3G in Europe: Future Markets (Preparing for Launch)

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5.9 Telenor

5.9.1 Group overview

Telenor is the biggest mobile operator in Norway, with a subscriber market share of 73%. Outside its domestic market it holds a selection of mobile assets in countries as far-flung as Bangladesh, Hungary, Malaysia, Montenegro, Russia, and Ukraine. The company divides its European investments between two regions, one encompassing the new markets of central and eastern Europe, the other comprising the more mature markets of western Europe. Wholly owned Telenor International holds shares in Sonofon in Denmark, Connect Austria and Portuguese subsidiary Oni Way while Telenor B-Invest, in which Telenor owns 73.33%, has 18% of Greece's Cosmote.

During early 2001 Telenor disposed of several western European mobile assets in order to concentrate its efforts on more developing markets, particularly in eastern Europe. In January the company opted to sell its 10% stake in German mobile operator Viag Interkom to BT and the following month also sold its 49.5% stake in Irish mobile operator Digifone to the same company. Together the disposals gave Telenor a pre-tax profit of around NOK10 billion.

Figure 5.41

Telenor's Mobile Holdings in Europe

Operator	Country	Licence Type	Stake
Connect Austria (One)	Austria	GSM/UMTS	17.5%
Sonofon	Denmark	GSM	53.5%
Cosmote	Greece	GSM/UMTS	13.2%
Telenor Mobil	Norway	GSM/UMTS	100.0%
Oni Way	Portugal	UMTS	20.0%

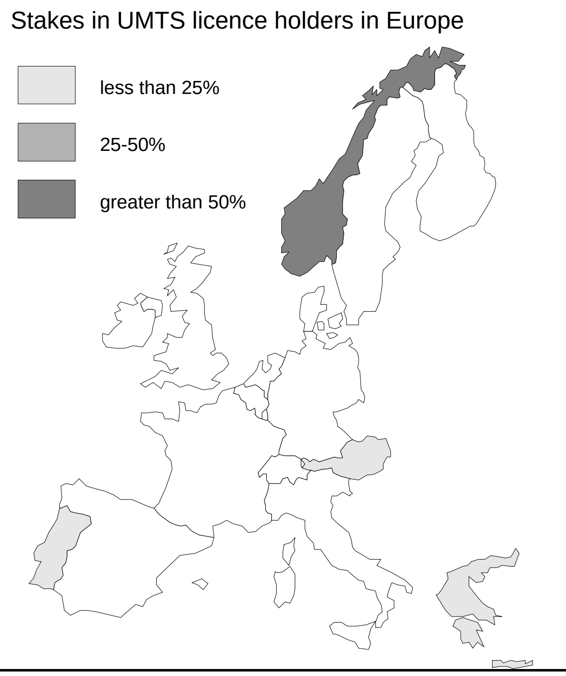
5.9.2 Third generation strategy

Besides its wholly owned domestic subsidiary Telenor Mobil, Telenor has secured minority stakes in three third-generation licence holders in Europe. Strategically Telenor seems to be concentrating on less developed markets in eastern Europe. Its first western European licence came in August 2000 when Oni Way secured a concession in Portugal. Three months later Telenor won a licence in Austria and in December it gained a third concession, in its domestic market. In July 2001 Cosmote in Greece also won a 3G licence. In addition Telenor, through its subsidiary Sonofon, bid unsuccessfully for one of the four 3G licences in Denmark where it pursued the licence alone following the withdrawal of BellSouth from the consortium. This could herald a change in the ownership of Sonofon itself, in which BellSouth holds the 46.5% not held by Telenor.

