Taxation

The Celcom Group's share of income taxes of associated companies is included in its share of results of associated companies. No taxation incentives have been granted to the Celcom Group.

9.5.2 The Celcom Group's results of operations

The following table shows the breakdown of certain revenue and expense items of the Celcom Group's consolidated income statement as a percentage of its operating revenues for the fiscal years indicated:

	Year ended December 31,		
	2005	2006	2007
	%	%	%
Revenue	100.0	100.0	100.0
Operating expenses[(1)]	(98.3)	(74.9)	(73.4)
Other income	0.3	0.4	0.6
Profit from operations	2.0	25.5	27.2
Net finance income/(expense)	(0.7)	(0.3)	0.2
Associated companies:			
- Share of results of associated companies (net of taxation)	(0.1)	(0.2)	0.1
- Gain on disposal of associated companies	0.2	0.4	-
Profit before taxation	1.4	25.4	27.5
Taxation	(5.7)	(7.2)	(6.9)
(Loss)/profit after taxation	(4.3)	18.2	20.6
Attributable to:			
Equity holders of Celcom	(4.3)	18.0	20.5
Minority interests	*	0.2	0.1
Net (loss)/profit for the financial year	(4.3)	18.2	20.6

Notes:

* = not meaningful

(1) Operating costs for fiscal 2005 included an exceptional item which was the one-off provision of RM915.1 million in connection with the claim by DeTeAsia.

Fiscal 2007 compared to fiscal 2006

Operating revenue

Operating revenue increased by RM601.0 million, or 13.3%, from RM4,526.0 million in fiscal 2006 to RM5,127.0 million in fiscal 2007, primarily due to a significant increase in prepaid revenues driven by an increase in the number of prepaid subscribers, but also supported by increases across all revenue components.

Prepaid revenue. The Celcom Group's prepaid business continued to be a major contributor and the key growth factor for the Celcom Group's revenue, contributing 57.7% of the Celcom Group's operating revenue for fiscal 2007. Prepaid revenue grew by RM448.1 million, or 17.8%, from RM2,512.6 million in fiscal 2006 to RM2,960.7 million in fiscal 2007, primarily driven by a 20.4% increase in the number of prepaid subscribers from 4.9 million as of December 31, 2006 to 5.9 million as of December 31, 2007.

Postpaid revenue. Revenue from the Celcom Group's postpaid services, which accounted for 26.1% of the Celcom Group's operating revenue in fiscal 2007, increased by RM67.2 million, or 5.3%, from RM1,271.3 million in fiscal 2006 to RM1,338.5 million in fiscal 2007. This increase was in line with a modest growth in the Celcom Group's postpaid subscriber base from 1.2 million as of December 31, 2006 to 1.3 million as of December 31, 2007.

Interconnect and international roaming revenue. The increase in the Celcom Group's operating revenue was also attributable in part to the increase in revenue from interconnection services of RM54.7 million, or 12.9%, from RM424.0 million in fiscal 2006 to RM478.7 million in fiscal 2007, largely due to the increase in interconnect traffic in tandem with the increase in the Celcom Group's subscriber base. In addition, international roaming revenue also continued to improve from RM233.5 million in fiscal 2006 to RM242.6 million in fiscal 2007, driven mainly by an increase in the number of the Celcom Group's roaming partners and countries resulting in higher incoming traffic terminating on the Celcom Group's network.

Operating costs

Operating costs increased by RM371.4 million, or 11.0%, from RM3,392.1 million in fiscal 2006 to RM3,763.5 million in fiscal 2007, due to higher direct costs of sales, staff costs, marketing, advertisement and promotion, other operating costs and depreciation.

Direct costs of sales. Direct costs of sales increased slightly by RM47.1 million, or 4.7%, from RM1,000.8 million in fiscal 2006 to RM1,047.9 million in fiscal 2007, primarily due to an increase in expenses related to the usage of interconnection services that resulted from an increase in the volume of outgoing traffic to other operators. This increase was in line with the increased number of subscribers and subscriber MOU.

Staff costs. Staff costs increased by RM48.1 million, or 20.8%, from RM231.0 million in fiscal 2006 to RM279.1 million in fiscal 2007. The increase in staff costs was attributable to the increase in staff in line with the Celcom Group's growth, coupled by the increase in related costs such as medical expenditures.

Maintenance costs. Maintenance costs increased slightly by RM7.6 million, or 2.5%, from RM308.0 million in fiscal 2006 to RM315.6 million in fiscal 2007, due to the expansion of the Celcom Group's network infrastructure. The increase in maintenance costs increased at a lower rate than the increase in the Celcom Group's network infrastructure in part due to better management and control of maintenance costs.

Marketing, advertisement and promotion. Marketing, advertisement and promotion expenses increased by RM40.1 million, or 8.4%, from RM475.3 million to RM515.4 million, primarily due to an increase in the marketing, advertisement and promotional activities and various aggressive initiatives to expand the Celcom Group's sales and distribution channels undertaken during fiscal 2007. These initiatives include terminal and outlet subsidies, incentive plans for distributors and dealers that reward such sellers based on subscriber loyalty, subscriber acquisition programmes, promotional campaigns, new product launches and other marketing events targeted at enhancing the Celcom Group's brand image and awareness.

Supplies and materials. Supplies and materials expenses decreased by RM15.9 million, or 27.5%, from RM57.9 million in fiscal 2006 to RM42.0 million in fiscal 2007, largely due to better management of the procurement of supplies and materials.

Other operating costs. Other operating costs increased by RM197.4 million, or 38.6%, from RM511.1 million in fiscal 2006 to RM708.5 million in fiscal 2007. The increase in other operating costs was largely associated with the expansion of the Celcom Group's network infrastructure to accommodate its 3G and newly-established HSDPA services. BTS rentals and utilities increased by RM64.9 million from RM201.8 million in fiscal 2006 to RM266.7 million in fiscal 2007 in tandem with Celcom Group's rapid network expansion. The Celcom Group's business license fee also increased by RM32.9 million from RM48.3 million in fiscal 2006 to RM81.2 million in fiscal 2007, attributable to an increase in its apparatus license fee as a result of the increase in the number of BTS sites built. In addition, the Celcom Group also made an allowance for asset impairment of RM57.4 million mainly as a result of the retirement and replacement of certain of its network assets in connection with the ongoing unification of its 2G and 3G core networks under a single platform. The increase in other operating costs in fiscal 2007 as compared to fiscal 2006 was also partly due to the absence in fiscal 2007 of the reversal of provision on service taxation provided for DeTeAsia claims of RM35.6 million made in fiscal 2006.

Depreciation. Depreciation expenses increased by RM47.0 million, or 5.8%, from RM808.0 million in fiscal 2006 to RM855.0 million in fiscal 2007. The increase was in line with the increase in capital expenditures incurred during fiscal 2007 for the expansion and enhancement of the Celcom Group's telecommunications network infrastructure and the acceleration of depreciation of certain telecommunications equipment in order to write down the useful lives of those assets.

Other operating income

Other operating income increased from RM16.1 million in fiscal 2006 to RM29.6 million in fiscal 2007 as a result of a one-off RM10.6 million waiver of additional fees by TM on certain leased line charges pursuant to the resolution of a disagreement between TM and the Celcom Group over certain leased line charges, and an additional RM8.1 million in charges imposed by the Celcom Group on subscribers for early contract terminations.

Net finance income/(expenses)

Net finance income/(expenses) increased from a net finance cost of RM11.9 million in fiscal 2006 to a net finance income of RM12.1 million in fiscal 2007, primarily due to a significant decrease in interest expense as a result of the Celcom Group's repayment of RM400.0 million on its Islamic debt securities (the Al-Bai' Bithaman Ajil Bonds) during fiscal 2007.

Share of results of associated companies/gains on disposal of associated companies

The Celcom Group's share of results of associated companies increased from a loss of RM8.5 million in fiscal 2006 to a profit of RM5.1 million in fiscal 2007, mainly due to its share of profits of Sacofa of RM6.3 million in fiscal 2007, partly offset against losses of RM1.2 million by C-Mobile.

In fiscal 2007, there was no divestment by the Celcom Group of any of its equity interest in subsidiaries or associated companies.

Profit before taxation

As a result of the reasons discussed above, the Celcom Group's profit before taxation increased by RM264.1 million, or 23.6%, from RM1,146.2 million in fiscal 2006 to RM1,410.3 million in fiscal 2007.

Taxation

Taxation, comprising taxes on taxable profit for the year and deferred taxes, increased by RM25.7 million, or 7.9%, from RM325.9 million in fiscal 2006 to RM351.6 million in fiscal 2007, as a result of the Celcom Group's increase in profits before taxation in fiscal 2007. The Celcom Group's effective tax rate in 2007 was slightly lower than the statutory tax rate primarily due to the reversal of the provision for taxation made in prior years that was higher than the actual taxation assessments for those years.

Profit after taxation

As a result of the reasons discussed above, the Celcom Group's profit after taxation increased by RM238.4 million, or 29.1%, from RM820.3 million in fiscal 2006 to RM1,058.7 million in fiscal 2007.

Minority interests

Profit attributable to minority interests increased from RM3.9 million in fiscal 2006 to RM7.1 million in fiscal 2007, as a result of the improved performance of CTS and Fibrecomm, in which the Celcom Group holds equity interests of 80% and 51%, respectively.

PATAMI

As a result of the reasons discussed above, PATAMI increased by RM235.2 million, or 28.8%, from RM816.4 million in fiscal 2006 to RM1,051.6 million in fiscal 2007.

Fiscal 2006 compared to fiscal 2005

Operating revenues

Operating revenues increased by RM30.4 million, or 0.7%, from RM4,495.6 million in fiscal 2005 to RM4,526.0 million in fiscal 2006. An increase in prepaid revenues was achieved in fiscal 2006 notwithstanding the enforcement of the new MCMC requirement of subscriber registration that began in fiscal 2006 and decreased the number of prepaid subscribers. However, that increase was largely offset by a decrease in postpaid revenues due to aggressive price competition and a decrease in interconnection revenue due to the MCMC's reduction of call termination rates between domestic operators.

Prepaid revenue. The Celcom Group's prepaid revenue increased by RM262.0 million, or 11.6%, from RM2,250.6 million in fiscal 2005 to RM2,512.6 million in fiscal 2006. The Celcom Group introduced in fiscal 2006 various reload methods coupled with reforms in its distribution channels, such as incentives for distributors and dealers and additional subsidies for key dealers, that were designed to improve recharge activation of prepaid cards. Prepaid revenue increased notwithstanding a decline in the number of prepaid subscribers from 5.7 million as of December 31, 2005 to 4.9 million as of December 31, 2006 that was primarily due to the termination of many prepaid subscribers on December 29, 2006 with the commencement of enforcement of the MCMC's prepaid registration regulations. Nonetheless, continued pressure on voice rates and introduction of various new competitive products such as the 8pax package to a certain extent resulted in downward pressure on ARPU, which decreased from RM46.0 in fiscal 2005 to RM39.0 in fiscal 2006.

Postpaid revenue. The Celcom Group's postpaid revenue decreased by RM109.8 million, or 8.0%, from RM1,381.1 million in fiscal 2005 to RM1,271.3 million in fiscal 2006. The decrease in postpaid revenue was largely due to aggressive price competition among mobile service providers in Malaysia which more than offset the Celcom Group's increase in its number of postpaid subscribers from 1.1 million as of December 31, 2005 to 1.2 million as of December 31, 2006.

Interconnect and international roaming revenue. The Celcom Group's revenues from interconnection services decreased by RM154.8 million, or 26.7%, from RM578.8 million in fiscal 2005 to RM424.0 million in fiscal 2006, despite an increase in interconnect traffic. The decrease in the domestic interconnection revenue was largely attributable to the MCMC's reduction of call termination rates between domestic operators that became effective in February 2006. As a result of the MCMC's rate change, domestic mobile call termination rates decreased by 28.5% from 11.26 sen to 8.05 sen per minute. The decrease in interconnect revenue was partly offset by an increase in international roaming revenue of RM24.0 million, or 11.5%, from RM209.5 million in fiscal 2005 to RM233.5 million in fiscal 2006, driven by the increase in incoming call traffic terminating on the Celcom Group's network in line with the growing number of roaming partners and countries.

Operating costs

Operating costs decreased by RM1,023.9 million, or 23.2%, from RM4,416.0 million in fiscal 2005 to RM3,392.1 million in fiscal 2006. This was primarily due to there having been no exceptional items that were material in nature in fiscal 2006, as compared to the provision of RM915.1 million for the DeTeAsia claim in fiscal 2005. This was also due to there having been no goodwill amortisation in fiscal 2006, as compared to goodwill amortisation amounting to RM109.4 million in fiscal 2005 following the change in the Celcom Group's accounting policy for goodwill upon adoption of FRS 3 "Business Combinations" with effect from January 1, 2006. Prior to fiscal 2006, the Celcom Group's policy was to amortise goodwill over a period of 10 years. In addition, the decrease in operating costs was attributable to decreases in the Celcom Group's staff costs, supplies and materials, other operating costs and depreciation.

Direct costs of sales. Direct costs of sales increased by RM111.7 million, or 12.6%, from RM889.1 million in fiscal 2005 to RM1,000.8 million in fiscal 2006, primarily due to an increase in expenses related to the usage of interconnection services and contributions payable under the USO fund. The increase in interconnect expenses was mainly due to the increase in the volume of outgoing traffic to other operators in line with the Celcom Group's increase in its number of subscribers and subscriber MOU, while the increase in contributions to the USO fund was in line with the increase in the Celcom Group's operating revenues. Other increases in direct costs of sales were mainly due to increases in roaming charges and lease line charges.

Staff costs. Staff costs decreased by RM21.8 million, or 8.6%, from RM252.8 million in fiscal 2005 to RM231.0 million in fiscal 2006. The decrease was largely as a result of the absence in fiscal 2006 of one-off expenses in connection with compensation costs of RM32.5 million incurred in fiscal 2005 associated with the rationalisation of employment upon completion of an earlier merger by the Celcom Group. Excluding this one-off expense, increases in staff costs in fiscal 2006 were largely due to a RM6.8 million expense for ESOS options charged in fiscal 2006.

