



Agenda

- Welcome and Meet the Presenters
- Financial Markets Perspective
- Economics Perspective
- Legal and Regulatory Perspective
- Questions and Discussion

Presenters



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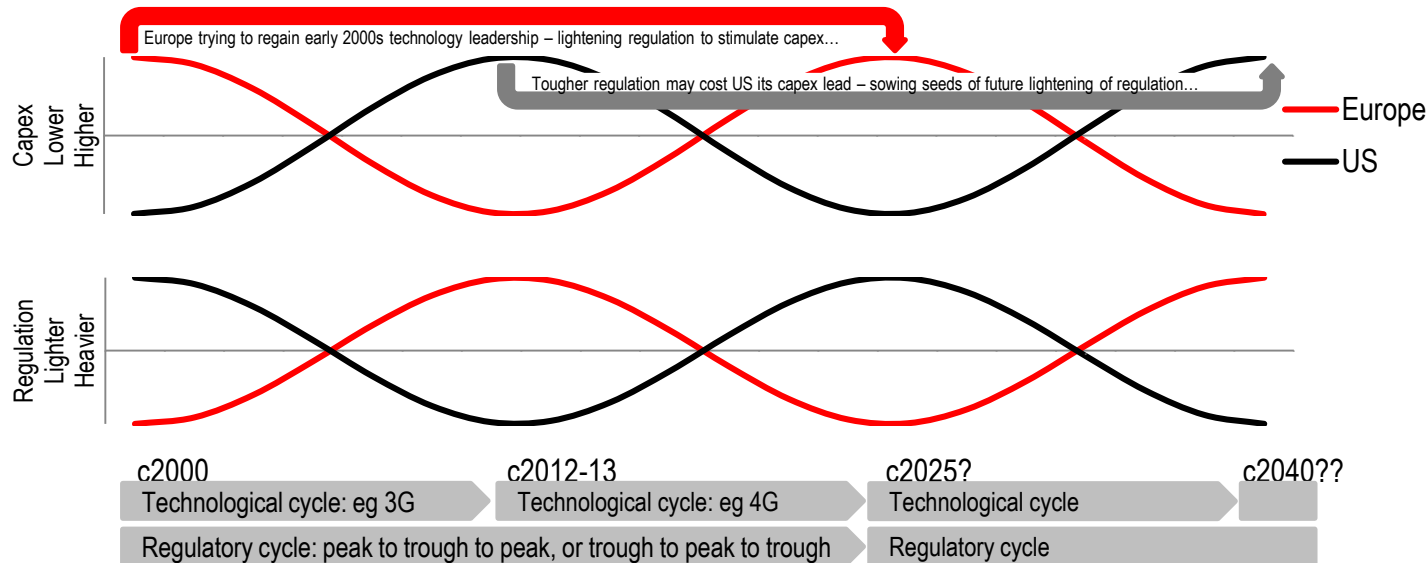
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Financial Markets Perspective

Luigi Minerva



Co-Investment within European Telecoms

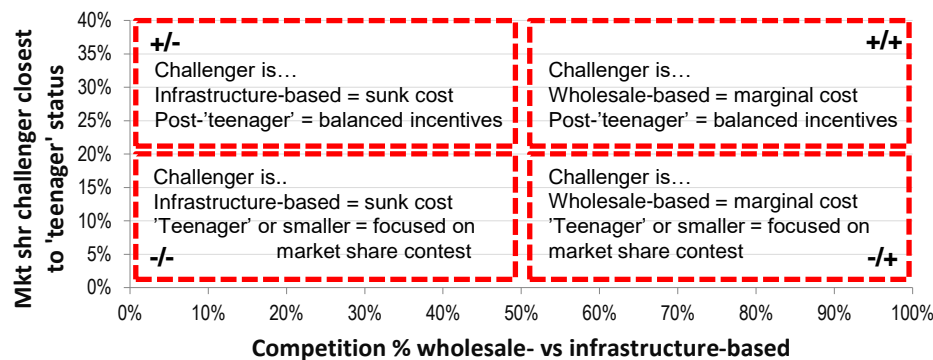


Source: HSBC

- European regulatory cycle: pro-consumer to pro-investment
- Turning point: Non discrimination and cost methodology (Sept'13)
- EECC give prominence to co-investment

