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Corporates

Telecommunications
EMEA
Special Report

European Telecoms and Cable Outlook 2010

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Related Research

- *European Telecoms and Media Sectors: Update and Outlook (September 2009)*
- *European Telecoms - Spectrum Issues to the Fore (November 2009)*
- *European Telecoms - Mid-Year Review (August 2009)*
- *Increasing Risks for Incumbent Telecom Fibre Investment (April 2009)*

Summary

- The western European telecoms sector has reached a growth inflection point in 2009 in terms of headline revenue and EBITDA; due primarily to maturing product penetration, competition, and recycled subscriber retention costs. It is not clear from where growth will be derived, although Fitch Ratings does expect the industry to focus on innovative ways to monetise its most important asset — its subscriber base. Those companies with strong emerging market (EM) portfolios will continue to benefit from subscriber growth — driven by cheaper mobile tariffs, deeper PC penetration, and more accessible broadband connectivity.
- After many years fighting for its market position, the higher-leveraged European cable TV sector has come of age, and is now competing head-to-head with the incumbents as a second triple-play infrastructure. However, not all countries are equal in this regard. For example, the strong market position of Belgium's Telenet BidCo N.V (Telenet, 'BB'/Stable) contrasts with the relatively weak position of France's Numericable.
- Mobile and fixed data traffic will continue to grow at 15%-20% per annum levels, but this will not correlate to revenue or EBITDA growth due to "flat-rate" bundled tariff offers. The growth of data (video traffic) on flat-rate tariffs will also drive a huge increase in usage per customer, causing access bottlenecks and a rapid increase in backhaul costs. Backbone network management will be crucial, with alternative operators (altnets) and ISPs exposed to rising costs.
- EBITDA for the sector as a whole will continue to be defensive and visible. Cost-cutting is the focus in 2010, so incumbent sector leverage and liquidity profiles are expected to remain relatively stable (refer Appendix 3). Cable TV should continue its deleveraging pattern.
- In-market M&A event risk will build as operators re-position their portfolios, but Fitch is not expecting wide-scale cross-border mergers to occur in 2010.
- Overall, Fitch does not see "discretionary" capex cuts in a favourable light — given the burgeoning data traffic growth mentioned above, and while both mobile and fixed network bottlenecks persist across Europe. Important spectrum auctions (see Fitch's report *"European Telecoms - Spectrum Issues to the Fore")* and fibre investments (*"Increasing Risks for Incumbent Telecom Fibre Investment"*) are expected to keep capex/sales ratios between the 13%-16% range on average.
- Regulation remains tough on anti-competitive pricing behaviour, but confusion and regional disparity on next-generation fibre networks (NGNs) will slow the rollout of these networks.

Forecasts

Fitch derives its own independent forecasts as part of the rating process. This process, and the aggregate results of the agency's forecasts, are discussed in *"Forecasting EMEA Corporates Recovery: The Slow Haul Back* available at www.fitchratings.com.

For the telecoms and cable sectors, Fitch is expecting anaemic growth against a backdrop of maturing markets and continued competition in western Europe, offset by stronger EM growth. Cable TV will continue to make steady progress on broadband and triple-play products, at the expense of the incumbents.

In an environment where the economy remains weak and credit fairly scarce, Fitch would expect companies to remain cautious on excessive dividends or shareholder distributions in 2010. Pressure remains on the need to spend to improve network bottlenecks both in fixed and mobile, and these factors will focus attention on conserving cash. However, as the forecasts demonstrate, this is also a sector which produces large quantities of free cash flow (FCF) even in a benign growth environment. This phenomenon was evident in the early 2000s, as the sector deleveraged quickly after the dotcom bubble. Fitch believes that the pressure to do something with this cash (either shareholder distributions or a spate of M&A) will rapidly build once the economic cycle enters the stabilisation phase.

Western Europe Telecoms & Cable TV Sector - Summary of Forecasts[a]

	2009	2009 vs. 2008	2010	2010 vs. 2009	2011	2011 vs. 2010
Revenue (USDm)	510,158	-2.3	521,486	2.2	533,139	2.2
EBITDA (USDm/%)	164,506	-2.4	168,358	2.3	175,387	4.0
EBITDA margin (%)	34		33		33	
Funds from operations (FFO) (USDm/%)	118,603	-1.7	126,585	6.7	133,877	5.7
Free cash flow (FCF) (USDm/%)	15,324	0	20,906	36	27,357	30
Median FFO adjusted leverage[a] (x)	2.7	Flat	2.7	Flat	2.6	(4%)l
Median adjusted net debt/EBITDAR (x)	2.2	4%	2.1	(4%)	2.1	Flat
Median FFO interest cover[b] (x)	6.7	(2%)	6.6	(1%)	8.0	20%

[a] Gross adjusted debt/FFO+ interest + rents
[b] FFO + interest/interest * Fitch rated universe
Source: Fitch

The key assumptions underlying the sector's forecasts are:

- Weak headline growth in western Europe offset by stronger growth in EM portfolios;
- Cost-cutting programmes in place (see *Sector Summary and Triggers*);
- Capex to sales relatively flat at 11%;
- MTR glide-paths factored in — no other one-off regulatory effects factored in;
- Excess cash builds on balance sheets in the absence of visibility over shareholder distribution or M&A.

