



Telecommunications: Driving through the crisis and beyond

Madrid, June 16, 2009

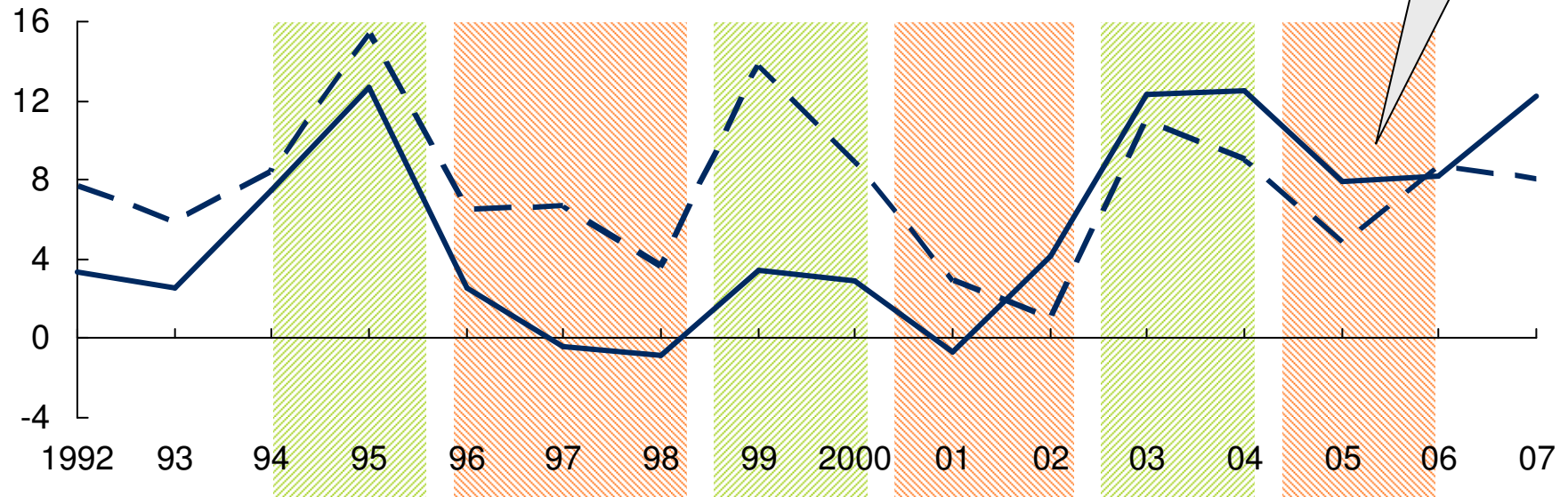
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The telecom sector has historically been quite resilient to cycle changes

- Global annual nominal GDP growth
- - - Global annual telecom revenue growth
- Difference in growth rates between global telecom revenues and world nominal GDP

World Nominal GDP and Global Telecom Revenues Growth

Percent, yoy



2.1

5.1

8.1

0.2

-2.4

-1.3

Growth premium increased in downturn – potentially because of mobile and broadband growth

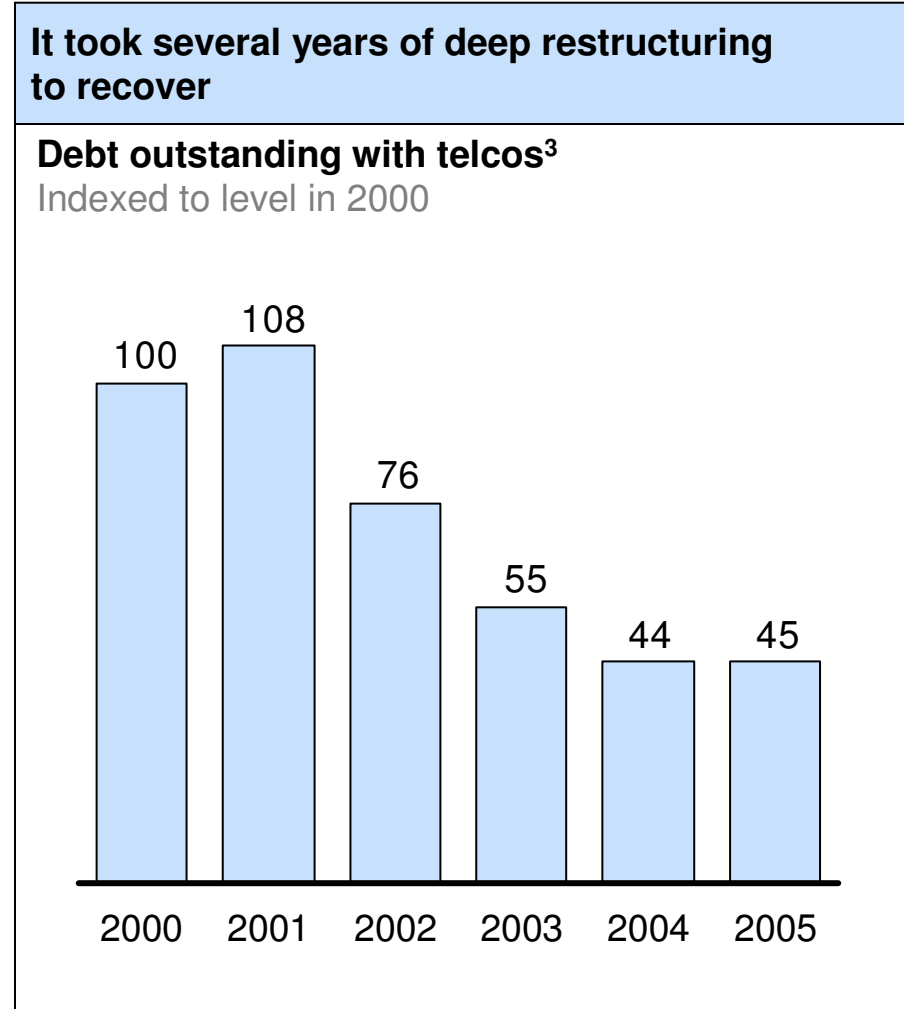
Growth premium decreased in 2001 downturn mainly because telecom was one of the drivers and hard hit in crisis

The 2001 crisis hit telcos in particular hard, but the subsequent restructurings made the sector leaner and less debt intensive

