

International Climate in the Telecommunications Sector

Public and Economic Affairs

Telecoms trends

Innovation trends: New business models under creation. Emerging businesses whose growth and revenue sharing systems will be affected by policies and regulation.

Evolution Regulation: Regulation can have a strong impact on demand dynamics, both at the retail and wholesale levels. Uncertainty is not encouraging facilities investments. Implementation of new regulatory framework. New trends worldwide (e.g. USA)

Evolution Investment climate : Investor confidence after the 'bubble'; debt and risk perception in the telecom sector. The market currently rejects heavy capital investments and long term results. Impact of evolving innovation, regulation and competition trends on investment climate

Competition : Consolidation vs. new emerging actors in a fast-evolving environment. Demand will drive investment climate and innovation.

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Broadband growth in the EU

Evolution of Total Broadband Lines¹ by Platform, EU, Q3-2001 – Q3 2003

Platform	Q3-01	Q4-01	Q1-02	Q2-02	Q3-02	Q4-02	Q1-03	Q2-03	Q3-03 Estimate
ADSL	4.6	6.6	7.8	9.2	10.4	12.9	15.4	17.9	19.8
Cable	0.5	4.5	5.4	6.3	7.2	8.2	11.2	12.8	14.3
Other broadband	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	5.2	11.2	13.3	15.5	17.7	21.2	26.7	30.8	34.2

	Growth Q4-02 to Q3-03	CAGR 01-03
ADSL	38%	108%
Cable	40%	121%
Other broadband	26%	75%
Total	77%	127%

¹ Includes leased lines in UK market. ² As opposed to 17.5 M broadband lines referred to by the Commission; difference of ~350,000 lines results from ~250,000 additional ADSL lines in Germany and 91,000 additional wholesale ADSL lines in Italy, according to RT participants' latest figures. Source: RT Operators, ECTA, European Commission, Informa Group, PointTopic, Euromonitor, IDC, Press, Monitor Analysis

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Broadband usage habits

Hours Spent on the Internet per Week, One MS¹ 2003

Platform	Hours per Week
Narrowband	5.0
Broadband	11.2

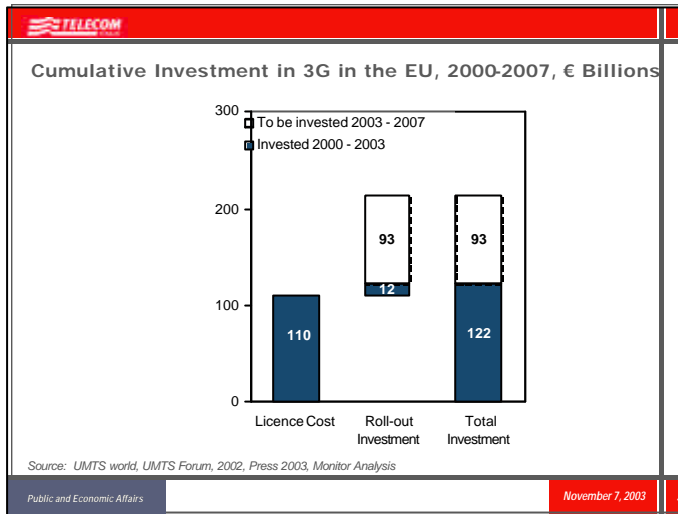
Usage Patterns of Broadband and Narrowband Users, One MS¹ 2003

Activity	Broadband (%)	Narrowband (%)
Browsing for Information	97%	92%
Social e-mail	94%	90%
Buying or selling	73%	54%
E-mail for work	59%	53%
Downloading music	47%	14%
Playing real-time games	28%	11%
Downloading games	24%	9%
Chat rooms	23%	8%
Downloading films	16%	2%

¹ Data refers to the UK. Source: Enders Analysis, September 2003

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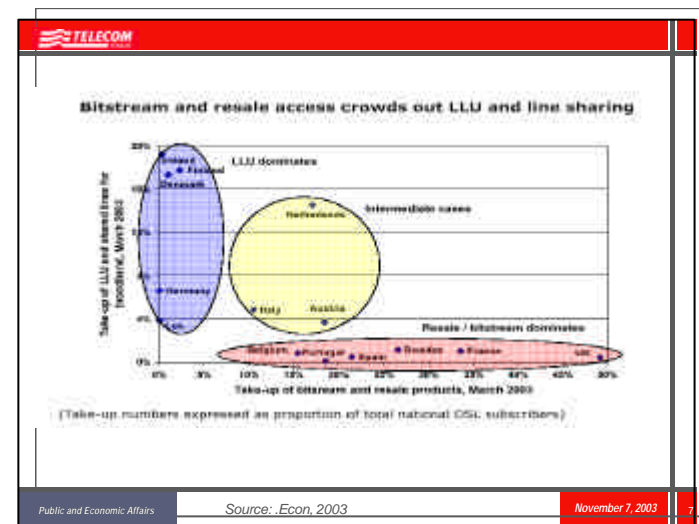
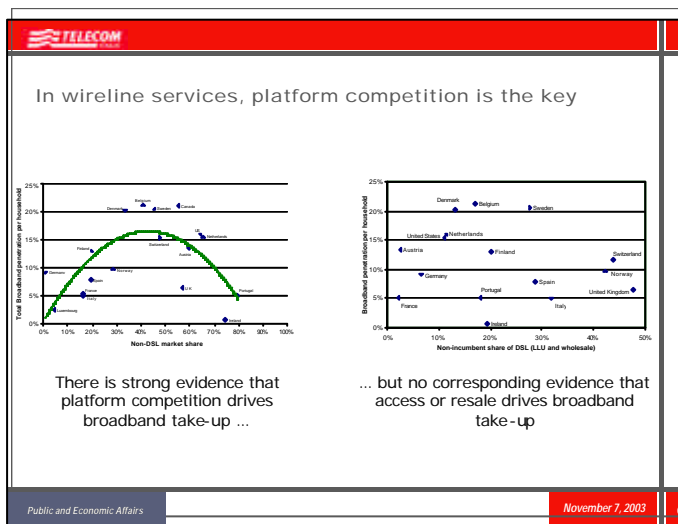
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A 'new wave' of growth ...

