

There are changes in the air as we welcome Spring with longer days and finally warmer weather. On 1st May, we saw big changes in Europe as we witnessed the first expansion of The EU since 1995. The inclusion of 10 new countries brings the membership to 25 and unifies Eastern and Western Europe. We are also happy to announce some changes here within Teligen and welcome the arrival of two new colleagues, Cora Hackwith and Carl Hamilton. Both Cora and Carl have transferred from our parent company HI Europe and bring with them valuable experience of mobile markets including handset and promotions monitoring. These newly acquired skills complement our existing mobile tariff monitoring and analysis.

We hope you enjoy the Spring 2004 edition of Outlook, Teligen's newsletter covering case studies, reports and items of interest for the telecommunications industry worldwide.

We invite your comments and queries.

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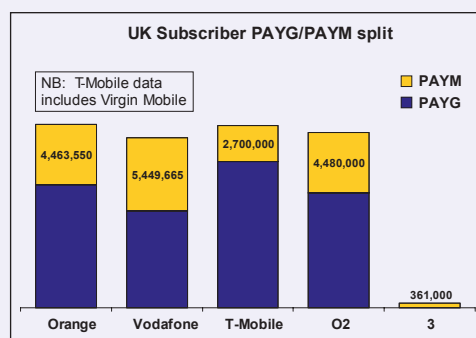
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Handset subsidies in the UK

Like many other Western European markets, the UK has seen its number of mobile subscribers grow considerably in recent years taking the market close to saturation point. With subscriber numbers currently standing at around 54,621,450 mobile penetration is now approximately 90%.

However, for some time now, the UK's operators have been shifting their focus to increasing average revenue per unit (ARPU) as opposed to growing their market share. The main way to do this is to attract pay monthly (PAYM) customers in favour of pay as you go (PAYG), this is now emphasised by the four main networks. At the moment, PAYG customers outweigh their PAYM counterparts but they generally carry a lower monthly ARPU, something that operators are presently trying to change. A typical PAYG

user profile is often a child, a visitor to the country, a consumer on a lesser income than a PAYM customer so a lower spender or a person unable to qualify for credit. In comparison, a typical PAYM customer is not only tied to a contract (up to 24 months), but can also be a business customer generating large ARPUs. Hence the attempts of operators to improve their PAYG/PAYM split.



Source: operators' figures

Methods:

The incentives to become a PAYM customer are now in abundance and range from monthly bill loyalty discounts to heavy handset subsidies. For a number of years now, operators, originated by T-Mobile, have considerably reduced the subsidies they pay for PAYG handsets meaning that the latest, most attractive device can be obtained cheaper.

Table 1: Current UK handset prices

Operator/Retailer	Handset	PAYG	PAYM
O2	Nokia 3100	£99.99	Free (on all available price plans)
Vodafone	Panasonic X60	£180.00	£50.00
Orange	Samsung E700	£199.99	£99.99
T-Mobile	Sony Ericsson T610	£149.99	£19.99
Carphone Warehouse	Motorola V500 (with Orange)	£149.99	£49.99
Phones 4U	Sharp GX20 (with Vodafone)	£299.99	£89.99

NB: PAYM handset costs are based on price plans costing between £14.50 and £19 per month. Prices correct at June 04

As Table 1 suggests, there are considerable savings to be made by signing a contract. Using Vodafone as an example, by subscribing to a higher value tariff, the handset becomes cheaper. This is true of all main UK operators, who are heavily subsidising their PAYM handsets.

Continued over

EU Enlargement and the need for information and consultancy services...

On May 1st 2004 the European Union welcomed 10 new countries into the single market, but what does this mean in telecom terms and where does Teligen fit in?

The European Union has just implemented its biggest single enlargement in terms of scope and diversity. Of the 13 countries that applied to become new members, 10 of these countries - Cyprus, The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, The Slovak Republic and Slovenia joined on 1st May 2004. They have been known by the term "accession countries". Bulgaria and Romania hope to join by 2007, while Turkey is not currently negotiating its membership.

