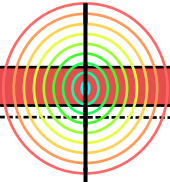


Chapter - 4

Mobile Cellular Services



Market Overview

Pakistan mobile market hosts some of the world's largest and most experienced telecom companies including Orascom, Telenor (Norway), Warid Telecom (Abu Dhabi Group), China Mobile and Etisalat, a UAE based company. These companies have heavily invested in Pakistan to lay down the infrastructure and take mobile services to every nook and corner of the country. With the encouragement of Government of Pakistan and best efforts by the regulator as well as the determined mobile operators, the sector has recovered from slow growth of past few months. Nonetheless, there is escalation in mobile penetration up to 57.4%, as the total mobile subscribers have reached to 94.3 million, with more than 90% of the country having mobile service access.

The reported year [2008-09] did not come out to be an exciting one as the financial strength remained invariable with revenues growing only by 16% and investments dropped by 48%. The industry could not halt the falling ARPUs that are standing at US\$ 2.5, showing a drop of 20% from that of the last year. Although companies like Telenor and Ufone kept on investing more than their competitors, but to keep ARPUs constant is still a challenge for all the operators. Out of all the 5 mobile operators, only Ufone registered profit of Rs. 1.7 billion during 2008-09, and the rest of the companies recorded financial burden due to heavy running expenses including power expenses, rupee depreciations and employees' emoluments etc. For the first time ever, job cuts had also been announced by the operators. The stakeholders [regulator, operators etc.], however, have taken several measures, which may help the sector regain health in the coming years. On a request by the PTA, the government, in the current budget, has provided tax relief to the sector where Activation tax has been reduced by 50% and import duty and regulatory charges on import of mobile handsets have been reduced by about 67% [For details see Chapter - 3]. Reduction in mobile termination rates by the regulator will also go a long way in improving the current economic situation of the industry. MNP, which was introduced by the regulator two years back, is also becoming popular as subscribers do not have to stay forcibly with one operator. The services like 667 through which subscribers can check connection against their name is another measure taken by the regulator to improve the sector.

The mobile operators including Mobilink, Telenor, Warid and Zong are also making efforts to provide their services in rural and interior areas of the NWFP and Balochistan. These companies are jointly working with Universal Service Fund for provision of telecom services

to the areas where telecom access is not yet available. The new mobile policy, which is expected to be made public in the current year, would also bring improvement to the telecom sector. The long-awaited 3G licensing may also be finalized this year, which is likely to prove a breather for the mobile subscribers.

As for competitive environment in the sector, there is intense competition among all 5 operators. Since the market shares of all the operators have marginal difference and the gap between the market leader (Mobilink) and the rest of the operators is rapidly narrowing, the companies are now getting into a price war, whereby undercutting each other for Voice and SMS services is resulting into higher financial burden on the companies. The operators have come to launch a range of value added services like Mobile banking, Mobile Internet, Music Library, Utility Bills Payment, Stock Market Updates, Voice Messaging, GPRS services, etc. that would help industry to improve ARPU.

The regulator, operators and the Government, in their own respective spheres, have been taking care of the mobile subscribers in Pakistan. The steps taken by these three are bringing value added services, increased accessibility, better quality, lower tariffs and better value for money. PTA has estimated that cellular mobile subscribers would cross 102 million by 2011 in Pakistan.

Mobile Penetration

Cellular Mobile is the only segment that showed an encouraging growth pattern during a tough year [2008-09] for Pakistan telecom sector.

Mobile operators kept on expanding their service areas, and new subscribers also continued to join the networks. Today, the total mobile penetration stands at 58.2%, showing a growth of 6.4% this year. As the companies had been aggressively expanding their networks and offering attractive packages during the past two years, the average growth remained more than 50%. In the reported period, however, international financial turmoil and saturation in metropolitan areas caused less increase in penetration. Nevertheless, if the mobile penetration in Pakistan is compared to that of the regional countries including India, Sri Lanka and Bangladesh, Pakistan remains far ahead of them. Table - 5 shows a comparison of mobile penetration between Pakistan and regional countries during the past three years.]

