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Cell-phone makers choose between style, tech

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By Reuters

After years of running in the same direction toward smaller mobile phones with color screens and built-in cameras, the world's handset makers need to find new ways to make their phones sell, analysts said on Friday.

Some go for fashion and design, other opt for style, and many Asian vendors continue to rely on their technological edge to maintain or increase their share in the fiercely competitive handset market, which sells 684 million units a year. Color and cameras have become standard in most phones sold in developed markets such as North America, Europe, Korea and Japan, so now handset makers are placing new bets on what will sell.

Several handset makers, including Nokia, Sony Ericsson Mobile Communications and Motorola, have chosen to make special music-playing phones, while design is also playing an increasingly important role in an attempt to stand out from the crowd.

Motorola has come out with the ultra-thin RAZR phone model which has won good reviews, and Nokia has introduced a range of phones in a "roaring 20s" style.

"When the mobile-phone technology starts to stabilize, you have to start thinking about other elements, such as design. Technology alone is not enough. At one point, the arms race of having a camera with 3, 5 or 15 megapixels becomes irrelevant," said Ben Wood, who analyzes the mobile-phone market for Gartner research.

The fundamental challenge handset makers face is that the basic technology needs to be identical, because the devices must connect to the same wireless networks and mobile services.

"The consumer electronics place is scary, because it's an industry built on standards. At the end of the day, differentiation has to be cosmetic," Wood said.

Cosmetics can be much more than a new curvy shape of a phone model, however, said

Motorola Chief Executive Ed Zander. Good design allows easy and simple access to mobile phone and Internet services from any place.

"The next round is about software differentiation. Over the next five years it will be about secure, virus free, protected applications and services," he told Reuters at the 3GSM mobile communications trade show in Cannes last week.

Not technology, but simplicity, is one of Motorola's four design rules.

"If I'd zoom up 10,000 feet, I see people lugging laptops who only need e-mail, calendar and some Internet access. That about sums it up. Over the last decade we've become (computer) system administrators. It's unbelievable when the history about this period gets written," Zander said.

Miles Flint, president of rival Sony Ericsson agreed. "I also have a dream of leaving my PC at home," he said in Cannes.

Some still bet on tech

Not all mobile-phone vendors believe the technology race is over just yet. While Nokia, Sony Electronics and Motorola announced music deals with Microsoft, Sony and Apple, their South Korean rivals Samsung and LG bet on technology improvements by making sharper displays, better cameras and speakers and smaller phones.

Samsung, for one, showed off small models for third generation (3G) wireless data and voice networks and handsets with rotating displays for yet-to-be-launched digital TV.

"Even in the same clamshell, even in a slidephone, you can see the difference. The quality of the display, the incredible surround-sound. People recognize it and are willing to pay the premium. That's how we try to differentiate," said Chang Soo Choi, Samsung's global handset marketing chief.

LG, the world's fastest growing cell-phone maker, has also put most of its chips on innovation, like small 3G phones.

"We made a lot of investments in 3G. We're the latecomer in this industry. We do not want to compete in (second generation) GSM. We want to move to the higher ground, like 3G and mobile TV," James Kim, LG's European chief, told Reuters at 3GSM.

So far, the strategy is paying off. LG's handset sales in Europe increased to 6 million units in 2004 from 1.35 million a year earlier. "More than half were 3G handsets," Kim said.

Analysts wonder what will happen if 3G becomes mainstream and competitors catch up with the Koreans.

"In the last few years, the Koreans have established themselves as technology leaders, which has helped them win a lot of business," said analyst Neil Mawston of Strategy Analytics. "But that strategy is increasingly difficult."

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