

lattelecom journey:

infrastructure → services → innovations

Gatis Kokins for **AmCham Latvia**
Thought leadership hub

Lattelecom, Chairman of the Supervisory Council

15-Jan-2016

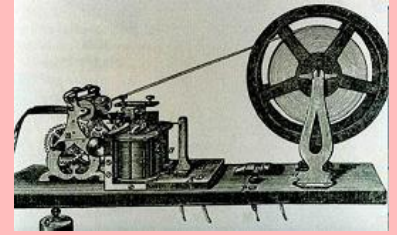
Summary:

- Lattelecom – journey so far
- Digital Single Market & Globalisation
- Achievements and leadership
- Challenges
- Innovations
- Convergence



Lattelecom – journey so far

- 1882: first telephone switch
- 1918: Latvian Post & Telegraph
- 1945: infrastructure under Telecommunications ministry
- 1991: Latvia regains independence
- 1992: state owned Lattelekom established
- 1994: Lattelekom – joint venture with Cable&Wireless



COMPANY HISTORY

-
- 1992 ● SERVICES & QUALITY
 - 2004 ● EFFICIENCY
 - 2006 ● DEVELOPMENT
 - 2009 ● GROWTH AND FOCUS ON CUSTOMERS
 - 2014 ● COMPETITIVENESS

1992 – 1993 • State enterprise Lattelecom is established in 1992

1994 • Signing of the Umbrella Agreement with TILTS Communications

1997-2000 • Internet service Apollo is launched, Lattelecom launches ISDN services

2002 • First WiFi hotspot is launched, Lattelecom starts offering data transmission services in the Baltic States

2005 • The company's subsidiaries Lattelecom BPO and Citrus Solutions are established. MicroLink Latvia (now - Lattelecom Technology)