Maintenance costs. Maintenance costs increased by RM67.2 million, or 27.9%, from RM240.8 million in fiscal 2005 to RM308.0 million in fiscal 2006, in line with the expansion of the Celcom Group's network capacity and coverage and the expansion of its mobile service business to include the provision of 3G mobile telecommunication services.

Marketing, advertisement and promotion. Marketing, advertisement and promotion expenses increased slightly by RM3.8 million, or 0.8%, from RM471.5 million in fiscal 2005 to RM475.3 million in fiscal 2006.

Supplies and materials. Supplies and materials expenses decreased by RM4.3 million, or 6.9%, from RM62.2 million in fiscal 2005 to RM57.9 million in fiscal 2006, due to better management of the procurement of supplies and materials, coupled with a slower growth in new postpaid subscribers and sales of prepaid cards and recharge cards.

Other operating costs. Other operating costs decreased by RM99.8 million, or 16.3%, from RM610.9 million in fiscal 2005 to RM511.1 million in fiscal 2006. The decrease in other operating costs was mainly as a result of the absence of a significant one-off impairment charge incurred in fiscal 2005 of RM34.9 million on the land and building of Alpha Canggih Sdn Bhd, a wholly-owned subsidiary of Celcom and impairment charges of RM23.6 million on previously long standing and incomplete capital projects which were subsequently reversed upon completion of each part of the project. In addition, the decrease was also attributable to the reversal of a provision for service taxation of RM35.6 million provided for the claims by DeTeAsia in fiscal 2005 and a decrease in allowance of doubtful debts of RM76.8 million, or 51.4%, from RM149.4 million in fiscal 2005 to RM72.6 million in fiscal 2006, as a result of tighter operational and credit control policies and more proactive collection initiatives.

However, the decreases described above were partially offset by the increase in BTS rentals and utilities of RM20.8 million, or 11.5%, from RM181.0 million in fiscal 2005 to RM201.8 million in fiscal 2006, as a result of the increase in the number of BTS sites built, an increase in transportation charges of RM11.9 million incurred in connection with the mobilisation of 3G equipment, and an increase in costs related to outsourcing of call centre services and bill printing charges of RM25.0 million in line with the growth in the number of subscribers.

Depreciation. The higher depreciation expense in fiscal 2005 of RM864.2 million as compared with RM808.0 million in fiscal 2006 was primarily due to the acceleration of depreciation of certain telecommunications equipment, a change in useful lives of computers and an increase in depreciation charges as a result of the capitalisation of the costs of dismantling certain plant and equipment made in fiscal 2005.

Other operating income

Other operating income increased by RM2.5 million, or 18.4%, from RM13.6 million in fiscal 2005 to RM16.1 million in fiscal 2006, as a result of penalties imposed by the Celcom Group on content providers for spamming and charges imposed on content providers for the provision of SMS shortcodes.

Net finance income/(expense)

Net finance costs decreased from RM31.8 million in fiscal 2005 to RM11.9 million in fiscal 2006, primarily as a result of lower finance costs due to a significant decrease in borrowings from RM1,139.0 million in fiscal 2005 as compared to RM746.5 million in fiscal 2006, as result of repayments made during fiscal 2006.

Share of results of associated companies/gains on disposal of associated companies

The Celcom Group's share of results of associated companies decreased from a loss of RM4.5 million in fiscal 2005 to a loss of RM8.5 million in fiscal 2006, largely as a result of an increase in the share of losses incurred by Sacofa, Fibrecomm and MTCE which amounted to RM5.9 million, RM1.5 million and RM1.1 million, respectively, in fiscal 2006. On April 28, 2006, the Celcom Group acquired additional shares representing an additional 10.0% equity interest in Fibrecomm to increase the Celcom Group's ownership interest in Fibrecomm to 51.0%.

The Celcom Group also recorded a gain on disposal of RM16.6 million due to the disposal of its entire 49.0% equity interest in MTCE to TMIL, a wholly-owned subsidiary of TMI, for a cash consideration of USD6.0 million (approximately RM22.1 million based on then prevailing exchange rates).

Profit before taxation

As a result of the reasons discussed above, the Celcom Group's profit before taxation increased significantly by RM1,082.3 million from RM63.9 million in fiscal 2005 to RM1,146.2 million in fiscal 2006.

Taxation

Taxation increased by RM68.3 million, or 26.5%, from RM257.6 million in fiscal 2005 to RM325.9 million in fiscal 2006, attributable to the increase in profits before taxation for fiscal 2006.

Profit after taxation

As a result of the reasons discussed above, the Celcom Group's profit after taxation improved from a loss after taxation of RM193.7 million in fiscal 2005 to a profit after taxation of RM820.3 million in fiscal 2006.

Minority interests

Profit attributable to minority interests increased from RM0.6 million in fiscal 2005 to RM3.9 million in fiscal 2006, as a result of the improvement in the performance of CTS, in which the Celcom Group holds an equity interest of 80.0%, and the significant improvement and turnaround of Fibrecomm's financial performance.

PATAMI

As a result of the reasons discussed above, PATAMI increased from a loss after taxation and minority interests of RM194.3 million in fiscal 2005 to a PATAMI of RM816.4 million in fiscal 2006.

9.5.3 The Celcom Group's liquidity and capital resources

The Celcom Group's principal sources of liquidity have been cash from operations and long term borrowings. In the last 3 fiscal years, the Celcom Group's principal capital requirements have been for the funding of its capital expenditures for network expansion and upgrading. We expect that our Group will have similar principal sources of liquidity and funding after completion of the Pre-Listing Restructuring and Acquisition, in addition to our ability to raise funding via the issuance of equity and/or equity-linked securities in our Company after the Listing.

The following table sets out certain information concerning the Celcom Group's consolidated cash flows for the years indicated:

	For the year ended December 31,		
	2005	2006	2007
			(RM in millions)
Net cash inflows from operating activities	2,253.5	782.2	2,025.0
Net cash used in investing activities	(631.1)	(771.6)	(677.9)
Net cash used in financing activities	(1,355.2)	(1,104.9)	(1,252.2)
Net increase/(decrease) in cash and cash equivalents	267.2	(1,094.3)	94.9

(i) Cash flows from operating activities

The Celcom Group's cash flows from operating activities consist mainly of collections from subscribers, payments to suppliers, payments for interest and profit on Islamic private debt securities and payments of corporate taxes. The Celcom Group's cash flows from operating activities increased from RM782.2 million in fiscal 2006 to RM2,025.0 million in fiscal 2007, largely as a result of an increase in the Celcom Group's revenue which grew from RM4,526.0 million in fiscal 2006 to RM5,127.0 million in fiscal 2007, as well as higher contributions from receipts from subscribers through better collection efforts.

The Celcom Group's sales and collections remained relatively unchanged between fiscal 2005 and 2006. However, net cash inflows from operating activities decreased significantly in fiscal 2006 from fiscal 2005 as a result of a significant cash payment to DeTeAsia in connection with arbitration proceedings, amounting to USD232.0 million (approximately RM871.7 million based on then prevailing exchange rates).

(ii) Cash flows used in investing activities

The Celcom Group's cash flows used in investing activities consist of cash for the acquisition of equity investments, interest income received, purchases for property, plant and equipment, cash proceeds from the disposal of property, plant and equipment and proceeds from the disposal of equity investments. The Celcom Group's increase in cash and cash equivalents from fiscal 2006 to fiscal 2007 was partly attributable to a reduction in net cash used in investing activities in line with relatively lower capital expenditures and lower payments for the purchases of plant and equipments in fiscal 2007 as compared with fiscal 2006.

Net cash used in investing activities increased from RM631.1 million in fiscal 2005 to RM771.6 million in fiscal 2006 mainly as a result of an increase in the Celcom Group's payments for the purchase of telecommunications equipment, which increased from RM732.7 million in fiscal 2005 to RM857.1 million in fiscal 2006. This was in tandem with higher capital expenditures in fiscal 2006, in line with the development of BTS sites built as part of Celcom Group's 3G and HSDPA expansion. The Celcom Group also increased its equity interest in CTS from 60.0% to 80.0%, and in Fibrecomm from 41.0% to 51.0%, for cash consideration of RM12.6 million and RM7.4 million, respectively.

(iii) Cash flows from financing activities

The Celcom Group's cash flows from financing activities consist of cash for the repayment of bank borrowings, hire purchase and financing facilities, cash receipts from drawdown of borrowings and hire purchase and capital repayment to TM. Net cash used in financing activities for fiscal 2007 was RM1,252.2 million as a result of a capital repayment to TM of RM730.1 million as well as a significant repayment on the Celcom Group's borrowings. Repayment of borrowings increased from RM413.8 million in fiscal 2006 to RM513.8 million in fiscal 2007.

Net cash used in financing activities for fiscal 2006 decreased to RM1,104.9 million from RM1,355.2 million in fiscal 2005 largely as a result of a decrease in capital repayments made to TM in fiscal 2006 of RM700.0 million as compared to RM1,000.0 million in fiscal 2005.

9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(cont'd)*

(iv) Indebtedness

The Celcom Group's total indebtedness as of December 31, 2007 was RM225.9 million, all of which are interest-bearing, consisting predominantly of Islamic private debt securities (Al-Bai' Bithaman Ajil Bonds), long term loans as well as hire purchase and finance leases, all denominated in Ringgit Malaysia. The following table sets out a breakdown of the Celcom Group's consolidated indebtedness as of December 31, 2007:

	Weighted average rate of finance	Long term	Short term	Total
	%	(RM million)	(RM million)	(RM million)
Secured:				
Islamic private debt securities - Al Bai' Bithaman Ajil Bonds[(1)]	8.50	-	200.0	200.0
Long term loans[(2)]	5.86	15.0	-	15.0
Hire purchase and finance leases	5.9	-	4.0	4.0
Unsecured:				
Payables to equipment suppliers[(3)]	5.86	6.9	-	6.9
Total borrowings		21.9	204.0	225.9

Notes:

(1) On April 3, 2002, Celcom entered into various facility agreements with several lenders for the issuance of RM1.1 billion in aggregate principal amount of Al-Bai' Bithaman Ajil Bonds, which are Islamic private debt securities. The tenure of the Al-Bai' Bithaman Ajil Bonds range from 3 to 6 years from their respective dates of issue and the bonds carry profit rates, which have been fixed in accordance with Shariah principles at rates ranging from 7.0% to 8.5% per annum, and which are repayable semi-annually. The outstanding bonds will be fully repaid upon maturity on April 15, 2008. The bonds are traded under the Real Time Electronic Transfer of Funds and Securities managed by BNM.

The bonds and the syndicated term loan facilities made in connection therewith are secured by a deed of assignment over the Celcom Group's key bank collection accounts and designated bank accounts. The Celcom Group is required to deposit a portion of its cash flows into these designated bank accounts from which funds may only be utilised for principal repayments on the bonds and syndicated term loan facilities. Under the terms of these facilities, the Celcom Group is required to maintain certain financial ratios, namely a debt to equity ratio of not more than 1.25; a debt to adjusted EBITDA ratio of not more than 2.5; an adjusted EBITDA to finance cost ratio of more than 5; and a finance service coverage ratio of more than 1.2.

(2) Represents borrowings entered into by and liabilities of Fibrecomm, a subsidiary of Celcom Group. Pursuant to the Pre-Listing Restructuring, Fibrecomm will be transferred to TESB, a wholly-owned subsidiary of TM, and will no longer be part of the Celcom Group.

(3) Payables to equipment suppliers bear a weighted average interest of 5.86% per annum and are repayable from July 2008 to December 2009.

The following table sets out the Celcom Group's gearing ratio for the years indicated:

	As of December 31,		
	2005	2006	2007
Gearing ratio (times)[(1)]	0.46	0.29	0.08

Note:

(1) The gearing ratio is the ratio, expressed as a percentage of short term and long term borrowings to total capital and reserves attributable to equity holders of Celcom.

The Celcom Group's long term borrowings are repayable as follows:

	As of December 31, 2007
	(RM in millions)
After 1 year and up to 5 years	21.9
After 5 years and up to 10 years	-
	21.9

There has not been any default by the Celcom Group on payments or principal sums for any borrowings from the beginning of fiscal 2007 through the Latest Practicable Date. As of the Latest Practicable Date, the Celcom Group is not in breach of any terms and conditions or covenants associated with its credit arrangements or bank loans which could materially affect the Celcom Group's financial position or results of operations.

(v) Capital expenditures

Fiscal 2005 through fiscal 2007

The Celcom Group's capital expenditures in fiscal 2005, 2006 and 2007 were RM938.8 million, RM858.2 million and RM745.7 million, respectively, a substantial portion of which have been for telecommunications networks in line with the Celcom Group's continued network expansion and enhancement in Malaysia.

The substantial capital expenditure in fiscal 2005 was mainly to streamline and enhance the Celcom Group's core network operations and services as well as to further increase its nationwide network capacity. In fiscal 2005, the Celcom Group invested significantly to further expand its network coverage for 2G GSM services and made initial investments to roll out the provision of 3G mobile telecommunications services.

The Celcom Group's capital expenditures continued to remain relatively significant in fiscal 2006 due to the further expansion of network capacity as well as various modernisation and upgrading works in order to further expand the Celcom Group's network capabilities and improve the quality of its mobile services. In addition, significant capital expenditure was also made to expand its 3G network infrastructure and the expansion for its HSDPA services coverage to enable the Celcom Group to roll out enhanced data application services.

Continued capital expenditures were made in fiscal 2007 with the development of new BTS as part of the Celcom Group's continued plan to expand the coverage of its 3G and HSDPA network services. In addition, in fiscal 2007, the Celcom Group consolidated its present network architecture and rationalised the number of core network providers under its core network rationalisation exercise, with the objective of streamlining and unifying its 2G and 3G core networks under a single platform. The Celcom Group expects this to increase its network operational efficiency, facilitate the roll out of new services and improve its network services for its subscribers.

