international investors will participate financially in the project aimed to roll out high-speed Internet access in sparsely populated areas, says a statement released by the organization. The resources of the fund will be channeled to Rostelecom, appointed the sole provider for this project by the Russian Government. RDIF will set up a special purpose entity, invest into its stock capital, and will also borrow on arm's length basis from the National Wealth Fund (NWF). The amount of RDIF's investment into the project was not disclosed. The Fund wouldn't also disclose the pay-back period for Rostelecom, but as a rule, RDIF provides funds for 5-7 years, or up to 10 years for large infrastructure projects.

On May 13th, Rossvyaz and Rostelecom signed a 10-year government agreement on the terms of the Universal Service

Obligations. Pursuant to this agreement, Rostelecom shall provide data services with the speed of at least 10 Mbps in 13.6 thousand communities with population of 250-500 people. This would require new construction of about 200,000km fiber optic channels. Total amount of investments in the project may reach \$2bn. The money will be sourced from the national Universal Service Fund, which is managed by Rossvyaz. According to the plan, the financing will be channeled to Rostelecom in equal amounts in the course of 10 years, but in order to commence works under the project, large investment is needed here and now, while the whole project period is limited to 5 years.

Russian Direct Investment Fund (RDIF) was established in 2011. Its management company is located in Moscow, it is a 100% subsidiary of Vnesheconombank (VEB).

4G Lags Behind xDSL

Mobile operators won't be able to provide 4G speeds on par with xDSL networks until they complete conversion of the 800 MHz band 2-3 years from now, said Sergey Galtsev, Head of Network Infrastructure Development Coordination Department of Mobile TeleSystems (MTS) at the 6th International Business Forum LTE Russia & CIS 2014, organized by ComNews Conferences.

According to President of the Association of Regional Telecom Operators Yury Dombrovsky, reclaiming the 800 MHz frequency band for civil purposes is an essential prerequisite for LTE services to be brought to sparsely populated communities. "Further postponement of conversion obstructs liquidation of digital inequality", he assured the audience of the forum.

❖ **ER-Telecom Head To Crimea**

ER-Telecom, the second Russian Internet provider in terms of subscribers, was awarded licenses, which give it access to Crimea and the city of Sevastopol. The company's competitors are also preparing to enter the new market.

May 15, Roskomnadzor issued 6 licenses to ER-Telecom for cable broadcasting, local landline services, provision of communication channels, and other services. ER-Telecom needed licenses to provide services to federal corporate customers in Crimea, commented a spokesperson for the company, while specifying that the ER-Telecom has no plans for the B2C market in Crimea and Sevastopol. Neither do they plan to roll out an own network in Crimea, nor extend their existing backbone channel, added the CEO of ER-Telecom Holding Andrey Semerikov. He wouldn't reveal the amount of investment the company could pour into Crimea and who are the corporate customers

in question. According to Semerikov, ER-Telecom may use the networks owned by operators who are already working in the peninsula.

As reported by Telecomdaily, in the end of the 1st quarter 2014. ER-Telecom was placed 2nd, behind Rostelecom, in the top 5 Russian broadband Internet operators in Russia, with 2.76 million subscribers. In the pay TV segment, it ranked 4th with 2.6 million subscribers. ER-Telecom reported that its revenue from corporate subscribers in 2013 was \$72m, 12% of total revenue. The operator catered to about 70,000 companies and organization.

Roskomnadzor's registry contains 5,635 licenses which allow Russian operators to work in Sevastopol and Crimea. Most of them were issued before annexation of the peninsula to Russia in March 2014, and authorize activities all over the country. ❖

❖ **Fourth Operator For 4G**

Fourth federal mobile operator – a joint venture of Rostelecom and Tele2 may start providing services in Moscow this year already. The new MVNO (Mobile Virtual Network Operator) will work in Moscow and 3 other large Russian cities – Astrakhan, Samara and Ufa. Tele2 and Rostelecom don't have any frequencies within the 900 and 1800 MHz ranges in these regions, which would allow them to provide basic mobile voice services in the GSM standard. The joint venture holds 3G and 4G frequencies in these regions, but 3G networks often don't

provide full coverage of regions and towns, and 4G at this point is only used for data, but not voice services.

Market insiders unveiled that Tele2 (the brand used by T2 RTC holding) has made the largest progress in its negotiations with MegaFon. Earlier, the plan was that the joint venture won't start working in Moscow until 2015. But if the parties strike hands, the deal may become effective immediately following the completion of the first stage of the transaction for consolidation of mobile assets of Rostelecom and Tele2. ❖

About Us

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