



Finnish Communications  
Regulatory Authority

Market review

2 / 2009



# **Market review 2/2009**

## **Markets and investments**

8 September 2009



## INTRODUCTION

The FICORA market review 2/2009 presents a collection of the most significant and timely market information regarding the Finnish communications market. In addition to indicators depicting traditional call and broadband markets, the review includes current statistics on the media market and postal operations. The review 2/2009 also presents information on the investment opportunities and needs of telecom operators.

The investment analysis is based on FICORA's 2006 survey of telecom operators' investments and the factors impacting on them. Presentation of telecom operators' investment opportunities and needs is an extension of the investment analysis performed by FICORA for its 2/2008 market review. In a departure

from the previous year's analysis, the section on investments discusses the investment needs and opportunities of 11 rather than 10 of the largest companies, in terms of telecom operations turnover. Moreover, the investment behaviour of telecom operators and the primary indicators influencing that behaviour are compared to the median figures for the sector and of other companies.

The market review is based on information collected by FICORA from telecom operators and public sources. FICORA has obtained the adjusted financial statements information used for investment evaluation from Balance Consulting Oy and credit classifications from Suomen Asiakastieto Oy.

## TELECOMMUNICATIONS MARKET

### Broadband services

#### Broadband subscriptions and technologies

The number of broadband subscriptions continued rising, due primarily to the increase in mobile broadband subscriptions. By the end of the first half of 2009, the

number of broadband subscriptions in Finland totalled almost 2,244,000, including both household and business subscriptions. In half a year, the number of subscriptions grew by almost 150,000, representing an increase of around 7 per cent.

Year	2006		2007		2008		2009
Date	31.12.	30.6.	31.12.	30.6.	31.12.	30.6.	30.6.
DSL	1 161 100	1 210 900	1 270 500	1 270 100	1 231 300	1 216 300	
Real estate and housing company subscription	72 900	98 100	114 000	104 600	134 900	104 700	
Cable modem	181 100	192 900	209 600	212 900	214 800	215 500	
Mobile broadband			143 100	307 100	479 700	664 300	
Wireless broadband			15 300	19 600	26 100	31 600	
Other	13 800	18 300	7 700	9 000	9 800	11 500	
<b>Total</b>	<b>1 428 900</b>	<b>1 520 200</b>	<b>1 760 200</b>	<b>1 923 300</b>	<b>2 096 600</b>	<b>2 243 900</b>	

Table 1 Development of broadband connections 2006 - 2009.

At the end of the first half of 2009, Elisa Corporation was the market leader, holding a market share of 32 per cent. TeliaSonera Oyj's market share was around 30, DNA Ltd's around 17, with the Finnet group companies' combined share coming to 12 per cent. The combined share of other broadband service providers remained at nine per cent. Of the other companies providing broadband

services, Sanoma Television Ltd (Welho), mainly operating in the cable TV network, remained the largest. Compared to the end of 2008, Elisa's market share saw a decrease of one percentage point, while DNA's market share increased by one point. The other companies did not experience major changes in their market shares.

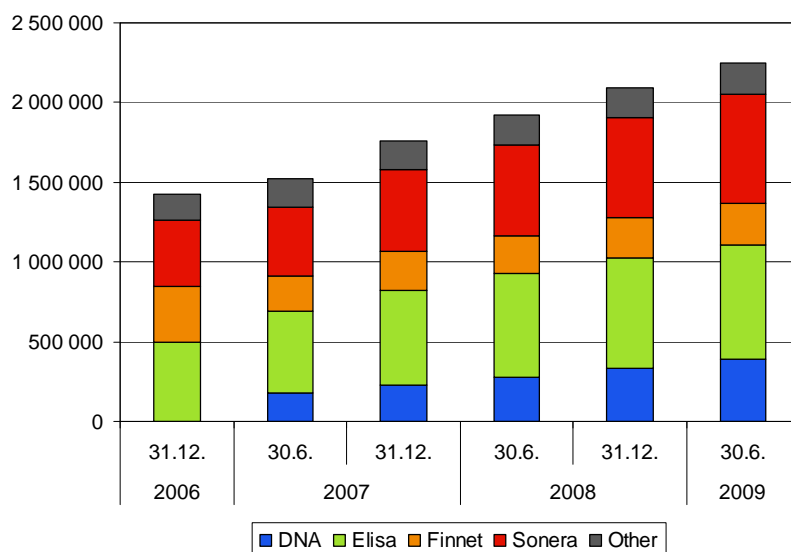


Figure 1 Broadband connections and market shares of operator groups 2006 - 2009.

At the end of the first half of 2009, no significant changes could be discerned in broadband speeds compared to the end of 2008. Almost 60 per cent of all broadband subscriptions still had a download speed of 2 Mbit/s or faster. At the end of June, around 10 per cent of subscriptions had a download speed of 10 Mbit/s or faster, with one per cent of subscriptions having a download speed of 100 Mbit/s or faster. Forty per cent of subscriptions had a download speed of less than 2 Mbit/s. Mobile broadband subscriptions are not included in the numbers depicting the distribution of download speeds.

The number of subscriptions using ADSL or other DSL technology continued its downside, yet only by 15,000 subscriptions, whereas during the second half of 2008 these subscriptions decreased by 40,000. DSL technology-based subscriptions continued their reign as the most popular broadband type. At the end of June, subscriptions based on DSL technology held a market share of 54 per cent,

marking a five-per cent drop from the end of 2008.

Share of mobile broadband subscriptions' of all subscriptions increased by around 7 per cent, reaching 30 per cent. However, the relative growth rate of mobile broadband subscriptions slowed down. During the latter half of 2008, the number of mobile broadband subscriptions was still growing at a rate of 55 per cent, whereas during the first half of 2009, this growth rate was only 35 per cent. Actual growth, however, was faster, since the number of subscriptions grew by over 10,000 subscriptions more than in the latter half of 2008.

Cable modem remained the third-most popular broadband subscription type, retaining its 10 per cent market share. At the end of the year's first half, there were a little over 30,000 wireless broadband subscriptions of various kinds, representing around a one-per cent share of all broadband subscriptions.

