Press conference

ARCEP

23rd March 2012

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Introduction

Electronic communications markets are changing rapidly, especially with the advent of the fourth 3G mobile operator and the deployment of ultra-fast broadband networks. The regulator's core objective is no longer to create markets, and the way it intervenes in the marketplace is changing. (**cf. points 3 and 4**).

Before addressing these points, it would be worth providing a brief history of the past 15 years of regulation, during which the regulator's chief role was to create sufficiently competitive fixed and mobile service markets. Was this objective achieved (**cf. points 1 and 2**) ?

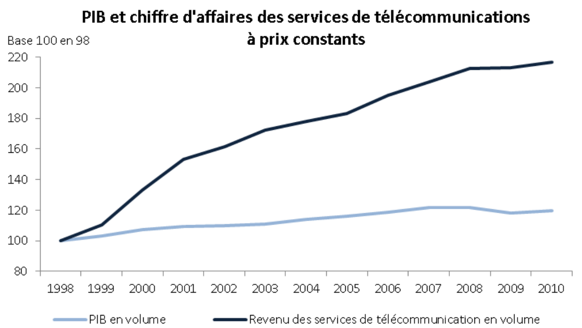
1. Operators

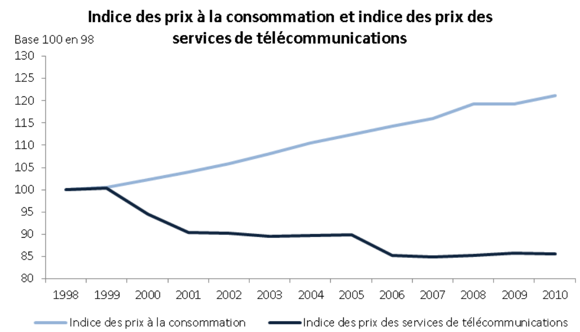
- Evolution of revenue, in value and volume, and of prices
- Spending, margins and jobs

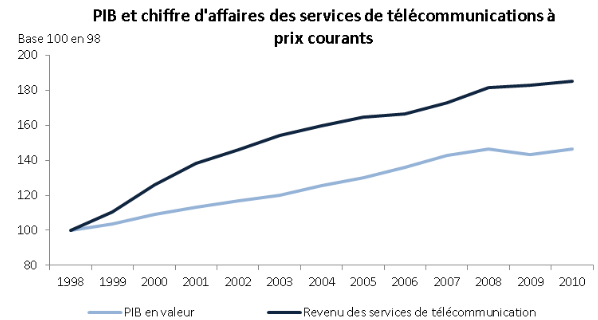
Trajectory of revenue, in value and volume, and prices

- **France's gross domestic product (GDP)** has increased by 20% in volume and by 45% in value over the past 12 years. The general price index rose by more than 20% during that time.
- **Looking at telecom services markets**, production volume grew by more than two times in 12 years: production in current prices rose by 85% while telecom service prices dropped by close to 15% during that same period.
- **In 2011,** according to operators' forecasts and the data at ARCEP's disposal, production has stabilised and prices continue to drop.
  - GDP and telecom service revenue, in constant prices — GDP in volume — Telecom service revenue, in volume
  - Consumer price index and telecom services price index — Consumer price index — Telecom services price index
  - GDP and telecom service revenue, in current prices — GDP in value — Telecom service revenue