Accession to the European Union comes with the prerequisite that these countries

adopt the common rules, standards and policies that make up the body of EU law. One of the key areas of conformity is to the regulatory framework for communications. Up to the date of accession, all 10 countries have fully implemented the requirements stipulated in the old EU15 framework - now the requirement is to complete the market analysis and review of obligations in full conformity with the provisions of the new framework. The significance of market analysis and benchmarking in the acceding countries is now parallel with the rest of the Union, and Teligen's work in this area is effectively placed to encompass the necessary growth in international scope.

Teligen has already worked with a number of clients to investigate levels of competition through price benchmarking and market trend analysis. Of particular

interest has been Teligen's contribution to the European Commission's Reports on the Implementation of the Regulatory Package over the last few years. This has been widely sourced as an essential assessment of market developments in all EU countries, and has helped to identify competition deficits that require action. Similar market analyses will be essential to assist the NRAs of the acceding member states in the processes of implementing the new framework.

Teligen's portfolio comprises a range of consultancy services tailored to meet such specific requirements, including price benchmarking, competition analysis, time series analysis, tariff setting advice, rate rebalancing, price cap regulation advice, forecasting and price elasticity modelling. To find out more, visit www.teligen.com

Handset subsidies in the UK - continued

Table 2: Cost of the Sony Ericsson P900 on a Vodafone PAYM price plan

Operator/Retailer	Handset	Tariff	Cost
Vodafone	Sony Ericsson P900	Anytime 30	£350.00
Vodafone	Sony Ericsson P900	Evening & Weekend 900	£350.00
Vodafone	Sony Ericsson P900	Anytime 100	£270.00
Vodafone	Sony Ericsson P900	Anytime 200	£270.00
Vodafone	Sony Ericsson P900	Anytime 400	£170.00
Vodafone	Sony Ericsson P900	Anytime 1000	£170.00

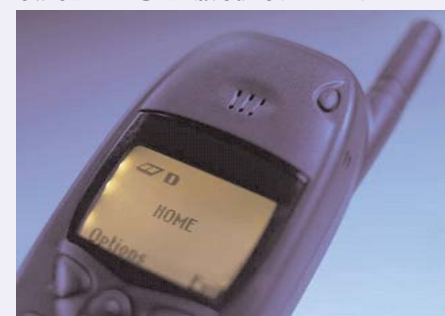
NB: The prices related to Vodafone instore prices as per the operators retail outlets during June 04

The benefits to the operators are that the customer has now registered valuable consumer-related information and is committed to a contract for at least 12 months. Also, the likelihood of the customer becoming inactive (e.g., not making/receiving a call or SMS for 90 days) is reduced. In the example in Table 2, Vodafone is likely to have subsidised the Sony Ericsson P900 by several hundred pounds. After securing a customer on its Anytime 30 tariff (£15 per month), the operator is guaranteed £180 from the lifetime of the line rental payable. Add this to any bolt ons, the

number of multimedia messages sent, roaming charges, handset insurance and Vodafone Live! charges, and there is a potentially lucrative customer. Of course the higher the tariff the consumer takes out, the more lucrative it is to the operator.

It is clear to most in the industry and to the majority of consumers, that a PAYM subscription will enable them to get a cheaper handset. Without going into too much detail, however, PAYM is not necessarily better value than PAYG (even though the operators and their outlets may say otherwise). Although the

retail outlets often say to would-be buyers, "there is no such thing as a low user," consider this: with some consumers happy to make relatively few calls per month, there is no need to get into a contract for 12 months yet they are charged heavily for the handset. Virgin Mobile also adopts this business model and, even though the MVNO does not offer contracts, it offsets the cost of this by charging a lot for its handsets. Operators are striving to improve their PAYG/PAYM split and it seems that handset subsidies will remain low on PAYG in favour of PAYM.



