

Sample

Country Profile Country X

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Country X – Economic and Political Environment

Basic country data

Capital:	City
Official languages:	Language
Currency:	Euro (€)
Exchange rate to US\$ (April 2006):	1€ = US\$1.22966
Time:	GMT +x hour
Country code (dialling in):	+xx
International prefix (dialling out):	00
Mobile technology:	GSM900/1800 WCDMA 2100
Electric power:	Voltage: 230V Frequency: 50Hz
Plug type:	Electric: Type E (round pin) Phone: xxxxxx
Driving direction:	Right side of the road
Neighbouring countries:	Country A Country B Country C Country D

Country X – Economic and Political Environment

Economic summary

Country X is the fifth largest economy in the world (behind the US, Japan, Germany and the UK) and is a major importer and exporter of manufactured goods. According to the OECD, Country X is one of the largest recipients of foreign direct investment (US\$24.3 billion in 2004) but is also the third largest outward investor (US\$47.8 billion in 2004).

The country X economy is highly diversified, with strong performance in many sectors. The agricultural sector and its associate industries represented 4.0% of employment and 6.9% of GDP in 2004. The industrial sector represented 21.4% of GDP, with strong automobile, pharmaceutical, transport and aerospace sectors. The services sector is important, providing approximately 72% of GDP. Expenditure on public services, including government administration and state-owned companies, represents an estimated one-third of GDP.

Country X is undergoing gradual transformation from a government-dominated economy to a full market economy, although this process tends to be hesitant. The government has sold or partially-sold its shareholdings in various companies (including banking, telecom, insurance, and car manufacturing), but has retained its shareholdings in the energy sector (Electricité de Country X and Gaz de Country X) and public transport.

The Country X economy is centred on its largest metropolitan regions, with Paris clearly leading. The region surrounding Paris generated 28.8% of GDP in 2003, despite containing only 18.7% of the population, according to the national statistical service (INSEE). By contrast, the next two largest contributors, the Rhone-Alpes (Lyon) and the Provence-Alpes-Cote-d'Azur (Marseille, Nice) regions, produced only 9.6% and 7.2% of GDP respectively, with 9.6% and 7.7% of the population. GDP per capita in Paris is effectively double that in the lowest region, Corsica.

Country X politicians are generally committed to a free market economy, but are equally committed to government solutions to social problems, including legislation, taxation, and social spending. This has created a significant tax burden, and Country X has one of the highest tax rates among OECD countries (total tax receipts were estimated as 44% of GDP in 2004).

Despite this high tax base, the government has repeatedly failed to meet the budgetary targets of the European Stability and Growth pact since 2003, which restrict deficits to 3.0% of GDP.

According to OECD statistics, Country X has a higher productivity (unit of GDP per hour worked) than other leading countries, but its GDP per capita is similar to other European economies and 30% lower than the US. This is largely because a lower proportion of the population works, with one of the lowest proportions of its adult population in work (41.5% in 2003, compared to 50.1% in the US and 47.3% in the UK). This is a result of several factors, including long-term unemployment, early retirement schemes and structural barriers, such as extensive protection of workers' rights, high social security charges and a strong union presence.

The Villepin government was appointed in June 2005, and its two economic priorities are to encourage the private sector and to reduce the level of unemployment, which stood at 9.6% in January 2006. In particular, the government promised to take action on youth unemployment, as the official statistics indicated that 22.2% of the 15-24 age group was unemployed in January 2006, and this is considered one of the principal causes of the riots that took place in housing projects throughout Country X in November 2005.

The government introduced the "contrat première d'embauche" (first job contract) in 2006 to encourage the private sector to offer permanent jobs to young people with the right to fire the employee with effectively no notice in the first two years. This provoked widespread protests from students and unions, and was withdrawn after two months to be replaced by a range of social programmes and financial support for companies taking on unemployed young people.

Real GDP growth is forecast to pick up from 1.4% in 2005 to 1.9% in 2006 and 2.3% in 2007. Despite persistently high International oil prices, inflation should remain subdued in 2006-07 thanks to favourable base effects and a strengthening euro.

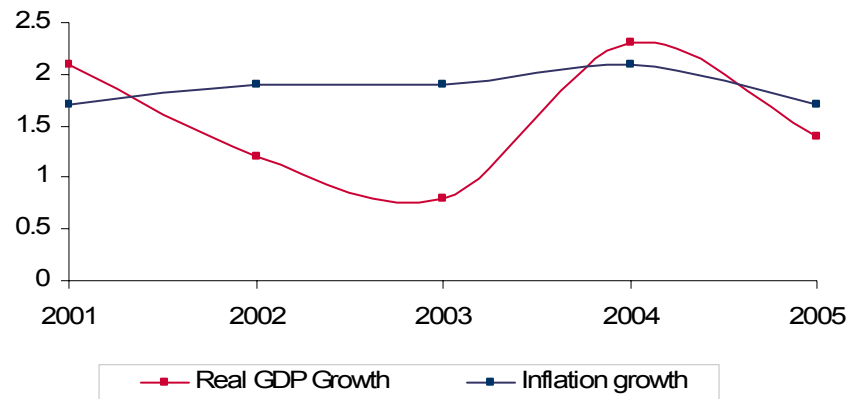
Country X – Economic and Political Environment

Key economic data

	2002	2003	2004	2005
Population (millions)	59.6	60.0	60.3	60.6
GDP (US\$ billions at market rate)	1,465	1,795	2,050	2,166
GDP per capita (US\$ at market rate)	24,578	29,910	34,003	34,901
Real GDP (€ billions)	1,549	1,585	1,648	1,671
Real GDP growth (annual %)	1.2	0.8	2.3	1.4
Inflation rate (year-end %)	1.9	1.9	2.1	1.7
Exchange rate (€ per US\$)	1.068	0.892	0.810	0.801
Unemployment rate (%)	8.9	9.5	9.7	9.9

Source: Bank of Country X, OECD, IMF

Growth rate: Real GDP vs. Inflation (%)



Country X – Economic and Political Environment

Political summary

Country X is the second largest country in Europe by population, and has been one of the leaders of European history and thought since the fourteenth century. The Country X political history is dominated by the Revolution of 1789 and was subject to continuous political strife during the 19th century, with periods of dictatorship (1799-1814, 1852-1870), restored monarchy (1815-1848) and republic (1848-1851, 1870-1940). Each period faced considerable political problems, and ended as a result of military action, popular revolution or political coup.

Following the Second World War, Country X politics was dominated by conflict between the political parties, creating short-lived governments which failed to address the underlying problems, particularly in the overseas colonies.

Executive power is held by the President, who appoints the Prime Minister from the largest party or coalition in the National Assembly. The President also appoints the Council of Ministers, which is answerable to Parliament.

Parliament consists of two chambers, the Senate and the National Assembly. The National Assembly has 577 seats, which are elected from single seat constituencies every five years. The Senate has 321 seats, which are elected through regional electoral colleges every six years, although 12 seats are elected by the Council of Country X Citizens living abroad. The parliamentary system is relatively weak, as the Parliament's powers are essentially limited to the approval of government-proposed legislation and of the budget, although the National Assembly has the power to pass a motion of censure forcing the immediate resignation of the Council of Ministers. Many members of the Parliament also hold municipal and regional elected posts.

The current President is the symbolic leader of the right-wing UMP party, which was created by the merger of Mr CCCCC's RPR party with two other centre-right groups in 2002. Mr CCCCC was elected President in 1995, following periods as Minister of Agriculture, Minister of the Interior, Mayor of Paris and Prime Minister.

The popularity of Mr CCCCC and the UMP party has been tarnished by judicial investigations into illegal money-raising schemes used by political parties in the 1980s and 1990s. The most significant cases surround the period when Mr CCCCC was Mayor of Paris (1977-1995), including accusations of vote-rigging, mismanagement of public procurement projects and employment of party workers in the city administration. In 1999, the Constitutional Court declared that Mr CCCCC has presidential immunity from prosecution in these cases, although former Prime Minister Alain Juppé was convicted of corruption in 2004 and is currently suspended from electoral office.

