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VIEWPOINT

A year of sensible deals

Claire Landon
Editor,
TelecomFinance

With footprint building mainly off the menu, and four-to-three mobile deals posing a regulatory risk, fixed/mobile deals could potentially be easier to accomplish. **BT/EE** has received preliminary clearance from the Competition and Markets Authority, while it remains unclear how the European Commission will treat **Liberty/Base**.

In the meantime, discussions persist around the mother of all European fixed/mobile transactions – an asset swap between **Liberty** and **Vodafone**. Despite the players' difference in valuation, leverage and investment profile, everyone can see the clear rationale.

In the US, convergence is just getting started. **T-Mobile US** and **Sprint**, both stuck in a four-player mobile market, are gaining potential buyers as cablecos target ubiquity.

The CEOs of cablecos **Comcast** and **Charter** respectively told investors in December that they wanted to "experiment in that area" and "the mobile platform is something we're going to want to reach." *See page 20*.

"These are tactical first steps into mobile, and we think it's exciting," T-Mobile US CFO Braxton Carter told TelecomFinance. "If cablecos do end up participating in next year's broadcast incentive auction, it will show they are taking convergence very seriously."

As TelecomFinance went to press, Canadian cableco **Shaw Communications** surprised the market with an agreement to buy number four cellco **Wind Mobile** for an enterprise value of US$1.16bn. More deals will surely follow.

Another country experiencing convergence is South Africa, where mobile leader **Vodacom** has adjusted its offer for fibreco **Neotel** to appease regulators. But it's not all go, as incumbent **Telkom** has missed its opportunity to buy **Cell C**.

Tower fever grips the world

One thing beleaguered **Telecom Italia** has done right is to spin off and list 40% of its towers business, **Inwit** – raising €875.3m and leaving the potential to raise more in future.

One banker said: "Inwit highlighted that these assets can be highly valued, so operators are thinking hard about whether they want to own this infrastructure – they're looking at spin-offs, IPOs, part-sales and full sales. Interested parties will include infrastructure funds, European players such as TDF and Cellnex, and experienced investors."

Behemoth **América Móvil** is on 21 December scheduled to spin off its tower business **Telesites**, which, say some, could attract the interest of **American Tower** and **SBA**.

Telefónica is reportedly reviewing towers, meaning Spain could eventually go to **Cellnex** (which Abertis spun off and listed this year), Germany to American Tower (which acquired KPN's towers there in 2012) and Mexico to whoever buys Telesites.

Newer regional towercos include **Blackstone**-backed **Phoenix Towers International** (PTI) in the US, Brazil and the Caribbean; **Providence**-backed **Grupo Torre Sur** (GTS) in Brazil, Komet **Infra Nusantara** (KIN) in Indonesia; **Digital Bridge**-backed **Vertical Bridge** in the US, **Andean Tower Partners** (ATP) in Colombia and Peru, and **Mexico Tower Partners**, and **New Silk Route**-backed **Ascend Telecom** in India.

In a Q&A this month, **IHS Towers** CEO Issam Darwish tells us that, despite the high barrier to entry, he's surprised there aren't more towercos chasing the huge African opportunity.

Pipe debate gets interesting

An emerging trend is the acquisition of content, a riskier activity best suited to large and/or bold telcos. **BT** has transformed itself from a has-been, fixed-line only incumbent into the poster child for premium content provision. **Vodafone**, on the other hand, has ploughed many billions from its sale of Verizon Wireless into its networks, now a distribution platform for all content.

Verizon acquired AOL and has said it will consider **Yahoo**, while **AT&T**, having acquired content expertise via **DirecTV**, is set to launch its own mobile video content. T-Mobile US and Sprint have instead chosen to invest in their networks and partner for content.

And finally, as we approach the end of the year, the Federal Reserve has raised interest rates, by a quarter point.

According to Tom Levine, partner at Allen & Overy, "At a time when investing in delivery, technology and marketing are key to churn reduction, increased debt service costs for highly-leveraged operators will make it harder to fight for market share. Groups exposed to emerging markets may also see a disproportionate effect of exchange rates between local currency revenue and the currencies in which they report. This could lead to M&A opportunities."

Happy holidays from all of us at TelecomFinance! We wish you all a relaxing break, and look forward to catching up with you in the New Year.

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EUROPE

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French Challenger **Iliad**, which operates as **Free**, has placed €650m in seven-year bonds maturing in 2022 and paying interest at 2.125% per year.

Iliad, which indicated that it had sought to take advantage of favourable market conditions, said the bond issue was three times oversubscribed.

BNP Paribas, *HSBC*, *ING* and *Société Générale* are global coordinators and joint MLAs, while *Barclays*, *Crédit Agricole*, *Helaba*, *Natixis* and *SMBC Nikko* are joint lead managers.

Iliad won 2x 5 MHz blocks of spectrum in November's 700 MHz auction, which raised €2.8bn for the state.

Telefónica has declined comment on a report that it is considering a spin-off or sale of its towers in Spain, Germany and Latin America.

The incumbent has mandated *TAP Advisors* to examine monetising its infrastructure, according to a newswire report.

The tower specialist advisory firm could not be reached in time for the press deadline.

In November, Telefónica chief strategy and finance officer Ángel Vilá said the company would consider listing its Mexican business, which faces increasing competition from new entrant AT&T.

Earlier this year, Telecom Italia listed 40% of its towerco spin-off, Inwit, and said it remained willing to sell further shares, as long as it could hold onto a 15-20% stake – enough to retain a board seat. América Móvil is also set to list its own tower spin-off, Telesites, on 21 December, prompting speculation that the asset could attract the interest of American Tower or SBA Communications.

Towerco **Cellnex**, itself a towerco spun-off by Abertis earlier this year, is a possible suitor for Inwit, as well as Telefónica's Spanish towers.

Orange brushes off Bouygues takeover rumours

France

Orange has played down – but not denied – a report that it is in talks to buy unwilling target **Bouygues Telecom** from conglomerate **Bouygues**.

"Orange cannot comment on press rumours that have been artificially driving the market for the past two years.

"In France, Orange is the telecoms operator that has the least need for consolidation," the company said.

A newswire had reported that the incumbent was in "early talks" about an acquisition of Bouygues' telecom and media assets.

In response, the conglomerate issued a short statement in which it said it had "no plans to withdraw from the telecoms and television sectors and reaffirms its long-term presence in these two industries."

Bouygues owns 100% of number three cellco Bouygues Telecom and 44% of Société Télévision Française 1 (TF1), which comprises freeview and pay-TV channels.

Orange CEO Stéphane Richard has been vocal about his company's interest in European acquisitions, including **Telecom Italia**, but this month echoed official denials of reports suggesting any current plans to buy the Italian incumbent. **KPN** and **Proximus** were also reported to be on Orange's radar this month.

In September, Richard said the company had no plans to acquire content. Noting the Autorité de la Concurrence's strict conditions on content ownership, he said it was safer for Orange to focus on investing in its own network.

Minister not 'religious' about consolidation

Industry and advisory figures have long hoped for a consolidation of the mobile market, currently home to four players: Orange, Numericable-SFR, Bouygues Telecom and Free.

Over the summer, Bouygues rebuffed a generous €10bn (US$11bn) takeover offer by Altice via its local subsidiary, Numericable-SFR. French Economy Minister Emmanuel Macron also opposed the deal, saying the market could support all four players.

> OVER THE SUMMER, BOUYGUES REBUFFED A GENEROUS €10BN TAKEOVER OFFER BY ALTICE VIA ITS LOCAL SUBSIDIARY, NUMERICABLE-SFR.

Observers – and Richard himself – had pointed out that a four-to-three deal could become more palatable following the state's 700 MHZ spectrum auction, which in November raised €2.8bn.

Macron too seems to have softened his stance, telling press that while he had indeed been against that deal, he was "not religious about the subject in general. It's not a position of principle."

It is unclear whether the minister would be more open to buyers other than Altice, which has a reputation for massive job cuts at the companies it acquires.

Antitrust remains stumbling block

One scenario previously proposed by advisors seeking to circumvent competition concerns, and also raise the price tag, was a split and sale of Bouygues Telecom's network and services business, most likely to Free and Numericable-SFR.

Were talks between market leader Orange and Bouygues to bear fruit, such a split option could come back into play, it is thought.

It is possible that M&A leadership by Orange could alleviate the potential for clashes among billionaire telecoms owners Martin Bouygues, Patrick Drahi and Xavier Niel.

That said, the major stumbling block will remain Bouygues chairman and CEO Martin Bouygues himself, who in the words of one source, "keeps saying he does not want to sell Bouygues Telecom, but no one believes him".

CityFibre snaps up KCom infrastructure

UK

Wholesaler **CityFibre** has agreed to acquire **KCom**'s national network infrastructure for £90m (US$136m) as it bids to challenge the dominance of BT-owned Openreach.

In parallel with the transaction, CityFibre has instructed *FinnCap* and *Liberum* to raise £80m (US$121m) through a new share issue, the bulk of which will be used to fund the acquisition.

CityFibre will also draw down £35m (US$53m) of its new £100m (US$152m) debt facilities arranged by EY to pay the consideration.

Under the rules of the AIM market, the agreement constitutes a reverse takeover and is thus subject to approval by the buyer's shareholders. CityFibre's share price – which fell more than 11% in the wake of the news – gives it a market capitalisation of £62.7m (US$95m).

CityFibre will get 1,100km of metro network assets and a 1,100km national long distance network connected to data centres and peering points. Equity analysts at Liberum said that this effectively doubles the size of CityFibre's network.

The company's directors believe the acquisition of the network represents a 45% discount to building its own comparative network.

Greg Mesch, CityFibre CEO, noted that the deal would mean its fibre network would now cover 36 cities across the UK for use by service providers and mobile operators.

"We are pleased to announce this transformational acquisition, which we believe will accelerate our growth target by five to seven years, creating a credible alternative to BT Openreach across the UK," Mesch said.

"Furthermore, we are delighted to have received the support of our existing shareholders to fund this transaction, and we welcome new shareholders to the register."

The deal will close in January providing CityFibre shareholders approve the transaction. Speaking to TelecomFinance a few months ago, CityFibre CFO Terry Hart listed KCom as a potential collaborator, but stayed schtum on any takeover talk. Hart did say, however, that CityFibre was "open to selective acquisitions if the assets and revenue model match our criteria".

KCom cuts debt

KCom plans to use the £90m cash proceeds to reduce its net debt and has entered into a partial leaseback agreement to support its current business. It will pay CityFibre £4m (US$6.1m) net per annum for five years, with the option to extend to up to 15 years.

Oakley Capital provided KCom with financial advice while *Addleshaw Goddard* was its legal adviser.

CityFibre CEO Greg Mesch

Commenting on the sale, KCom CEO Bill Halbert said it unlocked value of an "under-utilised asset, built more than ten years ago and which is no longer core to our strategy".

Halbert said the proceeds would allow it to increase its investment without the need to materially increase its indebtedness. The company's share price rose more than 3% in the wake of the announcement.

KCom will retain its networks in Hull and East Yorkshire, where it has a consumer and enterprise business. The company will also continue to offer a variety of IT and network solutions.

Motorola buys Airwave for £818m

UK

Motorola Solutions has agreed to pay **Macquarie Infrastructure Investment Fund 2** £818m (US$1.2bn) for **Airwave**, which provides telecoms to UK emergency services.

Bank financing and cash on hand – predominantly from undisclosed international funds – will be used to pay the consideration, Motorola said.

The Schaumburg, Illinois-based buyer said it expected its net cash payment to be approximately £700m (US$1bn) at closing, based on purchase price adjustments and cash in the business, and said a deferred cash payment of £64m (US$96m) would be made in 2018.

Motorola expects to close the acquisition in Q1 2016 and declined to disclose its advisers. **Guardian Digital Communications**, through which Macquarie owns Airwave, was advised by *Lazard*, which was reported to be searching for buyers in June.

Deloitte advised the seller on debt restructuring and tax, and *Jones Day* provided legal advice.

Greg Brown, chairman and CEO of Motorola Solutions, said: "The Airwave acquisition demonstrates our commitment to public safety in Great Britain and to growing our Managed & Support Services business."

"The combination of our years of experience as a trusted global leader in mission-critical communications and Airwave's proven service delivery platform will provide Great Britain with innovative emergency services technology that enhances public safety today and into the future."

The deal comes as Airwave's future as the government's main provider to British emergency services is coming to an end. The government decided this month that market leading mobile operator EE will take over as the main provider of mobile services, with Airwave terrestrial trunked radio technology network, provided by Motorola, to be phased out between 2017 and 2020 and replaced by EE's 4G network.

However, Motorola also won a contract in the government's latest tender to become the service integrator to provide end-to-end systems' integration, manage user accounts and provide user services including public safety functionality.

Airwave declined to comment on how the contract changes would impact on its business.

Valued at US$12.2bn on the New York Stock Exchange, Motorola Solutions was created in 2011 following the demerger of Motorola Inc, with Motorola Mobility sold to Google, and then sold again to Chinese giant Lenovo in early 2014.

Motorola Solutions already operates more than 20 public safety systems around the world, including in Austria, Australia, Denmark, Norway and the United States.

Telcos should stick to what they are good at

Q&A with Tele2 CEO Allison Kirkby

TelecomFinance's Guy Ferneyhough speaks to Tele2's Allison Kirkby, who was promoted from CFO to CEO at the start of September. She shares her thoughts on disrupting the Dutch market, ensuring transparency, network sharing, competition and innovation, and content creation.

Guy Ferneyhough: How have you found your first few months as CEO?

Allison Kirkby: We have had a lot going on. In the first two months we announced our third quarter results, the intended merger with Altel in Kazakhstan, and we accelerated our 4G launch in the Netherlands, so it's been busy. But having already been in the business for 18 months as CFO, it was obviously a much easier transition. It was just a slightly different emphasis as I transitioned into becoming the CEO. It's been exciting, lots going on, and fun so far.

GF: You recently launched a 4G network in the Netherlands, but I know you were previously an MVNO – how did that come about? Going from an MVNO to a network operator isn't that common.

AK: Three years ago the Dutch regulator decided they wanted a hungry challenger to come into the market to disrupt the three larger players [KPN, Vodafone and T-Mobile]. We took that challenge, we were part of the auction, we won the licence and then we started the rollout of our network in early 2013.

Some of our sites are shared with T-Mobile Netherlands because as a challenger, we must be very cost conscious. We started migrating existing customers in the spring of this year onto our network and in November we launched what we believe to be the first 4G-only MNO in the world, because once we launch VoLTE in the first quarter of 2016, our customers will be able to get LTE Advanced and voice over the 4G network.

We're now just over 90% for outdoor coverage, and just under 70% for indoor coverage. 2016 is all about reaching 99% outdoor coverage and 90% indoor coverage, so that by 2017 we will have dramatically reduced our need to offload onto T-Mobile's 3G network.

It's all about stimulating data on the mobile network at a great price that encourages customers to stay on their mobile network rather than rushing to a Wi-Fi hotspot. That's how we have proven to monetise data successfully in Sweden, and it has proven to be a great and valued experience for the customer.

GF: As we know, T-Mobile Netherlands is up for sale at the moment – how do you view their position as a mobile-only player? How important is it to have fixed?

AK: In the Netherlands we believe we need mobile and fixed, and we've always had fixed, which has been a very strong business there. We also have a very large B2B business in the Netherlands, where fixed plays a very important role.

We are mobile first and foremost in all of our markets, but where we've had a strong fixed business, we maintain that, as we do in the Netherlands. As for T-Mobile, I can't comment on their strategy of being mobile only. We want to maintain a mobile and fixed presence.

Not all of our fixed customers have mobile because we've not been able to offer a particularly good mobile service up until recently. The 4G launch is an opportunity for us to start reselling again into our fixed base.

GF: Do you see fixed-mobile convergence as the way forward?

AK: It varies market by market. Obviously fixed-mobile convergence has been very popular in southern Europe where the players have chosen to discount one of the services in the bundle to cross-sell more services into the home. In the markets where it has really taken off it's been a churn prevention measure, and a way of driving up ARPU. We haven't seen that in our biggest mobile markets outside of the Netherlands. We haven't seen that in Sweden or any of our Baltic markets or Croatia, where we're mobile only.

Certainly here in Sweden a lot of the convergence has been driven around operators using content to drive penetration of either

mobile or fixed into their base. What you see is that content is increasingly going over the top, so it is not a way to monetise fixed in the same way as in countries like the UK.

Our priority is to offer the best quality mobile network and to partner with OTT services such as Viaplay or HBO Nordic as we've done in Sweden, and that way encourage content consumption and data download on the mobile network as well as the fixed network.

GF: Moving away from Europe, can you tell us about the merger with Altel in Kazakhstan. The rationale for that deal is that the JV will capture demand for data – how big is the demand?

AK: The demand for data is huge in Kazakhstan because people are using mobile broadband as an alternative to fixed. The mobile networks are very good, they're still fairly empty, and the 3G network is actually fantastic today.

There is a massive demand for data. We've seen data on our network more than double in the last year. Part of that has been driven by the price war that Altel started earlier this year, which has very much stimulated data on mobile networks.

This will give us a much stronger platform, enabling us to become a much stronger number three in competition with the number one and number two, which very much act like incumbents and have kept pricing high for many years.

GF: Am I right in thinking Altel has the only 4G licence in Kazakhstan?

AK: Yes, it does today, but there is lots of discussion going on about tech neutrality in the markets at the moment. There is discussion about everyone getting access to the 1800 MHz band and that being allowed for 4G, so I would expect Altel's position to change in the coming year. But obviously Altel has had first mover advantage, and we will benefit from that when we merge.

GF: When the deal was announced, there was a lot of emphasis on corporate governance and certain safeguards being put in place. Are you confident with the framework? Your peers TeliaSonera and Telenor are still dealing with the fallout of bribery allegations in Uzbekistan.

AK: We went into Kazakhstan at a different time to when some of our competitors went into Uzbekistan and I can't comment on Uzbekistan. Before we went into Kazakhstan, and once we were already there, we did significant due diligence on the market, on the players, on our partner, and on the ultimate beneficiary owner of our partner. As soon as we merged and set up the operations we put a huge priority on driving the Tele2 way of business and code of conduct with all our employees, with all our partners, and with all our suppliers.

We set the highest standards in all of our operations, including Kazakhstan, and whenever we have had issues we have had a zero tolerance policy. Contracts have been ended when we have felt any violation towards our code of conduct, and that will continue in the new JV.

In addition, we put some specific things in place to ensure the new JV will operate to the highest of standards. So, for example, if [Altel's parent] Kazakhtelecom were to violate our code of conduct, we have the right to serve a put option on them and exit.

We also have warranties on the key minority shareholders of Kazakhtelecom so that if the information they gave us around their ultimate beneficiary ownership were misleading in any way, we could take action.

Kazakhstan is a market that's far away from Sweden, so we put a lot of emphasis on ensuring that further flung markets are governed in exactly the same way as we govern our businesses here in Sweden.

> “WE SET THE HIGHEST STANDARDS IN ALL OF OUR OPERATIONS, INCLUDING KAZAKHSTAN, AND WHENEVER WE HAVE HAD ISSUES WE HAVE HAD A ZERO TOLERANCE POLICY.”

GF: Sweden is seen as a potential market for four-to-three consolidation, but the collapse of TeliaSonera and Telenor's planned merger in Denmark appears to signal the European Commission's hardening stance on in-market mergers. What's your view?

AK: Denmark was unique, and Sweden also has unique elements to it. The deal in Denmark was always going to be difficult because they were going to create a new number one player, and the number one and number two would then have had more than 80% of the market between them, and it would have meant the market would have ended up with only two B2B players.

When you look at Sweden, it does have some unique elements to it today that would make in-market consolidation a little bit more complex than some other markets. The network sharing agreement between ourselves and Telenor [Net4Mobility] and Telia [SUNAB], and between Three and Telenor [3GIS] means there are already only three 4G networks. So any in-market consolidation would have to take into consideration the implications of that on the number of networks that would then remain.

That being said though, network sharing has been fabulous for investment and consumer experience here in the Swedish market, because the network sharing agreement allowed all of us to invest faster than any other market in Europe, and as a result the Swedish consumer has one of the best 4G network in the world. Infrastructure consolidation has been good for the Swedish consumer and good for investment.

GF: You were saying how Swedish infrastructure agreements led to more investment in networks. Do you think that consolidation leads to more investment? What if there were only two networks?

AK: How I look at it is that as a result of the Swedish network sharing, we were able to move faster in our investment cycle, and therefore customers got a better experience faster than they would have if all four players had tried to invest and roll out independently. When new technologies come along, it is easier for three networks covering all four players to move fast and for it to be less of a capital demand for any one player in the market. That can only be beneficial to consumers.

Whilst markets remain competitive there will always be innovation, and with innovation comes investment. You can't just look at the mobile network in isolation of everything else that's going on in terms of connectivity and over the top and the demands coming from outside our own industry.

The most important thing is that there's an enough competition to stimulate innovation and that will stimulate investment, and competition doesn't always just come from our own industry.

GF: You've had experience in content when you were CFO of TV production company Shine – do you see a compelling case for telcos to own content?

AK: I don't believe telcos should get into content ownership, unless they are very, very large. I believe telcos should stick to what they are good at, and that's providing great communications. The premium content that is generally around sport, live entertainment and high quality drama is very expensive. You need scale to be able to invest in, create and buy that content.

I believe that more and more content will be made available over the top – we will provide the best quality network so that the viewers of that content get a great experience when they are on our network.

Ofcom delays MoD spectrum auction

UK

Ofcom has pushed back its sale of 2.3 GHz and 3.4 GHz spectrum after two likely bidders said they would take legal action against the communications regulator if it went ahead.

