Ercole Rovida's Newsletter

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MESSAGE FROM THE AUTHOR

From connectivity infrastructure to AI infrastructure — telecom's defining transition.

It is a very intense period. The conversation around telecom and AI has moved past the "what if" stage. As the initial shockwaves of Generative AI settle, operators and vendors are now in the trenches, executing a massive pivot. The realization has set in that AI will not just manage networks—it will fundamentally redefine how telecoms make money, how infrastructure is built, and who holds the power in the ecosystem.

1. Restructuring the Network: The Rise of "AI-RAN"

For years, "AI for network optimization" meant using machine learning to predict tower failures. Today, the restructuring is far more radical. The industry is shifting toward AI-RAN (Artificial Intelligence for Radio Access Networks), a concept where AI natively dictates how spectrum and routing work in real-time.

Vendors leading the charge: Ericsson and Nokia are embedding AI microprocessors directly into basebands. Instead of reacting to traffic spikes, these new networks proactively reshape beamforming and allocate bandwidth based on predictive AI models.

The GPU convergence: Operators like NTT and AT&T are ripping up traditional architectural blueprints. They are integrating GPUs directly at the edge cell sites. The goal is to create a "computational RAN" where a base station can seamlessly switch from routing mobile traffic to processing local AI inference workloads for enterprise clients depending on the time of day.

The energy imperative: AI is power-hungry, and telcos are feeling the heat (and the cost). Vendors are deploying AI specifically to dynamically put network components to sleep when not in use—a move operators say is currently saving millions in energy costs, effectively funding the AI transition.

2. Reimagining the Business Model: Escaping the "Dumb Pipe"

The greatest fear in telecom is becoming a low-margin utility that merely transports AI data for Big Tech. To adapt, operators are aggressively restructuring their revenue models.

B2B AI-as-a-Service: Rather than just selling 5G connections to a factory, telcos are selling "AI outcomes." Using platforms like NVIDIA's Aerial SDK, operators are offering private wireless networks bundled with computer vision and predictive maintenance AI, rented out on a SaaS model.

The Telco LLM: We are seeing the birth of vertical, domain-specific Large Language Models. SK Telecom's A. and Deutsche Telekom's Frag den Jo are early examples. Telcos realize they can't compete with OpenAI, but they can build secure, localized LLMs trained on proprietary telecom and enterprise data, which they can sell to privacy-conscious B2B clients.

Monetizing the Edge: Operators are turning their thousands of edge data centers into "AI micro-clouds." By offering low-latency AI compute closer to the user, they can charge a premium to enterprises that need real-time processing (like autonomous vehicles or robotic surgery) without sending data back to a centralized hyperscaler.

The telecom industry's adaptation to AI isn't a gentle evolution; it's an architectural rewrite. Operators and vendors are realizing that in the AI era, the network is the computer.

GLOBAL MARKET SNAPSHOT

The telecom industry has reached an inflection point in its relationship with artificial intelligence. The question is no longer whether to invest — it is how fast, and where.

NVIDIA's fourth annual State of AI in Telecommunications survey, drawn from over 1,000 industry professionals globally, found that 89% of telecom companies plan to increase their AI budgets in the next 12 months, up sharply from 65% the previous year. More than a third expect their budgets to grow by over 10%. The results paint a picture of an industry that has crossed from experimentation to operational commitment: 90% of operators say AI is now driving positive ROI, boosting both revenue and cost efficiency simultaneously.

The nature of that ROI is itself shifting. Network automation has become the leading source of return on investment, with roughly half of respondents identifying it as the top AI use case — ahead of customer service and marketing applications. AI models are being applied to predictive maintenance, traffic optimization, fault detection, and spectrum allocation, enabling operators to address issues proactively rather than reactively. The longer-term ambition is equally significant: 77% of survey respondents believe AI-native networks could launch before full 6G deployment, suggesting that the architectural transformation of the network may arrive sooner than the next generation of wireless itself. Yet behind this wave of AI investment lies a financial reality that is driving urgency. Telecom is a $1.1 trillion industry growing below inflation, with PwC projecting revenue growth of just 2.9% CAGR through 2028 and ARPU declining an average of 2% annually across mobile, fixed broadband, and voice. EBITDA margins remain stable at around 35%, but that stability is the product of relentless cost discipline, not demand strength. In a recent industry survey, operators identified increased pressure to lower prices and margins as the greatest threat to their long-term business health — a pressure driven by market saturation, intensifying competition, and regulatory evolution, while shareholders simultaneously demand higher returns.

