ARCEP

Press conference

21 March 2013

Summary

1. Electronic communications sector: current status

- Telecom market development, 1997 – 2012: revenue, traffic, prices
- Investment and jobs
- Balance sheet for 2012 according to operators' financial statements

Telecom market development: 1997 – 2012

1. Electronic communications operators' revenue grew by 70% in 15 years, or by an average of close to 4% annually
2. Telecom services price index dropped by 25%
3. During this time "telecom GDP" volume rose by 133%. Calling traffic grew by 70%. And mobile data traffic increased by 31% between 2008 and 2012.

Growth of electronic communications operators' revenue

Billion €

Other services

Capacity services

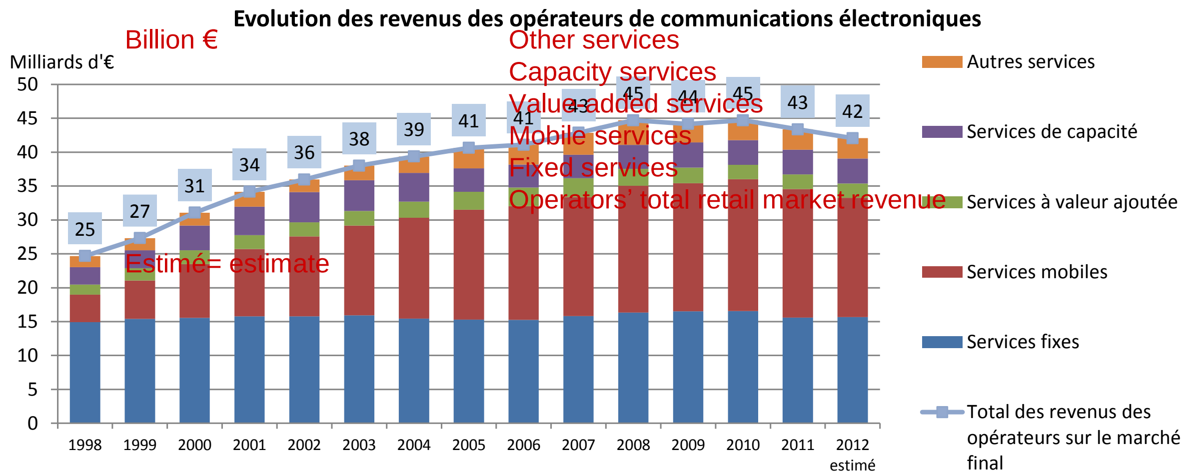
Value added services

Mobile services

Fixed services

Operators' total retail market revenue