2006 • Rebranding

2007 • Launching of Lattelecom IP TV as launch of triple-play services

2008 • Launching of FTTH rapid. Increase in the number of IPTV users

2009 • Lattelecom launches Terrestrial TV (DVB-T) services

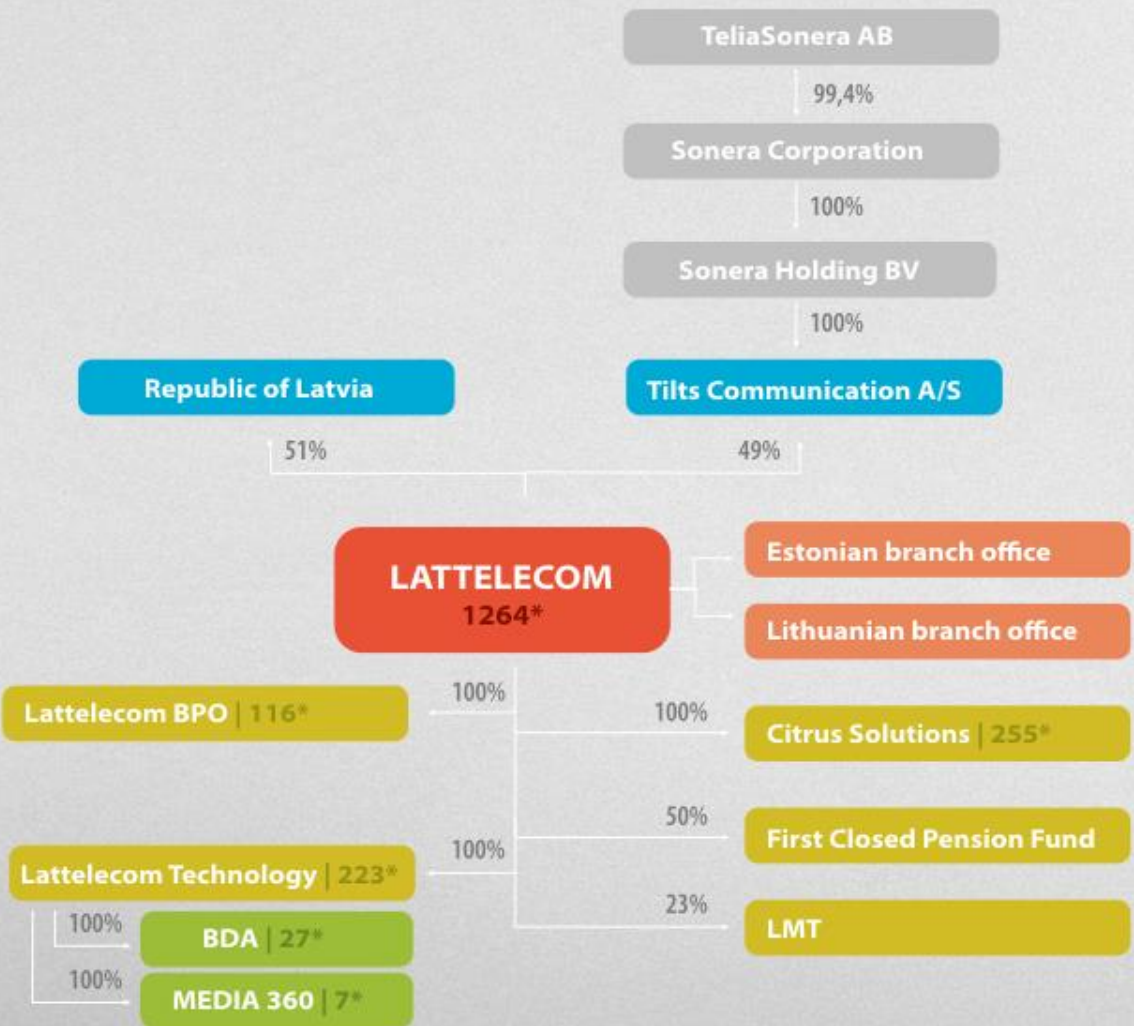
2011 • Launching of Web TV

2012 • Opening of the Baltic Gateway

2013 • Opening of the Data Centre *Dattum* (Tier III certification)
• 3000 free WiFi hotspots are launched
• 300 000 TV viewers in Latvia
• Internet with the speed up to 1 Gbps to customers in Latvia

2014 • Increase in TV market share
• Further development of triple-play product

LATTELECOM GROUP STRUCTURE



Lattelecom Technology

Full range of integrated IT solutions, custom-built services to corporate clients and Lattelecom

