

3G: a commercial view

Neale Anderson
Senior Analyst

Email: nxa@ovum.com
Direct line: +44 (0)20 7551 9268
Date: 23rd October 2003

www.ovum.com

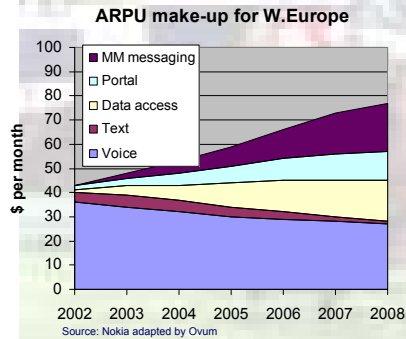
Agenda

- 3G: then and now
- 3: brave new world
- Existing operators' dilemma
- The business model for data services
- Where next for 3G in Europe?

From *racehorse*...

- 3G 'means' high speed mobile multimedia to the public

Users will be able to surf the Internet and see pictures of the people they are talking to, and eventually they will be able to watch movies and listen to music on their handsets
- BBC



- Originally positioned as a generator of substantial incremental revenues
- This is why government wanted its share of the pie

3G would have been better kept a supply-side secret

...to *workhorse*

- Vendors now positioning 3G as a driver of network cost-efficiencies
- Capacity increases are now 3G's most immediate *raison d'être*
- 3G now publicly disassociated from new 'whiz-bang' applications and device features
- Outside Japan/Korea users have little reason to be anything other than sceptical about mobile data

3G is like a fuel-additive
- Nokia

We asked for more spectrum, they gave us 3G
- Anon. MNO

MNOs shouldn't be allowed to spend a single \$ on 3G until we've got the maximum out of SMS
- Anon. mobile retailer

At first they tout 50-112kbit/s [for GPRS], then I've heard it's just 15-20 kbit/s
- Anon. Corp. User

This is the way it should have been all along

There are still two world views...

3: 'first entrant in a *new market*'

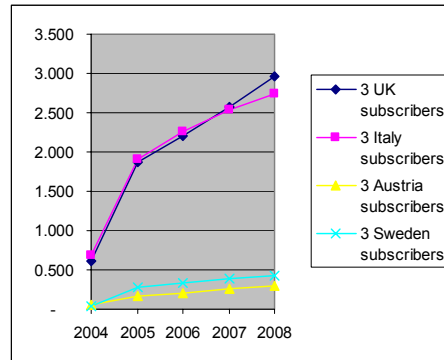
- Relatively heedless of market sentiment
- Aggressive marketing of mobile data/video
- Launched despite network/handset shortcomings

- Consumer indifference
- Discounted voice and handsets used as an incentive
- A race to buy market share

As a greenfield player, 3 had no alternative

How will 3 progress?

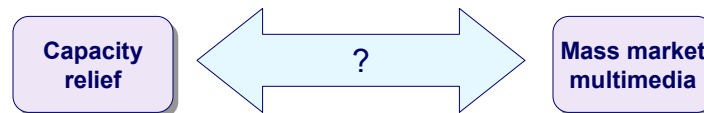
- Handsets improving
- Pricing is persuasive
- Leveraging efficiency of W-CDMA
- No signs of data use
- Price cuts erode margins
- 'First-mover *dis*advantage'



The window of opportunity for 3 is *now*

7

Many operators feel stranded with 3G strategies



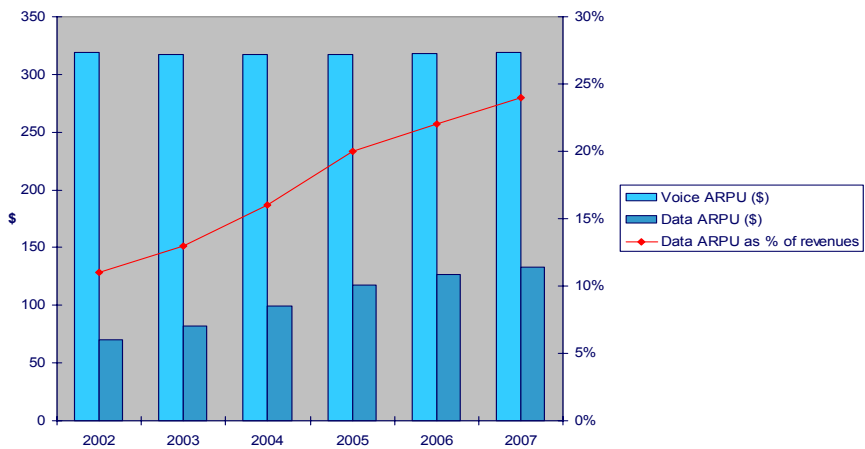
- | | |
|---|---|
| <ul style="list-style-type: none"> • Better business case ... but • Coverage requirements • No cheap, simple 3G phones | <ul style="list-style-type: none"> • Low credibility • Limited access to capital • No compelling reason to buy |
|---|---|

