

Office of Utility Regulation

Telecommunications Market Report January - June 2008

Information Note

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Guernsey Telecoms Market – Executive Summary

In July 2008 the OUR commenced a data collection exercise with the operators in the telecoms market. The purpose of this exercise is to collect and report on activity in the telecoms market at regular intervals. This report presents the key findings from this review.

Between the first half of 2007 and the first half of 2008, the Guernsey Telecoms Market has registered a significant growth in most of its segments in terms of subscribers, usage, or revenue. The first half of 2008 has seen a new player coming into the market offering both 2G and 3G mobile services, and two new operators providing internet services. This has contributed to the introduction of new products and services, such as mobile broadband, and to the overall growth of the sector. Most importantly, it brings increased competition to the telecoms market, and the potential for wider choice and greater benefits to consumers.

Data was collected for three separate periods; January –June 2007, July-December 2007 and January-June 2008. This information will help build a better profile of market activity and developments and help inform regulatory decisions going forward. The following are the main developments and key figures on the telecoms market and each of the telecoms industry sectors:

- **Overall telecoms market.** Total industry turnover growth rate was above 9% over the three periods. Total turnover accounts for approximately 4.1% of the Bailiwick of Guernsey's Gross Domestic Product in 2007.
- **Fixed market.** With the growth of the mobile sector, figures seem to indicate some degree of fixed-mobile substitution, as there was a 1.3% decline in total analogue and digital number of lines, and an 8.5% decline in fixed telecoms services usage. Total fixed telecoms revenues (including wholesale and corporate services revenues) have decreased by 1.4% over the three periods.
- **Mobile market.** A new operator, Airtel-Vodafone, launched services during the first half of 2008. Total number of subscribers grew by 8.2% over the three periods and in the first half 2008 the number of subscribers almost equalled the total estimated population in the Bailiwick (penetration rate of 97%).
- **Internet market.** Two new operators initiated commercial activities during the first half 2008, boosting the internet market. The total number of subscribers increased 13.3% over the three periods, representing an internet penetration rate of 32%, amongst the highest in Europe. A new service, mobile broadband, was offered in the market for the first time and dial-up customer numbers continues to decline.

The Director General would like to record his appreciation for the co-operation given by all licensees to this work.

1. Telecoms Market

This report presents data about the Bailiwick of Guernsey (“Guernsey”) telecommunications sector, based primarily on the Industry Questionnaires data submitted by licensed operators, and covering three periods of six month each from January 2007 to June 2008.

The Office of Utility Regulation (“OUR”) issued the first edition of the Industry Questionnaires in July 2008. Within this questionnaire, licensed operators in Guernsey provide information regarding their commercial activities and their services for the previous six month period¹.

Table 1.1 **Total number of telecommunications licensees**

	30 June 2008
Number of fixed licences	9
Number of mobile licences	3
Total	12

Source: OUR, Industry Questionnaire 2008

As of 30 June 2008 Guernsey has a total of 12 licensed operators registered, 9 of them licensed to provide fixed telecommunications services, and the remaining 3 licensed to provide mobile telecommunications services². The data on which this report is based has been collected from the licensed operators between July and September 2008.

a. Total Turnover

The telecommunications sector in Guernsey across its fixed, mobile, and internet segments, registered a total turnover of nearly £36 million for the six months ending in 30 June 2008. This represents a growth from the previous six month period of 2.1% and over 9% from the same period in 2007, where total turnover was £32.9 million. At the end of June 2008, 320 people were employed by the licensed operators.

¹ The Industry Questionnaire is based in a time unit period of six months (one half of a year). This first edition has covered a three six month periods (three consecutive half years), between January 2007 and July 2008, though it is intended that in the future the questionnaire will be released bi-annually in March and September, to cover the previous half year period.

² A list of all the telecommunications licensed operators is available at http://www.regutil.gg/licensing_legal/list_of_licensees.asp?Sector=Telecommunications

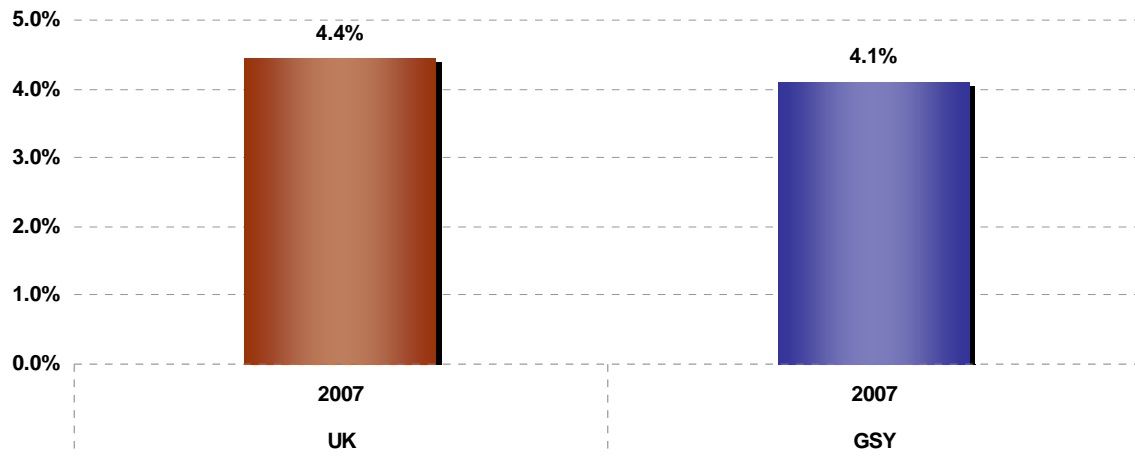
Figure 1.1 **Telecommunications turnover, Guernsey**



Source: OUR, Industry Questionnaire 2008

For the year ending in December 2007 the total turnover of the telecommunications industry in Guernsey was around £68.2 million. This accounted for approximately 4.1% of Guernsey total Gross Domestic Product (“GDP”) in 2007.

Figure 1.2 **Telecommunications revenue as % of GDP, 2007**



Source: OUR, Industry Questionnaire 2008; States of Guernsey Policy Council, Guernsey Facts and Figures 2008; Ofcom, Communications Market Report 2008; ONS

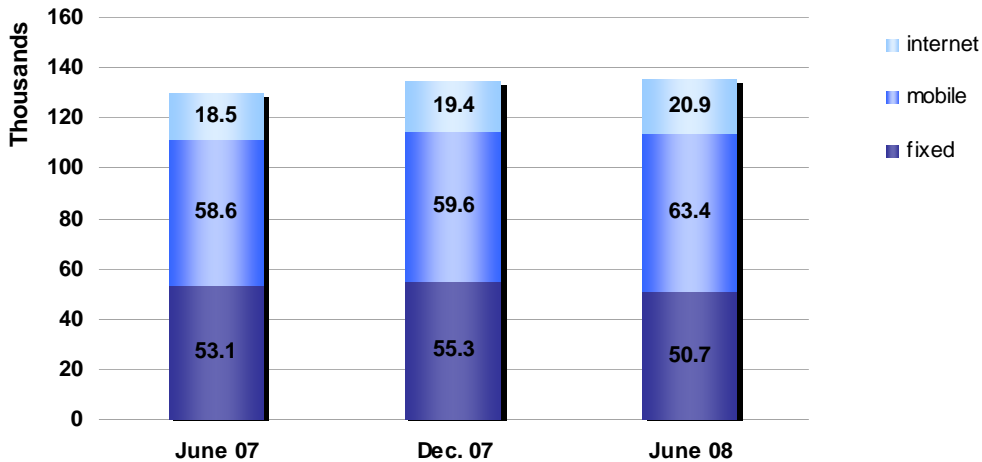
In the UK the weight of the telecommunications sector in the economy’s GDP has been relatively stable since 2002. In 2007, the UK telecommunications sector represented 4.4% of the total GDP in 2007, compared with 4.1% in Guernsey³.

³ Total turnover of UK telecommunications industry include not only turnover from network operators, but also from equipment manufacturers and infrastructure providers, which may overestimate the proportion of the economy’s GDP due to the telecommunications industry.

b. Subscribers by communications market

At the end of June 2008, the overall number of subscribers for fixed, mobile, and internet (dial-up and broadband) services had surpassed the 135,000 mark, an increase of 0.6% from December 2007.

Figure 1.3 Fixed, mobile and internet subscribers



Source: OUR, Industry Questionnaire 2008

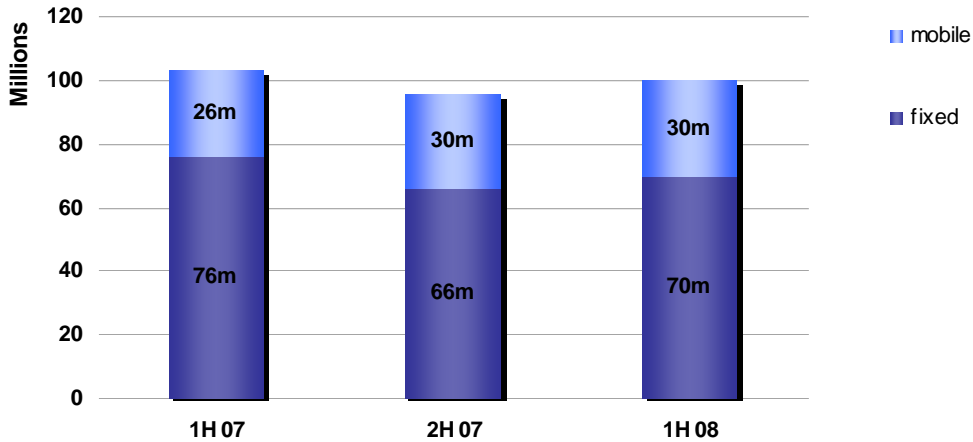
Compared with the previous period, the lower six month growth rate in the total number of subscribers in the first half 2008 is mainly explained by the decrease in the number of fixed telecoms subscribers in the last period⁴. The mobile sector continues to register the highest share of subscribers within the three sectors, with 63,000 subscribers in June 2008, a growth of 6.3% from December 2007 and of 8.2% from June 2007. The number of internet subscribers kept increasing steadily over the observed period registering a growth rate of 13.3% between June 2007 and June 2008. By the end of June 2008 there were 20,900 internet subscribers in Guernsey.

c. Originated minutes

Parallel to the decrease in the number of fixed subscribers, the number of minutes originated on fixed networks decreased from 76 million in the first half of 2007 to 70 million minutes in the first half of 2008, a decrease of 8.5%.

⁴ The decrease in the number of fixed telecoms subscribers is due, at least in part, to changes in operators' subscribers accounting systems that took effect from the first half of 2008. In previous periods if a subscriber had more than two lines then in some cases they would have previously been counted as two subscribers rather than two lines, but with the new subscribers accounting system this is no longer the case. This means that the number of fixed telecoms subscribers registered up to December 2007 is not directly comparable with the series registered after that date.

Figure 1.4 Total originated minutes

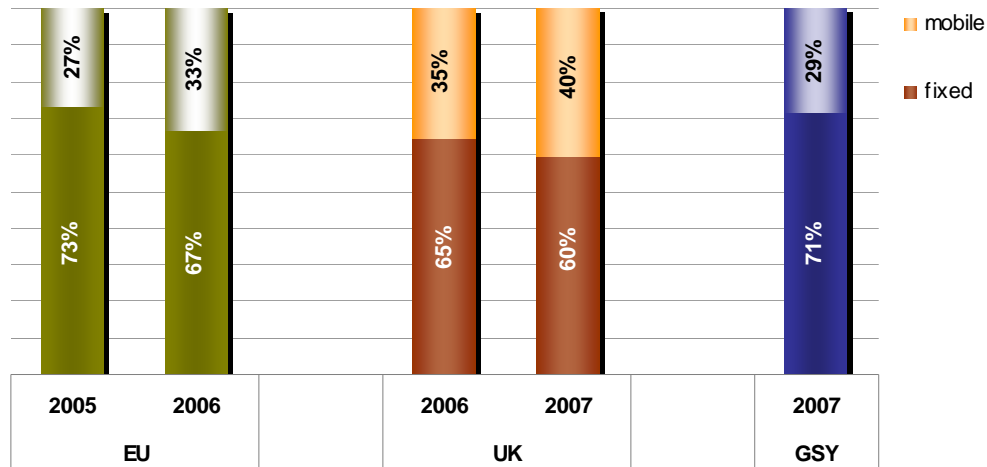


Source: OUR, Industry Questionnaire 2008

In the first half of 2007 the number of minutes originated on the mobile networks (26 million) was approximately 26.2% of the total number of minutes originated in Guernsey (on both the fixed and mobile networks). This figure increased to more than 30% in the first half of 2008, which may to some extent be explained by a degree of fixed–mobile substitution. In the first half of 2008 a total of 30.4 million minutes were originated on Guernsey’s mobile networks, an increase of 13% over the same period in the previous year.