Key Sector Themes for 2010

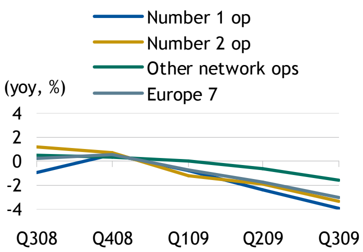
Monetising Traffic Growth

Western European telecom markets have reached a growth inflexion point — as demonstrated by the graphs indicating the maturity of European markets.

Heavy price competition, customer acquisition subsidies, and "flat-rate" tariff plans have affected revenue and EBITDA growth. Unsurprisingly, operators are all hard at work at improving the cost-efficiencies of their organisations, and technology is helping in this regard. In an all-IP world, many operating functions can be centralised, while scale allows the largest operators substantial efficiencies on network and handset procurement. These efforts are helping to protect further margin erosion over the next two to three years, but this cannot last forever.

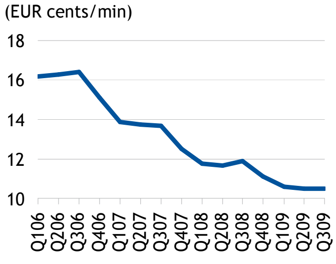
The dramatic effects of operating in saturated markets can be seen in Greece with the pre-packaged administration of WIND Hellas Telecommunications S.A. ('RD'), and similar difficulties in Lithuania with UAE Bite Lietuva ('CCC'/Negative).

European Mobile Service Revenue Growth
By operator type



Source: Fitch

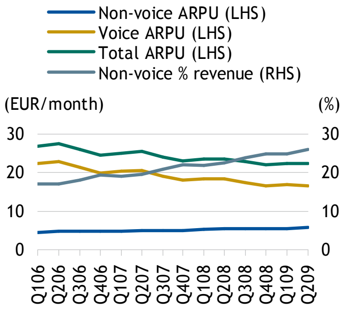
Effective Voice Pricing - Voice ARPU/MoU



Source: Fitch

Voice and Non-Voice ARPU

Data % of revenue

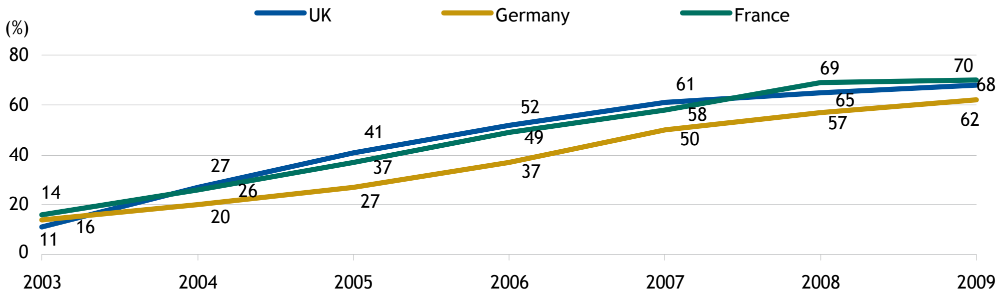


Source: Fitch

Admittedly, both operators were carrying too much debt, and their respective economies were harder hit by the recession, but these examples offer investors a stark warning that growth in telecoms is no longer a given.

However, it is not all doom and gloom. Cash flow, although under pressure, is still clearly visible and has proven defensive. There are also some clear good signs in the growth of data traffic both on mobile and fixed. Fitch expects to see this trend continuing, with data growth rates of 15%-20% per annum for at least the next three years, which will itself bring network management challenges and rising wholesale costs (to the benefit of those operators with wholesale divisions).

