

Middle East Mobile Telecoms Development Challenges

Istanbul
June 14, 2006

The Middle East region is the midst of rapid transformation

- ▶ **Environmental changes** are accelerating in the Middle East and are creating a whole new business environment
 - **Economic**: deregulation, liberalization, privatization, rationalization, expansion
 - **Social**: education, democratization, emancipation
 - **Political**: succession, representation, election, transformation, regionalization
- ▶ **Stable institutions** of the not-so-distant-past are now **vying for a sustainable** modus operandi
 - Government agencies as indispensable service providers
 - Monopolies as market owners
 - Family-owned conglomerates as market makers
 - Long-standing MNCs as influence makers
- ▶ These institutions are now rightly **questioning their raison d'être**, and are now willing to confront the difficult questions and decisions that the future brings
 - They are asking to be educated about the future
 - ...informed about their options...
 - ...and prepared to deal with **dynamic scenarios**

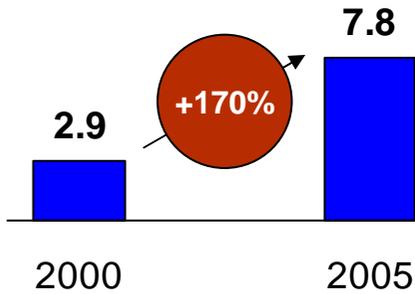
Among other sectors, telecoms has been a major beneficiary of this change process

- ▶ The M.E. telecom sector in general, and the **wireless segment** in specific, has progressed at an **unprecedented pace** since 1998, creating an unexpected '**democratization**' of communications services
- ▶ The underlying driver was, is, and will continue to be a universal **acceptance of deregulation** as an indispensable process to develop the sector
 - Concept is now widely anchored among policy makers, albeit at **different stages of maturity**
 - Challenge has evolved from **why** to **how** to deregulate, and the M.E. still has a long way to go
- ▶ The emerging environment poses considerable challenges for **established** operators, fixed or wireless, as they **fast-track their readiness** to meet future challenges
- ▶ Regulatory Authorities are also pressed to develop the most adequate deregulation frameworks that best meet their environmental requirements, and ensure **sustainability** as opposed to **marketability** or **control**
- ▶ Naturally, the business model for established operators and regulators will considerably evolve in the future, **paving the way for greater opportunities to new entrants**

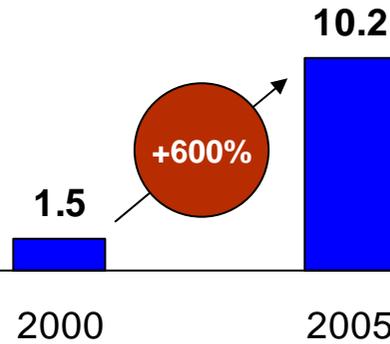
The region could be viewed through 3 groups with distinctive dynamics

Growth Pace of Mobile Sector (in Million Subscribers)

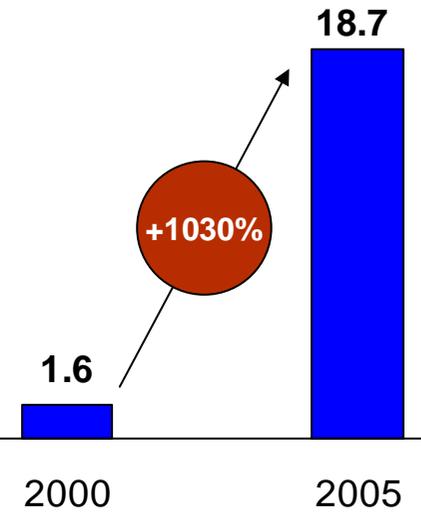
Group 1: Paced



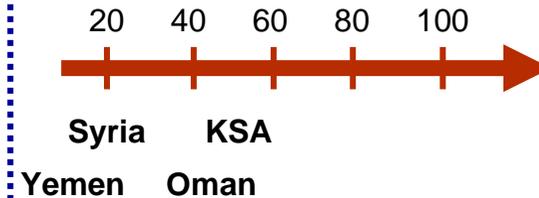
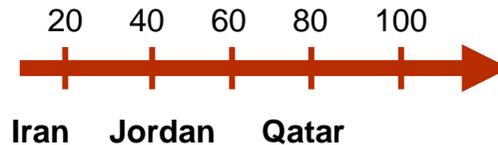
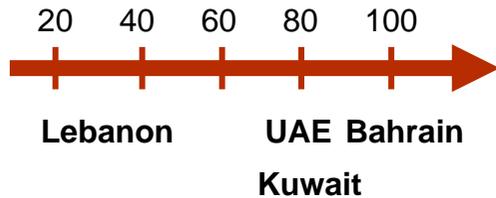
Group 2: Rapid



