

JULY 2007

Foreign Direct Investment in Pakistan Telecommunication Sector

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PAKISTAN INVESTMENT BRIEF

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TELECOM SECTOR - AN OVERVIEW

INVESTMENTS IN TELECOM SECTOR

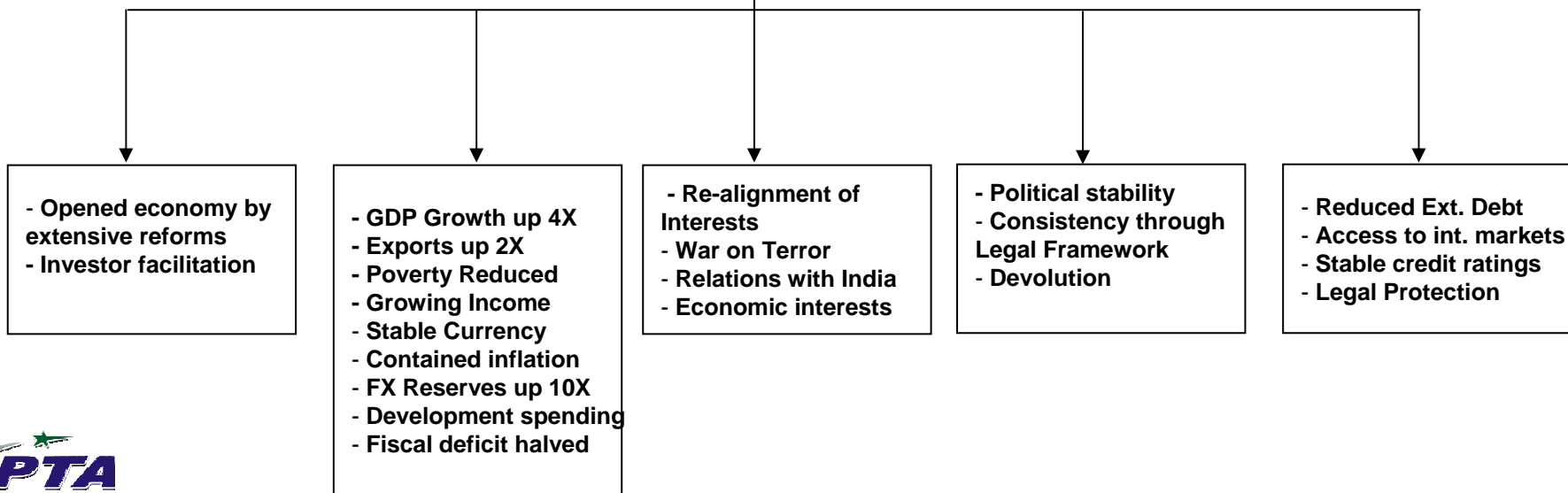
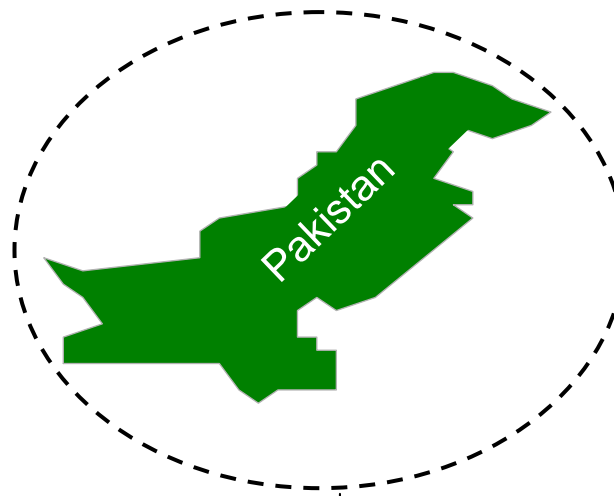
FINANCIAL HIGHLIGHTS