Table - 5
Regional Countries Mobile Penetrations (2007-09)

Countries	2006-07	2007-08	2008-09
Malaysia	-	87.8	100.8
Pakistan	40.1	55.6	58.2
Sri Lanka	21.5	-	55.24
India	11.3	20.7	37
Bangladesh	19.83	24.9	27.9
Nepal	5.26	-	15.4

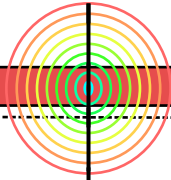
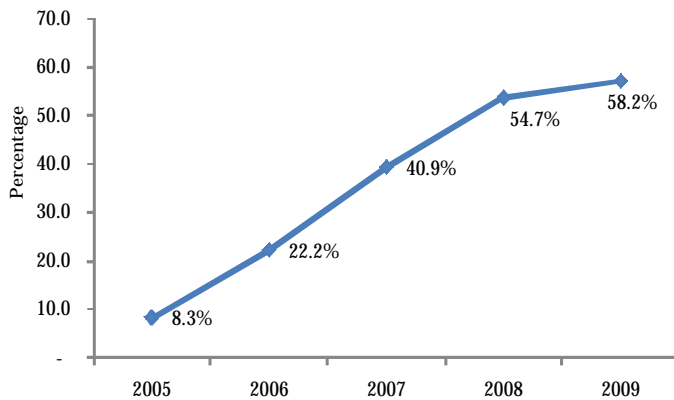
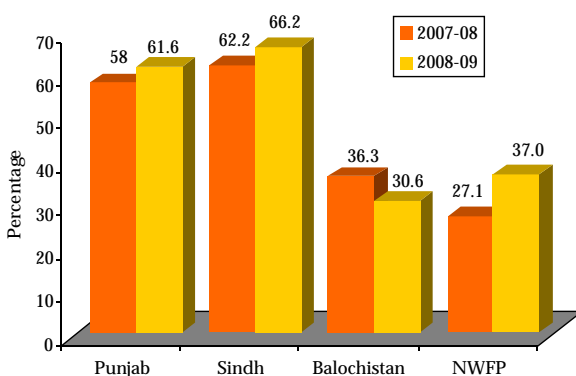


Figure - 11
Cellular Teledensity in Pakistan



The mobile services remained more popular in Sindh and Punjab with almost 66% and 62% mobile penetration respectively. The NWFP has total penetration of 37%, while in Balochistan, the penetration remains 31%. During the year, the penetration in Punjab, Sindh and NWFP increased by 6%, 6.4% and 37% respectively, whereas Balochistan suffered a negative growth of 16% due to poor security situation and relatively lower buying power of the people. The security situation in the NWFP too remained worst during the reported year, but it was expansion in networks by the telecom operators that significantly increased the penetration.

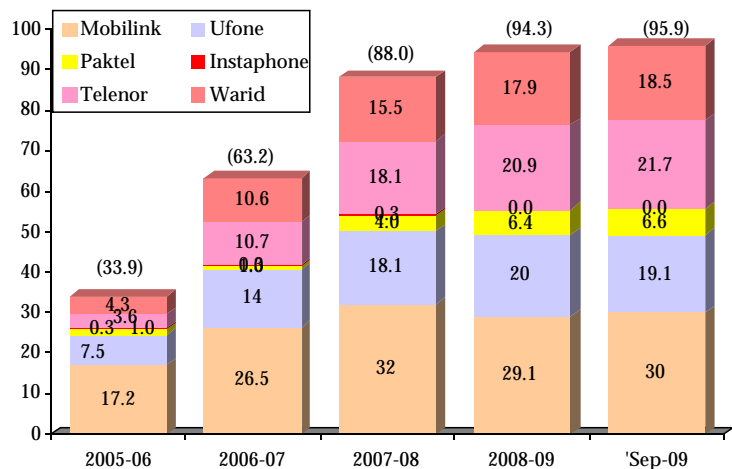
Figure - 12
Mobile Penetration by Province



Mobile Subscription

In 2008-09, the cellular mobile companies in Pakistan added over 6.3 million subscribers, while the previous year, the addition was about 25 million, suggesting that the subscription grew by 7% this year, but it was over 39% in 2007-08. Saturation in the market, Economic slowdown and heavy taxes could be major reason for this slow growth which the added mobile acquisition costs.