Figure 1.5 compares Guernsey’s proportion of the total minutes that are originated by mobile and fixed networks with the UK and the EU countries figures.

Figure 1.5 Share of fixed and mobile in total originated minutes



Source: OUR, Industry Questionnaire 2008; Ofcom, Communications Market Report 2008; EC, 13th Implementation Report 2008.

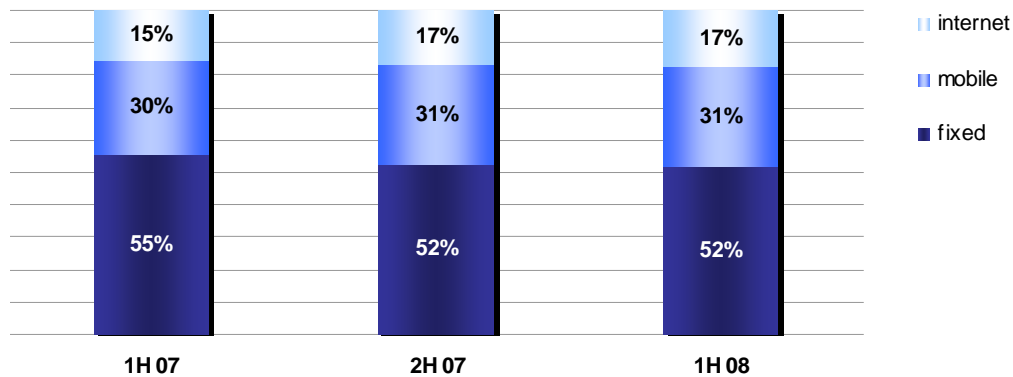
The percentage of minutes that are originated on a mobile network has been increasing over time both in the EU and the UK, each year coming closer to achieve the same

magnitude as the percentage of minutes originated on fixed networks. In 2006, in the UK and the EU relatively similar levels of the total outgoing minutes were originated on a mobile network. The UK figure increased to 40% in 2007. This compares with 29% of outgoing minutes originated on mobile networks in Guernsey.

d. Fixed, Mobile and Internet revenues

Telecoms revenues⁵ have increased by 5.5% from £26 million in the first half of 2007 to nearly £28 million in the first half of 2008.

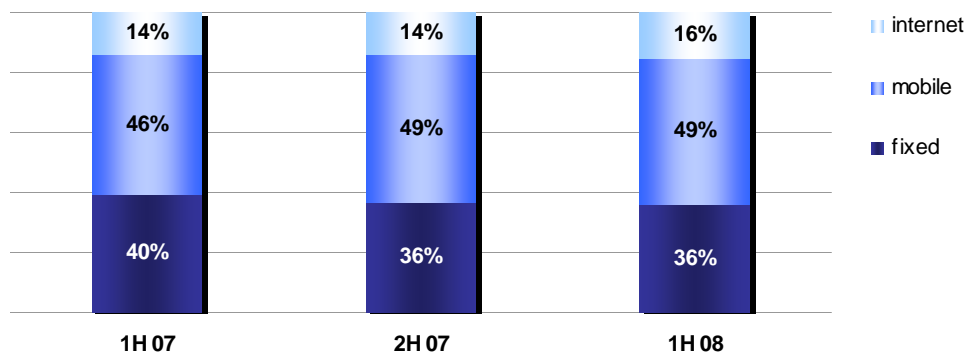
Figure 1.6 Telecoms revenue by market segment (%)



Source: OUR, Industry Questionnaire 2008

The biggest share of revenue is generated on the fixed sector. Despite the 1.4% decrease in fixed telecoms revenues from the first half of 2007 to the first half of 2008, this segment still accounts for 52% of the total revenues during the first half of 2008. However the data does point to the continued growth of mobile and broadband services in the Bailiwick.

Figure 1.7 Retail service and access revenues by market segment



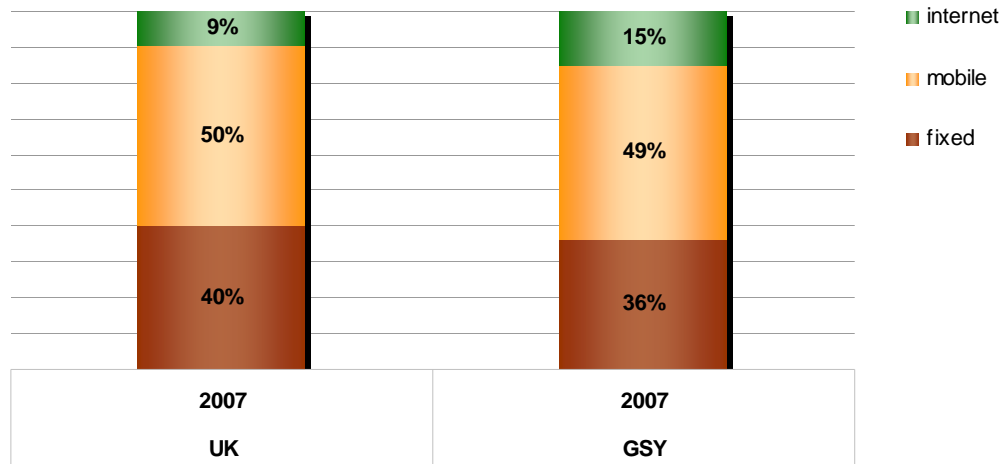
Source: OUR, Industry Questionnaire 2008

⁵ Excluding interconnection revenues.

The balance between the revenue generated in each sector is significantly different when we consider only the revenues generated by each sector retail services (usage and access services, Figure 1.7). In this case, the mobile sector is responsible for generating almost 49% of the retail service and access revenues in the first half of 2008 (46% in the same period in 2007), while the fixed sector accounts for 36% of these revenues (declining from 40% in the first half of 2007), and internet for 16% (14%).

Compared with Guernsey, the UK internet market accounts for less than 10% of total retail revenues in 2007 with the mobile sector continuing to gain in importance, representing 50% of the retail service revenues generated in the UK telecoms market.

Figure 1.8 Retail service and access revenues – UK, Guernsey



Source: OUR, Industry Questionnaire 2008, Ofcom, Communications Market Report 2008

2. Fixed market

a. Total number of lines and subscribers

There were a total of 56,673 telephone lines installed in Guernsey at the end of June 2008, a decrease of 1.9% from the previous period and of 1.3% from June 2007. Nearly 97% of the total number of lines installed in Guernsey are analogue lines. The remaining 3% are basic and primary digital lines⁶.

Table 2.1 **Total number of installed lines**

	June 2007	December 2007	June 2008
Analogue	55,516	55,825	54,667
Digital:			
Basic	1,774	1,787	1,812
Primary	178	192	194
Total (analogue and digital)	57,468	57,804	56,673
Leased lines			
On Island leased lines	1,898	1,740	1,672
Off Island leased lines	411	454	444

Source: OUR, Industry Questionnaire 2008

The existing 56,673 lines in June 2008 are used by 50,700 fixed telecoms subscribers. Due to changes in the operators' subscriber accounting methodology, this figure is not directly comparable with the number of subscribers registered in previous years. In future it is intended that numbers will be presented to reflect this revised approach.

The number of on-island leased lines in June 2008 has also declined by 11.9% on a year basis, while the number of off-island leased lines is the only type of access that has registered a positive annual growth rate, approximately 8% (though between the last two periods there was a decrease of 2.2% in the number of lines).

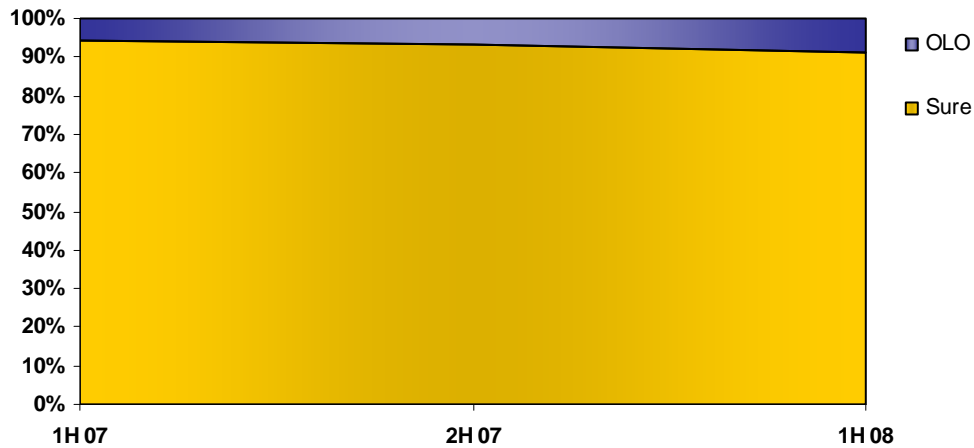
b. Voice originated minutes market share

The incumbent operator Sure Cable & Wireless Guernsey ("Sure") accounts for over 90% of the total minutes originated by fixed operators in Guernsey, despite its market share having been slowly decreasing through the three periods in question. Other Licensed Operators (OLO) use indirect access⁷ to the incumbent operator network in order to compete and provide fixed telecoms services at the retail level.

⁶ Digital lines are Integrated Services Digital Network (ISDN) lines that typically have more than one access per line. In ISDN lines the number of equivalent accesses is two for each basic ISDN line and 30 for each primary ISDN line.

⁷ Currently, OLOs use Carrier Selection as the only mean of indirect access to the incumbent fixed network.

Figure 2.1 Market share in fixed originated minutes

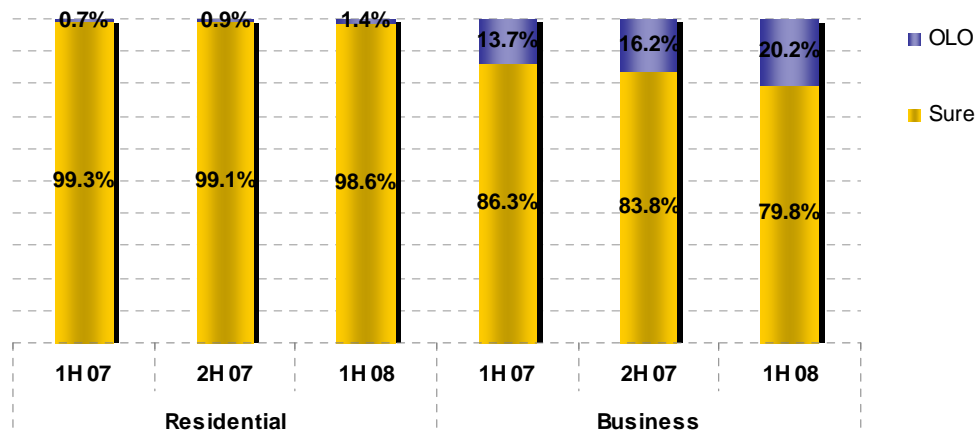


Source: OUR, Industry Questionnaire 2008

The number of indirect access originated minutes by OLOs in Guernsey is still relatively small when compared with the total minutes originated on the fixed network, though it has increased by 45% since the first half of 2007. In the first half of 2008, OLOs share of the total originated minutes on the fixed network was 8.9%.

Figure 2.2 below shows the fixed incumbent operator and OLOs' share of the total originated minutes in the residential and business segments of the market. In the residential segment, Sure's share in terms of minutes originated is more significant compared to the situation where originated minutes are considered aggregately. Sure originates approximately 99% of the total residential minutes in Guernsey. Conversely, in the business segment the impact of OLOs in originated minutes is higher when comparing to the situation where originated minutes are aggregated. In this case, OLOs account for more than 20% of the total business originated minutes, which represents a growth on the first half of 2007 of 6.5 base points.