Broadband Penetration by Household in Europe's 3 Largest Markets



Source: Fitch

Successfully monetising this rich data growth vein will be a challenge, though, if competition remains so intense. Operators will look to charge more for heavy usage (“smart pipe versus dumb pipe” concept), as well as focus on value-added services. As network operators ultimately control the customer, they are in a good position to do this effectively — as O2 (‘A-’/Stable) has demonstrated in the UK with its *Priority* product, and as Vodafone Group Plc (‘A-’/Negative) has done in emerging African markets with its *M-Pesa* money-transfer product. These early-stage tools are as much about customer retention as they are about generating significant new revenue; but Fitch expects to see more of this sort of tie-up as operators seek new ways to monetise the technology.

Such a shift requires investment in mobile network and spectrum frequency as well as fixed-line fibre (for in-home entertainment). Fitch, therefore, does not expect capex/sales dropping much below 13% per annum for operators in the next three to five years. Occasional spikes to 17% may also be necessary for certain geographies.

Structural Consolidation

Aligned to this trend, the agency expects operators will increasingly seek to rationalise their portfolios, as with France Telecom (FT, ‘A-’/Stable) in the UK and Switzerland in 2009. The most likely western European M&A effect over the short-term will be further “in-market” portfolio rationalisation. Certain sub-scale operators will perhaps re-evaluate their reasons to stay in a market, but the most likely acquirer will always be another existing operator — as they are the only ones able to extract the necessary synergies.

Regulation

Europe remains a confusing regulatory environment for telecoms. On the one hand there are various national regulatory bodies (NRAs), which still wield huge influence and are not aligned in their vision for the shape and structure of their respective geographical sectors. On the other hand, the European Union is in the process of ratifying new rules (agreement expected in 2010 and in law in 2011) that will govern broad issues such as net neutrality, network separation, and anti-competitive pricing behaviour. The EU regulatory body has been relatively effective on this last point, and is generally expected to have greater powers to punish monopolistic pricing behaviour.

However, there remains much uncertainty on the issues surrounding network separation and potential net neutrality. Given the very high commercial issues at stake to encourage fibre investment on the part of the industry players, this uncertainty is only likely to further delay fibre rollout in Europe, which (paradoxically) is exactly what the EU wants to avoid.

Sector Coverage & Headroom

Ratings Headroom

(EURm)	Rating	Outlook	High	Medium	Low	Gross debt/EBITDAR (x)	Adj. net debt/EBITDAR (x)	Free cash flow before dividends[a]
Telefonica SA	A-	Stable		X			2.4	8,470
France Telecom	A-	Stable		x			2.3	7,783
TeliaSonera	A-	Stable		x			1.9	1,230
Vodafone	A-	Negative		?	x		2.9	5,330
Deutsche Telekom, AG	BBB+	Stable		x			3	6,661
Royal KPN N.V.	BBB+	Stable		x			2.5	2,076
SFR	BBB+	Stable		x			2.2	1,776
TPSA	BBB+	Stable		x			1	734
Telenor	BBB+	Negative		x			1.5	1,021
Portugal Telecom	BBB	Stable		x			2.7	493
BT Group plc	BBB	Stable			x		2.4	-900
Telecom Italia SpA	BBB	Stable		x			3.6	2,600
OTE	BBB	Stable		x			2.4	802
Telenet	BB	Stable	x				4.7	121
TDC A/S	BB	Positive	x				3.4	376
Wind	BB-	Stable	x				4.1	592
Virgin Media Inc	BB-	Positive	x				4.8	306
KDG	BB-	Stable		x			5.3	91
Cableuropa/ONO	B	Negative			x		6.7	-144
Bite	CCC	Negative			x		9.2	-22
Wind Hellas	RD						6.8	n.a.

[a] Note: All financials on last reported full-year results, according to Fitch definitions. EUR exchange rate used GBP/EUR = 1.0763
Source: Fitch

