

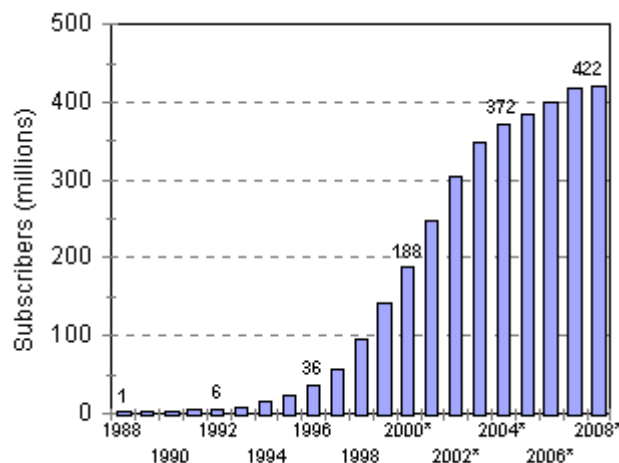


Mobile Markets in Western Europe



The growth of mobile communications in 1997 was once considered phenomenal. After a lacklustre performance in the preceding years, subscriber numbers grew by 57% to just under 57 million. But this has since paled in comparison to the tremendous growth across the industry that occurred in the following year. During 1998, nearly 39 million people freed themselves from the bounds of fixed lines to embrace mobility via cellular phones. This annual growth of 69% brought the total number of cellular users in the 19 countries covered by CIT's survey to 95.5 million - and shows no signs of slowing down. Indeed, preliminary figures from end-1999 suggest that a further 65 million people have embraced mobile telephony, bringing the total number of users to over 160 million. If this rate of growth were maintained, within four years there would be a mobile phone for every man, woman and child in Western Europe. Growth, however, will decelerate, which CIT believes will happen in 2000 and will result in total cellular subscribers approaching half a billion by the end of our projections period.

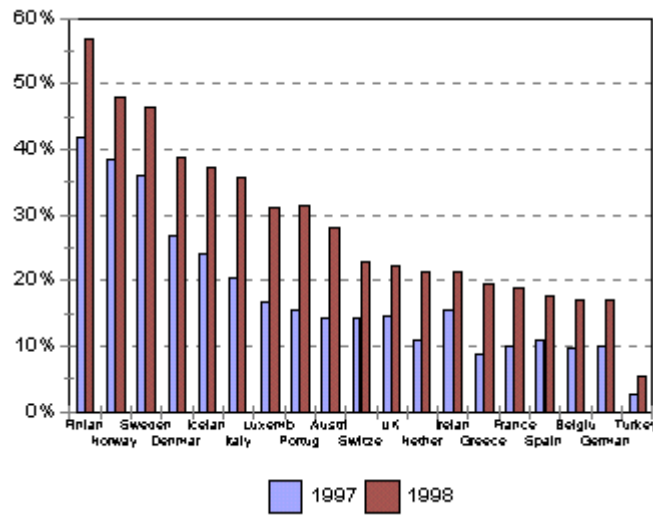
Western Europe - Historical and Projected Cellular Subscribers, 1988-2008



* Forecasts

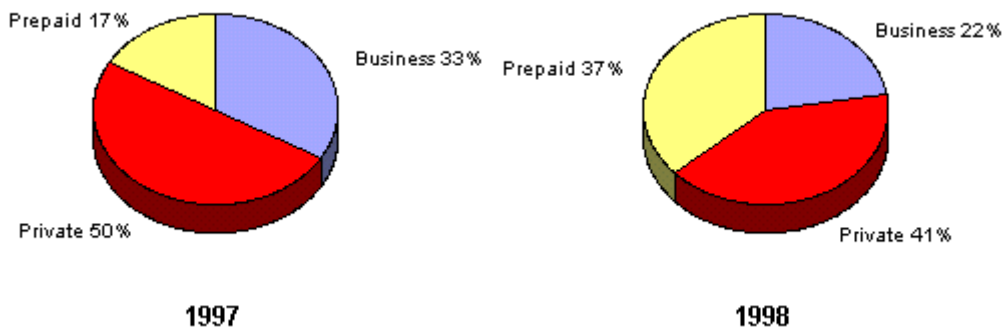
Part of the reason behind the boom has been deregulation, with at least one new entrant licensed to provide cellular services in all but five Western European countries during 1997/98. In some markets national carriers lost their traditional monopolies, while in all of them the incumbents began slashing tariffs in their desperate attempts to build market share prior to the entry of new competitors. In most cases the discounts didn't end with the launch of new operators, but intensified as the new kid on the block offered even lower prices to gain a foothold in the market. Plummeting tariffs and subsidised terminals brought mobile telephony within reach of ever larger groups of consumers. With the exception of Turkey, cellular penetration rates for all countries moved into double figures. The largest percentage increase occurred in Portugal which saw the number of users double from 15 to 31 out of every 100 people. The Nordic countries, however, have maintained their lead in having the most mobile citizens. In Finland, it is claimed that every person between the ages of 21 and 65 has a mobile phone, while the number of wireless lines has in fact exceeded that of fixed telephony.

