OPTA ANALYST MEETING

July 17, 2008

PROGRAMME

14:30 – 15:30

- Presentation of the correlation between the market analyses by Remko Bos, director of department Markets
- Presentation of the individual draft market analyses fixed telephony, broadband and leased lines by OPTA experts Christa Cramer and Martijn Meijers.
- Questions by analysts (also through internet).

15:30-15:45 END

CORRELATION BETWEEN OPTA'S MARKETANALYSES 2008

BROADBAND, LEASED LINES, FIXED TELEPHONY
PREVIEW BROADCASTING (AUGUST)

REMKO BOS
DIRECTOR DEPARTMENT MARKETS

FRAMEWORK

- TELECOMMUNICATIONS ACT
- EUROPEAN DIRECTIVES
- EUROPEAN REGULATORS GROUP
- INDEPENDENCE
- PREDICTABILITY

GOAL

- INVESTMENT
- INNOVATION
- COMPETITION

MISSION

- CHOICE
- FAIR PRICES
- CONSUMER INTEREST

REGULATORY APPROACH

- LENIENT / STRICT
- CO-REGULATION

CURRENT DEVELOPMENTS

- TRANSITORY PERIOD
- BUNDLES
- DIGITALISATION
- TRANSITION TO FIBRE
- BUSINESS MARKET INSUFFICIENT COMPETITION
- BROADCASTING INSUFFICIENT COMPETITION

STARTING POINT

- EX ANTE REGULATION IS TEMPORARY
- INFRASTRUCTURE COMPETITION
- ‘2 IS NOT ENOUGH’
- WHOLESALE ACCESS FIRST, THEN END-USER OBLIGATIONS
- INCENTIVES TO INNOVATE
- INCENTIVES TO INVEST

ACTION

- WITHDRAWAL OF ALL END-USER OBLIGATIONS ON ALL MARKETS
- ADDITIONAL ACCESS OBLIGATIONS FOR THE BUSINESS MARKET (TELEPHONY, LEASED LINES, BROADBAND)
- RESALE OBLIGATION CABLE TV CONNECTION
- IN PRINCIPLE NO RESALE CABLE / KPN
- ACCESS KPN'S ALL IP: FIBRE AND STREETCABINET
- ACCESS CHARGE INCLUDING A REASONABLE RETURN ON KPN'S ALL IP INVESTMENT

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RESULTS

- MORE CHOICE, BETTER PRICES FOR THE BUSINESS AS WELL AS THE RESIDENTIAL END-USER
- OPPORTUNITIES FOR ALTERNATIVE OPERATORS VIA CABLE AND KPN (COPPER AND FTTH)
- EX ANTE REGULATION CAN STEP BACK WHERE INFRASTRUCTURE COMPETITION PREVAILS

