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Sector Highlights

**Revenues**

Total revenues from the provision of electronic communications networks and services in Romania decreased in 2013 by 1.5% to RON 14.4bn, according to market watchdog ANCOM. In 2014, the figure is expected to have decreased again due to lower revenues of telecom operators, influenced by mobile termination rate (MTR) cuts and additional taxation introduced by the government.

**Market consolidation**

The market is expected to continue to consolidate, with companies providing an increasing number of integrated services, including data, broadband, internet, television and video services. Competition is increasing in all segments and operators are exploring the need for new services in their battle for clients. For example, internet, TV and telecoms leader RCS&RDS has announced plans to expand into the energy market and become a power supplier.

**Market segments**

Fixed line telephony services declined by 2% in terms of subscribers in 2014, with revenues also expected to follow the same trend, as users switch to mobile telephony and continue to buy smartphones. Mobile telephony services registered a stagnation in terms of clients, while revenues have been affected by MTR cuts. Growth was recorded by internet access services and pay TV, due to improvements in coverage and infrastructure development.

**Digital Agenda for Europe**

Romania continued to make progress towards the achievement of the Digital Agenda for Europe (DAE) objectives in 2012/2013, a European Commission (EC) report published in July 2014 shows. The number of fixed broadband lines reached over 3.79mn in January 2014, representing the 9th highest number of lines among European Union (EU) countries. Fast broadband (at least 30Mbps) penetration reached 10.5%, which is well above the EU average of 6.3%. Ultrafast broadband (at least 100Mbps) penetration reached 4.6%, also above the EU average of 1.6%.
Key Sector Data

No of telecom services users (mn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Subscribers to fixed telephony services</th>
<th>Active users of mobile telephony services</th>
<th>Fixed broadband connections</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>4.04</td>
<td>23.4</td>
<td>12.0</td>
</tr>
<tr>
<td>2012</td>
<td>3.3</td>
<td>4.2</td>
<td>6.9</td>
</tr>
<tr>
<td>2013</td>
<td>4.01</td>
<td>7.1</td>
<td>9.6</td>
</tr>
<tr>
<td>2014</td>
<td>4.0</td>
<td>6.0</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Revenues from the provision of electronic communications networks and services, by segment (RON mn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fixed telephony services</th>
<th>Mobile telephony services</th>
<th>Internet access services</th>
<th>Data transmission services</th>
<th>Audiovisual media programme services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>2,187</td>
<td>1,857</td>
<td>448</td>
<td>1,536</td>
<td>1,536</td>
</tr>
<tr>
<td>2012</td>
<td>2,007</td>
<td>2,216</td>
<td>470</td>
<td>1,584</td>
<td>1,584</td>
</tr>
<tr>
<td>2013</td>
<td>1,907</td>
<td>2,592</td>
<td>446</td>
<td>1,610</td>
<td>1,610</td>
</tr>
</tbody>
</table>

Source: National Authority for Management and Regulation in Communications (ANCOM)
## Economic Importance

### Economic importance

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT&amp;C revenues, EUR bn</td>
<td>3.61*</td>
<td>3.44</td>
<td>3.28</td>
<td>3.26</td>
<td>n/a</td>
</tr>
<tr>
<td>IT&amp;C % of GDP</td>
<td>3.4%</td>
<td>3.2%</td>
<td>4.5%</td>
<td>5.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td>GDP, EUR bn</td>
<td>124</td>
<td>131</td>
<td>134</td>
<td>144</td>
<td>150</td>
</tr>
<tr>
<td>GDP growth, %</td>
<td>-1.3%</td>
<td>1.1%</td>
<td>0.6%</td>
<td>3.4%</td>
<td>2.8%</td>
</tr>
<tr>
<td>CPI, %</td>
<td>6.1%</td>
<td>5.8%</td>
<td>3.3%</td>
<td>4.0%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Net FDI, % of GDP</td>
<td>1.8%</td>
<td>1.3%</td>
<td>1.9%</td>
<td>1.9%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Unemployment rate (ILO), %</td>
<td>7.3%</td>
<td>7.4%</td>
<td>7.0%</td>
<td>7.3%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Budget Deficit ESA 95, % of GDP</td>
<td>6.8%</td>
<td>5.5%</td>
<td>3.0%</td>
<td>2.3%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Net FDI, EUR bn</td>
<td>2.26</td>
<td>1.70</td>
<td>2.49</td>
<td>2.71</td>
<td>2.43</td>
</tr>
</tbody>
</table>

### Comments

Romania’s GDP increased by a real 2.8% in 2014, supported by good performances in the industrial sector, which grew by 3.6%, and the information and communication sector, which continued to outperform other sectors in terms of growth and rose by 8.2%.

At the same time, the direct and indirect impact on the economy of the Strategy for Digital Agenda for Romania may be translated into GDP growth of 13%, an increase the number of jobs by 11% and a reduction of administration costs by 12% over the years 2014-2020.

The EC expects GDP growth of 2.8% for 2015 and 3.3% for 2016, mainly driven by private consumption, investment and a benign external environment. The Romanian government targets 3.3% economic growth in 2015.

Source: National Statistics Institute, Ministry of Finance, National Bank of Romania, ANCOM, EC
The mobile telephony market is expected to grow in the medium term due to rising smartphone and tablet sales, while fixed line telephony is estimated to drop as it is replaced by mobile usage. According to estimates by the Economist Intelligence Unit, revenues from fixed telephony will drop from USD 348mn in 2014 to USD 157mn in 2018, while those from mobile telephony will grow from USD 1.7bn in 2014 to USD 1.9bn in 2018. A 30% increase in the sale of smartphones is forecast for 2015, up from the 2.5-2.7mn units sold in 2014, according to executives of Samsung Romania.
Regulatory framework

Lower termination rates

Under EU telecoms rules, as of April 1, 2014, the maximum termination rates in Romania decreased from 0.67 eurocents/minute to 0.14 eurocents/minute for fixed call termination and from 3.07 eurocents/minute to 0.96 eurocents/minute for mobile call termination.

