

Telecoms Sector

# M&A Insights

Analysis & opinions on Global M&A activity

2008



# Welcome



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Welcome to the second edition of Telecoms M&A Insights from PricewaterhouseCoopers. In this edition we have expanded our coverage from an exclusive focus on Europe to include major telecommunications deals in all regions of the world.

Perception and reality prove to be somewhat at odds in our survey of telecoms deals around the globe in 2007. Though 2007 may have been perceived by many as a boom year for M&A transactions, there was in fact a decline in overall deal value and volume in the telecoms sector, principally due to the lack of 'jumbo' deals as seen in 2006. However, M&A remains firmly on the agenda. Activity in the developing markets is buoyant and will continue to attract the attention of corporate and to some extent financial buyers as they seek to capitalise on the significant growth that many of the emerging markets continue to exhibit.

Though clearly the 'credit crunch' has an impact on deal-making, this will fall very much on the private equity players, with their ability to transact large leveraged deals severely constrained. The major incumbents who had increased their activity in the last two years have been relatively quiet in 2007. However, this is more likely to be a function of timing as a number of deals are in the pipeline, and interest remains high.

The data provided and analysed covers transactions completed in 2007. There are also a number of significant announced deals which are still pending, notably the €25 billion acquisition of Bell Canada, which look set to bolster the deal statistics in 2008.

The PricewaterhouseCoopers' Telecoms team has been busy around the world last year supporting our clients on a number of successful deals. These included, in Europe, Macquarie's acquisitions of both NG Wireless and Airwave, the acquisition of Fastweb by Swisscom, the acquisition of Bulgaria Telecoms by AIG Capital, the refinancing of THUS and in the Middle East the acquisition of Iraqna by Zain.

Our global team offers clients a wide range of deal services; valuation & strategy, commercial, financial, tax and pensions due diligence, post deal carve-out, merger integration and lead Corporate Finance advise.

If you would like further information or would like to comment on any aspect of this report please do not hesitate to contact us.

# The search for growth

M&A has become a key mechanism to maintain top line and profit growth with the main themes being penetrating emerging markets and capturing broadband growth.

Consolidation in the developed markets of the US and Western Europe appears to have reached its limits for now. But it is interesting to note that whereas the US has a population of 300 million served by five major carriers, the European Union – with a population of approximately 450 million – supports in the region of 40 major providers. The disparity in the ratios of population to providers intuitively suggests room for more consolidation in Europe. However, evidence and analysis indicates that the distinct national character of individual markets has made it very challenging to achieve genuine synergies across them. Other sources of growth are therefore making their way onto the radar.

## Emerging markets

Two trends in particular stand out. The first of these is the move into emerging markets. Vodafone's €9.4 billion acquisition of Hutchison Essar in India is perhaps the most prominent example of this, but a number of other deals in Latin America, Asia, Africa and the Middle East point to the attractions of markets that are showing far higher growth rates than those in which wireless penetration has already reached 100 per cent. Given the potential size of these markets they will inevitably attract considerable interest. India illustrates the potential. Less than ten years ago fewer than 10 per cent of urban households had either mobile or fixed telephone subscriptions. According to the World Bank now more than half of all households subscribe to either a fixed or mobile service. The rapid development of cheap handsets and affordable services means that numbers in rural areas are predicted to accelerate along similar lines. Latest figures suggest that there are more than eight million new mobile subscribers every month in India, making it the world's fastest growing mobile market.

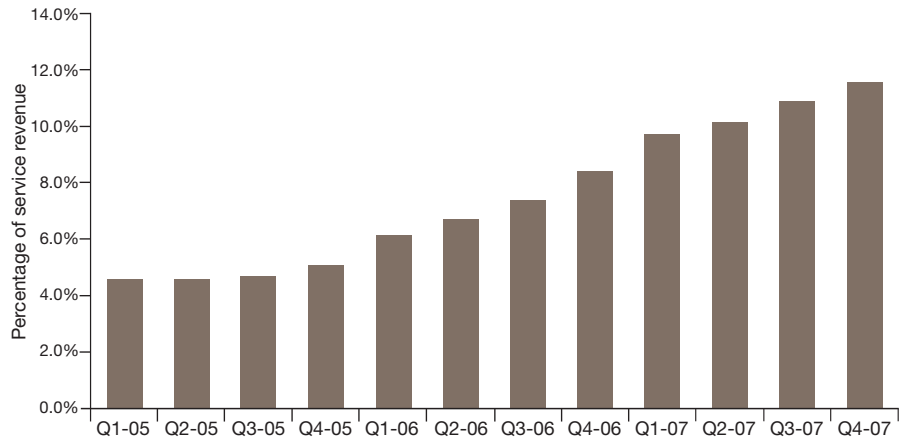
The growth in the Indian mobile market has also attracted attention to the infrastructure supporting its expansion. Following the acquisition of a 10 per cent stake in Infratel (the tower arm of Bharti Airtel) by a consortium led by Singapore's sovereign fund Temasek, private equity house KKR recently acquired a 2.5 per cent stake for €175 million. The attraction of the sector is revealed by the analysis which suggests that for India to maintain the present rate of growth in the wireless sector will require a three-fold increase in the number of towers by 2010.

## Broadband on the move

The other significant trend for operators is the rapid development of mobile broadband and the related content and services that – after several years of promise – finally look to becoming a reality. Revenue from data services is growing rapidly. Vodafone Germany, for example, recently reported a significant increase in non-messaging data services that now account for more than 11.5 percent of the company's revenues. In a similar vein, O2 in the UK and AT&T in the USA have indicated a significant increase in the data traffic across their networks since the launch of the iPhone.