Citrus Solutions

Construction and maintenance of Lattelecom and external client networks

Lattelecom BPO

Directory assistance and Inquiry Services
1188, turnkey CRM solutions

Baltijas datoru akadēmija / BDA

IT training

First Closed Pension Fund

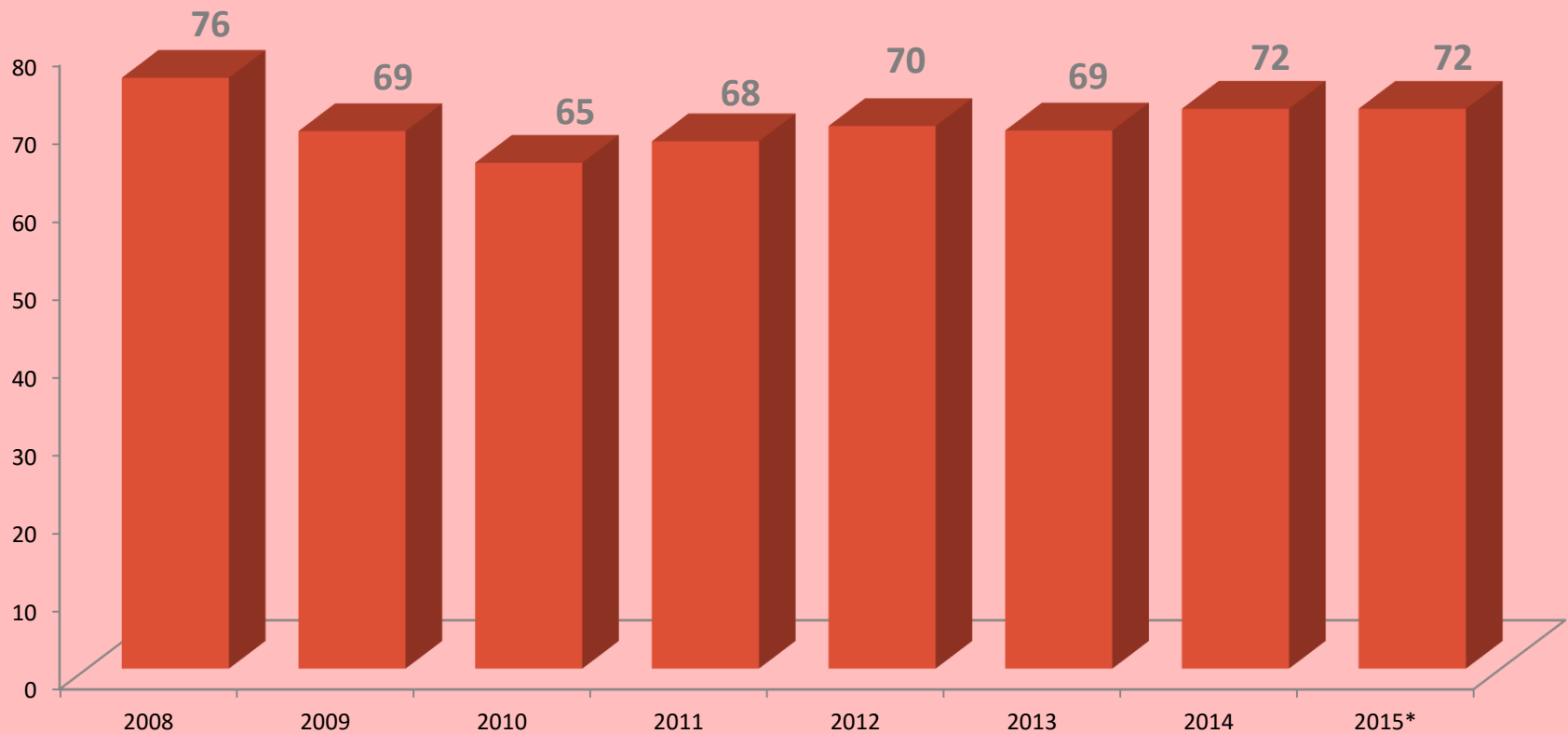
The 1st private pension fund which is registered in Latvia, and the owners of which are Lattelecom Group and Latvenergo, acting as employers.