Group 3: Fast Track



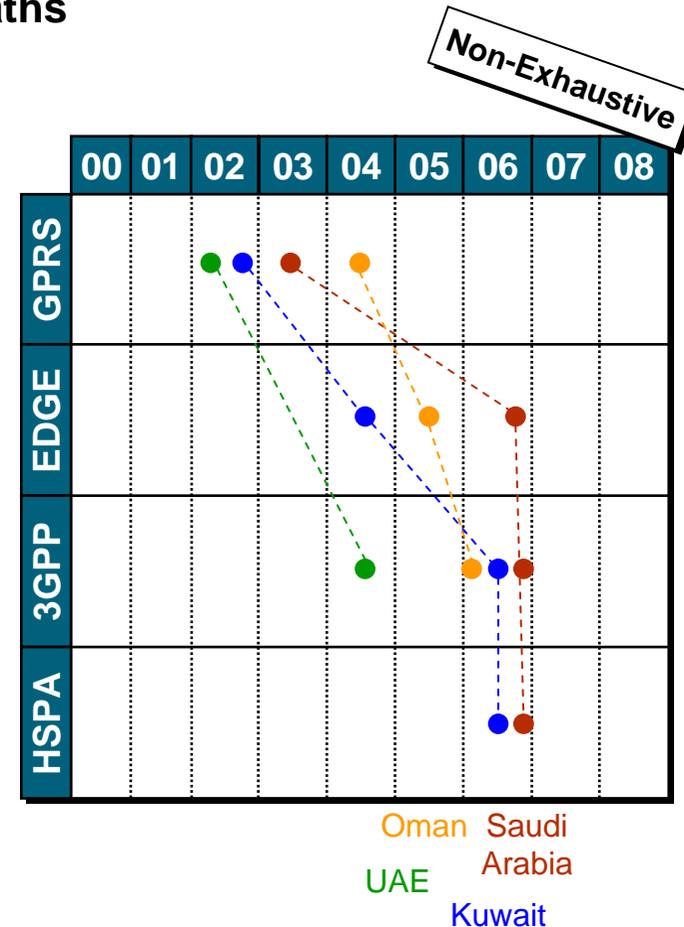
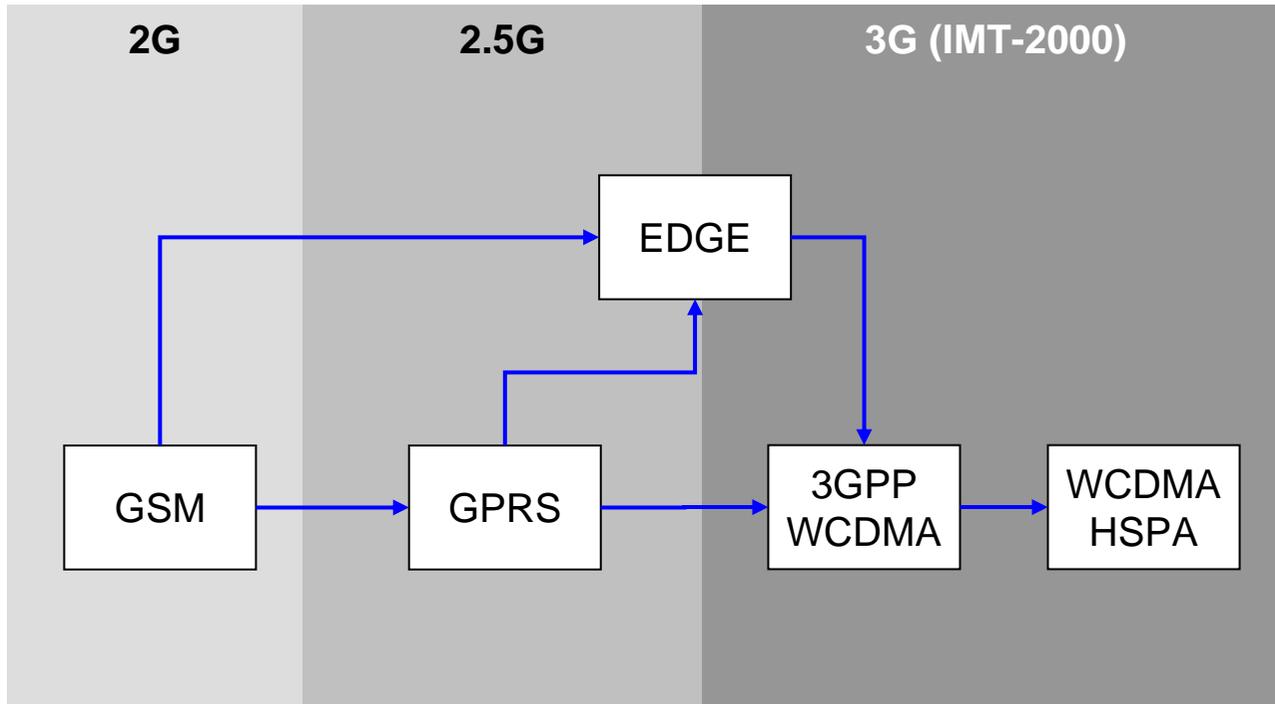
2005 Mobile Penetration (%)



