TEO: TENDENCIES OF TELECOMMUNICATIONS SERVICES AND MARKET

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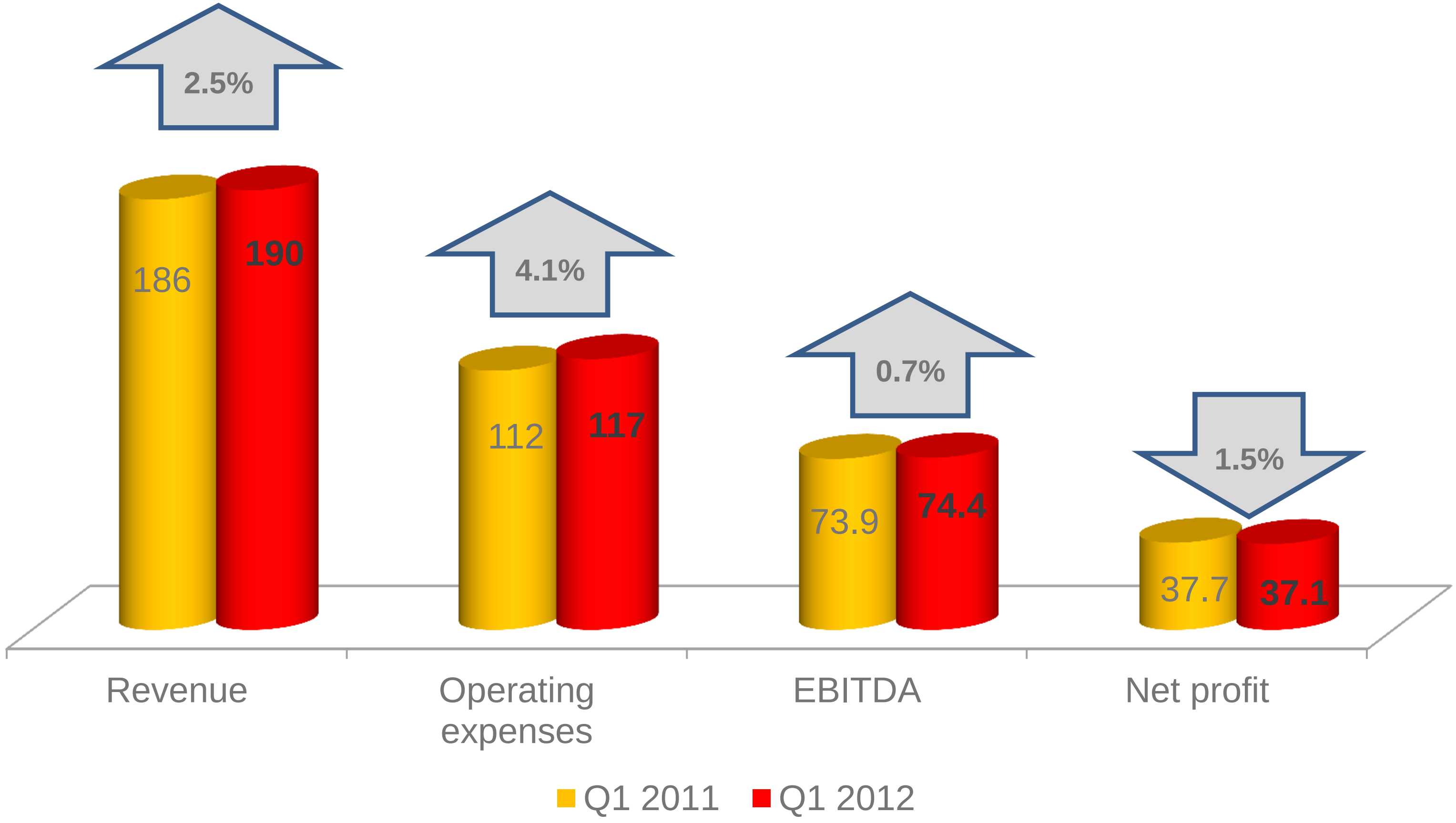
HOW ARE WE DOING?

