



Broadband growth opportunities: European operators look to Eastern Europe and beyond

Saturated Western European market encourages operators to look further for growth

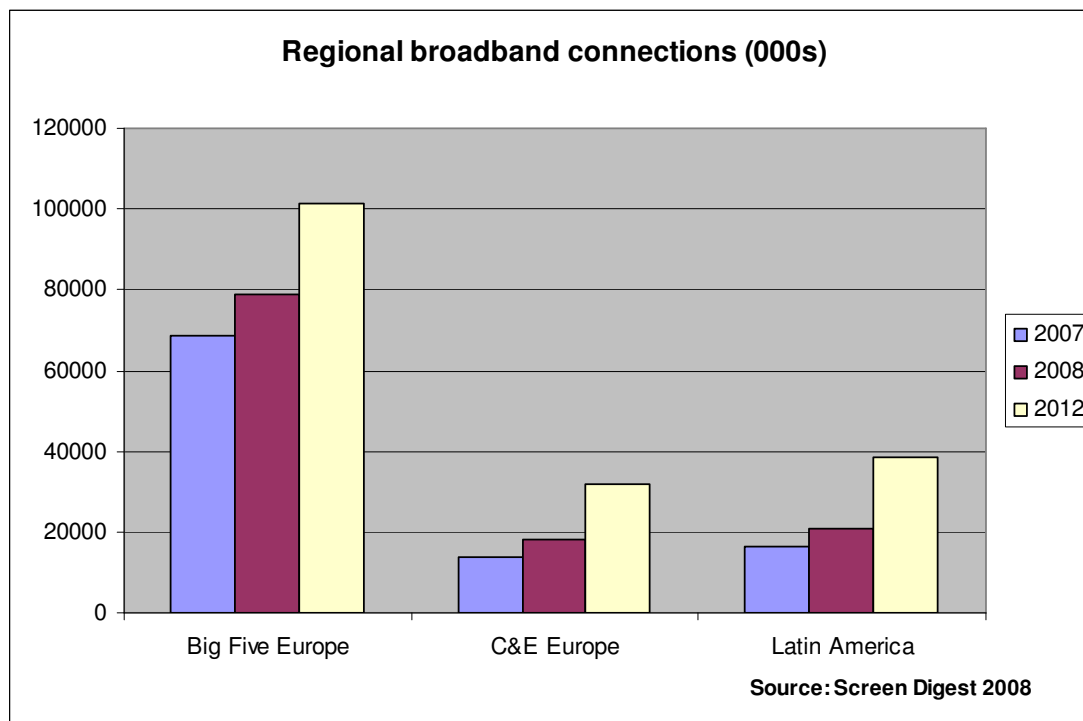
London 22nd January 2008: Research from media analyst firm Screen Digest (www.screendigest.com) released today reveals that faced with tight competition and the widespread take-up of broadband in domestic markets, the 'Big Five' European telco operators have been expanding into less developed regions to supplement revenues – some more so than others. France Telecom, Deutsche Telekom and Telefonica in Spain have been busy acquiring stakes in overseas operators to provide access in up-and-coming regions. Telecom Italia has been less active in younger broadband markets, remaining focused on Western Europe. Only British Telecom has restricted itself to its local markets in the UK and Ireland.

Margins tighten for ISP's in Big Five European markets

Stiff competition and regulation has driven down the price of broadband access in the Big Five European markets. While this is good news for consumers, Internet Service Providers (ISP's), along with the telecoms industry as a whole, have seen margins tighten. In extreme cases, intense competition has pushed providers to offer broadband as a 'free' add-on for customers signing up to other services – a strategy introduced to the UK by Sky and the Carphone Warehouse. In an effort to boost revenues from users and dissuade them from switching to rivals, incumbents and their competitors have offered multiple service packages including broadband, television, mobile and fixed phone. Yet with broadband penetration in these five countries standing at 44 per cent at the end of 2007, compared to only 13 per cent in Central and Eastern Europe and Latin America*, operators have been looking further afield to retain and grow their revenues (see chart).

Emerging markets offer attractive returns

Despite the hindering factors including lack of infrastructure and often low PC-penetration, there are two compelling factors for the five main European operators to invest in emerging markets. Weaker competition frequently means that network operators can charge high fees for broadband access compared to average income levels, and defer upgrading networks to offer faster connection speeds. And unlike the 'Big Five' markets, regulation tends to be more lax, allowing many operators to enjoy greater freedom in broadband access, with some having a virtual monopoly in DSL provision.



Deutsche Telekom, France Telecom and Telefonica opt for Eastern Europe

Connections rose by 44 per cent in Central and Eastern Europe last year. Whilst broadband has penetrated widely in Estonia at 49 per cent and Slovenia at 43 per cent at the end of 2007, with less than 7 per cent of homes connected to broadband at the end of last year, Russia offers operators much potential for growth.

In Central and Eastern Europe, Deutsche Telekom has a stake in incumbent operators in Slovakia, Croatia and Hungary, and related holdings in Macedonia and Montenegro. Telekomunikacja Polska, the Polish incumbent, is a subsidiary of France Telecom, while Cesky Telecom in the Czech Republic is a unit of Spanish operator Telefonica.

Telefonica takes the lead in Latin America

Over the next five years, average consumer broadband penetration in Latin America is anticipated to hit 30 per cent of homes. Connections in Latin American increased 41 per cent during 2007, nearly double the 23 per cent increase experienced in the Big Five in Europe. With an estimated 7.4 million broadband connections at the end of 2007, Brazil is the biggest market, whilst with just under one in four homes activated by the end of 2007, Chile is the most developed market. Of the Latin American markets covered by Screen Digest, penetration is the weakest in Colombia with 7 per cent of homes live on broadband.

Spanish operator Telefonica is best placed to take advantage of developing markets in this region, having cemented a leading position as the parent of incumbents in Argentina, Brazil, Chile and Peru. Following its winning bid for a controlling stake in Colombia Telecom in 2006, Telefonica's presence there is growing rapidly. Telecom Italia meanwhile has a holding in Telecom Argentina, competing with Telefonica de Argentina in supplying access.

James Garlick, analyst at Screen Digest says "Obviously there are significant costs when expanding geographically, but with increasingly saturated domestic markets, the European operators have been forced to look to international markets for new customers. What is interesting is that British Telecom has bucked this trend by holding back on consumer broadband overseas, preferring to concentrate on acquisition to consolidate its position in the UK. However, its recent joint bid to buy a stake in Slovenia's incumbent operator suggests that intense competition at home may have factored in BT's decision to make its first foray into an emerging market."

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Notes to editors

* Year-end 2007 figures are estimates pending final quarter results

Latin American countries covered in this release: Argentina, Brazil, Chile, Colombia, Mexico

Central and Eastern European covered in this release: Czech Republic, Estonia, Hungary, Poland, Romania, Russia, Slovakia, Slovenia

About this research

The data and analysts in this press release are taken from Screen Digest's broadband service, which continuously tracks the growth of broadband across 44 countries.

About Screen Digest

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