Media 360

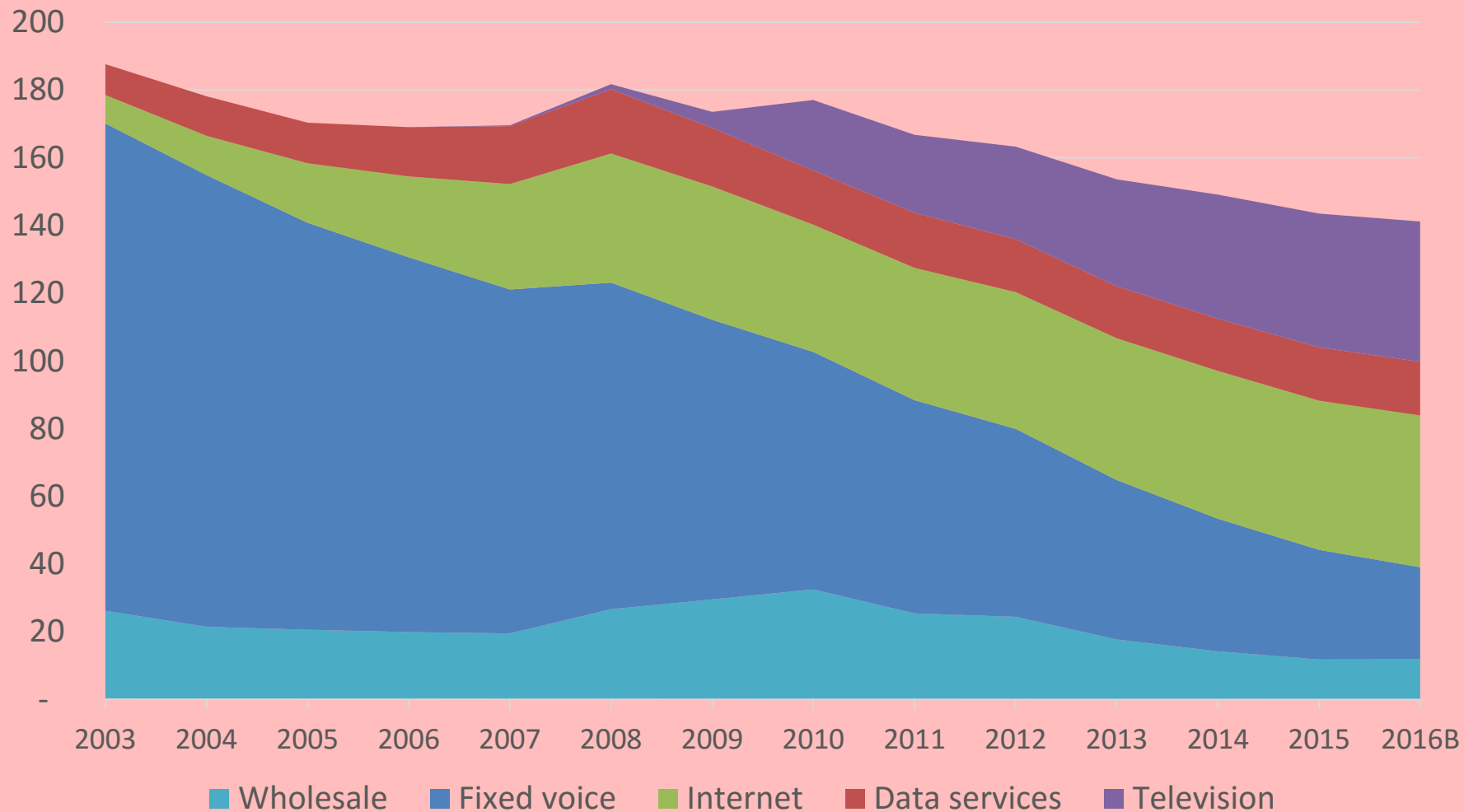
Content related business – TV and commercials.

*Actual headcount as at 01.11.2015

EBITDA, mEUR



Electronic Communication Services Revenue, mEUR



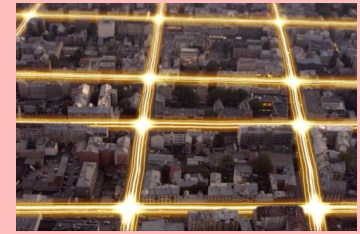
Digital Single Market & Globalisation

- DSM – on the top of EU and EC agenda
- Latvian 2015 EU presidency :
 - Net neutrality
 - Roaming
- Latvia could be Europe's role model:
 - Excellent infrastructure – already in place
 - Fast, efficient and convenient e-services – huge opportunities ahead
- Global trends:
 - Convergence
 - OTT
 - New business models, collaborations, innovations



Achievements & Leadership:

- Latvia: top speed broadband access:
 - 3rd fastest internet in Europe, 4th fastest internet worldwide
 - Massive Lattelecom GPON investments from 2007
- Riga – Europe’s capital of free WiFi:
 - 2nd year in a row;
 - 4 500 free WiFi spots countrywide.
- E-skills:
 - “Connect Latvia” – computer literacy training programme for seniors since 2009;
 - 58% of seniors using internet daily (+20% in 5 years).
- Data Centre Dattum: 1st and only Tier III certified in the region
- TransBaltic Gateway