The new tariffs have become mandatory for all network providers in Romania which are identified as having significant power on fixed and mobile call termination markets. According to sector regulator ANCOM, 44 providers of fixed networks and 6 providers of mobile networks fall into this category.

Special industrial assets taxation

In 2014, Romania introduced a tax on "special industrial assets" levied at a rate of 1.5% of the value of their construction. This significantly affects telecom operators, due to the networks and other property subject to this tax that they possess. The tax, which has been highly criticized, could result in the postponement of a portion of the investments planned by operators. In 2014, the companies in the sector paid around EUR 35mn on account of this tax.

Following the strong negative impact on the private sector and on investments, the government decided to cut this tax to 1% as of 2015. The government also plans to eliminate it altogether in the medium term.
At the start of April 2015, the Romanian government passed its national strategy on the 2020 digital agenda. A full implementation of the strategic vision for ICT sector in Romania that will meet the national targets specified in this strategy will require a total investment of more than EUR 3.9bn.

According to a document prepared by the Ministry of Communications and Information Technology (MCIT), which is responsible for e-government strategy and policy development at the national level, implementing this strategy over the years 2014-2020 will have a direct and indirect impact on the economy which will translate into 13% additional cumulative GDP growth, an 11% increase in the number of jobs, and a 12% reduction in administrative costs.

Romania has adapted to its current context the 7 Pillars that form the basis of The Digital Agenda for Europe 2014-2020 and has defined 4 major Fields of Action to follow in order to drive economic growth and increased competitiveness.
# Digital Agenda for Romania 2014-2020

## E-Government
Field of Action 1 refers to e-Government, Interoperability, Cyber Security, Cloud Computing, Open Data, Big Data and Social Media. Progress in this field will help increase efficiency and reduce public sector costs in Romania by modernising the administration.

## Education, Health & Culture
Field of Action 2 refers to the support of ICT in education, health, culture and e-Inclusion and will help ensure that ICT investments create a positive social impact. The implementation and correlation of the first two Fields of Action are expected to generate, over the period 2014-2020, an estimated impact on the Romanian economy of about 5% GDP growth and a 1% rise in the number of jobs.

## E-Commerce
Field of Action 3 refers to e-Commerce, Research & Development and Innovation in ICT. This builds on the comparative advantages of Romania and supports economic growth in the private sector. The implementation of the measures envisaged in this Field of Action is expected to generate an impact on the Romanian economy of around 3% in GDP and 2% in terms of jobs in the period 2014-2020.

## Digital services
Field of Action 4 targets broadband and digital services infrastructure, aiming to support social inclusion and benefits across all other Fields of Action.
## Digital Agenda for Romania 2014-2020 (cont'd)

<table>
<thead>
<tr>
<th>Objective 2020</th>
<th>EU Targets</th>
<th>RO Targets</th>
<th>Current situation in Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covered by broadband</td>
<td>100% by 2013</td>
<td>100% by 2020</td>
<td>90.0% (2013)</td>
</tr>
<tr>
<td>Covered by broadband above 30 Mbps</td>
<td>100% by 2020</td>
<td>80% by 2020</td>
<td>66.0% (2013)</td>
</tr>
<tr>
<td>Subscriptions to fixed broadband above 100 Mbps</td>
<td>50% by 2020</td>
<td>45% by 2020</td>
<td>25.0% (2013)</td>
</tr>
<tr>
<td>Population to buy online</td>
<td>50% by 2015</td>
<td>30% by 2020</td>
<td>8.0% (2013)</td>
</tr>
<tr>
<td>Population to buy online cross-border</td>
<td>20% by 2015</td>
<td>5% by 2020</td>
<td>1.0% (2013)</td>
</tr>
<tr>
<td>SMEs to make online sales</td>
<td>33% by 2015</td>
<td>20% by 2020</td>
<td>7.3% (2014)</td>
</tr>
<tr>
<td>Regular internet usage overall</td>
<td>75% by 2015</td>
<td>60% by 2020</td>
<td>48.0% (2014)</td>
</tr>
<tr>
<td>Among disadvantaged people</td>
<td>60% by 2015</td>
<td>45% by 2020</td>
<td>24.0% (2012)</td>
</tr>
<tr>
<td>Population that has never used the internet</td>
<td>15% by 2015</td>
<td>30% by 2020</td>
<td>39.0% (2014)</td>
</tr>
<tr>
<td>Citizens using e-Government</td>
<td>50% by 2015</td>
<td>35% by 2020</td>
<td>5.7% (2014)</td>
</tr>
<tr>
<td>Returning completed forms</td>
<td>25% by 2015</td>
<td>20% by 2020</td>
<td>6.6% (2013)</td>
</tr>
</tbody>
</table>
II. Fixed Telephony
Segment Highlights

Revenues

Revenues from fixed telephony services, on both the retail and the wholesale market, continued to decline in 2013, falling to RON 1.9bn – a 5% drop on a 2013 figure that itself represented an 8% decrease on 2012. Fixed telephony accounted for 13% of total revenues from IT&C services, according to ANCOM. Demand for fixed-line telephony is expected to decline as mobile telephone usage replaces fixed-line usage.

Fixed/Mobile integration

Fixed voice services have become mostly a retention tool that is offered as part of a fixed/mobile service bundle. However, consolidation and integration between fixed and mobile services is just starting in Romania.

Traffic

In contrast to mobile telephony, traffic in public fixed-line telephony has continued to decline, falling by 13.5% y/y to 3bn minutes in 2014, after dropping by 11.7% in 2013. The biggest decline was recorded by internet access traffic (for dial-up and ISDN access) which slipped 67%, due to users’ switch to faster broadband connections. Traffic to fixed networks decreased by 13% and to mobile networks by 6%. The only upward trend was the one maintained by traffic to networks outside Romania, which rose by 4%, most likely supported by important diaspora communities. According to the Romanian government, 6-8mn Romanians live outside the country's borders.