Two of the four mobile operators – **Three** and **O2** – are awaiting regulatory approval from European Commission to merge, impinging on their ability to bid for licences. The telcos asked the regulator to halt the auction and said they intended to bring judicial review proceedings if the tender – scheduled to begin in December 2015 – began.

In light of this, Ofcom has resolved to delay until the Commission's review of **CK Hutchison**'s acquisition, which it expects to be decided upon by mid-May.

The regulator said **BT**'s pending takeover of **EE** – provisionally approved by the domestic Competition and Markets Authority but not yet rubber-stamped – was another factor in its decision to delay.

"After careful consideration, given these specific circumstances, we have decided for reasons of good public administration to delay commencing the auction process," Ofcom said.

In October, Ofcom had said it planned to go through the auction despite the pending takeovers.

Ofcom will eventually auction 190 MHz of high frequency spectrum across the two bands. It has not capped the amount of the 4G-suitable spectrum, relinquished by the Ministry of Defence, which can be bought by an individual buyer.

The two bands are increasingly being used for mobile services as demand for capacity rises. The 2.3 GHz band is not yet used for 4G services in Europe, but is operational in 10 countries further afield including Australia, China and India.

The 3.4 GHz band is already used for 4G in the UK and for mobile broadband in five other countries.

Eir CEO Richard Moat

No Eir IPO unless markets improve

Ireland

Eir has no plans to float in the short or even medium term unless the market's appetite for IPOs improves.

Speaking as the operator unveiled its Q1 results, CEO Richard Moat said he was sure Eir's shareholders – led by Anchorage Capital Group, which owns almost 40% of the incumbent – would keep the situation under review.

Stock markets are not proving friendly to telcos at the moment. Digicel, owned by Irish tycoon Denis O'Brien, shelved plans to list in New York just three days before its shares were set to be sold, blaming the weak stock market conditions that have forced others to list at a discount.

On the other side of the Atlantic, Helios Towers Nigeria also recently abandoned its plan to float in London, a move observers blamed on poor market conditions. The towerco is now exploring "multiple options".

Moat has previously said that if Eir were to IPO, proceeds would be used to cut gross debt, which as of September stood at €2.4bn (US$2.5bn), which Moat has been quoted as saying represents around 4.5x EBITDA.

Eir pushed out the maturities of a number of its facilities in September.

In September 2014 Eir, then known as Eircom, abandoned a plans for a possible IPO as it could not convince investors of its owners' €3bn (US$3.8bn) valuation of the group.

Alongside an IPO, Eircom's advisers – Goldman Sachs, Morgan Stanley and Rothschild – were also sounding out potential buyers. Operators Vodafone and Deutsche Telekom, and private equity firms KKR, Apax Partners and CVC Capital Partners were all reported to have discussed potential deals, but none of those talks resulted in an offer.

In May, Anchorage bought a 25% stake in Eircom from fellow New York private equity firm Blackstone, becoming the largest shareholder.

The development came a day after Eircom disclosed that it had recently knocked back a €3.3bn non-binding takeover proposal.

In a statement at the time, Eircom said: "While the bidder was very credible, the board believed that, with the business reaching an inflection point, the indicated price range undervalued the group."

In its latest results, Eir said it had increased its revenue by 4% on the same quarter in 2014 and boosted its EBITDA by 6%, thanks to an improvement in its postpay subscriber base.

Snaps up Setanta Sports

The company is also taking its first steps in the realm of content with the acquisition of **Setanta Sports Channel Ireland**. The acquisition gives Eir exclusive sports content in a move echoing British counterpart BT's push into acquiring sports rights.

The size of the transaction was not disclosed, but Moat said it was the company's largest acquisition since its €420m purchase of Meteor in 2005. Local reports suggested a price tag of around €20m (US$22m).

The deal requires approval from the Competition and Consumer Protection Commission and the Minister for Communications, Energy and Natural Resources. Those processes will commence with formal notifications in the coming weeks.

Separately – in another parallel with BT – Eir has come under pressure with regards to its infrastructure arm, which is obliged to offer wholesale services to its rivals on fair terms.

Vodafone Ireland, Sky, BT and Magnet entered into a formal dispute with Eir over how long it takes to carry out repairs, and local regular ComReg is looking at Eir's governance model, which could lead to the separation of its fixed infrastructure.

Vodafone sues KPN

Netherlands

The Dutch subsidiary of **Vodafone** is suing **KPN** for €115m (US$126m), claiming that the local incumbent has "seriously abused its dominant position" in the market.

Vodafone Netherlands has alleged that the introduction of its fixed-line TV, broadband and telephone package – operating on KPN's nationwide network – was delayed by KPN for three years until 2014, during which time KPN was able to launch its own comparable proposition.

Formerly the state-owned monopoly, KPN has the only nationwide telephone network and is obliged to offer rivals wholesale access on fair terms.

In a statement, Vodafone Netherlands accused KPN of abusing its dominant market position and said it was looking to recover €115m in damages from the court of justice in The Hague.

Rob Shuter, CEO of Vodafone Netherlands, said: "We hope that taking this legal action will help to rectify the harm caused by KPN's actions and alter its future behaviour."

Responding to the allegations, a KPN spokesperson said: "We do not recognise the picture outlined by Vodafone."

Vodafone has taken similar legal action in other markets where it relies on incumbents to provide it with wholesale services.

It has been lobbying British regulator Ofcom to step up regulation on BT's infrastructure arm Openreach, which it would like to be structurally separated. Ofcom is examining that possibility and Vodafone noted the regulator is also investigating Openreach for its use of loopholes to avoid penalties for the late installation of fibre-optic cables for business customers.

Vodafone has also taken action in Spain, Italy and the Czech Republic.

In its statement, Vodafone noted that in 2014 the European Commission fined Slovak Telekom and parent Deutsche Telekom €39m (US$49m) for its conduct in the Slovak broadband market, and Deutsche Telekom received an additional €31m (US$39m) fine as a repeat offender.

In mid-December Dutch regulator ACM ruled that KPN must keep its copper and fibre networks open to rivals for at least another three years because otherwise only KPN and Ziggo would be able to offer triple-play, which ACM said would not be healthy.

Euskaltel closes R Cable acquisition

Spain

Basque cableco **Euskaltel** has closed its acquisition of Galician counterpart **R Cable**, which had a final enterprise value of €1.19bn (US$1.3bn). The transaction creates a weightier regional player, while retaining the local brands and staff of each company.

Prior to closing, Euskaltel had carried out a capital raise worth €255m (US$278m), with *Citigroup* and *UBS* as joint global coordinators and *Rothschild* as financial adviser, the final hurdle to closing the transaction.

The two loans will bring Euskaltel's total debt to €1.3bn (US$1.45bn). The company last year generated a reported cashflow of €114m (US$128m) and profits of €50m (US$56m).

The Basque company said it had financed the deal using the capital raise, existing bank debt worth €600m (US$655m), €300m (US$328m) in institutional debt underwritten by four banks and cash on its balance sheet.

Euskaltel had also taken out a €850m (US$953m) loan, €600m of which went towards the cash payment. That loan was led by Santander, BBVA, Caixabank and Kutxabank, with participation by Basque lenders Laboral and Bankoa, as well as international banks.

It had previously secured a €470m (US$527m) loan, aimed at refinancing debt, paying extraordinary dividends and bonuses related to its end of June IPO, which valued the company at €1.2bn (US$1.34bn).

Euskaltel is 17% owned by former R Cable shareholders CVC (12%) and Abanca (5%). Leading shareholder Kutxabank reduced its shareholding from 30.1% to 25%.

Together, the two triple-play groups will have a 725,000 km fibre network, 715,000 customers, earnings of €570m (US$622m) and EBITDA of €265m (US$289m). Each company will retain its own brand.

Manuel Salaverría, an 18-year alumnus of Euskaltel, has been appointed head of R. Alberto García Erauskin and Fernando Ojeda, meanwhile, remain respective CEO and managing director of Euskaltel. Ojeda will hold the top role on the steering committee tasked with integrating the two companies.

Incumbent **OTE** has concluded the bookbuilding process for a €350m (US$370m) four-year fixed-rate bond.

The coupon was set at 4.375% and the issue was two times oversubscribed.

Citigroup, *Deutsche Bank* and *HSBC* were joint bookrunners, with *Alpha Bank*, *Eurobank Ergasias*, *National Bank of Greece* and *Piraeus Bank* acting as co-managers.

OTE said it would use the proceeds to repurchase May 2016 and February 2018 bonds under a tender offer expiring on the 27 November, and help finance "substantial investments" in new generation networks.

OTE group chairman and CEO Michael Tsamaz commented: "This is the first new international bond issue by a Greek corporate for over a year. It is a vote of confidence of the international capital markets to both OTE and the country. The demand for the new bond is an acknowledgement of our strategy as well as of the stabilisation and prospects of the Greek economy."

Turkcell has revealed it plans to make a non-binding offer to buy **TeliaSonera**'s 58.55% stake in their Eurasian joint venture Fintur following approval by the Turkish operator's board.

In mid-September, TeliaSonera said it would exit its seven Eurasian countries. Its interests in four of those markets – Azerbaijan (**Azercell**), Georgia (**Geocell**), Kazakhstan (**Kcell**), and Moldova (**Moldcell**) – are held through Fintur.

Turkcell's plan to offer to buy out TeliaSonera is not a surprise. A day after the Swedish telco announced intention to sell, Turkcell initiated a process to hire a strategic and financial adviser to examine a Fintur takeover.

TeliaSonera is also looking to withdraw from Uzbekistan (**Ucell**), Nepal (**Ncell**), and Tajikistan (**Tcell**).

After years caught in a tug-of-war between its main investors – Russian billionaire Mikhail Fridman's Altimo, Turkish billionaire Mehmet Emin Karamehmet's Cukurova and Swedish telco TeliaSonera, Turkcell issued its first dividend in years in March and a US$500m bond in October.

At that time, it said it was ready to invest in "organic and inorganic growth opportunities to strengthen our position in the countries where we operate".

MegaFon to create tower subsidiary

Russia

The board of **MegaFon** has resolved to set up an LLC to house its tower assets as it moves towards monetising the assets.

In a notice to the London Stock Exchange in late November, MegaFon said it would own 100% of **First Tower Company**, which will be based in Moscow. Speaking in October, MegaFon CEO Igor Tavrin said the operator planned to put its 14,000 towers into a new unit ahead of a possible sale.

Tavrin said the separation would take months. MegaFon did not comment on whether it had hired an adviser for a sale process. A banker specialising in the region has said that a selection process had been underway, but was then paused.

Rivals also looking at site sales

MegaFon's interest follows that of **VimpelCom**, which is working with BofA Merrill Lynch, UBS and reportedly TAP Advisors. VimpelCom CEO Jean-Yves Charlier has said one option is an IPO, while emphasising that the company would not contemplate a long-term equity position in a towerco.

The banker said another domestic operator, **T2 RTK**, could follow suit.

According to the banker, a number of local and international financial buyers including private equity and funds with infrastructure experience could also be interested. Russian Towers last summer told TelecomFinance of its interest in domestic tower deals.

MegaFon CEO Igor Tavrin

> THE BANKER SUGGESTED THAT VIMPELCOM WAS OPEN TO SELLING JUST ITS RUSSIAN TOWERS, OR ALL THE REGIONAL TOWERS IN A SINGLE PACKAGE.

US funds such as Providence – the most active private equity fund in towers – were sure to sit out the process due both to geopolitical issues and the fact that a previous tower deal in Ukraine had not gone well.

The banker suggested that VimpelCom was open to selling just its Russian towers, or all the regional towers in a single package.

Position on towers has changed

A competitive four-player market coupled with an expansive geography and a tough macroeconomic environment means Russia is primed for tower disposals. Operators have been reticent to separate their infrastructure in the past, believing there is strategic importance in wholly owning their networks.

The economic downturn, following both the western sanctions in response to the war in Ukraine and the devaluation of the rouble, which has come during an investment cycle, has led operators to reassess their traditional views.

The banker warned, however, that tower deals would not be quick: "It will take a while, as is the case with all tower carve-outs, because the technical aspect is lengthy."

New RCF

Elsewhere, MegaFon said it had signed a new five-year RUB30bn (US$440m) revolving credit facility with *Sberbank*, with proceeds to be used for general corporate purposes.

MegaFon has so far drawn a RUB15bn (US$220m) tranche, which it must repay within three years at a fixed interest rate. Proceeds of the loan will be used to refinance what the company described as its more expensive rouble-denominated debt due in 2016.

The new financing, MegaFon said, will allow it to substantially reduce overall debt service cost and further extend maturities.

Apax and Fortino buy Melita

Malta

Apax Partners and **Fortino Capital** have acquired cableco **Melita Cable** for an undisclosed price.

The sellers are **GMT Communications Partners**, **M/C Venture Partners**, **Blackrock Communications** and **Gasan Group**.

Messier Maris & Associés advised Apax and Fortino on the transaction, while *Weil Gotshal & Manges* and *CSB Advocates* provided legal advice.

Lazard advised the sellers, which had legal advice from *Shearman & Sterling* and *Camilleri Preziosi*.

Melita chairman Joseph Gasan said: "I am delighted that Melita, which I founded 23 years ago, is now in a position, after a period of growth and transformation, to start a new phase under new ownership."

According to CEO Andrei Torriani, "This transaction further highlights that Melita is recognised as one of the more advanced telecommunications players in Europe with converged fixed cable and mobile networks and services."

The transaction is subject to regulatory approval.

GMT acquired a majority shareholding in Melita in 2007 from Liberty International and the Gasan Group, which reinvested a minority stake in the business. Melita launched in 1991, after winning the country's first pay-TV licence.

GMT senior adviser Massimo Prelz Oltramonti said: "We are happy to transfer ownership of Melita to a group of investors of standing and with significant telecom expertise. Under the current group ownership, Melita has evolved from being an advanced cable operator to becoming one of the most advanced quad players in Europe, and an undisputed leader in its market in broadband and entertainment.

"The growth of Melita is reflected in an increase in EBITDA from €16m (US$17.6m) when we invested to EBITDA in excess of €31m (US$34m) in 2015."

In July 2014, Melita successfully completed the refinancing of its debt facilities, repaying its existing senior debt and loan facilities, together with a €25.9m locally listed bond.

The company claims to have more than 60,000 triple-play customers, and 85,000 households connected to cable TV. Melita Cable highlighted its strong track record of investments in infrastructure including nationwide 3G, an undersea cable connecting the island to Europe, high-speed nationwide broadband, data centres and hosting.

Privatisation collapses as government rejects all bids

Serbia

The privatisation of **Telekom Srbija** has collapsed once again as prime minister Aleksander Vucic announced that all six offers for the incumbent had been rejected.

Vucic said all the proposals were higher than the €1.1bn (US$1.21m) the state received in 2011, but not quite as much as the government and trade unions had sought.

Local reports have suggested particular opposition to the sale from local unions. Political opposition was also one of the main factors that derailed the sale of **Telekom Slovenije** earlier this year. Cinven had been the sole bidder in that process.

Lazard began the sale process in late June with the government said to be asking €1.5bn (US$1.65bn) for its 58.11% stake.

Serbian Prime Minister Aleksander Vucic

New York-based fund **Colbeck Capital** was reportedly the highest bidder, offering €1.47bn (US$1.61bn), beating bids by private equity and strategics on both sides of the Atlantic.

Another fund, Yucaipa, was reported to be working alongside Colbeck, with financing in place from Deutsche Bank, Morgan Stanley and Raffeisen and advice from Peter Fojo, who headed up Nextel Mexico before its sale to AT&T earlier this year.

Telekom Slovenije was said to be a bidder in the Telekom Srbija process, as well as financial investors **Novator**, **Mid Europa**, **Apollo** – which according to some reports was working alongside Telekom Slovenije – and **Advent Capital**, a person with buy-side knowledge said.

The telco is 58.11% state-owned, with a further 20% held by the company as treasury stock, and the remainder by Serbian citizens and the telco's current and former employees.

The privatisation is part of a wider initiative to sell off state assets under Serbia's most recent budget balancing agreement with the International Monetary Fund (IMF).

Telekom Srbija also owns Mtel in Montenegro and Bosnia.

VTB Capital sells Vivacom

Bulgaria

Local businessman Spas Roussev has won the auction to buy **Vivacom** after bidding €330m (US$353m).

Other bidders in the auction, run by *EY*, reportedly included **Olympia**, fronted by Vivacom's founder and main shareholder Panos Germanos and backed by hedge fund **Third Point**, and UPC co-founder Marc Schneider with support from **CVC Capital Partners**.

The auction lasted for more than 12 hours and included in excess of 25 rounds of intensive competitive bidding, according to VTB Capital. The transaction is subject to approval by Bulgarian and European regulators, and gives the company an enterprise value of €730m (US$781m).

VTB Capital, the London-based investment banking arm of Russian bank VTB, triggered the sale of Vivacom in October after the operator's indirect owner **InterV Investment** defaulted on a loan backed by the bank earlier this year.

VTB Capital was facility agent and security agent on the €150m (US$160m) bridge facility secured against 100% of the share capital of Luxembourg-based InterV, which failed to repay the loan on maturity in May. Following the default, VTB Capital resolved to pursue a creditor-led competitive enforcement sales process for InterV, whose sole asset is Vivacom.

Former state-owned monopoly Vivacom offers triple-play services. It is the number three player with 3.1 million subscribers, competing against Telekom Austria's Mtel and Telenor's local unit.

Swedish incumbent **TeliaSonera** has officially proposed a merger of its fixed-line and mobile businesses in Latvia, two months after agreeing a similar move in Lithuania.

"We have delivered a formal proposal to the Latvian government on how to combine **LMT** and **Lattelecom**," a TeliaSonera spokesperson said.

In October, the company confirmed that the Latvian state development agency had invited it to make a strategic proposal.

TeliaSonera indirectly holds 49% of triple-play provider Lattelecom and mobile operator LMT, while state holdings own the remaining shares in both. The Swedish operator has previously voiced an interest in taking full control.

Turk Telekom has signed a club loan facility agreement with 14 banks.

The loans, worth €420m (US$446.6m) and US$380m, mature in five years, including a three-year grace period. The proceeds will be used for refinancing and working capital purposes.

The loans pay an interest rate of 1.80% over Euribor/Libor.

BofA Merrill Lynch acted as co-ordinator, while MLAs were *Bank of China*, *BNP Paribas Fortis*, *Citibank*, *HSBC*, *ING*, *Intesa Sanpaolo*, *JP Morgan*, *Mediobanca*, *Mizuho*, *Société Générale*, *Sumitomo Mitsui Banking Corporation*, and *Bank of Tokyo-Mitsubishi*. *Deutsche Bank* acted as lender.

Serbian telecoms regulator Ratel has awarded 800MHz spectrum to the country's three mobile operators. The auction of digital dividend frequencies raised €105m (US$111.8m).

Telekom Srbija, **Telenor Serbia** and Telekom Austria-owned **Vip Mobile** each acquired 2x10 MHz blocks for €35m (US$38m). The ten-year licences may be extended for another five years.

From the date the licences are awarded, each operator has four months to launch LTE services.

Stepping up the footprint

Q&A with Telekom Austria CEO Alejandro Plater

América Móvil became majority (59.7%) owner of Telekom Austria in 2014, in a bid to extend its reach to Central and Eastern Europe. In August, the Latin American giant elevated its own hire Alejandro Plater to CEO to execute its vision. TelecomFinance's Guy Ferneyhough spoke to Plater to find out how the company is faring in its markets: Austria, Belarus, Bulgaria, Croatia, Liechtenstein, Macedonia, Serbia and Slovenia.

Guy Ferneyhough: You have been CEO for only a few months, how are you finding the role?

Alejandro Plater: It's very interesting, a great company with great people. We're investing a lot in developing infrastructure, and focusing on operational performance, launching new products, and growing organically in our markets.

GF: You had been COO for five months before taking over as CEO – I imagine that must have been a good way to get a feeling for the business before taking on the top job?

AP: Yes, it was good for me to spend some time looking at the processes and how the operations and company were run, so I could understand the challenges and the opportunities. It was a very good period that helped me understand where to focus. I'm making the company more efficient, investing where we have a good business case, and fixing operations - especially outside Austria, where we were struggling a little bit.

GF: How's the relationship with América Móvil? Are they quite hands-on?

AP: They like to be involved, they are always trying to find synergies, trying to find ways to procure better, and to use the leverage of América Móvil to gain better conditions. América Móvil is a big company and when you're discussing deals with vendors, they feel the pressure of being part of something bigger. América Móvil has been very instrumental in executing that strategy to get efficiencies in purchases.

GF: What are Telekom Austria's main strategic objectives?

AP: Today we want to consolidate our operations within our current footprint, that's priority number one. We also want to improve the performance of some of our operating companies where we've not had great results in the last few years, and focus on investing in Austrian infrastructure. We are investing close to half a billion euro in 2015 in Austria, and will continue that level of investment in 2016.

GF: Is that Austrian investment more on the mobile side or the fixed?

AP: On the mobile side we will make a big investment to improve coverage, particularly in LTE, as well as continuing with our fibre rollout. I would say that the fibre rollout is our main priority in Austria. We have been executing on this in 2015 and are ahead of schedule, and now plan to accelerate our fibre rollout even further.

GF: Carlos Moreno, the CFO of América Móvil, has previously compared eastern European telecoms markets to those in Latin America a few years ago – is that a comparison you recognise?

AP: If you look at eastern European countries there is still room for consolidation, and we consolidated a few companies during Q3. We acquired Blizoo, a cable company in Bulgaria, and there is room for more consolidation, particularly in cable. In Bulgaria, nearly 50% of cable subscribers are with smaller operators that I think over time will be consolidated - similarly to what occurred in Latin America many years ago. There's a lot of consolidation to be done in our footprint, especially in cable.

GF: In how many markets do you offer mobile and fixed?

