

New Growth Engine for India Telecom*

Value Added Services



Preface

PricewaterhouseCoopers are pleased to present to you “Value Added Services – New Growth Engine for India Telecom” and are grateful to Bharti Exhibitions for the opportunity given to us to work as the Knowledge Partner for the “VAS Asia 2008” Summit.

Indian Telecom sector has been a growth driver for the Indian economy, and the success story is getting even better.

The Indian mobile market is transforming from being voice dominated, to one with an increasing mix of multiplatform value added services offerings.

In this paper, we look at some key trends, and developments, and the challenges that are posed by this changing scenario.

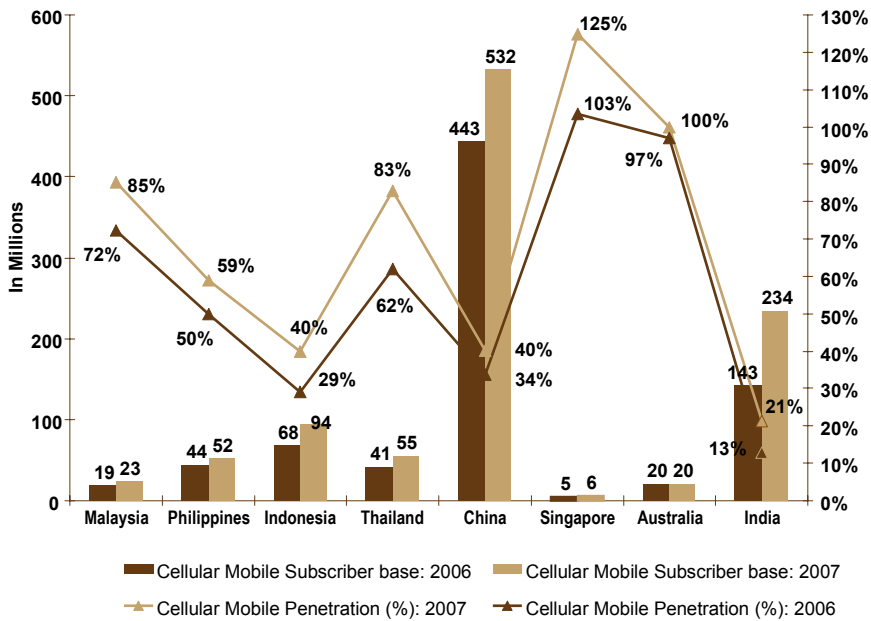


Usha Rajeev
Communications Industry Leader
PricewaterhouseCoopers
India

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The India Telecom Success Story



Country	Annual Additions	Annual Growth
Malaysia	3.93	20%
Philippines	10.63	24%
Indonesia	25.82	38%
Thailand	13.97	34%
China	88.31	20%
Singapore	0.98	21%
Australia	0.32	2%
India	90.62	63%

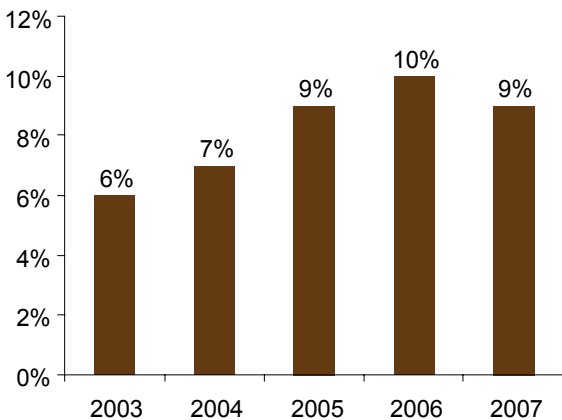
Source: India GSM Benchmarking Study 2007 by PwC

Across the Asia Pacific region, India today is the fastest growing market. Its low mobile penetration, indicate a high growth potential for the Indian Operators.

Where is VAS in India Today

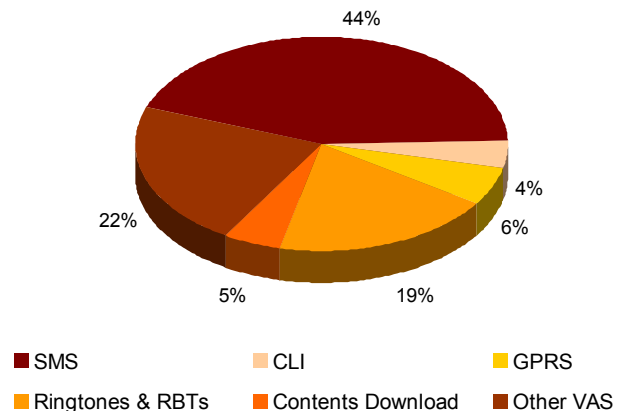
The Indian mobile VAS market is a rapidly growing market and is estimated to be near US\$ 2 billion in 2008.

