

# RUSSIAN TELECOM

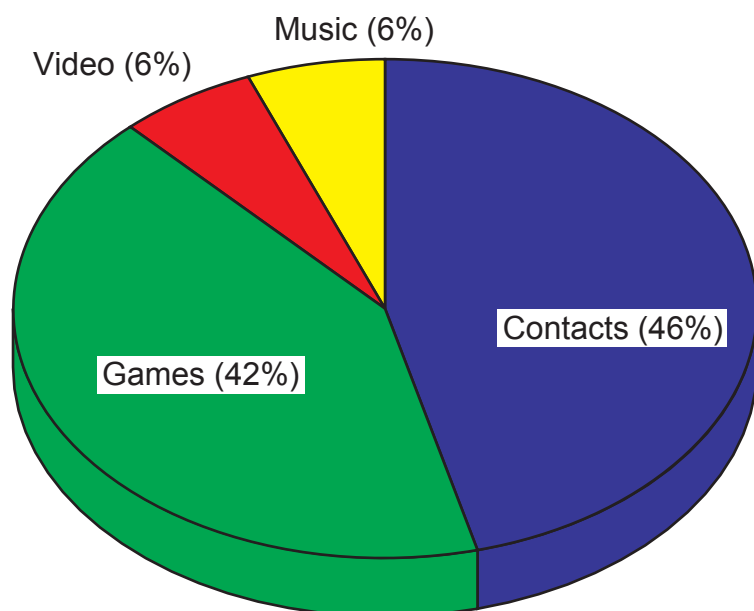
N E W S L E T T E R

MONTHLY NEWSLETTER ON TELECOMMUNICATIONS DEVELOPMENTS IN RUSSIA

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## Russian Internet content market



Source: iKS Consulting, 2007

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## A letter from the editor:

The Russian Telecom Monthly Newsletter will serve as your guide on the latest developments in the Russian telecommunications and IT market. For the past five years, the Russian ICT (information and communication technologies) market has demonstrated some exceptional

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annual growth, averaging 25 percent. Based on data from the Russian Ministry of Information Technologies and Communication, last year the total ICT market size (including electrical communications, IT sector, and post) surpassed US\$40 billion. In 2006, telecom sector revenues grew 26 percent and reached US\$29.6 billion. In the meantime, foreign investments in the Russian telecom sector have doubled. While Russian mobile communication is still an exciting market, the Internet and fixed communication services sectors have flourished in the past two years. With the issuance of 3G licenses and booming broadband Internet consumption, the sector is destined to grow further.

Taking into account the stable ICT market growth, it is very important for vendors and service providers to be up-to-date with the ever-changing Russian high-tech industry. In today's highly competitive market, successful companies cannot afford to ignore the market intelligence. While there is an abundance of market research online today, there is a lack of qualitative and clear materials on the Russian telecom and IT market. In addition, who has time today to read all these flows of data and raw statistics?

The Russian Telecom Newsletter (Russian Telecom) by IGI is here to solve these problems at once. With 16 - 20 pages of the latest market data, Russian Telecom will keep you abreast of the industry and regulatory news, highlighting important trends in the Russian ICT sector, all in a user-friendly and easy-to-navigate format. Put simply, whether you are a marketing manager, strategic planner, or chief operating officer, Russian Telecom will be your must-read before your busy day begins.

**Subjects covered:**

- New legislation
- Certification rules

- Privatization
- Government policy
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- Contract awards
- Market studies
- Products being introduced
- New service companies
- Major projects

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- Saves time in trying to dig out scattered pieces of information on the Russian and CIS markets
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- Provides analysis on important decisions or developments affecting the market.

**Editor's BIO**

Dr. Andrey N. Gidasov has over 12 years of experience in business consulting in the ICT fields. From 1995 to 2004, Andrey worked as an IT and telecom sector consultant with the US Department of Commerce at the US Embassies in Tashkent and Moscow. From

September 2004, Dr. Gidasov has worked in Hong Kong providing telecom consulting services to businesses interested in the Russian ICT market. He also launched the GidaByte portal ([www.gidabyte.com](http://www.gidabyte.com)) to help investors and suppliers to find partners in Russia.

## TOP NEWS

### **Main three mobile operators ready to spend billions on deployment of 3G networks**

The heads of “Big Trio,” the major Russian mobile operators, reported that they have not yet chosen the equipment suppliers for the deployment of 3G networks, reported Prime TASS.

Alexander Izosimov, general director of VimpelCom, said that the choice of suppliers will be made within the next few months. He also confirmed the forecast that the company will invest some US\$300 million to \$350 million for 3G network deployment.

MTS president Leonid Melamed said that the preliminary choice of the equipment suppliers has been made; however, for the final decision they will need more time. He also confirmed that MTS will spend about US\$1 billion for the deployment within the next three years.

MegaFon general director Sergey Soldatenkov also said that the company will invest about US\$1 billion for the 3G deployment within the next three years. Their equipment suppliers have also not been chosen.

As Prime TASS reported earlier, according to expert estimates, 3G deployment in Russia will bring about US\$7.5 billion of investment from the three major cellular companies within the next five years.

The most likely contenders to supply the equipment will include Nokia Siemens Networks, Ericsson, Huawei, and Alcatel-Lucent.

The press service emphasized the fact that this equipment will be used for trial purposes only. At the same time, other operators have also appeared to be ready for the implementation of 3G projects. For example, VimpelCom and other operators have partially installed the equipment necessary for 3G deployment.

On the vendor front, Huawei has been very active; in the beginning of the year, it began supplies of dual-mode base stations — GSM/UMTS with HSDPA support — for SvyazInvest Holding branches.

### **The timeline for deployment of 3G networks by MTS will depend on the time spent for ‘clearing’ of frequencies**

Leonid Melamed, president of MTS, announced that the timeline for the deployment of 3G networks by MTS will very much depend on the time spent for clearance of frequency bands in the cities planned for deployment.

According to the MTS president, during the first phase, 3G networks will be deployed in the 15 largest Russian cities, including Moscow and St. Petersburg; the second stage will involve 20 other large Russian cities. In three years, MTS is planning to deploy 3G networks throughout all Russian regions.

