Convergence and multiple play service offerings:
competitive impact and regulatory challenges

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What is convergence?

Trends in using telecommunication services as a prerequisite for convergence

- Decline in fixed telephony voice services
- Increase of mobility
- Increase of broadband services

Growth rate for revenue on telecommunication sector in EU

	Growth rate	Share in telecom service revenues
Fixed voice telephony and Internet access and services	-2.5%	36%
fixed voice telephony	-6.3%	24%
internet access and services	5.6%	12%
Mobile voice telephony and mobile data services	0.6%	47%
mobile voice telephony	-1.8%	36%
mobile data services	9.3%	11%
Business data services	0.6%	7%
Pay TV	11.7%	10%
Total Telecom Services (Carrier Services)	0%	100%

Source: EITO (2009)

Motivations for convergence from the customer point of view

- One provider/one bill for all services/lower total prices for telecommunication services
  - **Dual play services**
    - Fixed voice telephony / Broadband Internet
  - **Triple play service**
    - Fixed voice telephony / Broadband Internet / IPTV
  - **Quadruple play services**
    - Fixed voice telephony / Broadband Internet / IPTV / Mobile voice telephony

Motivations for convergence from the business point of view

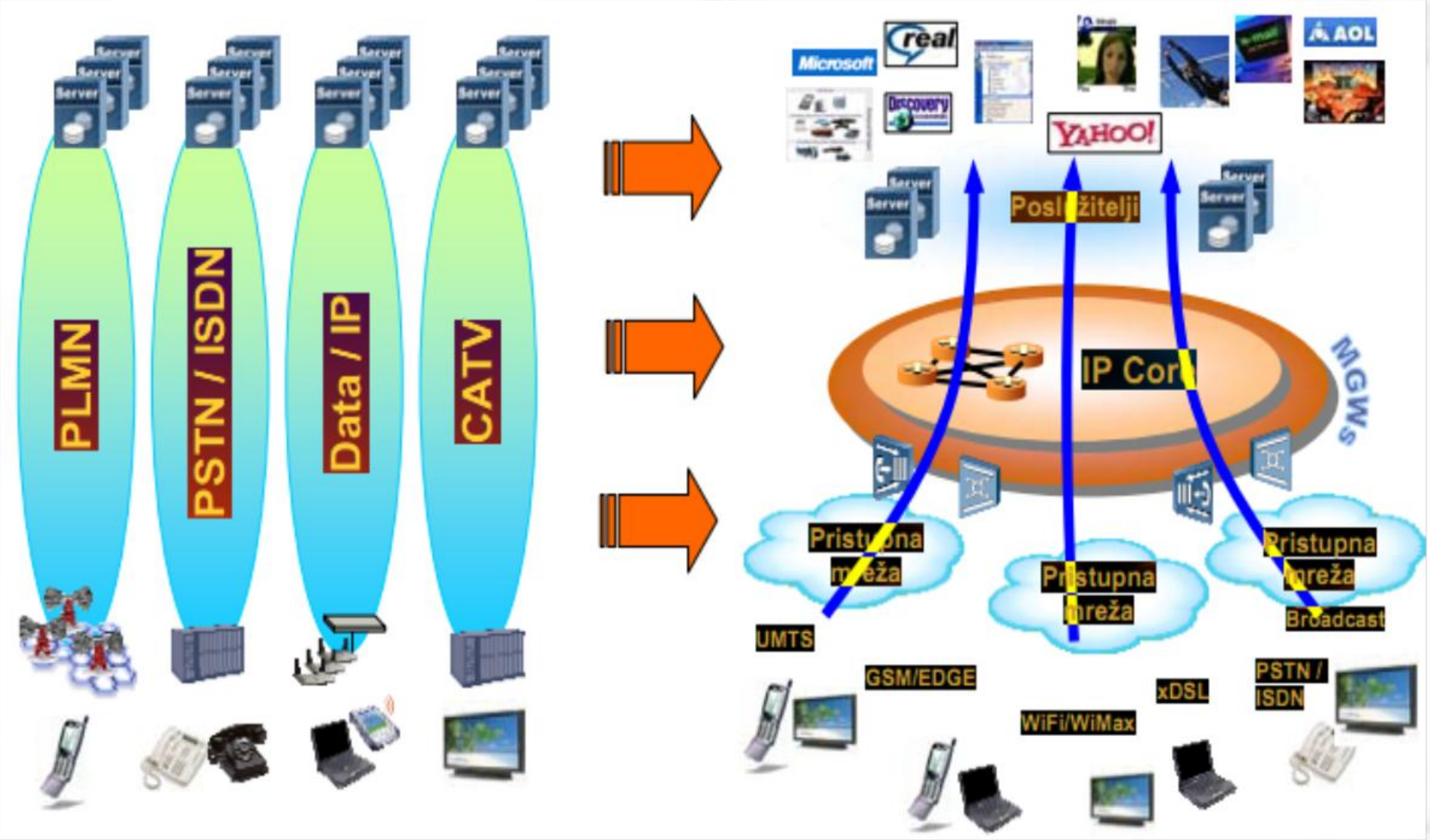
- Retention of customers – lower the churn
- Lowering the network costs by implementing all IP solutions/lowering OPEX
- Consolidation of telecom sector
- Thus increase in revenues