## Vodafone Germany Non-messaging Data Revenues



Source: Vodafone KPI quarterly release 31st December 2007

However, there remains a considerable strategic question over the ability of providers to create business models that will drive revenue from content and services that would justify the considerable investment in next generation network infrastructures – such as the fourth generation LTE (Long Term Evolution) – that will deliver fast mobile broadband. And adding more pressure is the flow of other participants entering the wireless market. Google, for example, has signalled its interest in the wireless market both through its willingness to bid for US wireless spectrum and the development of the Android operating platform for handsets.

Equipment manufacturers also are positioning themselves to capitalise on the potential of the location-based services that fast broadband connections on the move promise. Nokia's €5.5 billion acquisition of digital mapping company Navteq is the largest of these to date but it is likely that there will be more activity across sectors in telecoms, software and hardware. The lack of comparable deals by any major telecoms operators perhaps indicates hesitancy about how – or even if – to enter the content and services market.

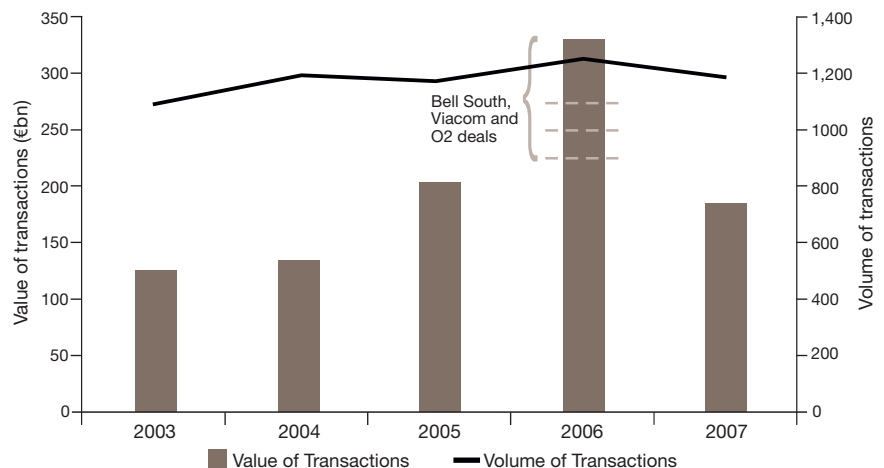


# Deal values decline after bumper 2006, but prospects remains buoyant

While both deal value and volumes have declined in 2007, this more reflects timing of jumbo deals rather than an intrinsic change in sentiment.

In 2007, telecom markets globally saw a decline in deal values and a less significant drop in the overall volume of deals completed. This principally reflects the very strong performance in 2006 rather than an underlying downward trend. However there are factors that are coming into play. The credit crunch, for example, does not show a significant impact in the 2007 data – though inevitably we would now expect to see a significant decline in large transactions executed by financial buyers. Other factors, such as industry consolidation in many of the developed economies have already largely played out and we would not expect to see significant domestic activity in many of the markets in Western Europe or North America. Growth opportunities, therefore, are now fixed in the emerging markets, particularly Africa, Asia and the Middle East. Wireless is of particular significance in these markets and it is here that there has been the most activity and there is likely to be considerably more to come.

Global Deal Activity 2003 – 2007



Source: Thomson Financial, deals where the target or acquirer was in Wireless, Telecommunications Services, Telecommunications equipment, space and satellites, other telecom, cable networks (not channel management) between 1/1/03 to 31/12/07

Average deal size fell from €483 million in 2006 to €292 million in 2007. Total deal value of €185 billion in 2007 was significantly lower falling by 44%, while the volume of deals showed a less dramatic decline at 7%.

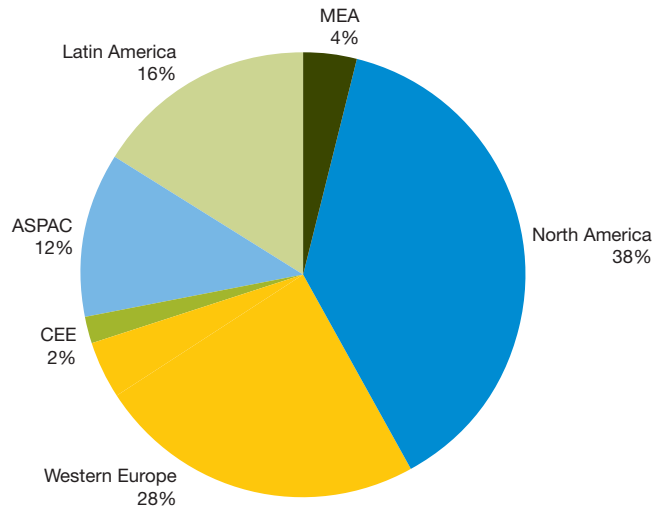
One of the principal reasons for the decline in deal value in 2007 is the lack of mega-deals compared with 2006. Stripping out the Bell South, Viacom and O2 transactions from 2006 data reveals a far less dramatic decline in global deal value. In contrast to 2006, the only deal in 2007 that exceeded €20 billion was the €23 billion merger of America Telecom and America Movil. It is also interesting to note that deals transacted in the emerging markets of Central And Eastern Europe, Latin America and Middle East and Africa regions have grown as a proportion of global deal activity, accounting for nearly one quarter (22%) of all deals by value in 2007, compared with 11% in 2004.

