enterprise: leverage IP convergence

Barbara Dalibard
senior executive VP,
Orange Business services
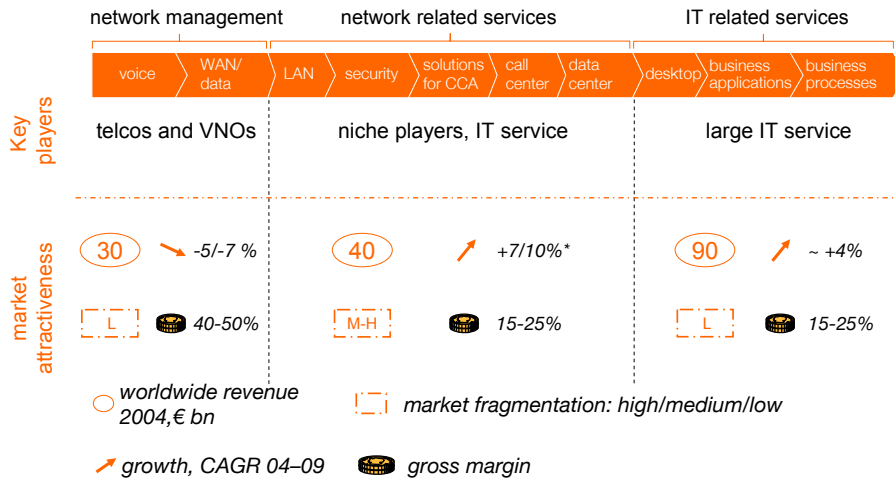
france telecom

orange

IP convergence tends to blur frontiers

voice › WAN/data › LAN › security › solutions for CCA* › call center › data center › desktop › business applications › business processes

engagement model

managed services
- out-sourcing
- out-tasking

VAS
- value added services
- consulting design integration

basic services
- basic services

Telco

leverage technical skills
-demand trend towards bundling
perception of credibility by CIOs

IT service players

leverage services skills and capabilities
leverage relationship with CIOs

network management

network related services (NRS)

IT related services

* CCA : Communications Critical Applications

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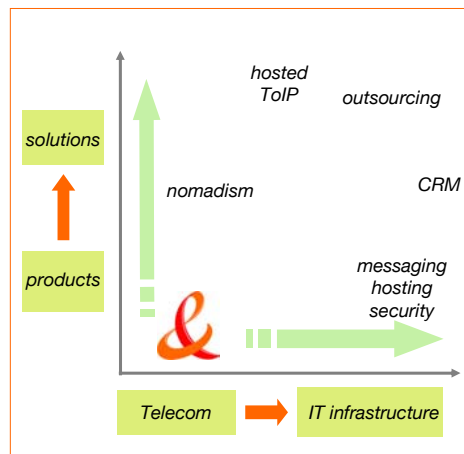# network related services market is a fragmented market offering growth opportunities

	network management		network related services					IT related services		
	voice	WAN/ data	LAN	security	solutions for CCA	call center	data center	desktop	business applications	business processes

