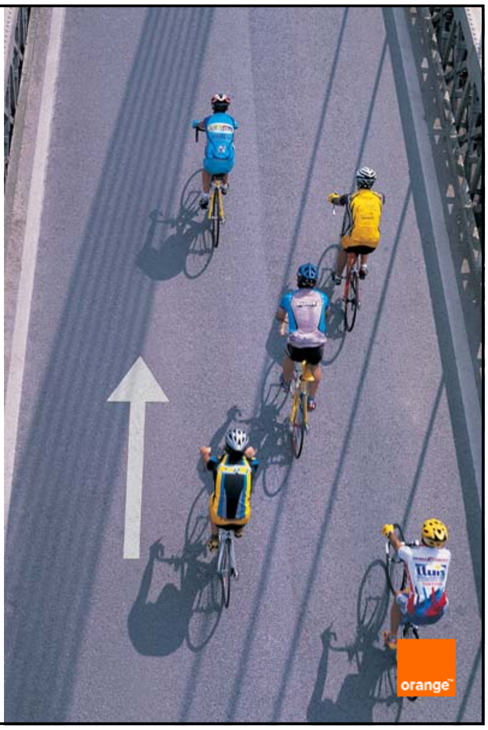
update on regulation in Europe



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agenda

part 1 : sector topics

- European regulatory framework
- functional separation
- fibre
- MTRs : voice and SMS
- international roaming : voice, SMS and data
- spectrum for mobile : refarming and digital dividend
- network neutrality

part 2 : country topics

- France
- Poland
- UK
- Spain

2

part 1
sector topics

European regulatory framework: some proposals still questioned

regulatory regime

- sector-specific regulation currently in force, but should disappear in favor of common competition law

relevant markets

- reduction by Commission from 18 to 7 (1 retail and 6 wholesale).
- market analysis to be performed by National Regulatory Authorities (NRA)
- NRA may regulate other markets if Commission does not oppose

European Commission's main proposals

- creation of an "European authority for the electronic communications market"
- reinforcement of commission's powers, e.g. veto on countries' remedies, enforceable decisions

strong opposition from European parliament and member states

- "functional separation" as an exceptional remedy only when others shown ineffective

➔ all relevant markets defined at European level, regulation now focused on wholesale

functional separation is the only type of separation considered

there are several types of separation

- accounting: separate accounts for wholesale and retail
- functional: operational separation of unit providing bottleneck products
- structural: this units becomes a separate legal entity, possibly with a different ownership

EU level

- Nov. 13th 2007, European Commission proposed functional separation as an exceptional means for NRAs to be enforced when all others failed
- potential adoption by EU no earlier than spring 2009
- If adopted, transposition and hypothetical enforcement by NRAs not before 2012

France

- accounting separation enforced today
- ARCEP opposed to functional separation, as current remedies deemed sufficient

Poland

- UKE is assessing the imposition of functional separation on TP, while Polish government believes it violates national law

➔ no consensus among NRAs on functional separation potential effectiveness

functional separation creates a rigid separation plan

contrary to electricity or rail, telecommunication technologies are fast moving

while an integrated company reacts to the pressure of the market…

- commercial incentive for network quality and cost effectiveness
- strong network and customer processes
- business incentive for investments

…functional separation creates an everlasting regulated monopoly

- "the guardian of the nation's local access network"
- compliant but slow, unresponsive and costly
- investment de-incentivized

➔ functional separation creates more problems than answers

fibre regulation : different approaches on our footprint

France

- no ex-ante control on retail
- access to FTs' ducts
- no asymmetric access obligation on fibre
- symmetric regulation e.g. sharing of intra building fibre
- time table
  - offer by FT for duct access issued Dec. 2007
  - duct sharing trials underway
  - multilateral meetings monitored by Arcep to learn lessons and adapt offer
  - detailed engineering rules to be defined
  - final decisions expected mid 2008

➔ current direction, as reflected in ARCEP statements, is acceptable to France Telecom

UK

- no significant fibre deployment yet; only a few greenfield projects announced
- Openreach proposes to develop a Generic Ethernet Access product on Fibre
- specific remedies identified by Ofcom : sub-loop unbundling with backhaul for Fibre to the Curb, wholesale broadband Ethernet access services for FTTH
- yet Ofcom suggests it could be premature to decide now on regulation, given uncertainty around fibre deployment

➔ wholesale access will presumably be offered, should BT deploy fibre

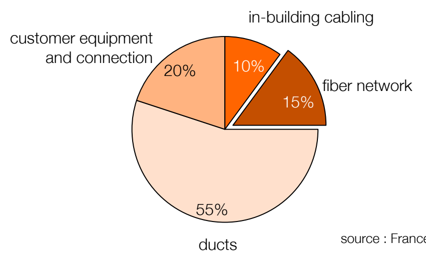
Spain

- replicability of Telefonica VDSL retail offers through bitstream offer at local exchange level
- FTTH market analysis still to be done, with ex-ante regulation to depend on geographic segmentation
  - zones with competition: temporary wholesale bitstream offer
  - zones without competition: permanent wholesale bitstream offer
  - non discriminating and transparent access to ducts, at non regulated prices

