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TRANSATLANTIC TELECOM DIALOGUE

CITI – NEW YORK – October 20, 2006

Understanding the Digital World

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Market Overview

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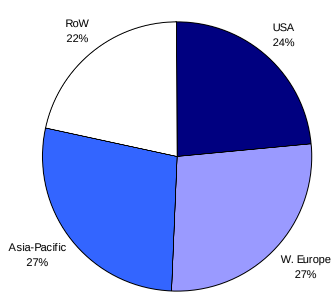
Telecom service markets by region

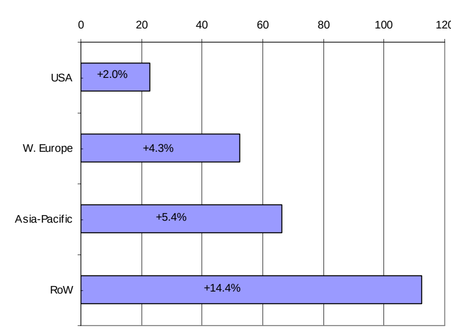
(2006 revenues in billion USD)

2006 worldwide market = 1.246 billion USD



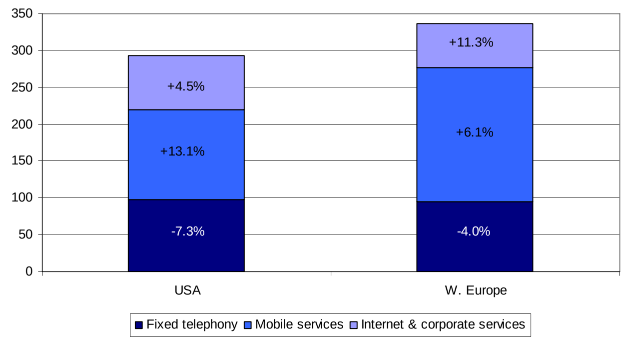
Contribution to growth

(2002-2006 in billion USD and CAGR)



Markets

Telecom service revenues broken down by segment
(2006 revenues in billion USD,
CAGR 2004-2006 in the blocks)



European market in 2005: declining growth…

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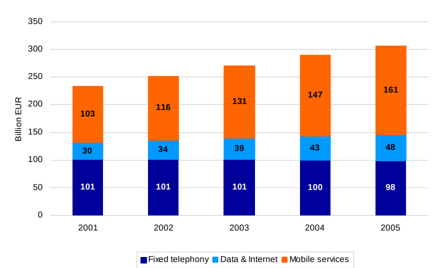
- ▸ European market (33 countries) value estimated at 307 billion EUR in 2005.
- ▸ + 5.9% in 2005 (+7.3% in 2004)
- ▸ With revenues of 263 billion EUR, the EU-25 countries account for 86% of the total, reporting average growth of 3.8% (6.2% in 2003, 5.2% in 2004).
- ▸ Net decrease in landline telephony revenues (begun in 2004 and heightened in 2005), compensated by a rise in data and mobile services revenues – but growth in the mobile segment now slowing considerably.

European telecom services market, 2001-2005
(billion EUR)



… with huge national disparities

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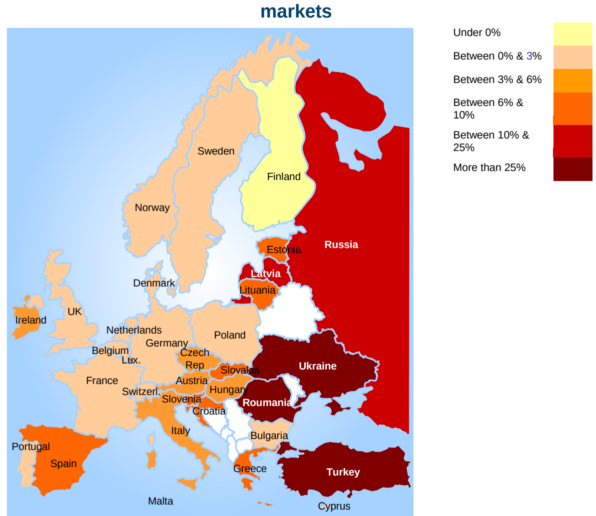
4 groups of countries:

- ▶ Very high growth (>20%) in large emerging markets: Turkey, Ukraine, Russia and Romania
- ▶ Steady growth (between 7% and 10%) thanks to ongoing high growth of mobile: Greece, Spain, most Eastern European countries
- ▶ High mobile growth whose impact is limited by a sharp decline in landline telephony: Italy, Austria, Hungary, the Czech Republic
- ▶ Stalled growth (<3%): Decline of landline being offset less and less by mobile services: most of Western Europe, Poland

Value growth rates for Europe's telecom services markets



PSTN's ongoing demise

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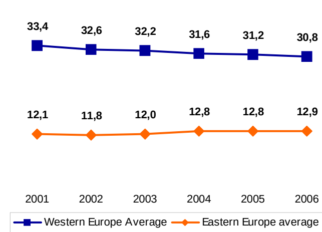
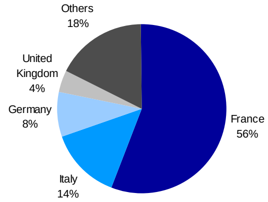
- ▶ Overall drop in market value. Growth exceeds 1.5% in only five countries: Malta, Greece, Turkey, Romania and Russia.
- ▶ Decline due to :
  - ▶ Shrinking subscriber bases, even in those countries with low fixed density: drop of 3.8 million lines in 2005 (vs. + 800,000 in 2004)
  - ▶ Drop in traffic (substitution by mobile)
  - ▶ Drop in calling prices: growing use of preselection in Eastern Europe, rise of IP telephony, flat rate offers, promotions, etc.

Change in average revenues per fixed phone line, 2001-2006
EUR per access line, per month



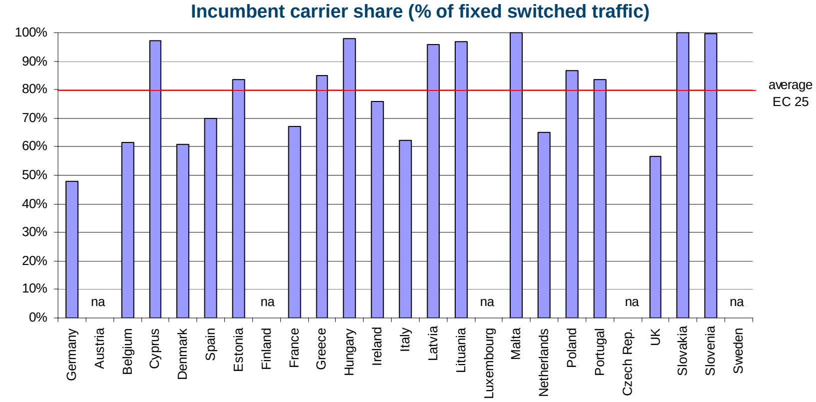
VoIP subscribers in Europe, end of 2005
Total: 6 million subscribers



… combined with increasing competition

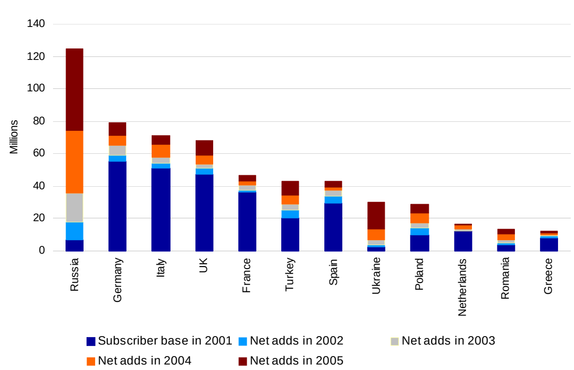
- ▸ Incumbent carrier's share of traffic has fallen below 50% in Germany
- ▸ But remains high (over 80%) in new EU Member States, and in Portugal and Greece

Incumbent carrier share (% of fixed switched traffic)



Mobile revenues > 50% total telecom revenues

Mobile subscriber bases in Europe



- ▸ Close to 690 million mobile subscribers in Europe at the end of 2005, or 90 subscribers per 100 inhabitants.
- ▸ 67% prepaid subscribers (60% in Western Europe, 76% in Eastern Europe).
- ▸ Net increase of 126 million subscribers in 2005, with Russia, Ukraine and Turkey accounting for close to 60% of the net increase.
- ▸ 11% increase in subscribers in Western Europe. Healthy growth in already mature markets (Italy, the UK, Ireland), much lower in Sweden and Norway.