Figure - 13
Cellular Subscribers by Company



Note: including AJK & NA

During the reported period, Mobilink continued to remain at top in the Pakistani mobile market with 29.14 million subscribers. Followed by Mobilink, there were Telenor and Ufone competing fiercely for the 2nd position with 20.9 million and 20.0 million subscribers respectively. Both the companies registered a subscriber growth rate at 16% (Telenor) and 11% (Ufone) correspondingly; however the growth in subscribers of Telenor (69%) in the preceding year was much higher than that of Ufone (29%). Warid ended this year with a total subscriber base of 17.8 million,

indicating 15% growth. In order to make its place in an already heated market, Zong had been working very hard during the year and reported a subscriber base of 6.4 million showing a growth rate of 64% in 2008-09.

Postpaid Vs Prepaid

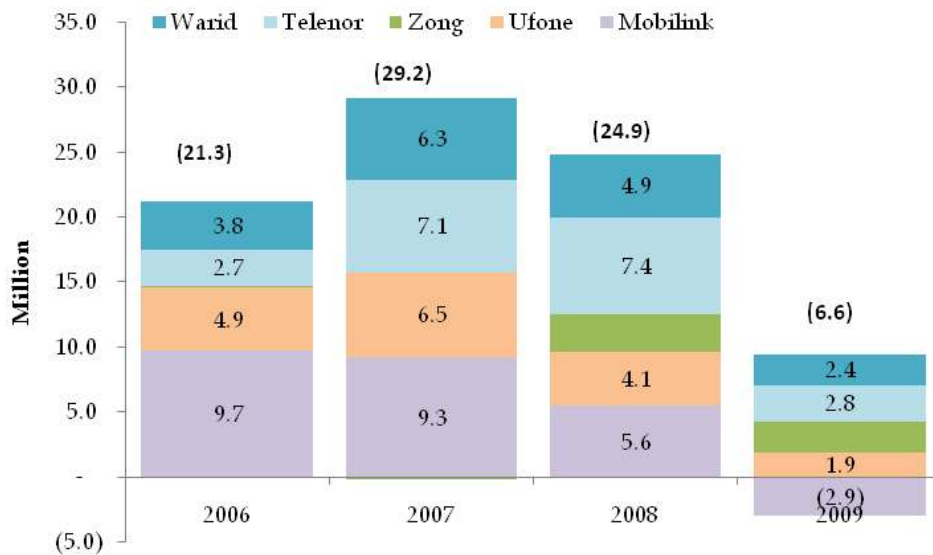
In 2008-09, the trend in subscription remained to be heavily tilted towards prepaid subscription, as there were only 2% postpaid subscribers against 98% prepaid subscribers. At present, there are more than 92 million prepaid subscribers and 2.3 million postpaid subscribers in the country. While analyzing the data, it was learnt that Mobilink has given maximum postpaid connections i.e. approximately 0.5 million, followed by Ufone having 0.4 million postpaid subscribers. As there is inherent economic and cultural setup in Pakistan, people prefer prepaid connection. However, postpaid connection can bring a lot of

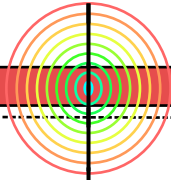
advantages to the operators in terms of fixed revenue stream, documented connections and better subscriber analysis. The only difficulty in a postpaid connection is that of bill payment. But even that is now taken care of with the innovative idea introduced by Zong, under which minutes are bought before use.

Net Addition

As for net additions in the subscriber base, the sector added more than 6 million subscribers during 2008-09. However, the leading mobile operator, Mobilink faced a set back and lost almost 3 million subscribers in 2008-09. The main contributor to this net increase was Telenor, which added about 2.8 million subscribers, while Zong and Warid added 2.4 million each during the last year. Ufone had a net addition of 1.9 million. However, during the past few years, Mobilink and Telenor had been adding more than 7 million subscribers as average to their networks.

