L'OBSERVATOIRE

The Electronic Communications services market in France in the 3rd quarter 2006

ARCEP
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AUTORITÉ DE RÉGULATION des Communications électroniques et des Postes

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Introduction

The income of electronic communications operators on the end-customer market was €10.3 billion at the third quarter 2006, of which €9.6 billion for electronic communications services alone. The remainder comes from revenues from other services such as terminal and equipment sales and rentals, directories, advertising, hosting and call centre management.

The three major market components (fixed telephony, Internet and mobile telephony) together reached €8.1 billion at the third quarter 2006, for a 3.7% increase over one year.

Fixed telephony and Internet

Income from access, subscriptions and additional services increased once more, whereas income from communications *per se* continued to decline. In all, income from access, subscriptions and additional services represented 55% of all income from telephone service at the third quarter 2006, compared to 45% for income from telephone calls.

The number of subscriptions to fixed telephony services grew 5.5% over one year. The rapid development of subscriptions to telephony on IP services offset the erosion in the number of telephone subscriptions on dial-up access (-3.5% over one year). At the same time, after several years of decline, the total volume of fixed telephone calls stabilised beginning the middle of 2004 and grew very slightly during the third quarter 2006 (+1.6% over one year).

VoIP's share in fixed telephony more than doubled in one year both in the number of subscriptions and in traffic volume. At the third quarter 2006, telephony on IP represented 14.6% of the total number of subscriptions to a telephone service and 18.6% of total traffic originating on fixed lines.

At the end of the third quarter 2006, 1.5 million lines had been fully unbundled compared with 0.4 million a year earlier. This very strong growth in full unbundling is in part replacing partial unbundling which has been declining since the beginning of 2006.

Carrier selection offers, which are seeing competition from telephony on IP offers, are in decline, for both call-by-call selection offers (-690 000 subscriptions or -29.3% over one year) and pre-selection offers (-284 000 subscriptions or -4.9% over one year).

The number of accesses to Internet reached 14.7 million at the third quarter 2006 of which 75% (11.8 million lines) correspond to high-speed accesses. The vast majority of high-speed access (94.4% at the third quarter 2006) is based on ADSL technology.

Growth in the number of high-speed accesses (+39.0% over one year) and in corresponding income (+31.1% over one year) remained strong at the third quarter 2006.

Mobile telephony

There were 49.8 million mobile telephony customers in France at the end of the third quarter 2006. Over one year, growth was 8.1%, slightly higher than that recorded a year earlier (+7.5%).
More than 65% of mobile operators' customers have chosen flat-rate packages. This proportion has been growing constantly since late 2001.

The volume of mobile telephony traffic continued to grow strongly (+15.2% over one year). This growth is a result of both the increase in the number of customers and in their average consumption (2 hours and 35 minutes at the third quarter 2006, or ten minutes more than a year earlier).

Income from mobile services (excluding advanced services) was €4.3 billion at the third quarter 2006. Growth reached 6.1% over one year. This growth is slightly lower since the beginning of 2006 than the growth rates recorded in previous years. The average monthly invoice of mobile subscribers (€29.30 excluding taxes at the third quarter 2006) is down 1.8% over one year.

With €3.8 billion at the third quarter 2006, mobile telephony income ("voice" use) represented 86.5% of mobile services income and increased 3.9% over one year. Other types of income (income from interpersonal messaging and mobile Internet access services or multimedia access services) saw much stronger growth (+23.4% over one year).

Directory services

With the disappearance on 3 April 2006 of the former directory services numbers, second quarter 2006 results saw a sharp decline in the number of calls made to new "118" numbers and operator income for these numbers.
At the third quarter 2006, directory services activity was stable with respect to the second quarter with 40 million calls and €38 million in income.

Note: Revisions may be made to a quarter's data from one issue of the Observatory to the next because of corrections made by operators in their reports. Any discrepancies between annual growth as a % and values were caused by rounding.

Contents

1 The communications market in its entirety

1.1 The end customer market

Revenue *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Fixed telephony (1)	2 954	2 983	2 900	2849*	2 835	-4,0%
Internet	767	823	876	906*	928	21,0%
Mobile telephony (2)	4 099	4 069	4 083	4 139	4 350	6,1%
All telephony and Internet	**7 819**	**7 875**	**7 858**	**7 894***	**8 112**	**3,7%**
Advanced services	610*	635*	666	613	611	0,1%
Directory services. directories and advertising	54	52	47	37	38	-31,0%
Leased lines	533	520	371	371	366	-31,4%
Data transport (3)	540	536	469	472	440	-18,6%
Electronic communications services (4)	**9557***	**9 619***	**9 412**	**9 387***	**9 566**	**0,1%**
Others revenues (5)	590	779	670	718	760	*n.s.*
Entire market	**10147***	**10 398***	**10 081**	**10 105***	**10 327**	***n.s.***

* *adjusted figures*

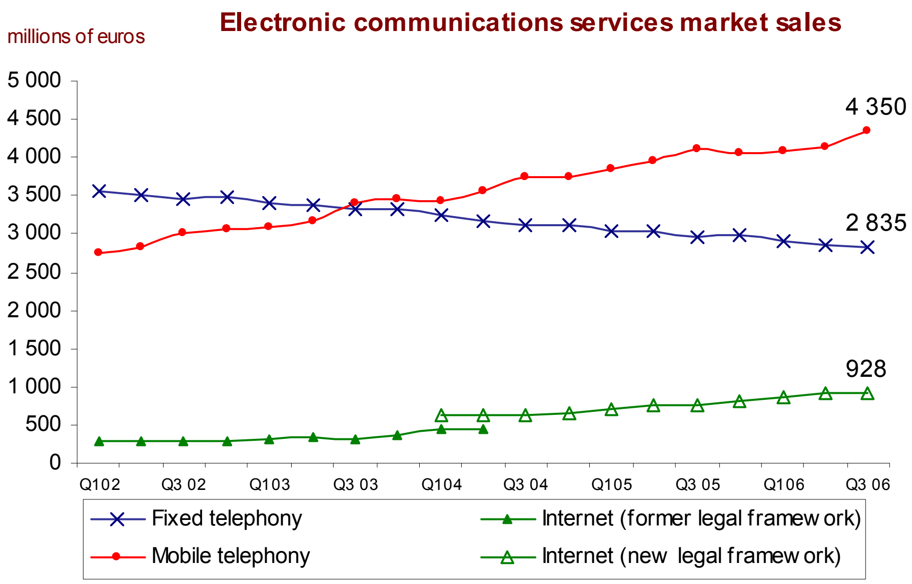
(1) This indicator covers revenues from access fees and subscriptions, from calls from fixed lines excluding Internet connection calls, public telephones and cards

(2) This item includes data transport on mobile networks (in particular SMS).

(3) The indicator includes only revenue from data transport originating on fixed lines. Data transport on mobile lines is included in the overall total for mobile

(4) This item include, on the third and fourth quarter 2005, an estimate of the Observatory on advanced services. This estimate is intended to insure a continuety between the perimeter of the third and fourth quarter 2005 and the perimeter of the first quarter of 2006

(5) This market does not really fall under the telecommunications services market. Since registered operators contribute little to this market, this indicator gives only a partial idea of total figures. This item covers revenues from terminals and equipment, from hosting and call centre management, and from directories and advertising. This quarter this indicator includes a new directories opérator.



Income from electronic communications services sold on the end market represented €9.6 billion at the third quarter 2006, and was the same as the third quarter 2005 (+0.1% growth over one year).
The mobile sector is the main contributor to this market with €4.3 billion in income on the quarter, seeing 6.1% growth over one year.
The Internet sector reached €928 million at the third quarter 2006, seeing stronger growth (around +20% since mid 2005).

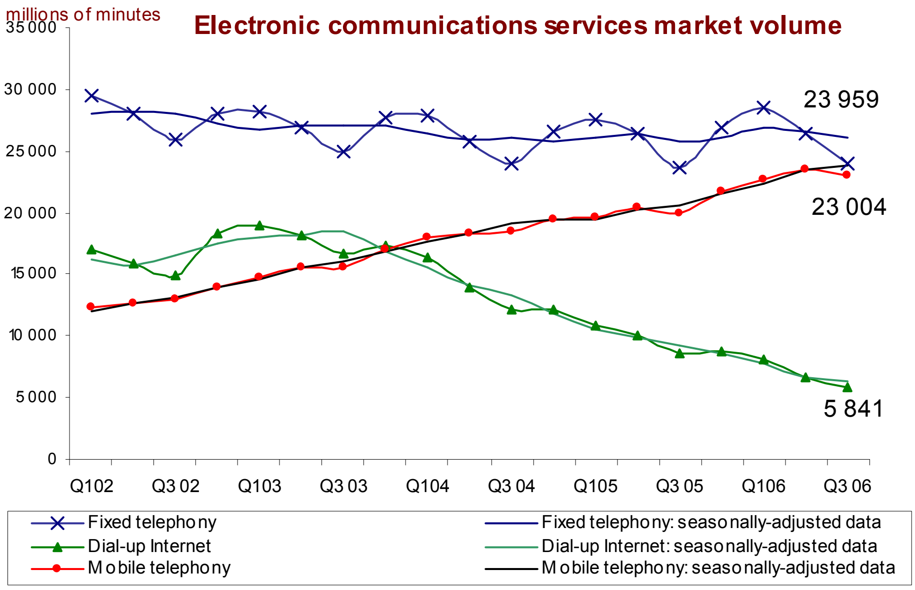
Fixed telephony income was down 4.0% over one year at the third quarter 2006. Consolidations between operators on the leased lines and data transport markets explain the declines recorded since the beginning of the year (estimated respectively at €200 and €30 million per quarter). These two market segments have held stable overall since then.