Co-Investment within European Telecoms

Markets featuring marginal not sunk costs where challengers have graduated beyond 'teenage' status and have balanced incentives are preferable



Source: HSBC

- Competition: wholesale-based vs infrastructure-based
 - Wholesale-based: recurrent unit cost to access infrastructure
 - Infrastructure-based: "sunk costs"
- Co-investment: (-) larger operator shares scale advantage, but (+) avoids sunk costs, (+) instils capital discipline, (+) reduces product commoditization

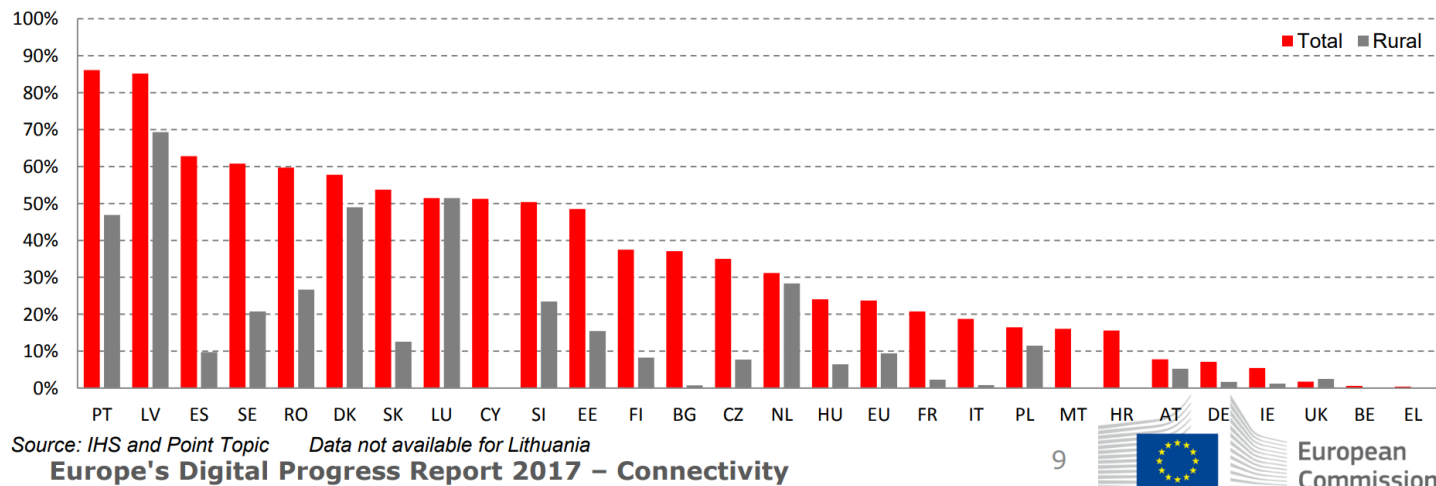
Economics Perspective

Mark Williams

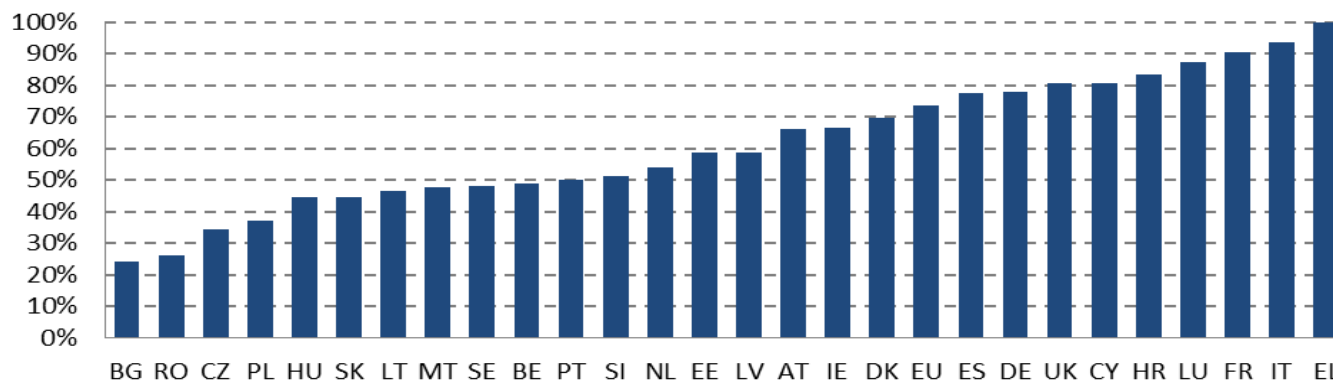


FTTP coverage is high policy priority

Fibre to the Premises (FTTP) coverage, June 2016

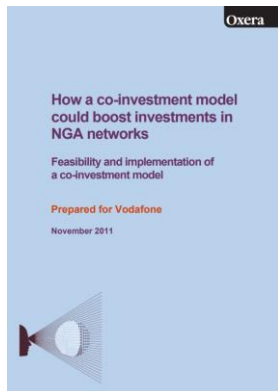


Share of fixed BB subs using incumbent infrastructure, July 2015



Co-investment: not a new policy idea

Interest by operators and investors of fibre access networks prompted extensive debate about how to avoid replicating the situation in copper in which a single operator owned the vast majority of the infrastructure with regulation focusing on wholesale access.