Teligen in the Pacific

The basket methodologies produced by the OECD and Teligen are suitable for many different markets, not only for the OECD countries. With careful modifications they can be used in markets widely different from the large developed countries they were originally designed for.

One of Teligen's latest projects involving new markets has been to set up a price benchmarking process for the small Pacific island countries.

The project background

Most of the countries in the Pacific region have a very different telecoms market environment from what we are used to in Europe. The countries are all relatively small, down to some of the smallest countries of all. They are isolated in a vast ocean, with thousands of kilometres to their nearest neighbour, and even the distances between islands in the same country can be significant. They have to rely on satellite and sea cable connections, both of which are costly to establish and maintain.

Over the last two to three years, Teligen has been assisting the ITU in the Asia and Pacific regions. The overall objective has been to increase the awareness of issues related to emerging competition in countries where there has been little consistency in regulation.

Teligen has contributed with expertise in tariffs and tariff benchmarking, and has provided an insight into the price relationships in each country and between the countries in the region. Trying to set up a fair price benchmark for these countries has shown that many of the issues facing operators in developed countries are not relevant in small developing countries. The real issues in these countries can be:

- Can a family afford a telephone at all? (A family's income may be lower than the fixed cost of a telephone connection.)

- Is the cost of providing one telephone to a village so high that it will never become profitable for the operator?
- Can the cost of providing connections over thousands of kilometres of ocean be reduced or shared in any way?

Through several workshops and individual working sessions, the ITU has aimed to let representatives of the governments and operators in the Pacific island states consider how they will need to adapt to a competitive market where they may easily be overrun by financially stronger players from abroad. How to build legislation, how to establish regulation, which are the price issues?

The Pacific basket

Working closely with PITA (Pacific Island Telecoms Association), Teligen has been able to gather enough information to establish a specific residential usage basket for the Pacific. This basket is different in weights between different types of calls than the OECD basket even though it is based on the same structure.

This basket has been used as a basis for the price benchmarking. It allowed

Teligen to take into account a number of concerns raised by the operators in the region and to produce results that could be recognisable to those familiar with the markets.

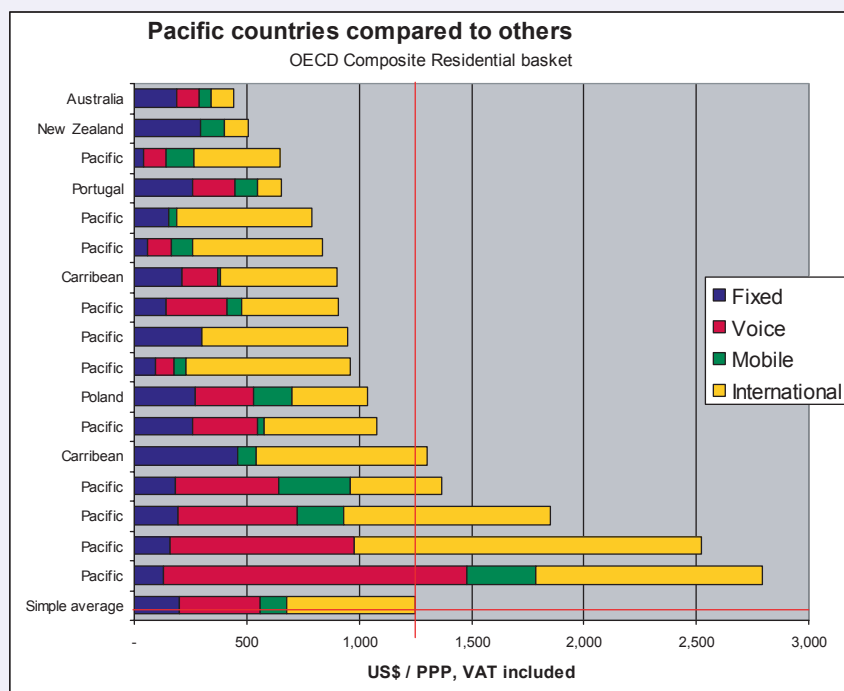
The results

The benchmarking results for residential PSTN services are shown in the graph below. The country names are not identified except for the OECD countries. The intention is to give an indication of the price levels and balances in the Pacific island countries compared to prices in some developed countries and prices from another geographically comparable region.