Volumes *(millions of minutes)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Fixed telephony	23 625	26 923	28 502	26 336*	23 959	1,4%
Mobile telephony	19 962	21 772	22 669	23 519	23 004	15,2%
Total voice services	43 588	48 695	51 171	49 855*	46 963	7,7%
Internet (dial-up)	8 621	8 726	8 033	6 601*	5 841	-32,2%
Number of SMS sent *(millions of units)*	3 083	3 373	3 641	3 605	3 799	23,2%

* *adjusted figures*

The volume of traffic originating on fixed networks increased 1.4% over one year at the third quarter 2006. This traffic, which had been declining until mid 2004 has since turned around and stabilised.

The growth in volume originating on mobiles remained strong (+15.2% with respect to the third quarter 2005) because of the strong growth in the number of mobile telephony customers (+8.1% over one year) and the increase in average monthly consumption (+10 minutes or 2.35 hours per customer and per month at the third quarter 2006).



1.2 The intermediate market (interconnection services / wholesale markets)

1.2.1 The total market

Interconnection services *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Fixed operators	853	831	763	750	752	-11,8%
Internet	202	205	182	191	190	-5,6%
of which dial-up Internet	21	16	14	11	14	-33,1%
Mobile operators	1 291	1 223	1 018	1 102	1 150	-10,9%
Revenue	**2 345**	**2 259**	**1 962**	**2 043**	**2 093**	**-10,8%**

Interconnection services *(millions of minutes)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Fixed operators	24 421	26 606	42 665	40 836	37 815	n.s.
Internet	5 537	5 215	4 489	3 591	3 878	-30,0%
Mobile operators	7 802	7 956	8 106	8 698	8 722	11,8%
Volume	**37 759**	**39 777**	**55 260**	**53 125**	**50 415**	**n.s.**

Total income from services sold on the intermediate market between operators was down 10.8% over one year. This trend was observed on each of the market's three major sectors.

On the fixed telephony sector, income declined 11.8% over one year. The annual change in interconnection volumes of fixed operators was not significant, because until late 2005, part of the interconnection volumes between fixed operators was not counted in quarterly data, unlike data published in annual surveys.

On the Internet sector, income from interconnection services declined 5.6% over one year. The rapid slowdown in dial-up Internet interconnection volumes (-30% over one year at the third quarter 2006) and the decline in wholesale market prices explain this trend. Furthermore, the largest operators have their own infrastructures which limits their service purchases on the intermediate market.

The decline in call termination charges imposed by ARCEP on mobile operators (-24% at 1st January 2006) explains the net discrepancy between the change in income from interconnection services for mobile operators (-10.9% over one year) and that of corresponding volumes (+11.8% over one year).

Notes:

- *Interconnection income and volumes were not based on the same perimeter, making it inappropriate to compare these indicators when estimating average prices (interconnection income includes fixed income such as payments for connection and services to operators).*
- *Interconnection includes all services provided to operators by operators under interconnection agreements. In the event of mergers or concentrations of enterprises, some of the flows between the firms disappear, which could explain decreases from one quarter to the next.*
- *Please note that the interconnection figures above may be counted twice, in particular for fixed operators.*

1.2.2 Incoming international interconnection[1]

Incoming international interconnection services *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Fixed operators	116	100	88	89	100	-13,6%
Mobile operators	45	41	32	35	43	-4,5%
Revenue	**161**	**141**	**120**	**124**	**143**	**-11,1%**

* *adjusted figures*

Incoming international interconnection services *(millions of minutes)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Fixed operators	1 810	1 772	1 624	1 637	1 728	-4,6%
Mobile operators	350	311	326	357	439	25,5%
Volume	**2 160**	**2 083**	**1 950**	**1 993**	**2 167**	**0,3%**

1.2.3 Mobile operator roaming-in[2]

Roaming in	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Revenu *(millions of euros)*	269	165	171	205	259	-3,6%
Volume *(millions of minutes)*	461	294	314	382	496	7,6%

Note: In roaming-in, a French mobile operator carries calls made and received in France by the customers of foreign mobile operators

2 Market segments

2.1 Fixed telephony

2.1.1 Access, subscriptions and fixed lines

The total number of subscriptions to telephone services was 37.6 million at the end of the third quarter. The very rapid growth in telephony on IP via unbundling explains why the total number of subscriptions continued to grow (+5.5% over one year) despite the decline in the number of subscriptions to dial-up access on analogue or digital lines or on cable (-3.5% over one year).

Number of subscriptions to telephone service *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Subscription on narrow band access (analogue or digital lines, cable)	33,256	33,106	32,986	32,549	32,108	-3,5%
Subscription on broadband access (IP DSL,cable)	2,407	3,275	4,201	4,839	5,500	128,5%
Number of subscriptions to telephone service	**35,664**	**36,380**	**37,188**	**37,388**	**37,608**	**5,5%**

Note: more than one subscription to telephone services can exist on the same fixed line (such as a "traditional" PSTN subscription and a subscription to telephony on IP service).

The number of subscriptions to a telephone on IP service reached 5.5 million at the end of the third quarter 2006, with 3 million subscriptions more than a year earlier and +128.5% growth.

[1] This market segment is a subset of the total market (cf. 1.2.1)
[2] This market segment is a subset of the total market (cf. 1.2.1)

At the end of the third quarter 2006, of the 5.5 million subscriptions to a telephone on IP service, 4 million were subscriptions taken out in addition to a "traditional" telephone subscription on an analogue or digital line; the rest (1.5 million subscriptions) were for subscriptions to a telephony on IP service on fully unbundled lines.

Explanation of the indicators for telephone on IP service

On the terminology used:
The indicators for telephone service on IP in this issue cover voice on broadband regardless of the medium (primarily IP DSL, but also IP on cable) and voice on Internet when the operators are registered with ARCEP.

ARCEP designates as "voice on broadband" fixed telephony services using VoIP technology on an Internet access network whose bitrate exceeds 128 kbit/s and whose quality is controlled by the operator providing it; and by "voice on Internet" voice communications services using the public Internet network and whose quality of service is not controlled by the operator providing it.

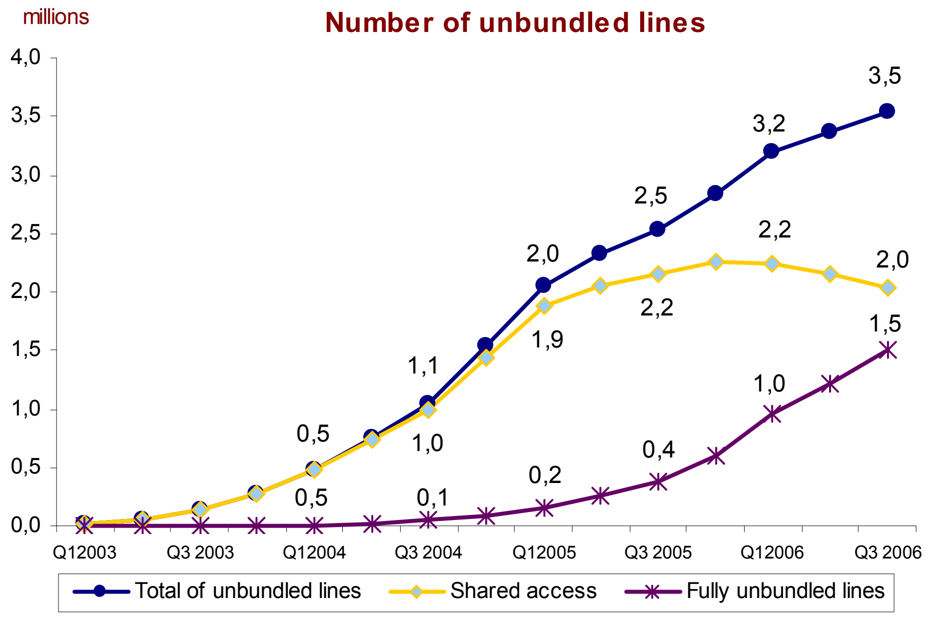
Calls originating on VoIP services counted in the Observatory correspond to services at the access level. These indicators do not correspond to the traffic using the Internet protocol only on the network core.

The Observatory does not survey unregistered operators providing PC-to-PC voice on Internet. They are not currently covered by the scope of the survey.