Main figures

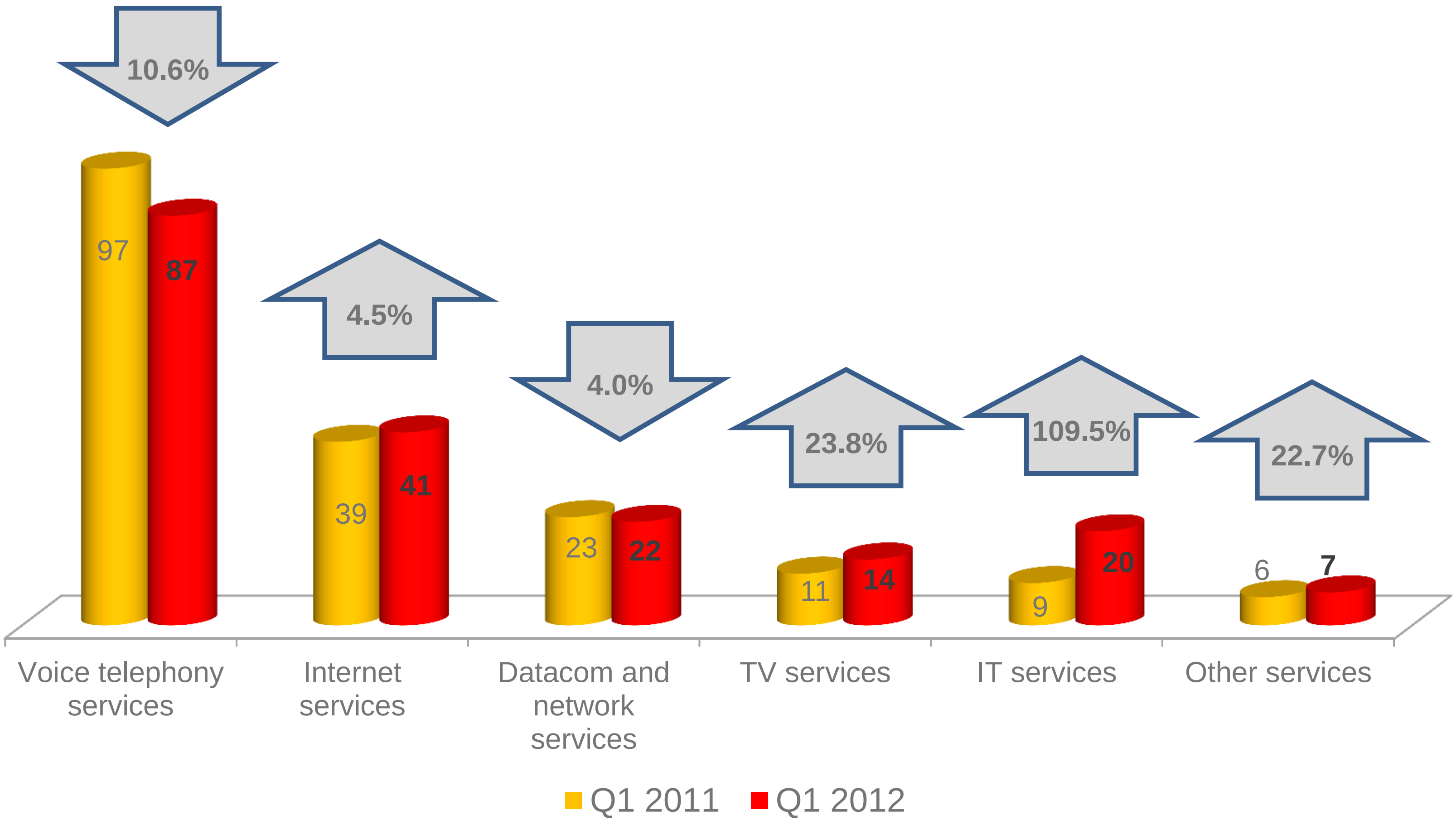
Revenue

Investments

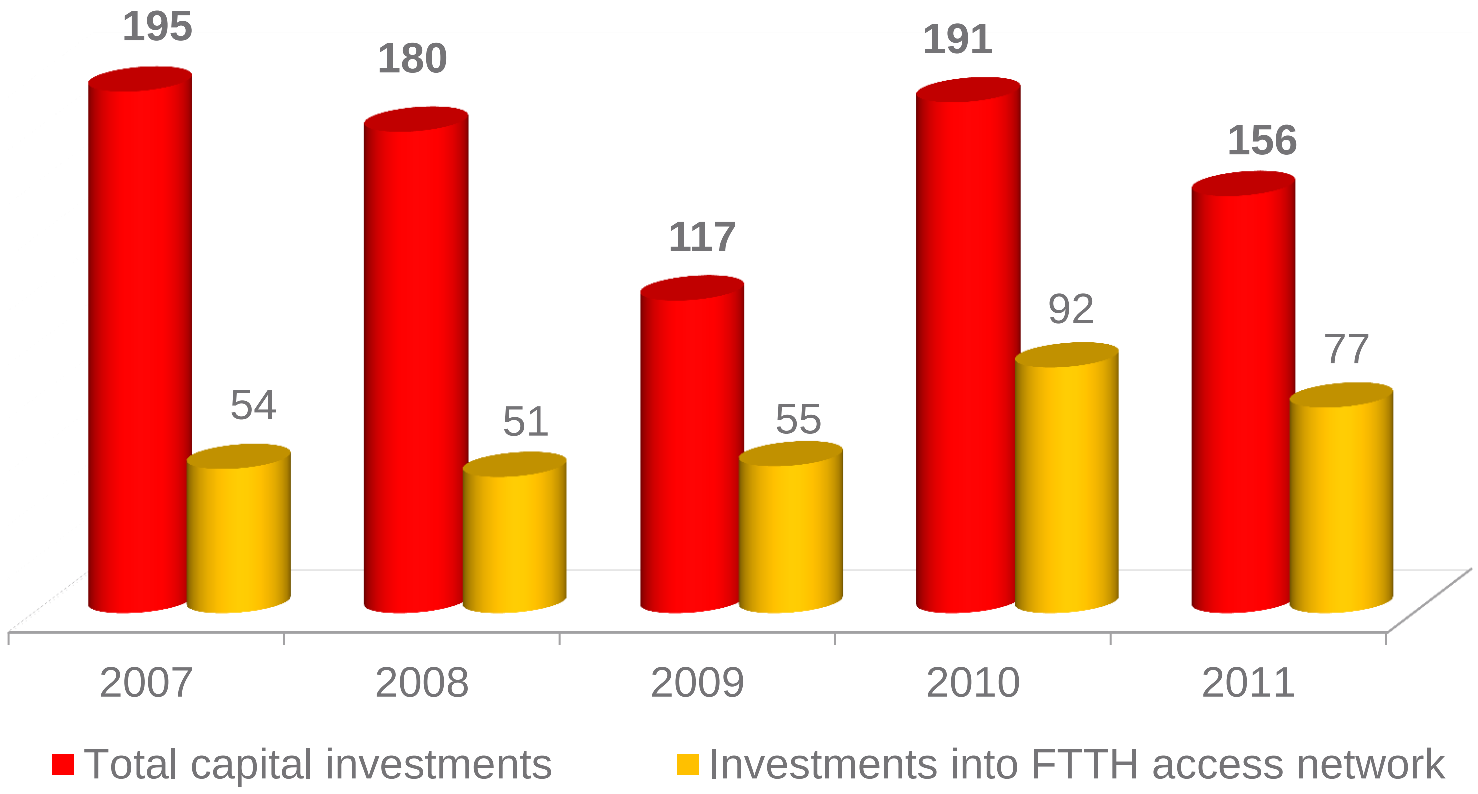
DYNAMICS OF **TEO** MAIN FINANCIAL INDICATORS (LTL MILLION)



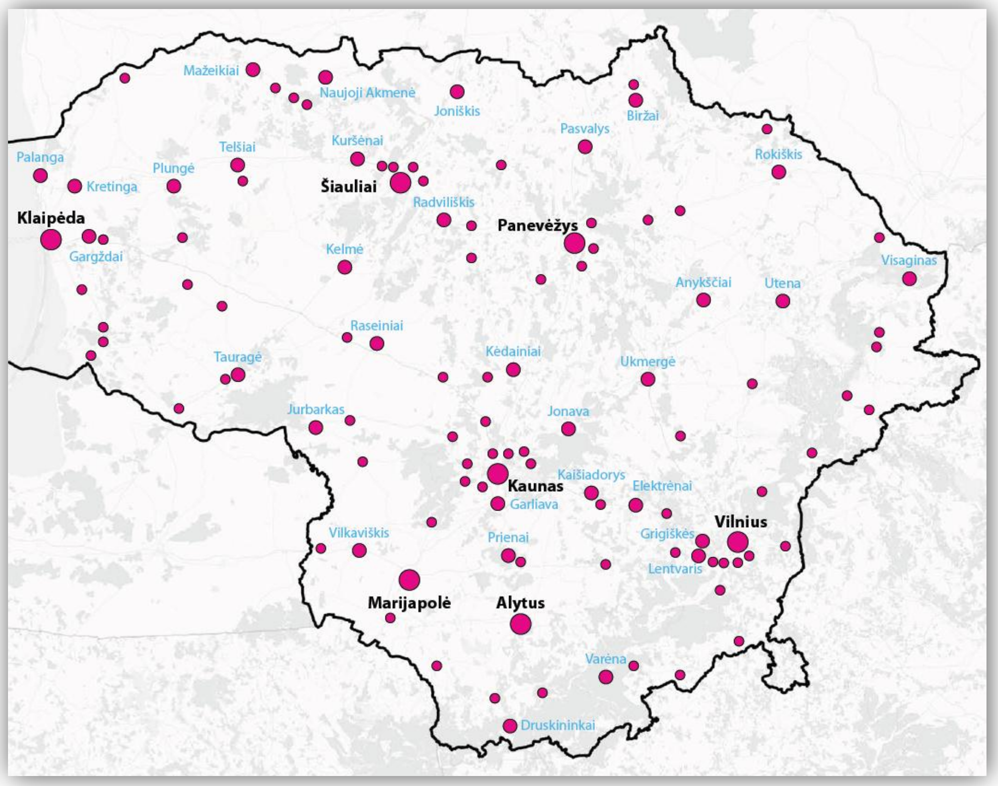
TEO REVENUE (LTL MILLION)



TEO INVESTMENTS (LTL MILLION)



TEO FIBER OPTIC (FTTH) NETWORK



- **LTL 329 million** was invested in the next-generation fiber optic access network (FTTH) of TEO during the last 5 years
- TEO FTTH network operates in more than 100 Lithuanian cities and towns
- **714 thousand** households (579 thousand a year ago), or 59 per cent of the country's households, by the end of March 2012 were passed by TEO FTTH network
- **Lithuania is No.** 1 in Europe in terms of FTTH/B penetration (Source: FTTH Council Europe)

