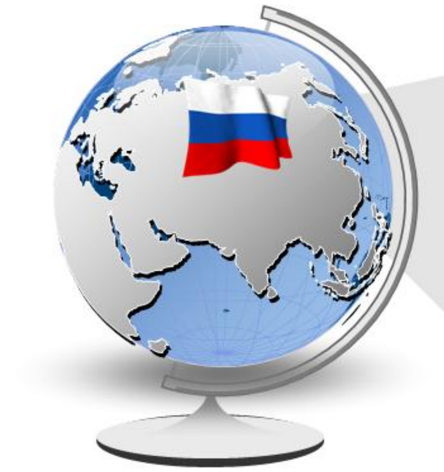


J'son & Partners
Management Consultancy

Newsletter
MVNO Market in Russia and in the world: main trends and perspectives of development
September 2013

Virtual operators market (MVNO) is still a "hot" topic on the telecommunication market, as a proof a lot of activities are held on this matter. For past year analysts from J'son & Partners Consulting are actively participating in several industry events - MVNO Russia 2012, MVNO & MNP Russia 2013, MVNOs Industry Summit 2013 etc.

J'son & Partners Consulting presents a brief results of market research "MVNO market in Russia and in the world: main trends and perspectives of development".

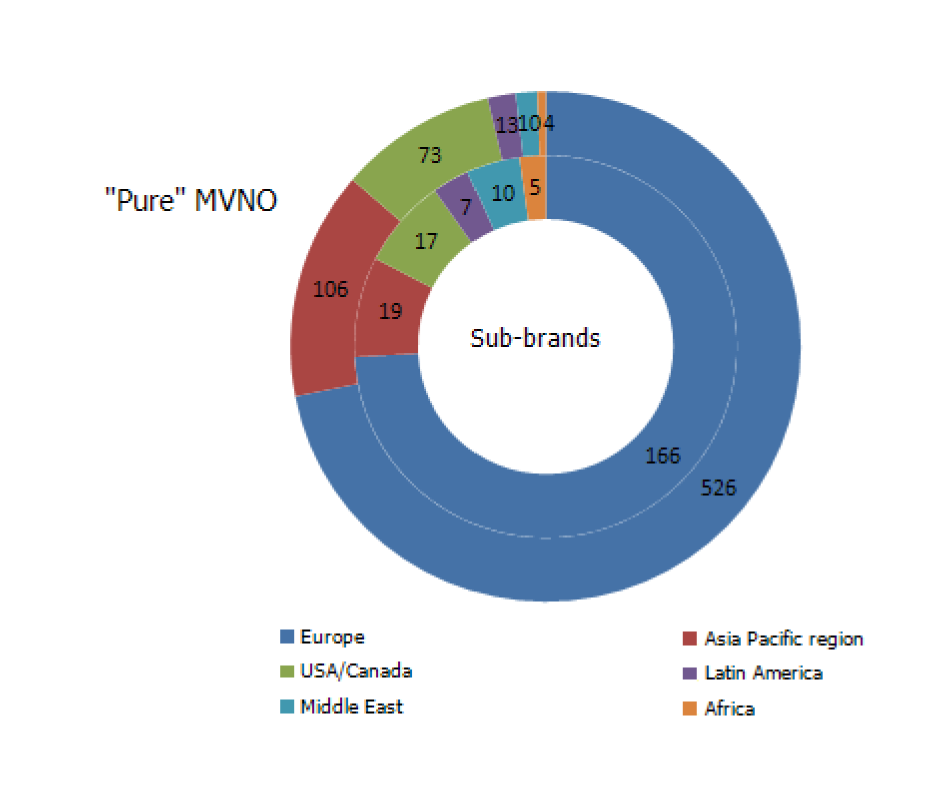
MVNO market in the world

Mobile Virtual Network Operator (MVNO) is the concept of the mobile operator without its own frequency resource and base stations (other infrastructure elements may be present). At this point MVNO is already well established in the developed countries of Europe and Asia, the U.S. and Canada, and gradually spread to emerging markets. Globally, according to Wireless Intelligence on May 2012, there were more than 1,000 mobile virtual network operators, including 812 "pure" MVNO and 224 companies - large sub-brand operators. Ten largest MVNO in 2013 had 1.4% share of the global mobile market by subscribers, others had 0.4% - on another MVNO, which were not included in the top ten.