Source: Arab Advisor Group 2005, Paul Budde Communication 2006, Booz Allen Hamilton Analysis

The regional technology evolution path has been comparable with a GPRS-EDGE-WCDMA passage over a 4-5 year runway

Wireless Technology Evolution Paths
Middle East & Iran



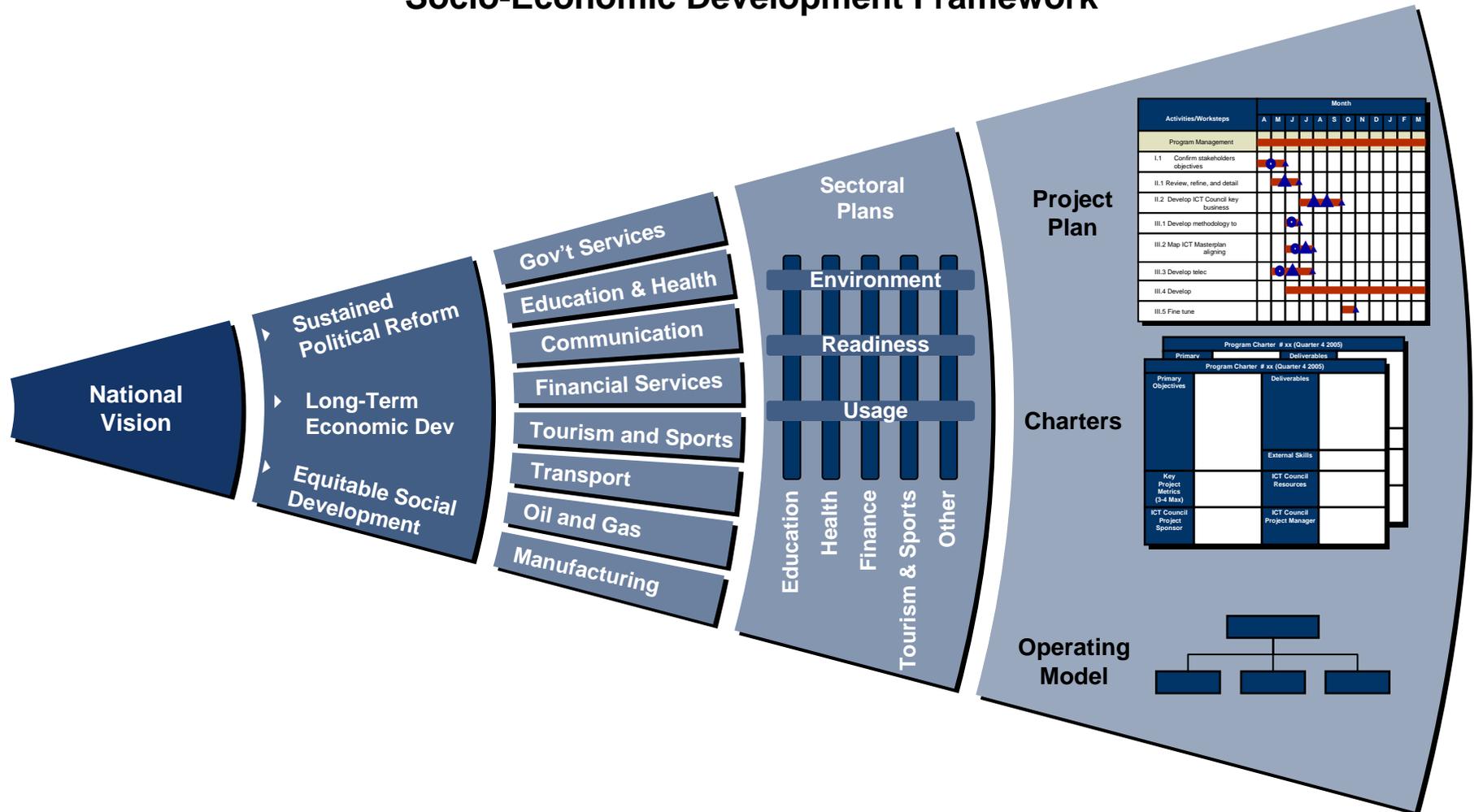
The consumer and capital markets have rewarded operators – though long term sustainability will be more challenging