For European operators specifically, the picture is nuanced. Revenue growth of around 2% is achievable, but it requires selling new services — larger bundles, higher speeds, premium low-latency packages — rather than growing the subscriber base. ARPU is expected to remain particularly weak in markets like Italy and Spain, where regulatory frameworks drive intense price competition.

The conclusion is clear. As connectivity revenue is no longer a growth engine, operators must move from volume to value monetization — and AI, applied to network efficiency and new service layers, is currently the most credible lever available to them.

MORE INFORMATION

Artificial intelligence drives autonomous networks, customer service gains

Telcos Double Down on AI as 90% Report Positive Returns

State of Telecoms Procurement in 2026

Major telecoms trends for 2026

European telecoms set to see modest growth in 2026

Telecommunications Industry Growth Projections 2026–2030: Strategic Imperatives for Operators and ISPs

REGIONAL FOCUS – SPAIN AND EUROPE

For European telecom operators, 2026 is a year defined by the gap between regulatory ambition and operational reality — and by the growing pressure to close it.

Spain enters the second half of the year in a position of relative infrastructure strength. By February 2026, 94% of the Spanish population had access to ultrafast fixed broadband coverage at 100 Mbps or more, and 96% had 5G coverage — a result of sustained investment under the Digital Spain 2026 agenda and the UNICO broadband programme. Major operators including Movistar and MasOrange have launched 5G Standalone networks, with MasOrange debuting Spain's first 5G-Advanced network in Seville in 2025 — a signal that Spain is moving ahead of many European peers in network architecture. Yet coverage statistics tell only part of the story. The harder challenge now is monetization: translating world-class infrastructure into services that justify continued investment at a time when ARPU is expected to remain particularly low in markets like Spain and Italy, where regulatory frameworks drive intense price competition and discount pressure in the value segment. At the European level, the regulatory landscape is being fundamentally rewritten. The Digital Networks Act, published on January 21, 2026, will consolidate four existing legal instruments into a single directly applicable regulation, modernizing EU telecom rules across fiber transition, spectrum governance, satellite authorizations, cybersecurity, and infrastructure resilience.

The proposal is part of the broader European Digital Decade programme, which targets universal gigabit connectivity and 5G coverage across all populated areas by 2030 — but was also driven by a recognition of serious structural problems: market fragmentation across 27 national regimes, significant delays in implementing the previous Electronic Communications Code, and rising demand for gigabit infrastructure that existing rules were not designed to support. The industry's reaction has been cautiously supportive but pointed. European telecom associations have welcomed the move to set unlimited spectrum licence duration as a default — a step that aligns the EU with global 5G leaders — but have warned that the draft DNA falls short of the investment conditions the sector needs, calling for less regulatory complexity rather than more, and urging clearer rules on network slicing and specialized services. The politically sensitive question of whether large technology platforms should contribute to infrastructure costs has been quietly set aside: rather than mandating financial contributions from content and application providers, the Commission has left the matter to voluntary dispute resolution — a decision that leaves European operators still shouldering the full cost of networks that carry traffic generated overwhelmingly by US digital giants.

MORE INFORMATION

Digital Spain 2026: what has been achieved and what remains to be done?

Digital Networks Act and CSA 2.0: key implications for telecoms and digital infrastructure

Digital Networks Act: telecom industry asks for bolder action to secure Europe's digital future

EU's Digital Networks Act Leaves Big Tech Untouched, Sparks Net Neutrality Concerns

FEATURED STORY

(deep dive) "When the network stops being a pipe"

For decades, the telecom industry's value proposition was straightforward: build infrastructure, move data, charge for access. It was a utility model, and it worked — until it didn't. As the Global Market Snapshot in this edition makes clear, connectivity revenue is no longer a growth engine. The pipe, on its own, is no longer enough.