In May 2005, the Country X population rejected a government-backed referendum on the draft European Constitution. This rejection resulted from popular concerns over the perceived "liberal" direction of the constitution (away from the Country X model of government intervention and control), and the EC opening membership talks with Turkey. Prime Minister Jean-Pierre Raffarin resigned within days, to be replaced by Mr CCCCC's former policy advisor Dominique de Villepin.

A series of riots occurred in cities throughout Country X for three weeks in October-November 2005. These appear to be a result of the failure by Country X society to integrate second and third-generation immigrants from Country X's former colonies in North and West Africa, who face considerable discrimination and have poor education and employment opportunities. The government declared a state of emergency, and subsequently made a number of promises to resolve the problems.

The government introduced reforms in February 2005, including reforms to labour contracts so that companies could "hire and fire" workers under 26. This provoked considerable protests from students and unions, with between 1 million (according to police estimates) and 3 million (union estimates) people taking part in street protests, before the measure was withdrawn by the government in April 2006.

Country X – Economic and Political Environment

Critics have indicated that the government's replacement proposals reflect the traditional response of more spending and social programmes, rather than tackling the fundamental social problems of discrimination and intolerance.

Key political data

Type of government:	Republic
Chief of state:	President CCCCC
Head of government:	Prime Minister DDDDDDD
Political party in power:	Party XXXXXX
Other political parties:	Party AAAAAA PartyBBBBB Party CCCCCC
Next Head of State election:	April 2007
Next Legislative election:	June 2007
Political status:	Stable
Country safety conditions:	Safe
Memberships:	European Union G7 NATO WTO

Country X – Regulatory Environment

Regulator

<p>Name: Regulator A</p> <p>Address: 7 square Max Hymans Country X</p> <p>Telephone: +12 344545 77788</p> <p>Fax: +44 565778 44467</p> <p>Web site: www.xxx.com</p> <p>Main contacts: xxxxxxxxxxxx Chairman yyyyyyyyyyyyy Director General zzzzzzzzzzzzz Director, External Relations</p> <p>Year created: 1997</p> <p>Number of staff: 152</p> <p>Reports to: Cabinet and Parliament</p> <p>Budget approved by: Ministry of Economy, Finance and Industry</p> <p>Budget financed by: Directly from Central government budget</p>	<p>Responsibilities:</p> <ul style="list-style-type: none"> Licensing Interconnection rates Pricing regulation Radio frequency allocation Spectrum management Numbering plan Quality monitoring Universal service <p>Latest policies/events:</p> <p>January 2006: Applications closed for WiMAX licences.</p> <p>December 2005: Public consultation on International mobile roaming charges.</p> <p>September 2005: Country X Telecom agrees to offer basic subscriptions on a wholesale basis to competing operators.</p> <p>June 2005: Review of fixed and mobile number portability.</p> <p>November 2004: Reduction of wholesale mobile termination rates by 36%.</p>
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Source: xxx

Country X – Regulatory Environment

Policy maker

Name: Ministry A

Address: "Le Bercil", 12 rue Villiot
Country X

Telephone: +122 4445 667888

Web site: www.yyy.com

Main contacts: aaaaaaaaaa
Minister of Economy, Finance and Industry

bbbbbbbbbbbbbb
Minister of Industry

cccccccccccccc
Director General, DGE

ddddddddddddddd
Director, Technology and Information Society Service

Regulatory environment

	Monopoly	Liberalised	WTO commitment
Local		√	√
Domestic long distance		√	√
International		√	√
Mobile Analogue		√	√
Mobile Digital		√	√
Leased lines		√	√
Data		√	√
VSAT		√	√
XDSL		√	√
Wireless Local Loop		√	√
Paging		√	√
ISP		√	√
VoIP		√	√
Restriction on ownership			

Source: regulator, WTO

Country X – Telecom Statistics and Forecasts

		2001	2002	2003	2004	2005	2006F	2007F	2008F	2009F	2010F
General	Population (million)	59.2	59.6	60.0	60.3	60.6	60.9	61.2	61.5	61.8	62.1
	GDP per capita (US\$)	22,486	24,578	29,910	34,003	34,901	35,948	37,026	38,137	39,281	40,460
	Telecom Revenues (US\$ million)	29,622	31,936	40,008	45,253	45,361	46,722	48,123	49,086	50,068	51,069
	Total telephone subscribers ('000)	71,071	72,717	75,336	78,215	80,324	81,982	83,699	85,536	87,174	88,796
	Total telephone subs. Per 100 inhabitants	120.1	122.0	125.6	129.7	132.5	134.6	136.8	139.1	141.1	143.0
Fixed	Main telephone lines ('000)	34,074	34,124	33,807	33,903	32,816	31,766	30,972	30,384	30,201	30,171
	Main lines penetration (%)	57.6	57.3	56.3	56.2	54.2	52.2	50.6	49.4	48.9	48.6
	Main lines growth (%)	0.3	0.1	-0.9	0.3	-3.2	-3.2	-2.5	-1.9	-0.6	-0.1
Mobile	Mobile subscribers ('000)	36,997	38,593	41,529	44,312	47,508	50,216	52,727	55,152	56,972	58,624
	Mobile penetration (%)	62.5	64.8	69.2	73.5	78.4	82.5	86.2	89.7	92.2	94.4
	Mobile growth (%)	24.6	4.3	7.6	6.7	7.2	5.7	5.0	4.6	3.3	2.9
	% of total telephone subscribers	52.1	53.1	55.1	56.7	59.1	61.3	63.0	64.5	65.4	66.0
Internet	Internet subscribers ('000)	6,987	9,124	10,616	11,970	13,561	14,917	16,170	17,415	18,286	19,072
	Internet users ('000)	15,653	18,716	21,900	25,000	28,342	31,177	33,796	36,398	38,218	39,861
	Internet penetration (%)	11.8	15.3	17.7	19.9	22.4	24.5	26.4	28.3	29.6	30.7
	Internet growth (%)	27.9	30.6	16.4	12.8	13.3	10.0	8.4	7.7	5.0	4.3
	Internet hosts ('000)	789	1,389	2,403	2,336	2,570	2,827	3,109	3,358	3,627	3,917
	Personal Computers ('000)	19,500	20,700	25,000	29,410	32,351	35,586	39,145	42,276	45,658	48,398
Broadband	Broadband subscribers ('000)	602	1,655	3,568	6,530	9,466	11,454	14,020	15,870	17,251	18,113
	Broadband penetration (%)	1.0	2.8	5.9	10.8	15.6	18.8	22.9	25.8	27.9	29.2
	Broadband growth (%)	204.0	174.9	115.6	83.0	45.0	30.4	22.4	13.2	8.7	5.0
	% of Internet subscribers	8.6	18.1	33.6	54.6	69.8	76.8	86.7	91.1	94.3	95.0
Traffic	International – Outgoing (min. million)	4,084	4,704	4,471	4,078	4,013	4,174	4,340	4,601	4,877	5,170
	International – Incoming (min. million)	6,303	7,541	7,332	6,856	8,257	8,670	9,017	9,377	9,846	10,338
	Inbound/Outbound Int'l traffic ratio	1.54	1.60	1.64	1.68	2.06	2.08	2.08	2.04	2.02	2.00
Rates	Termination rate FOB NY (US\$/min) ⁽¹⁾	0.017	0.016	0.013	0.012	0.011	0.010	0.010	0.009	0.009	0.008