Figure - 14
Cellular Subscribers Net Addition by Company





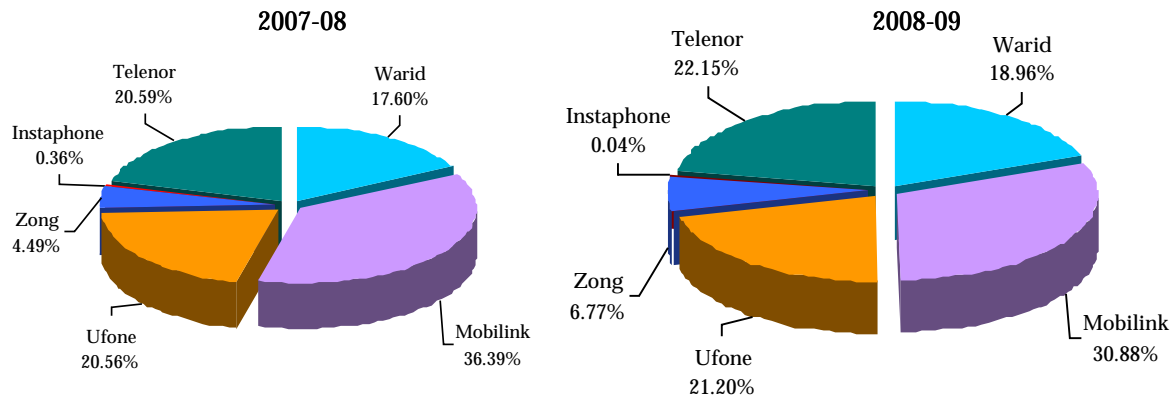
Market Share

In highly competitive sector, market share is termed to be a strong parameter to show degree of competitiveness in the sector. For a long time, Mobilink remained the market leader with a significant difference, both in terms of subscribers and revenues with rest of the operators. The PTA also declared

time they are also losing the existing subscribers in favor of other operators.

Figure-15 shows share comparison of each operator in terms of total subscribers during 2007-08 and 2008-09. Mobilink lost its share by 15% this year whereas the rest of the operators show increase in their market share. Telenor has the second highest share in the market (22.2%) in terms of subscribers followed by Ufone (21%) and Warid (19%).

**Figure -15
Cellular Subscribers Market Share**

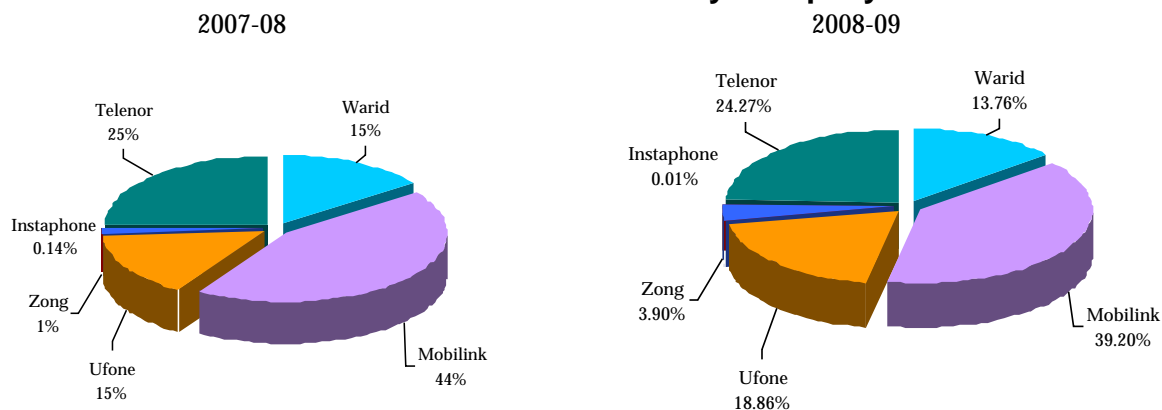


Mobilink as an SMP operator in the mobile market. However, with new operators settling in and addition of ZONG in the local market has changed the market share structure, though Mobilink still holds highest share. Now subscribers have more choice, better options and attractive facilities like MNP. Thus, the companies are adding new subscribers, but at the same

Analyzing the market share of each operator by revenue (Figure - 16), Mobilink remained the leader, again followed by Telenor and Ufone. During the reported year, all the companies lost their share in total revenue of the industry except Ufone and Zong as their shares appreciated from 15% to 19% and 1% to 4% respectively.