### Largest Global Telecoms Deals 2007

Date	Value (€m)	Target	Target Country	Acquirer	Acquirer Country
Jan 07	23,338	America Telecom SA de CV	Mexico	America Movil SA de CV	Mexico
Nov 07	18,447	Alltel Corp	US	Investor Group	US
May 07	9,368	Hutchison Essar Ltd	India	Vodafone Group PLC	UK
Oct 07	5,926	Avaya Inc	US	Investor Group	US
Oct 07	4,382	Olimpia SpA	Italy	Telefonica Consortium	Spain
Jan 07	4,257	Global Signal Inc	US	Crown Castle International	US
May 07	4,030	FASTWEB SpA	Italy	Swisscom AG	Switzerland
Nov 07	3,974	Dobson Communications Corp	US	AT&T Inc	US
Apr 07	3,628	NGWireless Ltd	UK	Arqiva Ltd	UK

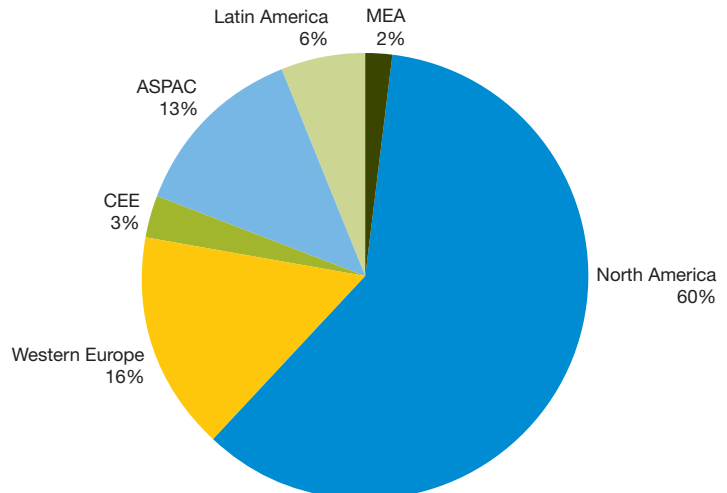
Source: Thomson Financial

### Global Deal Value by Region 2007



Source: Thomson Financial, PwC Analysis

### Global Deal Value by Region 2004

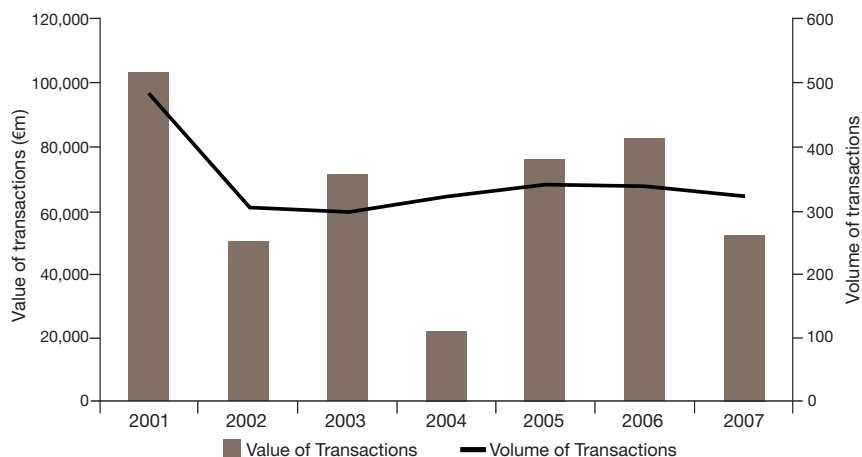


Source: Thomson Financial, PwC Analysis

# Mega deals in Western Europe failed to materialise

Despite the very buoyant capital market conditions for much of the year there were no stand out deals with volumes and value below 2006 and 2005 levels.

Western European Deal Activity (including UK & CEE) 2001 – 2007



Source: Thomson Financial, PwC Analysis

Overall deal activity in Europe declined in both value (€52 billion in 2007 from €82 billion in 2006) and volume. The absence of any mega deals in the European market in 2007 points to the strategic challenges that large players face in addressing markets in which consolidation has largely been completed as well as markets that have high penetration rates across both fixed and wireless. At the start of the year the buoyant capital markets supported the view that many of the European operators outside of the Big 4 (Telefonica, Vodafone, France Telecom and Deutsche Telecom) were prey to financial players. The fact that none of these materialised before the credit crunch indicates that, while the debt funding was available, the potential equity returns could not be supported.

The largest deal was the Telefonica Consortium acquiring Olimpia for €4.4 billion which gave it control over an 18% stake in Telecom Italia. There was an interesting strategic diversification for Swisscom who acquired Fastweb for €4 billion while Weather Investments continued expanding its regional footprint with the acquisition of TIM Hellas. The other main deals were by financial players in wireless; Macquarie's acquisitions of Airwave and NGWireless (via its ownership of Arqiva) and Mid Europa's acquisition (with France Telecom) of One in Austria.

Largest European Deals 2007

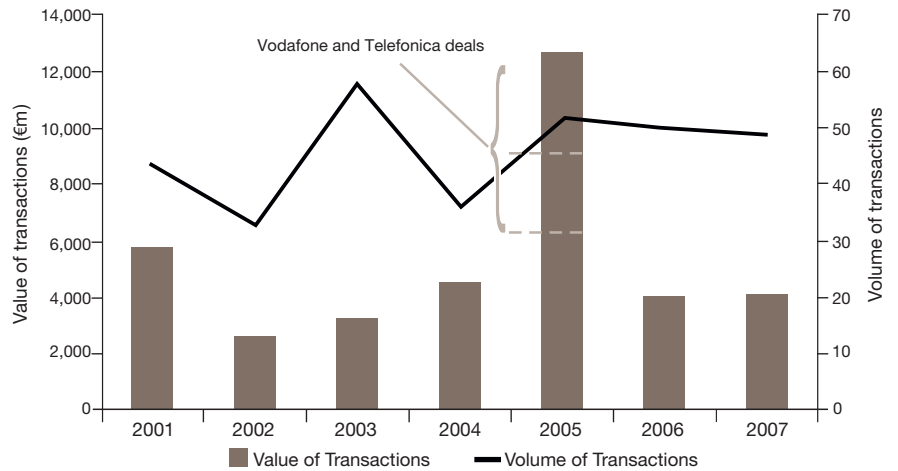
Date	Value (€m)	Target	Target Country	Acquirer	Acquirer Country
Oct 07	4,382	Olimpia SpA	Italy	Telefonica Consortium	Italy
May 07	4,030	FASTWEB SpA	Italy	Swisscom AG	Switzerland
Apr 07	3,628	NGWireless Ltd	UK	Arqiva Ltd	UK
Apr 07	3,231	TIM Hellas Telecommunications	Greece	Weather Investments Srl	Italy
Apr 07	2,965	Airwave O2 Ltd	UK	Investor Group	UK
Jan 07	2,447	Essent Kabelcom BV	Netherlands	Multikabel SPV	Netherlands
Apr 07	1,577	Alcatel Satellite	France	Thales SA	France
Oct 07	1,379	ONE GmbH	Austria	Investor Group	UK