In particular the telecom and IT sector have been hard hit

Drop in EBITA¹ during crisis vs. pre-crisis peak (US)
%

	'73-'75	'90-'93	'01-'02
Consumer discretionary	-71	-40	-22
Financial ²	-8	-15	-9
Industrial	-13	-40	-19
Telecom	-6	-13	-31
IT	-13	-34	-66

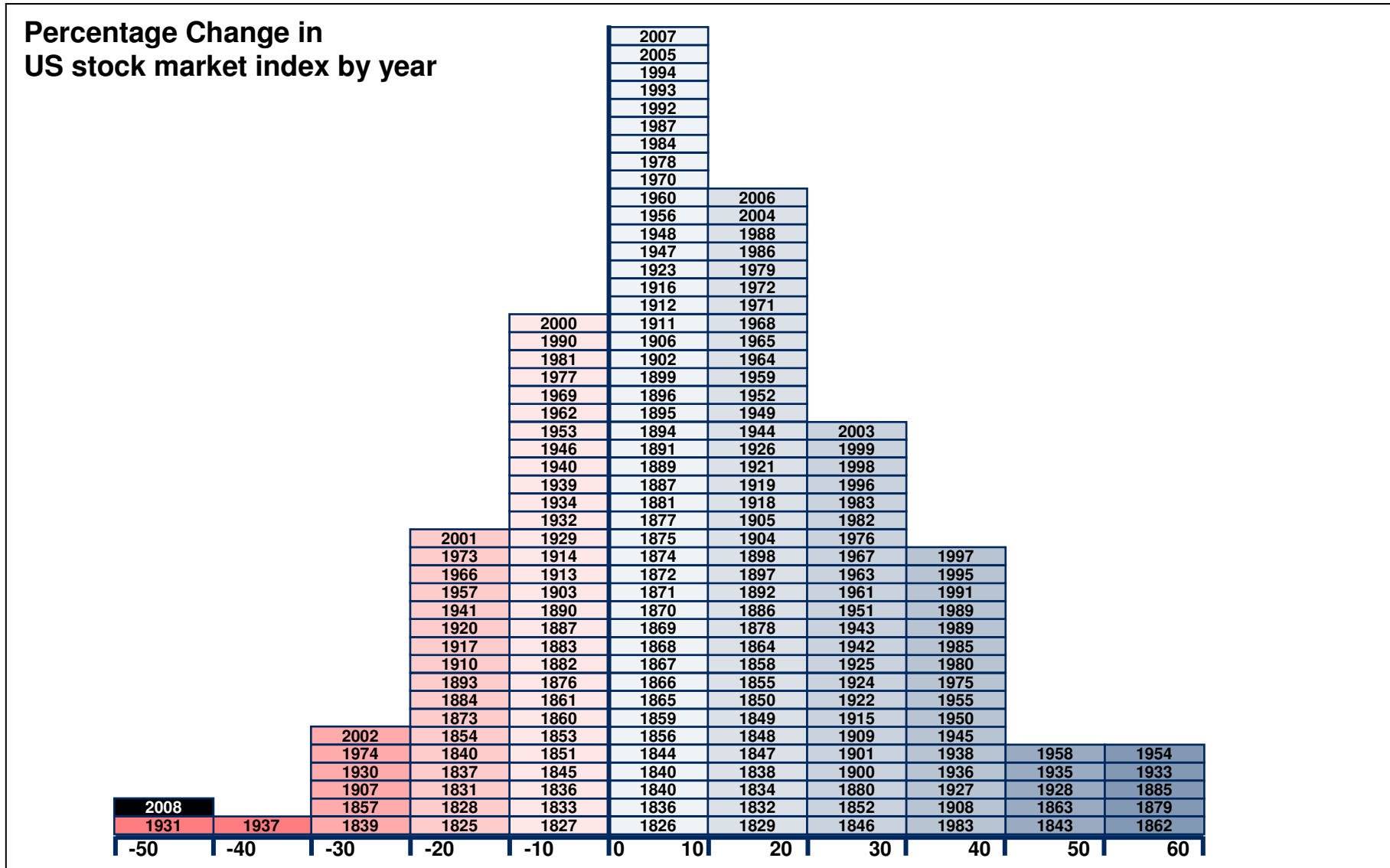


1 Mean of US companies in respective sector with minimum USD 100 million revenues

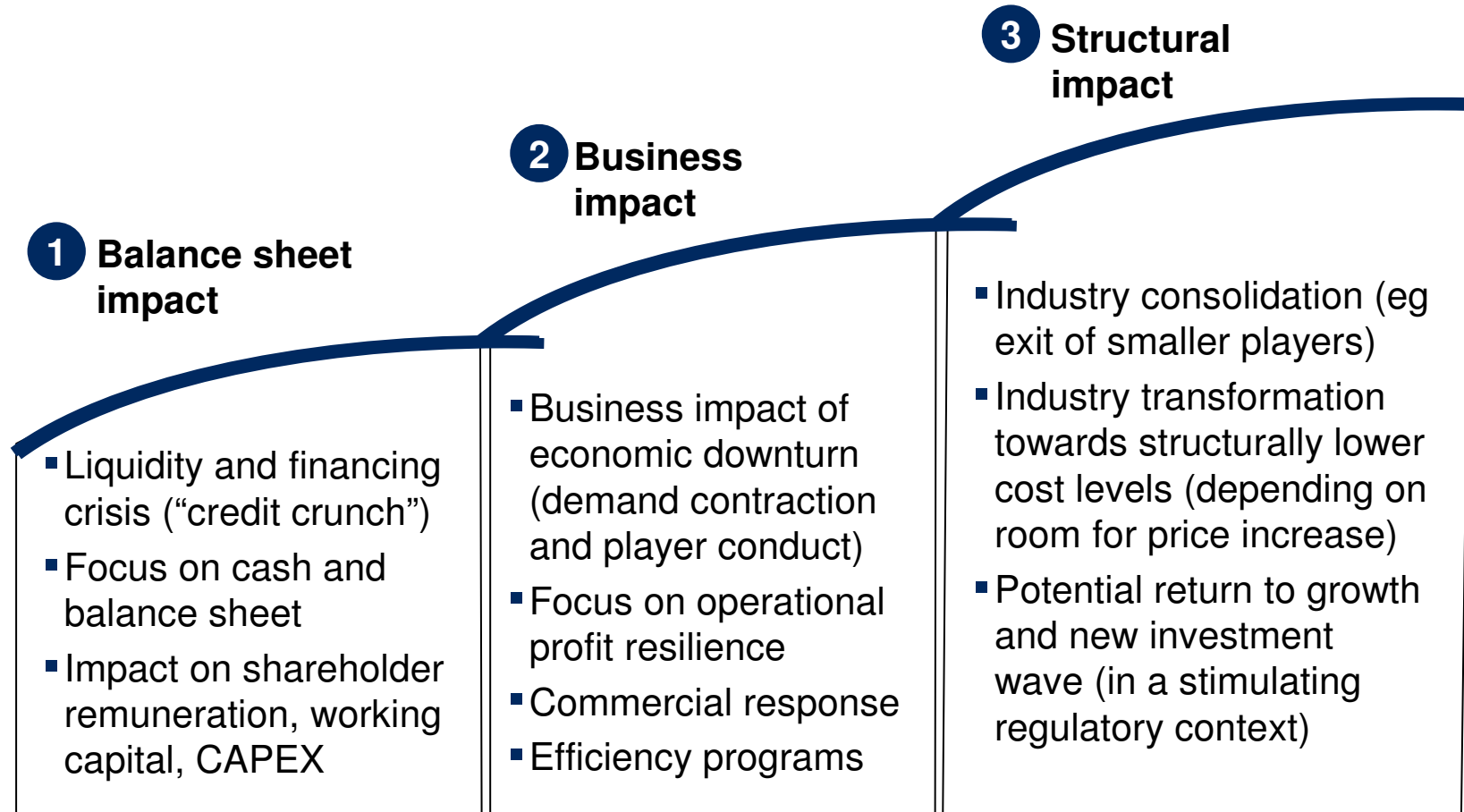
2 Categorized by decline in real net interest income

3 Median telco of "Telecommunication Services Industry Group", worldwide

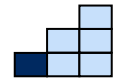
