Cellular Mobile

Cellular Mobile Services

While Pakistan economy is experiencing severe macroeconomic issues, yet mobile industry turned out to be more stable and resilient. Although the industry had gone through a knotty period during the last year where highs and lows of the market moved operators towards more aggressive business strategy but stable growth in last two quarters of 2009 have pacified the stakeholders including regulator. Couple of years back Pakistan Mobile industry was termed to be one of the fastest growing industries across the world, the foundation then laid by the policy makers actually did not let the system crumple rather made the sector more mature after going through a low period. Today the industry claims to have survived the indigenous and exogenous shocks which have resulted in stabilized ARPU's, hoisted growth rate, shrunk tariffs and well documented (subscriber antecedents) subscribers.

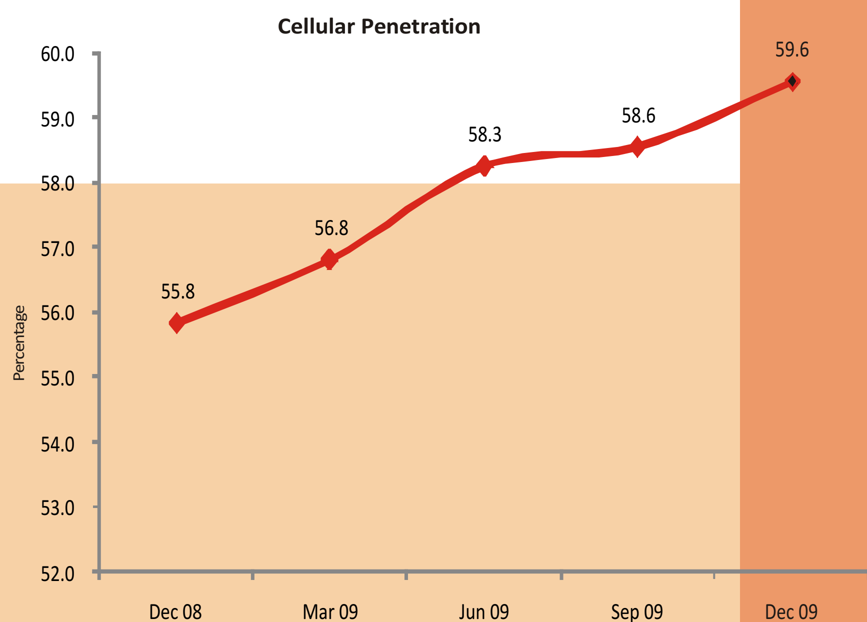
Ever innovative operators are venturing in to new venues by launching intense subscriber acquisition strategies and reactive marketing campaigns therefore winning back dormant and inactive subscribers as well as having new additions on their networks. The SMS and talk time campaigns on Independence Day and Eid had made mark in both voice and data traffic generations. Similarly launch of SMS service of social-networking site facebook by Telenor, blackberry services by Zong for younger segment and N share by Mobilink that enables subscribers to upload pictures and videos to online portals are few noteworthy attractions. Mobile commerce which has just kicked off by Mobilink and Telenor in the form of Mobilnk Genie and Easy Paisa has placed Pakistan on higher pedestal in mobile growth across Asia.

Areas of concerns however, do exist in the industry where foremost and stressful is the cut-throat competition among operators pushing each other into price wars thus reducing profit margins and lowering ARPU levels. All this results in depressed financial health of the sector and thus preparing grounds for mergers and acquisitions that are growing up in the media about operators. Similarly delay in 3G licensing is putting pressure on operator's who have upgraded their networks to save time once the service becomes legal in the country.

