Cellular ARPU Q1 06: trends continue

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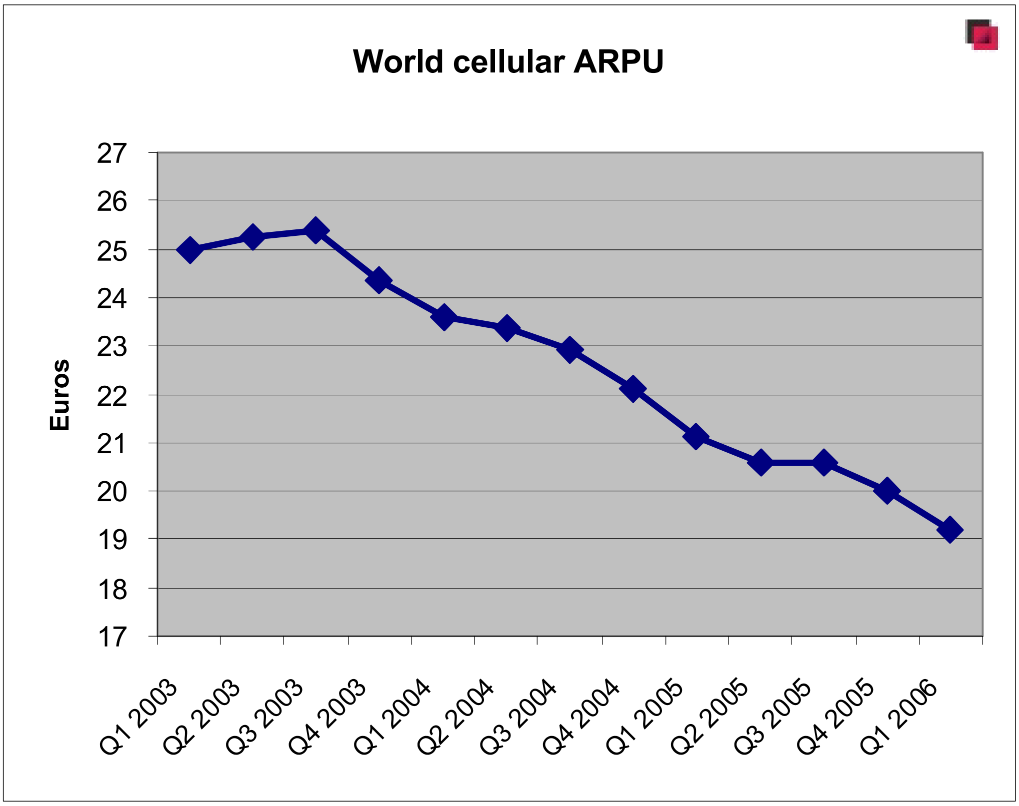
World cellular ARPU continued the trend of the last three years and fell in Q1 2006 to €19.2 because of dilution of the user base, multiple connections and reductions in termination rates. However, most regions saw a slight improvement on the normal seasonality. Falling ARPU does not mean no growth - service revenue continued to grow in all regions between 8% and 31% per annum during the year to Q1 2006.

Figure 1 **World cellular ARPU**



Source: Wireless Intelligence, June 06

According to Wireless Intelligence data and estimates, world cellular ARPU fell in Q1 2006 by €0.8 to €19.2, which is in line with previous seasonal changes. This is a year-on-year drop of €1.9, which continues the trend we have seen over the last three years.

ARPU declines because new connections on the networks dilute the average:

- in developed markets this is now mostly about multiple connections per person, since the penetration rate is heading towards or is above 100% in most developed markets
- in developing markets this is because new users coming into the market have lower monthly usage than the existing installed base.