The following table sets out the Celcom Group's capital expenditures for each of fiscal 2005, 2006 and 2007:

	2005	2006	2007
		(RM in millions)	
Telecommunications network	476.5	63.7	66.6
Building	-	-	1.1
Office equipment, furniture and fitting, motor vehicle and renovations	55.3	61.8	21.7
Capital work in progress[1]	407.0	732.7	656.3
Total capital expenditures	**938.8**	**858.2**	**745.7**

Note:

(1) Upon commissioning the relevant network infrastructure under construction, the cost of the relevant assets will be reflected on the Celcom Group's consolidated balance sheet. Such amounts were RM192.3 million, RM569.9 million and RM850.4 million as of December 31, 2005, 2006 and 2007, respectively.

These capital expenditures were funded primarily from internally generated funds as well as external borrowings.

Committed capital expenditures

The Celcom Group's future capital expenditures are expected to relate primarily to the expansion of its existing mobile networks, expansion into new markets, the development of new mobile services and upgrading to new mobile technologies. As of December 31, 2007, the Celcom Group had committed capital expenditures for property, plant and equipment as follows:

	As of December 31, 2007
	(RM million)
Property, plant and equipment	
Approved and contracted for	389
Approved but not yet contracted for	471
Total	860

9.5.4 Celcom's contingent liabilities

Except for Celcom's contingent liabilities for certain legal proceedings, as disclosed in "Section 11.17 – Legal proceedings and disputes", the Celcom Group is not aware of any contingent liabilities, which may, upon becoming enforceable, have a material adverse impact on the profits or net assets of Celcom Group.

9.6 PLANNED CAPITAL EXPENDITURES

Our future capital expenditures are expected to relate primarily to the expansion of our existing mobile networks, expansion into new markets, the development of new mobile services and upgrading to new mobile technologies. Our general policy with respect to investments in new services and technologies is driven primarily by the degree and timing of technological changes within the respective subsidiary's industry, overall performance of each country in which we operate, market penetration, changes in regulatory environment and competitive dynamics of our various lines of business. We anticipate that our future capital expenditures in the coming years will be dependent to a large extent on these factors.

The planned capital expenditures for fiscal 2008 are RM4,570.2 million and we expect a similar level of capital expenditures in fiscal 2009.

9.7 WORKING CAPITAL

We believe that, after taking into consideration our cash position, credit facilities available and future cash expected from operating activities, our Group has sufficient working capital available as of the date of this document for our present requirements and our requirements for a period of 12 months from the date of this document. Our Group may need to raise capital in the future if our credit facilities and cash flows from operations are not adequate to meet liquidity requirements or if our Group pursues network expansion plans or acquisitions and partnerships in mobile telecommunications markets in South and Southeast Asia. Depending on capital requirements, market conditions and other factors, our Group may raise additional funds through debt or equity offerings. At the same time, our management will also monitor market conditions and plan our fund raising programmes accordingly. See "Section 4.4.2 – Any future equity offerings by us could lead to dilution of your shareholding or adversely affect the market price of our Shares". In the event that such financing cannot be obtained, our Group may be compelled to scale back our plans for future business expansion. See "Section 4 – Risk factors".

9.8 OFF-BALANCE SHEET ARRANGEMENTS

Neither the TMI Group nor the Celcom Group has any off-balance sheet arrangements which are reasonably likely to have a current or future material effect on our financial condition, change in financial condition, revenues or expenses, results of operations, capital expenditures or capital resources.

9.9 MARKET RISKS

In the normal course of the TMI Group's and the Celcom Group's business activities and, going forward, our Group's business activities, we are and will continue to be exposed to a variety of financial risks, which include foreign currency, credit and interest rate risks. TMI's and Celcom's directors reviewed and agreed to the policies for managing such risks as described below. We expect these policies to be similarly applied to our Group.

9.9.1 Foreign currency exchange rate risk

The TMI Group's, the Celcom Group's and our Group's reporting and functional currency is and will continue to be Ringgit Malaysia. However, a significant portion of our revenues will not be denominated in Ringgit Malaysia as 2 of our main operating subsidiaries after the Pre-Listing Restructuring and Acquisition, namely XL and Dialog, operate in Indonesia and Sri Lanka, respectively. As has been the case for the TMI Group, we will also be entitled to dividends in various currencies other than Ringgit Malaysia through our investments in India, Singapore, Iran and Thailand. We are also exposed to movements in these various currencies as a result of transactions denominated in currencies other than Ringgit Malaysia arising from the normal business activities and borrowings of our subsidiaries. As a result, any appreciation or depreciation in any of these currencies, in particular, the IDR or the SLR, against Ringgit Malaysia, would affect our revenues and profitability.

We also have currency exchange rate risk with respect to the USD. XL's, Dialog's and TMIB's long term debt obligations are mainly denominated in USD. In addition, most of the capital expenditures incurred by the TMI Group's operating companies are also denominated in USD. Any depreciation of the local currencies in the countries in which we operate against the USD would increase the costs of our capital expenditures and result in a corresponding increase in our depreciation costs. Between September 1998 and July 2005, Ringgit Malaysia had been fixed against the USD at an exchange rate of RM3.80 to USD1.00. This led to the stabilisation of the foreign exchange rates of other currencies used by the TMI Group for capital purchases, further helping to reduce the impact of foreign exchange movements. However on July 22, 2005, the Government removed the peg of Ringgit Malaysia to the USD and announced that Ringgit Malaysia would be allowed to operate in a managed float. As a result, our operations may be affected by fluctuations in the exchange rates between Ringgit Malaysia and the USD.

Exposure to foreign currency risk is monitored on an ongoing basis and when considered necessary, we will use effective financial instruments to hedge our foreign currency risk. We currently do not have a foreign exchange hedging policy, and any foreign exchange hedging is conducted by our operating companies on a case-to-case basis.

As of December 31, 2007, proforma indebtedness of our Group was denominated in the following currencies:

	USD	IDR	BDT	SLR	SGD	PKR	RM	Total
						(RM in millions equivalent)		
TMI Group	3,439.4	666.4	432.6	202.3	-	128.8	-	4,869.5
Celcom Group	-	-	-	-	-	-	225.9	225.9
Amount owing to TM after Pre-Listing Restructuring	-	-	-	-	-	-	4,025.0	4,025.0
SunShare's borrowings after Acquisition	-	-	-	-	1,100.7	-	-	1,100.7
Proforma adjustments	-	-	-	-	-	-	(2.3)	(2.3)
Total	3,439.4	666.4	432.6	202.3	1,100.7	128.8	4,248.6	10,218.8

As of December 31, 2007, on a proforma basis, the sole interest rate hedging instrument entered into by our Group was for the SunShare term loan facility.

On September 23, 2005, SunShare obtained term loan facility of SGD540 million. The loan is repayable in full in 2010.

On March 14, 2007, SunShare entered into an interest rate swap ("IRS") agreement with notional principal of SGD50.0 million that entitles it to receive interest at floating rate of 6 months SGD-Swap Offer Rate ("SGD-SOR") Telerate plus 0.25% margin per annum subject to a maximum of 4.50% per annum and obliges it to pay interest at fixed rate of 3.27% per annum. The IRS will mature on October 27, 2010 with an option for early termination by the other party on May 27, 2008 and May 27, 2009. This IRS, however, is effective from November 27, 2006.

On April 5, 2007, SunShare entered into another IRS agreement with a notional principal of SGD100.0 million that entitles it to receive interest at floating rate of 6 months SGD-SOR Telerate plus 0.25% margin per annum and obliges it to pay interest at fixed rate of 3.30% per annum. The IRS will mature on October 27, 2010. This IRS, however, is effective from November 27, 2006.

We set out below the significant foreign currency hedging instruments that certain operating companies in the TMI Group have entered into:

(a) Cross-Currency Swap ("CCS")

(i) Underlying liability

USD100.0 million term loan due in 2010

On January 8, 2007, XL entered into a credit agreement with a financial institution amounting to USD50.0 million. On April 8, 2007, XL signed the credit agreement amendment to increase the credit facility to USD100.0 million. The loan will be based on a floating rate of interest at quarterly intervals of 3 months Singapore Interbank Offered Rate ("SIBOR") plus 1.05% margin per annum. The loan will mature 36 months from each drawdown date.

9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(cont'd)*

Hedging instrument

On April 18, 2007, XL entered into a CCS contract with a financial institution. Based on the contract, XL would swap, at the final exchange date (termination date) of April 16, 2010, a total of IDR90.88 million for USD10.0 million. XL will make quarterly payment in IDR on every January 18, April 18, July 18 and October 18 up to the termination date, at the amount of USD10.0 million, at a fixed interest rate of 9.65% per annum with strike rate of IDR9,088 per USD, and will receive payment in USD amounting to USD10.0 million, at a floating rate of interest at quarterly intervals of 3 months SIBOR plus 1.05% margin per annum.

(ii) Underlying liability

USD50.0 million term loan due in 2010

On January 15, 2007, XL entered into a credit agreement with financial institution amounting to USD50.0 million. The loan will be based on a floating rate of interest at quarterly intervals of 3 months LIBOR plus 0.95% margin per annum. The loan will mature on January 29, 2010.

Hedging instrument

On April 23, 2007, XL entered into a CCS contract with a financial institution. Based on the contract, XL would swap, at the final exchange date (termination date) of January 29, 2010, a total of IDR225.0 million for USD25.0 million. XL will make quarterly payment in IDR on every January 30, April 30, July 30 and October 30 up to the termination date, at the amount of USD25.0 million, at a fixed interest rate of 9.99% per annum with strike rate of IDR9,000 per USD, and will receive payment in USD amounting to USD25.0 million, at a floating rate of interest at quarterly intervals of LIBOR plus 0.95% margin per annum.

On May 10, 2007, XL entered into another CCS contract with a financial institution. Based on the contract, XL would swap, at the final exchange date (termination date) of January 29, 2010, a total of IDR112.5 million for USD12.5 million. XL will make quarterly payment in IDR on every June 28, September 28, December 28 and March 28 up to the termination date, at the amount of USD12.5 million, at a fixed interest rate of 7.73% per annum with strike rate of IDR9,000 per USD, and will receive payment in USD amounting to USD12.5 million, at a floating rate of interest at quarterly intervals of 3 months LIBOR plus 0.95% margin per annum.

(iii) Underlying liability

USD50.0 million term loan due in 2010

On April 19, 2007, XL signed a credit facility agreement with a financial institution amounting to USD50.0 million. The loan will be based on a floating rate of interest at quarterly intervals of 3 months LIBOR plus 1.00% margin per annum. The loan will mature 36 months from the first drawdown date.

Hedging instrument

On April 26, 2007, XL entered into a CCS contract with a financial institution. Based on the contract, XL would swap, at the final exchange date (termination date) of April 26, 2010, a total of IDR135.0 million for USD15.0 million. XL will make quarterly payment in IDR on every January 26, April 26, July 26 and October 26 up to the termination date, at the amount of USD15.0 million, at a fixed interest rate of 9.825% per annum with strike rate of IDR9,000 per USD, and will receive payment in USD amounting to USD15.0 million, at a floating rate of interest at quarterly intervals of 3 months LIBOR plus 1.00% margin per annum.

On May 9, 2007, XL entered into another CCS contract with a financial institution. Based on the contract, XL would swap, at the final exchange date (termination date) of April 26, 2010, a total of IDR135.0 million for USD15.0 million. XL will make quarterly payment in IDR on every January 26, April 26, July 26 and October 26 up to the termination date, at the amount of USD15.0 million, at a fixed interest rate of 8.20% per annum with strike rate of IDR9,000 per USD, and will receive payment in USD amounting to USD15.0 million times floating rate of interest at quarterly intervals of 3 months LIBOR plus 1.00% margin per annum.

(b) Forward foreign currency contracts

During fiscal 2007, XL entered into forward foreign currency contracts with financial institutions to hedge the payment of long term loan in USD.

The details of forward foreign currency contracts are as follows:

Type of contracts	Notional amount (in USD million)	Strike rate (full amount)
Deliverable	175.0	USD1 = IDR9,000
Non deliverable	125.0	USD1 = IDR9,000
Total	**300.0**	

The premium on the forward foreign currency contracts will be paid semi-annually based on contracted rate.

On the deliverable contract, XL would swap, at the final exchange date, a total of IDR1,575.0 million for USD175.0 million.

On the non-deliverable contract, XL would swap, at the final exchange date:

- If settlement rate on termination date is less than IDR9,000, XL would pay the banks the USD notional amount times the excess of strike rate over settlement rate.
- If settlement rate on termination date is more than IDR9,000, the banks would pay XL the USD notional amount times the excess of settlement rate over strike rate.
- If settlement rate on termination date is equal to IDR9,000, no exchange payments between the banks and XL will be required.

(c) Other foreign exchange transaction

XL regularly purchases USD currency to meet monthly obligations by using spot (2 days settlement) or Tom (1 day settlement) transaction. In addition to the regular USD purchase, XL entered into foreign currency forward contracts with 2 financial institutions for the period of May 2007 until December 2007.

The strike rates of foreign exchange forwards entered into in 2007 are USD1.0 million per month at IDR8,999 and USD1.0 million per month at IDR8,995.

The terms and conditions for these contracts are as follows:

- If the spot rate is higher than IDR9,225, the contract will cease to exist and no USD should be bought in the respective month.
- If the spot rate is between strike rate and IDR9,225, XL will buy USD1.0 million at the strike rate in the respective month.
- If the spot rate is below the strike rate, XL is obliged to buy USD2.0 million at the strike rate in the respective month.

See "Section 4.3.4 – Depreciation of the currencies in which we conduct operations and exchange rate fluctuations as well as changes in fiscal policies in the countries in which we operate may adversely affect our Group".

9.9.2 Interest rate risk

The TMI Group and the Celcom Group are exposed to interest rate fluctuations on interest earned on their cash balances and bank deposits. Interest rate risk is managed by placing such balances on varying maturities and interest rate terms.