Key players

telcos and VNOs	niche players, IT service	large IT service

market attractiveness

30	↘ -5/-7 %	40	↗ +7/10%*	90	↗ ~ +4%
L	🪙 40-50%	M-H	🪙 15-25%	L	🪙 15-25%

○ *worldwide revenue 2004, € bn*   ⸽_⸽ *market fragmentation: high/medium/low*

↗ *growth, CAGR 04–09*   🪙 *gross margin*

* +7/10% excluding data centers; + 4% including data centers

[3] *source: Mc Kinsey studies, Booz Allen, PAC*

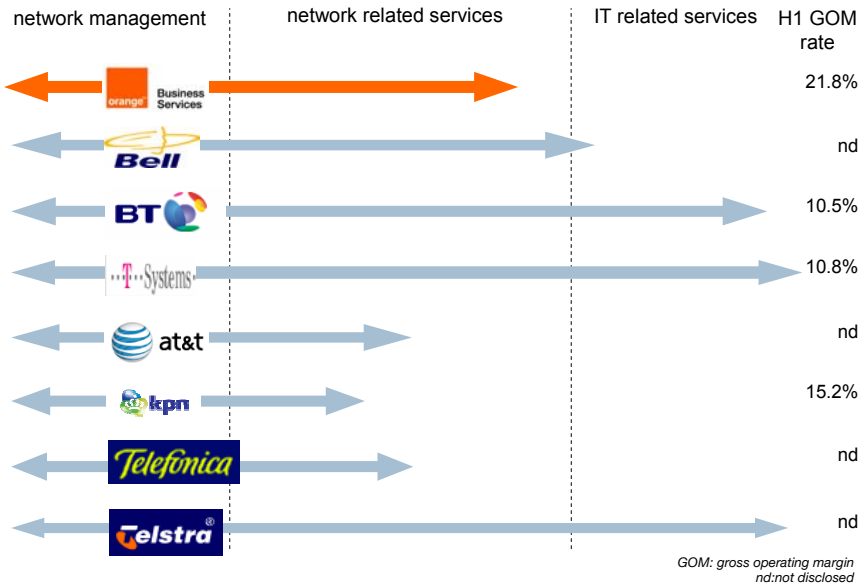# in 2004, we said we would develop convergent communication services and enter the network related services arena

2 *multi-domestic DSL access*   **3** *nomadic access*

1 IP VPN network

5 *hosted platforms*

2 Service platforms   **3** transaction systems

A voice IP centrex   **1** Physical networks / transport

4 *light clients*
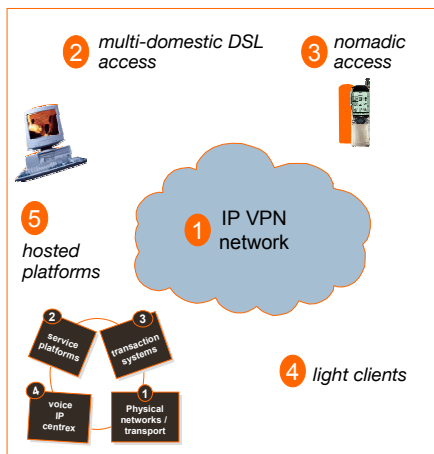
new technologies enable a better integration

solutions

products

hosted ToIP   *outsourcing*

nomadism   *CRM*

messaging hosting security

Telecom	→	IT infrastructure

a real business transformation

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which is one of our difference versus competition

network management	network related services	IT related services	H1 GOM rate

orange Business Services — 21.8%

Bell — nd

BT — 10.5%

T-Systems — 10.8%

at&t — nd

kpn — 15.2%

Telefónica — nd

Telstra — nd

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GOM: gross operating margin
nd:not disclosed

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we want to be a communication services integrator

network services   network related services

end-user proximity

Focus on individuals

communication critical applications
business processes
real time applications
collaboration

Focus on sites

IP transformation
infrastructure optimization
multimedia communication
pervasive access to information

networks
bandwidth
coverage
seamless customer experience

sites   time

IP VPN world leadership, global presence, outstanding customer experience and end-user proximity are our key differentiators

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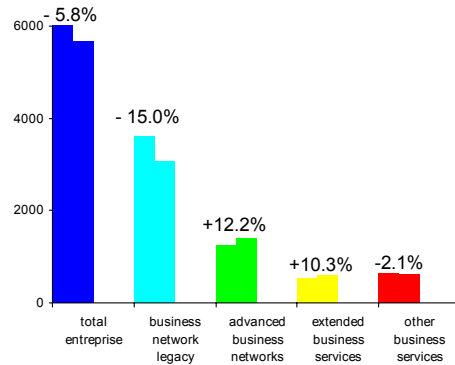
where do we stand in terms of revenues ?

