

MTS to Expand in the Regions

By Sophia Kornienko

STAFF WRITER

MTS, one of the leading mobile service operators in Russia, Ukraine and Belarus, announced plans for drastic expansion into the regions and the restructuring of management.

MTS will invest over \$1 billion in the company's expansion this year, said president of MTS Vasily Sidorov at a St. Petersburg press conference on Monday.

The company's shares, traded on the New York Stock Exchange, went up five times, and the Financial Times rated MTS among the world's 500 largest companies, Sidorov said. The company's further development involves restructuring of management system to form three levels of management: a corporate center in Moscow, and ten macro-regions subdivided into regions. The restructuring should centralize the company's management.

Providing services to over 21.3 million subscribers, MTS is owned by T-Mobile, a Deutsche Telecom affiliate, and AFK Systema, one of Russia's largest financial and industrial groups, specializing in hi-tech.

Currently operating in over 60 Russian regions, MTS is planning to launch its GSM standard network in at least ten more regions this year, including Kemerovo, Stavropol, Ulianovsk, Magadan, Chita, Mordovia, Buriatia, Chuvashia, Yakutia and Kamchatka, Sidorov said. The company is also starting GPRS services in Austria, Germany, the U.K., Czech Republic, France, Hong Kong, Israel, Poland, Portugal, Thailand and the Philippines. The GPRS coverage will include SMS services.

The company's investments in the North-Western macro-region this year will amount to \$72 million, as compared to last year's \$115 million, said Konstantin Boiko, the newly appointed director of the macro-region and Telecom

holds licenses covering the area. "Most of the North-Western MTS team is formed. MTS expects its costs to go down as a result of the restructuring that is to be completed by October," Sidorov said.

The growth in mobile phone use in the North-West was reported at an average of 48 percent, with 67 percent in St. Petersburg and the Leningrad Region. The company's sales in the North-West amounted to \$210.5 million in 2003, which marked a 166 percent growth from 2002. Corporate revenues grew by 1,463 percent and reached \$57.8 million. The North-West can be characterized as a highly competitive market, where prices are quite low, and the rate of migration of subscribers from one operator to another is high, Boiko said.

MTS is planning to implement client-saving programs to prevent further migration. "Our strategic task is to raise subscriber loyalty," Boiko said.

As of May 2004, MTS has occupied a 35 percent share in the North-Western market, Boiko said, adding that the share is growing steadily. MTS installed 1,464 stations in the North-West, roughly two thirds of them located in St. Petersburg. MTS mainly uses Ericsson as its station supplier in the region. Equipment supplied by Siemens is installed in Vologda, Kaliningrad and Pskov.

There will be up to ten macro-regions formed in Russia, where MTS is licensed everywhere except Penza and Chechnya. The North-West is the second macro-region formed after Moscow and will include St. Petersburg, Leningrad Region, Arkhangelsk Region, Vologda Region, Kaliningrad, Murmansk, Novgorod, and Pskov regions, Karelia, Komi Republic and Nenets Autonomous Region. The macro-region has a total of 2.3 million MTS subscribers.

The next macro-region to emerge

Far East, Siberia, the Urals, the South, South-Eastern and North-Western Volga macro-regions will follow.

"We have signed agreements with both Vimpelcom and Megafon on the exchange of resources. We can't rule out future cooperation with Skylink, either, even though it is a niche company," Sidorov said.

"We follow a double line of relations with MTS. While we mostly view MTS as our competitor, we have also entered a number of joint projects with them, which can classify us as partners. For example, we launched the mutual SMS exchange service," said Artyom Minaev, PR specialist at Vimpelcom in a telephone interview from Moscow Monday.

"We have much respect for MTS as a competitor. It is largely thanks to that competition that Vimpelcom is constantly stimulated to progress," he added.

Vimpelcom, which is MTS' main competitor, plans to invest an estimated \$920 million in the company's development this year, 80 percent of which is directed at the regions, Minaev said. Focusing on the regions is the current trend for operators working on a federal scale, he said.

Vimpelcom's regional branches were not purchased from other operators but started from scratch, using the company's standard methods, which made the integration smoother, Minaev said. Vimpelcom is a centralized structure, encompassing 7 macro-regions all across Russia, with the exception of the Far East, where Vimpelcom remains unlicensed.

The company is traded on the New York Stock Exchange since 1996 and has received top ratings with such publications as Forbes and BusinessWeek. Vimpelcom's main shareholders are Telenor and Alfa Group, owning 25 percent plus 13 shares and 25 percent plus



ALEXANDER BELENKY/SPT

The land plots for sale are to be used for agricultural purposes only, the new law says.

Land Law in Action

By Vladimir Kovalev

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The Leningrad Oblast Legislative Assembly has passed a law on agricultural land sales in the region, banning such land from being purchased by foreigners, as determined by federal legislation.

The law specifies that no less than 1 hectare of land can be sold at one time, with the total amount of land offered not exceeding 10 percent of the total agricultural area of a district.

The land is to be used for agricultural purposes only, and not converted for other uses. "Fears that rich people

maker quoted by Rosbalt last week. "This is an absolutely complacent decision that doesn't add anything to federal legislation. [Lawmakers] had an opportunity not to pass a regional law that approves the federal law and contradict the Constitution," Leonov said.

"Citizens and their associations shall have the right to have land in their private ownership," Article 36.1 of the Constitution says.

According to federal legislation put in force in January 2004, foreign citizens can only rent agricultural land for long-term periods. However, the law does not prohibit Russian entities that