

benchmark-it performance

This new 301-page report profiles and compares 14 Western European incumbent PTTs across 15 countries.

The report includes the following:

- Profiles of 14 carriers
 - Verdict
 - Summary (strategy and recent activities)
 - International Strategy & Analysis
 - National Strategy & Analysis
 - Mobile Strategy & Analysis
 - Internet Strategy & Analysis
 - Target Customer Segments & Portfolio
 - Management & Reputation
 - Partnerships, Acquisitions & Disposals
 - Financials/Revenue Breakdown & Growth

Who should buy the report?

- PTTs wanting to know how they are performing relative to their peers
- Service providers competing with Western European PTTs
- Companies investing in or supplying the above

Key benefits:

- Source of key information on 14 PTTs
- Independent market analysis, benchmarks and comparisons
- Gives customers time to concentrate on analysing implications and to formulate action plans

Key conclusions:

- The impact of the global 'credit crunch' on incumbents has only been to limit merger and acquisition activity, but revenues are likely to be impacted this year as the crunch hits business and consumer activity
- Western European incumbents are increasingly stratifying into three 'leagues,' with Deutsche Telekom, France Telecom and Telefonica established as 'the big three'
- As investing for growth becomes harder, costs will need to be cut

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Summary & Sample Pages	benchmark-it.co.uk	Data to end September '08
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Incumbent PTTs In Western Europe

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Executive Summary

Like most markets at the moment, players in the Western European incumbent telecoms market are trying to figure out how the global ‘credit crunch’ is likely to affect them. In the short term, it appears to have put paid to any significant merger and acquisition activity, but in the medium term it is likely to have a negative impact on revenues as more businesses go bust and consumers curb their spending. Whilst not under the same level of threat as retailers, builders or manufacturers of ‘big ticket’ items, it is hard to envisage the telecoms sector escaping the downturn.

This does not mean there will be no inorganic activity across the sector as ‘add-on’ and ‘fill-in’ deals are likely to continue as incumbents look to expand their reach into target geographies or add to their portfolios better to be able to meet the needs of target customers. Indeed, it was only last Summer that a mooted deal between France Telecom and TeliaSonera failed.

During the last year or so a new kind of ‘creeping’ consolidation has taken root, with Deutsche Telekom investing in Greece’s OTE and Telefonica investing in Telecom Italia – this might be an indication of a more gradual approach to inter-incumbent deal-making. We must not totally rule out involvement from ‘left of field’ such as Middle Eastern sovereign wealth funds or emerging operators from China and India.

In the meantime, the Western European incumbents have increasingly been falling into three ‘leagues’: the Premier League of Deutsche Telekom, France Telecom and Telefonica, followed up by a group of mid-sized incumbents and then a few minnows (which look the most likely to be consumed in the short/medium term).

Despite the growing global economic turmoil that has evolved during the course of the last year or so, the players covered in this report have generally managed to deliver revenue growth – mobile has provided some growth in domestic markets, with broadband also making a significant contribution, but it has tended to be growth in ‘emerging’ markets that has had the greatest impact, with the result that there are no longer any bargains to be had in Latin America, Central/Eastern Europe, Asia or Africa as valuations have soared to match the scarcity of promising targets.

This means that growth will probably be increasingly hard to deliver for incumbents that have not already invested in emerging markets and times are likely to be tough in existing markets, leading to cost-cutting. However, incumbents are showing better skills in developing new products and propositions across all their target customer segments, with broadband-enabled content delivering potential growth alongside the continued convergence of IT and telecoms, as well as the continued convergence of fixed and mobile telecoms.

The path ahead is likely to be slippery at times for a couple of years, but the good news is that all customer segments continue to make ever greater use of communications products so there will be opportunities for the best players.