Source: Thomson Financial

# Central and Eastern Europe continues to attract interest

Both growth and restructuring opportunities have continued to drive deal activity across the region.

Central and Eastern Europe Deal Activity 2001 – 2007



Note: Value of disclosed transactions only. CEE countries: Albania, Belarus, Bosnia, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russian Fed, Serbia & Mont., Slovak Rep, Slovenia, Ukraine, Yugoslavia.  
Source: Thomson Financial, PwC Analysis

Still very much perceived as a growth market, Central and Eastern Europe saw stable total deal value at €4 billion, though deal volumes declined slightly. However, deal values have declined significantly from the peak of 2005 that saw over €12 billion in deals, driven by the acquisitions of Czech Telecom by Telefonica and of wireless operations in Czech Republic and Romania by Vodafone.

Largest CEE Deals 2007

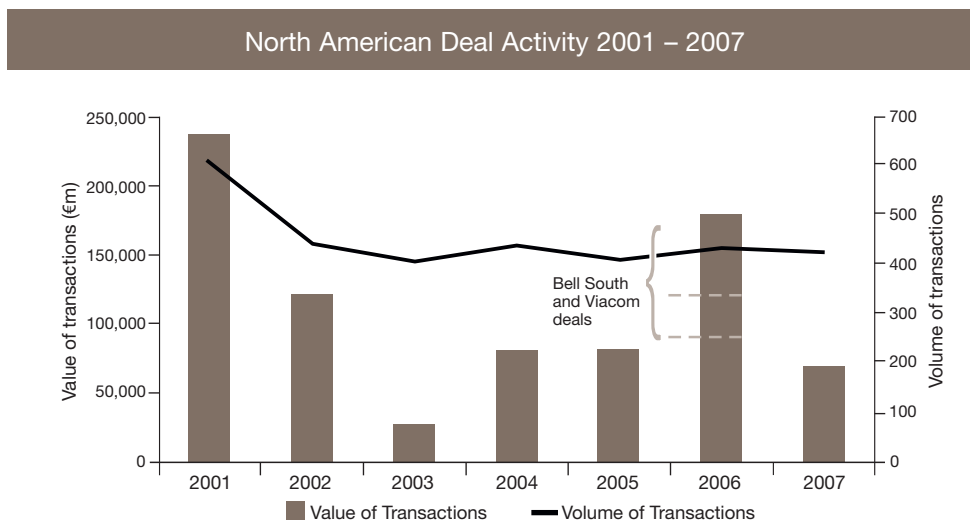
Date	Value (€m)	Target	Target Country	Acquirer	Acquirer Country
Aug 07	1,082	Bulgaria Telecom	Bulgaria	Investor Group	US
Jun 07	629	Telekom Srpske	Bosnia	Telekom Srbija	Serbia & Mont.
Apr 07	448	Matel Holdings NV	Hungary	HTCC	Hungary
Feb 07	426	Bite	Lithuania	Investor Group	UK
Jan 07	303	Karneval Media	Czech Republic	Liberty Global Inc	US
Sep 07	118	Albtelecom	Albania	Investor Group	Turkey

Source: Thomson Financial

Private Equity were the main deal doers with Bulgaria Telecom being acquired by AIG Capital and Mid-Europa acquiring Bite from TeleDanmark. The credit crunch has impacted the market with both the Lattelecom and Telecom Slovenia deals, which had interest from financial players, failing to complete and now looking unlikely to do so.

# Consolidation in North America largely played out

Major deals were mainly driven by Private Equity in 2007. Consolidation now largely played out.



Source: Thomson Financial, PwC Analysis

From a significant peak in 2006 – largely the result of a handful of major deals including AT&T's acquisition of Bell South for €58 billion and the €25 billion de-merger of Viacom – the value of North American deals declined substantially, though deal volumes showed a more modest decline.

Financial buyers were a major part of the market in North America in 2007. By far the largest transaction to complete was a private equity consortium's €18.5 billion acquisition of Alltel the wireless operator. The major deal still outstanding is the completion of the Bell Canada deal at €25 billion. Here as, elsewhere, it remains to be seen how far the impact of the credit crunch will restrict deal flows in 2008. Other transactions that would move the dial are Vodafone's intentions regarding its stake in Verizon Wireless and whether market pressure encourages cable consolidation in the future.