Estimé= estimate



Growth of electronic communications traffic

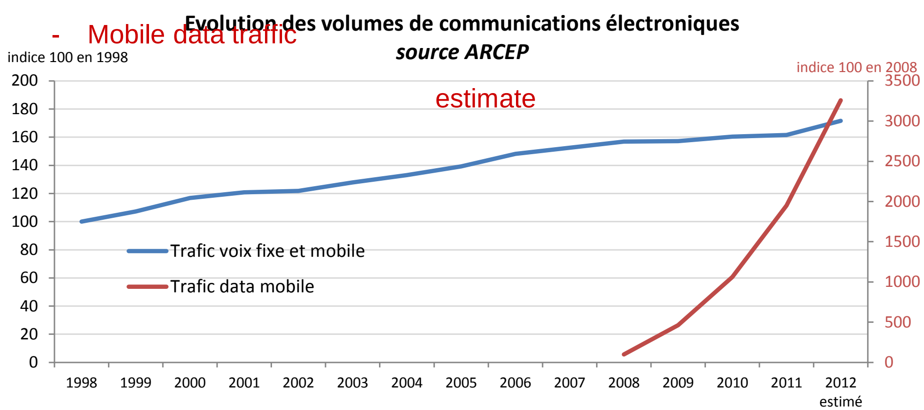
Source: ARCEP

Base 100 in 1998

Base 100 in 2008

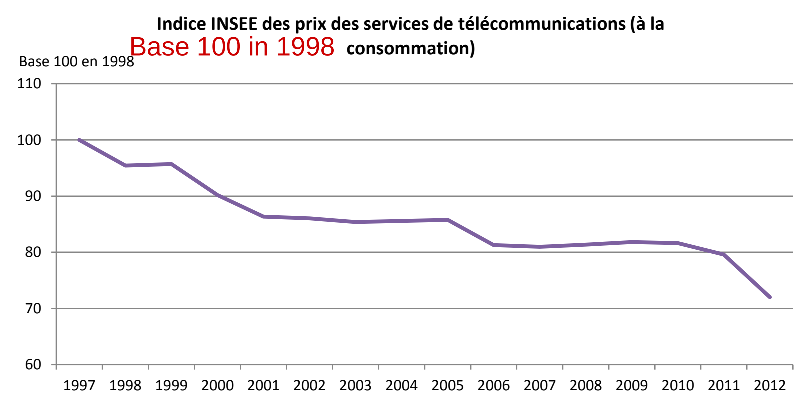
- Fixed and mobile calling traffic
- Mobile data traffic

estimate



INSEE telecom services consumer price index

Base 100 in 1998



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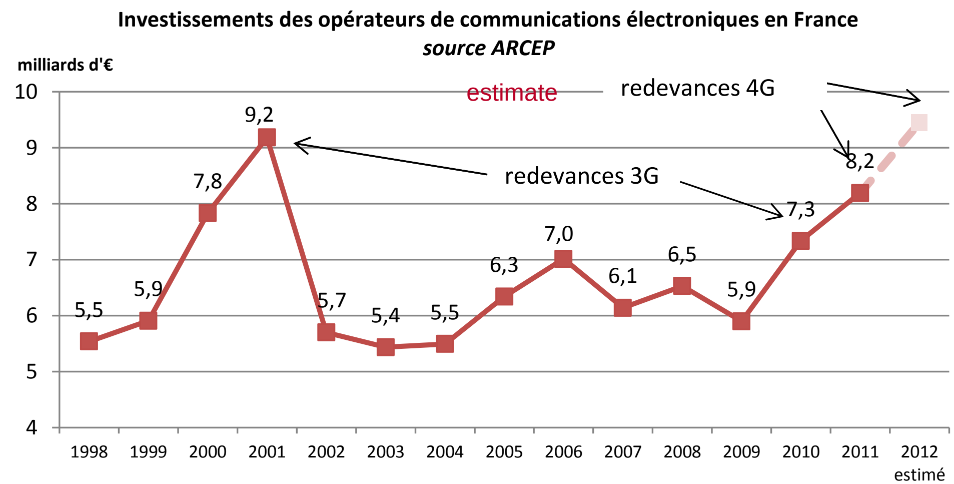
Telecom market development – Investment and jobs

Electronic communications operators' investments in France

Billion € 3G licences 4G licences

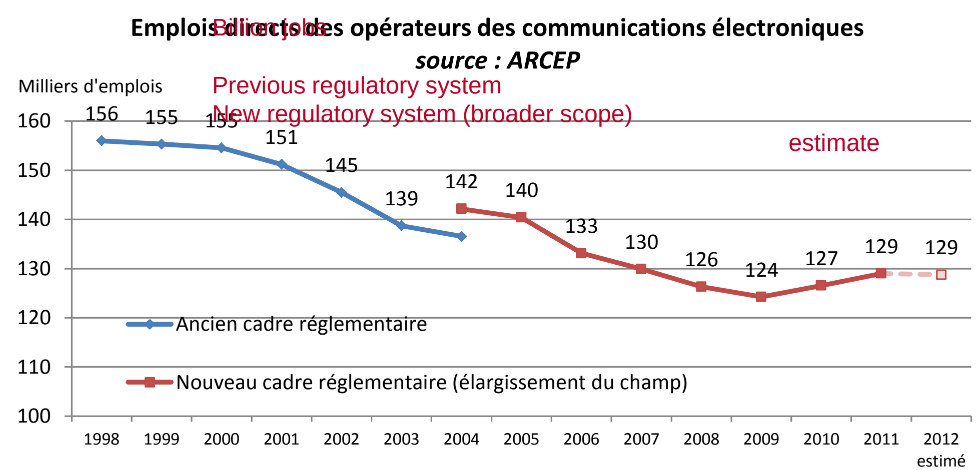
- Record investment for the telecom industry in 2012:
  - Operators' investments in 2012 expected to top €9 billion, up from €8.2 billion in 2011.
  - Operators spent €2.6 billion to acquire 4G spectrum in the 800Mhz band.