AP: We are mobile-only in Serbia [Vip Mobile] and Belarus [Velcom], and are

already converged in the rest of our markets. In Slovenia [Si.mobil], we acquired convergence platform provider Amis, which is also present in Croatia.

GF: Why is fixed-mobile convergence so sought after at the moment?

AP: I think it's critical for us because we want to be the single point of contact for telecoms services for all our customers. In order to do that and create more stickiness we need to come to the market with a converged proposition, so households can buy all their telecoms products from one vendor: us.

We believe that customers are satisfied with our product and they can acquire fixed solutions, TV, mobile and other services like security – we hope they would be less tempted to churn because they would be satisfied with what we are delivering.

GF: What about your presence in other geographies?

AP: Croatia is okay. We are growing pretty fast in fixed, there's lots of focus on that. We paid a lot of tax there last year because of a new fee on spectrum, so we we suffered a bit, but we are happy with how we are developing. Still, there is a competitor [Deutsche Telekom-owned Hrvatski Telekom] that is very strong and very big.

In Serbia, we are mobile-only and competing with a converged operator, Telekom Srbija, which the government tried to sell [see page 11]. We need to find a good convergence opportunity. In the meantime, we are happy and able to compete. There is another mobile-only player [Tele2], so we are not alone.

GF: Would you remain in a market where you were mobile-only, with no good opportunity to buy fixed?

AP: I think so. We see many countries with mobile-only players that perform well. Of course I would prefer an operator to be convergent, but the mobile-only game can still be played well.

GF: What's the situation in Belarus? That seems to be a challenging market.

AP: Belarus is similar to Serbia. There is one player that is convergent and state-owned, the former PTT Beltelecom, and then it is us and Turkcell, which is also mobile-only, with a small market share of 10%-12%. The fixed market is divided into a quasi-monopoly situation in different regions: there is a cable company in Minsk and others throughout the country. Most of them are owned by either the state or local municipalities.

GF: Is there potential for privatisation?

AP: Not that we can foresee now. It's a government decision and as far as I know, there is no formal plan to privatise.

GF: Are you looking at entering new markets, in Eastern Europe or further afield in markets such as Eurasia?

AP: We are looking at opportunities, but nothing concrete. We are just screening the market and that's it. The focus remains on consolidation within our existing footprint, prioritising convergence in our two mobile-only markets.

GF: Moving back to Austria, how has the mobile market changed since 3 acquired Orange Austria, reducing the market to three players?

AP: In Austria we are making big investments in both fixed and mobile - we are on target to cover 90% of the population with LTE by the end of next year.

> **"EVERY WEEK, EVERY MONTH A NEW MVNO COMES ONTO THE MARKET. WE ARE WATCHING THAT SEGMENT, BUT IT IS STILL QUITE SMALL ON THE REVENUE SIDE."**

In mobile, the low end is populated by lots of MVNOs. Every week, every month a new MVNO comes onto the market. We are watching that segment, but it is still quite small on the revenue side.

We play in the high value segment, focusing on providing better services to our customers. We are investing a lot in infrastructure, shops, improving coverage and building more coverage.

GF: The EU competition commissioner Margrethe Vestager has questioned the link between in-market consolidation and investment, and the argument that shrinking the market drives greater infrastructure investment by the remaining operators. Since the four-to-three consolidation in Austria, has it become easier for you to invest?

AP: We increased our capex by 20% in Austria between 2014 and 2015, and will maintain that level of investment in 2016. This situation has given us greater flexibility to invest more, and we plan to invest even more.

GF: How do you assess the Commission's stance on consolidation?

AP: We like to invest in infrastructure. For that, there needs to be a business case. If there is not a good business case to invest, then it is difficult to get approval for investment. Today we see a good business case to invest and we are investing heavily in our fibre rollout. I think Austria is a good example to show that in our case, Telekom Austria is now investing much more.

GF: Do you think that the regulatory environment is changing in Europe?

AP: The decision to scrap roaming fees from next year will create a lot of pressure. The more regulated we are, the greater the impact on profitability and our flexibility to invest. I think that the new roaming rules reduce our flexibility to invest, even though our investment is at an all-time high in Austria.

GF: What areas of regulation would you like to see changed?

AP: I would like to see regulation that is even handed for all players. We send video on demand content in Austria and other countries, and iTunes does the same. We are regulated, iTunes is not. There are termination rules applied to our contracts but not to iTunes.

On top of that, think about our operations in Austria, we have shops, we are creating jobs in Austria, and we have German-speaking call centres. If you download a movie from our platform and it doesn't work you have somewhere to call, and if you are charged incorrectly then you get your money back. With iTunes you have no one to call. We pay taxes in Austria, we are based in Austria, and we have our headquarters in Austria. If video on demand is regulated, it should be regulated in the same way for all players. It's the same for web storage services.

GF: Does it make sense for Telekom Austria to get involved in content?

AP: No. For it to make sense to produce your own content, I think you must be able to distribute it widely. Netflix has 70 million subscribers, so of course they can produce their own content and distribute it.

GF: Do you think the government will sell its remaining 28.42% stake in Telekom Austria?

AP: To be honest I don't know. I'm not involved and cannot comment.

Vivendi tightens grip on Telecom Italia

Italy

Vivendi won a dual victory at **Telecom Italia**'s December shareholder meeting, ensuring that it will play a central role in future strategy.

The French media conglomerate abstained from a vote on the incumbent's proposal to convert savings shares into ordinary stock, a move that would have raised up to €570m (US$618m) while also diluting Vivendi's shareholding from the current 20.1% to less than 14%.

The Vincent Bolloré-headed group also gained four of the enlarged board's 17 seats, meaning its representation will be greater than its 20.1% shareholding.

Vivendi CEO *Arnaud de Puyfontaine*, COO *Stéphane Roussel*, CFO Hervé Philippe and consultant *Félicité Herzog* will fill the seats.

The development will impair TI CEO Marco Patuano's stated plans to make in 2016 be able to make a €3bn (US$3.2bn) dent in its €26.8bn net debt, through the share conversion, mandatory convertible bond due in November 2016, sale of **Telecom Argentina** and further sell-down of tower spin-off **Inwit**, in which it intends to retain a 15-20% stake.

Patuano said he was confident the blocked Telecom Argentina sale would complete, something that looks more likely following the November presidential election that ended 12 years of Peronist rule.

In fact, a local judge is seeking to reverse another blocked deal - NII Holdings' sale of **Nextel Argentina** to media group Clarín.

Other possible value-enhancing moves include the sale of **TIM Brasil**, whose CEO Rodrigo Abreu says it remains open to M&A. A deal with Oi is becoming more likely, thanks to a change in Brazilian telecom rules and outside initiatives by the likes of Russian investor **LetterOne**. (*See Brazil for full stories*)

An ongoing quest for a turnaround

Long touted as a takeover target for everyone from Libyan sovereign wealth funds to Egyptian billionaire Naguib Sawiris, Italian investors, former part-owner Telefónica, and more recently former Telstra CEO Sol Trujillo and French billionaires Vincent Bolloré and Xavier Niel, Telecom Italia still appears to hold appeal.

Advisers have for the most part welcomed Vivendi's increased involvement in Telecom Italia, but one warned: "I don't understand why for so many years, so many investors have fought over minority stakes in Telecom Italia. There is a definite opportunity to turn the company around, refinance it and resolve TIM Brasil, but this won't happen with a financial investment. Telefónica didn't achieve it, and I don't know what the path to management control is without first sorting out the politics."

Although state holding Cassa Depositi e Prestiti (CDP) has reportedly said it will not buy a stake in the incumbent, the government could potentially use its veto power to block actions it does not like, according to local press.

For any buyer, Telecom Italia would be expensive – it has a market cap of €22.68bn (US$16.98bn) and net debt of €26.8bn (US$28.6bn). Furthermore, its share price has risen 33% over the past 12 months, which is likely to have already benefited Vivendi.

Finally, Telecom Italia is at the start of a programme to deploy national high-speed broadband, which it will have to finance, with some help from the government and probable infrastructure support from utilities. In December, the *EIB* announced a €500m (US$546m) loan to support the build-out.

VIvendi chairman Vincent Bolloré

> "I DON'T UNDERSTAND WHY FOR SO MANY YEARS, SO MANY INVESTORS HAVE FOUGHT OVER MINORITY STAKES IN TELECOM ITALIA."

Mysteries remain

Still unclear are the intentions of telecoms investor Xavier Niel's **NJJ Capital**, which has options through Société Générale and Credit Suisse to acquire 15% of shares. Some observers speculate that the holding may be linked to JPMorgan's recently disclosed long position totalling just over 10%.

Also unresolved is **Orange**'s takeover interest. The French incumbent has strenuously denied there are any current discussions, but stopped short of ruling out future talks.

It says it has hired banks, reportedly *BNP Paribas* and *Morgan Stanley,* to review pan-European consolidation opportunities.

1 / SHAW ENTERS TRADITIONAL WIRELESS SPACE WITH WIND MOBILE PURCHASE - PG15
2 / VERIZON COULD LOOK AT YAHOO'S CORE BUSINESS - PG19
3 / AT&T, COMCAST AND CHARTER TEST CONVERGED SERVICES - PG20

Shaw moves into quad play with surprise C$1.6bn Wind Mobile buy

Canada

Telecoms and media company **Shaw Communications** has agreed to buy **Wind Mobile** for an enterprise value of about C$1.6bn (US$1.16bn), making a surprise entry into the traditional wireless sector.

Shaw CEO Brad Shaw said the deal, announced 16 December, represents a "transformational" step in the company's history, providing it with a "unique platform" in the wireless space which will allow it to offer a converged portfolio of services, adding mobile to its DTH, fibre, cable and WiFi offerings.

Shaw, which has a fibre network serving some 3.2 million customers, a DTH business serving 900,000 customers, described the acquisition as the most efficient operating and financial entry point into wireless.

Wind is the country's fourth largest mobile network operator with about 940,000 subscribers in Ontario, British Columbia and Alberta and 50 MHz of spectrum in each of these regions. Shaw expects the target to generate C$485m in revenue and C$65m in EBITDA for FY 2015.

The deal, which will see Wind run as a separate entity and its management remain in place, came as a surprise to analysts, who generally concur that it is a game-changer.

Barclays analyst Phillip Huang said that, while the deal makes long-term strategic sense, it would have been even more sensible 15 months ago when Wind was a fraction of the price.

Wind chairman and co-founder Anthony Lacavera led a management buyout in 2014 which saw it pay C$135m (US$122.4m) and assume C$160m (US$145m) in debt for VimpelCom's majority equity/minority voting stake in the company. Wind has, however, since bought additional spectrum at what Huang termed "bargain prices".

Huang noted that Shaw had reinforced a preference for WiFi over traditional wireless recently by abstaining from spectrum auctions and transferring its 16 AWS-1 licences to Wind as part of a deal with Rogers.

"That's why we are surprised that Shaw is now buying those assets back six months later at a premium," Huang said.

RBC Dominion Securities analyst Drew McReynolds said a growing presence in wireless should help Shaw better compete with Telus – one of the country's big three MNOs – in wireline and capture incremental growth in the Ontario wireless market.

"Should household demand in Canada grow for a bundled wireless-wireline offering, Shaw should be better positioned now to defend its core wireline business," he said.

"We believe this transaction highlights Shaw's commitment to growing the company, and in the near term lessens the probability of Shaw being acquired by a larger consolidator given existing rules around wireless concentration."

Deal specifics and financing

The agreement will see Shaw acquire 100% of the shares of Wind parent Mid-Bowline Group.

The purchase will be financed with a fully-committed bridge facility with the Toronto Dominion Bank and Canadian Imperial Bank of Commerce. The company said it is committed to a financing plan which maintains its investment grade rating, ensuring it has the flexibility to issue debt and equity and sell assets.

Mid-Bowline shareholders have approved the deal and it is expected to close in Q3 2016, subject to relevant approvals, including from the Competition Bureau and Ministry of Innovation, Science and Economic Development.

Shaw's financial advisers on the deal were *CIBC World Markets* and *TD Securities*, while *Dentons Canada* provided legal advice.

McReynolds said he would expect Shaw's net debt/EBITDA to increase from 2.3x in FY2015 to 2.9x in FY2016 and afterwards fall by about 0.2x per annum. Shaw reported revenue of C$5.5bn for the year ended 31 August.

Potential for further consolidation

Both Huang and McReynolds believe the deal could trigger further consolidation within the wireless market.

Huang noted that the industry continues to view the four-player structure as unsustainable long-term, while McReynolds said Shaw has made itself a much more attractive target to larger consolidators. However, McReynolds has not ruled out a competing bid for Wind.

Huang believes a long-rumoured tie-up between Shaw and Rogers, another of the big three, could still play out if and when the government allows such consolidation.

"In fact, we believe this deal in a way benefits Rogers/big three by keeping Wind off the market, away from potentially more threatening foreign strategic players," he said.

McReynolds predicts Shaw will have the firepower to remain a "disciplined fourth wireless player". He too believes the deal effectively closes the door to large foreign strategic players.

Wind Mobile closes financing, inks partnership with Nokia

In mid-December, Wind said it had secured C$425m (US$311m) in financing to help fund its LTE rollout using **Nokia** equipment and services. The senior secured facility will also help refinance existing debt.

Finnerva, the export credit agency of Finland, where Nokia is based, provided additional support for network purchases. *TD Securities*, *BMO Capital Markets* and *Canadian Imperial Bank of Commerce* acted as co-arrangers for the financing. Toronto-Dominion Bank also served as the lead arranger for the export credit-backed facility.

Q Advisors acted as Wind's financial adviser, while *McMillan* provided legal counsel.

Wind has also inked a five-year partnership with Nokia Networks, which will serve as its sole network infrastructure provider and "innovation partner" for its planned LTE rollout.

Bell Canada raises C$862m in stock offering

Canada

Bell Canada has sold C$862.84m (US$648.5m) of common stock on a bought-deal basis to a syndicate of underwriters to pay down debt and for general corporate purposes.

The syndicate is led by *BMO Capital Markets* and *RBC Capital Markets* together with *CIBC World Markets*, *National Bank Financial* and *TD Securities*, the Montreal-based telco stated.

The underwriters bought 15.11 million common shares, including an over-allotment option, for C$57.10 (US$42.92) each, raising a total C$862.83m (US$629.02mm). The transaction closed on 11 December.

Bell CFO Glen LeBlanc said the company was "very pleased" with the investment community's response to the equity offering – its first since 2002.

"The base equity offering of C$750m and the exercise of the 15% over-allotment option generated more than C$862m in gross proceeds, supporting debt reduction and the maintenance of a healthy balance sheet," he said.

Bell parent BCE's total debt stood at C$22.24bn (US$16.72bn) at the end of September 2015, up C$752m (US$565.24m) year-on-year. In its Q3 shareholder report, the company attributed the increase to a rise in its notes payable of C$672m, the issuance of C$500m medium-term note debentures and a C$90m increase in its finance lease obligations and other debt.

Proceeds of the offering are to be used for general corporate purposes, including reducing leverage. A portion will be used to redeem Bell's outstanding C$200m (US$145.65m) 4.64% debentures, series M-19, due February 2016, and C$500m (US$364.12m) 3.65% debentures, series M-23, due May 2016.

Acquires Corus pay TV business

Meanwhile, Bell has agreed to pay C$211m (US$153.66m) for **Corus Entertainment**'s pay-TV business in the western part of the country.

Bell announced in mid-November that the Corus deal will enable it to expand The Movie Network into a national pay-TV service and become the sole operator of HBO Canada across all platforms.

The telco said it will pay a cash consideration of C$211m (C$195m after tax) for the 927,000 subscribers which Barclays analyst Phillip Huang said values Corus' pay-TV business at 6.7x adjusted 2015 EBITDA.

Equinix out with US$1.1bn bond to back Telecity buy

USA

Data centre giant **Equinix** has priced US$1.1bn of senior notes due 2026 in the latest instalment of its financing package for its acquisition of European rival **Telecity Group**.

The notes carry a coupon of 5.875%, mature on 15 January 2026 and are redeemable by the company at a premium under certain circumstances, Equinix said in late November.

If the US$3.6bn Telecity takeover, recently cleared by the European Commission, is not completed by 29 November 2016, Equinix will redeem the notes.

JP Morgan, *BofA Merrill Lynch*, *Citigroup* and *RBC Capital Markets* are joint bookrunning managers for the offering. *TD Securities*, *ING*, *HSBC* and *MUFG* are co-managers.

Also in late November, Equinix issued and sold 2.99 million of its common shares, including an over-allotment option, in a public offering, raising about US$829.5m.

Joint bookrunning managers for the stock offering were JP Morgan, BofA Merrill Lynch, Citigroup, RBC Capital Markets and *Barclays*, with ING, MUFG, HSBC, Evercore and *BTIG* as co-managers.

California-based Equinix, the leading global retail colocation provider with 105 data centres across the Americas, EMEA and Asia Pacific, also plans to secure US$700m in senior secured term loans to help fund the deal, bringing the total debt raise to US$1.8bn.

Wells Fargo analyst Jennifer Fritzsche noted that Equinix expects to use the proceeds to fund the US$1.786bn cash consideration, US$180m in fees and refinance US$509m of Telecity debt, leaving US$466m for general corporate purposes.

The company also has US$490m of cash on its balance sheet to help fund the deal, or US$2.9bn in total when added to the capital raise, she said.

Fritzsche estimates Equinix's leverage will rise to 4.0x pro forma the debt raise, up from 3.5x at the end of Q3, which is at the highest end of its 3.0x-4.0x target leverage.

Equinix expects the deal to close in early H1 2016.

European leadership, and a Japanese move

Fritzsche said she views the acquisition positively "as it bulks up Equinix's position in Europe while also playing defence and preventing a stronger competitor that would have been created by a Telecity/Interxion Holding merger".

Equinix's play for London-based Telecity in May scuppered the target's planned acquisition of Interxion, agreed months earlier.

To secure EC approval for the deal, which combines the top two data centre providers in EMEA, Equinix has agreed to divest five data centres in London, two in Amsterdam and one in Frankfurt. On closing, the company will operate 145 data centres.

Also, in early December, Equinix completed its purchase of Japan's Bit-isle for US$288m, a deal it says will make it the country's fourth largest data centre operator. The acquisition was funded with an existing bridge facility, expected to be replaced with a longer-term facility.

Equinix has 27 data centres in Asia Pacific, including in Australia, China, Hong Kong, Indonesia, Japan and Singapore.

Fitch has assigned Equinix a first-time issuer default rating of BB with a stable outlook.

The ratings agency said the ratings were based on the company's "leading market position and world-class reputation in data centre colocation, geographically diverse and network-dense footprint, central position in the emerging hybrid cloud ecosystem, secular demand drivers for data centre outsourcing, recurring revenue and stable customer base".

Rogers' buys Internetworking Atlantic, prices US$1bn bond

Canada

Leading cellco **Rogers Communications** has acquired **Internetworking Atlantic** (IAI) to boost its presence in the business and public sector segment.

The early December deal has seen the Toronto-based company acquire the target's Halifax-based data centre, which provides B2B colocation and storage services across Atlantic Canada, as well as its fibre-optic network, cloud services and employees.

The purchase price was not disclosed.

Nitin Kawale, president of Rogers' enterprise business unit, said IAI's expertise in data centre services, cloud solutions and fibre networking will help the company improve services in the large and medium-sized enterprise space.

The Halifax data centre will be Rogers' first in the region and sixteenth nationally.

Out with US$1bn bond

Meanwhile, Rogers has issued US$1bn of senior notes to refinance existing debt and for general corporate purposes.

The offering consists of US$700m of 3.625% senior notes due 2025 and US$300m of 5% senior notes due 2044. It is guaranteed by wholly-owned subsidiary Rogers Communications Partnership.

Some of the net proceeds will be used to repay outstanding advances under bank credit facilities.

Rogers reported operating revenue of C$3.38bn (US$2.53bn) for the three months ended 30 September 2015 and adjusted net debt of C$15.55bn (US$11.63bn).

President of Rogers' enterprise business unit Nitin Kawale

Charter completes acquisition financings with US$2.5bn bond

USA

Charter Communications has closed the US$2.5bn note offering which completes the financing for its acquisitions of **Time Warner Cable** (TWC) and **Bright House Networks**.

The senior unsecured notes due 2026 bear interest of 5.75% per annum and were issued at par, the cableco said in late November.

The proceeds will remain in escrow at subsidiary CCOH Safari, created to pre-fund the purchases, alongside funds generated from earlier acquisition financings until the TWC deal closes. At this point, Charter units CCO Holdings and CCO Holdings capital will assume the notes.

In August, Charter inked two loans totalling US$3.8bn following a mammoth six tranche US$15.5bn high-yield note issue in July.

Goldman Sachs, *BofA Merrill Lynch*, *Credit Suisse*, *Deutsche Bank* and *UBS* worked on the financing.

The John Malone-backed company agreed to buy TWC and Bright House for US$56bn and US$10.4bn respectively in May. If approved by regulators, the deal will create the second largest cableco behind Comcast. Charter and TWC do not expect federal regulators to finish their review until Q1 2016.

Earlier in November, Fitch rated the then-prospective notes BB, saying it views both acquisitions positively and believes they will strengthen Charter's credit profile.

The ratings agency anticipates that the cableco's leverage, pro forma for both deals, will be under 5x at closing. However, it described integration risks as "elevated", adding that Charter's ability to manage the integration process with minimum disruption to overall operations will be key.

EARLIER IN NOVEMBER, FITCH RATED THE THEN-PROSPECTIVE NOTES BB, SAYING IT VIEWS BOTH ACQUISITIONS POSITIVELY AND BELIEVES THEY WILL STRENGTHEN CHARTER'S CREDIT PROFILE.

Fitch considers Charter's overall liquidity position and financial flexibility to be satisfactory and that the latter will improve in line with free cash flow.

