



CEE WEATHER REPORT – Telecom


Issue # 1 – June 2008

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 **UniCredit**
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A joint publication by UniCredit and Roland Berger – the "CEE Weather Report – Telecom" – covers selected markets

Description of the idea – Scope of report

Regional scope of report



- Periodicity: Half yearly (June and November)
- Length: 12-16 pages

Content

- **First page**
 - Content, summary of report and KPI overview table (Fixed and mobile penetration, ARPU, total revenues, etc.)
- **Highlight article**
 - A special topic, relevant for the whole region is addressed in each issue (e.g. Incumbents comparison, status of regulation, 3G, etc.)
- **Country comparison**
 - Analysis and comparison of key performance indicators and its development (ARPU, penetration, MoU, etc.) on a country level
- **Regional fact sheets**
 - Analysis of each country individually on an operator level using KPIs for mobile and fixed operators (Market share, EBITDA margins, subscriber numbers)

First report published in **June 2008** – Highlight article "**Who are the successful incumbents?**"

The different strategies Eastern European incumbents chose to be competitive is compared and their success analyzed

This issues highlight article: "Who are the successful incumbents?"

Article rationale

- CEE incumbent operators are today running up against the same sort of problems that plague their Western European counterparts
- The journey operators took to reach this level differs from country to country, with varying outcomes and degrees of success
- Goal of the article is to present the strategies taken by different companies and analyze their success in terms of a financial comparison

Structure

- 1 Overview privatization and liberalization in CEE**
- 2 Problems incumbents have to face today**
- 3 Counter strategies**
- 4 Success analysis – Financial comparison**
- 5 Conclusion**

Most incumbents in CEE are already privatized – Liberalization often goes hand-in-glove with privatization

Overview privatization and liberalization in CEE

	Bulgaria	Czech Republic	Hungary	Poland	Romania	Russia	Serbia	Ukraine
Year of privatization	2005	2005	1997	2001	1998	2006	2003	2008E
Today's name of incumbent	BTC	Telefónica O2	Magyar Telecom	Telekomunikacja Polska	Rom-telecom	Svyaz-Invest	Telekom Srbija	Ukr-telecom
State's share in incumbent [%]	0	0	0	0	46	53	80	100
ILD opening	n.a.	2001	2002	2003	n.a.	2006	Not yet	Not yet
DLD opening	n.a.	2001	2002	2001 (3 licen.); 2002 (full)	n.a.	2006	Not yet	Not yet
Local telephony opening	n.a.	2001	2002	1995 (limited); 2002 (full)	n.a.	Based on license	Not yet	Not yet
Number portability – fixed line	2009	2003	2004	Not yet	2008	n.a.	Not yet	Not yet
Number portability – mobile	2007	2006	2004	2006	2008	No progress	Not yet	2007

Targets of privatization

- Profit from a one-time cash infusion
- Boost investments in telecom infrastructure

Targets liberalization

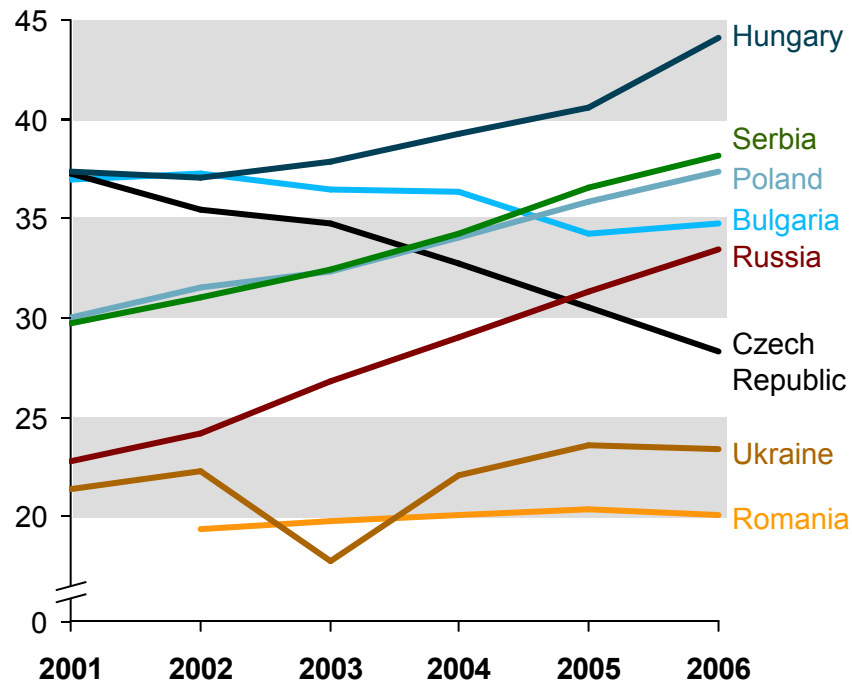
- Boost monopolists' performance by forcing it to deal with competition
- Push technical development
- Ensure that more services are offered at better quality and lower prices