VAS Revenue as a % of Gross Service Revenue (GSM)



Source: India GSM Benchmarking Study 2007 by PwC

VAS Revenue Breakup



Source: India GSM Benchmarking Study 2007 by PwC

*Some Forecasts.....**

Mobile phone users worldwide will spend US\$ 32.2 billion, by 2010 on music received on mobile handsets an increase from US\$ 13.7 billion in 2007

Mobile payment users are to increase to a total of 33 million in 2008 and then further grow to a number of 103.9 million users in 2011.

Worldwide mobile gaming end user revenue is to grow to \$9.6 billion in 2011

- Mobile advertising is projected to surpass \$2.7 billion in 2008, an up from \$1.7 billion in 2007.
- The industry is poised for consistent growth and by the end of 2011, the worldwide mobile advertising revenue is forecasted to surpass \$12.8 billion.

What does VAS in the Pre 3G environment comprise...

VAS delivery has so far been based on the SMS, IVR and WAP portals platforms, delivering a wide range of applications across areas such as entertainment, advertisement, gaming, news and service support such as travel alert details etc. More recent successes include the short code interactive participations in TV and Radio game and reality shows, extending also into print lead contests.

Growth in VAS has been fuelled by the improving quality of handsets and their falling costs, lowering age profile of handset owners and innovative content and packaging. Increasing number of handsets are now enabled with colour screens, polyphonic tones and GPRS and provide greater opportunities for offering innovative VAS services. The mobile penetration in India is still comparatively low and there is further scope of accelerated pick up in the coming years.

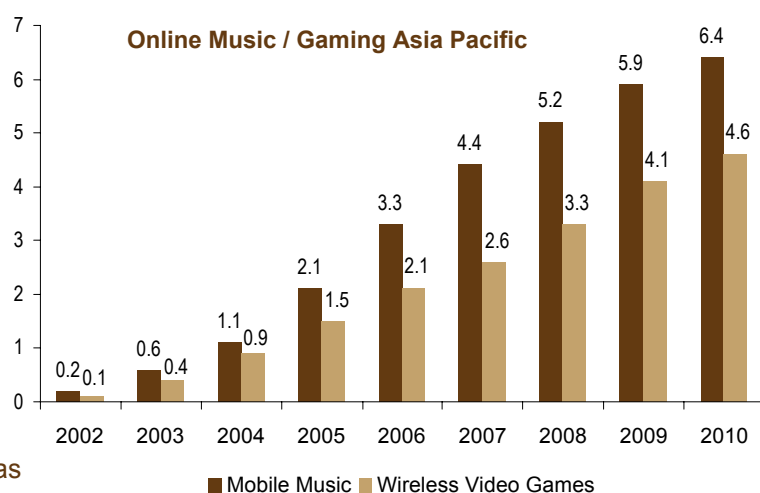
India has one of the youngest average ages of population, considered more amenable to such services, providing impetus to adoption of new services. As mobile penetration and VAS volumes increase, VAS related tariffs are expected to come down, further fuelling uptake of these services.

...And what do we see as the growth drivers, going forward...

We see Music and Gaming to be the leaders in driving revenues and growth in India. We also see the mobile phone as a smart card, replacing plastic cards as a reality in the near term, and remittances of funds through mobile phones, to fulfil the gap in rural banking infrastructure, much like the fixed-mobile substitution.

In markets like Europe where 3G networks have been rolled out we see that music and gaming continue to be the growth drivers. What has changed is the quality, variety and complexity of offerings, which are able to drive up tariffs. Wireless operators see 3G customers more willing than 2G customers to use a variety of multimedia services.

We see very similar growth drivers across the world in markets like Latin America, where ringtones has been the single largest contributor. The Africa/Middle East market shows varying trends across regions. Israel, with one of the highest telecom penetration rates in the world, has a vibrant wireless applications space with location based services joining music and games as key offerings. Africa, similar to India, has a high proportion of mobile subscribers to total telecom subscribers, driven by the faster wireless rollout, inexpensive handsets and low cost prepaid cards. Here, money transfers, driven by the lack of banking infrastructure is a key service need.



Source: Telecommunications Industry Association (TIA) Study

Within the Asia Pacific region, a key factor driving the telecom infrastructure development is the need to make available entertainment services. Operators across Australia, China and Hong Kong are in various stages of having announced launches, trial services and full services of mobile TV services.

