

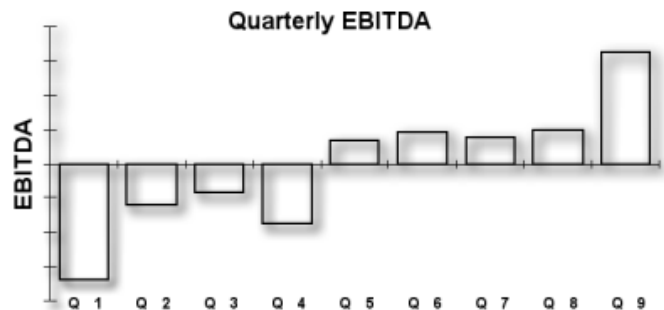
Future MVNOs - Proposal

The US Mobile Market has now reached a pivotal point. Several factors have contributed to make the MVNO opportunity a desirable proposition for those wishing to obtain a lucrative piece of the US Mobile Cellular market:

- Number portability – Recently introduced, Customers can switch between networks and keep their number. Churn is expected to rise to 20% in 4 years.^{*} By then established MVNOs will be able to target 10s of millions of customers who are looking to change Carrier.
- Maturing US market – Marketers have made customers aware of phone types, networks, call plans, Ringtones, Picture messaging, text voting etc. 66% of Virgin Mobile USA customer have downloaded 250,000+ ringtones since its launch.[†] More than 53% of Virgin's customers used text-messaging in December, 2003.
- Customers are beginning to look for more than just a phone service; they are looking for a lifestyle.
- Prepay – After several mistakes in prepay segment by Carriers, the US market is now experiencing a prepay surge. Previously under served cash-only customers are now significant adopters of Cellular phone services. Current prepay models can be improved upon significantly. Prepay will overtake traditional pay-monthly calling plans (up to 70% of all Mobile Cellular customers will be prepay.[‡])
- Virgin Mobile USA – This leading MVNO now has almost 2 million customers after less than 2 years in business. This indicator suggests that the market is ripe for Consumer branded MVNOs. Virgin has successfully translated their very hip, cool and trendy brand into the Mobile Cellular world.

Why enter the MVNO space?

- Creating value is the overriding factor in the MVNO model. The chart illustrates how Virgin Mobile went EBITDA positive after just 1 year. Replicating this kind of success is straightforward.
- Brand extension – Virgin was the 1st consumer brand to move into US mobile industry. After 10 months of service, Virgin Mobile USA acquired 500,000 customers. There is plenty of room for compelling brands.
- Consumers attach little value to the underlying network – Existing networks do not appeal to consumers beyond the core values of quality and service.
- The MVNO model has low capital intensity (no associated network build costs) - Low operating cost base, designed for consumer market economics.
- Mobile voice services are highly commoditised – Brand powered MVNOs can differentiate through Brand and content offerings. Disney is entering the MVNO space to leverage its content and brand, as is ESPN.



Differentiate to succeed

- Providing superior customer service is a critical success factor in the wireless marketplace – Most customers put up with bad service as general industry norm.
- Simple pricing plans with no long-term obligations – In addition to Pay-monthly, Prepay propositions are highly cash efficient, with customers having greater control over their phone use.
- Handsets are a key factor in the decision-making/value-proposition – Customers want the latest most fashionable product, preferring form over function.[§]

^{*} Based on European data for Carriers in mature/fully penetrated markets where only mobile-to-mobile number portability exists. The US market also benefits from fixed-to-mobile number portability.

[†] Virgin Mobile USA launched a national service in June 2002 with Sprint as their Carrier partner.

[‡] Based on European data for Carriers that offer both pay-monthly and prepay services

[§] European carriers have seen a trend towards phones from Asian manufacturers despite their lack of usability when compared to market leader Nokia. They conclude that external design is a major feature in the decision making process.

- Branding and the alignment of customer service with that Branding is a key feature of the MVNO's ability to differentiate. Brand and Customer Service are differentiators most valued by consumers.
- Virgin saw a gap in the market for a consumer champion and youthful brand – There are many such gaps waiting to be filled by key brands.
- Brand marketing efficiency – Extending a brand to include a Mobile Cellular service is far more cost effective than developing and focusing a new brand at a relevant demographic.
- Data services to support the Mobile lifestyle – Access to instant messaging, email, Hotmail, AOL etc. will attract internet users. In some segments an "Internet" enabled phone could substitute the in-home PC due to lack of affordability.

Summary

The MVNO opportunity in the US is now. Several companies are planning to launch nationwide MVNOs over the next 12-18 months.

Subscriber growth continues to drive ahead with existing Carriers taking the lion's share of that growth in the absence of significant non-carrier competition (MVNO.) Virgin Mobile USA has demonstrated the ease with which the right brand can drive subscriber take-up in spite of Carriers claiming over-crowding.

Competition for voice is now too intense, it seems as though Carriers are offering more free weekend minutes than there are minutes in a weekend. To compete the MVNO needs to offer a great, streamlined service. It needs to deliver the right brand and content offering coupled with excellent marketing. This will make any new MVNO a serious threat to US Carriers. Virgin Mobile USA has proven the concept that people are looking for a lifestyle rather than just a Cellular phone service. Virgin has proven to customers that the Virgin lifestyle isn't cheap but great value.