Electronic communications operators' direct jobs in France

Source: ARCEP

- Steady level of employment in 2012 despite troubled economic times:
  - After a steady decrease from 1998 to 2009, the number of jobs provided by declared operators began to rise again in 2010 and 2011.
  - Expected to remain relatively unchanged in 2012.



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Telecom market balance sheet for 2012 according to operators' financial statements

Million € (change from 2011)	FT – domestic, excl. business	SFR	ByT	Iliad	FT+SFR+ ByT+Iliad
Gross income (incl. handset sales)	21 431 (-4.9%)	11 288 (-7.3%)	5 226 (-9.0%)	3 153 (+48.6%)	41 098 (-3.5%)
Revenue var.. Excluding impact of decrease in CT rates (constant volume)**					+0.1%
EBITDA	7 834* (-9.9%)	3 299 (-13.2%)	908 (-28.6%)	921 (+10.6%)	12 962 (-11.2%)
EBITDA margin	36,6%* (-2.0pts)	29.2% (-2,0 pts)	17.4% (-4.8 pts)	29.2% (-10.0 pts)	31,5% (-2.8 pts)
Investments in France (excl. 4G spectrum acquisitions)	2 712 (+3.5%)	1 671 (+0.7%)	898 (+4.3%)	945 (+7.4%)	6 226 (+3.4%)
Investments in France / revenue in France	12,.%	14.8%	17.2%	30.0%	15.1%
Dividends paid out by the group	3 632 (-1.9%)	1 245 (-28.1%)	504 (-11.6%)	21 (-3.2%)	5 402 (-10.4%)

- *Restated EBITDA*
- *** Call termination (CT) refers to the fees that operators pay each other to have their calls relayed on another operator's network. This is a zero sum equation for all operators since the total paid is equal to the total collected. The decrease in the CT rate therefore decreased operators' income and spending equally*

- All in all, discounting the change in call termination rates, operators' revenue remained steady, as the rise in traffic was offset by the decrease in prices. This roughly 10% decrease (according to INSEE) includes steady fixed service prices and a sharp drop in the price of mobile services.
- Several incumbent carriers in Europe reported a decrease in domestic revenue compared to 2011:
  - France Telecom -4.9%
  - Deutsche Telekom -2.1%
  - Telefonica -13.2%
  - Telecom Italia -5.8%
- Unlike operators in France, some incumbent carriers in Europe scaled back their investments at home (excluding frequency acquisitions):
  - France Telecom + 3.5%
  - Deutsche Telekom -2.5%
  - Telefonica -18.3%
  - Telecom Italia +3.7%

2. Mobile networks and services

- Refarming the 1800 MHz band
- Mobile network coverage and quality of service
- Terms governing mobile network sharing and roaming

Refarming the 1800 MHz band

- The introduction of technological neutrality in the 1800 MHz band, which has been confined to GSM up to now, to be refarmed for LTE (4G) is part of an **international trend:**
  - It is provided for explicitly in European directives **transposed into French Law**
  - It will **become mandatory in 2016, and operators can already request premature permission**
  - In July 2012, Bouygues submitted a refarming request to ARCEP concerning the 1800 MHz band

- A **transparent and concerted** examination of the issue**:**
  - A public consultation, meetings and a series of talks with stakeholders
  - impact analysis requested from all four operators

- A **two-step investigation** whose purpose was to determine whether there was a reason not to allow the band to be used for LTE, or for measures to guarantee **equality between operators** and **conditions that enable effective competition**:
  - **recommendations** aimed at providing operators with a clear picture of the terms under which requests will be investigated, and to prepare to divide the spectrum between the four operators, once the entire band is open to 4G systems;
  - **a decision** in response to the request from Bouygues Telecom.

