



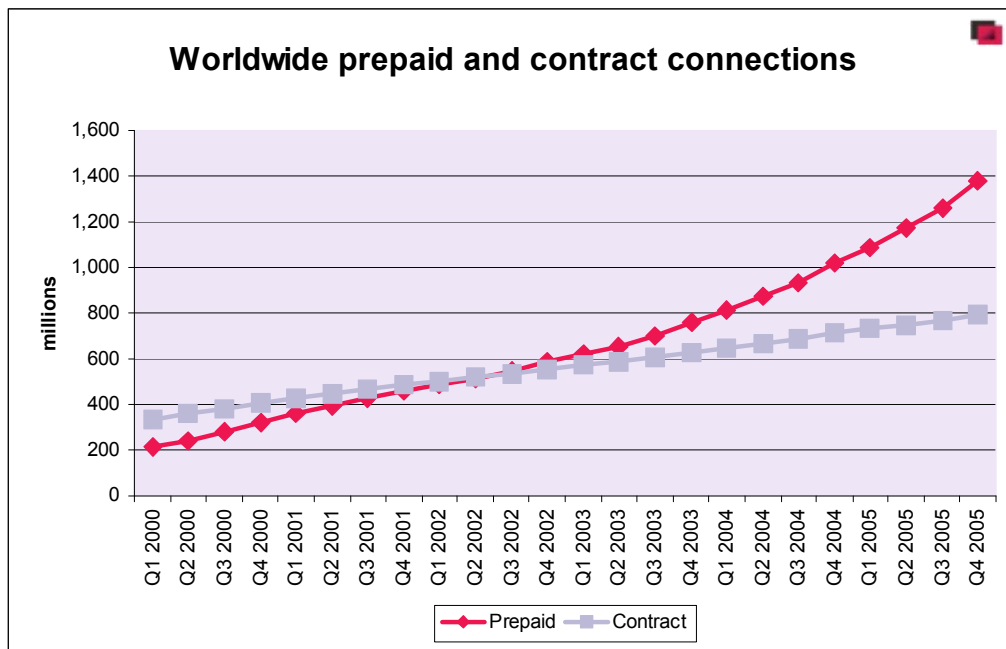
Prepaid connections: global dominance assured

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Wireless Intelligence has published prepaid and contract connections for all operators in the world. This research shows that prepaid currently accounts for 63% of the world's connections. With over 80% of the world's net additions being on prepaid plans in Q4 2005, this dominance is set to increase. Contract customers still number 800 million but are concentrated by geography, predominantly in North America, Western Europe and the Asia Pacific markets of China, India, Japan and Korea.

Figure 1 **Worldwide prepaid and contract connections**



Source: Wireless Intelligence, April 06

Wireless Intelligence collects data for all operators and we have reported prepaid and contract splits for 78% of the world's connections. However, not all operators



report all of their data; we therefore extrapolate to all operators by creating profiles from the data that is reported.

Some operators now report a third, wholesale, category in their connections numbers. These generally identify MVNO connections on their networks. These connections are currently excluded from this split because the majority of operators do not report in this way. As more operators report wholesale connections separately from their prepaid and contract totals, we will update the methodology to account for it.

Analysis

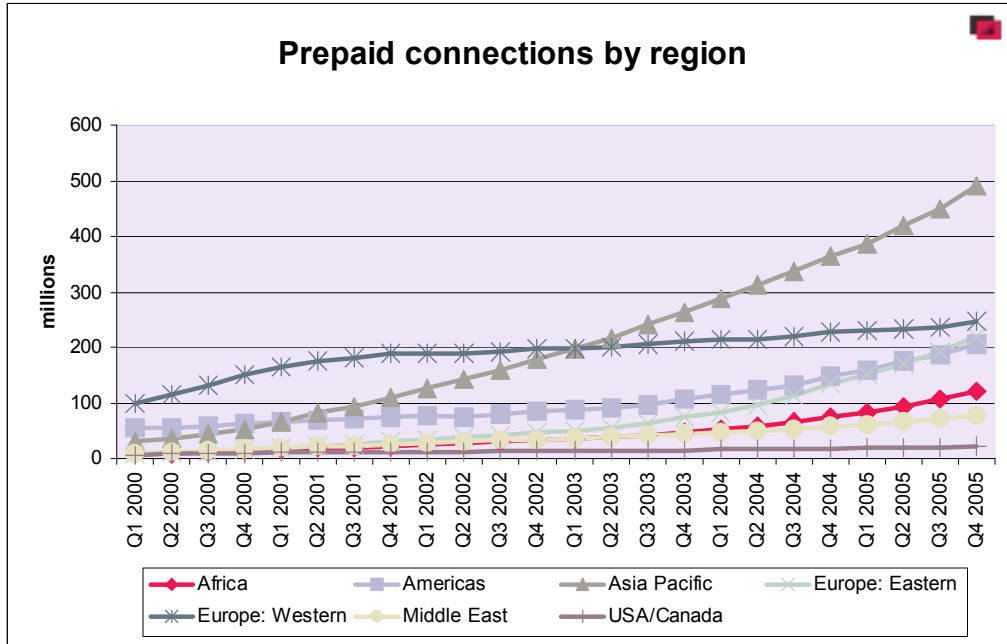
Figures 2 and 3 show the total connections by region for prepaid and contract connections respectively. In many respects the charts follow the patterns set by the total connections in each region in terms of growth rates and market size, although there are some key points to draw out.