ELECTRONIC COMMUNICATIONS MARKET OF LITHUANIA

Dynamics of the market

Figure of main operators

TEO market shares

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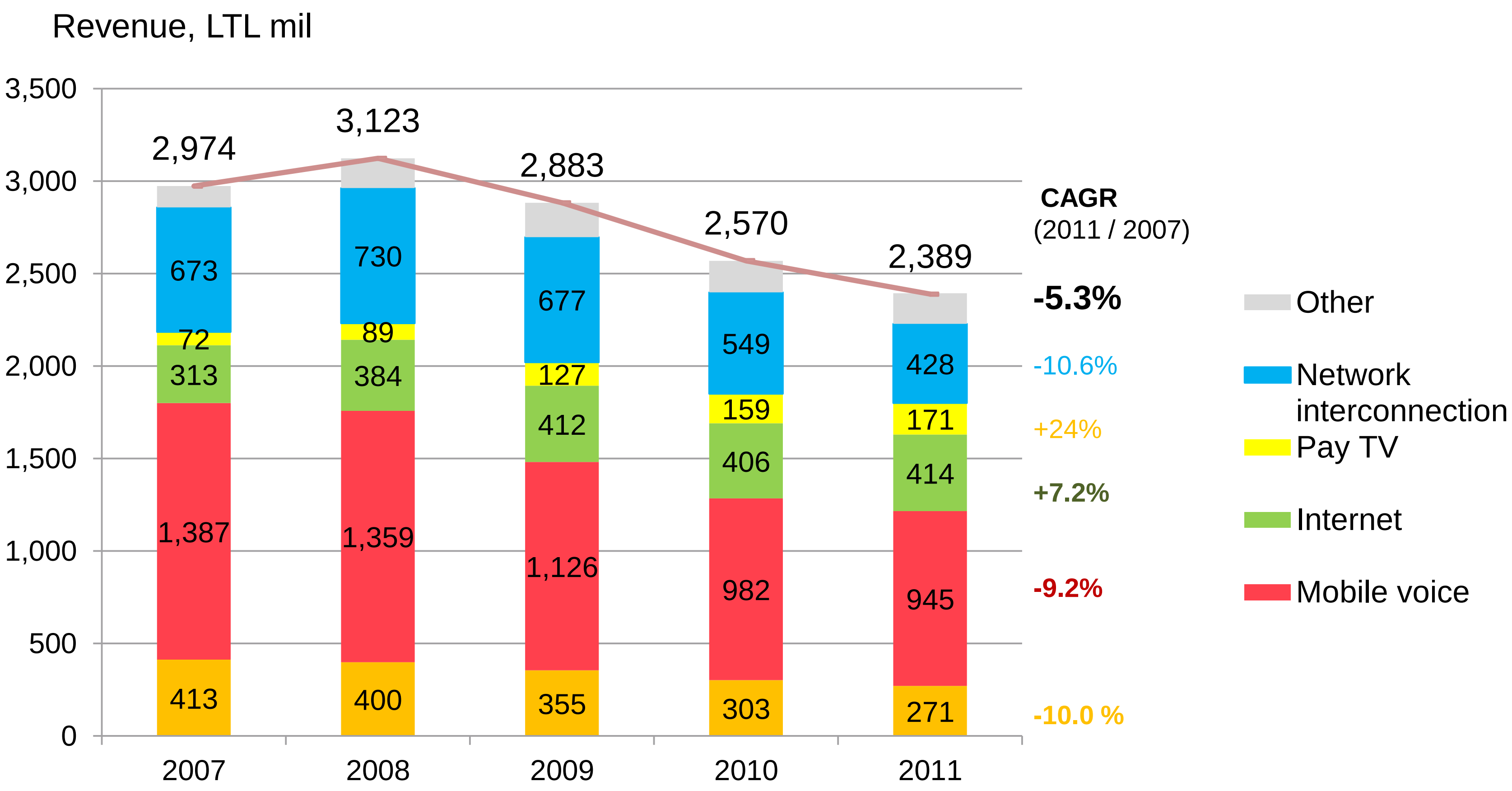
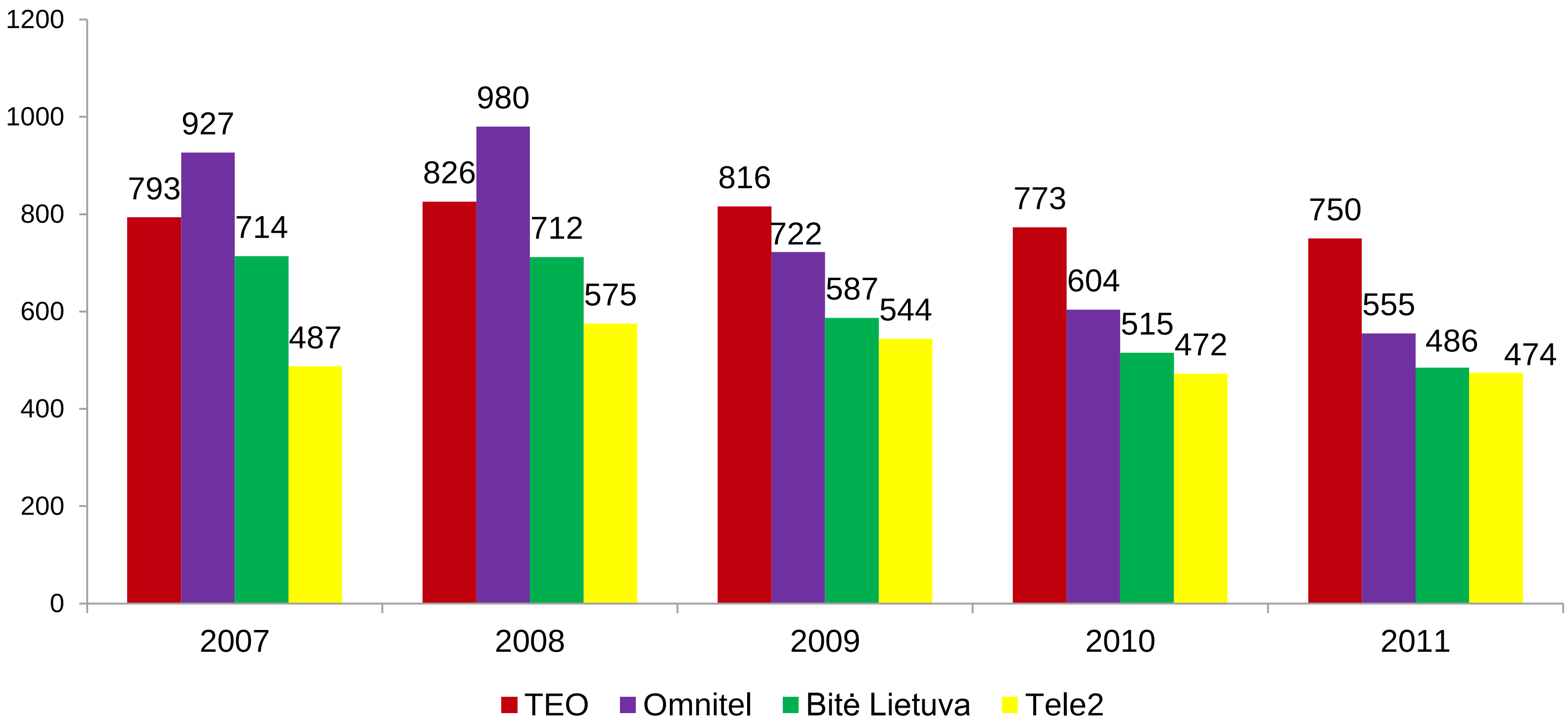
TELECOMMUNICATION MARKET IN LITHUANIA