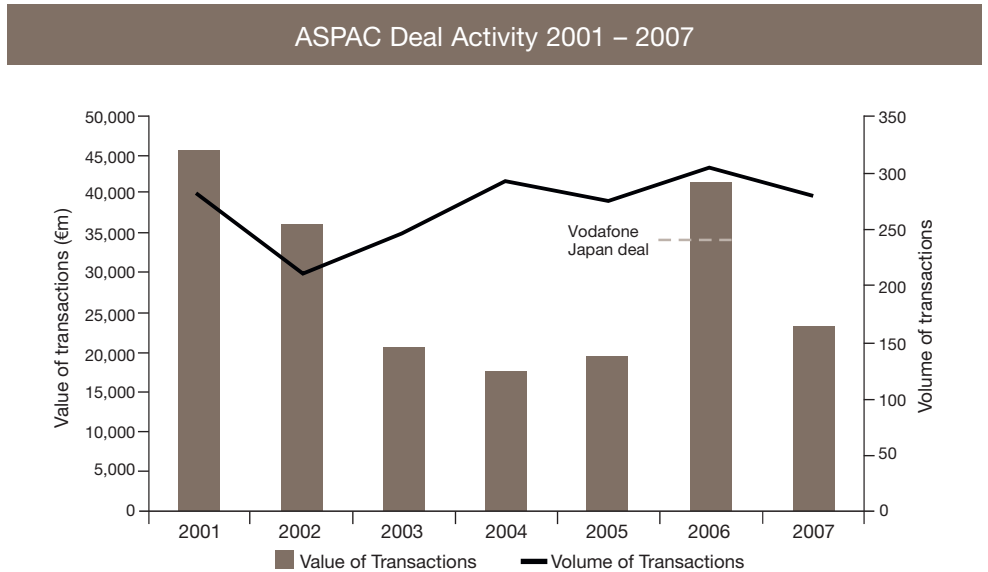
## Largest North America Deals 2007

Date	Value (€m)	Target	Target Country	Acquirer	Acquirer Country
Nov 07	18,447	Alltel Corp	US	Investor Group	US
Oct 07	5,926	Avaya Inc	US	Investor Group	US
Jan 07	4,257	Global Signal Inc	US	Crown Castle International	US
Nov 07	3,974	Dobson Communications Corp	US	AT&T Inc	US
Jan 07	2,852	Symbol Technologies Inc	US	Motorola Inc	US
Oct 07	2,173	Telesat Canada	Canada	Investor Group	US
May 07	1,690	Sprint-Wireless Comm Towers	US	Global Signal Inc	US
Jan 07	1,504	Redback Networks Inc	US	Telefonaktiebolaget LM	Sweden

Source: Thomson Financial

# The Giants are stirring in Asia Pacific

Vodafone finally unlocks a jewel in India, but China remains challenging.



Source: Thomson Financial, PwC Analysis

The deal that grabbed the headlines was Vodafone's €9.4 billion acquisition of Hutchison Essar in India. Regulatory uncertainties on a number of fronts had made unlocking this enormous market very challenging for foreign acquirers. Vodafone was the only player from outside the region to enter into a significant transaction in 2007, with the remainder of the largest deals completed by businesses from within the region. Overall deal value was down on 2006 to €23 billion versus €41 billion (2006 included the €11 billion sale of Vodafone Japan) with volumes declining slightly. As in Europe much of the consolidation activity appears to have played out, though it may be now that the enormous Chinese and Indian operators show their hands in other markets.

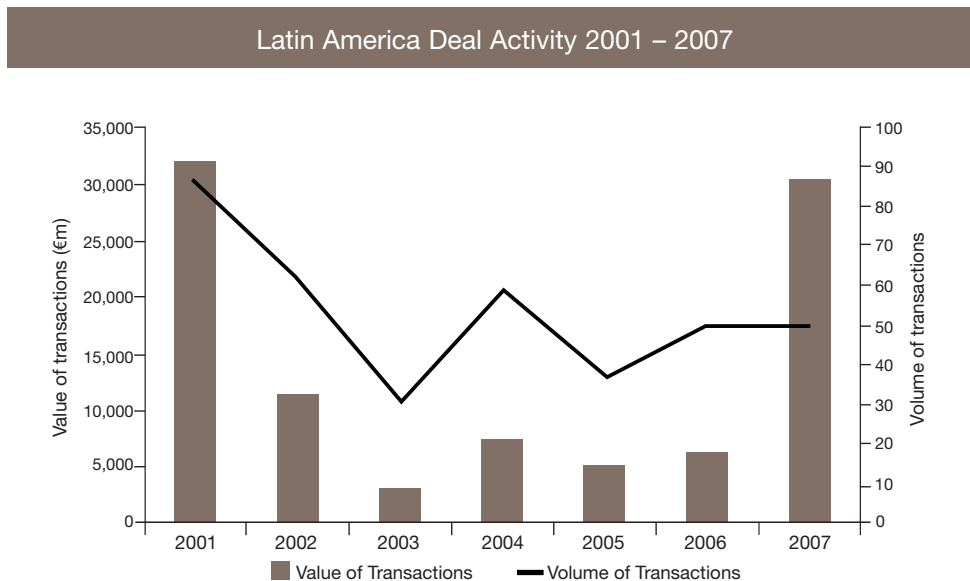
Largest ASPAC Deals 2007					
Date	Value (€m)	Target	Target Country	Acquirer	Acquirer Country
May 07	9,368	Hutchison Essar Ltd	India	Vodafone Group PLC	UK
Jun 07	3,420	Maxis Communications Bhd	Malaysia	Binariang GSM Sdn Bhd	Malaysia
Mar 07	1,105	China Network Systems Co Ltd	Taiwan	Investor Group	South Korea
Apr 07	888	Taiwan Fixed Network Co Ltd	Taiwan	Tai Hsing Intl Telecommun Co	Taiwan
Aug 07	757	TOM Online Inc	Hong Kong	Tom Group Ltd	Hong Kong
Jan 07	722	Tokyo Electric Power-optical	Japan	KDDI Corp	Japan
Apr 07	579	JSAT Corp	Japan	SKY Perfect Communications Inc	Japan
Nov 07	559	SK Communications Co	South Korea	Empas Corp	South Korea
Jul 07	557	Warid Telecom(Pvt)Ltd	Pakistan	SingTel	Singapore

Source: Thomson Financial

The liberalisation of the Vietnamese market will attract foreign investment interest in 2008. There are also likely to be a number of infrastructure and tower deals, with a process already underway with Excel's tower business in Indonesia.

