



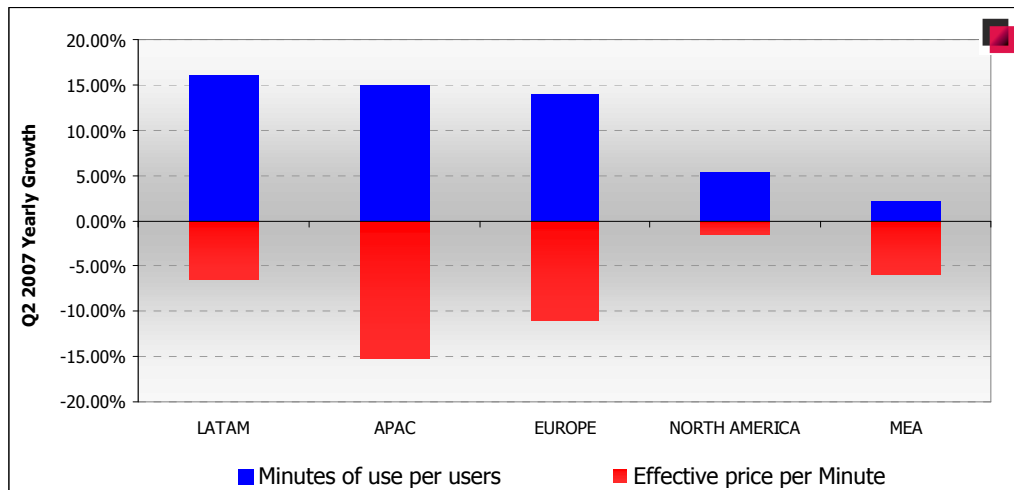
Growth in voice volumes offsets price declines

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Efforts from operators to stimulate voice usage have led to a decline in effective price per minute. Minutes of use per user per month have grown at a steady pace in the second quarter of this year in most regions, with Europe and Asia Pacific showing approximately 15% yearly growth. In contrast, effective price per minute has declined by more than 10% in both regions over the same period. As a result, operators are increasingly trying to migrate their prepay subscriber base to contracts, although convergence trends appear to be changing competition dynamics.

Figure 1 **Voice trends: minutes of use per users vs. effective price per minute, Q2 2007 yearly growth across selected operators**



Source: Wireless Intelligence, November 07

Minutes of use (MoU) per user is defined as total minutes used in the period (outgoing calls, incoming calls and roaming) divided by the weighted average number of customers over the same period, per month. Effective price per minute is average revenue per user (ARPU) divided by minutes of use per user per month.



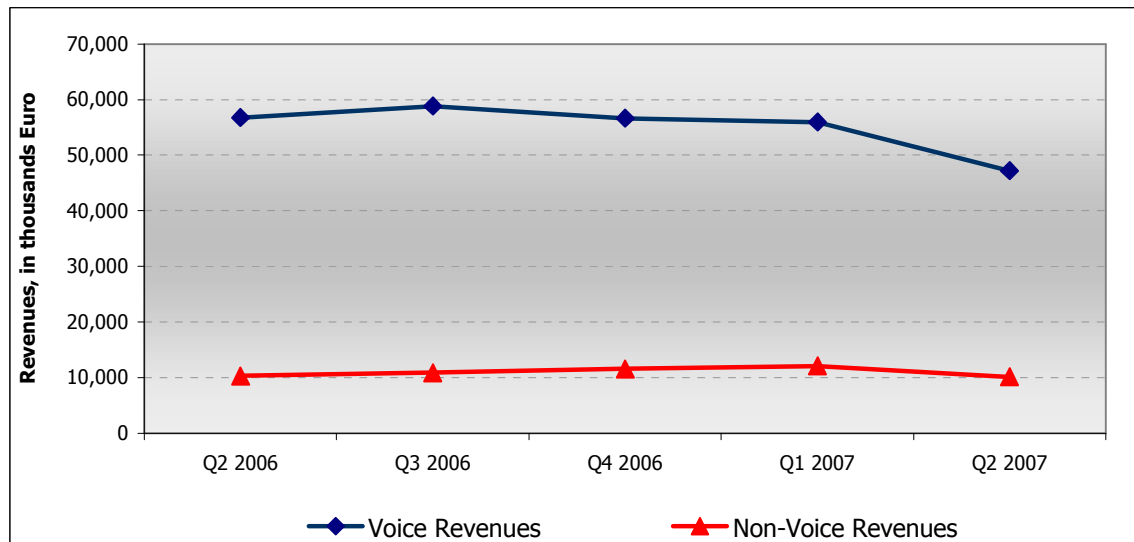
Operators that report MoU and effective price per minute account for 52% of total cellular connections worldwide. Wireless Intelligence has not estimated minutes of use or effective price per minute for operators that do not report this data.

Analysis

Voice: price reductions lead to strong MoU growth

In mature markets where cellular penetration is close to, or exceeds, 100%, operators are faced with the challenge of growing voice revenues. In order to increase voice usage operators have focused on price reductions in price-sensitive markets and efforts to migrate their prepay installed base to contracts. As a result, minutes of use per user per month have grown by just under 15% in Europe in Q2 2007 (year-on-year), and effective price per minute has declined by over 10% during the same period. *See Figure 1.* Other regions have been following a similar trend.

