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TOP STORIES

Market consolidation: Qwest started first to talk with MCI on merger deal, but Verizon remained close. While Qwest and MCI have overlapping businesses, a Verizon/ MCI proposition looks more complementary for analysts. In addition, Verizon financial power is out of reach for Qwest, which will be limited to upgrade its current offer. So analysts and press are considering highly probable a Verizon victory in coming days. But it isn't the first time the two have engaged merger talks. Wait and see!!

3G pricing strategies: Flat rate pricing (or unlimited access) was the strategy to attract high-value business customers. The main advantage of the solution is simplicity in billing and financial planning, so most operators adopted it (KDDI, DoCoMo, Verizon, ...), following fixed broadband and cable TV operators. But if massive demand for bandwidth increases (for new services -internet and video- even driven by only a fraction of users), production costs will increase too. A threshold will occur where capped fees will not recoup costs. Flat rate does appear to be effort minimizing rather than profit maximizing for a company. So, more and more mobile operators are searching alternative pricing strategies. Several alternatives are explored. KDDI is moving to a tiered pricing strategy to account for different levels of usage. 3 in Europe is offering a similar approach with thresholds, according to the used services. Vodafone is charging on a per-use basis, and Verizon has introduced download fees for specific services.

HP CEO Carly Fiorina has resigned, stepping down as chairwoman and CEO of the company at the board's request. During her term, Compaq purchase was widely contested internally, and internal clash of interests have led to mixed results. Analysts believe the company needs a new direction and changes to strategy, not just a change in execution. Carly Fiorina leaved with a \$21m worth of severance.

Market's corner

A few set of market information released this week:

- ☞☞ GfK reports that pan-Asian mobile phone sales could rise 12% to 185m units in 2005 (vs. 164.5m units in 2004). China could account for 57% with 105m units (+5%).
- ☞☞ Deloitte forecast there would be 2bn mobile users worldwide by the end of 2005. Growth is driven by Asia and LATAM.
- ☞☞ Eurostat, mandated by EU Commission, found that 80% EU citizens have at least one mobile phone subscriptions in 2003 (vs. 5% in 1995). In contrast, teledensity in Europe was about 50% in 2003.
- ☞☞ Infonetics unveiled the number of Cable VOIP users in NA in 2004 at 500,000 (or 2% of cable broadband users). Cablevision or Time Warner served 90% of Cable VOIP users. Infonetics expects penetration will rise to 15% in 2007.
- ☞☞ A UK survey, from Netonomy/YouGov, reports that 71% of UK consumers believe mobile services are becoming more complicated, 41% remain confident they will find 3G easy to use and only 4% are planning to upgrade to 3G.
- ☞☞ TelecomView study, however, finds that 3G will have more than 300m subscribers and generate more than \$200 bn in revenue in 2009.
- ☞☞ Infonetics found that 113,000 Wi-Fi VoIP handsets were sold worldwide in 2004, generating \$ 45m revenues.
- ☞☞ Quantum-Web predicts there will be over 600 million broadband subscribers worldwide by 2015 vs. about 200 million in 2005.
- ☞☞ According to Ericsson, the market for professional services is to grow about 10% in 2005.
- ☞☞ According to Infonetics, the ROADM (reconfigurable optical add/drop multiplexer) market could double in size to about \$ 200m this year.

Vendor's corner

Strategies/Organization

Nokia Venture Partners changed its name to BlueRun Ventures.

HP and Cisco are teaming on blade technology for developing a Gigabit Ethernet switch.

Microsoft bought Sybari Software, a leading provider of security products (anti-virus products).

Nortel said it has completed the transfer of its manufacturing operations in Montreal to Flextronics.

Alcatel has bought eDial for \$ 22m and Spatial Wireless for \$ 205m.

TuT Systems is to acquire Copper Mountain for about \$10m.

SR Telecom (Canada) could be forced to seek bankruptcy protection after poor results and debt in its Chilean subsidiary CRT.

