

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

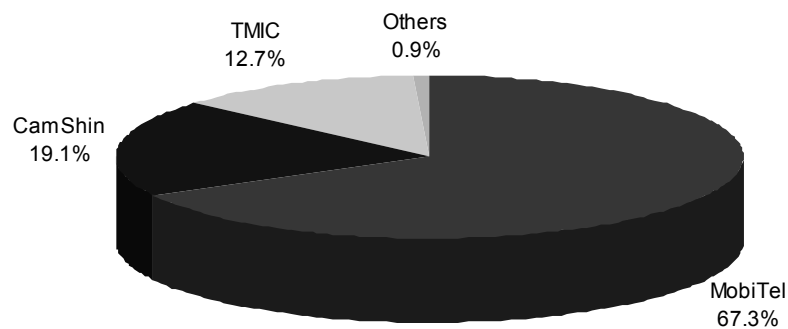
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5.3 Market Share Analysis

The Cambodian mobile market is moderately competitive and is dominated by three main players, namely MobiTel, Camshin and TMIC. Basis of competition includes pricing, quality and coverage of network, brand identity, and the breadth of value-added services offered. As of December 31, 2007, MobiTel, Camshin and TMIC accounted for 67.3%, 19.1% and 12.7% of total mobile subscribers in the country respectively. Competition in the market is expected to intensify with potential new operators backed by foreign investors offering services in 2008.

Chart 5.4 depicts mobile operator market share by mobile subscribers in Cambodia in 2007.

Chart 5.4: Mobile Operator Market Share by Subscribers (Cambodia), 2007




Source: Frost & Sullivan

Several factors are expected to drive the robust growth of Cambodia's mobile market. The present low mobile penetration, the lack of fixed-line infrastructure and the anticipated price competition resulting from the entry of new players are expected to spur demand for mobile services. The reduction in cost of entry-level handsets is expected to enhance affordability particularly in rural areas and lower-end segments of the market.

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F R O S T  S U L L I V A N**5.4 Industry Challenges****Weak Country Fundamentals and Legal System Concerns**

Although the success of the mobile market can be attributed to the Cambodian Government's liberalization of the market to foster both private and foreign investment as well as competition, the high prevalence of corruption and bureaucracy threatens to discourage foreign investment. According to the 2006 Transparency International's Corruption Perceptions Index ("CPI"), Cambodia attained a score of '2.1' out of a maximum score of '10', thus signifying widespread corruption. The fact that the average time required to set up a new enterprise is 95 days reflects the arduous bureaucratic process that could potentially undermine the Cambodian Government's efforts to entice foreign investors.

Another factor that foreign investors need to be wary of is that according to Global Insight Rating, Cambodia obtained merely a CCC+ rating for sovereign risk, suggestive of an extremely high payment risk. This factor can adversely impact the capital raising potential of any entity aiming to invest in Cambodia.

Also, from a foreign investment standpoint, the legal environment can be described as tenuous at best. It is marked by a weak rule of law, prevalent corruption and political overlay. It also lacks the levels of transparency and consistency needed to foster a favorable environment for a new entrant in telecommunications. Thus, the legal system poses yet another impediment to the Cambodian Government's efforts towards promoting foreign direct investment.


Prepaid Dominated Price Sensitive Market

Prepaid services have risen in popularity in Cambodia, more so than postpaid services. As of December 31, 2007, approximately 97% of the mobile subscribers were prepaid users. The fact that the average income per capita stood at only US\$480 (at the end of 2007¹⁰) means that Cambodians in general lack spending power and remain price sensitive to services. As a result, a majority of the subscriber base is limited to utilizing basic services. This is likely to thwart revenue growth potential.

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¹⁰ The World Bank

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High Churn Rate

Churn rate or customer attrition results in loss of revenue from subscriber which have switched or terminated its subscription. A higher churn rate, particularly in the prepaid segment, would have a material impact on operator's future performance. Churn rates may become a greater concern for Cambodian mobile operators once the potential new entrants start offering service and attractive prepaid packages.

Declining ARPU

Like most other emerging markets, the Cambodian mobile market is dominated by the incumbent operator MobiTel. In an effort to capture a greater share of new subscribers, Camshin and TMIC have started to offer attractive prepaid packages. The market is poised for a price war with the arrival of new entrants in the form of Altimo, CADCOMMS, SK Telecom and Viettel Mobile, effectively resulting in a drop in ARPU. The reduction in blended ARPU is expected to persist, given the reach to rural segments and the increased competitive pressure.

Alternative Voice Services

In the last couple of years Cambodia experienced growing popularity and investment in VoIP services. As cheap VoIP calling cards become widespread across the country, it is likely to pose a challenge to mobile calling rates. Telecommunications firm 3P Networks Inc. from the United States is currently in the final stage of negotiations with the Cambodian Government to acquire licences in order to implement cost effective telecommunication solutions in Cambodia.


Government Concern Over 3G Video Calling

Video calling has caused concerns that it would enable the distribution of adult content in Cambodia and will not be allowed to be provisioned by mobile operators. This came as a blow to the plans of MobiTel's 3G deployment plan. As per the regulatory stand, MobiTel had to drop the video calling feature from its 3G services launch in 2007. Such a regulatory restriction is likely to hold back innovative services.

Emerging New Technologies

The telecommunications industry is susceptible to technology changes. This may require significant changes to the mobile operators' business model, development of new products and substantial investments in next-generation infrastructure to accommodate growth in its business and the adoption of new technologies and services. The effect of emerging and future technological changes on the

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competitiveness of mobile operators' business cannot be accurately predicted. There can be no assurance that technologies employed by the operator will not become obsolete or be subject to competition from new technologies in the future.


Dependence on Infrastructure

The providers of mobile services are reliant on network quality and coverage. Any failure of network, server and transmission can result in major operational disruption affecting the ability to retain or attract new subscribers which may adversely affect the financial performance of the company. To capture a bigger share of the growth market, Cambodian mobile operators are burdened with imminent network expansion in the suburban and rural areas. Any failure to accommodate growth in network expansion could also have an adverse impact on the company.

5.5 Barriers to Entry

The mobile telecommunications industry is subject to high entry barriers due to its capital intensive nature, scarce spectrum allocation, prerequisites for telecommunications licenses, the need for wide network coverage, and the over-crowded nature of the industry.

Despite its inability to make substantial investments, the Cambodian Government has been quite proactive in allowing private players to offer mobile services. Apart from World Trade Organization ("WTO") accession, The Cambodian mobile industry has been quite successful in getting investments from other countries, particularly Sweden, Singapore, Thailand, Norway and Malaysia. Removal of market entry barriers has improved telecommunication access in general in Cambodia. More investments in the mobile market are anticipated from South Korean and Vietnamese operators, and Russian investors. In 2007, Essar Global Limited from India also expressed willingness to launch GSM-based mobile services through a joint venture with a local company. 3P Networks Inc. is currently negotiating license to launch services in the country. Strong competition has led to emergence of competitive strategies like prepaid cards being provided for as little as US\$5. Moreover, significant tariff declines have been seen in last few years.

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The Ministry of Post and Telecommunications of Cambodia ("MPTC"), plays the role of policy maker and regulator of the telecommunication industry. In addition, the Government of Cambodia is also a shareholder of the corporatised incumbent Telecom Cambodia (TC). TC operates (i) telecommunication networks and services by radio, satellite, optical fiber, sub-marine cable for the purpose of telephone, facsimile, data transmission, internet, and private leased circuit; and (ii) television transmission services. TC is under the technical administration of the MPTC and the financial administration of the Ministry of Economy and Finance. Therefore, there is often a conflict of interests in favor of the state sector. For instance, in 1998, the MPTC had issued a regulation banning VoIP services that offers oversee calls at very low costs as the service would reduce the state revenue from the telecom industry. There was no update on this until 2003 when AZ Communications, signed a Business Cooperation Contract ("BCC") with the MPTC to exclusively offer international telecommunication services in Cambodia based on VoIP.

Invariably, a license issued by the MPTC is required to own a mobile or fixed network as well as to provide services. As there is not any legal provision governing these licensing procedures, according to a study by Economic Institute of Cambodia, the decision of the MPTC on whether a licence should be issued, on the basis of the necessity for development of a network, infrastructure, the expected coverage, the customer base and so on, seems to be obscure and discretionary. It was pointed that contracts signed between the MPTC and private operators generally form restrictions on market entry. For instance, some years ago, a contract signed between the MPTC and Telstra, an Australian firm, for the establishment of an international gateway stated that no new gateways could be built.

The International Telecommunication Union ("ITU") also worked for some time with the MPTC on restructuring the telecom sector. The Cambodian Government developed a draft of the country's first telecommunications master plan. Drawn up with assistance from the ITU, it aimed to boost telecommunications services.

Various recommendations have been made by consultants and international organisation suggesting that the commercial functions of the MPTC should be separated from its regulatory functions, or even that the commercial segment of the MPTC should be privatised. Such separation appears to be imminent, and an

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independent body called the Telecommunications Regulatory of Cambodia will be created to regulate the industry.

Mobile service providers typically operate under a 35-year cellular concession granted by the MPTC. There is a multitude of spectra available, namely GSM900, GSM1800, CDMA450, and AMPS800. Fearing the use of 3G services that may lead to the spreading of pornographic images, the MPTC has barred video phone features in 3G services.

Emerging from years of war, Cambodia has put into place a very liberal and open market to lure foreign investment into Cambodia. The Cambodian Government's receptiveness to foreign investment and its liberalization of the telecommunications sector have paved the way for tremendous investment opportunities in the telecommunications sector, as demonstrated particularly by the advent of numerous foreign-owned mobile service providers in the country since 1993. Cambodia can be regarded favorably by foreign investors from a taxation perspective. The Cambodian Government offers tax incentives to promote foreign investment, such that while the typical corporate tax rate is 20%, a substantially discounted tax rate of 9% is imposed on foreign-owned enterprises.

5.7 Supply Conditions

Considering the very low mobile penetration level in the country, the Cambodian mobile market is poised for continuing growth. However, in order to capture the potential growth in the untapped low ARPU rural market, operators are expected to undertake heavy expansionary plans in the next two to five years to build base stations and expand 3G network coverage. For example, leading mobile operator, MobiTel, in September 2007, awarded a US\$150 million contract to Alcatel-Lucent to expand its network coverage into the rural areas. In November 2007, TMIC unveiled a plan to invest US\$150 million to upgrade network capacity and add 500 base transmitter stations in the next 2 years. Greenfield operator Viettel Mobile has also unveiled a US\$30 million investment plan towards infrastructure. Other potential new entrants are expected to make similar investments in the next two to three years.

However, consistent with other emerging markets which are dominated by low ARPU prepaid users, mobile operators are required to expand their network coverage quickly in a most cost effective manner. Thus vendors, in order to target such emerging markets, remain focused on providing 'Low Cost Ownership' for operators. For instance, Ericsson has been heavily promoting their 'Expander' solution that

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enables mobile operators to reduce both their capital expenditure and operational expenditure by reducing the number of sites.

5.8 Demand Conditions

The mobile market in the country is still in its growth stage, with a mobile penetration rate of 17.3% as of December 31, 2007. For the same period, subscriber penetration for fixed-line services in Cambodia remained stagnant at one of the lowest penetration rates in the world, at approximately 0.3%. The lack of fixed-line infrastructure and the increasing preference for mobility are expected to accelerate the pace of fixed-to-mobile substitution effect where more users are expected to adopt mobile services over fixed-line services.

Figure 5.2 provides details on mobile subscriber and growth rates in Cambodia from 2003 to 2012.

Figure 5.2: Total Mobile Subscribers and Growth Rates (Cambodia), 2003-2012


Year	Mobile Penetration	Total Mobile Subscribers ('000)	Growth (%)
2003	4.7%	619	-
2004	6.4%	862	39.4%
2005	8.4%	1,138	32.0%
2006	11.4%	1,578	38.7%
2007	17.3%	2,456	55.6%
2008	23.2%	3,342	36.1%
2009	28.6%	4,197	25.6%
2010	33.5%	5,018	19.6%
2011	36.9%	5,621	12.0%
2012	39.7%	6,165	9.7%

Mobile subscriber compound annual growth rate (CAGR) (2007-2012): 20.2%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

Only about one fifth of the Cambodian population lives in urban areas, where the majority of early mobile users tend to reside. Amid growing expansion of Cambodia's operators, approximately 90% of the population is covered by mobile infrastructure. Mobile operators are expected to launch more affordable prepaid packages tied with handset subsidies to capture subscribers in the suburban and rural areas fuelling the overall mobile subscriber growth in the country. The subscriber base is expected to expand at a CAGR of 20.2% from 2007 to 2012 attaining a penetration level of 39.7% at the end of 2012.

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Considering Cambodia's relatively low GDP per capita, the current blended ARPU level of sub US\$10 suggests that the average Cambodian spends a very high percentage (approximately 30%) of their monthly income on mobile services. Hence, the Cambodian mobile market is likely to remain price sensitive however will experience a significant drop in ARPU as adoption increases. Churn rates are expected to gradually increase, as operators, especially greenfield operators, indulge in competitive tariff changes to capture market shares.

5.9 Reliance and Vulnerability to Imports


Generally, the telecommunications industry in Cambodia is dependent on imports for the majority of its network components as most of the network equipment cannot be sourced locally. The mobile network operators rely on a number of leading international mobile network equipment vendors to provide network equipment and facilities. Other established suppliers in the market are able to supply comparable network equipment. Nevertheless, operations can be adversely affected if the required supply of equipment or services is not met in a timely manner.

The provision of telecommunication services in Cambodia is not susceptible or vulnerable to imports such as competition from overseas service providers. Such activities are regulated and must be provisioned by locally licensed service providers.

5.10 Product Substitution

The threat of product substitution arises from other businesses which are able to provide the mobility services via a different technology or business model. Teledensity is at a very low level and with the accelerating fixed-to-mobile substitution happening, there appears to be no imminent threat of product substitution within the Cambodian mobile sector. There have been some attempts to use fixed wireless technology such as CDMA-based WLL terminals as access means to improve fixed-line situation in the country. Camshin, the leading service operator in this segment, had approximately 5,000 subscribers using this service as of December 31, 2006. Though such technology has been quite successful in other emerging markets such as Indonesia, it has yet to gain much momentum in Cambodia. Camshin has since migrated all its CDMA 450 users to GSM in April 2007.

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Other product substitutions include mobile VoIP and WiMAX. VoIP is the transmission of voice through the Internet while WiMAX is an alternative wireless technology for providing wireless data services over long distances. AZ Communications was the first service provider in Cambodia to offer international telecommunications services based on VoIP. Viettel Mobile has also invested in offering VoIP services in Cambodia. In August 2007, TMIC launched its VoIP services. Internet Service Providers in the country are taking initiatives to make cheaper VoIP calling cards widespread across the country.

WiMAX has been launched by VoIP service provider MediaRing Ltd. Altimio has acquired a 90% stake in Sotelco, a Cambodian WiMAX service provider who also holds GSM900/GSM1800 license, in view of launching mobile services. However, so far there have been no major commitments by major operators.


5.11 Market Size and Growth Forecast

The local mobile market continued to experience robust growth in 2007 as subscriber base grew by 55.6% (0.88 million net subscriber addition) to reach 2.5 million compared to the previous year. Mobile revenue has also been growing at tandem with subscriber base growth, reaching US\$239.3 million as of December 31, 2007, registering a 33.7% year-on-year growth.

The mobile subscriber base in Cambodia is expected to grow at a CAGR of 20.2% from 2007 to 2012, against a penetration of over 39.7% by 2012. Meanwhile, market growth in terms of revenue is expected to grow at a slower pace as a result of declining ARPU due to anticipated competition. Mobile revenue is envisaged to expand at a CAGR of 17.7% to US\$541.0 million in 2012. Continuous subscriber growth would emanate from the acceleration of more users adopting mobile services over fixed-line services, greater mobile penetration into rural areas and the availability of lower-priced mobile handsets are likely to further stimulate demand growth. It is also anticipated that the increasingly competitive and innovative cellular service packages offered by the new mobile players Altimio, CADCOMMS, Camtel, SK Telecom and Viettel Mobile will be a good driver for subscriber growth.

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5.12 Prospects for Industry Players


There is ample potential for growth in the Cambodian mobile market, given its low penetration rate and the lack of fixed-line infrastructure. While the three major mobile operators virtually control the subscriber base, new entrants are likely to find rural areas more attractive in their attempts to gain subscribers. Though 3G mobile services (without video telephony) have been launched in Cambodia, voice and SMS services continue to be the biggest applications on the mobile platform. The prepaid segment is expected to remain a key growth driver of mobile revenues in the next five years as mobile operators turn to rural markets and younger market segment to grow subscriber base.

With potentially four new entrants in the market by 2008, the mobile market in Cambodia is set for stiff competition. Anticipated price competition is likely to adversely affect operators' blended ARPU. As network coverage and breadth of services would be a key basis of competition apart from pricing, the three largest mobile operators (MobiTel, Camshin, and TMIC) are in a good position to capitalize on the massive growth potential in Indonesia's mobile market. Considering the potential new entrants in the market, the Cambodian mobile market would possibly have ten operators by the end of 2008. Such a competitive situation may not be viable in a small market like Cambodia and the market may undergo some consolidation in the mid to longer term.

5.13 Overview and Outlook of Economy**5.13.1 Overview of Cambodia's Economy in 2007**

On the back of healthy agriculture, tourism, construction and garment sectors, the Cambodian economy continued to gain momentum in 2007. According to Cambodian Ministry of Economy and Finance's most recent update, the economy was estimated to grow by 8.5% while inflation is expected to remain low. Although this pace of economic expansion is still impressive, it marks the end of Cambodia's recent period of double-digit growth. This slow down can be attributed to comparatively poor export performance in the fourth quarter of 2007. The country experienced slow down in the garment sector due to competition from lower-cost producers, including Vietnam, which was inducted in the World Trade Organization ("WTO") in January 2007. Domestic economic activity remained upbeat underpinned by rising rural incomes, by increased inflows of FDI as the economy

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becomes more commercially oriented and as oil exploration attracts investment and by higher Cambodian Government capital spending on the back of an improved revenue performance. Though, farm output continued to expand, considering increasing food prices in recent months (in November 2007, food prices were up by 17.7% year-on-year) and surge in fuel prices, inflation rose to an annual average of 5.9% in 2007.