  Base 100 in 98





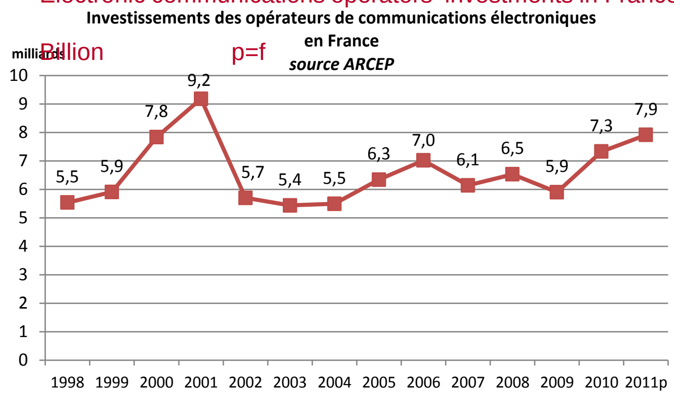


Source:: INSEE for GDP and price indexes; ARCEP for telecom services revenue

Spending, margins and jobs

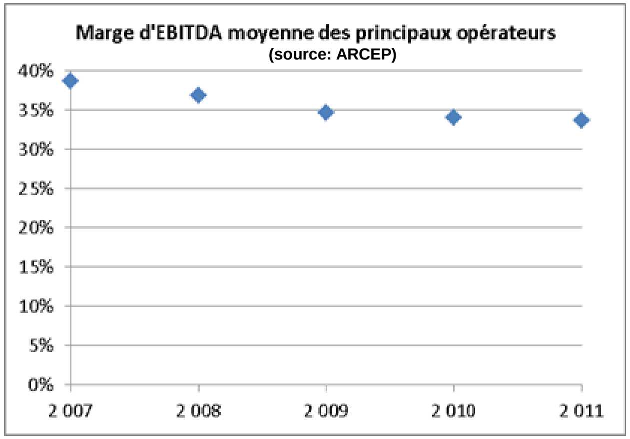
- 2011 proved an exceptional year in terms of **spending in** the telecom sector
  - Close to €8 billion invested, which marks an 8% increase over the year before and the second highest of any year since 1998
  - Spending on superfast broadband network rollouts increased to €1.8 billion for mobile networks, and €700 million for fibre deployments, or a total €2.5 billion for the year
  - Added to this are public investments and subsidies for public-initiative networks

Electronic communications operators' investments in France

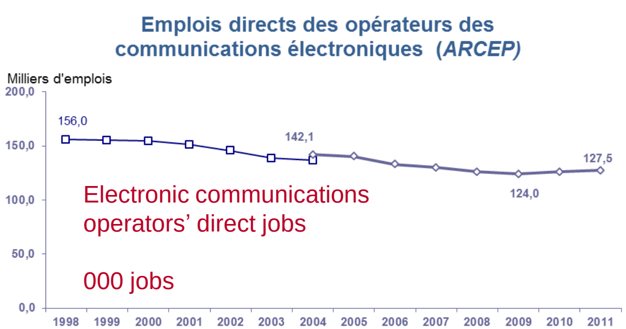


- **Margins** have shrunk over the past several years, but are still high enough to enable operators to plan on major expenditures

Main operators' average EBITDA

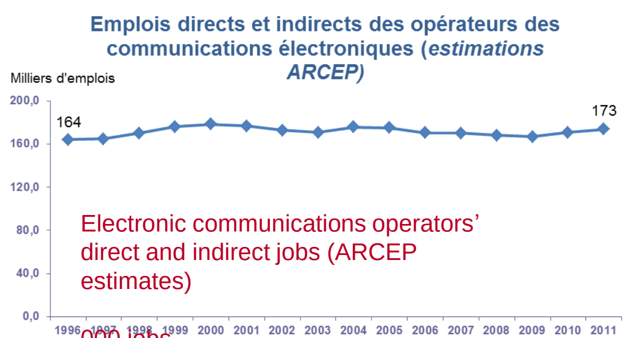


- Employment steady in telecom sector and growing in digital industries



Electronic communications operators' direct jobs

000 jobs



Electronic communications operators' direct and indirect jobs (ARCEP estimates)

000 jobs

Digital economy jobs

According to the various available sources, the digital industry (i.e. production of ICT goods and services, online services and ICT sector businesses) employs somewhere between 700,000 (Coe-Rexecode, 2008, according to INSEE) and 1.15 million people in France (McKinsey, 2011) – a figure which has shot up over the past 10 years.

ARCEP Autorité de régulation des communications électroniques et des postes www.arcep.fr

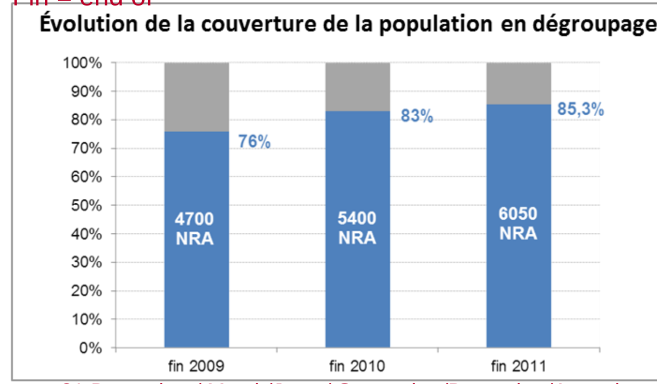
2. Users

- Wireline networks
- Available wireline services
- Mobile networks: coverage levels
- Mobile networks: market environment on the advent of the fourth mobile operator
- Mobile networks: arrival of the fourth MNO and resulting consequences

