

ETNO

Statutory Annual Report 2000





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Message from the 2001 General Assembly Chairman Hans Kraaijenbrink

ROYAL KPN N.V. of the Netherlands is honoured to hold the Chairmanship of the General Assembly for the year 2001. It is a great pleasure for me to act as the Chairman during the first year of the 21st century. KPN and I are strongly committed to contribute to the achievement of ETNO's objectives in the fast-changing European and global environment.

The world of telecommunications has changed dramatically since ETNO's creation in 1992. Full liberalisation of services and networks nears completion. The new regulatory package of the European Commission will be established shortly. Telephony services have expanded to electronic communications services. Fixed, wireline connections migrate to wireless and mobile access. The economy has taken a new face. Our companies are experiencing changes faster and more radical than ever before.

ETNO cannot remain untouched by these developments. ETNO Members who once could be classified as either incumbents or new entrants are increasingly difficult to fit into these categories. New services and new markets necessitate a re-orientation of policies, views and strategies.

ETNO supports the European Commission in its efforts to achieve a fully open, competitive and harmonised European market. This benefits our customers and companies alike. As the principal trade association for European telecom operators we will continue to

assist the European Commission, the Council and the European Parliament with our views and expertise. We will work with other trade organisations and other European and international organisations, e.g. CEPT, ITU, where this can be beneficial.

The enlargement of the European Union is of special importance to ETNO as a significant number of our Members are from countries that have applied for membership of the European Union. Through the membership of ETNO these companies can learn from the experience of others to adapt to the new environment.

A handwritten signature in blue ink, consisting of a stylized 'H' and 'K' followed by a long horizontal stroke.

Hans Kraaijenbrink



Message from the Chairman of the Executive Board Johan Martin-Löf

AFTER ALL THE energetic and effective work that my predecessor Dietmar Schulz has devoted to ETNO, the organisation is in good shape. However, there is no time for complacency.

Last year was a most important one for the development of telecommunications in Europe. The European Commission presented its proposals for the new communications regulatory regime. As these proposals approach decision in the Council and the Parliament, it becomes clear where the controversial points are and what ETNO positions do need to be voiced. It is then crucial that ETNO acts at the right time, targeting the right audience with the right message, based on ETNO's positions. The year 2000 was also the year when the investment climate changed in many high tech sectors. From a long period of unprecedented growth, the stock markets turned down quite dramatically. Many efforts are needed to create new networks and services for the market. A key ETNO message is that investments will only be made if market conditions and prospects are commercially attractive. Cybercrime and security have also been put on the agenda. Trust in the reliability and security of networks is a key question, both from a business and a privacy standpoint. It is up to our governments to provide for upgraded legislation and law enforcement. At the same time it is up to the industry to develop and introduce measures to improve security and protection so as to prevent criminality. ETNO is advocating an open and broad discussion in order to provide for a harmonious development.

In addition to these three themes, the following pages of this report will tell that there is a broad spectrum of important activities, which are conducted by our Members within the ETNO framework. ETNO also forms a platform for cooperation between Members on issues of common interest such as fraud control, quality of service and environment.

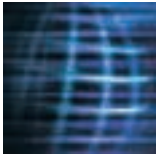
The number of actors in the communications market place is growing, and so is the number of associations and interest groups they have established. In this environment it is essential that ETNO continues to play a major role, including efforts to form alliances and join forces with other actors when it is useful. At the same time it is important to improve ETNO's visibility and presence in the policy debate. You will have noticed from the press that ETNO has stepped up its contacts with the authorities as well as with the media. In addition a new profile for the organisation has been prepared and recently presented to the members. Under this new banner we will proceed with our work into the future.

All this will need continued dedicated efforts from our Members and from the ETNO Office, which is doing a fine job under the new director, Michael Bartholomew.

I would like to take this opportunity to thank all ETNO Members and their representatives for their efforts in furthering our common objectives. We jointly face the challenging task of shaping the landscape for telecommunications in the first decade of the new century.

A handwritten signature in blue ink that reads "Johan Martin-Löf". The signature is fluid and cursive, with a stylized flourish at the end.

Johan Martin-Löf



Organisation Chart 2001

GENERAL ASSEMBLY

Chairman

Mr Hans Kraaijenbrink – Koninklijke KPN

Vice-Chairman

Mr Guntars Jansons – Lattelekom

EXECUTIVE BOARD

Chairman

Mr Johan Martin-Löf – Telia

BT	Mr John Lewis
Cesky Telecom	Mr Jindrich Trpisovsky
Deutsche Telekom	Mr Dietmar Schulz
Eircom	Mr Pat Galvin
France Telecom	Mr Luc Perrouin
Koninklijke KPN	Mr Hans Kraaijenbrink
Telecom Italia	Mr Luigi Gambardella
Portugal Telecom	Mr Francisco da Silva
Swisscom	Mr Thomas Müller
Telefónica	Mr Manuel Avendaño

ADMINISTRATIVE COMMITTEE

Chairman

Mr John Lewis – BT

Members

Mr Dietmar Schulz – Deutsche Telekom

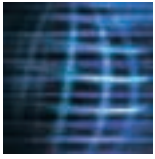
Mr Hans Kraaijenbrink – Koninklijke KPN

ETNO OFFICE

Director

Mr Michael Bartholomew

Executive Manager, Operations	Mr Josef Leonard Debecker
External Relations Manager	Mr Neil Gibbs
Senior Adviser, Public Affairs	Ms Fiona Taylor
Legal Adviser	Ms Eirini Zafeiratou
Executive Assistant to the Director	Ms Anne Valles-Meunier



ETNO Members as of 31 December 2000

- Belgacom
- BT
- Bulgarian Telecommunications Company
- Cesky Telecom
- Community of Yugoslav PTT
- Croatian Telecom
- Cyprus Telecommunications Authority
- Deutsche Telekom
- Eircom
- Energis Communications
- Entreprise des Postes et Télécommunications Luxembourg
- Estonian Telephone Co.
- FaciliCom International Sweden
- Finnet Group
- France Telecom
- Iceland Telecom
- Infostrada
- Koninklijke KPN
- Lattelekom
- Lietuvos Telekomas
- Makedonski telekomunikacii
- Maltacom
- MATÁV Hungarian Telecommunications Company
- Netia Holdings
- OTE
- Portugal Telecom
- PTT Bosnia and Herzegovina
- Retevision
- Romtelecom
- Slovenské Telekomunicacie
- Sonera
- Swisscom
- Tele 2 Sverige
- Tele Danmark
- Telecom Italia
- Telefónica
- Telekom Austria
- Telekom Slovenije
- Telekomunikacja Polska
- Telenor
- Telenordia
- Telia
- Türk Telekomünikasyon
- Viatel

ADMISSION OF NEW MEMBERS AND OBSERVERS

Viatel UK Ltd was admitted by the General Assembly in November 2000.

