

HEARING ON LOCAL LOOP UNBUNDLING

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THE EUROPEAN FIXED LINE TELECOM MARKET IS CURRENTLY FACING DISCOURAGING PROSPECTS

- 1998-2001
AVERAGE
ANNUAL GROWTH
OF 3.4%

AVERAGE
RESIDENTIAL
MONTHLY SPEND
REDUCTION OF
3% ANNUALLY

AVERAGE
BUSINESS
MONTHLY SPEND
REDUCTION OF
5.4% ANNUALLY

- ESTIMATED 2002
GROWTH

AROUND 2%.(1)

- POOR ECONOMIC
SITUATION
- MOBILE TELEPHONY
SUBSTITUTION
- IMPACT OF INTERNET
SERVICES (FLAT RATE)
- MAJOR PRICE
REDUCTION

(1) European Telecoms Review ING Financial Market June 2002

THE KEY FOR FIXED-TELECOM BUSINESS

SUSTAINABILITY IS BROADBAND

- THE BROADBAND MARKET PROVIDES THE ONLY OPPORTUNITY FOR GROWTH.
- BROADBAND IS AN INFANT MARKET AND FAR FROM BEING DEVELOPED.
- REALISATION OF THIS MARKET DEVELOPMENT REQUIRES:
 - INFRASTRUCTURE DEPLOYMENT IN A MULTIPLATFORM COMPETITIVE ENVIRONMENT
 - INVESTMENT IN MARKET CREATION, TO HELP CUSTOMERS UNDERSTAND THE ADDED VALUE OF BROADBAND.
 - SUPPORT OF INNOVATION, SAFEGUARDING THE INNOVATOR'S EFFORTS
 - NO DISTORTION OF MARKET FORCES WITH EX ANTE REGULATIONS

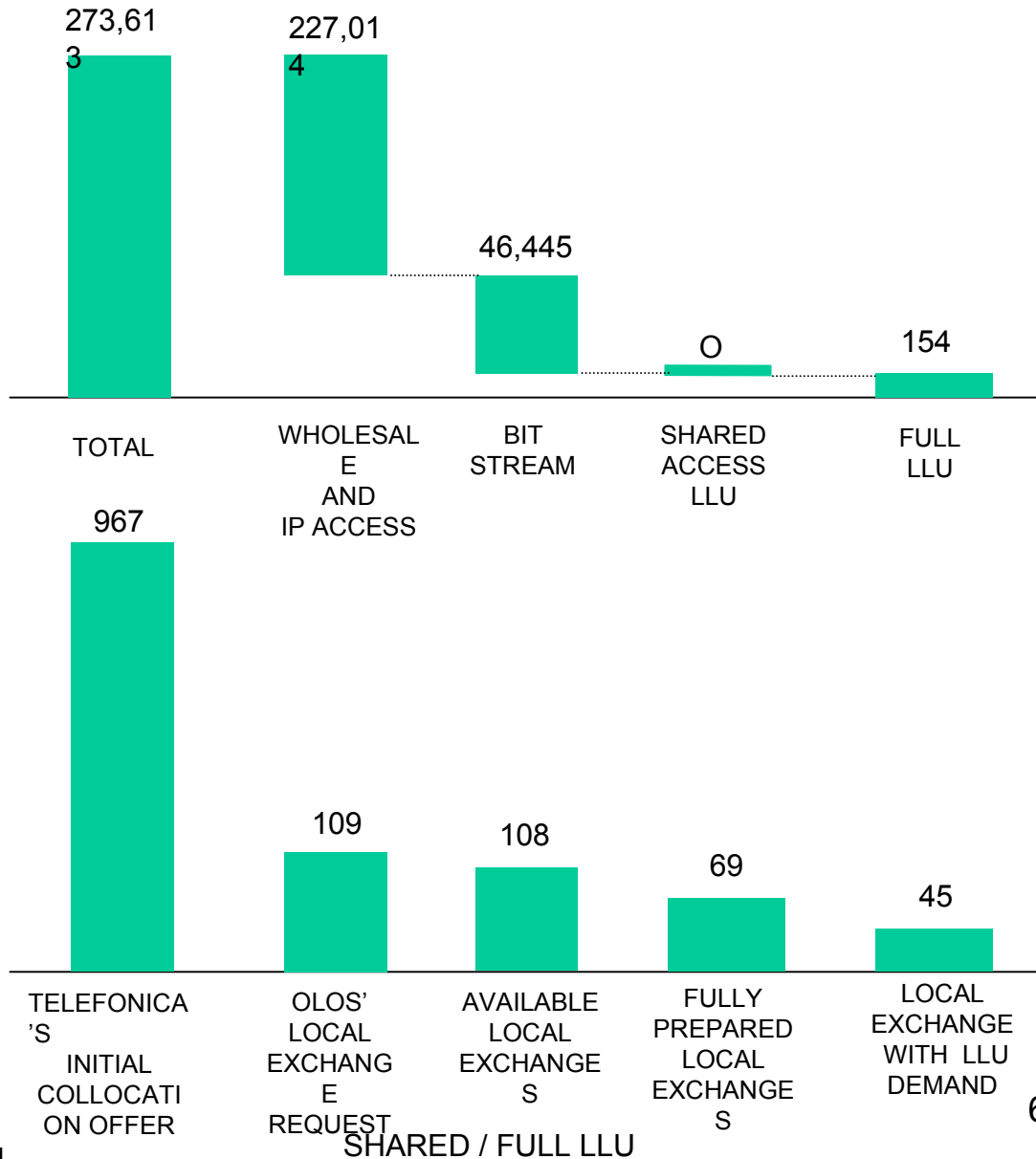
WHAT IS THE ROLE OF LLU IN THIS CONTEXT?