### **Russian Information Technologies and Communication Ministry plans to increase the fixed teledensity by 40 percent by 2010**

By 2010, the Russian Ministry for Information Technologies and Communication is planning to increase the fixed telecom density by 40 percent compared to 2006, from 31.2 telephone per 100 people to 43 telephones per 100 people.

The Ministry also announced the planned growth of PCs per 100 people, from 16 in 2006 to 43 by 2010. The number of Internet users should reach 45 million people by 2010.

## WiMAX

### **Rossvyaznadzor issues a license to Comstar-UTS for providing VoIP over WiMAX in Russia**

The Russian Federal Service for Communication Control decided to issue Comstar-UTS, one of the largest Russian alternative telecom operators, a license for provision of IP telephony services (2.5-2.7GHz frequency) in 21 Russian regions. The license is valid until November 17, 2011. The licenses have been issued for the following territories: Leningrad region, Vladimir region, Tver region, Nizhny Novgorod Region, Saratov Region, Volgograd Region, Ulyanovsk Region, Chelyabinsk Region, Kemerovo Region, Tyumen Region, Sverdlovsk Region, Novosibirsk Region, Irkutsk Region, Krasnoyarsk, Krasnodar, Primorsk, Stavropol, Khabarovsk Krai, Khanty-Mansi and Yamalo-Nents Autonomous Districts, and Tatarstan Republic.

These licenses will allow Comstar to provide voice transmission via radio access, as well as WiMAX technology.

Comstar regards WiMAX technology as an efficient tool for fast regional entry, as the network construction is relatively inexpensive and quick.

### **Technical launch of WiMAX-based network implemented in Ryazan**

New Telecommunications Company and Siemens Networks announced the completion of the construction and technical launch of a wireless broadband network based on WiMAX in Ryazan.

The construction of this WiMAX-based network in Ryazan was implemented within the framework of the contract signed by both companies at the end of 2006. According to the terms of the contract, Siemens Networks

supplied WayMAX equipment, including base stations, subscriber terminals, Gigaset SE461 modems, SURPASS hiT 7020, micro-SDH devices, routers, and network management and monitoring subsystems, in February 2007.

The network launch will provide radio coverage in the Ryazan territory and neighboring cities, as well as nearby cottage residences.

The subscribers may receive a wide range of voice and data services and applications, such as high-speed Internet access, email, file transfer, music downloads, streaming audio, and various video services (video-on-demand, IPTV, videoconferencing, network games), voice-over-IP, and VPA services.

WiMAX equipment provides wireless access with speeds up to 10Mbps for each subscriber. The test results proved the effectiveness of the WiMAX technology for the construction of metro wireless networks.

This project was the first phase of the construction of the Federal network in 36 of Russia's large cities and regions. They include Moscow, Moscow Region, Voronezh, Yaroslavl, Lipetsk, Ivanovo, Tula, Kursk, Tver, and Belgorod in the Central Federal District; Nizhny Novgorod, Samara, Kazan, Ufa, Saratov, Tolgiatti, Izhevsk, Ulyanovsk, Penza, Naberezhnye Chelny, Kirov, and Cheboksary in the Volga Federal District; Rostov-on-Don, Volgograd, Krasnodar, Astrakhan, Sochi, and Novorossisk in the Southern Federal District; Chelyabinsk in the Urals Federal District; Novosibirsk, Tomsk, and Omsk in the Siberian Federal District; St. Petersburg and Leningrad Region in the North Western Federal District; and Khabarovsk in the Far Eastern Federal District.

In 2008, the company plans to invest in the development of WiMAX networks in more than 50 cities in all Russian Federal Districts.

**Arctel completes construction**

Arctel, a Moscow-based alternative operator that is completing the construction of its own national telecom network, leased network capacity in the Central Federal District from Start Telecom.

Start Telecom is placing its bets on WiMAX technology.

In the first quarter of 2007, Arctel planned to register its network with Rossvyaznadzor, estimating that it can acquire 4 percent of the market.

Arctel completed construction of all transit international and long-distance hubs, and as a whole the company has some 70 points of presence (according to regulations, there must be 88 PoPs).

The rest of the PoPs should be completed in February 2007, says the company source. According to Arctel, all equipment belongs to the company, while transport channels are leased from Start Telecom, RTCom.ru, and TransTeleCom.

The StartTelecom network is based on Cisco and Juniper equipment and runs over 4,500km, with capacity up to 1Gbps, which allows Internet access, IP telephony, IPTV, and IP VPN, says ComNews.

Arctel invested some US\$25 million in construction and development of the network, and plans to occupy 4 percent of the long-distance and international communication market to recoup investments in three to four years.

**TRIPLE PLAY****Renova-Media enters triple-play market**

Renova-Media Holding reported that it began providing triple-play services for home users in Moscow and the Moscow region.

The payment for these services will be incorporated into one bill. IAS, one of the

Holding's companies, will provide digital telephony services.

In the near future, IAS will offer VoIP services to all local home users subscribed to ACADO (ComCor-TV), EXE Corporation, and other operators that are a part of Renova-Media Holding.

This means that Renova-Media will be able to offer a full triple-play package (Internet, TV, and telephony) to its users.

The unlimited tariff will cost about US\$13.50 per month. Central Telegraph (QWERTY) has been the first company in Moscow and the Moscow region to offer this service to its users.

By the end of 2007, the number of Renova-Media broadband access subscribers should reach 500,000. According to Mr. Yury Pripachkin, president of Renova-Media, the ARPU for triple-play services will reach about US\$40 monthly.

Pripachkin believes that IAS may add some 40,000 to 50,000 new triple-play service subscribers annually. Renova-Media investments in this digital telephony project will amount to about US\$20 million to US\$26 million.

**INTERNET****Yandex doubles revenue growth, earns US\$72 million on advertisement**

Yandex, Russia's largest Internet search engine, doubled its revenues for the second year in a row. This is due to the growth of interest from context advertisers in RUNET.

Yandex, RUNET's largest search system, reported that in 2006 it doubled revenues to US\$72 million compared to 2005. Over 80 percent of Yandex revenues (US\$58 million) were brought in by context advertisement, while the rest came from media advertisement. The number of advertisers that placed their orders at Yandex in 2006 grew to 30,000 clients.