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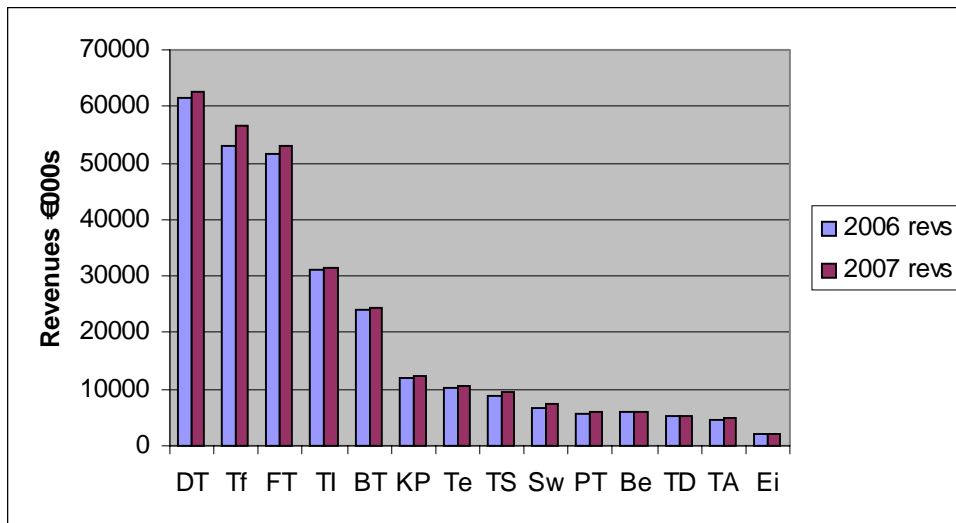
Benchmarked Suppliers

This section places the companies analysed in this report in comparison with each other across a range of criteria - it should be noted that it is not possible always to compare like-for-like as different PTTs report various aspects of their business in different ways and at varying times throughout the year. Wherever possible, data have been used that provide a fair comparison between service providers.

The following charts show the relative positions of the PTTs profiled in this report in terms of revenues, debt, employees, DSL lines and mobile customers for the end of 2006 and 2007:

DT – Deutsche Telekom; Tf – Telefonica; FT – France Telecom; TI – Telecom Italia; BT – BT; KP – KPN; Te – Telenor; TS – TeliaSonera; Sw – Swisscom; PT – Portugal Telecom; Be – Belgacom; TD – TDC; TA – Telekom Austria; and Ei – Eircom.

Revenues:



- Total revenues across the incumbents amounted to €291,999 million in 2007 (2006: €282,621 million);
- The total revenues across the companies surveyed grew by €9,378 million, driven by international acquisitions and the growth in mobile and broadband services;
- €71,916 million (nearly 59%) of revenues are generated by Deutsche Telekom, Telefonica and France Telecom;
- Belgacom and TDC reported lower revenues in 2007 than in 2006.

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Telefonica

Verdict: Telefónica is a substantial global player in the telecoms sector. It is one of the leading players in the Latin American region, both in partnership with Portugal Telecom in Brazil, and in numerous other countries in the region. Following the acquisition of O2 in 2005, it has continued to expand its presence and customer base across Europe and has recently become the largest telecoms shareholder in Telecom Italia. The Spanish incumbent is also the largest private shareholder in China Netcom.

At home, Telefónica's domestic operations appear robust and have yet to be impacted by the economic woes sweeping the country as part of the global economic slowdown. Indeed, Telefónica is exceptionally well placed to weather the storm as it has a good mix of growth assets – mobile and broadband across all markets, and telecoms services as a whole in emerging markets.

Summary

Telefónica describes itself as “a leading private company in the global telecommunications market, with headquarters in Spain, it is listed on the main international stock exchanges. With a presence in 24 countries, Telefónica's revenues represent an average of 1.2% of the economies of the countries where it operates. More than 62% of its earnings (more than €13.8 billion in the first quarter of 2008) come from outside Spain. In 2007, the company offered a return of 41.9% to its 1.5 million shareholders.

Telefónica employs an average of 249,000 persons and provides access to more than 233 million customers in March 2008: 171.6 million mobile phone accesses; 43.4 million landline telephone accesses; 13.5 million Internet and data accesses; and 1.8 million pay-per-view accesses. In 2007, the operator invested €4.38 billion in research and development.”