The TMI Group's and the Celcom Group's debts include bank overdrafts, bank borrowings, bonds, notes and debentures. Our Group's interest rate risk mitigation objective is to manage the acceptable level of rate fluctuation on interest expense. In order to achieve this objective, the TMI Group and the Celcom Group target a composition of fixed and floating debt based on an assessment of their existing exposure. We currently do not have an interest rate hedging policy.

As of December 31, 2007, proforma indebtedness of the Group has the following outstanding balances for its fixed and floating rate borrowings:

	Weighted average rate of finance %	RM million
TMI Group:		
Fixed rate borrowings	8.67	2,939.2
Floating rate borrowing	7.62	1,930.3
Celcom Group:		
Fixed rate borrowing	8.50	200.0
Fixed rate borrowing	5.90	4.0
Floating rate borrowing	5.86	21.9
Amount owing to TM after Pre-Listing Restructuring:		
Fixed rate borrowing	5.90	2,925.0
Fixed rate borrowing	6.72	1,100.0
SunShare borrowings after Acquisition:		
Floating rate borrowing	3.00	1,100.7
Proforma adjustments		(2.3)
Total		10,218.8

9.10 EFFECTS OF INFLATION

We do not believe that inflation has had a material impact on the business, financial condition or results of operations of the TMI Group or the Celcom Group. If our Group were to experience significantly higher inflation than the TMI Group and the Celcom Group have experienced in the past, we may not be able to fully offset such higher costs through rate increases. Our failure or inability to do so could adversely affect our business, financial condition and results of operations.

9.11 SEASONALITY

The TMI Group and the Celcom Group do not experience significant fluctuations in operations due to seasonal factors, although subscriber usage tends to increase slightly during major holiday periods in the countries in which they operate.

9.12 NEW ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

The following standards are mandatory for TMI's, the TMI Group's and the Celcom Group's financial periods beginning on or after January 1, 2008 or later periods, but which TMI, the TMI Group and the Celcom Group have not adopted before then:

- *FRS 112 "Income Taxes" (effective for accounting periods beginning on or after July 1, 2007)*. This revised standard removes the requirements that prohibit recognition of deferred taxation on unutilised reinvestment allowances or other allowances in excess of capital allowances. TMI and the TMI Group and Celcom Group will apply this standard from financial periods beginning on January 1, 2008.

- *FRS 139 "Financial Instruments: Recognition and Measurement" (effective date yet to be determined by the Malaysian Accounting Standards Board)*. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. TMI, the TMI Group and the Celcom Group have applied the transitional provision in FRS 139 which exempts entities from disclosing the possible impact arising from the initial application of this standard on the financial statements of TMI, the TMI Group and the Celcom Group. TMI, the TMI Group and the Celcom Group will apply this standard when effective.

The following amendment to a published standard is mandatory for TMI's and the TMI Group's financial periods beginning on or after January 1, 2008 or later periods, but which TMI and the TMI Group have not adopted before then:

- *Amendment to FRS 121 "The Effects of Changes in Foreign Exchange Rates – Net Investment in Foreign Operation" (effective for accounting periods beginning on or after July 1, 2007)*. This amendment requires exchange differences on monetary items that form part of the net investment in a foreign operation to be recognised in equity instead of in profit or loss regardless of the currency in which these items are denominated in.

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The Board of Directors
TM International Berhad
Level 42 North Wing
Menara TM
Jalan Pantai Baharu
50672 Kuala Lumpur
Malaysia

11 April 2008

Dear Sirs

EXECUTIVE SUMMARIES AND OVERVIEW OF OTHER KEY REGIONAL MARKETS OF ECONOMIES OF THE INDEPENDENT MARKET RESEARCH REPORT FOR TM INTERNATIONAL BERHAD ("TM INTERNATIONAL" OR "COMPANY")

We, Frost & Sullivan Malaysia Sdn Bhd, have prepared (i) the Executive Summaries of the Mobile Telecommunications Market in Malaysia, Indonesia, Sri Lanka, Bangladesh, Cambodia, and Singapore; and (ii) the Overview of the Mobile Telecommunications Markets in Other Key Regional Markets (collectively referred to as the "**Report**"), all of which have been prepared for inclusion in the Prospectus of TM International in relation to the listing of TM International on the Main Board of Bursa Malaysia Securities Berhad. We are aware that this Report will be included in the Prospectus and we further confirm that we are aware of our responsibilities under section 214 of the Capital Market and Services Act, 2007.

This research is undertaken with the purpose of providing the following:

(i) an overview of the mobile telecommunications industry in the key markets in which TM International and its existing and proposed subsidiaries ("**TM International Group**") operate;

(ii) an overview of the mobile telecommunications industry in other key regional markets in which the TM International Group operates; and

(iii) an overview and outlook of the economies of certain countries in which the TM International Group has operations.

1. EXECUTIVE SUMMARY OF THE MOBILE TELECOMMUNICATIONS MARKET IN MALAYSIA

1.1 Industry/Market Segmentation

With a mobile penetration of 85.9% as of December 31, 2007, the mobile market in Malaysia is close to saturation. Malaysia's mobile subscriber growth saw a year-on-year increase of 19.9% in 2007 compared to a decline of 0.3% in 2006. This was largely due to the prepaid registration exercise initiated by the Malaysian Government. Prepaid subscription grew year-on-year by 20.7% in 2007 over 2006, while postpaid subscription grew by 16.0%. As of December 31, 2007, there were 23.3 million mobile subscribers in Malaysia compared to 19.5 million subscribers as of December 31, 2006. It is expected that the total mobile subscriber market will sustain positive growth to reach 28.8 million subscribers by 2012. Mobile subscribers are expected to grow at a compound annual growth rate ("CAGR") of 4.3% between 2007 and 2012.

Figure 1.1 provides details on mobile subscribers and mobile penetration in Malaysia from 2003 to 2007.

Figure 1.1: Total Mobile Subscribers and Mobile Penetration (Malaysia), 2003–2007

	2003	2004	2005	2006	2007
Mobile penetration [1]	43.9%	57.1%	74.7%	73.0%	85.9%
Total Mobile subscribers ('000) (incl. 3G subscribers)	11,004	14,597	19,511	19,454	23,330
No. of 3G subscribers ('000)	-	-	68	407	1,538
Postpaid subscribers ('000)	2,493	2,540	2,890	3,358	3,895
Prepaid subscribers ('000)	8,511	12,057	16,621	16,096	19,435
Proportion of prepaid subscribers	77.3%	82.6%	85.2%	82.7%	83.3%

Source: Frost & Sullivan

Prepaid subscribers made up 83.3% of total subscribers as of December 31, 2007 and this represented an increase over 2006. In 2006, prepaid subscriber growth declined and this was due to the mandatory requirement for registration of prepaid subscribers as of December 31, 2006 and an increased emphasis on postpaid services. Higher data usage and the implementation of mobile number portability ("MNP"), which enables mobile subscribers to retain their mobile telephone

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

numbers when changing from one mobile network operator to another, are expected to result in the migration of premium prepaid subscribers to post-paid packages.

Collectively, Maxis Communications Berhad ("Maxis") and Celcom (Malaysia) Berhad ("Celcom") surpassed one million 3G subscribers by the end of 2007. At 1.5 million subscribers this represented 6.6% of total mobile subscribers, indicating a slow take up of 3G services since its launch in 2005.

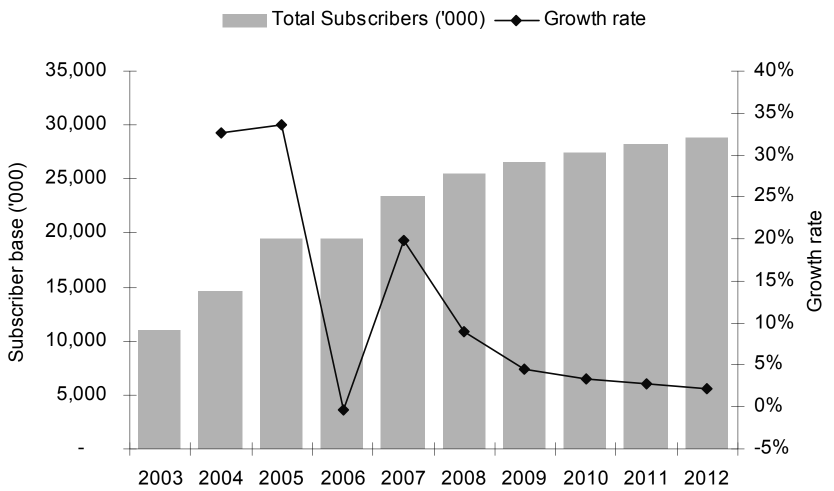
The last two years, 2006 and 2007, saw the growing intensity of the Malaysian mobile market's competitive landscape with the entry of new market players, technology and the launch of convergent services. In February 2006, the Malaysian Communications and Multimedia Commission ("MCMC") awarded two additional 3G licenses to two non-mobile operators namely; the fixed and broadband service provider, Time dotCom Bhd ("Time dotCom") and pay TV operator, MiTV Corporation Sdn Bhd (now known as U Telecom Media Holdings Sdn Bhd) ("U Mobile") to create a more competitive environment. Since then the 'U Mobile' brand was launched in November 2007 with a pre-launch program of its Mobile Live TV™ service. Meanwhile, Time dotCom entered into an agreement with DiGi.Com Bhd ("DiGi") in November 2007 for DiGi to acquire the exclusive use of Time dotCom's 3G spectrum. The MCMC approved the transfer of Time dotCom's 3G licence to DiGi.Com late January 2008 and DiGi has expressed its plans that it will launch 3G services in the second half of 2008. DiGi, with its strong track record and experience and U Mobile's new brand and planned innovative business models are anticipated to provide more choices to Malaysian consumers and pose significant competition to Maxis and Celcom.

Both Maxis and Celcom launched High-Speed Downlink Packet Access ("HSDPA") services in 2006, positioned as a wireless broadband alternative. HSDPA is an upgrade of 3G networks delivering higher data transfer speeds and capacity. In 2006, Celcom's 3G network was upgraded and Celcom was able to provide HSDPA services, offering customers mobile broadband access with data speeds of up to 3.6 Mbps while in September 2006, Maxis launched HSDPA targeting the high-growth residential broadband sector in Malaysia.

As the Malaysian mobile market is close to saturation, and as a consequence is showing signs of slow down in growth, a characteristic of mature markets. Competition amongst the operators to retain current subscribers is expected to intensify as they compete to reduce churn by acquiring subscribers from other networks. Further, with the impending introduction of MNP, churn is expected to be fairly intense in the first few months of operations.

Chart 1.1 shows the historical and forecast for Malaysia's mobile subscriber base between 2003 and 2012.

Chart 1.1: Total Mobile Subscribers and Growth Rates (Malaysia), 2003-2012

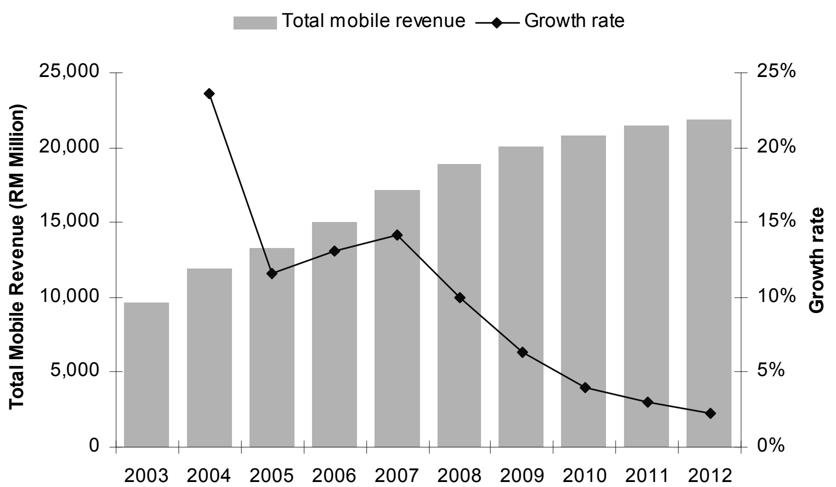


Mobile subscriber CAGR (2007-2012): 4.3%

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

Chart 1.2 shows the historical and forecast revenues for the mobile market in Malaysia between 2003 and 2012.

Chart 1.2: Total Mobile Revenues and Growth Rates (Malaysia), 2003-2012



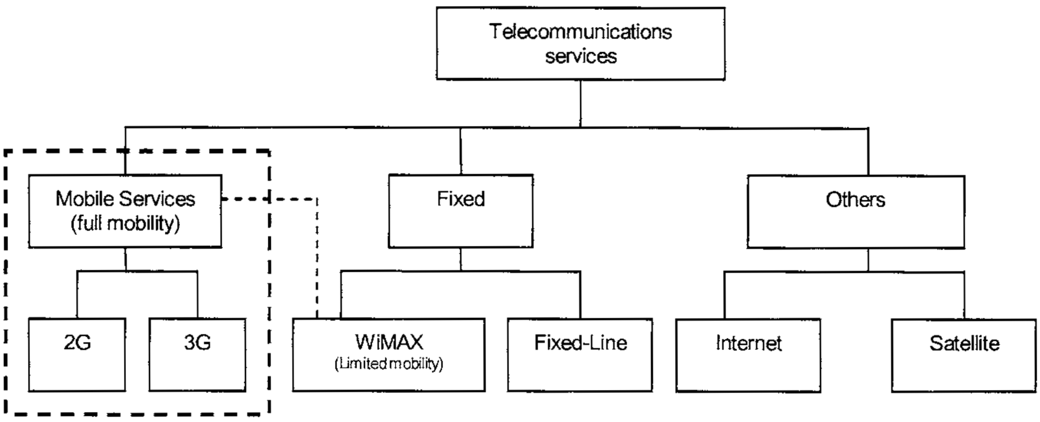
Mobile revenue CAGR (2007-2012): 5.1%

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

Segmentation of telecommunications services in Malaysia can be summarized in the following diagram. The mobile market is defined as full mobility services which include 2G and 3G services. Eventually, the introduction of Worldwide Interoperability for Microwave Access ("WiMAX") players into the market provides an alternative. WiMAX is an alternative wireless technology for providing wireless data services over long distances. However it is likely that the initial services will be restricted to limited or nomadic wireless services, thus Frost & Sullivan has categorized this service as part of fixed services. For the purpose of this report, historical data for Malaysia was derived based on publicly disclosed subscriber base of mobile operators in the market.