➔ principles are sound provided treatment of altnets is fair

fibre economics allow to move to specific infrastructure-based competition

investment breakdown for greenfield fibre deployment



source : France Telecom

- for FTTH access, bottlenecks are ducts (more than 50 % of Capex for a new network), not fibre ➔ duplicating ducts would be inefficient; duct access is the only option
- in-building cabling represent around 10% ➔ in-building cabling should be shared because duplication is not acceptable to landlords
- fibre network represent around 15% of investment, i.e. same order of magnitude as mobile networks ➔ they can be duplicated to allow network competition

voice MTRs: strong discrepancies among countries

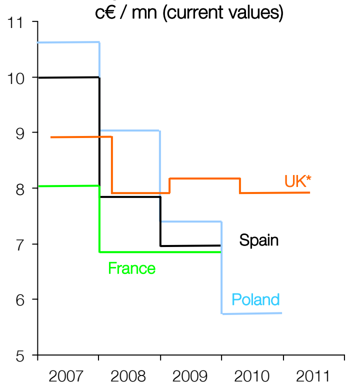
what it is

- Mobile Termination Rates (MTRs) are payments between national operators for terminating calls on another mobile network

visibility on voice MTRs accross our European markets until 2009

- **France**: MTR decreased in 2007 from 7.5 to 6.5 c€/min (Orange and SFR) and from 9.24 to 8.5 c€/min (Bouygues Telecom).
- **UK**: Ofcom set a glidepath from 2007 to 2011. All decisions currently appealed by BT and H3G to the Competition Appeals Tribunal, now under review by the Competition Commission – decision expected October 2008
- **Spain**: CMT set rates to fall from 10 c€/min in 2007 to 7 c€/min by 2009, a decision appealed by Orange Spain, Telefonica and Vodafone. Outcome not expected before the end of the charge control period
- **Poland**: UKE set a glidepath for MTRs to fall from 2007 to 2010 but recently announced the intention to lower MTRs further from Jan 2009 based on an ongoing analysis of costs

average country voice MTRs in c€ / mn (current values)



* France Telecom estimates using inflation projections; in the UK, fiscal year ends March 31st

voice MTRs: whatever the scenario, an integrated “fixed + mobile” operator will be better able to adapt

latest developments

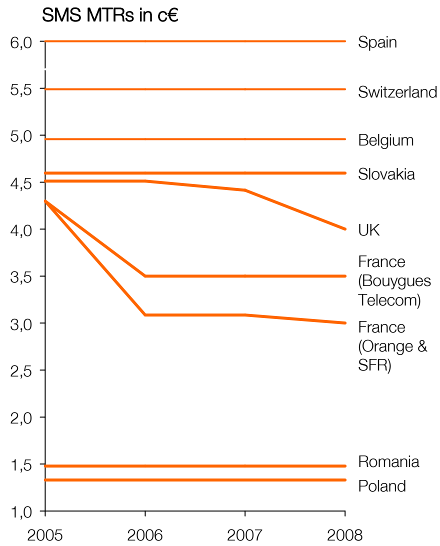
- voice MTR set by NRAs taking into account country network costs
- European Regulators Group (ERG) recommends symmetrical rates between MNOs within countries, but not across countries or between fixed and mobile
- Commission to issue a recommendation this summer toward a harmonised approach across Europe to 1) calculating costs and 2) setting voice MTR

possible impacts

- in current framework, Commission recommendation is **not binding**, yet NRAs that choose not to comply, may feel pressure to do so
- problem of reconciling 1) current NRAs’ commitments (e.g. until 2011 in the UK) with 2) convergence objectives in the short term
- two scenarios
  – **controlled glidepath**, e.g. 3-6 €c / mn at 2011-2012 horizon : manageable adjustments to current offers, e.g. new mobile tariffs schemes with more abundant off-net traffic
  – **drastic reduction of MTRs**, e.g. to fixed termination rates levels : change in business model, e.g. *mobile operators to charge mobile subscribers for incoming calls (receiving party pays),* and fixed operators to propose unlimited fixed-to-mobile options; uncertain impact on mobile prices

Poland, Romania and France have the lowest SMS MTRs

- SMS termination rates regulated only in France
- Spain conducting a review and UK planning to do so
- downward path in Europe, in line with trend toward unlimited SMS retail offers



11

international voice roaming : gross impact of drop in rates significantly reduced by price elasticity

application of new EU regulation, June 30th 2007

- covers both wholesale and retail rates, with obligations on price transparency
- rates dropped nearly 60% vs. 2006
  - wholesale cap glide path : 30c€/min from Sept 2007 to 26c€/min from Sept. 2009
  - operators obliged to offer an "Eurotariff" at 49c€/min (59c€ VAT incl.) for originated calls and 24c€/min for received calls (29c€ VAT incl.) in 2007-08

consequently, Orange France launched new offers to trigger price elasticity

- "le pass vacances" (5€ for 10 mn incoming and 10 mn outgoing), "Europe sans frontières" (20€ /month for 40 mn incoming and 40 mn outgoing; 45€ /month for 90 mn incoming and 90 mn outgoing), "pays préférés" (5€/month for 60 mn incoming and 37c€/mn outgoing)
- results : approx. stable roaming revenues (incoming + outgoing) in February 2008 vs. February 2007

next steps

- Commission to report to European Parliament and Council no later than December 30th 2008

