

## Russian telecommunication industry: current state and developments

BY ANTON KLYACHIN

In this article we discuss the current state and developments in the telecommunication industry in Russia. Telecoms grew rapidly in recent years and were, without doubt, one of the most appealing businesses for investors, both private and public. Russian providers of mobile telephony, broadband internet access and pay-TV attracted large equity and debt investments. Russian companies expanded abroad, mostly to other CIS countries, but also to more remote destinations like Vietnam, Cambodia and India.

In the past year, the industry has obviously been affected by the global crisis. But telecoms have turned out to be among the businesses most prepared for the economic downturn. Consumer demand for pay-TV has not experienced a dramatic decline and broadband internet access services actually grew this year. This is particularly true for wireless broadband access based on WiFi and WiMax technologies, especially in large Russian cities. Cellular and fixed telephony have suffered most due to a general decrease in the population's spending capacity. In response, telecommunication companies have cut in their capital expenditure in 2009. However, all the major players in Russia's mobile telephony market are launching 3G networks this year, which shows their confidence that the markets will recover soon.

Concerning investments into the telecommunication industry, there are two opposing trends. The total number and volume of transactions have certainly decreased due to the inaccessibility of funds and investor uncertainty. In 2009, we have not and do not expect to see any transactions comparable to last year's acquisition of Golden Telecom by Vimpelkom for €3bn. At the same time, certain transactions are being executed despite the crisis. Such deals mostly involve companies experiencing serious cash flow difficulties or overloaded with debt. Both strategic and financial investors have shown interest in such firms.

In general terms, recent technological developments (such as the spread of mobile and wireless technologies) have made the telecommunication business more dynamic and client-oriented. People are not tied to their workplace anymore – they consume telecommunication services everywhere and anytime. Service providers need to be faster. Marketing efforts

are becoming more aggressive and targeted. Legal regulation does not always keep pace with such developments. For example, new methods of information dissemination require rapid developments in copyright law and privacy law. It is widely believed that the spread of broadband internet will change the face of copyright law as we know it today, since information is no longer tied to a physical objects like paper or disk. Development of internet laws in Russia is being discussed on the highest political level, with President Dmitry Medvedev proposing that the international political community join forces in regulatory efforts. Indeed, it is well understood that the current development of technologies makes it impossible to regulate the internet and other communication channels solely on a national level.

One of the main challenges for the telecom industry is overcoming the legal barriers between countries. This causes difficulties when a company is trying to achieve synergies across business units located in different countries. Matters concerning cross-border information exchange are not clearly regulated in most countries. In that sense, maybe the highest barrier for telecom industry globalisation is not harmonised legislation in different regions. In these circumstances, the role of organisations such as the International Telecommunication Union shall expand to not only technical, but also legal standardisation.

Another challenge is the tendency for certain countries to overregulate the industry by considering it as a strategic sector. Indeed, telecommunications are the core of modern infrastructure and many governments are afraid of selling too much of it to foreign investors. In Russia, for example, a TV broadcaster licensed to operate in more than a half of Russia's regions cannot be controlled by a foreign shareholder. Internet providers are subject to strict rules allowing the State, through its intelligence agencies, to access virtually all information transmitted through hardware located in Russia. In many cases, such regulations are an additional burden for businesses. ■

Anton Klyachin is the managing partner at Salomon Partners.

He can be contacted on +74 9569 11184 or by email: [anton.klyachin@salomons.com](mailto:anton.klyachin@salomons.com).



**Anton Klyachin**  
Partner  
T: +749 5691 1184  
E: [anton.klyachin@salomons.com](mailto:anton.klyachin@salomons.com)  
[www.salomons.com](http://www.salomons.com)

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Mr Klyachin is responsible for corporate practice, support of direct and venture investments and employment law. Before his arrival at the firm, Mr Klyachin was the head legal adviser for Russian Technologies - one of the first

Russian venture capital investment funds. Previously, Mr Klyachin was an attorney at the Moscow office of the firm White&Case, and also an attorney at leading Russian legal firm Monastirsky, Zyuba, Stepanov & Partners. Mr

Klyachin graduated from the faculty of law at Moscow State University. He speaks fluent English and is a member of an advisory council on legal regulation and protection of intellectual property.