Challenges:

- Wider usage of e-services needed:
 - E-health, telemedicine, mobile payments etc.
 - More public services in the cloud
 - Official e-address for residents and businesses now discussed
- Latvia E-index initiative by Lattelecom:
 - First national e-governance benchmarking
 - 116 municipalities out of 119
 - 102 government institutions out of 103
 - Only 9 municipalities were scored 50 or more out of 100 maximum



Innovations:

- Global context:
 - From traditional closed to new generation open standards and platforms;
 - Competition between “ecosystems”, business models
 - Collaboration
 - Innovations and start-ups.
- Lattelecom response:
 - New business unit: Corporate development (accelerator)
 - New business lines already operating
 - Looking for partnerships, collaboration, innovations, start-ups – WELCOME!
 - New, activity based office concept “Metropole”



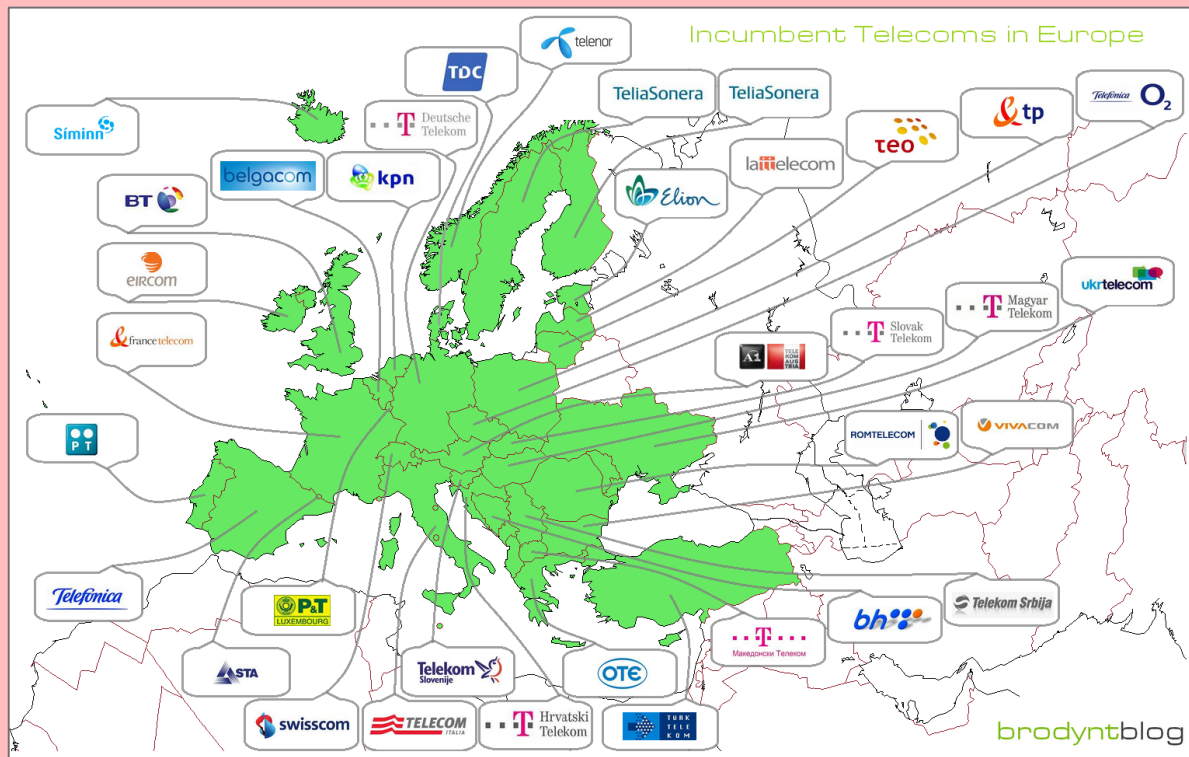
New business - TV channels



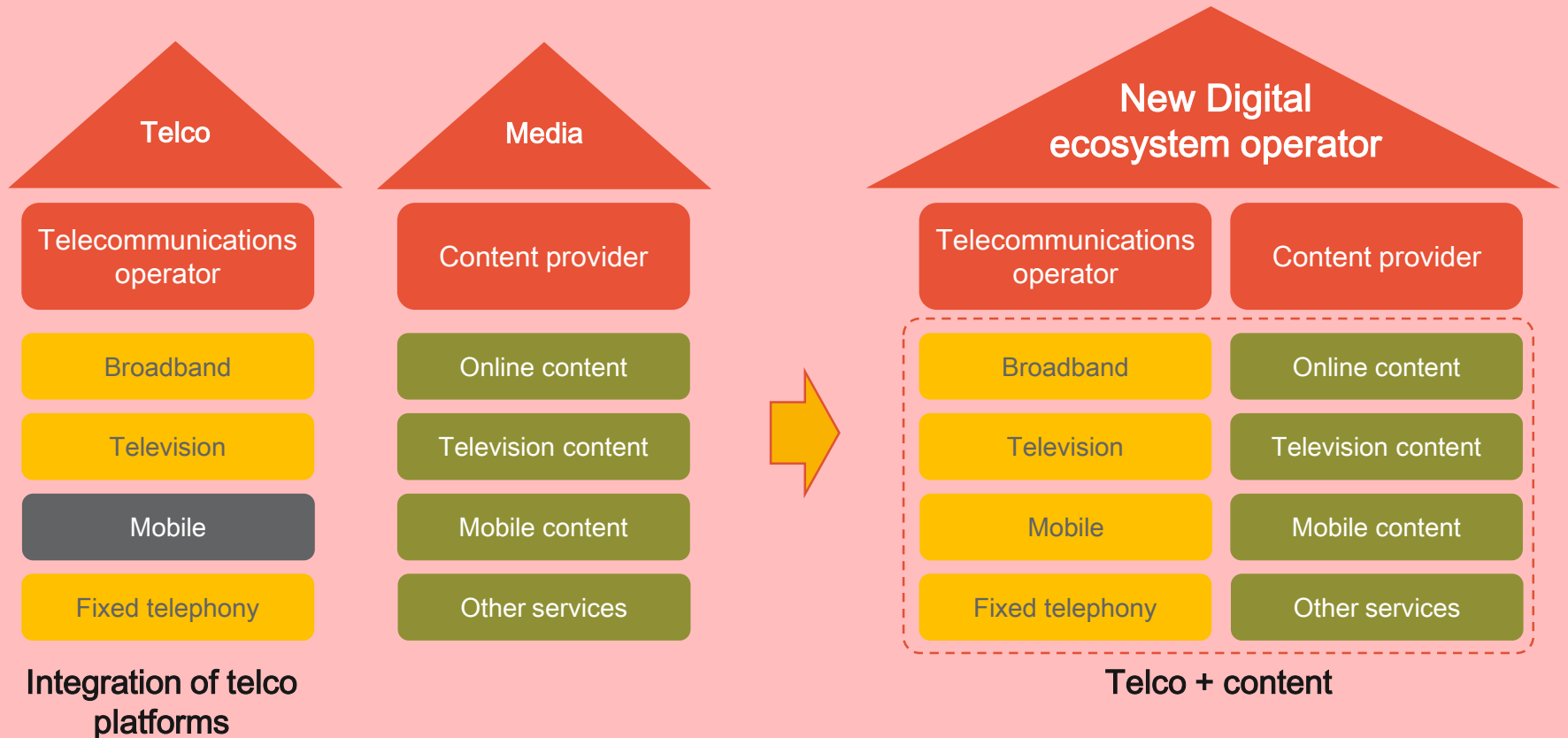
Telco operators in Europe

Fixed and mobile integration is prevailing

- Out of 36 European incumbent telecommunications operators **Lattelecom** is the last and the only operator, which does not include mobile services in its offering















