France Telecom

Company Profile

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CHAPTER 1 COMPANY OVERVIEW

Ranked number 39 in the FT Global 500, France Telecom is a global telecommunications group. In fiscal 2000 sales totaled $31.7 billion whilst net income totaled $3.4 billion.

The company's primary focus is fixed line communications in France but it is moving into new businesses and markets, particularly mobile and Internet markets and international business services. France Telecom is headquartered in Paris, France.

CHAPTER 2 BUSINESS DESCRIPTION

France Telecom and its subsidiaries provide a range of telecommunications services to residential, professional and large business customers. The company focuses on four principal businesses: wireless, consumer Internet, consumer fixed telephony services, and business services.

The company acquired mobile provider Orange in May 2000 and has since rebranded all its wireless mobile operations under the Orange brand. Orange SA has an international presence in 20 countries, serving 33 million controlled customers. Orange group companies have been awarded next generation (UMTS) licenses in the UK, the Netherlands, Germany, Italy, Austria, Sweden, Switzerland, Portugal, Belgium and France. France Telecom partially floated Orange SA in 2001.

Wanadoo spearheads the consumer Internet division. This is a media and online services enterprise that is an ISP, portal and eCommerce site operator, directory publisher and provider of Internet services for businesses. Wanadoo offers a number of Internet packages including its Integrale plans that provide all in one solutions. Furthermore, the company's Alapage and Marcopoly websites give it a presence in two online commerce sector; books and music, and household goods. Wanadoo also engages in media production through its interests in production companies and thematic channels.

France Telecom's consumer fixed telephony offers basic subscription plans providing services such as last call return, itemized billing and web billing. New services introduced in 2000 include call blocking and message services. As well as operating in France, the company also has holdings in fixed line companies throughout Europe, Asia, the Middle East and South America.

The business services division offers services from website hosting and network management to complete telecommunications outsourcing. In October 1999 the company launched the European Backbone Network to provide direct, seamless access across the continent. Meanwhile in February 2000, it launched Oleane essentials, an all in one package for small and medium sized businesses offering services such as IP access, e-mail and domain names.

CHAPTER 3 HISTORY

The French government created France Telecom in 1988. The company was privatized in 1997, and the following year lost the state monopoly as the telecommunications industry opened up to competition.

After this the company began to expand through a number of partnerships and acquisitions. The Global One partnership formed in January 1996 with Sprint (US) and Deutsche Telekom, this created an international communication network and was fully acquired by France Telecom in 2000. Growth continued in July 1999 when France Telecom acquired an equity interest in British cable operator NTL. This was followed in October 1999 by France Telecom's launch of its European Backbone Network.

The company expanded into the Internet in 1998 with the development of Wanadoo. In 2000, Wanadoo extended its operations into the UK, buying leading ISP Freeserve. The company also operates in Denmark, Spain, Belgium and the Netherlands amongst others.

France Telecom made a major expansion in the mobile market in June 2000 by acquiring UK-based mobile operator Orange. The acquisition completed the company's interests in mobile companies and made it one of the largest mobile providers in Europe.

Wanadoo has since launched its own growth plan. In late 2000 it acquired Marcopoly, a website selling household electronics and appliances. It also purchased Librissimo, a publisher of facsimiles of antique and out of print books.

CHAPTER 4 KEY EMPLOYEES

Key Employees	
First Name:	Jean-Paul
Last Name:	Bechat
Job Title:	Director
Board Member:	Board of Directors
First Name:	Christophe
Last Name:	Blanchard-Dignac
Job Title:	Director
Age:	67
Board Member:	Board of Directors
First Name:	Michel
Last Name:	Bon
Job Title:	Chairman and Chief Executive Officer; Chairman, Orange
Age:	67
Board Member:	Executive Board
First Name:	Jacques
Last Name:	Burillon
Job Title:	Secretary
Age:	67
Board Member:	Executive Board
First Name:	Jacques
Last Name:	Champeaux
Job Title:	Executive Vice President, Large Business Division
Age:	67
Board Member:	Executive Board
First Name:	Pascal
Last Name:	Colombani
Job Title:	Director
Board Member:	Board of Directors
First Name:	Jean Francois
Last Name:	Davoust
Job Title:	Director
Age:	67
Board Member:	Board of Directors
First Name:	Jacques

Last Name:	De Larosiere
Job Title:	Director
Board Member:	Board of Directors
First Name:	Jean-Pierre
Last Name:	Delezenne
Job Title:	Director
Age:	67
Board Member:	Board of Directors
First Name:	Yannick
Last Name:	D'Escatha
Job Title:	Director
Age:	67
Board Member:	Board of Directors
First Name:	Jean-Claude
Last Name:	Desrayaud
Job Title:	Director
Age:	67
Board Member:	Board of Directors
First Name:	Raymond
Last Name:	Durand
Job Title:	Director
Age:	67
Board Member:	Board of Directors
First Name:	Pierre
Last Name:	Gadonneix
Job Title:	Director
Board Member:	Board of Directors
First Name:	Jean-Yves
Last Name:	Gouiffes
Job Title:	Executive Vice President, Network Division
Age:	67
Board Member:	Executive Board
First Name:	Nadine
Last Name:	Grandmougin
Job Title:	Director
Board Member:	Board of Directors
First Name:	Francois
Last Name:	Grappotte
Job Title:	Director
Age:	67
Board Member:	Board of Directors

First Name:	Nicholas
Last Name:	Jachiet
Job Title:	Director
Board Member:	Board of Directors
First Name:	Didier
Last Name:	Lombard
Job Title:	Director
Age:	67
Board Member:	Board of Directors
First Name:	Gerard
Last Name:	Moine
Job Title:	Executive Vice President, Public Affairs
Age:	67
Board Member:	Executive Board
First Name:	Simon
Last Name:	Nora
Job Title:	Director
Age:	67
Board Member:	Board of Directors
First Name:	Pierre
Last Name:	Peuch
Job Title:	Director
Age:	67
Board Member:	Board of Directors
First Name:	Marie-Claude
Last Name:	Peyrache
Job Title:	Senior Vice President Corporate Communications
Age:	67
Board Member:	Executive Board
First Name:	Christian
Last Name:	Pheline
Job Title:	Director
Board Member:	Board of Directors
First Name:	Jean-Francois
Last Name:	Pontal
Job Title:	Executive Vice President, Mass Market Product and Services Division
Age:	67
Board Member:	Executive Board
First Name:	Jean

FRANCE TELECOM: KEY EMPLOYEES

SIC 4812 Radiotelephone Communications
SIC 4813 Telephone Communications, Except Radiotelephone
SIC 4899 Communications Services, NEC
NAICS codes: 48531, 51331, 51333, 51334, 51339, 513321, 513322

Last Name:	Simonin
Job Title:	Director
Board Member:	Board of Directors
First Name:	Jean-Louis
Last Name:	Vinciguerra(Ph.D.)
Job Title:	Executive Vice President Resources Division
Age:	67
Board Member:	Executive Board

CHAPTER 5 KEY EMPLOYEE BIOGRAPHIES

Bon, Michel(67)
Chairman and Chief Executive Officer; Chairman, Orange

After four years at the " Inspection des Finances " (1971-1975), Michel Bon spent ten years in the banking sector, first with the " Crédit National " (1975-1978) - the principal bank for long-term corporate loans, and then with the " Crédit Agricole ", which ranks first among the French retail banks. There, he headed the credit department (1978-1981) and then became Deputy Chief Executive Officer (1981-1985).
Early in 1985, he joined " Carrefour ", the biggest French mass distribution chain. There, he was Chief Executive Officer and then Chairman until the end of 1992. During that time, there was a three-fold increase in sales, a four-fold increase in net income and a six-fold increase in the company's share price.