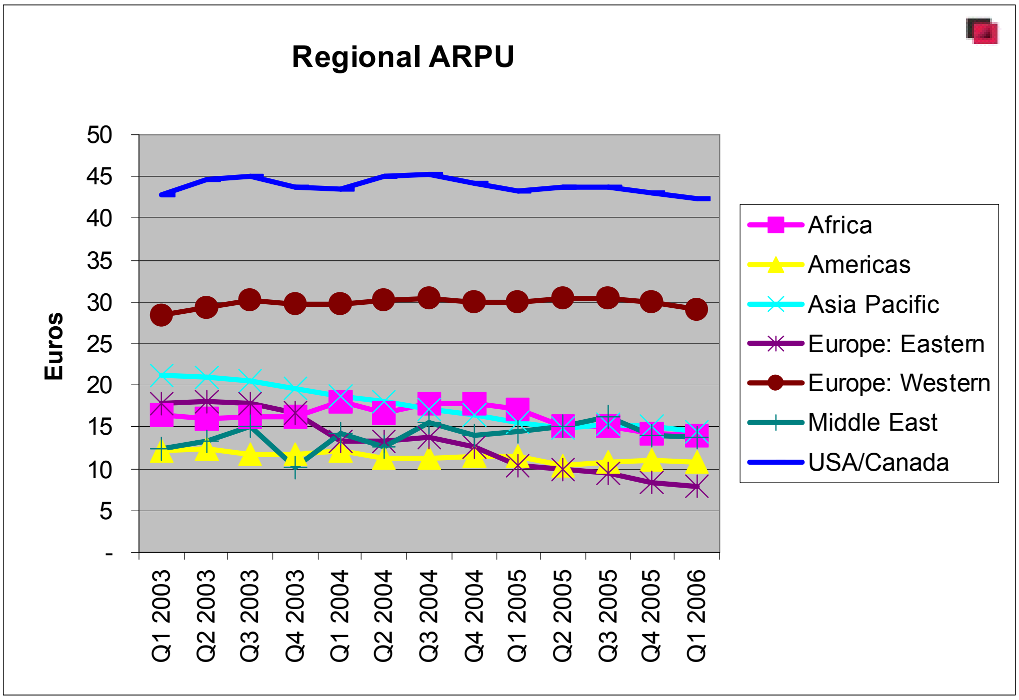
Another factor pushing ARPU down in some countries is reductions of the termination rate for delivering calls dialled into the mobile network.

Our ARPU data covers operators who account for 85% of world connections – for others we have estimated the ARPU for the quarter.

Analysis

The regional ARPU picture is shown in *Figure 2*.

Figure 2 **Regional ARPU trends**



Source: Wireless Intelligence, June 06

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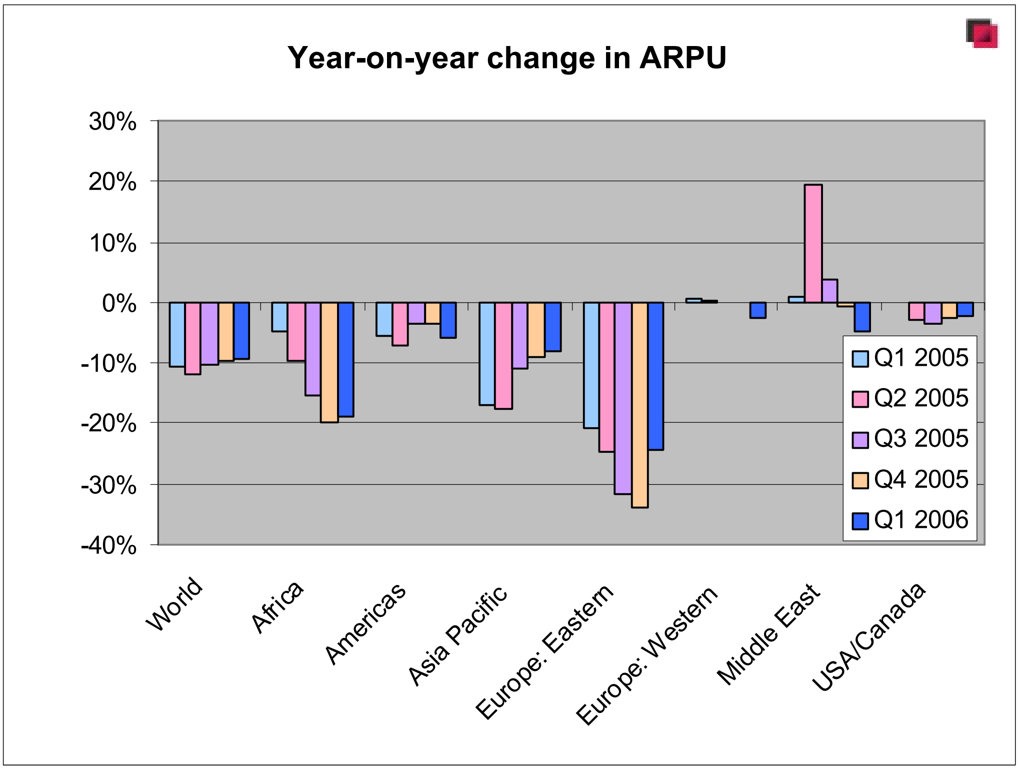
The US/Canada has the highest ARPU. This region missed out on its Q2 and Q3 seasonal uplift in 2005, but the Q1 dip was €0.6, slightly better than the seasonal norm.