... and some important lessons learned:

- value creation and durable effects
- risk taking; 'make or buy' options
- facility-based approach for sustainable and mid-term competition
- key role played by regulation



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Mobile market scenario

The Italian mobile market is a highly penetrated market (> 90%).

Mobile operators are focused on the development of new and emerging services.

In the first half 2003 the Value Added Services (VAS) turnover accounted for 10,5% of the total, in comparison with 5,9% in 2001.

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Total shares held by main European mobile operator groups [1] of subscribers in the EU

Operator Group	Share (%)
Vodafone	23.9%
Orange	12.5%
T-Mobile	13.2%
mmO2	6.4%
KPN Mobile	4.7%
TIM	8.9%
Other	30.5%

[1] As at the end of December 2001.

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The road ahead to 3G

2G mobile has been a conspicuous success for Europe. The challenge is to create the same success for 3G.

Operators continue to invest heavily in 3G roll-out despite the effect of the enormous cost of licenses on their balance sheets. As a result, UMTS services will be available across EU Member States by mid-2004.

However, 3G is still a nascent market and its success will depend on:

- An investment-friendly regulatory environment
- Customer appetite for new broadband services
- Development of mass market-oriented terminal equipment
- Launch of innovative and appealing applications

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Whilst progress is being made, significant challenges remain

Creating friendly Environment to New Services

New business models are emerging, but at an early stage

Challenges: Remove obstacles to availability of content through multiple platforms and device.

Stimulate a virtuous cycle of commercial content creation

Moving to a Deregulating World

New Regulatory Framework is a good basis for pursuing a deregulating agenda beneficial for all industry participants

Challenge is to ensure an effective and timely implementation of the Framework

Critical decisions and implementation steps affecting these challenges will be taken

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Main trends that are frustrating migration to a deregulated environment and so are hampering investment in the sector (1)

1	NRAs not fully exploiting the new agenda	The potential for deregulation introduced by the New Regulatory Framework is not being exploited at the Member State level. Inertia is leading NRAs to continue to regulate as they have always done, possibly leading to an extension in the scope of regulation
2	Risk of an extended and damaging transition period	Implementation of the New Regulatory Framework is significantly delayed in some Member States, and there is a risk that NRAs continue to apply and add to the old regulatory paradigm and modes of enforcement during this transition period
3	Regulatory statements not matched by actions	A number of discrepancies are emerging between: <ul style="list-style-type: none"> - Declarations in favour of facilities-based competition in the broadband market vs. a purely access-based regulatory approach - Declarations in favour of investments and innovation vs. encouragement of resale-based models (e.g. introduction of wholesale line rental products)

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Six trends are frustrating migration to a deregulated environment and so are hampering investment in the sector (2)

4	Lack of clarity in the regulatory process	Progress has been made with the creation of new bodies (ERG, CoCom, etc.) However, dialogue between these bodies and industry should improve
5	Regulation of 2G markets threatens investment in 3G	- A risk that NRAs will regulate mobile markets (e.g., roaming) in an isolated way, reducing returns from 2G and so limiting financial resources to be invested in 3G and mobile data roll-out
6	Risk that Public Authorities will not dress "digital divide" in the right way	- Increasing involvement of local government authorities in the supply side, which could create distortions in the market - Risk that Public Authorities use Structural Funds beyond extending broadband availability in remote / underdeveloped regions or in regions in which adequate infrastructure is already installed. The use of Structural Funds to close the "digital divide" should be fostered only where availability is not possible on purely commercial terms, without distorting the market

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Critical decisions and implementation steps will be taken over the coming months by European Institutions and the NRAs

Creating a Broadband Services Environment	Moving to a Deregulating World	Investing in Technology and Infrastructure
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1. Application of Article 7 of the Framework Directive
2. Definition and implementation of proportional Remedies, taking into account the transition period should be the shortest possible across Member States
3. A micromanagement approach to individual markets should be avoided, as well as retail regulation where effective wholesale regulation already exists
4. Ensure Wholesale Broadband Access (WBA) obligations are constrained to a closed set of services related exclusively to basic connectivity and will be transitory, to be replaced by commercial arrangements
5. Ensure WBA will not be used as a tool to help retail market entry and sustainability by some players at the expense of wholesale (infrastructure-based) market entry
6. Review of Recommendations on Relevant Markets
7. Encourage NRAs and European bodies (including CoCom, ERG, RSCoM and RSPG) to pursue a more transparent approach and increase their interaction with industry
8. Regulation for new innovative services (e.g. "triple play") should be avoided as it would

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