Figure 5.42

Telenor - Presence in the 3G market

3G licences:	Austria, Greece, Norway, Portugal
Potential target population:	33 million
Penetration of 2G services in licensed areas (end 2000):	66%
Amount paid for UMTS licences:	USD75.9 million
Amount paid for UMTS licences per capita:	USD10.6
Mobile revenues (year to December 2000):	USD1,109 million



5.9.3 Mobile operations in Europe

5.9.3.1 Austria

Figure 5.43

Operational Statistics - Connect Austria (One)

	mid-year 2001	end 2000	end 1999	end 1998
Subscribers	1,260,000	1,150,000	480,000	30,351
Market share	19.5%	18.6%	11.4%	1.3%
Overall market penetration	74.9%	74.6%	51.1%	28.0%

In September 1997 Connect Austria won a DCS-1800 licence to become Austria's third mobile operator. It was guaranteed exclusive use of the 1800MHz frequency band for a period of three years in return for a licence fee of ATS2.3 billion. The contract contained the proviso however that if either of the other existing operators - Mobilkom or max.mobil - could prove that their GSM networks were overly congested then they too would be awarded some of the higher frequency spectrum. This was tested in a court case in February 1999 in which Mobilkom was granted the right to use the higher frequency in Vienna.

Connect Austria launched its network in October 1998 - just over a year after receiving its licence - and by the end of the year had signed up just over 30,000 customers. Growth was rapid, with subscriber numbers leaping from

480,000 at the end of 1999 to 1.15 million a year later and 1.26 million by the end of June 2001. By the same date approximately 5% of its customers used WAP services and in February 2001 it began offering GPRS. Connect Austria is owned by E.ON (50.1%), Telenor (17.45%), Orange (17.45%) and TDC (15%). In March 1999 it began offering a fixed line service and three months later had signed up 20,000 subscribers. By May 2001 Connect claimed its f-One comfort pre-selection service had 130,000 users. In September 1999 the company launched a bundled fixed-mobile package in partnership with Priority Telecom (owned by United Pan-Europe Communications).

In November 2000 Connect won a third-generation licence in Austria, bidding EUR120 million for two blocks of 2x5MHz paired spectrum. Connect has earmarked a total investment in its UMTS network of between ATS8 billion and ATS10 billion by 2011. The company contracted Ericsson and Nokia in early 2001 to supply UMTS technology and plans to have a test network in place by autumn 2001, to be followed by commercial launch in June 2002.

5.9.3.2 Denmark

Figure 5.44

Operational Statistics - Sonofon

	mid-year 2001	end 2000	end 1999	end 1998
Subscribers	998,000	966,000	846,000	750,000
Market share	26.3%	28.2%	32.0%	38.8%
Overall market penetration	71.8%	64.9%	50.2%	36.8%

Sonofon launched its Danish GSM network in March 1992 in competition with TDC's mobile subsidiary TDC Mobil. For six years - until 1998 - the two companies shared a duopoly in the provision of GSM services and it was not until the licensing of two DCS-1800 players - Telia Danmark and Mobilix - in 1998 that the market saw further competition. At the same time Sonofon and TDC were themselves awarded 1800MHz frequency.

In June 1997 Sonofon introduced its Unofon mobile service which was designed to compete with Tele Danmark's Duet package, offering cheap call charges for high volume users within the local area. The package encountered technical problems in August but was relaunched in December 1997 when it had around 40,000 subscribers. Sonofon introduced a pre-paid service, Taletid, in January 1998 which had gained 190,000 users by the end of the year. By the end of 1998 Sonofon had a total subscriber base of 750,000, maintaining its 39% share of the market. A year later its customer had grown base to 846,000, though its share of the market had fallen to 32%. This trend continued in 2000, with Sonofon reporting 966,000 customers by the end of the year. Six months later it had still not reached the million customer mark (counting only 998,000 subscribers) and its market share had fallen to 26.3%. In August 2000 Sonofon signed a mobile virtual network operator agreement with Swedish telco Tele2, allowing Tele2 to operate a virtual network via its infrastructure. Four months later Sonofon launched GPRS services.

In June 2000 Telenor bought 53.5% of Sonofon from GN Great Nordic for DKK13.1 billion (USD1.7 billion). As part of the deal it also took on GN's loan to Sonofon which amounts to DKK548 million. The remaining 46.5% of Sonofon is owned by the US telco BellSouth.

