



Russian Satellite
Communications Company

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❖ Russian TV Broadcasting Will Be Restored

Russian Ministry of Communications and Mass Media and the Federal Agency of Communications (Rossvyaz) supported by Russian Satellite Communications Company (RSCC) and Russian Television and Radio Broadcasting Network (RTRB) approved a plan to restore federal broadcasting following the emergency with Express MD-1 satellite.

Express MD-1 failed on July 4th. Among other things, the space craft's resources were destined to provide broadcasting services for Channel 1, Rossiya 1, Kultura, and Channel 5 through the RTRB network in the European Russia.

In the last few days, guided by the Ministry of Communications and Mass Media and the Federal Agency of Communications (Rossvyaz), specialists from RSCC and RTRB tested various schemes to restore broadcasting using space crafts Express-AM33/-AM44 and Yamal-202 controlled by Gazprom Space Systems. Based on the tests' results, a decision was made to restore broadcasting of must-carry federal TV and radio channels in M and G zones by means

of the Russian satellite Yamal-202 and ground facilities of RSCC, which will deliver TV signal to the satellite. Besides, one of the doubles of the first DTT multiplex will be switched over to Express-AM44 satellite.

The RSCC commissioned urgent replenishment of state satellite constellation for communication and commercial broadcasting purposes. Three launches scheduled until the end of 2013 are supposed to take four new satellites to the orbit: Express-AM5/-AM6/-AT1/-AT2.

The plan for 2014 foresees three more newcomers to the orbit: Express-AM4R/-AM7/-AM8.

However, the Federal Space Agency may have these plans revised due to the recent crash of Proton rocket. Exact launch dates for the year 2013 will be specified after the end of the investigation into the causes of the crash made by national Space Agency commission and the Government commission headed by Deputy Prime Minister Dmitry Rogozin. ❖

❖ Russia's Big Four Will Set up 7,000 LTE Base Stations

Russia's four largest operators (Rostelecom and mobile Big Three (MTS, MegaFon and VimpelCom) don't seem to be pushing along the rollout of LTE networks, but it's not like they are deliberately putting it off either. Within a year, the Big Four are supposed to install 7,000 base stations of the new standard. From the beginning of this year, Rostelecom and were granted a permit by the General Radio Frequency Center (GRFC)

and the Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications (Roskomnadzor) to build more than 7,000 LTE base stations working in two bands: lower (761-862 MHz) and high band (2.5-2.7 GHz). So far, not all of the 7,000 have been rolled out, but the mission is to be completed until the end of the year, operators assure, since permits are only valid for 12 months. ❖

❖ **Stationary Broadband Market Is Losing Momentum**

Russian market of stationary broadband Internet services was growing at a very slow pace in the first half-year 2013 compared with last year – only 10.8 percent.

According to preliminary estimates of iKS-Consulting, as of late June 2013, Russia had 26.32 households connected to stationary broadband access (BBA) networks, or 48 percent of total subscribers. Since June 2012, the number of subscribers to stationary BBA services grew by 10.8 percent – it's the smallest gain in subscriber

numbers over the entire period that iKS-Consulting has been monitoring market dynamics, says company partner Konstantin Ankilov. A year ago, the gain against the prior period was 17.5 percent, and two years ago it amounted to 22 percent. As the market becomes saturated, such anti-records will follow one quarter after another, Ankilov has no doubt about it. He forecasts that the number of BBA subscribers will be up by 7.5 percent in 2013 and by 5 percent in 2014. ❖

❖ **ER-Telecom to Acquire Akado**

ER-Telecom operator has filed an application to the Federal Antimonopoly Service (FAS) to acquire Moscow-based provider of broadband services and digital TV Akado, communicated sources in the antimonopoly authority. Prime agency learned that it would take the authority about a month to review the application filed last week, but it is still unknown what share of Akado ER-Telecom is willing to claim.

Previously, a source close to the deal disclosed that ER-Telecom claimed 100 percent of Akado, and that the parties would negotiate the value of the deal later on.

According to AC&M Consulting, at the end of 2012, ER-Telecom ranked second among Russian BBA operators next to Rostelecom with 11.2 percent market share, i.e. 2.45 million subscribers. Akado holds the 6th place in the Russian market with 3.5 percent or 771,250 subscribers, but in the higher-margin Moscow market it ranks 3rd (20 percent, or 710.500 subscribers).

This week, TransTeleCom (TTK) also manifested interest in Akado. TTK president Artyom Kudryavtsev said that though this would be a non-core asset for TTK, the company is still interested and is building up for M&A.

Victor Vekselberg's holding Renova Media (a shareholder of Akado) has already tried to sell the asset first to Svyazinvest for \$1.2 billion in 2010, and sometime later, also MegaFon was listed among potential acquirers, as the mobile operator was planning to expand into the Moscow market of broadband Internet, but MegaFon management deemed it overpriced.