Need more degrees of freedom to go forward

8

The business model for data services

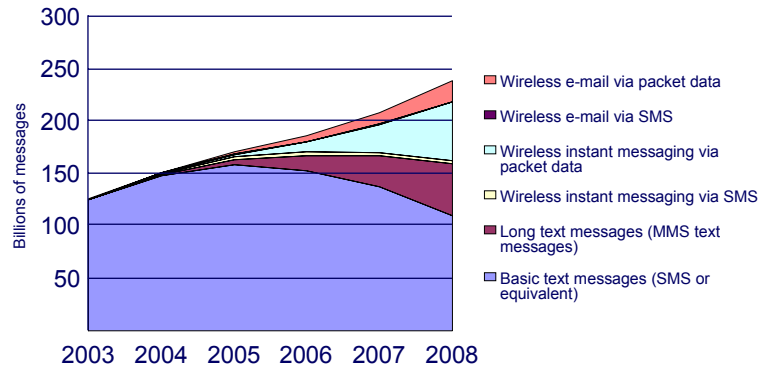
Revenue trends in Western Europe



Data growth driven by messaging

What will traffic look like?

Estimated wireless text messaging **traffic** in Western Europe

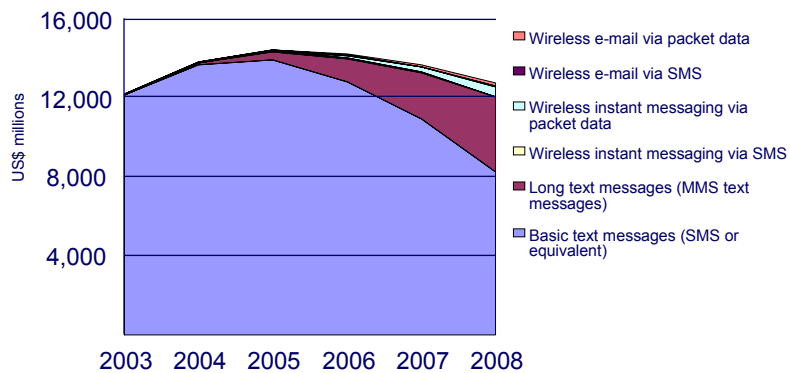


Next-generation services will boost usage

11

The revenue picture

Estimated wireless text messaging **revenue** in Western Europe (assuming volume-based charging for IM and e-mail over 2.5G/3G)

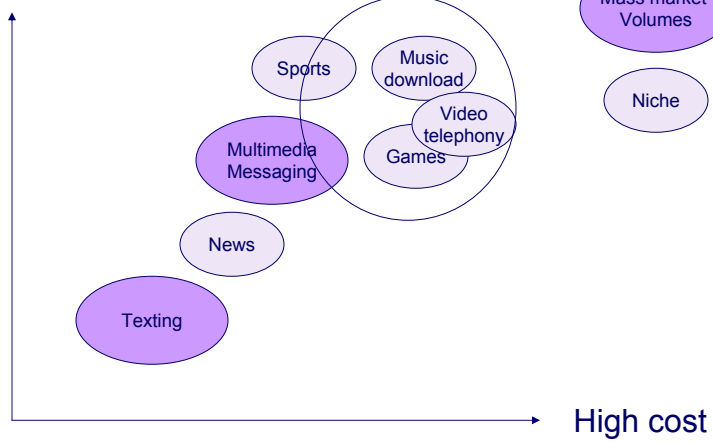


Volume-pricing for IM is very dangerous

12

Which data services?

Premium value



Where next for 3G in Europe?

Mismatch between industry and investors

Vendors

Operators

Investors



- We are exciting capital growth stocks
- There is a lot of new revenue potential
- It's just a question of getting it
- Services are the key
- 3G will be *needed* to carry them



- Telecoms is a utility business
- Do not expect more than single digit growth
- Predictable revenue, profit ... and especially dividend
- CapEx : Sales = ~12-15%
- Scale becoming really important

The industry has now got to prove itself!

15

Expect further disruption



- The technology mix continues to proliferate
- Regulatory pressure increases
 - *Mobile termination rates*
- Lots of churn/swapping; stable market shares are illusory
 - *User spend grows slowly through substitution - from fixed/other media*
- Mobile operator strategy focuses on next 'little things', constant re-invention and opportunism



16

W-CDMA - one of several options

- Operators have more say
 - *W-CDMA works, but slowly*
 - *Other technologies compete*
- Regulators are petitioned to relax both rollout and technology-specific requirements
- Mobile becomes a two/three tier world
 - *Operators serve niches*
 - *Some go for data, some don't*

Incumbents are unlikely to rush into W-CDMA

17

Thank you.