On the income taken into account:
The Observatory distinguishes between calls originating on telephony on IP services and other voice calls. Still, while the volume of VoIP calls covers all of this traffic on the end market, the corresponding revenue covers only invoiced VoIP traffic (e.g. as a supplement to a multi-play package

Unbundling *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Partially unbundled lines	2,158	2,248	2,236	2,150	2,034	-5,7%
Fully unbundled lines	0,372	0,592	0,959	1,211	1,507	305,0%
Number of unbundled lines	**2,530**	**2,840**	**3,195**	**3,362**	**3,541**	**40,0%**

The number of unbundled lines reached 3.5 million at the end of the third quarter 2006, of which 1.5 million lines in full unbundling. The growth of full unbundling was very strong at 305% over one year, or 1.3 million new lines. The number of partially unbundled lines was 2 million and had been slowing since the start of 2006. Some of the partially unbundled lines were switched to fully unbundled lines.

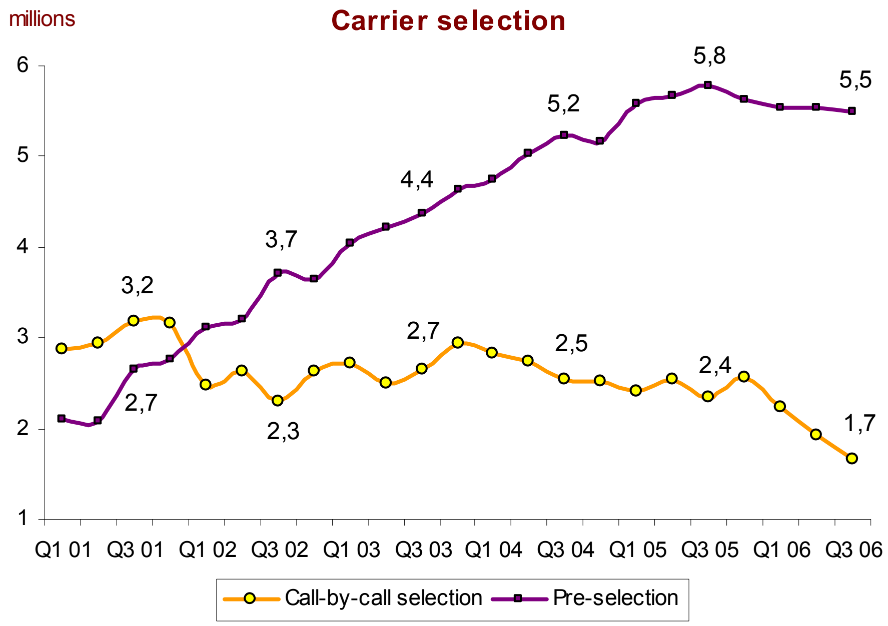


Portability *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Number of fixed numbers ported during the quarter			0,399	0,409*	0,380	

During the third quarter 2006, 380 000 numbers were "ported" from one fixed operator to another. These number migrations were encouraged by the growth in the number of fully unbundled lines.

Carrier selection *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Call by call selection	2,353	2,563	2,244	1,926	1,663	-29,3%
Pre-selection	5,776	5,636	5,540	5,544	5,492	-4,9%
Number of indirect connections	**8,129**	**8,199**	**7,784**	**7,469**	**7,155**	**-12,0%**

Carrier selection offers were in decline, facing strong competition from the development of telephony on IP offers. The decline was more marked on the call-by-call selection offer, down -690 000 subscriptions over one year at the third quarter 2006 (or -29.3%). The number of subscriptions to automatic carrier pre-selection offers also declined by 284 000 subscriptions over one year at the third quarter 2006 (or -4.9%).



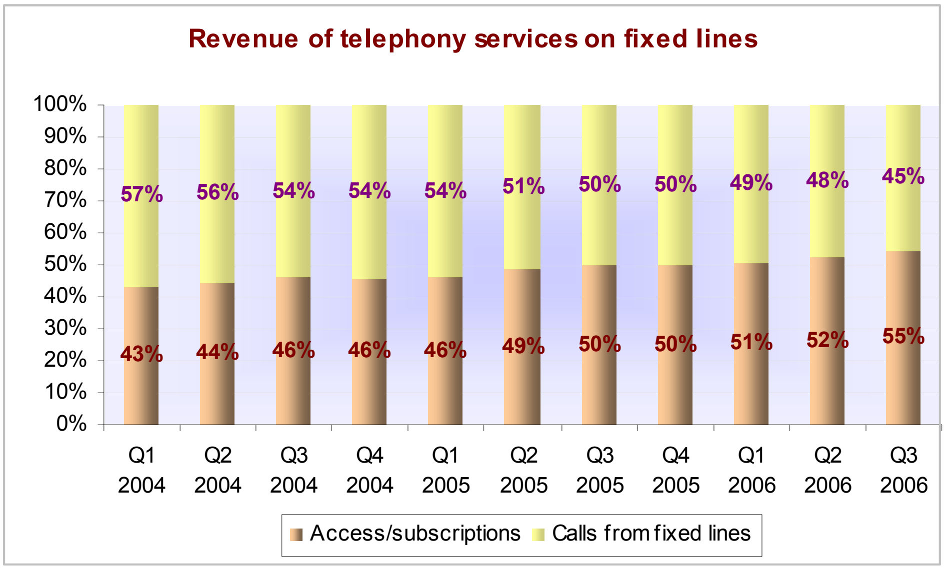
Note: Call-by-call selection numbers include only active subscriptions, pre-selection numbers include only subscriptions in service, net of cancellations.

Access revenue *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Access fees, subscriptions and additional services	1 416	1 425	1 419	1 442	1 490	5,3%

Income from access, subscriptions and additional services (€1.49 billion) increased 5.3% over one year at the third quarter 2006. It represented a majority share of fixed telephony income (55% of income compared with 45% for telephone call income at the third quarter 2006).

This change was linked to the 7.2% increase in France Telecom’s monthly telephone subscription on 1st July 2006.

This income includes all telephone subscription income, i.e. including when operators invoice their subscribers for access to telephony on IP (single-play offers), as well as income from additional services (number display, etc.).



2.1.2 Calls from fixed lines (excluding public payphones and cards)

Income from telephone calls from fixed lines was €1.2 billion at the third quarter 2006 and was down 12.3% over one year. This decline was due in part to the price changes made in February 2005 and which led to an increase in France Telecom's subscription, and a decrease in national call charges to fixed and mobile phones.

Income from calls originating on access on IP (€56 million at the third quarter 2006) represented only the amounts invoiced for calls on IP in addition to multi-play packages (this amount does not include the amount of the multi-play packages, nor access to the broadband telephone service).

Revenue *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
National calls	764	752	781	762*	704	-7,9%
International calls	155	145	148	138*	145	-6,7%
Calls to mobiles	498	535	458	411*	395	-20,8%
All calls from fixed lines	**1 417**	**1 432**	**1 387**	**1 311***	**1 243**	**-12,3%**
Of which calls originating on VoIP services	28	37	40	53*	56	101,0%

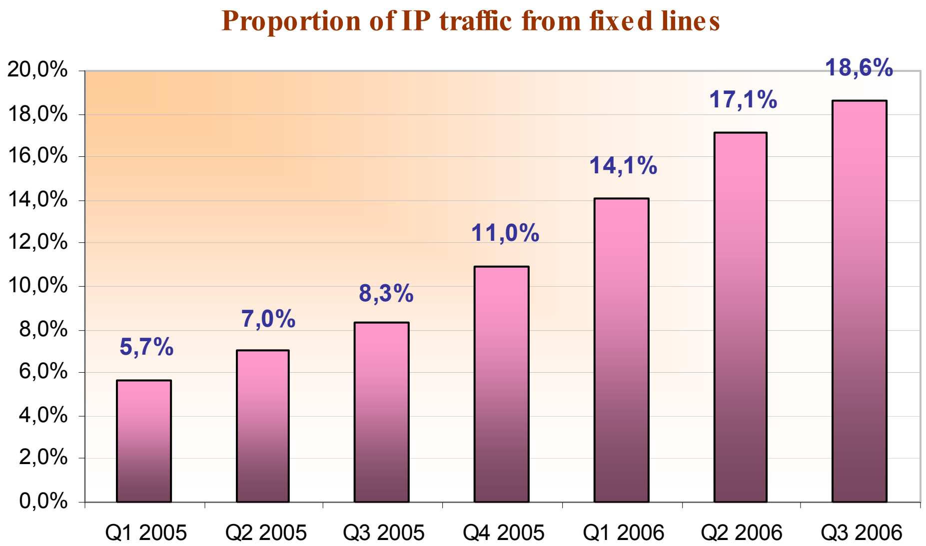
** adjusted figures*

Volumes *(millions of minutes)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
National calls	18 944	21 837	23 337	21 252*	19 162	1,2%
International calls	973	1 067	1 151	1 197*	1 165	19,7%
Calls to mobiles	2 967	3 221	3 286	3 198*	2 921	-1,6%
All calls from fixed lines	**22 885**	**26 126**	**27 774**	**25 646***	**23 248**	**1,6%**
Of which calls originating on VoIP services	1 901	2 863	3 905	4 387*	4 318	127,2%

** adjusted figures*

All volumes originating on fixed lines increased 1.6% over one year at the third quarter 2006 because of the rapid increase in the volume of calls originating on VoIP services which represented 18.6% of total traffic originating on fixed lines (total traffic concerns both residential and business customers). Excluding IP call volumes, the volume of traffic originating on fixed phones declined 9.8% over one year.

