

VTB to Sell Tele2 Russia Stake, Fueling Consolidation Talk

By [The Moscow Times](#)

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VTB is to sell 50 percent of its mobile phone operator Tele2 Russia to a group of investors, in a deal expected to be worth about \$2 billion and which stoked talk of an eventual tie up between Tele2 and rival Rostelecom.

Russia's mobile market is dominated by three companies — MTS , MegaFon and VimpelCom. Smaller players have little room to grow client numbers as many Russians already own more than one SIM card, fueling speculation that they will consolidate to step up the challenge to the "Big Three".

"I think this is just the first part of a deal, and the next step is likely to see Rostelecom join its [mobile] assets with Tele2 and get a stake in the united company," said Anna Lepetukhina at Sberbank Investment Research.

Yury Soloviyev, first deputy president of VTB's management board, said Friday that VTB

would sell 50 percent of Tele2 Russia to a group of investors, including affiliates of Bank Rossia and Alexei Mordashov's steelmaker, Severstal.

The deal represents a quick turnaround for VTB, which bought industry No. 4 Tele2 Russia in April for \$3.6 billion from Sweden's Tele2. VTB had said it was not looking to hold the asset for the long term.

The deal could be worth about \$2 billion including debt, according to the valuation VTB gave for Tele2 Russia in its last financial report. That valuation — as of the end of June — showed the asset rose about 20 percent in value in the first three months of ownership. VTB declined to comment on the price.

A tie up between Tele2 Russia and the mobile arm of state-controlled Rostelecom, which is the country's fifth largest mobile operator, has long been speculated.

Vedomosti reported last month that Rostelecom had hired JPMorgan, Credit Suisse and accountancy firm PricewaterhouseCoopers to advise on a possible joint venture with Tele2 Russia.

The company could put its mobile assets under the management of an unspecified partner to focus on cable television in a strategy shift, Rostelecom's chief executive Sergei Kalugin said last week.

Analysts speculated Tele2's new shareholders might look to set up a joint venture with Rostelecom. The new investors declined to comment Friday.

Tele2 only has 2G, voice-focused licenses, while Rostelecom has both 3G and 4G permits which allow it to provide fast mobile internet services.

"If Tele2 gets 3G licenses, it will be able to compete with the Big Three in offering mobile internet ... but it will of course take time," Lepetukhina said, adding that launching in Moscow would be crucial for its success.

Bank Rossia, which is part-owned and chaired by Yury Kovalchuk, an old acquaintance of President Vladimir Putin, said last week it was considering taking part in a deal for a stake in Tele2 Russia.

A spokesman for the St Petersburg-based bank confirmed it planned to participate in the deal with VTB, saying the state competition regulator had given it permission. But it declined to provide any details or to discuss its plans for Tele2 Russia.

Severstal declined all comment. However, a source familiar with the situation said that Mordashov's connections rather than those of Severstal were participating in the deal.

According to media reports, the group of investors included a third buyer, but neither VTB nor Bank Rossia identified them. Vedomosti reported last week that Bank Rossia could partner with lender Gazprombank and oil firm Surgutneftegaz.

In its first-half earnings report, VTB said Tele2 Russia was worth 126.4 billion rubles (\$3.9 billion), suggesting a 50 percent stake would be valued at about \$2 billion before stripping out

debt which stood at \$1.1 billion as of June 30.

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