Wireline networks

Rise in% of the population covered by LLU

Fin = end of



31 December / March/June / September/December/Annual growth

Homes passed for FTTH
Homes passed thanks to network sharing (*)
Households subscribing thanks to network sharing (*)

Lasting success of unbundling

Local loop unbundling (LLU) has been key to fixed market competition, and has contributed to the commercial success of broadband

- End of 2011: 6,050 exchanges unbundled, or **85% of all lines**
- 22.1 million subscriptions to broadband access services,

or 73% of French households (source: Mediametrie-GFK)

To extend LLU to increasingly small exchanges

- Creation of a "cohabitation solution" for these small exchanges
- Ordered decrease in wholesale LLU tariffs, especially copper pair tariffs (€8.80/month)
- Improved terms for accessing France Telecom's optical fibre backhaul solution (LFO)

Ultra-fast broadband rollouts continue

- More than 5 million **homes passed** for ultra-fast broadband:
  - 1,475,000 homes passed for FTTH **(+37% in a year)**
  - around 4.3 million homes passed for FTTLA (cable)

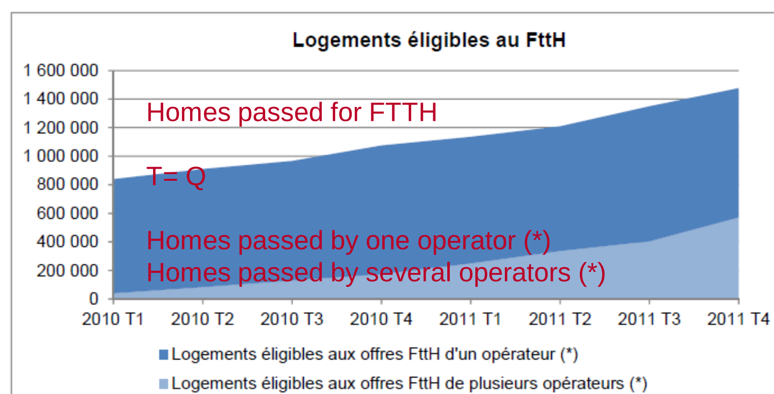
  including 1.2 million outside very high-density areas
- 665,000 **subscribers** to ultra-fast broadband services, of which 200,000 to FTTH and 465,000 to cable, or +200,000 more than in 2010 (**+43% on the year**)

FTTH network sharing accelerating

- 572,000 households have access to several FTTH offers
- Or 39% of all homes passed **(+230% on the year)**

	31 décembre 2010	31 mars 2011	30 juin 2011	30 septembre 2011	31 décembre 2011	Évolution annuelle
Linéaire de génie civil loué à France Télécom	2 690	3 290	4 560	5 240	**6 050**	**125%**
Logements éligibles au FttH	1 075 000	1 135 000	1 210 000	1 350 000	**1 475 000**	**37%**
Logements éligibles *via* la mutualisation (*)	175 000	250 000	336 000	405 000	**572 000**	**230%**
Nombre d'accès *via* la mutualisation (*)	3 300	6 000	9 300	13 000	**20 000**	**510%**

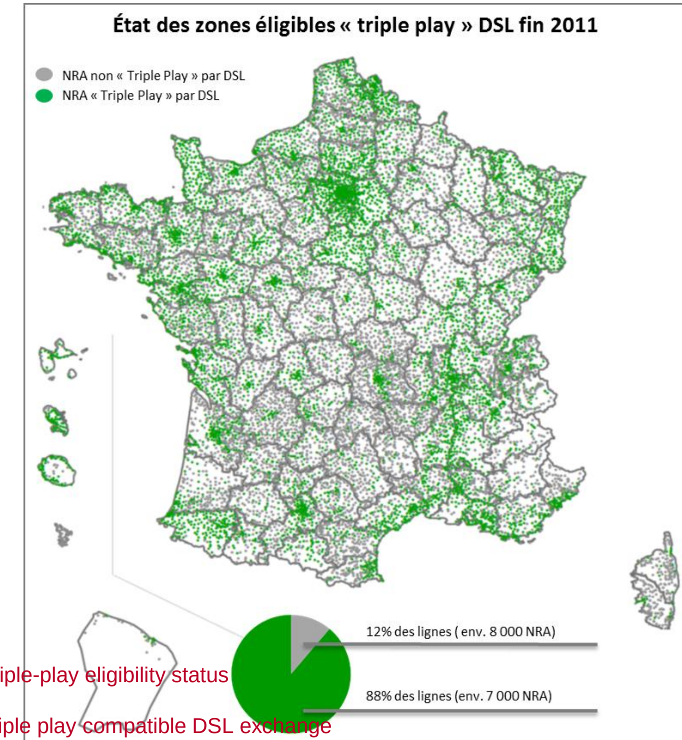
(*) via une offre passive au point de mutualisation