5.13.2 Outlook of Cambodia's Economy in 2008

An important contributory factor is that economic growth has been narrowly based on clothing and tourism, both of which are urban focused with limited linkages to the rural economy. On the assumption that the country fails to overcome the fundamental challenges of widening its manufacturing base and reducing its reliance on garment exports, it is likely that growth will experience a downward shift. The garment industry continues to suffer from relatively low efficiency levels, and over the next two years, following the planned lifting of current restraints on China's garment exports to the US and the EU, Cambodia's exporters could struggle to cope with a stronger competition from China. Nevertheless services, and particularly tourism, will continue to thrive, helping to support solid overall growth in the next few years, while improvements in productivity underpin forecasts for steady growth in the agricultural sector, assuming that favourable weather continues. The construction sector is also expected to remain highly active. Though the outlook remains upbeat, Ministry of Economy and Finance projects a GDP growth of 7% for 2008. However, looming oil prices rise coupled with a potential increase in import-led inflation and global economic slowdown is likely to accelerate inflation to an average of 7.4% in 2008. However, as supply-side pressures ease in 2009, with domestic fuel prices set to drop back in tandem with the projected fall in global crude oil prices, inflation is likely to decelerate.

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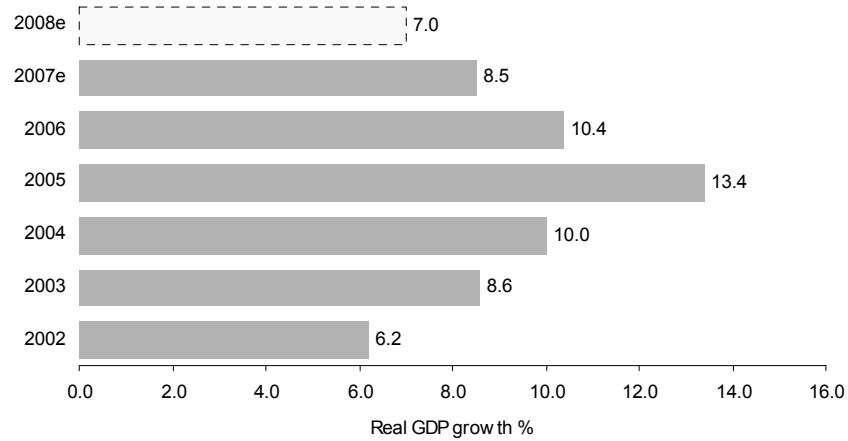
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Chart 5.5 depicts the real GDP growth for Cambodia from 2003 to 2008.

Chart 5.5: Real GDP Growth (Cambodia), 2003-2008



Source: Kingdom of Cambodia Ministry of Economy and Finance, Asian Development Bank (ADB)

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6. EXECUTIVE SUMMARY OF THE MOBILE TELECOMMUNICATIONS MARKET IN SINGAPORE

6.1 Industry/Market Segmentation

With a penetration rate of 122.5% as of December 31, 2007, the mobile services market in Singapore can be considered as one of the most saturated markets in Asia Pacific¹¹. Although the market has reached saturation, subscriber growth grew substantially in 2007 at a rate of 21.1% to 5.6 million. This was due to the influx of foreign workers and a robust growth of the prepaid segment. Prepaid subscribers, which accounted for 46.3% of total mobile subscribers in Singapore, grew by 45.3% over the same period.

Figure 6.1 provides details on mobile subscribers and mobile penetration in Singapore from 2003 to 2007.

Figure 6.1: Total Mobile Subscribers and Mobile Penetration (Singapore), 2003-2007

	2003	2004	2005	2006	2007
Mobile penetration ¹²	83.1%	91.1%	97.8%	105.2%	122.5%
No. of subscribers ('000)	3,477	3,861	4,256	4,639	5,619
No. of 3G subscribers ('000)	-	-	132	884	1,701
Proportion of prepaid subscribers	28.2%	32.3%	35.6%	38.7%	46.3%

Source: IDA, Frost & Sullivan


Total 3G subscribers in Singapore had reached 1.7 million as of December 31, 2007, accounting for 30.3% of total mobile subscriber base. All three mobile operators, Singapore Telecom Mobile Pte Ltd ("SingTel Mobile") – a subsidiary of Singapore Telecommunications Ltd ("SingTel"), StarHub Mobile Pte Ltd ("StarHub"), and MobileOne Ltd ("M1"), view 3G as a new opportunity to grow their ARPU. It is expected that the total mobile subscriber market would reach 6.7 million by 2012, growing at a CAGR of 3.6% between 2007 and 2012.

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¹¹ Total mobile subscriber and mobile penetration numbers for Singapore as of December 31, 2007 are from the Infocomm Development Authority ("IDA") and mobile operators in Singapore.

¹² Mobile penetration refers to the percentage of total mobile subscribers against the country's population. Country population is provided by Frost & Sullivan.

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The launch of HSDPA services by M1 in December 2006 heralded a new competitive landscape for the mobile telecommunications market in Singapore. HSDPA is an upgrade of 3G networks delivering higher data transfer speeds and capacity. SingTel Mobile subsequently launched its HSDPA commercial trial service. StarHub, on the other hand, skipped the HSDPA-only launch and went straight for a launch of two-way High-Speed Packet Access ("HSPA") service nationwide, the first operator to do so in Southeast Asia, in August 2007.

The Infocomm Development Authority ("IDA") had introduced a 10-year master plan, Intelligent Nation 2015 ("iN2015"), to introduce its citizens into the digital age, comprising complementary wired and wireless networks with super high access speeds and seamless connectivity. The seamless connectivity offered under the iN2015 masterplan would mean that demarcation between wireless (mobile) and wired (fixed-line) services would become less apparent over time. As a result, an operator no longer provides only mobile services but also wireless broadband access, which enables pure mobile operators such as M1 to expand its competitive opportunities into the residential broadband market.

Segmentation of telecommunications services in Singapore can be summarized in the following diagram. The mobile market is defined as mobility services, which include 2G and 3G/3.5G services as well as mobile broadband offered over the HSDPA network. While pre-mobile WiMAX service was introduced in March 2006 by QMax (a joint venture between ISP Qala Singapore and digital audio player manufacturer Creative Technology), only limited services are available. WiMAX is an alternative wireless technology for providing wireless data services over long distances. Given this, fixed WiMAX is categorized as part of fixed services. For this purpose, historical data for Singapore was derived based on publicly disclosed subscriber base of mobile operators in the market.

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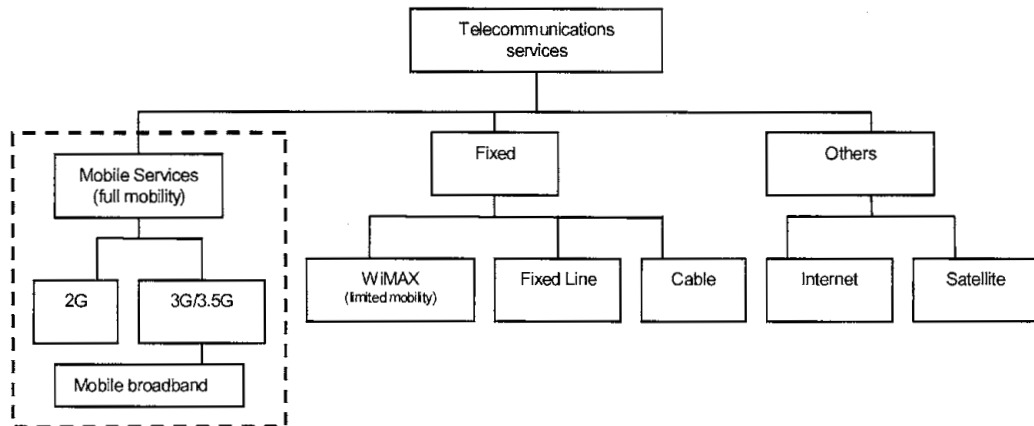
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Chart 6.1 depicts the market segmentation of telecommunication services in Singapore.

Chart 6.1: Market Segmentation of Telecommunications Services in Singapore



Source: Frost & Sullivan

The mobile market in Singapore has experienced moderate growth rates in terms of subscriber base, mainly as a result of market saturation. Subscriber base grew at a CAGR of 12.7% between 2003 and 2007. Total mobile subscriber based as at end of 2007 stood at 5.6 million, against a market penetration of 122.5% compared to 4.6 million subscribers and 105.2% mobile penetration as of December 31, 2006. The mobile subscriber base in Singapore is projected to grow at a CAGR of 3.6% between 2007 and 2012. Subscriber growth is envisaged to emanate from the prepaid segment which caters to the lower-end market as well as the influx of foreign workers.

Total mobile revenues are anticipated to grow at a CAGR of 6.2% from 2007 to 2012 to reach SGD3,942 million by 2012. Revenue growth is likely to stem from a combination of factors; namely, a bigger addressable market resulting from the growth in population base and the emergence of mobile broadband services, and greater emphasis for value-added services and convergent services.

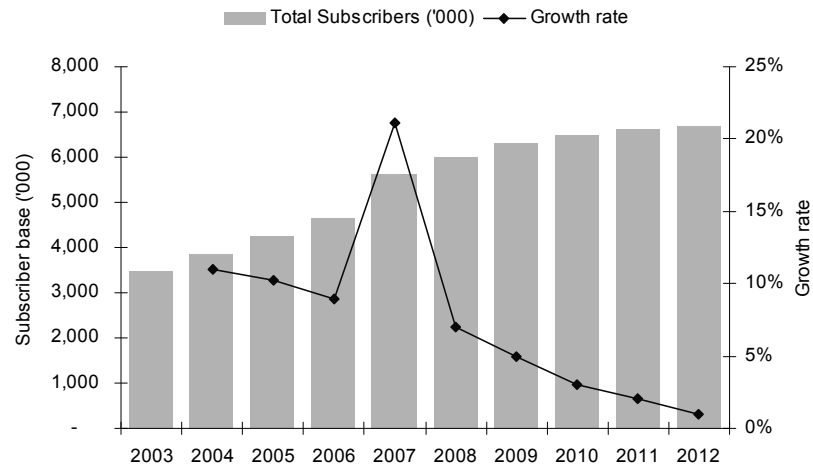
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Chart 6.2 depicts the mobile subscriber and growth rates in Singapore from 2003 to 2012.

Chart 6.2: Total Mobile Subscribers and Growth Rates (Singapore), 2003-2012

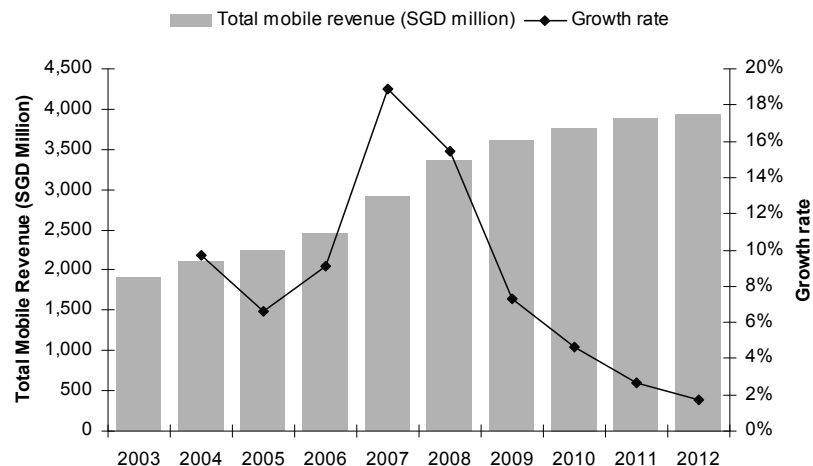


Mobile subscriber CAGR (2007-2012): 3.6%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan


Chart 6.3 depicts the total mobile revenue and growth rate in Singapore from 2003 to 2012.

Chart 6.3: Total Mobile Revenues and Growth Rates (Singapore), 2003-2012



Mobile revenue CAGR (2007-2012): 6.2%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

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Being a developed industry catering for a small population base, the local mobile market has reached certain stability in terms of competition. Emphasis of competition has gone beyond pricing, and more importantly, is heavily placed on network quality, breadth of value-added services, and service convergence.


There are three mobile operators in Singapore; SingTel Mobile, StarHub and M1, which all own 3G licenses. SingTel and StarHub are full service providers, offering services ranging from mobile to fixed-line, broadband and pay TV. M1, on the other hand, only offers mobile services but has recently entered into the residential broadband segment with the deployment of its HSDPA mobile broadband services.

SingTel

SingTel Mobile via SingTel provides a full range of services in mobile, fixed, data communications, Internet, Pay TV, IT and consultancy, and satellite. It recently entered into the Pay TV foray in Singapore, with the launch of its IPTV (Internet Protocol Television) service (branded by SingTel as "mioTV") in July 2007, bringing an end to the long-time monopoly foothold of cable TV provider, StarHub. Being a new service, SingTel's mioTV's subscriber base is still small as compared to that of StarHub's Pay TV. However, mioTV holds immense potential for growth considering the level of interactivity and empowerment it offers.

SingTel commands a market leadership in mobile, broadband and fixed-line services. Despite operating in a highly saturated mobile market, the company managed to increase its mobile subscriber base by nearly 31.8% year-on-year growth in 2007, to 2.3 million. As part of its bundling strategy to retain customers, SingTel introduced its 'Generation mio' plan which signed up 55,000 customers at the end of 2007. The mio plan is a service bundling strategy for fixed-line, mobile and broadband services, and most recently introduced IPTV and home monitoring solutions via telephone lines.

To remain competitive, SingTel also unveiled a number of strategies including launching unlimited VoIP, the '360' suite that targets enterprises ranging from small to medium-sized enterprise, to large organizations with a comprehensive suite of services, and mioTV.

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StarHub is the second largest mobile operator in Singapore, having surpassed M1's market share in early 2005. It is a full service provider that offers telecommunications and entertainment services over the mobile, cable, broadband and fixed platforms. StarHub pioneered the bundling strategy in Singapore through its 'Hubbing' plans, with the aim of improving customer retention and increasing ARPU through cross-selling of services. At the end of 2007, there were 755,000 households that subscribed to at least one of its services, growing by 1.6% over 2006.

In the Wireless@SG front, StarHub has entered into a roaming arrangement with QMax (one of the three service providers for Wireless@SG), which effectively enables StarHub's customers to have access to all Wireless@SG locations.

M1

M1 holds a Facilities-Based Operations ("FBO") license, and Telecommunications Dealers' Class License issued by IDA and Internet Access Service Providers Class License (MDA Registration) issued by the Media Development Authority ("MDA"). However, unlike SingTel and StarHub which plays in the wired broadband, fixed-line and pay TV space, M1 is mainly a mobile operator and only recently it began offering wireless broadband services branded as M1 Broadband via its HSDPA network, in December 2006.

Until recently, Singapore's broadband access market has been limited to a few major participants, most of whom were using either asymmetric digital subscriber line ("ADSL") or cable. In December 2006, M1 launched its new broadband service that is not based on either ADSL copper wire or cable, but on a wireless technology HSDPA, which is commonly labelled as 3.5G. The initial data access speeds of up to 3.6 Mbps is being offered within the central business district, and up to 1.8 Mbps for the rest of the island-state. With HSDPA, M1 gains a new entry into the residential broadband market which is likely to pose a threat to the wired broadband business of incumbent SingTel and StarHub in the long run. M1's move into the broadband space signals its goal to compete seriously in the home, office and mobile broadband environment, with its prospects improving further with speed upgrades over its HSPA network.

M1 has also launched an innovative video sharing service in January 2007 called MeTV. MeTV will allow users to upload their video clips via MMS and the owners will be paid by M1 every time someone views their clips.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)


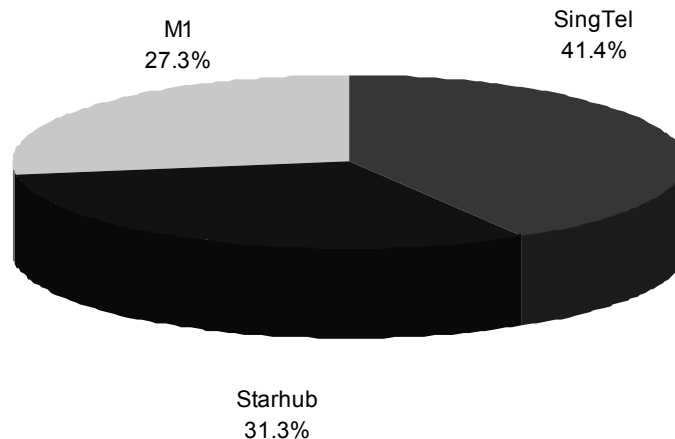
F R O S T  S U L L I V A N**6.3 Market Share Analysis**

Chart 6.4 depicts mobile operator market share by mobile subscribers in Singapore in 2007.


Chart 6.4: Mobile Operator Market Share by Subscribers (Singapore), 2007

Source: Frost & Sullivan

As of the end of 2007, the market shares of the SingTel Mobile, StarHub and M1 were 41.4%, 31.3% and 27.3%, respectively. SingTel Mobile has successfully acquired more net subscriber additions compared to its peers, following their aggressive quadruple play strategies of bundling fixed-line, mobile, pay TV and broadband services under a discounted price plan.

6.4 Industry Challenges**Regulatory Risks**

The Singapore Government regulates the telecommunications industry via IDA. The IDA is responsible for planning and implementing various telecommunications master plans, and overseeing IT standards, policies, guidelines and procedures for the Government. Its main purpose is to encourage effective competition in the telecommunications market. While regulatory risk remains with regard to spectrum allocation, issuance of new licenses and implementation of new policies, it is moderated by IDA's technology neutral stance and its policy of allowing market forces to dictate when setting its policies and regulations framework.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)F R O S T  S U L L I V A N

In addition to IDA's regulatory framework, TV broadcasting services offered over the mobile platform would also come under the scrutiny of the MDA. The MDA has a dual-function role of promoting growth of the media industry and managing content to protect core values and safeguard consumers' interests.

Competition

Competition in Singapore's mobile telecommunications market has intensified, given its high market saturation and Singaporean Government's iN2015 masterplan which would reduce demarcation between the wireless (mobile) and wired (fixed-line) telecommunications market. SingTel and StarHub, which hold significant market share over wired broadband services, are expected to face competitive pressures from new wireless broadband access ("WBA") entrants and M1's mobile broadband HSDPA services.