Yandex was founded in 2000 and owns the Internet portal Yandex.ru. Its daily audience is 5 million people.

The daily audience of Mail.ru is 3 million users, while the first page of Rambler has 2 million users. Over one-third of Yandex belongs to Ru-Net Holdings and Baring Vostok Capital Partners funds, about 30 percent to the company's founders, 15 percent to Tiger Technologies, and 20 percent to managers and minority holders.

According to Mindshare Interaction agency, the Internet advertisement market in Russia reached US\$187 million in 2006, and by the end of 2007 will reach US\$300 million.

The two other largest RUNET companies — Mail.ru and Rambler — place mainly media advertisements, and the share of context advertisement does not exceed 30 percent. According to FINAM, Mail.ru's turnover reached about US\$30 million and Rambler's US\$25 million. FINAM believes that the Russian branch of Google did not earn more than US\$3 million in 2006.

The leaders in context advertisement in RUNET are Yandex and Begun (company seller of context ads), reports Vedomosti.

According to AdWatch agency, Yandex's share of context advertisement will grow to 90 percent. The agency forecasts that in 2007, the context ad market will reach US\$200 million, while media ads will reach US\$150 million.

### **Profitability of Mamba.ru reaches 47 percent**

Internet dating sites have become very profitable in Russia. The dating site with the most users in RUNET, Mamba.ru, completed last year with a profitability (EBITDA) of 47 percent. The secret of its success is low overhead: its most valuable component — content — is created by users themselves.

According to FINAM, Mamba.ru revenue in 2006 was US\$7.3 million, net profit was

US\$3.4 million and EBITDA was 47 percent. In the first quarter of 2006, the revenues of Mamba.ru grew almost 49.3 percent year-on-year.

The main profits come to Mamba.ru via SMS. Any user who wants to raise his or her application in rating can send an SMS, while Mamba.ru shares the profits with the operator. Thus, the company receives some 3 million SMSs monthly, with 60 percent going to its profits. The remaining 40 percent is taken by the operator.

According to iKS-Consulting, Mamba.ru holds about 85 percent of the Web-dating market in Russia.

The company was created in 2002. FINAM owns 100 percent of its shares. Mamba.ru has 7,000 partner sites, including Mail.ru, Rambler Media, and km.ru. Its database has 9 million applications and 4 million active users.

### **Volga Telecom joins Russia's largest Internet operators**

Interregional company Volga Telecom joined the ranks of the largest Russian Internet service providers in dedicated access segment (J Brand) in 2006. This company is in third position in iKS-Consulting's rating. The number of its subscribers connected to the Web via ADSL technology exceeded 120,000 in 2006.

Broadband access became the leading trend of the Russian telecom market. Analysts identified the beginning of the process of consolidating broadband Internet access providers amid the rapid development of the regional Internet market.

The active policy of the SvyazInvest operators on this market, however, helped them to win some market share from alternative telecom operators.

OAO Volga Telecom is the largest telecom operator in the Volga region. It offers

the whole range of communication services, including telephony, cellular communication, Internet, data transmission, television, and radio broadcasting services. The company is operating in all 11 regions of the Volga Federal District. Its total capacity is 5 million telephone lines.

### CABLE AND IPTV

#### **Comstar reports sevenfold increase in TV and Internet subscribers**

Comstar — Unified Telesystems announced that during Q1 2007, its TV and Internet subscribers have increased sevenfold and totaled 100,500. Analysts believe that Comstar reached success due to its marketing policies on provision of packet services. According to Comstar's estimates, the number of TV and Internet subscribers reached 150,000.

Comstar – Unified Telesystems has issued its Q1 2007 financial report. As compared to the same period in the previous year, the consolidated revenue has grown by 32 percent up to US\$328.9 million. Comstar's net profit grew by 12 percent and reached \$43.7 million.

"All the company's business segments have shown solid growth, despite the seasonal business activities contraction," noted Nikolay Tokarev, Comstar commercial vice president.

The high revenue growth was reached due to high subscriber demand for the unlimited tariff launched by MGTS in February 2007, as well as the positive influence of "the caller is to pay" principal.

Broadband access subscribers in Moscow have grown by 39 percent up to 398,000 (Comstar-Direct connected its 400,000th subscriber on April 16). The TV and Internet segment has demonstrated the most active growth: its subscribers have multiplied sevenfold and reached 100,500, a 21 percent increase over Q4 2006

J'son & Partners forecasts Comstar TV and Internet subscribers to reach 150,000 thousand by the end of 2007. iKS-Consulting specialists are even more optimistic: according to their estimates, the number of subscribers might come to 200,00 by the end of the year.

#### **ComCor TV (Acado) set to offer interactive TV services**

ComCor TV (Acado), which is part of Renova-Media, is planning to offer interactive TV services, which are similar to IPTV. These services are based on hybrid fiber coax (HFC) technology. The company hopes that this technology, popular in the US, will become popular in Russia, as well.

"In the beginning of the summer we will launch intellectual telephony commercially, and by the end of 2007 — beginning of 2008 the full spectrum of services via digital cable network," said Igor Tarasenko, commercial director of ComCorTV.

According to Tarasenko, investments for interactive services based on HFC include network and subscriber equipment, and will be worth tens of thousands dollars.

Tarasenko believes "These new services will constitute 10-15 percent of revenue from all services." In five years, Tarasenko sees a boom in IPTV.

#### **Comcor-TV increases revenues 2.5 times in 2006**

Pay-TV and high-speed Internet access are popular with Moscow residents. The Moscow cable operator Comcor-TV, increased its revenues in 2006 2.4 times to US\$22.5 million. It is controlled by Viktor Vekselberg's Moscow CableCom; it is in fact its only asset. This year the demand for these services should remain high.

Moscow CableCom (!!) owns 100 percent of the Moscow operator of cable TV and Internet

access under brand Akado. Over 81 percent of MCC belongs to Renova-Media Holding, which is controlled by Renova group. MCC shares are traded on the NASDAQ; its capitalization on January 18, 2007, was US\$137.3 million.