Available wireline services

- Widespread access to triple-play bundles:
  - 7,000 of exchanges, or **88% of DSL lines** can deliver triple play bundles
  - **67% of lines** supply connection speeds of at least 4 Mbps, making them compatible with triple play bundles
  - The use of additional technologies such as satellite makes it possible to supply the entire country with triple play packages

- France is among Europe's broadband frontrunners
  - In terms of penetration, with 34% of the French population subscribed to broadband, putting France in 3rd spot amongst the 27 EU Member States, and in top spot amongst the Union's five biggest markets.
  - More than half of France's broadband customers have a connection of over 10 Mbps (or 18% of the population). Here, France ranks 4th among European Union countries, behind the Netherlands, Denmark and Belgium.

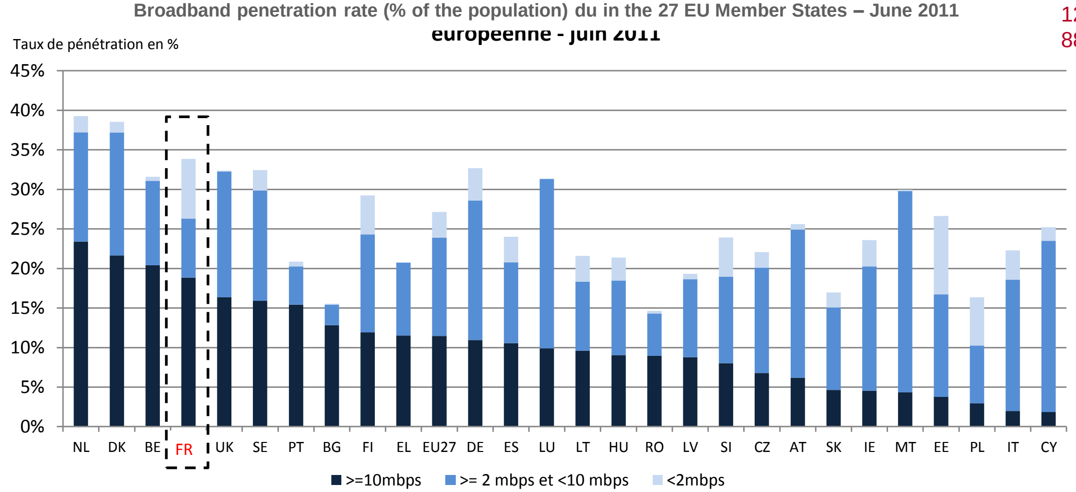


DSL triple-play eligibility status

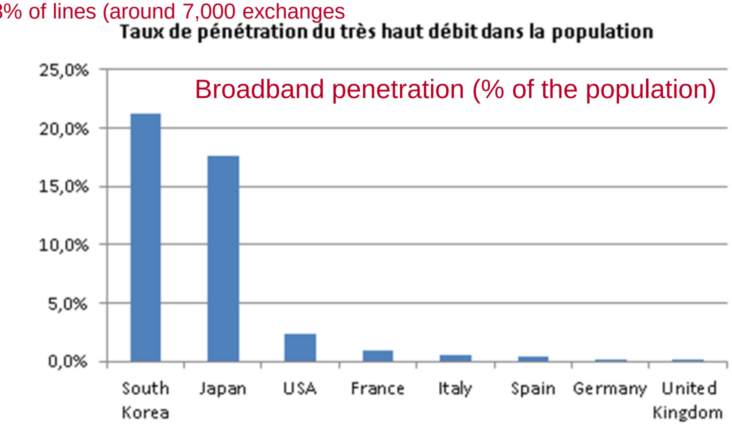
Non-triple play compatible DSL exchange
Triple play compatible DSL exchange