Are we living through a unique crisis?



The telecom sector will be hit in three waves by the current crisis

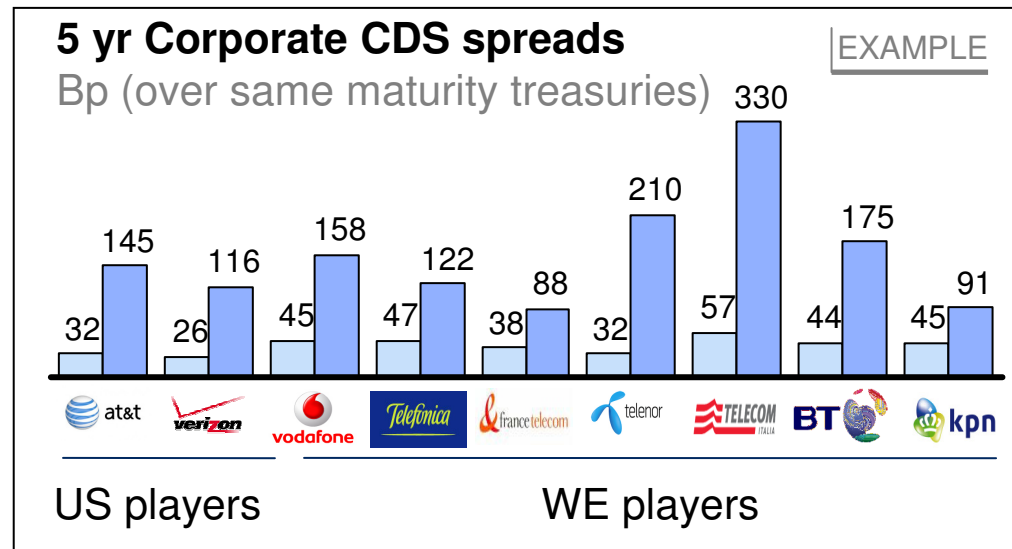


Telco balance sheet is not immune for the credit crunch



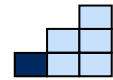
■ Sep 3, 2007
■ Mar 3, 2009

Tightening credit conditions...



... and increased need for cash

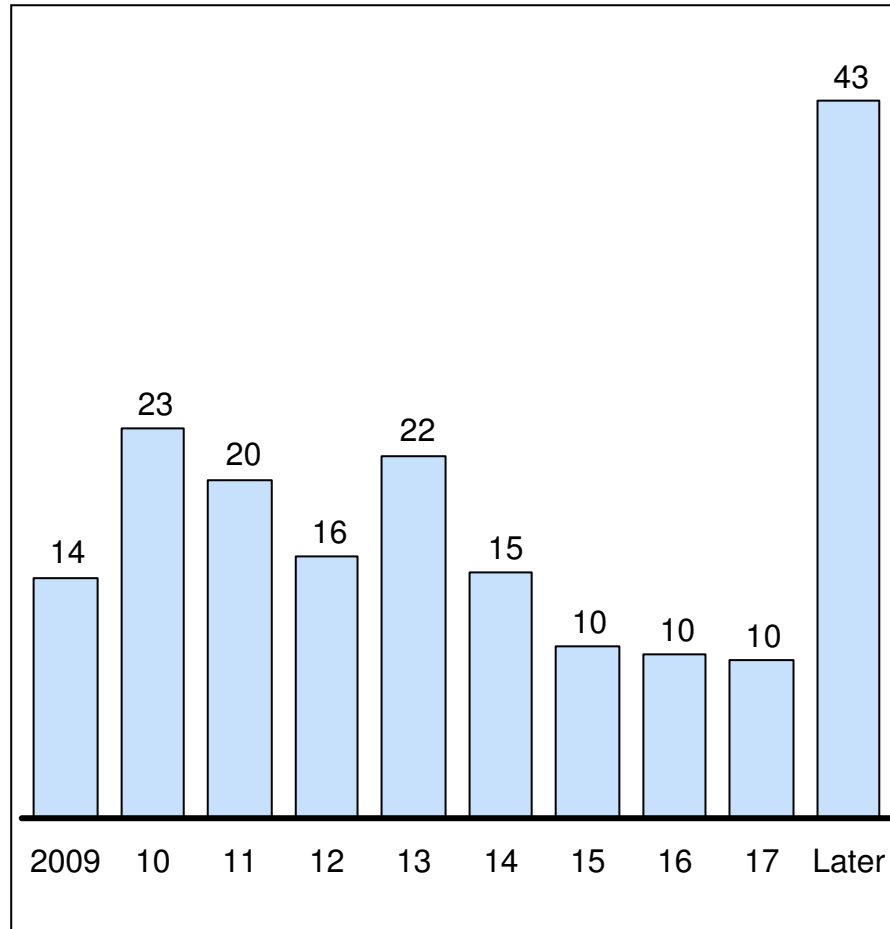
- Customers: increasing collections (A/R)
- Suppliers: less pre-financing capabilities (A/P)
- Debtholders: no renewal of credit
- Shareholders: demand for cash payout