1993 witnessed Michel BON's appointment by the French government as head of the National State Agency for Employment (Agence Nationale pour l'Emploi). Within two years, there was a doubling of the number of unemployed people finding a job thanks to the Agency.

In September 1995, he was appointed Chairman and CEO of France Telecom. With year 2000 revenues of 34 billion euros and a stock market capitalisation of over 100 billion euros, France Telecom is one of the leading, world-class companies in the telecommunications sector. With operations in over 50 countries, France Telecom is present in all of the key telecommunications businesses. In particular, it is the world leader in the field of corporate network services, with its subsidiaries Equant and Global One, and the second biggest European player in the mobile field with Orange, and in the internet sector with Wanadoo and Freeserve.

Michel BON is married with four children. He is also Chairman of the Supervisory Council of " ESSEC " one of the greatest French management schools and Vice President of the Pasteur Institute. He is a former graduate of " ESSEC ", the Paris Institute of Political Studies, " ENA ", the French Civil Service Academy, and Stanford Business School.

Gouiffes, Jean-Yves(67)
Executive Vice President, Network Division

Jean-Yves Gouiffès, born in 1948, is France Telecom's chief operating officer of the Network Operations Division. From 1989 to 1995, Mr. Gouiffès served as executive vice president, France Telecom Networks and International Services (FTRSI) and executive director for French Overseas Territories.

Mr. Gouiffès began his career at the regional division in Montpellier in 1972. He then moved to the position of manager, Planning and Administration for the Western

Region in 1978. From 1981 to 1985, Mr. Gouiffès was director of Planning, Programs and Budget in the corporate finance group.

In 1985, he was appointed has director in the Operations Division, the group responsible for traffic, equipment and planning. In 1986, he became director of the office of the president of France Telecom.

Mr. Gouiffès is a graduate of the Ecole Polytechnique, France's leading engineering school (class of 1967) and the Ecole Nationale Supérieure des Télécommunications (1972).

Peyrache, Marie-Claude(67)
Senior Vice President Corporate Communications

Prior to taking up her position as France Telecom's Senior Vice President for Corporate Communication, Marie-Claude Peyrache was director of marketing for the Paris northern region operating unit (1990-1994). Mrs. Peyrache was director of the French ministry of telecommunications liaison office in Tokyo from 1984-1990 before being appointed chairman of France Telecom Japan. She began her career in 1973 as the representative to India of the French electronics industry export agency under the authority of the French commercial affairs advisor.
In 1978 Mrs. Peyrache was responsible within the French telecommunications ministry (DGT) for relations with industrialized countries outside of Europe. Between 1981 and 1984 she was head of international relations with all industrialized nations. Mrs. Peyrache, born in 1949, holds a degree in economics and a Master of Business Administration from the Ecole des Hautes Etudes Commerciales de Montréal. She has also been Officier de l'Ordre National du Mérite and Chevalier de l'Ordre de la Légion d'Honneur.

Pontal, Jean-Francois(67)
Executive Vice President, Mass Market Product and Services Division

Jean-François Pontal, born in 1943, has been appointed Chief Executive Officer of Orange. He will take up his new position following the company's IPO.

Mr. Pontal had previously been head of the Consumer Services division since February 1996. Prior to that he spent 17 years with Carrefour where he was successively vice president of operations, vice president, human resources and markets, chief executive of Pryca (Carrefour's Spanish subsidiary) and then board member with responsibility for Southern Europe.

Mr. Pontal began his career as a human resources consultant with the Institut Bossard in 1966. He is a graduate of the Centres d'Etudes Supérieures des Techniques Industrielles (1966).

Vinciguerra, Jean-Louis(67)
Executive Vice President Resources Division

Jean-Louis Vinciguerra, born in 1944, is a graduate of the Institut d'Etudes Politiques de Paris. He also holds a post-graduate degree in Economics and a Ph.D. from the Harvard Business School. Jean-Louis Vinciguerra began his career in 1971 with the Pechiney Group's financial division, where he was first Vice President Finance, then Senior Executive Vice President Finance & Administration, and finally Chief Executive Officer of the Packaging Division, based in the United States.
In 1995 he joined BZW (a Barclays banking subsidiary) as Chief Executive Officer. He moved to Crédit Agricole Indosuez in June 1997, where he coordinated its commercial and investment banking businesses in the Asia-Pacific region from Singapore. France Telecom will benefit from Jean-Louis Vinciguerra's extensive experience of managing a large corporation in a highly competitive environment as well as from his in-depth knowledge of the banking sector and his understanding of international businesses.

CHAPTER 6 PRODUCTS AND SERVICES

Services

Telephone provision and services
Orange mobile network
Multimedia services
Radio services
Television production services
Undersea cable provision
Global One
Innovacom
Wanadoo

CHAPTER 7 COMPETITORS

America Online, Inc.
AT&T Corp.
BellSouth Corporation
Bertelsmann AG
Bouygues S.A.
Cable and Wireless plc
CANAL+
Carrier1 International S.A.
COLT Telecom Group plc
Deutsche Telekom AG
Global Crossing Ltd.
GTE Corporation
MCI WorldCom, Inc.
Olivetti S.p.A.
Portugal Telecom, SGPS, S.A.
SBC Communications Inc.
Sprint Corporation
Swisscom
Telecom Italia Mobile SpA
Telefonica, S.A.
Telia AB
United Pan-Europe Communications N.V.
Verizon Communications
Vodafone Group PLC
WorldCom, Inc.

CHAPTER 8 COMPANY VIEW

A statement by Michael Bon, Chairman and Chief Executive Officer of France Telecom follows. This statement has been taken from the company's 2000 Annual Report

FRANCE TELECOM had quite a year in 2000. Our already rapidtransformation shifted into high gear, creating the entirely new enterprise presented in the following pages. Our Group is a world leader in global business services, with Equant and Global One.We are number two in Europe and number three worldwide in the wireless market, with Orange. And we are number two in the Internet segment in Europe, with Wanadoo and Freeserve. We are a new Group in terms of sheer size, with well over 200 billion francs in revenues last year and nearly 80 million customers worldwide, close to half of them in our wireless and Internet businesses. We are a new Group in terms of geographic reach as well: with our vigorous international development, almost 40 percent of our 2001 revenues will come from outside France.Our Group today has the strongest European presence of any incumbent telecommunications operator.

Last but not least,we are a new Group in terms of our business mix. In 1995, nearly all our business was generated by fixed voice telephony in France, which was still a monopoly. Today,the relative weight of this segment has shrunk to a solid third of our revenues, with the rest coming from new telephone uses wireless, Internet and data that are experiencing more rapid development.

The acquisitions made in 2000 create solid foundations to support the strategy we have pursued for the past five years: focus on high-growth businesses to continue to expand in France despite the advent of competition, and develop our businesses in the rest of Europe. We remain committed to this strategy while of course taking economic requirements into account. Consequently, the results presented in this report are the best in our history, tempered only by the fact that our share price which had perhaps climbed too quickly ended the year
30 percent below its year-earlier value.