12% of lines (around 8,000 exchanges)
88% of lines (around 7,000 exchanges

Broadband penetration rate (% of the population) du in the 27 EU Member States – June 2011



Source: European Commission data



Source: IDATE

Mobile networks: coverage

2G/3G/4G mobile coverage

Definition of coverage: an area is considered to be covered if a phone call can be made with a success rate of 95%, even during peak traffic times. Measurements are taken outdoors to reflect the service's geographical availability. These measurements are not intended to qualify the service provided to customers or the quality of the network, as perceived by the user.

Notion of quality of service: to reflect a wide array of situations that are representative of consumers' daily experiences, whether in terms of the quality of the connection or the speeds achieved on each mobile network, through technical measurements. Mobile operators' licences include quality of service obligations that are distinct from their coverage targets.

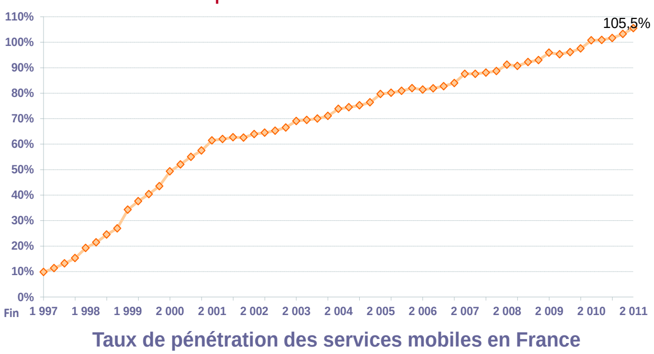
- **2G**: in 2009, 99.8% of the population (97.7% of the territory) was covered by at least one operator, and 97.8% of the population by all three operators.
- **3G**: Orange and SFR were covering 98% of the population at the end of 2011, in line with the targets set by the notice to comply issued in November 2009. Bouygues Telecom was covering more than 93% of the population at the time.
- **4G** – obligations stipulated in operators' licences:
  - national coverage: 99.6% of the population
  - departmental coverage: at least 95% of the population
  - priority rollout area (18% of the population, 63% of the territory) where deployments must be performed more quickly
- Mobile coverage in Europe
  - comparable coverage definitions (notably applicable to outdoor coverage)
  - coverage obligations generally higher in France than in other countries, particularly for 4G
  - on the whole, 2G/3G deployments further along in France than in the rest of Europe

Other obligations listed in 4G licences

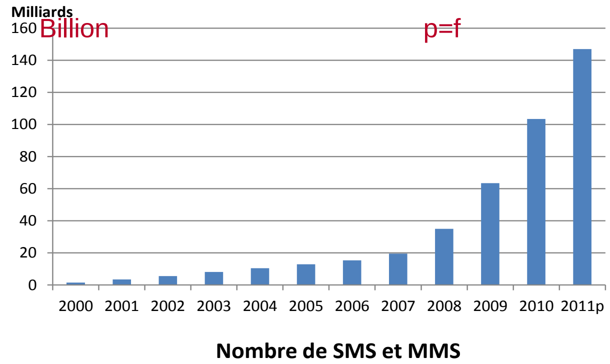
- **Roaming rights** in the 800 MHz band for Free Mobile on the SFR network in the priority rollout area
- Commitments to **host virtual network operators** (full MVNO model) from all winning candidates
- Obligation to **grant all reasonable network and frequency-sharing requests** in the priority rollout area, between Bouygues Telecom and SFR

Mobile networks: market environment on the advent of the fourth mobile operator

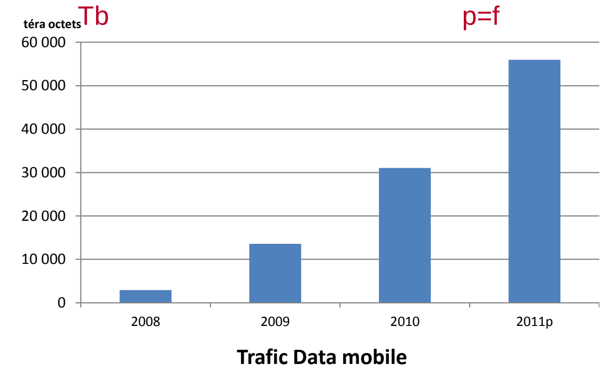
Mobile service penetration rate in France