Mobile services: relatively homogeneous concentration index

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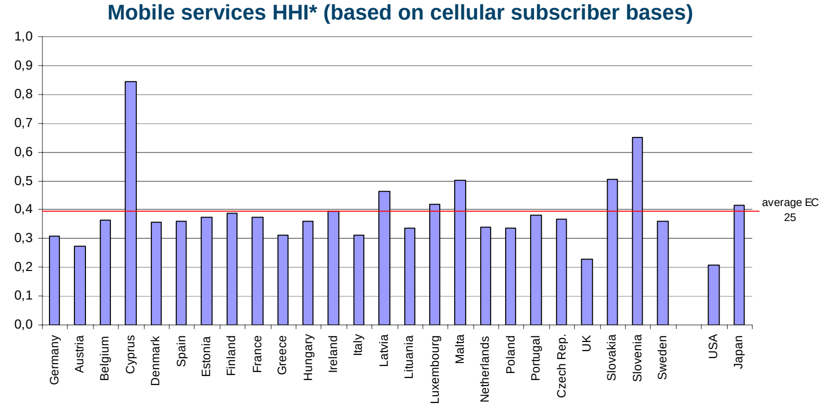
- European mobile market concentration relatively homogenous, with an HHI of between 0.3 and 0.4 for 17 of the EU-25 countries
- Among the least concentrated: Austria (HHI = 0.273) and the UK (HHI = 0.227)

Mobile services HHI* (based on cellular subscriber bases)



**The HHI (Herfindahl-Hirschman Index) is equal to the sum of the squares of each operator's market share (measured here by subscriber base).*

3G momentum

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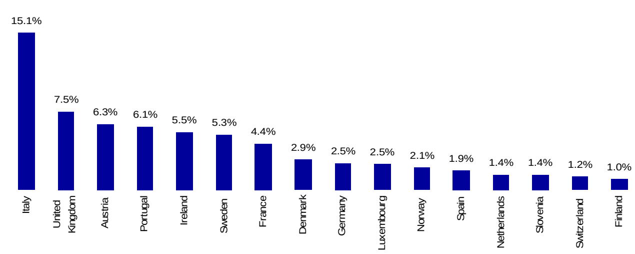
- 23 million 3G subscribers in Western Europe, or 6% of the total cellular base at the end of 2005 and accounting for close to half of new subscribers.
- Italy and the UK still in the lead, representing 70% of 3G subscribers in Europe.
- Hutchison still the top 3G operator with a 42% share of European 3G subscribers
- Start of HSDPA in 15 European markets
- 3G launched in Eastern Europe, but still only nascent

3G's share of mobile subscriber bases at the end of 2005



MVNO + market saturation = < 5% value growth per year

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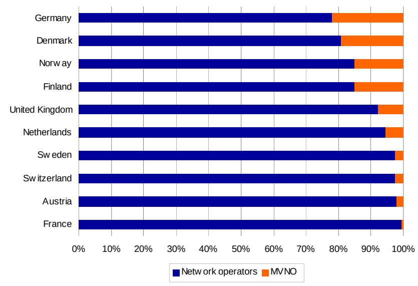
- Healthy subscriber growth struggling to translate into revenue growth
- In Western Europe, 6.6% value growth in 2005, vs. close to 10% in 2004. 5% rise in voice revenues.
- In Eastern Europe, 25% growth but major disparities from country to country

MVNOs' share of mobile subscribers

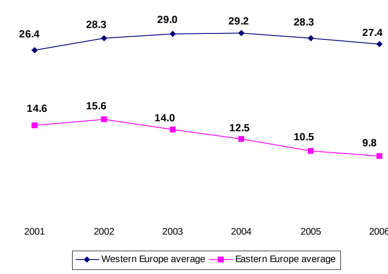
No MVNO (or near zero market share) in omitted countries

Note differences in national definitions



Mobile subscriber ARPU

EUR per month



The last wave: Broadband!