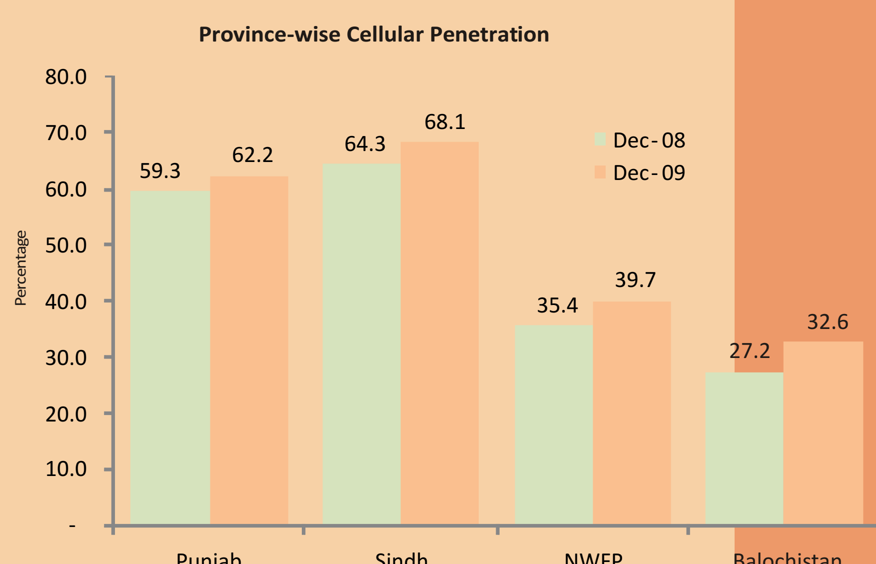
The Pakistan Telecom Authority in hand with the operators is working in number of mobile venues of which foremost is the clearance of spectrum for 3G and licensing formalities. The ground work at PTA's end is completed however, a green signal along with the decision on issues like number of licenses, bidding process, eligibility criteria are awaited from Ministry's side. PTA regularly does the quality of service surveys for mobile operators across Pakistan, with results of latest survey the QoS had turned out to be far below the standards and all operators were given warning to improve within given time but disappointing reaction from the industry forced the PTA to show cause all 5 operators. PTA has also done Towers survey in order to check harmful effect if any of these towers to the environment. It has been declared with much assurance from PTA that the radiation levels of towers are much below threshold levels and thus are not giving any harm to the environment. PTA is also working towards devising a strategy on Infrastructure sharing among operators that would help in reducing their costs as well. In order to have exact number of active subscribers, the Authority approved and implemented a standard definition of active subscribers in the industry. In addition to completing the documentation of the mobile industry PTA on the other hand is also working on reducing the volume of obnoxious calls by taking strict actions against all complaints. Last but not the least PTA has called out for all the customer services agreement forms for mobile operators, the Authority plans to revise the forms in the backdrop of giving legal cover to the customers who in most of the cases are unaware of their rights and obligations. In the following pages detail growth patterns exhibited by the sector are discussed.

Penetration Patterns

The cellular penetration in Pakistan today, stands at 59.6 making more than 90% of the total teledesnity of the country. The mobile penetration kept increasing in all four quarters of 2009, however, the growth staggered during June Sept 09 when it grew by 1% only. While looking at the yearly scenario, the penetration grew by more than 7% which is not very exciting but keeping in view the situation even this much of growth is an achievement. The main reason behind such slow growth in these three months is due to loss of subscribers by Ufone as the company remained involved in subscriber's data cleaning.



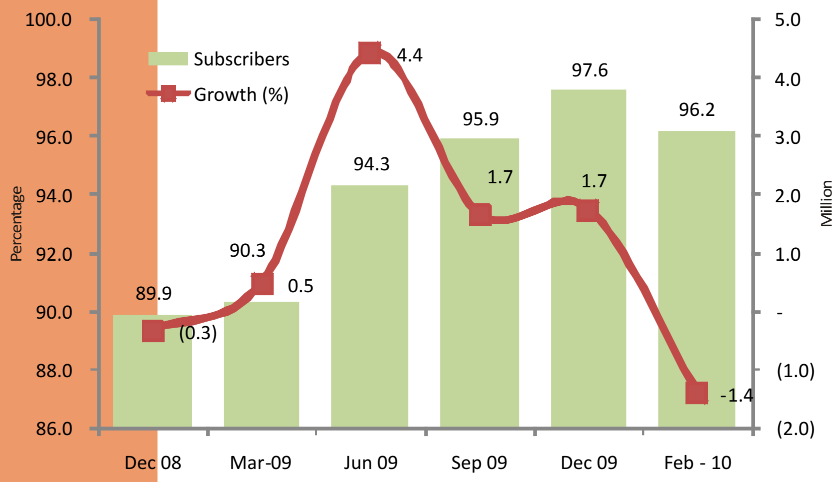
While looking at the penetration levels across provinces Sind seems to have highest penetration of mobile services among all the provinces, almost 68% of total population of this province own mobile service. Punjab has the second highest mobile penetration in the country where 62 out of every 100 people having mobile phones in this province followed by NWFP and Balochistan with 40% and 32% mobile penetration. While looking at the quarterly growth rates, since Dec' 08 Punjab and Sind grew by 5% and 6% whereas 12% and 20% growth in penetration was witnessed in NWFP and Balochistan. The operators are concentrating more on NWFP and Balochistan while expanding coverage areas, as there seems to be quite a few uncovered areas.