ANALYSIS PER MARKET

BROADBAND, LEASED LINES, FIXED TELEPHONY

PREVIEW BROADCASTING

Christa Cramer, deputy director Markets

Martijn Meijers, programme manager

MARKTANALYSIS

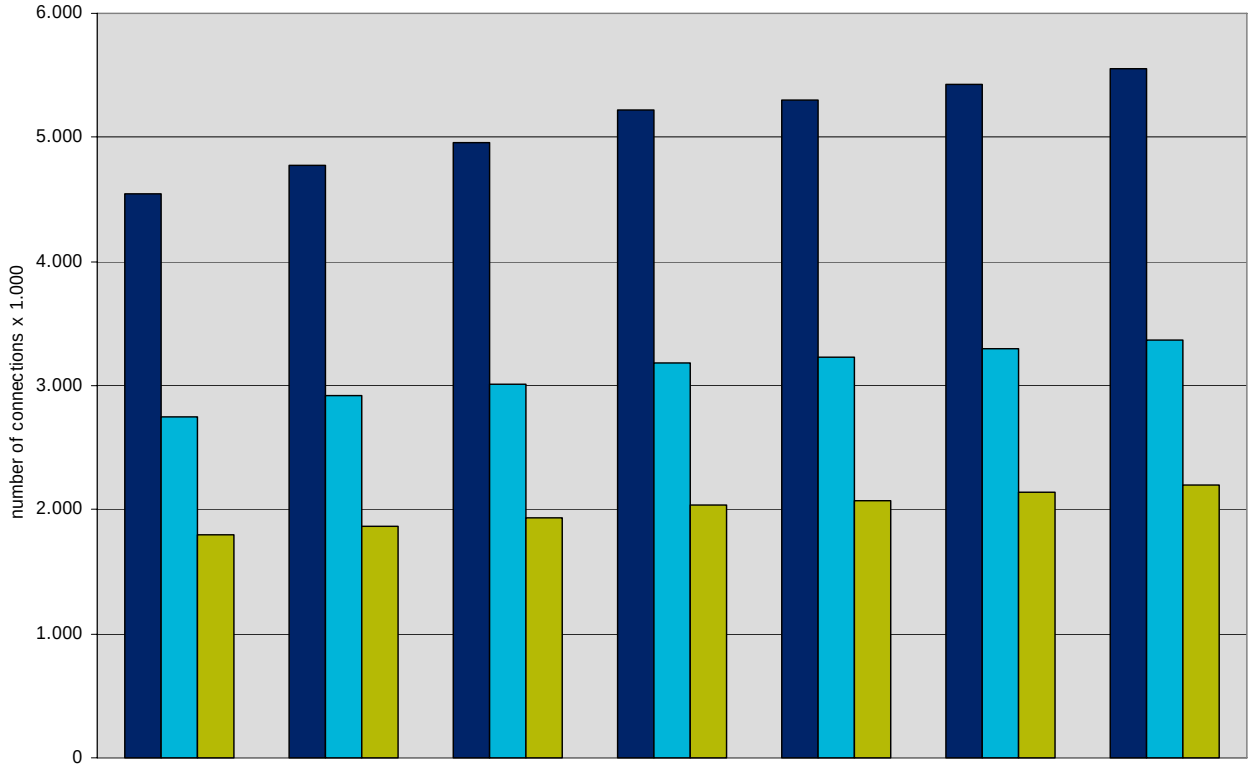
- Tailor-made
- Defining the relevant market
- Assessing significant market power (SMP)
- Identifying possible competition problems
- Imposing proportional obligations: first wholesale access obligations, then, if still necessary, end-user obligations

BROADBAND INTERNET MARKET (1)

- The Netherlands in the lead
- Also because of access to KPN's local exchange
- Market share KPN is rising (now nearly 50%)
- Innovation: KPN's ALL IP plan
- ALL IP means the phasing out of the local exchange
- Change of focus within ALL IP plan: less fibre to the cabinet (FttC), more fibre to the home (FttH)

BROADBAND INTERNET MARKET (2)

Broadband: Number of retail broadband internet connections cable + DSL



	30-06-2006	30-09-2006	31-12-2006	31-03-2007	30-06-2007	30-09-2007	31-12-2007	Change 07Q4/06Q4
Total number of retail connections	4.546	4.779	4.955	5.219	5.301	5.433	5.555	12,1%
Number of DSL connections	2.746	2.916	3.017	3.187	3.224	3.294	3.361	11,4%
Number of cable connections	1.801	1.863	1.938	2.032	2.077	2.139	2.194	13,2%

FTTH / FTTB

- Homes connected from 113.000 end 2006 to 170.000 q1 2008 (FttH and FttB)
- Homes activated (30.000 FttH en 40.000 FttB)
- Construction market capacity is currently around 200.000 connections a year
- Forecast: about 700.000 homes connected end 2011 (10% penetration of households)

