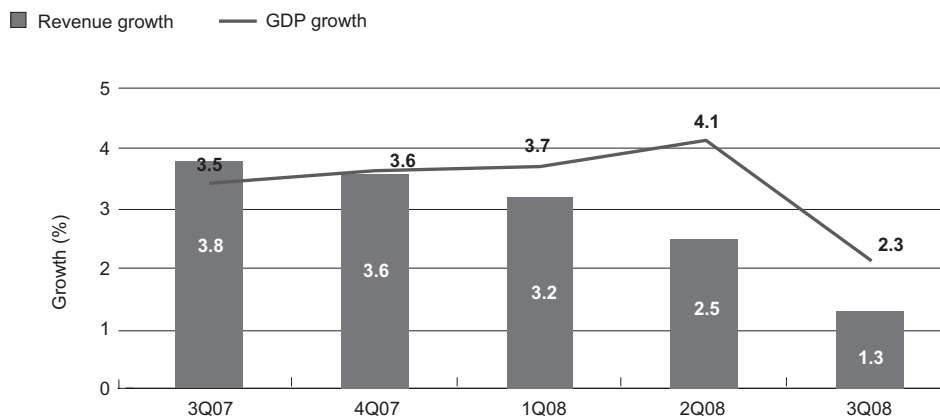


Not all groups performed as badly as Vodafone. France Telecom and Telefonica have not experienced the same slowdown in revenues and confirmed their revenue guidance for the year 2008. France Telecom's revenue growth declined, but the decline was less than the slowdown of the domestic product of the countries in which it operates (see fig. 1.1).

**Figure 1.1: France Telecom, revenue growth vs. GDP growth, 3Q07-3Q08**



Source: Informa Telecoms & Media

France Telecom managed to increase the proportion of recurring revenues, which now account for 85% of France Telecom's total revenues, because customers are committed to contract spending and are unable to reduce their telecoms expenditure quickly even when their personal financial situation deteriorates. Hence, revenues are more resilient.

Telefonica also believes that its mobile businesses in Europe and Latin America are not suffering as a result of economic turmoil and confirmed its revenue targets for 2008. With the exception of Central America and the Spanish business which did slow, Telefonica has not seen significant deterioration.

## Mobile operators have started cost-cutting initiatives

The majority of operators believe that the economic downturn will have an impact on their revenues from 1Q09 onward, but that this impact will be limited.

However, virtually every operator is preparing contingency plans to face a tougher 2009 and 2010 and downsizing exercises have already commenced. Operators are closely monitoring those indicators that can help them in predicting their future revenues. In the event that there is an impact on revenues and earnings, they will act accordingly by reducing costs. Depending on the gravity of the economic impact they will:

## Chapter 2

## Global mobile subscriptions

## Financial downturn may be affecting subscription growth, but operators' financial health remains robust

The world's mobile industry recorded a first in 2008: For the first time, the quarter with the fewest net subscriptions added was the fourth. Because the fourth is traditionally the quarter with the largest number of net additions, this could be a sign that the financial downturn is now affecting subscription growth.

The number of net mobile subscriptions added worldwide in 4Q08 fell to just under 164 million, representing a 4.5% quarter-on-quarter decline and a fall of about 17% year-on-year (see fig. 2.1). By the end of 2008, there were 3.97 billion active mobile subscriptions globally, accounting for a 59% penetration rate.

**Figure 2.1: Global, mobile subscriptions by region, 3Q07-4Q08**

Region	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08
Africa	253,573,290	279,566,270	299,928,990	324,718,110	351,270,310	378,873,900
Latin America	355,537,060	381,249,560	397,868,810	416,850,290	435,644,050	457,377,450
Asia Pacific	1,251,455,150	1,339,046,740	1,429,158,690	1,525,264,450	1,612,036,920	1,681,510,310
Eastern Europe	373,556,630	392,020,630	404,384,030	417,479,030	432,751,500	450,427,670
Western Europe	521,488,530	536,811,310	544,245,490	552,931,050	561,356,320	569,936,710
Middle East	92,407,330	102,522,430	114,946,530	124,030,310	132,915,220	145,767,510
US/Canada	267,659,760	274,704,530	278,762,580	282,826,710	286,985,440	291,561,520
<b>TOTAL</b>	<b>3,115,677,750</b>	<b>3,305,921,470</b>	<b>3,469,295,120</b>	<b>3,644,099,950</b>	<b>3,812,959,760</b>	<b>3,975,455,070</b>