Western Europe saw a dip from a remarkably flat €30 down to €29, driven by reductions in termination rates in some key markets (Germany, Italy, Switzerland). Another factor here was steep price declines in a few markets, notably Finland, thanks to highly aggressive MVNOs.

Other regions generally saw their historic trends continue although, as *Figure 3* shows, Q1 represented a slight improvement year-on-year in most regions and in the World figure.

Figure 3 **Regional year-on-year ARPU changes**



Source: Wireless Intelligence, June 06

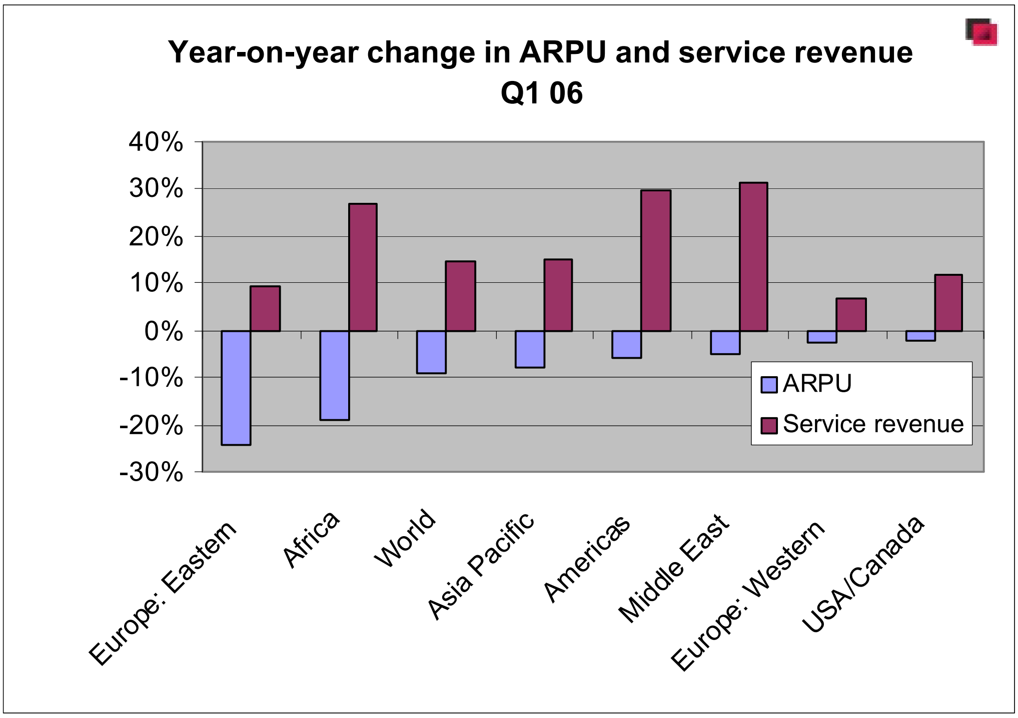
ARPU that is falling gently is not necessarily something to be gloomy about.

During a period of high growth rates – as we saw in the developed markets during the late 1990s and are now seeing in many emerging markets – the new users coming into the subscriber base generally use the phone less and their lower spend dilutes the average. However, while this is going on, it has often been the case that existing users are talking more and their ARPU is rising. This trend tends to be masked by the high user growth.

Also in the more mature cellular markets, where people are moving into multiple connected device ownership – phone(s), BlackBerry, laptop – we have found that spend per real user is rising steadily, even if ARPU per connection is falling.

The net effect of these is that our estimates show service revenue continuing to grow in all regions between 8% and 31% even though ARPU is falling. This is shown in *Figure 4*.

Figure 4 **ARPU and service revenue year-on-year change**



Source: Wireless Intelligence, June 06

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