Source: Stratix, FttH deployment Netherlands, march 2008

and Telecompaper, FttH in the Netherlands, may 2008, available at www.opta.nl

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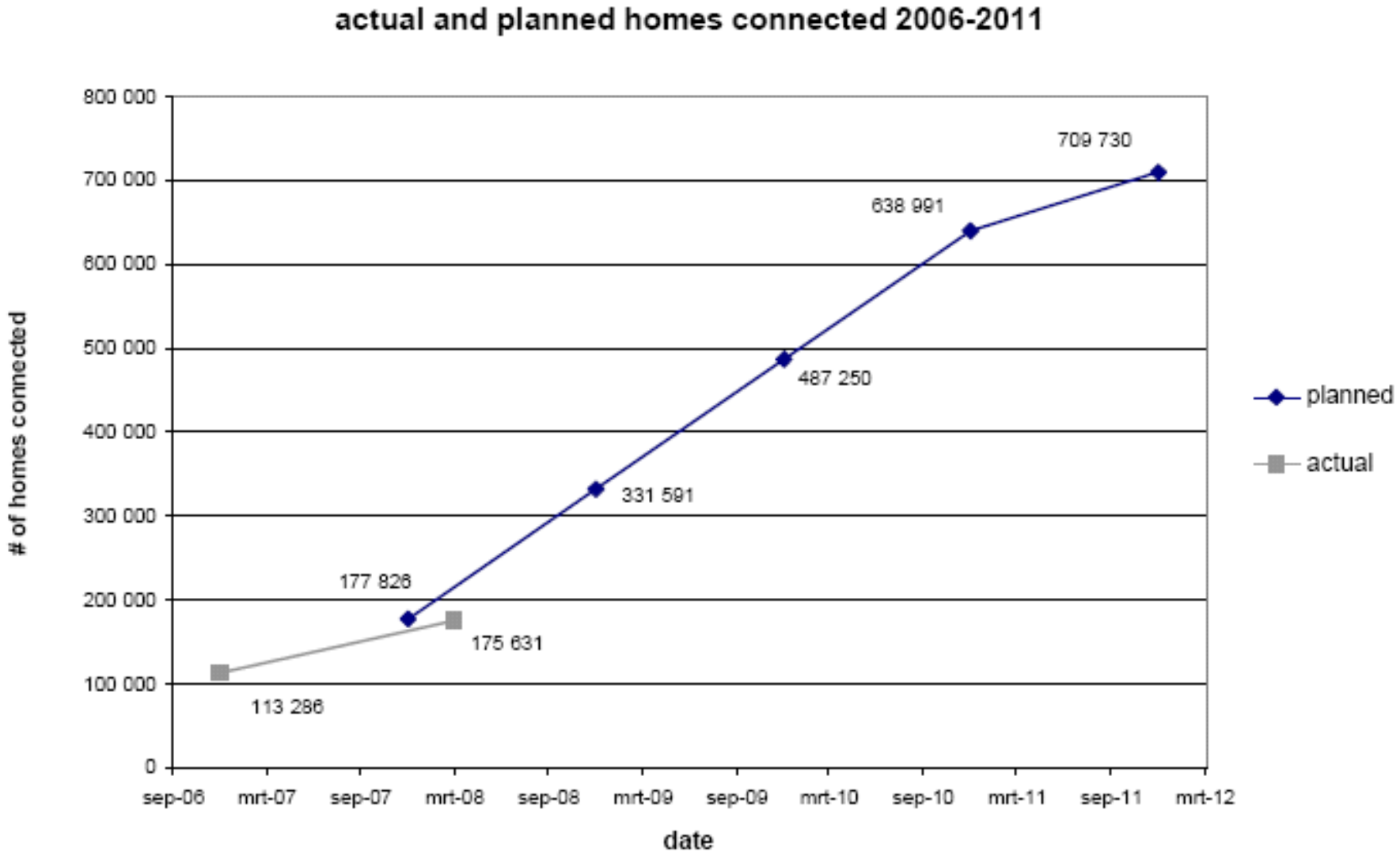

Source: Stratix, FttH deployment Netherlands, March 2008

ANALYSIS BROADBAND MARKET

- Cable, KPN and alternative operators (via access to the local exchange) compete on the retail market
- But: KPN is getting stronger and local exchanges are phased out
- Alternative type of access necessary:
  - FttC: Access to the street cabinet
  - FttH: Access to the optical distribution frame (comparable to access to the local exchange in a copper network)
  - Access higher up in the copper network (bit stream)