2011



2012

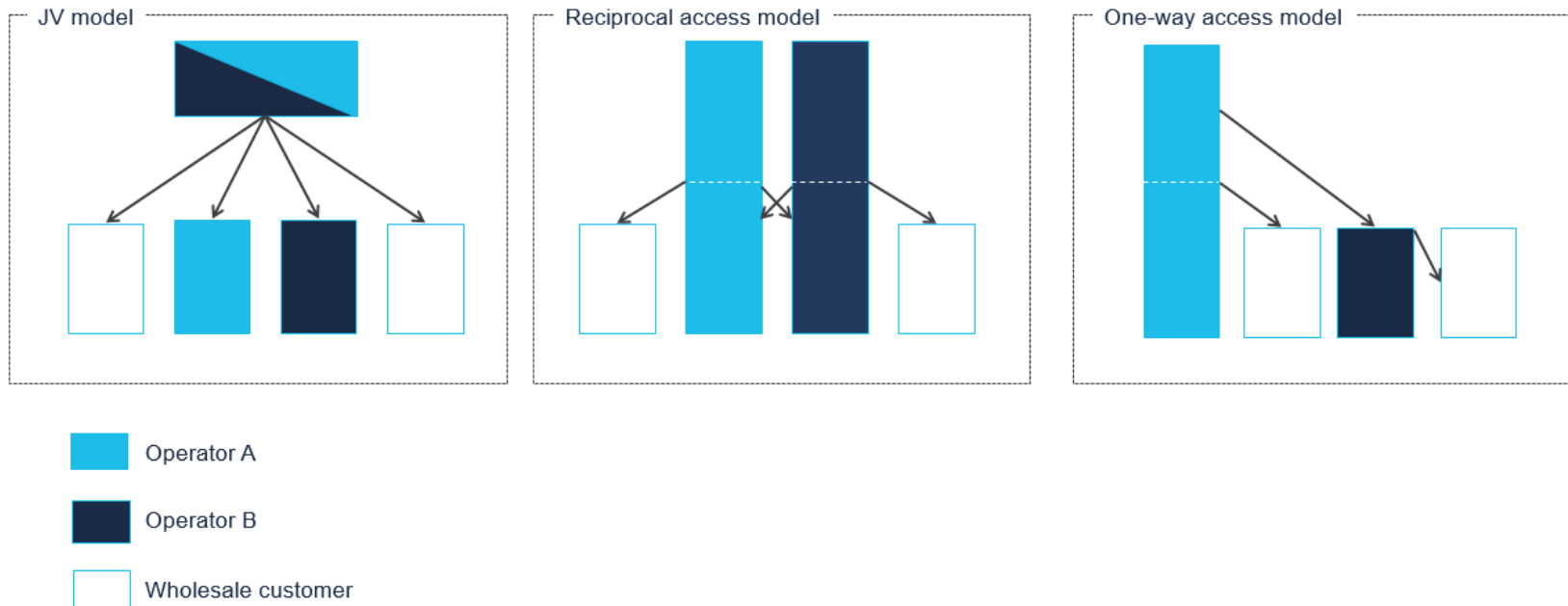


2017



2018

In practice, there are several different models of co-investment



Gained traction around with some significant projects across Europe

- **Joint-venture**
 - Telecom Italia-Fastweb (2016)
 - Vodafone Ireland-ESB (2014)
- **Reciprocal access**
 - Jazztel-Telefónica (2012)
 - Vodafone Spain-Orange (2013)
 - Portugal Telecom-Vodafone Portugal (2014)
- **One-way access**
 - France: mutualisation approach used between the “building operator”. and operators who wish to use the access (2010)

Co-investment and the BT settlement

Ofcom, July 2017

We will measure how the new model delivers for people and businesses

1.15 We expect Openreach to be responsive to different commercial models of investment proposed by its customers, including co-investment and risk sharing.

Industry outcomes and metrics

4.17.1 Network investment: Openreach working effectively with customers to establish new commercial models and relationships to support continued investment and quality, including approaches such as co-investment and risk sharing where appropriate.

Vodafone-CityFibre co-investment in Milton Keynes



January 2018

- £40 million pounds network investment in Milton Keynes,
- Phase 1 of plan to roll out in 12 cities, 1 million premises
- Fast broadband marketed by Vodafone
- Vodafone exclusivity for defined period

Commercial perspectives on co-investment

- Only of interest for FTTP network investment. Once this has been made, unlikely to be further interest in joint ventures for new build (although could be interest in ex-post network sharing/consolidation).
- Very high fixed cost of network investment and uncertain revenue (take-up and price) means that horizontal joint ventures are attractive because of significantly reduced capex (replacing some capex with opex).
- Vertical joint-ventures can significantly reduce risk for network builder.
- Co-investment affects competition between joint-venture partners in different ways.

Regulatory perspectives on co-investment

- Regulators generally supportive of co-investment.
- Efforts to encourage it through regulatory incentives and structural measures.
- Scrutiny of specific co-investment deals by competition regulators.
- Limited guidance for operators on how deals should be structured and how they will be treated by regulators.
- ECC Article 74, Annex IV
- BT Settlement with regards to Openreach

Legal and Regulatory Perspective

Francesco Liberatore



EU Electronic Communications Code

Commitment to co-invest in return for de-regulation

- Covers
 - co-ownership
 - long-term risk sharing
 - co-financing
 - purchase agreements giving rise to specific rights of a “structural character”

EU Electronic Communications Code

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Subject to conditions

- Co-investment offer is fair, reasonable and non-discriminatory
- Open to any operator for the lifetime of the network
- Access for non co-investors to legacy capacity and, over time, to more advanced capabilities of the network

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Enforcement

- Offer
- Market test
- Decision making the commitment binding
- Competition law compliance