Subscriber Mix

The total mobile subscribers in Pakistan have reached 98 million at the end of Dec - 09 approximately while growing at the rate of 2% in each quarter. Although the growth was highest during Apr-June 2009 quarter that is 4.4% but with the re-registration process, launch of 668 services and data cleaning by the operators, the growth deteriorated in the next quarter. Mobilink this year crossed 30 million mark of total subscriber base and Telenor reached 22 million subscriber base whereas, Ufone showed drop from 19 million to 18 million subscribers from Dec 2008 to Dec 2009. While looking at the provincial presence Mobilink seem to have lead in almost all provinces of Pakistan, whereas Telenor has maximum subscribers in AJK & NAs. Although mobile penetration is highest in Sind but Punjab has the largest number of mobile subscribers i.e. 57 million. Zong's subscriber base is increasing in every province however in proportion with other operators ZONG is competing well in NWFP whereas Warid seems to be still not very popular in this province. With overall subscriber growth pattern in last four quarters it is safe to predict that growth would improve in the coming year.

Cellular Subscribers and Growth



Cellular Subscribers by Province (Dec 09)

Operator	Punjab	Sindh	NWFP	Baluchistan	AJK & NAs	Total
Mobilink	18,358,424	7,870,891	3,266,717	842,265	462,057	30,800,354
Ufone	10,982,829	4,746,935	2,071,866	540,675	167,870	18,510,175
Zong	3,451,429	1,657,780	1,336,537	305,239	169,249	6,920,234
Instaphone	586	339	105	43	-	1,073
Telenor	12,159,936	6,372,780	2,452,433	797,440	718,200	22,500,789
Warid	12,061,991	5,124,046	1,217,159	210,725	233,394	18,847,315
Total	**57,015,195**	**25,772,771**	**10,344,817**	**2,696,387**	**1,750,770**	**97,579,940**

Net Additions

A total of 7.6 million subscribers were added to total subscriber base of mobile industry in 2009. While analyzing the net additions in the subscriber's base by each operator, on average almost 2 million subscribers have been added in each quarter during 2009. Similarly more than 6 lacks subscribers have been added each month on average. Telenor added maximum subscribers to its network during each quarter of 2009 however, maximum subscribers were added in 2nd quarter and on average almost 0.77 million subscribers were added in each quarter by the company. Mobilink lost subscribers in early 2009 due to SIM registration program however, the company picked up in the next three quarters and added 0.8 million subscribers and thus giving total of 2.3 million net addition at the end of 2009. Zong and Warid added 1.4 million and 1.9 million subscriber respectively during 2009 giving an average of 0.35 million and 0.48 million subscriber's addition per quarter. Ufone went through a massive data cleaning exercise in 2009 and did huge off-boards from its networks thus lost almost 0.8 million subscribers during 2009.