ALL IP: CO-REGULATION

- On OPTA's initiative KPN and alternative operators have looked for a solution for the phasing out of local exchanges
- Result: MoU's and a public offer, large part of the local exchanges remain open until 2012
- Agreements have been taken into consideration in the market analyses
- Based on these agreements, OPTA refrains from policy rules on the conditions under which phasing out of local exchanges could be allowed

ACCESS TO FIBRE

- OPTA perceives the risk that KPN will be able to leverage its dominance on copper onto fibre
- Operators that have access should be able to keep access
- Proportional access obligation:

1) Only access to unbundled fibre and not higher up in the new network
2) KPN can recoup its investment (including a reasonable return) via its access charge
3) Resulting in an incentive to invest for alternative operators

Tension:

On the one hand access-based competition. On the other hand stimulating innovation and preventing inefficient market entry

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INVESTMENT CERTAINTY

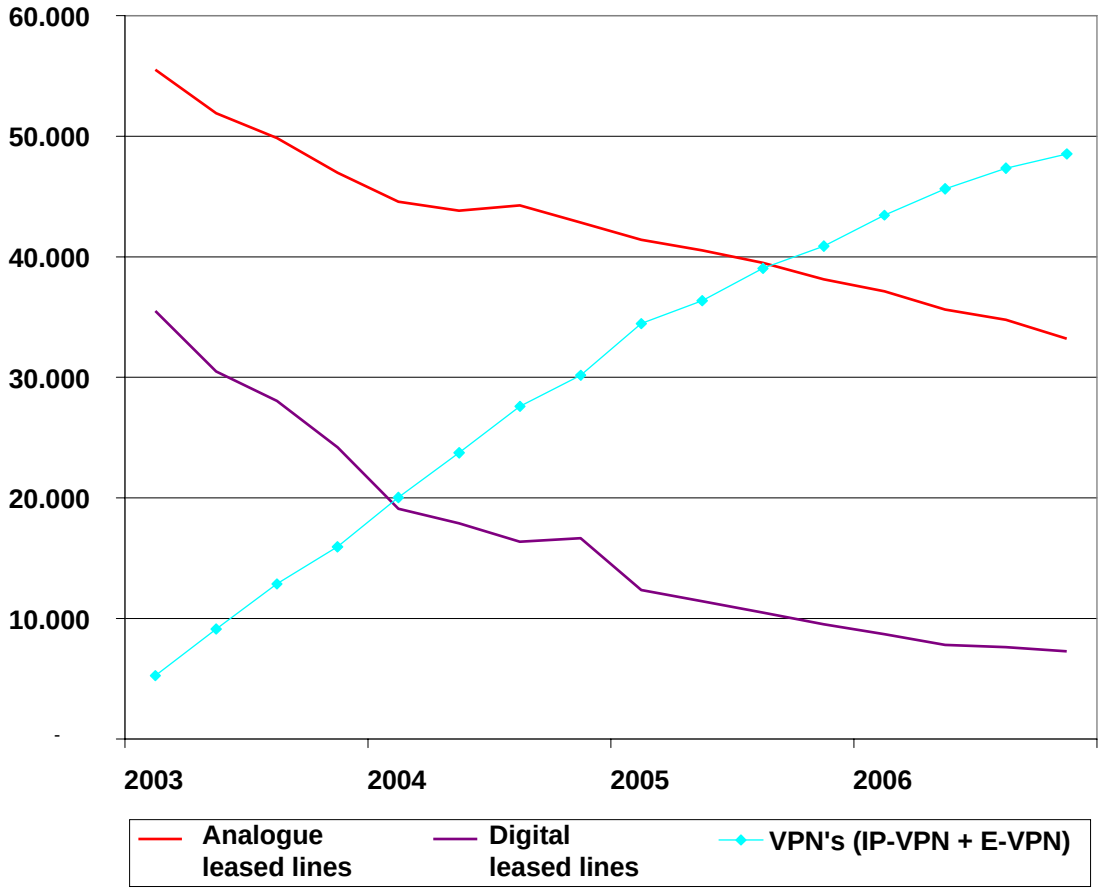
- OPTA predictable and consistent in its regulation
- KPN can recoup costs and can influence future regulation considerably =>
- The more successful KPN's 'open wholesale model' is, the less OPTA regulation
- Indicator of success: effective competition
- Regulatory period limited to three years, but after that OPTA will only change its course if a drastic change in developments occurs
- Based on these starting points, OPTA offers a maximum degree of (multi-year) certainty