I trust that our shareholders will keep in mind that this price was still triple our IPO price at the end of 1997, along with the fact that the France Telecom share outperformed the European telecommunications index. We have been able to achieve these sound results thanks to your confidence, and I thank you for your support, which provides us with the means to deploy our strategy.

CHAPTER 9 LOCATIONS AND SUBSIDIARIES

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F: 33 1 44 44 95 95
W: http://www.francetelecom.fr

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SIC 4813 Telephone Communications, Except Radiotelephone
SIC 4899 Communications Services, NEC
NAICS codes: 48531, 51331, 51333, 51334, 51339, 513321, 513322

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F: 49 43 31 69 28 88
W: http://www.mobilcom.de

Nortel Inversora S.A.
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W: http://

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F: 1 212 752 1157
W: http://www.ntl.com

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F: 44 1454 618 501
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Uni2
Spain

W: http://www.uni2.es

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Italy
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F: 39 06 8311 6206
W: http://www.wind.it

CHAPTER 10 LATEST COMPANY COMMENT

10.1 France Telecom/Orange: still on course

Sep 06, 2001
France Telecom's shares have fallen 7% following its H1 results.France Telecom is a lot healthier than some seem to believe. For one, it can easily afford the interest on its (admittedly huge) debt. More importantly, many people are understating the prospects for mCommerce revenues. FT's Orange subsidiary should still be able to provide the right brand and services to get consumers spending through their mobiles.French incumbent telco France Telecom released its H1 results on Wednesday. The company saw earnings before interest, tax, depreciation and amortization rise 14% to E6.1 billion. Total revenues rose 33.3% to E20.4 billion. However, the company also warned that its net debt had risen to E64.9 billion and that it may stay as high as E59 billion into 2004, if markets do not improve. As a result, its share price fell 7% on Thursday.

Investors' fears are understandable. The company's debt mountain, built up largely through the acquisition of 3G mobile licenses and mobile operator Orange, makes it one of the world's most indebted companies (behind only GE, GM and Deutsche Telekom). France Telecom can afford to pay the interest with its fixed-line revenues, but if, as some fear, its mobile investment proves near worthless, the market valuation is still too high.

A survey published today by AT Kearney and Cambridge University found that only 4% of mobile subscribers believe they will use their phones to purchase goods and services. If this proves to be the case, it would spell doom for many of the firms that are relying on mCommerce. Even Orange would run into trouble. It may be one of the most valuable brands in the telecoms arena, but impressive subscriber growth won't bring in enough cash to pay off the 3G debts. Revenues from data and mCommerce are vital.

But we should be wary of taking such surveys too seriously. Given the letdown of WAP and the negative press about mobile services, it's no surprise people are apathetic. But just a few years ago, the same was true for Internet commerce and Datamonitor expects 104.7 million people will shop online this year in Europe alone.

It is likely that people will eventually change their minds and use mCommerce. The key for operators will be coming up with interesting applications. With its strong brand and coherent OrangeWorld strategy, Orange could be in a leading position here.

10.2 France Telecom: turning Orange in core market

Jun 14, 2001

France Telecom will rebrand its Itineris French mobile operation under the Orange name.Since Orange is one of the strongest brands in mobile telecoms, it's certainly a sensible move. However, given the lack of competition in the French mobile market - and given Itineris' 48% market share - the rebranding is unlikely to have a great effect. It may, however, make mobile phones seem a little more chic to France's currently mobile-unfriendly consumers.France Telecom announced today that it will relaunch its French mobile operator, which currently trades as Itineris, under the Orange brand name. Itineris is already part of France Telecom's Orange SA subsidiary, which owns all the French telco's mobile interests.

It's certainly a good idea. Orange is one of the strongest brands in the mobile arena, associated across the world with an innovative, non-corporate and customer friendly approach, as exemplified by former CEO Hans Snook. Itineris, on the other hand, has a much stuffier image - as one might expect from a firm run by the incumbent former telecoms monopoly.

But while the rebranding is sensible, it's unlikely to make a huge difference to the French mobile division's results. Undeniably, one of the reasons behind France Telecom's E33 million purchase of the original Orange was its brand name and image, as well as its UK and European mobile interests. When a company is expanding into new markets and territories, and trying to hook new customers amid fierce competition, a trusted international brand name is a major asset.

This isn't the case in France, however. Not only does Itineris currently have 48% market share, it is currently competing in a market with only two other players (Vodafone/Vivendi's SFR and independent Bouygues Telecom) - and SFR is the only player other than Orange to have a French 3G license. It's still uncertain whether there will be any takers for the two vacant licenses when bidding restarts next year. The competition, overall, is less than cutthroat.

The Orange name may help in one respect, though. Mobile penetration rates are lower in France than elsewhere in Europe, at just 52% compared with the 65-75% seen in Scandinavia and the UK. While some of this is undeniably due to the lack of competition, it's certainly true that mobile phones haven't taken off as a lifestyle accessory in France as much as elsewhere. It's just possible that the rebranding will make the French see mobiles as a little more chic.

10.3 3G mobile: the French ease terms

Jun 01, 2001
The French telecoms regulator ART has decided to award 3G licenses to the two largest operators.ART has also recommended easing the payment terms, so that the bulk of the cost is payable when 3G services are bringing in revenues. The change should be enough to attract third mobile operator Bouygues when a new round of bids is held next year, boosting competition. However, the pessimism over 3G is likely to deter any potential new entrants.French telecoms regulator ART today recommended that the government should award 3G licenses to SFR and France Telecom, for E4.95 billion each. The regulator will also hold a new round of bidding for the two

unsold licenses in early 2002, with the same entry fee. It also recommended easing operators' payment terms.

ART had been rumored to be canceling the process, instead holding a new contest. The aim would have been to ensure more than two licenses were sold without alienating the two actual bidders, after the other potential candidates - particularly third-largest mobile operator Bouygues - pulled out.

The decision to go ahead is good news for SFR and France Telecom. They will pay substantially less for their licenses than players in Germany and the UK. Now the uncertainty over the process is over from their point of view, they can focus on building out their networks - and they won't face competition from rivals with cheaper licenses. The easing of payments, changing the fee that must be paid up front from a half to a quarter of the total cost, will also ease balance sheets.

However, the French government and people may not do so well. The question is whether easing the payment terms will entice any of the bidders to come back. If not, then the resulting cozy duopoly will likely slow mobile Internet development in France and mean higher consumer prices.

Bouygues may well bid for a license now. Datamonitor believes it will take mobile operators seven years to break even from the start of network roll-out; if Bouygues bid, apart from the quarter upfront its payments for the first five years would be similar to the annual cost a GSM license. This makes a bid much more attractive than before.

It looks unlikely, though, that other players will enter. Without the customer base and existing commitments of an incumbent, starting a new 3G network looks like a highly risky operation - and European players are scaling back their expansion plans. The French may have to make do with three operators.

10.4 France Telecom: Orange growth, but it's not all organic

May 03, 2001
France Telecom has reported 36.5% revenue growth for Q1.It's not as good as it sounds. The organic growth rate is just 7.5%. The core French fixed-line business is declining, while the French mobile business isn't growing very fast. However, the Orange brand and management team should improve mobile growth in France and abroad, while Internet subsidiary Wanadoo is also in a potentially strong position.France Telecom today reported its Q1 results, which showed overall revenue growth of 36.5% on Q1 last year to E10.04 billion. However, FT's organic growth before acquisitions are taken into account was just 7.5%, compared with 8.1% for 2000.