During the last year Comcor-TV increased the number of serviced Moscow apartments to 782,000, according to MCC. The number of pay-TV subscribers has doubled to 65,310 users from the beginning of 2006, while the number of its Internet users grew to 98,106. During the fourth quarter of 2006, MCC's revenues grew 50 percent to US\$8.3 million compared to the same period in 2005, and grew 2.4 times year-on-year to US\$22.51 million, reports Vedomosti.

According to iKS-Consulting, in 2006 the number of dedicated Internet access subscribers surpassed 1 million, and over 400,000 Moscow households use pay-TV services.

## VOIP

### **VocalTec Wins Multi-Million Dollar Deal in Russia**

VocalTec Communications Ltd., a global provider of carrier-class multimedia and voice-over-IP solutions for communication service providers, announced that Mobifon-2000 has selected VocalTec's Essentra VoIP technology for the build-out of its National and International next generation network. Mobifon-2000 is a licensed service provider offering wire-line and data services in Russia.

Mobifon-2000 and VocalTec have reached an agreement for the purchase of VocalTec products and services. VocalTec anticipates revenues of several millions of dollars related to this agreement over the next years, out of which product revenues of approximately two million US dollars are expected during the balance of 2007.

The VocalTec solution will enable Mobifon-2000 to build a national VoIP network, offering its customers a highly reliable network, while reducing costs, enhancing flexibility and enabling the rapid addition of new services and applications. The deployment includes VocalTec's Essentra CX Trunking solution, offering seamless connectivity to PSTN/SS7 services; the Essentra EX, Peering Manager, enabling secure IP-to-IP routing and service mediation, the Essentra OSS, Operational Support Server, a web-based management system, enabling remote element management; and the Essentra TMS, Traffic Management System, enabling effective utilization of network resources. The deployment will also feature a MAP gateway, enabling the termination of calls on the group's mobile network (Motiv [http://www.ycc.ru/about\\_eng/](http://www.ycc.ru/about_eng/)), thereby enabling the convergence of both wireline and wireless infrastructures.

"We have begun building our VoIP network to ensure we can continue to scale and meet our customers' growing demands and introduce new services, while maintaining our reliability and performance," said Nicolay Bezdenezhnykh, Director of Mobifon-2000 at Mobifon-2000. "Ensuring high voice quality is essential to building customer loyalty, and we are confident that the VocalTec Essentra solutions will enable us to deliver innovative services to our customers and build on that loyalty to attract new customers."

"We value the opportunity to work with one of the leading telecom operators in Ural region, Russia," said Mr. Yosi Albagli, President and CEO of VocalTec. "We have invested significant efforts in adapting our solutions to the Russian market and are committed to providing our customers with the technology and support they require in order to meet their business objectives. This is not our first NLD/ILD project in Russia and we are pleased that



Mobifon-2000 and others can benefit from our experience in deploying NLD/ILD next generation networks.”

## **CARRIER BUSINESS**

### **TransTelecom set to provide international and long-distance services**

The TransTelecom network is ready to offer international and long-distance services. It is expected that in May 2007 the operator will receive prefixes necessary for running long-distance networks. Currently TransTelecom is preparing a brand under which to offer these services. The ad campaign will commence in Autumn 2007.

### **Golden Telecom aims to attain 50 percent of Moscow fixed telephony by 2011**

Golden Telecom Group, along with Corbina Telecom, is planning to provide fixed telephony services in 65 Russian cities by 2011. Golden Telecom and Corbina Telecom jointly hold some 19 percent of the Moscow fixed telephony market. Their share nationwide reaches 14 percent to 15 percent. The group is set to increase its share to 50 percent by 2011.

## **CONTRACTS**

### **Nokia Siemens Networks supplies Next Generation Network technology to the Russian carrier MGTS**

Moscow City Telephone Network (MGTS), a city network carrier and the largest fixed-network operator in Russia, is replacing the legacy analog communications infrastructure of its network with Next Generation Network (NGN) technology, provided by Nokia Siemens Networks together with other suppliers.

For telephony, the solution from Nokia Siemens Networks consists primarily of

softswitches, which control gateways and provide subscribers with the complete range of services offered. Multimedia gateways connect new subscribers and ensure the smooth transfer from analog and digital exchanges to NGN network areas.

An essential requirement for MGTS was that the new NGN solution work seamlessly together with the existing TDM-based technology. Nokia Siemens Networks achieved this in the scope of the Converged Access solution with a uniform central management system for both technologies. Similarly, a comprehensive billing and monitoring system is provided. All of the conventional interfaces are entirely supported by the new solution. Altogether, this solution enables a gradual transfer from the previous to the next generation network technology.

The new network technology will create the potential for additional revenue streams for MGTS. For example, the carrier will be able to offer online games and other multimedia services requiring broadband access.

To enable this, MGTS has selected the access technology ADSL2+, which will be provided via an IP DSLAM (Digital Subscriber Line Access Multiplexer). This technology increases the maximum download data rate to 25 Mbit/s and makes it possible to transmit TV signals.

Moreover, the IP DSLAM from Nokia Siemens Networks can be used very flexibly; analog line cards for voice transmission and Ethernet or DSL cards can be used in a single chassis, saving the carrier money.

### **Golden Telecom Selects Veraz's Next-Generation Platform**

ECI Telecom, Inc. and Veraz Networks, Inc. announced that Golden Telecom, Inc., a leading facilities-based provider of integrated telecommunications and Internet services in

major population centers throughout Russia and other countries of the Commonwealth of Independent States (CIS), has chosen Veraz's platform for a massive upgrade of its TDM network to a next-generation network (NGN).

ECI, a global provider of networking infrastructure equipment, represents Veraz in Russia and the CIS countries.

Veraz, a leading global provider of IP softswitch and media gateway solutions, is providing Golden Telecom with its next-generation platform to expand their Federal Transit Network (FTN) in order to provide domestic long distance services. Veraz ControlSwitch™ Interconnect softswitch along with Veraz I-Gate 4000 PRO™ and I-Gate 4000 EDGE Media Gateways™ will be deployed across the entire Federal Transit Network for this TDM to IP switch migration.

