TK Dialog Hessen
Status und Perspektiven der Telekommunikationsmärkte aus Sicht von Investoren

02. Dezember 2009

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Dr. Arno Wilfert – Partner, PwC Strategy, Frankfurt / Düsseldorf

• Studium der Volkswirtschaftslehre und Promotion zum Dr. rer. pol. an der Universität Bayreuth
• Über 17 Jahre Erfahrung in der Strategie- und Transaktionsberatung mit Fokus auf die TMT Industrien
• Seit Mai 2007 Partner und Leiter der TS Strategy Group bei PricewaterhouseCoopers; Ankerprodukte dort sind Commercial Due Diligence, Business Reviews, Marktstudien und Strategieentwicklung
• Davor Partner und Leiter der TIME Practice bei Arthur D. Little für die Region Central and Eastern Europe (incl. Deutschland, Schweiz, Österreich und Osteuropa)
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PwC Transaction Services unterstützt Investoren und Finanziers mit Due Diligence Dienstleistungen

**PwC Transaction Services**

**Transaction Services Team**
- Over 200 dedicated TS professionals in Germany
- Around 40 experts focused on Strategy and Operations

**Profound deal experience**
- TS Germany involved in more than 100 due diligences in the last three years

**Unique capabilities**
- PwC provides integrated due diligence expertise
- Client benefits: Consistent results, reduced coordination efforts

**Sector expertise, in particular Telecoms**
- Strategy and Operations experts with clear industry focus
- Dedicated telecoms team with profound experience

**Core Offering: Integrated Due Diligence Services**

- P&L account
- Balance sheet
- Cash flows
- PwC provides integrated due diligence expertise
- Client benefits: Consistent results, reduced coordination efforts

**Consistent results**

**Financial due diligence**
- Technology
- Cost structure
- Key process Capabilities
- Capex

**Operational items**
- Macro trends
- Pricing
- Market shares
- Volumes
- Product technology

**Business due diligence**
<table>
<thead>
<tr>
<th>Agenda</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Einführung</td>
<td>1</td>
</tr>
<tr>
<td>2 Markttrends</td>
<td>4</td>
</tr>
<tr>
<td>3 Breitbandausbau in Deutschland</td>
<td>17</td>
</tr>
<tr>
<td>4 Investorenperspektive</td>
<td>22</td>
</tr>
</tbody>
</table>
Section 1

Einführung
Die Konvergenz vormals separater Teilmärkte bietet neue Chancen für alle Marktteilnehmer, bedroht aber auch etablierte Geschäftsmodelle.

Market convergence offers new opportunities for all players, but many traditional business models will be challenged.

Source: PwC Analysis
Das Umsatzvolumen auf dem deutschen Telekommunikationsmarkt beträgt rund 60 M€

TMT market size

Telecoms

<table>
<thead>
<tr>
<th>2007</th>
<th>2008</th>
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<td>36.8</td>
<td>35.0</td>
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Media

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<th>2007</th>
<th>2008</th>
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<td>14.1</td>
<td>13.7</td>
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Technology

<table>
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<th>2007</th>
<th>2008</th>
</tr>
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<tbody>
<tr>
<td>14.3</td>
<td>15.0</td>
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</tbody>
</table>

Today’s focus

Source: Dialog Consult, PwC Analysis

Source: PwC Analysis

Source: EITO, Bitkom, PwC Analysis
Section 2
Markttrends
Der deutsche Telekommunikationsmarkt schrumpft seit 2005 – wir befinden uns nicht mehr in einem Wachstumsmarkt!

Fixed market
• Since 2006 fixed broadband revenue growth does not compensate losses in the voice segment.
• Fixed broadband revenue growth is expected to slow down due to a decline in net adds and ARPU.

Mobile market
• The decline from 2006 onwards has been triggered by price decreases caused by the emergence of no frills operators and the reduction of termination fees. Growth in minutes of usage (MoU) did not compensate this decline.
• Mobile data revenues are growing but could not compensate the decline in traditional voice and SMS revenues.

Das schrumpfende Marktvolumen ist im wesentlichen auf Preiswettbewerb und neue Tarifmodelle zurückzuführen. Die Wirtschaftskrise hat kaum Einfluss auf die Umsätze mit Telekommunikationsdiensten.

Source: VATM, Diolog Consult, PwC Analysis
Das Wachstum im Breitbandmarkt lässt nach – die Kundenbasis wächst langsamer und gleichzeitig sinken die ARPUs

**Section 2 - Markttrends**

**Broadband connections – Net adds (m)**

- EoY 2008: 22.8 m broadband connections in Germany resulting in a penetration rate (population) of 27.6%.
- Penetration is expected to continue to grow.
- European benchmarks show penetration rates of 39.2% (Denmark) and 35.5% (Netherlands) which indicate some room for additional growth in Germany.