Dish tirade against merger continues

Meanwhile, pay-TV provider **Dish Network** has continued its campaign against the Charter-TWC-Bright House merger, filing another argument against it with the FCC in late November.

This filing was a response to an earlier Charter filing defending the merger.

Dish has contended that the merging parties have failed to demonstrate that the deal would be in the public interest.

The pay-TV operator's deputy general counsel, Jeffrey Blum, said: "If the proposed merger is approved, 90% of the nation's high-speed broadband homes would be controlled by two companies, and the combined New Charter would have every incentive to sabotage OTT services like Sling TV that compete with the old school cable bundler."

Charter later filed a letter seeking to build on an earlier document outlining why it believes the deal would be in the public interest.

The cableco argued that it would increase competition, including in the small and enterprise business segment, saying New Charter would be able to offer disruptive pricing and highly-competitive terms to businesses nationwide. New Charter would also be able to offer a wireless service, boosting competition in that area, Charter said.

The cableco also said New Charter would boost broadband speeds and expand access to advanced technologies at affordable prices.

Frontier clears final regulatory hurdle for Verizon deal

USA

Frontier Communications has received the final regulatory approval needed to close its US$10.54bn acquisition of **Verizon**'s wireline, broadband and video operations in California, Florida and Texas.

The California Public Utilities Commission (CPUC) unanimously voted to clear the deal, the rural broadband and DTH operator said in early December.

The FCC, Department of Justice and Texas Public Utilities Commission had already given it the green light.

Frontier expects the deal, announced in February, to close at the end of March 2016.

It includes 1.2 million wireline, 3.7 million voice and 2.2 million broadband connections, nearly doubling Frontier's size.

The telco's president and CEO Daniel McCarthy said the transaction "represents a significant transformation" for the company.

"We will transition our revenue to a more diversified mix, improve our growth prospects, create sustainable value for shareholders and provide a great experience for our new Frontier customers in California, Florida and Texas."

In late September, Frontier issued US$6.6bn of senior unsecured notes to help fund the purchase. It has also inked a US$1.5bn senior secured five-year loan, with JP Morgan as lead-left bookrunner, and raised US$2.75bn in the equity market to help fund the deal.

Frontier reported revenue of US$1.42bn and a net loss of US$14m for Q3 2015. At the time, CEO Dan McCarthy said the company was expanding its infrastructure and adding resources to ensure it is ready to integrate Verizon by closing, adding that its focus in Q4 would be on operational execution to improve customer revenue, lower costs and prepare for the integration.

Zayo strikes C$465m deal to buy Allstream

Canada

US B2B fibreco **Zayo** has inked an agreement to acquire **Manitoba Telecom Services' Allstream** unit for C$465m (US$348m).

The all-cash deal came more than two years after the federal government blocked a deal to sell Allstream, which operates a 30,000km national fibre network and provides bandwidth and telecoms services to business and public sector customers, to Egypt's Accelero Capital on national security grounds.

Manitoba president and CEO Jay Forbes stated in late November that the agreement followed a comprehensive sales process that attracted a variety of strategic and financial suitors, as well as multiple bids.

Analysts had predicted that Bell Canada and Telus would be the most likely buyers.

The purchase price represents an EBITDA multiple of 4.7x. Allstream has about C$600m (US$438.3m) in revenue and C$100m (US$73m) in EBITDA, Zayo said.

The Colorado-based company, which had a market capitalisation of US$5.7bn at the time of writing and an 87,000 mile fibre network in the US and Europe, intends to fund the deal with existing cash and a revolving credit facility.

It said its primary aim is to add Allstream's infrastructure assets to its core business, noting that the target has more than 9,000 route kilometres of fibre network in Canada's top five metropolitan markets, a 20,000 route kilometre long-haul fibre network connecting all major Canadian markets and 10 US network access points. It also operates colocation space in Toronto, Montreal and Vancouver.

Karl Maier, president of Zayo International, said the company is targeting C$300m of revenue for Zayo Canada, a 40% EBITDA margin and a high single-digit growth rate.

Allstream's voice and universal communications and small business divisions will become standalone units.

Barclays analyst Phillip Huang described the valuation as better than expected, noting that the C$425m in net proceeds Manitoba's MTS subsidiary expects to receive is higher than the failed C$400m sale to Accelero. It is also well above his estimated selling price of C$278m.

"We believe this transaction maximises the value of a stabilised and renewed Allstream, is in the best interests of the company and positions both MTS and Allstream for long-term success in a competitive marketplace," he said.

Wells Fargo analyst Jennifer Fritzsche said she was surprised the US fibreco planned to keep Allstream's voice segment as this falls outside its core bandwidth infrastructure business.

Manitoba CEO Jay Forbes

She also noted that Allstream's approximate 17% EBITDA margin will dilute Zayo's overall margin.

Manitoba said it believes the talks held with regulators throughout the sales process would help facilitate approvals so the deal can close in Q1 2016. The MTS board has already cleared the transaction, which still requires the green light from the Competition Bureau and national security authority.

MTS expects to record a post-tax loss on the sale of C$75m-C$90m, some of which will be reflected in its Q4 results. The company said the proceeds may be used to retire debt incurred to make a pension funding prepayment earlier this year and to buy spectrum.

As part of the deal, MTS has agreed to retain pension obligations and related pension plan assets concerning retirees and other former employees. Allstream retains the pension benefits for current employees. MTS has also agreed to reimburse Allstream for certain solvency funding payments.

Forbes said: "We have made strong progress in 2015 executing on our strategy, resulting in significantly improved free cash flow generating capability, with plans for $100m in further free cash flow improvements over the next three years."

Manitoba's financial advisers on the transaction were *CIBC World Markets* and *TD Securities*, while its legal adviser was *Stikeman Elliott*. *Drysdale Forstner Hamilton Public Affairs* acted as public affairs and communications counsel.

Zayo's exclusive financial adviser was *RBC Capital Markets* and its legal advisers were *Gibson Dunn & Crutcher* and *Borden Ladner Gervais*.

Verizon could consider Yahoo core business - Shammo

USA

Verizon Communications CFO Fran Shammo has said the company would look at **Yahoo**'s core internet business under the right circumstances.

Speaking at a UBS conference in New York, Shammo prefaced his comments on Yahoo, which has abandoned plans to spin off its stake in China's Alibaba in favour of spinning off and listing its core internet business, by saying he thinks it's "way too premature" to talk about a potential purchase.

"I mean their board and investors have not decided what they're going to do with that asset," he said. "But it is like everything, it is just like with AOL, we will look at everything across the spectrum and if we see there is a strategic fit and it makes sense for our shareholders and we can return value, we will look at it."

Verizon has made big bets on content this year, paying US$4.4bn for AOL over the summer and launching its ad-funded mobile video streaming service Go90 in October. It also bought mobile ad and app monetisation provider Millennial Media for US$238m to further bolster its capabilities in wireless advertising.

With AOL, the cellco aims to boost its LTE wireless and video strategy by building content such as The Huffington Post, AOL.com and original OTT videos into its subscription business and advertising platforms.

Go90, which distributes its own and third-party content and ads, is aimed at the millennial market.

At the conference, Shammo said the company's focus will increasingly be on the wireless side.

"We are taking all the excess capital and investing it in what Marni Walden [president of product innovation and new business] is running around Go90 and Hum and these platforms that are going to really escalate our revenue stream. AOL is another one, so we are giving them more capital to do what we need to do and that is where the growth is going to come from."

Further divestments possible

Shammo also did not rule out selling further assets in the wake of its US$10.54bn sale of wireline assets in three states to Frontier Communications.

He said that while he's happy with the current asset portfolio, "we look at everything every day and if something makes sense where we can return value to our shareholders and it is not a strategic fit and it doesn't play out over the long term for us, then obviously we would look at that".

He cited the company's disposal of towers as a prime example of a situation in which it had no interest in selling until the right opportunity came along.

"[W]e got into a great financial position with that where we could monetise it, return some value to our shareholders and we sold our towers," he said.

Shammo also sought to allay concerns that Verizon is running out of capacity on its wireless network, saying it uses only 40% of its airwaves for LTE, which handle 87% of data traffic. He noted that the company is starting to reallocate PCS spectrum to LTE and will follow suit with 850 MHz airwaves.

He confirmed that the company will take part in the FCC spectrum auction set to begin in late March but stressed that it has "plenty" of spectrum, saying "this philosophy that Verizon is spectrum short is just false".

Sprint gets US$1.1bn cash injection from leaseco

USA

Sprint has launched a new device leasing company, **Mobile Leasing Solutions**, through which it has raised US$1.1bn in cash.

The telco announced the leaseco's creation in late November and closed the first transaction in early December, receiving US$1.2bn in total, to be exchanged for about US$1.3bn worth of leased devices. It received US$1.1bn at closing and US$100m in deferred consideration.

This transaction, developed by Sprint and its Japanese shareholder **Softbank**, is designed to improve the carrier's liquidity position and provide financing at a considerably lower cost than the high-yield debt market.

Sprint CFO Tarek Robbiati commented: "Providing mobile devices to customers is the biggest use of cash in the carrier model and with this new structure we have more closely aligned Sprint's cash flows with those associated with leasing devices to our customers".

Wells Fargo analyst Jennifer Fritzsche noted that the leaseco structure enables Sprint to collect 90% of expected cash flows from its handset leases within one to three months of a lease commencing.

"This acceleration enables Sprint to offset the working capital outflows from handset purchases, which are a US$10bn-US$12bn annual cash outlay," she said.

The leaseco financing costs of 7-8% also compare favourably with current bond yields of 10-11%, she added.

Softbank formed Mobile Leasing Solutions with a group of equity investors, which secured financing from lenders that included international banks and leasing companies.

Device distributor **Brightstar**, also majority owned by Softbank, helped to structure the transaction, and is providing the lease management and tracking system. The firm will also provide reverse logistics and device remarketing, including a yet-to-be-finalised forward purchase agreement with **Foxconn** aimed at minimising the depreciation of device values.

Fritzsche noted that these arrangements with Brightstar and Foxconn will help to manage the residual value risk of handset leases.

"We believe this arrangement is enabled by Sprint's close relationship with Brightstar… which would be difficult for other carriers to replicate," she added.

Sprint has amended its existing receivables facility to include the sale of future lease receivables, upping the funding cap to US$4.3bn from US$1bn. These receivables relate to devices not included in the leaseco.

The carrier has revised its outlook for adjusted EBITDA for the 2015 fiscal year, reducing it to US$6.8bn-US$7.1bn from US$7.2bn-US$7.6bn. The drop is solely due to the leaseco.

Fritzsche said her team believes the leaseco structure together with Sprint's deep spectrum position, US$7bn-plus in liquidity and focus on cost cutting position it to grow EBITDA in FY2016 and meet maturity payments over the coming years.

"We continue to view Sprint's equity risk to reward ratio as an attractive one at present," she said.

AT&T set to launch new mobile video service as Comcast and Charter eye mobile

USA

AT&T is gearing up for the launch of a new mobile video service as **Comcast** and **Charter Communications** consider similar offerings in yet further signs of mobile/cable convergence.

Randall Stephenson, chairman and CEO of telecoms giant AT&T, told attendees at a UBS investor conference in early December that the company would announce "some new capabilities, some new products, integrated products, and pricing" within the next 30 days, adding that it has "put together a really premium content package with our premium wireless asset".

The offering, to be launched in January, will feature movies, TV shows and live sport from recently-acquired DirecTV, Stephenson said. The purchase of the DTH operator has also afforded AT&T access to streaming rights which will enable it to offer a video service on multiple platforms, he said.

He explained that DirecTV customers will be able to stream content, which includes TV channels such as HBO and Showtime and ESPN sports programming, on their TVs and mobile devices.

AT&T has also created a joint venture, Otter Media, with The Chernin Group to develop content for video services, he said.

Cablecos tight-lipped on wireless plans

Meanwhile, Comcast chairman and CEO Brian Roberts has provided a bit more colour on the cable giant's plans to delve further into wireless.

Speaking at a Business Insider conference in New York, also in early December, Roberts said Comcast is looking at expanding its relationships with mobile operators **Verizon** and **Sprint** to develop its own wireless offerings. He said the company will "experiment in that area", drawing upon the cellcos' networks and its own broadband infrastructure.

He recalled a meeting with Steve Jobs in which the late Apple founder told him he couldn't understand why Comcast didn't install WiFi in every cable box, acknowledging that he went home afterwards and asked himself 'what's WiFi?'.

Roberts remained vague on the company's wireless plans but promised that it would have more to share next year.

Charter CEO Tom Rutledge was also secretive about wireless plans, saying at the UBS conference that "ultimately the mobile platform is something we're going to want to reach to", without elaborating.

Verizon CFO Fran Shammo said in October that Comcast, Time Warner Cable, Bright House Networks and Cox Communications were preparing to exercise options under a 2012 deal to use its wireless network. In its letter to the FCC, Charter has also said that New Charter would be able to offer a wireless service via WiFi, deploying spectrum, an MVNO, or a combination of these.

Verizon has made big bets on content this year, paying US$4.4bn for AOL over the summer and launching its ad-funded mobile video streaming service Go90 in October. It is reportedly considering expanding its media business still further by acquiring Yahoo's core internet business (see p19).

Comcast's CTI Towers buys 120 masts, expands into new markets

USA

Comcast majority-owned **CTI Towers** has acquired 120 towers from **Vyve Broadband** in what could be another signal the cableco intends to move into wireless.

Boston-based CTI said in late November that the towers' tenants include national wireless carriers Verizon, AT&T, T-Mobile US and Sprint as well as broadcasters, utility companies and government entities. The deal value was not disclosed.

Comcast, which owns the CTI stake via its Silicon Valley-based venture capital arm Comcast Ventures, has been seeking growth opportunities since abandoning its takeover of Time Warner Cable last April.

Commenting on the CTI deal, Comcast Ventures managing director David Zilberman said he was "excited for the company's strong and growing portfolio".

CTI said the deal expands its footprint into Oklahoma, Kansas, Arkansas and Wyoming, describing it as its largest single tower transaction.

CTI CEO Tony Peduto noted that the company has been helping Vyve with its tower leasing for the past year and planned to contact all carriers and service providers in its new markets.

Established with an investment from Comcast Ventures in 2011, CTI says it owns and manages more than 500 towers in 39 states.

Comcast's Q3 revenues were up 11.2% year-on-year to US$18.7bn. The Cable Communications unit generated revenues of US$11.7bn, up 6.3% year-on-year, which Comcast said was driven by increases of 10.2% in high-speed internet, 19.5% in business services and 3.3% in video.

US$1.49bn note issue

Comcast has issued US$1.49bn of unsecured notes due 2046 to refinance existing debt and for working capital and general corporate purposes.

The notes will bear interest of 4.6% per annum and mature on 1 February 2046, the cable giant said in an SEC filing. They will rank equally with all of its and its guarantors' unsecured and subordinated debt, be listed on the Taipei Exchange and governed by the laws of the State of New York.

The cableco may redeem the notes, guaranteed by subsidiaries Comcast Cable Communications and NBCUniversal, in full but not in part, on each 1 February from 2018 at 100% of the principal amount plus interest.

Part of the proceeds will be used to repay a portion of the company's outstanding commercial paper which, as of 20 November, had a weighted annual interest rate of about 0.44%.

The joint bookrunning managers for the transaction are *E Sun Commercial Bank*, *MasterLink Securities* and *SinoPac Securities*. *The Bank of New York Mellon* is trustee.

Comtech buys TCS and enters public safety market

USA

Satcoms equipment maker **Comtech Telecommunications** has bought secure communications specialist **TeleCommunication Systems** in a US$430.8m deal.

The acquisition sees Comtech enter new commercial businesses such as the public safety market, where TCS is developing next generation emergency 911 systems.

The companies said in late November that the combined group would employ about 2,000 people, and generate US$671.4m in sales and US$92.2m in adjusted EBITDA without synergies, which are expected to be roughly US$12m in the second year after closing.

Comtech CEO Stanton Sloane said: "TCS is a unique business and a leading provider of mission-critical [command, control, communications, computers, intelligence, surveillance and reconnaissance] solutions and next generation emergency 911 services to leading cellular and VoIP providers.

"The acquisition is a significant step in our strategy of entering complementary markets and expanding our domestic and international commercial offerings."

Comtech has been integrating subsidiaries and making a series of management changes, as part of a restructuring process kick-started after it pulled a potential sale at the end of 2014.

It had hired *Citigroup* in August 2014 to review strategic alternatives as its business shifted away from the US government, following the loss of a significant military contract in 2010. Annual revenue declined 17% on average from FY 2011-2014.

However, the group's board decided in December 2014 that remaining independent would be best for shareholders, and it set out a plan to expand its product portfolio, pursue acquisitions of businesses and technologies, and return cash to shareholders.

TCS will help diversify Comtech's earnings, while establishing it as a prime contractor on several government contracts, including for over-the-horizon 'troposcatter' microwave systems products.

Citigroup advised on the deal, and provided a US$400m loan commitment. About US$149.9m of the companies' combined US$202.6m in cash, cash equivalents and marketable securities will also be used.

The merger deal is approved by both boards and will see Comtech make a first step cash offer of US$5 per TCS share. All of TCS's anticipated US$143.6m in debt will then be repaid upon closing, expected by March.

The deal is subject to regulatory approvals and the tender of a majority vote of TCS outstanding common stock. The US$430.8m equity value represents an implied transaction multiple of about 8.9x, based on TCS' adjusted EBITDA for the past 12 months, plus approximately US$8m of first year synergies.

Upon closing, they expect the combined company will have a total leverage of about 3.9x trailing twelve months pro forma adjusted EBITDA. Combined cash flows will help reduce this over time, and the credit facility will enable Comtech to issue new shares to reduce total leverage prior to or after completion. It will also allow Comtech to maintain its US$1.20 per share annual targeted dividend rate.

Significant TCS stockholders Maurice Tosé, its CEO and chairman, and Jon Kutler, founder of Admiralty Partners and a director of TCS, have already agreed to tender their shares.

TCS is advised by *Lazard*, which was brought in earlier this year to explore strategic alternatives following pressure from hedge fund Becker Drapkin Management to make board changes as TCS' revenues suffered amid the decline in government spending.

Commenting on the sale to Comtech, Tosé said: "The TCS board of directors and management believe this strategic combination with Comtech is compelling and provides significant benefits for our stockholders, customers and employees. Our customers will benefit from greater resources and more diverse product offerings, and our employees will benefit from being part of a larger, more diversified company."

Comtech made a failed US$473m bid in 2010 to buy rival communications products developer CPI International, which was eventually sold to private equity firm Veritas Capital. Ensuing criticism from shareholders about Comtech's strategic direction prompted it to launch a separate strategic review in 2011, resulting in an increased dividend and share buyback to assuage the discontent.

Law firm *Proskauer Rose* advised Comtech, while TCS hired *Bryan Cave* .

Crestview acquires 35% stake in WOW

USA

Private equity firm **Crestview Partners** has agreed to inject US$125m into cableco **Wide Open West**, trading as WOW, and acquire shares from majority owner **Avista Capital** and other smaller investors.

Combined, the two transactions will give Crestview around a 35% stake in WOW, valuing the ninth largest cableco at close to US$4bn, people familiar with the situation told TelecomFinance in mid-December.

Avista will remain the largest shareholder in WOW when the transaction completes, most likely by the end of this year.

Jeffrey Marcus, who leads Crestview's media practice and has experience in US cable, will become chair of WOW, Crestview's fourth cable investment since its founding in 2004.

Marcus replaces former WOW CEO *Colleen Abdoulah* in the role, who will continue to serve as a director on the company's board.

Credit Suisse was financial adviser to WOW and Avista, while *Kirkland & Ellis* provided legal advice.

Paul, Weiss, Rifkind, Wharton & Garrison provided legal counsel to Crestview.

WOW's network passes three million households and it has declared 782,000 residential, business and wholesale customers across Illinois, Michigan, Indiana, Ohio, Kansas, Maryland and the Southeast.

It has in recent years made a number of bolt-ons, including Bluemile for US$20m in 2013, Broadstripe for US$55m in 2011, and Sigecom for US$120m in 2006, according to data from S&P Capital IQ.

According to WOW's Q3 results announced in November, total revenue for the 12-month period ended 30 September was US$1.23bn and adjusted EBITDA was US$440m.

WOW's near-US$4bn valuation suggests an EV/EBITDA multiple higher than the 7.6x synergy-adjusted multiple Altice agreed to pay for Suddenlink earlier this year.

Altice and John Malone-backed Charter Communications have both been on a cable acquisition spree, positioning smaller regional players such as WOW as ripe for the picking.

Dish shakes up management, wins key spectrum ruling

USA

Dish Network has made major management changes to help the DTH provider achieve its new strategic goals, including its entry into the wireless space. It has also won approval from the global wireless standards authority to make some of its satellite spectrum available for cellular use.

Chairman and CEO *Charlie Ergen* has relinquished the role of president, which will be taken up by *Erik Carlson*, EVP of operations, Dish said in an SEC filing. Carlson, who joined the company nearly two decades ago, just before its first satellite launch, has also been appointed chief operating officer (COO). Reporting to Ergen, he will oversee all revenue generating, operating and administrative units, including customer acquisition and retention, finance and accounting, HR, marketing, media sales, programming and the new technology office.

The company's current COO, *Bernie Han*, will become EVP of strategic planning, also reporting to Ergen. He started in the pay-tv business in 2006, when he joined Dish as CFO.

Ergen said Han's "unparalleled depth as an operational and financial leader will be indispensable as we advance our work on the strategic transformation of Dish, including our entry into the wireless industry".

Wins wireless spectrum compatibility ruling

Dish executive VP of corporate development Tom Cullen described the Third Generation Part Project's (3GPP) decision to open up its Band 66 spectrum to mobile coverage as "a win for the public", and "critical step forward on the path to deployment and commercialisation".