Sector Summary and Triggers

Sector Summary – Strongest to Weakest

Company	IDR/Outlook[a]	Revenues	Costs	Possible short-term ratings triggers (including press release and report extracts - see full release and/or report for fuller set of possible triggers)
Telefonica SA	A-/Stable	Domestic fixed-line attrition and competition for product bundles meant domestic revenues contracted by 5.6% to H109 – offset by EM with overall group revenues up by 1.4%	Ongoing cost-reduction programme – although less intense than other peers due to earlier stage EM assets	Other than transformational M&A, there is no current pressure on the rating. Leverage is managed towards the lower end of the 2.0x-2.5x range, and cash conversion is high
France Telecom	A-/Stable	Revenues down 0.5% across portfolio in H109	New cost-cutting programme of EUR1.5bn from 2009-2012	Current financial policy is protecting the rating. Strong domestic market positions and some EM growth should see the group remain one of Europe's stronger telco groups
TeliaSonera	A-/Stable	Revenues marginally down and expected flat for the year	Significant cost-restructuring efforts have protected margins	Group now seeks to preserve cash, and leverage metrics are conservative. Were this to significantly change, the company's relative size and lack of flexibility might challenge the 'A-' rating. Potential for positive news from EM portfolio if finalised, but will not affect the rating
Vodafone	A-/Negative	Organic revenues down 3% to H109	Significant cost savings GBP2bn - helping to protect margins	Group results remain exposed to translation effects. Underlying visibility and defensiveness to cash flow, with some one-off positive cash benefits to come, eg Australian JV with Hutch and no implied benefit for Verizon stake. Leverage multiple is, however, tight for 'A-'
Deutsche Telekom	BBB+/Stable	Revenues declined 2.7% to H109 and organic EBITDA by 4.8% over same period due to competitive pressure and weak US	Significant cost-cutting has underpinned margins. EUR4.9bn in cost savings since 2007	Leverage multiple sits comfortably within rating category, however M&A risk is building in the US business
KPN	BBB+/Stable	Revenues down 1% on an organic basis in H109	Considered an efficient operator	Conservative and visible financial policy should ensure stability in rating level
SFR	BBB+/Stable	Revenue growth down by 0.8% at H109, due to competitive and regulatory forces on mobile and fixed	May take some more time to flow though due to integration of 9Cegetel	Rating is underpinned by strong and visible cash flow from mobile business. 9Cegetel brings more volatility to cash flow. Potential capex outflows relating to fibre, but regulation still unclear
TPSA	BBB+/Stable	H109 revenues down 6.1%, driven by aggressive regulation cuts	Some headcount reductions, but company still needs to spend on service	Rating is underpinned by strong market position and France Telecom ownership
Telenor	BBB+/Negative	Group organic revenue down 1% over 9M09. High concentration of emerging market should continue to underpin growth	Management expects 2009 margins at 35% — in line with 2008	The recently announced plans to resolve the shareholder dispute with Alfa group in Russia and Ukraine is positive, if finalised, but unlikely to have a short-term rating impact. Main rating pressure concentrates on high capex requirements and operational challenges in India
Portugal Telecom	BBB/Stable	H109 revenues down 0.3% on improving position in Brazil and stabilisation of domestic fixed business	Minor. Increased investment in customer care and support, with renewed domestic competition from Zon	Rating is supported by strong market positions and by a strong Brazilian asset, although EM risk is more concentrated with this name. Maintenance of conservative financial policy, and continued domestic traction with triple-play, will be positive
Telecom Italia	BBB/Stable	H109 revenues down 3.8%	Significant cost-ontrols and asset disposal programme in place to help maintain well-defined EBITDA targets	Rating is constrained by its leverage. Market position is relatively strong, with no fixed-line infrastructure competition in Italy. Management challenged to meet its own leverage reductions by 2011
OTE	BBB/Stable	Q309 revenues down by 6.4% caused by weak economic conditions	Some headcount reductions, but cost savings less than peers	Company challenged by weak economic conditions in Greece and its EM footprint. This will be offset by strong market positions and lack of infrastructure competition in Greece
BT	BBB/Stable	H109 revenues down 5%	Significant cost-reductions of past 5 years	Highly competitive marketplace, and coming from behind with triple-play product. Weak ICT divisional performance. Pensions deficit burden. Rating pressure accordingly building on the downside
Telenet	BB/Stable	9M09 revenues ahead by 19%; guidance for FY09 revised to +16% (from 12% at start of year)	Efficient operator	Telenet's strong market position and visible cash flow should continue to de-lever the balance sheet without any one-off shareholder distributions. This will be critical for further improvements in the rating

Sector Summary – Strongest to Weakest (cont.)