Veraz's NGN platform architecture allows network system resources to be allocated proportionately between sites, and enables a smooth migration of the national long distance segment of the FTN by facilitating interconnection between legacy and NGN equipment. Additionally, Veraz's platform makes it easy to expand system capacity.

"We are very proud to be chosen to migrate one of Russia's largest national long distance networks from TDM to NGN," said Doug Sabella, CEO of Veraz Networks.

"This is a testament to the ability and flexibility of our ControlSwitch NGN platform to meet the demands of any size network, and it further strengthens our position in the fast-growing Russian market."

#### **SITRONICS and Wateen Telecom Sign Agreement for Delivery of FORIS NG Billing and Customer Care**

JSC SITRONICS (Sitronics), a leading provider of telecommunications, IT and microelectronic solutions in Russia and the CIS with a growing presence in other EEMEA

emerging markets, announced that it has signed a US\$ 7 million agreement with Wateen Telecom, the largest private sector communication company in Pakistan, to provide SITRONICS' flagship product, FORIS NG Billing and Customer Care, in Pakistan.

Within the framework of the contract, SITRONICS will provide its integrated FORIS NG Billing and Customer Care product, along with a number of network management solution products, enabling Wateen Telecom to expand its offerings in the local market. The project includes a 3-year managed services operation.

Mr. Igor Hulak, President of SITRONICS Telecommunication Solutions, commented: "The Middle Eastern and Asian telecommunications markets are two of the most rapidly growing in the world, prompting local operators to continuously enhance their network reach, quality and efficiency. We are confident that Wateen Telecom will benefit from SITRONICS's expertise in the field of OSS/BSS integration, especially in the billing and customer care domain, by having a product which will allow the Company to cater for its billing, CRM and management reporting needs. Recognizing the high potential and ever-increasing requirements of the local market, SITRONICS has established strong partnerships with major regional service providers and recently opened its subsidiary in Lahore."

Tariq Malik, Chief Executive Officer of Wateen Telecom, commented: "Wateen Telecom is building one of the most innovative, high performing and high availability IP-based communication networks in the country and abroad, offering IP-based quad-play (voice, video, data and mobility) services to business and residential customers. Our choice of SITRONICS as our partner in local and international projects was based on its expertise in providing complete integration and operational services, as well as on its experience

in the deployment of large scale complex projects in the region. Our growth and variety of services will demand scalability and shorter time-to-market, which is a promise that we are confident SITRONICS will fulfil with excellence.”

## WIRELESS

### MegaFon, MTS, and VimpelCom win 3G licenses

The Federal Communication Agency (Rossvyaz) issued 3G licenses to MegaFon, MTS, and VimpelCom, as was decided by the tender commission.

MegaFon was announced as the winner of the first tender, N1-RCh/2007, which included the frequency bands in 1935-1950MHz, 2010-2015MHz, and 2125-2140MHz Russia-wide.

“S was the winner of the next tender, No. 2-RCh/2007, and the following frequency bands were allocated to the operator: 1950-1965MHz, 2015-2020MHz, and 2140-2155MHz nationwide.

VimpelCom was announced as the winner of Tender N 3-RCh/2007, and was allocated the following frequency ranges: 1965-1980MHz, 2020-2025MHz, and 2155-2170MHz nationwide.

According to the tender terms, the license fee is 2.64 million rubles.

### Spring mobile growth

In April 2007, the number of mobile service subscribers in Russia grew 1.4 percent and reached 156 million, according to a report by AC&M-Consulting.

Of the 156 million subscribers in Russia, 48.8 million subscribers are in the VimpelCom network (26.3 percent of new additions in April), 51.8 million subscribers are with MTS (19.4 percent of new add-ons), and 31.3 million are with MegaFon (22.5 percent of new additions). The market shares for these three largest mobile

are “S: 42.2 percent, VimpelCom: 37.7 percent, MegaFon: 19.4 percent, with SkyLink having 0.7 percent market share.

Most subscribers of mobile services reside in Moscow and St. Petersburg. In terms of the growth of mobile subscribers in Moscow, “S led with 62.1 percent, VimpelCom had 37.3 percent, while SkyLink showed 0.6 percent growth. MegaFon showed some negative growth.

The mobile penetration in Russia by SIM cards reached 108 percent in April 2007. In Moscow and St. Petersburg, the mobile penetration levels were 162 percent and 141 percent, respectively, while in the regions the penetration was 98.7 percent.

### VimpelCom looks into fixed telecom business

VimpelCom, Russia’s second-largest mobile operator, has decided to enter the fixed communication market.

Alexander Izosimov, the company’s general director, finds this direction has the best prospects. In addition, the operator plans to develop media convergent services (mobile music and TV). This strategy has yet to be approved by the company’s board, but analysts think that it makes sense.

On its informal meeting with journalists at the 3G Congress in Barcelona, Izosimov shared his company’s future plans. He considered potential paths for VimpelCom’s business development, including geographic expansion in CIS and far abroad. However, today any acquisitions in foreign markets seem unlikely, as was proved by Hutchison Essar’s sale to Vodafone, where Russians participated in the tender with other international partners and lost.

“Vodafone purchase showed that it is difficult and expensive to go for ‘far abroad’ acquisitions (at any rate — in foreign enclaves

and large countries — 0s we are not interested in small ones),” said Alexander Izosimov. — Therefore, we need a partner.

This may be Telenor or any other financial investor, however in the current conflict situation [with Telenor] this is not yet possible. And in the issue of foreign market entry we will take an opportunistic position, i.e. if there is an opportunity, we will gladly use it.”

Aside from foreign markets, Alexander Izosimov considers VAS development (mobile music and mobile TV) to be a promising direction.

“Naturally, this direction is more long-term. However, we are not expecting significant revenue increase from this in the next two years,” noted Izosimov. In the near future, VimpelCom is planning the launch of a Moscow digital mobile TV network in DVB-H standard.

The third potentially interesting business direction for VimpelCom is fixed communication. “That’s what we are exactly doing in ArmenTel testing,” said VimpelCom’s head.

ArmenTel, acquired by the Russian operator last year, is Armenia’s traditional operator, as well as the first and largest mobile operator in the country. ArmenTel is a monopoly in the fixed market.