Chart 1.3 depicts the market segmentation of telecommunication services in Malaysia.

Chart 1.3: Market Segmentation of Telecommunications Services in Malaysia



Source: Frost & Sullivan

1.2 Key Industry Participants

There are a total of five key industry participants that operate in the mobile space in Malaysia. In 2007, Maxis, Celcom and DiGi remained the three leading mobile operators in Malaysia. Maxis and Celcom launched 3G services in 2005, while DiGi is providing mobile broadband services over Enhanced Data Rates for GSM Evolution ("EDGE"). The other two participants are 3G licensees who have yet to commercialize their services, namely the fixed and broadband service provider, Time dotCom and pay TV operator, U Mobile. U Mobile has an agreement with Celcom where Celcom provides domestic roaming services to U Mobile.

The Government of Malaysia has also issued four WiMAX licenses in the 2.3 GHz band to YTL E-Solutions, Packet One Networks, Asiaspace Dotcom (Peninsular Malaysia) and REDtone-CNX Broadband (Sabah and Sarawak). In late November

2007, the Government of Malaysia announced it will withdraw licenses to operate within the 2.5 GHz and 3.5 GHz spectrums over a five-year period as the market is too crowded. The companies with no customers or very few customers will have their licenses immediately withdrawn, while the companies with a significant customer base will be given advance notice of withdrawal of spectrum.

There is also a strong potential for MVNO growth in the Malaysian market. A MVNO is a company that provides mobile phone service but does not have its own frequency allocation of the radio spectrum, nor does it have the entire infrastructure required to provide mobile telephone service. The first two such companies are set up by REDtone International Bhd, namely REDtone Mobile Services and Merchantrade Asia Sdn Bhd which are hosted by Celcom. The former targets the enterprise customers within the postpaid segment while the latter addresses the wide opportunity with foreign workers in Malaysia. The Malaysian low budget airline Air Asia is also making its foray into telecommunications with plans to set up an MVNO called TuneTalk to provide affordable telecommunications to users while XOX Com Sdn Bhd is expected to launch in the first half of 2008, bringing the total number of MVNOs to four in 2008.

1.3 Market Share Analysis

As of December 31, 2007, Maxis is the largest mobile operator in Malaysia leading with more than 9.7 million subscribers followed by Celcom and DiGi with 7.2 million and 6.4 million subscribers, respectively. Maxis remained the leading mobile service provider as of December 31, 2007 as measured by subscribers and mobile revenue. DiGi also made significant gains in 2007 with its innovative and well-targeted products and promotions. Its total subscriber market share grew from 27.3% in 2006 to 27.5% in 2007. Celcom's market share declined slightly to 30.9% as of December 31, 2007 compared to 31.2% as of December 31, 2006.

Collectively, Maxis and Celcom have surpassed the one million mark in terms of numbers of 3G subscribers as of December 31, 2007. U Mobile launched its services with a market trial as of December 31, 2007 while the Time dotCom-DiGi tie-up, as first announced in November 2007, is expected to begin operations in the second half of 2008. Nevertheless, both new 3G operators will be building up their network coverage and 3G subscriber base, and are not expected to pose a significant threat to the existing players in the short term.

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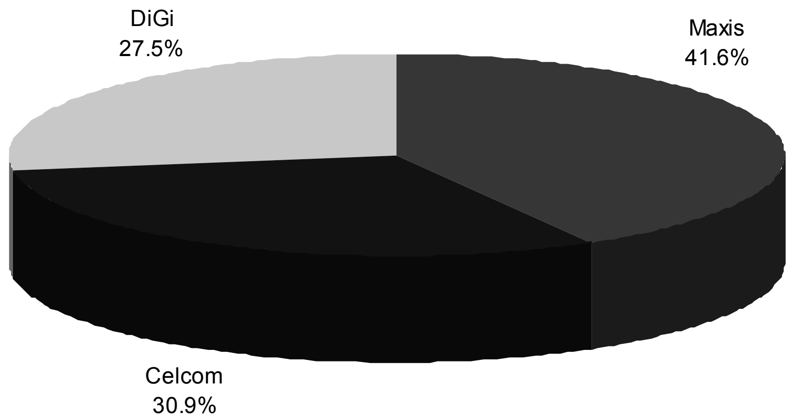
DiGi's success in gaining substantial market share between 2003 and 2007 underscores its marketing might, and innovative strategy in acquiring subscriber base. Coupled with its financial strength and support from DiGi's holding company Telenor, DiGi will add significant value to Time dotCom's existing spectrum.

Beset by its late entry and lack of presence in the mobile market, U Mobile has a more challenging business case on hand to turn its 3G launch into a profitable business.

Chart 1.4 depicts mobile operator market share by mobile subscribers in Malaysia in 2007.

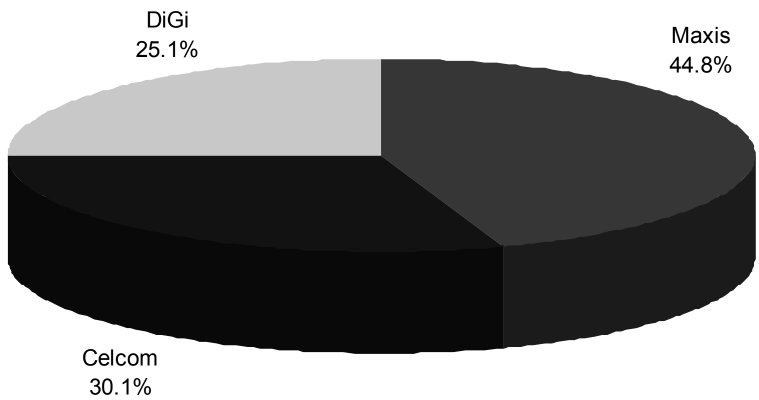
Chart 1.4: Mobile Operator Market Share by Subscribers (Malaysia), 2007



Source: Frost & Sullivan

Chart 1.5 depicts mobile operator market share by mobile revenues in Malaysia in 2007.

Chart 1.5: Mobile Operator Market Share by Revenues (Malaysia), 2007



Source: Frost & Sullivan

A combination of factors will continue to help sustain the growth in mobile subscribers and revenues for the mobile market in Malaysia. The increasing importance of mobility and the falling prices of mobile handsets will reach out to a wider demographic especially the younger segments. Moreover, increased competition and innovation with regards to mobile services plans are expected to further stimulate higher number of mobile subscribers in a household.

The Government of Malaysia is also a strong driver for increasing broadband penetration in the country and launched the MyICMS 886 framework which is a four-year plan aimed at boosting the growth of the local ICT industry, and to bolster its competitiveness globally. Under the MyICMS 886 framework, the Government of Malaysia is targeting household broadband penetration to reach 50% by the end of 2008, and 75% by 2010. Mobile broadband can, in the long term, become the much sought after killer application for mobile operators.

The introduction of less expensive tariff with innovative mobile plans and service bundles will improve the likelihood of users browsing for mobile content. There is also a strong trend of flat rate data plans that have successfully shown improved premium content adoption. The tightening of regulatory conditions of subscription services in 2006 is also positive for the industry as a whole, as industry transformation and effective regulation is likely to create a healthy competitive environment for committed industry participants in the long term. In November 2007, the Ministry of Energy, Water and Communications ("MEWC") initiated a review of the current regulatory framework on spam in Malaysia and intends to map a recommended approach and propose necessary regulatory changes in addressing spam in Malaysia, including the drafting of relevant legislation.

1.4 Industry Challenges

Revocation of Frequency Spectrum Bandwidth

Spectrum allocation is a scarce resource in Malaysia. The Government of Malaysia 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. To cite an example of the importance of the resource, in November 2007, the Government of Malaysia announced a move to withdraw the 2.5 GHz and 3.5 GHz broadband spectra assigned to service providers that have yet to roll out their services despite having been allocated the spectra. The reasons for the proposed withdrawal were that 3.5 GHz spectrum interferes with satellite services and some operators were not using the allocated spectra. The spectra, if withdrawn, could be better utilized to facilitate provision of services by other providers. While this poses a low risk to established market participants, changes in law and regulations pertaining to the optimal usage of spectra in future may affect the business operations.

Network Ownership

MVNOs face risks associated with network ownership such as cost efficiencies and availability of network as the MVNOs do not own their own networks. Therefore, having strong partnerships and agreements are crucial to successful MVNO operations. For example, REDtone's two setups namely REDtone Mobile Services and Merchantrade Asia Sdn Bhd which are hosted by Celcom. The former targets the enterprise customers within the postpaid segment while the latter addresses the wide opportunity with foreign workers in Malaysia. U Mobile also has an agreement with Celcom to provide domestic roaming services to extend its network reach amid the emphasis for wide network coverage as a basis of competition. TuneTalk and XOX Com Sdn Bhd make up two other MVNOs intended for launch in 2008.

Slow Growth in a Saturating Market

The overall mobile market is close to saturation at a mobile penetration rate of 85.9% as of December 31, 2007 and has shown a decline in revenue growth. Hence mobile operators are shifting their focus into improving provision of mobile data services to counter declining voice revenues, to improve overall average revenue per user ("ARPU"). ARPU is expected to improve with the increase in returns from 3G services. However, ARPU growth will continue to decline within the near term as price reductions remain the focus of competition.

Higher Prepaid Subscriber Base Proportion in Malaysia

Malaysia's prepaid subscriber base of 19.4 million accounted for 83.3% of total subscribers as of December 31, 2007 and will continue to be a dominant part of the local cellular market. Prepaid users are typically teenagers and young adults that have low spending power. This may not be positive to improving mobile revenues, whereas bundling and flat rate plans associated with postpaid plans may improve ARPU. Postpaid plans which are designed to address the higher spending segment and recurring customers has contributed to the lower adoption of postpaid plans.

Mobile Number Portability in 2008

MNP is a service enabled by mobile operators to promote competition and enhance customer choice in the mobile market. It is perceived as an effective tool to eliminate customer "stickiness" resulting from an attachment to a mobile number or perceived premium attached to a prefix, as may be the case in Malaysia. In September 2005, the MCMC issued a public inquiry paper on the implementation of MNP in Malaysia. The implementation of MNP is expected to create heavy subscriber churn in most markets within the first three months of implementation and may disrupt revenues for operators that are less able to manage customer loyalty. It is anticipated that the existing service providers will intensify their marketing campaigns and revisit their customer churn management programs to design new offerings in an effort to keep their customers loyal. This is likely to continue even after the implementation of MNP and will stimulate competition. In December 2007, the MCMC announced a pilot launch in Klang Valley to begin in April 2008 followed by a nationwide launch in August 2008. The appointment of a consortium to operate and manage the MNP clearing house indicates that Malaysia will take a centralized approach to MNP that is similar to that which has been implemented in Hong Kong.

WiMAX as an Alternative Wireless Technology

WiMAX can mitigate the problem of the local loop unbundling by providing competitive service providers with an alternative last mile solution. However, high customer device cost and limited availability of mobile WiMAX handsets/embedded laptop devices are amongst the biggest market restraints. Another challenge lies with the backhaul to carry the traffic back to the core network. The four new WiMAX players will need to build a robust core network to cater for the high bandwidth data traffic. It is likely that the initial services will be restricted to limited or nomadic wireless services and thus have little impact in the medium term.

1.5 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 over-crowded nature of the industry. Nevertheless, the Malaysian Government has awarded extra 3G licenses to Time dotCom and U Mobile in February 2006, and announced four new WiMAX licensees. The market is highly competitive and is reaching saturation. With the introduction of new market entrants, the Malaysian mobile market will see further competition that is anticipated to focus around price wars and innovative 3G services. As 3G uptake is low at approximately 5.9% this still leaves room for the new players to maneuver.

1.6 Relevant Laws and Regulations

The MCMC is the regulator for the converging communications and multimedia industry and its key role is in the regulation of the communications and multimedia industry based on the powers provided for in the Malaysian Communications and Multimedia Commission Act (1998) and the Communications and Multimedia Act (1998). Pursuant to these Acts the role of the MCMC is to implement and promote the Malaysian Government's national policy objectives for the communications and multimedia sector.

The Communications and Multimedia Act (1998) also provides for the establishment of a Universal Service Provision ("USP") Fund to enable roll out of services in areas identified for USP. This intends to pool the resources of the telecommunications industry to promote the widespread availability and use of network services and or applications services throughout Malaysia by encouraging the installation of network facilities and the provision of services in underserved areas or for underserved groups within the community. In this respect, all telecommunications operators are required to contribute 6% of weighted revenues for USP development.

1.7 Supply Conditions

All three major mobile operators have been increasing investments in expanding GSM network coverage. In terms of GSM network coverage, Celcom has covered about 98.5% of the population while DiGi and Maxis are estimated to have covered 95%. Maxis and Celcom has also continued investments into 3G network expansion by upgrading their base stations to HSDPA. With the inclusion of U Mobile and the Time dotCom-DiGi alliance, more investments are planned for providing improved network coverage for 3G. The reliance of mobile operators on multiple vendors continues and the presence of all major telecommunications vendors is strong in Malaysia. Given the availability of multiple equipment vendors in the telecommunications space and the importance of volume to the vendors, no single vendor has sole control over the industry. As for handsets, the increasing demand and supply of feature-rich handsets at various price points and shorter handset replacement cycles are expected to open up a larger market for higher-value mobile data applications.

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MVNOs on the other hand are subject to risks to supply conditions in terms of network ownership and therefore will need to consider effective partnerships. Spectrum allocation is a scarce resource in Malaysia. The Government of Malaysia 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.