Mobile Number Portability

An enhanced version of MNP for fixed-line and mobile services was proposed for implementation that will enable users to switch between telecommunications service providers and retain full use of their existing numbers and services. As MNP will provide users with the convenience to easily change operators, mobile operators would face increasing competitive pressure to retain customers and reduce churn rates. Nevertheless, in view of the advanced development of Singapore's mobile market and the present 'call forwarding' option in place, the impact of MNP is expected to be fairly moderate. The proposed implementation at the end of 2007 did not proceed as planned and currently there have been no updates as to when this will take place.

Emerging New Technologies

The telecommunications industry is susceptible to technology changes. This may require significant changes to the mobile operators' business model, development of new products and substantial investments in next-generation infrastructure to accommodate growth in its business and the adoption of new technologies and services. A NGN is a packet-based network where service-related functions are independent from the underlying transport-related technologies. The effect of emerging and future technological changes on the competitiveness of mobile operators' business cannot be accurately predicted. There can be no assurance that technologies employed by the operator will not become obsolete or be subject to competition from new technologies in the future.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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Dependence on Infrastructure

The providers of mobile services are highly reliant on network quality and coverage. Any failure of network, server and transmission can result in major operational disruption, affecting the ability to retain or attract new subscribers which may adversely affect the financial performance of mobile operators. To remain competitive, mobile operators are also burdened by new infrastructure deployments or network expansion to meet increasing bandwidth requirements.

6.5 Barriers to Entry

The mobile telecommunications industry is subject to high entry barriers due to its capital intensive nature, scarce spectrum allocation, the need for wide network coverage and the competitive nature of the industry. Nevertheless, new regulatory policies such as the issuance of new WBA licenses, the iN2015 program and the Singaporean Government's decision not to restrict ownership of mobile TV licenses have lowered regulatory entry barriers to the telecommunications industry in Singapore.


6.6 Relevant Laws and Regulations

The Singapore Government regulates the telecommunications industry via IDA. The IDA is responsible for planning and implementing various telecommunications master plans, and overseeing IT standards, policies, guidelines and procedures for the Singaporean Government. Its main objective is to encourage effective competition in the telecommunications market. Taking a technology-neutral standpoint, IDA also monitors market developments and regulatory measures for the local telecommunications sector, ensuring relevant and effective policies and regulatory frameworks in line with the dynamic global trends.

Some of the recent plans by the IDA that would have major implications on the local mobile telecommunications industry include:-

New Licenses for WBA Spectrum

To increase Singapore's broadband offerings and enhance competition in the broadband market, the IDA issued six WBA spectrum rights in the 2.3 GHz and 2.5 GHz frequency bands in May 2005. The six licenses were awarded to inter-touch Holdings (Singapore) Pte Ltd, M1, Pacific Internet Corporation Pte Ltd, Qala

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)F R O S T  S U L L I V A N

Singapore Pte Ltd, Singapore Telecom Mobile Pte Ltd (a subsidiary of SingTel), and StarHub. WBA licensees must offer services within 18 months for the 2.5 GHz spectrum, and within 36 months for the 2.3 GHz spectrum. The introduction of convergence services would present new opportunities as well as threats to existing mobile operators in Singapore.


iN2015

The IDA had introduced a 10-year master plan, known as the Intelligent Nation 2015, to introduce its citizens into the digital age, comprising complementary wired and wireless networks with super high access speeds and seamless connectivity. The wired broadband network or NGN network will deliver ultra-high broadband speeds of 1Gbps and above, to all homes, offices and schools, while the wireless broadband network will offer pervasive connectivity around Singapore. The iN2015 masterplan will involve close cooperation between the public and private sector.

As part of the iN2015, the Wireless@SG program will provide an island-wide free wireless connectivity at speeds of up to 512 Kbps. Three companies have been selected by the IDA to set up the Wireless@SG infrastructure. SingTel, iCELL Network Pte Ltd, and QMax Communications Pte Ltd will be spending approximately S\$100 million over a period of two years in deploying the technology, of which S\$30 million will be covered by IDA. The iN2015 program will see new entrants and intensify competition in the broadband sector. For mobile operators that do not currently own a fixed broadband business, iN2015 would present a new market opportunity for them.

Mobile Number Portability

An enhanced version of MNP for fixed-line and mobile services was proposed for implementation that will enable users to switch between telecommunications service providers and retain full use of their existing numbers and services. The new system will replace the existing call-forwarding solution introduced in 1997, used to retain numbers after a change of operators. Until now, number portability has been simply a call forwarding solution by which users' calls to their old mobile numbers are merely routed to the new ones. This means contacts have to be informed of the switch to avoid confusion. Currently, the IDA has suggested the introduction of a centralized database of all local mobile phone numbers and their corresponding service providers in order to achieve 'true' MNP, which will not require users to get a new number. As MNP will provide users with the convenience to easily change

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)**F R O S T  S U L L I V A N**

operators, mobile operators would be compelled to implement strategies to encourage customer loyalty to retain customers and reduce churn rates.

Nevertheless, in view of the advanced development of Singapore's mobile market and the present 'call forwarding' option in place, the impact of MNP is expected to be fairly moderate. The proposed implementation at the end of 2007 did not proceed as planned and currently there have been no updates as to when this will take place.

Media Development Authority (MDA)

Heralding the emergence of convergent services, the MDA also exercises regulatory power over TV broadcasting services offered on the mobile platform. The MDA has a dual-function role of promoting growth of the media industry and managing content to protect core values and safeguard consumers' interests. It recently proposed a new regulatory framework that would issue up to four new licenses to operators for broadcast-based services, which may result in the three existing major operators coming under the purview of MDA's new licensing framework. Under the proposed framework, mobile TV services would be regulated by the same TV Programme Code that regulates content and there will be no license fees for at least the first five years. The Singaporean Government has also decided not to restrict ownership of companies that want to offer television services for mobile phones. The MDA is currently conducting a public consultation to obtain feedback on the Authority's proposed policy and regulatory framework for mobile TV services.


6.7 Supply Conditions

Suppliers of mobile operators comprised multiple parties including mobile network operators (to provide infrastructure to MVNOs; the Singaporean Government (for spectrum allocation and operating licenses) and telecommunications equipment vendors (to supply the infrastructure to mobile network providers).

Mobile services in Singapore are typically provided by mobile network operators themselves, where the MVNO concept is not common in the local mobile industry.

Meanwhile, spectrum allocation is a scarce resource. The Singaporean Government regulates frequency and bandwidth allocation and mobile operators must obtain a license for each of the mobile services offered and also for utilization of frequency. In 2005, the Singaporean Government issued new WBA licenses to six companies.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

F R O S T  S U L L I V A N

Given the availability of multiple equipment vendors in the telecommunications space and the importance of volume to the vendor, no one vendor has sole control over the industry.

6.8 Demand Conditions

With a penetration rate of 122.5% as of December 31, 2007, the mobile services market in Singapore can be considered one of the most saturated markets in Asia Pacific. Although the market has reached saturation, the number of mobile subscribers grew substantially at a rate of 21.1% to 5.6 million. This was due to the influx of foreign workers and the robust growth in the prepaid segment.

The mobile subscriber base in Singapore is expected to grow at a CAGR of 3.6% between 2007 and 2012. Subscriber growth is envisaged to emanate from the prepaid segment which caters to the lower-end market as well as the influx of foreign workers.


Total mobile revenues are anticipated to grow at a CAGR of 6.2% from 2007 to 2012 to reach SGD3,942 million by 2012. Revenue growth is likely to stem from a combination of factors; namely, a bigger addressable market resulting from the growth in population base and the emergence of mobile broadband services, and greater emphasis for value-added services and convergent services.

6.9 Reliance and Vulnerability to Imports

Generally, the telecommunications industry in Singapore is dependent on imports for the majority of its network components as most of the network equipment cannot be sourced locally. The mobile network operators rely on a number of leading international mobile network equipment vendors to provide network equipment and facilities. Other established suppliers in the market are able to supply comparable network equipment. Nevertheless, operations can be adversely affected if the required supply of equipment or services is not met in a timely manner.

The provision of telecommunication services in Singapore is not susceptible or vulnerable to imports such as competition from overseas service providers. Such activities are regulated and must be provisioned by locally licensed service providers.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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6.10 Product Substitution

The threat of product substitution arises from other businesses which are able to provide the mobility services via a different technology or business model. In Singapore's mobile market, the two immediate threats are VoIP (the transmission of voice through the Internet) and new WBA licensees (including WiMAX deployment). Nevertheless, poor commercial readiness for mobile WiMAX and the lack of viable business plans have been the key obstacles for the rest of the license holders to launch commercial WBA services.

6.11 Market Size and Growth Forecast


The mobile market in Singapore has experienced moderate growth rates in terms of subscriber base, mainly as a result of market saturation. Subscriber base grew at a CAGR of 12.7% between 2003 and 2007. Total mobile subscriber base as at end of 2007 stood at 5.6 million, against a market penetration of 122.5% compared to 4.6 million subscribers and 105.2% penetration as of December 31, 2006. The mobile subscriber base in Singapore is expected to grow at a CAGR of 3.6% between 2007 and 2012. Subscriber growth is envisaged to emanate from the prepaid segment which caters to the lower-end market as well as the influx of foreign workers.

6.12 Prospects for Industry Players

Emphasis of competition has gone beyond pricing, and more importantly, is heavily placed on network quality, breadth of value-added services, and service convergence. SingTel and StarHub are full service providers, offering services ranging from mobile to fixed-line, broadband and pay TV. M1, on the other hand, only offers mobile services but has recently entered into the residential broadband segment with the deployment of its HSDPA mobile broadband services.

The iN2015 masterplan is expected to change the competitive landscape of the telecommunications industry in Singapore, where the demarcation between wireless (mobile) and wired (fixed-line) solutions would become less apparent over time. Essentially, the emergence of mobile broadband would expand the addressable market opportunity for the mobile industry, particularly for mobile operators that do not currently own a fixed broadband business. The introduction of mobile broadband services over HSDPA networks is expected to expand the addressable market for

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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mobile operators and to tap on the residential broadband market. In line with the increasing need for further market segmentation, mobile operators are turning to value added services such as addressing the high growth enterprise market and non-SMS segments for other revenue streams.

6.13 Overview and Outlook of Economy**6.13.1 Overview of Singapore's Economy in 2007**

Singapore economy maintained its robust expansion, expanding by 7.7%, compared with 8.2% in 2006. Robust growth was recorded across most industries notably in the non-IT industries and asset market-related activities. Financial services and tourism performed strongly, driven in part by buoyant economies throughout the sub-region. Construction activity surged, supported by a boom in high-end apartment buildings as well as new office and retail projects and two large integrated casino resorts. For 2007 as a whole, the manufacturing sector grew by 5.8%, easing from the 11.9% growth reached in 2006. Further, amidst the buoyant domestic economic conditions and the recent rise in global oil and food prices, MAS has projected consumer price index ("CPI") inflation to register at 1.5% to 2.0% for 2007.

6.13.2 Outlook of Singapore's Economy in 2008

The Singapore economy is expected to expand by 4-6% in 2008. Forecast for the Singapore economy was revised downwards slightly to 4-6%, from 4.5-6.5% previously. CPI inflation came in at 2.1% in 2007; it is forecast to rise to 4.5-5.5% in 2008. Inflationary pressures have risen since the second half of 2007 and are expected to persist in 2008 given high global commodity prices, as well as firm wage and rental costs domestically. For the first half of 2008, headline CPI inflation is projected to rise to about 4.5% on a year-on-year basis on account of the GST hike, as well as the base effects of lower energy and car prices in the first half of 2007.

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)


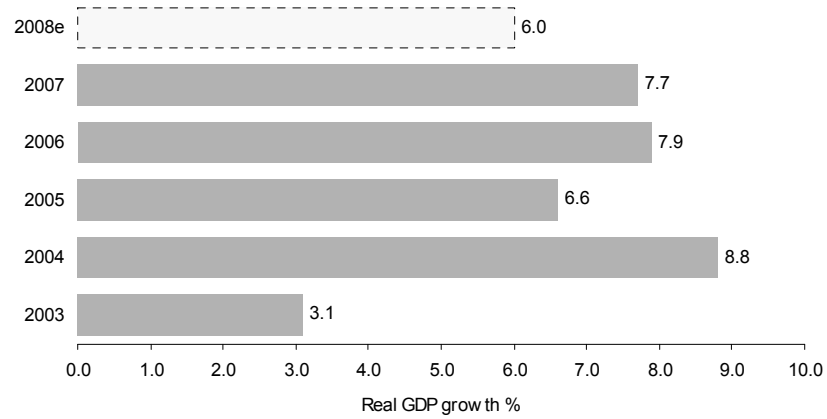
F R O S T  S U L L I V A N


Chart 6.5 depicts the real GDP growth for Singapore from 2003 to 2008

Chart 6.5: Real GDP Growth (Singapore), 2003-2008



Source: Monetary Authority of Singapore

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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7. OVERVIEW OF THE MOBILE TELECOMMUNICATIONS MARKET IN OTHER KEY REGIONAL MARKETS

7.1 Mobile Telecommunications Market in India¹³

India's mobile industry is one of Asia's fastest growing mobile markets – with the number of subscribers growing at a CAGR of over 69.2% between 2003 and 2007. GSM is the most widely used standard, accounting for more than 71% of total subscribers as of December 31, 2007. However both GSM and CDMA are entrenched platforms, with GSM's higher share arising from its early adoption. Most operators are exclusively GSM or CDMA operators; however Bharat Sanchar Nigam Limited ("BSNL"), Mahanagar Nigam Telephone Limited ("MNTL") and Reliance Communications Limited ("Reliance") utilize both standards. The market is intensely competitive, with at least six operators in most circles. On a pan-India basis, the largest cellular companies are Bharti Airtel Limited ("Bharti"), Reliance, BSNL and Vodafone Essar. Market share differentials between these top four operators are narrow and together they accounted for 74.0% of the market as of December 31, 2007.


Though pan-India mobile penetration is still low at 21.0% as of December 31, 2007, penetration in the metros (which account for around a quarter of total industry subscribers), is higher, averaging approximately 55%. The focus of growth has now shifted to the Category B and C circles (mainly suburban and rural), where penetration is still largely in single figures.

Intense competition has spurred regular tariff innovations by the larger operators, which have effectively served to expand the addressable market. The Indian mobile market saw introduction of new micro-prepaid and lifetime-validity plans in 2006. Such plans met with strong retaliatory offers from other industry players and have now become a standard industry product.

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¹³ For this purpose, historical data for India was derived based on publicly disclosed subscriber base of mobile operators in the market, and verified against the regulatory body's (TRAI) published statistics.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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The Indian mobile market comprised predominantly of prepaid users, which accounted for approximately 88.0% of its total subscriber base as of December 31, 2007. Due to the disproportionately large prepaid segment and their high price sensitivity, the ARPU in India is around Rs 315 (US\$7.65), among the lowest in Asia Pacific. The prepaid segment is expected to remain a key growth driver of mobile revenues in the next five years as the next wave of subscriber growth is likely to be from the rural markets.

7.1.1 Market Drivers

Low Market Penetration

The Indian mobile market is still in its high growth stage. In 2005, mobile penetration was merely 7.0% and in 2006, this grew to 13.7%. In a short span of two years, this had grown to approximately 21.0% as of December 31, 2007. Following 2007, mobile subscriber base in India is expected to grow at a CAGR of 20.1% from 2007 to 2012, to 583 million users and a mobile penetration of over 49% by 2012.


Network Expansion to Capture Untapped Rural Market

Penetration of wireless technologies remains high (averaging 38%) in India's urban areas compared to its rural regions, where approximately two-thirds of the Indian population resides. As of December 31, 2007, the urban teledensity had grown to more than 60.0%, compared to rural penetration of little more than 57.5%. Growth in the Category A, B and C circles are anticipated to accelerate as mobile operators expand their networks into these areas. With increasing competition, mobile operators are expected to launch more affordable prepaid packages to capture the rural areas. This is envisaged to fuel mobile subscriber growth in the country in the medium term.

Regulatory Changes and Reforms

Indian telecom sectors have grown rapidly since reforms were initiated in the early nineties. In November 2005, the cabinet approved an increase in the FDI ceiling to 74% from the previous level of 49%, signalling enhanced access to capital for operators. Since the announcement, the Vodafone Group, and Malaysian operators Telekom Malaysia Berhad and Maxis Communications Berhad, have invested in Indian operators, in Vodafone Essar, Spice Communications Limited ("Spice") and Aircel Cellular Limited ("Aircel") respectively. Prior to these, there was significant investment from Singapore players, namely Temasek Holdings in Tata Teleservices

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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and SingTel in Bharti. On the recent deadline for application for new licenses Department of Telecommunications (DoT) has received over 180 applications filed by 15 companies including foreign players such as AT&T. After a long wait, in October 2007, the Indian Government announced that it is likely to auction 3G spectrum, and will allow foreign players to participate in the bidding.

Issuance of Licences to New Players

The competition in the Indian telecom space is expected to increase manifold with the Indian Government issuing telecom licences to new players, beginning with Datacom Solutions Pvt. Ltd., Idea Cellular Ltd. and Swan Telecom Pvt. Ltd. A total of 120 licences would be distributed among nine companies, including Unitech Infrastructures Pvt. Ltd., Spice Communications Ltd., Shyam Telelink Ltd., Loop Telecom Pvt. Ltd., Nahan Properties Pvt. Ltd. and S Tel Ltd. that were issued letters of intent on January 10, 2008. However, these companies will have to apply for spectrum and wait in queue for the radio frequencies to be allocated. The DoT is currently assessing the spectrum availability in each circle, besides continuing negotiations with the defence ministry to get spectrum vacated at the earliest.


Spice received four Unified Access Services ("UAS") licenses for the Maharashtra Service Area, Andhra Pradesh Service Area and Haryana Service Area on February 29, 2008 and the Delhi Service Area on March 3, 2008 pursuant to the respective license agreements with the Department of Telecommunications (DOT), India. Spice will now be entitled to 4.4 MHz of GSM spectrum per circle, subject to availability. Spectrum has yet to be allocated to Spice for these four licenses.