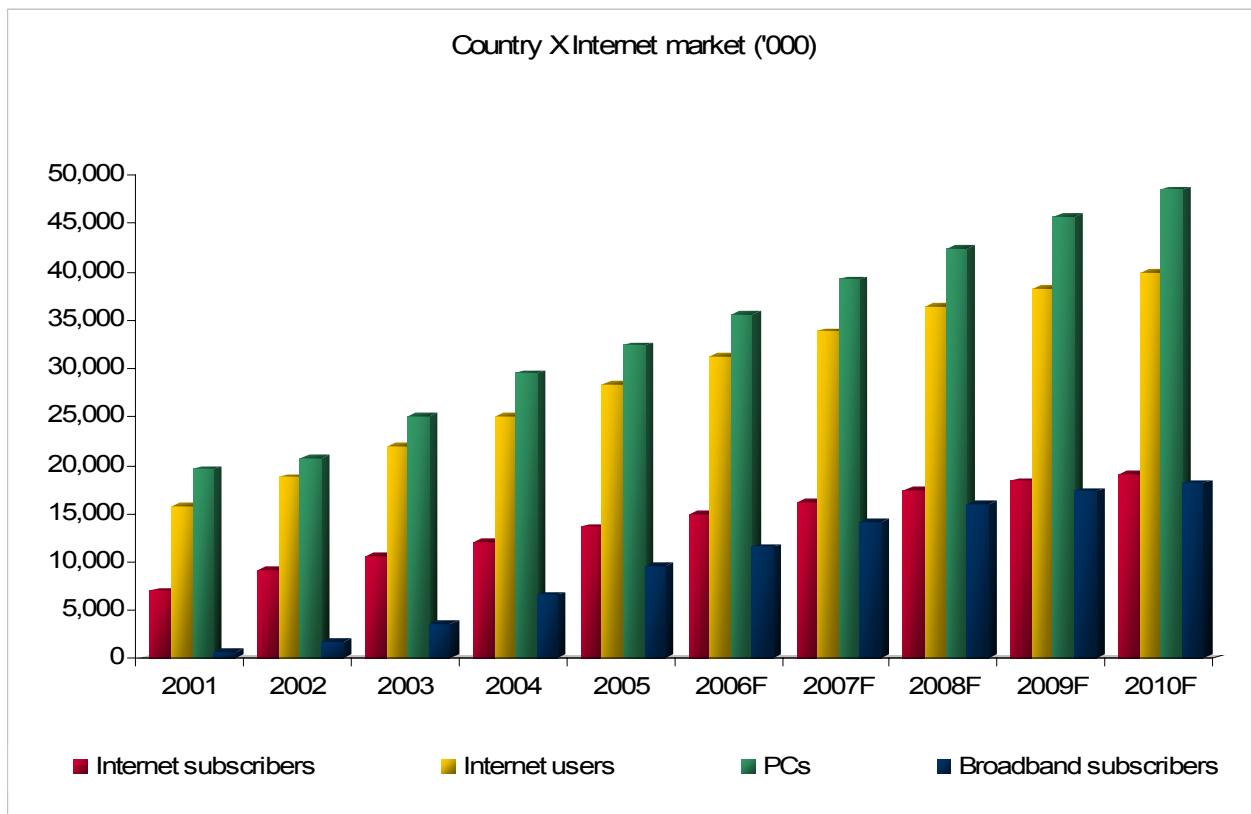
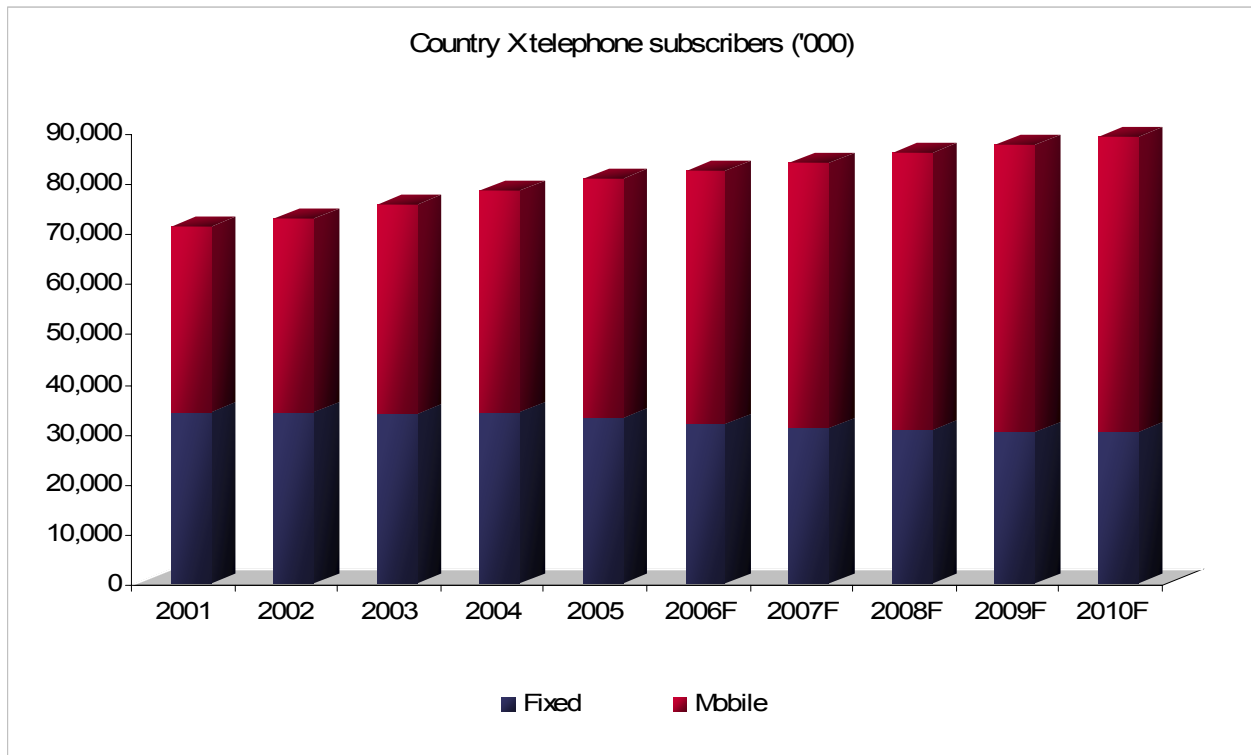
Source: ITU, Regulator, Operators

