



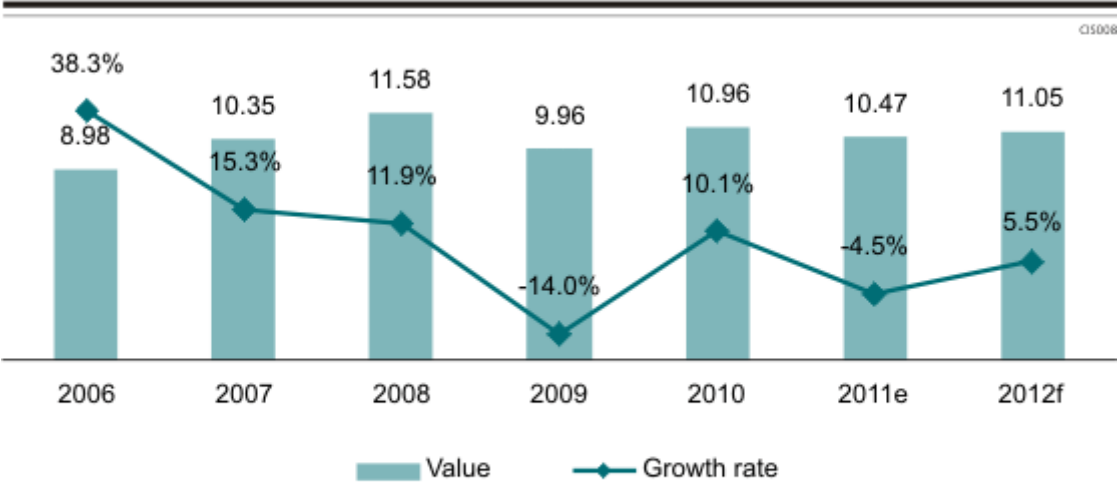
Telecoms market in CIS countries to recover in 2012

The telecommunications services market in the CIS countries and Georgia is to bounce back, growing by 5.5% to approx. €11bn in 2012. Revenues of mobile telephony operators will continue to drive the growth. The region is far from being homogenous, however, some common trends can be observed.

Mobile telephony dominates

The value of the telecommunications services market in the CIS countries and Georgia neared €11bn in 2010, which meant a growth of 10% year on year. According to preliminary estimates by PMR, a market research company, included in the latest report “The telecommunications market in CIS countries 2011. Development forecasts for 2011-2015” the market declined to approx. €10.5bn in 2011, shrinking by some 4.5% y-o-y. PMR forecasts a recovery in 2012 – combined revenues from telecommunications services as measured in Euros will grow up by 5.5%.

Value (€ bn) and growth rate (%) of the telecommunications services market in the CIS and Georgia, 2006-2012



*Note: Only mobile and fixed telephony and internet access services were included.
 e – estimate
 f – forecast
 Source: PMR Publications, 2011*



By far the largest segment of the telecommunications services market in the CIS region remains mobile telephony. The ISP segment is strongly underinvested and underdeveloped. The fixed-line telephony market has recently been somewhat stagnant. The mobile telephony domination is the most visible in the countries of Middle Asia, which have relatively highest prices for internet access services and ILD/DLD calls, while the prices of mobile telephony are comparable to other CIS markets. The majority of people in these countries cannot afford the internet and have no access to fixed phones, therefore mobile telecommunications have more than a 70% share in the total value of those markets.

The economic development of the CIS countries differs significantly, which is explained by different factors including geography, availability of natural resources, cultural differences of the population and political systems. The most developed CIS countries are Ukraine and Belarus, which have diversified economies with a significant share of processing industries. These countries also benefit from good geographic location being close to the huge market of the European Union as well as to the main Russian economic centres of Moscow and St. Petersburg. Belarusian economic growth is driven by the export of machinery, heavy equipment, household goods and agricultural products to Russia. The Ukrainian economy is based on metal production and the

chemical industry. Both countries have significant earnings from the transit of Russian oil and gas to the EU states.

CIS telecom markets vary

The telecommunications markets in the CIS countries and Georgia are different by size, maturity, availability, quality and prices of the main services. Market attractiveness for the investors, and as a result the development of fixed or wireless infrastructure in the countries, is closely connected with the geographical conditions and economic development but also with liberalisation of the regulatory environment and cultural differences of the CIS countries.

There is no doubt, that besides Russia, the three biggest telecommunications markets in the CIS region are Ukraine, Kazakhstan and Belarus, followed by Uzbekistan and Azerbaijan. However, by per capita spending the regional leaders are Kazakhstan, Moldova, Azerbaijan and Belarus, while Ukraine is in the seventh position. There are many reasons for the difference in per capita spending in the CIS states, including prices of the service and spending structure. There has not yet been any attempt to calculate and compare the cost of the standard service basket in the CIS countries. In Ukraine, for example the price of the mobile telephony or internet access services is one of the lowest in the CIS countries and there is also a relatively well-developed fixed-line telephony network, therefore consumption of telecommunications services in volume is bigger in comparison to Kazakhstan or Azerbaijan, which have even higher per capita spending in value.

Moldova, which has a common border with the EU states and high density of population, has a strong advantage for the development of telecommunications services and has made a significant step forward in this area, in spite of being less economically developed in comparison to other CIS countries. A significant drawback is Moldova's population, which is one of the lowest in the region.

