

Executive summary

The countries of Central and Eastern Europe continue to offer a range of attractive opportunities for international TV players and investors. An already positive environment will only improve, with a period of extensive merger and acquisition activity expected over the next few years.

The upgrade of analogue to digital maintains steady rather than spectacular progress. Digital satellite leads the way, with cable having initially made slower progress towards digital conversion. But with IPTV making some inroads in the region, there is evidence of cable now looking to upgrade with greater urgency. UPC is upgrading on a region-wide basis and has recently turned its attention to converting its biggest markets of Poland and Hungary.

With numerous launches already under way and others due shortly, IPTV is starting to emerge as a realistic alternative platform in some countries. Russia leads the region in terms of IPTV subscribers, although services such as O2 TV (Czech Republic), Elion (Estonia) and TPSA (Poland) are also making progress.

While IPTV is showing encouraging signs, DTH is already thriving and has the potential to make a serious dent in cable's TV dominance. Satellite benefits from its perception as a premium TV service – giving it an advantage over the often fragmented cable sector, which finds it difficult to shake off its historic connotation as a low-cost utility service.

With levels of disposable income tight for large sections of the region's homes, the ability to set realistic price points is particularly important in Eastern Europe. Companies such as Cyfra+ have recognized this in the past and their businesses have prospered as a result. Romanian DTH service Digi TV is also benefiting from its low cost strategy. The theory is that once a large addressable subscriber base has been established, it can then work on its clients to upgrade to premium packages at a later date.

Hand-in-hand with the move to digital comes the potential for added-value services such as DVRs and VOD. Perhaps most significant in recent years have been some significant moves into HDTV, particularly in countries like Poland and Russia.

The rise of digital also offers the prospect for networks to launch niche channels across the digital platforms. Some companies such as Poland's TVN and TVP, Russia's NTV-Plus, CT in the Czech Republic and MTV in Hungary have launched their own thematic channels to tap into demand for local programming.

With Eastern European countries starting to realize their potential, operators are clamoring to gain 'first-mover' market and gain a foothold in the country. This has seen several competing services launch in the same market – with three or more competing services in

countries such as Romania, Poland, Russia, Ukraine, Slovakia and the Czech Republic. The majority of developed markets have shown, however, that the long-term economic reality is that each market will be left with a single dominant player for each platform. There will, therefore, be several operator closures and mergers over the next few years.

Selected DTT plans

Country	Operators	Broadcasters	Service launch date	Analogue-switch-off date
Bulgaria	BTC	BTC	2009	2012
Croatia	TLC, OIv	HTV, HRT	2008	2010
Czech Republic	Czech Digital Group, CRa, Czech Telecom	Czech TV, TV Nova, Prima TV	2005	2011
Estonia	Levira	ETV	2006	2010
Hungary	Antenna Hungaria	MTV, Duna, TV2	2008	2011
Latvia	DLRTC	N/A	2008	2012
Lithuania	Lithuania Telecom	N/A	2006	2012
Poland	TP EmiTel	TVP, Polsat, TVN	2008	2014
Romania	Radiocom	N/A	2008	2012
Russia	Telemidium	N/A	2009	2015
Slovakia	Slovak Telecom, Telecom Group	N/A	2008	2012
Slovenia	RTV Slo	RTV Slo	2006	2010
Ukraine	Kvant Efir	N/A	2009	2015

Source: Informa Telecoms & Media

While other platforms have been active, DTT rollout has been slow by comparison, with the public reaction to trials generally lackluster and offering little incentive for a speedy conversion to a full commercial launch. Services are available in Slovenia, Lithuania, the Czech Republic and Estonia and preparations are at an advanced stage in Hungary and Russia – offering hope of some progress during 2008 and 2009.

Eurocom accounted for 13% of cable subs in February 2008. The Eurocom network centers on Sofia, with 200,000 subscribers at end-2006. Eurocom also offers services in Plovdiv, Pleven, Karlovo and Lom. The company is owned by Hungarian MSO FiberNet, which is backed by private equity group Warburg Pincus.