ANALYSIS LEASED LINES MARKET

- Leased line = fixed connection between two locations
  - Low capacity: security, water works
  - High capacity: data communications (company networks)

- KPN has SMP on both markets
  - Low capacity: KPN was and still is dominant (70-80%)
  - High capacity: KPN getting stronger (from 45 up to 60-70%)

ANALYSIS LEASED LINES MARKET (2)



OBLIGATIONS FOR KPN (LEASED LINES)

- Obligations: price regulated access
- Because of these access obligations, no further end-user obligations necessary
- Retail price regulation (price caps) terminated

- Goal: more competition in the business segment

FIXED TELEPHONY (1)

- KPN historically dominant
- Migration from analogue PSTN to VoB/VoIP
- 1 in 3 end-users calls via VoB/VoIP
- Market share KPN decreased substantially (10 to 15%point in two years), but still 70-80%
- In the consumer market competition is driven by cable, VoB and carrier preselect / wholesale line rental
- In the business market KPN's market share is stable (70 to 80%)
- KPN is dominant on both retail markets

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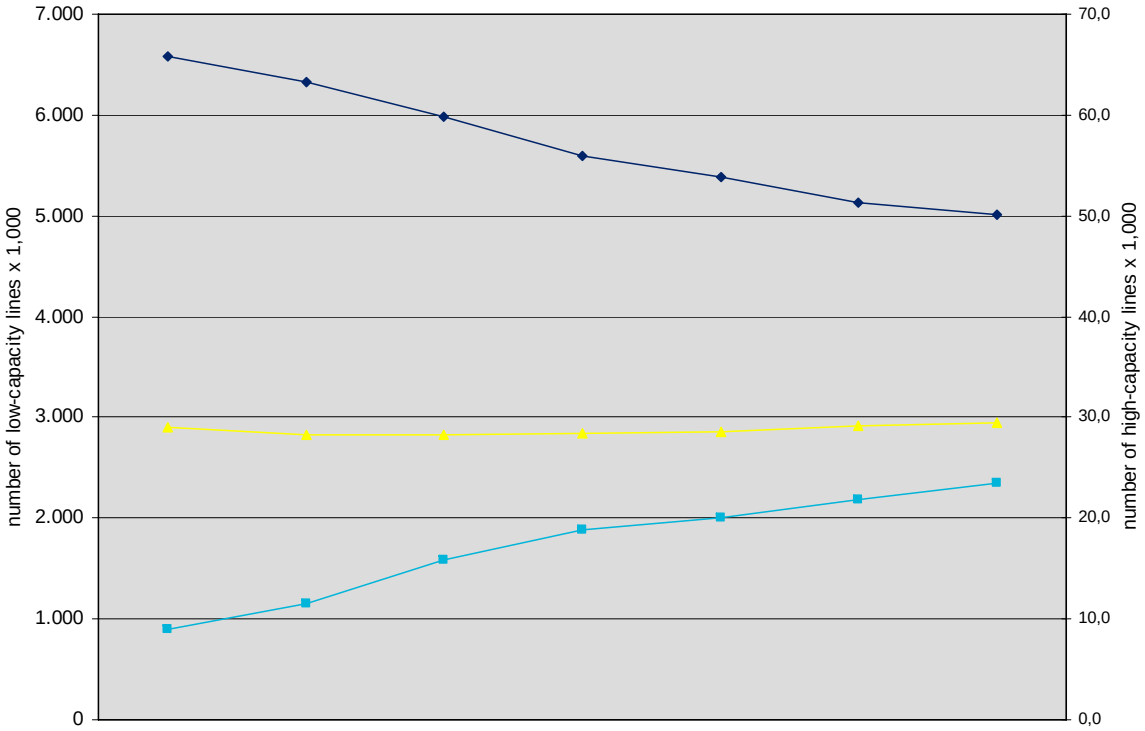
FIXED TELEPHONY (2)