Mobile subsidiary Orange, formed last year by merging the UK operator with FT's other mobile interests, saw its sales grow 33% to E3.4 billion. Orange UK showed a 42% rise in turnover, with sales of E1.25 billion. Even better, excluding handset sales the growth was 50% - positive news in a saturated market. A disproportionate growth in revenue from calls and text messages should allow the operation to keep growing even as handset sales slow.

However, Orange's French business, Itineris, grew by just 19% to E1.5 billion, even though the French mobile market is less saturated than the UK's. While non-handset revenues grew faster at 28%, there's a danger that Itineris' 48% share of the market will restrict future growth possibilities.

Unsurprisingly, the core French fixed-line business did less well: revenues fell by 1.8% on a pro forma basis. This is no surprise - competition throughout Europe is hitting incumbents; the business will continue to decline. The question is whether Orange and Internet subsidiary Wanadoo will make up the difference.

For Orange, the challenge is to transfer its undeniably strong marketing strategy from the UK to other markets - especially outside France. The group currently has 7.1 million customers in the rest of the world, many in emerging markets. There's a good chance that it will be able to grow this number substantially in 2001.

The prospects for Wanadoo look less certain. The operator is way behind Europe's largest ISPs, Tiscali and T-Online. However, it does have the advantage of France Telecom's network infrastructure and financing - and unlike Tiscali, it is the number one operator in its two largest markets of France and the UK. Whether it will increase its revenues substantially on this quarter's E290 million, however, is still open to question.

10.5 France Telecom: better than some

Mar 22, 2001
France Telecom has announced slightly worse 2000 results than expected.It's not all bad news. The company's debt situation is almost under control, compared with the dire straits many of its rivals are in. And it still has substantial profits from its core fixed-line business. However, it will be many years before its heavy investment in Orange's next generation mobile network shows any returns.France Telecom today announced its 2000 results, revealing that its net profit rose by 32% to E3.66 billion and that its net debt rose from E14.6 billion to E61 billion. Its EBITDA rose from E9.61 billion to E10.81 billion. But while the net profit growth looks impressive, it was below analysts' forecasts of 34%. And the company's flagship mobile operator Orange made a net loss of E1.32 billion, more than the expected E1.25 billion. FT shares stayed flat on the news.

All in all, France Telecom seems to be doing rather better than most European telcos. While the Orange float suffered from market conditions, it still brought in E10 billion towards cutting debt whilst leaving FT with 85% of the mobile group. It also recently refinanced its debt successfully with the largest corporate bond issue ever. As long as France Telecom can sell off some of its minority stakes in low-synergy companies such as Bull, Sema and Sprint, it should be able to reduce its debt to E30 billion within two years despite paying to build its 3G mobile networks.

But while it looks likely to escape the potentially dire fates awaiting BT and KPN, will the group's new investments actually start to make money? At present, almost four fifths of profits come from its regulated French fixed-line telecoms business, where margins are declining due to competitive pressure. The heavy debt, meanwhile, is from investment in Orange and in Internet through its Wanadoo subsidiary, which lost E102 million this year following various acquisitions including the UK's Freeserve.

There's some good news. Orange made its first operating profit this year, of E383 million compared with losses of E111 million last year. And Wanadoo is expected to be profitable on an EBITDA basis by Q4 2002, earlier than originally predicted. But it will be a long time before the group's diversifications outstrip its original business. Datamonitor believes it will take European 3G operators seven years to break even on their investments.

10.6 3G: only the strongest will survive

Feb 09, 2001
Market predictions for 3G networks are getting gloomier and gloomier.
Observers agree that 3G networks will have a much slower rollout and uptake than originally expected. The delays wouldn't matter so much but for operators' enormous debts - and hence the crippling interest payments they must make. Smaller companies will have trouble raising the cash to keep going, leaving firms like Vodafone and Orange to dominate the market.
Optimism about mobile communications now seems to have reached an all-time low. Following the disastrous French license contest last week, which only attracted two bidders, we now see France Telecom slashing the Orange IPO price and BT trying strategy after strategy to keep its investors satisfied, with limited success.

For a long time, the stock markets were in love with all things mobile. But after the 3G license auctions in Britain and Germany last year, almost overnight, market observers and shareholders got cold feet over the unprecedented investment in licenses and infrastructure. And as WAP failed to take off in a big way, doubts have risen as to whether the market will really lap up GPRS and UMTS/3G. Market observers now predict unanimously that 3G's start will be delayed, that its development into a mass market will be slower than anticipated and that it will see much lower turnover than mobile operators calculated.

Admittedly, delayed rollout in itself doesn't herald disaster: GSM was months late nine years ago. The trouble is that the phenomenal debt that mobile operators have had to take on for licenses and infrastructure means that some are paying $100 million each month in interest. Such costs further delay break-even points that in any event lie far in the future. This will increasingly jeopardize the multi-billion dollar credits required for the construction of 3G networks.

Upbeat noises from mobile operators, then, can be primarily attributed to forced optimism in the face of the string of IPOs ahead: France Telecom's Orange, Deutsche Telekom's T-Mobile, the Dutch KPN Wireless and BT Wireless all hope to recoup the vast sums spent on 3G licenses this way. But the stock market is all too aware of the risk. The resulting failure to obtain the necessary credit will be the prelude to a tough selection process, during which most of the smaller players will have to sell out to recover at least some of the cost involved in being a 3G player. The likely survivors will be the Vodafones and the Oranges of the mobile world.

10.7 France Telecom: an Orange squeeze

Feb 07, 2001
France Telecom has cut the price range for the Orange IPO.
It's bad news for the French firm, which needs the cash to pay Vodafone as part of the original Orange purchase and to reduce its debt mountain. But it's even worse news for other European operators such as BT and Deutsche Telekom which also plan to float but are much less attractive than Orange. Vodafone seems to be the main winner.
France Telecom has cut the IPO valuation range of its mobile phone subsidiary Orange from E55.2-64.8 billion to E45.6-52.9 billion. The sale of 10-15% of Orange will now only raise around seven billion euros for France Telecom, compared with the E11.2-12.9 billion it had anticipated when the IPO was first planned.

It's not an ideal situation for the French firm, which needs the money to pay Vodafone E6.6 billion this March as part of the original purchase of UK mobile operator Orange last year. Still, Orange is not in a bad position. It is Europe's second-largest mobile operator, with over 30 million subscribers in 19 countries. The Orange brand is also a major asset, since it is globally seen as non-corporate, quirky and providing good value for money. As the new company tries to build networks and subscribers outside its core UK and French markets, these associations should be positive for growth.

The market pessimism is worse news for firms such as BT and Deutsche Telekom. They also aim to float their mobile businesses this year to help pay the huge debts they have incurred in bidding for 3G licenses, but do not have many of Orange's advantages. Neither is even the dominant operator in its home market - Vodafone is the UK's number one, whilst Vodafone's D2 unit is also number one in Germany. And neither brand is even close to Orange in mindshare; some observers might even describe BT's brand as a liability.

It's clear who the real winner in European mobile telecoms is: the largest player, Vodafone. Its cash problems are much less acute than its rivals, at least in part due to the Orange sale. It leads in two of Europe's markets, as well as having a large global presence. And whilst its brand is not as consumer-friendly as Orange's, it is certainly well respected by the markets. Orange is a worthy number two and should continue to do well, but has little chance of catching up with the world's leading operator.