Quarter wise Addition in Subscribers by Operator

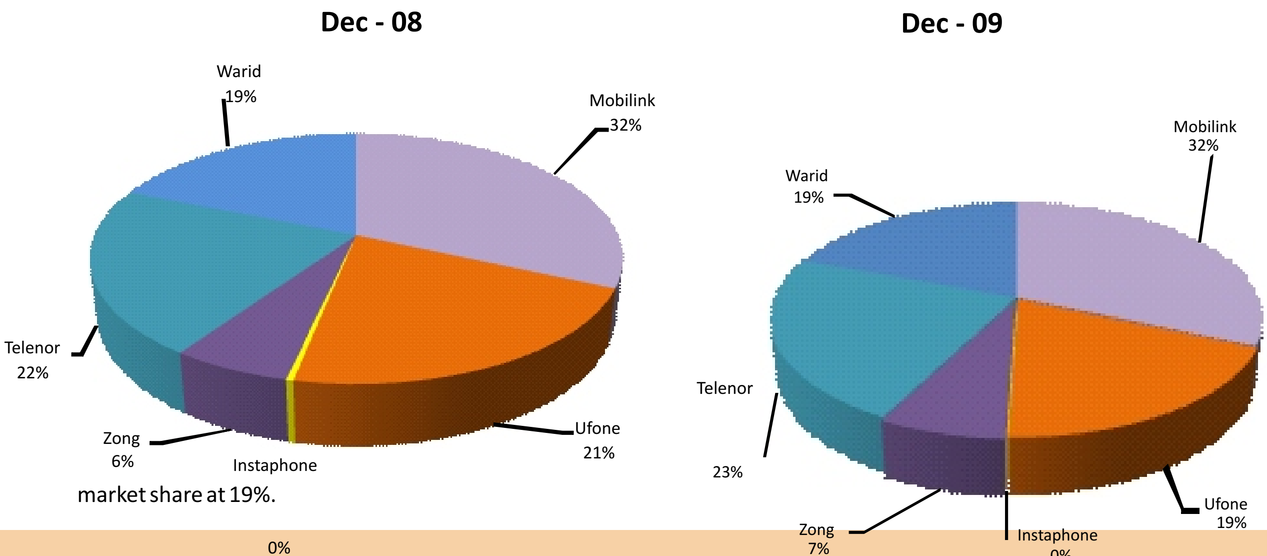
	Mobilink	Ufone	Zong	Instaphone	Telenor	Warid	Total
Jan- Mar 09	-239,475	309,564	493,360	-71,011	597,132	461,573	1,551,143
Apr - Jun 09	896,714	393,963	405,937	-216,075	908,041	511,109	2,899,689
Jul-Sep 09	909,211	-900,113	243,190	-32,975	765,463	581,472	1,566,248
Oct - Dec 09	754,304	-594,419	290,473	0	842,197	379,107	1,671,662
Total	**2,320,754**	**-791,005**	**1,432,960**	**-320,061**	**3,112,833**	**1,933,261**	**7,688,742**

Market Share

Although Mobilink registered lower net additions in the subscriber's base as compared to Telenor in 2009 but the company still enjoys lions share in the local market with almost 32% of total subscriber's having Mobilink as their chosen operator.

Telenor and Zong gained another point in their share and stood at 23% and 7% at the end of 2009 whereas Ufone lost its share from 21% to 19% from Dec-08 to Dec-09.Warid showed a consistency and stability in its market share and kept its market share at 19%.

Cellular Subscribers Market Share

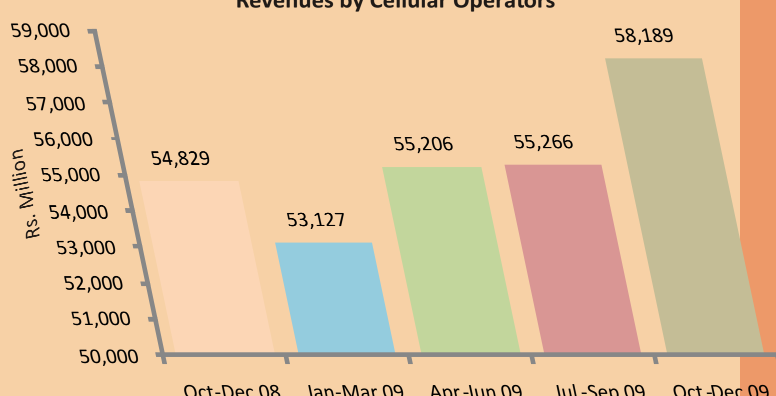


Ufone is now over with its data cleaning program, Telenor expanding its networks in all provinces and leading in AJK and Warid's merger buzz are quite a list of factors to give Mobilink a reason to work harder on keeping and increasing its market share in the coming days.

Revenues

Total Revenues of mobile industry stood at Rs. 221 billion at the end of Dec 2009 whereas average revenue generated by the industry in each quarter of 2009 is Rs. 55,351 million. Mobilink being the market leader reported revenue of Rs. 103 billion from Jan to Dec 2009 followed by Telenor and Ufone with Rs. 68 billion and 54 billion turnover for the same period. Although Ufone did not do well in net addition to total subscriber base as compared to Warid that reported a revenue of Rs. 37 billion from Jan to Dec 2009. Zong has earned a total of Rs. 12 billion revenue from Jan Dec 2009.

