



TELECOMMUNICATIONS

SNAP UPSMdate

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EMERGING MARKET SUBSCRIBERSHIP OUTSHINES US TELECOM GIANTS

Telecom companies originating and doing business in emerging markets are seeing record profits and have obtained record numbers of subscribers. Currently, the telecom industries in China, India, and South Africa are undergoing major changes. For example, China has announced that it will consolidate its six biggest companies into three. MTN, a telecom company from South Africa, which had planned to merge with India's Bharti Airtel, now plans to merge instead with Reliance Communications, a major India telecom company.

The Washington Post reports that the Chinese telecom consolidation will "offer phone and Internet connections to 1.3 billion people" making it more competitive with China Mobile, which has over 400 million subscribers. If the merger with MTN and Reliance Communications is completed, the

companies will have combined subscribership of over 116 million.

China's fixed-line telecom companies have been struggling, while mobile companies have been flourishing. As demand for wireless service has increased, and traditional service use has declined, China decided to help two of its companies that are focused mainly on traditional service by reorganizing. Fixed-line carriers will now be able to expand into wireless services because the parent of China Telecom will buy China Unicom, a mobile phone network.

MTN's merger with Reliance Communications is designed to expand its business into the fast growing market in India. Indeed, if the merger goes through, MTN would gain at least 46 million new customers.

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According to the New York Times, if China consolidates its six carriers and if MTN and Reliance merge, four of the top seven telecom operators (i.e., China Mobile, China Unicom, America Movil and MTN-Reliance) would be based in emerging markets while the other two (i.e., Vodafone and Telefonica O2, and T-Mobile) would be based in the West. The only major carrier that does not have operations in emerging markets is T-Mobile which operates exclusively in the West.

In the late 1990s, Western telecom companies divested much of the interests in emerging market telecom companies. It would appear that this was a mistake. For example, in 1995, US based SBC, now part of AT&T, invested \$90 million to acquire 16% of MTN. However, SBC sold its stake in 1997. If AT&T wanted to reacquire 16% of MTN, it would have to pay \$6 billion, rather than the \$90 million SBC paid in 1995.

AT&T's domestic operations currently serve 71.4 million mobile subscribers. Although this is a significant number, it no longer dwarfs carriers that have not traditionally been viewed as major players.

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For example, Orascom of Egypt has 71 million customers in Africa, the Middle East, and Asia while Zain Group of Kuwait has 45.7 million subscribers in Africa and the Middle East.

Perhaps even more significant than subscribership are profits for the emerging market telecom companies. Verizon wireless customers pay an average of \$54 per month. However, customers of MTN pay an average of less than \$20 per month while customers of Reliance pay less than \$9, yet the Reliance has earned net profits of \$1.4 billion and MTN had net profits of \$1.6 billion. Verizon's net profits were \$5.52 billion in 2007, significantly higher than the emerging market companies; however, emerging markets are expanding fast, while the U.S. market may be tapped out. It appears that many Western telecom companies have missed an opportunity to cash in on emerging market demand for telecom services.

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