The volume of VoIP calls (+127.2% over one year at the third quarter 2006) grew at the same rate as subscriptions to telephony on IP service (up 128.5% on the same period).
Growth in the popularity of telephony on IP encourages growth in the volume of international traffic because of attractive IP international call charges. This growth reached +19.7% over one year at the third quarter 2006.
For the first time, fixed-to-mobile traffic declined slightly over one year (-1.6%).



Notes:
- *The Observatory distinguishes between calls originating on telephony on IP services and other voice calls. However, while the volume of VoIP calls covers all of this traffic observed on the end market, income covers only invoiced VoIP traffic (for example in addition to a multi-play flat rate).*
- *The volumes and income from calls originating on VoIP services are included in each of the market segments (national, international and to mobiles).*

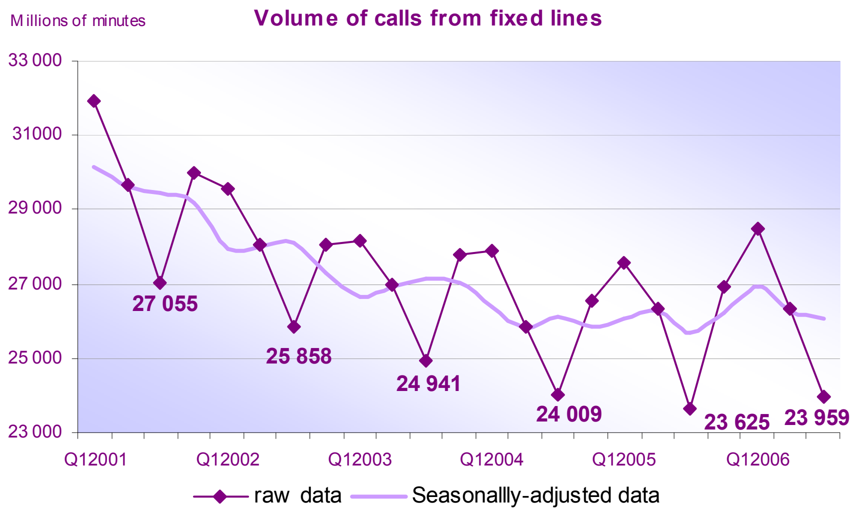
2.1.3 Fixed telephony cards and public payphones

Subscriber cards and prepaid cards	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Revenue *(millions of euros)*	60	72	54	47	57	*-4,2%*
Volume *(millions of minutes)*	514	618	574	527	538	*4,7%*

Public telephony	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Number of public payphones at end of quarter *(units)*	183 265	179 770	176 327	173 677	171 828	-6,2%
Revenue *(millions of euros)*	61	54	40	48	44	-27,5%
Volumes *(millions of minutes)*	227	179	154	163	173	-23,9%

The number of public pay phones continued to decline at an annual rate of 5 to 6% over one year. Pay phone call income and volumes were also down (respectively -27.5% and -23.9% over one year at the third quarter 2006).

2.1.4 Quarterly change in fixed telephone traffic data



The volume of calls originating on fixed phones includes calls originating on fixed phones, public pay phones and pre-paid cards.

(The series of values are found in the "séries chronologiques" file available for consultation on ARCEP's web site)

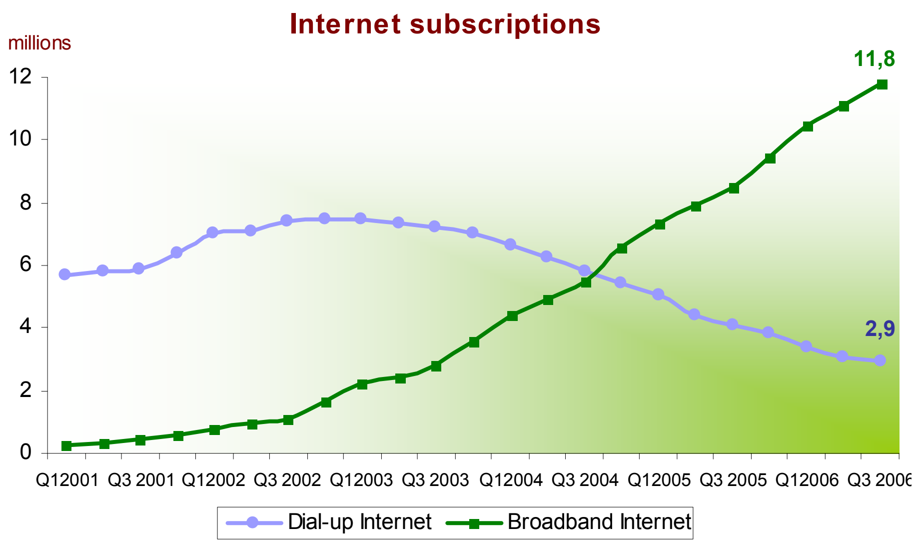
2.2 Internet

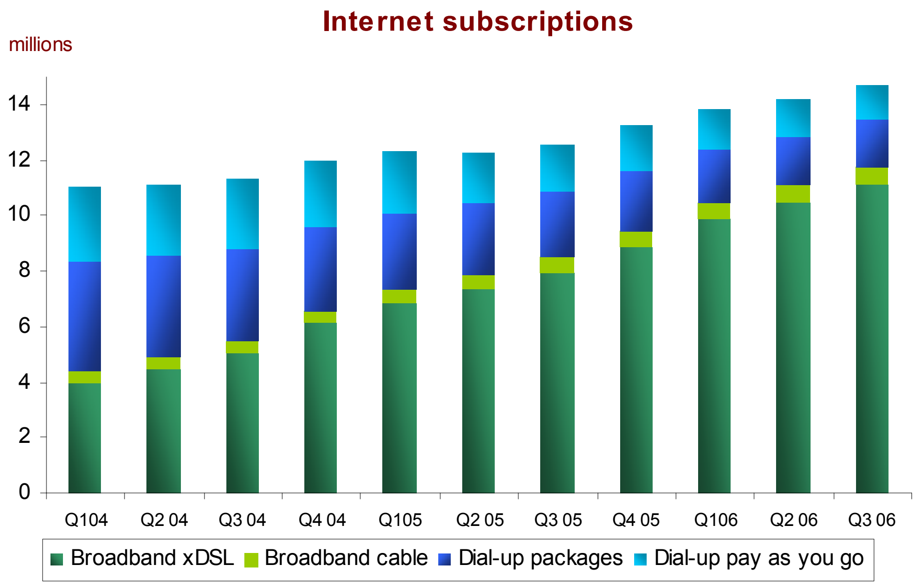
At the end of the third quarter 2006, the total number of Internet accesses reached 14.7 million, representing 17.1% growth over one year.

With 11.8 million subscriptions, high-speed access (on xDSL, cable, WLL, etc.) represented 80% of total Internet subscriptions and was up 39.0% over one year.

Since end 2004, the number of dial-up Internet accesses have fallen at a regular annual rate of around 30%. Most dial-up subscriptions have been cancelled in favour of a high-speed Internet access offer.

Internet subscriptions *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Dial-up	4,095	3,809	3,403	3,096	2,935	-28,3%
Broadband	8,484	9,448	10,475	11,092	11,793	39,0%
Internet subscriptions	**12,579**	**13,256**	**13,879**	**14,188**	**14,728**	**17,1%**

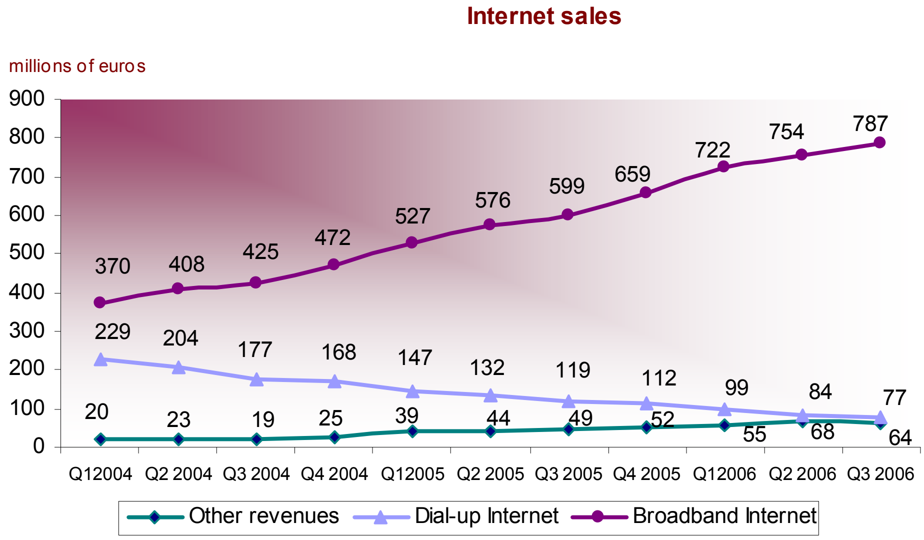




Total Internet revenue *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Dial-up	119	112	99	84	77	-35,2%
Broadband	599	659	722	754*	787	31,3%
Other revenue	49	52	55	68	64	31,3%
Total Internet revenue	**767**	**823**	**876**	**906***	**928**	**21,0%**

** adjusted figures*

Note: The "other Internet services" item corresponds to IAPs' related income such as site hosting or income from on-line advertising. Revenue related to terminals sales and rentals has been reassigned to the "sale and rental of terminals by fixed operators and Internet" item.