FUTURE PROSPECTS

QUESTIONS & ANSWERS

Pakistan's Investment Brief

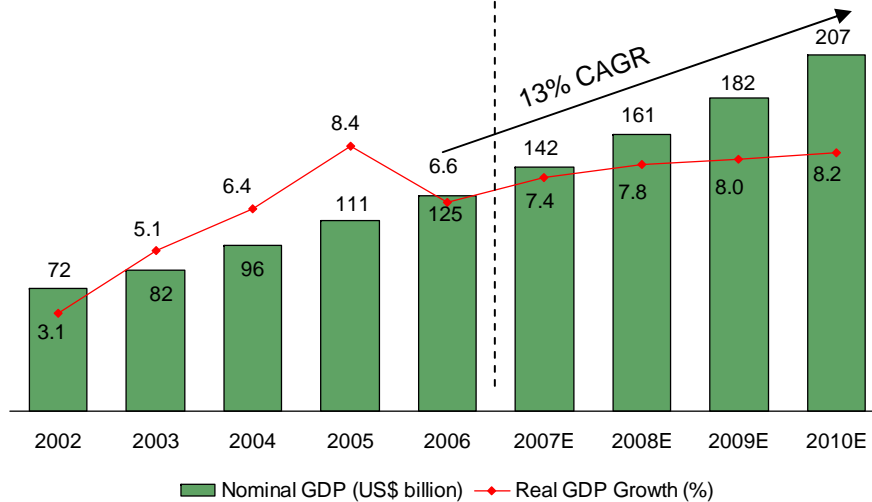
A Reinvigorated Economy



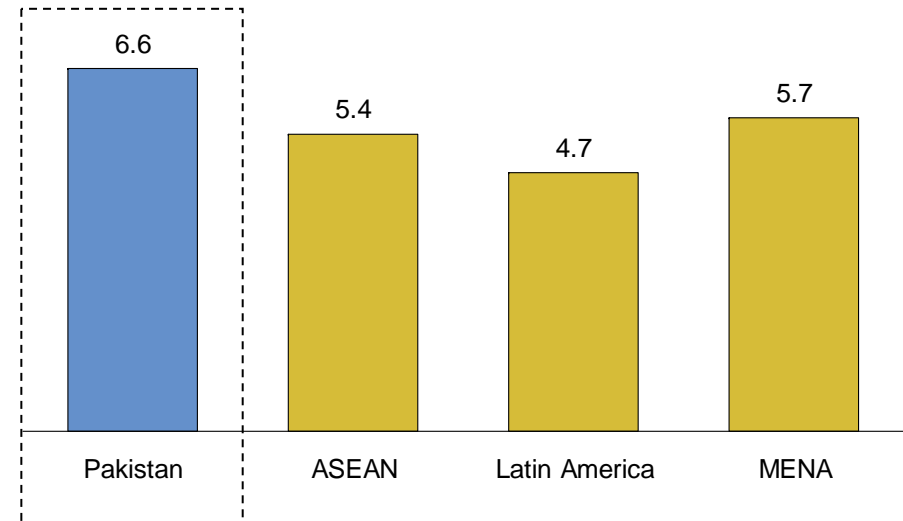
The Growth Story

Pakistan witnessing rapid and sustainable economic growth

Nominal GDP (US\$ billion) & Real GDP Growth (%)



Real GDP Growth '06 (%)



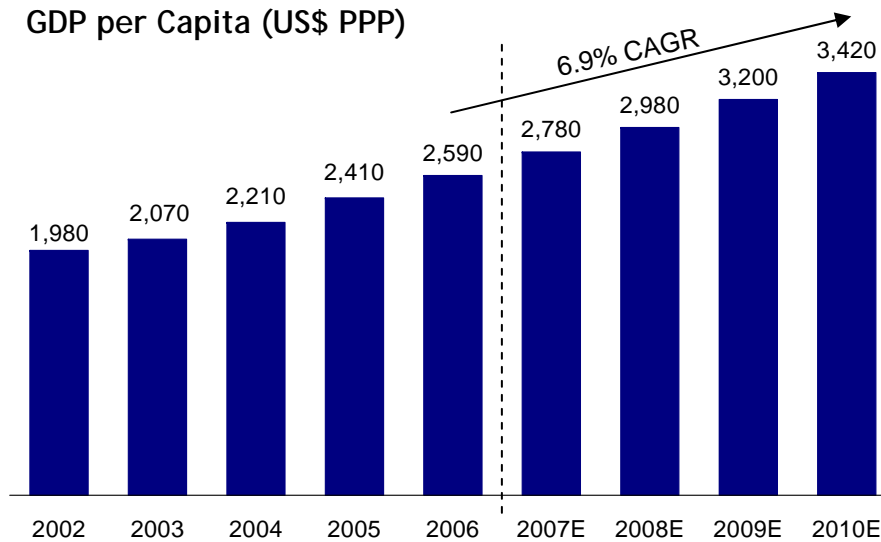
- One of the fastest growing economies in Asia
- Expected to surpass the US\$ 200 billion GDP mark by 2010

Source: Pakistan Ministry of Finance, Economist Intelligence Unit

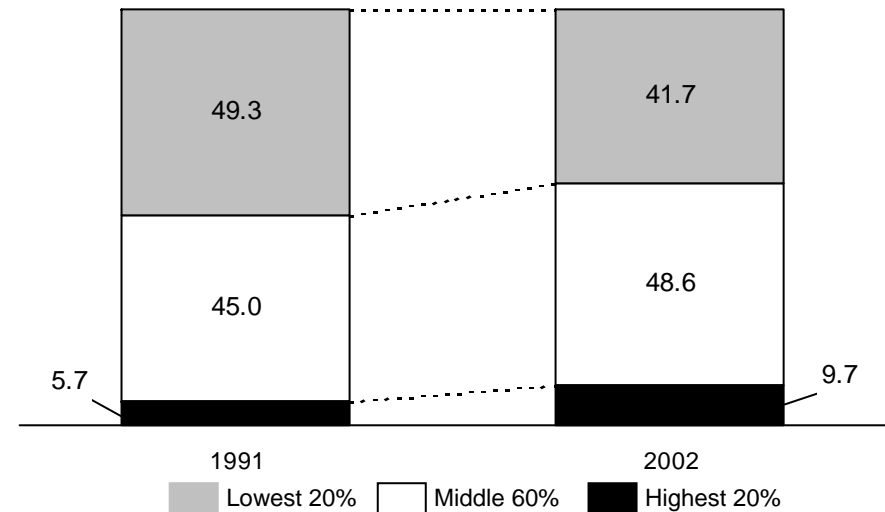
The Growth Story (Cont'd)

Wealth levels have increased and a large middle-class is emerging

GDP per Capita (US\$ PPP)



Household Income Distribution (%)



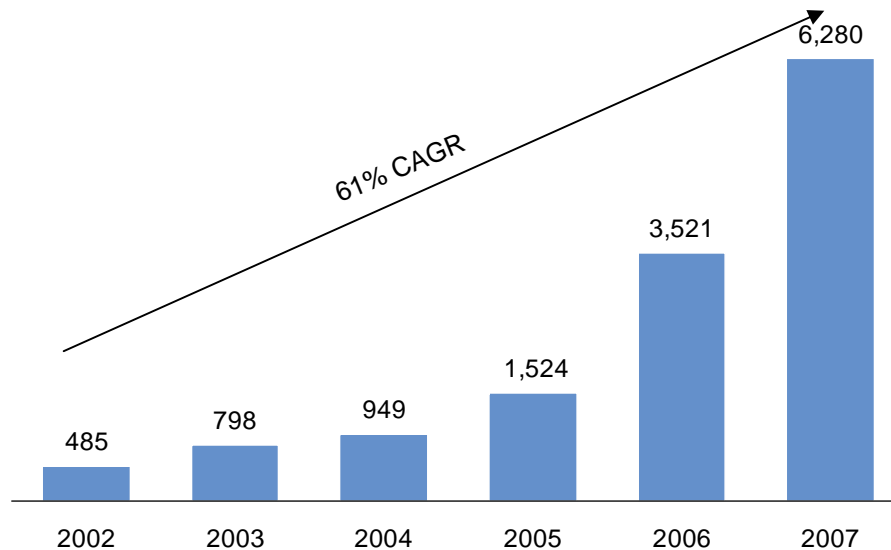
- Rising disposable income
- Increasing income distribution largely a result of decreasing unemployment
- Accelerating income growth across lower and middle segments of population