Source: Report of Communications Regulatory Authority

REVENUE OF MAIN OPERATORS (LTL MILLION)

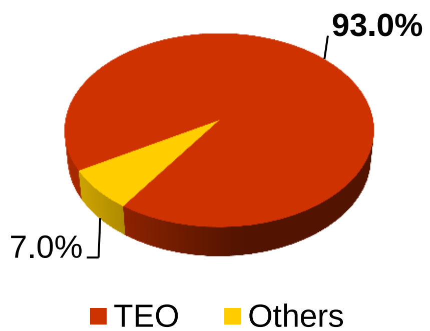


CAGR (2011 / 2007):

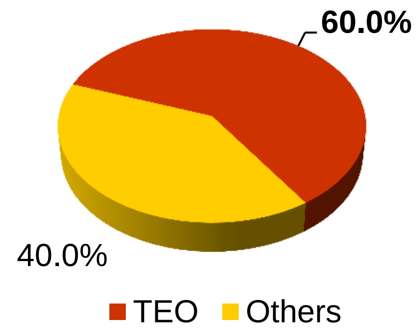
- TEO -1.4 %
- Omnitel -12.0 %
- Bitė Lietuva -9.2 %
- Tele2 -0.7 %

TEO MARKET SHARE IN TERMS OF REVENUE (Q4 2011)