"We're very pleased with the adoption of Band 66 by the industry," he said. "Interoperability of different spectrum bands increases network capacity and is an important priority for the FCC."

The Band 66 spectrum, previously available only for satellite use, includes AWS-4 downlink, AWS-1 and paired AWS-3 airwaves.

3GPP has also completed a feasibility study into making a second band of Dish's spectrum mobile compatible. This would include its remaining AWS-4 and H Block airwaves.

"Similar to Band 66, the proposed band includes a greater proportion of downlink spectrum relative to uplink," Cullen said. "By pairing the AWS-3 uplink spectrum with valuable downlink spectrum on an asymmetrical basis, the overall utility of the spectrum will be enhanced to the benefit of consumers as the growth of applications like mobile video continue to require more downlink capacity."

Dish said it will continue to work with 3GPP to finalise this new band in 2016.

The company has invested billions of dollars in acquiring licences for 75 MHz of spectrum nationwide, covering more than 23 billion MHz-POPs.

Qualcomm forgoes company breakup, improves profit forecast

USA

Semiconductor **Qualcomm** has decided against breaking up the company, determining that its current corporate and financial structure best places it to improve returns and long-term shareholder value.

The Qualcomm board formed a special committee, chaired by presiding director Thomas Horton, earlier this year to review its current structure and possible alternatives, hiring multiple advisory firms to assist it.

Horton said in a mid-December company statement that the board and management team have "concluded that our current structure creates important and unique strategic advantages for Qualcomm and will continue to drive substantial stockholder value". The current structure comprises a chip making business, Qualcomm Technologies, and a patent licencing one, QTL.

The company has also revised its outlook for the first fiscal quarter of 2016, saying it is "seeing a stronger quarter … as 3G/4G device ASPs and shipments are favourably impacting the licencing business, and benefits are being realised from cost actions throughout the company".

Qualcomm now expects to either hit or be "modestly above" the high end of the previous earnings per share guidance ranges for the quarter.

Falling revenues and stock prices, along with pressure from activist investor Jana Partners, prompted the San Diego-based chipmaker to announce in July that it would consider structural changes, including a potential breakup. The company, which manufactures a variety of telecoms technology, also announced plans to cut US$1.4bn in spending, added two new directors in line with an agreement with Jana and promised to add a third.

Centerview Partners acted as financial advisor to the special committee, which Qualcomm said assessed and tested a "wide range" of options, which included looking at ways to mitigate the associated risks and challenges.

The special committee also brought in *Boston Consulting Group* to evaluate potential regulatory and market-based impacts and hired *Jones Day* as legal counsel for regulatory matters. The advisory team was also bolstered by *DLA Piper*, which acted as counsel to the board and special committee; *Goldman Sachs* and *Evercore*, which provided financial advice to Qualcomm; and *Cravath, Swain and Moore*, which served as counsel to Qualcomm on regulatory matters.

Qualcomm CEO Steve Mollenkopf commented: "The strategic benefits of the current structure will best fuel [the company's] growth as we move through the upcoming technology transitions and extend our technologies into new user experiences, services and industries."

Qualcomm derives most of its profit from patent royalties charged to handset makers, but more than half of its revenues from the chip making business.

The company has come under fire from regulators internationally. Earlier this year, it agreed to pay a US$975m fine to Chinese antitrust authorities in connection with its licencing practice and it is also being looked at by regulators in the US, South Korea, Taiwan and the European Union.

Qualcomm's chips are used in a variety of applications ranging from mobile phones to satellite tracking devices. It is an investor in global satellite broadband venture OneWeb.

1 / MEXICAN FIXED CHALLENGERS FINALISE MERGER AGREEMENT - PG. 23
2 / TIM BRASIL CEO OPEN TO M&A, SAYS CONSOLIDATION "NATURAL" - PG. 24
3 / AMÉRICA MÓVIL TO IPO TOWERCO - PG. 24

Telecom Argentina places bond

Argentina

Telecom Argentina has placed 18-month and 36-month bonds worth up to Ps1bn (US$103m).

Overseeing the transactions are *BBVA Francés*, *Banco Galicia* and *Santander Río*.

The operator, which trades as Telecom Personal, has indicated that it will spend the proceeds on network improvements such as 4G deployment. It is in the middle of a two-year Ps30bn (US$3.1bn) mobile and fixed network upgrade project.

The series 1, 18-month bonds will pay interest at a fixed nominal rate to be decided by the issuer for the first six months. From the seventh month, they will pay a variable rate. The Series 2, 36-month bonds will pay a fixed interest rate to be determined by the issuer until the end of the ninth month, and then a variable rate.

The bond programme, announced in a prospectus published in April, is authorised by stock market regulator CNV.

Sale to Fintech could get back on track

Part-owner Telecom Italia may find it easier to complete the second part of its exit from the local telco following the results of the local election, which ended the Peronist party's 12 years in power.

Regulator AFTIC, seen as within outgoing president Cristina Fernández de Kirchner's sphere of influence, had blocked the remainder of the sale to local investor Fintech.

Following the election results, a judge in the Federal Administrative Court ordered an injunction on AFTIC's blocking of another telecoms deal, NII Holdings' sale of Nextel Argentina to media conglomerate Clarín – the subject of a long-running battle with Kirchner.

The move pushes back the review of that case by six months.

Earlier in December, the Italian incumbent's CEO, Marco Patuano, said he was confident that the sale would be completed next year.

Axtel and Alestra complete due diligence for merger

Mexico

Fixed-line challengers **Axtel** and **Alestra** have finalised their agreement for an all-stock merger, which must now be approved by the stock market authority.

Axtel's shareholders are expected to approve the transaction at an extraordinary general meeting scheduled for 15 January 2016. The groups had signed an MoU on 1 October.

Alestra's conglomerate parent **Alfa** will own 51% of the combined group, with Axtel to issue it new shares.

Axtel was advised by *Citigroup*, and Alfa used its in-house team.

The two companies together account for less than eight percent of fixed-line traffic. They compete with market leader **Telmex**, which controls 62.5% of the 21 million fixed lines. Other fixed-line providers include leading media group Televisa (19%), Telefónica (6.8%) and Megacable (3.6%), according to telecoms regulator IFT.

Axtel/Alestra will have 37,500km of backbone, metropolitan and FTTH fibre optics network, and 6,000 square metres of data centre space.

They will generate US$892m in pro-forma annual revenues, with Ps11bn (US$654m) from enterprise and another Ps4bn (US$238m) from consumer services. Alestra's focus is the B2B market, while Axtel is consumer oriented.

The IFT has been implementing measures to curb the dominance of Telmex, most recently demanding that it amend local loop unbundling terms.

The Communications and Transport Ministry (SCT) has invited bidders to participate in the shared network tender, which is due to start on 29 January. The project is expected to cost US$7bn, and require 12,000 towers.

Bank of America Merrill Lynch and *Transparencia Mexicana* will advise the ministry.

The shared network plan, introduced in 2013 as part of constitutional reforms aimed at limiting dominant player América Móvil, will have a 90 MHz block in the 700 MHz band.

The bidders, expected to be consortia of private companies, would build and maintain the network, which would be used by existing operators.

The SCT said it had worked alongside sector regulator IFT to set out a framework for the project.

At the TelecomFinance 2015 Conference in January, IFT Commissioner Fernando Borjón said the public-private partnership between the state and foreign investors would benefit all operators while improving competition.

The project has come under criticism by some, who argue that a government-controlled monopoly is not the right solution – although it can make sense in rural areas.

Grupo Televisa issued US$1.2bn worth of bonds in late November. The issue comprised US$300m of 4.625% senior notes due 2026, and US$900m of 6.125% senior notes due 2046.

Goldman Sachs, *HSBC* and *Morgan Stanley* acted as joint book-running managers.

The Mexican content and distribution company will use the proceeds for capex and general corporate purposes. It had US$5.3bn in debt as of 30 September. The group last went to the bond market in May 2014, when it issued US$1bn of senior unsecured 5% notes due May 2045.

The Brazilian government has launched a public consultation to seek feedback on new telecom rules that could come into effect in 2016, communications minister Andre Figueiredo Lima said in November.

The new rules are expected to smooth the path towards consolidation, most likely between the number three and four players, **TIM Brasil** and **Oi**. Russian investor LetterOne approached the locally owned group in October with a US$4bn proposal to help it merge with the Italian-owned telco.

Commenting on the idea at the time, Telecom Italia CEO Marco Patuano said the regulatory framework needs to be clearer before any deal can be discussed.

According to a local competition lawyer, government involvement makes sense in this case since Oi is at risk of bankruptcy.

"If it were to cease services, it would have a negative impact on service, employment and tax revenue," the lawyer said.

Brazil is already facing devaluation and broader economic uncertainty, due in part to a large-scale corruption scandal at 51% state-owned energy company Petrobras.

Assuming the new rules are rubberstamped, this would be the second time that Oi has benefited from regulatory changes. In 2008, the government overturned rules prohibiting mergers among leading fixed-line players in different regions, enabling the company – then known as Telemar, to acquire Brasil Telecom and create a national champion able to compete against players owned by América Móvil, Telecom Italia and Telefónica.

"This is the second time the law has been changed with the primary purpose of allowing a transaction to go through – it just happens to involve the same company," the lawyer said.

América Móvil-owned **Claro** and Millicom's **Tigo** are planning to bid in a 4G auction scheduled to take place this month. They submitted applications to regulator Conatel, which must decide whether they may go ahead with offers for the 1700MHz and 2.1GHz bands.

Telecom Argentina-owned Personal and state-held Vox are not participating in the auction.

TIM Brasil open to M&A

Brazil

Telecom Italia-owned **TIM Brasil** is open to M&A if the right opportunity arises, CEO Rodrigo Abreu has reportedly said.

He was cited saying it was "natural" that there be consolidation opportunities in the local market.

"If they appear, we will be open to analysing them," he said.

The CEO however denied that there was a deal underway with rival Oi, which itself is in talks with Russia's LetterOne about a US$4bn investment. That firm, also a shareholder in Vimpelcom, is interested in the potential to combine TIM and Oi into a stronger player better able to compete with América Móvil-owned Claro and Telefónica's local business.

Telecom Italia has avoided saying that the asset is on the block, emphasising its contribution to the parent company's revenues. CEO Marco Patuano did not refer to TIM Brasil in recent statements to the Italian parliament detailing his plans to raise €3bn (US$3.3bn) in 2016.

TIM Brasil CEO Rodrigo Abreu

América Móvil to list Telesites

Mexico

Carlos Slim's **América Móvil** plans to begin trading shares in tower spin-off **Telesites** on the Mexican Stock Exchange on 21 December, having finally secured regulatory approval. Surpassing American Tower as the country's leading towerco, the spun off group is likely to become a target for the likes of American Tower and SBA, an analyst has said.

América Móvil shareholders approved the spin-off in mid-April in response to regulatory measures to reduce its dominance in the local telecoms market. Telesites, which has 10,800 masts, was initially expected to go public in June, but this was postponed pending regulatory approvals.

The National Securities and Banking Commission authorised the listing on 2 December.

Shareholders will be entitled to one Telesites share for each América Móvil share they own.

Telesites' debut on the stock exchange will mark the conclusion of the spin-off process, at which point the towerco will begin operating independently.

América Móvil will shift Ps20.6bn (US$1.3bn) of debt into Telesites, initially in the form of a loan. It will also move Ps2bn (US$130m) of cash into the towerco.

New Street Research has valued Telesite's equity at US$2.4bn, and its enterprise value at US$3.6bn, based on its own forecasts.

New tenants will be offered the same rental price as América Móvil's wireless unit Telcel. CEO Daniel Hajj told investors during an October conference call that there are no current plans to expand Telesites' footprint to other parts of Latin America, although it may be a possibility in future.

Likely target for US telcos

There has been speculation that Telesites could become a target, perhaps for US towercos.

New Street analyst Spencer Kurn told TelecomFinance that the towerco is uniquely positioned to benefit from network investment.

"We believe carriers in Mexico need to more than double their cell sites to meet rising demand over the next five to 10 years, and with a portfolio of towers in the best locations with very few tenants, Telesites is poised to be the fastest growing tower company globally."

As such, he predicts it will be a very attractive target for both American Tower and SBA Communications, although he doesn't think Slim is a likely seller at present.

América Móvil has come under significant pressure from telecoms regulator IFT to divest assets and share network infrastructure to boost competition in the fixed and mobile markets and attract foreign investments. In response, the telco has also inked MVNO deals with local fixed-line operator Axtel and Grupo Elektra's Telecomunicaciones 360.

América Móvil reported a Q3 2015 loss of Ps2.88bn (US$168.3m) – its first quarterly loss since 2011 – and net debt of US$42.18bn. It said it expects the Telesites spin-off to reduce its debt by Ps21bn (US$1.27bn). The company has also been affected by depreciations in Latin American currencies.

Lebanese Communications Minister Boutros Harb

Mobile contract tender collapses

Lebanon

The telecoms ministry has called off the tender of the country's two state-owned telecom operators, Alfa and Touch, since only two bidders took part.

"The process has stopped now and a new one will have to take place. We need four or five bidders to make it competitive," said a source familiar. Six companies had qualified to bid in August.

It is understood that telecoms minister Boutros Garb has met to discuss the matter with Prime Minister Tammam Saeb Salam, and that the two will make a decision on how to proceed in the New Year.

The Egyptian group had been excluded from the original process, which had been due to take place in September, having missed the deadline. It argued that the deadline had been unclear, and successfully petitioned the Shura Council to postpone the tender until November.

French incumbent **Orange** and Kuwait's **Zain** went ahead with their offers, but **OTMT** did not, citing overly difficult conditions.

A spokesperson for Zain said the company had intended to bid, and that its management had been present in Beirut.

"Our intentions are clear in that we intend to remain managing and further enhancing the mobile network, and we look forward to full or partial privatisation of the sector in the future."

He added: Zain has been managing [Touch] since 2004, working closely with the Telecom Ministry. Touch today offers 4G services and has a 53% market share, serving over 2.2 million customers."

A spokesperson for OTMT said: "We "intentionally" did not bid because we didn't meet the pre-qualification criteria of having 10 million subscribers. The RFP would have been cancelled with or without us since it only attracted two bidders, whereas they need at least three bidders to ensure competition."

Orange did not respond to a request for confirmation of its intention to bid.

When the tender process was first announced, an industry source noted that given the country's political stalemate, there was a 50:50 chance that the cabinet would approve the result of the tender.

The telecoms ministry first brought up the possibility of opening up the tender process in 2013, having in the past renewed the contracts on a near annual basis.

Lebanon's two-player telecoms sector has in the past been criticised as home to the world's highest mobile tariffs, and for being corrupt and slow to implement upgrades such as 3G.

Saudi Telecom has offered KD1 (US$3.30) per share for the 74% of **Viva Kuwait** it does not already own. The cash offer values the shares at 9% less than the number three player's closing price on 13 December, when it had a market cap of US$1.8bn.

NBK Capital is advising STC, while *Protiviti* is advising Viva.

The offer period, the company said in a mid-December stock exchange filing, will run from 27 December until 31 January, after which STC will be able to announce how many of the 499.4 million shares have been tendered and confirm the total consideration to be paid.

STC announced in November that it was seeking approval from Kuwait's Capital Markets Authority to make the offer.

Viva competes with Zain and Ooredoo's local subsidiaries. STC acquired the third mobile licence in 2007, paying US$980m.

UAE-based **Etisalat** is reportedly eyeing a US$2bn loan, likely to be in the form of an RCF.

The telco is currently talking to banks and hopes to close the transaction in Q1 2016.

Etisalat would join other regional companies taking out loans against the backdrop of an expected rise in US interest rates and falling oil prices.

The company last went to the debt market in April, when it issued US$500m in bonds under its global medium-term note programme.

Paltel and **Ooredoo**-owned **Wataniya** have received permission from the Israeli government to build 3G networks in Gaza and the West Bank.

Israel effectively oversees spectrum allocation, under the terms of the interim regional peace agreement.

Palestinian Authority Minister of Civil Affairs Hussein al-Sheikh said the telcos would now coordinate 3G deployment with the Palestinian Ministry of Telecommunications.

Palestine is home to some 4.7 million people.

AFRICA

1 / CELL C DEAL COULD INCLUDE FOURTH SHAREHOLDER - PG. 27

2 / VODACOM AGREES REVISED NEOTEL ACQUISITION - PG. 27

3 / KENYA RAISES TELKOM STAKE BACK UP - PG. 29

MTN overhauls group structure

South Africa

In the wake of a tough year which has claimed the heads of **MTN**'s group, South African and Nigerian CEOs, the company has revamped its entire operational structure. The new leadership positions will report directly to executive chairman Phuthuma Nhleko , a former CEO and non-executive who was parachuted in in November.

The move will strengthen "operational oversight, leadership, governance and regulatory compliance" across its 22 markets in Africa and the Middle East, the company said in early December.

MTN will restructure into three regions: West and Central Africa (WECA), South and East Africa (SEA), and Middle East and North Africa (MENA).

Reporting to the executive chairman is the new group executive for M&A, *Matthew Odgers*. A former head of TMT for Africa and the Middle East and head of investment banking for MENA at UBS, Odgers led the bank's overall relationship with MTN.

On 1 December, *Jyoti Desai* assumed the new position of Group COO after 14 years at the company, holding roles including CIO at MTN Nigeria, COO of MTN Irancell and a recent secondment to Nigeria. Her replacement as group chief technology and information officer will be announced soon, the company said.

Each region will have a vice president, with two announced so far: *Karl Toriola* for WECA, and *Ismail Jaroudi* for MENA. The VP for SEA is expected to be announced soon.

Based in Nigeria, Toriola has been at MTN for 10 years, having held senior operational roles at group level and in Iran. He has also served as CTO at MTN Nigeria and CEO at MTN Cameroon.

Jaroudi has been CEO of MTN Syria since 2006, having previously held senior operational roles for Investcom's subsidiaries across the Middle East and North Africa.

The search for the MTN group CEO is underway and remains a priority, the company said.

Commenting on the announcements, Phuthuma Nhleko said: "This revised structure and strengthened leadership will improve operational oversight and increase management capacity. This will enable MTN to continue to realise its strategy and vision, while also ensuring we achieve high governance standards and robust risk mitigation."

Phuthuma Nhleko, Executive Chairman MTN

With the financial year closing on 31 December 2015, the MTN Group will report its FY2015 results in line with the former structure: MTN Nigeria, MTN South Africa, large operating companies and small operating companies.

MTN makes progress on lowering Nigeria fine, as local CEO resigns

Nigeria

MTN has successfully lobbied the Nigerian Communications Commission (NCC) to lower its recent fine from US$5.2bn to US$3.2bn, and hopes to reduce it further still.

"The company is carefully considering the NCC's reply, however executive chairman Phuthuma Nhleko will immediately and urgently re-engage with the Nigerian authorities before responding formally, as it is essential for the company to follow due process to ensure the best outcome for the company, its stakeholders and the Nigerian authorities and accordingly all factors having a bearing on the situation will be thoroughly and carefully considered before the company arrives at a final decision," MTN said in a statement in early December.

After the fine was announced at the end of October, former CEO Nhleko was parachuted in to oversee discussions with the NCC and Nigerian president Muhammadu Buhari, who was elected earlier this year based on a campaign promising the eradication of both corruption and Boko Haram.

Michael Ikpoki, CEO of MTN Nigeria, has tendered his resignation, as has head of regulatory and corporate affairs, *Akinwale Goodluck*.

Ferdi Moolman will take over as CEO and *Amina Oyagbola* as regulatory chief. Moolman has previously served as COO at MTN's Iranian business, Irancell, and as CFO at MTN Nigeria. Oyagbola will retain her current position as the domestic head of human resources. She previously headed up regulatory affairs at the subsidiary.

Market leader MTN reported revenue of N824.8bn (US$4.1bn) in FY 2014.

According to NCC data as of September this year, MTN has 62.5 million subscribers; Bharti, which trades as Airtel, has 31.1 million; Etisalat, which trades as EMTS, has 23.5 million; while Globacom has 31.3 million.

MTN's next largest markets are Iran and South Africa, where it has 44 million and 29 million customers respectively. It has a total 231 customers across its 21 markets.

Cell C deal could include fourth shareholder

South Africa

The tripartite takeover of number three operator **Cell C** could soon include a fourth shareholder, TelecomFinance understands.

The company's proposed new owners – Johannesburg-based **Blue Label** (35%), Cell C management and staff (30%), and current 100% holding company **3C Telecommunications** – are sounding out potential buyers of a 15% stake, which would enable the company to reduce its net debt to R6bn (US$394m).

It is thought that the new shareholder would likely be a local player, such as a private equity firm, institutional investor or financial house.

As part of any deal, current 75% owner **Oger Telecom** will be responsible for reducing the net debt to a maximum of R8bn (US$532.3m), lead buyer Blue Label said in its statement. Cell C's current debt, thought to be in the mid-teen billions, would likely be refinanced, by either existing or new lenders.

Blue Label, which describes itself as the country's leading distributor of prepaid airtime and electricity, said it had submitted a conditional binding offer worth R4bn (US$266.1m). Cell C staff and management would contribute another R2.5bn (US$165.4m).

Investec is acting as financial adviser to Blue Label, while *Werksmans* is legal adviser.

Goldman Sachs and *Houlihan Lokey* are advising Oger, which has had legal advice from *Bowman Gilfillan*. Cell C's management and staff are not working with an external adviser.

Blue Label said Cell C's board of directors would meet soon to consider the offer, which, pending stock market approval, is expected to close on 1 June 2016. Oger and CellSAF, the black empowerment group holding a 25% share, are expected to approve the deal by the end of the year.

