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SEE TELECOMMUNICATIONS MARKET OVERVIEW

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SEE TELECOMMUNICATIONS MARKET OVERVIEW

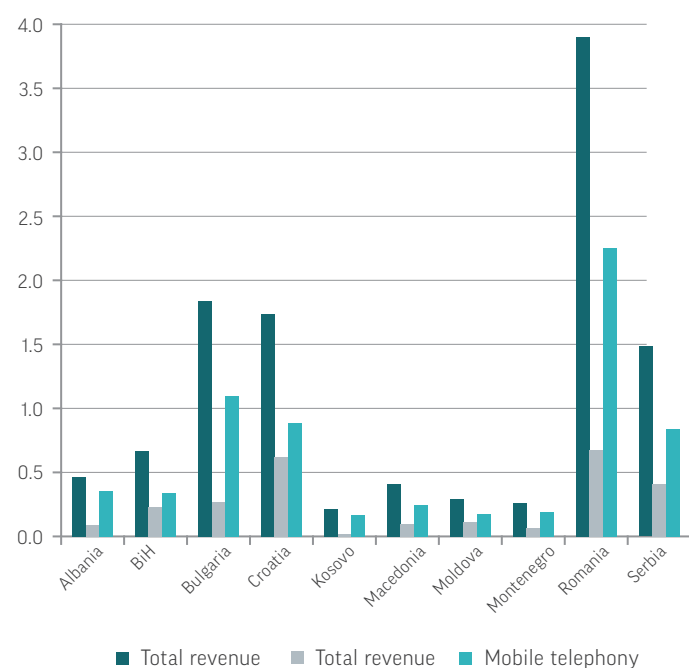
Key trends in SEE telecommunications sector in 2009:

- Drop in revenue of fixed-line and mobile telephony services in some countries and growth of revenue from internet services and cable television;
- Drop in revenue and lower penetration of fixed-line telephony in most countries;
- Growth of revenue and increase in mobile telephony penetration;
- Rise in revenue and coverage of 3G services, growth of smartphone sales;

Revenue

The total revenue of the telecommunications sector in 2009 in the Southeastern Europe (SEE) countries (excluding Slovenia) amounted to EUR 11.830 bln, down 4.8% on the year. The revenue from mobile telephony was EUR 6.544 bln, accounting for 58.1% of the sector's total, while fixed telephony contributed 23% to the total revenue with sales of EUR 2.585 bln. Moldova was the country with the highest annual drop in the sector's revenue of 19%, followed by Montenegro with 11.5% and Slovenia with 7.5%.

TELECOMMUNICATIONS MARKET REVENUE IN SEE IN 2009



Source: Countries' telecoms regulators

(Bulgaria - Communications Regulation Commission - CRC;