Figure 2.2 Residential vs business fixed originated minutes

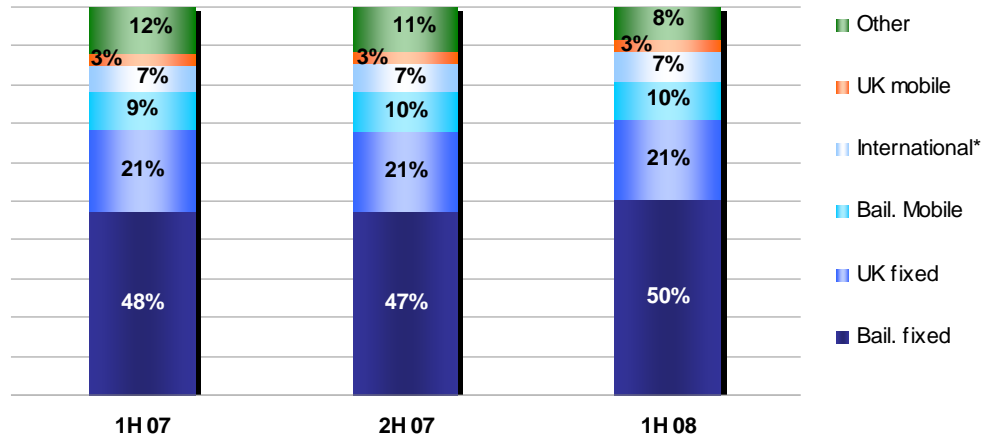


Source: OUR, Industry Questionnaire 2008

c. Share of voice originated minutes

The proportion of call minutes that are originated in Guernsey and destined to Guernsey's fixed network have been increasing over time. In the first half of 2008 50% of call minutes originated on Guernsey's fixed network were also terminated on the fixed network.

Figure 2.3 Profile of fixed originated minutes, by call destination

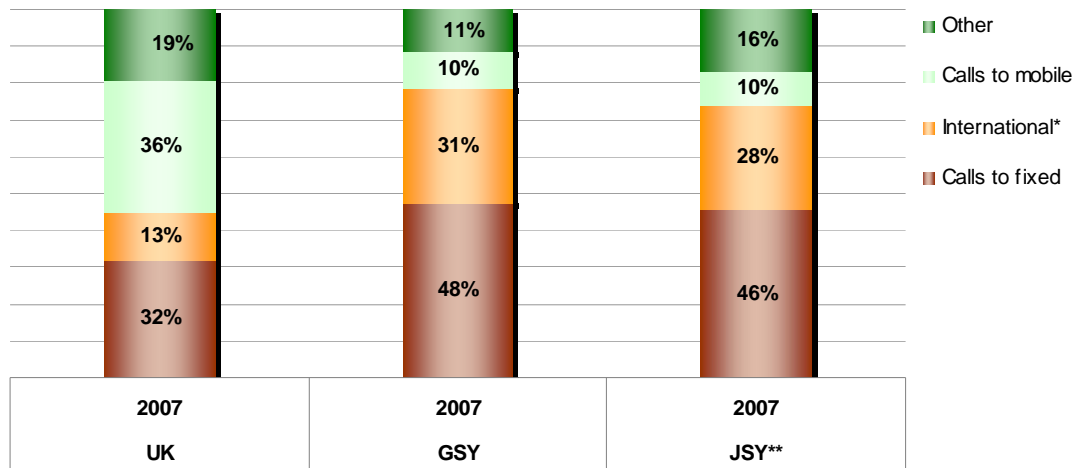


Source: OUR, Industry Questionnaire 2008; * Includes calls destined to Jersey

The UK fixed networks are the second most frequent destination for the minutes originated on Guernsey's fixed network, with a share of 21% in the first half of 2008 (which has been relatively constant since the beginning of 2007). 10% of the call minutes originated on the fixed network are destined to Guernsey's mobile networks, and 7% are international call minutes (includes call minutes destined to Jersey fixed and mobile networks). The remaining minutes were used on calls destined to the UK mobile networks (3%) and other destinations (8%). As can be seen in Figure 2.4 below, originated minutes by the fixed operators in Jersey have a similar profile, except that more minutes are sent towards other destinations.

The UK profile of call minutes originated in terms of their destination is different. In 2007, only 32% of the calls originated on the UK fixed networks were terminated on a UK fixed network (compared with 48% in Guernsey), and 36% were terminated on a UK mobile network (which compares with 10% in Guernsey).

Figure 2.4 Profile of fixed originated minutes by destination



Source: OUR, Industry Questionnaire 2008; Ofcom, Communications Market Report 2008; JCRA, Telecommunications Statistical Review, 2007

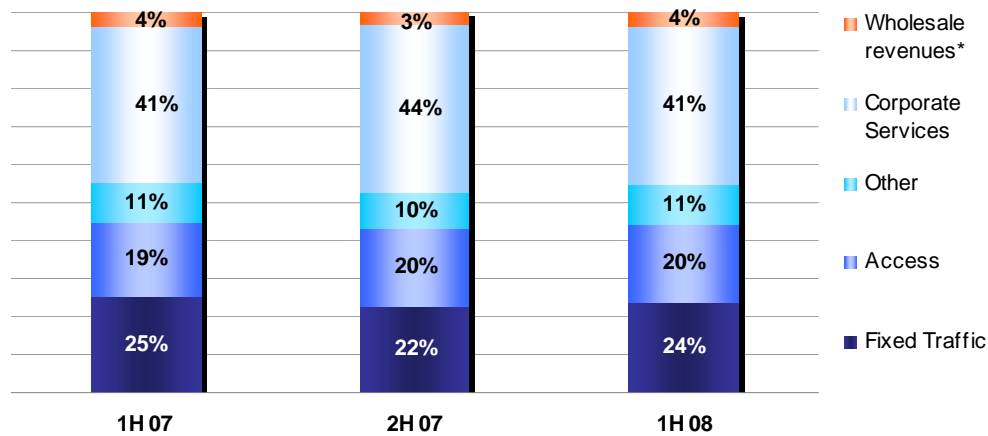
* Includes calls destined to Jersey and UK; ** Estimated.

Call minutes destined to international locations is also a source of major differences when comparing Guernsey with the UK. 31% of the call minutes originated on Guernsey’s fixed network are destined to international locations (including UK and Jersey), compared with 13% in the UK. This is probably explained by strong linkages from the Bailiwick’s residential and business community with relatives and business contacts in the UK. Call minutes to other types of destinations, which may include freephone, special services, premium rate, directory enquiries and other call types, are in turn significantly greater in the UK compared to Guernsey.

d. Share of fixed services revenues

Traffic and access are an important source of the fixed services revenues. Its aggregate weight in total fixed services revenues is 44% in the first half of 2008 (the same figure as in the first half of 2007), as can be seen in Figure 2.5 below. Jointly with Corporate Services revenues, which represent between 41% of total revenues from fixed services in the same period, these categories account for the majority of fixed telecoms service revenues.

Figure 2.5 **Distribution of fixed revenues**



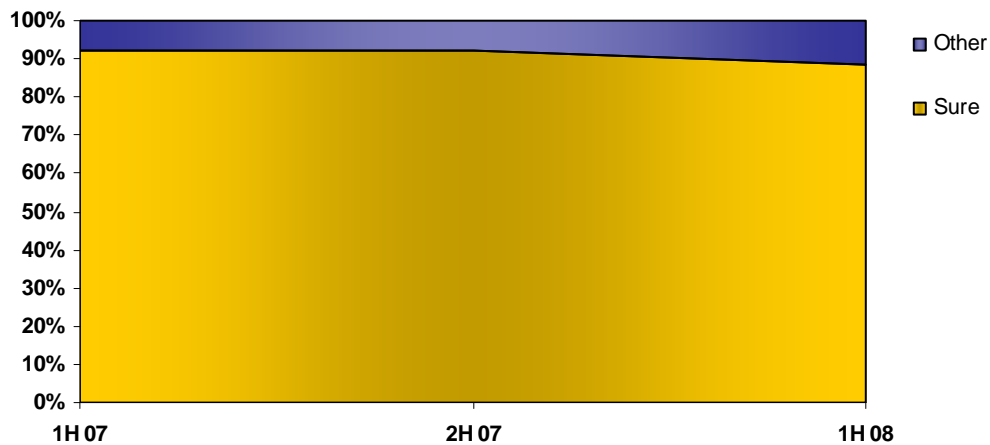
Source: OUR, Industry Questionnaire 2008; *Excluding interconnection revenues

The other categories of revenue are other retail fixed telecoms revenues, which account for 11% of total fixed services revenues in the first half of 2008, and wholesale revenues, accounting for 4% of total fixed service revenues in the same period.

e. Revenues from voice (origination)

Despite the slight decrease over the three periods, in June 2008 Sure represents approximately 89% of the fixed voice revenues in the market. This closely reflects the pattern in the fixed voice volumes market.

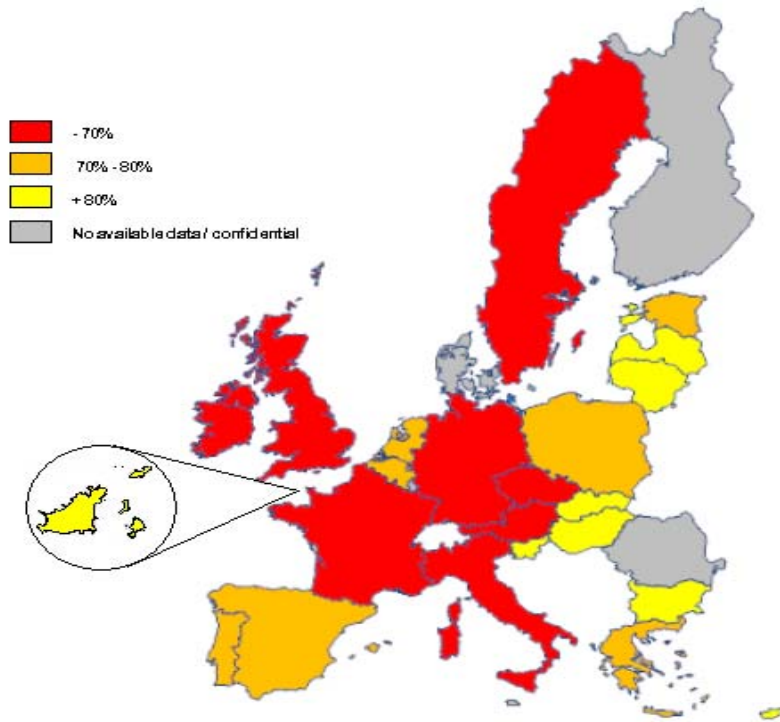
Figure 2.6 **Share of fixed voice revenues**



Source: OUR, Industry Questionnaire 2008

Comparing the Guernsey market with the EU, the market share (in terms of revenues) of the incumbent operator in the vast majority of countries was below 70%.

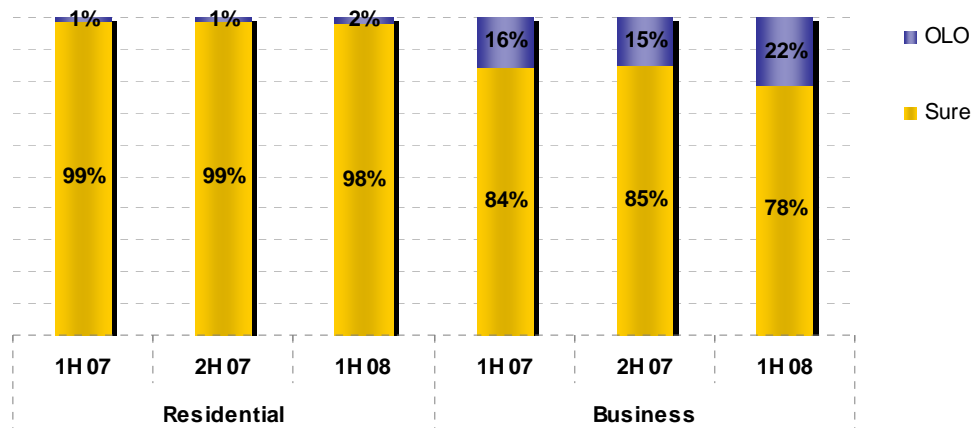
Figure 2.7 Fixed incumbent market share – EU, October 2007



Source: OUR, Industry Questionnaire 2008; EC, 13th Implementation Report 2008.

The breakdown of the fixed voice revenues by the residential and business segments has similar patterns to that observed in the fixed voice volumes.