ILD ... international long distance; DLD ... domestic long distance; LLU ... local loop unbundling

Main problem is fixed-mobile substitution – What to do with fixed network infrastructure?

Problems incumbents have to face today

Fixed-line penetration [% of households]



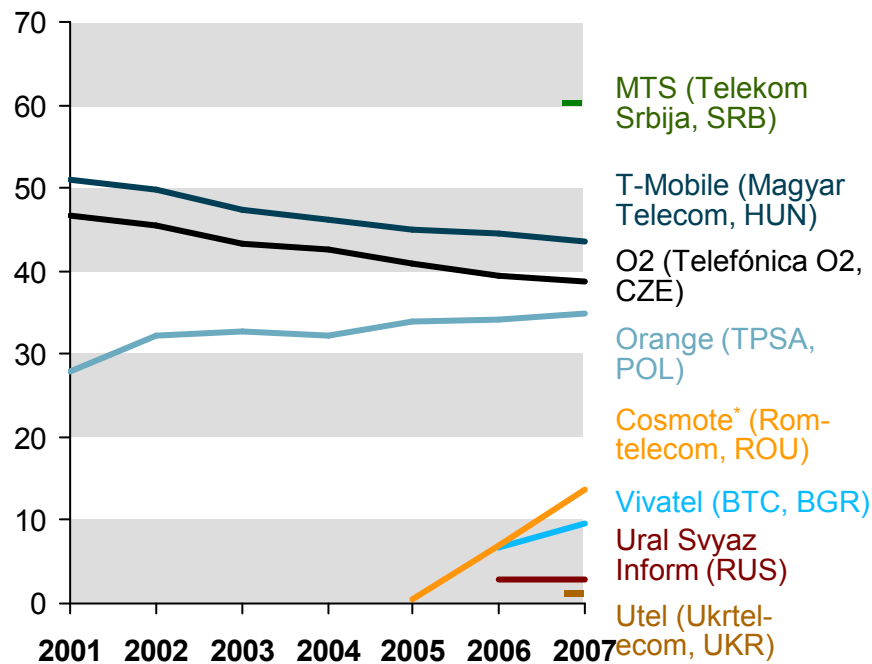
Comments

- Low fixed line penetration **drives fixed-mobile substitution (FMS)**
- Furthermore this **limits future broadband growth**, which makes it difficult for incumbents to attract customers with new fixed-line products
- Other hindrances for broadband growth are the poor quality of the fixed line networks and low computer ownership
- **Internal/organizational problems**
 - low efficiency (internal processes)
 - high number of employees
 - bureaucracy
 - inefficient and out-dated marketing

To benefit from FMS every incumbent launched its own mobile operators – Year of launch counts

Counter strategies – Launch of mobile units

Market share of the incumbents' mobile operators [%]



Comments

- The launch (acquisition) of mobile operators was a major strategy to benefit from FMS
- There is a clear dependency between success and the year in which to launch of the own mobile operator was done

Next-generation networks and cross-border shared services are still not present in the focus countries