Telco / media convergence






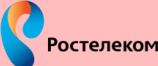










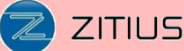



European telco trends

Integration of telco platforms through M&A

Date	Target company	Target description	Bidder	Bidder description
2015		UK based mobile operators		UK incumbent fixed line operator
2014	Omer Telecom 	France based mobile operator		France based cable company
2014		Spain based mobile operator		Spain based cable operator
2013		Spain based cable operator		UK based mobile operator
2013	 Kabel Deutschland	Germany based cable operator		UK based mobile operator
2012		Portugal based mobile operator		Portugal based cable operator

European telco trends

Media / telco integration through M&A

Date	Target Company	Target Description	Bidder Company	Bidder Description
2014		Italy based pay-TV business		Spain based telecom operator
2014		Online media assets of Gazprom Media		Russia based telecom operator
2014		TV content production company	 LIBERTY GLOBAL	US based international cable operator
2014		Spanish TV broadcasting operations		Spain based telecom operator
2014		Belgian media assets of Sanoma		Belgium based telecom operator
2013		Broadband and fixed telephony business of Telefonica UK		UK based satellite and cable broadcasting company
2013		UK and Ireland TV channels of ESPN		UK based incumbent telecom operator
2012		Sweden based telecom company		Sweden based TV and radio broadcasting company
2011		Finland based TV company		Sweden based telecom operator

European telco trends

Decreasing government involvement

- Government of Latvia shareholding in Lattelecom is significantly above the EU average level
 - Government of Latvia controls 51% of the shares in Lattelecom
 - EU average is 21%
 - EU median is 2%
- Only 5 governments out of 28 in EU hold 50%+ stake in incumbent telecom operators

Country	Incumbent	Gov. stake
Austria	A1 Telekom Austria	28%
Belgium	Belgacom	54%
Bulgaria	Vivacom	0%
Croatia	T-Hrvatski Telekom	4%
Cyprus	CYTA	100%
Czech Rep	Telefonica O2	0%
Denmark	TDC	0%
Estonia	Elion	0%
Finland	Telia Sonera	4%
France	Orange S.A.	14%
Germany	Deutsche Telekom AG	31%
Greece	OTE	10%
Hungary	Magyar Telekom	0%
Ireland	Eircom	0%
Italy	Telecom Italia	0%
Latvia	Lattelecom	51%
Lithuania	Teo LT	0%
Luxembourg	POST Luxembourg	100%
Malta	GO	0%
Netherlands	Koninklijke KPN NV	0%
Poland	Orange Polska	0%
Portugal	Portugal Telecom	0%
Romania	Telekom Romania	46%
Slovakia	Slovak Telekom	49%
Slovenia	Telekom Slovenije	67%
Spain	Telefonica	0%
Sweden	Telia Sonera	37%
United Kingdom	British Telecom	0%
	Average	21%
	Median	2%