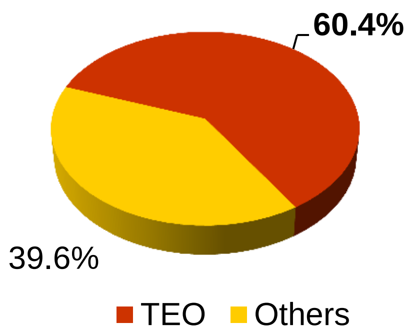
Fixed telephony



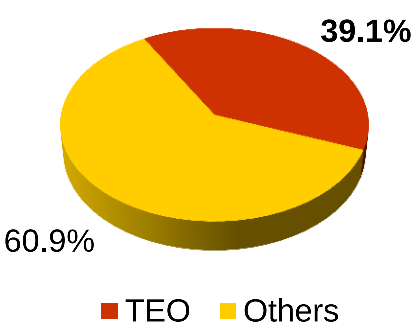
Leased lines



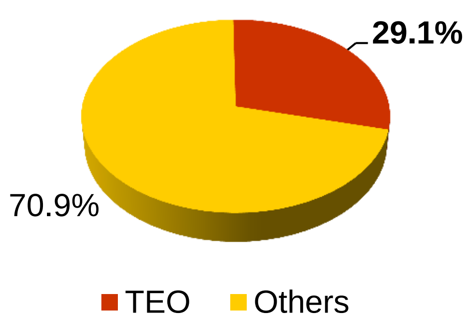
Data communication



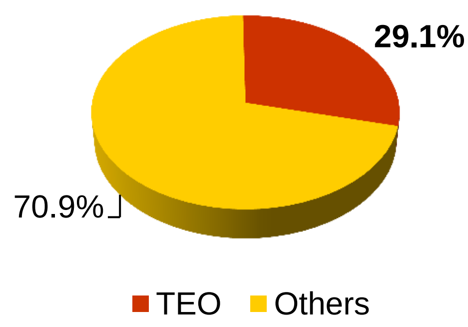
Internet access



Pay TV



Networks interconnection



Source: Report of Communications Regulatory Authority

TENDENCIES OF TELECOMMUNICATIONS' DEVELOPMENT

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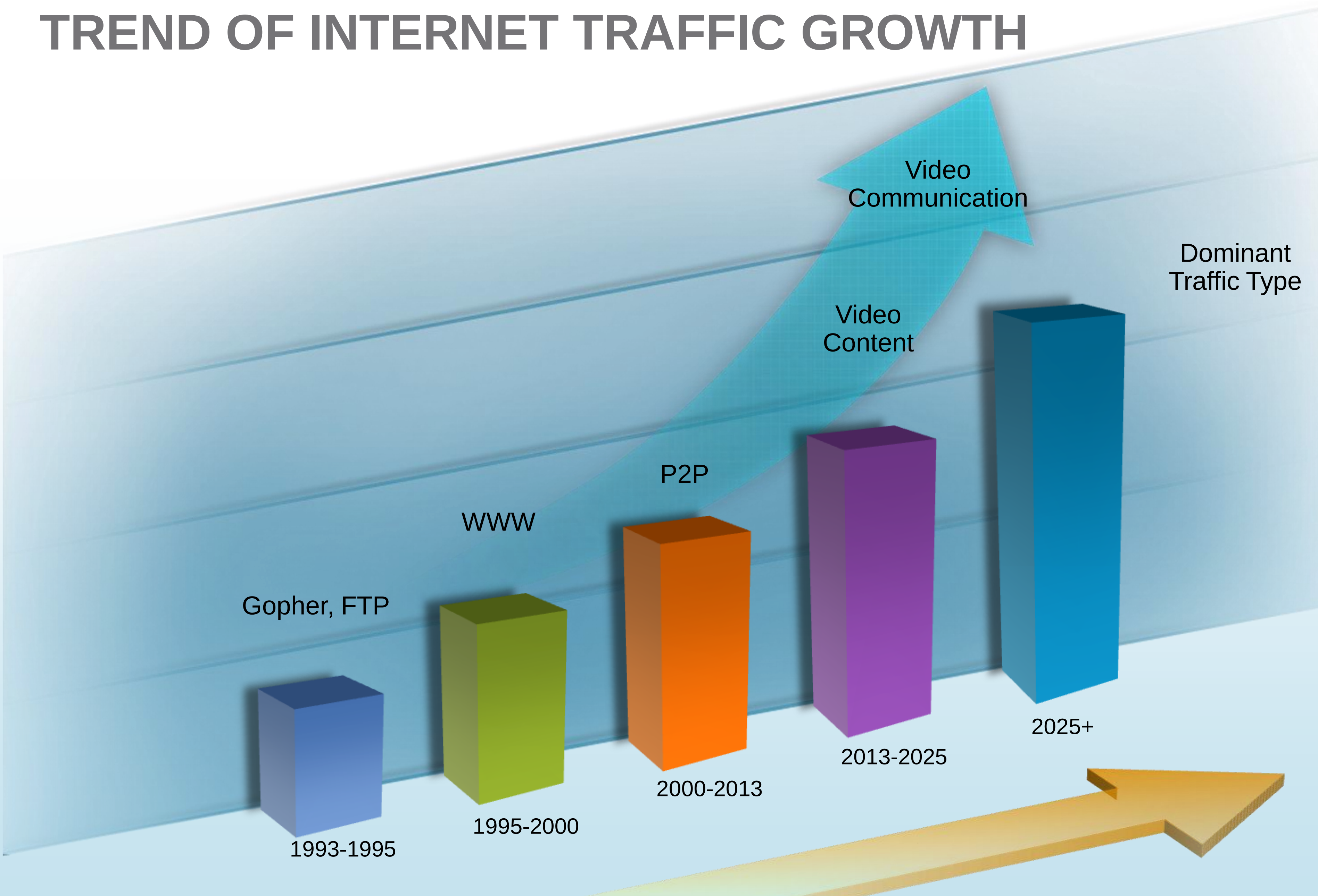
TREND OF INTERNET TRAFFIC GROWTH