5.9.3.3 Greece

Figure 5.45

Operational Statistics - Cosmote

	mid-year 2001	end 2000	end 1999	end 1998
Subscribers	2,518,553	2,061,011	1,048,188	298,838
Market share	36.8%	34.7%	26.9%	14.5%
Overall market penetration	64.4%	55.9%	36.8%	19.5%

Cosmote is the newest of Greece's three cellular operators, having launched its DCS-1800 service in March 1998. Its majority owner, Greece's national fixed line operator OTE, was initially granted its mobile licence at the end of 1995 but spent the next six months searching for a strategic partner. In mid-1996 it revealed that Telenor would pay GRD27 billion for a 30% stake in Cosmote. Despite its late start Cosmote announced its intention of catching the second largest operator, STET Hellas, and in the second quarter of 2000 managed to overtake its rival for the first time. By the end of 2000 Cosmote had attracted more than two million subscribers, and by June 2001 this had risen to over 2.5 million, making it by far the fastest growing operator over the year. While Cosmote has managed to catch STET Hellas, much of its market share was taken from leading operator Panafon, raising Cosmote's slice of the market from 24.4% to 32.6% by the end of 2000. Cosmote secured a third-generation licence in Greece in July 2001, paying EUR161.4 million for 2x15MHz of paired spectrum and 1x5MHz unpaired spectrum.

Until October 2000 Cosmote was owned by OTE (70%) and Telenor (30%) but an IPO in that month saw 15% of the company's shares transferred into private hands, raising some GRD54 billion. Just over half the shares were sold within Greece, while the remainder were taken up by international investors. As a result of the sale the stakes held by OTE and Telenor B-Invest, which is owned 73.33% by Telenor, fell to 59.5% and 18% respectively.

5.9.3.4 Norway

Figure 5.46

Operational Statistics - Telenor Mobil

	mid-year 2001	end 2000	end 1999	end 1998
Subscribers	2,233,000	2,199,000	1,999,704	1,570,522
Market share	71.6%	72.1%	72.9%	74.6%
Overall market penetration	70.6%	71.5%	62.5%	48.1%

Telenor Mobil has always been, and remains, the dominant player in the Norwegian cellular market. By 31 December 2000 it had almost 2.2 million subscribers across its two digital and two analogue networks, a rise of 15.1% on the total at the end of 1999. By the end of June 2001 its subscriber base had increased marginally to 2.23 million. Earlier in the month the operator closed one of its analogue networks (NMT-900) and offered its remaining customers alternative GSM packages. The NMT-450 network will remain in operation for the foreseeable future because its coverage includes outlying areas still not reached by digital services.

Telenor Mobil's share of the market fell slightly during 2000 from 72.9% to 72.1%, on the back of a fall in 1999 from 74.6%. Like other operators Telenor has experienced spiralling demand for pre-paid services; by the end of 2000 it had 1,013,000 pre-paid customers, 46% of its overall customer base. In June 1998 Telenor rolled out a DCS-1800 network in Oslo, Bergen, Trondheim and Stavanger. The extra capacity afforded by the new infrastructure is used to offer broadband services such as internet access. In October 1999 it introduced its first WAP services which include banking applications and travel and share price information.

In December 2000 the company paid USD21.8 million to secure one of four twelve-year Norwegian UMTS licences. It plans to have the new network operational by December 2001, with coverage of approximately 170,000 people; in the interim, GPRS services were launched in February 2001. Within five years Telenor hopes its UMTS network will cover all communities of more than 500 people. It has contracted Ericsson as the main supplier of its core network infrastructure, with radio equipment being provided by both Ericsson and Nokia. Telenor Mobil estimates that up to NOK4 billion (USD452 million) will ultimately be spent on its UMTS infrastructure.

5.9.3.5 Portugal

One of Portugal's four UMTS licence winners, Oni Way, has aggressive network rollout plans. It hopes to cover 99.9% of the population by the end of its fifth year in operation, considerably more than the Portuguese regulator's stipulation of 60%. The company initially claimed it would be ready to launch its service by 21 November 2001, although technical difficulties in the market seem likely to delay this. In February it announced that Siemens and Nortel would provide its 3G radio network for the entire country; it has since officially contracted Nortel to provide the core network for the south of the country but by June 2001 had yet to select a supplier for the north.

Telenor owns 20% of Oni Way; other shareholders include Oni, the telecoms arm of Portugal's state-owned electricity group EDP, European telcos Brisatel and Grapes, Portuguese media groups Impresa and MediaCapital, retail distributor Jerónimo Martins, electronics company EFACEC and Spanish power company Iberdrola.