

FTTH COUNCIL EUROPE - CEO INTERVIEW

Interview with Arūnas Šikšta, CEO of TEO LT, AB

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TEO has played a key role in making Lithuania Europe's FTTH leader in terms of household penetration. What is your experience with the take-up rate*, a subject often brought up by European operators?

By the end of June 2012, our FTTH network passed 732,000 households, 61% of the country's total, with the number of active FTTH/B subscribers reaching 151,000. According to figures published by Speedtest.net, Lithuania is among the countries with the fastest Internet connection speeds. We are seeing a trend amongst TEO customers, who are switching from DSL to FTTH as soon as fibre-optic access is available. Our aim is to cover at least 80% of our country's corporations and organisations, which are housed in office buildings, by the end of 2012.

In 2007, TEO made a strategic decision not to upgrade DSL technology but to jump straight to the development of a next-generation fibre-optic access network. The timing was also very favourable, as the economic crisis in Lithuania made the costs of fibre-optic network development much lower. Currently, Lithuania's economy is struggling to make a clear move towards growth.

It could be stated that the Internet market has now reached its saturation point in Lithuania, as more or less everyone who wants high speed Internet access has now been provided with fibre. The only thing currently preventing a further rapid intake of new Internet connections is the limited purchasing power of residents. We are constantly increasing both local and international bandwidth for our customers and forecast similar traffic growth trends in the future.

Do you think the Lithuanian market for FTTH differs from the rest of Europe in any particular way?

Historically, there are more than 100 Internet service providers in Lithuania, and a distinguishing feature of Lithuania is that almost all ISPs have their own network! That results in a tough competition among them and offers customers - especially in the largest cities - a choice between several operators. Furthermore, the Lithuanian Government is using EU funding to actively create a fibre-optic backbone network. The RAIN project is connecting remote and rural areas, especially public institutions such as local municipalities, schools and libraries, into a network covering the whole country. ISPs are offered the use of this network on a wholesale basis; they only need to build the last mile to their retail customers.

As an incumbent, what key regulatory measures would you say are necessary to ensure faster FTTH roll-out in Europe?

Regulatory conditions that stimulate a pro-investment climate are needed. By that, I mean that it is necessary to decrease regulatory obstacles - especially in terms of price regulation - for network operators investing in NGA. This would, in turn, create certainty for incumbents and Europe would benefit from faster fibre roll-out. The first move in this direction, made by Commissioner Neelie Kroes in July, is welcome. She has stated that regulatory emphasis should be on non-discrimination from now on, and that all players should have equal access to both existing and new networks. However, implementation of these policies will be the key. Kroes plans to present formal recommendations before the end of the year, and these are expected to apply until 2020, or longer. This should offer operators planning their network investments regulatory certainty.

The intensive regulatory measures currently in place will definitely result in a decrease of FTTH investments in the near future. Markets in the USA and Asia would benefit most from that kind of situation, as the majority of all telco-oriented investments would be directed into those markets.

Financing is another key issue! How was TEO's FTTH roll-out financed, and what recommendations would you offer to other European operators?

TEO's FTTH roll-out has been solely financed from internal funds. For a number of years we've generated good cash-flow, which fully covers the company's capital investments and dividend pay-out needs. TEO also uses the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies. The profit tax relief for 2011 amounted to LTL 10.3 million, LTL 10.6 million in 2010 (approximately €3 million).

What main services is TEO offering to its FTTH customers?

Retail customers are offered a number of flat-fee Internet payment plans: 50 Mbps for 11.6 euro; 100 Mbps for 14.5 euro and 300 Mbps for 23.1 euro. Fibre-optic access ensures high quality TEO IPTV services for up to 3 TV sets. In addition, Internet service users are offered virtual storage for up to 300 GB. TEO is currently putting a great deal of effort into developing IPTV services, which is particularly important as a switchover to Digital TV is approaching in Lithuania. This will take place on October 29, 2012.

What is the role of an incumbent operator in the development of eHealth, eGovernment and other public services?

TEO was involved in the development of eDiary (eDaybook) in schools, which allows parents to follow their kids' performance at school. In Lithuania, eBanking and eTax Declarations are very popular. As an incumbent operator and leader in Internet access service provision, we actively support all initiatives that lead to more useful content and e-services in the country.

* Take-up rate: ratio of subscribers to homes passed