Convergence from network point of view

NGN Networks

- Goal: provision of all telecommunication services over one network infrastructure, regardless of the access networks
- All IP solutions
- Services available anytime, anywhere from any device

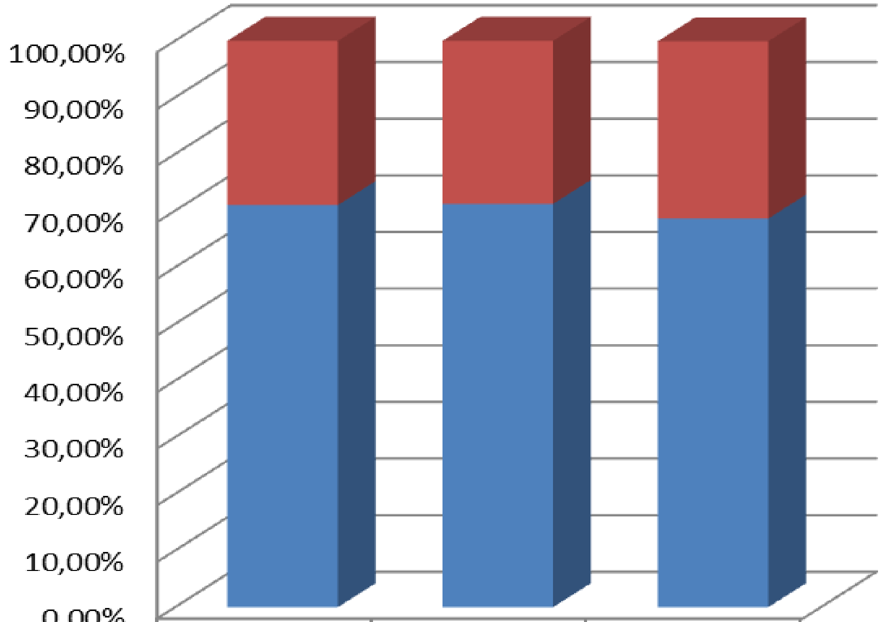
NGN Concept



PLMN
PSTN / ISDN
Data / IP
CATV
Microsoft
real
Discovery
YAHOO!
AOL
Poslužitelji
IP Core
MGWs
Pristupna mreža
Pristupna mreža
Pristupna mreža
Broadcast
UMTS
GSM/EDGE
WiFi/WiMax
xDSL
PSTN / ISDN