1.8 Demand Conditions

Demand for mobile services is still on the rise and while the market is near saturation there remains growth potential through introduction of new products and services. Price competition in the postpaid and prepaid segments has contributed to subscriber growth, however this has resulted in slower ARPU growth. There has been a sharp reduction in voice call rates for postpaid plans whilst new packages and innovative plans introduced in order to attract new postpaid subscribers. It is anticipated that there will be more significant migration of prepaid users to postpaid services which is likely to accelerate as a result of the removal of anonymity due to prepaid registration and the narrowing gap between prepaid and postpaid call charges. Overall, postpaid subscriber growth is expected to yield double-digit growth in the next few years. The mobile data segment is beginning to contribute positively to mobile operator revenues and is set to grow even further as demand for premium content and other mobile data services increase.

1.9 Reliance and Vulnerability to Imports

Generally, the telecommunications industry in Malaysia 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 Malaysia 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.

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1.10 Product Substitution

The threat of product substitution arises from other businesses which are able to provide mobility services via a different technology or business model. Two immediate technologies are expected to be introduced in the near future in the mobile services market, namely mobile VoIP and WiMAX. VoIP is the transmission of voice through the Internet or packet-based networks. It is anticipated that there will be little near term impact from the new WiMAX licensees and from third party mobile VoIP service providers. Pricing remains the main focus of competition, particularly in voice minutes and prepaid starter packs.

1.11 Market Size and Growth Forecast

In 2007, the Malaysian mobile communications market saw a growth in mobile subscribers of 19.9% over 2006 which totaled 23.3 million. It is expected that the total mobile subscriber market will reach almost 28.8 million by 2012 growing at a CAGR of 4.3% between 2007 and 2012.

The three major mobile operators, namely Maxis, Celcom and DiGi reported total mobile revenues of about RM17,143 million in 2007, a growth of 14.1% over 2006. All three mobile operators maintained vibrancy in the market with the launch of a number of innovative and new products and services in 2007. Mobile operator revenue is anticipated to grow at a CAGR of 5.1% from 2007 to 2012 to generate RM21,941 million by 2012.

The increasingly saturating market and a dominant prepaid user base are challenges faced by the Malaysian mobile market. With the mobile market close to saturation, mobile operators need to shift their focus into improving the provision of mobile data services to counter declining voice revenues, to improve overall ARPU. It is also anticipated that with the potentially higher value returns from 3G services will help improve the ARPU. Prepaid users are typically teenagers and young adults that have low spending power. The lower adoption of postpaid plans is due to lack of disposable income to accommodate higher priced postpaid services.

A combination of factors will continue to sustain strong growth in the number of mobile subscribers and revenues for the mobile market in Malaysia and address the challenges mentioned above. The increasing importance of mobility as a lifestyle and the availability of cheaper mobile phones will enable accessibility to better mobile services and higher subscriber growth. The introduction of MNP is also expected to promote competition and enhance customer choice in the mobile market. However it will also pose a challenge to operators in terms of maintaining a healthy ARPU. The deployments of HSDPA and WiMAX networks are also expected to play a significant role in the country's broadband expansion plans, which will subsequently spur the popularity of mobile broadband services. HSDPA broadband currently offers greater affordability and mobility advantages compared to the existing ADSL broadband services.

1.12 Prospects for Industry Players

Mobile operators need to shift their focus to the provision of mobile data services to counter declining voice revenues, to improve overall ARPU. However, Frost & Sullivan believes that for the near term, ARPU growth will continue to decline as lower tariffs will still be the focus of competition. As Malaysia's prepaid subscriber is and will continue to be a dominant part of the Malaysian mobile market, this is a challenge to increasing mobile revenues as the prepaid target segment has a lack of disposable income to accommodate postpaid plans that were designed for higher spending customers in mind.

With the mobile market reaching saturation levels, mobile operators are looking for options to expand their business and to grow and maintain ARPU levels. 3G services is anticipated to be the next area for competition considering 3G subscribers represented only 5.9% of total mobile subscribers in 2007. With the fall of 3G handset prices and availability of cheaper handsets, proliferation of handsets will drive the mobile market. Further, mobile operators will also be looking to migrate the predominantly prepaid market to postpaid subscribers. Other areas of positive development include the introduction of mobile broadband, mobile data, mobile TV and video services and MNP. In Malaysia, prospects for the mobile telecommunications industry are service convergence and triple play (provision of voice, data and video services) as the market is already saturated and will need this as the next stage for growth.

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1.13 Overview and Outlook of Economy

1.13.1 Overview of Malaysia's Economy in 2007

Robust domestic demand, driven by strong private consumption spending and investment activities, raised real GDP growth to 7.3% in the fourth quarter of 2007. Overall, the economy expanded by 6.3% in 2007 led by domestic demand. On the supply side, the robust performance was attributed to the increase in Services and Manufacturing sectors. Growth performance of the services sector continued to be strong by registering 9.1% in the fourth quarter of 2007. Private consumption expenditure grew by 11.1% supported by high disposable income due to strong commodity prices, salary increment in the public sector and stable employment market. The nationwide year-end sales had also encouraged consumer spending.

1.13.2 Outlook of Malaysia's Economy in 2008

Robust domestic demand and a projected improvement in exports of electrical goods are expected to sustain the economy's momentum into 2008. Consumer spending will again be the main driver of growth, supported by increases in incomes. Public investment is expected to remain strong as projects are rolled out under the Ninth Malaysia Plan. The Government of Malaysia budget announced in September 2007 puts economic expansion at 6.0–6.5% in 2008. The Economist Intelligence Unit's GDP forecast for the real GDP growth in Malaysia is now expected to slow to 5.5% in 2008.

The budget projects that growth will accelerate from 2007 levels in agriculture, construction, manufacturing, and oil and gas; and slow only slightly in services from this year's fast pace. Inflation next year is forecast to stay at around 2.5%. This prediction would need to be raised if the Government further phased down fuel subsidies or implements a goods and services tax ("GST"). The main risks to the above outlook are increasing energy costs and a significant slowdown of the United States economy, which would hurt exports.

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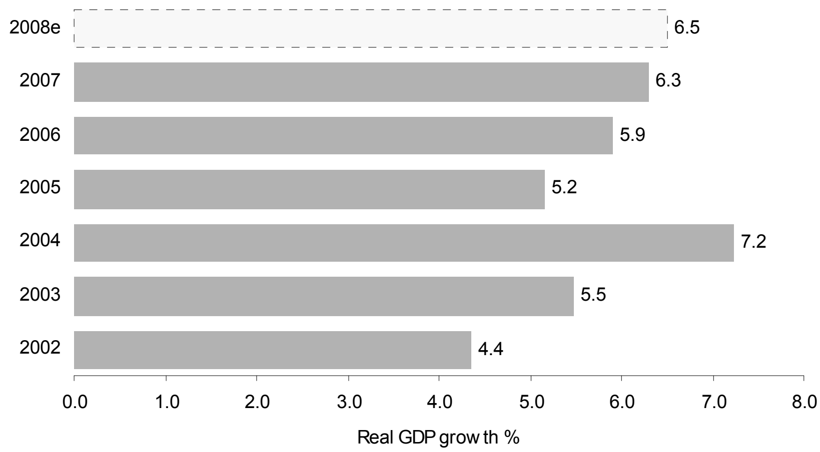
Chart 1.6 depicts the real GDP growth for Malaysia from 2002 to 2008.

Chart 1.6: Real GDP Growth (Malaysia)



Source: Bank Negara Malaysia & Department of Statistics Malaysia

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2. EXECUTIVE SUMMARY OF THE MOBILE TELECOMMUNICATIONS MARKET IN INDONESIA

2.1 Industry/Market Segmentation

Indonesia is one of the fastest growing mobile markets in Asia Pacific, having grown its subscriber base by a CAGR of 49.7% between 2003 and 2007. Despite the huge demand potential in the country, the Indonesian mobile market is highly competitive and is dominated by three main players, namely PT Telekomunikasi Selular ("Telkomsel"), PT Indosat Tbk. ("Indosat"), and PT Excelcomindo Pratama Tbk. ("XL"), which provides an extensive range of services.

The local mobile market comprises predominantly prepaid users, which accounted for over 95% of its total subscriber base as of December 31, 2007. Due to the disproportionately large prepaid segment and high price sensitivity, the ARPU in Indonesia is among the lowest in Asia Pacific at Rp.78,000 (US$8.32).

Figure 2.1 provides details on mobile subscribers and mobile penetration in Indonesia from 2003 to 2007[2].

Figure 2.1: Total Mobile Subscribers and Mobile Penetration (Indonesia), 2003-2007

	2003	2004	2005	2006	2007
Mobile penetration [3]	7.9%	12.6%	19.1%	25.9%	37.3%
No. of subscribers ('000)	18,511	30,036	46,260	63,660	92,864
Proportion of prepaid subscribers	92.4%	93.6%	94.9%	95.4%	> 95.0%

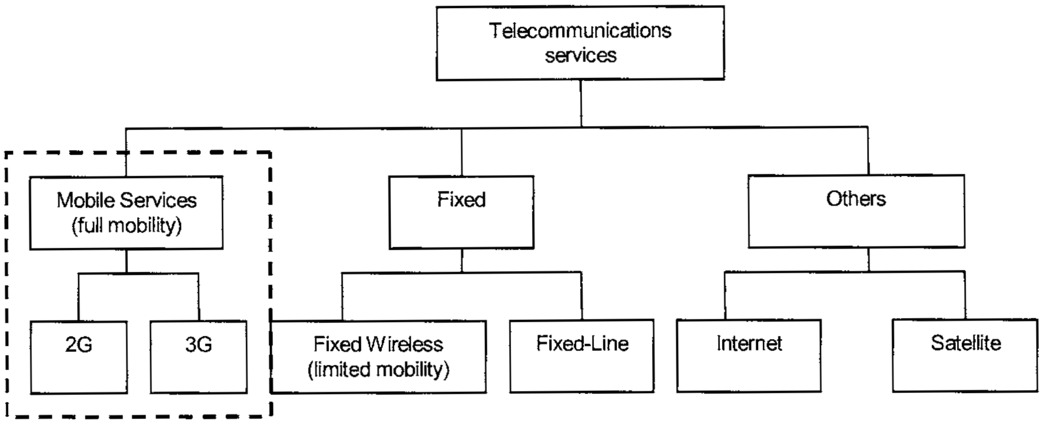
Source: Frost & Sullivan

Segmentation of telecommunications services in Indonesia can be summarized in the following diagram. Frost & Sullivan defines the mobile market as full mobility services which include 2G and 3G services. While fixed wireless access provides an alternative but limited mobility to wireless mobile services, Frost & Sullivan has categorized this service as part of fixed services, consistent with industry definition. Fixed wireless services is a limited mobility communication service that enables call rates similar to fixed-line charges. As such, the number of mobile subscribers in Indonesia indicated in this report does not include fixed wireless customers of PT Telkom's 'TelkomFlexi', Indosat's 'StarOne' and PT Bakrie Telecom's ("Bakrie Telecom") 'Esia'. Historical data for Indonesia was derived based on publicly disclosed subscriber base of mobile operators in the market.

[2] Total mobile subscriber and mobile penetration numbers for Indonesia as of December 31, 2007 is derived based on estimates based on secondary research and publicly disclosed subscriber base of Telkomsel, Indosat, XL and Mobile-8.
[3] Mobile penetration refers to the percentage of total mobile subscribers against the country's population. Country population is provided by Frost & Sullivan.

Chart 2.1 depicts the market segmentation of telecommunication services in Indonesia.

Chart 2.1: Market Segmentation of Telecommunications Services in Indonesia



Source: Frost & Sullivan

2.2 Key Industry Participants

The key industry participants are Telkomsel, Indosat and XL, which collectively accounted for 94.6% of total mobile subscribers in Indonesia as of December 31, 2007. The Tier-2 competitors consist of three smaller mobile operators namely, Code Division Multiple Access ("CDMA") mobile operator PT Mobile-8 Telecom Tbk ("Mobile-8"), PT Sampoerna Telekomunikasi Indonesia ("Sampoerna") and greenfield operators such as PT Natrindo Telepon Selular ("NTS"), PT Hutchison CP Telecommunications ("HCPT"), and PT Smart Telecom ("Smart Telecom"). Bakrie Telecom is also growing significantly with its fixed wireless CDMA services.

2.3 Market Share Analysis

Telkomsel, a subsidiary of PT Telekomunikasi Indonesia Tbk ("PT Telkom") is the largest mobile operator in Indonesia, accounting for 51.6% of total mobile subscribers as of December 31, 2007. This is followed by Indosat (26.4%) and XL (16.6%). The remaining 5.4% market share comprises Sampoerna, Mobile-8 and new operator HCPT which was launched in March 2007. Smart Telecom and NTS have since commercially launched mobile services in September 2007 and October 2007 respectively.

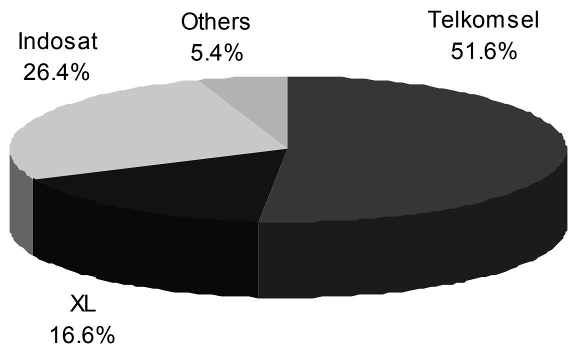
The entry of NTS, HCPT and Smart Telecom has raised the number of players in the mobile space to eight. Nevertheless, due to their initial shortcomings of network coverage and a zero subscriber base, the presence of NTS, Smart Telecom and HCPT is not expected to pose much of a threat to the existing players. While HCPT and NTS have also been awarded two out of the five 3G licenses, they will find it difficult to compete with the three main players that have stronger leverage in migrating users and networks to 3G given their wider network coverage (which in return allows for more competitive intra-network rates) in Indonesia and solid financial position. There is little service differentiation among operators, given the low ARPU-yielding market and high prepaid dominance.

Through the provision of fixed wireless services based on CDMA technology, Bakrie Telecom's 'Esia' services has been growing substantially by more than doubling its subscriber base by the end of 2007 to 3.8 million from 1.5 million in 2006. Despite the limited mobility offered by fixed wireless services, the competitive pricing offered by product and services from Bakrie Telecom point to the high potential of success of fixed wireless services in the Indonesian telecommunications environment.