Figure 2.8 Residential and business fixed voice revenues



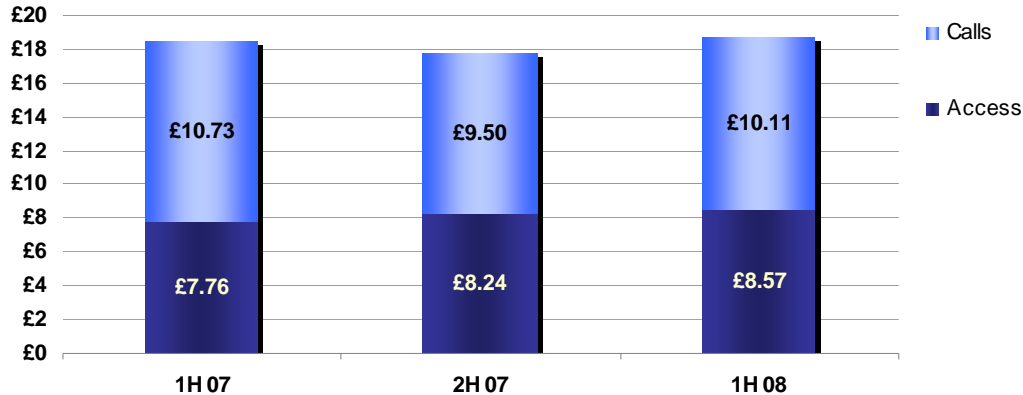
Source: OUR, Industry Questionnaire 2008

While in the residential segment Sure generates almost all the fixed voice revenues in the market (98%), in the business segment OLOs are increasing their market share and represented 22% of the total fixed voice revenues in the first half of 2008 (up from 16% in the first half of 2007).

f. Average monthly revenue

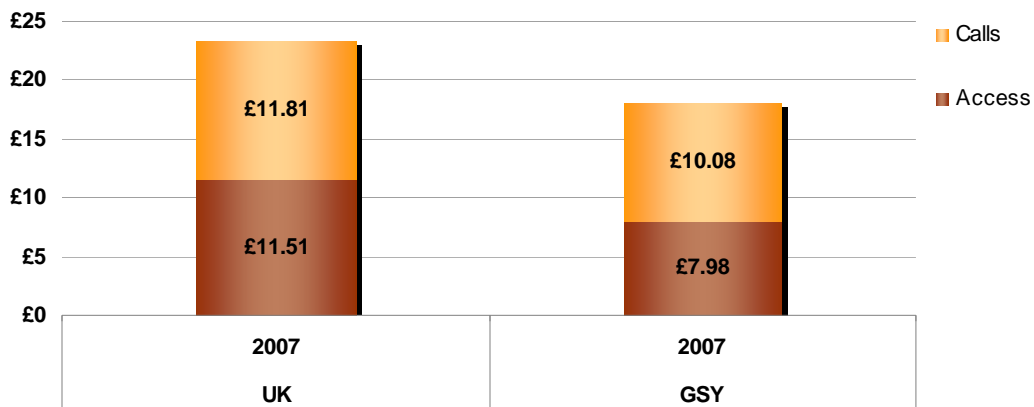
The next two figures present the average monthly voice revenue per fixed line, both in Guernsey and the UK.

Figure 2.9 Average monthly voice revenue per fixed line, Guernsey⁸



Source: OUR, Industry Questionnaire 2008

Figure 2.10 Average monthly voice revenue per fixed line, UK



Source: OUR, Industry Questionnaire 2008; Ofcom, Communications Market Report 2008;

Over the three periods, the average monthly access revenue per fixed line increased more than 10%, while average monthly call revenue has decreased slightly. In the UK, average access has been relatively stable with an average annual growth rate of approximately 1% from 2002 to 2007. In 2007, the average monthly voice revenue per fixed line in the UK is 29% higher than the average monthly voice revenue per fixed line in Guernsey.

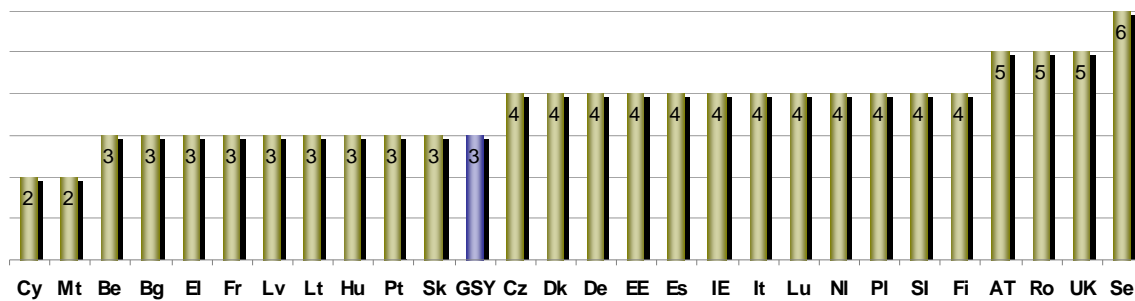
⁸ Access revenue includes revenues from line rental, subscription of service and connection charges.

3. Mobile market

a. Subscribers, penetration rate and market players

As of 30 June 2008 there were three mobile network operators (MNO) with commercial activities in Guernsey – Sure Cable & Wireless (Sure), Wave Telecom (Wave), and Airtel-Vodafone (Airtel).

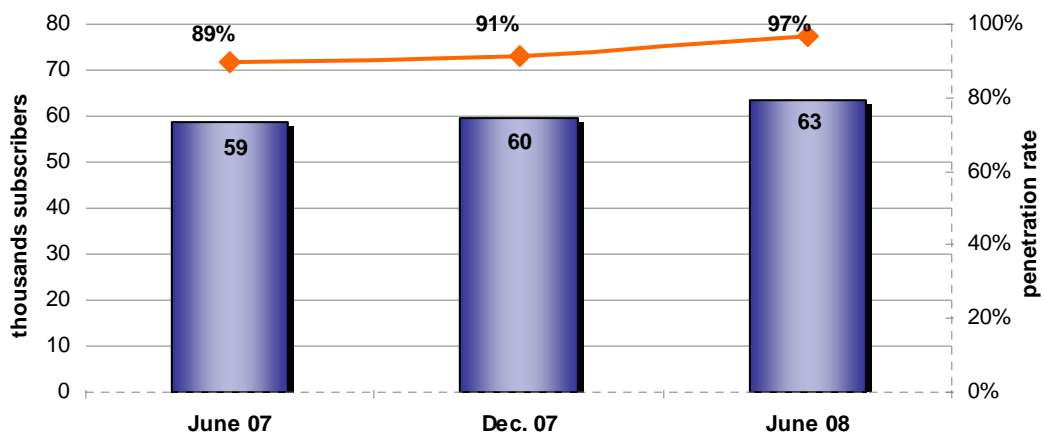
Figure 3.1 Number of MNOs – EU, GSY, July 2007



Source: OUR, Industry Questionnaire 2008; EC, 13th Implementation Report 2008; List of countries in the Glossary; Reference date for Guernsey number of MNOs is April 2008.

Sweden is the country with most market players (6) providing mobile network services. Most of the European Union countries have 3 or 4 MNOs providing services in their respective markets. With the entry of Airtel in the mobile market in April 2008, Guernsey joined the group of countries with 3 MNOs. A small number of countries (including the UK) have 5 MNOs.

Figure 3.2 Number of subscribers and penetration rate

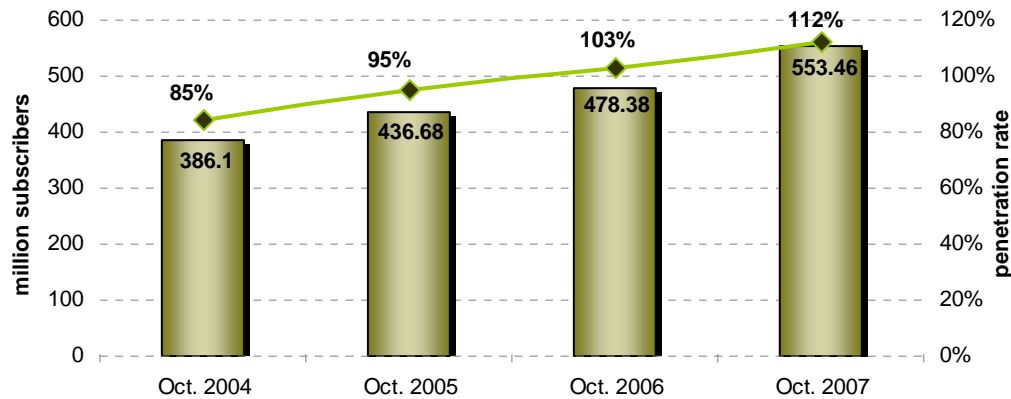


Source: OUR, Industry Questionnaire 2008; States of Guernsey Policy Council, Guernsey Facts and Figures 2008

During the first half of 2008 the number of existing active mobile subscribers⁹ was almost equal to Guernsey's total (estimated) population. This is fairly common in most developed countries now.

At 30 June 2008 there were more than 63,000 active mobile subscribers in Guernsey, an 8.2% increase on a year earlier.

Figure 3.3 Number of mobile subscribers and penetration rate, EU



Source: OUR, Industry Questionnaire 2008; EC, 13th Implementation Report 2008.

This corresponds to a 97% penetration rate at the end of June 2008. By October 2007, the average penetration rate in the EU was 112%. Penetration rates across Europe are however very dispersedly distributed, ranging between the French penetration rate of 83%, the lowest of all EU countries in October 2007, and Luxembourg the highest at 152%. By way of comparison, in October 2004 the penetration rate in Guernsey was approximately 70%. In October 2007, Guernsey was within the group of European jurisdictions that had a mobile penetration rate between 90% and 100%.

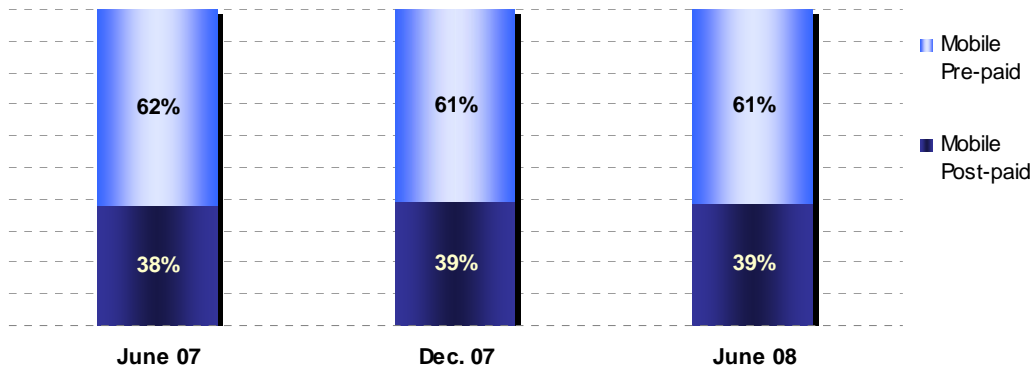
b. Pre-paid and post-paid subscribers

The proportion of pre-paid and post-paid subscribers¹⁰ has been relatively stable over the three periods considered.

⁹ Active subscriber is defined as a subscriber that has paid the subscription fee, or used a payable service, at least once in the last 90 days.

¹⁰ Post-paid subscribers include customers on Business tariffs.

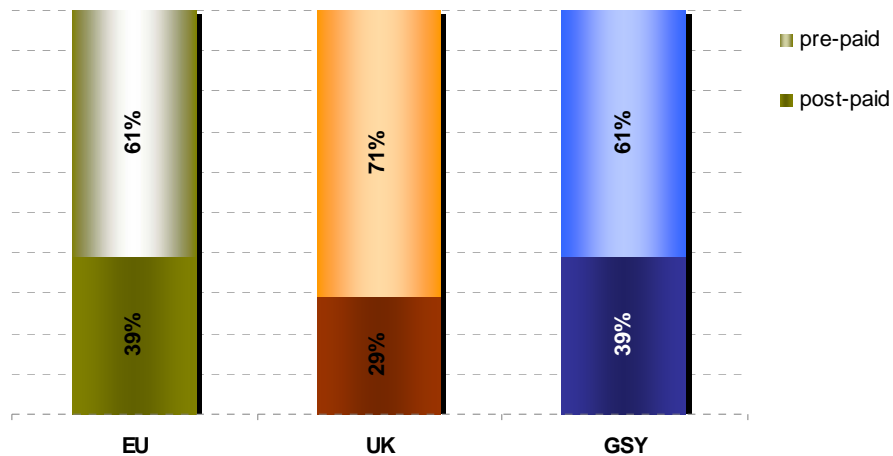
Figure 3.4 Pre-paid and post-paid subscribers



Source: OUR, Industry Questionnaire 2008

The number of mobile post-paid subscribers increased by 1%, from 38% in June 2007 to 39% in June 2008.