As for revenue, mobile cellular segment has

**Figure - 16
Cellular Revenue Share by Company**



Mobile Market Financials

Revenues

a major share of 64% in the total revenue of telecom industry. Today, the total revenue of mobile segment stands at Rs. 212 billion. Although there is an increase in the revenues by 16.6% this year; but the last year, the growth was over 40%. As far as financial health of the companies is concerned, it was noticed that only Ufone made profit of around Rs. 1.7 billion, and the rest of the companies faced losses. Double digit inflation and taxes could be major reason besides other factors mentioned earlier. Particularly the rising petroleum prices along with power shortage and high advertising costs put extra burden on operators expenses. Among the operators, Zong performed exceptionally well in terms of increase in revenue, where the company's revenue grew three times of its actual revenue of the last year. Ufone exhibited improved growth of 45% in its revenue. Warid, Telenor and Mobilink's increase in revenue remained slow and steady during the reported period. As for Ufone's financial health, the

company seems to be in total control of its finances and it is managing its financial resources very prudently.

Investment

Pakistan has been an investors' heaven especially for telecom sector for a few years. The investor friendly environment makes the country home to world telecom giants like Orascom, Telenor, Warid Telecom (Abu Dhabi Group), Singtel and the latest addition of China Mobile. These companies had been investing heavily in rolling out their networks with a pace that more than 90% of Pakistan has been provided with telecom facility within just three years.

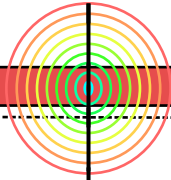
Although the reported year did not prove to be very exciting one for the operators, and the total investment decreased by 48% but the operators are taking it as a temporary setback. Even in such a discouraging situation, the companies like Zong and Ufone have increased their investment in the reported year. Zong plans to invest US\$ 500 million more or so in the coming year to roll out the infrastructure all across the country. We hope that investment in the sector will further increase with the introduction of 3G. While looking at individual investments,

Table - 6
Cellular Mobile Revenues

Company	2005-06	2006-07	2007-08	2008-09
Mobilink	54,065	64,654	79,936	83,271
Ufone	16,098	21,867	27,455	40,060
Zong	3,329	2,897	2,585	8,274
Instaphone	1,539	472	260	24
Telenor	6,338	22,837	45,081	51,561
Warid	8,527	20,405	26,805	29,233
Total	89,896	133,132	182,122	212,423

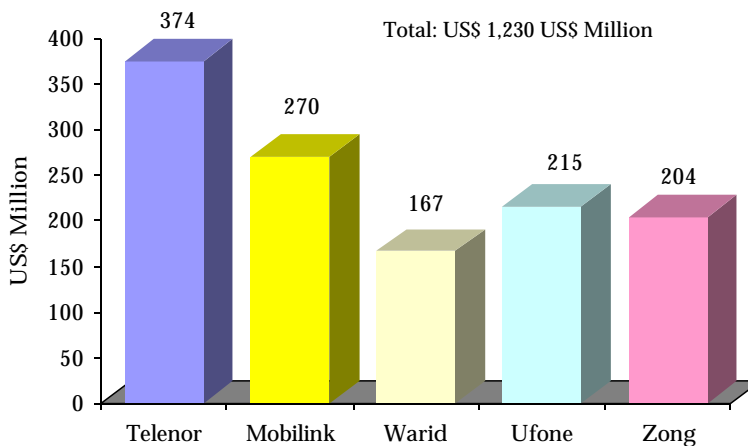
Table - 7
Cellular Mobile Investment

	2006-07	2007-08	2008-09
Mobilink	590	919	270
Ufone	232	174	215
Instaphone	9	0	-
Zong	570	200	204
Telenor	762	565	374
Warid	422	480	167
Total	2,585	2,338	1,230



Mobilink has substantially cut down its investment to more than 70%, followed by Telenor and Warid reducing investments up to 33% and 65% respectively. The major contributor to the total investment made in the mobile segment turned out to be Telenor with a total of US\$ 374 million.

Figure - 17
Cellular Mobile Investments



They tend to be heavy users of voice rather than data services, thus resulting into low ARPUs to the operators. As the operators have heavily invested on networks in Pakistan and higher voice usage is not sufficient for improving ARPUs, the operators have to focus more on value added services for better returns. Unfortunately, Pakistani mobile users generally use basic non-voice, SMS service, which is not a major revenue generation activity. With the introduction of more non-voice services like mobile banking, mobile music and culture-based services like Quran recitation, the ARPU can be increased. The non-voice ARPU would hopefully show positive signs in the future, which would help improve the industry's ARPU.