Outlook

The Romanian government, which still controls a 46% stake in fixed-line operator Romtelecom – currently rebranded as Telekom Romania Communications – is expected to make a decision in 2015 about selling its shares. A possible listing of Romtelecom shares was announced for 2014, but procedures have dragged on and flotation is now not expected to occur sooner than 2016.
There are 44 active fixed telephony providers on the Romanian market, which in 2014 recorded decreases in terms of both number of access lines (3% lower at 4.6mn) and number of subscribers (down 2% to 4mn).

As of end-2014, the fixed telephony penetration rate per 100 inhabitants had decreased to 22.9%, from 23.5% at end-2013, while the fixed telephony penetration rate per 100 households was 49.9%, down from 51% in the previous year.
Key Segment Data (cont'd)

**Fixed number portability, thousands**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ported numbers</th>
<th>Cumulated no. of ported numbers as of Oct 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>89.5</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>72.7</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>84.7</td>
<td></td>
</tr>
</tbody>
</table>

**Traffic volume on the fixed public telephone networks**

<table>
<thead>
<tr>
<th>Year</th>
<th>Internet and SMS traffic</th>
<th>Voice traffic to networks outside Romania (international)</th>
<th>Voice traffic to mobile networks</th>
<th>Voice traffic to fixed networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>0.11%</td>
<td>72.9%</td>
<td>69.1%</td>
<td>66.9%</td>
</tr>
<tr>
<td>2013</td>
<td>0.09%</td>
<td>6.1%</td>
<td>24.8%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>0.08%</td>
<td>7.1%</td>
<td>26.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: ANCOM

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Telekom Romania Communications (former Romtelecom) has the highest number of clients for fixed telephony services, with 2.2mn voice telephony lines (including CDMA) at the end of 2014, followed by RCS&RDS with 1.5mn clients.

The other prominent company offering services in the fixed-telephony segment is UPC Romania, one of the leading cable companies and internet service providers.

The entrance in 2007 of the two main mobile operators – Vodafone (UK) and Orange (owned by France Telecom) – injected further competition into the fixed-line market. However, their call tariffs are higher than those of the leading providers, their main target customers being those without access to wireline networks (in rural or suburban areas).

Vodafone is considering entry into the fixed telephony market via an acquisition. According to media reports in late 2014, Vodafone Group was exploring the possibility of merging with Liberty Global, the owner of UPC, the second player on the cable TV market and the third player on the fixed telephony market.
III. Mobile Telephony
Segment Highlights

Revenues

Revenues from mobile telephony services, both on the retail and the wholesale market, reached RON 6.9bn (EUR3.2bn) in 2013. This total represented 48% of total revenues from the provision of electronic communications networks and services, but also marked an absolute decrease of 6.46% y/y, according to ANCOM. In 2014, revenues of the four mobile telecom operators active in Romania reached EUR 2.4bn, significantly lower than in the previous year, due to a challenging macroeconomic, competitive and regulatory environment.

Prices

The EU roaming regulations introduced in 2014 – which imposed lower prices for mobile phone calls, SMS and data traffic – also influenced the Romanian operators, who came up with new options and tariff plans. The low level of these charges might mean not just an intensification of competition among existing operators but also a lowering of the barriers to market entry by mobile network virtual operators (MNVOs). The first virtual mobile operator entered the Romanian market at the start of 2015.

New entry

In March 2015, Lycamobile, the largest mobile virtual network operator in the world, launched its services in Romania, which became the 18th country in its international network. Over the next year, the operator aims to boost its subscriber base by 25%. Romanians can make international calls for 1 eurocent/minute using prepaid SIM cards from Lycamobile. The company's operations have been launched through a partnership with Telekom Romania.

Outlook

Further market consolidation is expected on the mobile telephony market, as operators seek new clients and integration of services. The market could also see consolidation via partnerships between large telecom operators. According to media reports, these are holding talks to close strategic collaborations aimed at joint development and use of networks. Such alliances could help mobile service providers to expand on the fixed services market and fixed service providers to have access to mobile networks.
The number of active users on the mobile telephony market remained unchanged at the end of 2014, at 22.9mn. Despite this, the usage rate of mobile telephony services continued to rise, most likely due to lower interconnection prices.

Interconnection tariffs on the mobile market in Romania have been subject to gradual reductions in recent years, as a result of regulations imposed by ANCOM.

As a result, the total voice traffic on mobile networks (excluding roaming) rose by 5.3% in 2014 compared with 2013, to 67bn minutes.

The demand for pre-paid mobile services in Romania has traditionally been very strong. There are 15.3mn pre-paid mobile users in the country, compared to 9.8mn users of subscription services. The majority (67%) of all mobile calls in Romania are made by pre-paid users.

Mobile penetration for valid SIM cards stood at 126%, as of end-2014.
Traffic volume on mobile networks

**Voice traffic volume, retail market (%)**

- To international networks and networks with satellite transmission:
  - 2012: 9.5%
  - 2013: 10.2%
  - 2014: 13.6%

- To fixed public networks:
  - 2012: 33.3%
  - 2013: 33.3%
  - 2014: 32%

- To other terrestrial mobile public networks:
  - 2012: 85.4%
  - 2013: 84.6%
  - 2014: 80%

- On own mobile networks:
  - 2012: 14%
  - 2013: 4.9%
  - 2014: 3.2%

**Voice traffic, wholesale market, (mn minutes)**

- 2007: 5,952
- 2008: 7,290
- 2009: 7,697
- 2010: 8,176
- 2011: 8,954
- 2012: 9,466
- 2013: 10,678
- 2014: 14,324

y/y evolution:
- 2007: +34.0%
- 2008: +22.4%
- 2009: +5.6%
- 2010: +6.2%
- 2011: +9.5%
- 2012: +5.7%
- 2013: +12.8%
- 2014: +34.2%

Source: ANCOM
Traffic volume on mobile networks (cont'd)

The traffic volume achieved in outbound international roaming has continued to rise over the last few years, with the most significant increase registered by internet access and data transmission services. The country has great potential in terms of mobile internet and the number of users is expected to increase significantly, also supported by smartphone sales. The smartphone market is forecast to increase by 30% in 2015, from the level of 2.5-2.7mn units sold in 2014.