Selected Operators	Share Price Appreciation 2003-2005	Operators P/E 2005	Market P/E Nov 2005
▶ Batelco	70%	23 (June)	11
▶ Etisalat	109%	30 (Sept)	44
▶ Jordan ('04-'05)	51%	16 (June)	39 (June)
▶ MTC	44%	21 (June)	17
▶ Qtel	52%	19 (Sept)	43
▶ Saudi Telecom	118%	30 (June)	46

Source: Zawya, Fincorp, Telecom Operators Financial Report

Sustainability is more likely in the context of broad based socio-economic transformation

Socio-Economic Development Framework



In the context of telecoms, the transformation and deregulation pace has varied greatly in the region ...

Level of Development of Deregulation Framework (Selected M.E. Markets)

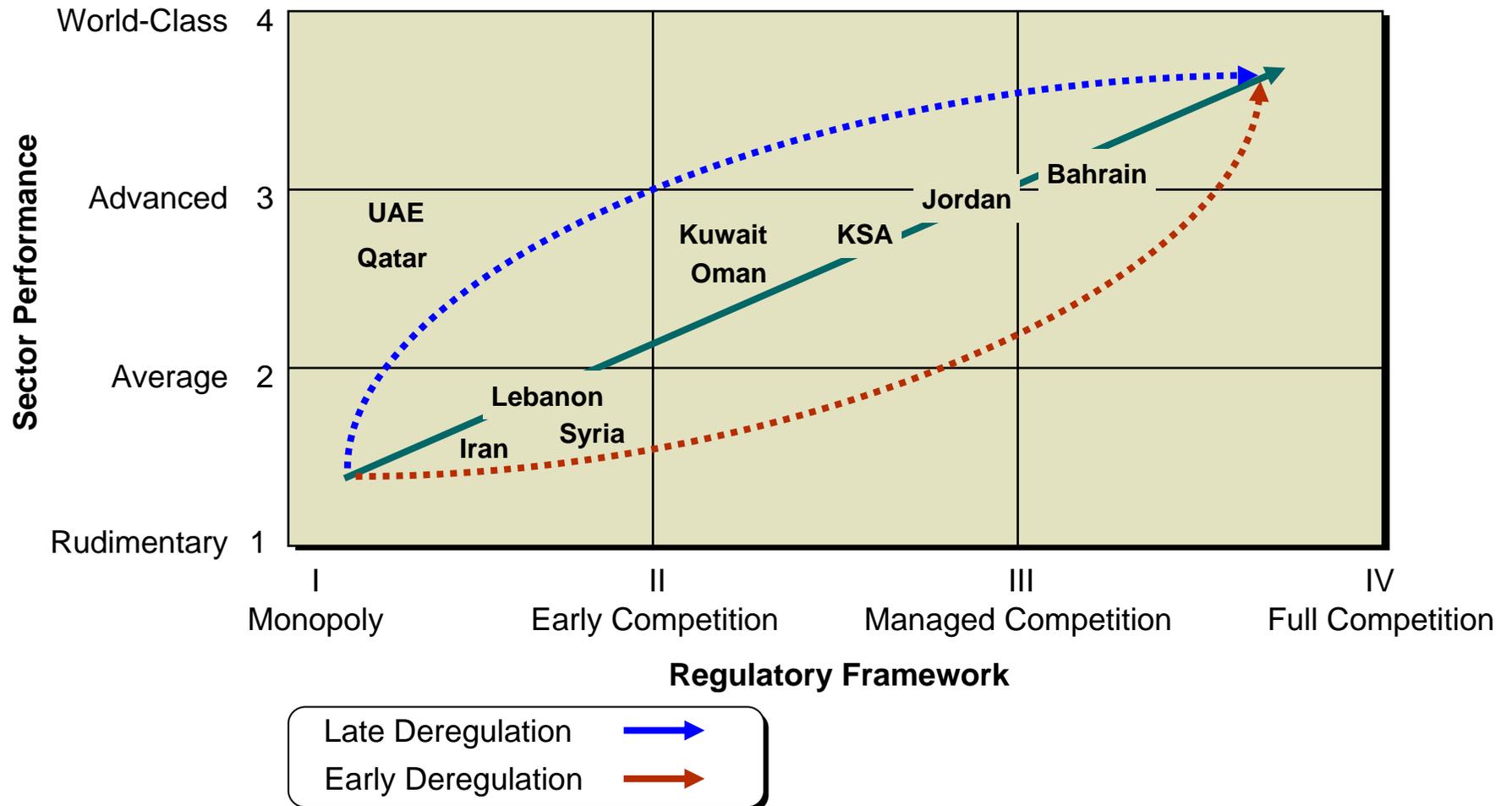
Gulf Region	2005
▶ Bahrain	
▶ Kuwait	
▶ Oman	
▶ Qatar	
▶ Saudi Arabia	
▶ United Arab Emirates	