In 2000, ETNO was also very pleased to welcome Cable & Wireless and MCI WorldCom to the association as Observers.



2000 Highlights

THE EUROPEAN COMMISSION presents proposals for revision of EU telecoms legislation which are largely in line with ETNO goals. In particular, procedures are defined which will allow sector-specific rules to fall away in line with the development of competition.

THE EU ADOPTS LEGISLATION on Local Loop Unbundling. The definitive text includes amendments reflecting ETNO concerns relating to incentives for investment in new infrastructure, and the practical complications associated with unbundling at sub-loop level.

THE EU E-COMMERCE DIRECTIVE is adopted with provisions regarding liability of network operators for illegal content which are fully in line with ETNO objectives. Members' exposure to expensive liability claims is effectively limited.

IN THE FACE OF FIERCE OPPOSITION from rightholder groups, substantial progress is achieved towards the definition of EU legislation regarding on-line copyright which will not impose unfair burdens on network operators. The risk of copyright levies on the Internet is significantly reduced.

ETNO CONCERNS REGARDING costs and impact on customer confidence of potential requirements for storage of traffic data are successfully recognised as one of the central issues in the growing EU-level debate on cybercrime.

THE COUNCIL OF EUROPE publishes a draft Convention on cybercrime. The text responds to many ETNO concerns regarding the difficulties of fighting fraud in an increasingly international industry where legal frameworks often fail to keep pace with technological developments.

AN ETNO COMPARATIVE STUDY of EU Member States' approaches to the taxation of telecoms services provides Members with valuable support in discussions with national administrations on the reduction of their respective tax bills.

THE EUROPEAN COMMISSION presents proposals for the application of indirect taxes to e-commerce which are fully consistent with earlier ETNO positions.

CLOSE COLLABORATION is maintained with the European Commission with a view to identifying telecoms-sector priorities for a new round of global trade talks.

ETNO SUCCESSFULLY HIGHLIGHTS the contradictions between draft United States' legislation on market access in the telecoms sector (the "Hollings Bill"), and America's WTO commitments. The legislation is subsequently defeated.

ETNO PLAYS AN ACTIVE ROLE in successful efforts to block moves within the ITU favouring an extension of traditional accounting rates to cross-border Internet links.

IN LINE WITH ETNO AIMS, the World Radiocommunications Conference agrees to the allocation of additional frequencies for third generation mobile systems. ETNO maintains close collaboration with the European Radiocommunications Committee regarding the practicalities associated with introduction of these systems in Europe.

FREQUENT ETNO INPUTS to studies on numbering issues by the European Committee of Telecommunications Regulatory Authorities ensure that continent-wide planning in this field takes proper account of technical realities, and compliance costs for ETNO Members and their customers.

ETNO PLAYS AN ACTIVE ROLE in the elaboration of practical arrangements for the establishment of a "dot EU" Internet Top Level Domain which will relieve congestion of the "dot COM" domain and allow organisations to conduct business across the EU on the basis of a consistent identity.

ETNO PARTICIPATION IN THE EU advisory committee on practical implementation of the EU Radio and Telecommunications Terminal Equipment Directive ensures that network operators' compliance costs are minimised. Similar benefits are promised by participation in advisory committees covering revision of the EU Electromagnetic Compatibility Directive, and the supply of Caller Location Information to emergency services.

ETNO CONTINUES TO PROVIDE a framework for the development of industry best practice in the fields of fraud control and quality of service. Major deliverables include a revised version of ETNO Guidelines on Efficient Fraud Control Design, and establishment of a benchmarking procedure for regular exchange of performance data relating to selected QoS parameters.

AN OFFICIAL FRAMEWORK is established for discussion between ETNO Members, the European Commission and trade unions on the social implications of EU policies affecting the telecoms sector. Early deliverables include draft guidelines on the organisation of telework.

PUBLICATION OF THE SECOND ETNO Environment Report boosts ETNO Members' image as important players in the development of a sustainable society. ETNO continues to provide a framework for the development of industry best practice in the field of environmental affairs.

ETNO ORGANISES CONFERENCES on the accession challenges for operators in future EU Member States, telecoms fraud, quality of service and telecoms and the environment. These events attract large audiences and provide an opportunity for a wide-ranging exchange of ideas and experiences.



A Competitive Framework for Communications and E-Commerce Markets

EU COMMUNICATIONS REVIEW

THE REVIEW of EU telecoms legislation, originally launched by the European Commission in 1999, continued to occupy centre-stage during 2000. ETNO contributed comments during each phase of the Commission's consultations.

When definitive proposals for new legislation were finally presented by the Commission in July, the new package represented a mixed picture from ETNO's perspective.

The Commission's plans for further harmonisation of national licensing requirements on the basis of a light regulatory regime were very much in line with the Association's views. The Commission's decision not to propose any extension in the scope of Universal Service was also consistent with ETNO's earlier comments on the market-distorting effects of such a move.

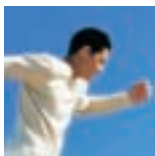
With respect to access and interconnection, the proposals envisaged that obligations should be imposed on specific operators only after completion of a rigorous market analysis by national regulatory authorities (NRAs). ETNO maintained some reservations regarding the market analysis procedure foreseen by the Commission. In particular, the Association argued that the key concept of "Significant Market Power" should be refined further.