In general, the global market for virtual operators is geographically heterogeneous even within the same macro-region. For example, in Western Europe, where the main parts of the MVNO are presented, the proportion differs significantly from country to country. For example, in early 2013 in Italy MVNOs share was 5.2%, while this index of only independent MVNO in Germany and the Netherlands was more than three times - up to 16%.

According to the forecasts of Western research agencies in the medium term (till 2016-2017) MVNO subscriber base in the world will increase to 200-300 million, Western Europe and the United States in the meantime will keep the leading positions.

Fig. 1. Number of MVNO by world region, 2012



Source: Wireless Intelligence, May 2012

Business models

MVNO operate on a mass (discounters) markets as well as on niche markets (for example, oriented on migrants, travelers, etc.). In recent years, there are new-generations of MVNO specializing, for example, on inter-machine communication (M2M), mobile financial services, etc. Many fixed-line operators provide MVNO to expand their bundled offerings (broadband internet, fixed telephony, pay TV and mobile), in order to increase ARPU and reduce subscriber churn. On the virtual operators market operate also a lot of specialized providers (Mobile Virtual Networks Aggregators, MVNA), which allow companies to brand (light MVNO) and rapidly create MVNO, providing them with MVNO-packaged solution, the solution of “turnkey”. Rate of return usually delayed for high level projects (full MVNO), which can have almost the entire infrastructure except the base stations and as a result they have quite significant risks. On the other hand, in those countries (Russia is one of them), where mainly telecommunications companies are entering or trying to enter; the MVNO market already have a part of the network and IT infrastructure development, in this case vector can be directed toward the establishment of full MVNO. Virtual operators can also execute the contracts with several MNO to optimize their offerings and increase revenue.

Drivers and constraints

For mobile operators, cellular network virtual operator models have pros and cons. On one side MVNO help mobile operators to expand geographically, reach the niche group of subscribers, fully using underload network resources and to reduce cost for purchase and keeping the subscribers. On the other hand operators are afraid of the high growing competitiveness and “stealing” its subscriber base, decreasing rate of control of MVNO, etc. The last factor pushes operators to create light MVNO that are easier for controlling.

In emerging markets, the development of the MVNO market is constrained by many factors such as the low virtual operator brand awareness in comparison with the brands of major operators which are presented on the market for a long time; has a noticeable development of operator's sub-brands; insufficient development of retail distribution of MVNO networks; higher tariffs for interconnect (MTR) in some countries, weak support from mobile operators. On the other hand, in recent years there are new opportunities for virtual operators 'new wave', which is a significant motivating factor for the development of models of MVNO, among them are the development of LTE networks and public Wi-Fi (can be used to offload mobile data traffic), the growth of M2M-decisions market, increased consumption of data services at the continuing high rates of international roaming, a steady stream of migrants, the active use of social networks, etc.

Major influence on MVNO market are causing the sectorial regulators; in the meantime the approaches to the regulation may differ even within the Eurozone

Regional specific features

MVNO markets of different countries should be considered in the context of historical and regional development of the mobile market as a whole. For example in the U.S. where in contrast to Russia and other countries with a high proportion of prepaid subscribers, prepaid tariffs pay-as-you-go model and "bring your own device» (BYOD) – are offered by MVNO and resellers, while "big" operators practiced mainly sale of long-term contracts with subsidized phones. In this sense, the scope of the interests are more or less clearly divided between "real" and virtual operators , and there is no conflict of interest (major cellular operators are considering MVNO subscribers as its "wholesale" customers , and MVNO - as its another effective sales channel) .

The Western European MVNO market is the largest market of virtual operators - here concentrated most of the projects. The region is leading in the number of subscribers. World's largest multinational MVNO are working the in Western Europe - Lycamobile (30 million subscribers in 16 countries), Virgin Mobile (20 million subscribers), Lebara (7 European countries and Australia; 4 million subscribers), Tesco Mobile (5 European countries; 3,5 million subscribers), Transatel Mobile (5 European countries) etc.

Western European MVNO market is the most highly developed market of virtual operators around the world. It is characterized by a high proportion of MVNO-subscribers (about 15%), covered a huge variety of market segments and target user groups and business models.

In Russia , Eastern Europe, Latin America, China, India and other developing countries, MVNO model is being on the basic step and not only because of the lack of activity control, but perhaps to a greater extent due to the fact that the market for mobile communications in these regions developed by others, different from developed countries scenarios. For example, in contrast to the Western European markets due to the late appearance on the MVNO market in Central and Eastern Europe, "big" operators have already managed to launch customized tariffs, designed for specific groups of users to run their own sub-brands.