This strategy, which has not yet been approved by the company, was popular with market players and analysts, reports ComNews. The fixed-mobile convergence is a very interesting direction.

## MOBILE INTERNET

### VimpelCom and Google launch mobile news WAP-service

VimpelCom (BeeLine) and Google integrated Google news aggregators for mobile platforms on the operator’s WAP-portal. This new project will allow BeeLine’s subscribers to search news updates in various news portals.

### Kaspersky Lab and PlayMobile offer Kaspersky Anti-Virus Mobile

Kaspersky Lab, a developer of secure content management solutions, and content publisher PlayMobile (Next Media Group) announced the release of Kaspersky Anti-Virus Mobile 6.0, a product that protects mobile phones using Symbian and Windows Mobile operating systems against mobile malware.

The product protects smartphones from malicious programs and unsolicited SMS/MMS messages. Kaspersky Anti-Virus Mobile uses a combination of real-time antivirus protection and on-demand scanning to protect against threats, and also provides protection from unwanted SMS/MMS messages by blacklisting undesirable phone numbers.

Real-time antivirus protection monitors wireless connections and scans EMS/MMS messages, as well any data received from a PC during synchronization.

Its settings allow the user to view the phone’s antivirus status as well as the event log, which records all actions performed by the program.

### MTS and i-Free launch business WAP portal

Mobile Telesystems (MTS), a cellular operator in Russia and the former USSR, announced the launch of a new service: the Business WAP portal, designed in partnership with the largest Russian content provider, i-Free.

The Business WAP portal (wap.mtsbiz.ru) comprises several information modules covering Economic News, Company News, Stock Exchange News, Analysis and Ratings, and Business Press.

“We wanted to make our new resource as easy as possible to use, as well as ultimately informative,” said Kirill Gorynia, i-Free general director.

“Our new WAP portal will be helpful to anyone who is interested in any area of



economics and business, not just entrepreneurs,” noted Pavel Roitberg, product and service development director at MTS.

“The resource gives users standby access to the latest updates on many different aspects of business.”

A new module, Books on Business, is coming to the portal soon.

### **Svyaznoi subscribes customers to Gigafone**

Mobile-phone distributor and content provider Svyaznoi signed a cooperation agreement with the GDM Group providing a mobile advertisement service, Gigafone.

The Svyaznoi mobile shops are starting to offer subscription to the Gigafone service. Gigafone is a special application working on Symbian and Windows Mobile and displaying an ad banner on the mobile-phone screen when the user receives a call or SMS. For every banner exposure, the user gets some small amount of money (up to \$0.1) to her or his mobile-phone account.

The money can be used to pay for mobile services or even cashed out from the operator’s account. According to the GFK market research company, in 2006 smartphone annual sales growth reached 39 percent in Moscow and 68 percent in St. Petersburg.

Daniil Pokolodny, Svyaznoi’s business development department head, said that smartphone sales in the Svyaznoi retail network had increased by 91 percent in 2006.

## **SATELLITE**

### **Russian Space Communication and Gazcom to launch new satellites in 2007-08**

In September and December 2007, FSUE Russian Space Communication, Russia’s largest satellite operator, will launch two new satellites. Its competitor Gazcom will launch its two satellites in 2008.

As the market has a significant lack of satellite capacity, this resource build-up comes right on time. Yet, the overall deficit will not be covered by these four launches, as the market demand is much higher.

GAZCOM’s satellite coverage zone encompasses Russia, Europe, Asia, the Middle East, and North Africa. The company has 5 orbital positions, and currently has three satellites: Yamal-100, 201, and 202. In November 2008, two new satellites — Yamal-301 and Yamal-302 — will be added.

These satellites are produced using credit means (the first Yamal was financed by Gazprom itself). The payback period for each satellite is five to six years, while it serves 14 years. Payback depends on speed of filling the transponders. And Gazcom is not worried about its client base: currently the operator serves 150 Russian companies, including Rostelecom, Orange (Eqauant), Set Telecom, and Moscow Teleport. Many companies have already requested upgrades of their transponder capacity, reserving space on new satellites. Already, most of the new satellite capacity has been booked by clients.

Russian Space Communication will also launch satellites this year. The operator also uses project financing. The launch of the Express □-33 satellite is expected in September 2007, while a new Express □-44 will be launched in December 2007. The period of guaranteed satellite life is 12 years, while recuperation of investments takes three to four years. Due to enormous demand 75 percent to 80 percent of the capacity on some of the satellites has been booked, with some as high as 95 percent.

Express □-33, which will replace Express AM-11, is ideal for digital television and radio broadcasting in the Siberian region, as well as regional communications, commentd Set Telecom’s general director, Sergey Pekhterev.



It will not be suitable for federal operators, as it is practically unreachable from Moscow. The second satellite, Express □-44, is in a much more competitive spot, Western Europe, and will not be of much interest to Russian telecom companies.

One of Gazcom's satellites, Yamal-302, will be very popular with Russian telecom and television broadcasting companies. This type of satellite can bring to the operator some US\$200 million during its orbit life. Set Telecom's top manager believes that currently Russia is a "seller's market."

The satellites set for orbit will only help to improve the situation for about one or two years; there are so many large projects in Russia that require great capacity in the near future, such as a national school Internet program, where some 10,000 VSATs will be deployed; telemedicine; and HDTV development projects. According to FINAM, the demand for satellite capacity in Russia is growing 15 percent to 20 percent annually.

### **ZAO Synterra purchases 100 percent of ZAO Satcomline**

ZAO Synterra purchased 100 percent of the shares of satellite operator ZAO Satcomline. Analysts estimate that the cost of the contract is over US\$21 million.

Created in 2006, ZAO Satcomline is a satellite service carrier that controls over 30 terrestrial satellite stations nationwide. The total frequency capacity is 450MHz. The company owns licenses for various telecom services for 51 Russian regions. Satcomline's expected revenues in 2006 are around US\$10 million.

According to Vitaly Slizen, Synterra's general director, this acquisition will help Synterra to solidify its position on the Russian carrier market. In addition, Synterra is responsible for a large-scale project of connecting Russian high schools to the Internet,

and is hoping to use its new asset for the implementation of this task.