Most telcos have taken advantage of the past credit wave to structure a large portion of their debt as long-term obligations, limiting the immediate “squeeze”

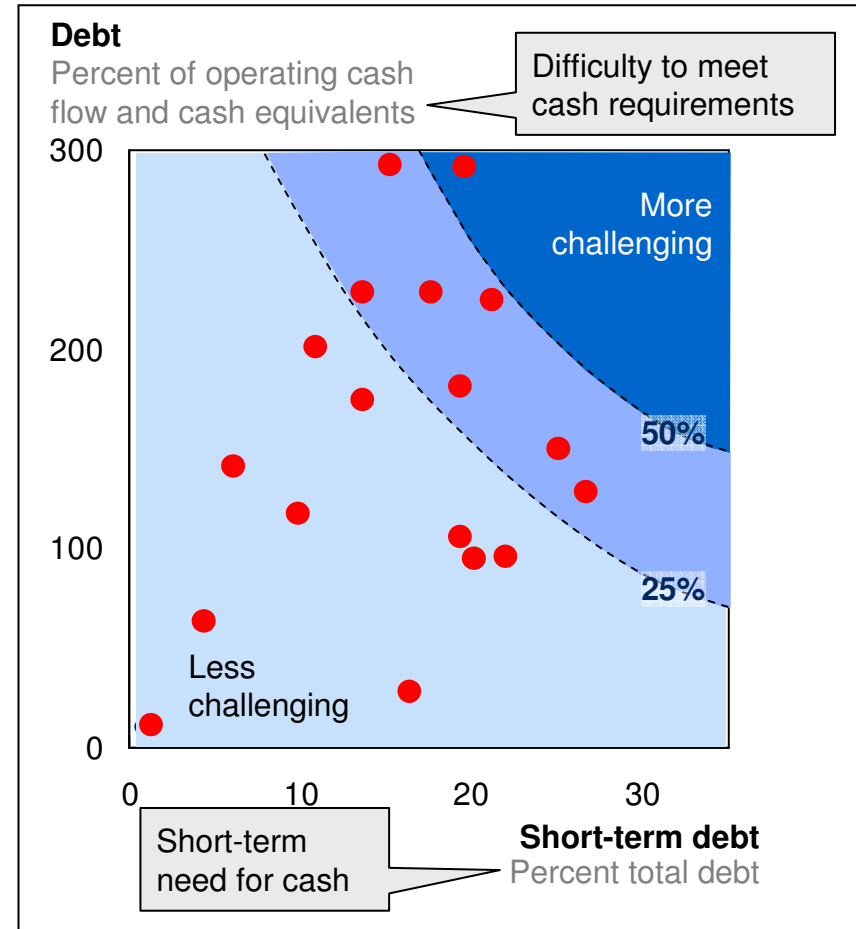
Debt maturity of 10 major European telcos¹

Bond maturity schedule; bn EUR



However situation varies across the telecom industry

- High risk zone
- Medium risk zone
- Low risk zone

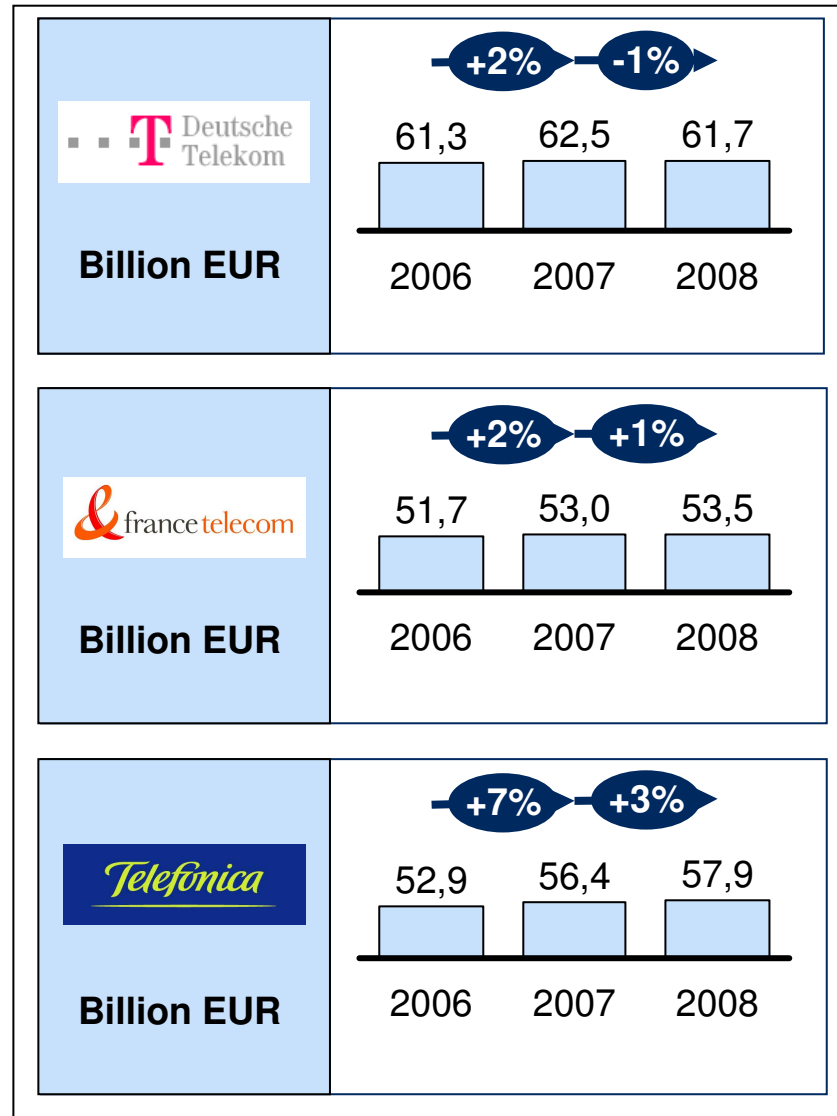


¹ BT, Vodafone, Telefonica, Telecom Italia, Swisscom, Deutsche Telekom, France Telecom, Telekom Austria, Telenor, KPN