Fixed networks:

Tandberg has unveiled Expressway IP visual communication technology.

Zhone Technologies unveiled low-cost (under \$ 500 per subs.) FTTP triple play solutions

Alcatel and HP are partnering for a joint solution in IP convergence targeted towards SMBs.

A similar deal has been signed between **Alcatel and Cegetel**, a French alternative operator.

Nokia creates a new business unit focusing on carrier network services. This unit will be part of the Networks division. Bosco Novak will lead this new unit.

Alcatel will add Alvarion's WiMAX 802.16 solution to its worldwide portfolio.

Huawei is entering the core terabit router market with its homegrown NE5000E.

Mobile networks:

Nortel and RIM are partnering to secure WoLAN solutions. RIM is also teaming with **3COM** to deliver wireless LAN mobility solutions for the enterprise. The RIM Blackberry 7270 has Wi-Fi built-in as well as a VoIP client.

DibCom unveiled the first DVB-H- based chip to bring TV on mobile phones.

HP interested to enter the smartphone market.

Nokia and RealNetworks are expanding their relationship. Nokia will resell RealAudio, RealVideo and the Helix DNA powered RealPlayer on Nokia mobile devices.

Nokia announced it will include Macromedia's Flash technology in its Series 60 platform. It follows Samsung, which has already licensed Flash for use in its handsets.

NEC and TTPCom joined forces to develop a dual-mode 3G/2G chipset.

Alcatel is leading Euro mobile broadband R&D effort, called MOWGLY (MOBILE Wideband GLOBAL Link sYstem). The project will focus on using DVB-S2/DVB-RCS standard for delivery of broadband from satellites to any moving transportation.

Infineon, Samsung, Trolltech and Emuzed joined forces to implement Linux OS in UMTS/EDGE phones.

Contracts

Fixed networks:

Cisco landed a data network contract with SingTel (expansion of EXPAN international data service center), and another contract with Telecom Malaysia for a suite of managed services (IP VPNs, metro Ethernet, IP telephony and security). It will provide Merrill Lynch with a VOIP system supporting 14,000 employees in 600 branch offices.

Alcatel will supply its 7330 DSLAM unit to BellSouth as part of its next generation broadband rollout.

Redback also received orders from BellSouth for its SmartEdge(R) 800 Service Gateway.

ADVA and Sagem announced the deployment of a nationwide optical network for Neuf Telecom (France).

Harmonic has sold its DiviCom MPEG-2 digital video encoders and NMX Digital Service Manager to Russian cable company NCN.

Alvarion has deployed some 2,300 BreezeACCESS VL fixed wireless broadband units to Verizon Avenue, a Verizon subsidiary.

HP has delivered its Mobile E-services Server to SK Telecom (Korea) and its OpenView OSS to TeliaSonera.

Lucent will deploy multiservice optical ethernet infrastructure for B-Telecom (Belgium).

Alcatel will deploy a VOIP solution for Altanet, FIAT Group's telecommunication subsidiary, in Italy. It will deploy its WiMAX solution (Alvarion origin) in TDF and RATP networks (both in France).

Ciena gained a new order from Telmex (Mexico) to deploy its CoreDirector multiservice switching system across Telmex nation-wide long-distance network.

BitBand will deploy IP TV in Sweden for Canal Digital.

Mobile networks:

Nortel will supply Horizon PCS (USA) with a new CDMA 1X and EV-DO network (contract value estimated at \$14m). It will provide iPCS (Sprint USA) with CDMA 1X network gear and professional

services such as Web browsing, streaming audio and video, and multimedia messaging (contract worth \$15m).

Siemens won a 3G UMTS contract with Connex (Romania), its third 3G contract in Eastern Europe. It won a contract to supply Cingular Wireless with a 3G mobile softswitch center solution (in fact Spatial Atrium from Spatial Wireless/ Alcatel).