In this graph the following legend applies:

- Fixed (purple) is the line rental and a portion of the installation charge
- Voice (red) is the cost of calls to national fixed-line destinations
- Mobile (green) is the cost of calls to national mobile phones
- International (yellow) is the cost of calls to international fixed-line destinations

Cost is shown for one year.



Biannual Teligen Report - Broadband Pricing in Europe

Teligen has now published the first in a series of biannual reports on broadband Internet access prices in Europe. Pricing of retail broadband services continues to be the most influential factor in their evolution, and this first report looks at tariffs valid in September 2003. With six-monthly updates this report conducts price comparisons both between and within each country.

The two most common broadband access technologies are ADSL and cable modem, and it is these services that this report investigates. Teligen's research has shown that in most countries in the study, ADSL is either the most common means of broadband Internet access or is fast becoming so. Cable modem is a popular broadband Internet access medium in a handful of countries, but ADSL uptake is growing rapidly.

The countries covered in the report are: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Spain, Sweden and the UK. It is anticipated that this coverage will increase as the study continues.

Telecom operators, ISPs and cable operators offer broadband products to both private and business customers. Looking at the major players across Europe, the primary aim of the report is to highlight the key differences in the way broadband services are structured and priced. Our report looks at prices for the standard non-transitory service offerings of each provider, whilst disregarding promotional offers. We use a simple but effective benchmark methodology to determine the cheapest available service for each provider, based on specific usage criteria.

Ultimately, this new Teligen report will provide an invaluable source of broadband price reference for those wishing to keep abreast of developments in this highly volatile market.

Teligen Tariff Diary

Insight From the Tariff Team

One service stands out in this edition as having the most activity during the past six months - ISDN. We have seen noticeable changes in a number of countries, mainly increases to connection costs and monthly rental costs for basic services. Our observations included connection increases of 16% in Germany and monthly rental increases of between 1% and 5% in Spain, Portugal, Belgium and The Netherlands. These changes may be indicative of the emergence of the newer broadband services and the fact that customers may be switching to the faster, cheaper ADSL services.



We say goodbye to a number of leased-line services that were discontinued during this period. These include Analogue circuits in Cyprus and low-speed digital services 1.2-19.2bit/s from KPN in The Netherlands. International Leased line prices in both Finland and Austria were withdrawn from publication and are now only offered on a case-by-case basis.

Is it all change for the humble Payphone?

UK BT announced that the minimum fee for a call from public payphones would increase from 20p to 30p on 5th May. The new fee includes an increase in the number of minutes included in the minimum fee. At the moment, 20p buys a local or national call of up to 1 minute 50 seconds. In the future, the minimum 30p will include 15 minutes. Calls of 2 minutes and over will reduce by around 80%, while shorter calls will cost up to 50% more. The price last changed in

October 2000. It is not surprising that this price change comes at this time. Ofcom published a report on payphones last year showing 60% of adults interviewed stated they "never" use payphones. Mobile ownership is the main contributory factor with 62% of mobile customers claiming to use payphones less or not at all as a result of owning a mobile phone. For customers that did use payphones, calls were generally local and short. BT Payphones is a standalone business within BT and is required to support itself through its own activities. Recently BT announced plans to remove 10,000 traditional phone boxes from their country-wide network. Other plans include transforming more than 1,500 payphones into Internet kiosks and plans are afoot for a new style phone box fitted with a cash machine and a payphone. Offering broadband-enabled payphones could be the new lease of life needed for the traditional public payphone. Our needs and expectation are ever changing and demand for "on-the-go" wireless broadband access is quickly becoming part of everyday life.

The Teligen tariff team are keen to receive customer feedback and are happy to answer any tariff queries you may have.

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