Number of SMS and MMS



Mobile data traffic

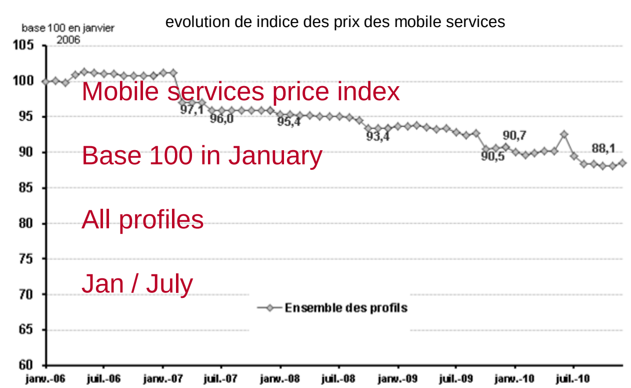


A market in constant development

- 68.5 million mobile service customers in France, which translates into a penetration rate of **105.5%** of the population, and rising steadily
- Increased use of services:
  - Still steady growth for calling traffic (+3% in 2011)
  - Explosive growth for SMS (+40% in a year) and data traffic (+80% in a year) over the past four years
- A market of close to €20 billion euros and whose **revenue has increased by a factor of five in 15 years.** Data now accounts for close to 30% of mobile service revenue

Prices decreasing but still above the European average

- Prices decreased more sharply in 2010 (- 3.4% on the year vs. an average annual decrease of 2.9% between 2006 and 2010) – but still remain higher than the European average.



Mobile networks: arrival of the fourth MNO and resulting consequences

Free Mobile's obligations and main commitments

- Providing 3G coverage to at least 27% of the population of Metropolitan France with its own network by 12th January 2012; to 75% of the population by 2015 and 90% by 2018
  - Au audit performed in late 2011 revealed this obligation had been met
  - A second audit performed in February confirmed that Free Mobile was still satisfying this obligation
  - **For the sake of transparency, ARCEP will release the documents supplied by the undertakings that performed these measurements**
- Publication of a 3G access offer for light-MVNOs and full-MVNOs
- Offer a plan that includes at least 3 hours of calling for under €20
- On the employment front, launch of customer relations centre in France that employs at least 500 people
- Free Mobile also has 2G roaming rights, extended to 3G, through an agreement signed with Orange in 2011

In June 2012, Free Mobile is due to provide ARCEP with a status report on compliance with its obligations

Free's offer and its consequences on the market

- **Game changer:** streamlined retail offers, separation of the service and the device, customer relations handled chiefly online, and low prices. A low-cost model?
- Is Free's model sustainable?
- How will this affect the mobile market (in terms of volume, revenue, etc.) as a whole, and especially Free's competitors, both network operators and MVNOs?

The regulator's role

- Verify compliance with regulatory obligations and commitments: next update in June 2012
- Set a relevant SMS termination charge for new entrants
- Measure the quality of service supplied by Free on its own network, and that of other operators in late 2012

The electronic communications market is the only market in France to post such remarkable results over the past fifteen years, combining exceptional growth rates in terms of both volume and revenue, decreasing prices, high levels of investments and strong margins, and steady improvements in the quality of service provided to users.

On the jobs front, thanks to the deployment of new networks, the overall stability of operators' direct and indirect employment levels has resulted in job creation in all sectors of the economy, and especially in digital economy sectors.

So the process of opening the market up to competition, within a regulated environment, has been a success all in all.

3. New networks, new regulations

- Regulation has achieved its initial objective, as set by European and national texts, enabling a state of sustained competition to emerge between the four national operators and Numericâble
  - Free's entry into the marketplace marks the completion of this first stage of regulation
- The process of replacing and upgrading infrastructure, and the emergence of new issues in the marketplace, justifies the need to revise existing regulation and to bring changes to the regulator's mandate. The five biggest changes are:
  - **More symmetrical regulation**, adapted to having several operators pooling their investments to build a new network (e.g. FTTH)
  - **Increasingly shared resources** to limit required investments in deploying parallel fixed and mobile ultra-fast broadband networks:
    - Up to 90% of FTTH network rollout costs pooled outside of very high-density areas (i.e. 95% of the territory)
    - In priority rollout areas for undertakings who were awarded 4G licences in the 800 MHz band (65% of the territory) through strong incentives to share networks and spectrum resources
  - **Regulation tailored to a more active consumer**
    - Guarantee market liquidity to protect consumers' freedom of choice
    - Increase the information available to consumers, notably concerning quality of service
    - Adapt to consumers who are now generators of content on the internet
  - **Less automatic and more flexible regulation** (co-regulation/recommendations)
  - Purview extended to **technical and economic regulation of the internet**
    - ARCEP given new powers through transposition of the revised European framework