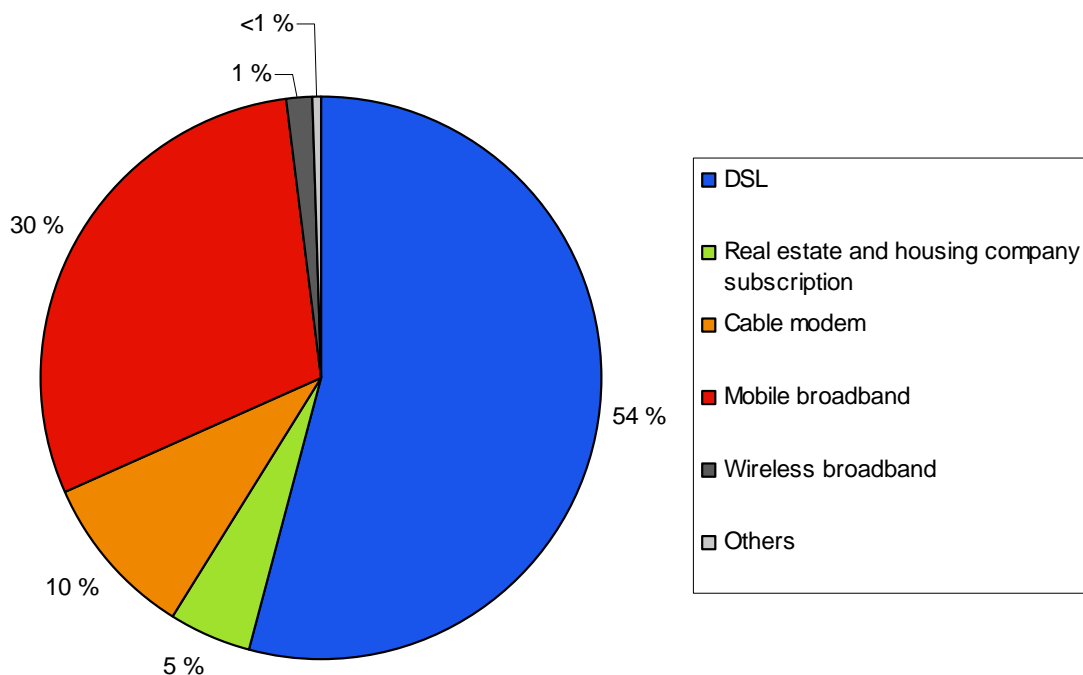


Figure 2 Broadband subscriptions by type, 30 June 2009.

### Service quality of broadband service providers

During the first and second quarters of 2009, the average customer service response time was under a minute for 80

per cent of service providers. The average customer service response times of DNA, Elisa, Saunalahti, TeliaSonera and Welho saw an improvement of at least 25 per cent compared to the poorest numbers for 2008.

### Mobile services

In the first half of 2009, the number of mobile communications subscriptions increased by almost 7 per cent; at the end of June, there were almost 7.3 million mobile communications subscriptions in Finland. Evaluated by number of subscriptions, the order of the largest mobile service providers saw some changes, with

Elisa emerging as the leader in market share. At the end of June, Elisa's market share was around 38 per cent, while TeliaSonera's market share was around 36 per cent and DNA's around 23 per cent. The combined market share of the smaller service providers remained at around two per cent.

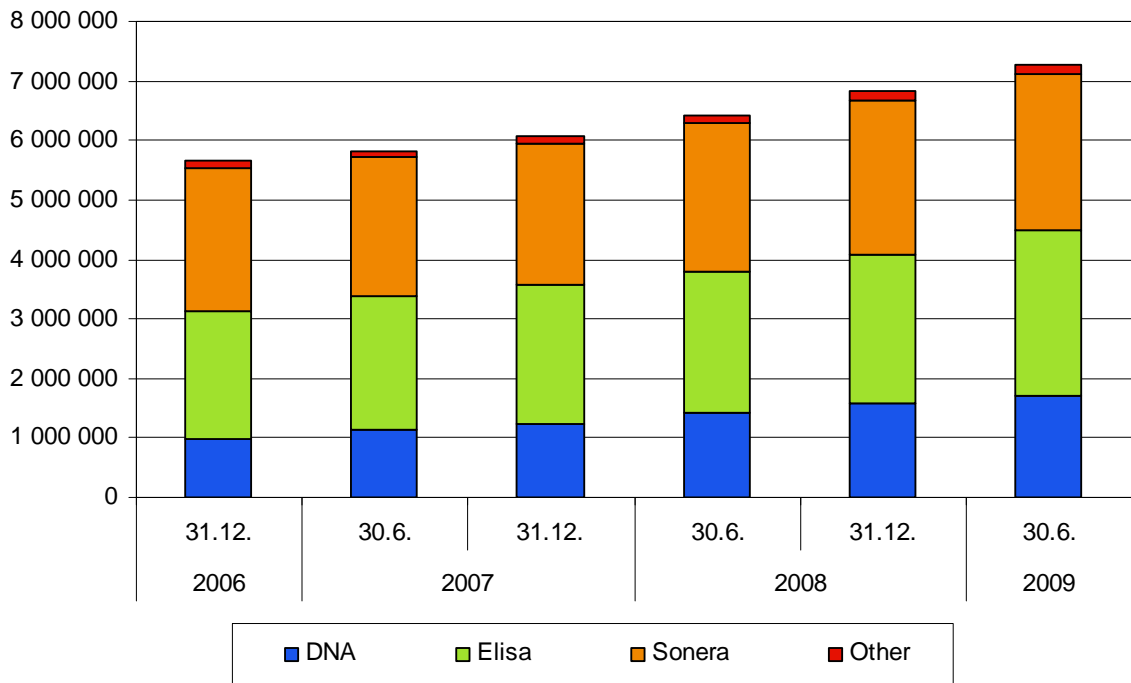


Figure 3 Mobile subscriptions and market shares 2006 - 2009.

The growth in the number of call minutes slowed down during the first half of 2009, levelling off at two per cent, whereas growth during the same period last year was almost six per cent. During both halves of 2008, the number of individual

calls remained steady, but in the first half of 2009, this decreased by almost two per cent. As a result of these changes, the average call length was extended to 3 minutes and 4 seconds.

Year	2006		2007		2008		2009	
Period	July-December	January-June	July-December	January-June	July-December	January-June	July-December	January-June
Mobile subscriptions	5 670 000	5 810 000	6 080 000	6 430 000	6 830 000	7 280 000		
Telephone calls (no.)	2 279 000 000	2 342 000 000	2 467 000 000	2 472 000 000	2 490 000 000	2 439 000 000		
Call minutes	6 403 000 000	6 687 000 000	6 859 000 000	7 233 000 000	7 315 000 000	7 479 000 000		

Table 2 Development of mobile subscriptions and number of phone calls 2006 - 2009.