Company	IDR/Outlook[a]	Revenues	Costs	Possible short-term ratings triggers (including press release and report extracts - see full release and/or report for fuller set of possible triggers)
TDC	BB/Positive	Core Nordic revenues YTD Q309 down 4.1%, but EBITDA up 5.0% on cost-efficiencies. Non-Nordic businesses being disposed	Much of the focus has been around asset sales	Positive momentum in rating due to successful deleveraging programme from asset sales, as well as internally generated FCF. Further positive momentum from closure of the sale of the Swiss business or debt paydown from internal FCF. Event risk around the name is evident; shareholders are conducting a strategic review of the business
Wind Telecomunica-zioni	BB-/Stable	YTD Q309 revenues up 4.7%, with growth in both mobile and fixed; EBITDA up 2%	Focus on FCF generation, refinancing of the Holdco PIK instrument in Q309	Strong and defensible market position as Italy's third mobile operator. Positive ratings momentum could emerge if group continues to generate FCF and, importantly, de-lever following the refinancing/releveraging in Q309. Event risk around the name persists: there remain concerns around the parent (Weather) requiring additional dividends
Virgin Media	BB-/Positive	YTD Q309 revenues up 1.3%, but consumer cable was up 5.3%	Focus on restructuring and improved efficiency, pro-actively addressing the debt maturity profile	Improving market position in a highly competitive market. Virgin Media continues to generate strong FCF — positive ratings momentum if group continues these trends and can significantly reduce 2012 refinancing risk
KDG	BB-/Stable	H109 revenues up 10% on strong broadband take-up	Focus on FCF generation	Continued high pace of RGU growth remains a critical indicator of KDG's capacity to compete. Potential participation in further consolidation would slow pace of de-leveraging
Cableuropa/ ONO	B/Negative	YTD Q309 revenues down 5.2%, EBITDA up 3.6% as cost-measures bear fruit	Significant efforts to curtail costs and reach FCF break-even	Ratings negatively affected by refinancing risks — this is the key issue for 2009/2010. Change in strategy in 2009 from build-out growth to improvement in quality of the subscriber base and revenues. Variable revenue streams impacted by recession and unemployment; company faces a strong challenge competing with Telefonica
Bite	CCC/Negative	YTD Q309 revenues down 13%, EBITDA down 5.7% as Latvia EBITDA approaches break-even	Focus on FCF and liquidity. Successful debt restructuring in H109	Highly competitive market combined with tough economy. Liquidity continues very tight albeit slightly improved at H209 following the H109 debt restructuring and improving EBITDA performance in Latvia. Q309 FCF was positive, but this needs to be sustained through further periods to improve liquidity and improve ratings headroom
Wind Hellas	RD		Not meaningful	Debt exchange underway

[a] Rating Watch denoted by RWN/RWP/RWE – otherwise text refers to Outlook
Source: Fitch, companies

Appendix 1

Selected Telco Peer Comparisons

Fitch - European Incumbent Telecom Comparitives

Fitch Rating/Outlook	BT BBB/Stable			DT BBB+/Stable			FT A-/Stable			KPN BBB+/Stable			PT BBB/Stable			Telefonica A-/Stable			Telecom Italia BBB/Stable		
Dec	**2009**	**2008**	**2007**	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Accesses - excl. LLU (m)	25.4	27.3	27.7	177.2	170.1	156.7	169	158.7	149.3	38.7	35	32.6	55.4	43.4	38.8	253.2	222	196.7	99.2	96.9	86.3
Domestic																					
Fixed telephony (PSTN + ISDN)	20.567	22.5	24.1	28.6	31.1	33.2	21.8	23	25.5	5	5.4	6.3	2.8	3	3.3	15.3	15.9	15.9	17.4	19.2	20.5
Mobile		0.36	0.313	39.1	36	31.4	25.2	24.2	23.3	10	9.4	9.2	6.9	6.3	5.7	23.6	22.8	21.4	34.8	36.3	32.5
Broadband	4.8	4.4	3.219	13.3	12.5	10.3	8.3	7.3	5.9	2.5	2.5	2.1	0.7	0.7	0.7	5.7	5.1	4.3	8.1	7.6	6.8
International																					
Fixed telephony	n.a.	n.a.	n.a.	5.3	5.5	5.8	12.1	13.2	14.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27.6	26.1	26.4	n.a.	n.a.	n.a.
Mobile	n.a.	n.a.	n.a.	89.2	83.7	75	96.6	85.8	74.4	21.2	17.7	15	44.9	33.5	29.1	172	146.4	123.7	36.4	31.3	25.4
Broadband	n.a.	n.a.	n.a.	1.7	1.4	1	5	5.2	5.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9	5.8	4.9	2.5	2.5	1.1
Domestic market share - lines																					
Fixed telephony (%)	64	68	70	n.a.	n.a.	86.90	76.00	71.80	68.60	50-55	55-60		68.4	71.40	79.00	79.40	80.60	79.70	86.60	86.90	86.70
Mobile	n.a.	n.a.	n.a.	n.a.	n.a.	37	43.60	43.80	45.00	46	47	49	46.60	46.60	46.70	46.50	45	46	38.00	40.30	40.40
Broadband (%)	26.30	31	32	46	46	50	46.00	46.00	46.50	44.00	43.90	40.90	41.60	40.40	70.80	62.00	56	56	60	63	67.00
Domestic market maturity																					
Mobile penetration (%)	120	116	115	n.a.	n.a.	100	89.1	85.60	80.80	121	121	104	140	126.90	115.40	110.00	111.00	103.20	156	154	138
Broadband penetration[a] (%)	68	62	54	n.a.	n.a.	37.50	68.90	60.50	48.40	80.00	76.00	69.00	42.00	34.00	27.60	52.10	51.50	38.00	45.00	45	37

[a] Penetration of households, if possible

Source: Company accounts, Fitch

Fitch - European Incumbent Telecom Comparitives (cont.)