12

EU Commission recently precluded retail regulation of non-SMS international data roaming

latest developments

- Commission to assess existing SMS and data roaming offers by July 1st 2008
- may lead to extension of regulation to international SMS and data roaming

SMS

- no customer pressure to reduce international roaming prices
- current Orange France tariff is €29c per international SMS vs. €10c per national SMS
- international to national SMS price ratio is not far from equivalent ratio for voice

data

- high volume growth due to fast development of mobile Internet
- France Telecom to address Commission's concerns in terms of consumer bill shocks : some preventive measures already in place, with objective to significantly decrease risks by mid-2008
- recent Orange France offers
  - pass mail & surf international (14€ for 3 Mb within 7 days)
  - PC card international (75€ for 100 Mb within 7 days)

13

spectrum refarming for better mobile coverage

what it is

- GSM 900 MHz band re-use by UMTS authorized by Commission end of 2007

France

- on Feb. 27th 2008, ARCEP allowed Orange to use its GSM 900 Mhz band to extend UMTS coverage above its 70% population target rate as soon as infrastructure equipment and terminals will be available
- ARCEP also defined a planning for freeing an UMTS channel for the 4th operator if any

UK

- OFCOM to organise a new distribution of spectrum before 2010, for better fairness vs. current situation

Spain

- CMT to organise a new distribution of spectrum before 2010, for better fairness vs. current situation

Poland

- no timing defined yet

➔ spectrum availability below 1 GHz will ease mobile coverage in rural areas; France Telecom to bid for additional spectrum

14

digital dividend: additional spectrum will be required for next generation very high mobile broadband

latest developments

- EU mandated analog TV switch-off in 2012, with part of the 470-862 MHz TV broadcasting band to be freed for other uses
- 2007 World Radiocommunication Conference authorized use of 790-862 MHz band by mobile services

France

- analog switch-off in November 2011
- parliament commission on digital dividend, with ARCEP consultation in summer 2007, and CSA consultation in February 2008
- objective is to provide high speed mobile data coverage on almost all areas, with higher frequency bands helping economic viability of low density population areas, and extend coverage of personal TV on mobile (DVB-H)

UK

- 112 MHz made available for other uses than Broadcast to be auctioned in 2009

Spain

- so far, no spectrum left for mobile

Poland

- timeframe for TV digitization yet to be defined

network neutrality : regulatory authorities and network operators have same views

what it is

- purpose is to guarantee right for Internet users to access to all services and content of their choice

EU level

- no need for specific regulation in Europe
  - non-discriminatory access regulation exists
  - competition in broadband market effectively disciplines network providers
- non-discrimination does not imply uniform levels of service, e.g. for high quality video, VoIP, etc.
- customer protection issues
  - transparency re. terms & conditions and access to legal content
  - on par with current practices and legislation in fixed and mobile markets

part 2

country topics

France : 4th 3G / MVNOs

- October 2006 : ARCEP consultation on interest for a 4th 3G licence
- July, 31th 2007 : Iliad Free applies for the 4th 3G licence but requests a staggering of the one-off fee payment
- October, 9th 2007 : ARCEP rejects Free's application as not compliant
- February 2008: French supreme administrative court set a ruling on reduced financial conditions for a new 3G licence tender
- April 2008: French government rumored to be choosing among
  - acceptation of Free’s request for staggered payments
  - introduction of full (unbundling-like) MVNOs
  - auction on remaining 3G frequencies, possibly in smaller blocks

➔ issues are debated in the context of a dynamic MVNO sector: from 4.9% market share end of 2007 vs. 2.8% end of 2006

United Kingdom

- as Ofcom is both NRA and in charge of applying competition law in telecom sector, later role is performed rather weakly
- functional separation being implemented (Openreach) after late start in unbundling development
- UK now making up for late implementation of unbundling
- concerns on processes, prices and quality of wholesale offers
- no information on BT's very high broadband plans

Spain

- regulatory framework formally in place
- CMT has not been proactive in implementing framework
- strong action by France Telecom regulatory affairs, at both national and EU levels
- very recent decisions show progress on fixed broadband…
  - improving processes (although unbundling delivery still a key isue)
  - access to information on eligibility
  - better pricing
- …yet serious concerns remain on very high broadband

Poland: still many regulator's decisions contested by TP

several decisions by UKE not compliant with cost models or inconsistent with European standards

- -38% full LLU and -55% shared LLU prices in October 2006, based on methodology without costs verification
- ex ante regulation of broadband access retail market, considered by UKE as part of telephone access markets: recent veto by EU Commission
- wholesale bitstream access priced at retail minus 51% in May 2006
- wholesale line rental priced at retail minus 47 %, and below full unbundling prices, in July 2006
- flat rate offer for interconnection services not covering costs

relations with UKE

- last 4 UKE decisions are under appeal by TP
- political environment improved with new governement

Q&A

orange