In terms of the breadth of services offered, the Telkom group and Indosat offer a full range of telecommunications services, including fixed-line, fixed wireless, GSM, 3G, satellite and internet services.

Chart 2.2 depicts mobile operator market share by mobile subscribers in Indonesia as in 2007.

Chart 2.2: Mobile Operator Market Share by Subscribers (Indonesia), 2007



Note: Others include Sampoerna, Mobile-8 and HCPT. As of December 31, 2007, Smart Telecom's mobile subscriber base is regarded as insignificant while NTS has yet to launch their mobile services.

Source: Indonesian Mobile Operators, Frost & Sullivan

Several factors are expected to drive the robust growth of Indonesia's mobile telecommunications 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. With major cities already experiencing mobile saturation, the reduction in cost of entry-level handsets is expected to enhance affordability particularly in rural areas and lower-end segments of the market.

2.4 Industry Challenges

Regulatory Risks

Through the Ministry of Communication and Information Technology of the Republic of Indonesia ("MoCI"), the Indonesian Government exercises regulatory power over the Indonesian telecommunications market in areas such as interconnection charges, spectrum allocation, and issuance of new licenses, anti-trust laws and foreign equity ownership of local operators.

Foreign Ownership

In August 2007, the Indonesian Government issued a new presidential decree that imposes restrictions on foreign ownership in Indonesian telecommunications companies depending upon the type of business pursued by the company; e.g. restrictions on a new mobile and fixed-line operators to a maximum of 65% and 49% respectively. Different restriction thresholds are applicable depending upon whether the business pertains to telecommunication network or services. Although the existing restrictions do not apply to the investment approvals obtained by companies before they came into effect, there is no assurance that (i) they will not be amended to apply retrospectively; and (ii) the governmental authorities implementing the restrictions will not apply the restrictions retrospectively. The Government of Indonesia is also discussing the possibility of restricting activities and foreign ownership in certain businesses in the telecommunications sector. Currently, the mobile operators with foreign ownership in excess of the 65% stake are, among others, XL and NTS. Telekom Malaysia Berhad ("TM") has a 67% stake in XL, while Maxis and Saudi Telecom Company, collectively, hold a 95% stake in NTS.

Interconnection

To promote healthier competition, telecommunication operators shifted from interconnection rates that were previously set by revenue sharing agreements to a new cost-based structure with effect from January 1, 2007. Under the new scheme, the operator of the network on which calls terminate would receive interconnection fees based on a formula stipulated under the regulation. This means that operators will charge for calls, based on the costs of carrying such calls. The previous interconnection structure benefited the bigger telecommunications operators due to their higher economies of scale resulting from higher volumes of voice calls. With the new structure implemented, interconnection fees can no longer be fixed based on revenue sharing agreements and will have to be based on cost which are offered by each telecommunications provider in Indonesia. No assurance can be given that the interconnection fees will not change to the disadvantage of mobile operators.

Competition

Competition takes several forms in Indonesia's mobile environment, namely, pricing, network coverage, quality of calls, the variety of services offered and the threat from alternative modes of wireless services. Indonesia's competitive landscape was further intensified with the entry of new competitors, HCPT, Smart Telecom and NTS, which have recently launched their mobile services.

Mobile operators also face increased competition from fixed wireless service providers with the latter gradually encroaching into the mobile space. Fixed wireless service providers are able to provide limited mobility at the price of fixed-line service. This alternative service has been gaining ground over the years, given the launch of aggressive promotions and, in 2006, fixed wireless service providers were given national operating licenses. Pioneered by PT Telkom under then brand name 'TelkomFlexi' in December 2002, fixed wireless access is also provided by PT Bakrie Telekom's 'Esia' and Indosat's 'StarOne'.

High Churn Rate

Churn rate or customer attrition results in the loss of revenue from subscribers which have switched or terminated their subscriptions. High churn rate, particularly in the prepaid segment, would have a material impact on operator's future performance.

Declining ARPU

Due to intensifying competition, declining ARPU adds to the risk of mobile operators, which constantly face pricing pressure from alternative VoIP services (the transmission of voice through the Internet), particularly in the IDD and prepaid segment.

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 next generation network ("NGN") is a packet-based network where service-related functions are independent from the underlying transport-related technologies.

Dependence on Infrastructure

The providers of mobile services are highly reliant on network quality and coverage. Any failure of network, server or 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. The risk of natural disasters in Indonesia contributes to the risk profile of mobile operators. To remain competitive, mobile operators face possible huge expansion plans given the fast growing subscriber base in Indonesia. Any failure to accommodate growth in network expansion will impact mobile operators.

2.5 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 over-crowded nature of the industry. Nevertheless, regulatory reforms which have expanded the operating licenses of fixed wireless service providers to nationwide coverage and the allocation of additional 3G licenses have lowered regulatory entry barriers to the telecommunications industry in Indonesia.

2.6 Relevant Laws and Regulations

Through the MoCI, the Indonesian Government has extensive regulatory authority and supervisory control over the telecommunications market in Indonesia. Recent reforms have attempted to create a regulatory framework to promote competition and accelerate the development of telecommunications facilities and infrastructure. The Indonesian Government retains the right to amend the terms of telecommunication licenses at its discretion. It also has the right to issue new licenses and regulate frequency spectrum allocation, which would change the competitive landscape of the telecommunications industry. In February 2006, the Indonesian Government awarded three additional 3G licenses to Telkomsel, Indosat and XL, on top of the two licenses previously issued to newcomers, HCPT and NTS.

The Indonesian Government also requires telecommunications operators to pay a concession license fee of 1% of their respective gross revenues. The regulator controls the tariffs set by the mobile operators, initially specifying the formula of price ceilings however in 2006 MoCI changed the formula to floor price. The Indonesian Government is currently drafting new regulation on tariffs, which will only regulate the ceiling price. In a recent ruling by the Business Competition Supervisory Commission ("KPPU") in November 2007, Indonesia's biggest mobile operator Telkomsel was fined Rp.25 billion for charging excessive tariffs and was asked to reduce tariffs by at least 15%.

The KPPU also launched an investigation into alleged price-fixing of tariffs for mobile phone text messages by eight of the country's mobile operators as it had found evidence of arrangement between the companies involved. Under Indonesian law, the

KPPU is required to complete the second stage of the investigation within 60 days, although this has been extended for an additional period of 30 business days. The investigation is still in progress and we expect a decision to be rendered in May 2008.

The Indonesian Government also prohibits operators from abusing a dominant position in practices such as dumping, predatory pricing, cross-subsidies. In November 2007, Singapore's state investment company, Temasek Holdings ("Temasek"), was charged by the Business KPPU for its cross ownership in two of Indonesia's leading mobile operators and was ordered to sell off its stakes in one of the two operators within two years. Temasek owns a 56% stake in SingTel, which has a 35% stake in Telkomsel. Meanwhile, Temasek's wholly-owned Singapore Technologies Telemedia, owns 41.9% of the second-largest mobile company, Indosat.

In August 2007, the Indonesian Government issued a new presidential decree that imposes restrictions on foreign ownership in Indonesian telecommunications companies depending upon the type of business pursued by the company; e.g. restrictions on a new mobile and fixed-line operators to a maximum of 65% and 49% respectively. Different restriction thresholds are applicable depending upon whether the business pertains to telecommunication network or services. Although the existing restrictions do not apply to the investment approvals obtained by companies before they came into effect, there is no assurance that (i) they will not be amended to apply retrospectively; and (ii) the governmental authorities implementing the restrictions will not apply the restrictions retrospectively. The Government of Indonesia is also discussing the possibility of restricting activities and foreign ownership in certain businesses in the telecommunications sector. Currently, one of the foreign companies with excess of 65% foreign ownership in a mobile operator is TM, which has a 67% stake in XL.

As part of the Universal Service Obligation ("USO"), all telecommunications network operators and service providers are required to contribute towards providing universal telecommunication facilities and infrastructure or other forms of compensation. In this respect, all telecommunications operators are required to contribute 0.75% of gross revenues for USO development.

2.7 Supply Conditions

Mobile services in Indonesia are typically provided by mobile network operators themselves, where the MVNO concept is not prevalent in the local industry. Amid the anticipated market growth in the industry, mobile operators are expected to undertake heavy expansionary plans in the next three years to build base stations and roll out 3G network coverage nationwide.

Spectrum allocation is a scarce resource in Indonesia. The Indonesian 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. To conform to international standards, the Indonesian Government has assigned the 1900 MHz frequency spectrum for IMT-2000 and 3G network. As a result, fixed wireless services, which previously operated in this frequency spectrum, have been reallocated to the 800 MHz spectrum. In 2006, the Indonesian Government also issued three additional 3G licenses on top of the existing two licenses.

Figure 2.2 shows the spectrum allocation of three major mobile operators in Indonesia as at end of 2006.

Figure 2.2: Spectrum Allocation for Telkomsel, Indosat and XL in Indonesia

	Telkomsel	Indosat	XL
Launch of services	May-95	Nov-94	Oct-96
2G license (frequency bandwidth for GSM 900 & 1800)	2x30 MHz	2x30 MHz	2x7.5 MHz
3G license (frequency bandwidth for 2 GHz)	2x5 MHz	2x5 MHz	2x5 MHz
License (coverage)	Nationwide	Nationwide	Nationwide

Source: ITRB, XL

Meanwhile, in terms of supply of network equipment, 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.

2.8 Demand Conditions

While the Indonesian mobile market is showing robust growth, further potential exists with a mobile penetration rate of approximately 37.3% as of December 31, 2007. Meanwhile, subscriber penetration for fixed-line services in Indonesia is still very low, estimated at approximately 4.4% as of December 31, 2007. 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.

With major cities experiencing mobile saturation, the reduction in cost of entry-level handsets is expected to spur affordability particularly in rural areas and lower-end segments of the market. Given this, mobile subscriber base in Indonesia is expected to grow at a CAGR of 11.5% from 2007 to 2012, to 160.3 million users and a mobile penetration of 60.5% by 2012.

Figure 2.3 shows the historical and forecast for Indonesia's mobile subscriber base between 2003 and 2012.

Figure 2.3: Total Mobile Subscribers and Growth Rates (Indonesia), 2003-2012

Year	Mobile Penetration	Total Mobile Subscribers ('000)	Growth (%)
2003	7.9%	18,511	-
2004	12.6%	30,036	62.3%
2005	19.1%	46,260	54.0%
2006	25.9%	63,660	37.6%
2007	37.3%	92,864	45.9%
2008	46.5%	117,380	26.4%
2009	53.2%	136,044	15.9%
2010	57.8%	149,648	10.0%
2011	60.0%	157,130	5.0%
2012	60.5%	160,273	2.0%

Source: Frost & Sullivan

2.9 Reliance and Vulnerability to Imports

Generally, the telecommunications industry in Indonesia 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 Indonesia 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.

2.10 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 Indonesia's mobile market, the biggest threat to the industry is fixed wireless technology. Although the growth rate of fixed wireless subscribers has lagged behind mobile subscribers in the past, the upgrade from regional to national licenses will put them in direct competition with mobile service providers that will be competing for the same potential subscriber base in suburban and rural areas. Except for full mobility, fixed wireless currently offers all the major capabilities and value-added services of mobile services such as SMS and ringback tones.

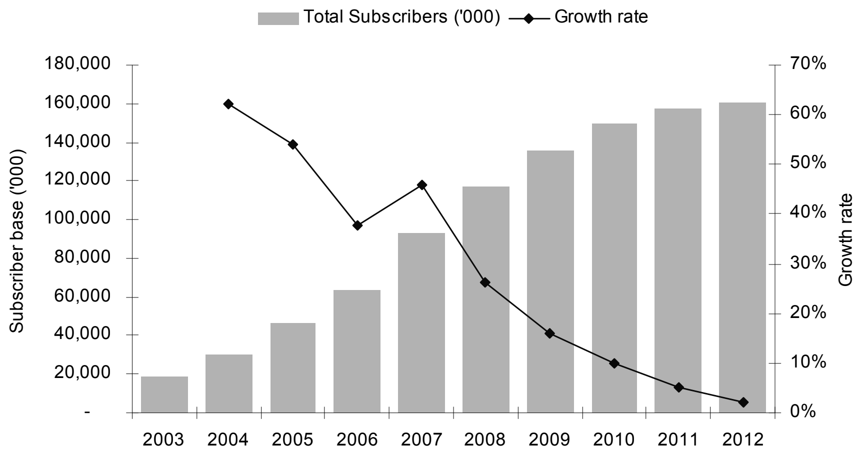
Other product substitutions include mobile VoIP and WiMAX. While the issue on WiMAX licenses has yet to take place in the Indonesian context, the potential issuance of WiMAX licenses to new entrants could affect the competitive landscape.

2.11 Market Size and Growth Forecast

The local mobile market continued to experience robust growth in 2007 as subscriber base grew by 45.9% compared to the previous year reaching 92.9 million. Net additions in 2007 amounted to of 29.2 million users. Likewise, mobile revenue has been growing at a very rapid pace, reaching Rp.75,991 billion in 2007, up by 39.6% from Rp.54,454 billion in the corresponding period for the previous year.

Chart 2.3 shows the historical and forecast for Indonesia's mobile subscriber base between 2003 and 2012.