**Broadband ARPU* (€)**

- Broadband ARPU has declined significantly between 2005 and 2008 driven by increasing retail competition.
- ARPU decline is expected to flatten out as operators have limited remaining room for manoeuvre due to overall cost situation. Focus on promotions and increase of bandwidth.

Source: BNetzA, VATM, Merrill Lynch, PwC Analysis

*excluding VAT and voice revenues. Broadband + voice ARPU Q3 2009 e.g. for Versatel was €32.7
Abnehmende Neukundenzuwächse setzen die Geschäftsmodelle alternativer DSL Anbieter unter Druck

Cable operators have significantly increased their share of net adds especially between 2006 (4%) and FC2009 (39%).

After having lost significant broadband net adds market share to competitors between 2004 and 2006 (decline from 65% to 18% net adds market share respectively), DTAG succeeded in winning back market share from 2007 onwards.

Historically the alternative operators (altnets and resellers) have continuously increased their net add share from 8% in 2002 to a peak level of 77% in 2006. However, in 2009 the net add share is expected to decline to 9% only. This development is primarily driven by the fact that alternative DSL operator’s competitive position is increasingly squeezed between DTAG’s strong sales performance and the highly competitive cable operator offerings. The business model of reselling DTAG products seems to have lost sustainability as margins became unattractive and operators migrated about 1m DTAG resale customers to unbundling or bitstream.

Source: VATM, PwC Analysis

* Other comprises access technologies such as Powerline, Satellite and wireless broadband access
Section 2 - Markttrends

Mobile Datenumsätze zeigen starkes Wachstum getrieben von der steigenden Penetration mit Smartphones und Datenkarten

- Mobile data revenues continue to grow.
- O2 has above average mobile data revenues because of its initial positioning as fixnet alternative, targeting especially mobile only users. O2 started early in promoting mobile data (e.g. dongles for laptops).
- eplus’ mobile data revenues are catching up, especially since the hosted no frills operators are offering mobile data services.

- Mobile data ARPU is driven by smartphone users and laptop dongles.
- Especially the iPhone (residential user driven) and the Blackberry (business) users have a high incremental ARPU. T-Mobile reported about 1.2m iPhone customers in 3Q09.
- Smartphone sales are expected to rise up to 60% in the next five years from 30% in 3Q09 of device sales.

Source: Merrill Lynch, Credit Suisse, PwC Analysis
*includes messaging revenues

Source: PwC Analysis
Die Umsatzzuwächse durch mobile Datendienste reichen nicht aus, um die Umsatzverluste im Sprachbereich zu kompensieren.

Mobile service revenues, Germany (€bn)*

- Although data revenues show strong growth, they have not been sufficient to offset voice revenue losses.
- In future data revenue gains might offset voice losses.

Source: Merrill Lynch, PwC Analysis
*Note: Only the service revenues of the 4 mobile operators have been taken into account.
### Section 2 - Marktrends

Die Umsätze im Kerngeschäft der Netzbetreiber sinken …

<table>
<thead>
<tr>
<th>Market driver tree</th>
<th>Market Trend</th>
<th>Impact</th>
<th>Impact on market value</th>
<th>Comment / Implication</th>
</tr>
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<tbody>
<tr>
<td>Mobile</td>
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<tr>
<td>Voice</td>
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<td></td>
<td>Connections</td>
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<td>Minutes</td>
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<td></td>
<td>Price / ARPU</td>
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<td>Data / Broadband</td>
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<td></td>
<td>Connections</td>
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<td>Traffic</td>
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<tr>
<td></td>
<td>Price / ARPU</td>
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<tr>
<td>Fixed</td>
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<tr>
<td>Voice</td>
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<td></td>
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<td>Minutes</td>
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<td>Price / ARPU</td>
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<td></td>
<td>Connections</td>
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<td>Traffic</td>
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<tr>
<td></td>
<td>Price / ARPU</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: PwC Analysis

- **Fixed voice is commodity.**
- **Ongoing fixed to mobile substitution.**
- **No value increase expected in future.**

- **Declining revenue growth.**
- **Traffic growth increases costs.**

- **SIM card and MOU increase does not compensate price decline.**
- **Pressure on mobile termination rates.**
- **No value increase expected in future.**