It was nevertheless recognised that the procedure represented a large improvement over the more crude process defined in existing EU rules. Most importantly, in line with long-standing ETNO objectives, the new procedure offered a prospect that sector-specific rules would be allowed to fall away in line with the development of competition.

On the negative side, ETNO criticised provisions which would create a basis for regulatory intervention in markets based on new technologies which have always been competitive. The Association underlined that excessive emphasis on the principle of technological neutrality was not consistent with the Commission's declared ambition to minimise the scope of sector-specific regulation and rely more on competition law.

All these viewpoints were outlined in ETNO's Autumn campaign to explain its position to Members of the European Parliament. A highlight of these efforts was the debate with MEPs held by the Association in Strasbourg during November.

In relation to the Council, the main initiative undertaken by ETNO related to the transparency and consultation procedure for draft national measures defined in the draft Framework Directive. Against a background of attempts to minimise the Commission's role in this procedure, the Association wrote in December to the President of the Telecoms Council. The letter argued that, in a context characterised by large-scale devolution of authority to NRAs, a final say for the Commission is necessary to guarantee a minimum degree of harmonisation between Member States' regulatory frameworks.



LOCAL LOOP UNBUNDLING

IN PARALLEL TO the Communications Review, Local Loop Unbundling (LLU) was a major Commission priority during 2000. ETNO submitted comments during the consultation which preceded the publication of a non-binding Recommendation on this subject in April. The Association outlined its reactions in a further position when the Commission decided to upgrade the Recommendation to a draft Regulation which was published in July. A particular effort was made to convey these views to the European Parliament.

ETNO welcomed the draft LLU Regulation as an initiative which would ensure better harmonisation of national legislative regimes. At the same time, concerns were expressed regarding the need to preserve incentives for investment in new infrastructure, and the practical



complications associated with unbundling at “sub-loop” level. When Member States adopted the definitive version of the Regulation in December, it incorporated several amendments reflecting these concerns.

In a broader context, ETNO took steps to correct exaggerated claims made by the Commission as part of the justification for its LLU measures. A position on Internet Access Pricing highlighted the lack of correlation between prices and market penetration rates.

OTHER ISSUES IN EU COMMUNICATIONS MARKET REGULATION

ETNO ACTIVITIES DURING 2000 also included work on three other issues which provided an opportunity to reinforce points being made in relation to the Communications Review.

A paper issued in February on Commission “benchmarking” of telecoms prices highlighted the sometimes perverse effect of such initiatives. It argued that NRAs are often tempted simply to transfer benchmark prices into obligations for operators, without respecting their own obligation to ensure that prices are genuinely cost-oriented.

In relation to preparation of the Commission’s Sixth Report on the implementation of EU telecoms legislation, the Association met Commission officials in May and written input was submitted in July. The need for greater harmonisation and coordination of national regulatory regimes was among the points stressed.

Finally, ETNO’s reply to a consultative notice on the status of voice over Internet endorsed the Commission’s tentative conclusion that such services should remain outside the scope of EU regulation.

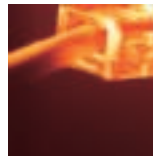
eEUROPE

IN DECEMBER 1999, the European Commission had launched its eEurope initiative with the objective of ensuring digital literacy for all EU citizens and transforming the EU into the world’s leading “knowledge economy”.

ETNO responded with a position paper commenting on all the main issues covered by the initiative: the regulatory framework for communications markets, cheaper Internet access, unbundling of the local loop and the legal framework for e-commerce in Europe. Strong emphasis was given to the need for an environment that encourages investment in new broadband networks. The Association was also represented at the Ministerial Conference on eEurope held in Lisbon during April.

An eEurope Action Plan was subsequently adopted by the Feira European Council in June. It detailed policy actions that are required to meet a number of specific objectives by 2002.

In its comments on the Action Plan, ETNO stressed the need for further involvement by the industry, and a more market-driven approach. When the Commission presented an Action Plan update to the Nice Summit at the end of the year, its paper reflected many of these comments.



EU ACCESSION WORKSHOP

IN MANY EUROPEAN COUNTRIES outside the EU, the progress of negotiations on EU accession obliged ETNO Members to begin serious reflections on the challenges presented by associated changes in national telecoms law.

In this context, an ETNO workshop hosted by Cesky Telecom in December provided a valuable opportunity to compare experiences. In addition to representatives of operators from accession states, speakers included representatives of the European Commission and national regulators.



E-COMMERCE DIRECTIVE

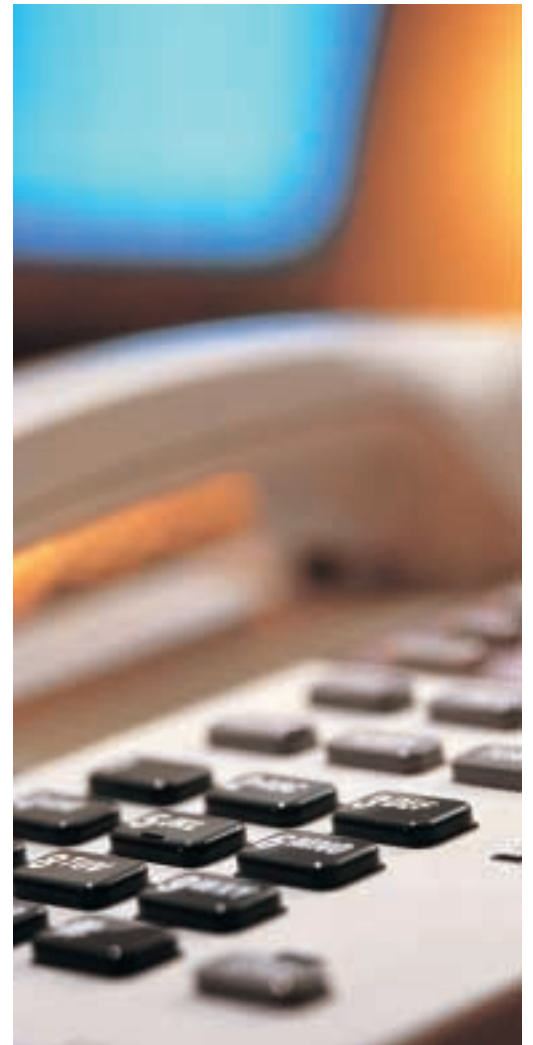
THE CAMPAIGN continued to defend ETNO's position in relation to the EU's draft E-Commerce Directive. The section defining the liability of on-line intermediaries for illegal content remained the Association's central concern.