Source: Economist Intelligence Unit, Pakistan Federal Bureau of Statistics

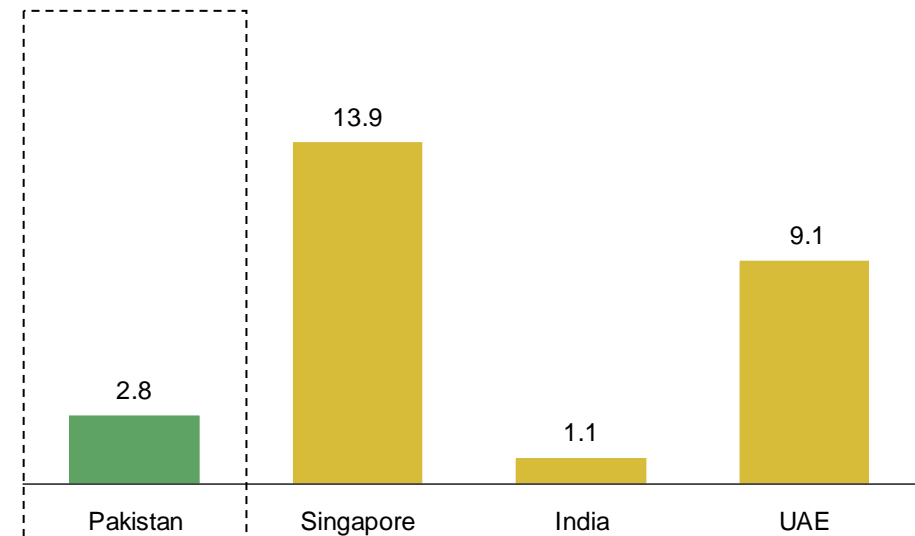
The Growth Story (Cont'd)

International investors have begun to take notice of the Pakistan story, however significant upside remains as FDI flows are still far below regional levels

Foreign Direct Investment (US\$ million)



Foreign Direct Investment (% of GDP), 2006



- Opening up of economy leading to strong foreign interest
- FDI inflow more than doubled in 2006 & 2007.
- Broad based inflow across sectors

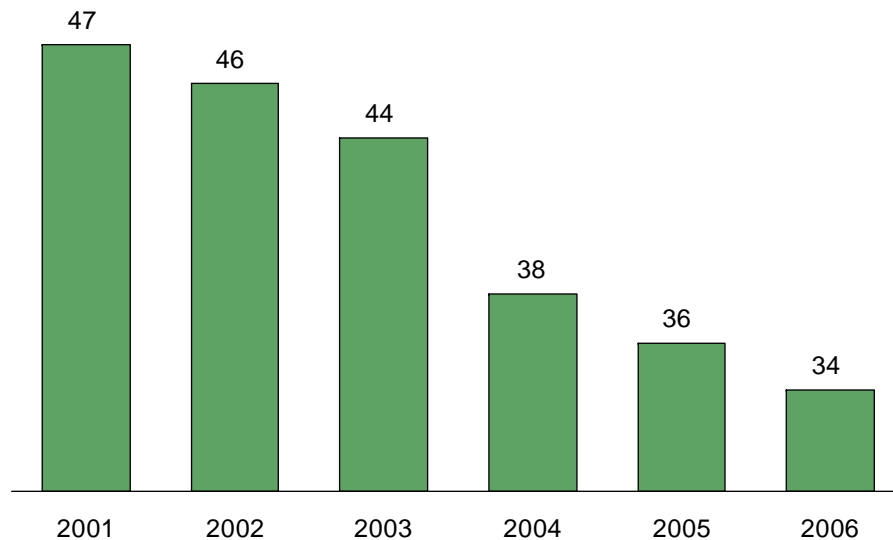
Recent notable investments by Phillip Morris, China Mobile, Standard Chartered, ABN AMRO and Etisalat

Source: Economist Intelligence Unit, Pakistan Federal Bureau of Statistics

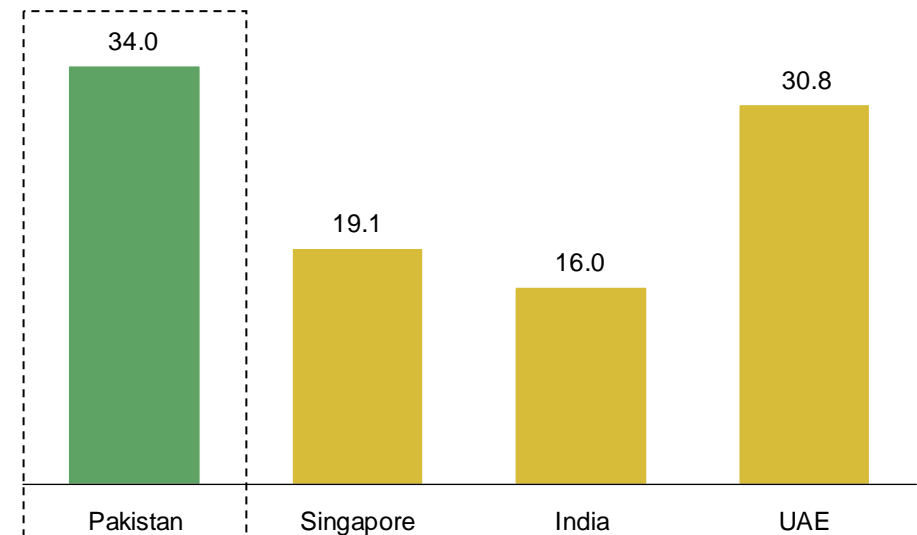
The Growth Story (Cont'd)

Significant decline in external debt

External Debt (% of GDP)