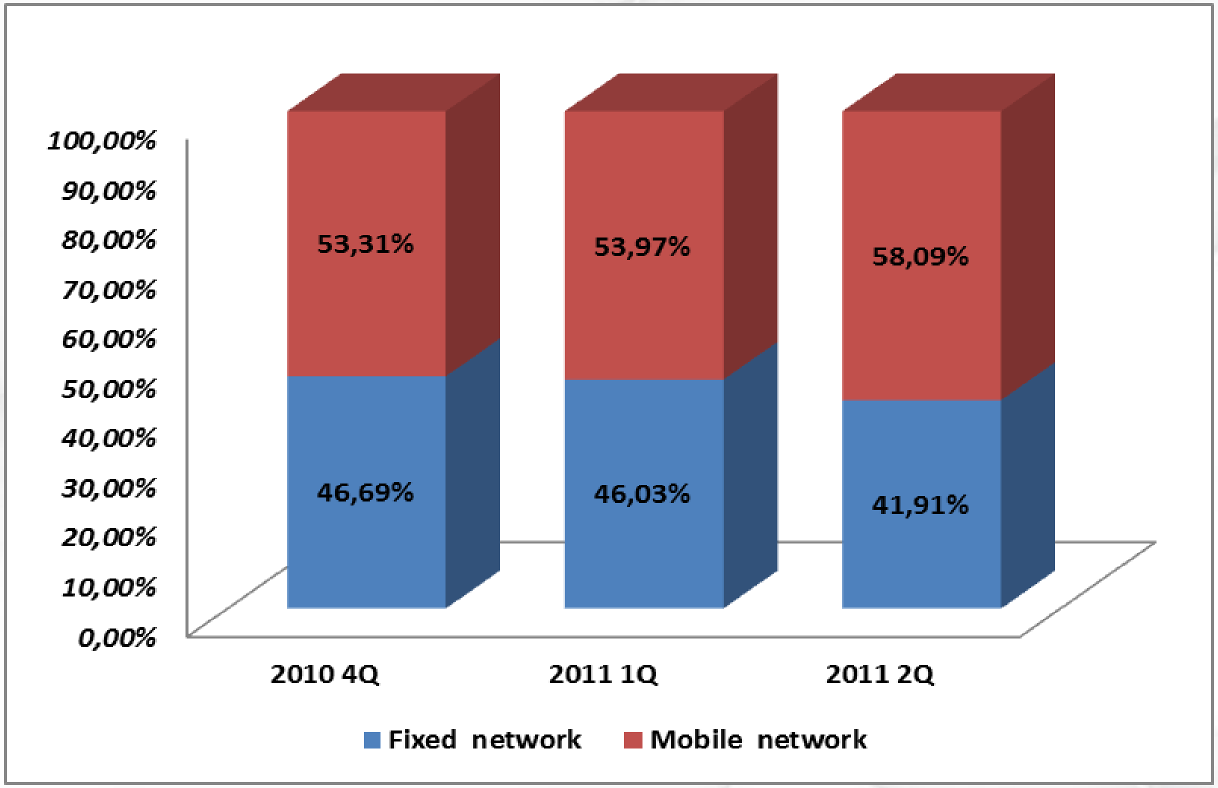
Convergence in Croatia

Share in Broadband services by technologies

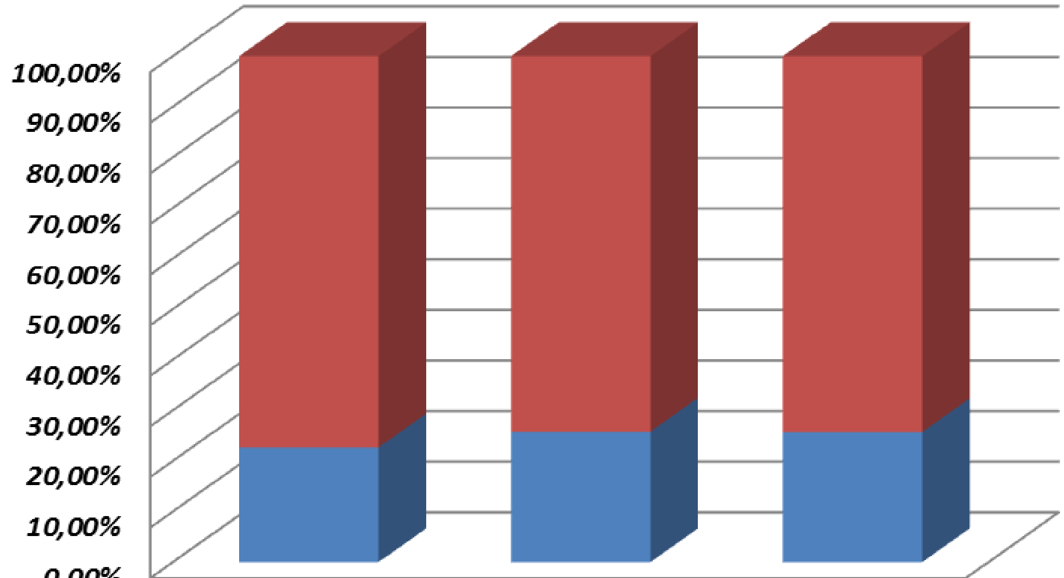


	2010 4Q	2011 1Q	2011 2Q
Mobile network	29,00%	28,79%	31,32%
Fixed network	71,00%	71,21%	68,61%