*Note: Figures refer to quarter end*

*Source: Informa Telecoms & Media*

The region that suffered the most in 4Q08 was Asia Pacific, where there were 68.4 million net additions, down from 87 million in 3Q08 and 87.6 million in 4Q07. The 4Q08 figure represented the region's lowest individual quarterly growth for seven quarters.

There are also clear signs of a slowdown in growth, when comparing net additions for 4Q07 and 4Q08 in Europe, North America and Latin America. However, there is still resilient growth in the Middle East and Africa. In Africa, penetration is still under 38%, and across sub-Saharan Africa the figure is much lower.

Are these the first signs that the world's mobile market is beginning to suffer from the global economic downturn? Is this a sign that the real economy is being hit and that a change in consumer spending patterns is affecting subscription growth?

It is perhaps too early to suggest this, and the main explanation for the fall in Asia Pacific growth is the huge fall in net additions in China for 4Q08, nearly 13 million fewer than

## Chapter 6

# Central and Eastern Europe

### Financial crisis hits Central and Eastern Europe, but telecoms operators take steps to weather the storm

As a region hit hard by the global economic downturn, Central and Eastern Europe acts as an early indicator of the potential impact of the crisis on telecoms businesses. The region's mobile operators have taken preliminary steps to weather the downturn, but the results will not be entirely clear before mid-2009.

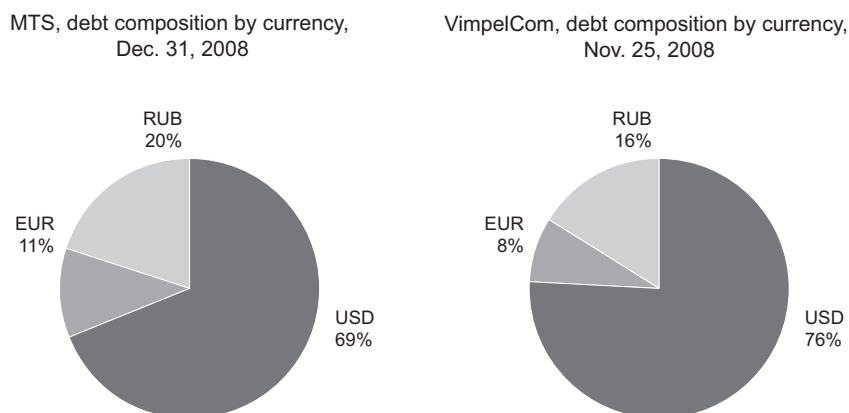
The impact of the economic downturn on Central and Eastern Europe's mobile operators is apparent on two broad levels. Most immediately, the financial crisis has forced them to re-examine their debt structures, operating costs and capital expenditure; in the longer term, it is also expected to have an impact on the competitive landscape and customer spending habits.

Many of the region's economies have relied heavily on foreign-currency borrowing and have recently seen their currencies plummet in relation to the US dollar. The Ukrainian hryvnia lost about 52% of its value in 4Q08 alone, while the Russian rouble and Polish zloty have both lost more than 30% of their value since September 2008.

For operators, the decline in value of local currencies has resulted in foreign-exchange losses on US-dollar- and euro-denominated debt. It has also led to an effective increase in the price of network equipment, which in most cases is also denominated in US dollars or euros.

The region's largest operator, MTS, announced the placement of its first rouble bond in June 2008, but 80% of its debt remains in euros or US dollars. Major rival VimpelCom is in a worse position because it has more than twice as much debt, 84% of which was denominated in US dollars or euros as of late November 2008 (see fig. 6.1).

**Figure 6.1: CIS, debt composition by currency of leading operators**



Source: MTS & VimpelCom