Main driving factor – video communication

“BLAST” OF MOBILE DEVISES

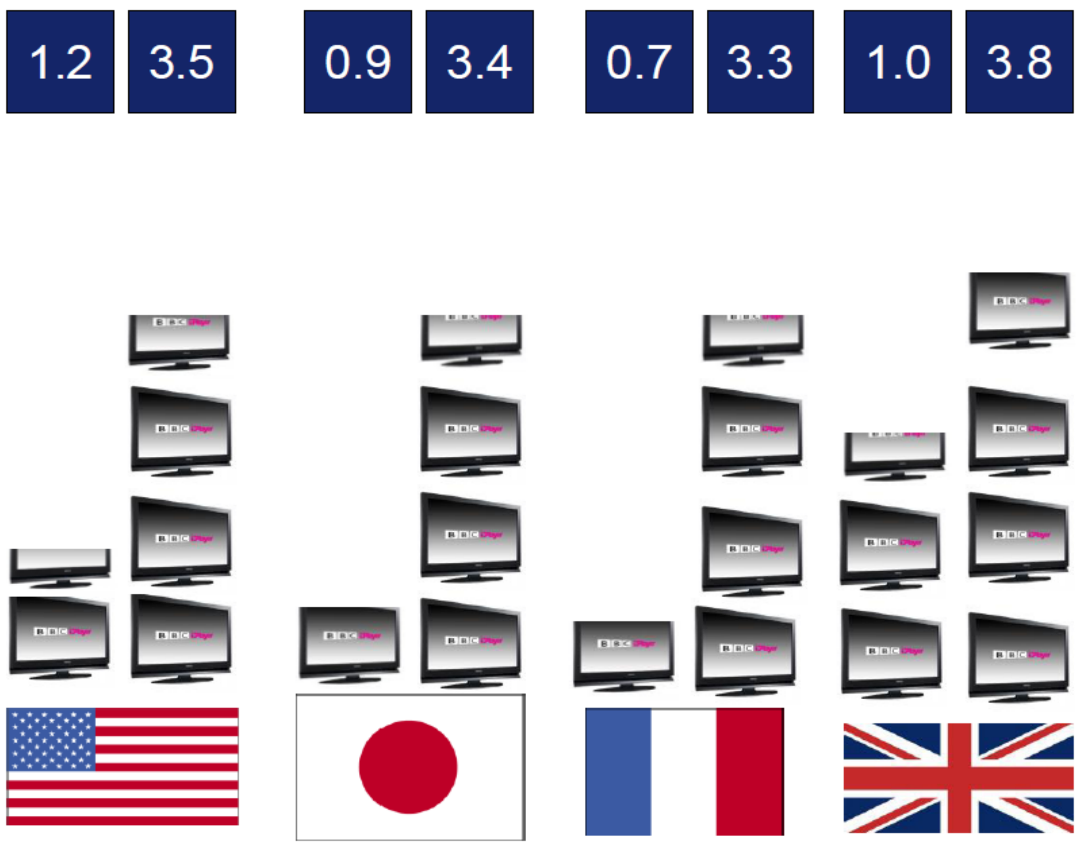
20 bil. (2020)

2 bil. (2012)

* Morgan Stanley forecast

Convergence or divergence?

Average connected TV devices per household, 2011-2016



- In developing markets, the average house will have 3-4 connected TV devices by 2016
- These numbers exclude smartphones and tablets, and “traditional” TV devices
- There will be a multitude of devices fighting for superiority in the home

STRENGTHENING OF “OVER THE TOP” PLAYERS

Capitalization: USD 200 bil.
Revenue: USD 27 bil.

Capitalization: USD 500 bil.

>900 mil. customers

1/3 of all USD Internet traffic

Capitalization: USD 270 bil.
Revenue: USD 67 bil.

Capitalization: USD 18 bil.

655 mil. customers

Market share: < 30%

Mass Market Shift from Broadcast TV to Personalized Entertainment

Personalized, Multiscreen Entertainment

Basic TV Service

- SDTV
- Linear TV
- VoD

Personalized, Improved Quality TV

- HDTV
- Multi-room
- PVR
- Pause Live TV
- Time Shift TV

Interactive TV

- IP Comms on TV
- Targeted & Interactive ads
- Remote PVR

Multiscreen Entertainment

- Any media on any device
- User choice and control
- Digital home evolution

Time

Value drives loyalty and market share … and there are a lot of moving parts

Alcatel·Lucent

TV TENDENCIES

ANY CONTENT IS AVAILABLE

ONE DEVISE FOR ALL TELCO SERVICES

CONTENT ON ANY SCREEN

TV TENDENCIES

TV CLOUD

Not only Live TV, OTT content is important, but customers own content, which should be integrated with Live TV and OTT solutions, and available at any device: SmartPhone, Tablet, PC, TV.