Countermeasures – Strategy Overview

	BTC (BGR)	Telefónica O2 (CZR)	Magyar Telecom (HUN)	TPSA (POL)	Rom- telecom (ROU)	UralSvyaz- Inform (RUS)	Telekom Srbija (SRB)	Ukr- telecom (UKR)
New products:								
Mobile services	✓	✓	✓	✓	✓	✓	✓	✓
Broadband incl. IP-TV	X	✓	✓	✓	X	✓	X	X
FMC ¹⁾ products	X	✓	(✓)	(✓)	(✓)	X	X	X
IT services	X	✓	✓	X	X	(✓)	(✓)	X
Organizational issues:								
OPEX reduction measures	✓	✓	✓	✓	✓	✓	X	X
NGN ²⁾ pilot	X	X	X	X	X	(✓)	X	X
Cross-border shared services	X	X	X	X	X	X	X	X
Integration of mobile and fixed	X	✓	✓	✓	X	(✓)	X	X

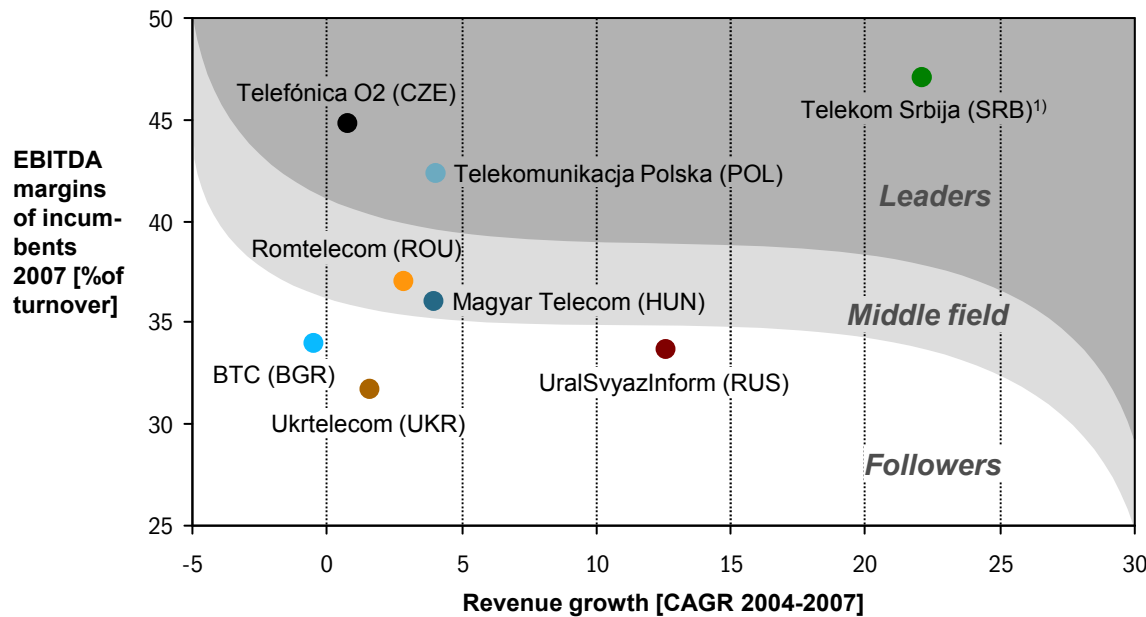
✓ ... Offered/performed (✓) ... Only partly offered/performed X ... Not offered/performed

1) Fixed-mobile convergence products 2) Next generation network

The incumbents have been clustered into three groups – Leaders, Middle Field and Followers

Success analysis – financial comparison

Financial comparisons of incumbents



Comments

- Special situation for Telekom Srbija because of monopolist status
- Telefónica O2 Czech, TPSA, Romtelecom und Magyar Telecom are supported by Western strategic investors (Telefónica, France Telecom, OTE, Deutsche Telekom)
- BTC and Ukrtelecom have both mobile operators with very low market share
- UralSvyazInform has a general operator strategy with low efficiency

1) EBITDA margin 2006

Daily business will become more difficult – Product strategy, internal efficiency and adaptability will be crucial

Conclusion

- A successful mobile unit clearly separates leaders and middle-field players from weaker ones
- The ability to offer FMC products (e.g. attractive bundles) also lifts the leaders and middle field incumbents above their peers
- Incumbents with strong strategic investors performed better than others
- Efficiently implementing differentiating product groups such as IP-TV, fixed-mobile convergence products and IT-services will be critical for success in the future
- Improvement of internal efficiency and adaptability is necessary for the incumbents

Issue # 2 will be published in November 2008

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