Comments

Source: ANCOM

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Market concentration

Comments

Measured by the widely accepted Herfindahl-Hirschman Index (HHI), the concentration of the mobile services market in Romania is high, considerably exceeding the score of 2,000 that is commonly treated by competition authorities as the threshold for a seriously concentrated market. Romania’s HHI has not changed radically in recent years, its values recording a slight increase in each of the three segments calculated. The index for the voice traffic segment has seen the highest growth, reaching the level of 3,823 in 2014.

This HHI index stability is due to the stability of the market shares of major mobile operators in Romania. Although it has not undergone a really noteworthy change in recent years, the market share of the leader is on an upward trend, to the detriment of its competitors.
Currently, the mobile telephony market includes four operators – Orange, Vodafone, Telekom Romania and RCS&RDS.

According to the Body of European Regulators for Electronic Communications (BEREC), quoted by Romania’s Competition Council, the situation at end-January 2014 was as follows: Romania’s mobile telephony market leader had a market share of around 43% and its main competitor covered 29.2% of the market, while the remaining 27.8% was shared between other operators (with the majority of the latter owned by a company with a share of 22.8%). Market shares were calculated based on the number of active SIM cards.

At the end of 2014, Orange Romania had 10.5mn mobile clients, while Vodafone Romania had 8.06mn users of mobile services, followed by Telekom Romania with 5.9mn mobile subscribers. RCS&RDS does not publish data on its clients, but according to estimates of local business daily Ziarul Financiar, its mobile telephony clients number around 1.1mn.
The rate of decline in average revenue per user (ARPU) accelerated in 2014, as a result of regulatory cuts to mobile termination rates (MTRs) implemented in April 2014. Operators’ data for the end of 2014 also indicates that the cuts to MTRs resulted in decreases of ARPU. BMI Research estimates that the market average monthly blended ARPU declined to RON26.2 in 2014.

However, according to BMI Research, ARPUs have the potential to rise again as more expensive 4G services are rolled out in the country and operators promote value-added services such as mobile payments (an example is Vodafone’s launch of mobile payment service M-Pesa, which it sees as having significant growth potential).

Comments
Operator switching

Between the introduction of number portability in October 2008 and the end of 2014, the cumulative total of numbers ported in Romania reached 1,772,073. Of these, 1,304,091 (74%) were mobile and 467,982 (26%) were fixed telephone numbers. An interesting y/y doubling of numbers ported took place in 2014, after rather gradual growth between 2009 and 2013.

According to *Ziarul Financiar*, RCS&RDS remains the operator that has drawn the highest number of clients away from other networks. Thus, in the first four months of 2015, RCS&RDS topped the list, followed by Vodafone, Orange and Telekom Romania.

Source: ANCOM
IV. Internet Services
Segment Highlights

Revenues

In 2013, revenues from internet access services amounted to RON 2.6bn, up 17% on the previous year and representing 18% of total IT&C services, according to ANCOM data.

Users, Speed Connectivity

Romania had 16mn broadband internet connections as of end-2014, of which 12mn were mobile (up 25% y/y) and 4mn were fixed (up 6% y/y).

Romania has progressed in terms of connectivity, as increasing numbers of people are subscribing to fast broadband networks (59% of fixed subscriptions are to a fast connection, in comparison to 54% in 2013). The country, in fact, ranks 2nd in the entire EU in this area.

EU comparison

Romania has the lowest percentage of regular Internet users in the EU (48%), well below the EU average of 75%. Similarly, the proportion of the Romanian population that has never used the internet is as high as 39%, compared to the EU average of 18%.

E-commerce

Romania ranks last among EU countries in respect of the share of internet users who shop online: that percentage is just 11%, compared to an EU28 average of 59%, according to EU statistics office Eurostat.

Only 7.3% of SMEs in Romania sell online, with these sales making up just 4.3% of their turnover.
Key Segment Data

### Internet Users/Subscribers, mn

<table>
<thead>
<tr>
<th>Year</th>
<th>Internet users</th>
<th>Broadband internet subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>9.4</td>
<td>4.3</td>
</tr>
<tr>
<td>2012</td>
<td>10.5</td>
<td>4.8</td>
</tr>
<tr>
<td>2013E</td>
<td>11.1</td>
<td>5.1</td>
</tr>
<tr>
<td>2014F</td>
<td>11.7</td>
<td>5.4</td>
</tr>
<tr>
<td>2015F</td>
<td>12.4</td>
<td>5.7</td>
</tr>
<tr>
<td>2016F</td>
<td>13.1</td>
<td>5.9</td>
</tr>
<tr>
<td>2017F</td>
<td>13.8</td>
<td>6.1</td>
</tr>
<tr>
<td>2018F</td>
<td>14.4</td>
<td>6.2</td>
</tr>
</tbody>
</table>

### Evolution of the penetration rates of active mobile internet access connections

- **penetration rate of active mobile connections per 100 inhabitants**
  - 2012: 50.4%
  - 2013: 58.2%
  - 2014: 61.1%

- **penetration rate of active mobile broadband connections by CDMA, EDGE, 3G, EV-DO, 3G+, 4G per 100 inhabitants**
  - 2012: 35.5%
  - 2013: 48.0%

- **penetration rate of active mobile broadband connections via modems/cards/USB per 100 inhabitants**
  - 2012: 7.2%
  - 2013: 7.9%
  - 2014: 8.8%

Source: BMI Research, ANCOM

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In 2014, the broadband market structure comprised 773 operators providing fixed broadband internet access (down from 894 in December 2012). Of these, 34 operated by cable networks, 171 by fibre, 164 by radio, 10 by xDSL, and 635 by UTP/FTP cable.

The market consolidation process is expected to contribute further to the decline in the number of providers.

According to estimates of BMI Research, Romania had 11.7mn regular internet users at the end of 2014, taking into account the growing number of internet users who access the internet via mobile broadband devices or USB sticks.
Mobile Connections

The total number of mobile internet access connections increased 19% y/y in 2014, to 16mn. Of these, broadband connections numbered 12mn – a 25% growth on 2013.