Eurocom reported a €4.1 million investment in digital TV and VoIP during 2H07. Early this year, the operator announced plans to invest a further €17.3 million to improve its services and expand its coverage. This will likely revolve around the rollout of triple-play and digital TV services.

In 1Q08, Eurocom was in the process of acquiring seven local cable operators. In March 2008 it looked set to consolidate its position further with the acquisition of two more.

Its biggest acquisition was Interactive Technologies, which operates pay DTH platform ITV Partner. The competition commission approved the deal in January 2008. ITV Partners had 40,000 subscribers in 1Q07.

Eurocom launched digital TV services in Sofia in May 2007, and then in Plovdiv in June 2007. The operator launched VoIP in the two cities in 2H07, aiming to expand the service into its other covered areas. In 1Q08, Eurocom agreed a deal with Scopus Video Networks to upgrade its systems in Sofia and Plovdiv.

The operator offers more than 80 channels in Sofia and Plovdiv, with a digital supplement of BGN5 per month on top of the analog subscription charge. Eurocom offers more than 50 channels elsewhere.

In 2007, Eurocom signed a deal to carry Diema Vision's five channels. Diema owns the rights to popular sports, including English and Spanish soccer leagues and the Euro 2008 soccer championships. Diema Vision is owned by Balkan Media Group, which the Modern Times Group acquired in March 2007.

IPTV

The broadband market saw significant growth during 2007, with connections nearing 750,000 by year-end, up 75% on an annual basis. Greater competition has resulted in lower prices. A survey carried out by Investor.bg revealed that Internet costs dropped by a third in 2006. The survey showed that installation and equipment costs were now the biggest prohibiting factor to consumers.

Total broadband subscribers

	4Q05	2Q06	4Q06	2Q07	4Q07
Cable	240,000	270,000	326,700	455,300	583,900
DSL (BTC)	40,000	50,000	92,800	121,000	164,000
Total	280,000	320,000	419,500	576,300	747,900

Source: Informa Telecoms & Media; WBIS

If issued with the required frequencies, T-Mobile and Telefonica O2 look set team up with Vodafone to launch a joint mobile TV service. The idea of a shared network was first raised in November 2007. They propose an eight-channel, subscription-based DVB-H service, which they aim to launch by end-2008. The service would cost customers as little as €3 per month.

Michal Nemeč, T-Mobile's vice-president of mobile portal and content services, said in April 2008 that the operator was ready to launch by year-end but that this depended upon operators reaching agreement on cost-sharing, successful tests on handset models and an invitation by the regulator RRTV to tender for licenses.

Telefonica O2 launched a mobile TV service via its 3G network in late 2005. To promote usage it offered access to the seven channels free of charge for one week in March 2007.

On-demand TV

By May 2008, IPTV was the only platform to offer on-demand services. Telefonica O2 was the first to launch a VOD offering, via the introduction of Videotheque.

The movie on-demand service gives access to Hollywood films, with content supplied by Sony, Warner Bros. and Disney. Sony signed with O2 in early 2007, increasing the operator's library to around 400 movies. Warner Bros. and Disney joined in November 2007. Disney is expected to supply around 40 movies each year.

Telefonica O2 added a "catch-up" VOD service in September 2007. O2 TV Archiv allows users to access content from terrestrial channels CT1, CT2, TV Nova and Prima TV for one week after first broadcast.

O2 claims that 39% of its subscribers use its VOD services, although it does not provide a breakdown between paid and free content.

Rival IPTV operator Volny provides on-demand services through its My TV offering, allowing users to compile a channel with a personal selection of programming. The service is protected by Verimatrix.

HDTV

HD services were introduced in late 2006 when Nonstop Kino HD trialled on cable platform Karneval. In early 2007, the Czech Broadcasting Council (RRTV) awarded the channel an HD license. The channel is produced by Help Film, which is responsible for the film channel Nonstop Kino.