With €928 million at the third quarter 2006, Internet income (from subscriptions and related services) grew 21.0% over one year.

High-speed access income was up 31.3% over one year with €787 million at the third quarter 2006. High-speed Internet subscriptions represented 85% of Internet income.

Dial-up access income declined 35.2% at the third quarter 2006 in line with the decrease in the number of dial-up subscriptions. At €77 million, this income represented only 8.3% of all Internet income compared with 15.5% a year earlier.

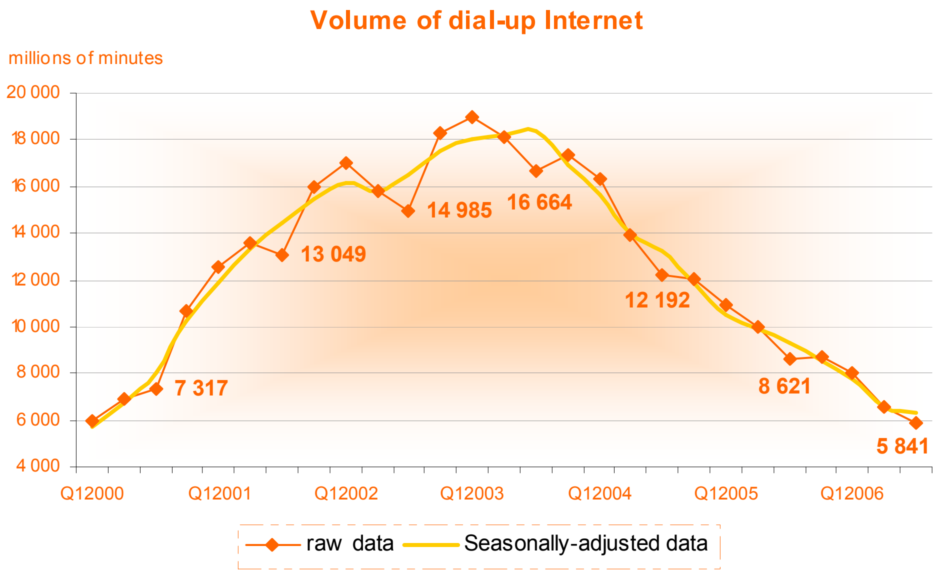
2.2.1 Dial-up Internet

The number of subscriptions to dial-up Internet access fell below 3 million at the end of the third quarter 2006. Over one year, the slowdown in dial-up subscriptions was 28.3%, for both package subscriptions (-29.5%) and pay-as-you-go accounts (-26.7%).
The decline in dial-up traffic income and volumes accompanied this reflux with respective declines of -35.2% and -32.2% with respect to the second quarter 2005.

Dial-up Internet subscriptions *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Flat-rate packages	2,379	2,187	1,909	1,721	1,677	-29,5%
Free access accounts	1,715	1,622	1,495	1,374	1,258	-26,7%
Dial-up Internet subscriptions	**4,095**	**3,809**	**3,403**	**3,096**	**2,935**	**-28,3%**

Note: We distinguish between two types of subscription for dial-up Internet access for the end customer:
1. *the customer pays a flat rate for unlimited Internet access to the IAP*
2. *the customer has a so-called "free" account (with no monthly charge) with an IAP and pays only for the time actually consumed ("pay as you go") directly to the local loop operator (free access accounts or billed for use).*

Revenue of dial-up Internet *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Flat-rate packages	92	84	72	64	59	-35,2%
Free access accounts	28	28	27	20	18	-34,8%
Revenue of dial-up Internet	**119**	**112**	**99**	**84**	**77**	**-35,2%**



(The series of values are found in the "séries chronologiques" file available for consultation on ARCEP's web site)

At the third quarter 2006, the quarterly decline (-4.1% in seasonally adjusted data) was less marked than that had been seen since the beginning of the year (-9.1% at the first quarter 2006 and -15.5% at the second quarter 2006).

Volumes of dial-up Internet *(millions of minutes)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Flat-rate packages	7 452	7 577	6 868	5 641*	5 003	-32,9%
Free access accounts	1 168	1 148	1 165	959	838	-28,3%
Volumes of dial-up Internet	**8 621**	**8 726**	**8 033**	**6 601***	**5 841**	**-32,2%**

** adjusted figures*

2.2.2 High speed Internet

The number of high-speed Internet subscriptions rose 3.3 million in one year (+40%) and, at the end of the third quarter 2006, reached 11.8 million, of which 11.1 million accesses using DSL technology.

Other high-speed Internet access technologies were also up: +22.2% for cable and +26.8% for WLL, optical fibre and satellite access.

High-speed Internet subscriptions *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Xdsl	7,948	8,882	9,870	10,456	11,137	40,1%
Cable	0,530	0,560	0,600	0,630	0,650	22,6%
Other connections (optical fibre, WLL, etc.)	0,005	0,006	0,005	0,006	0,007	26,8%
High-speed Internet subscriptions	**8,484**	**9,448**	**10,475**	**11,092**	**11,793**	**39,0%**

Income from high-speed Internet access was € 787 million at the third quarter 2006, for 31.3% growth with respect to the third quarter 2005. Income from xDSL access (€744 million at the third quarter 2006) represented close to 95% of all high speed income.

High-speed Internet revenue *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Xdsl	556	617	680	711*	744	33,8%
Cable	28	26	26	27	28	1,0%
Other connections (optical fibre, WLL, etc.)	16	16	15	15	15	-6,2%
High-speed Internet revenue	**599**	**659**	**722**	**754***	**787**	**31,3%**

** adjusted figures*

Note: High-speed Internet access broken down by access technology: to correctly interpret the figures, one must take into account the differences in the geographical coverage of telephone and cable networks. Cable operators report about 7 million available cable connections suited to Internet compared to the technical potential for xDSL of over 33 million lines.

2.3 Mobile telephony

Note: The scope covers both network operators and mobile virtual operators (MVNOs)

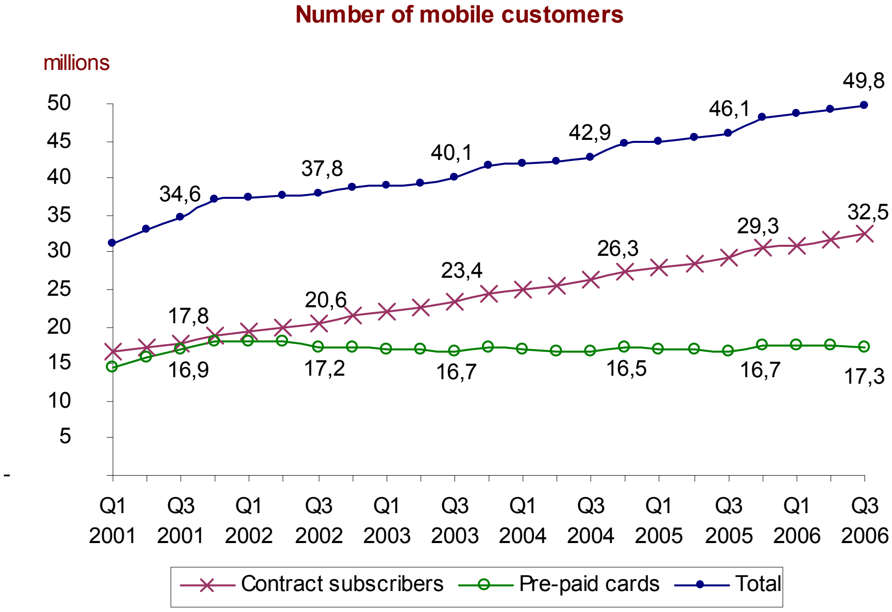
2.3.1 Subscriptions

Number of mobile customers *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Contract subscribers	29,341	30,515	31,027	31,688	32,510	10,8%
Pre-paids cards	16,749	17,583	17,565	17,393	17,316	3,4%
*of which active pre-paid cards ***	15,980	16,714	16,703	16,531	16,385	2,5%
Mobile Telephonie	**46,090**	**48,098**	**48,592**	**49,081**	**49,827**	**8,1%**

**A prepaid card is considered active if the customer has made or received at least one call during the past three months. Only telephone calls are considered, whether free or payable. SMS are not included in the calculation.