Akado is currently valued at \$830 million, even taking into account the company's debts, senior analyst of BKS Anna Kurbatova calculated. Senior analyst of Metropol IFC Evgeny Golosnov has a more conservative estimate – \$702-742 million including a \$390 million debt; which leaves the share capital of Akado at about \$312-352 million. ❖

❖ Proton Satellites Prohibited for GLONASS

The two upcoming navigation satellite launches will utilize Soyuz-2.1b passenger rockets. Deputy Prime Minister Dmitry Rogozin banned all launches of Proton-M until the end of the investigation into the causes of the crash at Baikonur space base on July 2nd. The investigation may last until the end of the year, which also happens to be the deadline for presentation of space industry development plan to President Putin.

Rogozin remarked that although GLONASS constellation is running fine and smooth, new satellite vehicles are set to be added in the upcoming months.

Russian Federal Space Agency (Roscosmos) revealed they are going to launch two booster rockets early September and end of October carrying two GLONASS satellites to the orbit. ❖

❖ Regulator Wants to Call Frequency Plan off

Russian Ministry of Communications and Mass Media proposed to call off the Plan for allocation of radio frequency bands – part of the development program on advanced radio technologies in the Russian Federation – approved by Government decree as of January 21, 2011 №57-p, as follows from new draft decree prepared by the authority. The plan in force establishes frequency bands destined for various promising communication technologies, the amount of frequency allocated per operator and deadlines for network rollout. Namely, the plan allocates 470-862 MHz frequency for digital TV, and various bands from 791-821 MHz to 2620-2690 MHz for wireless LTE services.

Previously, the Ministry proposed to alter the plan by revoking a number of frequency assignments in the 703-788 MHz band from digital TV broadcasters and repurposing them for LTE networks. However, this proposal met fervent opposition among broadcasters represented by National Broadcasting Association (NBA) and the All-Russian State Television and Radio Broadcasting Company which

believe that allocation of 703-788 MHz band to LTE providers may erect a significant barrier to the expansion of digital broadcasting and cutting edge TV technologies after the year 2015.

Presently, the Ministry sets forth in its commentary to draft Government decree which cancels the existing plan for allocation of radio frequency for promising technologies, that issues related to development of particular technologies and utilization of particular radio frequency bands should be settled through amendments to another plan – the Plan for radio frequency spectrum future use which is currently developed by State Commission for Radio Frequencies and is to be approved by the Government. Besides, according to the authority, following the approval of the Frequency plan for promising technologies in 2011, most of the technologies in question and related frequency bands have already been covered by tenders. Therefore, there is no need to amend the plan, it simply needs to be called off. ❖

◆ TTK Expects Growth

Russia's fastest growing provider of broadband services – TTK Company increased operating revenue by 9 percent up to 27.1 billion rubles in 2012, and expects a 10 percent growth in 2013, communicated TTK vice president for economics and finance Vyacheslav Sotnik in the course of a press conference summoned to announce company's financial results. According to him, OIBDA indicator was up by 10 percent compared against 2011 and amounted to 4.8 billion rubles (approx. \$150 million). Company's net profit was down by 30 percent, from 1 billion rubles in 2011 to 0.66 billion rubles (more than \$20 million) in 2012.

“The company is currently in the investment phase, we are rapidly growing and modernizing our networks”, explained Vyacheslav Sotnik. “We are expecting net profit up by about 10-15 percent this year, and OIBDA to grow up to 6 billion rubles.” He added that his company was hoping to boost earnings from broadband services this year.

According to Vyacheslav Sotnik, TTK invested 8.6 billion rubles (32 percent of revenue), and this year the company intends to invest about the same amount, mainly into regional BBA networks. TTK's OIBDA profitability was up to 17.7 percent against 17.5 percent in 2011.

TTK's main cash cow is backbone services – 56 percent, while BBA services and cable television account for about 15 percent of revenue. That said, TTK is ranked 5th among broadband service providers in the B2C segment with a 6 percent market share. TTK's ARPU is 400 rubles (approx. \$12.5).

TTK president Artyom Kudryavtsev declared that they are planning to increase company value up to 78 billion rubles (approx. \$2.4 billion) by 2015, and broadband service subscriber base – up to 2.4 million, or 15 percent of the regional market.

In 2012, the operator reportedly managed to reach 1 million subscribers, thus taking the subscriber base up by 144 percent compared with 2011. ◆

◆ Smartphones Bulking up

Smartphones are driving conventional handsets out of the market: in the first half-year 2013, the share of smart devices in total sales of mobile phones in Russia was 80 percent in monetary terms. The amount of smartphones sold was up by 47 percent to 7 million units.

These figures were announced by experts of Svyaznoy Group. The tendency which appeared back in the 1st quarter of this year – total mobile phone market going down (by 4 percent to 16.5 million devices) concurrently with the market going up in money terms (by 17 percent up to 91.4 billion rubles) has reaffirmed. According

to analysts of Svyaznoy, this is mainly due to a substantial increase in smartphone sales – they were up by 47 percent both in physical and money terms.