The Competition Commission and sector regulator ICASA, whose recent reviews of telecom transactions have been both lengthy and stringent, will not need to approve the deal.

Financing and rationale

Blue Label is expected to finance its part of the purchase with a majority of cash and inventory, converting existing commercial arrangements with Cell C into equity, with a smaller part of the payment to come from debt.

Describing the deal as a "step-up" from a commercial partnership to a transaction, the buyer said it was attracted to Cell C because of its significant investment in network infrastructure.

"This renewed focus on enhancing the quality of its network, distribution channels and customer touch points has resulted in a positive turnaround in Cell C's financial and operational performance," raising its subscriber base from about nine million in 2012 to the current 22 million.

Furthermore, Cell C's network, "currently consisting of more than 4,800 sites, addresses South Africa's core voice segments, with 98% of the population covered. Cell C also offers 3G and LTE data services to subscribers", Blue Label said.

Blue Label, which is also present in India and Mexico, said that, during its time as one of Cell C's primary distribution channels, the two companies had developed a strong relationship. It noted the deal's "compelling value proposition…through vertical integration affording both companies the opportunity to realise synergies in product distribution, and positioning Blue Label to benefit from the improved operational and financial performance that the combined platform would create".

Blue Label, which has a market cap of R6.9bn (US$425.3m), said its H2 2015 profits were on track for a 20% increase on the same period last year, when gross profits reached R788m (US$51.6m).

Talks end with Telkom

Incumbent **Telkom** meanwhile ended takeover talks with Cell C in November, having been unwilling to meet Oger's R22bn (US$1.58bn) asking price.

When the two started talks, Telkom reportedly indicated that it was willing to pay a maximum R18bn (US$1.29bn). CEO Sipho Maseko had denied a report that his company had made a R14bn (US$1bn) offer for Oger's 75% stake in the company after entering the due diligence phase.

Telkom first acknowledged that it had entered talks in late September, six months after Cell C went on the block.

In October, Telkom announced a functional separation of its network division, Openserve, saying that an open access approach would help the country meet the broadband connection targets set in 2013.

Telkom has said it has 2.2 million mobile subscribers, a small slice of the country's 53 million population.

A separate network sharing deal with MTN fell foul on competition grounds, while a previous merger attempt also failed.

Vodacom agrees revised Neotel acquisition

South Africa

Vodacom and **Neotel** have reached a modified agreement aimed at securing Competition Tribunal approval for their M&A transaction agreed in May 2014, according to a stock exchange filing.

The buyer said it would acquire "the majority of Neotel's assets related to its fixed-line business as a going concern, excluding" its spectrum licences. As part of this modified deal, Neotel will "offer a roaming arrangement to all the mobile network operators including Vodacom South Africa," rather than keep the spectrum for its sole use.

A spokesperson for Vodacom declined comment on whether the modification would impact the agreed R7bn price, the dollar value of which has slipped from US$677m to about US$458m in the 19 months since the deal was agreed.

The two parties said they have submitted the restructured transaction to the Competition Tribunal, which will consider it at a pre-hearing scheduled for 10 December.

The tribunal had the final say on Vodacom's acquisition of the Tata Communications-controlled fixed-line player, following approval by the Competition Commission in July and sector regulator ICASA in June. Comp Com had added conditions, most notably that Vodacom not access Neotel's spectrum for two years.

Rivals Cell C and MTN had come out forcefully against the deal, arguing that it would unfairly advantage Vodacom. Other conditions Comp Com placed on the deal were a mandatory US$821m investment in the network, and no job cuts.

On 23 November, Vodacom issued a statement saying the parties were discussing a revised transaction structure, which would "directly impact the extent of the approval being sought from the Competition Tribunal and the scope of the Competition Tribunal hearing".

Vodacom, is 65% owned by the UK's Vodafone.

"Our towers are ready and waiting"

Q&A with IHS co-founder, Executive Vice-Chairman and CEO Issam Darwish

A year after his company's blockbuster US$2.6bn fundraising, IHS Towers co-founder Issam Darwish talks infrastructure sharing, regulation and consolidation.

CL: IHS Towers has quickly grown into an established business, with big name investors such as Goldman Sachs. Can you tell us about the origins of company?

ID: We started in 2001, when William Saad, my brother Mohamad Darwish and I started building tower sites. It was an exciting time as Nigeria had just privatised its telecoms sector, MTN was beginning its continental expansion and Econet was emerging as a new player. Three or four years later, we began operating tower sites.

I would say our induction period lasted eight or nine years, during which we learned about everything from power sources to engineering capability and security – challenges which numerous businesses operating in Africa face today. In 2008/9 we raised US$79m and started our build-to-suit programme – at that point, scale was easy.

We've gone from few sites to 23,300 today. I am proud to say that for 15 years we have been building and managing towers that are the essential backbone of mobile telecoms in Africa – the leapfrog technology driving economic development, prosperity and self-sufficiency across the continent. Today, we are the largest mobile telecoms infrastructure provider in EMEA.

CL: Why did you choose Africa, and would you consider expanding beyond there?

ID: It's an exciting region, with a median age of 20 and a population that is expected to double. The GSMA predicts that 80% of the 800 million people in sub-Saharan Africa will have a mobile device by 2020 - two times more than today. Smartphones are now selling for £50 (US$76) or less, so what's now needed is increased service and network uptime. We have enough to do in Africa, but if an opportunity presents itself outside the continent, we'll take a look.

CL: There has been talk of eventual consolidation among Africa's independent towercos – IHS, Eaton Towers, Helios Towers Africa (HTA) and Helios Towers Nigeria (HTN). What do you think is the opportunity?

ID: We, as towercos, are too few, and the opportunity remains vast. We do not necessarily compete, in the traditional sense of the word, and we talk all the time. I sometimes wonder why there aren't more players, but then again, I remember the complex challenges involved with setting up a new towerco and how no two markets are the same.

That said, in some countries, it doesn't make sense to have three or four towercos operating in one market. So in markets such as Ghana, where American Tower, Helios and Eaton Towers are present, there could be room for consolidation.

The next trigger could be the issuance of LTE spectrum, which will likely cause MNOs to build more towers. Our towers are ready and waiting for this to happen.

CL: When HTN cancelled its IPO, it said it had received takeover interest. Is that something IHS, which is present in Nigeria, could look at?

ID: I can't comment. HTN are our friends and we don't want to disrupt their plans.

CL: African countries seem to be at the start of a new phase in which infrastructure sharing could become mandatory. What does this mean for towercos such as IHS?

ID: Cameroon has already said that new towers may not be built within a certain distance from existing towers. Côte d'Ivoire, for its part, has issued a fourth licence, so the new operator will most certainly have to share infrastructure. These same trends are also happening in Nigeria and Rwanda.

In my opinion, the biggest driver for increased sharing is an economic one: the MNO saves money, the user pays less, diesel emissions are reduced and less capex is spent,

which is better for the economy overall. Regulators understand this domino effect.

Active infrastructure could eventually be rolled out, most logically in rural areas, but markets must first become more saturated.

CL: What's it like competing with American Tower, which is a global giant?

ID: We all think rationally. The Africa opportunity is so big, we don't have to lock horns. We respect each other, we're friends and we talk regularly.

In each of our five markets, apart from Nigeria, which is also home to HTN and American Tower, we're the only major player. We're working hard to remain the number one.

CL: Do regulators mind there being a single player per market?

ID: No, our contracts are crystal clear. It makes economic sense since we have more than one client.

CL: What is the scope for consolidation among African operators?

ID: The market is too big, and MNOs have an enormous amount of growth ahead of them. But everything is possible.

CL: Is IHS going to bid for either of the tower portfolios being sold by Mobily and Zain?

ID: I can't comment on that, but I can say that the Saudi environment is ready for a few deals. It's a great opportunity – the geography is massive and the economy is strong, despite oil prices being at US$40 per barrel.

CL: There is increasing crossover between towers and fibre in the US. What is the fibre opportunity for IHS?

ID: LTE won't happen properly without fibre, but towers and fibre each have a different business model when it comes to tenancy and IRUs (indefeasible rights of use).

We are thinking hard about how to take part in this opportunity, because it does have to happen in Africa. I do expect some big developments in fibre in the coming years.

CL: To what extent is IHS active in CSR?

ID: We have numerous ongoing CSR initiatives in each of the five markets in which we operate. One of the ways in which we've given back is by encouraging former employees to set up businesses that help to serve us, on an exclusive basis. We effectively employ 40,000 people directly and indirectly through our exclusive subcontractors, and have enabled hundreds of local SMEs to succeed.

IHS co-founder Issam Darwish

> "FOR NOW, WE HAVE ALL THE MONEY WE NEED, FROM A GROUP OF VERY SOLID SHAREHOLDERS. HOWEVER, WE WOULD CONSIDER FURTHER FUNDRAISING IF THE RIGHT OPPORTUNITY CAME ALONG."

As a personal project, I seek to promote entrepreneurship through funding and mentoring young CEOs. I've also helped to set up schools that educate underserved parts of the African population –we're currently working on a new project which is focused on refurbishing a girls' school in northern Nigeria.

CL: A year ago, you raised US$2.6bn (US$2bn in equity, and a US$600m loan). What are IHS' plans for future fundraising, either via an IPO or further equity/debt raises?

ID: We could potentially list in the future but there are no specific plans around that yet. We'll update the market when the time is right - it would have to be a prime listing in a major market.

For now, we have all the money we need, from a group of very solid shareholders. However, we would consider further fundraising if the right opportunity came along.

Government to raise Telkom stake back to 40%

Kenya

The government plans to buy another 10% of **Telkom Kenya**, returning its stake from the current 30% to the former 40%, treasury secretary Henry Rotich has told local press.

Orange agreed to sell its 70% stake in the underinvested incumbent to London-based private equity firm **Helios Investment Partners** in November for an undisclosed price.

Rotich added that the deal, expected to close in January, would bring a new board which would appoint "fresh management" with a "clear strategy" for the company.

He had previously been quoted saying that in the event of a sale to a financial buyer, an operating partner would also be needed. The government and Helios have not named any operating partner so far.

The government had not maintained the cash injections commensurate with its former 40% shareholding, which as a result fell to 30% in 2013. Earlier this year, Orange said it had "lost control" of the asset, which had been on the block since 2014.

Orascom Telecom Media and Technology Holding has had a non-binding offer to acquire Cairo-based **CI Capital Holding** accepted as it continues its push into financial services.

OTMT is looking to buy the investment bank for around E£1bn (US$128m) and combine it with recently-acquired **Beltone Financial**.

Naguib Sawiris, the Egyptian billionaire behind OTMT, has previously talked of his holdco adopting a new strategy, shifting from telecoms to focus on financial services, energy, transport and logistics.

Like Beltone, CI Capital operates across the Middle East and North Africa. Its 300 employees offer investment banking, securities brokerage, asset management and research services.

OTMT will now conduct due diligence on CI Capital, which it is looking to buy from Commercial International Bank, Egypt's largest private sector bank.

1 / TELENOR IS NEXT TO BE LINKED TO A SPECTRUM DEAL IN INDIA AFTER VIDEOCON DIVESTS AIRWAVES - PG. 32
2 / VIMPELCOM AND WARID COMBINE MOBILE OPERATIONS IN PAKISTAN - PG. 33
3 / TELECOMS DEAL ACTIVITY HEATS UP IN CHANGING MYANMAR - PG. 34

Nascent Indian mobile operator **Reliance Jio Infocomm** will reportedly seek to acquire smaller players to gain sufficient scale to compete with the market leaders.

In mid-December, the Economic Times cited a senior executive at Jio, which is gearing up for its commercial launch, as saying the company is "on the prowl for subscribers" and sees itself as "a predator" surrounded by "many prey".

The executive said he believes there is space for just four operators long-term, indicating that the three largest players – Bharti Airtel, Vodafone and Idea Cellular – along with itself would be the survivors.

Jio, owned by billionaire Mukesh Ambani's Reliance Industries, has declined comment. The company says it has spent some Rs340bn (US$5bn) on airwaves in preparation for its launch, and deployed 250,000km of fibre optic network.

Taiwan has raised NT$27.93bn (US$846.69m) in its auction of six blocks of LTE-suitable spectrum in the 2.5 GHz-2.6 GHz bands.

The total proceeds surpassed the government's floor price by 93%, the National Communications Commission (NCC) stated. The floor prices ranged between NT$700m (US$21.3m) and NT$3.5bn (US$106.6m).

Four of the five national mobile network operators secured frequencies with the exception being **Taiwan Mobile**, which dropped out in late November.

Largest operator **Chunghwa Telecom** spent the most – NT$9.96bn (US$301.6m) – followed by **Far EasTone Telecommunications** which shelled out NT$9.13bn (US$276.73m). **Taiwan Star** spent NT$6.62bn (US$200.65m) and **Asia Pacific Telecom** NT$2.23bn (US$67.6m).

NCC planning department director Wang De-wei said the auction results fell within its estimated range.

Softbank to repay Brightstar debt with US$3bn bond

Japan

Softbank has priced a Y370bn (US$3.02bn) unsecured bond at par to partly repay notes issued by **Brightstar**, a US telecoms retailer it acquired two years ago.

Proceeds will also be used to help Softbank fund investments and loans. The placement came days after Softbank's other US subsidiary, **Sprint**, launched a new device leasing venture called **Mobile Leasing Solutions**. The move aims to give Sprint more liquidity.

Softbank's new Y370bn notes carry a 2.13% coupon and mature in 2022. The underwriters were *Mizuho*, *SMBC Nikko*, *Daiwa Securities*, *Mitsubishi UFJ*, *Morgan Stanley*, *SBI Securities*, *Okasan Securities*, *IwaiCosmo*, *SMBC Friend*, *Tokai Tokyo* and *Mito Securities*. The notes were aimed at retail investors.

In October 2013 Softbank agreed to pay US$1.26bn for 57% of privately held Brightstar. When the deal was announced, Softbank said it aimed "to strengthen its purchasing scale for mobile devices and further increase competitiveness both in Japan and the US".

Softbank CEO Masayoshi Son

Softbank CEO Masayoshi Son made Brightstar CEO Marcelo Claure CEO of Sprint. Claure has been charged with changing the fortunes of Sprint, which has recently slipped from the number three to the number four US cellco by subscribers.

China Mobile buys affiliate's fixed-line assets for US$5bn

China

China Mobile subsidiary **CM TieTong** has agreed to buy assets from fixed-line sister company **TieTong** for Yn31.88bn (US$4.99bn).

The price may increase by up to Yn1bn (US$156.42m) in line with the terms of the acquisition agreement, the mobile giant said. Adjustments may be driven by changes in the target's working capital, capital expenditure, depreciation and liabilities.

China Mobile and TieTong are both subsidiaries of state-owned China Mobile Communications Corporation (CMCC).

The deal will also see CM TieTong assume net debt of about Yn2.34bn (US$366.05m).

The assets to be acquired include about 99,000 cable kilometres of nationwide backbone network, 1.82 million cable kilometres of metro fibre, 24.7 million IPv4 addresses, and 1,814 real estate and 685 land assets. China Mobile will also acquire broadband and traditional fixed-line customers and TieTong employees.

China Mobile's board believes the deal will help accelerate its transformation into a fully integrated fixed-mobile player, and "greatly reduce" the connected transactions between itself and TieTong parent CMCC.

UBS advised China Mobile on the transaction, which is expected to close on 31 December.

Telecoms department clears Vodafone merger

India

The Department of Telecommunications (DoT) has given **Vodafone** the green light to merge four of its local units some three years after the UK-based mobile operator initiated the transaction.

A Vodafone spokesperson confirmed in mid-December that Vodafone has deposited Rs20bn (US$301m), as directed by the country's Supreme Court, and, as such, DoT has given it clearance to merge four local units into Vodafone Mobile Services.

DoT has demanded Rs67bn (US$1bn) from the operator to cover spectrum and regulatory charges. The court arrived at the Rs20bn sum in late November as Vodafone had previously offered to make an interim Rs17.7bn (US$267m) payment to move the merger process forward.

Vodafone plans to contest the Rs67bn charge at the Telecom Disputes Settlement and Appellate Tribunal.

The Press Trust of India (PTI) report stated that Vodafone now needs High Court approval to merge the units, after which it can complete the process by notifying the companies registrar.

In 2012, Vodafone sought to merge the four local units – Vodafone East, Vodafone South, Vodafone Cellular and Vodafone Digilink – into Vodafone Mobile Services, as part of IPO preparations, which are still on the backburner pending the resolution of tax disputes with the government. Vodafone Mobile Services is a unit of Vodafone India.

Vodafone is reportedly also looking to merge two other local units – Vodafone West and Vodafone Spacetel – into Vodafone Mobile Services. PTI cited an official source saying the operator will need to submit Rs19.5bn (US$292.3m) to merge these two entities.

Vodafone confirmed in October that it has begun preparations for a listing of its Indian unit, the country's second-largest telco. CEO Vittorio Colao has said a final decision will be made next fiscal year. Vodafone has hired *Rothschild* to look into the viability of an IPO.

In November, following a meeting with Prime Minister Nahendra Modi, Colao announced plans to invest an extra Rs130bn (US$2bn) into its local business.

Local government officials later said they were considering Vodafone's call for a conciliation process to resolve the tax disputes.

At the time, a Vodafone spokesperson declined to comment on specific enquiries, but said the company has always been clear about its "openness to discussing the possibility of settlement".

The operator is one of multiple foreign companies to have faced accusations of underpaying local taxes, but there are now signs that authorities are seeking to make it easier for international firms to do business.

In October, the Bombay High Court ruled in favour of Vodafone in a £450m (US$690m) tax case covering the treatment of a call centre and share options following its US$10.9bn takeover of Hutchison Essar in 2007.

However, a US$2.6bn tax case concerning the 2007 deal remains unresolved.

According to a local report published before the conciliation statements, the government had offered to settle an Rs200bn (US$3bn) tax dispute with Vodafone if it agreed to pay the Rs79.98bn (US$1.2bn) principal amount, waiving interest and penalties.

RCom nears tower sale to TGH and TPG

India

Reliance Communications (RCom) has signed a non-binding agreement to sell its tower assets and related infrastructure to US-based telecoms infrastructure investment firm **Tillman Global Holdings** (TGH) and private equity firm **TPG Asia**.

The agreement would see the assets transferred from RCom's tower unit **Reliance Infratel** on a going concern basis into a separate special purpose vehicle owned by TGH and TPG, the Mumbai-based telco said in early December.

RCom, the country's fourth largest mobile operator, would be an anchor tenant on the tower assets under a long-term managed services agreement.

Tillman, led by founder and former Orange and LightSquared CEO Sanjiv Ahuja, and TPG Asia will also look at purchasing RCom's fibre optic assets in a separate transaction.

The exclusivity agreement is valid until 15 January 2016 and the proposed deal is subject to final due diligence, definitive documentation, relevant approvals and terms and conditions.

RCom plans to use the proceeds to reduce a debt pile which amounted to Rs399bn (US$6bn) at the end of September.

Hedge fund investor Farrallon Capital Management, also US-based, was reportedly the only other serious contender. American Tower and private equity firm Carlyle were previously linked to the process.

Ahuja, a friend of Reliance Group chairman Anil Ambani, is expected to manage operations, while TPG would provide the financial backing. Ahuja is also the co-founder of African towerco Eaton Towers.

TPG entered Asia in 1994, while TGH has a global presence that includes Asia.

RCom has a 96% stake in Reliance Infratel, the second-largest towerco with nearly 45,000 masts, an extensive fibre optic network and estimated enterprise value of Rs210bn-Rs220bn (US$3.1bn-US$3.3bn).

Analysys Mason partner head for India and South Asia, Rohan Dhamija, expects a growth phase in towers thanks to the data boom and the increasing resolution of regulatory issues.

However, Dhamija noted that the government's recent approval of spectrum trading means more bandwidth will be available to the leading cellcos, potentially leading to "soft consolidation". This would be slightly negative for the towercos as it would reduce their number of tenancies. At present, however, many telcos are locked into 10 to 15-year contracts with towercos.

ANALYSYS MASON'S ROHAN DHAMIJA EXPECTS A GROWTH PHASE IN TOWERS THANKS TO THE DATA BOOM AND THE INCREASING RESOLUTION OF REGULATORY ISSUES.

If successful, this would mark the second recent consolidation deal in the local tower market. American Tower reached a long-anticipated agreement to acquire a 51% stake in Viom Networks for Rs76bn (US$1.2bn) in October.

Telcos scramble for lead as Jio launch looms

India

The need for consolidation in India's crowded mobile market is a view universally shared by dealmakers, executives and analysts.

Sunil Mittal, chairman of **Bharti Airtel** parent **Bharti Enterprises**, was cited earlier in December saying he expects **Reliance Jio**'s entry to the market to trigger a wave of consolidation which will shrink the market to five or six players: the top three, Jio, state-run BSNL/MTNL and potentially another merged entity.

Sunil Sood, CEO of **Vodafone India**, was cited the same week saying that the need for 4G investment would lead to natural consolidation.

Fitch Ratings concurs, adding that unprofitable smaller operators such as Videocon, Aircel and Tata are likely to exit.

The government's September decision to approve spectrum trading is also expected to trigger consolidation.

In early November, Reliance Communications (RCom), part of Mukesh Ambani's brother and sometimes rival Anil's Reliance Group, agreed to buy smaller rival Sistema Shyam Teleservices (MTS India) from Russian parent Sistema for an undisclosed sum.

Idea has since agreed to buy 4G spectrum from Videocon for Rs33.1bn (US$499m). Norway's Telenor, in the meantime, is reportedly close to sealing a deal to buy Rs35bn (US$524m) of airwaves from Videocon.

Indonesian mobile player **XL Axiata** is reportedly considering raising as much as US$500m next year and could sell stock in H1 depending on market conditions.