Iran & Levant	2005
▶ Iran	
▶ Jordan	
▶ Lebanon	
▶ Syria	

- Note:
-  Primary Law advocating deregulation and liberalization is non-existent
 -  Primary Law advocating deregulation and liberalization exists, with limited TRA engagement.. May allow for limited competition without due regulation
 -  Primary Law advocating deregulation and liberalization exists along with secondary legislation and tertiary rules, with limited enactment
 -  Primary Law advocating deregulation and liberalization exists along with secondary legislation and tertiary rules, with active enactment
 -  Primary Law advocating deregulation and liberalization exists along with secondary legislation and tertiary rules, with active enactment and results

... yielding varying levels of sector performance

Telecommunications Sector Reform Outlook



A number of external considerations continue to influence the deregulation process...

External Considerations Affecting Deregulation

External Considerations	Rationale
A Government Control Over the Sector	<ul style="list-style-type: none"> ▶ Telecom considered as a “strategic” sector ▶ Enforcement of national security ▶ Provision of services where markets are inefficient (e.g., universal service)
B High Government Revenues Generation	<ul style="list-style-type: none"> ▶ Opportunity to improve government finances, reduce deficit, repay foreign debt, etc., using the telecom sector proceeds
C Incumbent Protection	<ul style="list-style-type: none"> ▶ Protection of a “national champion” ▶ Protection of incumbent employees ▶ Recognition of incumbent contribution to the community ▶ Sensitivity to incumbent lobbying
D Creation of Investment Opportunities for Local Private Investors	<ul style="list-style-type: none"> ▶ Willingness to develop the private sector ▶ Retention of telecom profits in home country
E Attraction of Foreign Investments	<ul style="list-style-type: none"> ▶ Contribution to the development of the economy through FDI ▶ Commitment to market openness (e.g., in case of application to WTO, or WTO commitments)