Moldova - Agentia Nationala pentru Reglementare

in Comunicatii Electronice si Tehnologia Informatiei -

ANRCETI; Romania - National Authority for Management

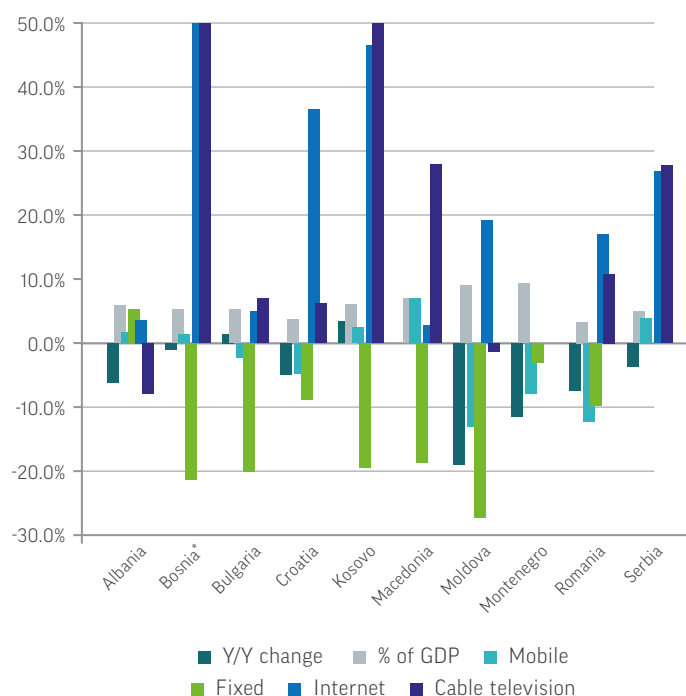
and Regulations in Communications -

ANCOM); Cullen International - Enlargement Countries Monitoring Report IV

Looking at the telecommunications annual revenue change in 2009 by individual segments in each country, particularly strong growth was registered by Internet services in Bosnia and Herzegovina, Kosovo and Croatia, and by cable television services in Kosovo and Bosnia and Herzegovina. Regarding the fixed-line telephony revenue in SEE, the sector registered an average annual drop of 12.3% in 2009. Fixed-line telephony revenue went down on annual basis in all countries with the strongest fall of 27.3% seen in Moldova.

The total revenue of the telecommunications sector accounted for between 3.3% and 9.3% of the SEE countries' GDP for 2009. The share of telecommunications revenue as a percentage of GDP was highest in Montenegro - 9.3% and Moldova - 9.0%.

TELECOMMUNICATIONS SEGMENTS REVENUE - SHARE IN GDP AND ANNUAL CHANGE BY COUNTRY AND SEGMENTS IN 2009



*Bosnia and Herzegovina - Internet services growth - 125.2%, cable television growth - 152.8%;

**Kosovo - cable television growth - 1,588%

Source: Countries' telecoms regulators (CRC; ANRCETI; ANCOM);

Cullen International - Enlargement Countries Monitoring Report IV

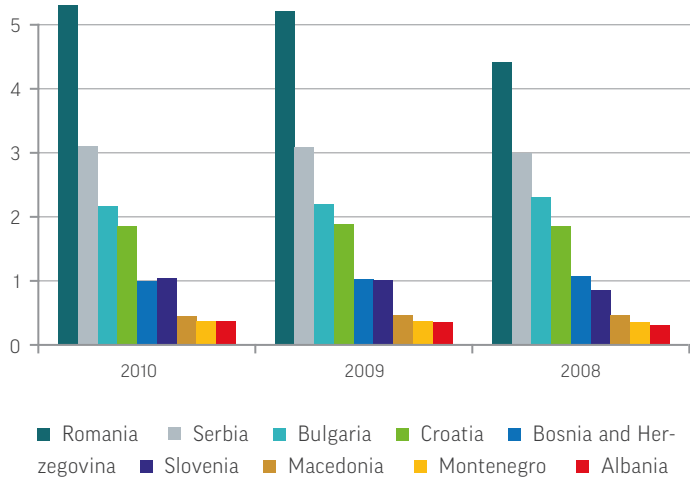
Fixed-line telephony

In 2009 the growth in the number of fixedline subscribers slowed down due to the widespread use of mobile phones and Voice over Internet Protocol (VoIP) services provided by software applications such as Skype, Google Talk and Jutvoip.

The steady rise in the use of IP telephony can be attributed to the advantages that such technology offers - lower monthly calls costs and subscriber fees, and the option for integration of new technologies and combination with other electronic communications services. This rapid growth is expected to persist, with IP telephony replacing the traditional fixed tel-

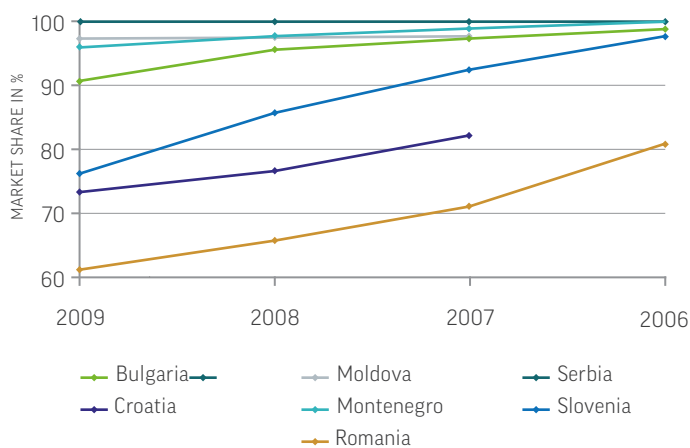
ephone services in the future. This evolution is best observed in Slovenia. In the fourth quarter of 2009 the share of VoIP telephony connections of the total number of telephony connections in the country increased to 38.7% from 27% at end-2008, and 14.2% at the end of 2007.