Prepaid connections in the Americas and Eastern Europe are about to outnumber those in Western Europe, which until the end of 2002 was the largest prepaid region by volume in the world. This gives a measure of the speed at which these two regions have developed over the past three years, most of which of course is due directly to the availability of prepaid itself.

It also shows that after the initial surge of prepaid additions during the late 1990s and turn of the century, Western European operators have generally focused on migrating customers through prepaid onto contract plans, whilst also cleaning their databases of inactive connections more stringently. After growing at around 50 million per year during 2000 and 2001, the Western European prepaid market has taken the next four years to add another 50 million connections.



Figure 2 Prepaid connections by region



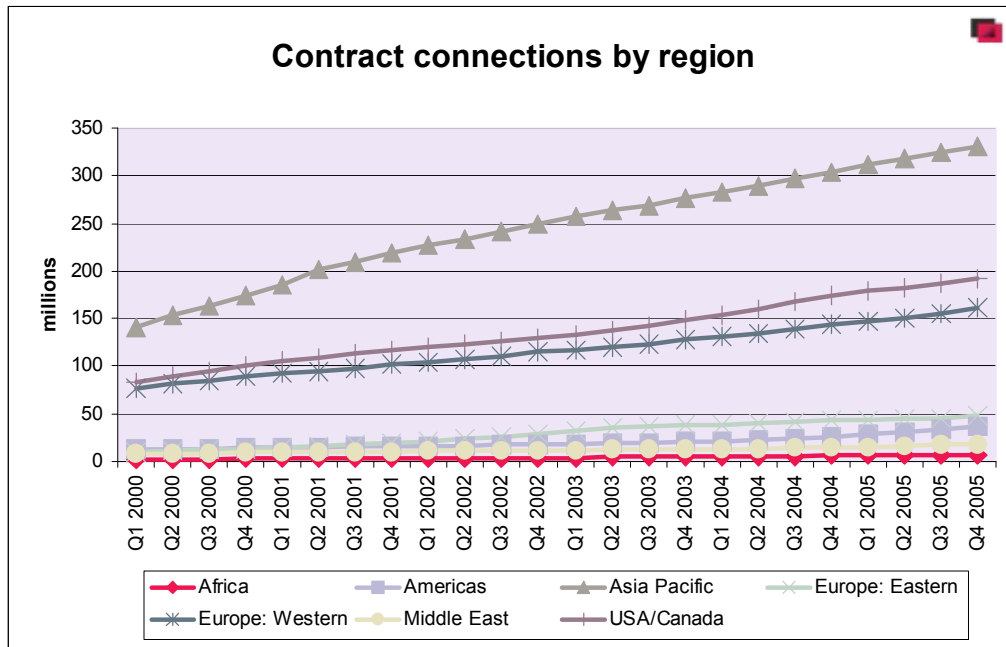
Source: Wireless Intelligence, April 06

Contract connections meanwhile are primarily located in Asia-Pacific, North America and Western Europe. North America has always been heavily weighted in favour of contract connections. However, year-on-year growth in prepaid connections is now greater than that of contract.

Indeed, Western Europe is the only region where the annual growth rate of contract connections has been greater than that of prepaid over the past four years – a further indication of the operators’ efforts to encourage customer migration and clean out inactive users that we noted above. Of course, not all countries within a region are similar, with Italy being a prime example of a market where prepaid dominates absolutely; currently 95% of Italy’s total connections are on prepaid plans.