Out of the 12mn mobile broadband connections, 10.7mn were using 3G and 3G+ technology and 0.7mn were achieved through 4G technology. All these connections generated total traffic of more than 46,000 terabytes, according to sector watchdog ANCOM.

The majority of mobile broadband connections (53%) were by way of subscription-based cards.

The growth of the total number of connections also led to an increase of the mobile broadband penetration rate, to 60.2% at end-2014 – which represents rises of 12% and 25%, respectively, compared to end-2013 and end-2012.
Fixed Connections

Comments

- Fixed broadband connections registered an annual growth of 5% in 2014, reaching 4mn and generating a total annual traffic of 3.6mn terabytes, while the penetration rate per 100 inhabitants reached 20.1%.
- Out of the total 4mn connections, 2.9mn were installed in urban areas (up 4.2% y/y), while rural areas registered an increase of 10.2% in connections during 2014, bringing the rural total up to 1.1mn connections.
- Residential users accounted for 91% of the fixed broadband connections that had been installed. Business users accounted for the other 9% – that is, for less than 400,000.

Support types (%)

- xDSL connections 25.9%
- UTP/FTP cable connections 58%
- Coaxial cable connections 11.6%

As regards the main support types, the structure of fixed internet access connections remained almost unchanged from 2013, with some 2.3mn UTP/FTP cable connections (58%), 1mn xDSL connections (25.9%), and half a million coaxial cable connections (11.6%).
The average download speed of fixed broadband connections in Romania is 72.15 Mbps, the third highest in the world, after those in Singapore and Hong Kong, according to the Ookla Global Net Index. The result is staggering, but it is to be taken very seriously indeed: Ookla, which compiles the index, is a global leader in broadband testing and web-based network diagnostic applications.

In Romania, prices for internet access are among the lowest in Europe. Despite this, providers have continued to expand the communications infrastructure, and a large share of population now has access to latest-generation technologies.
Recent Developments

Internet Speed

As regards high-speed internet access, Romania performs better than the EU at large. Networks capable of providing at least 30 Mbps are available to two-thirds (66%) of Romanian households (against 62% in the EU overall). In terms of take-up, 60% of fixed internet subscriptions are to high-speed connections, although the overall level of take-up remains low (25th in the EU).

Internet connection

In 2014, Romania achieved one of Europe's highest coverage rates for ultra-fast fixed internet (over 100Mbps), as well the highest consumption of mobile telephony services per user in the European Economic Area, ANCOM said in its 2014 annual report.

Nine cities in Romania are among the top 15 cities in the world in terms of download speed of fixed broadband internet connections, according to the Ookla Global Net Index.

EU Funds

Romania has launched the Ro-NET project, worth EUR 83mn, which uses EU structural funds to build up broadband infrastructure in areas still uncovered.

The project will cover 783 of the 2,268 localities identified as "blank areas" and will contribute to narrowing the digital gap between urban and rural areas, bringing broadband internet closer to approximately 130,000 households, 400,000 people, 8,500 enterprises and 2,800 public institutions.
V. Television
Key Segment Data

Subscribers (mn)

- In 2014, there was a 5.9% increase in the total number of subscribers to audio-visual programme retransmission services provided on a commercial basis. The end-year number reached 6.9mn (compared to 6.5mn at end-2013).
- Most subscribers are cable TV subscribers – numbering 4.4mn at the end of 2014 (up 6.3% on 2013) – while 2.5mn are direct-to-home TV service subscribers (up 4.7% on 2013) and around 70,000 are IP TV subscribers (26% more than in 2013).
- The penetration rate at household level reached 92%, according to the data the providers reported to ANCOM.

Source: ANCOM

Comments
Given the significant appetite of Romanian users for television programs, cable networks have developed rapidly, with providers diversifying their services, by offering packages that include Internet and voice.

On the pay-TV market, three companies are competing in practically all communications sectors: these are RCS&RDS, UPC Romania and Romtelecom, which have interests in cable, satellite, broadband and, in some cases, also telecommunications and IPTV.

RCS&RDS has the largest number of cable and satellite TV clients – a result both of its aggressive price policy and of its acquisitions of smaller players.

Another important player on the TV market is AKTA, the largest independent cable TV service provider in Romania, which operates via two companies, Digital Cable Systems (DCS) and AKTA Telecom. The company is also an active buyer of smaller rivals, as it plans to consolidate the customer base and expand coverage to new areas.
The Romanian advertising market amounted in 2014 to EUR 313mn, up 2.6% y/y, and in 2015 is expected to reach EUR 322mn, due to a positive macroeconomic environment. These are among the conclusions of the 2015 edition of *Media Fact Book*, a report released by media agency Initiative.

Television remained the leading mass medium for advertising, with a 63% share of the market.

In Romania, the main players in the television market are Central European Media Enterprises (CME) and the Intact Media Group.

In 2014, CME had a 62% share of the local TV advertising market, making USD 126mn on this segment, according to its financial report for 2014. The group had about a quarter of the total TV audience in Romania and more than 30% of the combined prime time audience.

CME owns Romania's largest TV station PRO TV, as well as several niche TV stations and online portals.

Intact Group, which owns the Antena 1, Antena 3, Antena Stars, Euforia Lifestyle and ZU TV channels, had a 23% share of the TV advertising market in Romania in 2014.

The other sizeable competitors are Kanal D, with a 5% market share, and Prima TV, with 4%.
### Recent Developments

#### Revenues

Revenues from audiovisual media programme services rose by 1.6% y/y in 2013, according to ANCOM, and are expected to have risen further in 2014, due to improved macroeconomic conditions and higher investments in the sector.

Romania’s advertising market is also on a path of strong recovery, with investments in TV ads making the biggest contribution.

#### Market consolidation

The TV services market is expected to consolidate further as companies plan to increase their customer bases and expand coverage to new areas.