Georgia and Armenia also achieved visible progress in the development of their telecommunications markets because of the liberalisation and creation of a competitive environment. National telecoms monopolies in these countries lost the exclusive right for external voice and data traffic exchange and were privatised. Foreign investors managed to develop strong business and created competition. On the other hand, even the most developed Middle Asian countries like Uzbekistan and Kazakhstan and Caucasus oil exporter, Azerbaijan, are far behind the CIS leaders in the development of internet access services mainly due to being located quite far from the world's most developed economic regions (chiefly the EU), which necessitates a high cost for the construction of backbone networks in these countries.

The development of the telecommunications market in Belarus is limited by excessive government regulation and restriction for international data and voice traffic exchange introduced for private operators. As a result, in spite of the high level of broadband penetration in the country, the speed of connection remains low, while the prices are higher in comparison to Ukraine, Russia or Moldova.

Common features

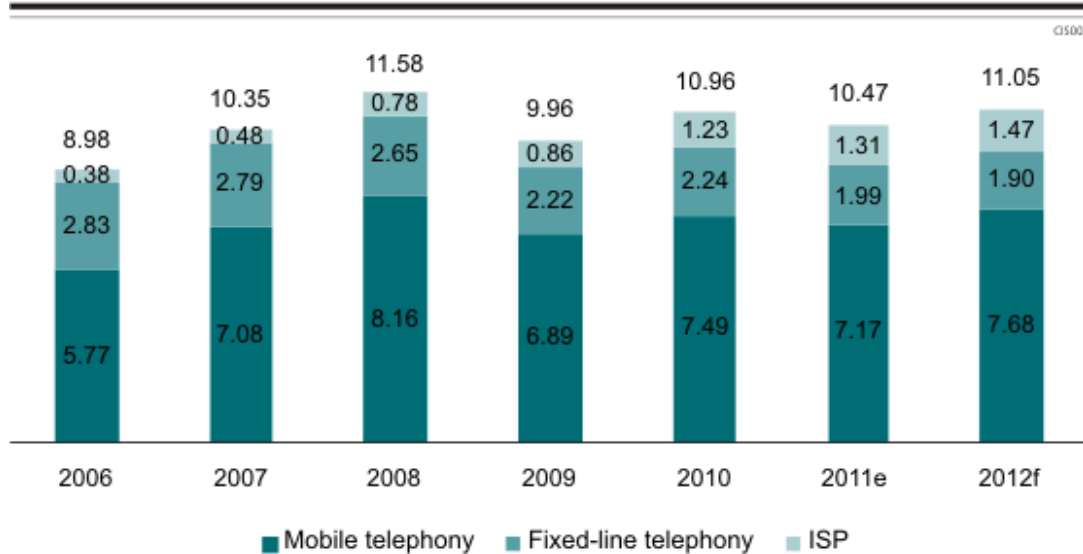
Telecommunications markets in the CIS countries have several common characteristics. First of all, mobile voice telephony markets have already reached their maturity or are quite close to being mature both in terms of the revenues value and the number of subscribers. 3G-UMTS networks were launched in almost every CIS country, however, as the key restriction for broadband penetration in most of the countries in the region is backbone capacity and not last-mile networks, they did not, at that time, make any radical changes on the market, but rather concentrated on a secondary connection

The common feature is also that the markets of fixed-line telephony in most of the countries have stopped growing, while in the Middle Asia it is not feasible to develop fixed-line networks economically. Fixed-line telephony providers in the CIS also faced competition on the part of mobile voice services and VoIP, especially in the segment of

ILD/DLD calls. As a result, the providers of voice services, both fixed and mobile, started to decrease the price in order to protect their share on the market or gain the rival's share, which limits the market growth. In some of the countries including Kazakhstan and Belarus, there was a price war of mobile operators. On the other hand, the markets of internet access services are quickly growing, however, the size of the ISP markets in all the CIS countries remains limited at the moment, therefore, even double-digit growth is not sufficient to balance the decline in the fixed voice segment.

Future development

Value (€ bn) of the telecommunications services market in the CIS and Georgia by segments, 2006-2012



Note: Only mobile and fixed telephony and internet access services were included.

e – estimate

f – forecast

Source: PMR Publications, 2011

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As a result of the domination of the relatively mature mobile voice services in the total spending, telecom markets in the CIS showed a relatively slight growth in 2010 and are not expected to have a breakthrough development in 2011-2012, either. An expected impressive 22.6% year-on-year increase of the market in Belarus in 2011 is inflation driven, while in Kazakhstan and Uzbekistan the development of mobile telephony in 2011 will reach its peak. Turkmenistan is a different story. As of the end of 2010 the government in the country stopped the operation of a Russian mobile telephony provider MTS, which caused a mess and a sharp decline in the market in 2011.

The development of a fixed and mobile data transmission segment means a radical upgrade and development of backbone and last-mile networks. The operators do make investments in this area, however, the volume of these investments is not yet sufficient to make a radical change in the quality and availability of the internet access on most of the CIS markets. In contrast to mobile telephony, internet access has not become a mass market yet due to the higher cost for procurement of individual end-user terminals and also a needed increase in the educational level of population, therefore the investments in this service are limited.

To sum up, mobile voice services are not going to drive the growth as they did in the past. Annual spending on mobile telephony services in the CIS countries will increase by only a few per cent in the next few years, reflecting an organic growth in the number of users (the younger generation will enter the market) and migration of voice traffic from fixed to mobile networks. In mid-term we expect the telecommunications markets in the CIS countries and Georgia to experience a growth driven by fixed and mobile internet

access services. The share of ISP services in the telecommunications revenues will grow, and quality of the services is expected to improve, while the prices will decline.

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