Kodiak Networks will sell its Real-Time Exchange (RTX) System to Carolina West Wireless.

Ericsson wins GSM expansion \$39m contract with Serbian operator Telekom Srbija.

Amdocs will deploy its CRM solution in Nextel network, as well as in MegaFon (Russia) network.

Nokia will expand TeliaSonera GSM/EDGE network in Sweden.

TCS (TeleCommunication Systems) announced that Mexico's Iusacell has selected it for its Hosted Location-Based Services (LBS) in the Mexico City.

Lucent will deploy a 3G UMTS trial network for eAccess in Japan.

Ericsson won an expansion deal with Colombia Telecomunicaciones in Colombia with its Expander to enable cost-efficient coverage in rural areas.

Results

SeaChange International announced its 4Q04 revenues would be about 25% lower than previously expected. The share dropped 17%. The shortfall is due to delays in received orders and revenues, and is just a timing issue, according to its CEO.

Marconi posted 4Q04 results: sales increased 3% to £330m; gross margin was 33% and operating profit of £10m.

UTStarcom reported 2004 sales of \$ 2.7bn, up 38%.

Cisco reported FY2Q sales of \$ 6.1bn (+12%) and net profit of \$ 1.4bn (up 100%). 1HFY results were \$12bn (up 15%) and net income was \$2.8bn (+55%).

Ericsson posted 4Q04 revenues of \$5.9bn (up 9%) and net income of \$ 0.89bn. Full year results were: revenues of \$ 19.7bn (up 12%) and net income of \$ 2.8bn (vs. a loss). Mobile networks reported full year sales of \$14.6bn, up 20%, and Professional services were up 8% to \$ 3bn.

Telelec: 2004 revenues were \$ 397m, up 50%. The book-to-bill ratio is approximately 1.4.

Wavecom's 4Q results were: €37.4m in revenues, up 3%; gross margin was 32%; an operating loss of € 17.3m and a net loss of € 20.5m.

Operator's corner

Strategies/ Organization

ATT has extended its Global Network in the Middle East with a new node in Doha (Qatar).

DT has bought 55.9 m T-online shares from Lagardere SCA.

Fixed networks:

France Telecom is launching residential VOIP in Italy, through its subsidiary Parla.it. The move marks FT comeback in this country. It will increase its tariffs from March 3rd in France.

BT has forged an alliance with Covad in the US to give corporate customers connection to their BT-managed VPNs via broadband links provided by Covad. It has completed the purchase of Albacom following regulatory approval from the European Commission.

BT is targeting launching VOD over its DSL lines late this year.

Telecom Italia could be interested in acquiring Tiscali France. Tiscali France is still struggling to raise money to pay back a €250m bond, and has already sold some non-core assets in Europe (i.e. last week in Denmark), but it does not seem enough. Can Tiscali sell one of its jewels?

Mobile networks:

China Unicom has dismissed China Telecom's proposal to buy one of its mobile networks.

Digitel (Philippines) plans to spend \$200m on mobile network capacity expansion to 6m subs.

Umniah will be the fourth mobile operator in Jordan and will launch operations in June 05.

Subscribers

Singapore mobile market breakdown is: leader SingTel with 1.54m subs., then M1 with 1.16+m and StarHub with 1.16-m.

Philippines mobile market breakdown is: leader Smart with 19m subs., followed by Globe with 12.5m subs. and Digitel well behind (launched in 03/03).

India teledensity (fixed lines) rose to 8.6% or 93m lines.

Virgin Mobile USA has 3m mobile customers.

India added more than 2m mobile subs. in January (1.27m GSM and 0.76m CDMA users).

Telefonica said Spain has 2.7m DSL subscribers.

Russia: mobile subs. increased to 78.5m at the end of January, up 5.5% in one month. The breakdown by operator is: MTS (37.2m), Vimpelcom (28.4m), MegaFon (14.1m), Uralsvyazinform (2.2m), SMARTS (1.9m) and Sibirtelecom (1m).