Fixed telephony: Number of lines PSTN + VoB



	30-06-2006	30-09-2006	31-12-2006	31-03-2007	30-06-2007	30-09-2007	31-12-2007	Change 07Q4/06Q4
Number of low capacity lines PSTN	6.585	6.330	5.977	5.592	5.387	5.128	5.012	-16,1%
Number of low capacity lines VoB	895	1.155	1.589	1.891	2.002	2.178	2.350	47,9%
Number of high capacity lines	29,0	28,3	28,3	28,4	28,6	29,2	29,4	4,0%

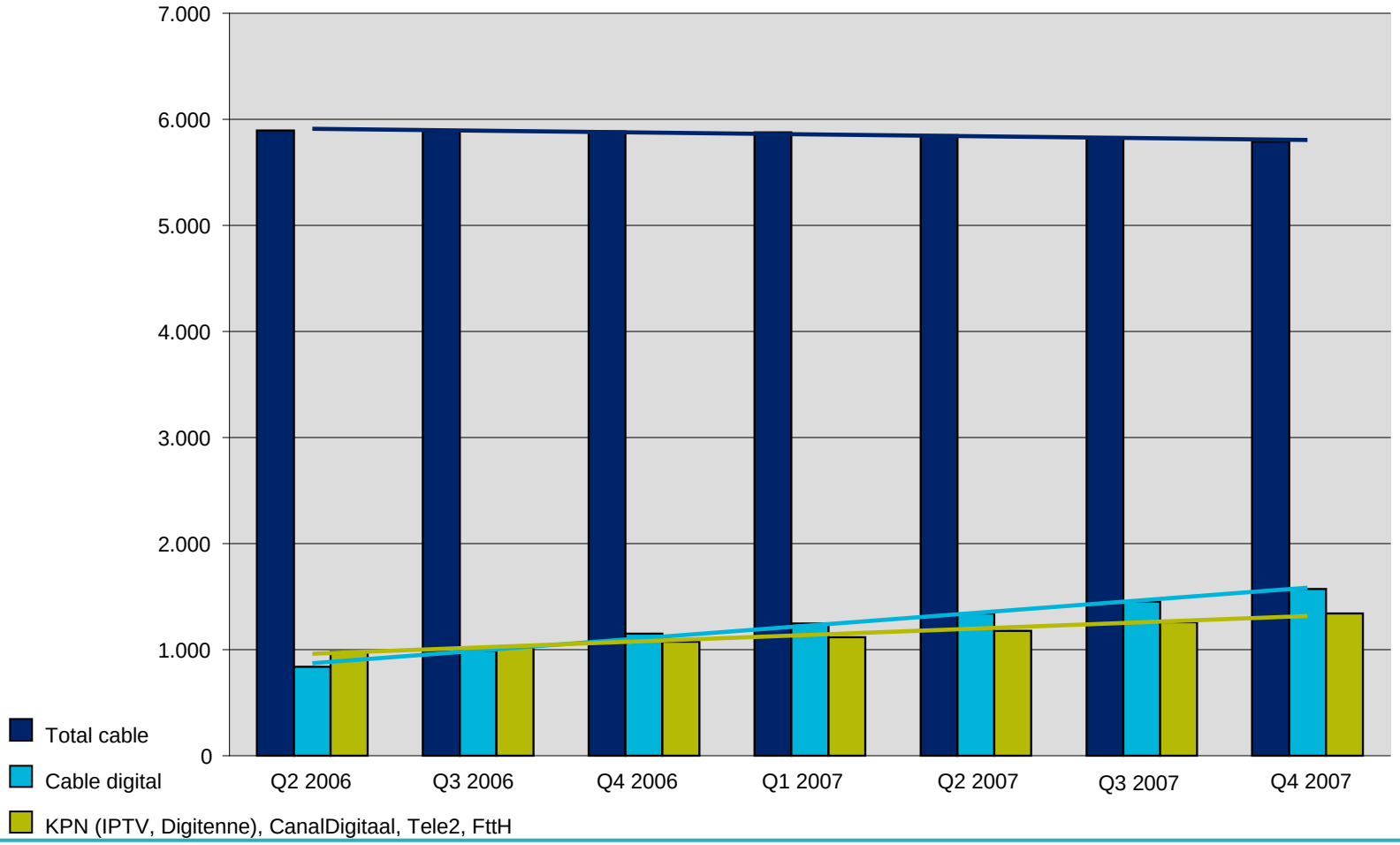
OBLIGATIONS FOR KPN (FIXED TELEPHONY)