Fitch Rating/Outlook	BT BBB/Stable (GBPm)			DT BBB+/Stable (EURm)			FT A-/Stable (EURm)			KPN BBB+/Stable (EURm)			PT BBB/Stable (EURm)			Telefonica A-/Stable (EURm)			Telecom Italia BBB/Stable (EURm)		
	2009	2008	2007	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
Financial comparison																					
Revenues	21,390	20,704	20,223	61,666	62,516	61,347	53,488	52,959	51,702	14,427	12,461	11,491	6,734	6,148	5,765	57,946	56,441	52,901	30,158	31,013.00	31,275
Growth (%)	3.30	2	4	-1.40	1.90	2.90	1.00	2.40	5.40	15.80	8	-2.70	9.50	6.60	n.a.	2.70	6.70	39.60	-2.80	-0.80	4.50
EBITDA	5,348	5,784	5,617	18,160	16,793	16,299	19,007	18,585	18,163	5,058	4,900	4,721	2,443	2,357	2,316	22,919	19,926	18,838	11,367	11,668	12,850
Growth (%)	-8	3	2	8.10	3.60	-19.00	2.30	2.30	0.70	3.20	3.80	3	3.70	1.80	n.a.	15.00	25.80	25.80	-2.60	-9.20	2.00
Margin (%)	25.00	27.90	27.80	29.40	26.90	26.60	35.50	35.10	35.10	35.10	39.30	41.10	36.30	38.30	40.20	39.60	35.30	35.60	37.70	37.60	41.10
FFO	2,641	4,781	4,618	14,719	16,177	13,860	14,840	14,350	13,848	3,612	3,727	4,233	1,549	1,709	1,571	16,366	15,551	15,414	7,472	8,635	9,845
FCF	-529	47	476	2,698	1,806	-1,168	2,205	3,786	3,962	1,095	1,057	1,438	-82	400	296	4,037	4,932	5,285	935	667	1,095
Net debt	12,444	9,468	7,515	43,568	40,706	43,717	37,278	39,393	42,150	10,900	10,607	9,167	5,632	4,382	3,757	48,911	48,863	55,265	37,378	37,163	39,237
FFO/sales (%)	12.30	23.10	22.80	23.90	25.90	22.60	27.70	27.10	26.80	25.00	29.90	36.80	23.00	27.80	27.30	28.20	27.60	29.10	24.80	27.80	31.50
FCF/sales (%)	-2.50	0.20	2.40	4.40	2.90	-1.90	4.10	7.10	7.70	7.60	8.50	12.50	-1.20	6.50	5.10	7.00	8.70	10.00	3.10	2.20	3.50
EBITDA/cash interest	5.6	6.9	8.6	8	6.8	5.9	8.4	7.7	6.8	8.5	10.4	9.9	8.2	9.6	8.1	7.9	6.2	7.9	5.2	5.6	6.6
Net debt/FFO	4.7	2	1.6	3	2.5	3.2	2.5	2.7	3	3	2.8	2.2	3.6	2.6	2.4	3	3.1	3.6	4.7	4.3	4
Net debt/ EBITDA	2.3	1.6	1.3	2.4	2.4	2.7	2.0	2.1	2.3	2.2	2.2	1.9	2.3	1.9	1.6	2.1	2.5	2.9	3.3	3.2	3.1
Adj net debt/ EBITDAR	2.7	2.1	1.8	3	3	3.2	2.3	2.5	2.7	2.6	2.5	2.4	2.7	2.3	2.1	2.4	2.7	3.2	3.7	3.5	3.4