NUMBER OF FIXED TELEPHONE LINES (IN MILLIONS)



Although the market share of the incumbent fixed line operators in terms of both value and volume continued to shrink in 2008 and 2009, they still dominate the fixed telephony market in all SEE countries and their market share is much higher than the average for the EU-27 countries. In terms of total revenue from fixed-line calls, the market shares of the incumbent operators in SEE were between 80% and 100% for 2009, compared to the average EU level of 70.2% in 2008.

MARKET SHARES OF INCUMBENT FIXED-LINE OPERATORS IN SOME SEE COUNTRIES (IN TERMS OF SUBSCRIBERS)



As of January 2010 the average fixed line telephony penetration rate in SEE stood at 25%, while the EU average was 40%. However, in the whole SEE region there are considerable variations in the levels of fixed line telephony penetration with Albania and Kosovo at relatively low levels and Croatia and Serbia at levels comparable to the EU-27 average.

The fixed broadband penetration rate in the SEE countries lags behind the EU-27 average. As of January 2010 it was highest in Slovenia, at 22.9% and in Croatia, at 16%. In Romania and Bulgaria the penetration rate was 12.30% and 11.90%, respectively, compared to the EU-27 fixed broadband pen-

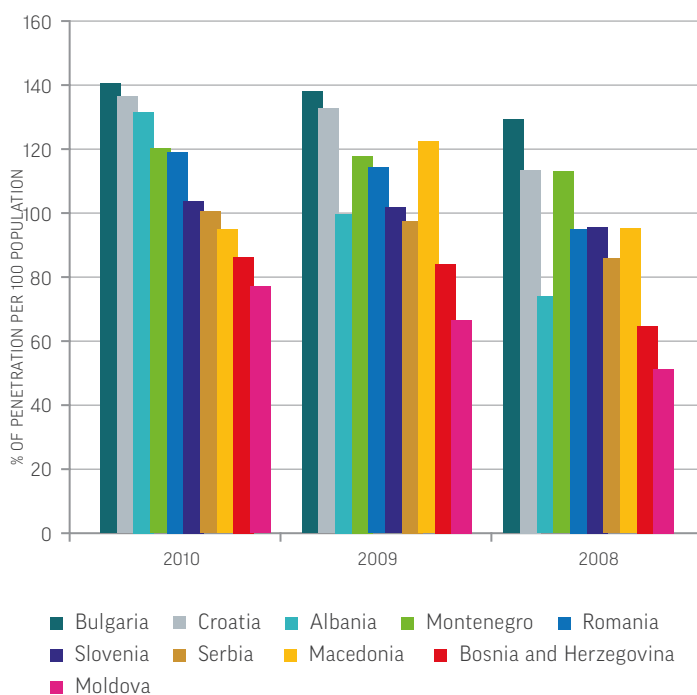
etration rate of 24.80%.

Mobile telephony

Mobile telephony continues to account for the bulk of the telecommunications sector revenue in the SEE countries. The mobile telecommunications achieved total revenue of EUR 6.544 bln in 2009, down 7.0% year-on-year, contributing more than 58% of the telecommunications sector turnover for the year.

Mobile telephony remains the driver of the telecommunications market in the EU and SEE countries. In 2009 the average mobile penetration in SEE was 111%, still below the EU-27 average of 127%. However, mobile penetration continued to grow in all SEE countries except Macedonia, reaching and sometimes exceeding the EU-27 level. At the head were Bulgaria, with a penetration rate of 141%, Croatia with 137% and Albania with 132%.