Data in red is estimated

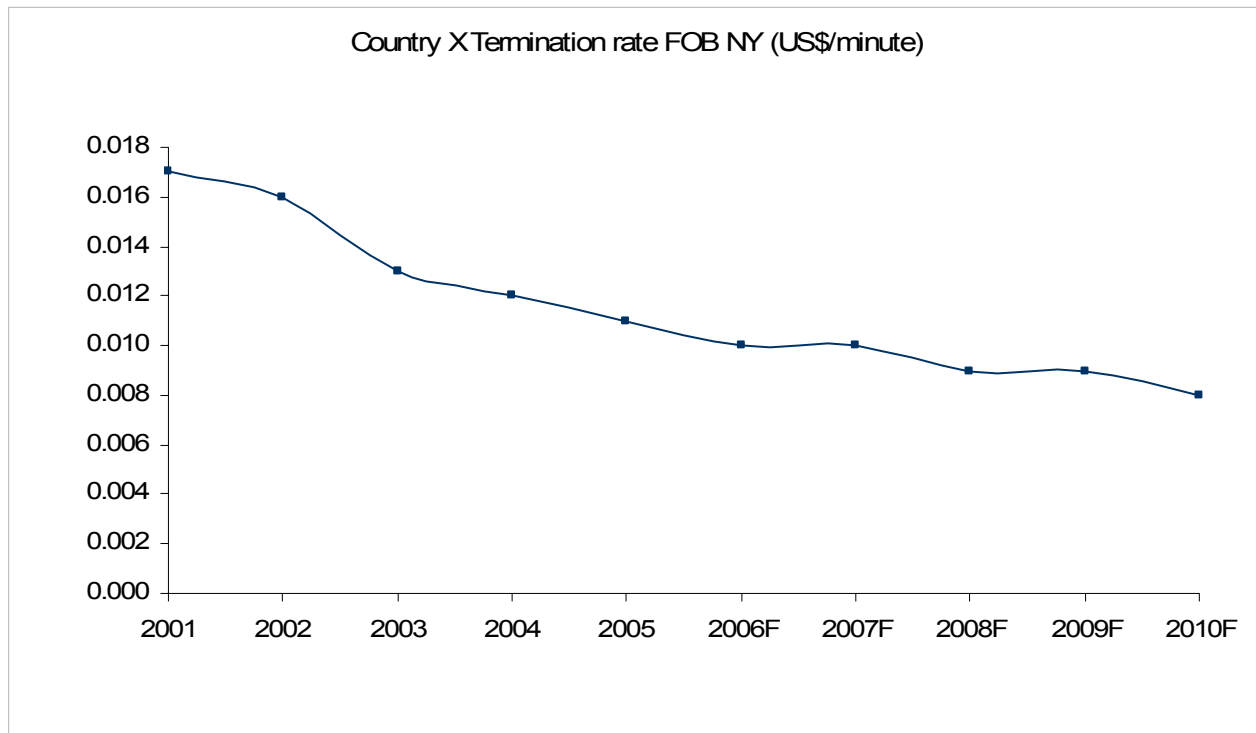
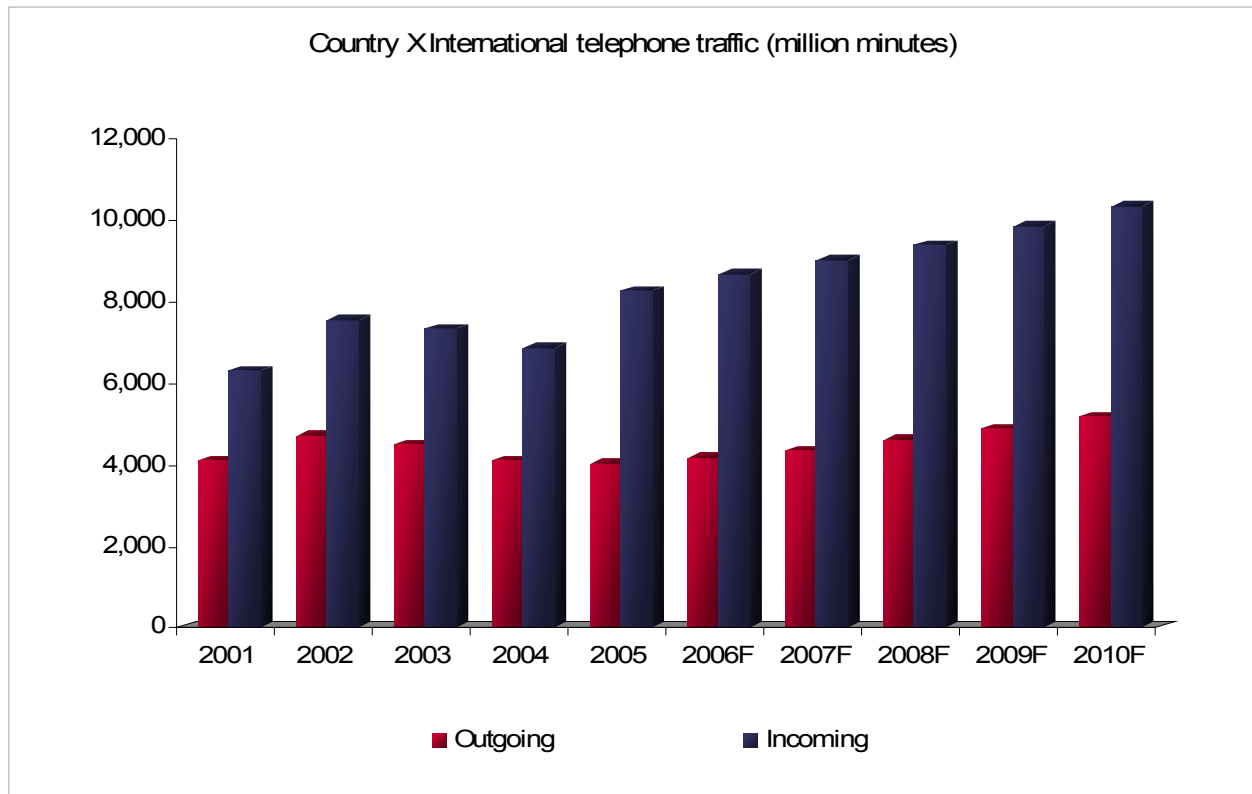
(1) Rate may vary depending on where traffic terminates in the country

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Country X – Telecom Statistics and Forecast



Country X – Telecom Statistics and Forecast



Country X – Competitive Environment

Telecom market overview

The Country X telecom market has changed considerably since the creation of an independent regulatory agency and liberalization of fixed line services in 1998. Total revenue grew from €29,633 billion in 2000 (equivalent to US\$27,408 billion) to €36,381 billion (US\$45,243 billion) in 2004. Revenue is forecasted to have grown to US\$45,361 million in 2005.

The independent regulatory agency, the regulator has enjoyed considerable success in opening up Country X Telecom's networks to competing operators, and its responsibilities were extended in 2004 to include postal services. Some operators have criticised the regulator for its delays in carrying out market analysis and for failing to use its full range of powers, as there were considerable delays in introducing the necessary secondary legislation.

The Country X government has been criticised on several occasions for the delays in introducing legislation for the new regulatory framework. Although primary legislation was introduced in July 2004, secondary legislation relating to the Authorisation, Access and Framework Directives was not passed by Parliament until July 2005, leading the European Commission to bring a case against the government before the European Court of Justice in July 2005.

The incumbent operator, Country X Telecom, remains in a strong position, even though competition in the mobile market began in 1989 and in the fixed line market in 1998. The Country X government retains a considerable shareholding in Country X Telecom (34.9%), and its former chief executive, Thierry Breton, was appointed as Minister of Finances, Industry and Economy in February 2005. Mr Breton has subsequently supported the government policy of supporting Country X companies (including Country X Telecom) as European heavyweights and capable of challenging American and Japanese firms on the world stage.

In July 2004, the European Commission's Competition Directorate decided that the Country X government had provided illegal state aid to Country X Telecom in two separate cases.

The Commission decided that Country X Telecom had been illegally exempted from local business taxes from 1994 to 2002, estimated at a total value of €800-1,100 million, which the company was required to reimburse to the government with interest. The Commission also decided that the government's public statements between July and December 2002, (that the company would not be allowed to go bankrupt) had "created expectations and confidence on the financial markets and helped to maintain Country X Telecom's investment rating". The Commission decided not to impose a fine, as it recognised that this was the first time it had decided on such a case.

Country X Telecom remains effectively the only integrated operator, offering the combination of mobile, fixed line and broadband services to its customers. There has been considerable speculation that mobile operators and fixed line operators will merge, but the only example to date is mobile operator operator Q's 28.2% shareholding in fixed line operator operator Y operator y. Several major operators are active in the Country X market, such as Deutsche Telekom's ISP Club Internet and Telecom Italia's ISP Alice, and mobile operator operator S Telecom has been referred to as both a predator and a prey for other operators.

In the fixed line market, Country X Telecom is expected to lose a progressively larger share of the market in the upcoming years, as the competing broadband operators persuade their clients to take the option of fully unbundled lines. Almost 3 million lines had been fully unbundled by the end of 2005, and several operators have already indicated that they intend to increase the range of subscription options for their clients.

In the mobile market, the position of the three operators has not significantly changed in recent years, and prices have remained relatively high by European standards. The Competition Council found evidence that the three operators reached a "Yalta agreement" on their market shares and regularly informed each other of their increases in customer numbers for several years. The Council imposed record fines on the three companies, although all three companies have appealed against the decision.