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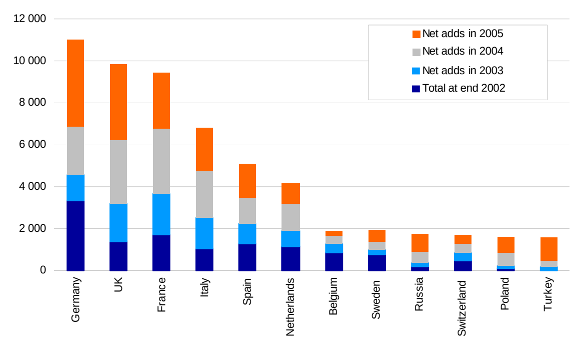
Europe's top broadband markets

Subscriber bases at end 2005



- 66 million broadband subscribers in Europe at the end of 2005, up 23 million in the year (+18 million in 2004)
- Average density of 8.7% (5.7% in 2004); 14.6% in the EU-15
- Growth due in part to narrowband subscriber migration. Total narrowband subscriber base estimated at 52 million at the end of 2005 (vs. 71 million at the end of 2003)

Broadband in Europe (15) = Broadband in the USA

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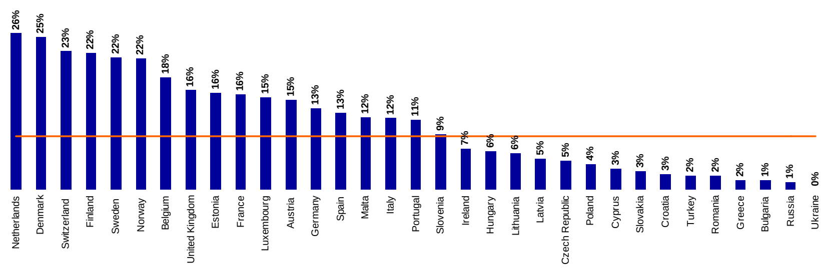
Broadband density in Europe

Broadband subscribers as % of the population at the end of 2005



- Western Europe: with an average density of 14.8%, Western Europe has caught up to the US and is closing in on Japan (16%).
- Leading the way are the Netherlands (which has overtaken South Korea), followed by the Scandinavian countries, Denmark and Switzerland.
- Lagging behind in Western Europe are Ireland, and especially Greece.
- With the exception of Estonia and Slovenia, broadband still little developed in Eastern Europe

… but cable < 10% broadband access and …

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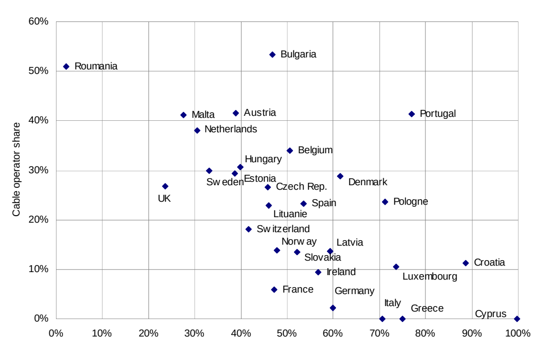
Broadband retail market share in Europe, end of 2005



- Little facilities-based competition overall in Europe
- Cable the prime alternative to DSL
- FTTx little developed, except in Italy and Sweden
- In Eastern Europe, serious threat coming from cable and developing wireless alternatives

… competition based chiefly on wholesale and LLU

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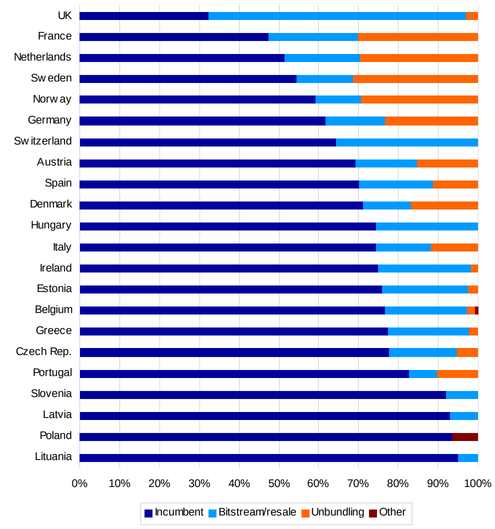
Structure of Europe's DSL markets



- DSL by far the dominant technology, accounting for 80% of broadband connections at the end of 2005 (over 90% in Germany and France)
- DSL market competition first enabled by incumbents' wholesale offers
- Unbundling on the rise in Western Europe: number of unbundled lines doubled to over 9 million (of which 8.5 million used for DSL) in 2005, or 18% of DSL connections
- In Eastern Europe, unbundling in the very early stages (no offer or troubles implementing it)

Who's on top?