External Debt (% of GDP), 2006



- Consistent decline in external debt / GDP ratio
- Concerted effort to move away from poorly structured high-interest debt
- Allowing increasing government expenditure on development projects

Source: Economist Intelligence Unit, Pakistan Federal Bureau of Statistics

Turnaround Strategy - Economic Framework

Creation of an enabling and governed economic framework

Policy

Investment Policy & Environment

Description

- All sectors are open to FDI with equal treatment of local and foreign investors
- 100% foreign equity allowed, and royalties, franchise fees, capital, profits, dividends etc all fully repatriable
- Attractive tax / tariff incentives package
- Low cost of doing business, one-window facilitation
- Reduction in corporate tax rate from 39% in 2005 to 35% by 2007 for private companies
- Creation and subsequent strengthening of the institutional capacity of a number of independent regulatory bodies in Pakistan that have developed management structures, technical expertise, technology and enforcement capacity compatible with international best practices
- Massive capital market reforms aimed at risk management and mitigation of systemic risks

Regulatory Framework

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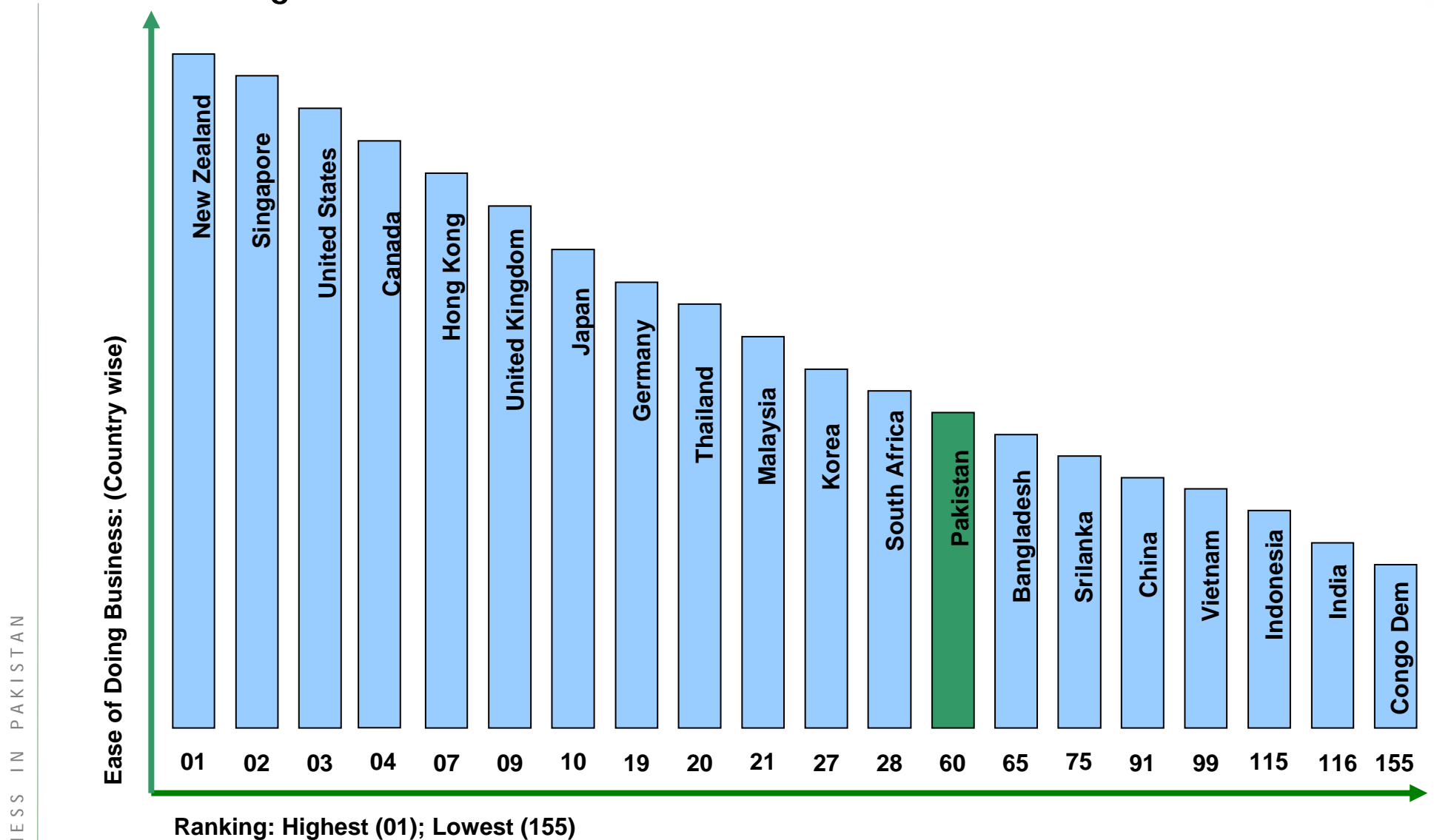
INVESTMENTS IN TELECOM SECTOR

FINANCIAL HIGHLIGHTS

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Ease of Doing Business in Pakistan



Source : World Bank and IFC report "Doing Business in 2006"

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Telecom Sector - An Overview

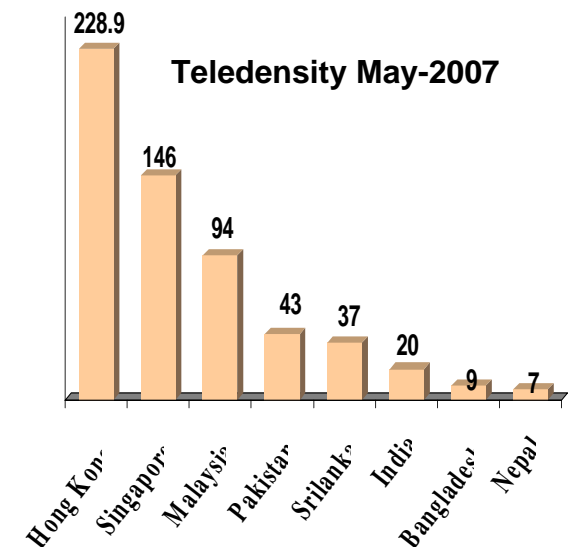


Telecom - A Success Story

- Telecom has emerged as the success story in the recent years where win-win scenario for all participants (Customers, Investors & Government).
- Over the last four years, Pakistan has witnessed rapid transformation in its telecom service industry through a series of discrete liberalization measures.
- The number of cellular subscribers has more than tripled in the last two years and today mobile subscriber base has crossed **63 million** whereas **7 million** new connections on average are added in in every quarters of 2006-07 improving teledensity further to **43 percent**. Currently, there are more than 6.5 Mln fixed line subscribers and more than 2.1 Mln internet users in the country.
- 2 Mobile Licenses, 14 Long Distance International Licenses, 35 Fixed Local Loop licenses and 17 Wireless Local Loop licenses have been awarded to different companies. This made the market highly competitive.