Despite the presence of numerous MVNO in a number of countries in Central and Eastern Europe, the virtual operators are not able to capture a significant share of the market.

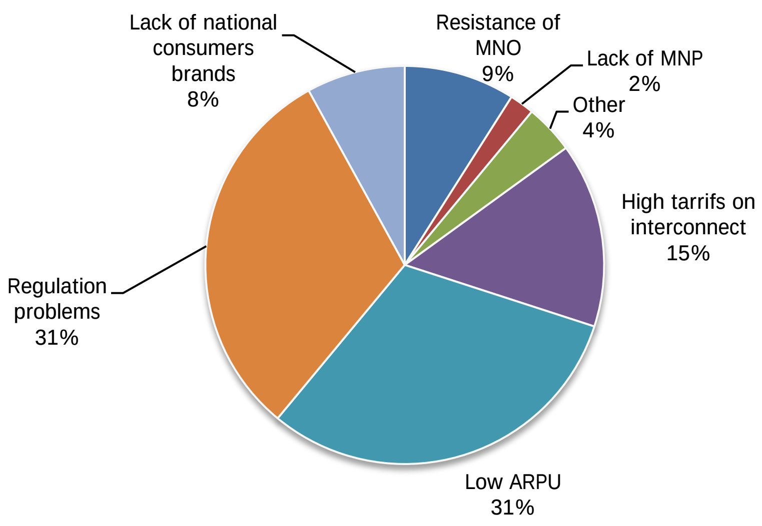
On developed Asian markets (Japan, South Korea), despite of the dozens existing MVNO (there are also projects on the LTE networks), their share is relatively small. For example, in South Korea, the share of MVNO subscribers as of September 2013 did not exceed 4 %. However, this segment is growing rapidly, largely due to a number of regulator's initiatives (in particular, the tariffs for MNP). A characteristic feature of South Korean market is that MVNO, generally offer lower rates for voice communication in comparison with the cellular operators, whereas the rates for data transmission from them, on the contrary, much higher.

On the largest emerging Asian markets (China and India) market for virtual operators have not yet formed, but has a high potential. According to forecasts of Pyramid Research, Chinese MVNO share will reach 5% after 5 years from the start of such projects. In India, the emergence of virtual operators prevents the very high competition and low tariffs.

MVNO market in Latin America is also in the very early stage of its development. According to Informa Telecoms & Media, by September 2013 the share of virtual operators is less than 0.2% of the mobile market in the region. In some countries (Colombia, Chile) have been launched quite interesting projects, there is a noticeable subscriber base here, while, for example, in the three largest countries - Brazil, Mexico and Argentina - in total there are no more than 5 MVNO and a very small number of subscribers.

MVNO market in Africa is still at an early stage of development - in the last 5 years on the continent was launched just a few virtual operators, most of them (6 projects) - in South Africa. The main difficulties of African MVNO market associated with under-developed regulatory framework, low ARPU, the insufficient development of the MVNE model, poorly developed distribution networks and the high cost of interconnect rates (MTR), opposition from the mobile operators.

Fig. 2. Main barriers of the African MVNO market



Source: African Telecom News Survey, Blycroft, 2012, CSMG 2013

MVNO markets in Eastern and Central Europe, Russia , Latin America and Africa , as well as major developing Asian countries (China , India) are still at an early stage of development. The main constraint is the late appearance of MVNO (many niches are occupied by mobile operators and their sub-brands) , lack of regulation, combating cellular operators and the absence of major national brands. On the other hand, the markets in the medium and long term can become one of the main drivers of the MVNO market.

MVNO market in Russia

80 Russian companies issued 109 MVNO- licenses as of mid-September 2013, according to the data of the Russian Agency for Supervision in the Communications. According to J'son & Partners Consulting, a little more than a dozen projects actually work in Russia, excluding the sub-brands of operators (for example, "Just to talk" by "MegaFon ", " E" by SMARTS , etc.). However, about more than 30 companies with MVNO- licenses received non-geographic numeration in the numbering codes DEF-941, 958 , etc. A number of projects (MTT Mobile, Domolink Mobi, Mobile Qwerty, etc.) launched by telecommunication operators are positioned as a full MVNO, unlike most of the other projects that are simply branded tariffs from the "big operator". For example, MTT operator provides not only marketing and sales, but also billing, pricing, routing and has its own regional and international channels.