MOBILE TELEPHONY PENETRATION IN SEE



The growth of mobile penetration was accompanied by intensified competition and falling retail prices. Macedonia, Albania, Montenegro, Serbia and Kosovo saw a significant drop of retail mobile prices. However, especially in Bulgaria, consumer prices for calls between different mobile networks (off-net) are still significantly higher than prices for calls within a single network (on-net) thus forcing consumers to hold more than one mobile subscription.

Regarding mobile number portability, Kosovo, Albania, Bosnia and Herzegovina, Montenegro, Serbia and Moldova failed to introduce the service in 2010. In Serbia mobile number portability will be introduced in March 2011, in Montenegro - in August 2011 and in Bosnia and Herzegovina - in June 2011.

The growth of the mobile broadband continued with 3G mobile services now available in most SEE countries. Dedicated

mobile data cards in Croatia achieved 4.5% penetration, surpassing the EU-27 average of 4.2%. However, in terms of 3G penetration, the level in Eastern and Southeastern Europe of 15.1% was considerably lower than in the Western European countries, where it reached 37.6% in 2009.

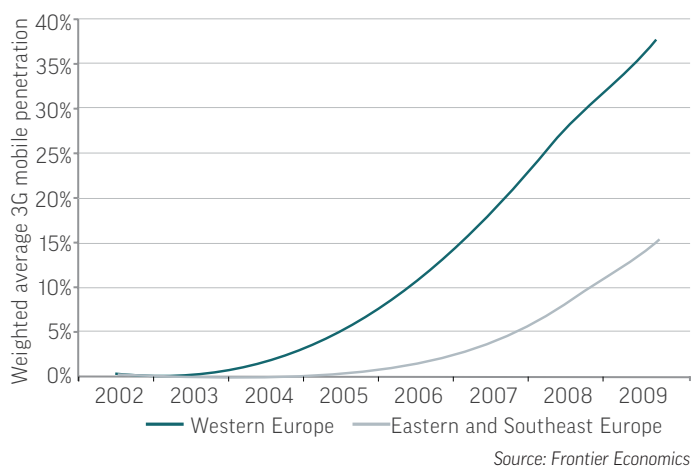
3G Mobile Services

Growing 3G penetration boosted mobile internet revenue but 3G services still account for only a small share of the total revenue of the mobile telephony operators. The revenue from mobile internet in Bulgaria for 2009 made only 1.0% of the local sector's total revenue, compared to EU-27 average rate of 4.0% in 2008.

The 3G mobile services are pushing up handset sales and data transfer revenue of telecom operators across South-eastern Europe as the region aims to catch up with Western Europe where the smartphone penetration rate is already at around 18%, according to an analysis published by SeeNews in July 2010.

In Croatia smartphones already account for a third of the handsets sold by the country's iPhone carrier Hrvatski Telekom (T-HT). Vipnet, another wireless carrier in Croatia, also said it sees constant growth in smartphone sales.

WEIGHTED AVERAGE 3G BROADBAND PENETRATION (% OF POPULATION), 2002 - 2009



In Macedonia smartphones made up 3.0% of mobile handset sales at mobile telephony operator T-Mobile, the iPhone carrier on the local market. The company expects the sales of smartphones to rise thanks to the new types of operating system installed in the phones and new services to be offered.

Romanian mobile telephony operator Cosmote expects local mobile Internet services and smartphone sales to see significant growth in the period 2011-2015 as these market segments are still underdeveloped. Only 10% of all mobile phone users in Romania owned a smartphone as of February 2011, according to Cosmote estimates.

With Bulgarian mobile carrier GLOBUL smartphone users accounted for 15% of the customers in 2010 and their share continues to grow. Although voice services continue to be the

dominant segment of mobile communications, the use of data transfer services by GLOBUL subscribers has seen three-digit growth since 2007.

Smartphones as of July 2010 made up 15-16% of the handset sales of Bulgaria's incumbent telecommunications company Vivacom, which provides both fixed-line and mobile services.

The smartphone penetration rate in Bulgaria was 4.0% in 2009, significantly below the global average of 18%, according to LG Electronics Bulgaria. The low penetration rate gives the segment an opportunity for strong growth in the future. LG Electronics Bulgaria expects that smartphone sales in the country will jump several times, perhaps reaching 10% of the total market in 2010.