The highly indebted group is looking into several fundraising options including a rights offering, according to a newswire that cited people with knowledge of the matter.

It has previously spoke about being open to multiple options, and has been looking for ways to reduce its exposure to the weakening Indonesian rupiah.

Videocon sells spectrum, Telenor deal rumoured to follow

India

The country's third largest mobile operator **Idea Cellular** has agreed to buy the rights to spectrum in two service areas from smaller rival **Videocon Telecom** for Rs33.10bn (US$499m).

India's first ever spectrum trading deal will see Idea, a unit of conglomerate Aditya Birla, obtain the right to use contiguous spectrum blocks in the 1800 MHz band in Gujarat and Uttar Pradesh (West) until December 2032, the operator said in late November. The price is subject to due diligence.

An outstanding Rs4.82bn (US$73m) 'deferred payment liability' owed by Videocon Telecom, a subsidiary of Videocon Industries, to the Department of Telecommunications (DoT) in respect to the spectrum, which it acquired in the November 2012 auction, will be deducted from the final price tag, plus interest accrued before closing.

The sale comes some two and a half months after the government gave the green light to spectrum trading, saying it believed this would boost competition and improve service quality and the overall business environment.

Idea, which says it has an 18.5% market share in terms of revenues and some 170 million customers, will use the new spectrum to roll out 4G mobile broadband services in the two areas as competition heats up. Largest player Bharti Airtel is already offering 4G in several service areas and Vodafone, the number two cellco, was due to begin roll-out in December. Billionaire Mukesh Ambani's 4G upstart Reliance Jio had targeted a December launch but this could be delayed. Idea aims to extend 4G to 750 towns in 10 service areas by the first half of 2016.

The transaction will not be effective until due diligence is complete and the DoT confirms the transfer in writing.

Idea said that, following completion, its footprint will cover 12 service areas, which currently contribute more than 75% of its total revenues. It will have a full range of 2G, 3G and 4G services in its eight key markets: Maharashtra and Goa, Kerala, Andhra Pradesh and Telangana, Madhya Pradesh and Chhattisgarh, Haryana, Punjab, Gujarat and Uttar Pradesh (West).

Videocon, number ten out of the country's 12 MNOs, had been looking to sell spectrum to tackle a debt pile which stood at Rs225bn (US$3.47bn) as of September. A local media report in mid-October stated that parent Videocon Industries was considering dividing its telecoms unit into six separate companies before exiting four service areas.

THE SALE COMES SOME TWO AND A HALF MONTHS AFTER THE GOVERNMENT GAVE THE GREEN LIGHT TO SPECTRUM TRADING TO BOOST COMPETITION AND IMPROVE THE BUSINESS ENVIRONMENT.

Telenor close to sealing spectrum deal

Norway's **Telenor** is reportedly close to reaching a deal to buy Videocon's 4G spectrum in two other service areas: Uttar Pradesh (East) and Bihar.

The deal is valued at about Rs35bn (US$524m) and could be announced shortly, since Telenor is keen to keep up with rivals. Telenor, whose local unit is the eighth largest cellco with about 46 million customers, would gain the rights to airwaves in the 1,800 MHz band in the two areas.

Arvind Bali, CEO of Videocon Telecom, had previously said a "leading foreign telecom carrier' was the prime contender for the 1,800 MHz spectrum in the two service areas, indicating that it would either be Telenor or Vodafone. He said the company wanted Rs35bn-Rs40bn (US$524m-US$599m) for the spectrum, adding the price would be the deciding factor for any deal.

Telenor, which operates in six service areas, declined comment.

Analysts have speculated that mounting competition after Jio's launch will eventually force smaller players out of the market.

Fitch Ratings said in late November that it also expects Jio's entry to put pressure on the credit profiles of the top four telcos. The agency predicts that their average operating EBITDA margin will narrow by 100bps-200bps due to pricing pressure on higher margin data services and a rise in marketing spend as data competition increases. Fitch expects only five or six operators to survive long-term and unprofitable players such as Videocon, Aircel and Tata to exit.

Telenor India posted revenues of NOK1.4bn (US$161.3m) for Q3 2015, up from NOK1bn (US$115m) for Q2 2014. The unit added one million subscribers during the third quarter of this year.

Spark buys CCL to boost cloud services

New Zealand

Telco **Spark** has agreed to buy IT infrastructure and services firm **Computer Concepts** (CCL) for some NZ$50m (US$33.2m) to boost its capabilities in the cloud sector.

The company said its offer for the privately owned South Island-based group aligns with its strategy of being the number one provider in the "fast growing" cloud space.

"Spark will gain effective and immediate access and scale to specialised cloud capabilities and data centre capacity, particularly in Christchurch and other South Island locations," the Auckland-based telco said.

CCL, which was founded in 1990 and provides ICT services to small and large businesses, is forecast to generate revenues of about NZ$50m (US$33.2m) and EBITDA of NZ$8m (US$5.3m) for the year ended 31 March 2016. It will continue to operate as a standalone business and retain its own brand.

Spark embarked on a new strategy in 2013 which has seen it reposition itself around data-driven digital services, and acquire IT services firms Revera and Appserv.

This latest acquisition will see it buy the entire share capital of CCL parent Property Leasing Limited. Separately, Spark has agreed to buy a 70 MHz block of 2.3 GHz spectrum from ISP Woosh Wireless for NZ$9m (US$6.1m), subject to regulatory approvals.

The telco intends to fund the CCL acquisition, which does not include debt, with cash and existing borrowing facilities.

Spark Issues NZ$100m bond

Spark has priced NZ$100m (US$67.4m) of fixed-rate bonds due 10 March 2023.

The margin has been set at 1.15% per annum and the interest rate at 4.4% per annum.

The notes began trading on the NZX Debt Market on 11 December, with the entire offering reserved for clients of joint lead managers, *ANZ* and *Commonwealth Bank* and co-manager *Deutsche Craigs,* alongside NZX participants and other financial intermediaries.

Russell McVeagh provided legal advice to Spark on the offering.

Proceeds will be used for general corporate purposes.

The bonds will rank equally with Spark Finance's other unsecured and unsubordinated debt.

This is the second time Spark, which reported total debt of NZ$692m (US$455.7m) for FY 2015, has tapped debt markets in recent months. In September, it agreed a NZ$100m (US$68m) revolving credit facility with Westpac maturing in November 2016.

VimpelCom and Warid to merge mobile units

Pakistan

VimpelCom and **Warid Telecom** have agreed to merge their local mobile units, marking the country's first ever sector merger.

Amsterdam-based VimpelCom, which has core operations in Russia, owns 51% of **Global Telecom Holding** (GTH), which in turn owns Mobilink. The deal, announced in late November, came a week after GTH agreed to sell its indirect 60% stake in Telecel Zimbabwe. GTH also has subsidiaries in Algeria (Djezzy) and Bangladesh (Banglalink).

Together, VimpelCom's **Pakistan Mobile Communications** (Mobilink) and Warid Telecom, owned by shareholders in the **Dhabi Group**, which manages the investments of Abu Dhabi sheikh Nahyan Mubarak al Nahyan and affiliates, will serve 45 million customers, the companies said. It will also have the largest network with almost 5,000 3G and 4G sites.

Mobilink is the mobile market leader in terms of customer numbers, while Warid is the fifth of the country's six MNOs.

The deal, along with future investments, will help the merged entity to accelerate the rollout of high-speed mobile services, create a better network and offer more comprehensive and competitively priced services, the companies said.

The deal value was not disclosed, but the companies said it is expected to create about US$500m of capex and opex synergies. Their combined revenues for the 12 months to December was US$1.4bn.

In an investor presentation, VimpelCom said the deal would create US$115m in annual run-rate cost synergies, 90% of which are expected within three years of closing.

The acquisition part of the deal will see Mobilink acquire 100% of Warid's shares in exchange for Dhabi Group taking a 15% stake in Mobilink. Six months after this closes, the parties intend to merge Warid into Mobilink. No cash contributions are expected from VimpelCom/GTH or Dhabi Group shareholders.

VimpelCom will consolidate the mergeco and, together with GTH, nominate six of its seven board members, while the Dhabi Group will nominate one.

Mobilink CEO *Jeffrey Hedberg* and CFO *Andrew Kemp* will lead the mergeco's management team.

The acquisition part of the deal is expected to close within six months, subject to the approvals of the competition commission, telecom authority, state bank and securities and exchange commission. There are no break-up fees.

After a four-year lock-in period following the closing of the acquisition component, VimpelCom/GTH and Dhabi Group shareholders will have the option to sell their shares in the merged entity to each other at fair market value.

VimpelCom CEO Jean-Yves Charlier said the merged entity will "offer a best-in-class mobile and high-speed data network – a key factor in the digital enablement of Pakistan's economy".

Vimpelcom's third deal since summer

Charlier described the Pakistan deal as "another important step in our journey to continue delivering on our strategy to transform VimpelCom and improve our competitive position in our operating markets".

Sheikh Nahyan, chairman of the Dhabi Group and Warid Telecom International, which also has operations in Bangladesh, Uganda, Congo Brazzaville and Ivory Coast, said Warid Pakistan's strong post-paid base and high-quality 4G network will complement Mobilink's market position.

VimpelCom said the deal will have a "limited impact" on group leverage (+0.1x) and an "acceptable impact" on GTH's (+0.3x). Mobilink had net debt of US$380m as of September 2015, while Warid had US$470m.

Asked about Vimpelcom/GTH's plans for its Bangladesh unit, a company spokesperson told TelecomFinance that it considers it one of its key assets.

"We plan to develop our business in this country in line with our strategy, focusing on the best customer experience and developing data and mobile financial services."

LG Uplus says SK Telecom takeover of CJ Hellovision "illegal"

South Korea

Smallest mobile operator **LG Uplus** has reportedly claimed that incumbent **SK Telecom**'s planned merger with **CJ Hellovision** is illegal, calling it an attempt to monopolise the telecoms and broadcasting sectors.

In November, SK Telecom agreed to pay an initial W500bn (US$431.6m) for a 30% stake in CJ Hellovision, the country's largest cable TV and second largest pay TV operator, from CJ O Shopping. The telco has the option to buy the home shopping channel's remaining 23.9% stake for W500bn in the two years beginning April 2019. Both CJ Hellovision and CJ O shopping are units of conglomerate CJ Corporation.

Upon closing, expected to take place in April 2016, SK Telecom will seek to merge its fixed-line unit SK Broadband with CJ Hellovision. SK Telecom would own 75.3% of the merged entity, while CJ O Shopping would hold 8.4%.

LG argued in an official statement that the planned merger "must not be tolerated".

Citing a law firm, LG contended that the deal violates local fair trading laws, saying it "is the norm that competition among numerous players is more beneficial to consumers than merger deals among conglomerates".

As the second and third largest pay TV operators, respectively, CJ Hellovision and SK Broadband would together create a stronger competitor to market leader KT Corporation.

In its September statement announcing the deal, SK Telecom said it would aim to transform the merged company into the leading next-generation media platform player with hybrid cable TV and IPTV business models.

SK Telecom and CJ Corporation have also agreed to set up two W50bn (US$43.2bn) funds, of W25bn each, to invest in media content and IT startups.

LG Uplus was unable to comment.

Telco boom in Myanmar

Myanmar

Myanmar, which in November elected a new government led by long-time activist Aung San Suu Kyi, is set to issue a fourth mobile licence during the first half of next year.

Towercos have been in expansion mode in anticipation of the telecoms boom. Malaysia's Axiata Group Berhad, which agreed to acquire Myanmar Tower Company in October, has plans to invest US$200m in local towers. OCK Group, for its part, has inked an MoU with Telenor. Other towercos active in the country include Apollo Towers, Pan Asia Towers, Eco-Friendly Towers and Irrawaddy Towers.

Myanmar seeks interest in fourth licence

The Burmese government has invited companies to bid on the fourth mobile licence by 5pm local time on 18 December. The licence will be awarded to a joint venture comprising a local and an international player during the first half of 2016.

During the 2013 privatisation process, Millicom, Orange, Bharti and Digicel were among the companies to prequalify as bidders.

The government aims to "increase overall teledensity, to make telecommunications services available to the public at affordable prices in both urban and rural areas, and to give citizens and enterprises the ability to choose their telecommunications services and providers".

It has set up a tender committee to oversee the process, which will comprise the selection of the domestic public companies, the shortlisting of "a limited number of suitable foreign telecom operators", finalising the selection of the preferred foreign telecom operator and applying for the licence to be granted by the country's Posts and Telecommunications Department.

The government had also invited Vodafone, Orange and SingTel to apply as foreign partners to the ministry, as part of the 2013 process.

Axiata to invest up to US$200m in Myanmar towers

Axiata plans to invest up to US$200m in towers to capitalise on the country's booming mobile market, according to Suresh Sidhu , CEO of its infrastructure unit **Edotco**.

Edotco agreed in October to acquire a majority stake in Myanmar Tower Company (MTC) from Jamaica-based Digicel. The deal, which values MTC at US$221m on a cash and debt-free basis, will see Edotco acquire a 75% stake in Digicel Asian Holdings, which in turn owns 100% of MTC. Qatari telco **Ooredoo**'s local business is MTC's main tenant.

> SIDHU WAS CITED SAYING THAT AXIATA INTENDS TO SPEND AN ADDITIONAL US$100M TO US$200M IN MYANMAR WITHIN FIVE TO EIGHT YEARS.

Sidhu was cited saying that Axiata intends to spend an additional US$100m to US$200m in Myanmar within five to eight years.

Describing the Southeast Asian nation as "a huge opportunity", he said he expects significant growth in both its mobile and infrastructure sectors.

Myanmar, which had a population of 53.26 million in 2013 according to the World Bank, has seen the number of mobile subscribers more than triple since the telecoms sector opened up in 2013, when the government granted licences to Ooredoo and Telenor. The two compete with **MPT**, a joint venture between the telecoms ministry and Japanese telco KDDI.

This July, Telenor said its subscriber base in Myanmar had surpassed 10 million, while Ooredoo said it had 3.3 million customers at the end of April.

Telenor Myanmar signs MoU with towerco OCK

Telenor Myanmar has reportedly inked an MoU with Malaysian telecom vendor **OCK Group** and its local partner **King Royal Technologies**.

Joachim Rajaram, head of communications for Telenor Myanmar, was cited telling the Myanmar Times that the company wanted to work with more towercos, with the aim of increasing its portfolio of 3,700 local towers to its target 9,000.

He declined comment on a Malaysian report suggesting discussions centred around a 12-year deal involving 900 towers. A spokesperson for Telenor was not available for further comment.

Under its licence won in 2013, Telenor must serve 90% of the country within five years.

Telenor reportedly signed two deals, each for 700 towers, with Apollo Towers and Eco-Friendly Towers in May. Last year, it commissioned another 1,438 from Irrawaddy Green Towers.

OCK set up an independent towerco serving Malaysian operators in 2012.

The importance of CYBER DUE DILLIGENCE In M&A Transactions

By Cheng Lim (Partner) and James Walsh (Partner) at King & Wood Mallesons

The number of M&A transactions in 2015 has hit record highs, with volumes expected to increase by 11% from 2014, according to Bloomberg. Indeed, one of the hottest areas for M&A activity has been cybersecurity companies, with deals including AVG Technologies' acquisition of Privax and Blue Coat systems' acquisition of Perspecsys.

Cybersecurity is one of the top five business risks identified by major corporates, particularly those in retail, health, and technology. Every day, we read of a new data breach somewhere in the world.

In this environment, one would assume that buyers would undertake detailed cyber due diligence as a matter of course. However, this does not seem to be the case. Certainly, a survey on cybersecurity in M&A carried out by Freshfields in 2014 indicated that 78% of respondents thought that cybersecurity was not analysed in any detail in their deals. This is despite the same respondents indicating that cybersecurity deficiencies could derail a deal or adversely affect value.

Our experience is not dissimilar. Cybersecurity due diligence tends to be undertaken by the in-house IT team of a buyer, if at all. The scope and scale of the due diligence tends to be cursory and high level. The representations and warranties in transaction documents covering cybersecurity tend to be relatively high level and have, until recently, tended to relate to past events – has the target suffered a data breach that has been notified to a regulator or to customers? They may go as far as asking for a warranty that the target has implemented reasonable cybersecurity systems, processes and procedures having regard to the industry that it is in. In very few cases, some sellers may be required to warrant the likelihood of data breaches occurring after completion (or recurring, if historic breaches have been disclosed) - but this seems to be the exception rather than the rule.

The question is whether or not this is adequate in the current digital environment. Would directors of the acquirer be derelict in their duties if their company did no, or only limited, cyber due diligence?

COULD AN ACQUIRING COMPANY AFFORD NOT TO UNDERTAKE CYBER DUE DILIGENCE IF THE TARGET CONTROLS OR PROCESSES VALUABLE DATA? WHAT WOULD THE CONSEQUENCES BE IF ADEQUATE DUE DILIGENCE HAD NOT BEEN UNDERTAKEN PRIOR TO THE ACQUISITION?

Could an acquiring company afford not to undertake cyber due diligence if the target controls or processes valuable data? What would the consequences be if adequate due diligence had not been undertaken prior to the acquisition?

We know that the occurrence of a cybersecurity breach in the lead-up to an acquisition is not unusual. In a well-known incident in January 2015, Australian incumbent Telstra discovered after completing its acquisition of pan-Asian network provider PacNet, that sometime after signature but before completion, PacNet's corporate IT systems had been compromised, meaning it was likely customer information had been stolen. To its credit, Telstra notified affected customers of the likely compromise as soon as it became aware of the incident, so that they could take steps to protect themselves.

Of course, there are situations in which it is difficult to carry out cyber due diligence, particularly in a hostile or a competitive sale process. But in many cases, acquirers are simply not taking enough steps to understand the cybersecurity risks facing their targets, and how they might address cyber-security issues post acquisition.

Why might cyber-security not be prioritised in a transaction?

A study carried out in 2014 by NERA Economic Consulting found that cyber incidents do not appear to impact share prices significantly in the medium to long term. And even where there is a drop, it often does not take long for the share price to recover. The table on page 40 illustrates this.

Whether this trend will continue remains to be seen. But it certainly appears that in recent history, the correlation between a cybersecurity incident and the share price is

THE SEVEN PILLARS OF CYBER RESILIENCE

GOVERN
Ensure that your governance bodies have taken the proper steps to ensure that the organisation is cyber-resilient and to protect it against cyber-risks and threats

KNOW
Know the data you hold, the value of that data, and how well it is being protected.

REVIEW
Review and test the adequacy of your cyber-reilience processes, procedures and systems.

IMPROVE
Identify areas of weakness and improve your cyber-resilience processes, procedures and systems.

PROTECT
Take steps to ensure that your organisation actually implements the processes and procedures which have been established and improved

RESPOND
Activate incident management plans immediately to address the situation

RECOVER
Have plans and mechanisms in place to recover as swiftly as possible from a cybersecurity incident and to draw key learnings from the incident.

weak, at least in relation to listed companies for which the data is readily available.

Looking at some recent data, the share price of TalkTalk fell dramatically after the data breach announced on 22 October, and has since been very volatile. The fact that this was TalkTalk's third data breach in 2015 may have been a contributing factor. It is true that there seemed to be little effect on TalkTalk's share price in the months following the previous two data breaches, in February and August.

What is the value of Cyber Due Diligence?

A good cyber due diligence report will take a holistic view (using, for example, our 7 Pillars methodology below) of the target's cyber-resilience posture. This is important because cyber-resilience is not just an IT issue, it is a business and a risk issue. The fact that an organisation treats cyber-resilience just as an IT issue will tell you something significant about its level of maturity. In our view, a good cyber due diligence investigation should be carried out by business, legal and technical advisers, to obtain a holistic view of the target's overall cyber-resilience.

Broadly speaking, a cyber due diligence should determine whether the target has inadequate cyber-resilience protections. If the protections are inadequate, it follows that there will be a reasonable likelihood that the target's systems may have been or will shortly be compromised. This is important because:

1. it allows the buyer to determine whether the valuation needs to be discounted for this risk. If, for example, the target is an intellectual property-rich company, and it is the intellectual property that is valuable, then one must consider the possibility that the intellectual property has been stolen, meaning that the target's exclusivity or trade secrets may have been compromised;

2. if the target processes credit card transactions and is not PCI-DSS compliant, then a buyer must factor in the possibility of significant fines from the card schemes, the risk of investigations and audits, and possibly a loss of the ability to process card payments until the situation is rectified;

3. a buyer may also need to value the regulatory risk, customer compensation costs and the cost of remediation should there have been a data breach; and

4. at the very least, the buyer knows it must prioritise a full and detailed cyber-resilience review and improvement program post-acquisition, and should perhaps discount the purchase price or obtain indemnities for the cost of doing so.

If, however, cyber due diligence indicates that the target has taken reasonable and industry standard steps to ensure that it is cyber-resilient, and there are no warning signs that would indicate that the target may have been compromised, then the buyer can be confident that there is no need to adjust valuations and can instead focus on normal integration post-acquisition. In this instance, there is no necessary rush to carry out a full and detailed cyber-resilience review and improvement program. Of course, a buyer must recognise that a clean cyber due diligence report cannot guarantee that the target's systems have not been compromised, so it is helpful to have a contingency plan in place.

A good cyber due diligence report will also enable the buyer to make decisions (and potentially gain leverage) in relation to:

1. seeking and obtaining appropriate warranties as to the target's level of cyber-resilience;

2. obtaining a specific cyber-security indemnity that sits outside the normal baskets and limits and covers the costs of investigation, remediation, regulatory action and customer compensation, should there be a cyber incident, which has its origins in an act or omission of the target before completion;

3. whether or not the occurrence of a cyber incident between signing and completion should be material adverse change, entitling you to terminate the sale agreement, should you be undertaking a split signing and completion; and

4. obtaining a warranty and indemnity (W&I) insurance policy, should the acquiring company or vendor be seeking to obtain one, as it is becoming increasingly difficult for underwriters to cover broad cyber-warranties that may extend to the adequacy or sufficiency of systems in place or indeed to future breaches, without an appropriate cyber due diligence exercise.