- **Continued growth in data subs and usage increase drives up ARPU.**
- **Strong traffic growth requires additional CAPEX.**

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**Market value**

- **Decreasing market size in combination with increasing margin pressure fuels consolidation.**

- **To increase market value telecom operators need to tap neighbouring markets.**

- **Data revenue growth does not compensate for voice losses.**
Section 2 - Marktrends

... deshalb versuchen sie Umsätze in benachbarten Märkten zu generieren - waren damit aber bisher nur mäßig erfolgreich

<table>
<thead>
<tr>
<th>Fixed</th>
<th>Mobile</th>
<th>Mobile content</th>
<th>Mobile content</th>
<th>Mobile content</th>
<th>Mobile Payment</th>
<th>Mobile devices</th>
<th>Mobile TV</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Movie</td>
<td>DTAG launches a VoD download portal being part of T-Online. In 2008 relaunch with the name videoload. Claimed VOD market share in 2008 of about 39% which would related to revenues of about €3.5m.</td>
<td>Music</td>
<td>DTAG launches download portal musicload in 2003. At present the portal claims to have c. 3.8m registered customers and a name recognition of 80%.</td>
<td>Social networks</td>
<td>DTAG launches the social network TCommunity in 2005. The portal has been closed down in 2007 after failure to attract users.</td>
<td>TV</td>
</tr>
<tr>
<td>1999</td>
<td>Mobile content</td>
<td>eplus launched i-Model F a portal for mobile paid content. The NTT Doicom service was very successful in terms of subscribers and revenues in Japan but it failed in Germany.</td>
<td>Mobile content</td>
<td>T-Mobile launched a multimedia portal for communication, paid content and Internet access. Designed for GPRS and UMTS usage. Revenue impact of this walled-garden approach to monetize mobile content remained low.</td>
<td>Mobile content</td>
<td>Vodafone launched musicload to make access to paid content services easier using WAP, SMS and MMS.</td>
<td>Mobile Payment</td>
</tr>
<tr>
<td>2001</td>
<td>Mobile content</td>
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<td>Mobile content</td>
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<td>Mobile content</td>
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<td>Mobile devices</td>
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<td>2002</td>
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<td>Mobile content</td>
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<td>Mobile content</td>
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<td>Mobile devices</td>
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<td>2003</td>
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<td>Mobile devices</td>
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<td>2004</td>
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<td>Mobile content</td>
<td></td>
<td>Mobile content</td>
<td></td>
<td>Mobile devices</td>
</tr>
<tr>
<td>2005</td>
<td>Mobile content</td>
<td></td>
<td>Mobile content</td>
<td></td>
<td>Mobile content</td>
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<td>Mobile devices</td>
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<tr>
<td>2006</td>
<td>Mobile content</td>
<td></td>
<td>Mobile content</td>
<td></td>
<td>Mobile content</td>
<td></td>
<td>Mobile devices</td>
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<tr>
<td>2007</td>
<td>Mobile content</td>
<td></td>
<td>Mobile content</td>
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<td>Mobile content</td>
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<td>Mobile devices</td>
</tr>
<tr>
<td>2008</td>
<td>Mobile content</td>
<td></td>
<td>Mobile content</td>
<td></td>
<td>Mobile content</td>
<td></td>
<td>Mobile devices</td>
</tr>
</tbody>
</table>

Source: Pwc Analysis

✓ successful (✓) partly successful ✗ not successful
Section 2 - Market Trends

Benachbarte Märkte sind relativ klein und haben nicht genug Potenzial, um Umsatzverluste im Kerngeschäft auszugleichen.

- The only substantial neighbouring market is the advertising market.
- However, IP players like Google already have a dominant position in the Internet advertising market and are expected to increasingly draw revenues from print, TV and radio to the Internet space.
- Chances for fixed and mobile operators to capture a substantial share in the advertising market seem to be limited.
Um die Profitabilität in schrumpfenden Märkten zu halten, müssen die Netzbetreiber kontinuierlich ihre Effizienz steigern.

- EBITDA margins for mobile operators show a declining trend.
- Historically the largest mobile operators (Vodafone, T-Mobile) had a significantly higher EBITDA margin than the smaller operators due to economies of scale. While Vodafone still shows the highest EBITDA margin, T-Mobile’s EBITDA margin shows the strongest decline between 2004 and 2008.
- eplus has a positive EBITDA margin trend due to a strong increase in sales driven by the success of several hosted no frills operators such as AldiTalk and simyo.