Figure 3.5 Pre-paid and post-paid subscribers – October 2007



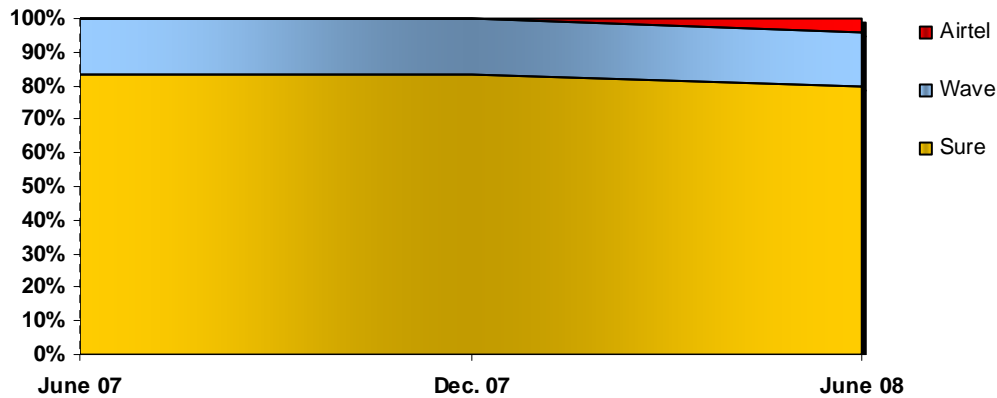
Source: OUR, Industry Questionnaire 2008; EC, 13th Implementation Report 2008.

By the end of 2007 Guernsey was on a par with the EU average for pre-paid and post-paid subscribers as a percentage of the total number of mobile subscribers, 61% and 39% respectively. The share of post-paid subscribers in the UK is smaller than either the Guernsey or EU average at around 29%.

c. Subscribers market share

The change in the market share of the three operators from June 2007 to June 2008 reflects the entry of the new mobile operator, Airtel-Vodafone, during the first half of 2008.

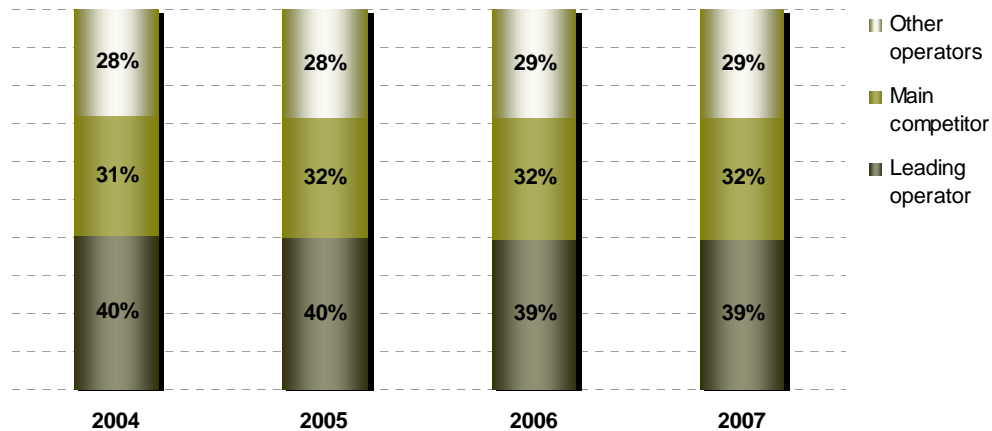
Figure 3.6 Mobile subscribers market share



Source: OUR, Industry Questionnaire 2008

In the first months of activity Airtel gained nearly 4% market share of mobile subscribers. Sure's market share has reduced from approximately 84% in June 2007 (where there were only two competitors in the market) to 80% in June 2008, while in the same period Wave's market share increased slightly from 16% to 17%. For future reports it will be interesting to note the impact of Mobile Number Portability on the development of competition between the networks.

Figure 3.7 Mobile market shares by subscribers – EU, October 2007



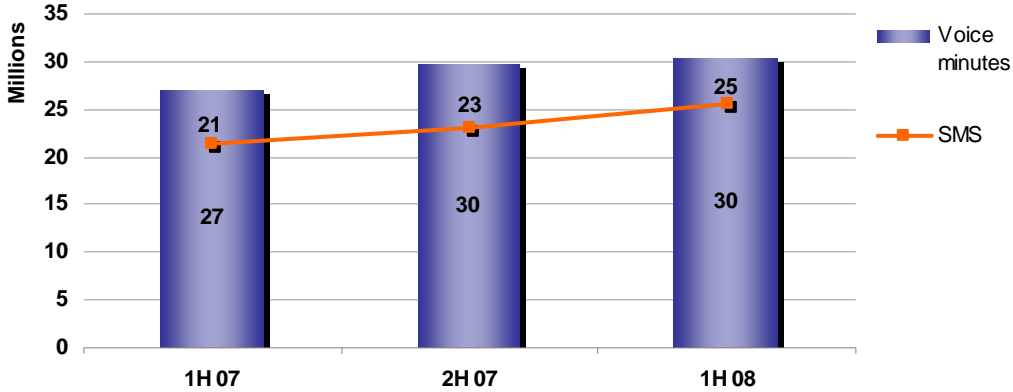
Source: EC, 13th Implementation Report 2008

These figures contrast with the EU average market shares of mobile competitors. In Guernsey Sure remains by some distance the dominant mobile operator with an 80% share of the market. The average market share in the EU for the leading mobile operator about 39%. In most EU countries competition in the mobile sector was introduced during the first half of the 1990s whereas competition in Guernsey is more recent with Wave launching services in 2004.

d. Voice and SMS volumes

Mobile voice and SMS volumes have increased steeply over the three periods.

Figure 3.8 Mobile minutes and SMS originated volumes

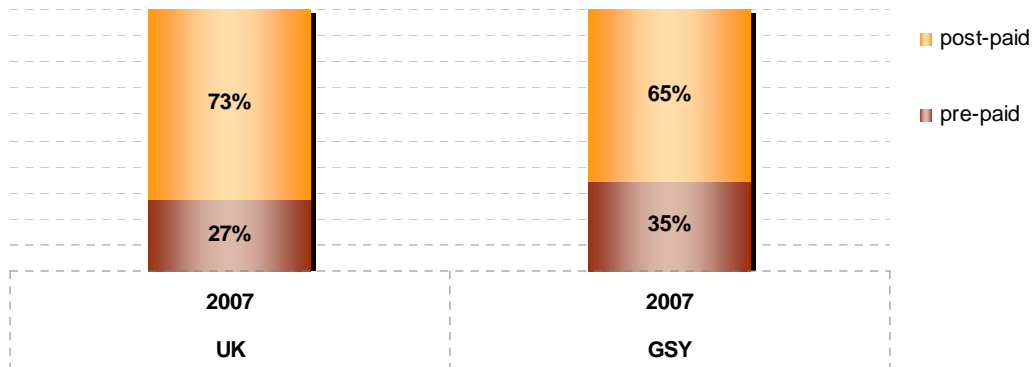


Source: OUR, Industry Questionnaire 2008

In the first half of 2008 Guernsey’s mobile operators originated more than 30 million minutes¹¹ (a growth rate of approximately 13% from the first half of 2007), and more than 25 million SMS were sent from their networks (a near 20% increase over the same period).

In 2007, nearly 65% of minutes were originated by post-paid subscribers, compared to 35% by pre-paid subscribers. In the UK the proportion of minutes originated by pre-paid and post-paid mobile subscribers has been relatively stable over time and follows a similar split.

Figure 3.9 Pre-paid vs post-paid mobile originated minutes, UK



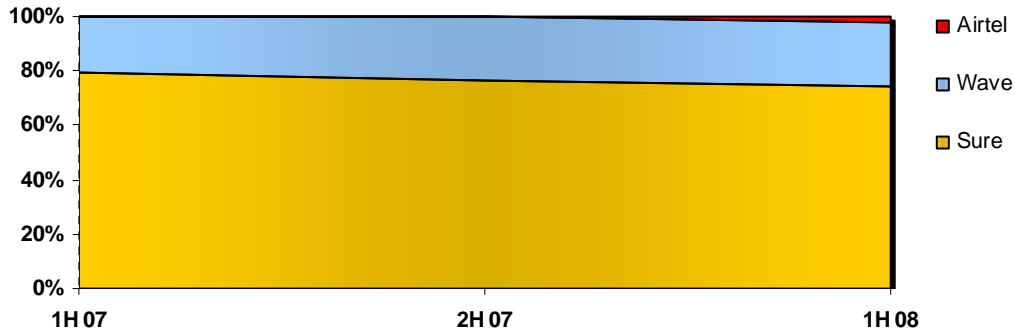
Source: OUR, Industry Questionnaire 2008; Ofcom, Communications Market Report 2008

¹¹ Includes Roaming-out minutes – call minutes used by foreign subscribers while using one of the mobile networks in Guernsey.

e. Share of mobile voice originated minutes

Wave has a higher mobile market share in terms of minutes (23% in the first half 2008) than it has in terms of subscribers (17%).

Figure 3.10 Mobile market share by originated minutes

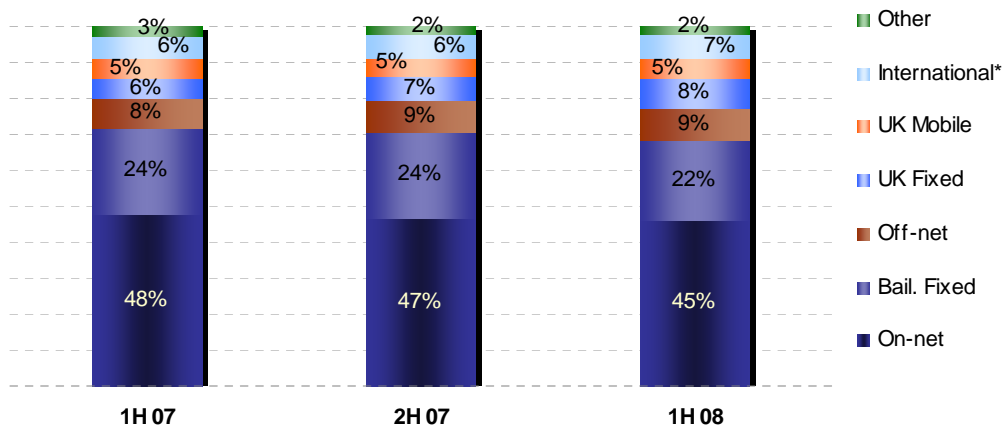


Source: OUR, Industry Questionnaire 2008

Sure experienced a decrease in its mobile market share in terms of originated minutes, from 79% in the first half of 2008 to 75% in the first half of 2008. Airtel had 2% of the market share for mobile originated minutes although it only commenced services mid-way through the period.

A significant share of the mobile originated minutes¹² is represented by on-net mobile minutes, which means that the call minutes are destined to the same mobile network where the call was initiated.

Figure 3.11 Profile of mobile originated minutes, by call destination



Source: OUR, Industry Questionnaire 2008; * Includes calls destined to Jersey

In the first half of 2008 on-net call minutes represented 45% of the total mobile originated minutes down from 48% in the first half of 2007. Off-net call minutes (calls

¹² Roaming minutes are excluded.