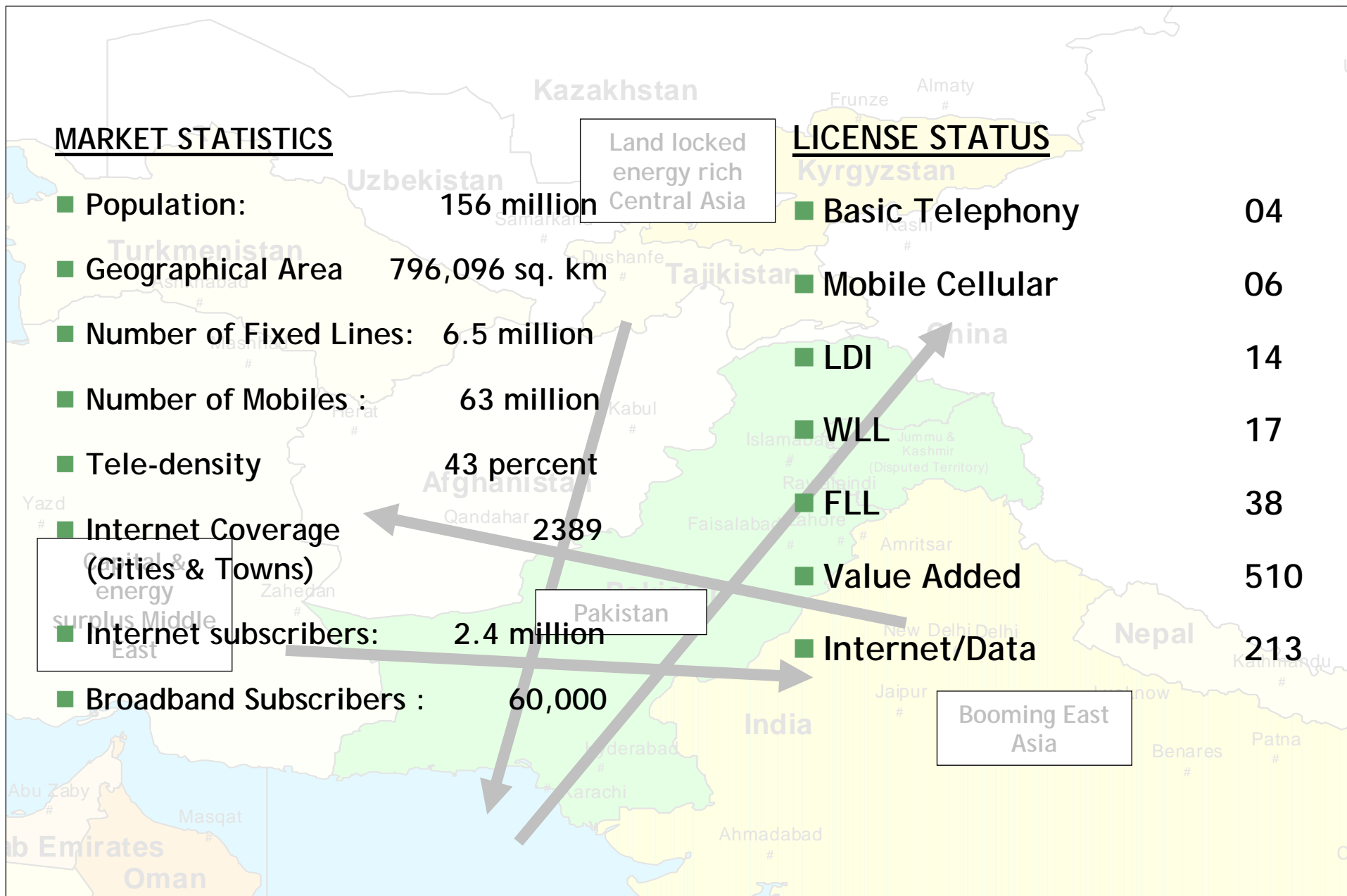
For years, Pakistan's telecom sector has plodded along, seemingly stuck in the mid-20th century. Its newly deregulated sector is taking off -- and may lift the economy. When the transformation is over, Pakistan telecom will be firmly rooted in the 21st century.

(BusinessWeek January, 2005)



Telecom Sector - An Overview

TELECOM SECTOR - AN OVERVIEW



Pre-Deregulation Scenario & History of Deregulation

Phases

Pre Deregulation

Description

- PTCL's Monopoly in Market, State owned Incumbent
- Little to No Investment
- 4 Mobile licenses, but only Mobilink's Monopoly
- High Tariffs, Low Quality of Service
- High Tax Rates & High Activation Taxes

De-Regulation History

- Posts & Telegraph Deptt. - 1947
- Pakistan Telephone & Telegraph Deptt. - 1962
- Telecom Corp. - 1990
- Under Pakistan Telecom Corp Act - 1991
- Licenses to Pvt. Sector Participants for Cellular, Card Operated payphones, paging & data communication Services
- Issue of 600 million (16%) PTCL shares - 1996
- PTCL, PTA, SCO, NTC - 1996
- Listing on all stock exchanges of Pakistan
- Mobile (Ufone) & Internet (Paknet) subsidiaries - 1998
- Privatization of state owned incumbent PTCL