RCS&RDS and AKTA are the companies most active on the M&A front, in their search for clients and niche services. At the end of 2014, RCS&RDS reached an agreement with Central European Media Enterprises (CME) to acquire all of the latter’s Romanian radio licences (comprising Pro FM, Info Pro, ProClasic, Music FM and Dance FM). The deal value was around EUR 4mn according to market estimates. The acquisition is in line with RCS&RDS’ aim of building an integrated media portfolio.

#### Digital Television

By June 17, 2015 Romania has to switch off the analog signal and make the transition to digital terrestrial television. However, the switch may be subject to delays in implementation. Five companies – 2K Telecom, Radio M Plus, Regal, Cargo Sped and Digital Video Broadcast – have submitted applications to participate in the second procedure allocating digital terrestrial television multiplexes, which will be granted for 10 years.
## VI. Telecom Sector Headlines

<table>
<thead>
<tr>
<th>Headline</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vodafone, UPC merger</strong></td>
<td>Vodafone is considering the potential acquisition of Europe's leading cable operator Liberty Global, in order to counter impending consolidation among rivals in Britain, Reuters has reported. In Romania, Liberty Global owns UPC Romania.</td>
</tr>
<tr>
<td><strong>Vodafone lawsuit</strong></td>
<td>Vodafone, the second-largest mobile telephony provider in Romania, has started legal proceedings against communications market watchdog ANCOM, seeking EUR 15.1mn damages to compensate for its inability to use part of the radio spectrum acquired at auction from the Romanian government in 2012, telecom sources have told Ziarul Financiar daily. More precisely, it is claimed that interference from Ukrainian communications companies is rendering Vodafone unable to use part of the radio spectrum bought in 2012 in more than 20 of Romania's 41 counties – such use having been promised in the conditions of contract at the time of the auction.</td>
</tr>
<tr>
<td><strong>Vodafone assets in Romania</strong></td>
<td>Vodafone should sell its assets in several countries, including Romania, Australia, Hungary and the Czech Republic, where it is not a market leader and where it does not have access to landline telephony infrastructure, according to a report of UBS' brokerage division, quoted by the UK daily Financial Times. In the long term, Vodafone could be taken over or could consider a deal to restructure its business in these countries, said UBS, with the potential buyers being American giant AT&amp;T and SoftBank, the third telecom operator in Japan.</td>
</tr>
<tr>
<td><strong>Pinebridge seeks buyer for AKTA</strong></td>
<td>Investment fund Pinebridge, the owner of Romanian cable TV operator Digital Cable Systems, which operates under the brand name of AKTA, is looking to sell the unit for around EUR 200mn. The fund has rejected offers worth around EUR 100mn for the unit, which is the largest independent player on the local market, Ziarul Financiar has reported, quoting unnamed sources familiar with the talks.</td>
</tr>
</tbody>
</table>
VII. Main Players
## Top 10 M&A Deals in the Telecommunications Sector in Romania in 2014 and 2013

<table>
<thead>
<tr>
<th>Date</th>
<th>Target Company</th>
<th>Deal Type</th>
<th>Buyer</th>
<th>Country of Buyer</th>
<th>Deal Value USD (mn)</th>
<th>Stake (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-Nov-13</td>
<td>GTS Telecom SRL; GTS Central Europe; GTS Hungary; GTS Czech s.r.o.</td>
<td>Acquisition</td>
<td>Deutsche Telekom AG</td>
<td>Germany</td>
<td>730 (Official data)</td>
<td>100</td>
</tr>
<tr>
<td>18-Mar-14</td>
<td>Orange Romania</td>
<td>Minority stake purchase</td>
<td>Atlas Services Belgium SA</td>
<td>Belgium</td>
<td>10.84 (Market estimate)</td>
<td>0.93</td>
</tr>
<tr>
<td>25-Sep-14</td>
<td>Ad Net Market Media SA</td>
<td>Acquisition</td>
<td>Infratel Net SRL; Andrei George Bratu - private investor</td>
<td>Romania</td>
<td>N/A</td>
<td>100</td>
</tr>
<tr>
<td>22-Jul-14</td>
<td>Vesatel</td>
<td>Acquisition</td>
<td>RCS &amp; RDS</td>
<td>Romania</td>
<td>N/A</td>
<td>100</td>
</tr>
<tr>
<td>16-Jul-14</td>
<td>Diginet SA</td>
<td>Acquisition</td>
<td>Clever Media Network</td>
<td>Romania</td>
<td>N/A</td>
<td>100</td>
</tr>
<tr>
<td>26-Feb-14</td>
<td>Electrosim SRL; Vianet</td>
<td>Acquisition</td>
<td>RCS &amp; RDS</td>
<td>Romania</td>
<td>N/A</td>
<td>100</td>
</tr>
<tr>
<td>23-Dec-13</td>
<td>SBS Broadcasting Media</td>
<td>Acquisition</td>
<td>Cristian Burci - private investor</td>
<td>Romania</td>
<td>N/A</td>
<td>100</td>
</tr>
<tr>
<td>23-Dec-13</td>
<td>P7S1 Radio Holding SRL</td>
<td>Acquisition</td>
<td>Antenna Group</td>
<td>Greece</td>
<td>N/A</td>
<td>100</td>
</tr>
<tr>
<td>18-Oct-13</td>
<td>GSP TV; Antena Play</td>
<td>Acquisition</td>
<td>Orange Romania</td>
<td>Romania</td>
<td>N/A</td>
<td>n/a</td>
</tr>
<tr>
<td>16-Oct-13</td>
<td>Digicom Systems</td>
<td>Acquisition</td>
<td>Ines Group</td>
<td>Romania</td>
<td>N/A</td>
<td>99.01</td>
</tr>
</tbody>
</table>

Source: EMIS DealWatch

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M&A Activity (2013-2014)

Comments:

- IT&C was the most dynamic sector in terms of number of transactions made in 2014, according to a PwC Romania analysis released at the start of 2015.

- An important rise in the M&A activity in Romania is expected for 2015, boosted by improved prospects for economic growth and the return of investors’ confidence.