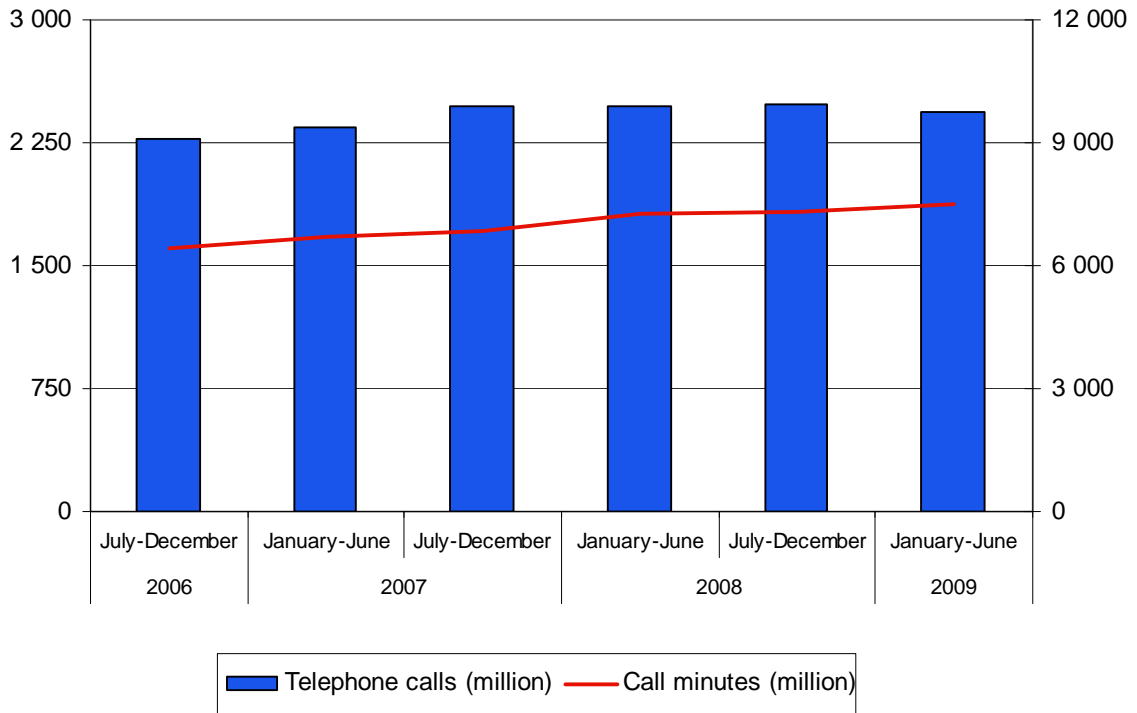


Figure 4 Mobile telephone calls 2006 - 2009.

During the first half of 2009, more than 1.8 billion SMS messages were sent in Finland, representing an increase of around 10 per cent year-on-year. Simi-

larly, around 20 million MMS messages were sent, amounting to an almost 13-per cent increase year-on-year.

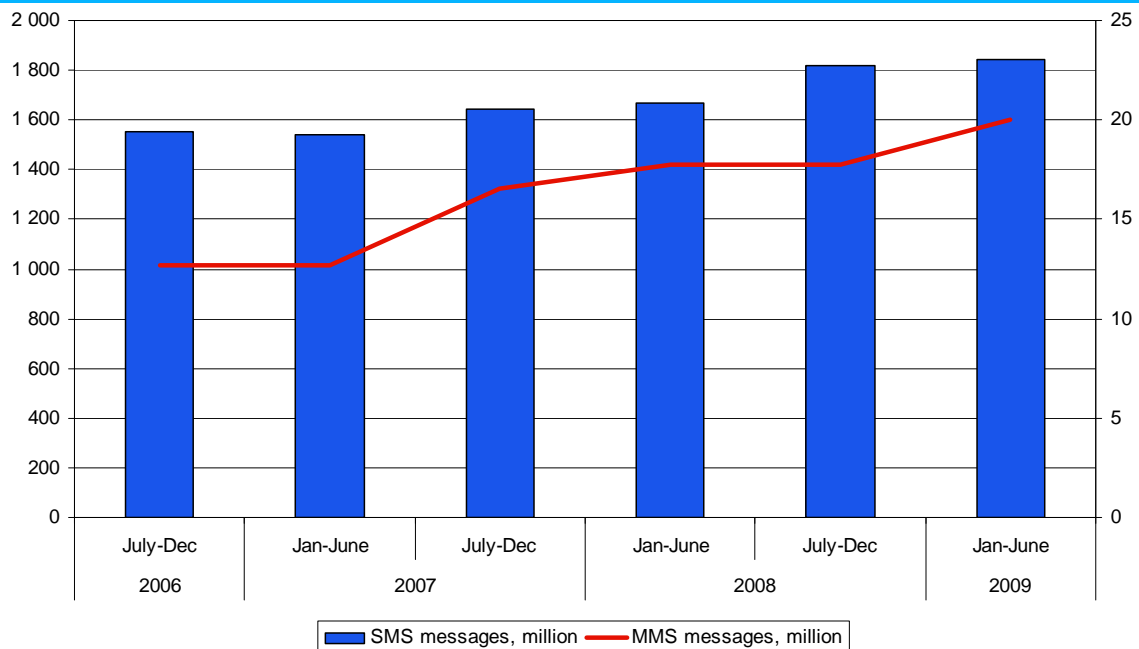


Figure 5 SMS and MMS messages sent in 2006 - 2009.

Year	2006		2007		2008		2009
Period	July-December	January-June	July-December	January-June	July-December	July-December	July-December
SMS (million)	1 552	1 543	1 645	1 668	1 818	1 845	1 845
MMS (million)	13	13	17	18	18	18	20

Table 3 SMS and MMS messages sent in 2006 - 2009.

The volume of data transferred over the mobile communications network grew by over 70 per cent in comparison to the amount transferred in the second half of 2008. The amount of data transferred during the first half of 2009 totalled around 6,100 terabytes. Calculated per mobile broadband subscription, this corre-

sponds to just over 1,500 megabytes of transferred data per month, meaning around two standard CD's worth of data. All in all, the mobile communications network's data transfer services were used from around 2.5 million mobile subscriptions.