Table 1. Main currently operating MVNO projects in Russia

№	Brand	Launch Year	Host-operator	Category	Operations areas
1	алло инкогнито	2001	Megafon Vimpelcom Skylink	Telecom	Moscow and St.Petersburg
2	matrix mobile	2003	Megafon	Telecom	Moscow and Moscow region
3	база	2006	Megafon	Telecom	Moscow
4	МТТ.Мобайл	2010	Skylink	Telecom	Moscow and Moscow region
5	Домолинк mobi	2011	Skylink	Telecom	Vladimir, Voronezh, Kaluga, Moscow, Tver, Krasnodar regions etc.
6	АТС Смольного	2011	Megafon	Telecom, government enterprise	Saint-Petersburg
7	7К	2011	Megafon	Retail and whole sales	Moscow and Moscow region
8	Летай	2012	SMARTS	Telecom	Republic of Tatarstan
9		2012	Skylink	Telecom	Czech Republic
10	МегаФон	2012	Yota Networks	Telecom	30 regions of Russian Federation
11	МТС	2012	Yota Networks	Telecom	Kazan
12	Мобильный QWERTY	2013	Skylink	Telecom	Moscow and Moscow region

Source: J'son & Partners Consulting, industry sources

Subscriber base of mobile virtual operators in Russia does not exceed 1% of the number of active SIM-cards provider even taking into account affiliated with the host MVNO operators and sub-brands of mobile operators. The share of independent MVNO at the end of the first half of 2013 is estimated by J'son & Partners Consulting, as 0.2% (0.5 million subscribers). These figures correspond roughly to the level of developing countries in Latin America and Eastern Europe and suggest that the MVNO market in Russia is still in a very early stage of its development.

Analysis of the existing and other MVNO-projects on different realization stages (including planned, closed and "frozen") in Russia showed the following:

The most "viable" MVNO launched by telecommunication companies and the one that are oriented on the national communities. There are also some promising niches such as providing services to the state employees, projects in the segments of B2B and M2M, work on LTE- networks and projects managed by the state ("ERA – GLONASS", "Selskaya Svyaz" etc.). MVNO in retail, which is popular in developed markets, was mostly unsuccessful in Russia.

MVNO of "full cycle" has the greatest potential in Russia that can provide a reasonable direct costs and complete management services. Provided numeral resource in codes of non-geographical numeration (more than 10 million lines) defines the upper limit for the full MVNO subscriber base forecast in the medium term - about 4% of the number of active SIM-cards of mobile communication in Russia

In general the perspectives for MVNO in Russia are mixed and would be largely determined by industry regulators. The largest mobile operators' awareness of the benefits of using this model and finding the best and optimal business strategies, might be the main market driver. Up to this point, or to a significant change in telecom industry legislation MVNO market in Russia will remain on its basic step, same as in many developing countries.

Detailed results of the Research: "MVNO Market in Russia and in the world: main trends and perspectives of development" are presented in the full version (192 pages)

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21 Century – TV
7K
AKOS
iConnect
IQLine
Alt Telecom
Auchan
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BE-Prime
WINACH Telecom
WAN telecom
WEST CALL LTD
Volgograd-GSM
Vimpelcom
Gals Telecom
Global Telecom
Globus-telecom
Delta Mobil
Delta Telecom
Deltacom Partnership
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Internod
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Megafone
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TransitTelecom
Mit-Tel
MobilCom
MobilStar
Mobile Medical Technologies
Mobilyuks
Moscow City Telephone Network
Moscow cellular network
Mtel
MTS
Navigation and Information Systems
Narodny mobile phone
Nasha set'
NefteGasTelecom
Nizhny Novgorod Cellular Communication
NP Promote the development and use of navigation technologies
Osnova Telecom
Astrakhan-Telecom
Radiana
Rostelecom
Rostelcom
RusElitTorg
GUP Automated telephone station Smolny
SunSim
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SIBIINTERTELECOM
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FSUE Chief Research Scientific Computing Center
General Management Department of the President of the Russian Federation
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Evergreen Mobile
Everything Everywhere
Exetel
Eye' Vision
Falabella
Family Mobile
FastWeb
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GoMobil
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PosteMobile
Ratuken
RCS & RDS
Red Bull Mobile
Red Pocket
RedBull
Relax Mobil
Republic Wireless
RM Mobile
S1
SFR
SIM4Travel
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