For operators that report a recurring revenue split, the overall trend shows a quarterly decline in voice revenues, although non-voice revenues are growing slowly. Voice revenues are defined as recurring revenues attributable to voice transmission and any appropriate monthly charges. *See Figure 2.* Total recurring revenues are following seasonal changes: Q3 is the highest peak, mainly due to the effect of roaming during the holiday season, and Q1 is the lowest period. This decline in voice revenues reflects the challenges that operators are facing to stimulate voice usage as volumes are going up but effective price per minute is going down. Data services are in essence the key focus from operators to increase revenues and attract new users with, for instance, unlimited data plans on high-speed networks.

Figure 2 **Voice and non-voice revenues, selected operators**

Source: *Wireless Intelligence, November 07*

Roaming tariffs are generating high levels of revenues for operators, although regulatory bodies are targeting this as a priority. For instance, on its prepay offers, Orange France charges €0.70/minute for a call placed from France to another European country, and €0.59/minute when calling a French number from another European country. Such high tariffs are not only applied to voice calls, but also data plans. For instance, Vodafone UK charges customers using their high-speed USB modem from abroad £4.25 per MB.

Regulatory bodies are playing an important role in the future of voice with, for instance, the recent implementation of the Eurotariff which is aimed at reducing voice retail prices by 50% for most users. From September 2007, a call anywhere in Europe under the Eurotariff costs no more than €0.49/per minute to make and €0.24 per minute to receive.

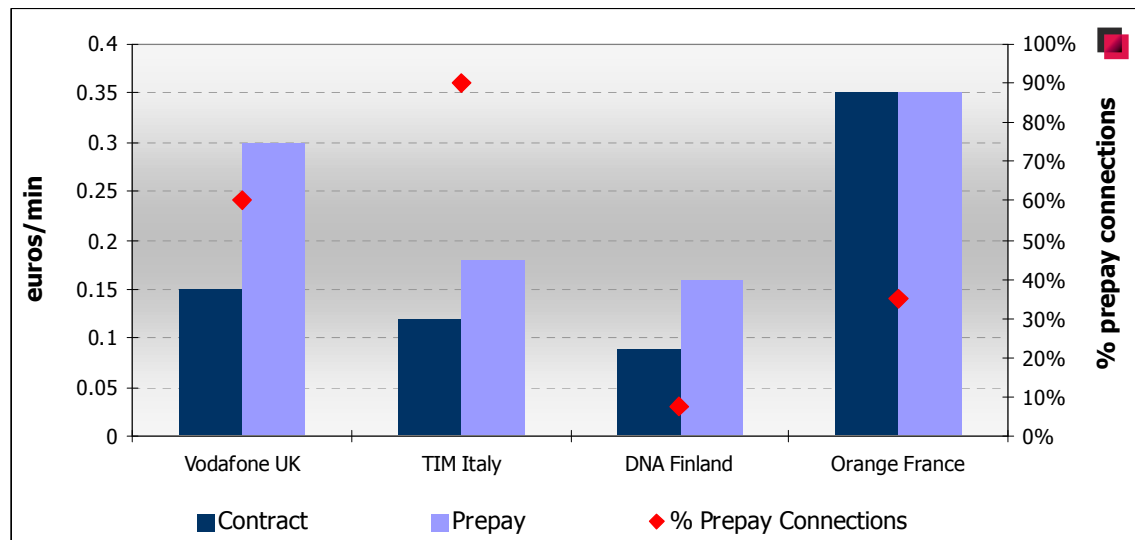
Voice: the effect of a high level of prepay

Over the first half of this year, 68% of worldwide cellular connections were prepay. Apart from North America, where the majority of connections are on contracts, most markets have a high prepay proportion. As emerging and developing markets are growing fast, this high level of prepay connections means that operators will face strong churn rates and increasing cost when focusing on acquiring new users in the near future. The cost related to subscriber acquisition is a particularly hot topic but today the priority should be on increasing capex to improve high-speed network coverage to address possible data traffic opportunities.



Operators are focusing on migrating their prepay installed base to contracts. As shown in *Figure 3*, in markets where the level of prepay connections is high, voice offerings on contracts are more attractive than on prepay. For instance, users on a contract with TIM in Italy can pay €0.12/minute compared to €0.18/minute on prepay. Italy is a price-sensitive market as handsets are unsubsidised. Operators in Italy are competing strongly on contract offerings. For instance, the Vodafone Facile contract package costs €89/month which includes 900 free voice minutes competing against TIM's contract at €90/month which also includes 900 free voice minutes. The difference between both offers is in the data plans (Internet access, number of SMS/MMS messages), which again shows that the main differentiator today is on data services and content.

Figure 3 **Price of mobile calls**



Source: Operators' publicly available data, November 07

Voice competition dynamics are changing

Although most of the attention seems to be placed on partnerships between content providers and operators or vendors to deliver a compelling Internet experience to mobile users, there is also a lot of activity around voice services. Voice-over-IP (VoIP) and bundled services are changing the way voice services are being offered and delivered to end users. VoIP can disrupt the future of voice as we see global operators focusing on offering bundled services such as 'mobile, fixed and broadband' to their end users. For instance, 3 UK recently launched its Skype-enabled phone which provides free calls over the Internet. Such services are increasing the pressure to reduce mobile voice tariffs.



In the mid to long term, mobile operators will have to focus on subscriber retention to secure their installed base; they will also have to develop partnerships, or invest in fixed and broadband assets to offer bundled services.



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