The impact of the current crisis on telcos is becoming visible

Global actual revenues



“We expect a more challenging business environment going forward,” said Telenor Chief Executive.”
Dow Jones Newswires – Feb 2009

“For sure, times are becoming tougher in Europe and we see it clearly every quarter.”
Vodafone CEO – Feb 2009


7 out of 10 large European telcos showed worsening results in 1Q2009

“VimpelCom board recommended no dividend for 2008, to focus on generating and preserving cash.”
Global Insights – Feb 2009

“We need to be prepared for a potentially drawn-out economic downturn that may affect consumer and corporate behaviour,” TeliaSonera Chief Executive said.”
Reuters – Feb 2009

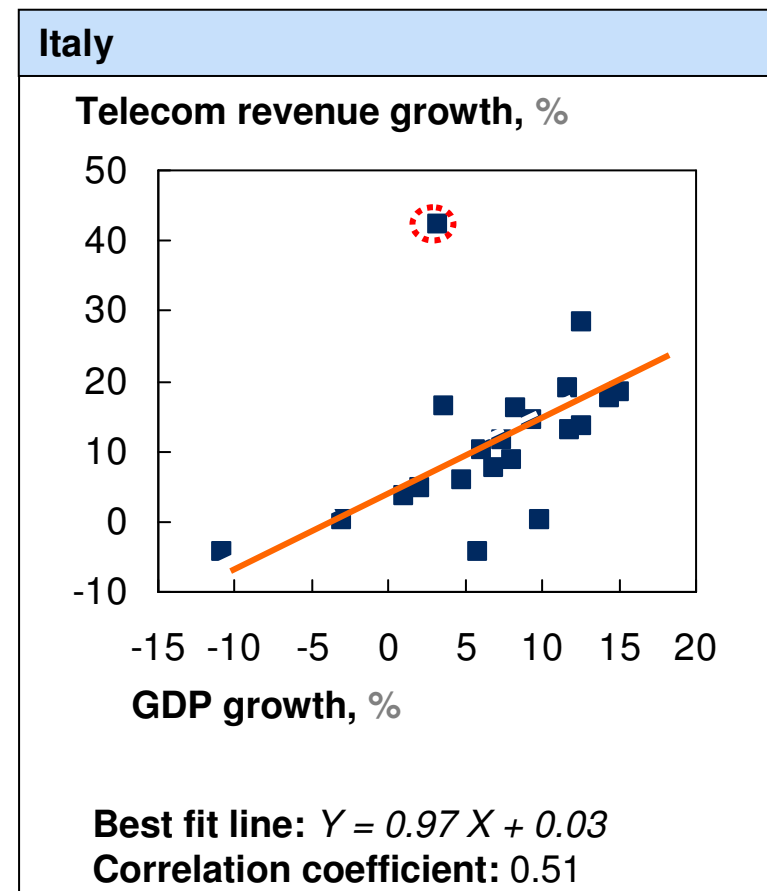
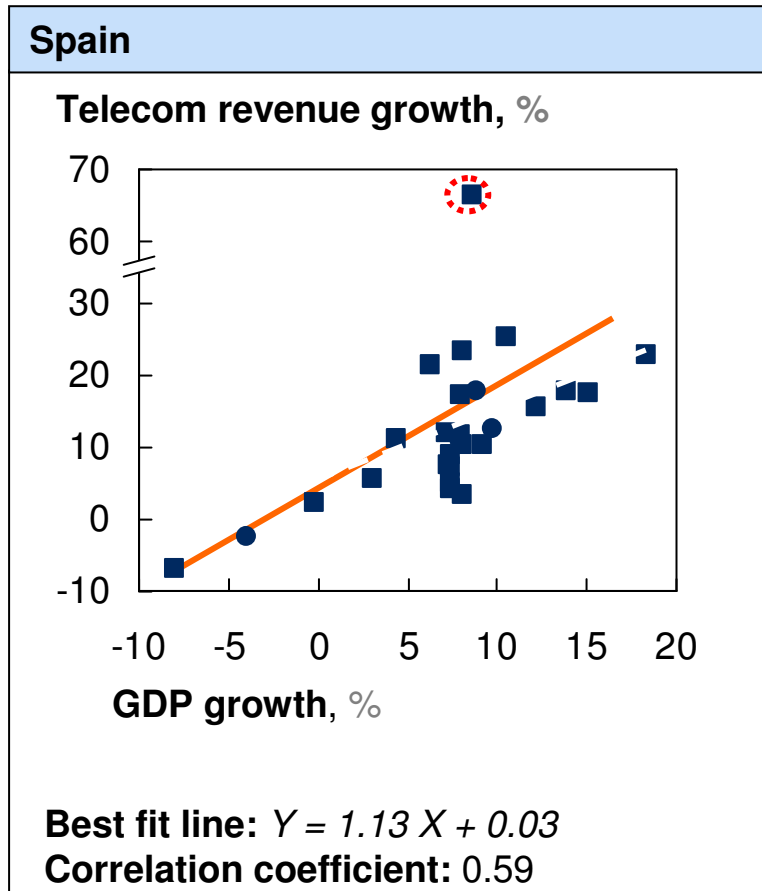
Recent history shows strong relationship between GDP and Telecom sector's performance...