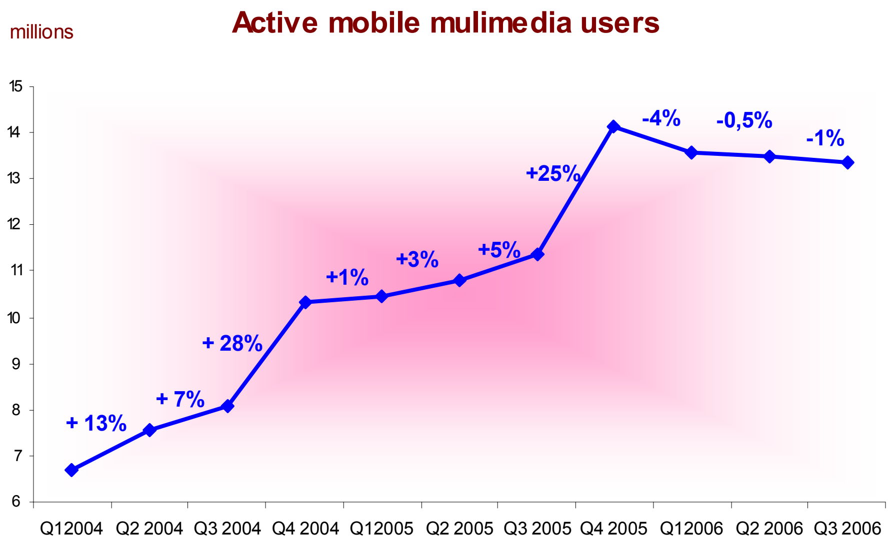
At the end of the third quarter 2006, the number of mobile telephony customers reached 49.8 million. The share of flat-rate packages (32.5 million subscriptions) exceeded 65% of the total and continued to progress with respect to pre-paid formulas.

Since the beginning of 2006, the annual growth rate of the number of mobile telephones held firm at 8.1%, i.e. at a significantly higher level than had been seen in 2005 (+7.5% growth on average). The increased competition on the market with the presence of nine virtual operators (MVNO), in addition to the three network operators, helps support this growth.

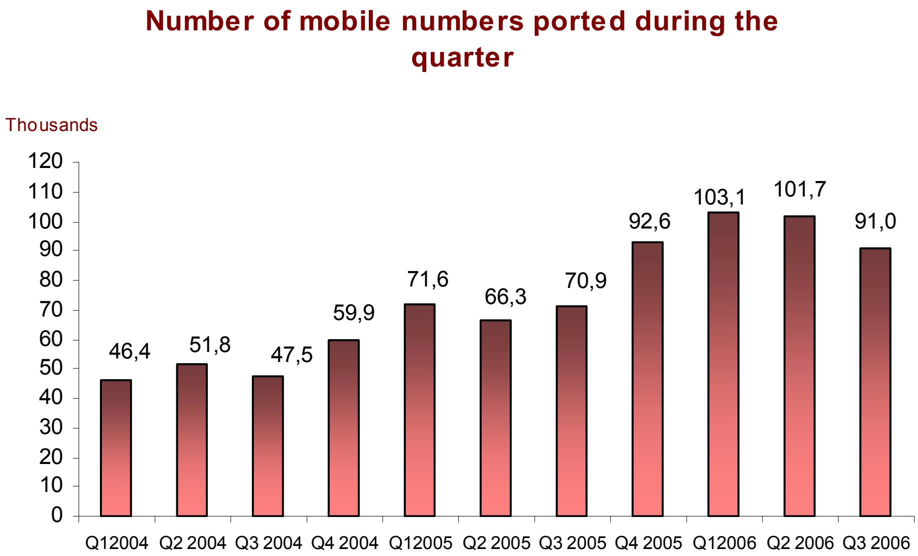


Multimedia users and portability *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Active mobile multimedia users	11,361	14,154	13,564	13,495	13,345	17,5%
Number of mobile numbers ported during the quarter	0,071	0,093	0,103	0,102	0,091	28,3%

There were 13.3 million mobile customers who used mobile multimedia services (access to “mobile Internet” services, MMS, etc.) at the end of the third quarter 2006, for a 17.5% increase over one year.



At 91 000, the number of numbers ported from one operator to another during the third quarter 2006 was slightly lower than the levels reached since the beginning of 2006.



Notes:
- The number of active multimedia users is defined as the number of customers (subscribers or prepaid) who have used at least one multimedia service such as Wap, i-Mode, MMS or e-mail (SMS were not covered by this definition) within the past month, regardless of the technology used (CSD, GPRS, UMTS, etc.). Perimeter: Metropolitan France and DOM.
- The number of ported numbers is defined as the number of telephone numbers effectively ported (numbers activated with the receiving operator) during the past quarter. Scope: Metropolitan France and DOM.

2.3.2 Income and volume indicators

Mobile services income (telephony and data transport) reached €4.3 billion at the third quarter 2006 and grew 6.1% over one year.

Income from voice uses of the mobile telephone, or €3.8 billion at the third quarter 2006, represented 86.5% of all mobile services income (excluding income from advanced services and directory services).

Non-voice income, i.e. for interpersonal messaging and mobile Internet access services or access to multimedia services, represented 13.5% of mobile services income and grew at a high rate (+23.4% over one year at the third quarter 2006 compared with +3.9% for telephony).

Revenue *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Mobile telephony	3 623	3 552	3 536	3 611	3 763	3,9%
of which outgoing internationals calls	145	135	135	146	159	10,1%
Data transport on mobile networks	475	517	547	528	587	23,4%
of which interpersonal messaging (SMS, MMS)	329	352	374	350	391	18,8%
of access to mobile Internet & to multimedia services (1)	146	165	173	178	196	33,8%
Total mobile telephony and data transport	**4 099**	**4 069**	**4 083**	**4 139**	**4 350**	**6,1%**

(1) Income of this item corresponds to amounts invoiced by operators to their customers for access to services; part of this income is then repaid by the opertors to content publishers

Volumes *(millions of minutes)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Calls to national fixed lines	4 711	5 015	4 984	4 818	4 570	-3,0%
Calls to mobiles on the same network (1)	9 947	11 355	12 244	12 601	12 085	21,5%
Calls to other networks	4 682	4 872	4 932	5 534	5 640	20,5%
Outgoing internationals calls	265	256	260	280	308	16,1%
Roaming out (2)	358	275	249	285	400	11,8%
Total mobile telephony	**19 962**	**21 772**	**22 669**	**23 519**	**23 004**	**15,2%**

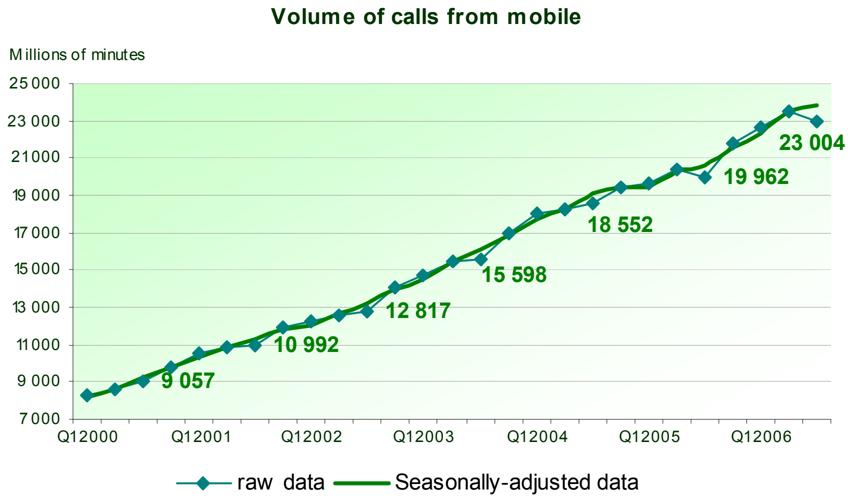
(1) onnet

(2) Roaming out corresponds to calls made in other countries by customers of French mobile operators

At the third quarter 2006, the volume of traffic originating on mobiles increased 15.2% with respect to the third quarter 2005. Quarterly growth in seasonally adjusted data was 1.5% at the third quarter 2006 (following growth of 3.5% during the first quarter and 5% in the second quarter).

The annual growth rate of mobile-to-mobile call volumes exceeded 20%, for both calls to mobiles on the same network and for calls to mobiles on other networks.

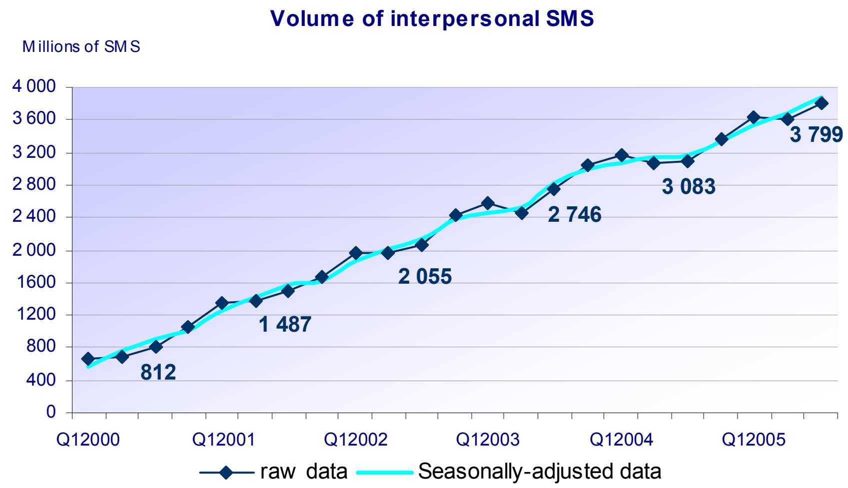
The volume of mobile calls to mobiles on the same network represented more than half of the total volume of calls made from mobile telephones.