### **Gilat Chosen to Provide SkyEdge Broadband Satellite Network to One of Russia's Largest Telecom Operators, Sibirtelecom**

Gilat Satellite Networks Ltd. announced that it has been chosen by one of Russia's largest telecom operators, Sibirtelecom, to provide a SkyEdge broadband satellite network. The SkyEdge network, comprising more than 1,200 VSATs, will be used to bring telephony and broadband Internet services to remote communities throughout Siberia.

The network will be developed by Russia's leading satellite service provider, Joint-Stock Company Global Teleport. Gilat has been working closely with Global Teleport to develop a number of major communications networks within Russia. Global Teleport recently added a SkyEdge Hub to its facilities in Novosibirsk to serve the Siberian region.

By deploying Gilat's SkyEdge solutions, Sibirtelecom will fulfill its Universal Service Obligation (USO) to meet the modern telecommunications requirements of Russia's rural communities.

Gilat's SkyEdge solution will enable Sibirtelecom to expand services to remote areas quickly, seamlessly and affordably. Over 1,000 SkyEdge VSATs will be deployed in schools, businesses and public call offices in Siberia. The network will also include 125 SkyEdge VSAT Gateways that provide high-speed mesh trunking and IP connectivity.

One of the important requirements for Sibirtelecom was the support of both mesh and star topologies on the same network by Gilat's SkyEdge hub. Mesh voice calls have better voice quality, require lower space segment costs and enable a simpler network architecture that complies with the regulatory requirements in Russia. Star topology is preferred for Internet

traffic only. The complete SkyEdge solution will enable Sibirtelecom to provide services of toll-quality telephony and broadband Internet connectivity to the region's most remote locations.

In addition, at Sibirtelecom's request, Gilat developed an integrated solution to monitor and prevent un-authorized use of telephony traffic from Sibirtelecom's public payphones.

Erez Antebi, CEO of Gilat Network Systems, said, "This agreement is the latest example of Gilat's ability to bring dependable telephony and broadband Internet services to citizens in the Russian Federation in a cost-efficient manner, regardless of geographic location.

We will apply our innovation and experience to help Sibirtelecom meet the demanding USO requirements specified by the Russian Telecommunication Ministry and Svyazinvest, Russia's largest telecommunications holding company wholly owned by the Russian government – thus improving the quality of life for citizens in Russia's rural areas."

As part of its commitment to the Russian market, Gilat recently launched a new Russian language web site, available at [www.gilatnetworks.com](http://www.gilatnetworks.com).

## MERGERS AND ACQUISITIONS

### **Golden Telecom acquires 51 percent Corbina stake worth \$162 million**

Wireline operator Golden Telecom of Russia has acquired a 51 percent stake in broadband supplier Corbina Telecom for \$162 million in shares and cash. Though the deal was announced in December 2006, regulatory and shareholder consent delayed the acquisition. The firms will be investing \$1 billion spread over the next four years for high-speed networks in 65 cities of Russia.

## BUSINESS

### **Tele2 announced its development plans in Russia and the Baltic States**

Lars-Johan Jarnheimer, Tele2 president and CEO, said that the company holds a stable competitive position in the global telecom market. Jarnheimer forecasts EBITDA margin will reach 35 percent to 40 percent in Russia and 30 percent to 40 percent in the Baltic States in the near future. Tele2 believes that its Russian clients' base will total 10 million to 11 million, while ARPU will grow to US\$10.

Currently, Tele2 Russia holds 17 licenses to provide mobile network services and covers territory with population of 38 million people. Its distribution network consists of 35,000 retail outlets. Tele2 Russia staff amounts to 1,600 employees in six time zones.

Due to the recent mobile interconnect charge increase, major Russian mobile operators cut prices and carried out other urgent actions. Nevertheless, Tele2 holds its market share. Tele2 subscribers' satisfaction is constantly growing, and subscribers' churn rate has stabilized at 40 percent to 45 percent. Tele2 ARPU and revenues demonstrate accelerating growth.

Jarnheimer said, "Tele2 has entered a new stage of development, because provision of mobile and broadband communication network is becoming the priority area. That is why at present we are working at strengthening the managing team and enlisting specialists from abroad. Russia is the most rapid-growing Tele2 region, that is why everything I say about the company's global policy is connected with Tele2 Russia first of all. Besides, the company plans to proceed with investments into regional network development."

Jarnheimer added, "The Russian economy is very powerful at present, but still its dependence on the oil and gas is very strong.

The company plans further regional expansion and strengthening its positions in the telecommunication market. At present we are actively widening GSM 900/1800 license zone and do not exclude the possibility of some auctioned operators' selective absorption. Besides, the company intends to compete for receiving the forth or the fifth license for 3G services provision. It should be noted Tele2 Holding expertise in 3G network exploitation in most of European countries is large, so the company is ready to use it in Russia."

### **Alexey Reznikovich becomes chairman of the board of Golden Telecom**

Mr. Alexey Reznikovich has become the new chairman of the board of Golden Telecom. He replaced Mr. Peter Aven, president of Alfa Bank, who headed the Golden Telecom board since 2001.

Golden Telecom is one of the largest alternative fixed telecom operators in Russia. 29 percent of its shares belong to Altimio, 20 percent to Telenor (Norway), and 11 percent to Rostelecom. GT's revenue for 2006 was US\$854.6 million, while its net profit was US\$85.5 million. GT's capitalization was US\$1.95 billion as of May 18, 2007.

### **Comstar Appoints New Vice President for Marketing**

COMSTAR – United TeleSystems JSC (Comstar), a leading combined telecommunications operator in Russia and the CIS, announced the appointment of Sergey Nazarov as Vice President for Marketing. Mr. Nazarov was formerly Deputy General Director and Commercial Director of JSC Center Telecom.

Mr. Nazarov will be responsible for the development of an integrated marketing and branding strategy for the Group, as well as the enhancement of Comstar's competitive position

through increased marketing activities, the creation of new tariff policy and the introduction of new products and services.