Number of Deals by Deal Type (%)

- Acquisition 92.9%
- Minority stake purchase 7.1%
- Joint Venture 0.0%
- Privatisation 0.0%

Number of Deals by Deal Value, USD (%)

- Undisclosed; 85.7%
- 500.1-1000; 7.1%
- 0-50mn; 7.1%

Number of Deals by Region of Investors (%)

- Romania 71.4%
- Belgium 7.1%
- Austria 7.1%
- Germany 7.1%
- Greece 7.1%
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Source: Deutsche Telekom

German's Deutsche Telekom entered the Romanian market in 2008, when it acquired a 20% stake in Greek telecom operator OTE, the majority owner of fixed line operator Romtelecom, cellphone operators Cosmote and Telemobil, mobile phones store Germanos and battery retailer Sunlight.

In 2011, following several stages, Deutsche Telekom increased its shareholding to 40% in OTE.

Starting with September 2014, Romtelecom and Cosmote have been operating under the Deutsche Telekom brand and were renamed Telekom Romania and Telekom Romania Mobile. The other company names and brand identities were not changed.

In 2014, DT recorded total revenues of EUR 1bn in Romania, down 1.5% against the previous year, while EBITDA adjusted for special factors reached EUR 266mn, down 6% from 2013.

Telekom Romania had a 30% market share in 2014, as turnover.

The company plans EUR 160mn investments in 2015 to develop its communications infrastructure. It also plans to sell old and collateral assets to help finance its development.
Telekom Romania Communications (ex Romtelecom)

**Highlights**

- Telekom Romania is one of the largest telecom operators in the country. It is owned by OTE Group (54.01%) and the Ministry for Information Society (44.99%).

- Telekom Romania provides traditional fixed-network telephony, broadband Internet, TV services (satellite, IPTV and cable, including its own sports TV channel, Dolce Sport), and ICT services.

- According to Deutsche Telekom data, TV and Internet services continued to have positive trends, both in terms of customer base and revenues, while the company posted a growing RGUs base of over 4.85mn for the end of 2013.

- In 2014, the company recorded a 0.1% drop in total revenues, reaching EUR 609.1mn, while EBITDA was up 1% at EUR 149mn.

- The company employs 6,029 people as of end 2014, a number which decreased by 11.3% compared with the previous year.
The company lost 3.2% of its fixed voice telephony lines in 2014 to 2.18mn subscribers, while broadband internet subscribers fell by 1.4% to 1.23mn. However, TV subscribers rose 4.5% to 1.41mn compared with 2013.

Romania's government still controls a 46% stake in Telekom Romania Communications (former Romtelecom) and is yet to decide about selling its shares.

According to media reports in early May, quoting PM Victor Ponta, the government plans to list shares in the telecom provider, on the London and Bucharest stock exchanges either in 2015 or 2016.

Deutsche Telekom is interested in acquiring the minority stake in the fixed line operator, Ziarul Financiar daily reported, quoting Claudia Nemat, a member in DT board. The company could be valued at EUR 800mn and the state's stake at EUR 370mn, considering the 2014 pro forma EBITDA of EUR 160mn.
Telekom Romania Mobile Communications (ex Cosmote)

Highlights

- Telekom Romania Mobile Communications, which is part of the DT-owned Cosmote Group, launched commercial operations in December 2005.

- The company is the third largest telecom operator on the local market, after Orange Romania and Vodafone Romania.

- Its shareholding structure includes Cosmote Group, part of OTE Group, with a 70% stake and Telekom Romania Communications (former Romtelecom), with a 30% stake.

- Telekom Romania expanded 4G population coverage in Bucharest to 90%, while also expanding the service on mobile phones through a variety of handsets.

- In 2014, the company recorded a 4.2% decrease in total revenues, reaching EUR 439.4mn, while pro forma EBITDA went down 11.2% to EUR 105.6mn.

Source: OTE
By the end of 2014, Telekom Romania Mobile's total customer base stood at 6mn, of which 26.8% was postpaid.

According to OTE, Blended Average Revenue per User (ARPU) decreased by 8.5% in 2014 compared to 2013, due to lower incoming ARPU, adversely affected by interconnection rate cuts as well as the aggressive competitive environment.

According to Telekom Romania's strategy for 2015, the company will continue transferring current customers to IP (Internet Protocol) technology and the group will continue to expand its fiber optic network, estimated to cover 1mn households by the end of 2015 and 2mn by the end of 2016.

At the same time, 4G coverage is set to double by the end of 2015.
Orange Romania, the local unit of France Telecom’s Internet and mobile arm Orange, is the biggest mobile phone service provider in the country by customer base and turnover.

The telecom operator is the 4G leader in Romania with coverage of 65% of the population at 31 March 2015.

The company agreed to provide voice mobile communication services coverage of 80% of the population by 5 April 2017 and Broadband data mobile communication services of 30% of the population by 5 April 2019, for 1.8 GHz and 2.6 GHz bands.

According to consolidated results published in February 2015, Orange Romania revenues fell by 2.7% to EUR 909mn in 2014, mainly due to a cut in interconnection tariffs.

Orange has announced plans to invest EUR 500mn in Romania over the next three years.
Orange Romania (cont’d)

**Highlights**

- The company’s number of clients grew by 95,000 to 10.5mn mobile customers at the end of 2014.
- The number of internet customers was 19,000 at the end of H1 2014.
- In 2014, mobile internet traffic jumped 85% on the year. Also, the sales of 4G smartphones and tablets were 4 times higher in the last quarter compared to the same period in 2013.
- ARPU was EUR 6 per month in Q1 2015, down from EUR 6.2 in the previous quarter.
- Romania is the first country where the French telecom operator will be launching a new product for its television services: Orange TV stick that connects the TV to a smartphone or tablet. At the end of 2014, Orange TV had a total on 157,000 subscribers.
- Orange entered the local television market through the release of Orange TV in June 2013.