4. ARCEP's current and future areas of focus

- Implementing the regulatory framework for FTTH
- Mobile services
- Value-added services
- Net neutrality
- Postal regulation

Implementing the regulatory framework for FTTH

- ARCEP monitors FTTH rollouts and ensures their compliance with the framework it crafted
  - Completion in early 2012 of work on "low-density pockets" in very high-density areas
  - Draft of a document establishing common terminology
  - Assisting local authorities as part of the work performed in the GRACO discussion forum
  - Status report on the implementation of the regulatory framework, due for late 2012
- Finalisation of the FTTH rollout cost model
  - This model will be made available to local authorities in the coming weeks
- Ongoing work on backhaul and last metre connection
  - Improving unbundling operators' access to existing optical fibre backbones
    - By creating an environment that encourages upgrading the 3,000 exchanges (representing 2.7% of lines) not yet outfitted for fibre
    - By developing the exchange of information, especially between operators and local authorities
    - And by analysing different solutions (offloading traffic on existing networks, access to civil engineering for new network rollouts)
  - Private sector operators and local authorities stepping up their investments
  - The agreement signed on Wednesday, 21 March between Manche Numérique and France Telecom. This first ever co-investment agreement with a private operator for an ultra-fast broadband public-initiative network underscores the relevance of a regulatory model.
  - Commissioner-general for government investment support earmarks €72 million for public-authority led projects in Brittany and the Haute-Marne, on the heels of funding given to projects in La Manche and the Auvergne region (€54 million)
  - Private sector operators have also begun their rollouts outside of very high-density areas, and have confirmed or are giving details on commitments made in agreements with local authorities (Auvergne in February, Brittany today)
  - Private operators invested more than €500 million in FTTH rollouts in 2011 and plan on spending even more in 2012. France Telecom has announced that it will be spending more than €300 million on FTTH in 2012. Numericâble has said it will pick up the pace on its network upgrades.
- What remains now is, first, to set up a coordinated strategic and technical plan for FTTH rollouts nationwide and, second, the Digital Regional Development Fund (FANT) provided for in the Law of 17 December 2009 by allocating sustainable resources to it (responsibility of the Parliament and the federal government)

Mobile services

- **Number portability following the launch of Free Mobile services: challenge met**
  - Tremendous surge in number portability requests after 10 January, beyond the processing capabilities of the common entity in charge of managing mobile number portability in France – which processed an average 10,700 porting requests a day in 2011, and increased its capacity to 80,000 a day to meet the demand
  - ARCEP reminded mobile operators that customers wanting to keep their number must not lose their service or suffer disproportionate loss of service:
    - Operators must ensure that customers have their new mobile connection before the actual porting process;
    - Mobile operators must be able to process retraction and cancellation requests within legal timeframes, to keep customers from being unreachable
  - The portability processing time (3 working days) has been back to normal since early March
- **Handset locking: status of the systems put into place by operators**
  - Since the start of 2012, ARCEP's departments have noticed an uptick in complaints from consumers having trouble obtaining the codes and instructions on how to unlock their mobiles:
    - Obligation to contact customer service several times, even contract-free handsets locked…
  - ARCEP has reminded operators of their obligations and has requested a copy of the procedures they have put into place to comply with existing laws
  - This issue will also be addressed in a status report on implementation of the proposals of February 2011 to improve the services made available to consumers, which will be published this summer
- **New entrants' call and SMS termination charges**
  - ARCEP notified its draft decision on call termination to the European Commission on 13^{th} March 2012
  - Work has begun on SMS termination, and will be complete by the summer
- **Call termination rates for mobile operators in French overseas markets**
  - ARCEP has submitted an efficient operator cost model to public consultation
  - The decision setting new mobile termination rates for the overseas markets will be issued in early summer