Share in overall voice traffic



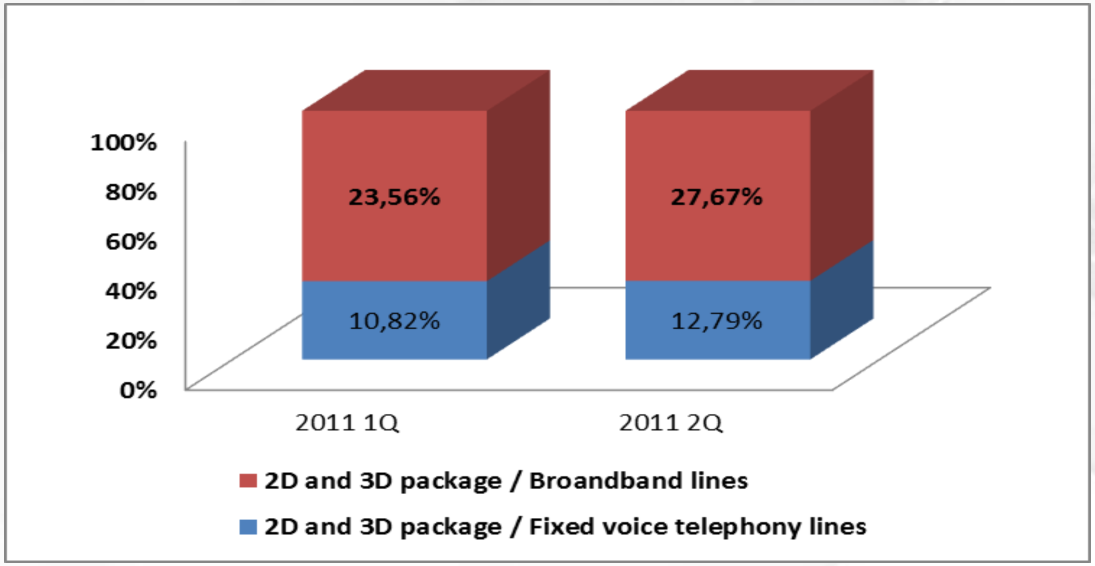
Number of Public voice telephony services subscribers



	2010 4Q	2011 1Q	2011 2Q
Mobile network	77,32%	74,21%	74,30%
Fixed network	22,68%	25,79%	25,70%

Service Bundles

	2011 1Q	2011 2Q
2D package	113.310	142.840
3D package	81.310	88.851



Consolidation of the telecom market

- Vipnet’s acquisition of B.net
- Further consolidations of the sector expected
- Entrance of fixed provider in mobile business as MVNO expected in order to provide bundles

Regulatory challenges

Regulatory challenges

- Regulations of NGN Networks in order to support new investment and keep the competition
- Regulation of Bundled Services in order to avoid margin-squeeze and forclosure of the market
- Accounting separation in case of SMP operator on fixed and/or mobile market

Regulatory challenges – market definition

- Impact of bundling on market definition
- Instead of segregated markets, an integrated approach might be taken

Prohibition of tying of the services for all operators by the Electronic Communication Act

Prohibition of bundling of the services for all operators – is it in accordance with EU Regulatory Framework?

- Article 41 of the Electronic Communication Act prohibits for all operators, regardless of their SMP status to condition provision of one services by purchasing of any other service or terminal equipment

- HAKOM will check whether the offers of all operators are in line with above stated article

- The question for discussion – Is prohibition of bundling/tying of the services for all operators without prior Market Analysis procedure in accordance with EU Regulatory Framework, i.e. is it in accordance with Article 17 and Article 10 of USD (Universal Service Directive)?

HAKOM’s practice so far regarding bundling

Prohibition of bundling of the services only for SMP operator only after market analysis procedure

- HAKOM prohibits undue bundling of the services only for HT and Iskon as a Regulatory Obligation within Analysis of Retail Market for the Provision of Publicly Available Telephone Service at Fixed Location
- In that sense, pure bundles and tying are forbidden, while mixed bundles are allowed only after prior approval by HAKOM who will test it against margin squeeze and other unfair pricing practices
- Retail Broadband Market has been found by HAKOM as satisfying the three criteria test. Bundling practice as such will be for sure addressed in the context of Market Analyses.

Thank you for your attention!