FY 2005 entreprise revenue :
7,785 million euros

9 months entreprise revenue,
2006/2005 evolution
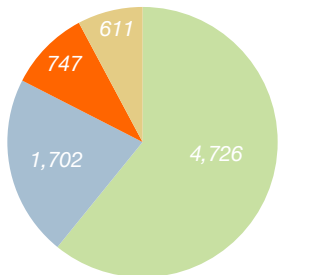
- ■ *business network legacy*
- ■ *advanced business networks*
- ■ *extended business services*
- ■ *other business services*

*in million euros, on a comparable basis*

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networks - current situation

| voice market	▪ *traffic market share decline stabilized* ▪ *access volumes slightly declining (LP accesses:-1.5% yoy 9M06)* ▪ *potential impacts: SDSL adoption, regulation (F-to-M rates)*
data: migration to IP VPN under completion	▪ *the world's largest IP VPN reaching 220 countries* ▪ *10,000 MPLS IP VPN customers, representing more than 240,000 customer accesses (vs 116,000 for ATT)*
data: impact of migration to DSL	*support of managed networks in France*
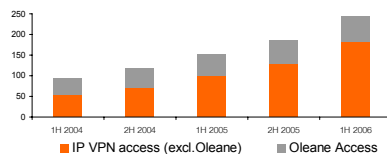
volume growth
1Q 2004-3Q 2006

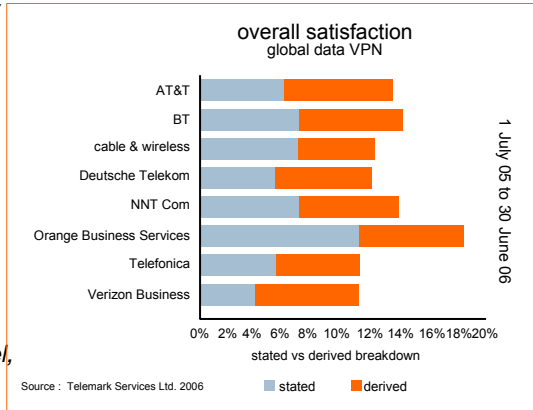*IP VPN +400%*

X25   -60%
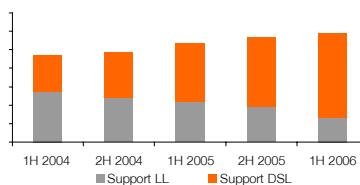
80% DSL

20% LL

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networks - action plan

- *keep our customer through an outstanding customer experience*
  - *highest overall satisfaction index*
  - *highest satisfaction index for data VPN*

- *take them along the IP transformation journey*
  - *through professional services*
  - *with robust solutions*

- *reduce costs*
  - *lean management*
  - *six sigma*
  - *offshoring*

- *extend scope*
  - *Eg. Grand Circle travel, Renault-Nissan*

overall satisfaction
global data VPN

1 July 05 to 30 June 06

AT&T	
BT	
cable & wireless	
Deutsche Telekom	
NNT Com	
Orange Business Services	
Telefonica	
Verizon Business	

0% 2% 4% 6% 8% 10% 12% 14% 16%18%20%

stated vs derived breakdown

Source : Telemark Services Ltd. 2006   ■ stated   ■ derived

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IP transformation - current situation

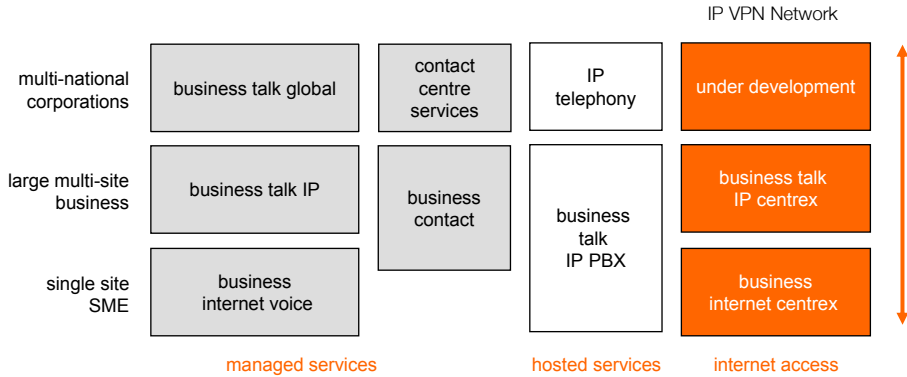|		
IP solutions	• *a full portfolio of offers: IP Telephony and IP contact center solutions* • *6,000 sites and 200,000 IP phones* • *9M06 IP VPN revenues growth : +13% yoy*	**WCA** 2006 Best Global Carrier — World Communications Awards 2006
very broadband access	• *MAN Ethernet and Ethernet link services in France yoy growth: +100%* • *end to end management with SLA & reporting*	METRO Ethernet Forum — **European Service** Provider of the Year
convergent products	• *business everywhere* • *business talk: incorporating fix & mobile*	**WCA** 2005 Best New Service — World Communication Awards 2005

advanced business networks +12.2% revenue growth 9M06 yoy

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a highly comprehensive IP portfolio including managed and hosted services