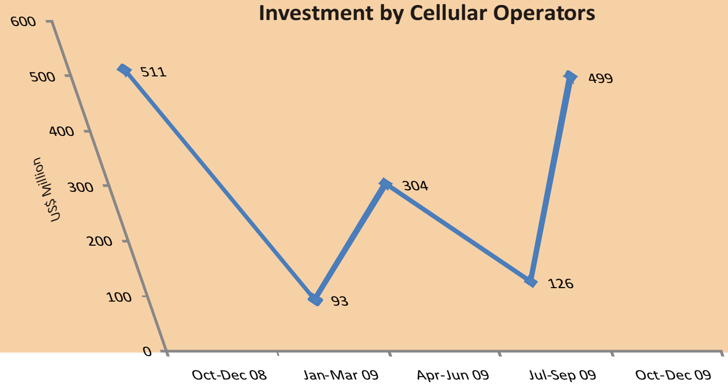
Revenues by Cellular Operators



Investment

Total investment in the sector reached US$ 970 million at the end of December 2009. The investment started to pick up in the last quarter of 2009 when only in six months the investments grew by 45% i.e. from US$ 304 million to US$ 447 million. However, if we compare last quarter of 2008 with that of 2009 they were 10% less.

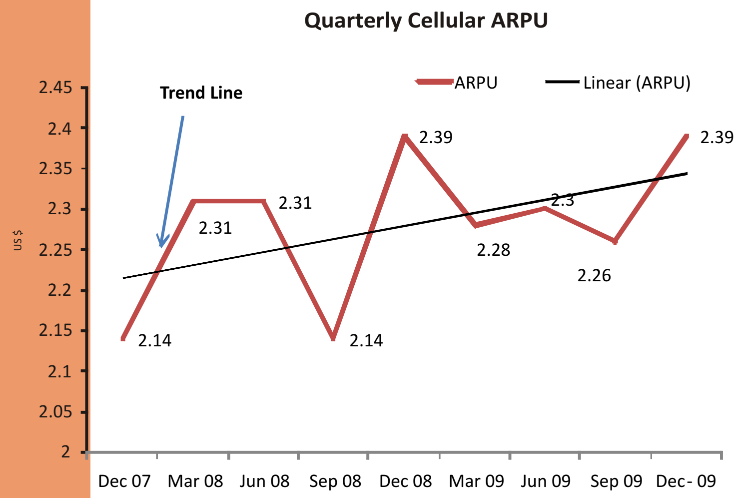
Investment by Cellular Operators



Ufone, Zong and Telenor invested US$ 264 million US$ 266 million US$ 250 million from Jan to Dec 2009. These companies are investing more in expanding their networks whereas Telenor is also working towards cutting the operational costs in order to become financially efficient in this regard the company would soon be erecting solar BTS. Both Mobilink and Warid have kept low investment profile during the last two quarters though.

Average Revenue Per User

The Pakistani Mobile industry had been facing dropping ARPU's for last couple of years owing to the fact that initially the operators were adjusting to amplified fixed investments (rolling out network, predatory pricing etc). This fact about local industry however, stands true for global mobile industry as well which is depicting dropping ARPU levels. Also the economic turmoil that hit the global economy two years back also affected revenues and thus profits of the companies. Pakistan mobile industry had witnessed dropping ARPU's till early 2009, having a quarterly review of ARPU levels shows that the ARPU have been stabilized now and have stopped falling in the local industry (Figure shows the quarterly ARPU trend). Stability in ARPU's can been in the purview of the facts that companies have recovered their fixed costs and the recent financial crunch have pushed the operators to reduce their operating expenses (layoffs etc.). The ARPU of Pakistan Mobile industry today thus stands at an average of US$ 2.3.



Taxes

Yet again Mobile segment turned out to be one of the major contributors in the national exchequer for the reported period. A total of Rs. 17.6 billion were contributed to government kitty in the last six months (Jul-Dec'09) under the head of GST/CED. While comparing figures for 1st six months (Jan-jun'09) with last two quarters of 09 the GST collected by the Government was Rs. 20 billion which is approximately Rs. 2 billion higher. This phenomenon occurred due to the fact that GST was reduced by the Government after the budget was announced in June 2009.