 Outliers ignored in the analysis

Correlation between growth in GDP and growth in telecom sector revenues¹

Percent



¹ From 1981 to 2006

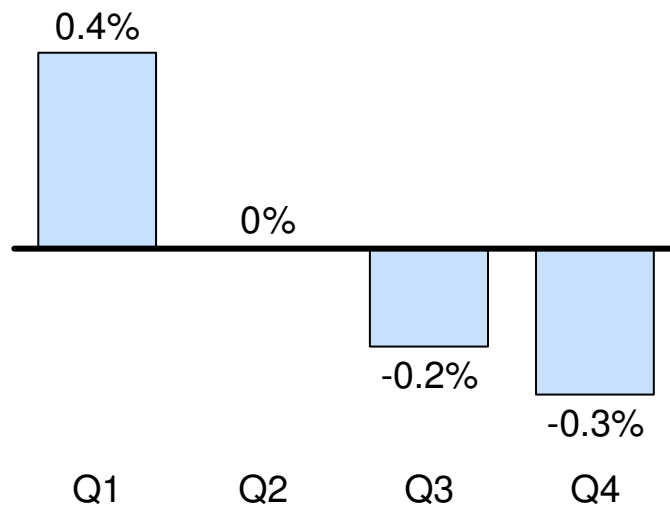
Many business customers are reducing their spend



Traditional telco business will suffer from companies under pressure

Change in employment vs. previous quarter, 2008

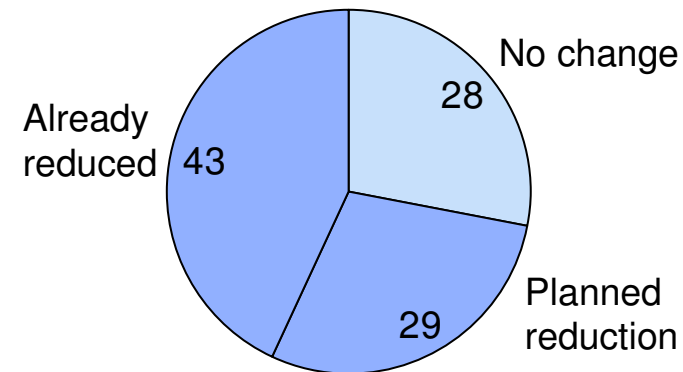
EU 27, percentage



Several companies intend to cut back on IT, with likely spill-over to their telecom budget

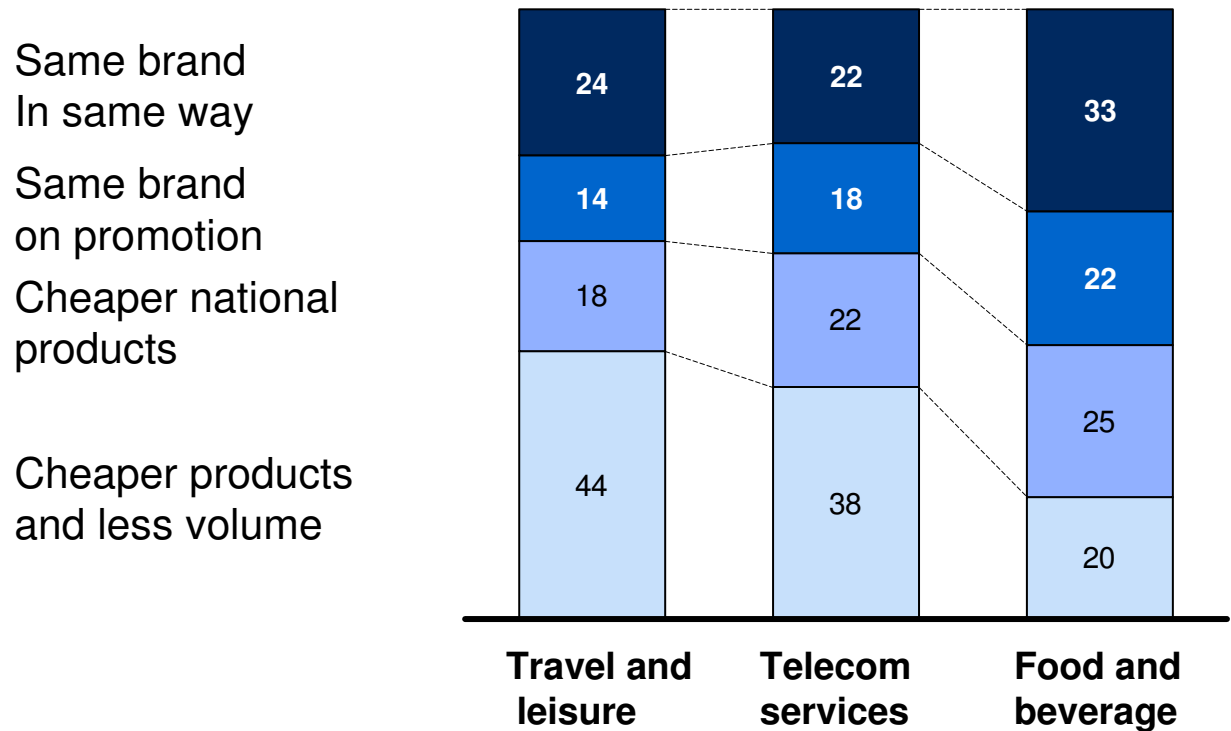
How will the crisis impact your IT spending in the next 12 months?