The Asia Pacific market has the largest mobile music market in the world, which is expected to grow to over US\$ 6.4 billion by 2010 (source TIA). Similarly, Asia Pacific lead by South Korea and Japan, has the largest mobile video game market globally, expected to grow to \$4.6 billion by 2010 (source TIA). Globally, Japan leads with over 25% of its total mobile revenue being contributed by non voice revenues.

The VAS EcoSystem, and What questions does it raise...

The VAS ecosystem traditionally comprises content providers, aggregators, mobile operators, and application service providers (ASPs). It is now expanding to include consumer goods manufacturers, services enterprises, advertising agencies, financial service providers, and the community which forms social networks.

This expanding sphere thus is attracting regulators from areas as diverse as banking, stock exchanges, patents office, and of course telecom and media.

A Few of the Many Questions that arise from this constantly evolving ecosystem:

What is the business model to deliver in this new world?

While some see increased transactions across the value chain, leading to a 'digital' M&A revolution, other cite this to be a risk prone and complex answer. Instead, close alliances and partnerships are seen as a more practical and flexible approach to bringing together the diverse building blocks for delivering high value VAS.

How to make the New business Model Work?

Either of above mentioned models, or an entirely organic growth option, come with challenges of moving out of silo behaviour for seamless customer experience and maximising value.

Telcos are organised as distinct business units, or as a backend factory with a front end customer segmented service organisation. The new VAS market requires efficient, high quality handover across units for required level of customer experience. So, how will the organisations adapt?

How is revenue shared across the value chain? How can a level playing field be sustained amongst dominant and not so dominant constituents?

How safe is the Environment? And how can it be kept safe?

The complex web within the ecosystem means quite simply that the erstwhile firewalled and protected network of a telco is now connected to a plethora of diverse players – and the growth of user generated content only adds to the crowded chain.

A single weak link can lead to content loss, malicious unsolicited content delivery, unauthorised access to confidential and critical data, and network disruptions, amongst the pandora's box of security related disasters.

How can the various players in the ecosystem secure their operations, and how can the telco, which is the fulcrum, ensure, facilitate and control this?

What about digital rights protection? How does this work with user generated content? Will value content?

How will the battle for the Customer be won?

With fickle mindshare driving the need for new products and services, delivered through ever changing models, the race to capture customer interest is crashing the time to market. In this race, how are the technology platforms, organisational delivery infra-structure and support systems keeping pace with what is being promised to the customer?

The customer focus will clearly be the differentiator and a quality, reliable and consistent delivery is seen as a critical need apart from innovative and exciting offerings.

How will the balance be achieved?

PricewaterhouseCoopers

Contact us

Usha Rajeev

Tel [91] (124) 4620513
Mob [91] 98100 00095
Email usha.rajeev@in.pwc.com

Arpita Pal Agrawal

Tel [91] (124) 4620567
Mob [91] 98111 56161
Email arpita.pal.agrawal@in.pwc.com

Our offices in India

Bangalore

The Millenia, Tower D, 8th Floor
1 & 2 Murphy Road, Ulsoor
Bangalore, Karnataka 560008
Tel: [91] (80) 4079 4000/5000/6000
Fax: [91] (80) 4079 4222/5222/6222

Kolkata

Plot No Y 14, Block EP Sec-V
Salt Lake Electronic Complex
Kolkata 700 091
Tel: [91] (33) 2357 7200/ 9100
Fax: [91] (33) 2357-3394/95

Bhubaneswar

IDCOL House, Sardar Patel Bhawan
Block III, Ground Floor, Unit 2
Bhubaneswar 751009
Tel: [91] (674) 2532 459, 2530 370
Fax: [91] (674) 2531 674

Mumbai

252 Veer Savarkar Marg, Shivaji Park
Dadar, Mumbai 400 028
Tel: [91] (022) 6669 1500
Fax: [91] (022) 6654 7801/02

Chennai

PwC Centre, 32, Khader Nawaz Khan Road
Nungambakkam, Chennai 600 006
Tel: [91] (44) 4228 5000
Fax: [91] (44) 4228 2833

New Delhi (Gurgaon)

Building 8, 8th floor, Tower B
DLF Cyber City, Gurgaon – 122002
Tel: [91] (124) 4620 000
Fax [91] (11) 4620 620

Hyderabad

8-2-293/82/A/1131A
Road No. 36 Jubilee Hills
Hyderabad 500 082
Tel: [91] (40) 6624 6600
Fax : [91] (40) 6624 6200/6300

Pune

Mutha Towers, 5th Floor Suite 8
Off Airport Road, Yerawada
Pune 411006
Tel: [91] (20) 2616 9787/2616 3271
Fax: [91] (20) 2612 1131

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