EU Competition Law



Cooperation between non-competitors

- Vertical Agreements Guidelines



Cooperation between competitors

- Horizontal Agreements Guidelines



Full-function Joint Venture

- Horizontal Merger Guidelines

EU Competition Law



Cooperation between non-competitors

- Vertical Agreements Guidelines



Cooperation between competitors

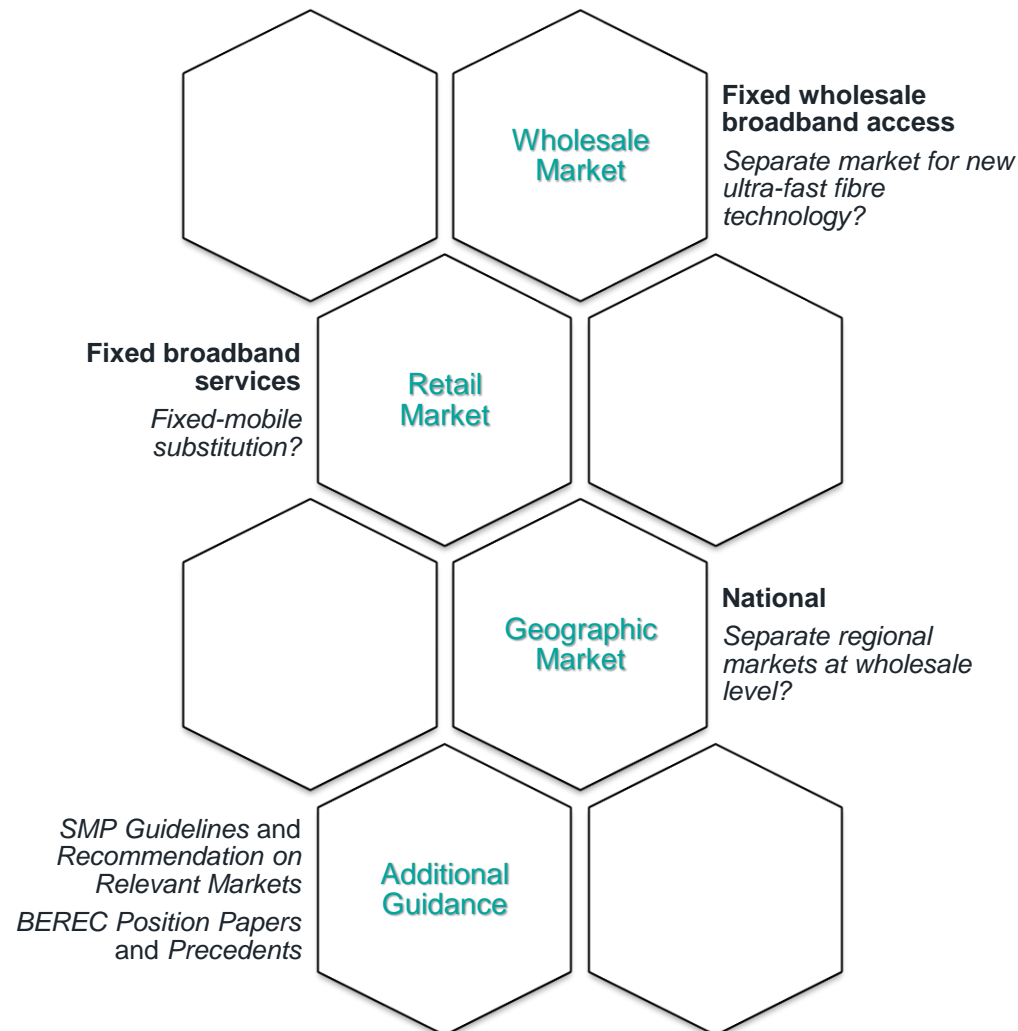
- Horizontal Agreements Guidelines



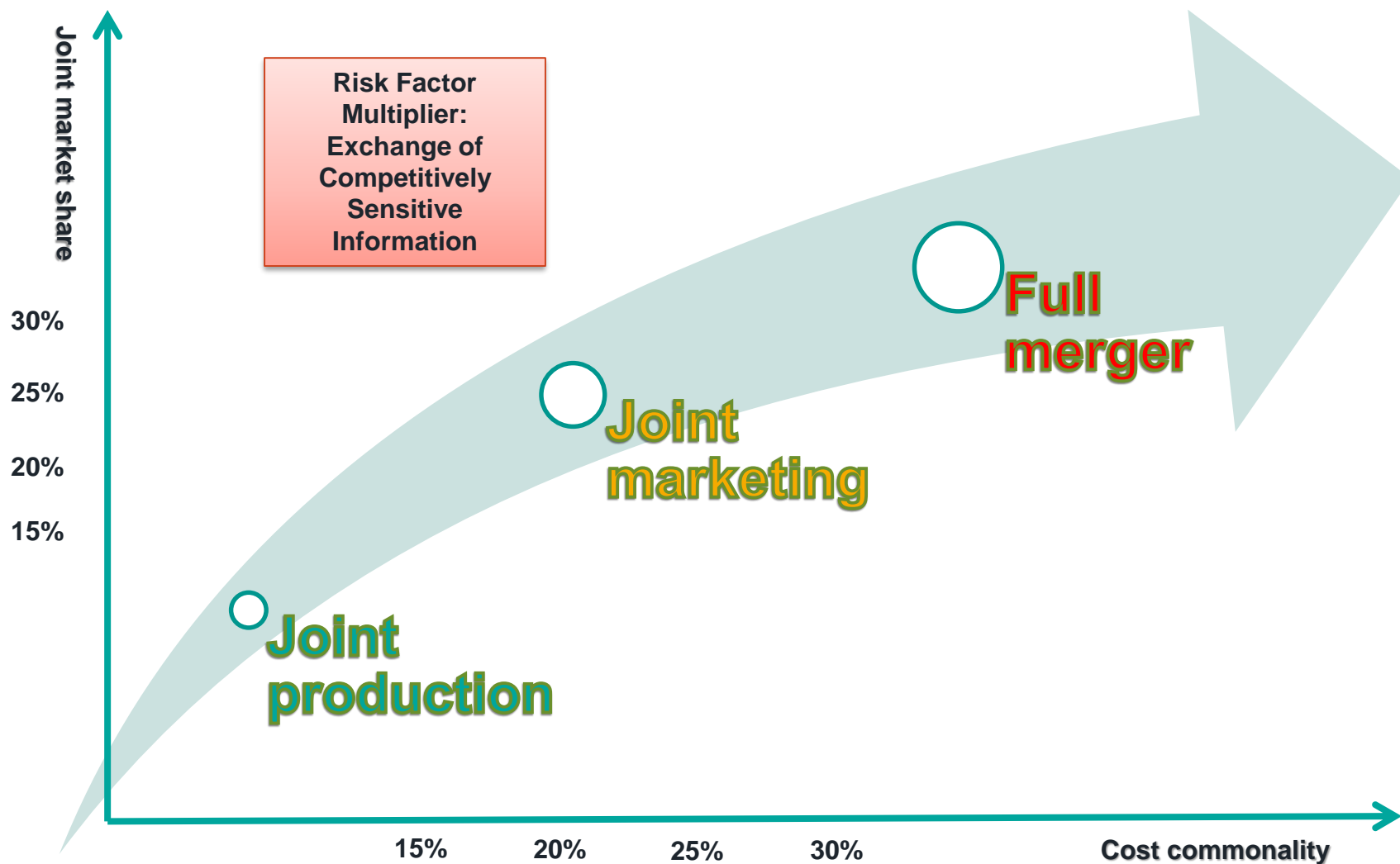
Full-function Joint Venture

- Horizontal Merger Guidelines

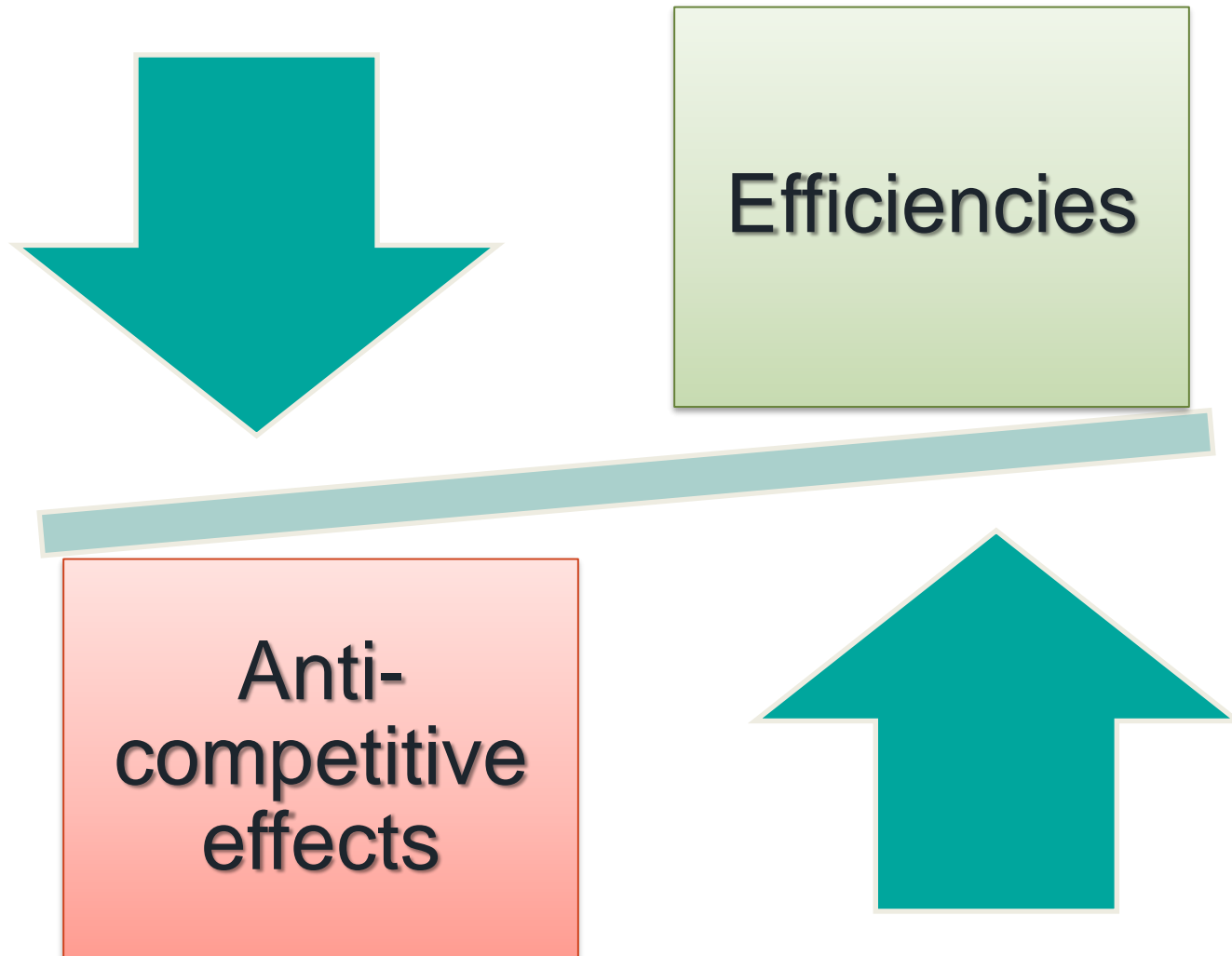
Market Definition



Risk Assessment