When the proposal returned to the European Parliament for its Second Reading, ETNO contacted MEPs stressing the urgency of European legislation on the liability issue, and underlining the delicate character of the compromise embodied in the Council Common Position adopted in December 1999. Accordingly, the Association urged MEPs to adopt the text without amendment.

This was, in fact, the outcome when the Parliament voted in May. Several amendments with dangerous implications for ETNO Members were defeated.

The EP's vote opened the way for definitive adoption of legislation which is closely aligned with ETNO's original objectives. On the one hand, network operators are provided with solid protection against expensive liability claims relating to customers' actions over which they have no knowledge or control. On the other hand, a clear and effective framework is established in order to combat illegal activity in cyberspace.

Adoption of the E-Commerce Directive *before* adoption of the Copyright Directive was also in line with ETNO objectives. When the Commission presented its copyright proposal, many of the concerns expressed by ETNO related to the absence of parallel proposals on liability. Considerable reluctance on the part of the Commission had to be overcome before such proposals were finally presented as part of the draft E-Commerce Directive.



COPYRIGHT DIRECTIVE

REGARDING THE EU's draft Copyright Directive, attention during 2000 was focused mainly on finalisation of the Council Common Position. As negotiations continued in the Council, close contact was maintained with the Presidency, representatives of other Member States, and the Commission. Letters were circulated at a number of stages to highlight ETNO concerns.

When the Council finally reached an agreement in June, the result was highly positive from ETNO's viewpoint. The Council's text offered a clear exemption from the reproduction right for the technical copies which are made during transmission of material across the Internet. Demands from rightholder organisations and the European Parliament for the effective cancellation of this exemption were rejected.

The practical implications of the Council's choice were twofold. First, it reduced the risk that the definitive version of the Copyright Directive would establish a legal basis for copyright levies on the Internet. Second, it reduced the risk that large media groups would acquire the ability to exclude smaller content providers from the Internet.

Following the agreement in the Council, ETNO briefings were circulated to MEPs in preparation for the Parliament's Second Reading. Briefing material included a CD-ROM "How the Internet Works" which was prepared by the Association in collaboration with a number of other organisations and individual ETNO Members. ETNO was also among the organisations which spoke at a hearing organised in May by the Parliament's Rapporteur, Enrico Boselli.

(Amendments hostile to ETNO's position were rejected when the EP completed its Second Reading in February 2001. The final version of the Directive is therefore fully consistent with ETNO's original objectives.)

CYBERCRIME

CYBERCRIME ISSUES assumed a high profile during the year. The debate was driven by conflicting concerns. On the one hand, there were fears that new technologies represent a growing threat to civil liberties. Such fears were fed by a European Parliament Report on the so-called ECHELON system in which it was claimed that the

United States undertakes routine interception of global electronic communications. On the other hand, well-publicised cases relating to distribution of child pornography, denial of service attacks against e-commerce operators, and circulation of computer viruses led to demands for firm action. The European Commission responded to these conflicting concerns by announcing plans for a Communication on the issue.

ETNO participated in several multilateral consultation meetings held by the Commission in order to help prepare this Communication. In addition, a number of presentations were made by Commission representatives to ETNO's Data Protection Working Group. The concerns raised by ETNO Members in these meetings were reiterated when the Working Group Chairperson was invited to share a platform with Commissioners Liikanen and Vitorino at a European Parliament seminar on the cybercrime issue in September.

By the end of the year, the Commission's Communication was not yet finalised. Nevertheless, ETNO's concerns regarding potential requirements for storage of traffic data had been firmly established as one of the central issues. The high costs associated with such requirements had been successfully highlighted, as well as the potential impact on customer confidence in ETNO Members' services.

In addition, ETNO was active on cybercrime issues in frameworks outside the EU. It participated in a consultative meeting held by EUROPOL in December. It also wrote to the Council of Europe in August protesting at the lack of consultation regarding provisions on interception of communications in its draft Cybercrime Convention.

Despite these reservations, ETNO found much to welcome in the Council of Europe's text. During early stages of work on the Convention, ETNO had provided extensive input to the Council in order to explain the difficulties faced by telecoms operators in their fraud-fighting efforts. The Association was therefore pleased to note that the new text promised to remedy a variety of problems relating to inadmissibility of electronic evidence, the lack of a legal basis for prosecution of certain frauds, and cross-border jurisdiction.



DATA PROTECTION

THE YEAR SAW the presentation of proposals for revision of the EU Telecoms Data Protection Directive as part of the Communications Review. ETNO contributed to the preparation of these proposals with two papers. When a draft Directive was finally issued in July, the Association outlined its reactions in a further position paper. Work began in the Autumn to convey these views to Members of the European Parliament.

Considering that the EU's Data Protection Framework Directive already provides adequate protection for European citizens, ETNO regretted the fact that the Commission had not taken the opportunity to abolish sector-specific rules for the telecoms industry. The net impact of most changes proposed by the Commission was nevertheless judged to be relatively limited. The proposals aimed mainly to adapt the existing Directive in order to make it technology neutral.

Regarding the Framework Data Protection Directive, an agreement between the European Commission and the United States was signed in July. The agreement avoided a ban on data transfers to the United States in line with the Directive's provisions on exports of personal data. These provisions prohibit data exports to countries where data protection guarantees are considered inferior to those defined in EU legislation. ETNO welcomed the accord, having pressed the Commission for some time to conclude such an agreement.