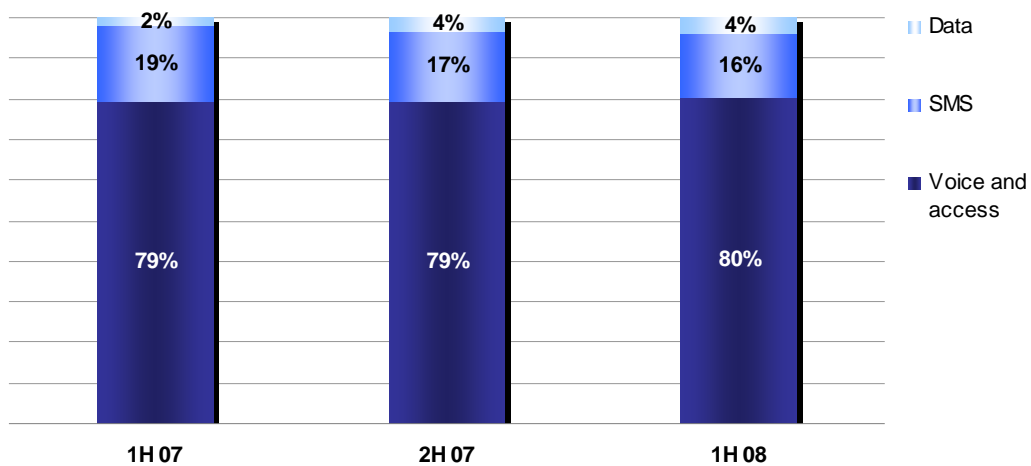
destined to a Guernsey mobile network operator different from the mobile network operator where the call is initiated) represented 22% of the mobile originated calls in the same period (24% in the first half of 2007). Again it will be interesting to observe what change occurs in this area with the advent of MNP.

The next most frequent destinations for call minutes originated on Guernsey’s mobile networks in the first half of 2008 are UK fixed and mobile networks (9% and 8% of the total mobile originated minutes, respectively) and international destinations (7%).

f. Share of mobile revenues by type of service and subscriber

Voice traffic and access account for the vast majority of revenues in the mobile retail market. In the three periods voice traffic and access represented around 80% of the mobile retail revenues. SMS has been decreasing in terms of relative proportion in the mobile retail revenues, from 19% in the first half of 2007 to 16% in the first half of 2008. Finally, data mobile services represent a small proportion of mobile retail revenues, although its share doubled from 2% to 4% between the first half of 2007 and the corresponding period in 2008.

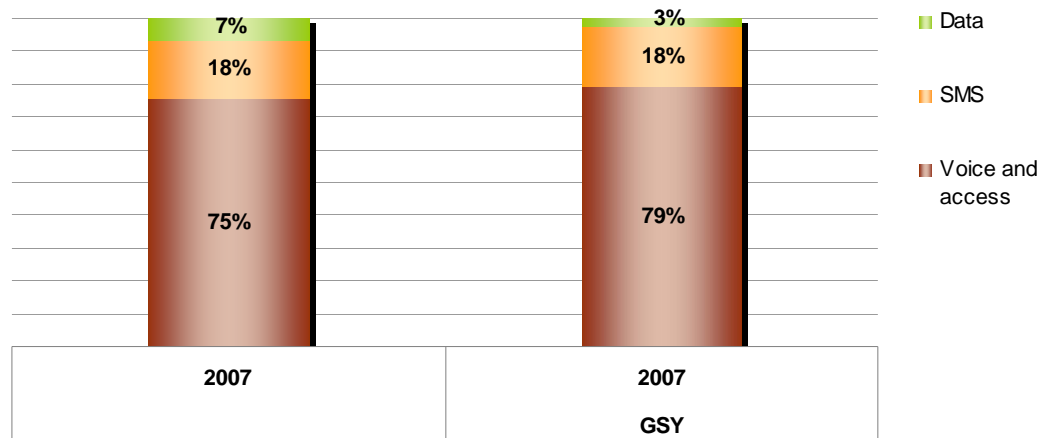
Figure 3.12 Revenues by type of mobile service



Source: OUR, Industry Questionnaire 2008

The patterns of mobile retail revenue by type of service are very similar in the UK, with voice and access revenue accounting for 75% of the total revenues in 2007. Despite the increase of mobile data services revenue in the UK over the last years, mobile data revenue still represents a small proportion of mobile retail revenues in the UK.

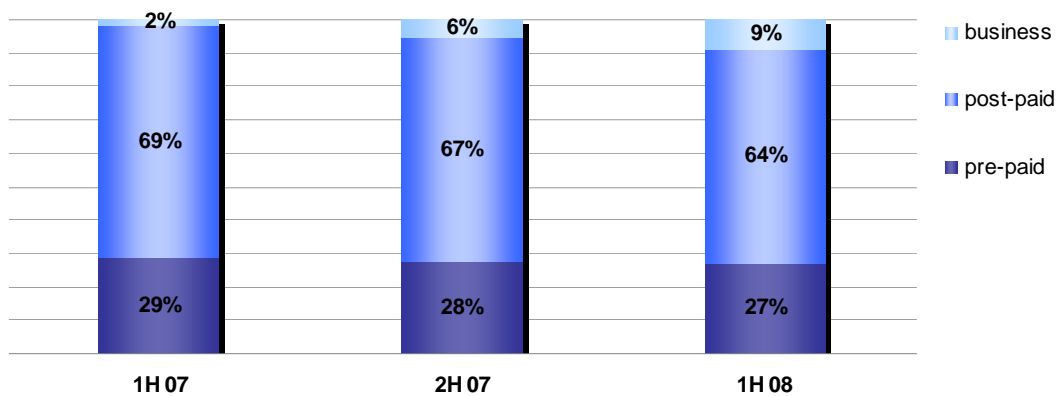
Figure 3.13 Revenue by type of mobile service, UK



Source: OUR, Industry Questionnaire 2008; Ofcom, Communications Market Report 2008

Figure 3.14 presents mobile retail revenues by type of tariff. Post-paid tariff subscribers account for the majority of mobile retail revenues (64%). The share of revenue from customers on business tariffs¹³ continues to increase, most likely due to an increased focus by the mobile operators on tailored packages for this segment of the mobile market.

Figure 3.14 Mobile retail revenue by type of tariff



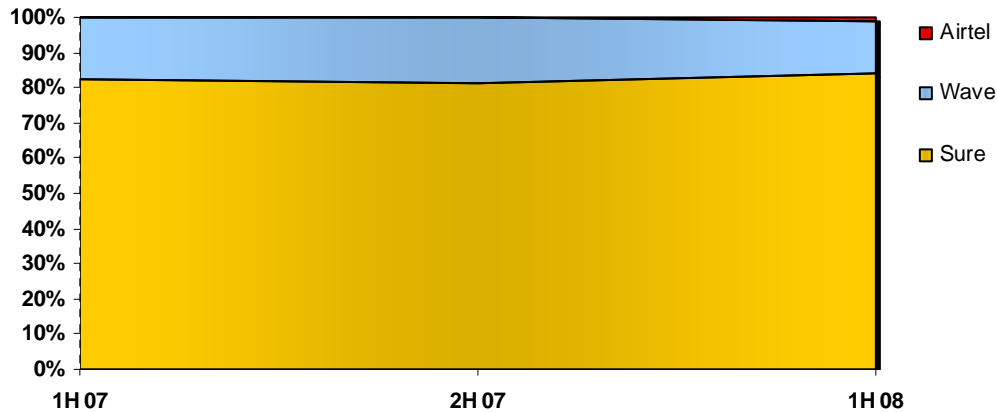
Source: OUR, Industry Questionnaire 2008

g. Share of mobile retail service revenues

Contrary to what was observed for the market share in terms of subscribers and originated minutes, Sure has increased its mobile market share in terms of voice and access revenue from 82% in the first half of 2007 to 84% in the same period in 2008.

¹³ Generally, a mobile operator may have three types of tariffs: Pre-paid (pay-as-you-go), post-paid (contract), and business tariffs. If it is not expected that a residential subscriber will be using a business mobile tariff, it is however possible that some businesses may actual subscribe to a pre-paid or a post-paid mobile tariff, instead of a business mobile tariff.

Figure 3.15 Mobile market share, by voice and access revenue

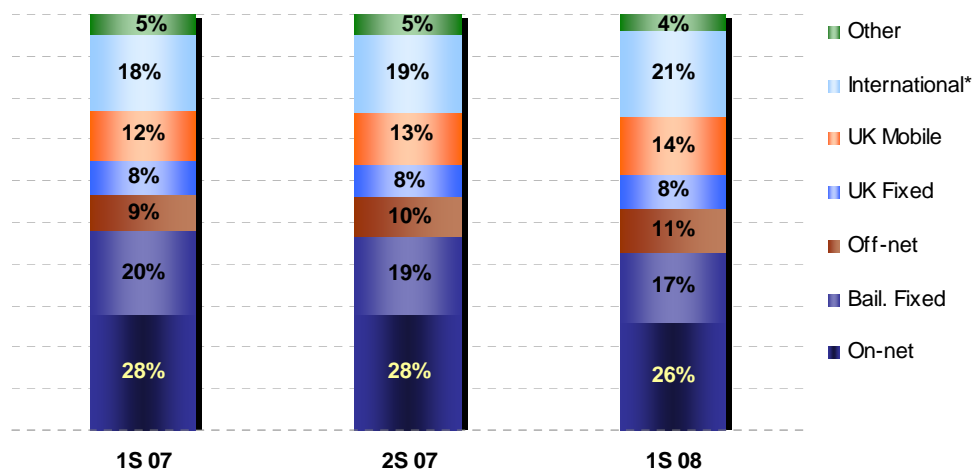


Source: OUR, Industry Questionnaire 2008

Consequently, Wave saw its mobile market share in terms of revenue reduced from 19% in the second half of 2007 to 15% in the first half of 2008. In its first period of activity, Airtel gained 1% of mobile market share in terms of mobile voice and access revenues.

On-net and international calls (including calls destined to Jersey) are the two types of calls that generate most revenues¹⁴ for the mobile operators in Guernsey (26% and 21% in the first half of 2008 respectively). Calls destined to Guernsey fixed network and to the UK mobile networks follow next in terms of the weight they have in revenues terms (17% and 21% respectively for the same period) followed by off-net calls and calls destined to the UK fixed networks. However, since the first half 2007 international calls and off-net calls have increased their share of the revenues they generate in the mobile sector.

Figure 3.16 Share of mobile voice revenues, by call destination



Source: OUR, Industry Questionnaire 2008; * Includes calls destined to Jersey

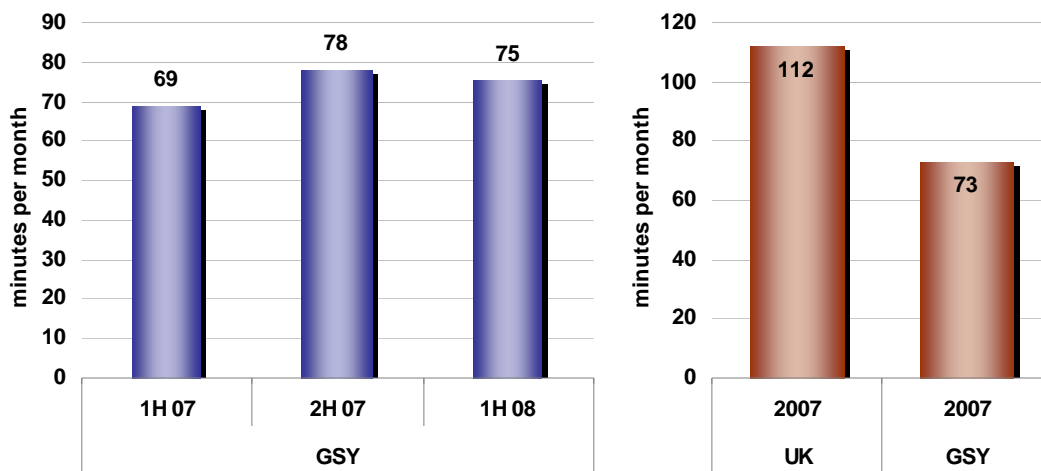
¹⁴ Roaming revenues are not considered.

h. Average usage and revenue

The average monthly originated minutes of usage (MoU) per subscriber has increased for Guernsey mobile operators between the first and second half of 2007 (approximately by 13%), but has then declined by 3.4% during the following period (even though in the first half of 2008 MoU is higher than in the first half of the previous year). One possible explanation for this change may be the seasonality in the usage of mobile services, where subscribers may use more services in the second half of any given year, for instance due to the Christmas season and less business usage during the months of July and August.

MoU in Guernsey is significantly less when compared with the UK. In 2007, Guernsey mobile operators average monthly MoU of 73 minutes is approximately 64% of the UK figure, where average monthly MoU has been increasing steadily. In 2007 the monthly average usage per mobile subscriber was 112 minutes (Figure 3.17).