Country X – Competitive Environment

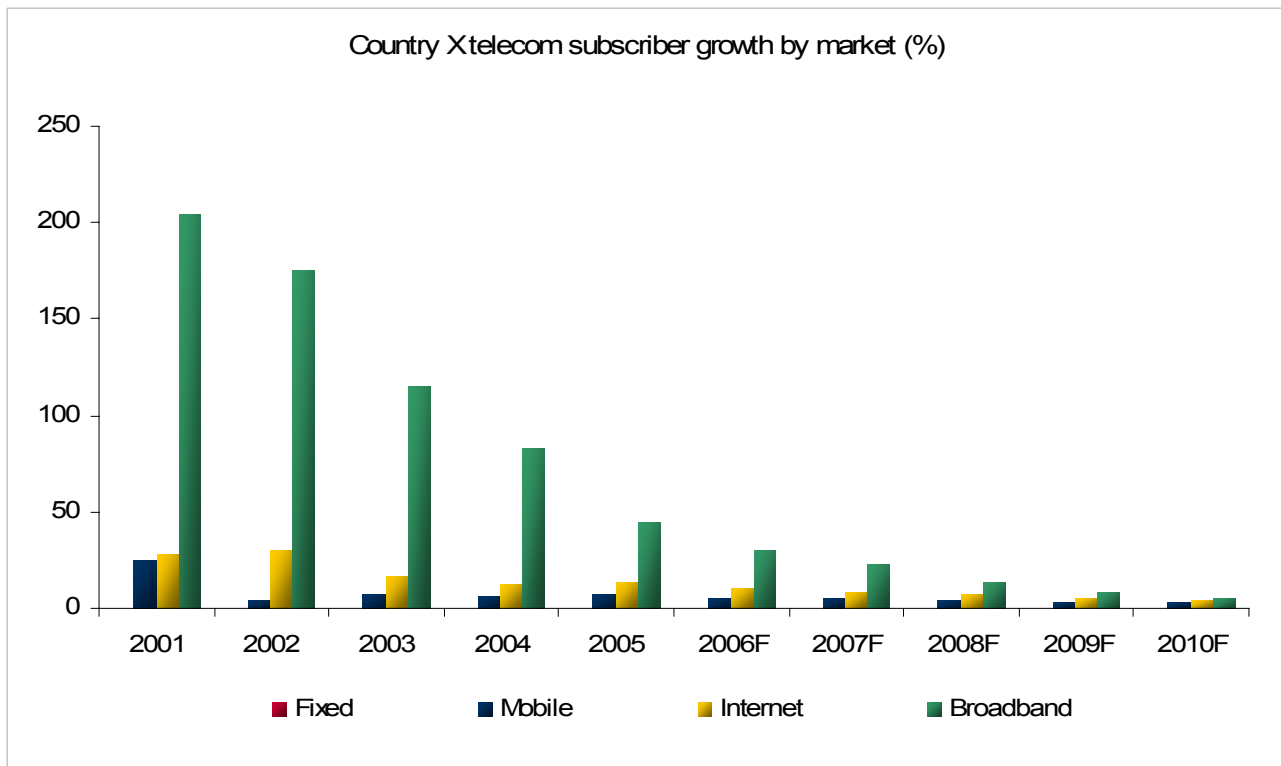
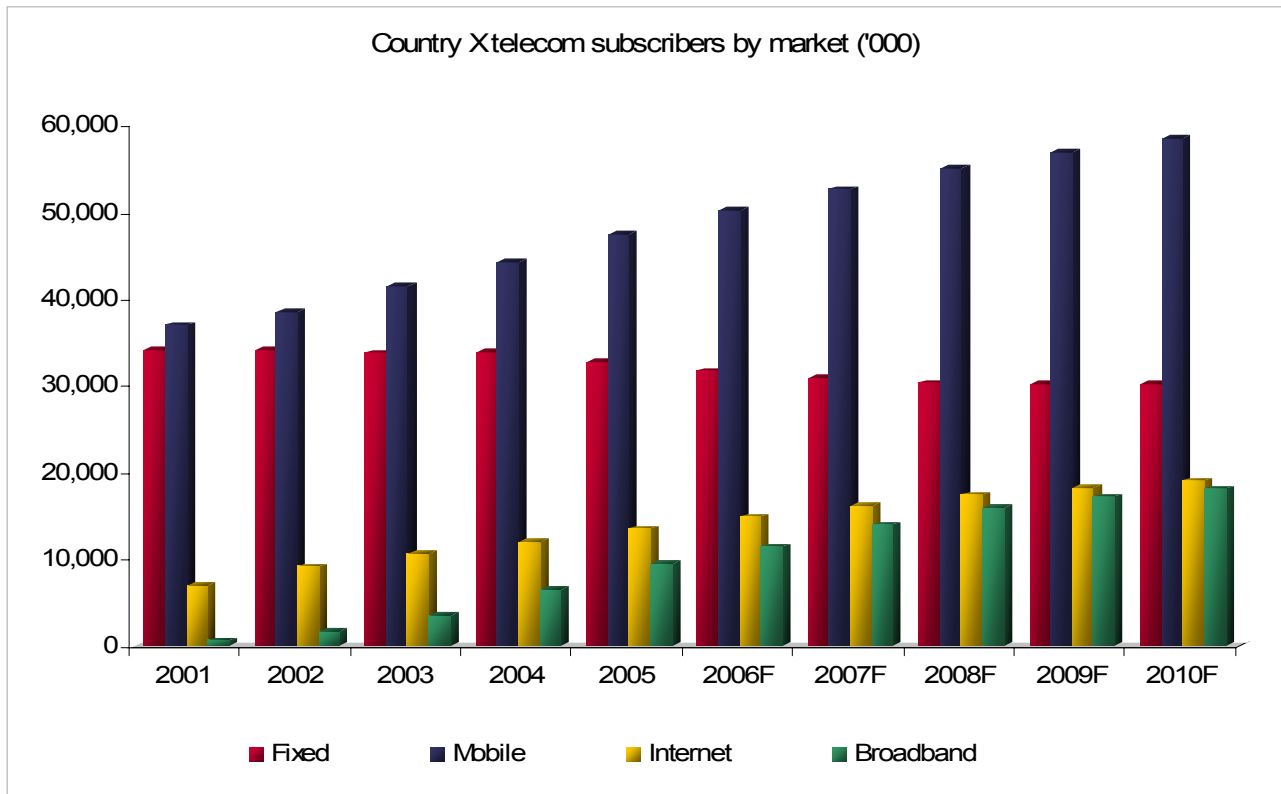
Arguably, the launch of virtual mobile operators will have a significant impact on the mobile market. Several companies have already launched services after the regulator decision in April 2005 enforcing the rights of virtual operators. Although they have had a limited initial impact, this is expected to grow as they become more established and as a wider range of major commercial groups become involved.

The broadband market has grown very rapidly, increasing to 13.6 million subscribers at the end of 2005. The rapid expansion was powered by the unbundling of Country X Telecom's local loop facilities, as seven ADSL operators compete to increase their market share and to provide additional value-added services.

The cable TV sector has gradually moved from a fragmented structure of various local network operators to a single national operator, Numericable, which bought out the second largest operator Noos in March 2006. With all major broadband operators offering television services as well as high speed Internet connections and fixed line telephony, Numericable may suffer from the delays in the consolidation process, as customers increasingly expect low prices and improved services and content.

Directory services were fully liberalized in November 2005, when competing operators were permitted to offer directory queries directly to customers. The regulator allocated three-digit codes to 30 operators, including fixed line and mobile operators and various specialist companies. Country X Telecom's directory service, using the numbers 12, 3200, 3211 and 3912, were withdrawn in April 2006. In March 2006, the regulator published statistics demonstrating that the new operators had achieved minor improvements in availability and accuracy of information and that there was an increase of 11% in the speed of the service.