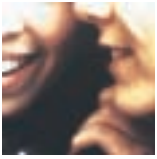


TAXATION

COMPARATIVE STUDIES of the tax treatment of a variety of services and operations were undertaken during the year in order to provide ETNO Members with material for use in discussions with their national tax administrations. Questions addressed included international private leased circuits, submarine cables, telecoms and calling cards. The underlying aim was to promote a more harmonised implementation of EU indirect tax rules on the basis of those national interpretations which are most favorable from the telecom operators' viewpoint.

The European Commission's main initiative during the year was the publication in June of a new draft Directive on the application of VAT to international e-commerce transactions. It envisaged the adoption of arrangements already applied to cross-border transactions in the telecoms sector. Most significantly, it required that traders located outside the EU who sell to private consumers within the EU should be required to register for VAT purposes in one Member State and include VAT in the prices they charge.

In a 1999 position paper ETNO had advocated this approach as the best strategy to avoid distortions of competition while facilitating the growth of e-commerce. Accordingly, the draft Directive received a general endorsement in a new ETNO position. At the same time, ETNO noted some potential practical difficulties associated with the fine print of the Commission proposal.



MARKET ACCESS IN THE UNITED STATES

AN ISSUE WHICH AROSE unexpectedly during the year was the conformity between United States' policy and its WTO telecoms commitments. Draft legislation presented to the Congress in June (the "Hollings Bill") proposed that foreign operators with more than 25% government ownership should be excluded from ownership of US wireless licences.

ETNO wrote to the European Commission in July urging it to adopt a stiff line, and this was reflected in subsequent Commission statements. During August an ETNO press release on the issue achieved wide coverage, and in September the ETNO Director visited Washington for talks with senior U.S. administration officials.

The Bill was finally defeated during the last days of the Congressional term in October. ETNO nevertheless remained vigilant, fearing that similar draft legislation would be introduced following U.S. Presidential and Congressional elections.

WORLD TRADE ORGANISATION

WHEN WTO TRADE MINISTERS met in Seattle in November 1999 they failed to agree on the launch of a comprehensive Round of new negotiations on trade liberalisation. However, this failure was not allowed to interfere with an earlier agreement to begin further negotiations on trade in services - including telecoms.

Regular meetings between ETNO and the European Commission were held throughout the year in order to help prepare the EU's position for these talks. Several public declarations from Commissioner Pascal Lamy identifying liberalisation of telecoms as one of the Commission's top trade priorities provided an encouraging background for this process.

When the Commission outlined its initial thoughts on telecoms trade issues in a July note for the Member States, ETNO responded with its own position paper. The paper endorsed the Commission's emphasis on improving implementation of the WTO telecoms agreement by existing signatories, and on persuading new countries to sign the agreement. At the same time, some concern was expressed regarding possible plans to extend WTO rules to Internet services.

ETNO membership of the European Services Forum (a grouping of trade associations and companies) provided an opportunity for discussion of WTO issues which affect a number of European services industries such as the free movement of personnel. ETNO was represented in the ESF delegation which visited WTO officials and national delegations in Geneva during April. Meetings organised by the ESF with members of the 133 Committee (Member States' senior officials responsible for trade policy) were also valuable.

OTHER GLOBAL TRADE AND INVESTMENT ISSUES

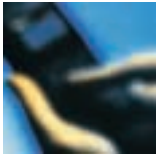
THE YEAR SAW the development of moves within the ITU to apply some variation of the traditional accounting rate system to international Internet services. These moves culminated in the presentation of a draft resolution to the World Telecommunications Standardisation Assembly which was inconsistent with ETNO's position.

The Association played an active role in coordinating European positions before the October conference. The ETNO Director also travelled to Montreal in order to lobby delegates in person. The final result was the adoption of a compromise resolution which affirmed the primacy of commercial negotiations in price setting, and referred the issue for further study.

In the domain of bilateral trade relations, an agreement between the EU and China regarding the latter's accession to the WTO was signed in July. The agreement was reached after lengthy negotiations during which ETNO had contributed regular advice to the European Commission on telecoms issues. The agreement included extensive market-opening commitments in the telecoms sector.

Throughout the year, numerous visits to the ETNO Office by regulators and government representatives from non-EU countries provided an opportunity to explain the Association's views on the benefits of market liberalisation, and investors' need for a stable and predictable regulatory environment.





Fair Management of Resources

FREQUENCY MANAGEMENT

ETNO CONTRIBUTED to the work of the European Radiocommunications Committee on a variety of issues during the year.

There was a particular emphasis on issues relating to the introduction of IMT-2000 (UMTS) systems. A draft ERC Decision on the initial allocation of frequencies for these systems was welcomed by ETNO in a position issued in February. Further positions covered the organisation of future ERC work on third generation mobile issues, and a draft ERC Decision opening the way for global circulation and use of IMT-2000 terminals.

In line with ETNO aims, the allocation of additional frequencies for IMT-2000 systems was agreed during June at the World Radio Conference in Istanbul. The Association accordingly endorsed subsequent ERC proposals to implement this decision in Europe.

ETNO's practical suggestions for coordination of UMTS frequency allocations in border areas were outlined in an October position. Finally, the Association urged the ERC to begin reflections on issues relating to systems beyond IMT-2000 so as to be fully prepared for the next WRC meeting in 2003.

Other issues that were examined during the year included draft ERC Decisions on satellite communications and future use of the 900 MHz band. Regarding this second question ETNO urged that use of cordless telephone (CT) equipment should be phased out, and underlined the importance of fixed wireless access as a potential use for the band.

In all of the above cases, ETNO's participation in ERC committees and workshops provided an opportunity to present the Association's viewpoints directly to relevant decision-makers.

At the EU level, the focus was on follow-up to the European Commission's November 1999 Communication on Spectrum Management Issues. In its comments on the Communication, ETNO endorsed the need for EU institutions to play a more active role in this domain, particularly with a view to coordinating EU priorities in global negotiations, and ensuring the transparency and impartiality of spectrum allocations within the EU. At the same time, ETNO underlined the need for the ERC to maintain a strong role so that frequency coordination continues to be assured across the whole continent.