(The series of values are found in the "séries chronologiques" file available for consultation on ARCEP's web site).

The number of interpersonal messages sent increased 23.4% over one year at the third quarter 2006. During the quarter, 3.9 billion interpersonal messages (SMS and MMS) were sent. Multimedia interpersonal messages (MMS) remained marginal at 2%.

Volumes of interpersonal messaging *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Number of interpersonal SMS	3 083	3 373	3 641	3 605	3 799	23,2%
Number of interpersonal MMS	55	80	81	74	73	32,7%
Number of interpersonal messages sent	**3 138**	**3 452**	**3 722**	**3 680**	**3 873**	**23,4%**



(The series of values are found in the "séries chronologiques" file available for consultation on ARCEP's web site).

2.4 Other market components

2.4.1 Advanced services

Advanced services income for the third quarter 2006 (€611 million) was stable with respect to the third quarter 2005. "Voice and telematic" advanced services shrunk 2.4% over one year because of the decline in telematic services income. "Data" advanced services (SMS+ and MMS+) represented €86 million at the third quarter 2006 and increased 19.0% over one year.

Advanced service revenue** *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Advanced voice service	538*	556*	579	521	525	-2,4%
Advanced data service (SMS+,MMS+)	72	79	87	92	86	19,0%
Advanced service	**610***	**635***	**666**	**613**	**611**	**0,1%**

** adjusted figures : advanced voice service income have been estimated for the quarters of 2005 on the same perimeter than the quarters of 2006*

*** The income corresponds to all amounts invoiced by operators to customers, including amounts repaid by the operators to service suppliers. For example, advanced "data" services include weather forecasts, horoscopes, TV game shows, downloading of ring tones, etc.*

The sharp increase in the volumes of these services beginning the first quarter 2006 is due to a better inclusion of "voice and telematic" advanced services by the operators in the survey. The impact is estimated at about 700 million minutes in volume on one quarter. The Observatory is unable to provide corrected data for 2005.

Advanced voice service volumes *(millions of minutes)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
From fixed telephony network	1 902	2 191	3 165	2 880	2 618	*n.s.*
From mobile telephony networks	374	380	380	374	387	3,3%
Volumes	**2 276**	**2 571**	**3 545**	**3 254**	**3 004**	**n.s.**

Advanced data service volumes *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Number of messages (SMS+, MMS+)	170	160	167	154	187	10,0%

2.4.2 Directory services

The disappearance, on 3 April 2006, of the old directory services numbers (definitively replaced by the new 118xyz numbers) was followed during the second quarter 2006 by a sharp decline in both income and in the number of calls to directory services.

At the third quarter 2006, the directory services market (40 million calls and €38 million in income) remained stable with respect to the second quarter 2006.

Revenue from directory services *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
local loop	54	52				
Directory services operator's			47	37	38	

Directory services *(millions of units)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Number of calls			53	41	40	

Note: Directory services include the old fixed (12, 3200, 3211, 3212) and mobile (612, 712, 222) directory service numbers in service until 3 April 2006, the new 118xyz numbers in service since November 2005 and short codes providing access to director services including the reverse directory (3288, 3217, 3200) and international directory (3212).

2.4.3 Leased lines and data transport (fixed operators)

Since the first quarter 2006, part of the income from leased lines and data transport is no longer counted on the end market because of market restructuring (in particular, the integration of Transpac in France Telecom).

Revenue *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Leased lines	533	520	371	371	366	-31,4%
Data transport	540	536	469	472	440	-18,6%

Note: Revenue from leased lines may be counted twice since operator-to-operator sales were included. These sales may represent up to 35% of the total revenue from leased lines.

2.4.4 Hosting and call centre management services

Revenue *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Hosting and call centre management	18	25	27	24	26	41,6%

2.4.5 Terminals and equipment

With €363 million, mobile operators contributed two-thirds of total income from terminal sales and rentals at the third quarter 2006.

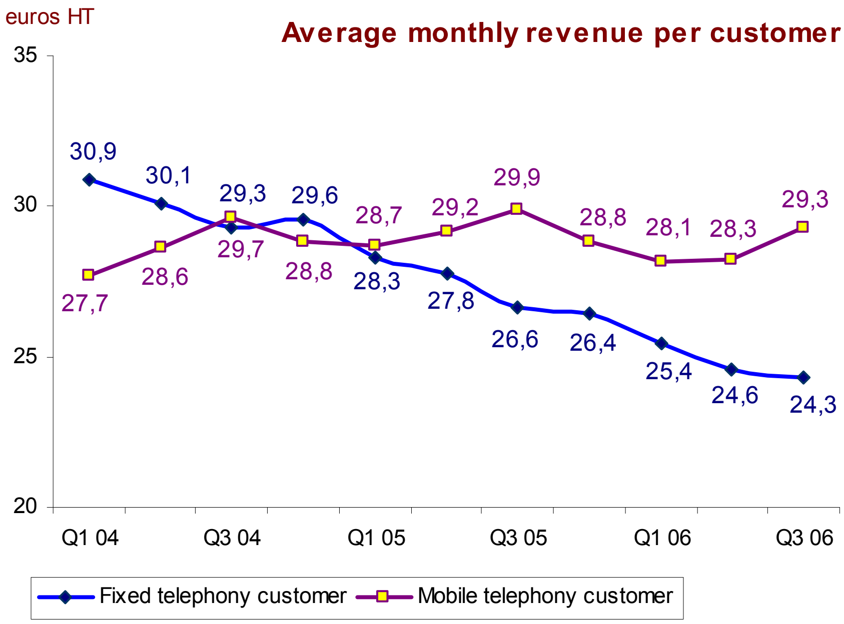
Revenue from terminals and equipment *(millions of euros)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Fixed & Internet operators	204	207	181	175	181	-11,3%
Mobile operators	349	530	354	326	363	4,1%
Terminals and equipment	**553**	**737**	**534**	**500**	**544**	**-1,6%**

Note: As in previous issues, income from packs and terminals includes commissions to distributors.

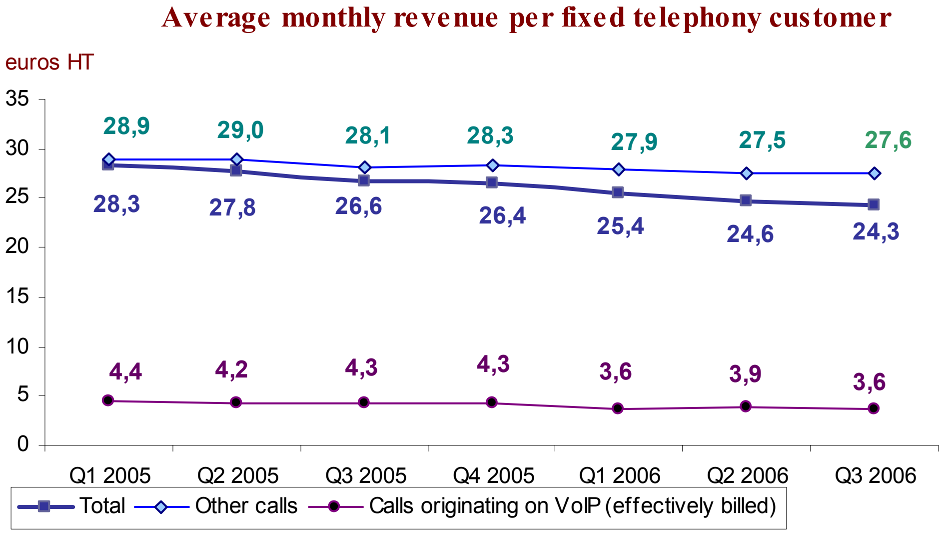
2.5 Indicators per customer

Average monthly revenue per customer *(in euros -VAT excluded)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
Fixed telephony user	26,6	26,4	25,4	24,6*	24,3	-8,8%
Mobile telephony user	29,9	28,8	28,1	28,3	29,3	-1,8%
Dial-up Internet user	9,4	9,5	9,1	8,7	8,5	-8,7%
Broadband Internet user	24,4	24,5	24,2	23,3*	22,9	-6,0%