What is replacing it is something considerably more complex — and considerably more interesting. MWC 2026 made it unequivocally clear that the industry is no longer debating whether AI will transform telecom; it is grappling with the deeper question of who builds the intelligent infrastructure required to harness AI's value, and how. The dominant conversation has shifted from moving data reliably to governing, operationalizing, and monetizing intelligence itself. Ericsson frames this shift in behavioral terms: the real opportunity in the AI era is not simply about how much traffic AI will generate, but about the emergence of a new traffic category — one that demands real-time, interactive, low-latency network behavior, fundamentally different from the heavy downlink and high-latency-tolerant patterns optimized for human consumption.

The structural response to this challenge is the autonomous network — a self-configuring, self-healing, self-optimizing system where AI does not merely assist human operators but acts as the operating layer of the network itself. Google Cloud described the transition as moving from networks that use AI for insights to intelligent agents capable of sensing, reasoning, and taking autonomous action — a shift toward zero-touch network operations. Industry confidence in the trajectory is high: 77% of telecom professionals believe AI-native networks will materialize before the full deployment of 6G, suggesting the architectural transformation may arrive sooner than the next generation of wireless itself. The commercial ambition, however, extends well beyond operational efficiency. At NVIDIA GTC 2026, leading operators in the US and Asia announced AI grids — geographically distributed and interconnected AI infrastructure built on their existing network footprint — designed to power and monetize new AI services across the distributed edge. More than half of telecom and cloud leaders expect increased investment in sovereign cloud, edge data centers, and in-region AI processing by 2026, with operators exploring GPU-as-a-service offerings to enterprises as a new revenue stream rooted in national data sovereignty requirements. Network APIs represent another frontier: the convergence of GSMA CAMARA APIs and TM Forum's Open Digital Architecture is being described as the biggest revenue unlock in telecom since the smartphone, finally allowing operators to expose network capabilities directly to developers and build ecosystems that monetize infrastructure investments. The most symbolically significant development of the year so far came not from a single vendor announcement but from a collaboration between two historical rivals. On March 1, 2026, Nokia and Ericsson announced a landmark cooperation to advance intelligent automation across purpose-built, cloud RAN, and Open RAN networks — with Ericsson joining Nokia's SMO Marketplace and Nokia joining the Ericsson rApp Ecosystem, creating a mutual commitment to open, multivendor automation architectures. That two companies which have competed fiercely for the same operator contracts for decades chose to align on a shared automation framework is itself a signal of how profoundly the industry's center of gravity is Shifting.

Yet the tension between innovation and economics remains real. High costs are a significant barrier to widespread AI-RAN adoption, and 2026 is shaping up as a transition year — heavy on pilots and proofs of concept, but not yet mass deployment of fully AI-native networks. The pipe is not disappearing. It is becoming the foundation for something altogether different — and the operators who define what that something is will determine the industry's next decade.

Telecom's AI Infrastructure Shift

Four moves to drive operator growth in the AI-native era

Telecom firms increasing AI spending and automation, NVIDIA survey reveals

From framework to scale: Accelerating autonomous networks at MWC 26

NVIDIA, Telecom Leaders Build AI Grids to Optimize Inference on Distributed Networks

Six AI-Native Shifts Every Telco Must Be Ready for in 2026

Nokia and Ericsson strengthen cooperation to accelerate towards Autonomous Networks

AI-Native Telecom Networks in 2026: The Rise of AI-Driven RAN, Agentic AI, and Edge Computing – And Why Costs Are the Biggest Hurdle

LISTEN ON THE GO

Justin Hotard — The engineer who came to reconnect Nokia with its future.

There is a particular kind of leadership challenge that arises when a storied company finds itself at a strategic crossroads: not in crisis, but at risk of becoming irrelevant unless it moves decisively in a new direction. That is the situation Justin Hotard inherited when he became President and CEO of Nokia in April 2025 — and the moves he has made in the fourteen months since suggest he understood the assignment from day one.