- ARCEP concluded that there was no reason to uphold the restriction provided that, in light of current spectrum assignments, a **change be made in the way the 1800 MHz band is allocated:**
  - Bouygues Telecom will be able to refarm the 1800 MHz band **starting on 1 October 2013**, provided its spectrum holdings in that band be reduced to a duplex block of 23.8 MHz by that time, then to 21.6 MHz in 2014 or 2015 (depending on the area) and to 20 MHz by 25 May 2016.
  - **Bouygues Telecom has one month** to accept this decision, or to **withdraw its request.**
  - **Free Mobile, which has no 1800 MHz band spectrum, can ask to be allocated available frequencies in the band.**

Mobile network coverage and quality of service

- On 30 November 2012, ARCEP published a **complete report on mobile services coverage and quality** as of mid-2012
  - It included:
    - Particular emphasis on clarifying the **definitions and methodologies** used to measure coverage and quality of service
      - → Examination of the different methods and instruments used: analysis of their limitations, application in France, comparison with other regulators in Europe and around the world
    - **complete scorecard for coverage and quality of service** as of mid-2012
  - It also includes a consultation on changes to be made to **improve information provided to consumers and public authorities:**
    - The report recommends **increasing the accuracy of coverage maps** for (voice) calling services, defining a standard measurement for 4G internet access and facilitating coverage surveys carried out by third parties (esp. local authorities). Proposals to be made in spring 2013.

- ARCEP actively **monitors operator rollouts:**

1. By checking several **rollout deadlines are met** over the next few years, especially between now and 2017 (subsequent obligations also planned):

	31 December 2013	12 January 2015	11 October 2015	17 January 2017	12 January 2018
3G rollout deadlines	**SFR** must cover 99.3% of the population	**Free Mobile** must cover 75% of the population			**Free Mobile** must cover 90% of the population
4G rollout deadlines			All **4 operators** must cover 25% of the population (2.6 GHz band)	**Bouygues Telecom, Orange and SFR** must cover 40% of the priority rollout area in the 800 MHz band	

2. By tracking operators' **rollout schedule and progress**:
   - ARCEP will pay particularly **close attention to Free Mobile's investments and progress in coverage,** thanks in particular to a quarterly statistical survey introduced through an ARCEP decision dated 29 January 2013
3. By the use, when necessary, of **notices to comply** and **prior notices to comply** (Conseil d'Etat TF1 ruling)

Terms governing mobile network sharing and roaming

Sharing

- Various network sharing schemes introduced for 2G/3G systems over the past several years
- Expanding mobile coverage in more sparsely populated areas
- Provisions included in 4G licences (800 MHz band)
  - Facilitate expanded coverage in the priority rollout area (63% of land mass; 18% of the population)

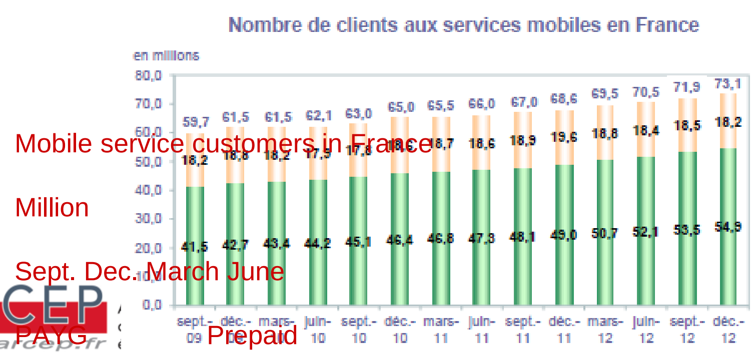
→Need for case-by-case approach to examining agreements, especially in high-density areas