10.8 French 3G: an ugly contest

Feb 05, 2001
The French government is considering changes to its 'beauty contest' 3G license awards process.
The government's currently favored scheme looks likely to avoid only having two 3G operators, but it's still not good news for the mobile industry. If mobile licenses are awarded to everyone who's prepared to apply, the quality of services could be harmed. And the whole debacle is unlikely to make the French public particularly keen on mobile applications.
The French government is still trying to decide exactly how to change the payment structure for its 3G mobile license awards process, following its announcement last week that it will extend the bidding time. The announcement followed withdrawals from bidding from utility Suez Lyonnaise des Eaux and its Spanish partner Telefonica and from existing French mobile operator Bouygues Telecom, leaving just two potential bidders: France Telecom and SFR, the latter controlled by Vivendi Universal.

The pullouts have left the government was with a dilemma. France Telecom/Orange and SFR/Vivendi Universal, the two dominant networks, will go ahead and pay E4.9 billion each, raising the government a useful E9.8 billion. However, this would leave France with just two 3G operators. The country would have risked falling well behind in mobile Internet, with higher prices, lower service quality, and a slower rollout than its rivals, potentially damaging its international competitiveness. At the same time, France cannot sell two licenses at the full price and two licenses later at a lower price, since France Telecom and Vivendi would cry foul.

The solution currently favored is probably the best the government could have come up with. Instead of cutting the price and opening itself up to accusations of favoritism, it plans to allow all four license holders to pay for their license over a 20-22 year period instead of the 15 originally planned - also possibly extending the duration of the licenses.

But it's still not great. Extending UMTS bidding time means that France will still fall behind in UMTS rollout. It also has important repercussions for the overall mood of the industry and public - WAP has already created enough bad publicity. Neither is it good news for portals such as Vivendi and Vodafone's Vizzavi, which need next generation networks to be rolled out as quickly as possible to be able to deliver good quality services.

10.9 Totalise: unmetered access doesn't bring in the bucks

Jan 29, 2001
UK ISP Totalise has laid off nearly half its workforce.The problem for small ISPs such as Totalise is that they don't have the economies of scale that companies such as AOL and Freeserve/Wanadoo have. As a result, they have to take more risks to try and gain a foothold, reducing their chances of success. Totalise will now wisely focus on its more profitable eCommerce offerings.UK ISP Totalise, which last week cancelled 900 of its customers' subscriptions, has also laid off 50 of its 110 staff. Last summer it was one of the first companies to offer consumers unmetered Internet

access in the UK, charging GBP235 for a two year package which let them spend up to 100 hours per month online toll-free. The discontinued subscribers were those who had stayed online beyond this limit.

The reason for the cancellations is that Totalise is too small to compete in the unmetered access market on the same level as major players such as AOL and Freeserve. Its 154,000 subscribers make it a medium-sized ISP in a market where the largest players have closer to two million. Incumbent telco BT has recently been forced to roll out a FRIACO-based solution, which allows ISPs to use its network at a flat rate - but an ISP must have a certain number of subscribers before it can use the product.

So the major players get flat rate access to BT's network, whilst smaller firms have to subsidize phone call costs to provide unmetered services. The more Totalise subsidized its customers, the more losses it made. This problem is one example of the wider issue affecting smaller ISPs - they don't have enough clout in negotiating deals with telecoms firms and network operators and so their costs will inevitably be higher.

The situation for small ISPs is likely to get worse rather than better. The Wanadoo/Freeserve takeover will give the already-dominant ISP the resources to further strengthen its UK position, while further consolidation could see major players such as Tiscali and T-Online also buying out UK operators.

Meanwhile, Totalise hopes to reach profitability through its other services, such as its virtual florist flowers2send.com and its vehicle imports site eurekar.com. The job cuts are part of a cost-cutting program designed to ensure this happens sooner rather than later. The company should survive - but its dreams of being a major unmetered player are certainly in tatters.

10.10 Orange: freshly squeezed

Jan 22, 2001
Orange will be valued at E55-65 billion after its forthcoming IPO.
This might be half what the company was worth last May, but the future still looks bright. With possibly the strongest mobile brand, Orange should be able to expand globally and recent investments in underdeveloped mobile markets already pave the way. When 3G investments finally pay off at the end of the decade, Orange should remain a market leader.
Orange is seriously suffering from the backlash against telecoms stocks. Its market capitalization is now less than half its value when France Telecom purchased the company last May. Since then investors have panicked that the high cost of 3G licenses and the subsequent investment in network infrastructure will turn mobile companies from liquid gold into vegetable soup.

However, despite the depressed market, Orange has little choice. France Telecom desperately needs the cash. The French operator bought Orange for E33 billion the

IPO will raise around E8 billion. France Telecom won't recoup its entire outlay, but will certainly attract sufficient investors.

However, will mobile stocks ever recover from their giddy heights of 2000? Datamonitor estimates it will take a well managed European operator six to seven years to make a return on its investment.

But Orange has more behind it than eventual 3G market growth. It has made great strides in the UK GSM market and will soon overtake the current market leader. And then there's the Orange brand. Even if the disappearance of the charismatic Hans Snook is a great loss, the firm will thrive thanks to the Orange brand. Orange, although only currently strong in the UK and France, will roll out across Europe and the rest of the world over the coming years. The brand is now operational in 19 markets. Although in many countries it is only just emerging, it has every potential to replicate its UK success.

With the foresight to invest in these unsaturated and growing markets, Orange will be one of the major mobile players in the 3G future. It might be feeling pulped at the moment, but there's still plenty of juice.

10.11 Orange: the future's floating

Jan 09, 2001
France Telecom has announced it will float its mobile telecoms subsidiary Orange.France Telecom is floating Orange despite low telecoms stock prices because it needs the money. Orange SA may not be as successful as its former namesake, but its respected brand name should help it expand into new territories as existing markets mature. Future consolidation should leave Orange as one of the world's leading mobile operators.France Telecom yesterday announced that it will float its mobile telecoms subsidiary Orange SA on the Paris and London stock exchanges. Trading will start in February. Up to 20% of the company will be floated depending on the level of demand; the offer is expected to raise around E7-8 billion for France Telecom.

Orange is being floated to pay Vodafone E6.7 billion in cash as part of France Telecom's original purchase of UK mobile operator Orange plc last year, which gave it over 10 million customers as well as the brand name. Since France Telecom already has E60 billion in debts, it is understandably reluctant to increase its borrowings. Floating Orange, despite the huge fall in telecoms stocks, is the best way to gain some cash without losing control over any major assets.

The new organization is unlikely to be as successful as its UK predecessor, which built its network up from new entrant status in 1994 to become a leading operator. Many of the people who built Orange's quirky, consumer-friendly image have left. For example, CEO Hans Snook has retired to concentrate on alternative medicine. On top of this, recent reports suggest that the enormous growth in subscriber numbers of recent years, especially in the developed European markets where Orange SA is strongest, will soon tail off.

Nonetheless, Orange should do well compared with other mobile operators. Unlike major rivals such as Vodafone and T-Mobil, Orange has a strong brand identity rather than being seen as just another company - which will become particularly important as the mobile industry consolidates into five or six global giants. Recent moves into developing markets such as India and Egypt suggest the company will also be quick to exploit opportunities for faster growth. As with other dominant brands such as America Online, growing media globalization will ensure the Orange name is known even in markets where it does not currently operate.

France Telecom shareholders have good cause to regret the recent past. But it looks like the future may well still be Orange.