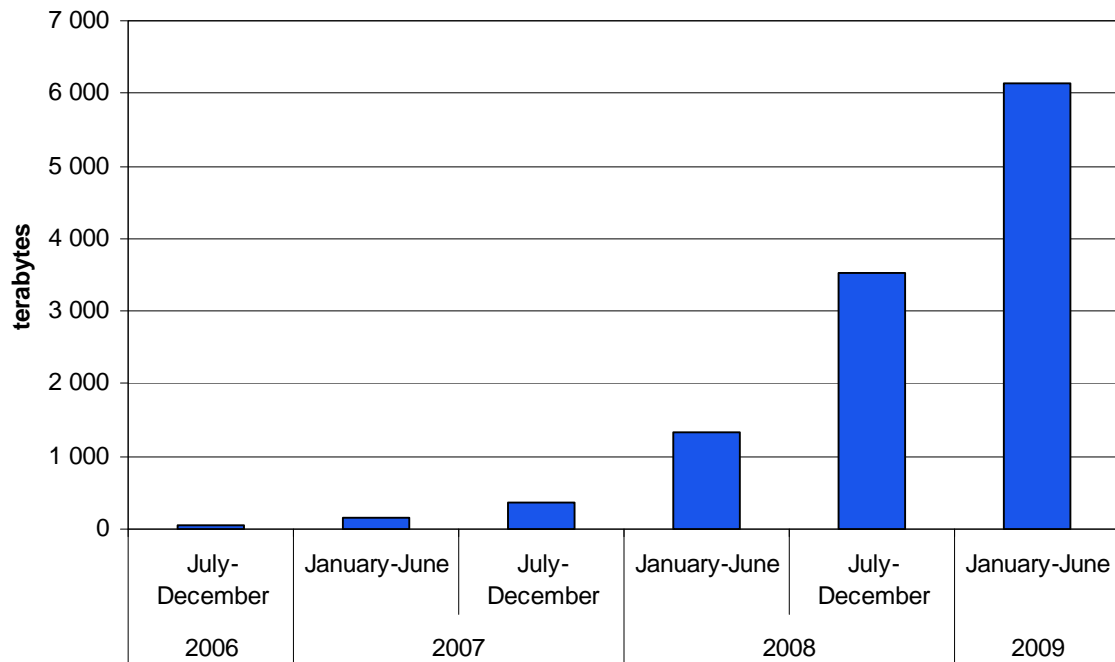


Figure 6 Data volume transferred over mobile networks 2006 - 2009. (Data transfer volume regarding the latter half of 2008, used in the 2008 annual review, has been corrected.)

At the end of June 2009, almost 1.2 million tie-in contracts were valid. Tie-in subscriptions' share of all mobile subscriptions was some 16 per cent. The number of 3G-capable terminals in the mobile communications network had increased to almost 2.5 million. This number includes both subscription tie-in phones and separately purchased 3G terminals. The numbers ported in the first half of 2009 grew by 40 per cent year-on-year. According to the porting statistics of Numpac Oy, some 310,000 mobile phone numbers were ported during the first half of 2009. Relative to the number of subscriptions, 4.2 numbers were ported per 100 subscriptions, when, in 2008, this figure was 3.4.

#### Quality of customer service in the mobile communications network

During the first and second quarters of 2009, the average response times of Ålands Mobiltelefon Ab, Globetel Oy, Aina Group Oyj, DNA and Cubio Ltd have remained at under a minute. The average customer service response times of DNA, Elisa, Kolumbus, Saunalahti and Telia-Sonera saw an improvement of at least 25 per cent compared to the poorest numbers for 2008. Tele Finland was still experiencing some problems in early 2009, but by June 2009 the average response time of its customer service had improved to under a minute.

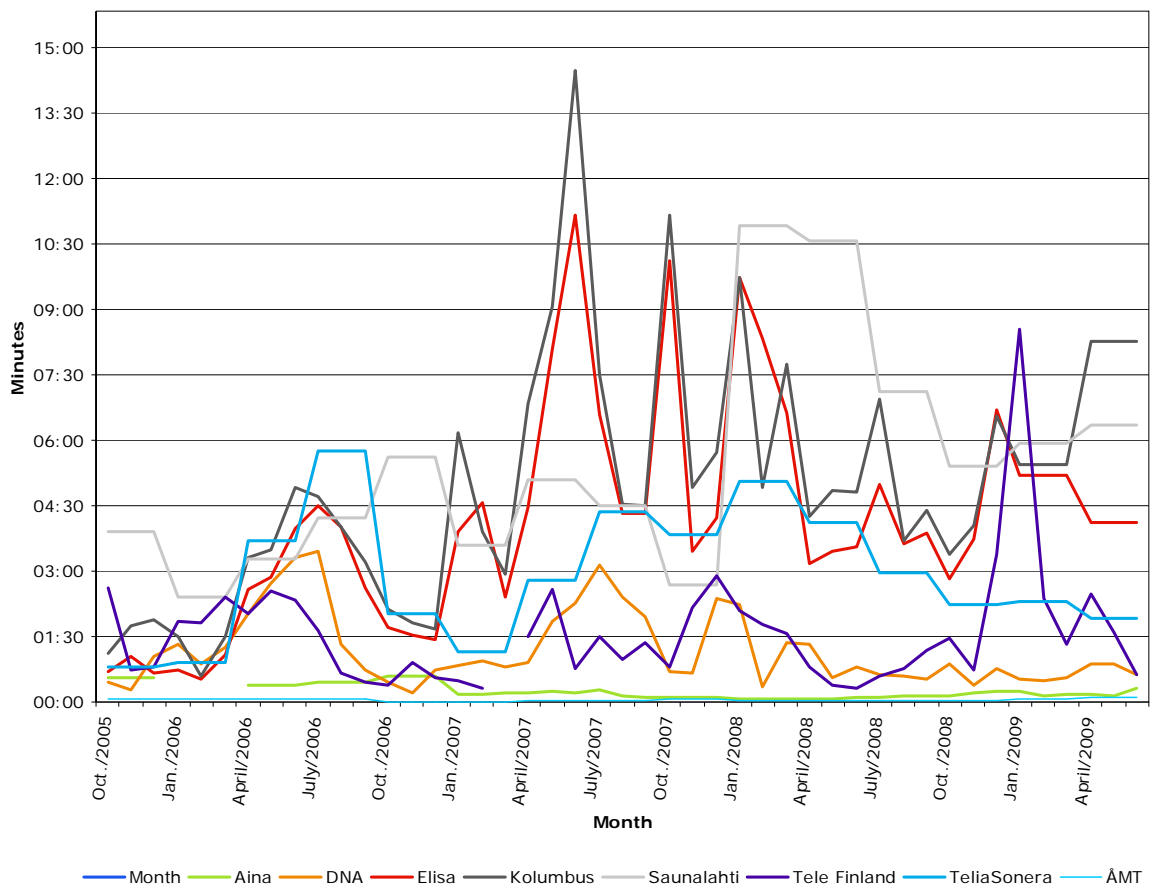


Figure 7 Response times of mobile operator' customer services.

## Fixed telephone network services

During the first half of 2009, the number of fixed network subscriptions decreased by more than seven per cent. At the end of June, the number of subscriptions stood at around 1.53 million. Call volumes and minutes decreased more than the number of subscriptions, since both fixed-network calls and call minutes decreased by 12 per cent in comparison to the previous half-

year. Call minutes decreased by almost a fourth and call volumes by a fifth year-on-year. No major changes were seen in the market shares of the established fixed network operators, although the number of TeliaSonera's subscriptions dropped by more than the other major operators' subscription numbers.