- Fixed EBITDA margins are on average below mobile operator level.
- The fixed operator’s EBITDA margin trend lines show a moderate improvement over time with exception for T-Home.
- T-Home’s EBITDA margin continues to decline but from a relatively high level.

Source: Merrill Lynch, Credit Suisse, company websites, PwC Analysis
Steigende Bandbreiten und stark wachsende Verkehrsvolumina stellen eine Herausforderung für Festnetzanbieter dar.

Despite the fact that there is currently no use case or application which would require a higher bandwidth than 25 Mbit/s there is an increasing rationale for fixed operators not to invest anymore in legacy DSL infrastructure but to roll out FTTx infrastructure to reduce OPEX, compete with cable offerings and to prepare for future bandwidth requirements.

Historical very strong (factor 4.9) increase of the German broadband traffic volume between 2005 and 2009 is expected to continue in future which drives up operator’s network costs.

Strong upward movement of broadband customers to broadband connections with higher bandwidth.

Cable operators put pressure on fixed operators by offering superior bandwidth connections at very competitive prices. Unitymedia took the lead with 120 Mbit/s, followed by KBW with a 100 Mbit/s offering.

Despite the fact that there is currently no use case or application which would require a higher bandwidth than 25 Mbit/s there is an increasing rationale for fixed operators not to invest anymore in legacy DSL infrastructure but to roll out FTTx infrastructure to reduce OPEX, compete with cable offerings and to prepare for future bandwidth requirements.

Source: BNetzA, VATM, PwC Analysis
Mobile operators face a significant yoy increase in mobile data traffic. However, HSPA networks are expected to cope this traffic volume growth as the network capacity seems to be upward scalable without significant efforts. T-Mobile reported that the capacity of its networks can be increased by factor 10 with an increase of HSPA base stations just by a factor of 2.

The average traffic per month differs significantly between different user types:
- Standard 3G device user: 10 - 20 MByte/month
- Blackberry user: 25 MByte/month
- Smartphone user: 50 MByte/month
- iPhone user: 200 - 250 MByte/month
- Residential dongle user: 800 MByte/month

The strong data traffic growth will trigger an upgrade of the mobile base station backbone as these have in many cases only a 2-4 Mbit/s connection.

CAPEX are i.e. driven by roll out speed, geographical and indoor coverage. In this respect the CAPEX implications vary by the market positioning of the respective player (role of LTE in the positioning strategy).

Key LTE benefits against HSPA:
- Faster speed (35 Mbit/s real throughput vs 6 Mbit/s)
- Better spectral efficiency than HSPA
- Lower latency (20ms vs. 60-80ms)
- Full IP network architecture
Das benötigte Investitionsvolumen zur Aufrüstung der Netze ist unklar – vor allem die Investitionen im Mobilfunk dürften geringer ausfallen als erwartet

<table>
<thead>
<tr>
<th>Required FTTx CAPEX</th>
<th>Required LTE CAPEX per mobile operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimation - low end*</td>
<td>Best case</td>
</tr>
<tr>
<td>€30bn</td>
<td>MNO uses already Flexi BTS, i.e. only software update required</td>
</tr>
<tr>
<td>Estimation - high end*</td>
<td>Medium case</td>
</tr>
<tr>
<td>€40bn</td>
<td>HSPA upgrade partly done</td>
</tr>
<tr>
<td></td>
<td>Worst case</td>
</tr>
<tr>
<td></td>
<td>Current share of HSPA infrastructure limited; high LTE coverage planned</td>
</tr>
</tbody>
</table>

- Reported CAPEX estimations vary significantly in the market as there are multiple drivers which have a significant impact on the overall CAPEX level such as
  - urban vs. rural roll-out
  - single vs. multiple investor case
  - technology type (VDSL, PON, P2P)
  - single houses vs. multi dwelling units, etc.

- No immediate (urgent) upgrade to LTE is required as HSPA networks capacity is in most cases not fully used or can be increased without significant CAPEX.
- Level of LTE investment on top of the latest HSPA release seems limited as it seems to be primarily a software upgrade.
- It seems more favourable to stretch the LTE investment over time as a sufficient and cheap supply of LTE devices is not available yet.
- CAPEX might be financed from mobile operator’s cash flow.

Source: WiK, PwC Analysis

* T-Home CEO (Niek Jan van Damme), 19.Oct09

Source: PwC Estimates
Section 3
Breitbandausbau in Deutschland
Die Breitbandpenetration ist in Deutschland in den letzten Jahren stark angestiegen und läuft nun in die Sättigungsphase.

- In diesem Jahr dürfte es nur noch ca. 2-2,5m Neuanschlüsse geben; der Markt erreicht die Sättigungsphase und wird nur noch langsam wachsen.