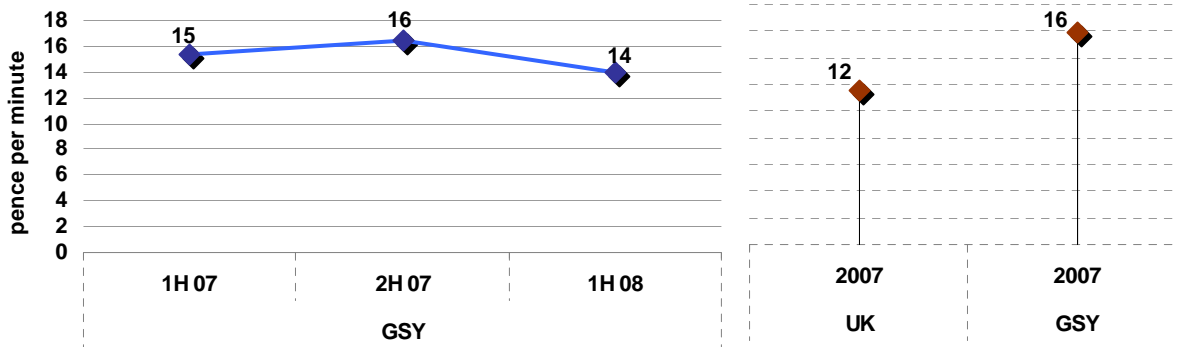
Figure 3.17 Average monthly originated MoU, per subscriber – GSY, UK



Source: OUR, Industry Questionnaire 2008; Ofcom, Communications Market Report 2008

Compared to the MoU, mobile average revenue per minute (ARPM) in Guernsey in the first half of 2008 was 14p per minute, a decrease of 1p per minute from the preceding 6 months. However this is still above the UK ARPM, where it has been decreasing over the last years.

Figure 3.18 Mobile average revenue per minute

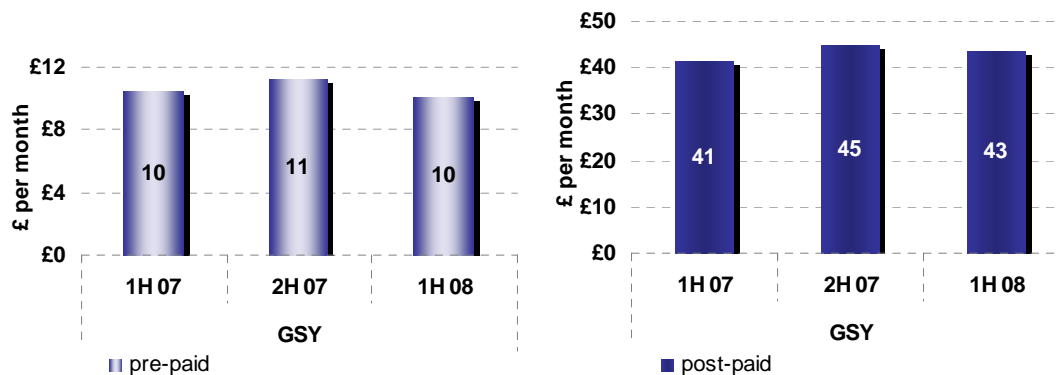


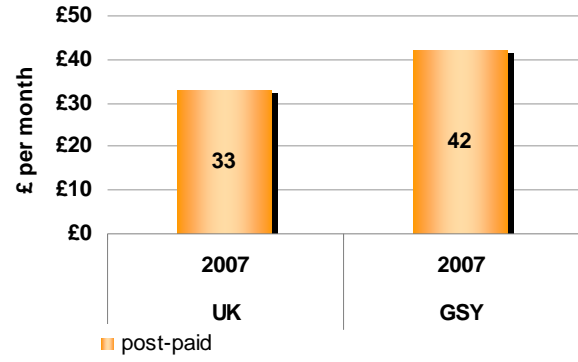
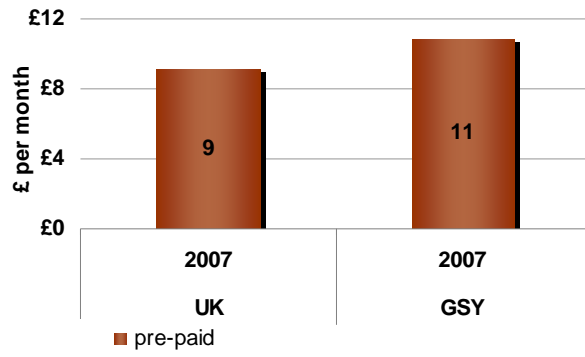
Source: OUR, Industry Questionnaire 2008; Ofcom, Communications Market Report 2008

Figure 3.19 below presents information regarding the monthly average revenue per user (ARPU) in Guernsey and in the UK, per type of subscriber (pre-paid or post-paid). Pre-paid ARPU in both jurisdictions has been relatively stable over the periods considered in the analysis, and also very similar. In Guernsey monthly ARPU is estimated at between £10 and £11 per user, while in the UK monthly ARPU is within the vicinity of £9 per user since 2003.

Monthly post-paid ARPU at £43 is substantially greater than pre-paid ARPU both in Guernsey and the UK and is over £10 per month more than the corresponding figure in the UK. Further, while in the UK, in 2007, monthly post-paid ARPU is 3 times that of pre-paid ARPU, in Guernsey the difference is even higher and post-paid ARPU amounts to almost 4 times the value of pre-paid ARPU.

Figure 3.19 Monthly average revenue per user (ARPU), per type of subscriber





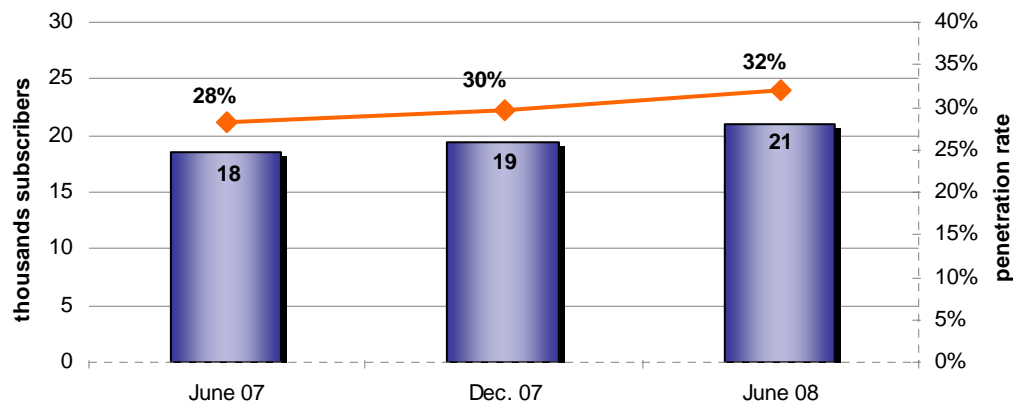
Source: OUR, Industry Questionnaire 2008; Ofcom, Communications Market Report 2008

4. Internet market

a. Subscribers and penetration rate

The number of internet subscribers has been increasing steeply over time in Guernsey. At the end of June 2008 there were nearly 21,000 internet subscribers, an increase of 8.1% from the previous period and 13.3% from the first half in 2007.

Figure 4.1 Internet subscribers and penetration rate

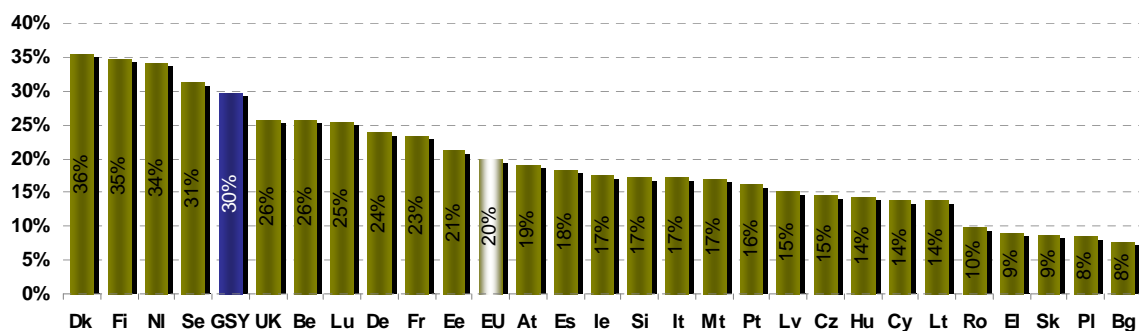


Source: OUR, Industry Questionnaire 2008

At the end of June 2008 within Guernsey there were 32 internet subscribers per 100 inhabitants. As fixed internet (both broadband and dial-up) is provided through a fixed line connection, it is likely that each internet access point will serve more than one person.

Denmark is the EU country with the highest penetration rate in terms of population, with 36%. As we have seen above, the per capita penetration rate of 32% places Guernsey amongst the highest within Europe and significantly above the EU average of 20% in January 2008.

Figure 4.2 Per capita internet penetration rate – EU, January 2008

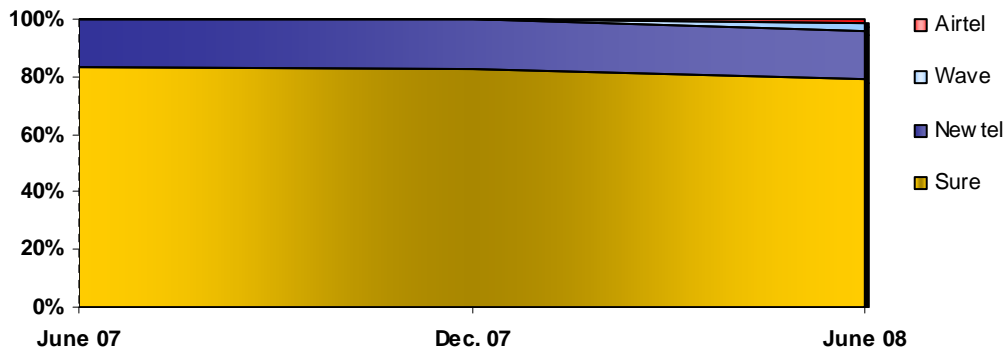


Source: OUR, Industry Questionnaire 2008; EC, 13th Implementation Report 2008; List of countries in the Glossary.

b. Share of Internet subscribers

As in the fixed and the mobile sectors, Sure is the dominant operator in the internet market in terms of subscriber numbers.

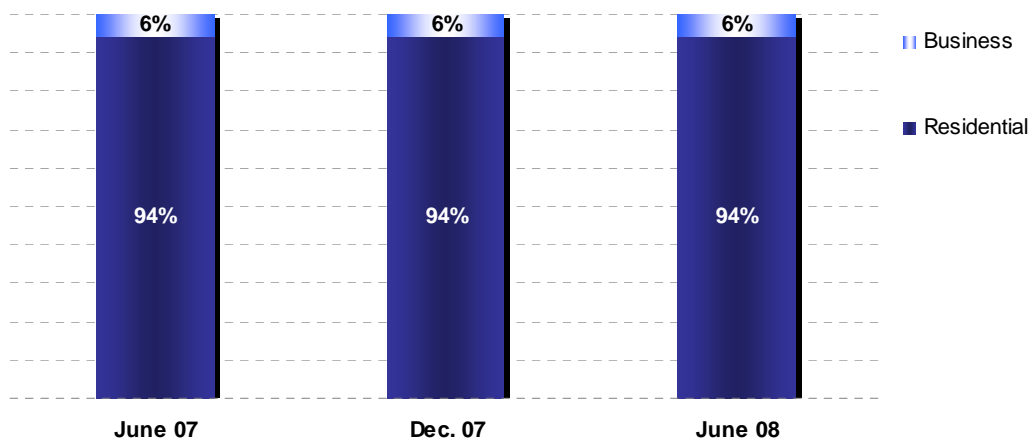
Figure 4.3 Internet market share, by subscriber



Source: OUR, Industry Questionnaire 2008

By the end of June 2008, Sure's market share in terms of subscribers was approximately 79.5%, which represents a drop from June 2007 when it had a share of 83.6%. The main competitor is Newtel¹⁵, which maintained its market share relatively constant at approximately 16%. Wave and Airtel provide services for the remaining 4% of internet subscribers.