GST/FED Paid by the Cellular Operators

Rs. Million

	Oct -Dec 08	Jan-Mar 09	Apr -Jun 09	Jul -Sep 09	Oct-Dec 09
Zong	796.69	920.50	759.96	517.34	501.99
Mobilink	4,471.61	3,047.74	3,758.93	3,630.33	3,248.36
Ufone	2,003.31	1,693.22	2,463.45	1,653.91	2,001.26
Warid	1,515.44	1,403.53	1,129.08	866.57	708.37
Telenor	2,361.31	2,608.92	2,566.32	2,178.12	2,275.84
Total	**11,148.36**	**9,673.91**	**10,677.74**	**8,846.27**	**8,735.82**

While looking at the activation tax the operators contributed a total of almost Rs. 4 billion in six months (July-Dec'09) while comparing this number with Jan-Jun'09 figure i.e. Rs. 6 billion. A reduction of Rs. 2 billion is again attributed to the fact that Activation tax in the budget of 2008-09 was reduced from Rs. 500 to Rs. 250. Mobilink and Telenor contributed maximum in the Activation tax contribution till Dec 2009 followed by Ufone and Zong. Warid contribution was not significant.

Activation Tax by Cellular Operators

Rs. Million

	Oct-Dec 08	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09
Mobilink	644	386	996	805	511
Ufone	676	652	704	347	311
Zong	649	729	516	390	315
Telenor	980	1,009	713	591	418
Warid	615	524	218	44	23
Total	**3,564**	**3,300**	**3,147**	**2,177**	**1,578**

The reduction in tax contribution both GST and Activation in the reported period (July-Dec'09) was due to the reduction in tax rate. The positive effects and impact of reduction in tax rate would be visible in the coming quarters of 2010.

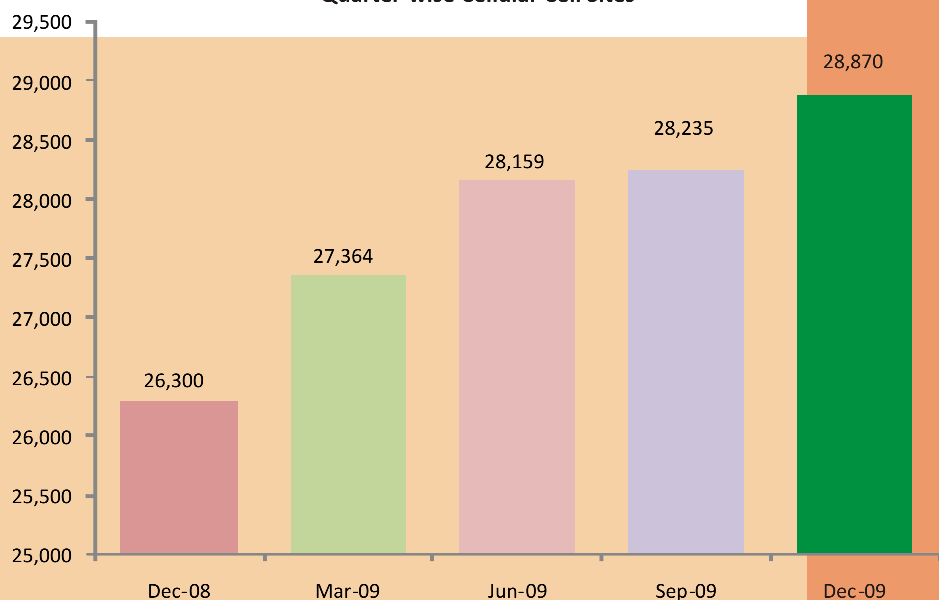
Network Coverage

In order to survive in a competitive market, operators in addition to increasing value added services for its subscribers and providing them with good quality of service, increasing the network coverage is also an essential factor. Today more than 10,000 Cities/ towns/villages are having cellular network. All major motorways and disturbed areas (NWFP, Balochistan) have cellular networks and engineering teams of the operators are working day and night to keep the networks alive even in the toughest terrains of Pakistan. Ufone and Warid have expanded their networks during quarters of 2009 at a larger scale as compared to the rest of the operators whereby they added more than 1,600 and 780 locations respectively. Reportedly Warid has pursued an aggressive expansion strategy to broaden network coverage from cities to smaller towns and villages. Mobilink and Telenor at the end Dec 2009 have been covering around 10,148 and 5,938 locations. ZONG did not improve much in terms of adding new location and has presence in around 1200 locations.