Average Revenue Per User

Until recently, the mobile operators in Pakistan enjoyed handsome ARPUs; however, for the last couple of years especially after the global trend, the domestic ARPUs have been falling sharply. Today, the industry's ARPU stands at 2.48 US\$ per month. Majority of the prepaid connection holders are low-income users.

Mobilink has the highest ARPUs of US\$ 3.04, followed by Telenor with US\$ 2.85 and Ufone with US\$ 2.20. As for Data ARPU, Mobilink and Ufone have maximum data ARPUs, whereas Warid and Zong stand at number two with US\$ 0.17. These companies are believed to be providing more value added services and better SMS packages.

Figure - 18
Cellular Mobile Average Revenue per User

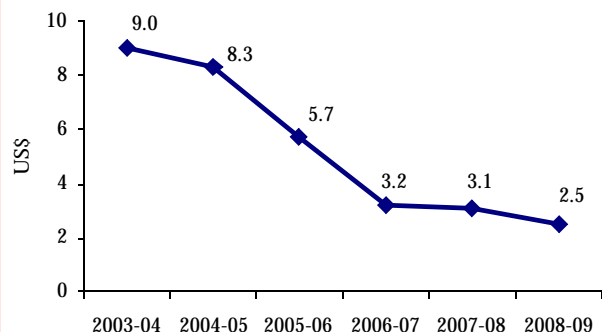


Table - 8
ARPUs by Company (2009)

	Voice ARPU	Data ARPU	Other ARPU	Total
Mobilink	2.85	0.20	-	3.04
Ufone	2.00	0.20	-	2.20
Instaphone	0.08	-	-	0.08
Zong	0.17	0.17	1.19	1.52
Telenor	2.14	0.15	0.51	2.80
Warid	1.41	0.17	0.25	1.83
Total	2.07	0.18	0.23	2.48

During the past two years, the industry ARPUs were stable; however, in 2009, they dropped from US\$ 3.1 in 2008 to US\$ 2.48, showing a decrease of 20%.

Taxes on Telecom Sector

Mobile cellular sector is a major contributor to the government's total tax collection from telecom sector. Over the past few years, this tax collection continuously increased. In 2008-09, however, the mobile sector contributed about Rs. 82 billion - around 73% of the total tax from telecom sector - showing an increase of 4%, but in the preceding year, the increase had been recorded as 25%. Taxes including GST and Withholding tax improved during the reported period, i.e. about 10% and 20% respectively, but a dip in Activation tax was witnessed where total activation tax collected remained Rs. 14 billion, as compared to the previous year's Rs. 19 billion, indicating a drop of 26%.

declining trend in tax collection growth and hot pursuit by the PTA, the Government reduced the Activation Tax from Rs. 500 to Rs. 250 per new connection, while FED/GST rates were brought down from 21% to 19.5% in the budget of 2009-10. The regulatory duty on mobile handsets imports has been reduced from Rs. 500 to Rs. 250 per mobile handset, while Regulatory duty on mobile handsets has been abolished. It is expected that tax collection will improve with such measures in coming years.

Network Coverage

Cell Sites

Intense competition, minimum tariffs and reduced investments by the operators could have resulted into less network expansion

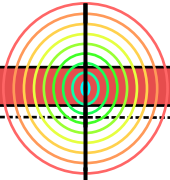
Table - 9
Taxes by Cellular Mobile Industry

	<i>Rs. Million</i>				
	2004 - 05	2005 - 06	2006 - 07	2007 - 08	2008 - 09
GST	9,872	18,770	28,324	36,793	40,150
Activation	7,577	11,398	17,579	19,189	14,134
Withholding	4,470	8,584	17,438	23,386	28,002
Total	21,919	38,752	63,341	79,368	82,286

Ufone Activation Tax and Withholding Tax figures for Quarter ending June 2009, are estimated based on last three quarters statistics. Instaphone is not included

The decrease in activation tax collection is mainly attributed to saturation in market and slow increase in net addition of the subscriber base, [by 7%]. The imposition of Rs. 750 custom duty and regulatory duty on per mobile handset discouraged the mobile handsets imports and increased the mobile acquisition cost. Keeping in view the