Product bundling benefits

3-play and 4-play offerings decrease churn rate

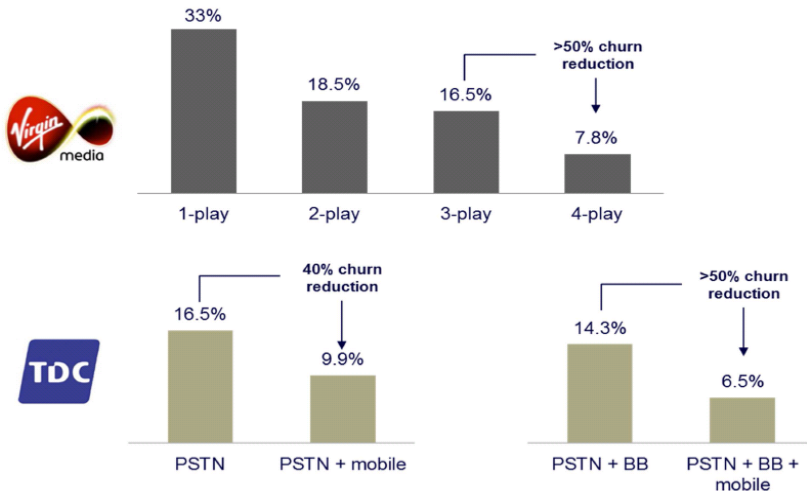
Telco industry experience:

- Reduction of churn by 40-50% adding additional product to bundles

LTC 3-play offer experience:

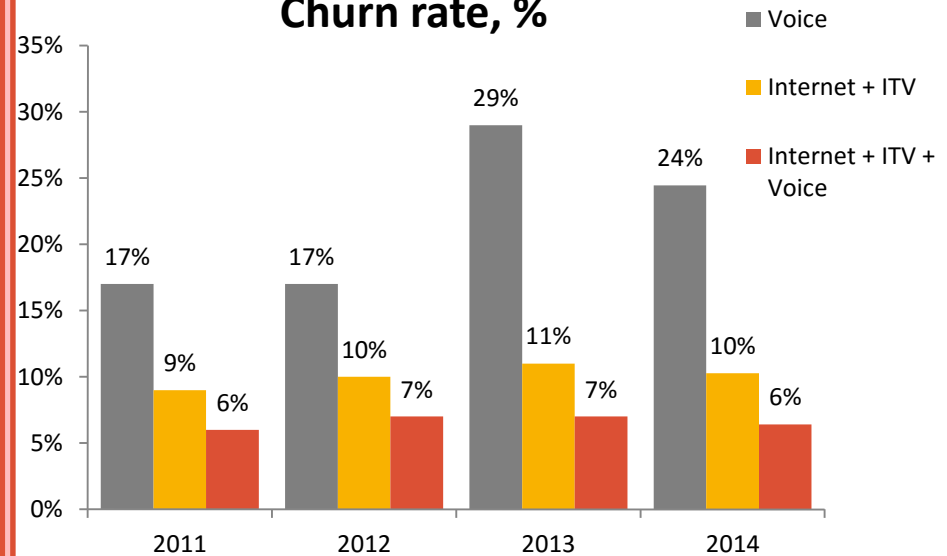
- Reduction of churn by 2% when introducing Home package at the end of 2006
- Decreased churn in service packages

Churn levels among subscribers to different product bundles
% annualized churn



Source: J.P. Morgan Cazenove 2011, Solon

Churn rate, %



Baltic Telco Landscape

Convergence of fixed and mobile in LT and EE completed

- Merger of EMT, Elion and AS Eesti Telekom was completed in September, 2014 in Estonia allowing integration of operations
 - Joint management team
 - Joint stores and corporate customer service unit
 - MyTV offering in Beta version (multi-device and multi-channel)
 - Joint internet offering through Elion's fibre and EMT's 4G networks
- In October 2015 announcement for Acquisition of Omnitel by TEO in Lithuania
 - According to TeliaSonera announcement the acquisition is expected to be finalized in the 1st Q 2016 at the latest
 - «Consumers no longer make a distinction between fixed and mobile services and the demand for converged offerings are steadily increasing» as stated by TeliaSonera
 - TeliaSonera's ownership in Teo will remain at 88.15% following the transaction



Lattelecom – LMT integration proposal:

- Common shareholders:
- Timeline:
 - Initiated in 2013
 - Supported by the Supervisory Council
 - Lengthy discussions in 3 successive governments
 - TeliaSonera proposal – fall 2015
- What's next:
 - Discussion by the new government
 - Decision?