- Insufficient dynamics on the business market: new obligation for wholesale line rental for the business user. Also: regulation of wholesale inputs in other markets (leased lines, broadband)
- On the consumer market increasing competition
- Consequence: KPN's end-user obligations are terminated
  - OPTA monitors the effects of deregulation on the consumer and business markets

BROADCASTING (PREVIEW)

- Further consolidation (Ziggo)
- Digitenne (DVB-T / KPN) successful, in part as a replacement of the cable connection (substitute), in part as an extra (complement)
- IP TV (via DSL) still underdeveloped
- Satellite shows little growth
- Roll-out of FttH is steady, but slow
- TV-product is increasingly important in converging markets (‘triple play’)

DEVELOPMENT BROADCASTING MARKET



ANALYSIS BROADCASTING MARKET

- Total market share cable operators 81%
- Transition to digital appears to be an evolution, no revolution
- Cable connection is still of major importance because of the analogue RTV-package (multiple TV sets)
- In the upcoming regulatory period a significant share of end-users still uses analogue RTV
- Analogue RTV is an important competitive advantage for cable operators
- Because of this, there is only limited competitive pressure on cable operators

OBLIGATIONS FOR CABLE OPERATORS (BROADCASTING)

- Continuation of the present access obligation with which competitors can offer television programs over the cable network
- Additional: administrative resale of the cable connection, for the two biggest cable companies: Ziggo and UPC
- Alternative operators will need to arrange for the broadcasting rights themselves
- Taking over of the customer relationship as a step-up scenario for alternative providers: e.g. bundling with other platforms such as IP TV and satellite
- NB: broadcasting markets not on EC Recommendation

STIMULATING INNOVATION CABLE AND KPN

- In the future competition will be for the bundle: internet, telephony, TV (‘triple play’)
- With their (future) networks, both parties will be able to provide a comparable services portfolio
- Alternative operators are needed: ‘2 is not enough’
- Goal of regulation: maximal stimulation of present infrastructure competition and NGN investments
  - In principle for KPN and cable companies no resale of the connections to each others networks

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CONCLUDING

- Insufficient dynamics on the business market:
  - More wholesale obligations for KPN: broadband, leased lines, telephony
- Increasing competition on the consumer markets:
  - Terminating end-user obligations on all markets
- Insufficient competition on the broadcasting market:
  - Resale of the cable connection
- Goal: enduring competition in time resulting in the further withdrawal of OPTA's ex ante regulation, while preserving the end-user interests

AND NEXT

- National consultation ends 8 September
- Taking on board of comments received
- European notification (four weeks)
- 1 January 2009 final decisions into force

- 5 August 2008 the draft decision for broadcasting will be published

QUESTIONS FOR OPTA EXPERTS

- Remko Bos – director Markets
- Christa Cramer – deputy director Markets
- Martijn Meijers – programme manager

Representatives of the financial world should note that OPTA has the legal duty to protect company confidential data.

END OF MEETING

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