# Latin American tango wins the prize

One jumbo deal dwarfs all other activity in the region and is the biggest globally.



Source: Thomson Financial, PwC Analysis

After a few years of being over shadowed by its northern neighbour, Latin America saw the single largest completed transaction of 2007 anywhere in the world, with the €23 billion merger of America Movil (Latin America's largest mobile operator) with America Telecom in Mexico. However, this deal was more than ten times the size of the next largest transaction in the region: Telefonica's €1.9 billion acquisition of Colombia Telecomunicaciones. America Movil was behind two of the five largest deals in the region, with the acquisition of Puerto Rico Telephone for €1.3 billion.

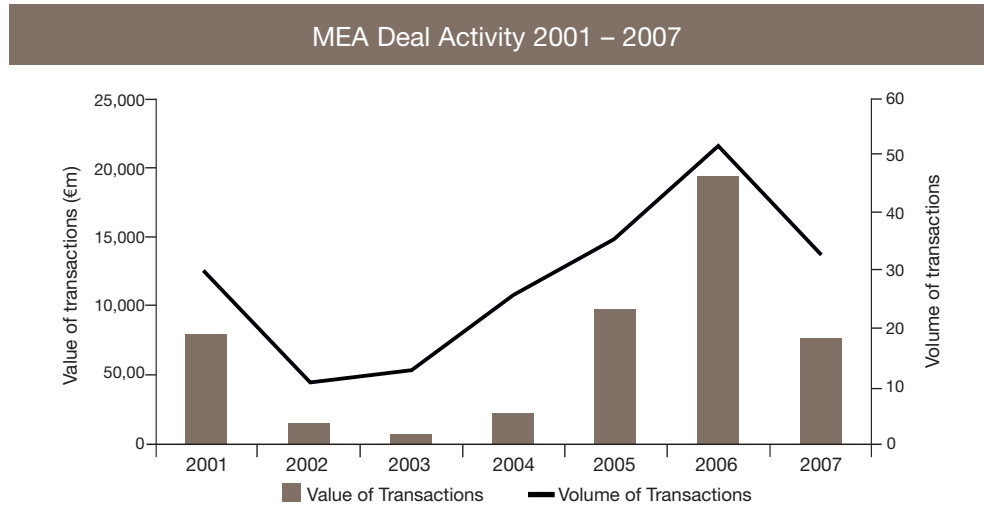
## Largest Latin America Deals 2007

Date	Value (€m)	Target	Target Country	Acquirer	Acquirer Country
Jan 07	23,338	America Telecom SA de CV	Mexico	America Movil SA de CV	Mexico
Apr 07	1,931	Colombia Telecomunicaciones SA	Colombia	Telefonica SA	Spain
Mar 07	1,327	Puerto Rico Telephone	Puerto Rico	America Movil SA de CV	Mexico
May 07	420	Compania Anonima Nacional	Venezuela	Republic of Venezuela	Venezuela
Oct 07	390	Tevecap SA	Brazil	Telecomunicacoes de Sao Paulo	Brazil
Oct 07	378	Solpart Participacoes SA	Brazil	Investor Group	Brazil
May 07	288	Vivax SA	Brazil	Net Servicos de Comunicacao	Brazil

Source: Thomson Financial

# A quiet year in Middle East & Africa, but investment activity escalates

2007 could not match the peak of last year, but MEA players have not been idle with significant investment in new licences and networks.



Source: Thomson Financial, PwC Analysis

The MEA region has been the focus of significant activity for a couple of years, and is likely to continue to attract investment. With the lowest number of telephone connections per capita of any region in the world MEA clearly has the highest potential for growth.

Though MEA deal values and volumes have declined from a peak in 2006, this does not hint at a lack of ambition by the main players.

Some of the largest operators in the Middle East have been steadily consolidating their presence across the region. Kuwait's Zain (formerly MTC Group) has expanded its operations in the region, perhaps most notably securing for €4 billion the licence to launch a third wireless operator in Saudi Arabia. Zain is now one of the largest regional players in a rapidly growing market, with operations in 6 countries in the Middle East as well as 14 in Africa.

The largest deal completed in 2007 was Qtel's €2.8 billion acquisition of Kuwait's Wataniya, which, along with its JV with Singapore Technologies Telemidia, has made it a serious regional player. Etisalat has also been busy, acquiring licences in Egypt, Nigeria and Afganistan, while Saudi Telecom has finally embraced M&A with the acquisition this year of a 35% stake in Oger Telecom.