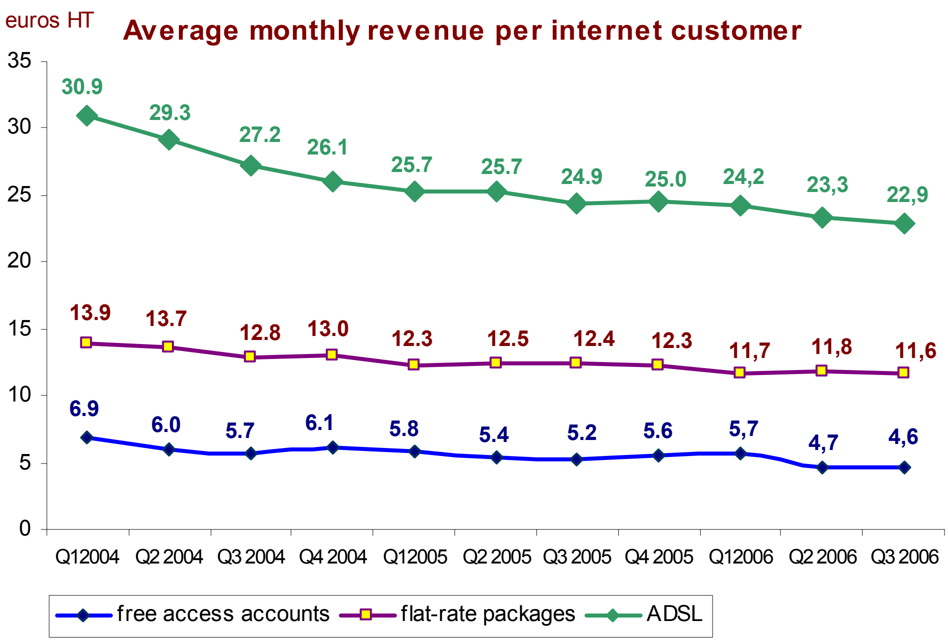
** adjusted figures*



The average monthly invoice per fixed subscription is calculated by dividing the income from calls on fixed lines (access and voice income) and that from the subscription for the quarter N by an estimate of the average number of subscriptions of the quarter N, divided by the number of months.
The average monthly invoice per customer of mobile operators is calculated by dividing mobile telephony income (voice and data income) of the quarter N by an estimate of the average number of customers of the quarter N, divided by the number of months. This indicator, which does not include income from interconnection, nor from advanced services, is different from the traditional Average Revenue Per User indicator (ARPU) indicator.

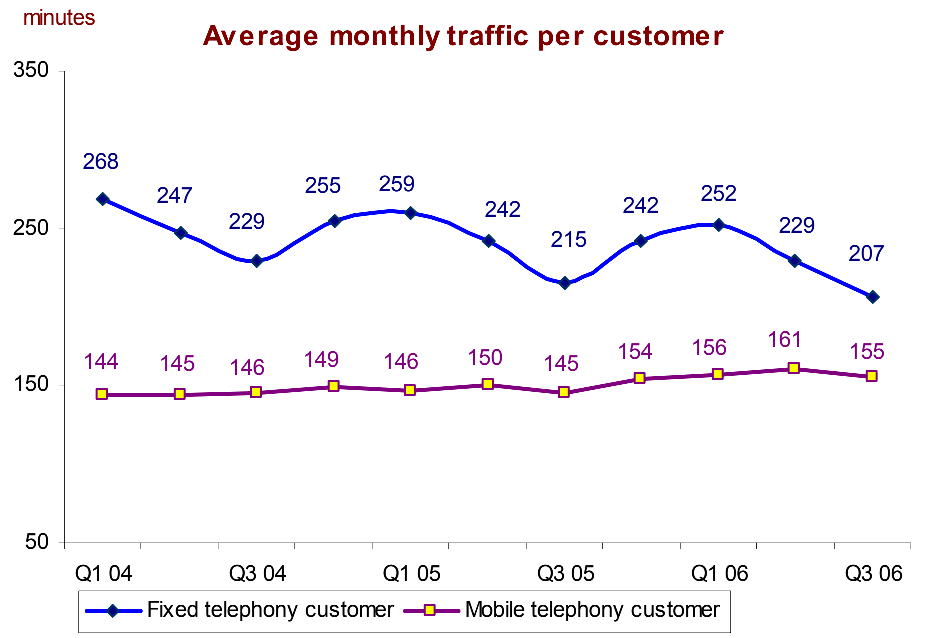


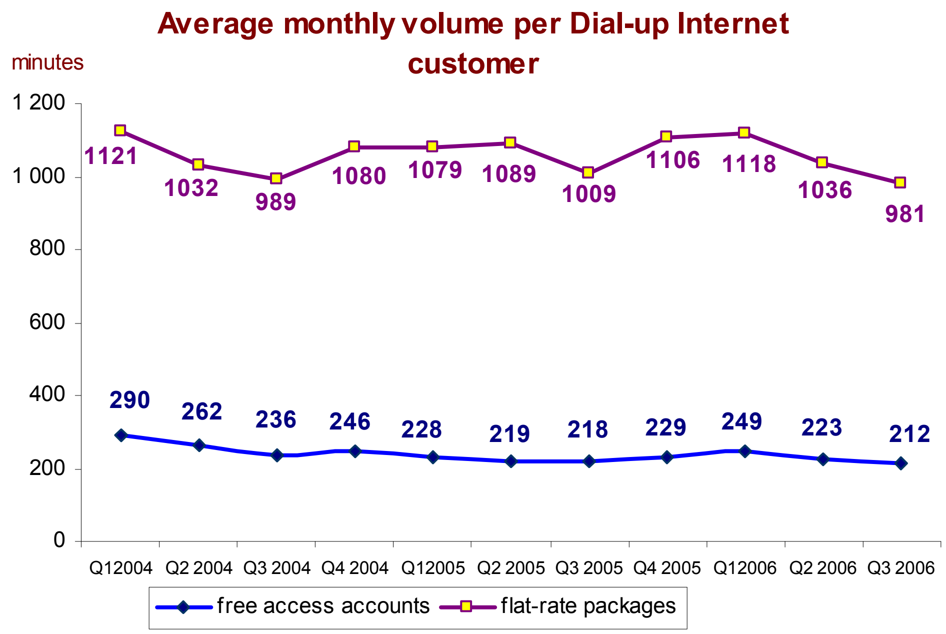
The *<u>average monthly invoice per PSTN subscription</u>* *is calculated by dividing the income from subscriptions and from calls on PSTN fixed lines (excluding VoIP income), for the quarter N by an estimate of the average number of subscriptions of the quarter N.*
The *<u>average monthly invoice per subscription to IP telephony access</u>* *is calculated by dividing only income from invoiced IP calls (i.e. excluding multi-play flat rates) on the quarter N by an estimate of the average number of subscriptions of the quarter N.*



The *<u>average monthly invoice per dial-up Internet subscription</u>* *(respectively high-speed) is calculated by dividing the income from dial-up access (respectively high-speed) to Internet of the quarter N by an estimate of the average number of customers of the quarter N, divided by the number of months.*

Average monthly traffic per customer *(in hours)*	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Change 3Q06/3Q05
From fixed telephony network	3h35	4h02	4h12	3h49	3h27	-3,8%
From mobile telephony networks	2h25	2h34	2h36	2h40	2h35	6,6%
From dial-up Internet	11h17	12h16	12h23	11h17	10h46	-4,6%
(units)						
Number of SMS sent per user during the quarter	22,5	23,9	25,1	24,6	25,6	14,0%





The <u>volume of average monthly traffic</u> is calculated by dividing the volume of traffic of the quarter N by an estimate of the average number of subscriptions of the quarter N, divided by the number of months.
Like for SMS, the indicator is calculated by dividing the number of SMS of the quarter N by an

estimate of the average number of customers of the quarter N, divided by the number of months.

Average number of customers of the quarter N: [(total number of customers at the end of the quarter N + total number of customers at the end of the quarter N-1) / 2]

Information on billing and average monthly volumes per customer indicators

The Market Observatory publishes **average monthly invoice per subscription indicators for fixed telephony, mobile telephony and Internet**. These are the amounts invoiced, on average by the operator to the customer for the subscription and calls (voice and data). These indicators are different from **ARPU** (Average Revenue Per User) which are generally operator revenues from all income related to network use.

In other words, the revenues used to calculate the average monthly invoice on mobile networks are revenues from outgoing calls, data services (interpersonal messaging and Internet access services) and roaming out. Revenues from interconnection (incoming calls) are not taken into account.

Financial analysts and operators publish an Average Revenue Per User indicator (average recurring revenue or **ARPU).** This includes revenues from outgoing calls, data services, value-added services *and* revenues from incoming calls (interconnection). According to operators, it may or may not include roaming income.

The Observatory also publishes **average monthly outgoing traffic per customer** indicators, which are representative of customers' telephone use.

By analogy with the ARPU, some financial agencies and operators use an average traffic per customer indicator, or **AUPU** (Average Usage Per User); it covers all or share of incoming calls to create a volume base which is comparable with that used for the ARPU. It does not represent the average consumption per customer but is rather an indicator of the operator's volume of activity per customer.

For fixed telephony, the revenues used are only those corresponding to subscriptions and telephone calls (including Internet access calls) excluding all other revenue, in particular from advanced services and Internet. This is a partial view of the fixed invoice because it includes only telephony values.

For Internet, the revenues taken into account are those from flat-rate subscriptions providing access to Internet and revenues from pay-as-you-go Internet connections.