Pre-Deregulation Scenario & History of Deregulation

Phases

Description

De-Regulation Policy

- Open Licensing Regime & Technology neutral
- License Term - 20 years, review after 5 years
- Local Loop (LL) - US\$ 10,000 - 14 Regions
- Wireless Local Loop option (Spectrum Auctioned)
- Long Distance and International (LDI) - US\$ 500,000, (performance bond USD10million)
- Access Promotion Charges (applied to Fixed)

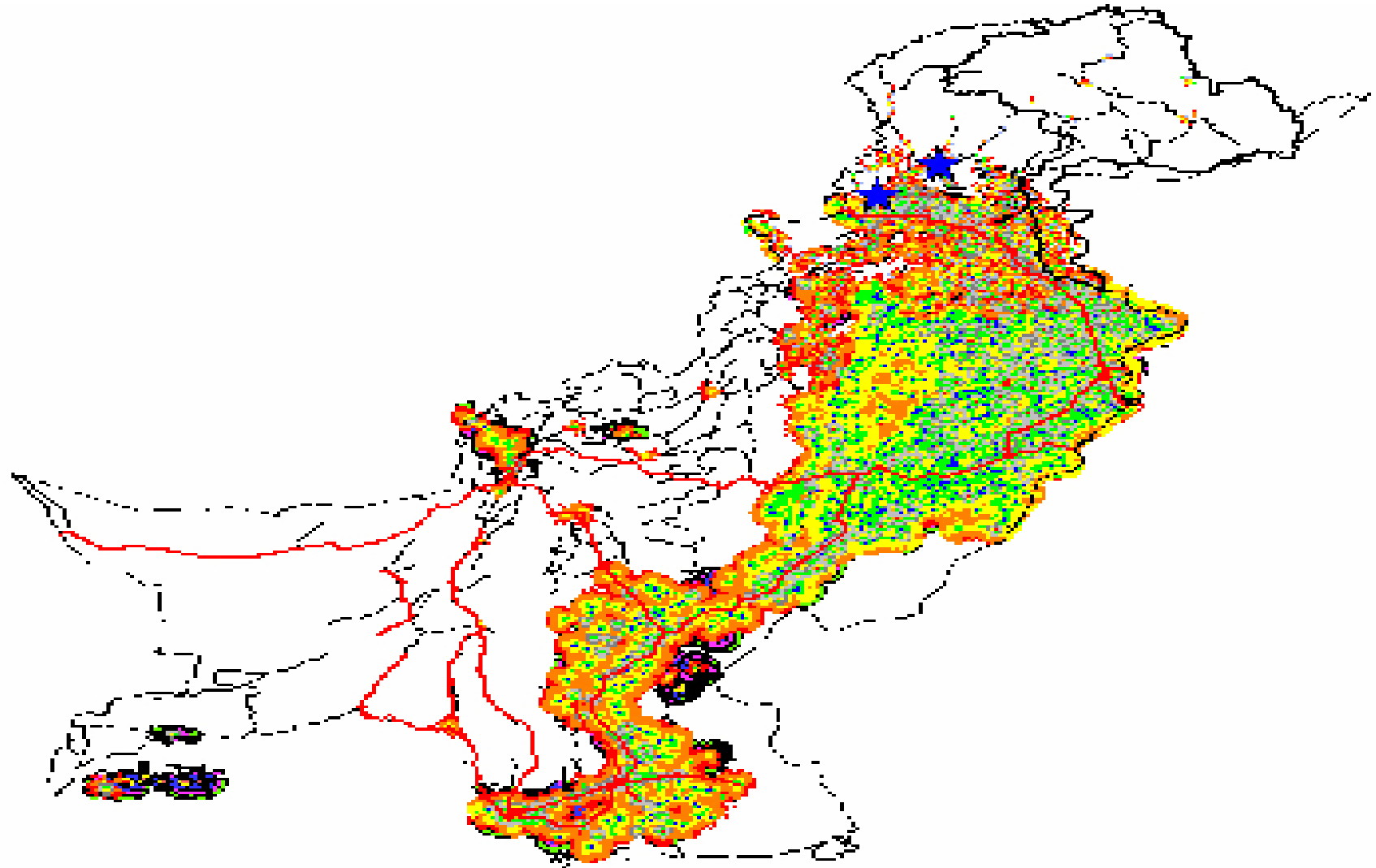
Mobile Policy

- Promotion of efficient use of Radio spectrum
- License Term - 15 years
- Encouraged private investment & fair competition