10.12 France Telecom: into Africa

Jan 02, 2001
France Telecom is to buy Motorola's stake in Egyptian mobile operator Mobinil for $252 million.This North African purchase looks like a good deal and a great opportunity to push the Orange brand in a market poised for growth. Egypt also offers the potential for future expansion further into Africa and the Middle East. As the French telco already has a relationship with Mobinil, integration should be smooth and lucrative in the medium term.France Telecom has done well to gain control of Egypt's biggest mobile operator. $252 million seems a fair price for Motorola's 25% stake of Mobinil, which has 1.2 million subscribers.

France Telecom's purchase follows Vivendi Universal's E2.3 billion investment for a 35% share in Maroc Telecom. Although this seems a considerable overvaluation of the Moroccan operator, it fits with Vivendi's focus on content provision and developing its infrastructure for content delivery (Vivendi owns Cegetel, France's second largest mobile operator and has stakes in BSkyB and Canal+).

But why the sudden interest in North Africa? Along with Latin America this region is one of the last remaining markets for mobile operators to target. With poor fixed line infrastructure it looks like mobile devices will bypass further fixed line investment here - the future is in wireless telecommunications.

Companies want to get in early and corner these markets. North Africa has considerable potential and Egypt is a good place to start. It is one of the more developed African countries, with several large urban centers. The populace is concentrated in the cities (17 million in Cairo alone) and along the Nile. Egypt also lies at the junction between two continents; France Telecom's experience in Egypt could therefore help future expansion into Africa and the Middle East.

France Telecom already has a relationship with Mobinil, which was created jointly by France Telecom, Motorola and Orascom two years ago, so cultural issues will hopefully be minimal.

This is an excellent opportunity for the French telco to push the Orange brand into an immature market and expand its global coverage. As roaming becomes more important, business executives (and tourists) will choose operators that have an international presence and a strong global brand. Although France Telecom's Mobinil investment isn't geared at tourists who want to phone home from the foot of the Sphinx, in the long-term it will certainly help Orange become one of the wonders of the mobile world.

10.13 Orange: the future's mLocation

Dec 15, 2000
Mobile network operator Orange this week launched location-based services.Location-based services will be a major source of revenue for mobile operators over the next few years. Orange's new service is cheap to implement and should bring in some revenues, but barely scratches the surface of the mLocation market. Reaching its full potential will require substantial investment in new technological systems.Orange, the UK's fastest-growing mobile network operator, this week launched a system turning mobile phones into navigation devices. The idea is to offer users products tailored to their location, so they can find the nearest ATM, post office or hospital, with the phone network determining their current position. The service is WAP-based: the user connects to the Orange WAP portal and then goes to a search page to locate what they need.

Mobile location is expected to be one of the major value-added services in wireless technology over the next few years. Companies like Orange have realized that it is a cost-effective way of maximizing revenue: it's much cheaper to make your existing customers pay more than to acquire new ones.

Yet Orange's current level of service is basic. All it offers is this Yellow Pages-like information system, which is just a part of one out of four major growth areas that Datamonitor expects to see. Applications including security, navigation, billing for services and even fleet management will all play a major role in the mLocation future. However, most of these will require better technology than Orange's system provides.

Currently, users can be tracked by expensive GPS devices or by "cell identification" (determining which mobile transmitter they are nearest to). Orange's system, using conventional phones, is based on cell identification, which means that users can only be located over a fairly wide area. While this is useful for being told the nearest post offices or pub, it is less useful for fleet management or security, or even navigation. Knowing where you're within five miles of isn't much use when you're lost in a town.

In the future, as the price of technology falls, solutions integrating GPS, cell ID and other systems will become viable, making location-based mobile systems functional and vitally important for individuals, logistics providers and emergency services. Orange's current system is cheap to implement, will prove useful for some users and will help build the company's revenues - but it's hardly even a taste of what is to come.

10.14 Freeserve: Wanadoo the right thing

Dec 06, 2000
France Telecom's Wanadoo unit has agreed to buy UK ISP Freeserve for GBP1.6 billion.Freeserve's long search for a buyer is finally over. The deal will be a relief to the UK company, and a major boon for France Telecom. Its ISP subsidiary is now one of Europe's largest, while in the UK, its combination of customer base and network assets should make it a dominant player as broadband communications become a reality.Wanadoo has been viewed as a potential buyer for Freeserve for some time. The French ISP, majority-owned by France Telecom, has now ended the speculation, making a GBP1.6 billion agreed offer. This will be a relief for Freeserve's shareholders. The company has halved in value since the T-Online talks and prospects as a standalone company with interests in only one country looked fairly bleak in the consolidating European market.

It's also good news for Wanadoo. There were always two possible types of partner for Freeserve: European ISPs looking to build out services across the continent, and firms with substantial investments in network infrastructure in the UK wanting to leverage the Freeserve brand and customer base to provide broadband services.

Wanadoo, happily, satisfies both these conditions. It is a major portal in France and elsewhere in Europe, with over a million French customers and over half a million abroad; acquiring Freeserve adds an extra two million to these. But even better, parent France Telecom will be able to leverage its network assets. It has substantial interests in UK infrastructure, including fastest-growing mobile communications operator Orange, and a 25% stake in dominant cable operator NTL. Orange and NTL will be in the forefront of providing broadband Internet technology as 3G services are rolled out and as DSL and cable modem services become a reality for the majority of the UK population over the next year.

Freeserve's customer base will help these operators gain market advantage (indeed, NTL was suggested as a purchaser earlier in the year), as well as cementing Wanadoo's dominance. The move also ensures that France Telecom's archrival Deutsche Telekom will find it harder to build a major presence in the UK ISP market - although fifth-largest player LineOne is still up for sale. But irrespective of the Germans' plans, France Telecom looks like it will be one of the strongest players in the UK market as Internet, TV and mobile communications converge.

10.15 Orange: is the future still bright without Snook?

Nov 28, 2000
Orange chairman Hans Snook has decided to step down early next year.When France Telecom bought Orange, it paid a premium for the management team. Now, the French will hold both the major roles on the board. But the decision is better than it may seem. Since France Telecom is not prepared to risk giving Orange operational independence, it needs to ensure a clear chain of command back to Paris, reducing the potential for disputes.France Telecom today announced that once its mobile

interests are floated on the Paris stock exchange early next year under the Orange name, Orange chairman and former CEO Hans Snook will move to an advisory role with the company, leaving the board. His replacement will be France Telecom chairman Michel Bon. Mr Snook has been with Orange since its inception in 1993, overseeing its launch and developing it to one of the strongest brands in the telecoms industry. It is widely accepted that he played a key role in Orange's success.

France Telecom paid GBP25 billion for the original Orange business earlier this year, prior to merging it with its existing mobile operations. The commercial logic behind this hefty outlay was three-fold: France Telecom acquired the Orange brand, eight million customers, and one of the industry's most successful management teams. The first two of these are still undeniably strong. The last no longer exists.

Is this a problem? The group is unlikely to collapse without Mr Snook's involvement. France Telecom's mobile services even prior to the Orange acquisition were successful - indeed, compared to other former national monopolies such as BT and AT&T, the French firm is doing extremely well. And it would be foolish to write off new Orange CEO Jean Francois Pontal, who has successfully led France Telecom's mass-market products and services division.

Although investors reacted badly to the move, with a 3% fall in France Telecom's share price, today's decision looks like a good one. It has already become clear France Telecom is not prepared to allow Orange full operating independence, and so it is better to establish a clear chain of command leading back to Paris rather than risking major disputes on the Orange board. The future for Orange is a little dimmer than it once seemed, but still looks bright.