“The number of devices sold has already reached 7 million, which equals to 73.4 billion rubles”, commented Svyaznoy media department. “The share of smartphones in total sales was 43 percent in units and 80 percent in cash.” At the same time, according to Svyaznoy, sales of conventional feature phones were down by 23 percent in physical terms and by 37 percent in money terms. ◆

❖ Ministry of Communications and Mass Media Set to Enforce MVNO

Russian Ministry of Communications and Mass Media may ban mobile communications providers from avoiding cooperation with MVNO operators. Aide to the Minister for Communications Eldar Razroev has met with providers' representatives in mid-July to discuss ways to improve MVNO licensing legislation. The meeting was attended by managers from Mobile TeleSystems (MTS), VimpelCom, MegaFon, Rostelecom and Tele2 Russia. Razroev proposed to make contractual processes among operators and companies which want to work in their networks more transparent. According to him, operators must publicize conditions of connection to their networks.

The Ministry wants to oblige operators to provide connection to their networks to any company which may request it, said attendees to the meeting, in order to avoid a situation similar to the one occurred last year with Scartel (Yoya brand). Back then, the Federal Antimonopoly Service (FAS) compelled Scartel to provide access to its LTE network to any operator on non-discriminatory conditions, since Scartel and MegaFon (which both make part of Garsdale holding company) had more 4G frequency than other market players. But eventually, not

a single MVNO contract was concluded with Scartel, because the operator set a price too high for its services.

Central Telegraph Has Turned to SME

This July, Moscow-based all-service provider Central Telegraph adopted a new development strategy which foresees a 13 percent gain in revenue annually, owing to the expansion into the SME segment. By 2017, the operator plans to serve 12,000 corporate subscribers. By this time the company should significantly expand its market presence in Moscow region's SME segment, bolster its positions in the broadband services market, improve operating efficiency and grow above organic market growth rates.

According to the approved strategy, annualized revenue growth of Central Telegraph in the five years to come is forecast at 13 percent, and in 2017 it's expected to reach 6.4 billion rubles (approx. \$200 million). Last year, operator's revenue was 3.8 billion rubles.

Five years from now, net profit is expected to exceed 1 billion rubles (approx. \$31 million). In 2012, it was 52.7 million rubles, also, OIBDA margin is expected to reach 34 percent in 2017. ❖

❖ Tricolor TV Strengthening Positions in Moscow

In the 2nd quarter 2013, Russia's largest provider of direct satellite broadcasting Tricolor TV secured the first place in Moscow in terms of subscribers to digital TV ahead of Akado, as follows from

preliminary report of Telecomdaily research agency. At the end of June, Tricolor had 548,000 digital TV subscribers, and Akado – 502,000. ❖

❖ The Big Four May Lose LTE Frequency

Russian Ministry of Communications and Mass Media may take away from the Big Four (Rostelecom, Mobile TeleSystems (MTS), VimpelCom and MegaFon) the frequencies destined for LTE (4G) and assigned through a tender process last year. Operators aren't making efficient use of this resource, therefore, the frequency needs to be transferred to a new state-owned company, the authority suggested in a proposal to the Presidential Administration. The Big Four insist that frequency may be withdrawn through a court proceeding only.

The Ministry has prepared and addressed to the Presidential Administration a draft decree constituting a single LTE operator. It is designed to be an OJSC with 100 percent state participation. The operator must be delivered possession of the frequency withdrawn from winners of last year 4G tender, along with the frequency in the 720-750 MHz and 761-862 MHz bands and "all frequency available

and to be liberated in the future in the 390-470 MHz and 694-876 MHz bands, keeping unchanged the existing allocation of frequency in the 2500-2700 MHz band among communication providers", says an explanatory note to the document. It also sets forth that operators and the Government pursue different objectives. Operators roll out networks in the cities, while the Government strives to remedy "digital inequality".

The Ministry reckons that operators approached the project too formalistically: at year-end, they launched services in the high band (2.5-2.7 GHz) only. According to the authority, it would take two years and 60 billion rubles of investment (almost \$2 billion) to roll out a single 4G network involving at least 30,000 base stations. State-run infrastructure will be accessible for a big number of operators, says the note. ❖

❖ MTS Outsourced LTE

Russia's largest cellular operator Mobile TeleSystems (MTS) and Nokia Siemens Networks entered into a contract for roll-out and maintenance of an LTE network in the Moscow region and Central Federal District. The three-year contract value is \$200 million.

"We made a three-year frame contract", MTS vice president and CTO Andrey Ushatskiy announced to the press, "which means we can alter it according to our needs in terms of deadlines and maximum amount."

Contract value includes equipment and software supply, network roll-out costs and comprehensive functional support. The contract

applies to the Central Federal District, Moscow and the Moscow region; it envisages installation of about 2,100 FDD-LTE base stations. MTS launched an LTE network in Moscow in September 2012 having replaced old equipment from Motorola with NSN. Today, there are about 100 TDD-LTE base stations in Moscow, ComNews was told in the company.

MTS is implementing single RAN concept in the Central Federal District and the Moscow region. It implies roll-out of networks of various standards: 2G, 3G and LTE TDD using a single infrastructure. ❖

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