Broadband Policy

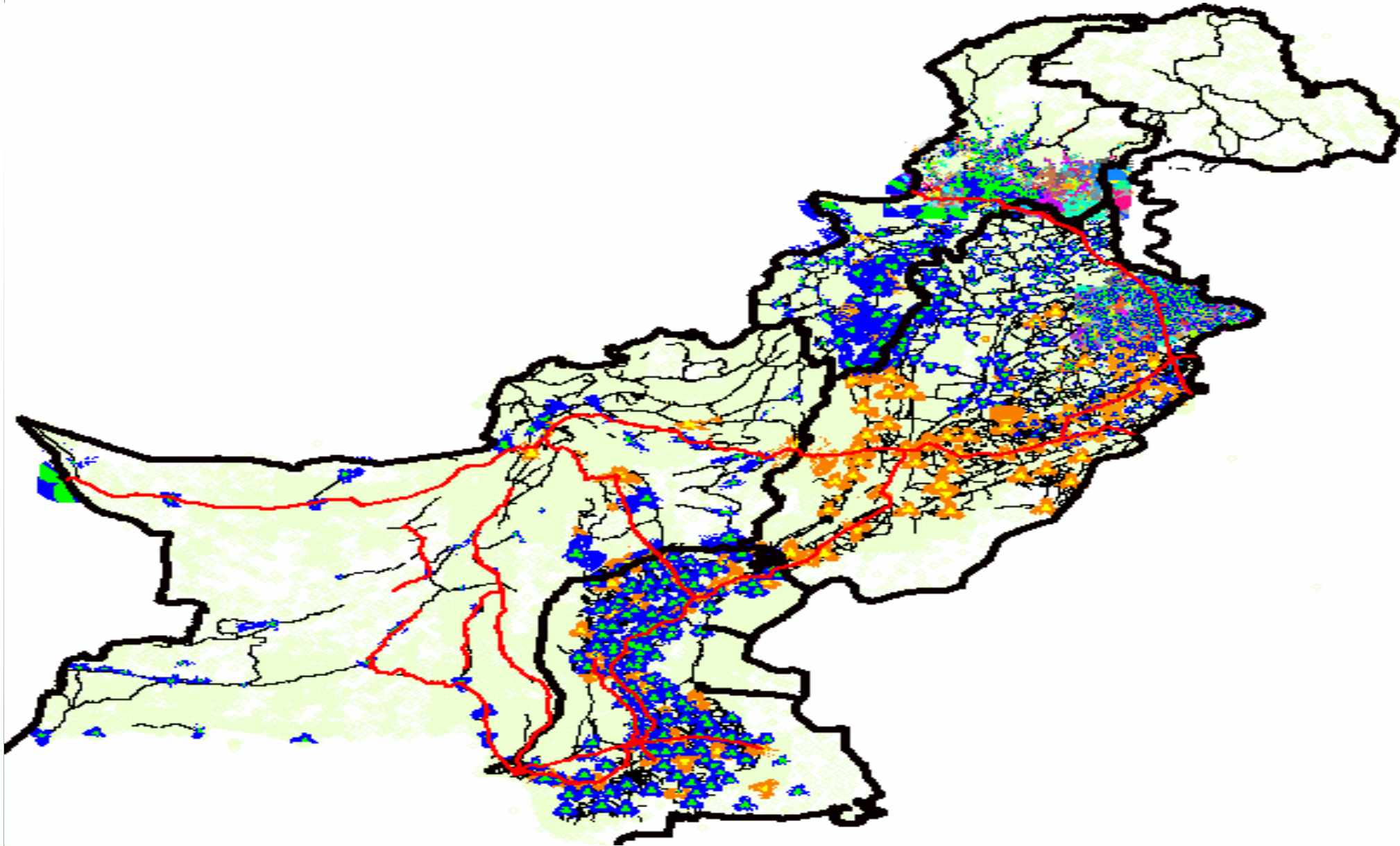
- Encouraged the entry & growth of new service providers
- Encourage private sector investment
- Encourage local content generation and broadband service provision
- Increased choice of broadband technologies

Cellular Mobile Coverage



Wireless Local Loop Coverage

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Financial Highlights

Mobile - SMP

Profit & Loss Statement

USD year-end December

	FY05	FY06
Revenue	664,109,941	928,173,871
Net profit	98,640,830	67,696,473
EBITDA margin	40%	40%
Sales Growth		40%
ROE	62%	45%
EPS	0.86	0.59

Source: Company reports

FIXED LINE - SMP

Profit & Loss Statement

USD year-end June

	FY05	FY06
Revenue	1,266,206,050	1,151,423,933
Net Profit	443,427,617	346,290,500
EBITDA margin	69%	63%
Sales Growth		-9%
ROE	39%	29%
EPS	0.09	0.07

Source: Company reports

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Pakistan the Home of World Telco's



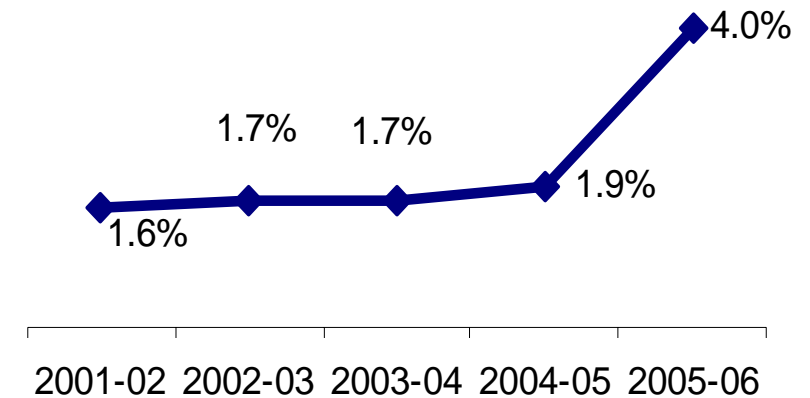
CHINA MOBILE



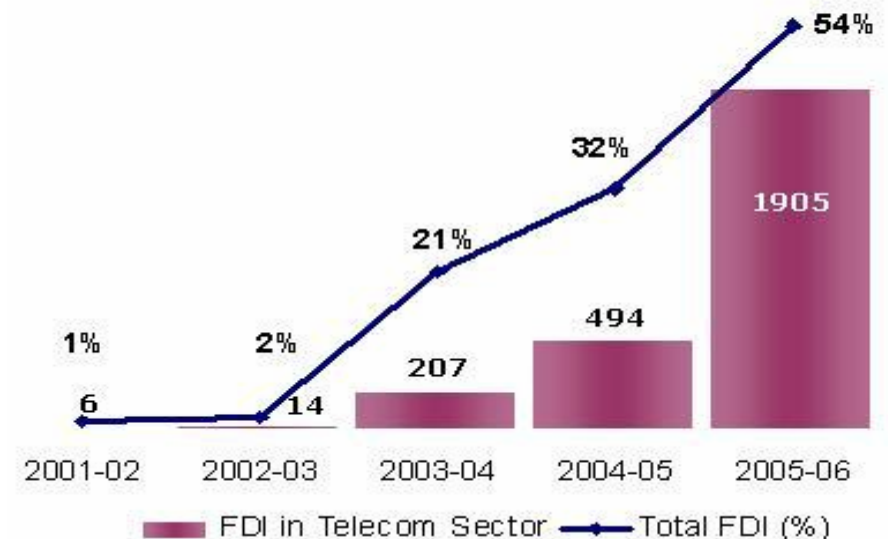
Foreign Direct Investment in Telecom Sector

- Pakistan is a growing telecom economy and communication sector has attracted FDI of \$1.55billion during the first eleven months of 2006-07, including 133.2 million from privatization proceedings
- Telecommunication Sector remained the top earner of FDI in 2006.
- In the first nine months Inflows in communication grew by 34 percent over correspondent period of 2005-06
- Telecom Sector's share in GDP has raised to 4 percent in 2005-06

Share in GDP



USD - Mln



Major Investments in Telecom Sector

INVESTMENTS IN TELECOM SECTOR



- Norway's group TELENOR acquired fifth Mobile Cellular license in the country for \$290 million in 2004.