Percent of North-American and European decision makers



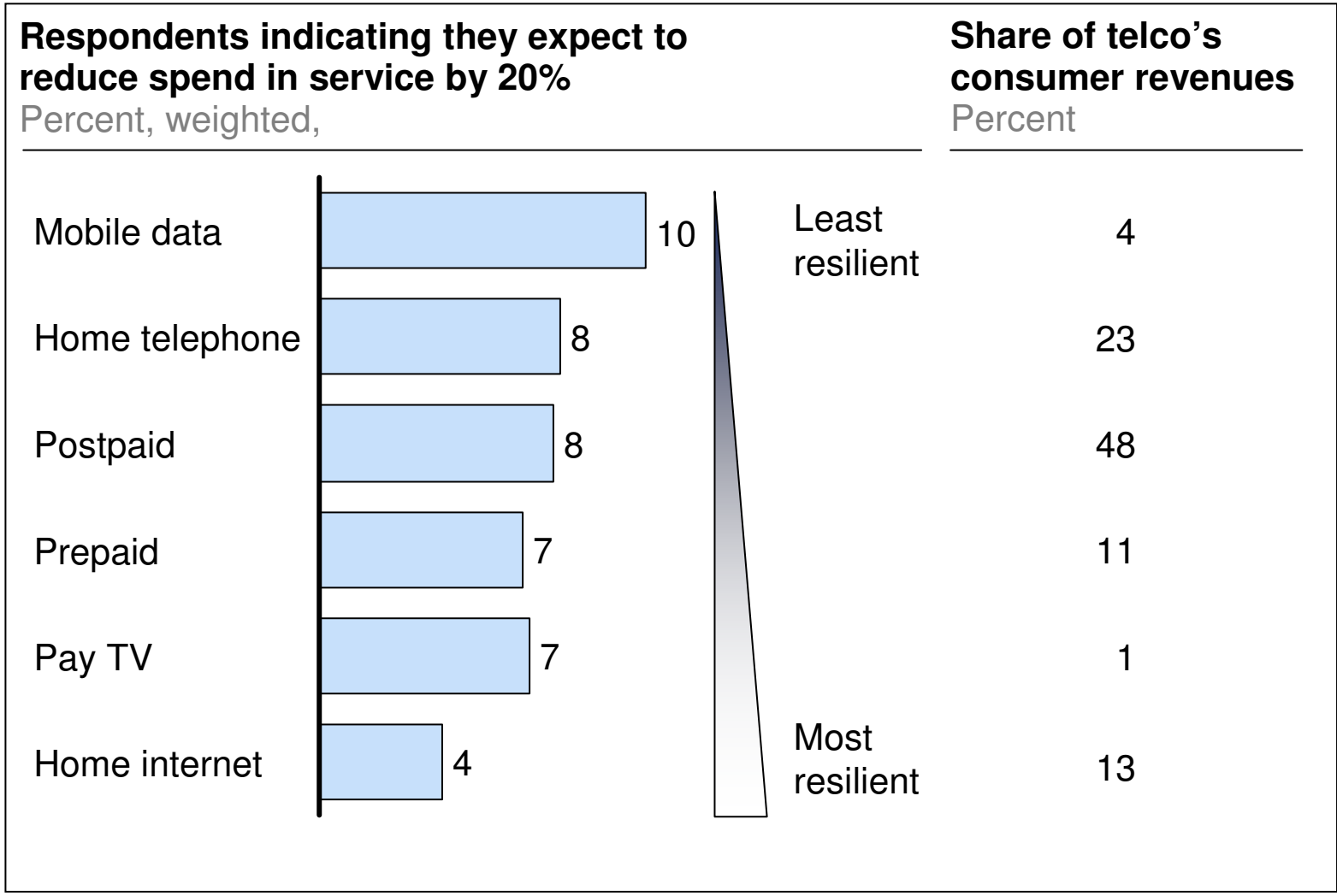
29% of respondents have put in place a more thorough ROI assessment for new projects

And consumers are also reducing telecom spend

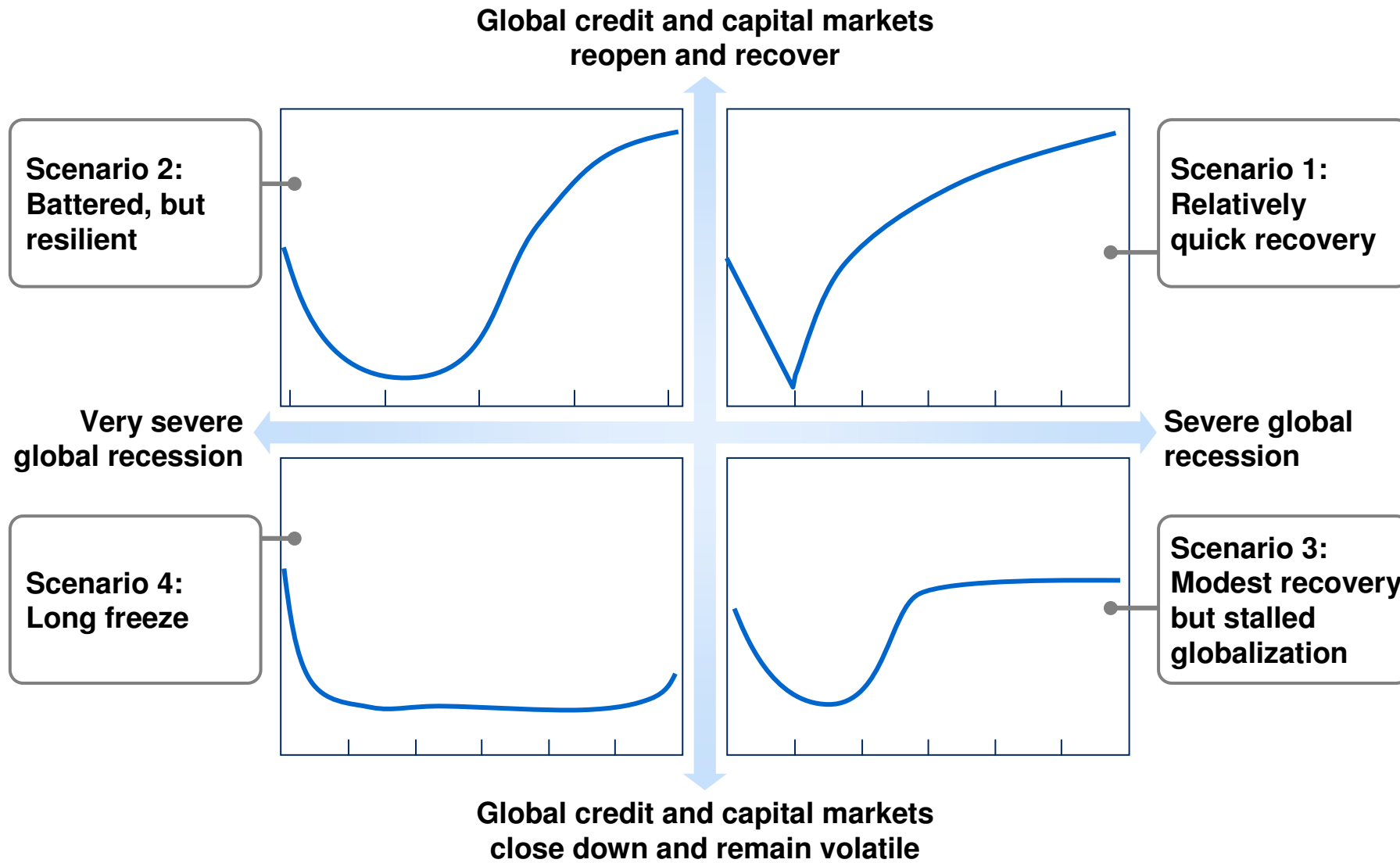
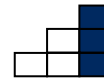