Mobile services

- In autumn, ARCEP will produce a single report on 2G/3G/4G coverage and quality of service
  - Both these elements will be measured on an annual basis
  - This report will also contain proposals on:
    - Planned changes to the definition of mobile coverage
    - Improving quality of service measurements and indicators
- Implementation of technology and service neutrality in mobile bands
  - ARCEP has begun examining the terms governing reuse of the 1800 MHz band for 4G (consultations; decision in Sept 2012)
- World Radiocommunication Conference (WCR)
  - ARCEP will take part in the work needed to implement the decisions of the CMR (2nd digital dividend) to satisfy the growing needs of mobile services

Value-added services (VAS)

- Reforming VAS call pricing
  - The summary of the public consultation on VAS pricing confirms the need to reform the system to restore consumer trust:
    - Homogenised pricing for fixed and mobile operators;
    - Explicit distinction between the price of the service supplied by the vendor ("S") and the price of the call ("C") which will be the same as the price of a call to a landline;
    - simplifying the range of time-based rates and creating a range of call-based rates (in other words regardless of the length of the call) for service providers;
    - the development of toll-free numbers for users calling from a fixed or a mobile line
  - A draft decision providing precise details on the scope of the reforms and its roadmap will be submitted to public consultation in the near future. The decision should be adopted by mid-2012.

Net neutrality

- The work that ARCEP has been performing since autumn 2009, along with the international conference in April 2010, resulted in the publication of 10 proposals in September 2010
- Net neutrality is a notion that requires two distinct dimensions of the marketplace to be reconciled:
  - a smooth-running and sustainable internet, which means maintaining operators' ongoing ability to invest in upgrading their infrastructure;
  - and protecting the founding principles of the internet: freedom, openness, accessibility, non-discriminatory
- Work in progress and on the horizon
  - In accordance with the Law of 11th March 2011, ARCEP will deliver a status report to the French Parliament and Government on its work devoted to Net neutrality. It will be submitted to public consultation in the coming weeks, and later to these public authorities
  - Regular information gathering campaigns on the **technical and pricing terms governing interconnection and routing**, to achieve clearer relations between the players
    - public consultation ended on 17 February
    - Decision imminent, first information gathering campaign in Q2 2012
  - Monitoring **the quality of internet access services** (measuring indicators and publishing scorecards/benchmarks): improving the information available to users and competition between operators
    - public consultation ended on 17 February
    - Decision defining how the campaign in Q2 will be organised; implementation of the system. First findings in 2013
  - **Traffic management**: clarify the rules and improve information available to users
    - Expand the means of governing traffic management techniques in the report to Parliament and the Government
    - Working group to improve the transparency of traffic management (ARCEP, DGCCRF, DGCIS, ISPs, consumer protection and user organisations)
  - Publication of work performed by BEREC in 2012
    - Results of a survey on traffic management, and submitting an analysis report on its impact to consultation
    - Consultation on guidelines for minimum quality of service requirements

Postal regulation

General situation

- Roughly 3% decrease in volume in 2011, less than in previous years
- The letter market is still dominated by La Poste but the parcel market becoming increasingly competitive
- Ongoing consolidation of Europe’s postal market
- Successful diversification for La Poste, into banking and cellular telephone services

Recent developments

- Quality of the universal service (a core mandate for ARCEP): although ARCEP welcomes the improvements achieved in 2011 in letter delivery times (87.3% delivered the next day, which marks a 3.9 point increase) and the progress made with certain services, such as Minimax, certain universal service obligations are still not being met, such as an offer for small postal items
- In the coming weeks, ARCEP will assess its new mandate to handle the complaints received in 2011 as a last resort. The opinions received are intended to improve postal services, in terms of the accuracy of the information made available to consumers, and the quality of the service rendered

Work begun in 2012

- ARCEP will calculate the net annual cost of the regional development mandate assigned to La Poste. In 2010, it came to €269 million
- The Authority will also set the multi-annual price cap for the universal postal service for 2013-2015. The current cap had been extended to 2012 to take into account the year’s uncertainties, such as the impact of the launch of the “*lettre verte*” (lower cost, slower delivery) and the uncertain outlook for the volume of mail items to be handled
- The purpose of this scheme is to provide La Poste with the certainty and flexibility it needs when setting the rates for universal service offers