

Rivals to form UK's top mobile operator

September 8 2009, By ROBERT BARR , Associated Press Writer

(AP) -- Deutsche Telekom AG and France Telecom SA said Tuesday they intend to combine their British mobile phone units - shaking up the country's intensely competitive market and forming the country's biggest mobile operator.

Deutsche Telekom said it has entered exclusive negotiations on combining its struggling British unit T-Mobile UK with France Telecom's Orange UK in a 50-50 [joint venture](#).

The tie-up could benefit all operators in Britain's already crowded mobile [telecommunications](#) sector by reducing the pressure to cut prices, though mergers inevitably will mean job losses.

"This is another sign that we may be moving into a period of sustained M&A activity as firms look to realize cost savings through consolidation," said Mark Priest, a trader at ETX Capital in London.

The announcement follows reports that Telefonica of Spain, owner of current U.K. market leader O2, and No. 2 Vodafone Group PLC had made informal offers of about 4 billion pounds (\$6.5 billion) for T-Mobile.

The combined company would have a customer base of 28.4 million [mobile phone](#) users, or about 37 percent of U.K. mobile subscribers at the end of 2008.

That would overtake O2, which has a 27 percent share of the British

market. Vodafone is second with 25 percent. Orange has 22 percent, [T-Mobile](#) 15 percent and Hutchison Whampoa's 3 has 8 percent.

The market reacted positively: France Telecom shares were up 5.2 percent at euro18.77, Deutsche Telekom rose 2.6 percent to euro9.64, and Vodafone gained 2.2 percent to 137.45 pence.

Jonathan Grocock, analyst at Investec Securities, said a deal could benefit the entire British mobile sector.

"The final outcome would be improved market returns for all parties as margins could stabilize," Grocock said in a research note on Monday.

While the companies looked forward to cutting rental and maintenance expenses in Britain, Andy Kerr, deputy general secretary of the Communication Workers Union, worried about jobs.

"We think we will be looking at job losses and possibly site closures of both call centers and retail outlets in a rationalization program," Kerr said.

"It is crucial that Orange makes commitments over job security and is honest with staff regarding the implications of this takeover," Kerr added. "Staff motivation and retention will be key to a successful and smooth operation."

The proposed deal "is expected to create substantial value for both shareholders," Deutsche Telekom said in a statement. It added that it expects the merger to generate synergies with a net present value of more than 3.5 billion pounds (\$5.7 billion).

In May, Deutsche Telekom reported a first-quarter loss of euro1.1 billion (\$1.58 billion) which it blamed in part on intensifying

competition, especially in the U.K.

Speaking on a conference call with analysts, France Telecom's Chief Financial Officer Gervais Pellissier said the deal offered "substantial benefits to U.K. consumers."

Deutsche Telekom and France Telecom expect to sign a definitive agreement on the tie-up by the end of October, and to obtain antitrust approval in the first half of 2010, Pellissier said.

Tom Alexander, currently chief executive of [Orange](#) UK, has been named to lead the combined organization, the companies added.

The business had combined 2008 revenue of some 7.7 billion pounds and earnings before interest, tax, depreciation and amortization of 1.7 billion pounds, Deutsche Telekom said.

AP reporters Geir Moulson in Berlin and Greg Keller in Paris contributed to this report.

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