HDTV debuted on IPTV in July 2007, with Telefonica O2's launch of a simulcast of public service channel CT1.

Chapter 13

Romania

Market movements

- Cable operators are struggling to compete against a multitude of low-cost DTH packages
- Large-scale cable network upgrades are expensive. Overbuilding has stalled upgrades in the past
- UPC Romania is Liberty Global's worst performing Eastern European operation; it lost its market leadership in 4Q07 and subscriber numbers continue to fall
- RCS-RDS is performing well, leading both the cable and DTH markets
- The IPTV sector remains small, which benefits the cable sector as some platforms offer triple-play packages. However, IPTV will grow if incumbent Romtelecom launches a service in 2008
- DTT is still at the trial stage, with full-scale launch plans yet to be announced
- Public broadcaster TVR lost its audience lead to commercial channel Pro TV in 2007.

Overview

Romania gained accession to the EU in January 2007. The popular Traian Basescu continues to serve as President. He was briefly removed from office but a referendum saw him reinstated.

Romania has a population of 21.4 million, with eight million TV households. According to Romanian statistics office INS, fast economic expansion decelerated slightly in 2007 when GDP growth slowed to 6%, down from 7.9% the previous year. Growth of 6.5% is forecast for 2008. Consumer prices increased by 6.6% in 2007.

Pay TV market is becoming more diverse. Two DTH platform launches in 2007 took the total number of operators to five, an unusually high number in comparison with other markets. Two more are rumored to be considering a launch.

It remains to be seen how long such a competitive environment can sustain this many operators. While RCS-RDS's Digi TV and Romtelecom's Dolce TV have emerged as market leaders, the three remaining platforms are adding subscribers and look set to continue operations at least for the short-term.

Cable remains the most popular pay TV option. However, DTH competition forced the MSOs to focus on upgrading their services to digital, a process which has so far been slow.

shareholders (US\$220 million for 30% of equity and probably another US\$109 million for the remaining 10%), CME is reorganizing its Ukrainian operation, which is likely to turn around its fortunes. The Ukraine is CME's second largest ad market, but is also its second smallest market by EBITDA. The company wants to be market leader in the Ukraine by 2010.

CME annual financial performance

US\$ million	2005	2006	2007
Revenues			
Croatia	22.0	22.3	37.2
Czech Rep.	154.0	208.4	279.2
Romania	103.3	148.6	215.4
Slovak Rep	64.3	73.4	110.5
Slovenia	48.8	54.6	69.7
Ukraine	72.8	97.6	128.0
Total	465.2	604.9	840.0
EBITDA			
Croatia	-15.9	-14.4	-13.9
Czech Rep.	71.5	100.4	156.5
Romania	43.8	65.9	93.1
Slovak Rep	17.2	20.8	41.5
Slovenia	19.3	19.8	22.8
Ukraine	21.8	26.3	19.7
Total	157.9	218.8	319.7

Source: CME

Established operations in Romania and Slovakia are performing well. Romanian ad revenues grew by 58% in 2007. However, banker ING believes EBITDA margins in the Czech and Slovak Republics have reached their optimum level. The EBITDA margin for its Czech operations was 56% in 2007.

But it's not all plain sailing. Competition is strong in all of its markets, especially Romania where many niche channels are biting away at the audience share of the main players.

CME is not resting on its laurels. In March 2008, it raised US\$475 million in senior convertible notes to allow for growth in other markets (and its Ukrainian operation) as well as diversifying into other areas such as new media, especially online. The company has identified Turkey as a target market.

Listed on the NASDAQ and Prague stock exchanges, Apax Partners and Ronald Lauder and his family own 15% of stock value and 64% of voting stock.

Czech Republic

TV Nova is the most-watched channel in the Czech Republic. According to ATO, its average all-day audience was 39.6% in 2007, down from 41.8% in 2006. The decrease is largely