10.16 Swedish 3G: will beauty contest turn ugly?

Nov 27, 2000
The Swedish government has put back its 3G license awards until December 16.Once the licenses are safely awarded, all those involved in Swedish 3G will be in a good position. But because there are more credible contenders than licenses, the 'beauty contest' process will inevitably look subjective. It could end up challenged in the courts, potentially delaying the network rollout.The Swedish government announced on Friday that it is still processing applications from the 10 prospective 3G operators; it will not make the week's original deadline. The Swedish government chose not to award licenses based on auctions but by a 'beauty contest'. The winners will be the applicants with the best financial standing, technical and commercial abilities, and geographical coverage.

With these conditions, the three incumbent operators (Telia, Vodafone's Europolitan, and Netcom's Tele 2) are almost certain to obtain licenses, since their existing network infrastructure should allow them to roll out a new network much faster than a challenger. Predicting the fourth winner, however, looks all but impossible. Most of the mobile telecoms giants, including Hutchison, France Telecom's Orange, and Deutsche Telekom, are involved, and it would be unrealistic to suggest that any of these will have a major problem meeting the criteria.

The final decision, therefore, risks looking subjective and could cause trouble for all involved. If one of the major operators feels it has been unfairly denied the license, then the resulting legal action could potentially delay the license awards. This could prove embarrassing, since the government has chosen to demand only a nominal charge upfront, instead levying a yearly charge of 0.15% of turnover. This model is designed to allow the operators to build networks quickly and efficiently; they will only have to pay substantial fees when they start making substantial revenues.

If the process goes smoothly, all stakeholders, from consumers to equipment manufactures, should benefit. But since the focus is strongly on the early rollout of a world-class network, any delays would look particularly bad.

Eventually, the Swedish mobile market should prove profitable for all concerned. One million Swedes out of a population of nine million are expected to have a 3G phone by 2005, higher than the European average, and the government will gain substantial license revenue. However, the scheme that the government designed to accelerate rollout by sacrificing the potential windfalls from a license auction may not be as successful as originally hoped.

10.17 Freeserve: what does France Telecom Wanadoo?

Nov 22, 2000
Freeserve is in takeover talks with France Telecom's ISP Wanadoo.
The UK ISP has been up for sale for most of this year. But the Wanadoo deal looks a better fit than most of its rivals. As well being a major European ISP, France Telecom has UK network assets including Orange and 25% of NTL. These would provide a strong competitive advantage in broadband and mobile Internet.
Since parent company Dixons effectively put Freeserve up for sale earlier this year, the UK ISP has been in talks with a number of partners about a variety of potential transactions. This summer it looked like Deutsche Telekom's Internet subsidiary T-Online would be a buyer, but the deal collapsed because of disagreements about the price tag and conflicts in management style. Since then, Freeserve has more than halved in value.

There are two major types of player potentially interested in Freeserve - European ISPs (such as T-Online) looking to build out services across the continent, and firms with substantial investments in network infrastructure in the UK wanting to leverage the Freeserve brand and customer base to provide broadband services. An obvious firm in the second category is Energis, whose Energis Squared subsidiary originally provided the technology for Freeserve's launch.

While T-Online and Energis are still possible buyers - and there are many others in the frame - a sale to France Telecom's Wanadoo ISP would definitely make sense. Wanadoo is a major portal in France and elsewhere in Europe, with over a million French customers and over half a million abroad; acquiring Freeserve would suit its interests.

But even better, the sale would also allow France Telecom to leverage its network assets. France Telecom has substantial interests in UK infrastructure, including fastest-growing mobile communications operator Orange, and a 25% stake in dominant cable operator NTL. Orange and NTL will be in the forefront of providing broadband Internet technology as 3G services are rolled out and as DSL and cable modem services become a reality for the majority of the UK population over the next year. Freeserve's customer base of almost two million would be a major advantage for these operators - indeed, NTL itself has previously been suggested as a purchaser.

The deal could still fall apart as the companies negotiate on price and management issues; the latter has been something of a problem for France Telecom's last major UK acquisition Orange. Nonetheless, if everything goes according to plan then France Telecom and Freeserve should both benefit substantially.

10.18 Swiss 3G: the usual suspects

Nov 07, 2000
Vodafone and France Telecom have made heavy investments in Switzerland ahead of its UMTS auctions.
The major pan-European 3G players look like they may well have the Swiss market sewn up already. Even though there are officially nine bidders for four licenses, it looks like only five of these will be willing and able to participate fully. So whilst the auction may be more competitive than Austria's, the process is still unlikely to throw up any major surprises.The Swiss UMTS auction process kicks off next Monday. As speculation grows about who the major winners and losers will be, and whether the auction will raise substantial funds for the Swiss government, more and more companies are linking up ahead of the bidding. Vodafone and France Telecom have both made substantial investments in auction contenders over the past few days.

The auction certainly looks more competitive than that in Austria. Instead of six bidders for effectively six licenses, there will be nine bidders for four licenses - in a market with three incumbents. However, a lot of the bidders look unlikely to stay the course.

Out of the incumbents, diAx's chances look less than certain. Its largest minority shareholder is a foreign telecoms operator (SBC of the US); the remainder is held by several small utility companies. Considering the fate of Italy's Blu consortium, which had a similar ownership structure, the signs are not positive - especially considering that BT was actively pursuing a strategy of pan-European expansion. SBC may well be less keen to commit its funds.

Out of the new entrants, NTL (Cablecom), Telenor, and fixed-line operator Sunrise also look to be less than committed, given their shallower pockets. None are likely to be prepared to pay high prices for a license. And given that the remaining new players are Deutsche Telekom, Telefonica and Hutchison, they are unlikely to get one cheaply enough to be financially viable.

Meanwhile, the country's largest operator, Swisscom Mobile, which is now 25% owned by Vodafone, looks certain to win a license. It has both the necessary funding and the most to lose from not building a 3G network. Similarly, now France Telecom has acquired the rest of Swiss Orange from Germany's E.ON, it too will be very reluctant to miss out.

So, whilst the exact outcome of the auction process is as unpredictable as anywhere else in Europe, the serious competition looks like it may well be between just five or six players. The bidding looks likely to go above Austrian levels, and the opportunists are likely to be kept out. The Swiss market looks like it will be another medium-priced victory for the mobile giants.

10.19 MobilCom: waking up to post-auction hangover

Oct 24, 2000
The mobile operator has launched a lawsuit aiming to annul the German 3G auctions.
In the 19th century, railway companies built the infrastructure that changed the way society worked - but few made substantial amounts of money. Commentators were baffled by MobilCom's optimism after the license awards. Now it looks clear the company is indeed hindered by the high cost. The ability of 3G operators to make the returns to justify their license costs is again in question.
In August, the telecoms firm part-owned by France Telecom agreed to pay $7.6 billion for its UMTS license in Germany, claiming it would make a return on its investment within five years. This was always questionable. The company is a greenfield operator in terms of networks, although it currently operates a branded mobile service by licensing other carriers' spectrum. It will need to gain market share quickly, especially since as a new operator there will be additional costs in network build-out. This may be unrealistic in a market forecast to have over 60% mobile penetration by the second half of 2002, when services come online.