Year	2006	2007		2008		2009
Period	July-December	January-June	July-December	January-June	July-December	July-December
Fixed-line connections	1 920 000	1 830 000	1 740 000	1 650 000	1 650 000	1 530 000
Telephone calls (no.)	620 000 000	553 000 000	495 000 000	458 000 000	409 000 000	363 000 000
Call minutes	2 298 000 000	2 198 000 000	1 827 000 000	1 644 000 000	1 396 000 000	1 244 000 000

Table 4 Development of fixed-line connections and number of phone calls 2006 - 2009.

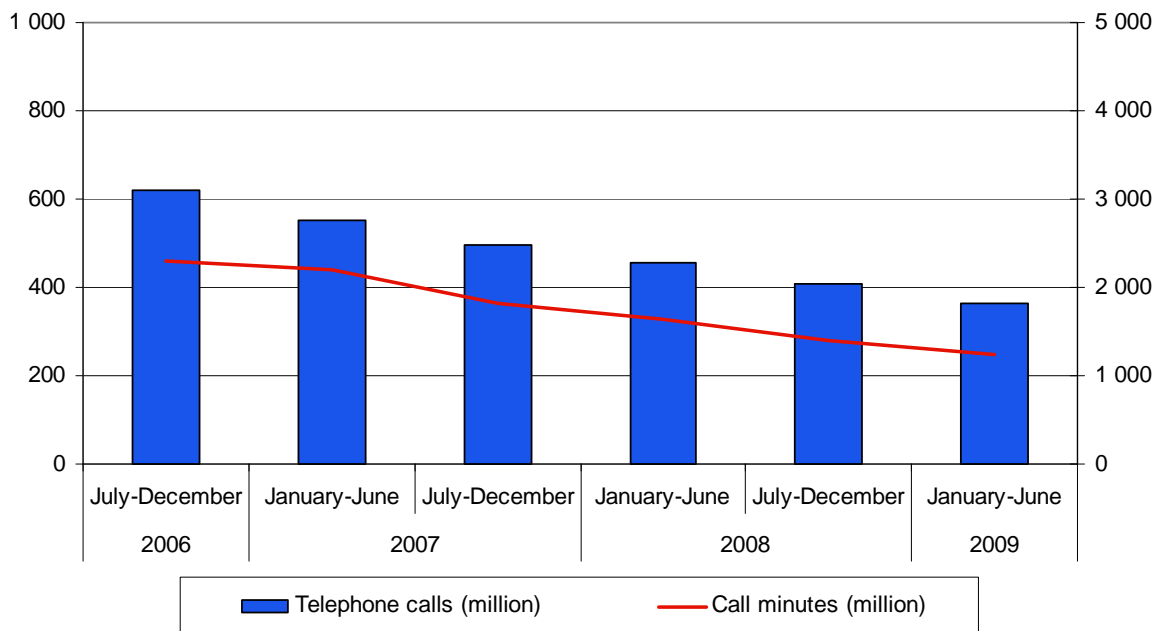


Figure 8 Phone calls in the fixed-line network in 2006 - 2009.

At the end of June, Elisa's market share was around 37 per cent, while Telia-Sonera's was around 24 per cent, the Finnet Group's around 19, and DNA's around

14 per cent. The combined market share of the other operators increased a little, standing at six per cent at the end of June.

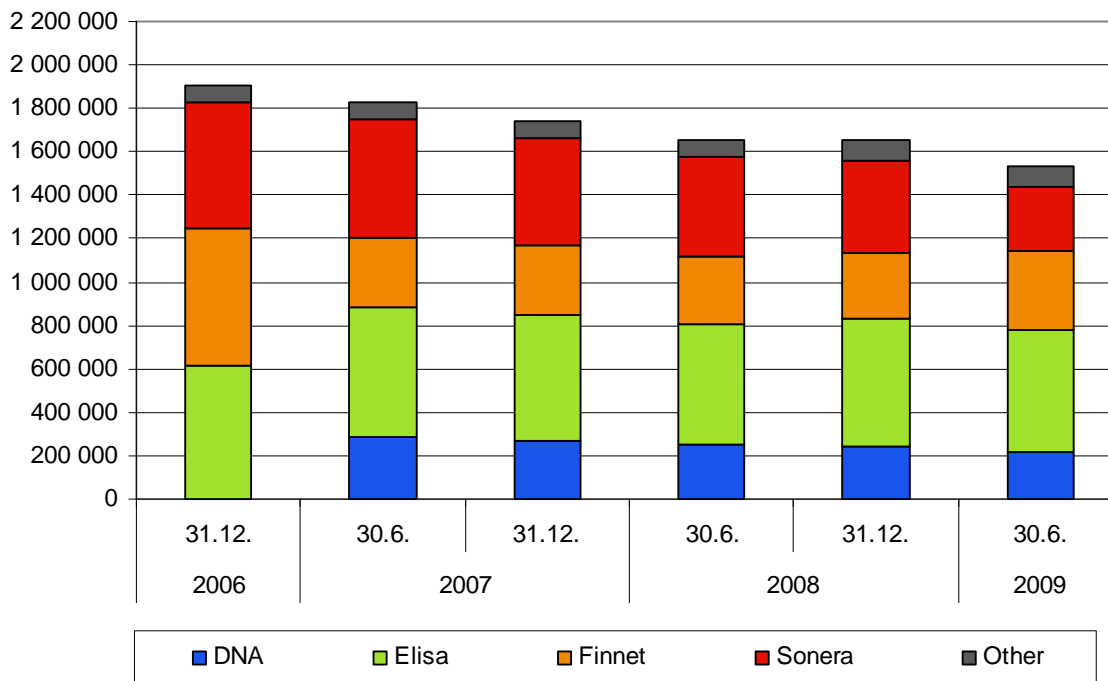


Figure 9 Fixed-line subscriptions and market shares by operator 2006 - 2009.

## TELEVISION BROADCASTING

### Reception of television broadcasts

By the end of spring 2009, the number of households with a television set was similar to the number at the end of 2008. The share of non-TV-households was around eight per cent on both occasions. Around 44 per cent of TV households reported that they were receiving their television broadcasts through the cable television network. The remaining 56 per cent of respondents reported that they were pri-

marily receiving broadcasts via the terrestrial antenna network and by means of other technologies such as satellite antennas. Less than one per cent of TV households followed television broadcasts through IPTV, i.e. an Internet broadband connection. It should be noted that a single household may be receiving TV broadcasts using more than one technology.