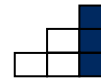
SOURCE: McKinsey online survey made in Spain to ~1000 consumers to understand customers behavior during the economic crisis and changes in consumption patterns (April 2009)

Although the impact changes by type of telco product

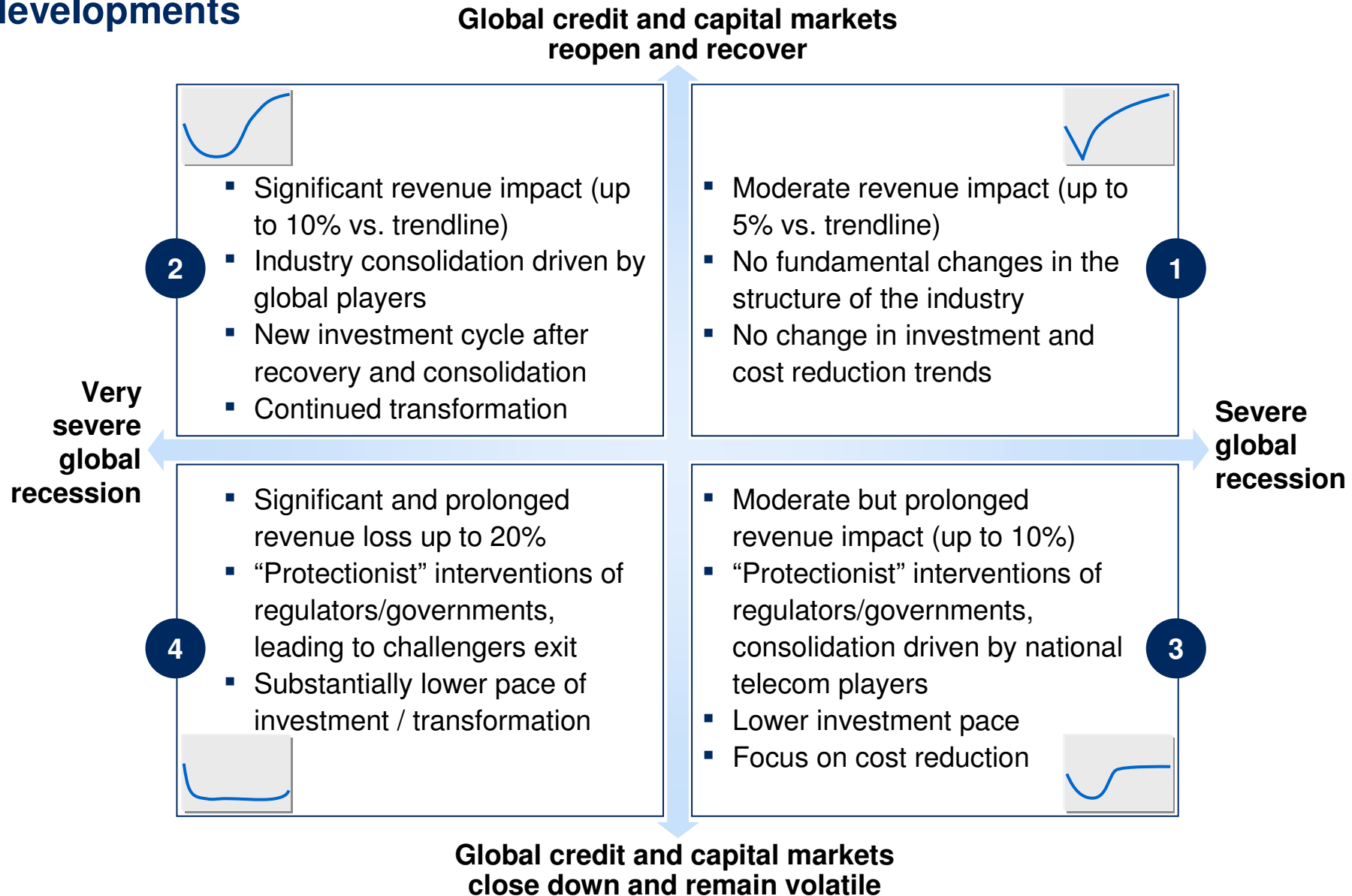


There is still high uncertainty about the evolution of the crisis

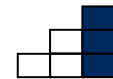




Long-term evolution of the industry will be correlated with macro developments



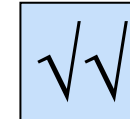
Some of the changes will be structural, demanding a new winning telco model



Observed so far

Revenue structure shake up

- Structural step-down in revenues in several key areas....
 - Cost reduction efforts in telecom spend by financial companies and other large business customers of telcos
 - Accelerated VOIP take-up (consumer and business), Moderate acceleration of switch to mobile-only
 - Reduction in revenues from international roaming (~-10%)
- ...but some sectors growing (outsourcing, discount...)



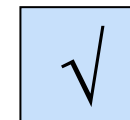
More aggressive regulator stance

- Sustained/increase consumer protection focus:
 - Governments / regulators review termination and interconnection rates to increase maximally consumers' purchasing power (e.g. EU)
 - Governments / regulators review retail regulations (e.g. SMS tariffs)
- Telco's as a source of financing (taxes, licenses renewal)
- In some markets, direct intervention of the government taking a more active role in sector development (e.g. fiber buildout) directly or through local authorities



Structurally lower cost curves

- More aggressive network efficiency deals (infrastructure sharing, network outsourcing...)
- Potentially accelerated shut down of 2G networks (only talks so far, but players are considering to switch off their 2G network and outsource these operations to another local player)
- Platform rationalization is hot topic (e.g. PSTN platforms)



Renewed industry structure change impetus (when financing cleared)

- While some the external trends would point towards significant industry restructuring (consolidation and value chain)....
-so far, only few activity has been seen in M&A and value chain expansions have slowed down...
-which could indicate we are still waiting to see the new winners