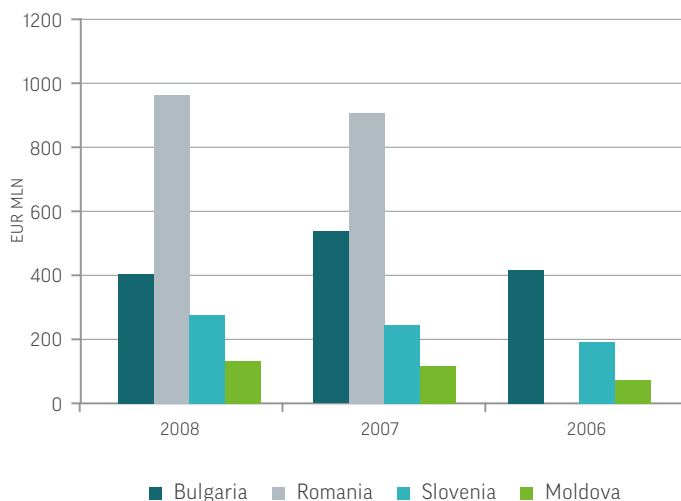
Investments, mergers and acquisitions

A total of EUR 1.648 bln were invested in the telecommunications sector in Bulgaria, Romania and Slovenia in 2008, down by 2.7% on the year. In Romania and Slovenia the investments in the sector as a portion of the countries' GDP stood at 0.7%, while in Bulgaria they accounted for 1.2% of the GDP for 2008. Slovenia was third, Bulgaria fourth and Romania ranked sixth in the EU in terms of investment over revenues ratio with 22.5%, 22.3% and 21.2%, respectively.

The EU average stood at 14%.

In Moldova investments in telecommunications amounted to Moldovan lei 1.75 bln (EUR 99.3 mln), down 10.9% on the year in 2009.

INVESTMENTS IN ELECTRONIC COMMUNICATIONS IN SOME SEE COUNTRIES IN 2006-2008



Source: European Commission - 15th Progress Report on the Single European Electronic Communications Market; CRC; ANRCETI

The SEE region saw several acquisitions and three mergers in 2009 and 2010. The most active player was Greek mobile phone operator Cosmote SA, which took part in three acquisition deals.

Major mergers in the SEE telecommunications sector took place in Bulgaria, Croatia and Macedonia. In Bulgaria and Croatia the mobile arms of the countries' incumbent telecom companies merged with their other operations - BTC Mobile EOOD (operating under the brand Vivatel) merged with Bulgarian Telecommunications Company AD (BTC), which now operates under the brand Vivacom. A similar process happened in Croatia where the incumbent telecom HT-Hrvatske Telekomunikacije d.d. merged with its mobile telephony

subsidiary T-Mobile Hrvatska d.o.o. Following the merger, it changed its name to Hrvatski Telekom d.d.

In Macedonia, Slovenia's telecommunication company Telekom Slovenije d.d. acquired Cosmofon DOO, the Macedonian wireless unit of Greek Cosmote SA. Later the Slovenian company merged Cosmofon and Macedonian internet and fixed-line operator On.net into ONE Operator DOO.