Mr. Nazarov graduated from the Moscow Institute for Physics and Technology, where he specialized in Applied Mathematics and Physics. He holds a Postgraduate degree from the Moscow Technology University for Communication and a degree in Finance from the Higher School of Economics. He also holds a PhD in Technical Sciences specializing in telecommunications. Mr. Nazarov previously worked for AT&T and Lucent Technologies in Moscow.

## **COMPANY NEWS**

### **SvyazInvest plans to increase net profit to US\$0.77 billion**

In 2007, SvyazInvest is planning to increase its net profit to US\$0.77 billion (6 percent growth). The revenues of SvyazInvest in 2007 should increase 9 percent to US\$8.8 billion. Sales profit would grow 5 percent to US\$1.8 billion. SvyazInvest plans to have its EBITDA at US\$2.59 billion, a 13 percent increase compared to 2006. SvyazInvest expenditures should increase 10 percent to US\$7.11 billion.

### **SvyazInvest companies increase xDSL used capacity to 690,000 ports in 2006.**

In 2006, SvyazInvest companies increased their broadband xDSL used capacity to 690,000 ports, from 120,700 ports in 2005.

According to Mr. Alexander Kiselev, SvyazInvest director general, the company installed some 12,000 long-distance and inter-zonal telephone lines in 2006. The volume of new telephone lines in urban and rural areas has decreased from 2.2 million in 2005 to 1.4 million in 2006. According to Prime Tass, CapEx reached some US\$1.5 billion, including US\$0.5

billion (32 percent) for development of new services, US\$0.43 billion (28 percent) for traditional telephony, and US\$0.45 billion (29 percent) for SvyazInvest operator infrastructure development.

### **Renova-Media shareholders set target to grow capitalization to US\$2.5 billion by 2009**

Renova-Media shareholders set an ambitious target to grow the holding's capitalization to US\$2.5 billion by 2009.

To reach this goal, the company plans to acquire new companies and develop existing telecom assets.

The Moscow region and Minsk, Belarus, are two major markets where Renova-Media operates. In addition, the company is planning to develop networks in St. Petersburg and Yekaterinburg, where they are currently negotiating acquisitions of local companies. In 2007, Renova-Media investments in the expansion of broadband access networks will grow threefold compared to 2006 to reach US\$300 million.

## **MARKET INTELLIGENCE**

### **IDC: Sales of GSM phones decline 8.1 percent year-on-year in Russia in 2006**

IDC reported that sales of GSM handsets in Russia declined 8.1 percent year-on-year during 2006. However, the increasing shift in market towards high-end models triggered an increase in revenues by 6 percent year-on-year for the same period. IDC expects mid-range models to play an important role in the Russian market, which is already saturated with an expected recovery in the near future.

The decline in sales could be attributed to high maturity levels in the Russian market. Sales are likely to bottom out in 2007 and then grow steadily like in Western European markets, where replacement buying is now the norm, said

Simon Baker, program manager of Russia's IDC.

IDC further said that GSM was the dominant technology in Russia. GSM handsets contributed to almost 99 percent of the total sales in 2006.

However, sales of CDMA handsets surged 14 percent during the period. Nokia, Samsung, and Motorola are the leading vendors in the country controlling a joint market share of over 60 percent. IDC expects the Russian market to dip further during 2007 and then start recovering by late 2007 or early 2008. Sales volumes are expected to continue growing during the five years to 2011.

The entry-level handsets would be a critical category; however, mid-range and high-end models will also play a major role in the market during the five-year period.

### **1.5 million mobile phones sold in Russian Far East in 2006**

The total amount of mobile phones sales in the Far Eastern Federal District in 2006 reached 1.5 million terminals.

This includes sales of federal and local mobile retail companies. According to experts, the shares between federal and local brands in FEFD are 60:40, respectively, while in Russia it is 70:30.

All major national mobile retail networks are well represented in the Russian Far East. They include Euroset, Divizion, Dixis, Tsifrograd, and Svyaznoy. Euroset is the undeniable leader in the region, with 175 mobile retail stores.

### **Total sales volume of smartphone and PDA devices in Russia exceeded 1.5 million in 2006**

According to SmartMarketing, in 2006 total sales volume of smartphone and PDA devices in Russia exceeded 1.5 million, which is a fourfold growth year-on-year. In the PDA



market segment, negative trends prevailed, but the smartphone market showed some good growth.

The Russian analyst group SmartMarketing announced the completion of its Wireless Information Devices-2006 (WID) research. Based on the company's terminology, WID includes smartphones and PDAs. While in 2005 some 393,000 WIDs were sold, in 2006 their volume reached 1.506 million, a 383.2 percent growth in sales volume.

### **Russian ICT sector revenues grew 20 percent to US\$44.69 billion in 2006**

Leonid Reiman, Russian Minister of Information Technologies and Communications (MITC), reported that Russian ICT sector revenues grew 20 percent to US\$44.69 billion in 2006 ([www.minsvyaz.ru](http://www.minsvyaz.ru)). The Russian IT market grew 17.3 percent to US\$13.90 billion.

According to Reiman, ICT revenues grew due to increased investments to the sector. Local investments reached US\$5.7 billion (7 percent growth), while foreign investments reached US\$4.2 billion, 19.5 percent growth compared to 2005. This includes foreign investments in the Russian IT sector, which

surpassed US\$1 billion. The total number of mergers and acquisitions was 30, which were worth over US\$2 billion.

### **Telecom service licenses in Russia grew by 43 percent to 7,700**

The number of telecom service licenses in Russia grew by 43 percent to 7,700 licenses in 2006. According to Mr. Valery Bugaenko, head of Federal Communication Control Service, in 2006 the total number of licensees in the telecom service sphere reached 11,371, a growth of 39 percent. According to Bugaenko, the number of audits also decreased by 35 percent and accounted for 24,293 inspections.

### **Universal service fund reached US\$307 million in 2006**

The monetary volume of the universal fund exceeds US\$307 million, reported Andrey Beskorovainy, head of the Federal Communication Agency. As [www.minsvyaz.ru](http://www.minsvyaz.ru) reported, in 2007 operators will be able to receive funds for provision of universal services in Russia. Some 21 Russian operators won tenders to provide these services, and their total contract volume exceeds US\$423 million.

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