

Gartner Says Worldwide Mobile Phone Sales Grew 17 Per Cent in Second Quarter of 2007

Despite Decline in Sales to End Users Motorola Maintained the Second Position

Egham, UK, 23 August, 2007 — Worldwide sales of mobile phones to end users in the second quarter of 2007 reached 270.9 million units, a 17.4 per cent increase from the same period last year, according to Gartner, Inc. Although Motorola faced some ongoing difficulties with its product portfolio, the company maintained its second position worldwide by sustaining an aggressive price strategy, which resulted in better sales to end-users than sales into the channel. Gartner predicts worldwide mobile phone sales will reach 1.13 billion units in 2007.

“Emerging markets in Africa, Latin America and Asia/Pacific continued to fuel the industry’s growth,” said Carolina Milanesi, research director for mobile devices research at Gartner, based in Egham, UK. “More mature markets, such as those in Western Europe and North America, picked up after the expected slowdown in the first quarter.”

“Apple stole the limelight in the quarter with the introduction of its iPhone in North America in the last two days of the quarter,” Ms. Milanesi said. “But we will only be able to better assess the impact the phone has had in the North America market in the quarters to come.”

“Nokia’s devices business seems to be doing everything right at the moment,” she added. Nokia’ sales into the channel once again exceeded the 100-million mark in the second quarter of 2007. It sold slightly fewer than that to end users, due to little stock accumulated in Western Europe and Asia/Pacific and gained 3.2 percentage points compared with the same period last year. Nokia increased its market share both on a quarterly and annual basis, as it accounted for 36.9 per cent of worldwide sales in the second quarter of 2007 (see Table 1). The company experienced strong sales of high-end phones, and the introduction of the N95 meant the average selling price of Nokia phones was on the rise. Nokia’s strong performance will continue in the second half of the year as the company grows its share of sales in emerging markets as well as in mature ones like Western Europe.

Table 1
Worldwide Mobile Terminal Sales to End-Users in 2Q07 (Thousands of Units)

Company	2Q07 Sales	2Q07 Market Share (%)	2Q06 Sales	2Q06 Market Share (%)
Nokia	99,958.6	36.9	77,748.1	33.7
Motorola	39,486.1	14.6	50,532.7	21.9
Samsung	36,191.8	13.4	25,757.5	11.2
Sony Ericsson	24,317.5	9.0	15,308.9	6.6
LG	18,433.4	6.8	14,639.6	6.3
Others	52,484.1	19.3	46,764.1	20.1
TOTAL	270,871.5	100.0	230,750.9	100.0

Note* This table includes integrated digital enhanced network (iDEN) terminals. It excludes original design manufacturers to original equipment manufacturer shipments and Code Division Multiple Access Wireless Local Loop (CDMA WLL)

Source: Gartner (August 2007)

Motorola suffered from weak demand from its rather dated portfolio, and its attempts to reduce stock translated into poor sales into distribution channels. However, aggressive pricing allowed it to reduce inventory in key regions such as Western Europe, selling nearly 39.5 million units worldwide in the second quarter of 2007. Motorola's market share dropped 7.3 percentage points from the second quarter of 2006. Gartner does not expect the company's market share will return to close to 20 per cent until substantial changes are made to its product portfolio.

Samsung's sales into the channel were strong in the second quarter of 2007, which saw the vendor take the second position from Motorola. However, with some inventory overhang from the first quarter of 2007, Samsung was only able to sell 36.2 million units, which was not enough to secure the second place in terms of sales to end users. Samsung's growth was boosted by the Ultra II family of products. While the latest version of the Ultra family focuses on specific applications such as music and video, Gartner analysts said more differentiation is needed from a design point of view to prevent the products in this family from blending into one model: a black, thin phone.

Sony Ericsson's continued success in the second quarter of 2007 saw it consolidate its fourth place, with sales reaching 24.3 million units. Its portfolio now includes several successful products at the high-end and the mid-tier markets. The improvement in Sony Ericsson's performance in Latin America in the second quarter was a sign that its mid-tier products are proving successful in emerging markets, and it will need to ensure sales of mid- and higher-tier phones stay strong, so that its average selling price and margins remain healthy.

LG sold 18.4 million units in the second quarter of 2007 and reached a market share of 6.8 per cent. New variants of the Chocolate phone, now at a very competitive price, as well as the popularity of the Shine in Western Europe and Asia/Pacific helped the company's performance. The company's recent launch of its "3G for all" phone, the KU250, in some markets in Western Europe and emerging markets in Asia/Pacific might help increase its market share, but the company is likely to pay the price in terms of a lower average selling price and thinner margins in the quarters to come.

Regional Analysis

In Asia/Pacific, mobile handset sales rose to 95.5 million units, a 40.7 per cent increase from the second quarter of 2006. Sales in China continued to grow rapidly, but India was affected by seasonal factors and its typically slower period. Demand in the region's mature markets, such as Taiwan, was slow as consumers deferred replacing handsets to later in the year. In contrast, Australia outperformed other markets with strong sales of replacement phones. "Growth came from handsets with navigation features, models with touch screens, and phones made from stainless steel and other metals, which were popular as status symbols," said Ann Liang, principal analyst for mobile devices research at Gartner, based in Taiwan.

Sales of mobile phones in Eastern Europe, the Middle East and Africa reached 46 million units in the second quarter of 2007, a 5 per cent increase from the same period last year. Although the majority of the growth in this region was still from low- and mid-tier devices, sales of third-generation (3G) mobile phones have increased in the past couple of quarters, highlighting that replacement sales are also picking up in this region.

In Japan, sales to end users in the second quarter of 2007 were 12.1 million units, an increase of 10.3 per cent from the second quarter of 2006 but a decline of 17.5 percent from the first quarter of 2007. "Despite a quarter-on-quarter drop, this was the second-biggest second quarter in Japan's mobile devices history,

since the same period in 2003, when camera phones drove replacement sales,” said Nahoko Mitsuyama, principal analyst for mobile communications research at Gartner, based in Tokyo.

Sales of mobile handsets to end users in Latin America reached 30.5 million units in the second quarter of 2007, an increase of 24 per cent from the same period last year. “Sales were driven by promotions for Mother’s Day and by continuing technology migrations to global system for mobile communication (GSM),” said Tuong Nguyen, analyst for mobile devices research at Gartner, based in Arlington, Virginia. “Rising sales of replacement and upgrade phones, as well as 18.9 million new connections also fuelled growth in this market.”

The North American handset market continued to exhibit strong growth. Sales to end users reached 41.4 million units in the second quarter of 2007, a 7 per cent increase from the same period in 2006. “AT&T and Verizon, the two largest operators in the region, continued to perform extremely well, AT&T in particular thanks to its exclusive deal with Apple’s iPhone in the region,” said Hugues De La Vergne, principal analyst for mobile devices research at Gartner, based in Dallas, Texas.

Despite a slowdown in new connections compared to the first quarter of 2007, sales of mobile phones in Western Europe reached 45.4 million units, an 11 per cent increase year-on-year. Motorola's difficulties continued this quarter, and the race to take market share from it was wide open, with Nokia, Sony Ericsson and Samsung all benefiting. With rumours that the iPhone might launch in Europe as early as September, we expect more excitement in this market in the second half of the year,” concluded Ms Milanesi.

More information is available in the Gartner report “Dataquest Insight: Market Share for Mobile Devices, 2Q07”. The report is available on Gartner’s website at www.gartner.com.

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