**Mobile customers, thousands**

<table>
<thead>
<tr>
<th>Year</th>
<th>Mobile Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>10,283</td>
</tr>
<tr>
<td>2013</td>
<td>10,436</td>
</tr>
<tr>
<td>2014</td>
<td>10,531</td>
</tr>
<tr>
<td>2015</td>
<td>10,365</td>
</tr>
</tbody>
</table>

**ARPU per month (annual rolling, EUR)**

<table>
<thead>
<tr>
<th>Year</th>
<th>ARPU (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6.8</td>
</tr>
<tr>
<td>2013</td>
<td>6.7</td>
</tr>
<tr>
<td>2014</td>
<td>6.6</td>
</tr>
<tr>
<td>2015</td>
<td>6.0</td>
</tr>
</tbody>
</table>
Vodafone Romania

**Highlights**

- Vodafone Romania, the second leading mobile telephony provider in the country, a wholly owned subsidiary of British Vodafone Group plc, was launched in April 1997 as the first GSM network in the country.

- The company provides a wide range of services, including voice, messaging, data across mobile and fixed networks, having a market share of 38% on the mobile segment, behind Orange and a 3% market share on the fixed segment, behind Romtelecom, RSD & RCS and UPC.

- In April 2005, Vodafone became the first operator to launch 3G services on the Romanian market. It also launched the first 4G mobile data network in Romania, in October 2012.

- According to preliminary results for FY 2014/2015, Vodafone Romania recorded revenues from services of EUR 656.6mn, down 6.7% y/y. However, excluding the interconnection fees cut, the company’s revenues grew by 7.2% y/y in the period.
Vodafone Romania (cont'd)

**Highlights**

- The company had 8.7mn clients, of which 8.1mn were users of mobile services at the end of March 2015, corresponding to the end of financial year 2014-2015.
- At the same time, subscribers accounted for 41.9% of the customer base, while prepaid users were 58.1%.
- During the same time, the company had 43,000 fixed broadband customers.
- Data consumption jumped by 75.6% y/y in the 2014/2015 fiscal year, as the company continued expanding its 4G network coverage and following investments in technology.
- Vodafone also boosted its smartphones sales, by 49% y/y in the period.
- The company plans to continue investments in Romania to upgrade the 3G communications infrastructure and to expand its 4G network.
- At the end of 2014, Vittorio Colao, Vodafone group CEO, told Ziarul Financiar daily that the group plans to provide fixed services in Romania and is also considering to launch TV services, being open to discuss a merger or an acquisition. Market sources quoted by the daily later said Vodafone negotiated the takeover of Digital Cable Systems (AKTA), the largest local independent cable TV provider, held by Asian-American private equity firm Pinebridge, which allegedly refused offers of around EUR 100mn.
RCS&RDS is one of the largest Romanian and Eastern European telecom companies, offering nationwide satellite television, cable television, cable internet, VOIP, and 3G services.

The telecom operator, controlled by businessman Zoltan Teszari, provides services under Digi brand in Romania, Hungary, Spain, Italy and Czech Republic. The company is Romania's biggest cable TV and fixed internet service provider and is also growing in the mobile telephony sector.

The company employs more than 8,800 people and its annual revenues stand at more than EUR 450mn only in Romania.

RCS&RDS revenues are expected to decrease in 2014, following a divestment in Slovakia and continued decline in satellite TV, according to ratings agency Standard & Poor's.

According to media reports, the company is reportedly considering listing on a foreign stock exchange.
RCS-RDS (cont'd)

Ownership Structure

- Zoltan Teszari 58.9%
- Sfetozar Bugarszki 7.2%
- Nicusor Dorel Schelean 7.0%
- Mihai Patap 5.3%
- Cable Communications Systems NV (Netherlands) 2.5%
- Other private investors 18.8%

Highlights

- The company has over 3.2mn clients for TV services, of which over 2.4mn via cable, about 1.8mn clients for fixed internet services and 1.5mn fixed telephony clients.
- The company's strategy envisages the exit from non-core markets and the focus on Romanian and Hungarian markets.
- In March 2015, RCS RDS sold its satellite TV operator Digi TV in Czech Republic, as part of its strategy to exit non-core markets and focus on Romanian and Hungary. The deal value was not disclosed.
- The company has also divested its Digi TV operations in Croatia, Slovakia and Serbia.
- On the other hand, the company is pursuing an aggressive expansion strategy, acquiring almost 100,000 new customers mostly via companies close to the group since the beginning of 2014, according to industry sources quoted by Ziarul Financiar daily, paying more than EUR 10mn in the process.
- RCS&RDS has also announced plans to expand in the energy market and become a power supplier, targeting customers who are already subscribed to its telephony, internet and TV services.
UPC Romania

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Highlights

- UPC Romania is the 2nd largest cable television operator in Romania. The company is affiliated to UPC Broadband, the European division of U.S. group Liberty Global, one of the world’s largest cable operators.

- It provides video, broadband internet, and digital (VoIP) telephony services to 1.9mn service subscribers (RGUs) represented by 1.2mn customers as of December 31, 2014.

- Last year, UPC Romania launched the wireless Internet service UPC Wi-Free, which gives clients free access to Internet outside of their homes. Four months after launch, over 10% of the company’s Internet customers already used this service.

- Over 65% of UPC customers currently subscribe to digital television services and over 35% of them get HD services.

- UPC Romania recorded a growth of 6% of revenues in 2014, to USD 173mn, mainly due to improving Internet services and boosting its Internet user base.

- The company employs around 1,600 people.
In 2014, the company had 1.2mn video subscribers, of which 548,000 were digital cable subscribers.

It also had 434,000 broadband internet subscribers and 313,000 telephony subscribers in the same period.

The company increased its internet subscriptions by 14% and fixed telephony subscriptions by 12%.

For 2015, the company plans investments of EUR 35mn for new services and the upgrade and expansion of its network, according to Severina Pascu, CEO of UPC Romania and Hungary.

In May 2015, Liberty Global acquired Romanian cable operator Tita & Company SRL from local entrepreneur Tița Ion for an estimated EUR 2mn. The deal is in line with Liberty Global’s development plan, which is expected to acquire several small local competitors active in both urban and rural areas.
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