As the competition increases in the GSM segment with the entry of new players, mobile tariffs are likely to fall in the coming months.

Falling Cost of Handset Ownership

More than 85% of the Indian mobile subscribers are highly price sensitive prepaid users, with low blended ARPU of less than US\$8 per month. The reduction in cost of entry-level handsets is expected to spur affordability rates, particularly in rural areas and lower-end segments of the market. For customers switching from the CDMA to GSM platform or vice-versa, switching handsets will be the key cost factor which may be subsidised by operators in a bid to attract customers. In February 2008, Spice unveiled the "People's Phone", a new handset model which comes without a screen and priced below US\$20 targeting the rural markets in India.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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Mobile Number Portability in 2008

MNP enables mobile subscribers to retain their mobile telephone numbers when changing from one mobile network operator to another. MNP is set to be introduced in Indian market initially in the metro circles in April 2008 followed by a phased rollout in Category B and C circles. All Unified Access Service License ("UASL") operators will be required to implement MNP. This is likely to spur subscriber growth on back of improved affordability due to expected price wars. However, pan-India MNP implementation is likely to take about 12-18 months and therefore its impact is likely to be staggered over this period.

Introduction of 3G Services and Broadband Wireless Access (BWA)

According to a press release from the Telecom Regulatory Authority of India ("TRAI") in September 2006 (press release no. 92/2006), 3G services are to be permitted in the 2.1 GHz band and BWA services in 2.5 GHz. Initial allocation for BWA spectrum will be to existing UASL and category A ISPs. 3G license is likely to be granted through a controlled, simultaneous ascending e-auction. Commercial launch is expected to be in first half of 2008. This is likely to solve the network congestion problem faced by the service providers and the additional spectrum available would make them more competitive in providing VAS improving their non-voice revenue.


Acceleration of Fixed-to-Mobile Substitution and Declining Tariff

The fixed-line service sector has registered a decrease of over a million users throughout 2007, bringing down the total number of subscribers to 39.3 million as of December 31, 2007. The lack of fixed-line infrastructure and the increasing preference for mobility are expected to accelerate fixed-to-mobile substitution effect in the country. Launch of 'One India Plan' tariffs and the drop in per minute tariff in 2006 also boosted the preference for mobile services over fixed-line services. The 'One India plan', removes the distinction between fixed-line tariff and mobile tariff and thus makes the tariff 'technology independent'.

Tower Sharing to Become Mandatory

The Indian Government has decided to make it mandatory for telecom operators to share their passive infrastructure such as towers to lower the cost of offering services. At present, operators are sharing their infrastructure on an ad-hoc basis. If the initial trial in Delhi and Mumbai is successful, infrastructure sharing will be made mandatory across the country. TRAI is also conducting a consultation on the issue, including

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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allowing the operators to share active infrastructure. Once implemented, this could potentially lead to significant capital expenditure savings that could be passed on to the subscribers. This could potentially be instrumental in increasing mobile penetration, especially in the rural areas.

Mobile Commerce Kicks off in India

Recently, Bharti has entered into agreements with some of India's leading banks ICICI bank, HDFC bank, SBI, Corporation bank and also with financial services major VISA to offer three specialised services; Mobile Money Transfer (MMT), postpaid bill payment and prepaid recharge. Bharti Airtel customers will also be able to make payments over their mobiles for air, rail and movie tickets. Bharti plans to roll-out cash-to-cash money transfers by the end of 2008, but will require separate regulatory clearances before they can offer this service. This initiative is likely to help usher in a new era of mobile based payments in India, more particularly person to person fund transfers,

Government open to Mobile Virtual Network Operators (MVNO)


Amid controversy over the Tatas' deal with British company Virgin for offering value-added telecom services, the Indian Government has now started allowing MVNOs in India. In February, 2008 Virgin launched youth-focused services in India through telecom operator Tata Teleservices. This business model could potentially be adopted by other foreign players to enter the Indian market without having to deal with spectrum issues and enable such companies to target very niche segments.

7.1.2 Market Restraints

High Regulatory Charges

India's telecoms industry is burdened by regulatory charges which are arguably the highest in Asia Pacific. The various levies include licence fees, Access Deficit Charges ("ADC"), spectrum charges and service taxes. However, the regulatory burden on the sector has declined significantly over the last few years, with the phased reductions in ADC and subsequent removal of ADC. For example, ADC on domestic calls will be eliminated from April 2008 onwards. ADC on international calls to India will also be halved from April 1 to end of September 2008, after which it will be phased out.

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)F R O S T  S U L L I V A N**Declining ARPU**

While subscriber growth remains as strong as ever, declining ARPU is causing repeated disappointment at the top line for operators. Pricing pressure, particularly on voice calls and the growing popularity of prepaid packages have impacted blended ARPU over the years. The reduction in blended ARPU is expected to persist, given greater incremental subscriber share from rural segments and the increased competitive pressure especially once MNP is introduced.

Increasing Prepaid Subscriber Share

As of December 31, 2007, more than 85% of total mobile subscribers in India used prepaid packages. With increasing rural penetration, the portion of prepaid customers in the subscriber base continues to increase. This has resulted in a majority of the subscribers being restricted to basic voice services. This trend is likely to hold back potential revenue growth.

Signs of Decline in Minutes of Usage ("MoU")

Typically, incremental subscribers in India have lower usage. At the same time, existing customers are not increasing usage fast enough to compensate for lower-usage incremental customers to maintain the average MoU. With greater momentum in new subscriber addition is likely to restrain MoU growth. New subscribers, especially in the rural areas, have lower affordability and hence could negatively impact the revenue and profitability of mobile operators.

Non-voice Revenues yet to Pick Up

In India, revenue from non-voice services as a percentage of mobile revenue which is one of the lowest in Asia Pacific, has continued to decline since 2006. It is likely that due to low voice tariffs in India, adoption of non-voice services would take some time.

Cutting Down Internal Roaming Charges

In January 2007, the TRAI ordered a wholesale cut in internal roaming charges for customers who travel across India between different operator licensed areas or circles. In addition to lowering the cost of voice calls, the order required that receiving SMS while roaming be free of charge. India's mobile operators will not be able to charge any type of fixed or recurring charges for accessing roaming facilities. The Tariff Order was set to result in reductions in roaming tariffs ranging from 22% to 56%. While this is good news to subscribers, mobile operators may face an adverse financial impact when the changes are implemented.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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National 'Do Not Call' (NDNC) Registry Becomes Operational

The NDNC has become operational from October 12, 2007. Up to November 2007, approximately 20,900 telemarketers have applied for registration with the DoT. Since then, a total of more than 380 million telephone numbers have been uploaded in the NDNC database by the various telemarketers for scrubbing which means that these numbers are not accessible to telemarketers. Out of this list, a total of 24.2 million numbers were in the category of 'Do Not Call' numbers which these telemarketers are not allowed to call. As the NDNC trend catches up with more and more subscribers registering with NDNC, revenues of telemarketing companies and indirectly revenues of the service providers would be affected adversely. The service providers may also lose the revenues that they could earn from mobile marketing.

7.1.3 Market Size

Throughout 2007, the Indian mobile market continued its growth momentum, achieving net additions of over 84 million users, which amounted to a total mobile subscriber base of 233.6 million as of December 31, 2007.

Mobile subscriber base in India is expected to grow at a CAGR of 20.1% from 2007 to 2012, achieving a penetration of 49.2% by 2012. While subscriber growth would gradually slow down as the market saturates, a combination of factors such as acceleration of fixed-to-mobile substitution, expansion of rural market coverage, increasing competition resulting in the introduction of innovative cellular service packages and the falling costs of entry level handsets is likely to stimulate future growth.

Figure 7.1 provides teledensity and penetration rate indicators of the four circles A, B, C and Metro in India.

Figure 7.1: Wireless and Wireline penetration and Teledensity (India), 2007

Circle	Population DEC 2007 (E)	Wireless Total including WLL (F)	Wireline Subscriber Base	Wireless penetration	Wireline penetration	Teledensity
A	334,434,032	84,109,374	14,077,350	25.1%	4.2%	29.4%
B	502,564,646	84,802,897	13,826,852	16.9%	2.8%	19.6%
C	246,548,290	23,238,890	3,648,050	9.4%	1.5%	10.9%
Metro	58,321,046	41,473,873	7,700,120	71.1%	13.2%	84.3%
TOTAL	1,141,868,014	233,625,034	39,252,372	20.5%	3.4%	23.9%

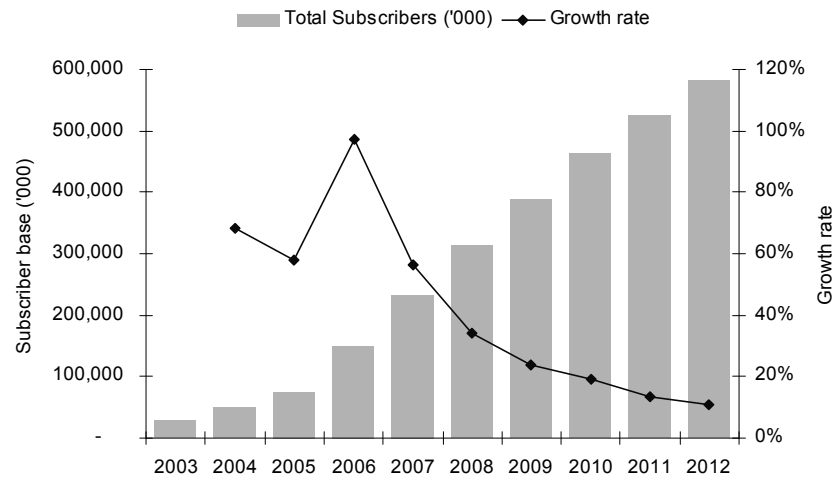
Source: TRAI, Frost & Sullivan

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

F R O S T & S U L L I V A N

Chart 7.1 and Figure 7.2 show the historical and forecast for India's mobile subscriber base between 2003 and 2012.

Chart 7.1: Total Mobile Subscribers and Growth Rates (India), 2003-2012



Mobile subscriber CAGR (2007-2012): 20.1%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

Figure 7.2: Total Mobile Subscribers and Growth Rates (India), 2003-2012

Year	Total Mobile Subscribers ('000)	Growth (%)
2003	28,533	
2004	48,013	68.3%
2005	75,947	58.2%
2006	149,620	97.0%
2007	233,625	56.1%
2008	313,535	34.2%
2009	388,445	23.9%
2010	462,620	19.1%
2011	525,220	13.5%
2012	583,020	11.0%

Mobile subscriber CAGR (2007-2012): 20.1%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

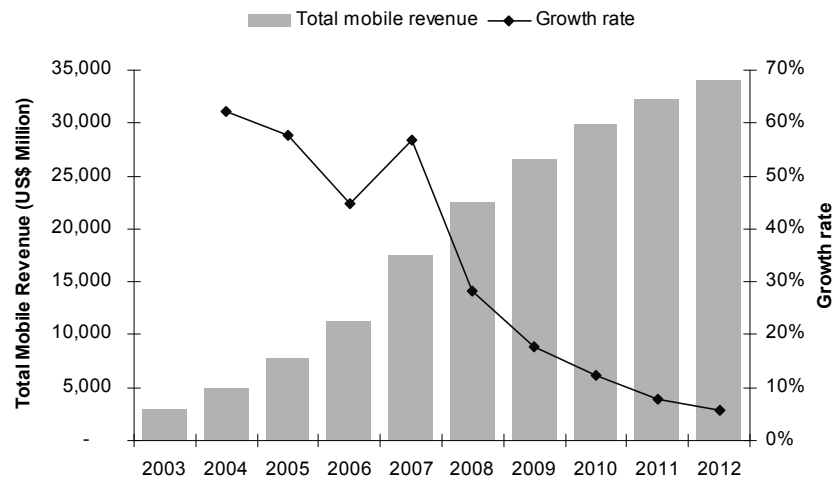
10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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7.1.4 Revenue Forecast

Chart 7.2 and Figure 7.3 show the historical and forecast revenues for the mobile market in India between 2003 and 2012.

Chart 7.2: Total Mobile Revenues and Growth Rates (India), 2003-2012



Mobile revenue CAGR (2007-2012): 14.2%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan


Figure 7.3: Total Mobile Revenues and Growth Rates (India), 2003-2012

Year	Mobile Revenue (US\$ Million)	Growth (%)
2003	3,033	-
2004	4,923	62.3%
2005	7,759	57.6%
2006	11,221	44.6%
2007	17,594	56.8%
2008	22,587	28.4%
2009	26,577	17.7%
2010	29,872	12.4%
2011	32,243	7.9%
2012	34,112	5.8%

Mobile revenue CAGR (2007-2012): 14.2%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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Keeping pace with subscriber growth, mobile revenue in India has been growing at a very rapid pace, reaching US\$17,594 million as of December 31, 2007, against a subscriber base of 233.6 million. Mobile revenues are expected to grow at a CAGR of 14.2% from 2007 to 2012, reaching US\$34,112 million. The Indian mobile market has huge growth potential given its relatively low mobile subscriber penetration and wire line infrastructure. Increasing competitive pressure to drive down tariffs and declining entry-level handset costs are likely to fuel demand from first time users. As operators are penetrating lower segments of the market, prepaid subscribers are expected to contribute a larger share of the growth. This is likely to affect mobile ARPU adversely in the near to mid-term.

7.1.5 Competitive Landscape

Figure 7.4 details the competitive structure in India in 2007.

Figure 7.4: Competitive Structure (India), 2007

Number of Companies in the Market	12 companies
Types of Competition	Highly Competitive
Tiers of Competition	Two Tier 1: 4 major pan-Indian operators; namely Bharti, BSNL, Reliance, Vodafone Essar Tier 2: 8 other operators; Tata Teleservices, Idea, Aircel, MNTL, Spice, BPL, HFCL, and Shyam
Key End-User Groups	Consumers/Business users
Competitive Factors	Price Brand identity Quality and coverage of network Breadth of value-added services

Source: Frost & Sullivan

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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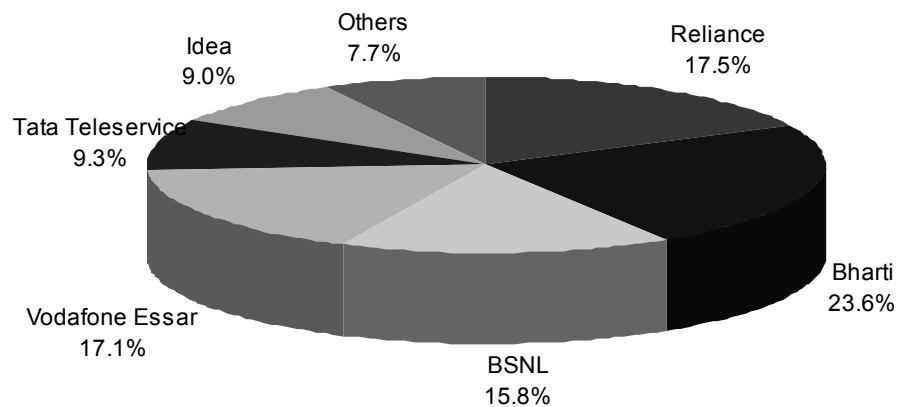
7.1.6 Market Share Analysis

Though the Indian mobile market is highly competitive, it is dominated by four pan-Indian players, namely Bharti, BSNL, Reliance and Vodafone Essar. As of December 31, 2007, these four players accounted for 74.0% of total mobile subscribers in the country. Public sector operators (BSNL & MTNL) contribute 17.1% of subscribers in the GSM segment while the others which are privately held mobile operators control 82.9%.

As the Indian mobile market is dominated by a price sensitive prepaid segment, mobile operators compete fiercely on price plans and typically adopt similar cuts in tariffs when offered by a competitor. Other key basis of competition includes quality and coverage of network, brand identity, and the breadth of value-added services offered.

Chart 7.3 depicts mobile operator market share by mobile subscribers in India in 2007.

Chart 7.3: Mobile Operator Market Share by Subscribers (India), 2007




* Others – Aircel, MNTL, Spice, BPL, HFCL, and Shyam

Source: Frost & Sullivan

Spice currently operates within the states of Karnataka and Punjab which represent two of the larger states within India in terms of mobile subscribers. It is the fifth largest mobile operator within Karnataka and the second largest mobile operator in Punjab¹⁴. The other major players within these circles include Vodafone Essar, Spice, Bharti, Reliance, Tata Teleservices and BSNL.

¹⁴ Market share reference is based on Frost & Sullivan analysis of TRAI published statistics.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

F R O S T  S U L L I V A N**7.2 Mobile Telecommunications Market in Iran¹⁵**

Mobile services market in Iran has a large unmet demand, with shortage of phones and SIM cards and an overloaded network. The incumbent national GSM operator in Iran is Mobile Communication Company of Iran ("MCI"), the mobile arm of the Telecommunications Company of Iran ("TCI"), a state-owned telecom operator.

Mobile penetration in Iran remains low compared to other countries in Asia but is growing rapidly, despite the constraints of the overloaded network and high import tariffs on mobile handsets. Growth has increased particularly since the launch of a second national operator, MTN Irancell Telecommunications Services Company ("MTN Irancell"), in September 2006, after a difficult path to launch. MTN Irancell is 49% owned by MTN Group Limited of South Africa. The Government of Iran is also planning to issue a license to a third national operator, to launch services in 2008. In February 2008, Russian operator MegaFon expressed its willingness to bid for the license when available. The other mobile service providers in the country are Taliya/Rafsanjan Industrial Complex Islamic Cooperative Company ("RIC"), Mobile Telecommunications Company of Isfahan ("MTCE") and Telecommunications Kish Company ("TKC").


Iran's mobile penetration is quite low in comparison to other neighbouring middle-east countries. However, the number of mobile subscribers is fast catching up with Asia, having grown at a CAGR of 58.5% between 2003 and 2007. At the end of the first half of 2007, the mobile subscriber base in Iran has surpassed the number of fixed-line subscribers and is expected to maintain similar growth momentum in the near to mid term.

7.2.1 Market Drivers**Low Market Penetration**

The Iranian mobile market is still in its growth stage, with a mobile penetration of approximately 29.9% as of December 31, 2007. Mobile subscriber base in Iran is expected to grow at a CAGR of 17.8% from 2007 to 2012, to 48.3 million users and a mobile penetration of 63.3% by 2012.