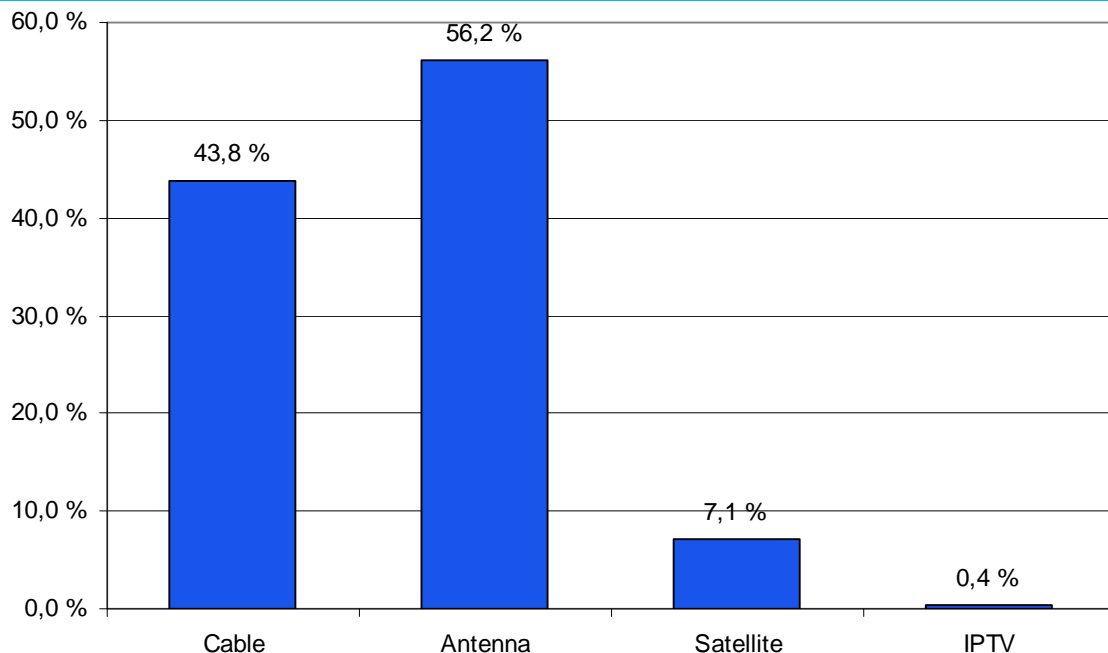


Figure 10 TV broadcast receiving methods in the spring 2009 (share of TV households, source: Finnpanel Oy).

The number of television sets equipped with a digital receiver (so-called integrated television sets) continued its growth from 25 per cent at the turn of the year to 33 per cent. However, separate digital set-top boxes held their ground as the most common type of digital receiver. 85 per cent of households had a digital set-top box. Many Finns also had the opportunity to watch TV programming through their mobile phones. Around 33 per cent of households reported that they owned a mobile phone that supported TV viewing. Mobile phones that enable the

reception of television broadcasts either through the terrestrial antenna network (DVB-H) or via the mobile communications network were both included in this figure. Insofar as recording devices are concerned, almost as many TV households owned a digital receiver equipped with a hard disk as owned a VCR. VCRs could be found in 43 per cent of TV households, while digital receivers with a hard disk could be found in 42 per cent. In addition, a DVD or Blu-Ray recorder could already be found in 20 per cent of TV households.

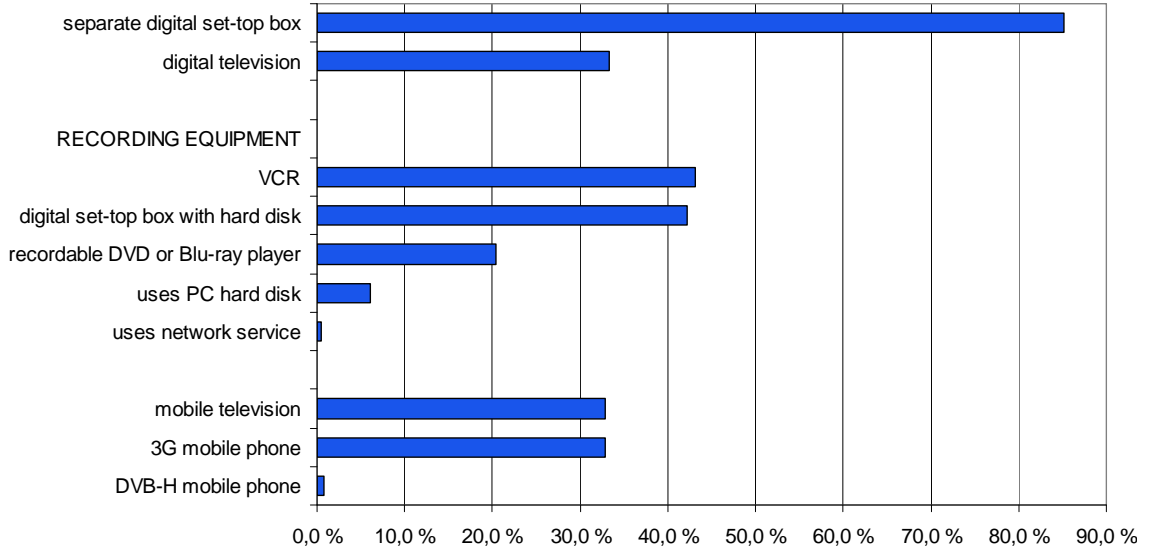


Figure 11 Commonness of digital receiving equipment in TV households in the spring 2009 (margin of error max.  $\pm$  2.7 %, source: Finnpanel Oy).

The HD ready feature, or the ability to receive high definition television broadcasts, has slowly become more common in Finnish TV households. At the start of June in 2009, around 27 per cent of TV households owned an HD-ready flat-screen tele-

vision set. Then again, digital receivers equipped with an HD tuner could not be found in nearly as many homes, with only 6 per cent of TV households owning such a tuner.

## POSTAL SERVICES

### Delivery time of 1<sup>st</sup> class letters

Domestic letter mail, included in the universal service, that has been left with the postal company for delivery on the next working day (i.e. 1<sup>st</sup> class letter), must be delivered in such a manner that a minimum of 85 per cent of mail items arrive on the next working day and at least 98 per cent arrive on the second working day at the latest. This quality standard for the universal domestic service is based on the amendment of the Postal Services Act from 2005. The intent behind this amendment was enabling earlier delivery in sparsely populated areas. FICORA requires that despite the amendment to the Postal Services Act, the delivery time of letters remains at the level preceding this amendment's entry into force in areas not affected by the earlier delivery change.

Insofar as these areas are concerned, this means that 95 per cent of mailed letters must arrive on the next working day following mailing. Itella Corporation tracks the delivery time of 1<sup>st</sup> class letters by means of a continuous panel survey. In 2008, an average of 95 per cent of 1<sup>st</sup> class letters were delivered on the next working day. In the same year, an average of 99.5 per cent of 1<sup>st</sup> class letters were delivered on the second day following mailing at the latest. During the first two quarters of 2009, an average of 93 per cent of 1<sup>st</sup> class letters were delivered on the next working day following mailing, with an average of 99 per cent of letters arriving on the second day following mailing at the latest.