Hotard's path to the top of one of the world's most recognized technology brands is unusual for a telecom CEO. He started his career as an engineer at Motorola, deploying mobile networks for US carriers — an origin that gives him a rare technical fluency at the network level. From there, he spent nearly a decade at Hewlett Packard Enterprise, rising to Executive Vice President and General Manager of High-Performance Computing, AI and Labs, where he delivered the world's first exascale supercomputer for the US Department of Energy. He then moved to Intel as Executive Vice President and General Manager of the Data Center and AI Group before Nokia appointed him CEO. The through-line is unmistakable: data centers, AI infrastructure, and high-performance computing — precisely the domains where telecom's next chapter is being written. Hotard has been explicit about the strategic lens he applied from the moment he arrived. His first quarter as CEO was spent engaging with stakeholders across the business, and the message that came back consistently was about connectivity for AI — not only for communication service providers and hyperscalers, but for emerging areas like defense and national security. That signal shaped everything that followed. The philosophy behind the restructuring is captured in a line Hotard has used repeatedly in public forums and that has become something of a company rallying call: "Nokia changed the world once by connecting people — and will again by connecting intelligence." It is a deliberately ambitious framing, and not everyone is convinced the execution will match the rhetoric. Nokia's Mobile Networks division has faced headwinds, and the market share battles with Ericsson in major operator contracts — including the Virgin Media O2 RAN deal — have not always gone Nokia's way. Hotard has characterized the broader strategic shift as moving from proprietary to general-purpose hardware, a transition that carries genuine risk for a company whose margins have historically depended on differentiated equipment.

Hotard describes himself as a "techno-optimist" but is equally emphatic that technological ambition must be balanced with human needs and shareholder returns — and that winning in a period of rapid innovation requires companies to reinvent themselves while staying rigorously focused on their core technology and core value for customers. Whether Nokia's reinvention under his leadership delivers on that balance will be one of the defining telecom stories of the next three years. At MWC 2026 in Barcelona, Hotard articulated his competitive philosophy with characteristic directness. In an interview at the event, he pointed to the Nvidia partnership — in which Nvidia invested $1 billion in Nokia to supply AI-powered computers for wireless networks — as a model for how he wants Nokia to operate: using best-of-breed technology partners rather than pursuing vertical integration. "Very few vertically integrated players win over time," he said. The comment was a pointed implicit reference to Huawei, Nokia's most formidable infrastructure rival. Hotard has also moved to launch Nokia Defense as a dedicated incubation unit, targeting defense-grade network solutions across the US

""The workforce is becoming AI-native. Leadership has to evolve"

Finland, and allied countries — a strategic bet that the boundary between commercial connectivity infrastructure and national security requirements is blurring in ways that create a distinct and high-value market opportunity.

The Q1 2026 results — Nokia's first full quarter under the new operating model — gave Hotard early vindication. Net sales grew 4% to €4.5 billion, and Nokia raised its full-year growth assumption for Optical and IP Networks to between 12% and 14%, up from the prior 10–12% target, citing accelerating demand from AI and cloud customers. Hotard told analysts the company was tracking above the midpoint of its 2026 operating profit guidance of €2.0–2.5 billion — a statement of confidence that, coming just twelve months into his tenure, signals that the strategic pivot is translating into financial momentum faster than many observers expected.

Justin Hotard

Nokia boss seeks to tap into AI supercycle opportunity

Nokia Unveils New Strategy and Focus For AI-Driven Networks

Nokia in major pivot from traditional telecom to AI, cloud infrastructure, data center networking and 6G