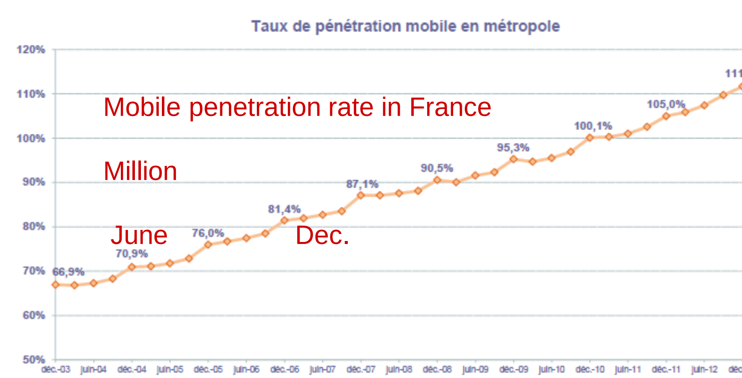
Competition Authority's opinion paper **also recommends a case-by-case approach** (*ex post* verification by judge and CA), and confirms the **choice of 4G network-sharing rules** set by ARCEP

Roaming:

- Need to assess **the impact that roaming agreements have on competition in a concrete fashion.** Analysis confirmed by the Competition Authority (CA)
- As concerns Free Mobile's roaming rights:
  - <u>2G</u>**:** Free Mobile has 2G roaming rights for **6 years;** maintain roaming rights as long as there is a significantly large number of 2G handsets in use. <u>CA view</u>: limits need to be set, either time-wise or confined to only customers with 2G device
  - <u>3G</u>**:** freely signed agreement between Orange and Free Mobile; examine whether to maintain it in view of other operators' expanding coverage and Free Mobile's ability to deploy 3G services. <u>CA view</u>: in 2010 had recommended 3G roaming agreement be signed, and believes it should be dissolved by 2016 or 2018, while not excluding the need for local roaming agreements beyond that date
  - <u>4G</u>**:** Free's roaming rights in the priority rollout area in the 800 MHz band. Expanding these rights to higher density areas needs to be assessed in light of how it will affect competition. <u>CA view</u>: confirms the need for roaming rights in priority rollout area, but expressed reservations about expanding them to higher density areas.

Strong mobile market growth in 2012:



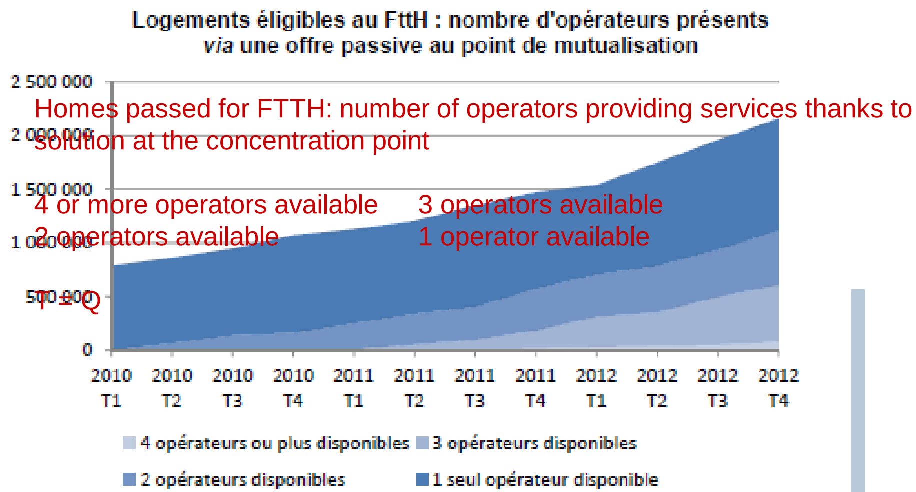


3. Fixed networks and services

Broadband and ultra-fast broadband network status at the end of 2012

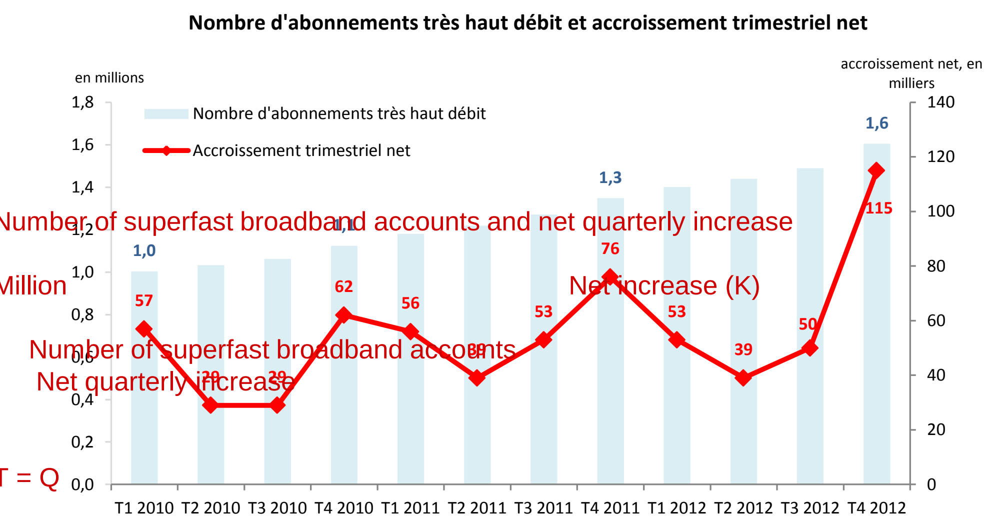
Broadband and ultra-fast broadband network status at the end of 2012

- **45% increase in homes passed for FTTH in a year**
  - 2.2 M homes passed, including 305,000 outside very high density areas and 360,000 via public-initiative networks
  - More than half have access to a choice of two or more service providers



- **8.5 million homes passed for UFB via cable** (service at over 30 Mbits/s)
  - Incl. 4.8 M with a service of over 100 Mbits/s

- **Total of 8.9 million homes passed for UFB** (including overlaps in technologies), or around 30% of all homes



- **24 M BB and UFB accounts** (+5.4% in a year, or +1.2 M)

- **22.4 M broadband accounts** (+4.5% in a year, or +0,9 M)

- **1.6 M ultra-fast broadband accounts,** incl.:
  - 0.3 M FTTH accounts (+60% on the year)
  - 1.3 M FTTLA accounts, running at over 30 Mbits/s (+12% on the year).
    - Of which 0.6 M at more than 100 Mbits/ (+33% in a year).

4. The internet and neutrality

ARCEP’s work on net neutrality

Net neutrality

- The internet has become **a strategic shared asset**. It encompasses major issues, both economic and regarding fundamental freedoms (of expression, to communicate)
- ARCEP’s involvement is confined to **technical-economic aspects**
  - Goal: to promote a net neutrality that achieves a balance between users’ freedom of choice, sustainable operations for networks and innovation all along the value chain

ARCEP submitted a complete report to Parliament and the Government in September 2012, providing a status report on the regulatory framework, outstanding technical and economic issues and future initiatives. Among the conclusions were:

- Overall positive developments in operators’ practices (VoIP, consumers information)
- The need to define general rules for traffic management and increase transparency
- The need to monitor compliance with the rules and quality of service
  - ARCEP has the ability to use prescriptive measures, if necessary (setting minimum QoS requirements)
- Interconnection market: need for increased understanding of this market (information gathering campaigns, based on ARCEP decision of 29 March 2012). If ARCEP does not need to take any action at this stage, service providers and operators can call on the Authority to settle disputes.

Quality of service:

- Working in tandem with operators and users, ARCEP defined a system for measuring the quality of fixed internet access services, as per its decision of 29 January 2013. This is a two-part system and will be deployed in 2013:

1. **Primary measurements** performed in a controlled environment and on dedicated lines:
   - *Goal: to obtain comparable indicators for all operators that can be tracked over time*
     - Operators can select the company to carry out the measurements, subject to ARCEP’s approval
     - First results published in December
2. **Additional measurements** performed by users themselves using an online tool designed by ARCEP:
   - *Goal: individualised information for users and a tool for checking primary measurements*
     - ARCEP will begin the vendor selection process in the coming days