Sog. “Weisse Flecken” sind nach wie vor vorhanden; betreffen aber vom Volumen her nur einen relativ kleinen Teil der Bevölkerung.
- Versorgung von “weißen Flecken” rechnet sich oft auch über Funktechnologien nicht (siehe WiMax-Debakel); Ausbau muss hier ggf. Subventioniert werden.
- Mehr Eigeninitiative der Kommunen und mehr Kreativität bei der Entwicklung neuer Geschäftmodelle gefragt.

Source: PwC, LBBW
Section 3 - Breitbandausbau in Deutschland

Glasfaser spielt in Deutschland derzeit keine Rolle – einen Standortnachteil kann man daraus jedoch (noch) nicht ableiten.

Top 15 Global Fiber Countries (June 2009)

In Deutschland werden vergleichsweise hohe Geschwindigkeiten über DSL erreicht.
Es gibt derzeit keine Anwendungen und kaum Zahlungsbereitschaft für Anschlüsse über 16 Mbps.
Die Bottlenecks liegen häufig nicht im Accessbereich.

Source: VATM, FTTH Council, Ovum
Section 3 - Breitbandausbau in Deutschland

Derzeit gibt es (noch) keine Anwendungen, die einen Glasfaser- ausbau für den Massenmarkt zwingend erforderlich machen

Average required bandwidth 2009 vs. 2020

Maximum download and upload speed per technology

- Sehr hohe Bandbreiten werden erst bei der simultanen Übertragung mehrerer HDTV-Fernsehkanäle erforderlich
- IPTV hat aber derzeit noch einen geringen Marktanteil an den TV-Plattformen
- Alle übrigen Dienste können mit vorhandenen Technologien abgedeckt werden
- Schwäche der heutigen Technologien liegt vor allem in limitierter Uploadgeschwindigkeit
- Aber: Übergang zu Glasfaser wird kommen und im Zuge der Umrüstung auf Next Generation Networks Kupfer ablösen

Source: PwC, Capgemini
Bei der aktuellen Diskussion um den Breitbandausbau wird meist die Stimulierung der Nachfrageseite vergessen.

Die öffentliche Hand kann die Nachfrage nach Breitbandanschlüssen durch vielfältige – auch nicht-fiskalische – Massnahmen stimulieren.

Die viel gepriesenen Produktivitätszuwächse durch den Breitbandausbau werden nicht durch die Bereitstellung von HDTV-Kanälen über IPTV erreicht werden!
Section 4
Investorenperspektive
Aus Investorensicht ergeben sich vielfältige Möglichkeiten vom Wandel des Telekommunikationsmarktes zu profitieren

<table>
<thead>
<tr>
<th>Themen</th>
<th>Recent examples</th>
<th>Comments</th>
<th>Probability</th>
<th>Timing expected</th>
</tr>
</thead>
<tbody>
<tr>
<td>O-1 Markt-konsolidierung</td>
<td>Telefonica’s acquisition of Hansenet. Versatel’s acquisition of level 4 cable operators AKF Telekabel and Media Home Net.</td>
<td>Market consolidation is likely to occur between DSL operators, cable operators and between DSL and cable operators.</td>
<td>medium-high</td>
<td>2010</td>
</tr>
<tr>
<td>O-2 Portfolio-anpassungen</td>
<td>Freenet: sale of DSL business. Freenet: sale of Webhosting business (ongoing).</td>
<td>A portfolio adjustment like it has been observed with Freenet might be exercised by other operators too.</td>
<td>medium</td>
<td>2011</td>
</tr>
<tr>
<td>O-3 Börsengänge</td>
<td></td>
<td>Exits of PE houses from cable investments are at the horizon. Due to high debt an IPO seems more likely than a sale.</td>
<td>medium-high</td>
<td>2010</td>
</tr>
<tr>
<td>O-4 Network Sharing</td>
<td>T-Mobile UK, 3 UK Telenor, Tele2 Telefonica, Vodafone</td>
<td>Sharing of existing mobile network infrastructure and a joint set-up of new fixed and mobile networks will become common sense.</td>
<td>medium-high</td>
<td>2010/11</td>
</tr>
<tr>
<td>O-4 Outsourcing</td>
<td>T-Mobile UK, 3 UK BT Openreach, Carillion Sprint, Ericsson</td>
<td>To realize required cost savings large outsourcing deals are coming increasingly on the agenda.</td>
<td>medium-low</td>
<td>2011</td>
</tr>
</tbody>
</table>