IP VPN Network

	managed services		hosted services	internet access
multi-national corporations	business talk global	contact centre services	IP telephony	under development
large multi-site business	business talk IP	business contact	business talk IP PBX	business talk IP centrex
single site SME	business internet voice			business internet centrex

"France Telecom has the most comprehensive IP voice portfolio of European incumbents, with propositions to address both small and large enterprise segments. FT is committed to offering a full range of solutions to meet the growing trend towards IP voice" Ovum- 2006
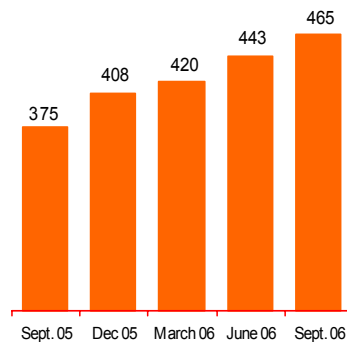
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business everywhere: capitalize on the France Telecom group footprint

→ available in 140 countries for multinationals

→ available in 8 countries for SMEs and large accounts

business everywhere end users in France (000)

Sept. 05	Dec 05	March 06	June 06	Sept. 06
375	408	420	443	465

and a first step towards end-user management

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IP transformation - action plan

- *be the leader in IP transformation*
  - *invest in Asia and Russia*
  - *develop our market share*
  - *leverage our presence in 220 countries*

- *develop broadband access*
  - *International Ethernet services available in major countries (16 by March 07)*

- *develop differenciation with convergent products*
  - *unik for business*
  - *business everywhere geographic extension*
  - *business together geographic extension*

our ambition on IP transformation is worldwide

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communications critical applications - current situation

communications critical applications	▪ *CRM platform services growth: +20%* ▪ *trading solutions: + 19%* ▪ *machine to Machine solutions: first telco to be included in Gartner's Telemetry magic quadrant* ▪ *1 million messaging users, 2,000 IT specialists*

we want to focus on management
of business-critical communication applications

S-Testa	▪ *a secured trans-European services for teleadministration network to interconnect the EU bodies with national authorities through a common platform with guaranteed performance levels and security*
ELM Leblanc	▪ *heating facilities telediagnosis based on Machine to Machine, providing a value-added and innovative services. It enables preventive maintenance and optimizes delivery processes*
Axa Assistance	▪ *hypertension control system with machine to machine helps monitoring patient health and reduces hospitalization costs*

business extended services: +10.3% organic revenue growth 9M06 yoy

we reinforce our skills in services through selective and limited-size acquisitions

Diwan	▪ *completes our offer in network integration services* ▪ *complementary skills in the areas of security and collaborative tools* ▪ *extension of call center presence in France*
Neocles	▪ *completes range of services combining advice, integration and outsourced management, enabling clients to optimise secure access to their information systems*
Silicomp	▪ *completes Orange Business Services offer in the area of integrated communication applications and on networks integration with Silicomp know-how in key technologies such as IPv6, security, …)*

communications critical applications action plan

▪ *start with France and extend in Europe*
  – *CRM services*
  – *communications critical applications*

▪ *successfully integrate the acquired companies*

▪ *develop all service company capabilities*
  – *skills development, Professionalization path, HR tools,*
  – *risk management, follow-up by project*

this positioning leads to a dual mode business model

operator model	&	services model
standardized products	&	*customized offerings*
physical assets	&	*intellectual assets*
CAPEX intensive	&	*labor intensive*
technological focus	&	*business focus*
product margin (a priori)	&	*project margin (on going effort)*

level of gross operating margin   *18%- 25%*   *5%-15%*

revenue trend

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actions to adapt our cost structure

- *review our selling model*

- *decrease of SG&A*

- *lean management everywhere*

- *operational process optimization*

- *access cost and capex optimization*

be the leading global communication
services integrator delivering the best
customer experience