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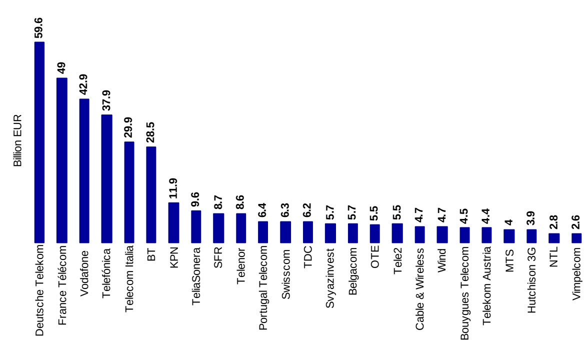
Europe's top earning telcos (2005)



Largest European market incumbents still head the ranks.

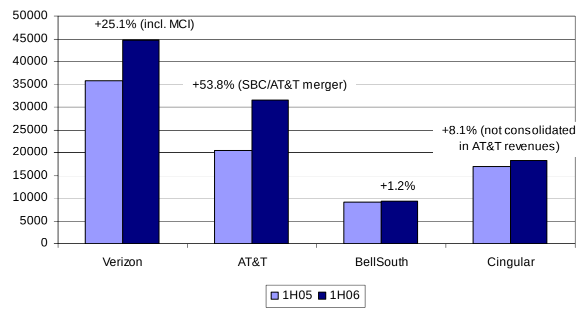
A few new entrants have become pan-European telcos: Vodafone and Tele2 with 58% and 77%, respectively, of their revenues generated outside their home market and, more recently, Hutchison's 3G subsidiary, now operating in six European countries.

The other leading alternative telcos operate in Europe's largest markets, most of them in mobile services.

Operator performance (1)

Impact of consolidation in the United States

Six-month earnings for the United States' top carriers



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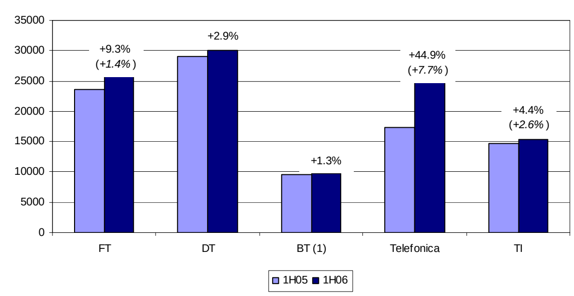
Where's the growth?

Weak organic growth, aside from Telefonica which is benefiting from its Latin American operations…

… and can depend on highly targeted activities (e.g. T-Mobile USA's contribution to Deutsche Telekom)

Six-month earnings for Europe's top 5 incumbent carriers



(1) Revenues for 1H06 extrapolated from 1Q06 results

In Italics: organic growth rate (i.e. independent of fluctuating exchange rates and changes in business scope)

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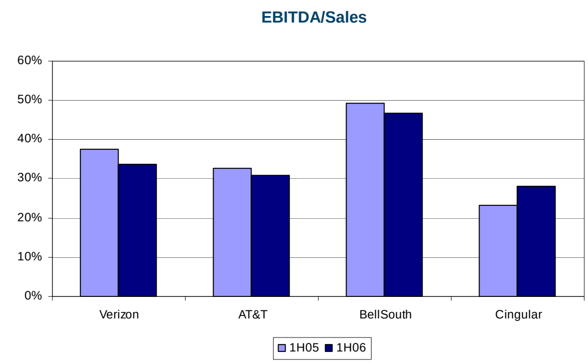
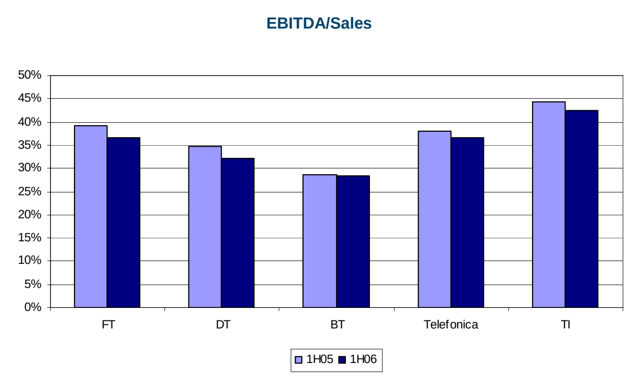
Operator performance (2)