Country X – Competitive Environment



Country X – Competitive Environment

Fixed market overview

Competition in the fixed line services market began in 1998, when alternate operators were permitted to install their own infrastructure and to provide services using carrier pre-selection and call-by-call selection. Initially, competing operators focussed on the long distance and International sectors, but the regulator was active in encouraging development of competing local networks, including fibre, cable and wireless. The regulator also took considerable action to ensure that Country X Telecom's local loop facilities were opened to competitors from 2001.

The total number of fixed lines has hit saturation in 2002 at 34.1 million subscribers and a penetration of 57.3%. Since then, the number of fixed customers has decreased steadily to reach an estimated 32.8 million line at the end of 2005. The decreasing trend is set to continue in the next 5 years with a forecasted average growth of -1.7% between 2005 and 2011 to reach 30.2 million lines at the end of 2010.

Despite increasing competition, the regulator reports that the cost of telephone subscriptions increased significantly between 2000 and 2004, by 8.2% for residential lines and 8.7-11.0% for business lines. By contrast, the per-minute cost of calls fell, by 5.9% for residential lines and 13.6% for business lines.

Country X Telecom remains the dominant operator, with competing operators only holding 1.8% of the direct access market. This is significantly below the European average. In terms of revenues, Country X Telecom held a market share of 78.9% for local calls, 66.9% for long distance calls and 65.7% for International calls at the end of 2004. At the end of 2005, the company had 27.8 million fixed lines, representing 84.7% of the market.

The total number of subscribers using alternative operators via indirect access (call-by-call selection and carrier pre-selection) increased by 9.9% in 3Q05. Progressively, consumers prefer carrier pre-selection, which increased to 6.2 million (growth of 18.1%). Call-by-call selection fell by 6.6% to 2.4 million and now represents only 28% of indirect access.

Since 2002, 21 operators have signed unbundled local loop agreements, and the regulator has had considerable success in opening Country X Telecom's local network to competitors. At the end of 2005, alternate operators held 2.8 million lines, with 2.2 million partially unbundled and 592,000 fully unbundled. Fully unbundled lines grew by 64% in 4Q 05, whereas partially-unbundled lines grew by only 3.5%. The number of partially-unbundled lines is not expected to increase dramatically, as operators seek to convert their customers to the more profitable full unbundling model.

By the end of 2005, Country X Telecom had provided access to competing operators in 1,107 exchanges. Increasingly, local authorities have taken advantage of legal amendments which now permit them to lead the unbundling process at local level if private sector companies do not approach Country X Telecom. This "absence of initiative" procedure can only be started once a public tender fails to attract any bidders, and are monitored by regulator.

Alternate operators have repeatedly complained about the price squeeze between Country X Telecom's reference unbundling prices and its retail subscription. regulator is considering what action to take on this matter, although a solution is not expected to have an impact until 2007.

In September 2005, Country X Telecom agreed to include a "full subscription offer" in its wholesale contract for competing operators. From April 2006 competing operators can offer the basic telephone subscription, rather than all subscribers being required to pay a basic subscription to Country X Telecom for access to the network and a separate subscription to a competing operator for call services.

A large number of operators entered the market following liberalisation, and the market was initially led by operator y, subsidiary of the operator z utilities group. New entrants tended to fight each other for subscribers rather than targeting different market segments and many of the companies which initially entered have subsequently left or merged with other operators.

Country X – Competitive Environment

The fixed line market is expected to be shaken up by the merger operator Y Telecom and operator y. operator y, a joint venture between operator z Universal and the state-owned national railways, was Country X Telecom's leading competitor for many years. Despite the advantage of its early start and its deep-pocketed backers, the company struggled to compete, and following losses of €75 million in 2004, was taken over by operator Y Telecom in August 2005.

operator Y operator y covers 70% of the population and has a national network alongside the railway infrastructure. It aims to become the leading competitor to Country X Telecom. operator Y operator y claimed 1.6 million fixed line subscribers in 2005, representing 4.9% of the market. Country X newspapers reported in March 2006 that operator Y operator y had chosen banks to act as bookmakers for an IPO in 3Q 06, although other industry sources described the company as being vulnerable to a hostile take-over by a major European operator, such as Deutsche Telekom or operator Q.

Another strong challenger is Swedish operator Tele2, which launched its services in 1998. Tele2 launched MVNO services in 2005, allowing the company to offer its subscribers a "quadruple play" (fixed line, broadband, television and mobile services) on a single bill. The company admits that it had experienced "technical problems" in rolling out its ADSL services in 2005, but was planning to launch as soon as possible.

Country X fixed subscribers by operator, 2003-2005

Main operators	2003		2004		2005	
	Subscribers ('000)	Market share	Subscribers ('000)	Market share	Subscribers ('000)	Market share
Operator X	27,900	82.5%	27,900	82.3%	27,800	84.7%
Operator Y	800	2.4%	1,100	3.2%	1,600	4.9%
Operator Z	215	0.6%	566	1.7%	1,120	3.4%
Others	4,892	14.5%	4,337	12.8%	2,296	7.0%
TOTAL	33,807		33,903		32,816	

Source: Operators

Data in red is estimated

Country X – Competitive Environment

Mobile market overview

The Country X mobile sector has evolved less quickly than comparable European markets, and has seen significantly slower growth recently. Following weak growth in 2002 (4.3%), the total number of subscribers has increased by an average of 7.2% since then. The penetration rate stood at 78.4% in 2005, significantly lower than the EU average of 92.8%.

According to EU statistics, the prices of mobile services in Country X are among the highest in Europe, particularly for low usage packages. operator N's 2Heures package (2 hours of calls for €36 per month) was the second highest reported figure, while operator Q's one hour package cost €18 per month. The prices offered by the three operators for equivalent services are consistently similar.

The two largest operators dominate the market, with operator N and operator Q holding market shares of 47.2% and 36.2% respectively in 2005. The third operator, operator S Telecom, launched service in 1996 and has a significantly lower market share (16.6% in 2005). operator S has struggled to impose itself against its two larger rivals, although its proportion of contract subscribers (69.2%) is significantly higher.

Following a complaint by consumer association Que Choisir, the Competition Council imposed significant fines on the three mobile operators in December 2005 for their anti-competitive agreements distorting market competition. The Council found that between 1997 and 2003, the three operators had exchanged subscriber numbers every month and had based their commercial decisions on these data. The Council had also found handwritten documents referring to an agreement to pacify the market and to stabilise the companies' market shares. The Council imposed the highest total fine in its history on the three operators (€256 million on operator N, €220 million on operator Q and €58 million on operator S, reflecting their market shares). All three operators have appealed against the Council's decision.

Following the unprecedented success of the German and British 3G licence auctions, the Country X government decided to award four 3G licences through a beauty contest process in 2000.

In view of the success of auctions in other markets, the government imposed a flat fee of €4.95 billion. operator N and operator Q submitted bids in January 2001, but operator S Telecom refused to submit a candidature, claiming that the fee was exorbitant. In 2002, the government launched a second call for offers for the remaining licences, with the terms of all four licences changed to an initial payment of €619 million, with a tax of 1% of 3G revenues. operator S eventually submitted its application, which was awarded in December 2002. The government has yet to award the remaining licence, and the regulator has indicated that it remains available.

The three operators have adopted different timetables for their 3G network rollout, with operator Q building a separate 3G network in parallel with its 2G network, while operator N and operator S have built their 3G network more slowly while overlaying a 2.5G technology (EDGE) on their 2G networks. operator S announced this decision in September 2003, allowing it to build up its customer base and range of mobile data services without using the experimental UMTS technology. operator N subsequently announced that it too would rely initially on EDGE.

operator Q launched its UMTS network in May 2004, followed by operator N in December 2004. operator Q estimated that it had achieved its target of 60% population coverage by the end of 2005, while operator N indicated that it covers nearly 60%. operator S claimed to have 90% coverage using its EDGE network. Both operator Q and operator N claimed approximately 1 million high speed data customers for their different networks, while operator S claimed 100,000 high speed i-mode customers.