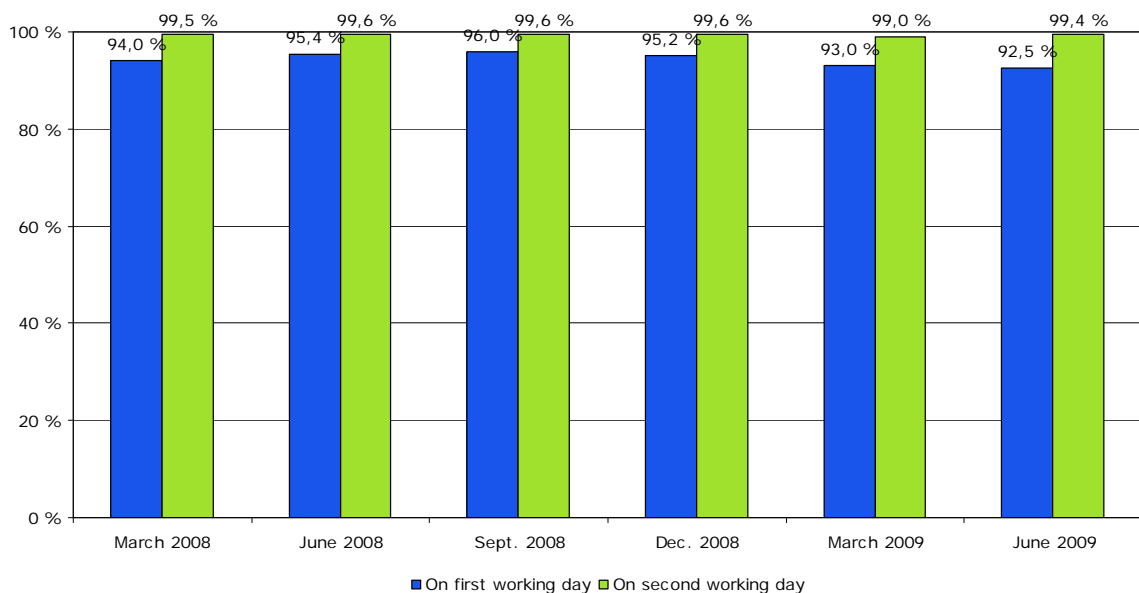


Figure 12 Delivery time of 1<sup>st</sup> class letters (cumulative result, source: Service level survey for letters.. Itella Corporation/Add Value Research Oy and Tietokilla Oy).

## INVESTMENT REVIEW

The target group for FICORA's investment review comprises all of Finland's telecom operators. The largest companies, measured by telecom operations turnover and overall turnover, were selected for closer inspection in the market review. The combined turnover of these 11 largest comprises more than 90 per cent of the turnover of all Finnish telecom operators. Thus, it can form the basis for drawing conclusions regarding the investing behaviour of the entire sector. These 11 companies are, in order of their overall turnover: TeliaSonera Finland Oyj (hereinafter TSF), Elisa Corporation (Elisa), DNA Group (DNA), Sanoma Television Ltd (Sanoma), Anvia Group (Anvia), Digita Ltd (Digita), AinaCom Oy (Aina), TDC Ltd Finland (TDC), Pohjanmaan Puhelin PPO Group (PPO), Kymen Puhelin Oy (KYMP), and Salon Seudun Puhelin Group (SSP). In the future, FICORA will follow invest-

ment opportunities and needs as well as their development. All gross amount investments are included in investments, and investments are not separated into material and immaterial investments. By nature, telecom operations are very investment-intensive, and the investment rate of companies in the sector (the ratio of investments to turnover) is extremely high. According to Balance Consulting's information, the median investment rate of Finnish telecom operators was 11.3 per cent in 2008, while the median investment rate of all Finnish companies was 1.2 per cent. The key final accounts figures and indicators with regard to investments in the sector were obtained from Balance Consulting's adjusted final accounts analyses. The credit classifications are based on Suomen Asiakastieto Oy's Rating Alfa report from 2 September 2009.

Annual report and accounts 2008, M€	TSF <sup>1</sup>	Elisa	DNA	Sanoma	Anvia	Digita <sup>2</sup>	Aina	TDC <sup>3</sup>	PPO	KYMP	SSP
turnover	2 915	1 485	647	140	95	91	87	85	41	41	33
investments, average of 3 years	585	199	85	14	16	21	4	8	24	5	21
investment rate, average of 3 years	22 %	13 %	16 %	10 %	19 %	20 %	5 %	10 %	67 %	14 %	57 %
planned depreciations	415	207	97	10	12	8	4	10	6	5	3
accounting profit/loss	1 045	176	47	22	13	8	-5	7	7	2	2
balance sheet value	8 070	2 031	912	127	167	164	48	81	164	65	88
income before extraordinary items	1 448	389	144	31	20	40	-1	14	15	7	5
balance sheet substance	6 040	873	553	87	88	129	3	54	130	54	81
net liabilities with interest	64	812	129	..	-55	-30	13	2	-12	-22	-37
return on investment	20 %	16 %	10 %	24 %	8 %	30 %	-27 %	8 %	7 %	5 %	8 %
equity ratio	82 %	43 %	61 %	73 %	81 %	79 %	13 %	73 %	89 %	84 %	92 %
growth of turnover in percentage, average of 3 yrs.	5 %	4 %	21 %	30 %	9 %	1 %	32 %	4 %	9 %	7 %	-5 %
credit rating	AAA	AAA	AAA	AAA	AAA	AAA	A	AA+	AAA	AAA	AAA

Table 5 Largest telecom operators' final accounts information 2008 and credit classifications (source: Balance Consulting and Suomen Asiakastieto Oy). <sup>1</sup>TeliaSonera Finland Oyj's latest available final accounts are from the period between 1 January and 31 December 2007. The company's consolidated accounts include companies in which the parent company TeliaSonera Finland Oyj either directly or indirectly owns more than 50 per cent of shares and votes, and parts, in accordance with the capital share method, of the companies in which the parent company owns 20 to 50 per cent of shares and votes. <sup>2</sup>Digita Ltd's latest final accounts are from the period between 1 April 2007 and 31 March 2008. <sup>3</sup>TDC Ltd's 2006 investment amounts and turnover data are based on the final accounts information of TDC Song Ltd.

The profitability, solvency ratio and credit classification of almost all of the 11 companies was excellent. The only reviewed company to register an unprofitable result was Aina. Relative to turnover, PPO and SSP clearly invested most during the last three years. A notable issue is that all of

the companies feature strong balance sheet substance, representing the amount of the companies' own assets. A strong balance sheet substance acts as a buffer against bad years, i.e. successive loss-making periods.