In order to drive growth, Telefónica has identified four major priorities:

- Best-in-class customer service:
 - Improving customer satisfaction;
- Innovation as competitive advantage:
 - In-company innovation;
 - Third-party agreements;
- A new operating model:
 - Integrated commercial processes;
 - Integration of networks, operations and IT systems;
- An integrated management model:
 - Global actions focused on leveraging scale across regions.

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International Strategy & Analysis:

Internationally, Portugal Telecom's main operations are in Brazil through its Vivo joint venture with Telefonica, although the company also has operations in a number of other, frequently Portuguese-speaking, countries.

The table below illustrates Portugal Telecom's international assets outside of the Vivo joint venture (2007 figures):

Country	Stake	Revenues (€m)	Revenue growth	EBITDA (€m)
Angola	25%	649	37%	391
Morocco	32%	438	5%	202
Namibia	34%	118	16%	62
Cape Verde	40%	68	7%	43
S Tomé e Príncipe	51%	8	12%	2.8
Macao	28%	207	9%	88
East Timor	41%	23	35%	11

Brazil

Portugal Telecom offers mobile telecoms services in Brazil through Vivo, the leading mobile company in Brazil with a total of 33.484 million customers at the end of 2007 (2006: 29.053 million), representing a market share of about 36.7% in its areas of operation and 27.7% in Brazil. By 30th June 2008, Vivo's installed base of customers had grown to 40.4 million, driven both by organic and inorganic growth (acquisition of Telemig).

As at 31st December 2007, Portugal Telecom held 50% of Vivo, with Spanish incumbent Telefónica holding the other 50%. The joint venture operates in 19 states in Brazil and in the Federal District of Brasília, which produce more than 83% of Brazil's GDP.

The table below illustrates operating and other data for Vivo for recent years (ending 31st December):

Reais	2005	2006	2007
Cellular lines	29.805m	29.053m	33.484m
Pre-paid lines	24.061m	23.543m	27.236m
Minutes of use (monthly)	78	74	77
ARPU (monthly)	28.7	27.2	30.4
Churn	21.8%	34.8%	27.7%
Penetration	46.6%	55.0%	65.6%
Estimated market share	44.4%	38.2%	36.7%
Operating revenues (millions)	12.387	11.498	13.144

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Target Customer Segments & Portfolio:

Telekom Austria targets all customer segments domestically, with its primary international focus on mobile customers in Central and Eastern European markets.

The Fixed Net segment comprises voice telephony, data and IT solutions, Internet access, value-added and wholesale services.

The Mobile Communications segment offers switched voice telephony, mobile Internet access, mobile office solutions, value-added services, entertainment services and mobile commerce.

The tables below illustrate key operational figures (in thousands) for Telekom Austria for the last few years:

Fixed Net	2007	Change	2006	2005
Fixed access lines	2,434.4	-7.9%	2,642.6	2,801.9
<i>Thereof xDSL wholesale</i>	85.5	-30.1%	122.3	105.8
<i>Thereof xDSL retail</i>	665.2	16.4%	571.3	468.5
Total xDSL lines	750.7	8.2%	693.6	574.3
Fixed access channels	2,983.2	-8.0%	3,240.7	3,433.7
Internet customers in Austria	1,571.9	3.7%	1,505.9	1424.2

Mobile Communications	2007	Change	2006	2005
Austria	3,959.3	9.1%	3,630.5	3,392.2
Bulgaria	5,098.6	19.5%	4,267.9	3,594.2
Belarus	3,058.7	-	-	-
Croatia	2,179.6	14.0%	1,912.3	1,612.9
Slovenia	497.3	18.2%	420.9	359.6
Republic of Serbia	508.9	-	-	-
Republic of Macedonia	141.2	-	-	-
Liechtenstein	5.4	12.5%	4.8	4.2
Total	15,449.0	50.9%	10,236.4	8,963.1

The Fixed Net segment is looking to counter the continued migration towards mobile by launching innovative products and bundled offers aimed at growing the attractiveness of fixed lines – the ‘KombiPaket’ combines fixed-line telephony, broadband Internet and mobile communications for a single monthly rental and a single bill.