Following the party of the auction, MobilCom is now experiencing the morning-after feeling. It now seems to agree with this gloomy outlook. It will try to reduce its costs by getting the auction system used in Germany overturned. Its argument is that EU law says that the bidding process for such contracts should be uniform. But whilst Britain, Germany and Italy have all had auctions, other countries, including Finland and Portugal, have had 'beauty contests' where licenses were awarded to the company which could demonstrate the best proposition.

Will MobilCom win? It's possible, but unlikely. The other five operators in the auction have ruled out legal action, since they do not believe they have a case. And it is by no means clear that any breach of EU law has taken place. In any event, the case is expected to take five years and cost up to $700 million - this could be a risky strategy for a company that should be concentrating on network build-out and gaining market share.

The reason why MobilCom has changed its mind about the process seems simply to be that it no longer expects its revenues to cover costs. A few months ago, high prices seemed palatable for UMTS licenses - they would bring in huge revenues for their holders, as consumers switched to mobile Internet services for almost everything. A more considered outlook is now prevailing; the low uptake of WAP has cast doubt on the future of mobile internet. Between them, the German phone companies have agreed to pay almost $569 per head of population in license costs alone. No wonder MobilCom is getting cold feet.

10.20 BT: Italian failure worsens corporate Blus

Oct 23, 2000
The troubled telco's Blu consortium has pulled out of Italy's 3G spectrum auctions.Italy was seen as BT's opportunity to prove it could be a global player in mobile telecoms. But now it looks like the telco may have blown it. Prospects for BT now seem even bleaker than before, as it is left without a 3G presence in one of Europe's largest markets while its competitors will get licenses for half the price they were expecting to pay.The Italian mobile auctions were an important test for BT. Its share price has halved in the last eight months, and there have been calls for the sacking of high profile board members. The company's strategy had previously been to expand on the cheap, by taking minority stakes in telcos around the world. This was fine a year ago but now the industry is consolidating. Italy was a major test of whether BT would prove to be a shark or a small fish in the mobile telecoms pond.

BT's Italian mobile strategy via the Blu consortium was not bad in itself. But its partners are not experienced telecoms operators, and they were frightened about the huge cash outlays in getting a 3G license. They wanted the security of a trusted international operator to take on the dominant role, asking BT to grow its stake from 21% to 51%.

But this created a terrible dilemma for BT. Not to contest auctions, especially in a huge market like Italy, sends out bad signals to shareholders, implying that BT is in trouble and lacks ambition. Indeed, it successfully bought out its partners in a similar situation with Germany's Viag Interkom. But this time its credit rating was too low to afford to increase its Blu stake. The other companies also refused to put up the money to contest the auction. Blu had to withdraw from the race, leaving BT's Italian strategy in tatters.

To be fair to BT, the situation was never ideal. Its partners in Blu don't have obvious synergies with the telecoms business, and the consortium has not done well so far in penetrating the Italian market, which is 91% dominated by Telecom Italia and Omnitel. Nonetheless, most will view the company as having failed a key test. When, as is expected in the next few months, the company floats its mobile telecoms division, it will look more like prey than predator.

While the Italian government laments BT's withdrawal, which has left the total cost of licenses at $10 billion - around half its expected figure - the other bidders will benefit strongly. The other three incumbents - Vodafone and Verizon's Omnitel alliance, France Telecom and Enel's Wind alliance, and Telecom Italia - should secure cut-price licenses, as should the newly-entering Hutchison-led Andala and the Telefonica-led Ipse groups. This will leave them in a position to strengthen their dominance over BT in the global mobile telecoms market.

CHAPTER 11 LATEST COMPANY NEWS

11.1 The Thai future's Orange too

Jan 18, 2002

Thai mobile operator TA Orange has said it plans to launch its service commercially by the end of March this year. The public launch will follow the network's 'soft launch' in December 2001.

11.2 Logica and Orange test their British multimedia messaging service

Dec 07, 2001

Orange and Logica have begun testing their multimedia messaging service. This service will operate over Orange's UK GPRS network, based on Logica's innovative Multimedia Messaging Service Center.

11.3 France Telecom develops underwater phone

Nov 27, 2001

France Telecom and Amphicom have successfully developed a system, based on GSM technology, which allows telephone communications with a diver working underwater.

11.4 One2One ponders European court battle with the British Government

Nov 27, 2001

British 3G license holder One2One is considering taking its legal battle with the British government all the way to the European court of justice. Almost a month ago the company lost its second attempt to sue the government for £85 million.

11.5 Tough talk or hot air from SFR

Oct 02, 2001

According to the Financial Times, the French mobile operator SFR has announced that it would lift the block on its first payment towards a third generation mobile license, but warned it wanted negotiations on the terms of French 3G licenses to continue.

11.6 No deal is the call from Spanish 3G license holder Xfera

Oct 01, 2001

Xfera, the Spanish 3G license holder, has denied media reports that it is for sale and that France Telecom is interested in buying.

11.7 Globtel gobbled up by Orange

Sep 14, 2001

Orange continues towards its goal of becoming the world's first global communications brand, through the re-branding of all its mobile operations to the Orange banner.

11.8 Jordan Telecom to go public

Sep 07, 2001

Jordan Telecom is due to be listed on the Amman stock exchange in the early part of next year. The company is partly owned by France Telecom. When the western corporate bought its 40% stake an embargo was placed on the company preventing it from going public for 18 months. This ruling is due to expire at the end of this year.

11.9 France Telecom's debt escalation

Sep 06, 2001

France Telecoms debt has ballooned to a massive EUR64.9 billion, an escalation of EUR4 billion.

11.10 France Telecom Acquires 100 Percent Of Spanish Subsidiary Uni2

Jul 24, 2001

COMPANY PRESS RELEASE: France Telecom has acquired all of the Uni2 shares belonging to Editel, the holding company that owns a 31% stake in Uni2.

11.11 France Telecom and Deutsche Telekom offer US Sprint share

May 17, 2001

Two telecoms giants, France Telecom and Deutsche Telekom are to sell their shares in Sprint thereby ending a seven year troublesome relationship, helping them to focus on their core European operations and reducing escalating debts.

11.12 NTL and Orange create alliance

May 14, 2001

The mobile phone operator Orange is set to enter into a broad alliance with NTL Inc., the largest of Britain's cable TV operators.

11.13 France Telecom produces

May 04, 2001

France Telecom has reported a first-quarter revenues increase of 36.5 %. The upturn in the company is mainly due to the strong performance its mobile phone business Orange.

11.14 French Telecom seeks to be a consolidator of the mobile business rather than a leader

Apr 05, 2001

French Telecom equipment maker Alcatel has stated that it's primary objective in its mobile handset business is to play "a key role in the consolidation of that sector."

11.15 France Telecom to buy back Vodafone shares

Feb 28, 2001

France Telecom is to pay Vodafone E13.8 billion in cash to pay off debts and buy back 10% of its own shares from the UK mobile operator. The transaction is part of an option associated with France Telecom's purchase of Orange and will be partly funded by this month's Orange flotation.

11.16 France Telecom tries to balance the books

Feb 22, 2001

On Tuesday France Telecom started its debt refinancing program with the announcement of a bond issue for $7billion-$8billion. This is the first European telecoms operator to issue such a bond market since the series of credit rating cuts in the sector by leading financiers. The industry will look on with interest to see if such a venture is successful or not.

11.17 France Telecom issues operating results for 2000

Feb 13, 2001

France Telecom's consolidated operating revenues increased 23.7% to E33.7 billion (FRF220.9 billion) for 2000.