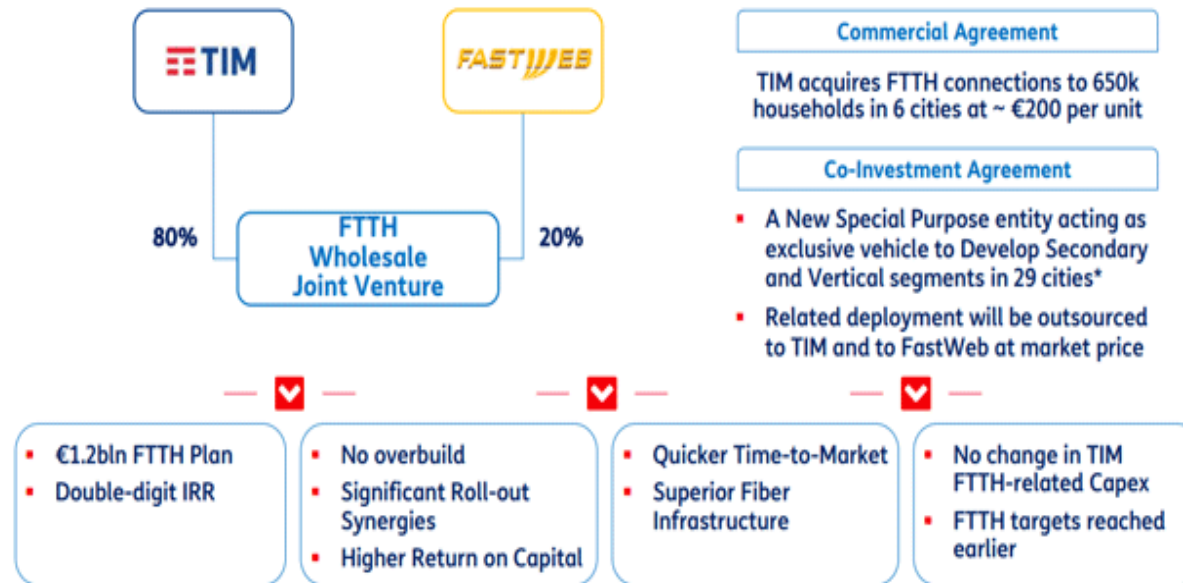


Balancing Act



Case Study: Italy

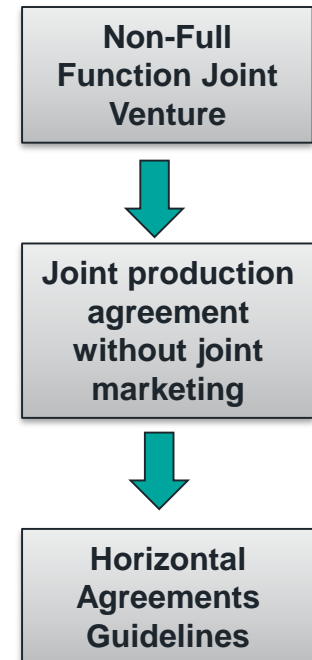
FTTH: a «Faster and Deeper» Combination



*Excluding Milan and areas already covered by TIM and FastWeb with FTTH

Telecom Italia Group Results - 2Q'16
Flavia Cottoneo

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Case Study: Italy (cont.)

Market shares

- Wholesale level
 - TI: 96% (volume) and 87% (value)
 - Others: 4% (volume) and 10% (value)
 - Fastweb: credible alternative through FTTC and sub-loop unbundling

High market shares

Competition concerns

- Direct limitation of competition between the parties
- Coordination
- Input foreclosure
 - Exclusivity, long duration
 - IRU (30 years) on Fastweb's network and exclusive access to TI's ducts
- Spill-over effects
 - Price coordination at retail level
 - Reduction of competition on quality

High proportion of
variable costs in
common

Case study: Italy (cont.)

Remedies Package

- **Remedy 1:** Deployment milestones and monitoring trustee
- **Remedy 2:** No reserved capacity for JV parents
- **Remedy 3:** VULA and Bitstream access on non-discriminatory terms, as well as passive infrastructure access on transparent, non-discriminatory, fair and reasonable terms
- **Remedy 4:** Duration of JV limited to 2035
- **Remedy 5:** Limit scope of JV, e.g. to exclude white areas and vectoring outside the 29 cities where there is FTTC
- **Remedy 6:** Competitively sensitive information exchange safeguards

Conclusion

Incentive for co-investment under sector-specific regulation must be reconciled with the need to comply with competition law



Competition law assessment is needed from the outset and at regular intervals



Full function joint venture may provide more legal certainty, but in practice limited application so far



BEREC and Competition Guidelines?

Questions



Thank you