Figure 4.4 Residential and business internet subscribers



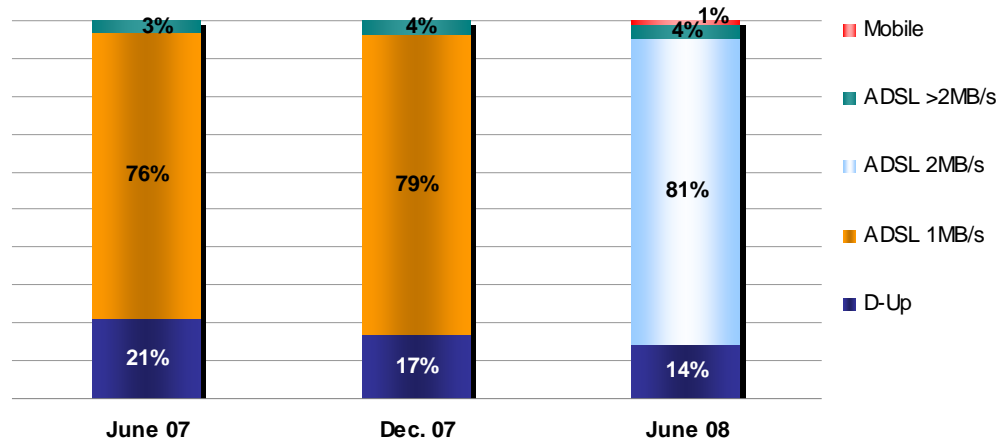
Source: OUR, Industry Questionnaire 2008

Residential subscribers account for the vast majority of total internet subscriptions, approximately 94%, a figure that has remained mostly unchanged since June 2007. The

¹⁵ In 2007 Sure and Newtel were the only two providers in the internet market. Wave and Airtel started providing internet services during the first half of 2008.

business segment represents the remaining 6% of the internet market in terms of subscribers. One possible explanation for the small proportion of business broadband customers is that business subscribers may require more tailored products of higher capacities (like leased lines) which are not captured in the above figure.

Figure 4.5 Share of internet subscribers by type of access



Source: OUR, Industry Questionnaire 2008

All Guernsey consumers have also available a uniform type of fixed broadband access, in terms of the download and upload speeds of the service. Up to the end of 2007, the fixed broadband access available to consumers provided a service with download speeds up to 1 MB/s, and 79% of the consumers that had any type of internet access subscribed to this product (an increase of 3 base points from June 2007).

During the first half of 2008, Sure ended a phase of network upgrading, which enabled the provision of a uniform fixed broadband service with increased download speeds of up to 2MB/s. Consequently, all the consumers using the up to 1MB/s download service were migrated to the newer service, which in the end of June 2008 accounted for 81% of all the internet subscribers.

Comparatively, only 17% of subscribers used dial-up to access the internet in 2007 with a further 4% using a premium service with download speeds above 2MB/s. In 2008, the numbers using dial-up had fallen to 14% with 4% continuing to use the premium service.

In parallel with the upgrade of the fixed broadband service, mobile broadband was also introduced during the first half of 2008, an innovative product already available in most European countries and introduced in Guernsey by the latest mobile entrant, Airtel. Mobile broadband is a mobile 3.5G service, made possible with the technology improvements implemented in 3G networks. Networks in a number of European countries are currently able to provide services with download speeds up to 7.2 MB/s. Mobile broadband adds mobility to the internet access service, which means that a mobile broadband subscriber can have access to the internet at different locations and while moving between locations, as long as the mobile operator network has coverage to

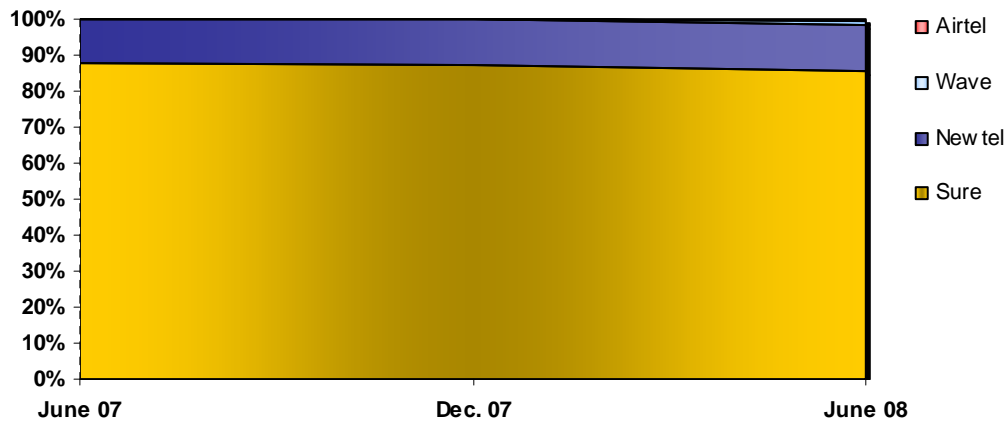
provide services within those areas. At the end of the first half 2008, approximately 1% of internet subscribers in Guernsey were using mobile broadband to access the internet.

c. Share of internet revenues

The market shares in terms of subscribers is largely repeated when we consider revenues as the basis for each operator’s share of the market. Sure represented more than 85% of the revenues generated in Guernsey’s internet market in the first half 2008. Of the OLOs, Newtel is the main competitor in the market (as it was in the case of subscriber market share), with approximately 13% of the internet revenues, while Wave and Airtel were responsible for the remaining 2%.

The entry of two new players (Wave and Airtel) in Guernsey’s internet market, during the first half 2008, brings however the possibility that the dynamics of competition in this area may change going forward.

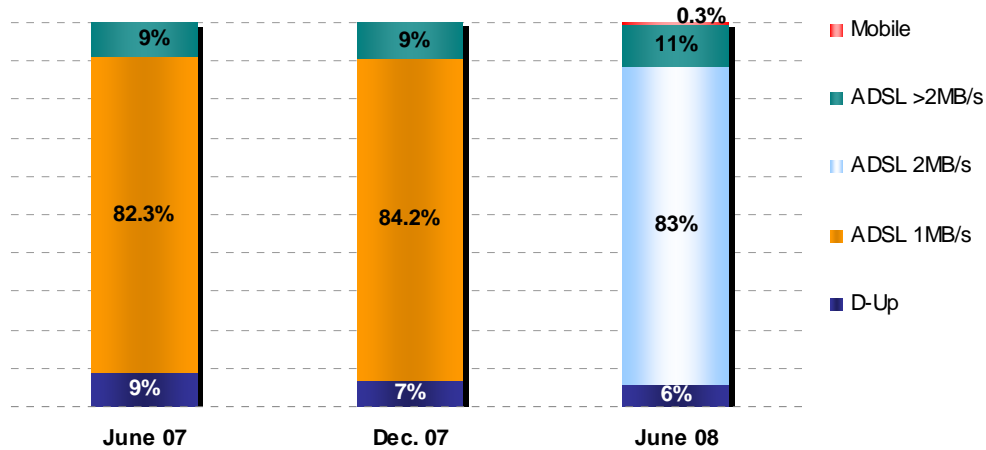
Figure 4.6 Internet market share, by revenue



Source: OUR, Industry Questionnaire 2008

As expected, higher quality internet access services are closely linked to a higher stream of generated revenue. This may explain why the 14% of internet subscribers that use a dial-up access, in the first half of 2008, account for only 6% of the internet revenues in that period, while the 4% of internet subscribers that use the premium internet access service are responsible for 11% of total internet revenues. The majority of revenues come from basic ADSL services, with 83% share of revenues.

Figure 4.7 Share of internet revenues by type of internet access

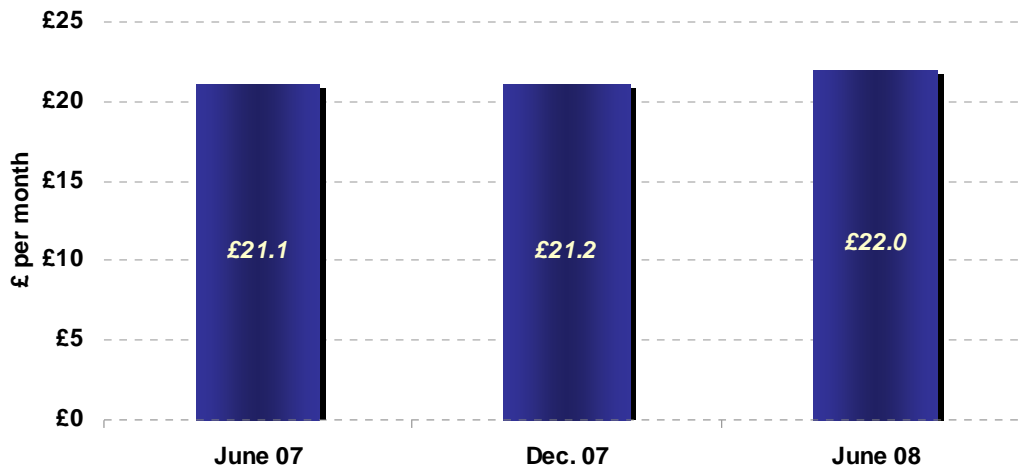


Source: OUR, Industry Questionnaire 2008

d. Average internet revenues

Figure 4.8 presents the monthly revenue that on average internet service providers in Guernsey get for each of its subscribers. The monthly average revenue per internet subscriber has increased over the three periods considered, and in the first half of 2008 it was above £22, an increase of 4.1% from the previous period, and 4.4% from the first half in 2007.

Figure 4.8 Internet monthly average revenue per subscriber



Source: OUR, Industry Questionnaire 2008

Glossary

- 2G** Second generation of mobile telephony systems. Uses digital transmission to support voice, low-speed data communications, and short messaging services.
- 3G** Third generation of mobile systems. Provides high-speed data transmission and supports multimedia applications such as full-motion video, video-conferencing and internet access, alongside conventional voice services.
- 3.5G** 3.5G refers to evolutionary upgrades to 3G services starting in 2005-2006 that provide significantly enhanced performance. High Speed Downlink Packet Access is expected to become the most popular 3.5G technology (see HSDPA).
- ADSL** Asymmetric Digital Subscriber Line. A digital technology that allows the use of a standard telephone line to provide high-speed data communications. Allows higher speeds in one direction (towards the customer) than the other (in opposition to DSL, which provides symmetric speeds in each direction).
- ARPM** Average Revenue Per Minute. A commonly used key performance indicator for telecommunications operators, corresponds to the ratio of retail service revenues by the number of originated minutes for a given period.
- ARPU** Average Revenue Per User. A commonly used key performance indicator for telecommunications operators, it is obtained by dividing the retail service revenues by the number of users subscribing that service, in a given period.
- GSY** Bailiwick of Guernsey.
- GDP** Gross Domestic Product. Is one of the measures of national income and output for a given country's economy.
- ISDN** Integrated Services Digital Networks. A standard developed to cover a range of voice, data, and image services intended to provide end-to-end, simultaneous handling of voice and data on a single link and network.
- JCRA** Jersey Competition Regulatory Authority. Jersey independent body responsible for promoting competition and consumer interests through economic regulation and competition law. The JCRA is responsible for the regulation of telecommunications the postal sector.
- MNO** Mobile Network Operator. An organisation that has its own allocation of spectrum or its own wireless network, which it uses to provide mobile telephony services to its customers, or wholesale mobile telephony access to its network.

- MoU** Minutes of Usage. A commonly used key performance indicator for telecommunications operators, it is represented by the quotient between the total number of originated minutes and the number of users that subscribe the telephony service.
- OECD** Organisation for Economic Co-operation and Development. An international organisation where governments compare policy experiences, seek answers to common problems, identify good practice and coordinate domestic and international policies.
- Ofcom** Office of Communications. The independent regulator and competition authority for the UK communications industries.
- OLO** Other Licensed Operators. Acronym used to refer to all the other operators besides the incumbent operator, which are licensed to provide a specific telecommunications service in a given area.
- ONS** Office for National Statistics. The UK Statistics Authority, an independent body operating at arm's length from government responsible to promote and safeguard the quality of official statistics that serve the public good.
- OUR** Office of Utility Regulation. The OUR is the independent regulatory agency for the three utility sectors of telecommunications, post and electricity in the Bailiwick of Guernsey.

List of Countries

At	Austria	Ie	Ireland
Be	Belgium	It	Italy
Bg	Bulgaria	Lt	Lithuania
Cy	Cyprus	Lu	Luxembourg (Grand-Duché)
Cz	Czech Republic	Lv	Latvia
De	Germany	Mt	Malta
Dk	Denmark	Nl	Netherlands
Ee	Estonia	Pl	Poland
Es	Spain	Pt	Portugal
EU	European Union	Ro	Romania
Fi	Finland	Se	Sweden
Fr	France	Si	Slovenia
El	Greece	Sk	Slovakia
Hu	Hungary	UK	United Kingdom