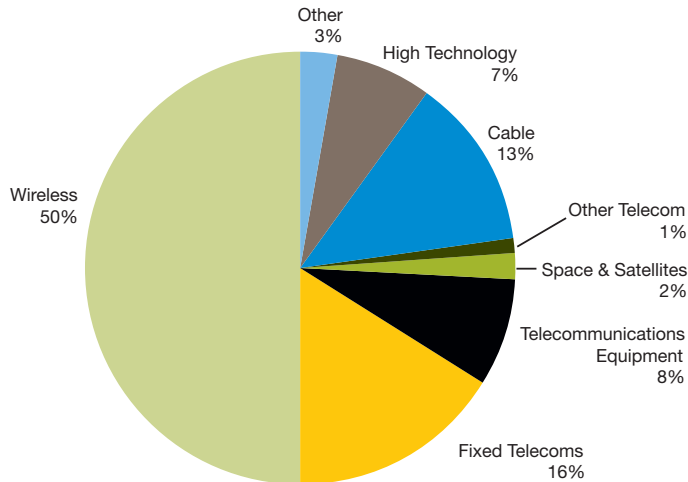
## Largest MEA Deals 2007

Date	Value (€m)	Target	Target Country	Acquirer	Acquirer Country
Mar-07	2,793	Wataniya	Kuwait	Qtel	Qatar
Sep-07	877	ECI Telecom Ltd	Israel	Investor Group	Israel
Aug-07	597	Vodafone Egypt SAE	Egypt	Telecom Egypt	Egypt
Sep-07	311	International Cell Holding Ltd	Armenia	OAO Mobile Telesystems	Russian Fed
Apr-07	270	Tadiran Communications Ltd	Israel	Elbit Systems Ltd	Israel
Jan-07	202	PowerDsine Ltd	Israel	Microsemi Corp	US
Aug-07	125	Portugal Telecom's Africa Holdings	South Africa	Investor Group	South Africa
Mar-07	106	SabaFon	Yemen	Batelco	Bahrain

Source: Thomson Financial

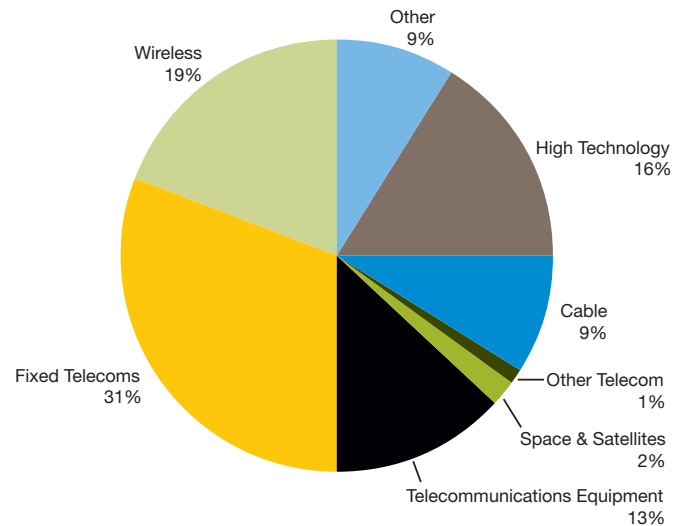
# Wireless continues to dominate share of M&A activity

Value of Transactions by Sector 2007



Note: Industry of target company  
Source: Thomson Financial, PwC Analysis

Number of Transactions by Sector 2007



Note: Industry of target company  
Source: Thomson Financial, PwC Analysis

## Wireless

Deals in the wireless sector saw the largest proportional increase in 2007, with the total proportion of all deals by value accounting for 50% in 2007. In terms of deal volume, wireless operators accounted for 19% in 2007 compared to 17% in 2006. The wireless sector in many markets still retains growth potential and is the sector of most interest to both the strategic investors and private equity. The deals of note were the America Movil and America Telecom merger, Vodafone's acquisition of Hutchinson Essar and the financial investor and acquisitions of Alltel and Avaya in the US, One in Austria, Bite in Lithuania and NGWireless and Airwave in the UK.

## Fixed

Compared to 2006, 2007 was a quiet year for the large incumbents with no major deals completed by the majors. It is unlikely that significant attractive opportunities for consolidation remain in the developed markets, creating a not inconsiderable strategic challenge for the largest players. However, activity in the developing markets suggests a clear focus on the growth opportunities that are available, as shown by proposed deals including France Telecom acquiring in Kenya, Telefonica looking at opportunities in Latin America and the number of operators taking an interest in Ghana. In addition the platform convergence play is beginning to gain momentum with Vodafone for example now strategically investing in fixed businesses to access broadband growth potential.

## Cable

Over the last few years financial buyers have shown significant interest for cable. With many of those private equity investments now approaching exit it remains to be seen how far the decline in credit conditions will impact on exit prices. Whilst there has been some national consolidation in Central and Eastern Europe, the cable sector has been relatively quiet in 2007. Candover successfully sold Get in Norway at the end of the year and Carlyle and Providence Equity have invested in Numericable. The notable deals have been the completion of the Multikabel deal by Cinven and Warburg Pincus in Holland and the sale of Viola in Ukraine. There is the prospect of further consolidation in the US, with Time Warner announcing the possible separation of its cable business.

# Infrastructure – the hot spot for 2008?

The growth of specialist funds and the increasing view that the network is not a strategic asset has encouraged greater activity in network separation.

In the fixed market, regulators in Europe and around the world have been evaluating network separation as a means of increasing competition and penetration in the broadband market. In the UK, BT has split off its access business into Openreach, an operationally independent network access division and this structure is also being created by Telecom New Zealand. These separations have not yet led to a disposal however financial players are assessing the value implications as evidenced in Ireland where this is being considered by Eircom's owners Babcock & Brown.