The latter point is of particular interest. Underwriters may not have had particular issues with covering warranties in M&A transactions that referred only to historic breaches. But as Andrew Graham, Vice-President of the International Mergers and Acquisition Division at Allied World Assurance Company informed the present authors:

PRICE REACTIONS FOLLOWING NEWS OF DATA BREACH

AFFECTED COMPANY	FIRST DISCLOSURE DATE	NUMBER OF PEOPLE AFFECTED	PRE-DISCLOSURE PRICE	POST-DISCLOSURE PRICE	MARKET-ADJUSTED PRICE REACTION TO DISCLOSURE	NUMBER OF TRADING DAYS TO BOUNCEBACK TO PRE-DISCLOSURE PRICE
Adobe Systems Inc.	03/10/2013	2,900,000	$50.88	$51.57	$0.29	Price did not drop
American Express Company	03/06/2014	76,608	$91.89	$91.73	-$0.10	3
Citigroup Inc.	15/07/2013	150,000	$51.81	$51.83	$0.30	Price did not drop
JP Morgan Chase & Co.	05/12/2013	465,000	$55.82	$56.06	-$0.52	Price did not drop
JP Morgan Chase & Co.	27/08/2014	76,000,000	$59.59	$59.16	-$0.32	3
Lowe's Companies Inc.	19/05/2014	35,000	$45.55	$45.52	$0.28	3
Sears Holdings Corporation	10/02/2014	16,446	$28.94	$31.37	$2.12	Price did not drop
Target Corp.	18/12/2013	70,000,000	$63.55	$62.15	-$1.36	188[1]
The Coca-Cola Company	24/01/2014	74,000	$38.84	$38.73	$0.08	2
The Home Depot, Inc.	03/09/2014	56,000,000	$91.15	$89.00	-$2.12	3

[1] The price of Target Corp.'s stock rebounded to $63.49 after ten trading days

"We do not see a great deal of specific due diligence done in cybersecurity at present. I wonder whether this is because not all law firms have the necessary expertise to advise appropriately on cybersecurity issues. From an underwriter's perspective on W&I deals, as warranty protection around cybersecurity increases, we may find ourselves in the position, on certain deals, that we will need to see targeted and appropriate due diligence undertaken by the insured so that we can adequately wrap up such risk within the scope of the W&I policy."

Why should cyber due diligence be a focus in telecoms M&A?

Telecoms companies are not immune from cybersecurity issues. On the contrary, they are perhaps more vulnerable to cyber-related threats, as the TalkTalk incident shows. Perhaps more importantly, telecoms companies are, in many cases, subject to a higher level of scrutiny by regulators due to their unique position of operating the networks and services over which a large proportion of internet data flows.

TELECOMS COMPANIES ARE, IN MANY CASES, SUBJECT TO A HIGHER LEVEL OF SCRUTINY BY REGULATORS DUE TO THEIR UNIQUE POSITION OF OPERATING THE NETWORKS AND SERVICES OVER WHICH A LARGE PROPORTION OF INTERNET DATA FLOWS.

In Europe, providers of electronic communications services are typically required to ensure that their services are secure (see EU Directive 2002/58/EC). They must also inform their national regulatory authority of any personal data breach within 24 hours and, if the personal data or privacy of a user is likely to be harmed, they must also be informed unless specifically identified technological measures have been taken to protect the data. Many communications providers are also required to retain data relating to communications over their networks (although the extent to which this is required differs from country to country after a series of judicial challenges to data retention laws). Requirements to cooperate with law enforcement authorities can often mean that telecoms companies have access to particularly sensitive stores of data that may include telephone recordings, email records and details of other internet communications and web traffic. But they must still comply with their data protection and privacy obligations in respect of the data they handle.

For these reasons, there may be greater regulatory consequences in the event that a telecoms industry target is affected by a cybersecurity breach, and there will ordinarily need to be a high degree of maturity in terms of the target's cyber-resilience.

Conclusion

Cyber threats are here to stay. Organisations need to be vigilant in ensuring that they are cyber-resilient and to take appropriate steps to do so. They must do so within their own business operations, and also in relation to businesses they acquire. Forewarned is, in the cyber world, forearmed. And it is crucial to be forearmed in telecoms M&A.

MANDATES

New mandates in bold

COUNTRY	COMPANY	MANDATE	MANDATED
Argentina	NII Holdings	Nextel Argentina sale	Jones Day
	Telecom Argentina	**Ps1bn bond**	**BBVA Francés, Banco Galicia, Santander Río**
Australia	iiNet	Sale to TPG	Azure Capital
	TPG	iiNet takeover	Macquarie Capital
	TPG	A$300m M&A debt	Macquarie Capital, Petra
	Vocus Communications	M2 merger	Credit Suisse
	M2 Group	Vocus merger	Goldman Sachs
Bermuda	Atlantic Tele-Network	KeyTech buy	BofA Merrill Lynch
Brazil	Oi	Bid for TIM Brasil, talks with investors	BTG Pactual
	Oi	Call centres sale	Credit Suisse
	Telecom Italia	Strategic review	Banco Bradesco
Bulgaria	VTB Capital	Sale of Vivacom	EY
Canada	**Bell Canada**	**C$862m stock offering**	**BMO Capital Markets, RBC Capital Markets, CIBC World Markets, National Bank Financial, TD Securities**
	Manitoba Telecom Services	**Sale of Allstream to Zayo**	**CIBC World Markets, TD Securities**
	Wind Mobile	**C$425m financing**	**Q Advisors**
	Shaw Communications	**Wind Mobile buy**	**CIBC World Markets, TD Securities**
	Zayo	**Allstream acquisition**	**RBC Capital Markets**
Caribbean	Liberty Global	CWC acquisition	Goldman Sachs, Lion Tree, Ropes & Gray, Shearman & Sterling
	Liberty Global	Financing of CWC	Ropes & Gray, Allen & Overy, Latham & Watkins
	CWC	Sale to Liberty	Evercore, JP Morgan Cazenove, Slaughter & May, Paul Weiss Rifkind Wharton
Chad	Sotel	Privatisation	Civitas Partners
China	China Mobile	China Tower JV	China Securities Co
	China Unicom	China Tower JV	Morgan Stanley
	China Telecom	China Tower JV	UBS
	China Mobile	**Buys US$5bn fixed-line assets**	**UBS**
Czech Republic	Cetin	Kc32.2bn loan	Banca IMI, BNP Paribas, Ceskoslovenska Obchodni Banka, ING, Komercni Banka, Societe Generale, Unicredit
Eurasia	TeliaSonera	Eurasian asset disposal	Renaissance Capital
Finland	Nokia	Alcatel-Lucent takeover	JP Morgan
France	**Orange**	**European acquisitions**	**Morgan Stanley, BNP Paribas**
	Alcatel-Lucent	Sale to Nokia	Zaoui & Co
Germany	Star Capital	Pepcom sale	HSBC
	Tele Columbus	Pepcom acquisition	JP Morgan
	Tele Columbus	Rights issue	Goldman Sachs, JP Morgan, BNP Paribas
	KPN	Telefónica Deutschland share sale	UBS, Citigroup
Greece	OTE	€350m bond	Citi, Deutsche, HSBC
Guinea-Bissau	Guine Telecom	Privatisation	West African Development Bank, Africa Capital

COUNTRY	COMPANY	MANDATE	MANDATED
India	American Tower	Viom Networks	Evercore, Kotak Investment Bank
	Citic Telecom	RCom cable tie-up	Standard Chartered?
	KKR	Bharti Infratel exit?	Morgan Stanley, UBS, Citigroup?
	Micromax	IPO?	Morgan Stanley, Goldman Sachs?
	RCom	Cable tie-up with Citic Tele-com	IRG?
	RCom	Reliance Infratel sale	Standard Chartered, SBI Capital Markets
	Tata Communications	Strategic options for data centre businesses in India and Singapore	Jefferies
	Viom Networks	Sale of 51% stake to American Tower	Credit Suisse
	Vodafone	Viability of IPO	Rothschild
Indonesia	Trikomsel	Debt restructuring	FHI
Israel	Golan Telecom	Sale	Rothschild
Italy	CK Hutchison	JV with Wind Telecommuni-cazioni (VimpelCom)	Goldman Sachs, Freshfields
	Vimpelcom	JV with 3 Italia (Hutchison)	Morgan Stanley, HSBC, Allen & Overy
Japan	**Softbank**	**US$3bn bond**	**Mizuho, SMBC Nikko, Daiwa Securities, Mitsubishi UFJ, Morgan Stanley, SBI Securities, Okasan Securities, IwaiCosmo, SMBC Friend, Tokai Tokyo, Mito Securities**
Jordan	Batelco	Umniah sale	Citigroup
Kazakhstan	Tele2	Altel JV	Ondra Partners
Kuwait	Zain	Tower sales	Citi
	STC	**acquisition of remaining 74%**	**NBK Capital**
	Viva	**sale of 74% stake**	**Proviti**
Latvia	Teo	Omnitel merger	KPMG
Malaysia	Axiata Group Berhad	US$500m sukuk	CIMB, Deutsche Bank
Malta	**Apax Partners & Fortino Capital**	**Melita Cable buy**	**Messier Maris & Associés**
	GMT Communications Partners, M/C Venture Partners, Blackrock Communications & Gasan Group	**Melita Cable sale**	**Lazard**
Mexico	Telefonica	Mexico IPO	?
	America Movil	Telesites IPO	
Netherlands	Deutsche Telekom	T-Mobile Netherlands options	Credit Suisse
New Zealand	**Spark**	**NZ$100m bond**	**ANZ, Commonwealth Bank, Deutsche Craigs**
Niger	Eaton Towers	Tower acquisition from Airtel	Moelis, Allen & Overy
Nigeria	HTN Towers	IPO/sale	BofA Merrill Lynch, Citi, Standard Bank, Investec
Norway	Telenor	Review of VimpelCom con-duct	Deloitte
Oman	Omantel	US$130m sukuk	Bank Muscat, Standard Chartered, HSBC
Poland	Tollerton, Novator	Play sale	BofA Merrill Lynch?
Puerto Rico	Liberty Global	Choice Cable TV buy	Lion Tree Advisers
Romania	Romanian government	Romtelecom Privatisation	Swiss Capital
Russia	MegaFon	Rbs15bn bond	Sberbank, VTB, Raiffeisenbank
	VimpelCom	Russian tower sale	BofA Merrill Lynch, UBS, TAP Advisors
	MegaFon	Tower sale	?

MANDATES

COUNTRY	COMPANY	MANDATE	MANDATED
Saudi Arabia	Mobily	Tower sale	TAP Advisors
	Zain	Tower sale	Citi
Serbia	Telekom Srbija	Privatisation	Lazard
Slovakia	Slovak Telekom	Privatisation	Citigroup, JP Morgan
South Africa	Cell C	Sale/strategic review	Goldman Sachs, Houlihan Lokey, Bow-man Gilfillan
	Blue Label	**35% stake in Cell C**	**Investec, Werksmans**
Spain	TeliaSonera	Yoigo strategic review	Deutsche Bank?
	Pepephone	Sale	BBVA
Taiwan	Far EasTone	US$2.3bn CNS bid	Citigroup
Trinidad & Tobago	CWC	TSTT sale	Evercore, JP Morgan
	Columbus	Corporate sale to CWC	Citigroup, JPMorgan, RBC Capital
Turkey	**Turk Telekom**	**€420m & US$380m loans**	**BofA Merrill Lynch**
UK	BT	£12.5bn EE acquisition	Goldman Sachs, JP Morgan, Perella Weinberg
	CityFibre	**£80m share issue**	**FinnCap, Liberum**
	CityFibre	**£100m debt facilities**	**EY**
	Equinix	Telecity acquisition	JP Morgan
	Equinix	Financing for Telecity	JP Morgan, BofA Merrill Lynch, Citi, RBC, Barclays and TD Securities
	KCom	**Asset sale to CityFibre**	**Oakley Capital**
	Macquarie	Airwave sale	Lazard
	Telecity	Equinix sale	Goldman Sachs, Oakley Capital, Barclays, Greenhill & Co
	Telefonica	Sale of O2 to Hutchison	UBS
USA	Advance/Newhouse	Bright House sale to Charter	UBS
	Altice	Cablevision buy	JP Morgan, BNP Paribas, Barclays
	Altice	Suddenlink buy	JP Morgan, PJT Partners, BNP Paribas
	Charter Communications	Bright House buy	Goldman Sachs, LionTree, Kirkland & Ellis
	Charter Communications	TWC buy	Goldman Sachs, Lion Tree
	Charter Communications	Financing for TWC, Bright House buys	Goldman Sachs, BofA Merrill Lynch, Credit Suisse, Deutsche Bank
	Comcast	**US$1.49bn note issue**	**E Sun Commerical Bank, MasterLink Securities, SinoPac Securities**
	Comtech	**TCS acquisition**	**Citigroup**
	Equinix	**US$1.1bn bond**	**JP Morgan, BofA Merrill Lynch, Citi-group, RBC Capital Markets**
	Equinix	**Stock offering**	**JP Morgan, BofA Merrill Lynch, Citi-group, RBC Capital Markets, Barclays**
	Frontier Communications	Verizon wireless asset buy	JP Morgan, Greenhill
	LightSquared	Restructuring	Moelis
	NII Holdings	Restructuring	Jones Day, Rothschild
	Phoenix Tower International (PTI)	T-Mobile US tower acquisition	TD Securities, Locke Lord
	TeleCommunication Systems (TCS)	**Sale to Comtech**	**Lazard**
	T-Mobile US	Tower sale to PTI	TAP Advisors, Lape Mansfield Nakasian & Gibson
	Time Warner Cable	Acquisition by Charter	Morgan Stanley, Allen & Company, Citi-group, Centerview Parters
	Verizon	Wireline asset sale	Credit Suisse, Guggenheim Securities, PJT
	Windstream	Data centres sale	RBC Capital Markets

EXECUTIVE MOVES

EUROPE

Orange's board of directors has approved a proposal by CEO Stéphane Richard to appoint ***Ramón Fernández*** and ***Pierre Louette*** as CEO delegates from 1 January.

They will join Gervais Pellissier, who was appointed to the same title in November 2011.

Fernández, in charge of group finance and strategy, is also board member at Moroccan telco Méditel and sits on the supervisory boards of Iris Capital, Orange Polska and Euronext. Before joining the group in September 2014, he held roles at the International Monetary Fund (IMF) and French Treasury, while representing the state on the boards of GDF Suez, CNP Assurances and Caisse des dépôts.

Louette is deputy CEO in charge of the general secretariat, Orange Wholesale France, group sourcing and the supply chain, the Chrysalid operational efficiency program and steering investment strategy in start-ups and digital partnerships. He sits on the boards of Jazztel, BuyIn, Dailymotion, Deezer and Iris Capital. Louette joined Orange in 2010, and chairs the Fédération Française des Télécoms and MEDEF's Digital Transformation Committee. He has previously held senior positions at France Télévisions, Connectworld, Europatweb and Agence France-Presse.

Telenor's nomination committee has put forward **Nordea** executive ***Gunn Wærsted*** to be the company's new chair.

If her appointment is approved by Telenor's corporate assembly, she would fill the void left by Svein Aaser, who was forced to resign from the post in October.

Wærsted is on Nordea's group management team and a senior executive in Nordea Bank Norway.

Danish incumbent **TDC** has hired ***Stig Pastwa*** as its new CFO, replacing Pernille Erenjberg, who was promoted to CEO over the summer.

He will join from insurer Codan/Trygg-Hansa where he was also CFO, starting as soon as possible, and no later than June 2016.

Pastwa has a diverse CV, having been CFO of rail operator DSB, COO of Saxo Bank, CFO of Møller Mærsk's Ivory Coast business, and held various roles at facilities services group ISS.

TDC has been without a full-time CFO since Erenjberg replaced Carsten Dilling as CEO in mid-August. Erenjberg, who has been at TDC since 2003 and in charge of the group's finances since 2008, has since been doing both jobs.

NORTH AMERICA

AT&T has named ***John Dwyer*** as the new president of its prepaid unit **Cricket Wireless**, replacing ***Jennifer Van Buskirk***.

Dwyer was previously senior vice president for customer experience for AT&T Mobile and Business Solutions, focussing on retail sales operations, ensuring marketing effectiveness and improving customer service.

He has also held senior VP roles in merger integration, retail operations and sales effectiveness and VP roles in customer service and sales operations.

Van Buskirk has taken on the role of president of AT&T's Northeast region.

Dish Network makes major management changes to help achieve its new strategic goals (see full story on page 22).

MIDDLE EAST

Mobily, the Saudi subsidiary of Etisalat, has appointed a new chairman and managing director.

Sulaiman Abdulrahman Al Gwaiz became chairman of the board for a three years, starting 1 December. *Khalifa Hassan Al Shamsy*, will become managing director.

In July, the company appointed a new CEO and CFO in the wake of accounting regularities exposed last year.

The company is currently running a tower sale process.

Ooredoo has appointed ***Youssef El Masri*** as the new CEO of Ooredoo Tunisia. He replaced ***Ken Campbell*** in late November.

Promoted from the COO role, El Masri has spent 20 years at the Qatari incumbent, holding positions including technology executive at Ooredoo Qatar and COO at Ooredoo Algeria between 2008 and 2014.

Earlier in November, Ooredoo appointed a new Group CEO and Qatar CEO.

Vodafone Qatar has appointed ***Ian Gray*** as CEO.

He takes over from *Kyle Whitehill*, who is leaving to pursue other opportunities.

Gray joins Vodafone Qatar from Vodafone Egypt where he was most recently chairman, was previously CEO and sat on the board for 14 years.

Prior to joining the Vodafone Group, Gray was CEO of retailer Brown and Jackson and of cableco General Cable, both listed UK companies.

Vodafone Qatar is 45% owned by the Vodafone and Qatar Foundation (which is 51% owned by Vodafone, and 49% owned by the Qatar Foundation), while the remaining 55% has been in free float on the local stock exchange since 2009.

AFRICA

MTN overhauls management structure (See full story on page ***xx***)

ASIA PACIFIC

The chairman of the Philippines' **PLDT**, ***Manuel Pangilinan***, is set to succeed retiring president and CEO ***Napoleon ("Polly") Nazareno*** until a permanent replacement is found.

Nazareno's retirement is effective 31st December, after which he will become a strategic advisor to the company. He had been due to retire in 2014 but the board asked him to stay on for another year so he could launch the company's digital transformation programme and work on a succession plan.

He will remain a director of PLDT until a replacement is appointed, also retaining his role as a non-executive director of shareholder First Pacific Company, which has a 25.6% stake in the telco, and a board member of Rocket Internet.

Pangilinan, currently chairman of the boards of PLDT and Smart, will start as president and CEO of the group on 1 January.

Indian mobile operator **Sistema Shyam Teleservices** (SSTL) has named Ilya Kosolapov [lt] as its new CFO as it prepares to merge with larger player **Reliance Communications**.

Kosolapov joins SSTL from Sistema pulp and paper holding Segezha, where he was head of corporate finance. Before this, he was head of corporate debt at Sistema and held various finance roles telecom division MTS. Kosolapov replaces Sergey Savchenko as CFO at STTL.

Savchenko was promoted to CEO in September after Dmitry Shukov resigned.

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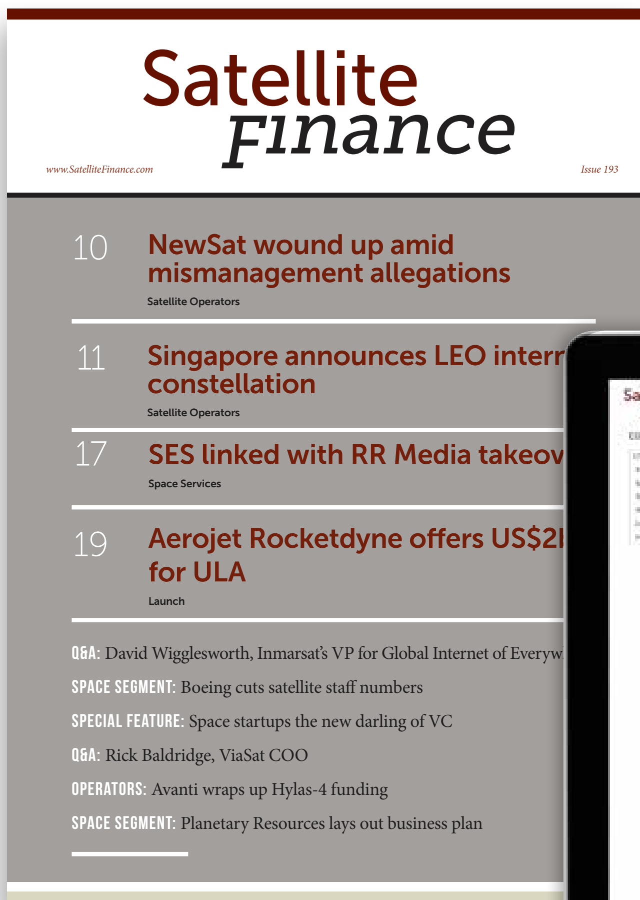

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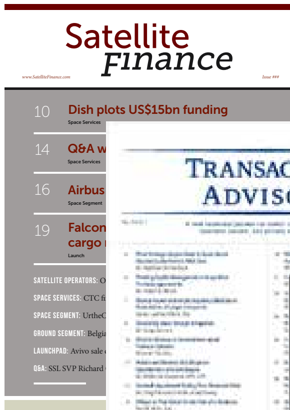

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