Against this background, ETNO generally welcomed the draft Decision on Spectrum Management which was presented by the Commission in July. However, the proposal's failure to include an explicit role for industry in future advisory mechanisms was strongly regretted.



TELECOMS NUMBERING

ISSUES STUDIED BY the European Committee of Telecommunications Regulatory Authorities during 2000 included the effects of number portability on national number administration and management, and the harmonisation of mobile network codes.

ETNO provided detailed comments on successive iterations of ECTRA's draft reports which were largely incorporated into subsequent versions. The same issues were discussed with national regulators in the European Numbering Forum where operator interests were represented by ETNO delegates. As a general rule, ETNO aimed to ensure that European policy development in this field takes technical realities into account, and does not impose unnecessary compliance costs on European operators and their customers.

In addition, the Association issued a Common Position on number pooling in January. The paper, based on extensive research undertaken by EURESCOM, was fed into the growing debate on the possible application in Europe of this American number management methodology.

INTERNET NAMING AND ADDRESSING

THE MAIN FOCUS FOR ETNO activities in 2000 was provided by proposals for creation of a "dot EU" Internet domain space. The proposals were first outlined in a European Commission working paper presented in February. They were formalised in a Communication published in May. Both papers argued that creation of the domain would facilitate the take-off of e-commerce in Europe. In particular, they argued it would relieve congestion of the "dot COM" domain, and allow organisations to conduct business across the EU on the basis of a consistent identity.

These arguments were largely endorsed in the response issued by ETNO in March. The Association subsequently participated in the Interim Steering Group of industry and Commission representatives which met from June to October in order to define specifications for a "dot EU" Registry.

By the end of the year, significant progress had been made towards the launch of a "dot EU" domain. Agreement in principle had been obtained from ICANN, and a legal basis for creation of a Registry had been proposed by the Commission in a new Communication issued in December. It was planned to issue a call for proposals to constitute the central Registry which would be responsible for accreditation of registrars offering services on a competitive, commercial basis across the EU.

In addition to activities on the "dot EU" proposal, ETNO continued to ensure representation of European operators' interests in the various Supporting Organisations associated with ICANN.



Improving European Competitiveness

RESEARCH AND DEVELOPMENT

REFLECTIONS ON THE possible content of the Sixth EU R&D Framework Programme were initiated by the European Commission during 2000. A communication "Towards a European Research Area" was published in January. This was followed in October by a further Communication "Making a Reality of the Research Area".

Against the background of its Members' major role in current programmes, ETNO comments on

these Communications were outlined in two position papers. The papers argued in favour of a greater role for industry in the identification of future priorities, and cautioned against spreading EU resources too thinly in order to cover an excessively wide choice of research areas. They also underlined the importance of concentrating on long-term pre-competitive projects.

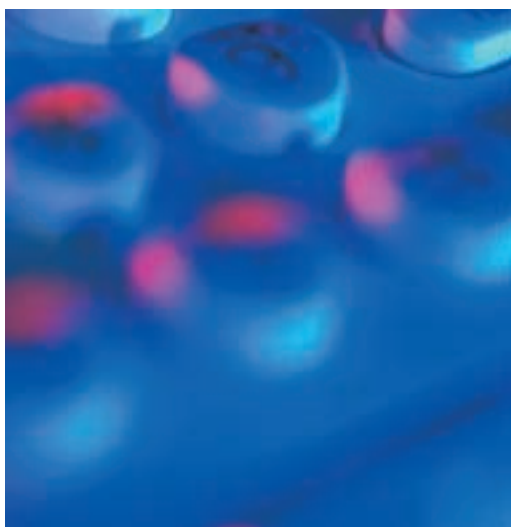
These views were discussed in meetings with representatives of the Commission, the European Parliament and EICTA (European telecoms and IT manufacturers' association). The Report on the Commission's January Communication, which was adopted by the European Parliament in May, included ETNO-backed comments on the need for industry involvement. Commission thinking at the end of the year appeared to be on the same track as ETNO's own reflections.

EU TECHNICAL REGULATION

PRACTICAL IMPLEMENTATION of the 1999 EU Directive on radio equipment and telecommunications terminal equipment and the mutual recognition of the conformity remained a significant focus for ETNO activity. Through its participation in the EU's Telecommunications Conformity Assessment and Market Surveillance Committee (TCAM), the Association ensured that Member States' decisions on this issue took telecom operators' interests properly into account.

Possible divergences in the interpretation of provisions regarding publication of interface specifications were a particular concern. ETNO and EICTA (European telecoms and IT manufacturers' association) consequently developed an agreed interpretation which was submitted to TCAM, and endorsed by the Commission and the Member States.

In addition, the year saw the start of work on revision of the EU Electromagnetic Compatibility Directive. Taking account of the dual interest of ETNO Members in this matter – telecoms networks are both possible sources of electromagnetic interference and its potential victims – the Association participated in the advisory group established by the European Commission in order to prepare proposals for legislation.



CALLER LOCATION FOR EMERGENCY SERVICES

ETNO PARTICIPATED in the advisory group set up by the European Commission to discuss emergency services' access to caller location information. Creation of the group was linked to requirements in the Commission's proposal for a new Universal Service Directive which will make provision of such information compulsory.

It is hoped that operators and emergency services will be able to agree on specifying an appropriate system at European level, thereby guaranteeing pan-European interoperability and allowing economies of scale to be realised in the necessary investments.

ITU REFORM

ETNO CONTINUED its efforts to achieve reform of the ITU. In its contributions to the Working Group on ITU Reform and other ITU advisory bodies, the Association repeated the same basic messages. First, there is a need for the ITU standardisation sector (ITU-T) to receive more autonomy within the overall ITU framework. Second, in line with their contribution to the development of ITU standards, non-government members of ITU-T should be able to participate in decisions on the adoption of such standards. Third, the work of ITU needs to be organised in a more efficient and focused way.

These messages were underlined when the ETNO Executive Board met the ITU's Secretary General, Deputy Secretary General and Bureau Directors in Geneva during June. They were also highlighted in an article which ETNO contributed to the special edition of ITU News issued prior to the World Telecommunications Standardisation Assembly. When the WTSA met in October, the ETNO Director travelled to Montreal in order to lobby delegates in person.

