

Western European fixed voice revenues could fall by EUR29 billion by 2009

Submitted by: Martin Brooke Associates

Thursday, 3 March 2005

* Fixed voice revenues are set to decline between 6% and 10% per annum over the next five years - falling by one-third in the worst case

* Slowing the migration from fixed to mobile services through the use of new features could be worth EUR2-3 billion to a large European operator

* Migration of a Class 5 office to VoIP using existing copper for both voice and broadband could save European incumbent operators 11% of voice network costs

* The impact of one incumbent introducing VoIP technology could be a radical reduction in regulated interconnect prices across the whole of Europe

CAMBRIDGE, UK, March 3, 2005 - In Western Europe, revenues from fixed voice could fall by as much as one-third (EUR29 billion) over the next five years if 3G operators aggressively target the voice market as a growth area, according to a new report, 'The Business Case for Carrier Migration to VoIP', from Analysys, the global advisers on telecoms, IT and media (<http://research.analysys.com>).

"We expect both fixed-line and 3G operators to offer large bundles of minutes in the attempt to become the sole voice supplier for their customers," said Margaret Hopkins, the report's author.

Any move that slows the fall in voice revenues is worth a great deal to incumbent operators, that are facing the prospect of declines of between 6% and 10% per year depending on how aggressively 3G operators target fixed voice substitution.

"If new features made possible by VoIP, including presence-based services and true integration of fixed and mobile services, could reduce the decline in fixed voice revenues from 6% to 4%, then that would be worth EUR2-3 billion to a large European operator," said Hopkins.

The report compares the business case for deployment of VoIP as part of a multi-service architecture with those for continuing to maintain the existing PSTN or upgrading the PSTN using current technology. The savings from the former are considerable. (Chart available to journalists on request).

A number of incumbent operators are responding to the changing voice market by optimising their fixed networks for broadband and using VoIP. "Incumbent operators migrating Class 5 central offices to a broadband architecture that supports VoIP can save 11% overall, but this will trigger a recalculation of

cost based on interconnect prices by regulators right across Europe,” added Margaret Hopkins.

“BT is the first operator in Europe planning a Class 5 central office migration to VoIP and this has the potential to bring massive savings of 43% on the opex of the voice network and deployment of broadband, as well as the ability to offer more sophisticated broadband products.”

However, warns Analysys, because regulated interconnect prices are based on the deployment of a ‘modern equivalent asset by an efficient operator’, this could bring down interconnect prices, affecting incumbents right across Europe if the regulators are diligent in applying the principles of LRIC (long-run incremental cost).

Written by Margaret Hopkins, the new report examines the issues involved in, and calculates the cost savings that can be expected from, migration of carrier networks to VoIP, with particular reference to the deployment of integrated broadband and voice networks on existing copper infrastructure by European incumbents.

The report is available to purchase online at <http://research.analysys.com/store>, priced at GBP1900 (approximately EUR2770). For more information, telephone Analysys on +44 (0) 1223 460600 or email research@analysys.com.

About Analysys (www.analysys.com)

Analysys provides strategy and management consultancy, information services and start-up support throughout the telecommunications, IT and media sector. Its grasp of market dynamics, coupled with creativity, rigour and renowned objectivity, enables Analysys to consistently exceed the high levels of quality and innovation that its clients expect. The company has over 130 staff in offices in Cambridge, London, Edinburgh, Madrid, Milan, Paris and Washington DC, and works with associates in Auckland, Melbourne and Vancouver.

Recent reports include:

- * Pushing Beyond the Limits of 3G with HSDPA and Other Enhancements (December 2004)
- * Retaining Customers and Minimising Churn: strategies for mobile markets (December 2004)
- * The Business Case for Carrier Migration to VoIP (December 2004)
- * The Role and Impact of WiMAX and Proprietary BWA (November 2004)
- * Making a Success of the Mobile Content Value Chain (November 2004)
- * Viable Business Models Point to Big Opportunities for Public WLAN (October 2004)

- * Voice Communications: from public service to private application (September 2004)
- * TV and Video Services on a Mobile Phone: the killer application for 3G? (September 2004)
- * Delivering High-speed Mobile Internet/Intranet Services: the role for 3G and public WLAN (August 2004)
- * The Business Case for Broadband Entertainment (July 2004)
- * Western European Fixed Telecoms Markets: forecasts 2004-2009 (July 2004)
- * Spectrum Trading and Liberalisation: new threats and opportunities for telecoms business models (June 2004)
- * The Road to Fixed—Mobile Substitution Starts with 3G (April 2004)
- * Western European Mobile Forecasts and Analysis 2004-2009 (March 2004)
- * VoIP in the US Market: services, business models and regulation (March 2004)
- * Vodafone live! versus i-mode - lessons and prospects for the rise of global wireless services (February 2004)
- * Delivering the Broadband Home. New fixed and mobile services and devices: forecasts 2003-2008 (January 2004)
- * Scenarios for the Evolution of the Wireless Industry (December 2003)

Media contact (for author photography, executive summaries and interviews)

Louise Nunn

Analysys

Tel: +44 (0)1223 460600

Email: louise.nunn@analysys.com