¹⁵ For this purpose, historical data for Iran was derived based on publicly disclosed subscriber base of mobile operators in the market, and secondary research sources.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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Introduction of Competition and Network Expansion

Iranian mobile market used to be a closed market prior to introduction of MTN Irancell, the second national operator, in September 2006. This has brought in certain competition in the market and there has been significant network expansion, thereby bringing services to a much larger population base than before. The Government of Iran is also planning to launch a third nationwide 2G/3G mobile operator in 2008. The third operator is expected to begin its operation in October 2008 following the expiry of the two-year exclusivity granted to the second nationwide operator.

Introduction of Prepaid Services

Prepaid services were first introduced by MTCE in 2002 and later followed by Taliya on a smaller scale with a limited rollout. Up to the end of 2006, almost all mobile users are on MCI's postpaid services. Towards the end of 2006, a cheaper prepaid package was introduced by MTN Irancell, which consequently increased the pace of subscriber growth. In anticipation of further surge in the prepaid customer segment, MCI then introduced its prepaid subscription services in February 2007.

Reduction in Cost of Ownership

Introduction of new competitors in to the Iranian mobile market also resulted in a reduction in the connection and activation fees for new subscribers. With the Government of Iran encouraging handsets to be manufactured in the country, handset prices are expected to drop in the near term. The falling cost of mobile ownership is likely to spur signing up of first time users.


Acceleration of Fixed-to-Mobile Substitution

TCI remained the sole fixed-line provider and as a result of slow growth, subscriber base was estimated to be 23.6 million as of December 31, 2007. In 2007, when the fixed-line subscription grew by only a million users, the country added approximately 6 million new mobile subscribers. This suggests growing preference of mobile services over the fixed-line. This trend is expected to gain further momentum with mobile coverage expansion and operators' reluctance to invest in fixed-line services.

Interest from Foreign Entities

Foreign telecom companies have shown significant interest in investing in the Iranian telecom sector. This was evident during the bidding of the second GSM licence with bidders from Austria (Mobilkom), Egypt (Orascom Telecom Holding), Germany (Deutsche Telekom AG), South Africa (MTN Group Limited and Vodacom Group

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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(Pty)), Turkey (Turkcell) and Qatar (Qtel). In February 2008, MegaFon which is Russia's third-largest mobile phone operator, unveiled plans to set up a representative office in Iran and is considering making long-term investments in the Iran's telecommunications sector. MegaFon may bid for Iran's new national mobile telephony licence, which is widely expected to be made available later this year.

Privatization in Telecommunication Sector

In 2006, the Ministry of Communications and Information Technology announced plan that Privatization Organization would float the shares of Government-owned companies such as TCI in the Tehran Stock Exchange (TSE). In March 2007, TCI and its provincial affiliated companies received the Iranian Government's permission to be privatized. TCI's Infrastructure Telecom Company is expected to be detached from it and continue its activities as a part of the ICT Ministry. However, according to the current Foreign Investment Act, foreign companies seeking to purchase telecom shares are allowed to purchase up to 49% shares of the privatized company. It is widely anticipated that privatization is likely to accelerate the next phase of mobile subscriber growth in the country.


7.2.2 Market Restraints

Network Expansion Challenge

The award of a second national mobile licence to MTN Irancell and the planned issuance of a third licence in the near future, marked the Iranian Government's seriousness to liberalise the telecommunication market further. However these efforts have been circumvented by a multitude of bureaucracy and inefficiency at the local Government level. This to some extent resulted in a slower approval process and delayed building of base stations and other necessary infrastructure to support the rapid expansion of mobile growth in the country.

Incumbent's Power Play

Although, MTN Irancell managed to make inroads into Iran's lucrative mobile market through aggressive pricing, advertising and distribution channels, progress has been relatively slow and well behind its original plan. On the other hand, the incumbent operator MCI was able to capitalise on its strength through corporate rebranding and rekindling of its subscribers' emotional support, and has successfully introduced prepaid services as MTN Irancell.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)F R O S T  S U L L I V A N**Political Challenges for Foreign Investment**

The Government of Iran is also planning to launch a third nationwide 2G/3G mobile operator in 2008. The third operator is expected to begin its operation in October 2008 following the expiry of the two-year exclusivity granted to the second nationwide operator. Possible disruptions to growth are almost entirely political. Past developments, particularly over the award process of MTN Irancell's license which underwent considerable delay, provides a good indicator of what to expect. In addition, the main MTN Irancell foreign shareholder MTN Group Limited finds the telecommunication's regulatory environment challenging. The level of investment will depend to a reasonable degree of political and regulatory stability.

Increase in Handset Import Tariff

In May 2006, the Government of Iran increased the import tariff on imported handsets from 4% to 60%. This was to drive the domestic production of mobile handsets in Iran and indirectly to capture new technology for the country. The downside is that the subscriber growth will be severely affected should the Government of Iran fail to materialise its vision.

7.2.3 Market Size

Total mobile subscribers in Iran reached 14.0 million as of December 31, 2006, growing by an increase of 60.9% over 2005. The Iranian mobile market continued its growth momentum in 2007, and with a total mobile subscriber base up to 21.3 million as of December 31, 2007. This translates to 29.9% mobile penetration in the country.

The mobile subscriber base in Iran is expected to grow at a CAGR of 17.8% from 2007 to 2012, and reach a penetration rate of 63.3% to 48.2 million subscribers by 2012. While subscriber growth would gradually slow down as the market matures, a combination of factors is expected to help sustain the growth. The expansion of network coverage, the acceleration of fixed-to-mobile substitution, increasing competition in bringing down the cost of ownership, the introduction of innovative cellular service packages and the anticipation of a third national service provider in 2008 are likely to stimulate further growth.

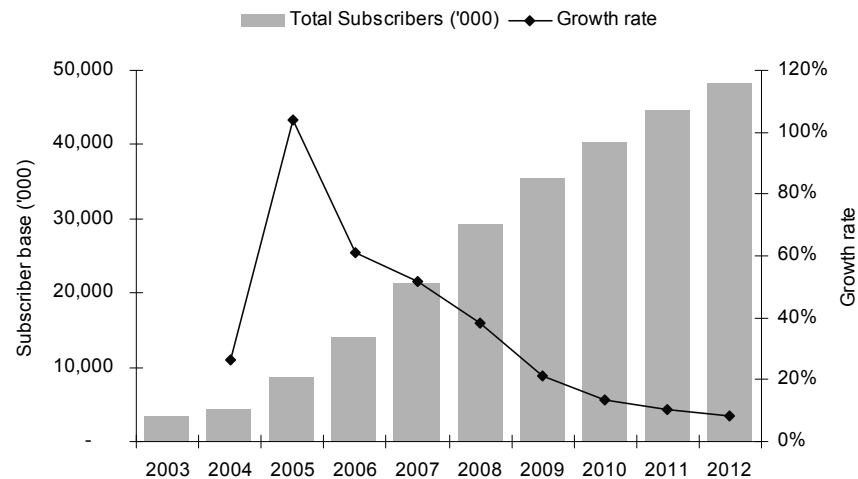
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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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Chart 7.4 and Figure 7.5 show the historical and forecast for Iran's mobile subscriber base between 2003 and 2012.

Chart 7.4: Total Mobile Subscribers and Growth Rates (Iran), 2003-2012



Mobile subscriber CAGR (2007-2012): 17.8%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

Figure 7.5: Total Mobile Subscribers and Growth Rates (Iran), 2003-2012

Year	Total Mobile Subscribers ('000)	Growth (%)
2003	3,377	-
2004	4,271	26.5%
2005	8,716	104.1%
2006	14,022	60.9%
2007	21,300	51.9%
2008	29,400	38.0%
2009	35,600	21.1%
2010	40,400	13.5%
2011	44,615	10.4%
2012	48,272	8.2%

Mobile subscriber CAGR (2007-2012): 17.8%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

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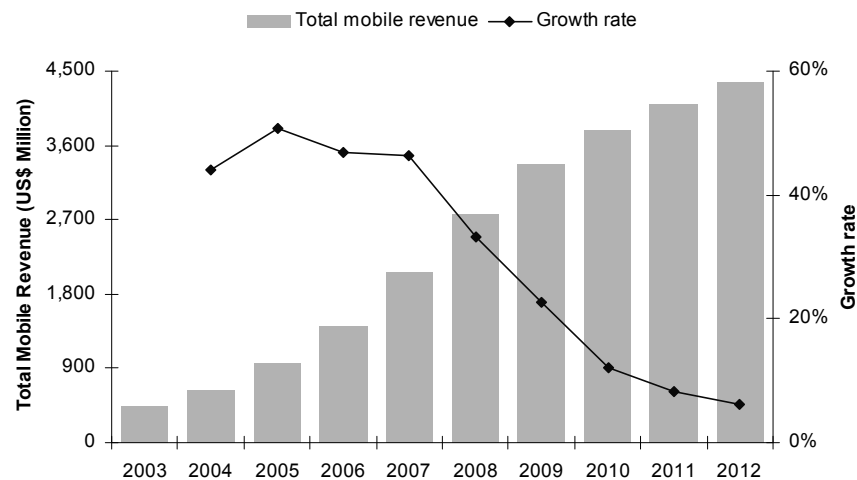
F R O S T & S U L L I V A N

7.2.4 Revenue Forecast

Mobile revenue in Iran has been growing at a very rapid pace, reaching US\$2,066 million in 2007, representing a growth of 46.4% over 2006. Mobile revenues are expected to grow at a CAGR of 16.1% between 2007 and 2012 to reach US\$4,358 million. The current mobile subscriber penetration rate of 29.9% suggests there is great growth potential. Mobile revenue and subscriber growth is likely to accelerate given the fact that 56.0% of Iran's population is under 25 years of age and the rate of growth of this number reaching working age is far more rapid than that of the population as a whole. With the highly likely entrance of a new player in 2008 and wider availability of prepaid services, the subscriber market is expected to have greater options when signing up for mobile services.

Chart 7.5 and Figure 7.6 show the historical and forecast revenues for the mobile market in Iran between 2003 and 2012.

Chart 7.5: Total Mobile Revenues and Growth Rates (Iran), 2003-2012



Mobile revenue CAGR (2007-2012): 16.1%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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Figure 7.6: Total Mobile Revenues and Growth Rates (Iran), 2003-2012

Year	Mobile Revenue (US\$ Million)	Growth (%)
2003	442	-
2004	636	43.9
2005	960	50.8
2006	1,411	47.0
2007	2,066	46.4
2008	2,753	33.2
2009	3,374	22.5
2010	3,785	12.2
2011	4,101	8.4
2012	4,358	6.3

Mobile revenue CAGR (2007-2012): 16.1%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

7.2.5 Competitive Landscape

Figure 7.7 details the competitive structure in Iran in 2007.


Figure 7.7: Competitive Structure (Iran), 2007

Number of Companies in the Market	5 companies
Types of Competition	Oligopoly
Tiers of Competition	Two
	Tier 1: 2 national mobile operators; namely MCI and MTN Irancell
	Tier 2: 3 other smaller mobile operators; Taliya, MTCE, TKC.
Key End-User Groups	Consumers/Business users
Competitive Factors	Brand identity
	Price
	Quality and coverage of network
	Breadth of value-added services

Source: Frost & Sullivan

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

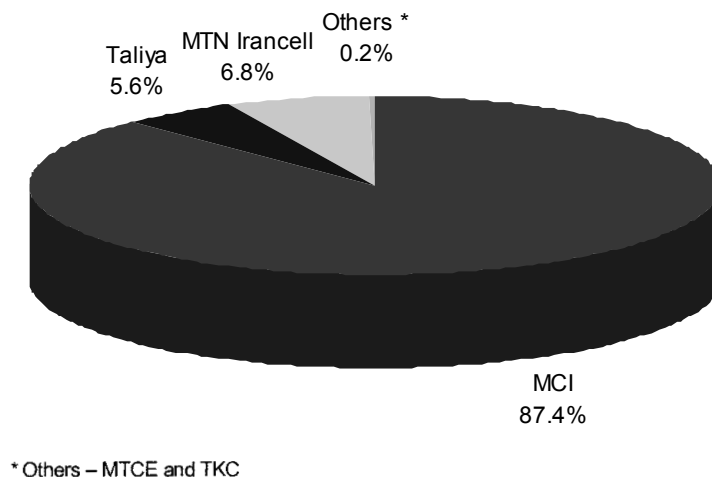
F R O S T  S U L L I V A N

7.2.6 Market Share Analysis

Though competition at the national level was introduced in the form of MTN Irancell in 2006, the Iranian mobile market continues to be dominated by the incumbent MCI. In order to fend off competition in the form of cheaper prepaid packages by MTN Irancell, MCI restructured its corporate brands and new mobile packages. This, together with its already large network coverage, will help maintain MCI as the most appealing mobile service provider. Other areas of competition among the players includes quality and coverage of network, brand identity, and the breadth of value-added services. As of December 31, 2007, MCI controls 87.4% of the subscriber base, followed by MTN Irancell (6.8%) and Taliya (5.6%).

Chart 7.6 depicts mobile operator market share by mobile subscribers in Iran in 2007.


Chart 7.6: Mobile Operator Market Share by Subscribers (Iran), 2007



Source: Frost & Sullivan

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

F R O S T  S U L L I V A N**7.3 Mobile Telecommunications Market in Pakistan¹⁶**


Mobile services were first offered in Pakistan in 1990 and despite the high costs, mobile services grew rapidly. The Government of Pakistan has on its part, launched comprehensive reforms to deregulate the telecom sector, overcome Pakistan's low teledensity level, and increase usage of Information Technology to support the needs of a modern and fast growing economy. As a result, Pakistan today is one of the fastest growing mobile markets in Asia, having a CAGR of 137.8% between 2003 and 2007. In 2007, mobile operators together added over 42.4 million new subscribers, which is a new record for the country.

Apart from the four existing mobile operators, growth of the mobile market in Pakistan has been spurred by the deregulation of the market in 2003 to include two new players. The four initial mobile operators include Mobilink GSM ("Mobilink") (the market leader), Pakistan Telecommunication Mobile Ltd ("Ufone"), Paktel Limited ("Paktel") and Pakcom Limited ("Instaphone"). The two new mobile operators – UAE based Warid Telecom (PVT) Ltd ("Warid Telecom"), of which a 30% stake was bought by SingTel, and Telenor Pakistan (100% owned by Norway-based Telenor ASA) - quickly attracted a GSM subscriber base that constituted about 18% of the market in the first two years of operations. In the last two years, all of the operators have made significant investment in expanding their network across the country. This, coupled with the falling call rates, reduction in activation charges for mobile phones from Rs.1,000 down to Rs.500 (US\$16.5 down to US\$8.3) with a plan to subsequently drop that charge completely and falling handset prices have driven up mobile penetration in recent times.

7.3.1 Market Drivers**Deregulation Attracted Foreign Investments**

The Pakistan telecommunications sector has attracted large foreign investments after Pakistan's deregulation law was passed in July 2003. This move resulted in major operators investing not only in exorbitant licensing fees but the move was also instrumental in building the telecommunications infrastructure of the country. The telecom sector in Pakistan accounted for 35% of the country's total foreign direct investment ("FDI") in 2007, which equalled US\$1.8 billion.

¹⁶ For this purpose, historical data for Pakistan was derived based on publicly disclosed subscriber base of mobile operators in the market, and verified against the regulatory body's (PTA) published statistics.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)F R O S T  S U L L I V A N**Market is in its growth stage**

Pakistan's mobile subscriber base stood at 34.5 million as of December 31, 2006, representing a penetration rate of only 21.8%. However, a record breaking net subscriber addition in 2007 has resulted in the mobile penetration rate reaching 47.5% as of December 31, 2007. The mobile subscriber base in Pakistan is set to grow at a CAGR of 10.6% from 2007 to 2012 to reach 127.5 million users with a penetration rate of approximately 70%.

Rural Market Still Largely Untapped

Pakistan's urban population constitutes only 30% of its 160 million citizens. More than half of Pakistan's 50,000 rural villages have no access to telephone services. As operators eye the large portion of the untapped rural potential, efforts are being made to make mobile services more attractive to the rural markets by reducing tariffs. This effort has been complimented by the regulatory body relaxing some of the rigid regulatory policies.

Move from Mobile Party Pays (MPP) to Calling Party Pays (CPP)

While the uptake of the mobile market was rife with potential right from the beginning, it had not evidenced a high subscription rate because of the monopoly held by the state owned Pakistan Telecommunication Company Ltd ("PTCL") that made it mandatory for the party receiving a call to pay for the incoming call. When this policy was converted by the introduction of Calling Party Pays ("CPP") in December 2000, it made adoption of mobile services widespread and an affordable proposition to users.


Declining Cost of Handset Ownership

With the deregulation of the market and the increase in the number of operators, the consequent benefits to customers as a result have included the reduced cost of handsets due to subsidies offered by the operators. This is a key driver especially when considering the large part of the rural market that is still untapped and lower segments of the market that are more price sensitive.

Intensifying Competition

Pakistan is now a level playing field for six mobile operators, who have made significant infrastructure investments. With the introduction of two new operators in 2005 to serve the growing needs of the market, there is now an impetus to maintain quality of service offerings and expand network coverage to capture the first time subscribers in the suburban and rural areas.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

F R O S T  S U L L I V A N**Migration from 7-8 Digit Mobile Subscriber Numbers**

In order to resolve the problem of frequent allocation of network access code to various mobile operators to meet the needs arising out of phenomenal growth in the cellular mobile sector, there has been talk of migrating mobile numbers from seven digits to eight digits. Recently, the Pakistan Telecommunication Authority ("PTA") has announced and published information about the schedule of the implementation plan. When implemented, this will create more capacity in the Numbering Plan to facilitate service providers to expand their customer base without having to introduce new access codes.

Mobile Number Portability

MNP was introduced in Pakistan in March 2007. Though initial market response has been slow, the service has become more popular of late. In order to increase customer loyalty, mobile operators are offering more competitive services, with better quality and more affordable rates.

Acceleration of Fixed-to-Mobile Substitution

Despite the fixed-line market in Pakistan expanding at a solid growth rate of 20% per year, teledensity remains low at less than 4%. The lack of fixed-line infrastructure and the increasing preference for mobility are expected to accelerate the pace of fixed-to-mobile substitution effect in the country.