As ETNO explained in a statement issued at the close of the conference, the results of WTSA regarding reform of ITU procedures were disappointing. Against this background, the Association subsequently indicated its support for proposals to establish an entirely new standards body, a Forum, under the ITU umbrella.



Cooperation that Benefits both Providers and Customers

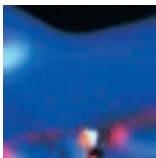


FRAUD CONTROL

ETNO CONTINUED to provide a framework for exchange of experience and development of industry best practice in this domain. Issues examined included fraud prevention through personnel training, fraud loss evaluation, and e-commerce frauds.

An updated version of the ETNO Guidelines on Efficient Fraud Control Design was prepared and approved by Members in February.

In November, a Fraud Control Workshop with more than sixty participants was hosted by France Telecom. Internal frauds within telecoms operators, and customer-care issues such as fraud insurance were among the questions discussed.



QUALITY OF SERVICE

A HIGHLIGHT OF ETNO'S work on development of industry best practice was the establishment in July of a benchmarking procedure which permits the exchange of performance data on selected QoS parameters between participating Members. The ETNO Office acts as a trusted third party for the procedure which operates on a quarterly basis.

In addition, a successful Quality of Service workshop was hosted by TeleDenmark in October. Alignment of external and internal QoS measures was the main focus for discussion at this event.

With respect to European standardisation, input was provided to work on extension of ETSI QoS Guidelines to cover interconnection and voluntary parameters for public voice telephony (ie, parameters not referenced in EU legislation).

Regarding the legislative environment, the Commission's proposal for a new Universal Service Directive which was presented as part of the Communications Review included a variety of QoS provisions. Comments on these provisions were incorporated into the relevant ETNO position paper. Particular concern was expressed regarding the conflict between publication requirements for universal service providers, and the requirements that may be applied to all operators in the same national market. The ETNO paper stressed the high compliance costs associated with a possible obligation to collect and publish two sets of QoS data.



Socially Responsible Management

EU SECTORAL DIALOGUE COMMITTEE

TALKS WERE HELD with the European Commission and relevant trade unions with a view to establishing an EU Sectoral Dialogue Committee. Following the example of many other sectors, the aim was to set up a structure for exchange of views between management and unions on EU policies with social implications in the telecoms industry. On ETNO's side there was an expectation that discussion of voluntary initiatives within the context of the dialogue would help to avoid excessive regulatory interference by the Commission.

Successful conclusion of these talks led to the first meeting of the Telecoms Sectoral Dialogue Committee in June. Against a background of acute skill shortages in the industry, employee training was a major focus for the Committee's work during the remainder of the year.

Particular attention was paid to the portability and transparency of ICT qualifications and input was provided to Commission work on specifications for a Europe-wide diploma in basic computer skills. Work was also undertaken on the elaboration of guidelines for organisation of telework within telecoms operators which were close to finalisation at the end of the year.

MANAGEMENT TRAINING (PHARE PROJECT)

DURING 1999, following delivery of a highly positive external audit on the ETNO-managed training programme for staff from telecoms operators in Central and Eastern Europe, a new contract had been signed with the Commission for a one-year extension of the programme.

A final report on the project was submitted to the European Commission following its conclusion on 30 June 2000. Using funding from the PHARE programme, the contract extension had permitted a further 40 managers from 11 Central and East European operators to take part in training workshops organised by EUROTEAM (a training consortium of West European telecoms operators).



ENVIRONMENTAL AFFAIRS

A HIGHLIGHT OF THE YEAR was publication of ETNO's Second Environmental Report. The Report outlines the environmental performance of the 23 companies which had signed the ETNO Environment Charter since its establishment in November 1996. It focuses on the principal commitments contained in the Charter which extend from energy efficiency to the provision of environmental information to employees, shareholders and governments. The Report also describes ETNO's role in the formulation of industry guidelines covering areas ranging from greenhouse gas emission to the purchase, treatment and disposal of telephone poles.

The Report was launched at the Third European Conference on Telecommunications and the Environment which was co-organised by ETNO and BT. Over 200 representatives of telecoms operators, telecoms suppliers, the academic world, governments, and non-governmental organisations attended the event which was held in the UK during November. Case studies covering a variety of telecom operators' environmental management challenges were presented and debated.

Exchange of experience and development of industry best practice also continued outside the conference. Issues associated with electromagnetic radiation occupied a prominent place in this activity, and a workshop on these questions was hosted by France Telecom in March. In addition, comments were sent to the European Commission, regarding a draft standardisation mandate on protection from electromagnetic fields (EC 13). Liaison was maintained with the GSM Association throughout this activity.

Regarding the regulatory environment, a draft Directive on the take-back and recycling of waste electrical and electronic equipment was issued by the European Commission in June. In an earlier comment, ETNO had indicated support for the Commission's plans while expressing concern that the proposal's scope should not be defined in a way which includes telecoms *network* equipment. These concerns were largely accommodated in the final draft Directive which was welcomed by ETNO in a new position paper (RD 140). The Association nevertheless requested further clarification of the new legislation's scope.