CDMA Development Group (CDG) reports CDMA subscriber base reached 240.2m in 12/04, of which 62m for CDMA 2000.

Results

Level3 (USA) reported 4Q04 revenues of \$1bn, up 25% qoq, of which \$482m in communications and \$ 547m in information services. Net loss was \$77m vs. \$171m in 3Q04.

FastWeb (Italy) posted 2004 revenues of € 720m, up 58% proforma, EBITDA of \$ 219m (up 120%). FastWeb has about 500,000 customers, of which 73000 businesses (accounting for 56% of revenues) and 423,000 residential customers (accounting for 44% of revenues).

Eircom (Ireland) posted 4Q04 results of €402m (of which access revenues rose 16% and voice revenues dropped 8%) in revenues; a net loss of € 62m (vs. profit of € 23m). EBITDA rose 2% to € 155m.

Bouygues Telecom (France) posted 2004 revenues of € 3.66bn, up 12%.

BT's turnover in 4Q04 increased 3% to £4.6bn, but new wave revenues were up 35% to £1.1bn. EBITDA was £545m, up 4%. BT had £ 770m in capex in the quarter.

FT reported sales of € 47bn, up 4% proforma, with Orange (mobile) turnover increasing more than 10%, and fixed-line revenues were almost flat. EBITDA was €18.3bn, up 7.4%, and operating income was €10.8bn, up 12.4%. FT targets 2005 capex/sales ratio at upper end of 10-12% range, down from 12% in 2004.

Equant announced 2004 results: \$2.9bn in revenues (down 1%), gross profit down 26% to \$681m, operating loss of \$375m, and net loss of \$ 274m.

Telstra posted 1H FY results of \$1.8bn in net income (up 2%) on revenues of \$8.8bn (up 5%). Fixed-line revenues fell 2% to \$3.1bn, while mobile revenues were up 9% to \$1.47bn.

Rostelecom (Russia) reported 1H FY revenues of \$ 639m (up 33%), EBITDA of \$ 233m (up 16%) and net income of \$ 86m (up 200%).

TPSA (Poland) posted 2004 revenues of about \$ 6bn, up 1.5% (with \$3.6bn in fixed-line, down 8%, \$1.6bn in mobile, up 28% and \$0.6bn in data and broadband). Net income rose 200% to \$ 719m.

Matav (Hungary) reported a net income decline of 40% to \$ 189m in 2004.

People

Vodafone named Bill Morrow president of Vodafone K.K. in Japan and Shiro Tsuda executive chairman and chairman of Vodafone K.K.'s board effective April 1. Tim Miles will take over Morrow's position as chief executive of Vodafone UK.

Robert Wayman has been named interim CEO of **HP**.

Equant announces the appointment of Yves Guillaumot as its new CFO.

Agenda

Next Generation Telecom Central & Eastern Europe Forum. 21-22/02 2005 Budapest, Hungary

www.ngtevents.com

3rd Annual RFID World. 1-3/03 2005 Dallas, Tx USA

m.keller@scievents.com

OFC/NFOEC - Optical Fiber Communication - 6-11/03 2005 Anaheim, CA USA

<http://www.ofcconference.org>

IEEE Wireless Communications & Networking Conference. 13-17/03 2005 New Orleans USA

www.ieee-wcnc.org

Spring 2005 VON. 7-10/03 2005 San José, California, USA

www.pulver.com/nextvon/

CeBIT 2005 10-16/03 Hanover Germany

www.cebit.de

Voice on the Net Canada 2005 19-21/04 2005 Toronto Canada

www.pulver.com/canada2005/

Supercomm 2005 6-8/06 2005 Chicago, Ill USA

www.comsoc.org/conf/

14th IST Mobile & Wireless Communications Summit 19-22/06 2005 Dresden Germany

www.comsoc.org/conf/

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