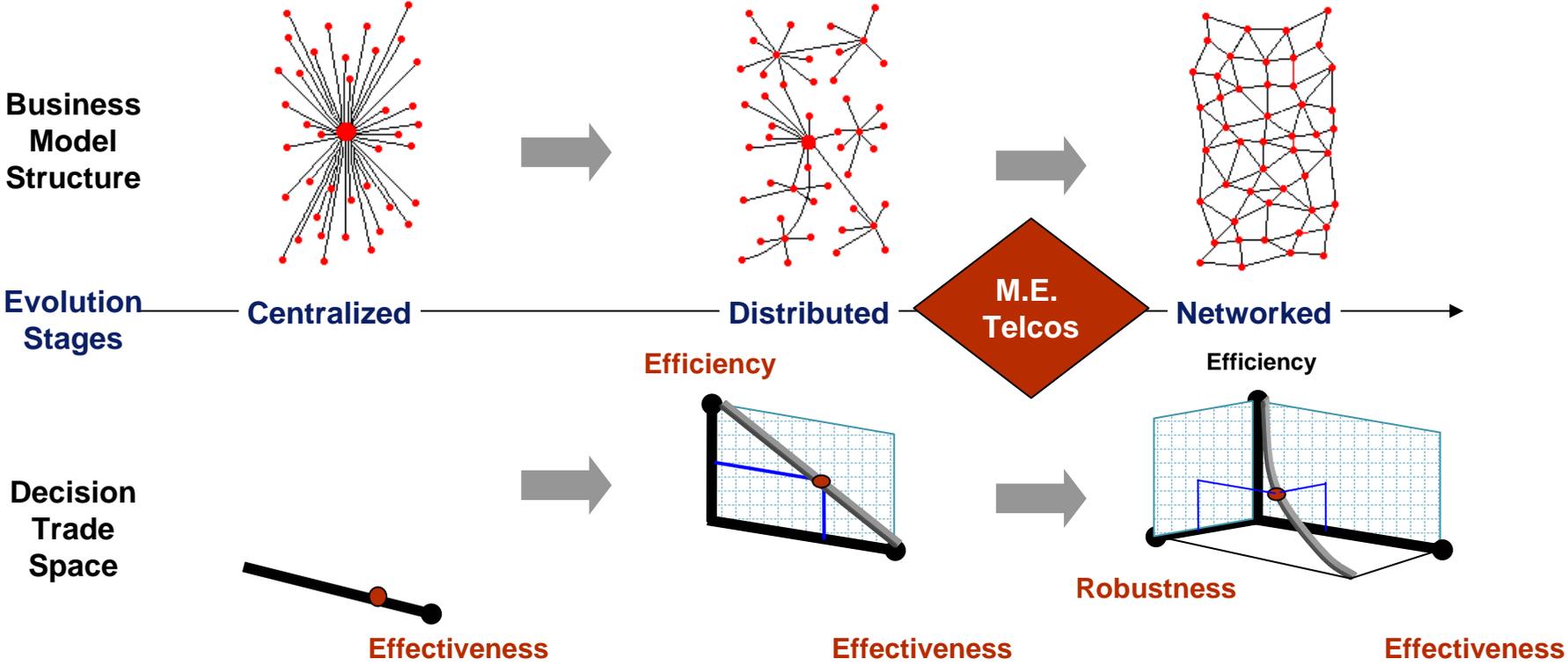
... with distinctive application per market

External Considerations Impacting Deregulation

Considerations	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	Iran	Jordan	Lebanon	Syria
A Government Control Over the Sector		✓	⋯	⋯	⋯	✓	✓		✓	✓
B High Government Revenues Generation	⋯	✓	✓	✓	✓	✓	✓	⋯	✓	✓
C Incumbent Protection			⋯	✓		✓	✓			⋯
D Creation of Investment Opportunities for Local Private Investors	⋯	✓	✓	✓	✓	⋯	⋯	⋯	⋯	✓
E Attraction of Foreign Investments	⋯		✓	⋯	✓		⋯	✓	✓	⋯

 Partial

The changing environment is creating new risks for stand-alone operators and opportunities for networked businesses



Development opportunities in the region could gradually shift from Greenfield to Acquisition and Strategic Partnership

	Greenfield	Acquisition	Strategic Partnership
Concept	<ul style="list-style-type: none"> ▶ Award of new license, whether sector specific or for integrated services 	<ul style="list-style-type: none"> ▶ Full acquisition of existing telcos, whether at a national or regional level 	<ul style="list-style-type: none"> ▶ Financial and operational participation in existing telcos, whether at a national or regional level
Regional Example	<ul style="list-style-type: none"> ▶ Past: Bahrain, Jordan, KSA, Oman ▶ Upcoming: KSA, Oman, Qatar (tbc), Kuwait 	<ul style="list-style-type: none"> ▶ MTC acquisition of Fastlink (Jordan), Celtel (Africa), Madacom (Madagascar) and Mobitel (Sudan) 	<ul style="list-style-type: none"> ▶ France Telecom's 35.2% stake in Jordan Telecom
Opportunities & Constraints	<ul style="list-style-type: none"> ▶ Opportunities in next 3 years, before markets move to full liberalization and integrated licensing ▶ Narrowing window of opportunities 	<ul style="list-style-type: none"> ▶ Untapped opportunities to-date, and more challenging to realize <ul style="list-style-type: none"> – Alternative carriers – ... and even incumbents 	<ul style="list-style-type: none"> ▶ Realizable opportunities <ul style="list-style-type: none"> – Particularly relevant for incumbents – Could also apply to telcos with regional business