7.3.2 Market Restraints**Declining ARPU**

Pricing pressure on voice calls and the popularity of prepaid packages have affected blended ARPU over the years, moving steadily down from about US\$13.9 in 2003 to US\$5.3 in 2007. Mobile operators are scrambling to introduce better plans and increase bundled offers to their subscribers resulting in this downward trend. This trend is expected to continue on the back of intensifying competition after MNP was introduced and growing reach to rural markets. This is likely to increase challenge for operators to maintain their profitability levels.

Quality of the Service Issues

Like other growth markets, Pakistan is facing the challenge to meet the overall quality of services offered especially with sudden upsurge in subscriber base. There has been a significant increase in the overall complaints in the sector. These complaints

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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relate to quality of service such as dropped calls and weak signals, non-transparent billing practices and the irregular issuance of mobile connections, are all reasons that could deter potential subscribers to take up services.

Tax Considerations

Steep taxes imposed on the telecommunication sector deter potential growth. The Government of Pakistan charges an activation tax of Rs.500 (US\$8.3) on every new connection in lieu of custom duty on mobile handsets. This tax is in addition to the withholding tax of 10% on mobile tariff, which is adjustable to income tax at the time of filing of tax return. However, in the case of mobile services, most of the marginal mobile phone subscribers belong to lower income groups who are not liable to pay income tax. These charges unnecessarily burden the new subscriber.

Political Instability Casts Shadow on Further Foreign Investment

Recent political instability has further increased foreign investors' perceived risk in Pakistan, resulting in many holding back on investment plans. A range of concerns include security, law and regulations; this is despite the country's economy growing at a fast pace over the past five years under President Musharraf's liberal economic policies.

7.3.3 Market Size

The Pakistan mobile market continued its growth momentum in 2007, achieving net additions of over 42 million users, which amounted to a total mobile subscriber base of 76.9 million as of December 31, 2007.

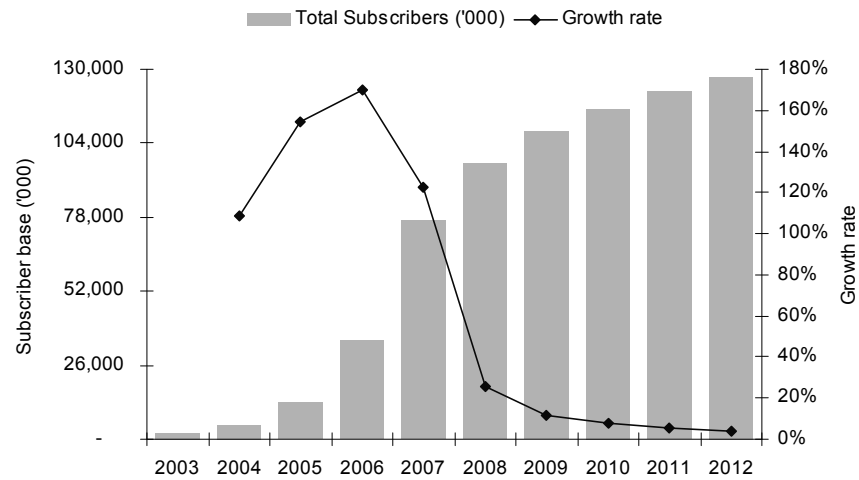
Mobile subscriber base in Pakistan is expected to grow at a CAGR of 10.6% from 2007 to 2012, against a penetration rate of 70.3% by 2012. Subscriber growth rate is likely to slow down as the market saturates. However factors such as expansion of rural market coverage, increasing competition, innovative cellular service packages, acceleration of fixed-to-mobile substitution, and the falling costs of entry level handsets are likely to stimulate further growth.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

F R O S T & S U L L I V A N

Chart 7.7 and Figure 7.8 show the historical and forecast for Pakistan's mobile subscriber base between 2003 and 2012.

Chart 7.7: Total Mobile Subscribers and Growth Rates (Pakistan), 2003-2012



Mobile subscriber CAGR (2007-2012): 10.6%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

Figure 7.8: Total Mobile Subscribers and Growth Rates (Pakistan), 2003-2012

Year	Total Mobile Subscribers ('000)	Growth (%)
2003	2,404	-
2004	5,023	108.9%
2005	12,771	154.3%
2006	34,507	170.2%
2007	76,883	122.8%
2008	96,813	25.9%
2009	108,043	11.6%
2010	116,033	7.4%
2011	122,273	5.4%
2012	127,463	4.2%

Mobile subscriber CAGR (2007-2012): 10.6%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

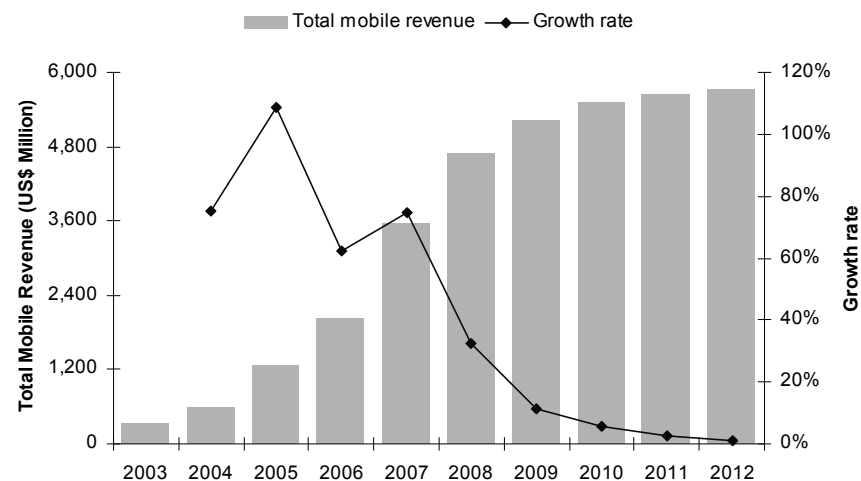
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7.3.4 Revenue Forecast

Mobile revenue in Pakistan has been growing in tandem with huge subscriber growth, reaching an estimated US\$3,542 million in 2007, against a subscriber base of 76.9 million. Mobile revenues are expected to grow at a CAGR of 10.0% between 2007 and 2012 to US\$5,709 million in 2012. Lack of wire line infrastructure is also likely to boost mobile adoption in the rural areas. Increasing competitive pressure to drive down tariffs and reducing entry-level handset costs are likely to fuel demand from first time users. As a result, revenue contribution of prepaid segment is likely to increase even further. This is likely to affect mobile ARPU adversely in the near to mid-term.

Chart 7.8 and Figure 7.9 show the historical and forecast for Pakistan's total mobile revenues between 2003 and 2012.

Chart 7.8: Total Mobile Revenues and Growth Rates (Pakistan), 2003-2012



Mobile revenue CAGR (2007-2012): 10.0%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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Figure 7.9: Total Mobile Revenues and Growth Rates (Pakistan), 2003-2012

Year	Mobile Revenue (US\$ Million)	Growth (%)
2003	342	-
2004	600	75.2%
2005	1,251	108.6%
2006	2,028	62.1%
2007	3,542	74.7%
2008	4,690	32.4%
2009	5,224	11.4%
2010	5,512	5.5%
2011	5,648	2.5%
2012	5,709	1.1%

Mobile revenue CAGR (2007-2012): 10.0%

Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

7.3.5 Competitive Landscape

Figure 7.10 details the competitive structure in Pakistan in 2007.

Figure 7.10: Competitive Structure (Pakistan), 2007

Number of Companies in the Market	6 companies
Types of Competition	Highly competitive
Tiers of Competition	Two
	Tier 1: 4 larger mobile operators; namely Mobilink, Telenor Pakistan, Ufone, Warid Telecom
	Tier 2: 2 smaller mobile operators; consisting of Instaphone and Paktel
Key End-User Groups	Consumers/Business users
Competitive Factors	Price
	Brand identity
	Quality and coverage of network
	Breadth of value-added services

Source: Frost & Sullivan

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

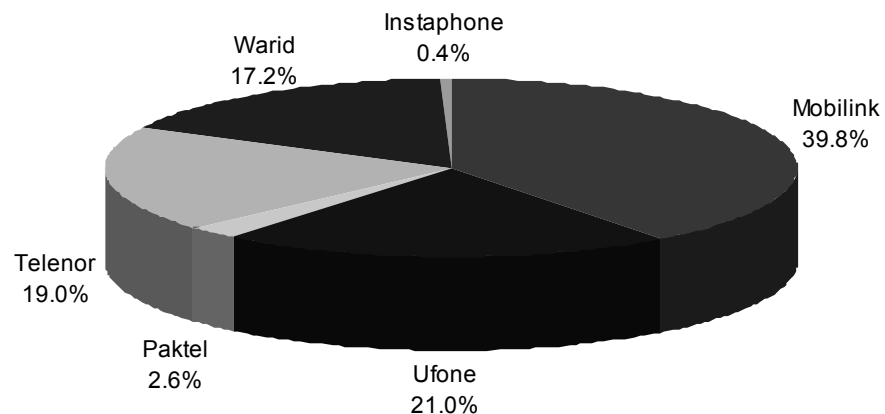
F R O S T & S U L L I V A N

7.3.6 Market Share Analysis

Though there are six mobile operators offering services in the Pakistan market, the top four operators (Mobilink, Telenor Pakistan, Ufone and Warid Telecom) collectively control approximately 98% of the total subscriber. Telenor Pakistan and Warid Telecom have successfully managed to reduce the incumbent Mobilink's dominance in the market after their introduction in 2005. Launch of MNP in the first quarter of 2007 has generated pressure on Mobilink and Ufone to hold on to their subscriber base. Competitive operators are trying to woo subscribers to switch by offering cheaper subscription package, enhanced value added services and better quality of services. In February 2008, under Section 30 of the Pakistan Telecommunication (Re-organization) Act, the PTA terminated the license of Instaphone on account of Company's failure to pay its outstanding dues.

Chart 7.9 depicts mobile operator market share by mobile subscribers in Pakistan in 2007.

Chart 7.9: Mobile Operator Market Share by Subscribers (Pakistan), 2007



Source: Frost & Sullivan

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

F R O S T & S U L L I V A N

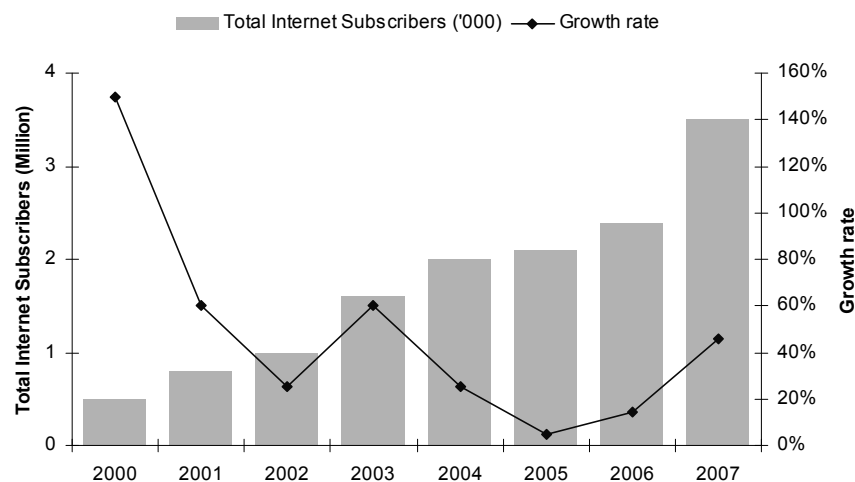
7.3.7 Other Telecommunication Sectors in Pakistan

Internet Services

Public access to the Internet has been available to users in Karachi since 1995. The incumbent PTCL began offering access in 1996 via the nationwide local call network. The proliferation of computers during the late 1990s has fostered Internet growth along with the Government of Pakistan's 1998 decision to abolish multi-metering for calls to Internet Service Providers. Since the ruling military regime of General Pervez Musharraf took control of the country in October 1999, an aggressive IT policy has been pursued, aimed at boosting Pakistan's drive for economic modernization. With a keen eye on the successful Indian software market, Pakistan has also been targeting the creation of an exportable software industry. One consequence of this was a substantial increase in the popularity of the Internet. There were an estimated 3.5 million Internet subscribers in the country in 2007. Currently around 2,419 cities are connected to the Internet.

Chart 7.10 depicts total Internet subscriber growth in Pakistan between 2001 and 2007.


Chart 7.10: Total Internet Subscribers and Growth Rates (Pakistan), 2000 - 2007



Source: Pakistan Telecommunication Authority

Internet service is becoming an integral part of life in Pakistan particularly in urban areas where a large portion of the populace is using it for different purposes. Most airlines including Pakistan International Airlines and Air Blue have started e-ticketing through the Internet to provide better and efficient services to its customers. The

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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Internet is also being used for educational and entertainment purposes and its use for this purpose is increasing very fast. The major reason for rapid growth of the service is the low cost of the service which make services affordable to poorer segments of the population. Almost 70% companies are providing Internet services all across the country with the quality of service being monitored regularly by the PTA.


Broadband in Pakistan

Pakistan's broadband market has been growing slowly despite the fact that the service has been available for almost five years. As of January 31, 2008, the PTA estimated there were approximately 128,689 broadband subscribers connecting to the Internet using DSL technology. Total Internet subscribers was 3.5 million as of December 31, 2007.

Cost of services is the major reason behind this slow growth. For example, in India, a broadband service at 256kbps speed and 2.5GB download/upload limit per month is available for just US\$8. In Pakistan the same package is available for US\$24. PTA is striving hard to bring down the cost of providing broadband services in order to make them more affordable to low income groups. Currently, most of the services are being used by individuals at home or businesses while the share of education and Government departments remains quite low.

A major development for the broadband market is the introduction of DSL services by the incumbent PTCL in Islamabad, Lahore and Karachi since June 2007. PTCL offered low tariffs for home users with free installation service. This has affected tariffs offered by other DSL operators as they have also lowered DSL tariffs in order to remain competitive. It is believed that such competition is likely to flourish in the broadband market.

Besides PTCL and National Telecommunication Corporation ("NTC"), Wateen is the only Broadband Service Provider owning independent infrastructure. Other ISPs include Micronet, Cybernet, Multinet, Dancom, HRI, Nexlinx, CubeXS, Nayatel, Supernet, Telecard and COMSATS. Of the remainder, Wordcall stands as the only significant cable service provider in Pakistan, servicing Karachi and Lahore with cable internet access. Given the infrastructure backbone that is available and the entrepreneurial/managerial skills of the existing operators, it is expected that these operators will be able to drive the broadband market if provided a better environment and supported by conducive policies.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)F R O S T  S U L L I V A N

With nine operators offering DSL services in Pakistan, it seems that the main emphasis of these operators has been to cover urban areas, especially large cities; however it is expected that PTCL having the largest data network will soon start offering DSL services in smaller cities and towns. The current population of broadband subscribers in Pakistan is geographically dispersed and therefore not a single area appears to be sufficiently served. It is evident that even in major cities where infrastructure is comparatively better the broadband teledensity figure remains quite low. For instance, in Karachi and Lahore, although the total number of broadband subscribers is comparatively higher than other cities, the overall penetration rate is only 0.32% and 0.48% of population respectively, which implies that even the major cities of the country are not optimally served¹⁷. The situation in the rest of the country is even more dismal. No single city or region is properly served resulting in the total broadband teledensity of the whole country of 0.067%. The total number of broadband subscribers in 2007 in the entire country totalled 115,000 which is approximately half of the targeted figure of 0.2 million within the Broadband Policy.


It is expected that steps taken by PTA in collaboration with industry players will ensure better and more economical broadband services in Pakistan. Deployment of fibre and WiMAX networks will help broadband proliferation particularly in rural areas of Pakistan. PTA estimates that total broadband subscribers in Pakistan will reach 5 million by 2010.

WiMAX Services in Pakistan

WiMAX networks and Wireless Broadband services have been commercially launched across the country, marking a new milestone in the Telecom sector of Pakistan. WiMAX is being pursued as an alternative broadband technology by most of the service providers in Pakistan. Commercial launch of WiMAX services offers subscribers the chance to make video calls and telephony through special handsets while callers will be able to see live video/picture of each other in addition to voice conversation. The users are likely to enjoy wireless broadband services and enjoy a significant improved Internet experience compared to dialup services. Pakistani operators are also aiming at providing broadband data solution for corporate users in Pakistan.

¹⁷ References taken from a study on broadband penetration in Pakistan carried out by the Ministry of Information Technology, Pakistan. <http://www.moitt.gov.pk/>


10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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Currently, Wateen Telecom commercially offers WiMAX services in most parts of the country. Mytel, a local operator in Peshawar, has also launched its commercial operation of WiMAX in Peshawar. On the same front, other Wireless Local Loop operators including Burraq, PTCL, Z-WLL and Cyber Internet are also deploying WiMAX networks. All of these operators are in their testing phase and will soon be able to offer commercial WiMAX services in the country.

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

F R O S T  S U L L I V A N**8. RESEARCH METHODOLOGY****8.1 Introduction**

Frost & Sullivan has refined its research methodology over many years of experience, having researched diverse markets in many different life cycles - from the embryonic to mature. Frost & Sullivan's reference publication, Industrial Market Engineering (Publication 5168-80), explains the research methodology in great depth.

Frost & Sullivan's Market Engineering system:

Focuses on challenges, problems, and the needs of industry participants

Is based on primary market research, and not on secondary or previously published ones

Focuses on detailed, comprehensive, "bottom-up" data collection techniques

Is based on measurements


8.2 Market Engineering Forecasting Methodology**8.2.1 Overview**

One of the most common questions that Frost & Sullivan receives from its clients is, "What is your forecasting methodology and how can I assess its level of credibility and accuracy?" This section on Frost & Sullivan's proprietary Market Engineering forecasting methodology has been added to answer this question.

This methodology integrates several forecasting techniques with the Market Engineering measurement-based system. It relies on the expertise of the analyst team in integrating the critical market elements investigated during the research phase of the project. These elements include:

- Expert-opinion forecasting methodology
- Delphi forecasting methodology
- Integration of market drivers and restraints
- Integration with the market challenges
- Integration of the Market Engineering measurement trends

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

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- Integration of econometric variables
- Integration of customer demographics

The Market Engineering forecasting methodology is a seven-step system that maximises the credibility and accuracy of the forecasts. These are:

8.2.2 Market Engineering Research Process Completed

The Market Engineering research process provides the navigational measurements of current market position and trends, which become the basis of the forecast.