SOCIAL TV

Social TV allows customer to communicate, to share opinion about programs, recommend them, play related to favored program or actor games, create own virtual channel and from existing EPG shared it with friends.

TV MANAGEMENT

VS.

Tradition infrared TV remote controller will lose its meaning, as possibilities to manage TV menu over IP network using SmartPhone (with full keyboard, data exchange, processing features) appears, while current remote controllers will be useful for a while as the cheapest way of traditional TV management.

RECOMMENDATIONS

Recommendation function is based on customer’s TV habits as well as friends recommendations (Facebook, Twitter).

INTERACTIVE GALA – MORE THAN TV

EXCLUSIVE SERVICES

- Video on demand
- Private Video Recording
- YouTube
- Horoskopes
- Karaoke
- Weather
- Radio
- Choice of language
- EPG
- PIN
- Games
- Facebook
- Picasa
- Flickr
- RSS feeds on TV screen

LEGAL REGULATION AND PROBLEMS

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CONTENT

- Legal regulation of the provision of TV content services, and the activities of the Radio and Television Commission of Lithuania
- Problems with obtaining rights to important TV channels
- Regulation of relevant electronic communications markets by the Communications Regulatory Authority

LEGAL REGULATION OF THE PROVISION OF TV CONTENT SERVICES, AND THE ACTIVITIES OF THE RADIO AND TELEVISION COMMISSION OF LITHUANIA

- TEO provides multi-channel pay-TV services.
- These activities are licensed. The licences are issued and replaced by the Radio and Television Commission of Lithuania (RTCL).
- In order to renew its programme grid, the Company must obtain the RTCL's consent.
- For already several years, TEO customers have been expressing their clear desire to have the possibility to watch PBK (Pervij Baltiskij Kanal) – this is also reflected in the results of conducted surveys
- Since 2009 the Company has repeatedly submitted requests to the RTCL for the inclusion of PBK, but so far none of the requests has been complied with
- By not complying with the request of TEO, RTCL discriminates TEO against other market players, since the majority of TEO competitors have the PBK Channel in their programme grids
- Also, it should be noted that since 2009 the RTCL has never once passed any administrative legal act according to the request of TEO LT, AB
- Problems concerning the voting by the RTCL's members

PROBLEMS WITH OBTAINING RIGHTS TO IMPORTANT TV CHANNELS

- For several years already, TEO fails to obtain rights to the Viasat Sport Baltic (VSB) TV channel (Viasat is the holder of the rights to this channel)
- The main reason – the payment demanded from TEO was significantly higher than that paid by other re-broadcasters for the same channel
- In 2009, a complaint was lodged to the Competition Council of the Republic of Lithuania (CC) regarding Viasat's actions abusing its dominant position
- The CC's investigation was terminated in 2011 by imposing upon Viasat the commitments not to apply different VSB channel distribution terms
- However, to date, TEO has not yet obtained the rights to this channel, even though it has been actively seeking to obtain the above-mentioned rights
- Practice has shown that the commitments do not work and Viasat possibly continues abusing its exclusive position

REGULATION OF RELEVANT ELECTRONIC COMMUNICATIONS MARKETS BY THE COMMUNICATIONS REGULATORY AUTHORITY (I)

- On 1 January 2012 TEO announced a new public offer
- The public offer consists of the following two main parts: a public offer of wholesale access (including broadband) and a public offer of infrastructure
- The part concerning the public offer of wholesale access includes the following: LLU, a local fiber-optic communication line, STP/UTP, a dark fiber, a connecting wire and a connecting cable
- The part concerning the public offer of infrastructure includes the following: rent of space in communications cable duct systems, rent of technological premises, rent of shelves, rent of trays, etc.
- Together with the public offer, TEO also submitted to the CRA the justifications for the prices and the calculation of risk premium
- Currently, the CRA is evaluating the public offer (including prices)
- It is very important that the regulation of FTTH does not hinder the development of FTTH networks in Lithuania

REGULATION OF RELEVANT ELECTRONIC COMMUNICATIONS MARKETS BY THE COMMUNICATIONS REGULATORY AUTHORITY (II)

- Following Order No. 1V-525 of Director of the Communications Regulatory Authority (hereinafter – the CRA) of the Republic of Lithuania of 24 April 2012, the analyses of the following 4 markets have been commenced:
  - The market of publicly available local and/or national telephone services, provided for residential customers and business
  - The market of publicly available international telephone services, provided at a fixed location for residential customers and business
- It is very important to deregulate the relevant markets, because the obligations related to wholesale markets ensure adequate competition. In addition, the situation in the relevant retail markets has changed
- The Communications Regulatory Authority of the Republic of Lithuania should pay more attention to deregulation of the relevant electronic communications markets

THANK YOU