Under the threat of regulatory intervention, the three operators agreed to provide network access to virtual operators in 2005. The first MVNO contract was signed by operator N with competing fixed line operator Tele2 in April 2005, and eight MVNOs have subsequently launched services. The regulator carries out regular studies of the impact of MVNOs, and estimated that the virtual operators had a total market share of approximately 0.2% in 3Q 05. MVNOs are expected to have greater impact during 2006 as they become more established.

Country X – Competitive Environment

Country X mobile subscribers by operator, 2003-2005

Main operators	Systems	2003		2004		2005		Pre-paid ratio
		Subscribers ('000)	Market share	Subscribers ('000)	Market share	Subscribers ('000)	Market share	
Operator N	GSM900/1800, WCDMA 2100	20,329	49.0%	21,241	47.9%	22,430	47.2%	38.2%
Operator Q	GSM900/1800, WCDMA 2100	14,700	35.4%	15,820	35.7%	17,200	36.2%	36.7%
Operator S	GSM900/1800	6,500	15.7%	7,251	16.4%	7,878	16.6%	30.8%
Total		41,529		44,312		47,508		36.4%

Source: Operators

Country X – Competitive Environment

Internet market overview

The Country X Internet market is highly competitive, with several operators providing diverse offers to consumers. The market has seen healthy growth in recent years, fuelled by the expansion of the broadband market. The total number of Internet subscribers increased from 5.5 million in 2000 to 13.6 million in 2005.

The total number of dial-up subscribers fell from 5.2 million in 2000 to less than 4 million in 2005, and was overtaken by broadband in 2003. The regulator reports that total dial-up Internet revenues fell from €615 million in 2001 to €406 million in 2004, while broadband revenues grew from €182 million to €1,389 million in the same period. Broadband subscribers reached 9.5 million at the end of 2005, representing 69.8% of all Internet connections. This ratio is forecasted to increase to 95.0% at the end of 2010, when broadband connections should reach 18.1 million.

Country X is the second largest broadband market in Europe, after Denmark, although broadband penetration (15.6% at the end of 2005) is only the seventh highest. The development of the broadband market is a result of Country X Telecom's rapid installation of ADSL equipment in its exchanges and the regulator's action in forcing the company to provide unbundled access. The cost of the full unbundled loop in Country X has declined in 2005 (from €12.70 per month in 2004 to €10.90) and remains below the European average (€12.00 in 2005). The regulator and the Competition Council also took action to ensure that Country X Telecom provided an effective service to other operators, and the regulator also offers support to local government in ensuring ADSL coverage.

Broadband has overtaken dial-up as a result of three separate factors: firstly, the increasing range of higher download speeds available, with some operators offer speeds of up to 24Mbps; secondly, operators have increased their marketing budgets, with progressively more sophisticated and complex product positioning; thirdly, operators have successfully introduced new services, including Voice over IP and "triple play" (TV, telephony and Internet).

The broadband market is dominated by Country X Telecom's Internet subsidiary operator W, which retains a market share of 47.1%. The position as second largest operator is keenly contested between operator F, with 1.6 million subscribers in 2005 (market share of 16.8%) and operator Y operator y, with 1.1 million (12.4%).

Broadband prices are considered to be among the cheapest in Europe. operator W offers a wide variety of speeds and prices, ranging from €10 per month for a 512kbps connection to €29.90 for a 18Mbps connection, and also offers complementary services, including digital TV, Visiophone and packages of call minutes. The total cost of operator W's triple play package (Internet, television and telephony) is €49.90. In comparison, operator F proposes a basic "triple play" package for €29.99, and cable operator Numericable offers its package at €39.90 per month.

Following a complaint by operator Y Telecom in 1999, the Competition Council ordered Country X Telecom to provide wholesale access to ADSL services in 2000, but the company refused to do so under the terms imposed by the Council. In November 2005, the Council imposed a fine of €80 million on Country X Telecom for preventing its competitors from accessing the wholesale ADSL Internet market. The company has appealed against the decision, claiming that the fine was disproportionate and that the case represented a conflict of jurisdiction between the Council and the regulator.

Regionally, there are considerable broadband coverage problems. The Regional Telecommunications Observatory estimated that only 52.8% of the population had access to more than one broadband operator in September 2005, and that there were no broadband operators present in 7.4% of communes, the lowest level of government. Country X Telecom claims to have installed ADSL equipment in exchanges covering 88.5% of the population. The competing operators tend to install their equipment in exchanges covering the largest population base, where they also compete with cable TV networks and wireless local loop experiments.

Country X – Competitive Environment

In terms of technology, the broadband market is dominated by ADSL, which represented 94.0% of broadband subscribers in 2005. Other technologies such as cable TV and wireless have a low market share, as a result of their small coverage areas, high investment requirements and the slow rollout of services. Cable TV networks cover approximately 27% of the population, but Internet via cable represents only 5.9% of all broadband connections. operator Y and Altitude Telecom have begun deploying broadband Wireless Local Loop and experimental wi-fi and Wimax services in mainland Country X, but these only covered approximately 14% of the population in September 2005. Groupe Iliad (parent of ISP operator F) took over Altitude Telecom in September 2005.

Up to recently, the cable sector was dominated by two operators, Noos (owned by Liberty Global) and Numericable (majority-owned by UK investment group Cirven, with Country X Telecom and operator z Universal holding minority stakes). Both companies offer Internet services over their networks, but have relatively low take-up rates: Noos, for example, has 1.5 million cable subscribers, of whom only 278,000 subscribe to Internet services. In March 2006, Numericable bought Noos for €1.25 billion, becoming effectively the sole cable TV operator in Country X.

In the ADSL market, six operators compete with operator W: operator F (subsidiary of Iliad Telecom), operator Y (Louis Dreyfus Group and mobile operator operator Q), Club Internet (Deutsche Telekom), AOL (American ISP), Tele2 (Swedish Tele2 group) and Alice (Telecom Italia). The pressure on the competing operators is showing, with two major mergers in 2005. Telecom Italia subsidiary Alice took over Tiscali's Country X operations for €266 million in April 2005. This was followed by operator Y Telecom taking over operator y in August 2005.

Club Internet, AOL and Tele2 are in a relatively weak position. Club Internet has the backing of Deutsche Telekom, and has announced plans to invest €500 million in a VDSL2 network by 2007, but is estimated to have a market share of less than 6%. Both AOL and Tele2 preferred to sign resale agreements with Country X Telecom and operator Y operator y, rather than install their own ADSL equipment, and they have considerably less flexibility in their pricing as a result. AOL estimated that no operator could ensure the profitability of investing in a network without at least 2 million clients.

Country X Internet subscribers by operator, 2003-2005

Main operators	2003		2004		2005	
	Subscribers ('000)	Market share	Subscribers ('000)	Market share	Subscribers ('000)	Market share
operator W	4,520	42.6%	5,038	42.1%	5,914	43.6%
operator Y	608	5.7%	1,000	8.4%	1,172	8.6%
operator F	485	4.6%	1,064	8.9%	1,595	11.8%
Others	5,003	47.1%	4,867	40.7%	4,880	36.0%
Total	10,616		11,969		13,561	

Source: Operators

Data in red is estimated

Country X Broadband subscribers by operators, 2003-2005

Main operators	2003		2004		2005	
	Subscribers ('000)	Market share	Subscribers ('000)	Market share	Subscribers ('000)	Market share
operator W	1,840	51.6%	3,000	45.9%	4,457	47.1%
operator Y	608	17.0%	1,000	15.3%	1,172	12.4%
operator F	485	13.6%	1,064	16.3%	1,595	16.8%
Others	636	17.8%	1,466	22.5%	2,242	23.7%
Total	3,569		6,530		9,466	