Figure 3 **Contract connections by region**



Source: Wireless Intelligence, April 06

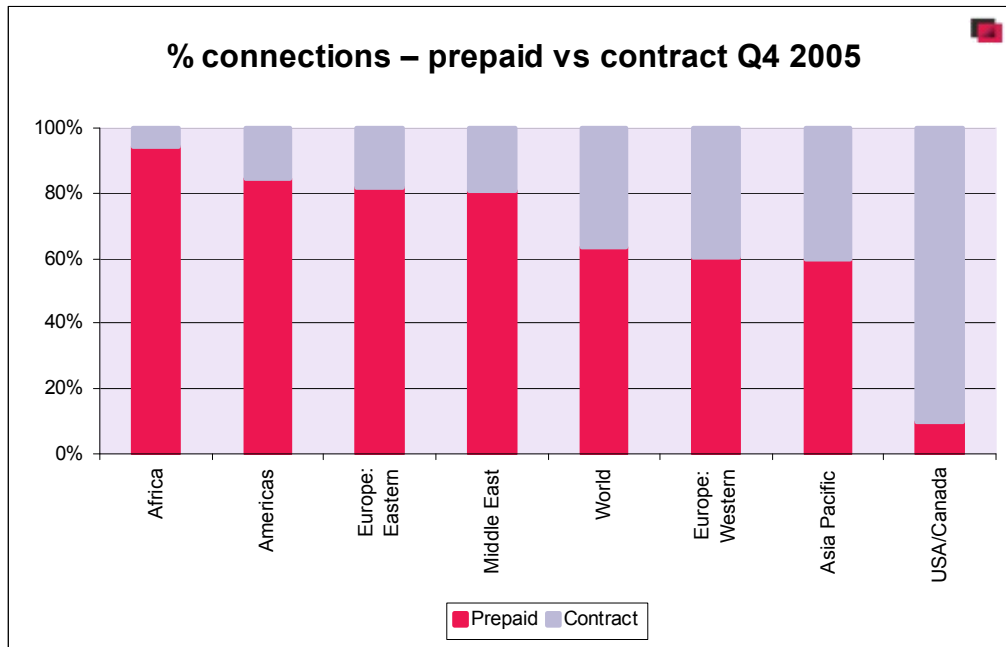
Despite Asia Pacific registering the largest number of contract connections by far, 86% of them are in China, India, Japan and Korea. Although contract connections dominate in Japan and Korea, with prepaid accounting for just 2% in the two markets combined, China and India both have larger prepaid bases than contract, and the contract bases in these two countries account for nearly 50% of the regional total. The volume of contract connections in this region is therefore due more to the sheer size of its largest constituents than to an identifiable trend.

Figure 4 shows the proportions of prepaid and contract connections at Q4 2005. Of the two extremes in Africa and North America, it is likely that only North America will show any movement from its current position, given that prepaid is now growing more quickly than contract. However, it will take a long time before it approaches anything like the proportions of Western Europe.

Continuing the investigation into where Asia Pacific’s connections really are, if China, India, Japan and Korea are removed and the split recalculated, the distribution of prepaid and contract in the region mirrors that of Eastern Europe not Western Europe.



Figure 4 % connections – prepaid vs contract Q4 2005



Source: Wireless Intelligence, April 06

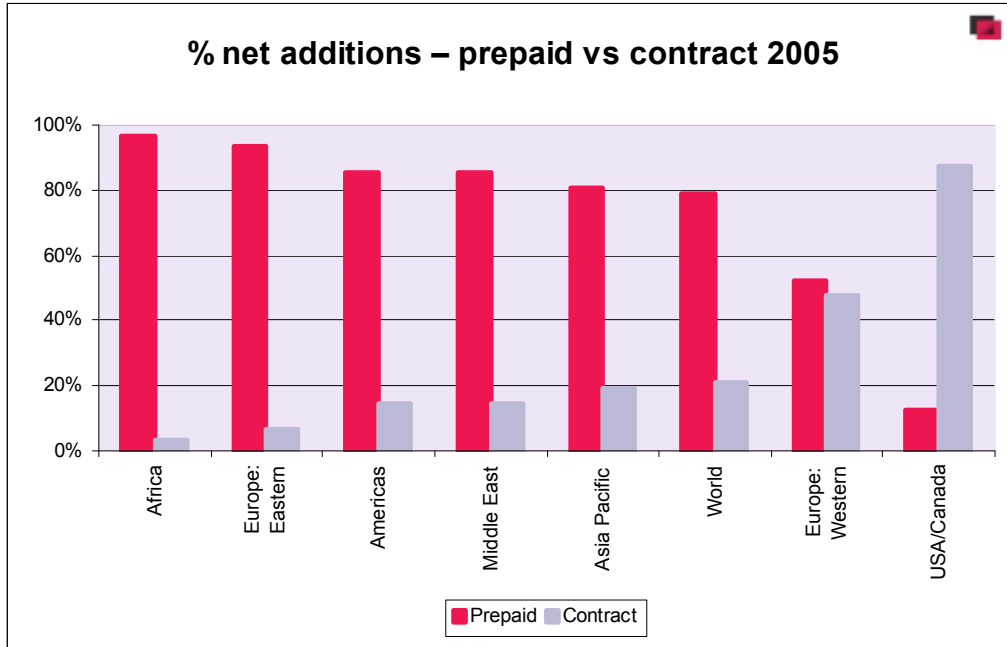
Figure 5 shows how net additions were distributed during 2005. Most of the regions follow their accustomed profiles, but the chart does show Western European prepaid net additions outpacing those of contract during the year. So although the trend over the past four years has been in favour of contract net additions, prepaid is once again increasing in importance across Western Europe. Indeed the trend in favour of prepaid is moving quite quickly quarter on quarter, accounting for 52% of net additions in Q1 2005 and 60% by Q4 2005.

The chart also identifies the increasing proportion of prepaid net additions in North America, where prepaid users grew by 22% during 2005, rather higher than the 10% growth in contract customers over the same period.

Consequently, with the few notable exceptions where it is not a feature of the market, prepaid is continuing to assert itself strongly on a global scale, even where contract connections are well entrenched. We therefore expect prepaid as a proportion of global total connections base to continue increasing, although we also believe it is unlikely to exceed 75% within the next five years.



Figure 5 % net additions – prepaid vs contract 2005



Source: Wireless Intelligence, April 06

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