- A TOOL THAT ALLOWS QUICK ACCESS TO EXISTING INFRASTRUCTURE FOR OLO's AND EASES FACILITIES-BASED ENTRY AND EXPANSION
- However:
 - THE LLU SHOULD NOT DISCOURAGE NEITHER INFRASTRUCTURE COMPETITION NOR ALTERNATIVE TECHNOLOGY DEPLOYMENT.
 - BROADBAND INNOVATION SHOULD NOT BE PRECLUDED BY:
 - Regulating Retail Services
 - Extending Wholesale Service Obligations Beyond Current LLU

CURRENT LLU SITUATION IN SPAIN

- COMPLEX REGULATION ALREADY FULLY IN PLACE (TELEFONICA'S RUO APPROVED BY THE NRA CONTAINING 600 PAGES).
- SPANISH RUO INCLUDES BIT STREAM ACCESS SERVICES REGULATED UNDER THE SAME APPROACH
- SOME DIFFICULTIES IN IMPLEMENTATION DUE TO PROCESS COMPLEXITY
- LOW DEMAND FROM OLOs
- VERY HIGH IMPLEMENTATION COST FOR TELEFONICA

LLU IN SPAIN



JUNE 2002

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REASONS FOR THIS LIMITED DEMAND

➤ **MULTIPLE INCONSISTENT LEVELS OF REGULATION**

➤ EXISTING REGULATION (IN SPAIN) PROVIDES MORE ATTRACTIVE RESALE AND WHOLESALE ACCESS TO SERVICES:

◆ *BETTER PROFITABILITY OF INTERCONNECTION SOLUTIONS FOR TELEPHONY TRAFFIC.*

- SAME LEVEL OF SERVICE DIFFERENCIATION
- BETTER COSTS AND REDUCED INVESTMENT RISKS

◆ *BETTER ECONOMICS OF REGULATED BIT STREAM AND WHOLESALE SERVICES FOR BROADBAND APPLICATIONS:*

- REDUCED COSTS AND INVESTMENT
- REDUCED RISKS BY MARGINAL ECONOMICS

➤ **UNCERTAINTY ON THE POTENTIAL OF GROWTH OF BROADBAND MARKET**

➤ MAKING ALTERNATIVE REGULATED WHOLESALE EVEN MORE ATTRACTIVE

THE WAY FORWARD

- ENCOURAGE INFRASTRUCTURE & TECHNOLOGY COMPETITION BY:
 - avoiding multi-layer regulation
 - setting adequate prices & conditions for LLU
- HANDS-OFF REGULATORY APPROACH FOR BROADBAND
- AVOID DISTORTIONS OF LONG-TERM BROADBAND MARKET DEVELOPMENT FROM SHORT-TERM NARROW BAND OBJECTIVES

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