Pressure on operating margins in the US as well



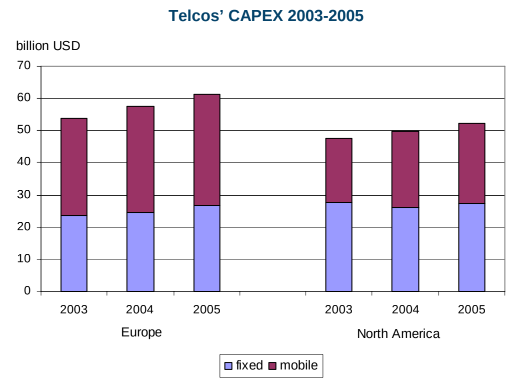
Is it possible to maintain margins in a shrinking market?

Pressure on operating margins

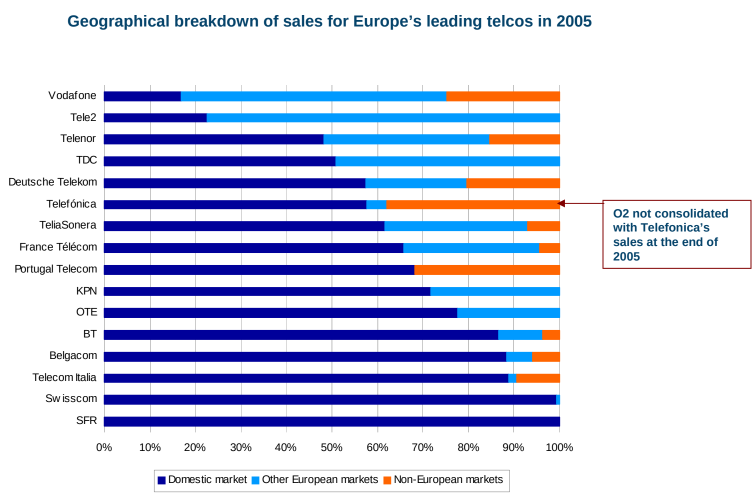


CAPEX

Revived momentum, especially in fixed networks in Europe (soon in the US?)



Potential answers: 1) International development



Potential answers: 2) Consolidation

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Main mergers & acquisitions since the start of 2005

Buyer	Company bought	Amount
Telefónica (Espagne)	O_2 (Royaume-Uni)	24.0 billion EUR
Telecom Italia (Italie)	TIM (Italie)	14.5 billion EUR
Orascom (Egypte)	Wind (Italie)	12.1 billion EUR
NTC (USA/Royaume-Uni)	TDC (Danemark)	8.2 billion EUR
France Télécom (France)	Amena (Espagne)	6.4 billion EUR
Oger Telecom (Arabie Saoudite)*	Turk Telecom (Turquie)	5.3 billion EUR
NTL (Royaume-Uni)	Telewest (Royaume-Uni)	5.0 billion EUR
Vodafone Group (Royaume-Uni)	Telsim (Turquie)	3.7 billion EUR
Téléfónica (Espagne)	Cesky Telecom (Rep. Tchèque	2.9 billion EUR
Blackstone Group (USA)**	Deutsche Telekom (Allemagne)	2.7 billion EUR
TeliaSonera (Suède)	Turkcell (Turquie)	2.5 billion EUR
Babcock & Brown (Australie)	Eircom (Irlande)	2.4 billion EUR
ONO (Espagne)	Auna (Espagne)	2.3 billion EUR
Liberty Global (USA)	Cablecom (Suisse)	1.8 billion EUR
Iesy (Allemagne)	Ish (Allemagne)	1.6 billion EUR
Telekom Austria (Autriche)	Mobiltel (Bulgarie)	1.6 billion EUR
NTL (Royaume-Uni)	Virgin Mobile (Royaume-Uni)	1.3 billion EUR
EQT Partners (Suède)	Kabel BW (Allemagne)	1.3 billion EUR
Numéricâble (France)	Noos (France)	1.3 billion EUR
Deutsche Telekom (Allemagne)	Tele-ring (Autriche)	1.3 billion EUR

* Telecom Italia is part of the consortium led by Oger. ** Blackstone Group acquired KfW's 4.5% stake in Deutsche Telekom.