Source: Operators

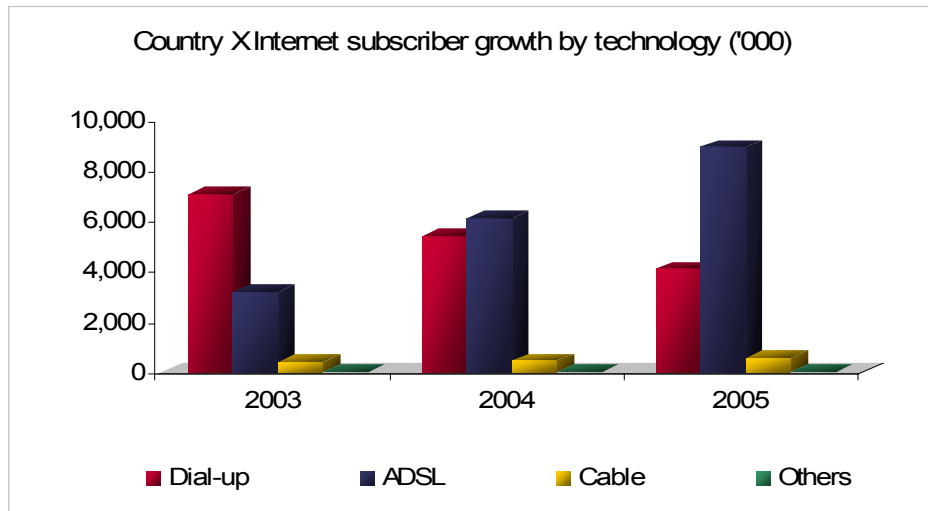
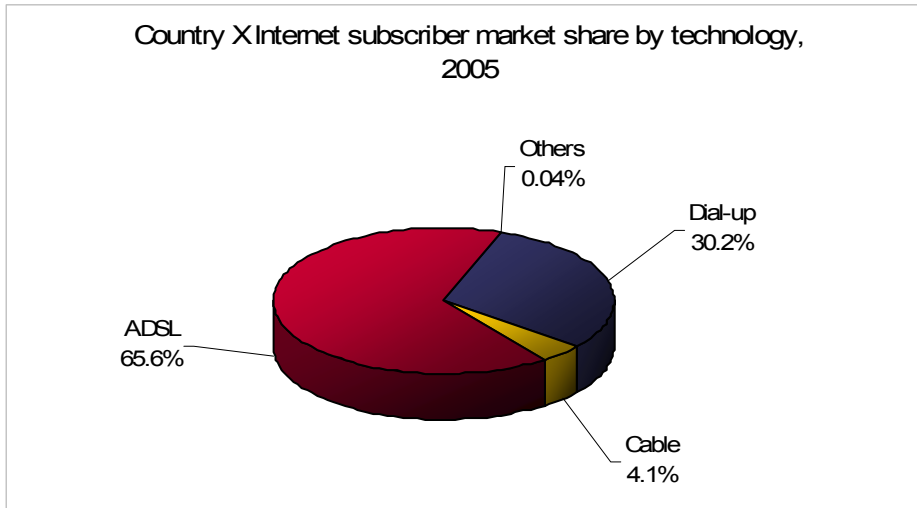
Data in red is estimated

Country X Internet subscribers by technology, 2003-2005

Internet Connection Technology	2003		2004		2005	
	Subscribers ('000)	Market share	Subscribers ('000)	Market share	Subscribers ('000)	Market share
Dial-up	7,048	66.4%	5,407	45.2%	4,095	30.2%
Cable	394	3.7%	454	3.8%	560	4.1%
ADSL	3,172	29.9%	6,105	51.0%	8,900	65.6%
Others	2	0.02%	3	0.03%	6	0.04%
TOTAL	10,616		11,969		13,561	

Source: Regulator

Country X – Competitive Environment



Country X – Key Players Profile

OPERATOR X

Company outline

Country X Telecom (operator Y) was created in 1988, to separate the operation of the publicly-owned telephony network from the regulatory functions of the Ministry of Posts, Telegraphs and Telephones. Since 1997, the government has progressively reduced its shareholding to reach 32.5% in 2006. operator Y shares are held by a wide range of institutional shareholders, with none having a stake higher than 5%. operator Y's shares are traded on the Paris and New York Stock Exchanges.

operator Y is one of the largest operators in the world, claiming 145 million customers in 61 countries. Its International strategy switched in 1999 from a strategic alliance with German incumbent operator Deutsche Telekom, to purchasing a wide range of assets, including UK mobile operator operator N in 2000, International business data carrier Equant in 2001 and Spanish mobile operator Amena in 2005. The company reports that 40.9% of its 2005 revenues came from operations outside of Country X.

As a result of its widespread acquisitions, its debts rose to €60 billion in 2001. operator Y reduced its total debts to €47.8 billion by December 2005, and is working to reduce debt levels further, although it agreed to buy Spanish mobile operator Amena in July 2005 for €6.4 billion.

As Country X's former incumbent operator, operator Y retains control over the vast majority of fixed line subscribers, with only 1.8% of subscribers using a different direct access operator in 3Q05 (cable TV network or fully unbundled local loop). The share of Country X Telecom Group's EBITDA provided by its domestic fixed line network has progressively fallen in recent years, representing only 39% in 2005.

Mobile services are provided by operator Y's subsidiary operator N. operator N operates in 25 countries, mainly in Europe and Africa, and claimed a total of 84.3 million mobile customers worldwide in 2005. Mobile operations represented approximately 50% of the Group's EBITDA in 2005.

operator N's 3G Country X licence conditions originally required coverage of 75% of the population by August 2003, although this was subsequently amended to 58% coverage by December 2005. The company launched its UMTS network in December 2004, and claimed to have achieved "approximately" 60% 3G coverage and 93% EDGE coverage in December 2005. It claimed 1.0 million subscribers using its EDGE and UMTS networks in 2005. The company's ARPU was stable in 2005, falling from €35.66 to €35.33, while data ARPU increased by 9.3%.

Country X – Key Players Profile

OPERATOR X

Company details

Name: Country X Telecom
Brand/Service name: Y
Address: 6 place d'Alleray
Country X
Telephone: +12 3345 6678
Web site: www.xxx.com

Key shareholders

Name	% owned	Nature of operation
Country X government	32.5	Public authority
Publicly traded	64.0	operator Fly traded shares
Telecom Employees	3.5	Shares awarded via various share allocation plans

Key shareholdings

Name	% owned	Nature of operation
operator N	100.0	Mobile operator
operator W	100.0	Internet service provider

Contacts

Chairman and CEO: AAAAAAAAAAAAAAAAAA
CFO: BBBBBBBBBBBBBB

Company profile

Status: Public
Foundation date: 1991 (structural separation from Ministry of Posts and Telecommunications)
The number of employees: Country X: 120,974
Group: 203,008
Type of operator: Network operator
Service provider
Type of network owned: Local
National
International

Country X – Country Profile

OPERATOR X

Key lines of business

Local	Internet
National long distance	Payphones
International	Yellow pages
Mobile	Consulting
Data	Cable TV

Financial data (million €)

	2003	2004	2005
Revenues (Group)	46,121	46,158	49,038
EBITDA (Group)	17,303	17,923	18,416
Net Profit (Group)	3,206	3,210	6,360
Revenues (Country X)	27,060	27,365	28,455
Net profit (Country X)	NA	3,020	5,710

Group revenue by segment (million €)

	2004	2005
Personal	20,564	23,535
Home	22,440	22,534
Enterprise	8,235	7,785
Directories	978	1,061
Inter-segment elimination	(6,059)	(5,877)

Market shares Country X

Markets	2004		2005	
	Subscribers ('000)	Market share	Subscribers ('000)	Market Share
Fixed	27,900	82.3%	27,800	84.7%
Mobile	21,241	47.8%	22,430	47.2%
Internet	5,038	42.1%	5,914	43.6%
Broadband	3,000	45.9%	4,457	47.1%

Country X – Country Profile

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