Information on industry, Balance Tilasto 2008	Median of telecommunications industry	Median of all companies
investment rate, average of 3 years	11,9 %	1,3 %
return on investment	7,6 %	17,2 %
equity ratio	78,9 %	45,2 %
growth of turnover in percentage, average of 3 yrs	3,4 %	6,6 %

Table 6 Final accounts figures of the telecommunications sector and all Finnish companies, 2008 (source: Balance Consulting). The table combines the indicator and investment rate medians of the telecom sector and for comparison, all Finnish companies, compiled from Balance statistics).

The investment opportunities of the selected 11 companies have been assessed by comparing the amount of money companies have in possession to the average investments it carried out during the last three years. The greater the amount of

money in comparison to carried out investments, the better that company's chances are of making new investments. The amount of money is calculated using the following formula:

Amount of money = income before extraordinary items + shareholder's equity - interest-bearing net liabilities – calculatory shareholder's distribution share (10 % of shareholder's equity).

Investment needs can be assessed by means of an index comparing the sector's average median investment rate from the last three years to the company's own average investment rate for the same period. The greater the sector's investment rate relative to the company's own investment rate, the greater the company's

need to invest. It should be noted that the selected indicators are descriptive only. Their function is to provide an understanding of telecom operators' investment opportunities and needs that is as simple as possible yet representative. The indicators were developed for FICORA's investment development review needs in partnership with Balance Consulting.

The key figures of investment capabilities and needs in 2008	TSF	Elisa	DNA	Sanoma <sup>1</sup>	Anvia	Digita	Aina	TDC	PPO	KYMP	SSP
investment capabilities	11,7	1,8	6,0	7,9	9,5	9,0	-3,1	7,6	6,0	15,1	5,4
investment needs	0,0	0,9	0,7	1,2	0,6	0,6	2,3	1,2	0,2	0,8	0,2

Table 7 Largest telecom operators' investment opportunities and needs (Classification of investment opportunities: under 0.5 very difficult, 0.5 to 1 difficult, 1 to 1.5 moderate, 1.5 to 2 good, and over 2.5 very good. Classification of investment needs: under 0.7 minor, 0.7 to 1.5 moderate, and over 1.5 great). <sup>1</sup>Interest-bearing net liabilities were missing from Sanoma Television Ltd's information, so they were marked down as zero by default.

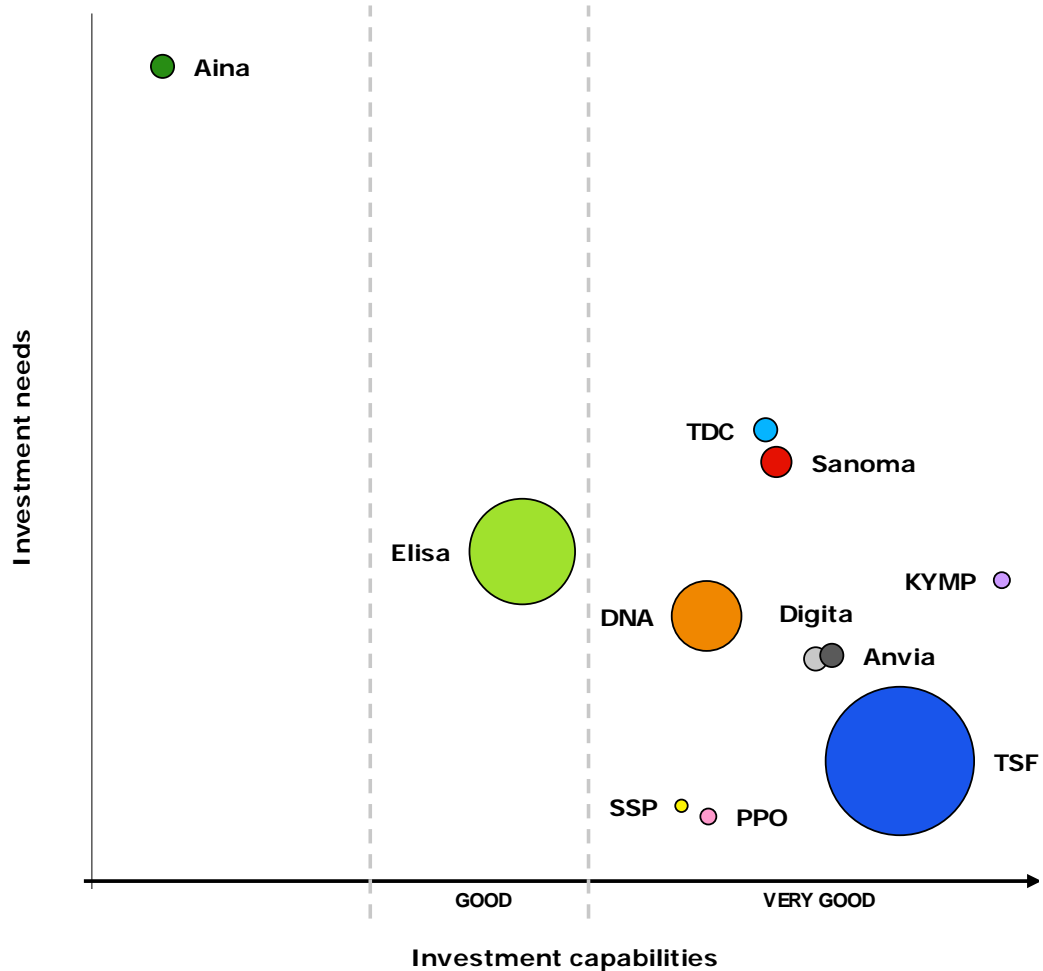


Figure 13 Telecom operators' investment opportunities and needs.

In sum, it can be stated that the selected 11 companies' investment opportunities are very solid in financial terms. Having doubled its turnover in 2007, Aina's investment opportunities are clearly poorer than those of the other companies, when judged by these indicators. In the telecom sector, investments are cyclical in nature, resulting in fluctuations in investment needs. If a company has recently made large investments, it may not need to make anything other than the required replacement investments in the near future. For instance, SSP in 2007 made investments corresponding to one and a half times its turnover (160 per cent), while its 2008 investments amounted to

around a third of its turnover (36 per cent). Based on this, it can be concluded that the company does not have great investment needs at the moment, even though its investment opportunities, similar to other telecom operators, are solid. Aina, Sanoma and TDC carry the greatest investment needs. However, solid financial opportunities to make investments do not ensure that such investments result, since numerous other factors related to the company strategy and operating environment play into the making of investments. Of course, companies must also have a strong vision on how to make new investments profitable before those investments are made.

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