Western European Cellular Penetration, 1997 & 1998



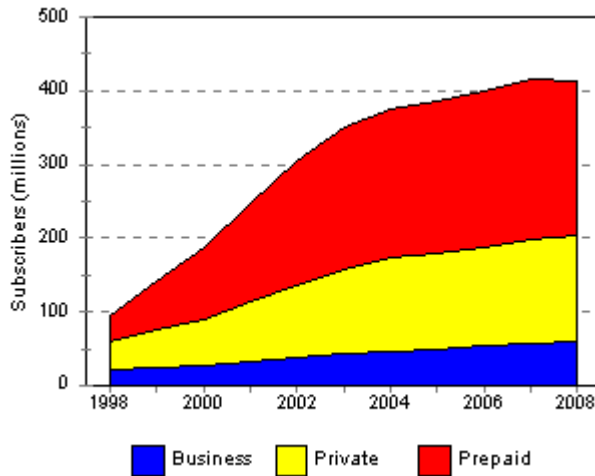
But as margins were rapidly eroded by competition, many operators found that they could no longer compete on tariffs alone and turned to prepaid services as a means of boosting subscriber numbers. With no contractual obligations or monthly fee, the attraction of prepaid to consumers has resulted in it being the catalyst for the dynamic growth. Within only one year, the proportion of prepaid users out of the total installed base in Europe increased from 17% to 37%. In countries such as Italy and Portugal, the proportion had risen from around half at the end of 1997, to three-quarters a year on. Preliminary figures from 1999 also indicate that in many more markets prepaid now accounts for the majority of cellular users.

Western European Subscribers by Package, 1997-1998



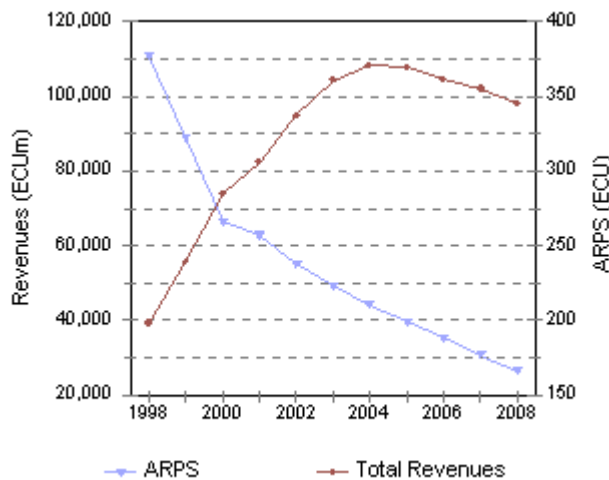
The shift towards the contractless prepaid market is still very strong and is expected to continue driving the market for a number of years. CIT believes, however, that the higher tariffs associated with prepaid combined with the growing dependence on mobility and the integration of the home phone into a fixed-wireless environment, will eventually cause migration back to private contracts.

Projected Western European Subscribers by Package, 1998-2008



This is also what operators would prefer, as the reality of prepaid users is that they are low-volume and hence low-revenue consumers. So the downside of an escalating prepaid base has been a decline in average revenues as quality has been replaced by quantity. In countries such as Sweden where prepaid accounted for 30% of the total installed base at the end of 1998, annual average revenue per subscriber (ARPS) fell by an estimated 24%. In Norway, we estimate ARPS to have fallen from above ECU400 to below ECU300 over the course of the year. Already under downward pressure from tariff competition, ARPS is expected to continue declining as the prepaid base expands, resulting in a slowdown in total revenue growth.

Western Europe - Projected Average and Total Service Revenues, 1998-2008



But overall revenues for the Western European wireless industry will not decline, and any slack in the cellular voice market attributable to prepaid and declining tariffs will be taken up by new revenue streams derived from fixed-wireless and future third generation mobile data. For a further discussion on the prospects for the latter, please see Third Generation Mobile - Future Markets, to be published by CIT Publications in May 2000.

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