8.2.3 Measurements and Challenges Analysed over Time

Measurements and challenges are analysed over time to provide additional insights into their potential impact on the market size and development.

8.2.4 Identification of Market Drivers and Restraints

At this stage, the analyst specifies the factors that will drive the market forward in terms of revenues and determines the elements that will inhibit growth.

8.2.5 Expert Opinion Integration Analyst Team

The interview process includes a variety of industry experts: competitors and key customers. These experts' opinions on the direction of the market are integrated with the data and analysis already created.

8.2.6 Forecasts Calculated

At this stage, analysts collect the market data needed to create the initial forecast scenarios. Each scenario is assessed to determine the most probable outcome for the market size. For example, the forecasts are matched to the leading economic indicators and drivers for each specific industry.


8.2.7 Delphi Technique Integration, If Needed

If data and forecast scenarios conflict, it becomes necessary to again discuss the market forecasts with the industry experts interviewed in the research process.

8.2.8 Quality Control within Research Department

Once the forecasts are integrated into the market section, they are verified by the other team members in the industry research group (IRG), and the research director. The forecasts are also ensured for mathematical accuracy and internal consistency by the final review preparation department and the editing department.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

F R O S T  S U L L I V A N

8.3 Strategic Significance of the Market Engineering Forecast

The Market Engineering forecast can have a significant impact on the business in several areas. Therefore, it should be integrated into business planning, strategy development, and decision-making.

8.3.1 Judging Credibility and Accuracy of Market Engineering Forecasts

Frost & Sullivan forecasts integrate the key elements that typically have an impact on market growth and size. No one can consistently make accurate forecasts, but market research has a proven track record in making accurate projections of market trends and growth rates.

The key test of credibility is whether the analyst team had integrated all the critical elements of the market into the forecast. If all such elements are included in the analysis, then the forecast has strong credibility.

The accuracy of a forecast to within a 10 percent range over a three-year period is not vitally important. What is important is that the overall trend be forecast correctly, because it drives the appropriate strategy and subsequent decisions. The Market Engineering forecasting methodology has consistently proved to be an accurate and reliable forecasting tool, particularly for high technology and industrial markets.


All the currencies reported are specified in Malaysian Ringgit (RM), unless indicated otherwise. For the Singaporean market, the currencies are reported in Ringgit Malaysia (RM) as well.

Over the last 40 years, Frost & Sullivan has had an impressive track record in forecasting emerging markets, new technologies, and shifts in existing markets. Unexpected events have significantly changed the marketplace, but these do not occur often, and they merely delay the development of the market, rather than destroy it.

Frost & Sullivan always advise clients that its forecasts should not be the exclusive basis for decision-making at their companies. It should be an additional source of input and a support tool for their work in investigating the market and creating a winning strategy.

In the final analysis, decision-making is based on the general trend of the forecast, not its absolute accuracy.

10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)

F R O S T  S U L L I V A N

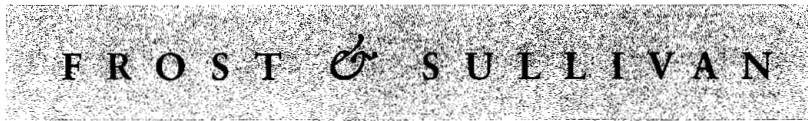
It is important to accurately determine the range of the forecast, as it will have the greatest impact on the investment or strategy decision. Typically, the decisions revolve around questions such as:

- Should the company enter the market?
- Should the company increase or decrease its investment?
- Should the company improve its performance in the market?

These decisions do not require accuracy within a few percentage points. They require accuracy in the determination of the general trend category. All business decisions carry some risk. Market Engineering increases the probability that the decisions will be correct, but it does not eliminate all risks.

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10. INDUSTRY AND ECONOMY OVERVIEW (cont'd)



Frost & Sullivan Malaysia Sdn Bhd ^(522293W)
 Suite E-08-15, Block E, Plaza Mont' Kiara,
 2 Jalan Kiara, Mont' Kiara,
 50480 Kuala Lumpur,
 Malaysia.
 Tel: +603.6204.5800 Fax: +603.6201.7402
 www.frost.com

We have prepared the Report in an independent and objective manner and have taken all reasonable consideration and care to ensure the accuracy and completeness of the Report. We believe that the Report presents a true and fair view of the industry within the limitations among others, secondary statistics and primary research. The Report should not be considered as a recommendation to buy or sell the shares of any company or companies.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Kavan Mukhtyar'.

Kavan Mukhtyar

Partner

Frost & Sullivan (Malaysia) Sdn Bhd

11. BUSINESS

11.1 INTRODUCTION

With the completion of the Pre-Listing Restructuring and Acquisition, our Group will be a regional mobile telecommunications provider, with operations principally in Malaysia, Indonesia, Sri Lanka, Bangladesh and Cambodia. In addition, we have strategic mobile and non-mobile telecommunications operations and investments in India, Singapore, Iran, Pakistan and Thailand. On a proforma basis, as of December 31, 2007, our Group (including our jointly-controlled entities and associates) had a total of 39.8 million mobile subscribers in various markets in Asia. Our CAGR of mobile subscribers on a proforma basis (including our jointly-controlled entities and associates) was 34.1% between 2005 and 2007.

Our mobile telecommunications business is currently centred in our key operating subsidiaries as set out in the table below:

Operating company	Market in which it operates	Equity interest held by our Group	Percentage of contribution to our Post Acquisition Proforma operating revenues as of December 31, 2007
		%	%
Celcom	Malaysia	100.0	50.8 ⁽¹⁾
XL	Indonesia	83.8	29.8
Dialog	Sri Lanka	84.8	10.6
TMIB	Bangladesh	70.0	7.2
TMIC	Cambodia	100.0	1.4
Others	-	-	0.2

Note:

(1) This represents the percentage of contribution by the Celcom Group as a whole.

We intend to continue to focus on growing our existing market share and expanding into targeted new markets in the South and Southeast Asian mobile telecommunications sector in regions generally characterised by high economic growth and/or low mobile penetration rates.

Celcom Group

Celcom is a public company incorporated in Malaysia and commenced business on August 21, 1989. Celcom was acquired by TM (our parent company prior to the Pre-Listing Restructuring) in 2003. As of December 31, 2007, the Celcom Group was the second largest mobile telecommunications service provider in Malaysia by number of subscribers with 7.2 million subscribers, according to Frost & Sullivan. As Malaysia had a fairly high level of mobile penetration of 85.9% as of December 31, 2007, up from 74.7% as of December 31, 2005, according to Frost & Sullivan, and relatively low growth rate of the total number of mobile subscribers, the Celcom Group's CAGR of mobile subscribers was 2.5% between 2005 and 2007. As of December 31, 2007, the Celcom Group had a 30.9% market share, representing 7.2 million subscribers, according to Frost & Sullivan. Celcom was the first privately owned company in Malaysia to offer mobile services when it launched its "ART900" analog mobile system based on extended total access communications system (ETACS) in 1989. In 1995, Celcom was one of the first operators in Malaysia to provide digital services through its GSM 900 network. With the launch of its GSM 900 network, it was the first operator in Malaysia to offer a dual mobile technology platform, namely ART900 and Celcom GSM.

11. BUSINESS (cont'd)

As of the Latest Practicable Date, the Celcom Group is licensed to provide a broad range of voice and data communications services and offers its subscribers a choice of postpaid or prepaid services through the nationwide mobile networks it operates — a 2G network utilising both GSM 900 and GSM 1800 technologies and Malaysia's first 3G network launched in 2005 using Wideband Code Division Multiple Access 2100 ("WCDMA 2100") technology. We believe that the Celcom Group provides its subscribers with the widest network coverage in Malaysia. In 2006, the 3G network was upgraded and the Celcom Group was the first operator in Malaysia to provide HSDPA services, offering subscribers mobile broadband access with speeds of up to 3.6 Mbps currently.

XL

XL was incorporated as a limited liability company under the laws of Indonesia. XL commenced business on October 8, 1996 and was the first private company to provide mobile telephony services in Indonesia. It has been a public company listed on the Indonesia Stock Exchange (previously known as the Jakarta Stock Exchange) since 2005 and became our subsidiary through a series of acquisitions in 2005 and 2006. Following the completion of the Acquisition, our shareholding in XL will increase from 67.0% to 83.8%. As of December 31, 2007, XL was the third largest mobile telecommunications service provider in Indonesia measured by total subscribers, having a 16.6% subscriber market share representing 15.5 million subscribers, according to Frost & Sullivan. Of those 15.5 million subscribers, 0.5 million were postpaid subscribers and 15.0 million were prepaid subscribers. XL's CAGR of mobile subscribers was 48.9% between 2005 and 2007. XL operates a GSM mobile network and provides services in Indonesia in 2 allocated bandwidths of GSM 900 and GSM 1800. XL has also been allocated 3G spectrum and in September 2006, XL introduced its 3G service in Indonesia, the XL 3G, which is currently available in 73 cities throughout Indonesia. As of December 31, 2007, XL's network covered more than 90% of the populated areas of Indonesia. In 2007, XL made significant investments of USD700 million to expand its network and to enhance its network and coverage for its subscribers.

Dialog

Dialog is a Sri Lankan company which commenced business on January 31, 1995 and has been a public company listed on the Colombo Stock Exchange since 2005. In 1996, the local promoter divested its stake in Dialog to us, making Dialog our subsidiary. Dialog is the largest mobile telecommunications service provider in Sri Lanka with a market share of 53.4% in the mobile telecommunications market as of December 31, 2007, representing 4.3 million subscribers, according to Frost & Sullivan. Of those 4.3 million mobile subscribers, 3.7 million were prepaid subscribers and 0.6 million were postpaid subscribers. Dialog's CAGR of mobile subscribers was 41.6% between 2005 and 2007. Dialog's mobile network has a wide reach in Sri Lanka covering a substantial portion of its inhabited land mass. In 2006, Dialog was awarded the 3G spectrum by the Telecommunications Regulatory Commission of Sri Lanka ("TRC"). Dialog launched its 3G commercial services in August 2006 and became the first operator in South Asia to launch a 3G network.

11. BUSINESS (cont'd)

Dialog has also made several strategic corporate acquisitions in order to capitalise on and secure a strong position in a "quadruple play" market (where mobile, fixed, broadband internet and media services are offered as a result of global technology trends moving towards convergence, featuring multi-media services and multiple technologies to deliver such services). In December 2005, Dialog acquired 100% of DBN, which operates the largest transmission and data communication network in Sri Lanka. DBN is a key player in providing backbone transmission, infrastructure facilities and data communication services, and is also engaged in the business of internet service provision. In July 2007, DBN launched its CDMA services.

Dialog also has a 100% interest in Dialog TV, a media company that is licensed to operate television broadcasting and pay television in Sri Lanka. In December 2006, Dialog, through Dialog TV, acquired CBNP and CBNSP. Since these acquisitions, Dialog has invested in digital broadcast infrastructure, targeting digital terrestrial broadcast, direct to home ("DTH") and mobile television service provisioning. The acquisition of these entities has provided Dialog with a portfolio of licenses, technology and service positioning capability, enabling Dialog to offer quadruple play services.

TMIB

TMIB is a public limited company incorporated in Bangladesh and commenced business on November 15, 1997. It is a 70:30 joint venture formed in 1996 between us and A.K. Khan & Co. Ltd., a Bangladesh corporation with diversified businesses. TMIB is currently the third largest mobile telecommunications service provider in Bangladesh. As of December 31, 2007, TMIB had a 20.4% market share representing 7.2 million subscribers, according to Frost & Sullivan. Of those 7.2 million subscribers, 0.1 million were postpaid subscribers and 7.1 million were prepaid subscribers. TMIB operates under the "AKTEL" brand. TMIB's CAGR of mobile subscribers was 53.4% between 2005 and 2007, and enjoyed a 24.7% year-on-year growth in subscribers between 2006 and 2007. TMIB was the first operator to link the southernmost and northernmost parts of Bangladesh (Teknaf to Tetulia), the first mobile operator in the country to exploit Next Generation Network ("NGN") Internet Protocol ("IP") backbone technology to enable it to implement IP traffic and signalling and the first operator to have successfully implemented Frequency Load Planning ("FLP") enabling TMIB to offer more capacity in its radio network despite the narrow GSM 900 and GSM 1800 network on which it currently operates.

TMIC

TMIC is a private limited liability company incorporated in Cambodia and became our wholly-owned subsidiary in 2006, commencing business on October 19, 1992. TMIC offers mobile telecommunications services in all cities and provinces, as well as the main national roads, in Cambodia under the brand "hello". As of December 31, 2007, TMIC was the third largest mobile telecommunications service provider in Cambodia with 0.3 million subscribers, representing a 12.7% market share, according to Frost & Sullivan. Of those 311,000 subscribers, 3,000 were postpaid subscribers and 308,000 were prepaid subscribers. TMIC's CAGR of mobile subscribers was 40.3% between 2005 and 2007. TMIC's mobile network in Cambodia currently covers approximately 56% of the populated areas.

Foreign strategic operations and investments

We also have strategic operations and investments in the South and Southeast Asian region as well as in other countries. In general, although we do not own a majority of all such companies, we have significant influence over their business and operations through directorships, shareholder or partnership agreements.

11. BUSINESS (cont'd)

Mobile telecommunications investments

Our investments in mobile telecommunications businesses include:

- *Spice (operating in India)* – Spice is a public company which has been listed on the Bombay Stock Exchange Limited since July 19, 2007. Spice currently offers mobile telecommunications services in the Punjab and Karnataka states of India. Spice has also been awarded licenses for the states of Maharashtra, Andhra Pradesh, Delhi and Haryana although allocations for spectrum have not yet been granted. As of December 31, 2007, Spice had 3.8 million subscribers representing a 1.6% market share in India, and was the second and fifth largest mobile telecommunications service provider within the Punjab and Karnataka circles, respectively, according to Frost & Sullivan. As of December 31, 2007, for the Punjab state, Spice had 2.3 million subscribers, comprising 0.4 million postpaid subscribers and 1.9 million prepaid subscribers. As of December 31, 2007, for the Karnataka state, Spice had 1.5 million subscribers, comprising 0.1 million postpaid subscribers and 1.4 million prepaid subscribers. Our shareholding in Spice as of the Latest Practicable Date is 39.2%. We consider it to be a significant strategic investment for our Group given the potential for growth in the Indian economy as well as for Spice within India.
- *M1 (operating in Singapore)* – M1 is a public company listed on the SGX-ST offering a broad range of mobile voice and data communications services over its 2G/3G/3.5G network. According to Frost & Sullivan, as of December 31, 2007, M1 was the third largest mobile telecommunications service provider in Singapore by number of subscribers with 1.5 million subscribers, representing a 27.3% market share of subscribers. Of those 1.5 million subscribers, 0.8 million were postpaid subscribers and 0.7 million were prepaid subscribers. We believe that our investment in M1 benefits us in our regional expansion as we are able to draw on its expertise in technology, products and services. In 2005, Khazanah, TM and TMI formed a consortium through SunShare to invest in M1. As of the Latest Practicable Date, SunShare held a 29.8% interest in M1. Upon completion of the Pre-Listing Restructuring and the Acquisition, we will have 100.0% of the share capital of SunShare. SunShare has 2 seats on the board of directors of M1.
- *MTCE (operating in Iran)* – MTCE is a private company incorporated in Iran. MTCE offers mobile telecommunications services in the Esfahan province of Iran. We have a 49.0% interest in MTCE and one seat on its board of directors. The government of Iran through the Telecommunications Company of Esfahan and the Iran Telecommunications Industry also owns 49.0% and 2.0% respectively in MTCE. As of December 31, 2007, MTCE had 30,568 subscribers, comprising 63 postpaid subscribers and 30,505 prepaid subscribers.

11. BUSINESS (cont'd)

11.2 COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

11.2.1 Unique portfolio of assets focused on certain fast-growing South and Southeast Asian markets, complemented by mobile operations in Malaysia generating strong cash flows

Through a number of acquisitions, our Group controls a unique portfolio of assets focused on the provision of mobile telecommunications services within the fast-growing markets in the South and Southeast Asian region, a number of which are characterised by low mobile telecommunications penetration. We believe that our Group is therefore well positioned to benefit from population growth, economic development and increased demand for mobile telecommunications services in these regions. Economic growth (measured in terms of GDP per capita), population growth and mobile subscriber growth in these regions have outpaced that of developed countries or countries in the Organisation for Economic Cooperation and Development in recent years. We expect this trend to continue over the next few years.

In addition, our portfolio is well complemented by the Celcom Group, our anchor operations in Malaysia, which operates in a more developed market and provides steady cash flows that can be deployed to support our operations in the high growth markets as well as serve as a strong base to grow talents and expertise.

11.2.2 Strong competitive position providing growth potential within the South and Southeast Asian region

Our Group has strong competitive positions in many of the regional markets that we operate. In terms of market share of mobile subscribers, Dialog is Sri Lanka's largest mobile telecommunications service provider. The Celcom Group is the second largest mobile telecommunications service provider in Malaysia, while XL, TMIB, TMIC and M1 are the third largest mobile providers in Indonesia, Bangladesh, Cambodia and Singapore, respectively. Many of our companies also have long operating track records and were either the incumbent mobile services provider or the pioneer in delivering certain key services, such as 3G, in their respective markets.

11.2.3 Ability to develop and enhance synergies across operating companies

The operational challenges and opportunities faced by each of our operations are similar and therefore we believe that our knowledge and experience can be leveraged across such operations to enhance our Group's performance and operational efficiencies.

We believe that we can create additional revenue streams, improve our purchasing power for the acquisition of network equipment and infrastructure to achieve lower capital expenditures per unit on network and infrastructure, lower expenses through the coordination of marketing opportunities and processes and enhance individual operations through the sharing and application of knowledge and telecommunication best practices, particularly through our management rotation and other talent management efforts.

Specifically, we have entered into joint purchasing arrangements for our Group to achieve economies of scale as well as cost savings. We are also able to make improvements to our technology and business processes by leveraging on expertise across our operations. Areas where our Group can enhance synergies across our operating companies include network and IT, sales and marketing and launching new products and businesses.