Source: Company accounts, Fitch

Appendix 2

Selected Cable Peer Comparisons

Peer Comparison - Summary Performance

Issuer Default Rating	Virgin Media Inc BB-/Positive			Cableuropa S.A./ONO Finance Plc. B/Negative			Kabel Deutschland GmbH BB-/Stable			Telenet BidCo BB/Stable		
Reporting Period	**Dec 08**	**Dec 07**	**Dec 06**	**Dec 08**	**Dec 07**	**Dec 06**	**Mar 09**	**Mar 08**	**Mar 07**	**Dec 08**	**Dec 07**	**Dec 06**
Operating performance												
Customers (000)	4,755.2	4,774.7	4,854.5	1,919.0	1,927.0	1,861.0	9,122.9	8,980.0	9,320.0	2,402.0	1,729.0	1,604.0
Res telephony	4,099.2	4,031.4	4,114.0	1,638.0	1,605.0	1,565.0	710.3	361.0	151.9	629.0	548.0	455.0
CATV	3,621.0	3,478.1	3,353.9	1,039.0	960.0	920.0	9,246.8	9,758.0	10,011.6	2,402.0	1,729.0	1,644.0
Broadband internet	3,682.8	3,413.9	3,058.5	1,283.0	1,203.0	1,056.0	707.5	393.0	179.1	985.0	883.0	729.0
Mobile	4,112.8	4,491.4	4,522.8							87.0	56.0	13.0
Penetration (%)	37.90	37.90	38.8				60	59	61	87	90	93.5
Res telephony (%)	33.4	32.7	33.1	23.5	23.6	24.7	4.6	2.4	1.0	22.7	21.4	26.50
CATV (%)	28.8	27.6	26.8	14.9	14.1	14.5	60.5	63.8	65.5	86.7	91.5	95.90
Broadband (%)	29.0	28.3	25.9	18.4	17.7	16.7	4.6	2.6	1.2	35.6	34.2	42.5
ARPU (local ccy)	GBP42.30	GBP42.24	GBP42.82	EUR53.20	EUR52.20	EUR51.6	EUR11.43	EUR10.03	EUR8.63	EUR32.4	EUR30.2	EUR26.7
Res Telephony	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	EUR19.86	EUR23.6	EUR27.08	n.a.	n.a.	n.a.
CATV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	EUR8.09	EUR7.89	EUR7.3	n.a.	n.a.	n.a.
Internet	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	EUR12.72	EUR13.11	EUR15.51	n.a.	n.a.	n.a.
Mobile	GBP10.75	GBP10.69	GBP10.59									
RGUs/customer[a]	2.4	2.29	2.17	2.14	2.03	1.98	1.27	1.19	1.11	1.67	1.59	1.50

[a] Revenue generating units/customer
[b] EBITDA less capex
Source: Fitch/company reports

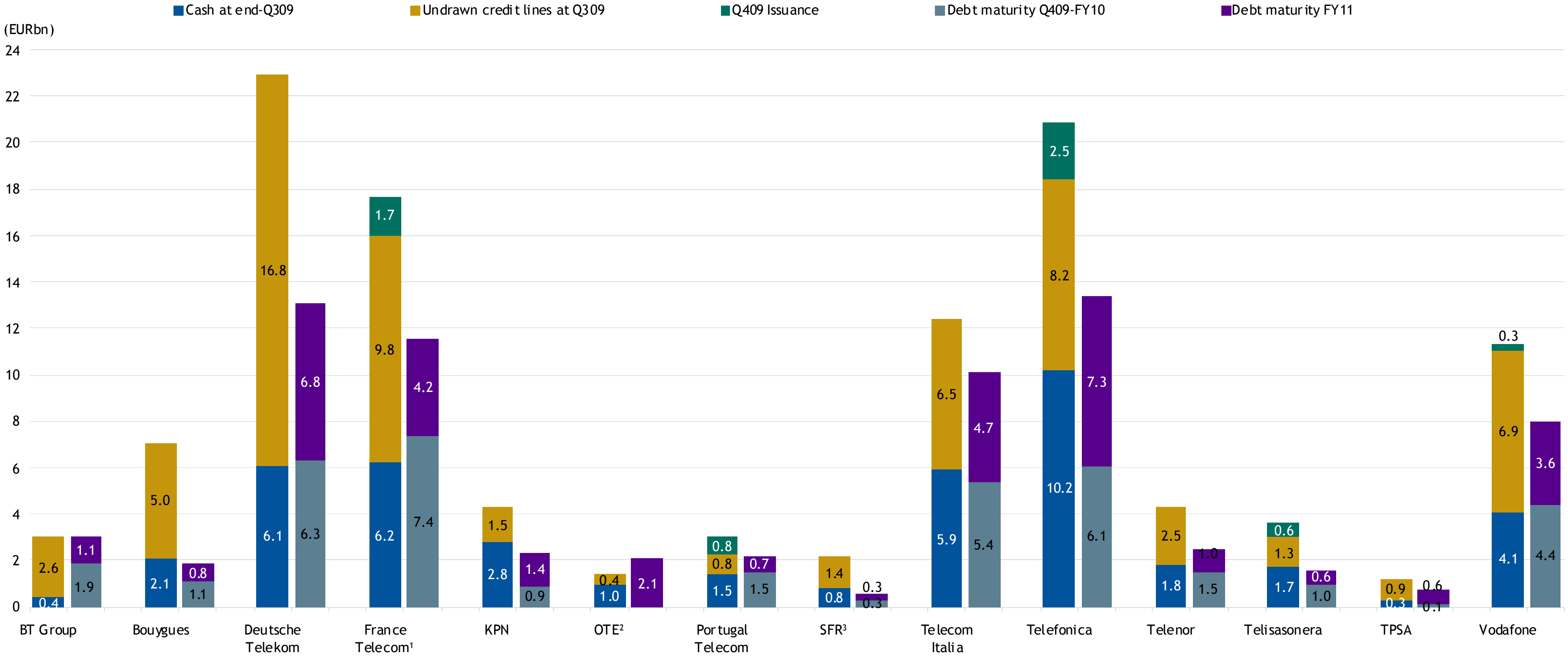
Peer Comparison - Summary Performance (cont.)