ETNO Positions

Adopted during 2000

COMMON POSITIONS

- CP063 on "Number Allocation" (01/00)

REFLECTION DOCUMENTS

- RD115 on the Commission Communication "Towards a new framework for Electronic Communications infrastructure and associated services – The 1999 Communications Review" COM(99)539 (01/00)
- RD116 on ETO "First Interim Report on the Effect of Number Portability on National Number Administration & Management" (01/00)
- RD117 on "Comments on CEPT/ERC/DEC(99)UU provisional decision on UMTS frequency bands" (02/00)
- RD118 on "Remarks on Benchmarking of prices for telecommunications services as a regulatory regime" (02/00)
- RD119 on Data Protection and Privacy Issues Aspects of the Commission Communication "Towards a new framework for Electronic Communications infrastructure and associated services - The 1999 Communications Review" (02/00)
- RD120 on the Commission Recommendation on Local Loop Unbundling (Working Document, 09.02.2000) (03/00)
- RD121 on the European Commission's Working Paper on the Creation of an "EU" Top Level Domain (03/00)
- RD122 on the Future work on UMTS/IMT-2000 within CEPT (03/00)
- RD123 - Comments to ERC draft Decisions AA - FF (03/00)
- RD124 on the EC Communication "Next Steps in Radio Spectrum Policy – Results of the Public Consultation on the Green Paper" (03/00)
- RD125 on the Commission Communication on the "e-Europe" Initiative and Conclusions of the Lisbon Council (04/00)
- RD126 on ETSI EG 201 769-1 on QoS parameter definitions and measurements, Part 1: Parameters for the voice telephony service required under the ONP Voice Telephony Directive 98/10/EC (04/00)
- RD127 on "Internet Access Pricing" (04/00)
- RD128 on the European Commission Communication "Towards a European Research Area" (04/00)
- RD129 on the ETO Second Interim Report on "Effect of portability on number administration and management" (04/00)
- RD130 on Selected issues in the 1999 Review Working Documents (05/00)
- RD131 on contribution to the Sixth Report on Implementation of the EU Telecommunications Regulatory Package (07/00)
- RD132 on the draft ERC Decision ERC/DEC/(99)SS on global circulation and use of IMT-2000 terminals (07/00)
- RD133 on "Consultative Communication on a review of the 1998 Commission notice on the status of voice over the Internet under Community law and in particular, under Directive 90/388/EEC" (08/00)
- RD134 on "Comments to the 4th round on the Detailed Spectrum Investigation DSI Phase III" (08/00)

ETNO Positions

Adopted during 2000

(continued)

- RD135 on the draft EU Regulation on Unbundled Access to the Local Loop COM(2000) 394 (08/00)
- RD136 on the draft Directive "Concerning the processing of personal data and the protection of privacy in the electronic communications sector" (09/00)
- RD137 on the draft ECTRA Decision regarding IMSIs and MNCs (Mobile Network Codes) (09/00)
- RD138 on the draft Directives on "A common regulatory framework", on "Access to and Interconnection of electronic communications networks", and on "Authorisation of electronic communication networks and services" (09/00)
- RD139 on the draft Directive on "Universal service and users' rights" (10/00)
- RD140 on the European Commission proposal for EU Directives on "(1) Waste Electrical and Electronic Equipment (WEE) and (2) Hazardous Substances in Electrical and Electronic Equipment" (10/00)
- RD141 on the proposal for a decision of the European Parliament and of the Council on a Regulatory Framework for Radio Spectrum Policy in the European Community Com(2000) 407 (10/00)
- RD142 on the Facilitation of frequency co-ordination in border areas in Europe (10/00)
- RD143 on the Preparation of GATS 2000 for Telecommunications Services (11/00)
- RD144 on the European Commission's Draft Directive regarding Indirect Taxes and E-commerce - Com(2000)349 (11/00)
- RD145 Contribution to the preparation of the 6th Framework Programme (11/00)

EXPERT CONTRIBUTIONS

- EC10 on ETNO Key points on ITU Reform (03/00)
- EC11 on the DG Information Society Working Document
"The processing of personal data and the protection of privacy in the electronic communications sector" (05/00)
- EC12 on key points for the reform of the standardisation Sector of the ITU (05/00)
- EC13 on the EC standardisation mandate on the protection from Electromagnetic Fields (06/00)
- EC14 on the Draft e-Europe Action Plan prepared by the European Commission for the European Council in Feira (13-20 June) (06/00)
- EC15 with Comments on the ETNS Structure (10/00)
- EC16 on the proposed models of a New Standardisation Entity under the umbrella of the ITU (12/00)
- EC17 on the phasing out of Cordless Telephone (CT) equipment in the 900 MHz band (12/00)
- EC18 on Systems beyond IMT-2000 under WRC-2003 agenda item 1.22 (12/00)
- EC19 Comments on the ERC draft strategic plan for 862-960 MHz (12/00)



Statutory Auditor's Report on the financial statements submitted to the general assembly of ETNO AISBL

FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2000

IN ACCORDANCE with legal and statutory requirements, we are reporting to you on the completion of the mandate which you have entrusted to us.

We have audited the financial statements as of and for the year ended December 31, 2000, with a balance sheet total of EUR 1.558.232,93 and a result for the year of EUR 74.456,46. These financial statements have been prepared under the responsibility of the Association.

Unqualified audit opinion on the
financial statements

We conducted our audit in accordance with the standards of the "Institut des Reviseurs d'Entreprises-Instituut der Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to financial statements in Belgium.

In accordance with these standards we have considered the Association's administrative and accounting organisation as well as its internal control procedures. The Association's Director has provided us with all explanations and information which we required for our audit. We examined, on a test basis, evidence supporting the amounts in the financial statements. We assessed the accounting policies used and significant accounting estimates made by the Association, as well as the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, taking into account the prevailing legal and regulatory requirements, the financial statements present fairly the Association's financial position as of December 31, 2000, and the results of its operations for the year then ended and the disclosures made in the notes to the financial statements are adequate.



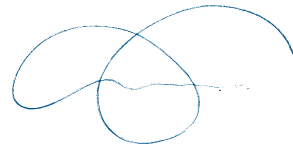
ADDITIONAL ASSERTIONS

AS REQUIRED BY generally accepted auditing standards the following additional assertions are provided. These assertions do not alter our audit opinion on the financial statements.

- The appropriation of results proposed to the general assembly complies with the legal and statutory provisions.
- There are no transactions undertaken or decisions taken in violation of the Association's statutes which we have to report to you.
- Without prejudice to certain formal aspects of minor importance, the accounting records are maintained and the financial statements have been prepared in accordance with the applicable Belgian legal and regulatory requirements.

Brussels, February 23, 2001

Klynveld Peat Marwick Goerdeler
Bedrijfsrevisoren/Reviseurs d'Entreprises,
Statutory Auditor



represented by
Michel Lange
Bedrijfsrevisor/Reviseur d'Entreprises



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