MAJOR ACQUISITIONS IN SEE TELECOMMUNICATIONS SECTOR IN 2009 AND 2010

Target	Country	Buyer	Vendor	Deal size/Details	Status
AMC (mobile phone operator)	Albania	Cosmote SA (Greece)	N/A	a 12.6% stake for EUR 48.2 mln.	Closed
Megalan Network AD and Spectrum Net EAD (cable operators)	Bulgaria	Mobitel EAD (Bulgaria)	N/A	a 100% stake in both companies for EUR 83 mln	Closed
Sofia Online OOD (internet service provider)		ITD Network AD (Bulgaria)	Sofia Online Network OOD (Bulgaria)	a 50% stake for undisclosed sum	Closed
Orbitel AD (telecoms and internet service provider)		Spectrum Net AD (Bulgaria)	Magyar Telekom Nyrt (Hungary)	a 100% stake for EUR 5.0 mln	Closed
M Svyat (mobile phone retail chain)		Mobitel EAD (Bulgaria)	N/A	20 stores countrywide and M Svyat brand	Closed
2be (mobile phone retail chain)		BTC AD - Vivacom (Bulgaria)	N/A	112 stores countrywide	Closed
Metronet Telekomunikacije d.d. (internet service provider)	Croatia	Telekom Austria AG (Austria)	N/A	a 100% stake for EUR 100 mln	Speculation
Tis.kis (IT company)		Kapsch CarrierCom AG (Austria)	TIS Grupa d.o.o. (Croatia)	a 68% stake	Closed
PTK (postal and telecommunications operator)	Kosovo	Six foreign companies	Government	a 75% stake for between EUR 300 mln and EUR 600 mln	Bidding
Cosmofon AD (mobile phone operator)	Macedonia	Telekom Slovenije d.d. (Slovenia)	Cosmote SA (Greece)	a 100% stake for EUR 190 mln	Closed
Germanos Telekom AD (mobile phone retail chain)					
M:Tel DOO (mobile phone operator)	Montenegro	Telekom Srbija AD (Serbia)	Ogalar BV (Netherlands)	a 49% stake for EUR 10 mln	Closed
UPC Romania (cable operator)	Romania	RCS & RDS SA (Romania)	Liberty Global Inc (USA)	a 100% stake for EUR 217.4 mln	Talks
Romtelecom SA (fixedline telephony operator)		OTE SA (Greece)	Government	Close to EUR 1.0 bln	Talks
Telemobil SA - Zapp brand (mobile phone operator)		Cosmote SA (Greece)	Saudi Oger Ltd (Saudi Arabia)	a 100% stake for EUR 207 mln	Closed
Telekom Srbija AD (telecommunications company)	Serbia	Turkcell AS (Turkey)	Government	a 51% stake for at least EUR 1.4 bln	Bidding
UPC Slovenia (cable and broadband operator)	Slovenia	Mid Europa Partners LLP (UK)	Liberty Global Inc (USA)	N/A	Closed

Source: SeeNews

Major Companies

Only eight of the companies that were among the Top 20 telecommunications companies in terms of total revenue in the third annual edition of SEE TOP 100 ranking reported financial results for 2010.

The total revenue of Croatia's Hrvatski Telekom d.d. marked

a 51.1% rise on the year in 2010, while most of the remaining companies reported an annual drop of between 3.7% and 14.7%.

Bulgaria's Mobitel EAD and Cosmo Bulgaria Mobile EAD posted an annual drop in total revenue, while BTC AD increased its total revenue by 6.3% on the year in 2010. All three companies achieved a net profit and positive EBITDA.

TOTAL REVENUE AND NET/PROFIT LOSS OF MAJOR SEE TELECOMMUNICATIONS COMPANIES

Company	Total Revenue in 2010 (EUR)	Y/Y change	EBITDA in 2010 (EUR)	Net Profit/Loss (EUR)	
				2010	2009
Hrvatski Telekom d.d. (Croatia)	1,127,328,359	51.1%	N/A	252,401,970	155,355,242
Mobiltel EAD (Bulgaria)	564,500,000	-8.2%	298,600,000	N/A	134,132,312
Bulgarian Telecommunications Company AD (Bulgaria)	563,153,751	6.3%	N/A	58,360,900	44,210,386
Cosmote Romanian Mobile Telecommunications SA (Romania)	468,800,000	7.2%	73,700,000	N/A	-56,087,213
Telekom Slovenije d.d. (Slovenia)	441,105,000	-6.5%	N/A	-235,412,000	62,231,000
Cosmo Bulgaria Mobile EAD (Bulgaria)	423,298,548	-6.1%	172,203,106	N/A	67,665,390
Telenor DOO (Serbia)	329,469,786	-3.7%	130,264,210	N/A	27,774,724
Ericsson Nikola Tesla d.d. (Croatia)	172,735,490	-14.7%	N/A	3,258,098	17,357,463

Source: Corporate websites and companies' financial reports

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