Issuer Default Rating	Virgin Media Inc BB-/Positive (GBPm)			Cableuropa S.A./ONO Finance Plc B/Negative (EURm)			Kabel Deutschland GmbH BB-/Stable (EURm)			Telenet BidCo BB/Stable (EURm)		
Reporting Period	**FY08**	**FY07**	**FY06**	**FY08**	**FY07**	**FY06**	**Mar 09**	**FY08**	**FY07**	**FY08**	**FY07**	**FY06**
Financial performance												
Revenues	4,015.9	4,073.7	3,602.2	1,602.0	1,616.0	1,633.0	1,370.3	1,196.9	1,093.2	1,018.8	931.9	813.5
EBITDA	1,302.4	1,283.5	1,122.5	712.0	644.0	565.0	571.0	457.8	382.5	500.9	442.9	366.6
Margin (%)	32.4	31.5	31.2	44.4	39.9	34.6	41.4	38.2	35.0	49.2	47.5	45.1
Q4/last Q annualised EBITDA	1,281.2	1284	1,252.0	736.0	656.0	620.0	575.2	457.8	382.5	524.4	431.6	362.0
Operating profit	77.7	16.6	9.8	280	49	153.0	136.8	139.5	79.7	238.7	205.3	143.73
Net interest	465.5	494.7	422.7	262	284	199.0	204.3	175.3	173.4	158.8	116.3	94.3
FFO	805.8	835.2	755.7	392	376	278.0	335.0	279.7	186.4	346.3	287.0	311.6
WC	-50.2	-119.2	30.4	-161	-163	-219.0	129.3	-10.1	0.4	5.7	21.3	-2.2
CFO	755.6	716	786.1	231	213	59.0	464.3	369.6	186.8	352.0	308.3	309.4
Capex	479.7	536.2	554.8	374	554	590.0	373.0	316.4	268.8	228.4	208.8	176.9
Capex/sales (%)	11.9	13.2	15.4	23.3	34.3	36.1	27.2	26.4	24.6	22.4	22.4	21.7
Dividend	29.3	21.2	8.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Free cash flow	255.2	158.6	238.5	-143	-341.0	-531.0	91.3	-46.9	-82.0	123.6	99.5	132.5
FC F/sales (%)	6.4	3.9	6.6	-8.9	-21.1	-32.5	6.7	-3.9	-7.5	12.1	10.7	16.3
Unleveraged cash flow[b]	822.7	747.3	567.7	338.0	90.0	-25.0	198.0	141.4	113.7	272.5	234.1	189.7
Net debt	6,126	5,637	5,741.0	3,822.0	3,607.0	3,261.0	2,384.8	1,926.0	1,841.7	2,285.6	1,945	1,384
Key ratios												
EBITDA/net interest	2.8	2.6	2.7	2.7	2.3	2.8	2.8	2.6	2.2	3.2	3.8	3.9
Net debt/EBITDA	4.7	4.4	5.1	5.4	5.6	5.8	4.2	4.2	4.8	4.6	4.4	3.8
Net debt/LQA EBITDA	4.8	4.4	4.6	5.2	5.5	5.3	4.1	4.2	4.8	4.4	4.5	3.8
Net debt/FFO	7.6	6.7	7.6	9.8	9.6	11.7	7.1	6.9	9.9	6.6	6.8	4.4

[a] Revenue generating units/customer
[b] EBITDA less capex
Source: Fitch/company reports

Appendix 3

Fitch TMT European Telecom Portfolio - Liquidity as at September 30, 2009



[1] FT's cash balance as of June 30, 2009

[2] OTE's cash balance following redemption of the €572mn notes in November 2009

[3] Excludes maturities under the EUR3bn intercompany loan granted by Vivendi

Source: Fitch, Company Reports