- UAE group WARID acquired sixth Mobile Cellular license in the country for \$290 million in 2004.



- Emirates Telecommunication Corporation (ETISALAT) bought 26 per cent stake in Pakistan Fixed Line incumbent Pakistan Telecommunication Company for \$2.6 billion in 2005.



CHINA MOBILE

- China Mobile has acquired 100 percent stakes of one of the Cellular Mobile company - Paktel Limited. Initially China Mobile had acquired 88.86 percent share in Paktel for \$460 million.



- Qatar Telecom has bought 75 percent stakes of Burraq Telecom for Nationwide and International Telephony Networks.



- Orascom Telecom of Egypt, laid down first private sector undersea Fiber Optic cable for \$60 million.



Investments during Last Week



June 25, 2007

- Egyptian based Orascom Telecom who had 88 percent stakes in Mobilink, the largest cellular operator of Pakistan has just acquired the remaining 11.31 percent stakes in the company for \$290 million from a local investor. Now Orascom holds 100 percent stake in the company.



June 28, 2007

- Waridtel one of the six cellular operators of Pakistan was in talks with Singtel of Singapore, Vodafone of Britain & Kuwait Mobile of Kuwait to sell its minority stakes. The deal has been materialized in favor of SingTel of Singapore. SingTel has acquired 30 percent stakes in the company for \$758 million.



Private Sector Investments

INVESTMENTS IN TELECOM SECTOR



- CM-PAK of China Mobile has pumped \$700 million in Pakistan Telecom Sector for its network expansion in Rural Areas since its take over of Paktel. This is a part of \$2 billion investment plan of the next three years, all of which will come from China.



- CM-PAK of China Mobile has signed a contract for its network expansion worth \$500 million, with the four of its strategic partners (vendors):

- ALCATEL-Lucent Pakistan Ltd.
- ERICSSON Pakistan (Pvt) Ltd.
- Huawei Technologies Pakistan (Pvt) Ltd.
- ZTE ZhongXing Telecom Pakistan (Pvt) Ltd.



- Emirates Telecom (Etisalat) that has 26 percent stake of PTCL, the incumbent fixed line operator under its new management has planned to invest \$500 million to widen PTCL's existing fixed line network and to add approx. one million more telephone lines



Private Sector Investments

INVESTMENTS IN TELECOM SECTOR



- Mobilink has placed \$250 million of senior notes in November 2006, due 2013. Mobilink was rated B1 and B+ and the notes were rated B3 and B+ by Moody's and Standard & Poor's respectively. The notes bear an interest at a rate of 8.625% per annum. The proceeds of the issue will be used to fund ongoing capital expenditure for Mobilink's network expansion.
- Mobilink has also placed another \$750 million of senior notes in February 2007, due 2014. with an interest rate of 7.875% per annum to fund its CAPEX for network expansion.
- Mobilink has made investment commitment for the current financial year, as the company showed highest figures for network expansion in 2006. Its total budget for 2006 stood at \$600 million.

Private Sector Investments

INVESTMENTS IN TELECOM SECTOR



- **UFONE** the second biggest cellular mobile operator has awarded a contract to **HUAWEI Telecom** worth **\$550 million** as part of its network expansion and to reach out in the rural areas. This was the biggest ever investment in mobile sector for one year in South East Asia.
- **UFONE** a cellular mobile license and a subsidiary of PTCL the incumbent has raised **\$55 million** in collaboration with a local bank **Habib Bank** for its network expansion.
- **NAYATEL** has laid down region's first FTTH (Fiber to the Home) net work to deliver a full range of high bandwidth triple play services in the capital city of Islamabad. Nayatel has contracted with Alcatel to deploy their latest Alcatel 7340 FTTU solution for their project. Alcatel's 5020 softswitch will provide NayaTel with next generation scalable VoIP services.
- **TELENOR** has so far invested over **\$1.2 billion** and is the fastest growing cellular network of Pakistan

Deals of Horizon



■ DV Com Pakistan, a licensed based LDI and limited mobility telecom operator is in the process of finalizing sale of its LDI & WLL business to a **Middle Eastern Group**.



■ World Call is one of the largest Pakistani Private group in telecom sector. They have Long Distance International, Fixed Local Loop, Limited Mobility and Broadband Licenses are in final stages of selling its majority stakes in one of **Middle Eastern Group**.



■ Pakistan's pioneer and the largest company in Card Payphone Telecard also having LDI and WLL license is planning to sell minor stakes to a **UAE group** (name undisclosed)

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Future Prospects...

- Pakistan Telecom market is quite competitive and there is great potential for growth.
- The market has lower ARPUs, with 63 million mobile customer based, However with an appetite of another 50 million the focus of prospective investors should be towards volumes.
- High time for a reputable international telecom operators to capitalize on opportunities in Pakistan, offering one of the best business opportunities in rural areas and in the areas of Local Loop Access Networks (WLL, Wi Max FTTx etc.)
- Broadband penetration is low, and investment in fixed “line” technologies (Wireline and Wireless) can deliver and trigger the broadband proliferation today what cellular is promising for tomorrow. Local Loop is investment hungry and has a lot of potential provided the investors are willing to take a long term view.
- With 63 million mobile subscribers, and ever growing market Investment in Local Manufacturing of network equipments and handsets is one area which can be capitalized. (\$560 million worth of Mobile phones were imported in 2006)



THANK YOU

Prospective Economic Environment