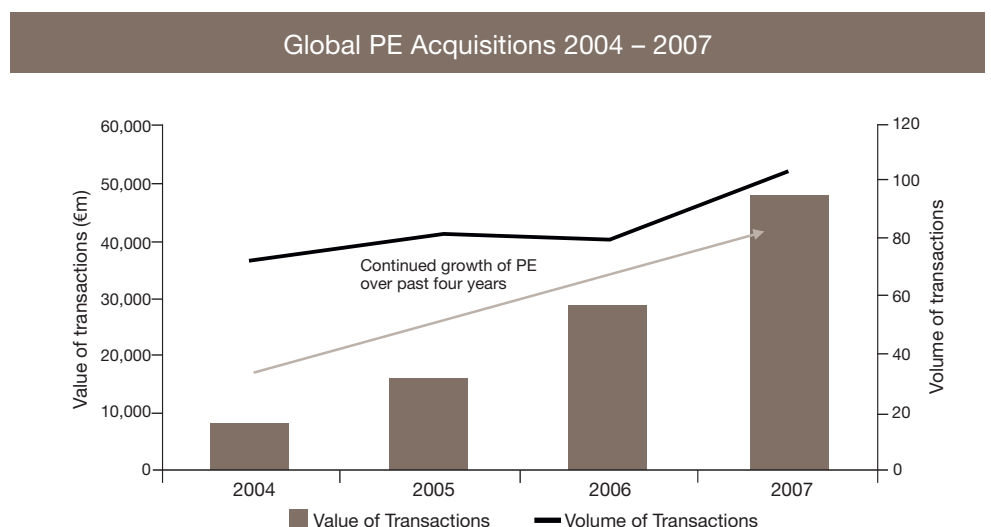
Wireless network and/or tower separation and outsourcing is more advanced. There have been a number of substantial tower sales principally in India as discussed previously, with most operators now considering the opportunity. Eircom sold its mobile tower portfolio to an Irish consortium while in Italy, Wind and 3 have placed their towers into a joint venture company which is in the process of being sold. While the driver for these is realising value another driver is cost saving. A number of operators are considering sharing their infrastructure including in the UK, T-Mobile and 3 and Orange and Vodafone. The success of mobile network separation may ultimately hinge on the ability of partners to address issues including cost allocation, technology strategies and future investment.

# The PE story – is the heyday over?

Operating in a different financial landscape.

As observed earlier, the credit crunch will have a powerful impact on the ability of private equity players to fund substantial leveraged transactions. During 2007 the proportion of deals made by private equity grew, to approximately 30% by value. The major PE deals included TPG Consortium's acquisition of Alltel for €18.5 billion which was by some margin the largest private equity deal completed in 2007, as well as being the largest deal overall completed in North America. Private equity are also involved in the announced but yet to be completed €25 billion acquisition of Bell Canada. While in both Europe and CEE financial buyers accounted for some of the largest deals, including Macquaries' acquisitions of NGWireless and Airwave in the UK and AIG Capital's acquisition of Bulgaria Telecom.

Though there has been much discussion about the impact of the credit crunch, the figures for 2007 do not provide any clear indication of precisely how it will play out.



Source: Thomson Financial, PwC Analysis, deals where acquirer is one of 370 PE houses tracked over time series.

Deals for which finance was agreed prior to the significant shift in the market in August succeeded in completing in the 4th quarter, however there was a marked decline in announced deals during the quarter. New financing will prove very much more difficult to obtain and in consequence, it's likely that looking further forward private equity will focus on smaller deals, perhaps even working alongside major corporate buyers in order to secure strategically specific assets that do not fit corporate plans. A significant number of private equity deals would normally be approaching exit and it will be interesting to see how well they fare in 2008.

While the turmoil in the financial markets may well have changed the prospects for private equity in the telecoms space, the sovereign wealth funds might have a considerable impact.

The largest funds – such as those controlled by Abu Dhabi, Singapore, China and Kuwait – have investment funds that today collectively total more than €4 trillion and are by some estimates expected to reach more than €15 trillion by 2010. With the depth of available funds and strategies that are driven by the requirement to diversify, sovereign funds may well emerge as major financial players in the telecoms space.

## Prospects for 2008

### Debt crisis will rein back the overall telecoms M&A market

Given that a significant growth driver in the past few years has been the increasing size of the private equity funds and scale of available credit, the impact of the credit crunch will hold back a number of major deals that were considered pre August 2007. While there is no indication that corporate activity is slackening, the decline in values will potentially inhibit vendors from selling while falling share prices in most markets may limit the funding options for acquirers.

### Middle East and Asia operators poised to accelerate international expansion

The MEA, Indian and Chinese operators appear to be immune from the capital market tribulations affecting the global market. The former are clearly benefiting from the high oil price and with liberalisation accelerating across the region, we expect that M&A activity between ME operators and further consolidation in Africa will continue. The declining values of assets in other markets will, we expect, prompt these high growth operators to explore the M&A potential in the developed markets. Indian business in general is increasing in confidence in executing international M&A and we expect this to be picked up in the telecoms sector. Chinese operators and vendors have been notable by their relative lack of activity so far, but we expect that the falling share prices will encourage bolder moves.

### Infrastructure deals finally gain traction

There has been much talk about network separation though apart from TV transmission networks, this has not resulted in much M&A activity to date. This reflects the complex regulatory issues that need to be resolved plus the relatively high cost of separation. While both BT and Telecom New Zealand have created separate network businesses the only deal in the frame is Babcock and Brown's proposal for Eircom. We expect that the M&A action will come in the wireless tower sector. There is an acceleration of tower deals particularly in the AsiaPac region with a number in the pipeline for 2008, and in Europe, Wind and 3's tower joint venture sale is expecting to close soon. A successful conclusion of this deal is likely to prompt others, subject to funding conditions.

### Content deals increase in significance

The battle to capture value in the mobile internet world has truly begun pitting the operators, handset vendors and content providers against each other for a prize that now appears to be more than just illusory. The operators historic track record in owning and partnering with content providers has been poor. The massive growth of the fixed internet has created both a number of very substantial players and new successful business models. Nokia's acquisition of Navteq is a statement of intent in owning content, and we expect over the coming years to see other vendors and potentially operators trying to secure valuable online propositions.

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