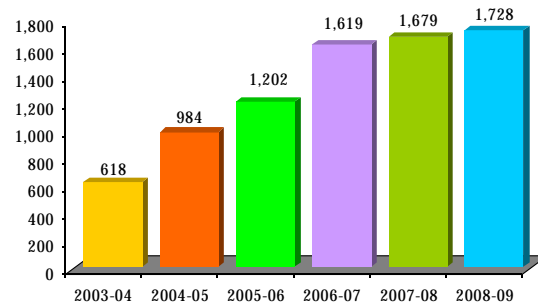
in the country; however, contrary to that, all the operators continued to increase the number of cell sites and extend coverage across the country. Although there were some areas in the NWFP and Balochistan almost prohibited for the operators to install their BTS, but the companies quite courageously kept on increasing their cell



sites by sending their vendors to install BTS in high risk areas for the provision of telecom services to the locals of those areas. By the end of the reported year, there were 28,124 cell sites in the country, while the previous year, the number stood at 21,518, thus showing a growth of 31%. Mobilink has maximum cell sites (7,903), followed by Telenor having 6,088 cell sites all across the country. In a short span of time, Zong has erected 4,341 cell sites. With a strong encouragement by the PTA, the operators have now started sharing the cell sites, which helped the operators to install maximum cell sites during this period, ending up at 7,903 cell sites erected in a year's time, followed by Telenor (6,088) and Ufone (4,893).

the largest franchise network with almost 429 franchises, followed by Ufone and Warid with 362 and 283 franchises respectively.

Figure - 19
Cellular Mobile Franchises



Mobile Tariff

De-regulation of the telecom sector brought about a sudden drop in tariffs as the intense competition from the new entrants (Telenor and Warid) forced the existing companies to reduce call charges. Thus, the decrease in Mobile Termination Rate (MTR) and on-net tariff has induced a cellular revolution in the country. The cellular companies are offering affordable and attractive packages on per second, thirty seconds and per minute basis to accommodate diverse needs of customers. In addition, a new concept of package-based talk-time and SMS bundles has been introduced, which allows a

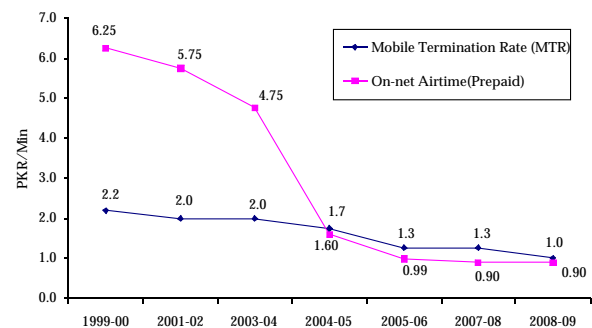
Table - 9
Cell Sites by Operator

	2006-07	2007-08	2008-09
Mobilink	5,522	7,339	7,903
Ufone	1,644	3,471	4,893
Instaphone	211	211	211
Zong	1,163	2,328	4,688
Telenor	3,255	5,017	6,088
Warid	1,930	3,152	4,341
Total	13,725	21,518	28,124

Franchises

To keep their presence in the local market, the companies kept on increasing the number their local franchises. By the year end 2008-09, there were 1,728 franchises of all the operators in the country, showing an increase of 3% from the last year. Since the launch of a new system of SIM verification, under which a SIM can be activated only through 789 facilities, the franchise expansion has slowed down. Mobilink has

Figure - 20
Cellular Mobile Tariffs



customer to buy a junk of airtime without using the conventional 'pay as u talk' methods. Apart from this, packages for different times of the day and night are being offered at discounted rates to improve the traffic volumes and revenue collections. Tariffs have declined to as low as Rs. 0.9 per minute in cellular mobile industry.

Conclusion

Pakistan's mobile cellular segment had been growing at a very fast pace; however, recently, the signs of slow down have indicated slow growth in subscriber base, penetration and revenues. The internat-

ional research companies still consider Pakistan to be a lucrative market as there still remains a portion of unmet demand in certain areas. Sector has already shown signs of recovery.

Pakistan would hopefully cross the number of 102 million subscribers by the next two year. However, in order to address low ARPUs, the need to boost data usage has increased. The operators are putting in their best efforts to introduce data service, but the low local content availability and high low-income prepaid base is not allowing them to grow on data services. Hopefully, once 3G licensing is completed, the subscribers would be in better position to use enhanced data service on better speed, and the business community will be benefited largely from it.