Potential answers: 3) Redefine place in the new landscape…

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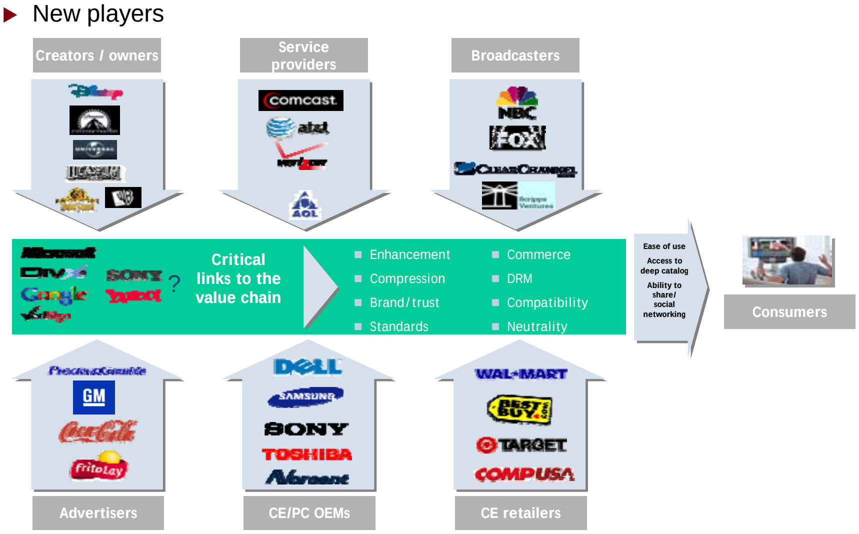
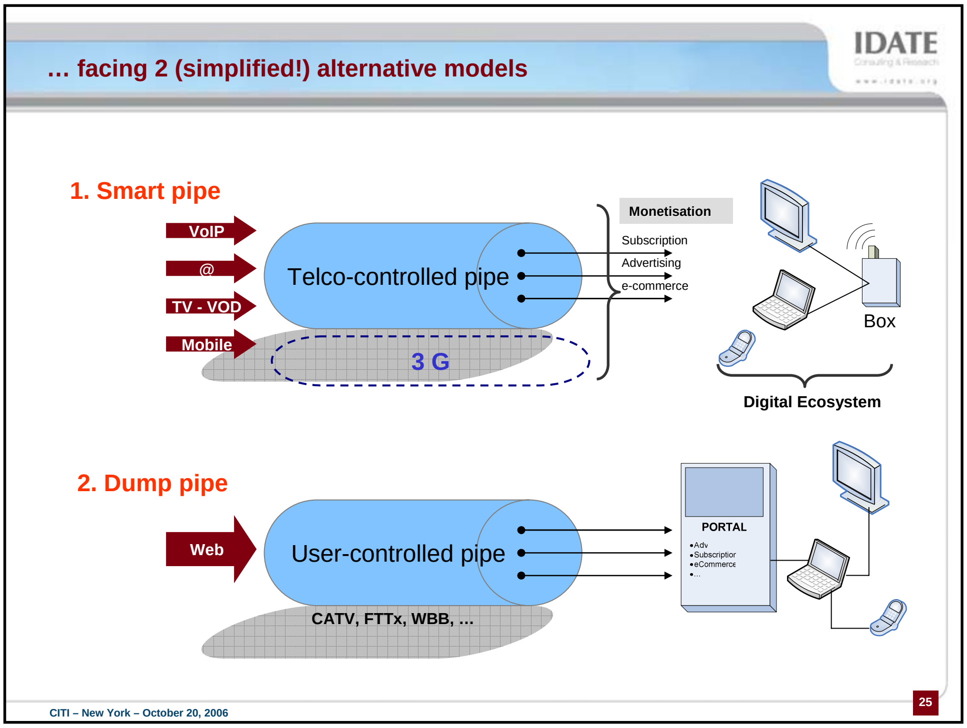
Strategic options open to telcos

- New players





… facing 2 (simplified!) alternative models
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1. Smart pipe
VoIP
@
TV - VOD
Mobile
Telco-controlled pipe
3 G
Monetisation
Subscription
Advertising
e-commerce
Box
Digital Ecosystem
2. Dump pipe
Web
User-controlled pipe
CATV, FTTx, WBB, …
PORTAL
•Adv
•Subscription
•eCommerce
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Wednesday 15 Nov.
Thursday 16 Nov.
DigiWorld Summit 2006
Shift to Net-based competition!
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