COMPANY OF THE MOUNTH

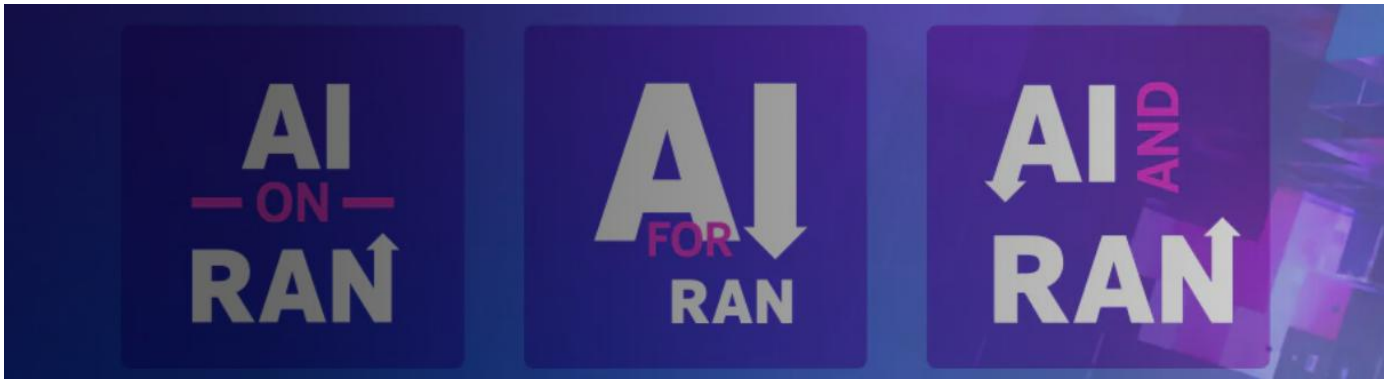
Nokia

Few companies in the history of technology have reinvented themselves as many times as Nokia. Founded in 1865 as a paper mill on the banks of the Tammerkoski rapids in Tampere, Finland, Nokia spent its first century expanding through rubber, cables, and electronics before pivoting decisively into telecommunications in the 1980s. It became the world's dominant mobile phone manufacturer, then nearly collapsed when the smartphone era arrived, then sold its handset business to Microsoft in 2014 and rebuilt itself as a pure-play network infrastructure company. Today, Nokia is in the middle of yet another transformation — and this one may be the most consequential of all. The Nokia of 2026 is a Finnish multinational with approximately 78,000 employees and revenues of €19.22 billion in 2024, headquartered in Espoo, Finland and listed on both Nasdaq Helsinki and the New York Stock Exchange. Its business spans optical networks, IP routing, fixed and mobile access infrastructure, and cloud and network software — making it one of a small number of vendors capable of addressing the full technology stack of a modern communications network. It also owns one of the most storied research institutions in the world: Nokia Bell Labs, whose history of invention includes the transistor, the Unix operating system, fiber optics, and the first cellular network — research contributions that have shaped the modern digital world more profoundly than those of almost any other institution. Financially, 2025 was a year of quiet but meaningful progress. Full year net sales grew 3% on a reported basis to reach €6.1 billion in Q4 alone, with full year operating profit of €2.0 billion — slightly above the midpoint of Nokia's own guidance.

Network Infrastructure delivered 7% net sales growth in Q4, including 17% growth in Optical Networks, with strong order intake from AI and cloud customers driving a book-to-bill ratio above one. Mobile Networks grew 6% in Q4, while Nokia Technologies maintained a contracted net sales run-rate of approximately €1.4 billion, providing stable high-margin income that continues to fund long-term R&D.

The strategic direction set at Nokia's Capital Markets Day in November 2025 is the defining framework for what comes next. Nokia has reorganized into two primary operating segments — Network Infrastructure and Mobile Infrastructure — with Network Infrastructure, spanning optical, IP, and fixed networks, positioned as the primary growth engine targeting 6–8% annual sales CAGR generating €2.4 billion in orders from customers and expanding Nokia's data center switching portfolio.through 2028, with a 10–12% target for the combined Optical Networks and IP Networks businesses specifically. The rationale is explicit: these are the domains most directly exposed to the surge in AI data center construction and the hyperscaler demand for high-capacity transport. The 2025 acquisition of Infinera, an optical networking and advanced semiconductor specialist, was a direct expression of that strategic commitment — What makes Nokia a genuinely interesting company to watch in 2026 is not simply the scale of its ambition, but the credibility of its positioning. It is one of the few western vendors with the breadth of portfolio, the research infrastructure, and the manufacturing footprint to compete across the full spectrum of AI-era network demands — from the optical backbone connecting data centers to the radio access network serving end users. As Justin Hotard put it at the Capital Markets Day: "Nokia changed the world once by connecting people — and will again by connecting intelligence."

https://www.nokia.com/



EVENTS

- ***UTC Telecom & Technology Conference** (June 1–4, Minneapolis Convention Center, Minnesota): he premier annual gathering for utility and ICT professionals, bringing together telecom experts, utility leaders, and technology providers to explore the future of communications infrastructure, data management, and digital innovation across the energy and utility sectors.*
- ***DTW Ignite 2026** (June 23–25, Bella Center, Copenhagen): The premier destination for senior telecom and technology leaders driving AI-native transformation.*
- ***IEEE Cloud Summit 2026** (June 25–26, Washington Marriott Capitol Hill, Washington DC): he IEEE Technical Committee on Cloud Computing's annual conference, bringing together researchers, engineers, and industry leaders to explore the latest advances in cloud infrastructure, AI integration, and next-generation distributed computing.*

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