Cities/Towns/Villages covered by Cellular Operators

	Dec-08	Mar 09	Jun 09	Sep 09	Dec-09
Mobilink	10,001	10,148	10,148	10,148	10,148
Ufone	5,235	5,889	6,908	6,908	6,910
Instaphone	95	95	95	95	95
Telenor	5,827	5,833	5,876	5,876	5,938
Zong	1,252	1,252	1,252	1,252	1,252
Warid	5,902	5,902	6,679	6,760	**6,688**

Quarter-wise Cellular Cell Sites



Today there are more than 28,000 towers in Pakistan owned by all 5 operators of which Mobilink and Telenor have maximum towers i.e. 7,952 and 6,273 respectively. Zong added more than 1,200 towers during 2009 with average of 300 towers added in each quarter of the year. Ufone has added almost 600 towers however, in June'09 and Sep'09 quarters it did not added any new cell site. Mobilik and Telenor did not impress much on increasing the number of towers as the companies remained busy in innovating new value added services and better tariff packages for their consumers. Although Warid did not add much to its towers base on the contrary locations covered by Warid are quite impressive.

With increasing networks the operators need to increase the sale points in the country as well. Therefore today we have more than 1700 franchises of all five operators in Pakistan of which Mobilink has largest franchise network of 428 franchises followed by Warid with 417 franchises in Pakistan. Ufone has a total of more than 370 franchises whereas Telenor does not rely much on franchises and only has 252 of them. During the reported period only Warid and Zong had impressive additions in their franchise list. whereas Telenor and Ufone added very few new franchises. While looking at mobilink it did not increase its franchises rather reduced it by single digit.

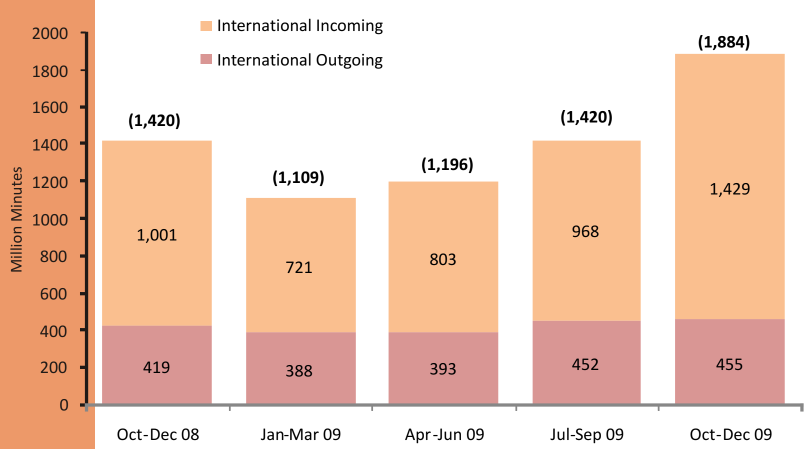
Frenchises by Cellular Operators

	Mar-09	Jun 09	Sep 09	Dec 09
Mobilink	429	429	428	428
Ufone	361	362	368	373
Instaphone	235	235	235	235
Zong	174	177	190	246
Telenor	242	242	242	252
Warid	283	283	415	417
Total	1,724	1,728	1,878	1,951

Traffic Trends

Mobile usage in Pakistan has grown tremendously over the years with increasing competition among the operators of which subscribers are gaining the most. The minutes of use per subscriber is increasing every quarter, whereas international traffic is improving due to highly competitive packages to most called destinations. Total incoming and outgoing international minutes at the end of Dec 2009 were 5,608 million. The year started with 1.1 billion minutes in the first quarter and trend carried on in the second quarter as well, however improvement in the traffic was witnessed in the last two quarters when total international minutes were 1.4 and 1.8 billion respectively. The companies have been offering very lucrative packages for destinations like US, UK, Canada etc. where calling is almost as cheap as nation wide call.

Cellular International Incoming and Outgoing Traffic



All mobile operators are now working on improving data services and in this regard rely on SMS and like services. Bundle offers and bulk packages have actually increased the SMS traffic in the country and becomes very useful on celebrations and events like EIDs, Independence Day and New Year. From Jan to Dec 2009 there were 106 billion SMS's generated by all 5 operators. The last two quarters of the reported period had been really exciting for SMS as the growth rate was almost 50% in 6 months time. Main reason behind such big push are events like EID and New year that fall in those quarters. Ufone is leading the SMS traffic while looking at operators position with 40 billion SMS from Jan to Dec 2009, followed by Telenor and Zong with 26 billion and 17 billion SMS's respectively. Mobilink having largest subscriber base is not having very impressive SMS traffic and same is the case with Warid.

Quarterly SMSes by Cellular Operators