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Financials/Revenue Breakdown & Growth:

The table below illustrates BT's revenues and profit before taxation for the past three years (financial years ending 31st March):

£ millions	2006	2007	2008
Revenue	19,514	20,223	20,704
Profit before tax	2,177	2,495	2,506

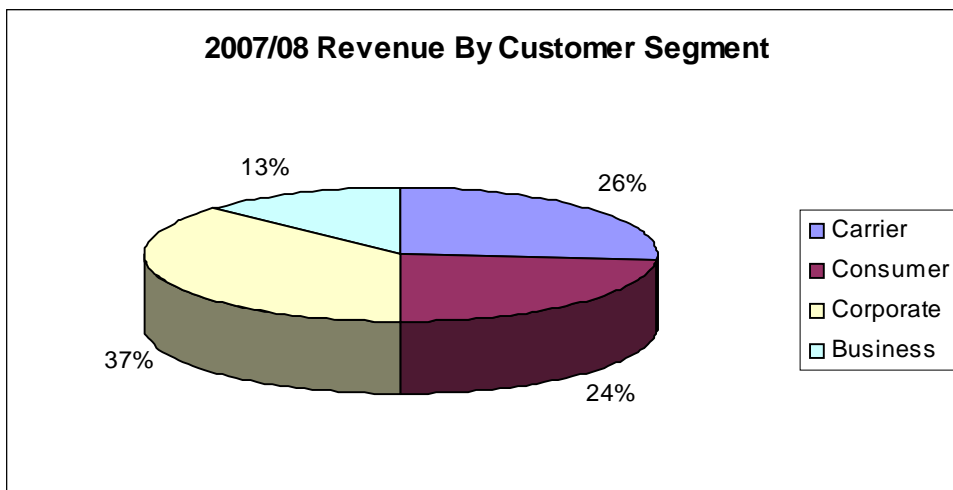
The table below illustrates the growing proportion of BT's revenues that come from 'new wave' services (financial years ending 31st March):

	2006	2007	2008
New wave	32%	36%	39%
Traditional	68%	64%	61%

The table below illustrates revenues by customer segment for recent years:

£ millions	2006	2007	2008
Major corporate	6,725	7,089	7,573
Business	2,430	2,456	2,590
Consumer	5,296	5,124	5,071
Wholesale/carrier	5,045	5,537	5,442
Other	18	17	28
Group Total	19,514	20,223	20,704

The chart below illustrates BT's revenues by customer segment for the financial year ended 31st March 2008:



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KPN has the following brands which address the following target customer segments:

Brand	Target Group	Specifics
KPN	Aims at starters and young adults between the ages of 25 and 45. Also targets all 16 million people in the Netherlands.	“The brand you need when you are looking for personal flexibility. After all, no two people are alike and we respect this fact.”
Hi	Focuses mainly on young people aged from 18 to 24, but also targets everyone “who is older but feels younger and is younger but feels older.”	“This is the brand for you if you send large numbers of SMS messages.”
Telfort	The average consumer and small business customer who value clear, basic services at a competitive price.	Low-priced calls and Internet access.
Het Net	Consumers who want simple Internet access that does not cost too much.	No annual contract. Low monthly charges. Simple installation.
XS4ALL	Private consumers and businesses that make heavy demands on their Internet provider.	Services with plenty of development opportunities. Free spam filter, virus scanner and firewall, including updates.
Simyo	Adults who regard telecoms as a basic need.	No subscription. A lot cheaper than the average pre-paid. Reliability guaranteed thanks to the KPN mobile network. Only obtainable on-line (in the Netherlands, Belgium, Germany and Spain).
E-Plus	Focused on both consumers and corporate users, while other brands have specific target groups.	For families and businesses.
BASE	Offers products for both consumers and businesses. The company focuses on specific market sectors.	Call more but pay less.
Getronics	Corporate organisations and government bodies.	Manages more than two million desktops. Has completed more than 100 outsourcing projects in 15 years.
iBasis	Very large telephone carriers, fast-growing VoIP providers and mobile operators.	Simplifies international business. Improves quality of service. Increases profitability of international business.