

EU ICT market growth of 3.2 percent expected in 2006

- **Healthy recovery for software (+5.7 percent) and IT services (+5 percent)**
- **Broadband networks booming**
- **Double digit growth for digital consumer electronics market**
- **EITO 2006 special study analyses P2P networks, showing new business opportunities related to digital content**

Brussels, 23rd February 2006 – The market for Information Technology and Telecommunications (ICT) in the European Union will experience growth of 3.2 percent in 2006, to a total value of 643 billion Euro, according to the 2006 edition of the European Information Technology Observatory (EITO). “The results confirm the positive development in the ICT market observed earlier, with booming broadband networks and healthy growth of software and IT services. This trend will continue also in the years to come, driven by the challenging digital convergence scenario”, said EITO Chair Bruno Lamborghini. “Europe, however, should take more advantage of the new market potential offered by the diffusion of broadband networks and by digital convergence linked to the Internet. The increasing speed of technological progress in the global markets requires immediate action as every day the competitiveness divide between those who move fast and those who are sitting still becomes wider.”

The new edition of the EITO was presented with the participation of Viviane Reding, European Commissioner for Information Society and Media. In her keynote speech Commissioner Reding stressed the particular importance of ICT: “Europe's ICT markets have an impressive growth potential and are in addition contributing strongly to macroeconomic growth in general, thanks to the horizontal importance of ICT for all sectors. I call on all EU governments to support the Commission in its objective to ensure a dynamic, competition-oriented regulatory framework and a substantial increase in research spending in the field of ICT to help Europe catching-up with its competitors.”

With an estimated 33.6 percent, Europe has the biggest share of the **worldwide ICT market** in 2006. At worldwide level, however, particularly strong growth can be



observed in the booming Asian regions. With 6.8 percent, the so-called “rest of the world”, especially Asia, is expected to lead in 2006, followed by the US (3.9 percent) and an estimated growth of 3.2 percent in Europe. Overall, the worldwide IT sector in 2006 is increasing more rapidly than telecommunications. EITO experts forecast a plus of 4.6 percent, compared with 3.4 percent in telecommunications.

Similar variations to those between different regions of the world can also be identified for EU countries where the dynamics of ICT remain different among the member states. In 2006, the strongest growth can be observed again in the new EU member states where the rate for Slovakia is predicted to reach 7.6 percent. With 4.2 percent the UK leads the Western member states, closely followed by Spain (4 percent growth), both well above the European average of 3.2 percent.

The restructuring of Europe’s largest economies will have a positive effect on all economic sectors, thus contributing to the continued positive performance of the ICT market compared with most other industries in 2005 and 2006.

The market for **information technology** in the EU is forecast to show a healthy growth of 4.4 percent in the current year to a total value of 306 billion Euro. The IT market will benefit primarily from the relative strength of the IT services and software sectors. According to EITO calculations, IT services are growing by 5.0 percent in 2006. These services are highly dynamic due in particular to outsourcing and managed IT services. System and network management, storage and security software are the main contributors to the software market’s increase of 5.7 percent. The computer hardware market, on the other hand, is expected to show a more moderate growth of 2.8 percent in 2006. Notebooks, printers and Multi-Function Peripherals (MFPs) will be the segments with the best performances in this market.

Telecommunications in 2006 continue to grow less strongly than IT. The market is forecast to increase by 2.2 percent, mainly due to tariff reductions and limited growth of voice services. Entertainment and mobility in particular will account for most of the positive developments within the telecommunications market, further supported by new data and Internet services, mainly in the fixed area. Broadband access continues



to boom in the EU. As a result the telecommunications market is anticipated to amount to 337 billion Euro in 2006.

According to EITO's special study on the **Consumer Electronics (CE)** market in Western Europe the overall success continues – CE recorded a record turnover in 2005. Growth is now concentrated in only two or three segments, with flat TV, both LCD and plasma, as well as MP3 dominating the portable audio market.

“Showing the highest level of innovation within the ICT industry the telecommunications sector is the most active driver of digital convergence and thus strengthens Europe's competitive role in the digital scenario”, stated EITO Chair Lamborghini. In this context the EITO 2006 edition contains a **special study** which analyses the digital broadband value-added services industry and markets in Europe - **Peer-to-Peer (P2P) networks and markets**.

P2P technologies are defined as a communication structure in which individuals interact directly without necessarily going through a centralised system or hierarchy, to share information, make files available, contribute to shared projects or transfer files. Each computer that is part of the network is at the same time a digital content client and a supplier and uploader.

P2P networks are growing in parallel with the broadband user base, benefiting from decreasing prices, greater bandwidth and increasing competition. Content services take advantage of the ongoing increase in the broadband subscriber base.

The EITO special study shows that in the larger EU countries between 15 percent and 34 percent of broadband Internet subscribers use at least one P2P application. Most P2P households use two. 90 percent of P2P users state that they also download and exchange files using other sources including websites, E-mail, Instant Messaging (IM) and File Transfer Protocol (FTP) servers. Looking at P2P users, it can be found that the majority are men, mainly aged between 15- to 24 years. Music is the content downloaded the most, followed by video (particularly movies), images and photos.

With the gradual clarification of P2P's legal status and the obligation to respect copyright holders' rights, new business models are created. Payment systems, flat-



rate subscription, advertising and superdistribution are the models which are being tested.

The EITO 2006 special study concludes that P2P has the potential to create new business opportunities for the production and distribution of content if the various stakeholders develop a common vision about the role of file sharing in the online content distribution market and if the necessary legal and technical conditions are met.

As a consequence P2P has the potential to offer new business opportunities for the various players involved, be they classic content aggregators or new entrants:

Telecom operators can generate new revenue streams in widening the current use of broadband. Legal P2P services may leverage sales of new products for the CE industry. The content industry could benefit from a better circulation and distribution of content through file sharing whereas the Internet "search-find-obtain" companies could extend their search activities to content and thus generate more advertising revenues.

"2006 is likely to mark the beginning of sustainable and legal P2P services", said EITO Chair Bruno Lamborghini.

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EITO 2006 market data have been provided by the EITO Task Force in co-operation with IDC, IDATE and GfK. Besides current market analysis, the EITO 2006 also contains studies with special focus on the digital broadband value-added services industry and markets in Europe: Peer-to-Peer (P2P) networks and markets and the CE market in Western Europe.

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