11. BUSINESS (cont'd)

11.2.4 Strong brand equity in our respective markets

Our operating companies have strong competitive positions in their respective markets, particularly in Malaysia, Indonesia, Sri Lanka, Bangladesh, Cambodia and Singapore. We have successfully developed strong brand identities in many of our markets. We believe our brand names, such as "Celcom", "XL", "Dialog", "AKTEL", "hello" and "M1" are well-known and recognised in their respective markets and therefore play a critical role in subscriber acquisition and retention across all of our principal product segments. Our brands and their attributes are key in differentiating our Group's products from those of existing and new competition. Over the years, we have invested heavily in the building of our brand names such as "Celcom", "XL" and "Dialog".

Our brands were built through planned advertising and promotions centred around our commitment to providing high quality and innovative communication services that anticipate and meet our subscribers' needs. We believe that our strong market position, operating track record and strong brand recognition position us well for us to continue capturing opportunities for growth in our markets.

11.2.5 Extensive network coverage and effective distribution network

We believe that our extensive network coverage and numerous distribution outlets in our respective operating markets have enabled us to compete successfully in the mobile telecommunications services market particularly in Malaysia, Indonesia and Sri Lanka.

In Malaysia, the Celcom Group operates nationwide mobile networks, including the nation's first 3G network, providing our subscribers with extensive network coverage in the country. The Celcom Group also has a wide distribution network consisting of over 15,000 outlets for prepaid services as of the Latest Practicable Date.

XL also operates a nationwide mobile and 3G network with its own fiber optic network covering most of the populated areas of Java. XL also has high capacity microwave transmission links covering Kalimantan, Sumatra, Sulawesi, Bali and Lombok and a submarine cable linking Java, Sumatra, Sulawesi and Kalimantan. XL's products in Indonesia are widely distributed through XL Centres and through its network of distributors.

Dialog's mobile network has a wide reach in Sri Lanka covering a substantial portion of its inhabited land mass. Its distribution network in Sri Lanka consists of its own retail outlets and service centres as well as an exclusive business partner network.

We believe that a strong distribution network supported by wide mobile network coverage is a key competitive advantage to attract and retain subscribers.

11.2.6 Ability to deliver enhanced technology and innovative products and services

We believe that our operating companies have demonstrated their ability to consistently deliver innovative products and services to their markets, allowing us to compete effectively in a rapidly developing mobile telecommunications market. The Celcom Group has maintained its technology leadership in the Malaysian mobile telecommunications industry with its launch of Malaysia's first HSDPA service, branded "Celcom 3GX". Since the launch of Celcom 3GX (HSDPA), the Celcom Group has made further capital investments to ensure that its 3G network remains competitive in terms of coverage and quality. The Celcom Group has also consistently delivered innovative products and services. Its strategic alliance with Vodafone has also allowed it to launch exclusive innovative services for business users and international travellers.

11. BUSINESS (cont'd)

XL's 3G network supports HSDPA services and has a wide coverage of 73 Indonesian cities. It offers GPRS-based features such as mobile mail, WAP services as well as various interactive services such as video calls supported by its network.

Dialog was the first operator in South Asia to introduce 3G services in August 2006. Its HSDPA-enabled network also supports high speed mobile broadband, allowing it to offer innovative services such as live streaming, video conferencing and surveillance. Dialog's subsidiaries also offer broadcast television services using leading digital video broadcast technology and broadband services using WiMax technology.

11.2.7 Experienced management team with extensive industry experience

We believe that our senior management team (both in Malaysia and internationally) possesses the mix of skills and multinational experience necessary to grow and focus our Group on becoming a leading regional mobile services provider. Our senior executives are highly qualified and experienced with strong exposure to high growth mobile markets in Asia. We believe that the ability of our management team to adapt to various cultures and operating environments is key to our future success.

11.3 FUTURE PLANS AND STRATEGIES

Our goal is to become a leading regional mobile telecommunications provider. The key elements of our strategy to achieve this objective are:

11.3.1 Increase emphasis on organic growth in existing country operations

- *Build on our strong positions in our existing markets through effective branding and disciplined marketing.* We intend to continue working to further develop our brand equity, image and awareness, to enable us to strengthen our position within our core segments while attracting new subscribers. We plan to employ a disciplined marketing strategy based on strong and clear marketing propositions in each market that will be focused on increasing market share in our existing markets.
- *Continue to expand network coverage, capacity and quality.* Since our Group's operations are focused on a number of fast growing mobile markets in South and Southeast Asia, we believe that we must work continuously to expand our network coverage and enhance our network quality in order to improve our subscriber base and operating margins. For example, in Indonesia, we have been aggressively increasing the number of XL's BTS. Between 2006 and 2007, XL's total number of BTS increased by 54%.
- *Develop innovative product offerings and services.* We intend to continue to develop and package innovative products and services, in both voice and data, in all of our markets, which we believe will help us to continue building our subscriber base and improving margins.
- *Further strengthen management teams in operating companies.* We intend to continue to develop our human capital and seek additional talent from outside our Group where appropriate.

11. BUSINESS (cont'd)

11.3.2 Pursue selective acquisitions and partnerships in mobile telecommunications markets in South and Southeast Asia

- *Expand our footprint in our targeted markets.* The South and Southeast Asia mobile markets are generally characterised by high economic growth and/or low mobile penetration rates and we intend to continue to focus on expanding our footprint in these markets. Specifically, we intend to enhance and grow our Group's operations and/or investments in key markets, particularly India, which represents one of Asia's fastest growing mobile markets. We also intend to pursue growth opportunities in other Asian emerging economies such as Indochina.
- *Strategic acquisition opportunities.* In several of our target markets, we believe there will be opportunities to participate in strategic business combinations with other mobile telecommunications companies. We believe that some of these opportunities could provide synergies with our capabilities and assist in further strengthening our platform and growth. We will continue to seek to evaluate and pursue, where appropriate, potential business combinations that we believe would be beneficial to our business.
- *Partnerships with other telecommunications companies.* We will continue to consider partnerships with other telecommunication companies which may have capabilities that are complementary to our business that could enhance our shareholders' value.

11.3.3 Further improving operational synergies and efficiencies

- *Drive operational synergies among our operating companies.* Our corporate centre will support the execution of our strategies and drive operational synergies on the revenue and cost side among our operating companies. We plan to increase the revenue and cost synergies through increased collaboration and best practice sharing among our operating companies. Specifically, we believe revenue synergies may be derived from roaming synergies and the development of innovative products and services which will facilitate traffic within our network or within our operating companies. With the breadth of our networks across multiple countries, we also believe there are cross-selling opportunities which we can capitalise on.

On the cost side, we have already realised procurement synergies and believe there remain significant synergy opportunities that can be extracted through a group-wide procurement initiative. Other areas of cost savings include improved cost structures in sales and marketing costs, human resources costs, IT costs and R&D expenditure.

- *Leverage operational efficiency in the individual operating companies.* We intend to actively manage costs and maximise margins in low ARPU environments. We believe our continued focus on cost improvement initiatives and development of operational excellence, including best practice sharing, throughout our portfolio of operating companies will help us maximise profitability in the developing markets which our Group operates in.

11.3.4 Attracting and retaining a high quality workforce

- *Develop a talent management programme.* In order to strengthen our corporate culture and further develop our human resource capabilities, we intend to undertake initiatives to enhance our staff capabilities, including through the development of a structured talent management programme. We intend to rotate and second key managers and officers to our different operating companies, allowing them to benefit from the breadth and diversity of experiences available within our Group.

11. BUSINESS (cont'd)

- *Introduce an improved compensation structure.* We believe that compensation should commensurate with responsibility, capability and performance to create a high performance culture. We intend to link incentive compensation to the achievement of specific key performance indicators, promote meritocracy and build a high performance culture. We believe that a competitive compensation structure will motivate our talent to perform to the best of their abilities and also help us to recruit and retain the best talent.
- *Provide comprehensive training and development programmes.* We intend to focus on developing an effective human resources strategy which fosters a work environment that contributes to continuous learning and improvement, provides both accountability and fairness for all employees and will be attractive to skilled personnel we seek to recruit.

11.4 HISTORY AND BACKGROUND

Our Company was incorporated in Malaysia under the Companies Act on June 12, 1992 as a private limited company under the name of Telekom Malaysia International Sdn Bhd and commenced business in 1994. On October 16, 2001, we changed our name to TM International Sdn Bhd. On December 12, 2007, we were converted into a public company. Since incorporation, our Company has been a wholly-owned subsidiary of TM.

The key events in the history of our Group, other than the Pre-Listing Restructuring and the Acquisition, are set out below:

Month/Year	Event
February 1994	A joint venture agreement was entered into between TMI and Sunpower Systems (Private) Limited to set up Dialog (then known as MTN).
October 1996	TMIB was incorporated in Bangladesh as a joint venture company between A.K. Khan & Co. Ltd. and TM.
November 1996	Sunpower Systems (Private) Limited divested its stake in MTN to TMI, which resulted in Dialog becoming wholly-owned by TMI.
May 1998	TMI purchased 51.0% of Cambodia Samart Communication Company Limited ("Casacom") (now known as TMIC) from Samart.
January 2005	TMI through TMIL acquired the entire equity interest of Indocel, which has a 23.1% equity interest in XL.
February 2005	TMI through TMIL entered into a share sale agreement to acquire a 78% stake in Multinet from Nasser Khan Ghazi and Adnan Asdar.
June 2005	Indocel acquired an additional 4.2% equity interest in XL from Rogan Partners, Inc.
July 2005	Dialog was listed on the Colombo Stock Exchange.
August 2005	TMI, Khazanah and SunShare entered into a joint venture and shareholders' agreement to establish SunShare as a joint venture company for the acquisition of equity interest in M1.
September 2005	A restated joint venture and shareholders' agreement was entered into among SunShare, TMI, Khazanah and TM as a new party to the earlier agreement to participate in the affairs of SunShare.
September 2005	XL was listed on the Jakarta Stock Exchange (now known as the Indonesia Stock Exchange).

11. BUSINESS (cont'd)

Month/Year	Event
October 2005.....	Indocel increased its shareholding in XL to 56.9% through the exercise of its call and put option.
October 2005.....	TMI through SunShare, acquired 12.1% of the equity shares in M1 from Great Eastern Telecommunications Ltd. Prior to March 2006, SunShare made on-market purchases, bringing its total equity interest in M1 to 29.8%.
December 2005.....	TMI through TMIL acquired a 49.0% ownership interest in MTCE through a transfer from TRI, a wholly-owned subsidiary of Celcom.
December 2005.....	Dialog acquired 100% of DBN (then known as MTT Network (Private) Limited).
February 2006.....	TMI obtained a 24.4% stake in Samart I-Mobile by purchasing existing shares from Samart I-Mobile's parent company, Samart. In addition, TMI has a 18.9% stake in Samart and Samart in turn holds 54.1% in Samart I-Mobile.
February 2006.....	TMI purchased the remaining 49.0% of Casacom (now known as TMIC) from Samart, and Casacom became a wholly-owned subsidiary of TMI.
March 2006.....	TMI acquired the entire equity interest of TMI India (then known as DCIL), which had a 49.0% equity interest in Spice.
June 2006.....	Indocel increased its shareholding in XL to 59.6% by a purchase of additional shares from AIF (Indonesia) Ltd.
September 2006.....	Dialog acquired 90.0% of the total issued and paid-up share capital of Dialog TV (then known as Asset Media (Private) Limited) from Nihal Seneviratne Epa and Lasantha Joseph Milroy Pieries.
September 2006.....	TMI through TMIL entered into a share sale agreement with Nasser Khan Ghazi to acquire an additional 11.0% equity interest in Multinet.
October 2006.....	Casacom changed its name to TMIC.
December 2006.....	Dialog, through Dialog TV, entered into a share sale and purchase agreement for the acquisition of 100% of the share capital of CBNP and CBNSP from Muhunthan Canagasoorayam and Niranjan Canagasoorayam.
June 2007.....	Indocel increased its shareholding in XL to 67.0% by a purchase of additional shares from AIF (Indonesia) Ltd.
July 2007.....	Spice was listed on the Bombay Stock Exchange.
September 2007.....	Dialog acquired the remaining 10.0% of the total issued and paid-up share capital in Dialog TV, which resulted in Dialog TV becoming wholly-owned by Dialog.
December 2007.....	TMI through TMIL entered into a shareholders' agreement with Etisalat Indonesia in relation to the acquisition of 15.97% equity interest in XL by Etisalat Indonesia from Bella Sapphire Ventures Ltd.

11. BUSINESS (cont'd)

11.5 OUR KEY MOBILE TELECOMMUNICATIONS OPERATIONS

Our key mobile telecommunications operations are as follows:

11.5.1 Celcom Group

Celcom was incorporated in Malaysia on January 5, 1988 and commenced business on August 21, 1989. The Celcom Group is primarily engaged in the provision of voice and data communications services through mobile networks in Malaysia. The Celcom Group's business is focused on the domestic mobile services segment and it operates nationwide mobile networks — a 2G network utilising both GSM 900 and GSM 1800 technologies and Malaysia's first 3G network using WCDMA 2100 technology. We believe that the Celcom Group currently has the widest 2G and 3G network coverage in Malaysia and was the first operator in the country to launch 3G services in 2005. In 2006, the 3G network was upgraded and the Celcom Group was the first operator in Malaysia to provide HSDPA services, offering subscribers mobile broadband access with speeds of up to 3.6 Mbps currently. The Celcom Group offers postpaid mobile services under the "Celcom Postpaid" banner and prepaid mobile services under the "Xpax" brand. As of December 31, 2007, the Celcom Group had a 30.9% market share representing 7.2 million subscribers, making the Celcom Group the second largest mobile telecommunications service provider in Malaysia by number of subscribers, according to Frost & Sullivan. The 7.2 million subscribers comprised 1.3 million postpaid subscribers and 5.9 million prepaid subscribers. As of the Latest Practicable Date, we believe that the Celcom Group has the widest mobile network in Malaysia.

The following table shows certain information relating to the Celcom Group's revenues, adjusted EBITDA and PATAMI extracted from Celcom Group's audited financial statements for the periods indicated:

	Year ended December 31,		
	2005	2006	2007
Revenue (RM millions)	4,496	4,526	5,127
Adjusted EBITDA (RM millions) ⁽¹⁾	1,133 ⁽²⁾	1,957	2,275
PATAMI (RM millions)	(194)	816	1,052

Notes:

- (1) Adjusted EBITDA is not a uniformly or legally defined financial measure. We define adjusted EBITDA as net profit/(loss) before taxation, interest expense/(income) and other finance cost, depreciation, impairment and amortisation, other expense/(income), share of results of associates and jointly-controlled entities and foreign exchange gain/(loss). Adjusted EBITDA is presented because we believe it is a widely accepted financial indicator on an entity's ability to incur and service debt. You should not consider the adjusted EBITDA as an alternative to net income or income from operations, or as an indicator of our operating performance or other combined operations or cash flow data prepared in accordance with generally accepted accounting principles, or an alternative to cash flows as a measure of liquidity or any measures of performance derived in accordance with Malaysian GAAP. The computation of adjusted EBITDA herein may differ from similarly titled computations of other companies. Adjusted EBITDA is not a measure of financial performance under Malaysian GAAP and should not be considered as an alternative to net cash provided by operating activities or as a measure of liquidity or an alternative to net income as indicators of our operating performance or any measures of performance derived in accordance with Malaysian GAAP.

11. BUSINESS (cont'd)

The following table reconciles our definition of adjusted EBITDA to our profit after taxation for the financial years indicated:

	For the year ended December 31,		
	2005	2006	2007
	RM million	RM million	RM million
(Loss)/profit after taxation.....	(193.7)	820.3	1,058.7
<i>plus:</i>			
Taxation.....	257.6	325.9	351.6
Depreciation, amortisation and impairment.....	1,046.5	805.0	912.8
<i>less:</i>			
Finance income.....	(60.5)	(55.8)	(47.1)
Share of results of associated companies.....	4.5	8.5	(5.1)
Other income.....	(13.6)	(16.1)	(29.6)
<i>plus:</i>			
Finance cost.....	92.3	67.7	35.0
Foreign exchange loss/(gain).....	-	1.5	(1.5)
Adjusted EBITDA.....	1,133.1	1,957.0	2,274.8

- (2) The lower adjusted EBITDA for the year ended December 31, 2005, was largely attributable to a significant one-off provision for satisfaction of the award to DeTeAsia of RM915.1 million. See "Section 11.17 – Business – Legal proceedings and disputes".

Subscriber base and usage

According to Frost & Sullivan, Malaysia had a fairly high level of mobile penetration of 85.9% as of December 31, 2007, up from 73.0% as of December 31, 2006 and 74.7% as of December 31, 2005. The level of mobile penetration dropped to 73.0% as of December 31, 2006 as a result of the enforcement of a new MCMC requirement of subscriber registration that resulted in all prepaid subscribers in Malaysia who were not registered by December 29, 2006 being automatically terminated. As a result, the fiscal 2006 data may be unrepresentative of trends in the market. As of December 31, 2007, prepaid subscribers comprised 82.2% of the Celcom Group's subscribers and postpaid subscribers comprised the remaining 17.8% of the Celcom Group's subscribers.

The Celcom Group experienced a decline in subscriber market share from 35.1% in fiscal 2005 to 31.2% in fiscal 2006, which we believe was primarily attributable to management's ongoing efforts to focus on revenue market share instead of subscriber market share and the Celcom Group's redefinition of a "subscriber" to include only active and revenue contributing subscribers. Between fiscal 2006 and fiscal 2007, the Celcom Group's market share was stable. However, it is anticipated that the Government of Malaysia will introduce mobile number portability in August 2008, which will allow subscribers to change operators while retaining their number and thus make it much easier for subscribers to switch from one telecommunications provider to another. We expect this to result in increased competition in the short term as operators attempt to attract subscribers from their competitors, resulting in pricing pressures, increased marketing expenses and a possible loss of market share if the Celcom Group fails to successfully keep existing subscribers and attract sufficient new subscribers. In addition, we anticipate competition to intensify as a result of one of the Celcom Group's primary competitors, DiGi, having recently obtained approval from the MCMC for the transfer, subject to certain conditions, of a license to operate a 3G network from TdC to DiGi.