Chart 2.3: Total Mobile Subscribers and Growth Rates (Indonesia), 2003-2012

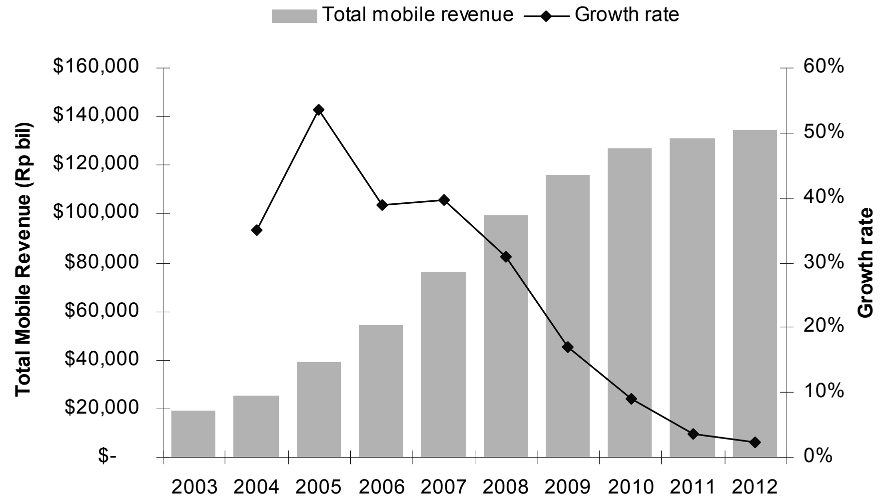


Mobile subscriber CAGR (2007-2012): 11.5%
Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

The mobile subscriber base in Indonesia is expected to grow at a CAGR of 11.5% from 2007 to 2012, against a mobile penetration of over 60.5% by 2012. Meanwhile, market growth in terms of revenue is expected to grow at a slower pace, as a result of price competition. Mobile revenue is envisaged to expand at a CAGR of 12.1% to Rp.134,635 billion in 2012. Increasing numbers of 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 NTS, HCPT and Smart Telecom will be a good driver for subscriber growth.

Chart 2.4 shows the historical and forecast for Indonesia's mobile revenues between 2003 and 2012[4].

Chart 2.4: Total Mobile Revenues and Growth Rates (Indonesia), 2003-2012



Mobile revenue CAGR (2007-2012): 12.1%

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

2.12 Prospects for Industry Players

There is still ample growth in the Indonesian mobile market, given its low penetration rate and the lack of fixed-line infrastructure. While the three major mobile operators have launched 3G mobile services, voice and SMS services would 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 segment of the market to grow subscriber base. Price competition will continue to persist in view of new market entrants, which would likely affect blended ARPU. As network coverage and breadth of services would be a key basis of competition apart from pricing, the three largest mobile operators (Telkomsel, Indosat and XL) are in a good position to capitalize on the growth potential in Indonesia's mobile market.

[4] Total mobile revenues for Indonesia as of December 31, 2007 is derived based on estimates based on secondary research and publicly disclosed subscriber base of Telkomsel, Indosat, XL and Mobile-8.

2.13 Overview and Outlook of Economy

2.13.1 Overview of Indonesia's Economy in 2007

On the back of strong exports and higher consumer spending, the Indonesian economy continued to gain momentum in the first three quarters of 2007. For 2007, the country recorded a GDP year-on-year growth of 6.3%. Key factors driving this growth include rising household consumption and exports. The supply side has also demonstrated adequate response to increased demand. Indonesia's overall economic performance in 2007 showed heartening results with growth at 6.3%, the highest annual growth rate since the 1997 crisis. This is a major achievement, especially in view of the formidable challenges confronting the economy in 2007 brought on by the subprime mortgage crisis in the United States that has plunged international money markets into turmoil, as well as soaring world oil prices. Year-on-year inflation slowed very slightly to 6.59% in 2007 compared to 6.6% as at end of 2006.

Nevertheless, the economy is expected to face several challenges which could moderate its growth, such as the prolonged rise in crude oil prices that could spur inflation and the anticipated slowdown in United States economy – a major importer of Indonesia's products.

2.13.2 Outlook of Indonesia's Economy in 2008

Indonesia's central bank, Bank Indonesia, recently revised its projection for GDP growth from 6.2%-6.8% for 2008. This was mainly attributed to the continued high levels of permanent components in Indonesia's inflation, attributable among others to: (i) lack of significant improvement in capacity and economic productivity, (ii) susceptibility of inflation to movement in volatile foods and public expectations, (iii) relative lack of deepening of Indonesia's financial market and (iv) considerable excess liquidity.

Domestic inflationary pressure mounted in response to escalating international oil and food commodity prices. CPI inflation reached 1.77% (m-t-m) in January 2008, representing an annual rate of 7.36%. This is explained mainly by volatile foods inflation and core inflation driven by high commodity prices, the weakening in the rupiah in early January 2008 and slightly increased inflation expectations compared to the previous period.

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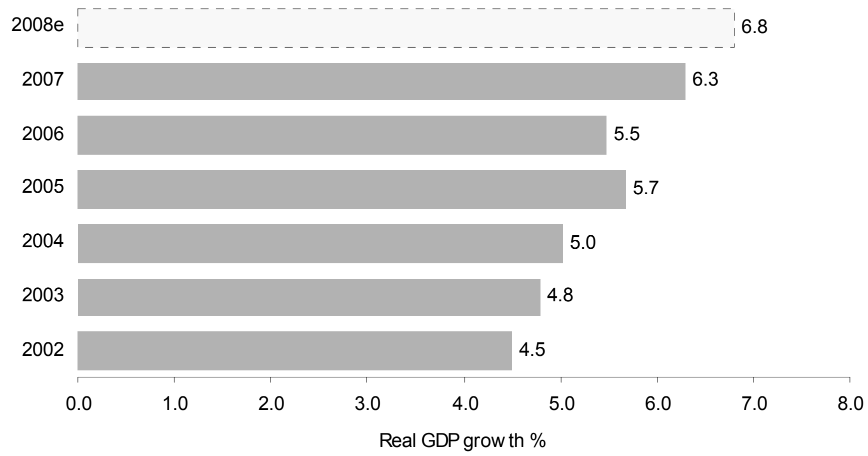
Chart 2.5 depicts the real GDP growth for Indonesia from 2002 to 2008.

Chart 2.5: Real GDP Growth (Indonesia)



Note: 2007 and 2008 numbers are estimates and projections of Indonesia's Government.

Source: Central Statistics Bureau (BPS), Asian Development Bank (ADB)

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3. EXECUTIVE SUMMARY OF THE MOBILE TELECOMMUNICATIONS MARKET IN SRI LANKA

3.1 Industry/Market Segmentation

The mobile market in Sri Lanka has expanded very rapidly due to the significant contribution from foreign investments. As of December 31, 2007, mobile subscriber base in Sri Lanka grew by 47.5% compared to 5.4 million in 2006, increasing total number of subscribers to 8.0 million. As of December 31, 2007, mobile subscriber penetration reached 38.1%, an increase of 12.0 percentage points from 2006.

Figure 3.1 provides details on mobile subscribers and mobile penetration in Sri Lanka from 2003 to 2007.

Figure 3.1: Total Mobile Subscribers and Mobile Penetration (Sri Lanka), 2003-2007

	2003	2004	2005	2006	2007
Mobile penetration [5]	6.9%	10.9%	16.4%	26.1%	38.1%
No. of subscribers ('000)	1,393	2,211	3,362	5,413	7,983
Proportion of prepaid subscribers	n/a	n/a	80.0%	87.3%	89.5%

Source: Telecommunications Regulatory Commission of Sri Lanka ("TRCSL"), Frost & Sullivan

The Sri Lankan mobile market is largely dominated by the prepaid segment, with prepaid subscribers accounting for 89.5% of total subscriber base in 2007. Due to the disproportionately large prepaid segment and high price sensitivity, the ARPU in Sri Lanka is quite low at Rs.719.6 (US$6.93). Segmentation of telecommunications services in Sri Lanka can be summarized in the following diagram. The mobile market is defined as full mobility services which include 2G and 3G services. While fixed wireless access provides an alternative but limited mobility to wireless mobile services, Frost & Sullivan has categorized this service as part of fixed services, consistent with industry definition. As such, the number of mobile subscribers in Sri Lanka indicated in this report does not include fixed wireless customers. Historical data for Sri Lanka was derived based on publicly disclosed subscriber base of mobile operators in the market.

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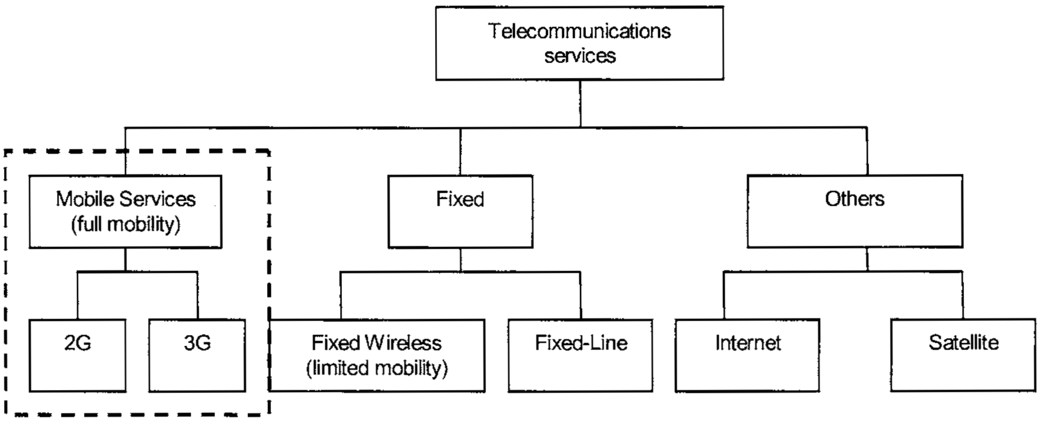
[5] Mobile penetration refers to the percentage of total mobile subscribers against the country's population. Country population is provided by Frost & Sullivan.

Chart 3.1 depicts the market segmentation of telecommunication services in Sri Lanka.

Chart 3.1: Market Segmentation of Telecommunications Services in Sri Lanka



Source: Frost & Sullivan

Mobile subscriber base in Sri Lanka is expected to grow at a CAGR of 15.0% from 8.0 million in 2007 to reach approximately 16.1 million in 2012, driven by its large addressable market, increased affordability of prepaid plans and a conducive regulatory environment for telecommunications operators.

Mobile revenue in Sri Lanka has been expanding at a rapid pace; total mobile revenue grew by 22.2% in 2007 compared to the previous year, increasing the revenue to Rs.46,302 million in 2007, against a subscriber base of 8.0 million. Sri Lanka's mobile revenues are expected to further grow at a CAGR of 8.2% from 2007 to 2012 to reach Rs.68,751 million in 2012.

Sri Lanka's mobile market will benefit from the local Government initiatives aimed at providing mobile communication across rural areas within the near-to-medium term. The prepaid segment is expected to fuel the expansion of the current subscriber base, as the availability of cheaper micro-reloads enables the rural population to experiment with mobile services.

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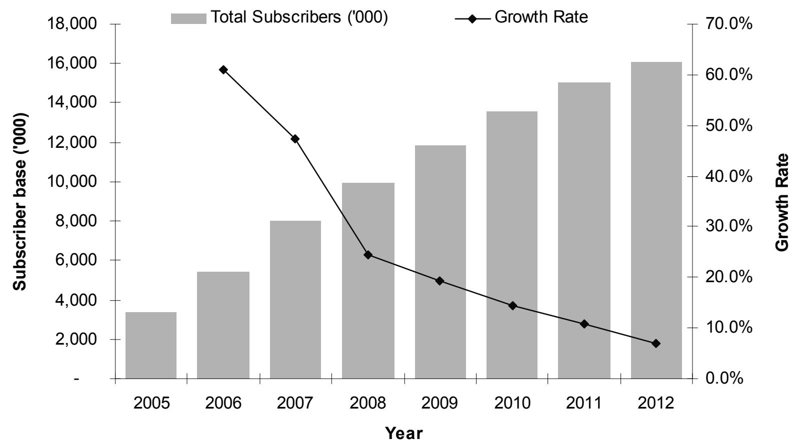
Chart 3.2 depicts the mobile subscriber and growth rates in Sri Lanka from 2005 to 2012

Chart 3.2: Total Mobile Subscribers and Growth Rates (Sri Lanka), 2005-2012

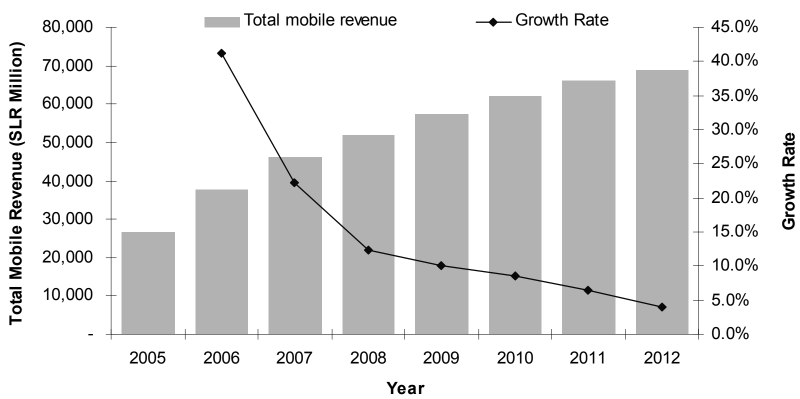


Mobile subscriber CAGR (2007-2012): 15.0%

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

Chart 3.3 depicts the total mobile revenues and growth rate in Sri Lanka from 2005 to 2012.

Chart 3.3: Total Mobile Revenues and Growth Rates (Sri Lanka), 2005-2012



Mobile revenue CAGR (2007-2012): 8.2%

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

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3.2 Key Industry Participants

As at end 2006, Sri Lanka had four mobile operators, namely, Dialog PLC (Dialog), MobiTel (Pvt) Ltd. (MobiTel), Tigo (Private) Limited (Celltel Lanka/Tigo), and Hutchison Telecommunications Lanka (Pvt) Limited (Hutch Sri Lanka). A new entrant, Bharti Airtel, is set to bring the number of mobile operators in Sri Lanka to five. The new player is expected to begin from scratch and compete with the other four existing mobile operators in Sri Lanka, each with their own network infrastructure in place and a subscriber base. However, given that mobile penetration was low at 38.1% in 2007, there remain opportunities for industry participants to expand their subscriber base. Bharti Airtel intends to launch 2G and 3G services by September 2008. Bharti Airtel will also leverage the expertise of Singapore Telecommunications Ltd, who is a stakeholder in Bharti Airtel, in rolling out 3G services.

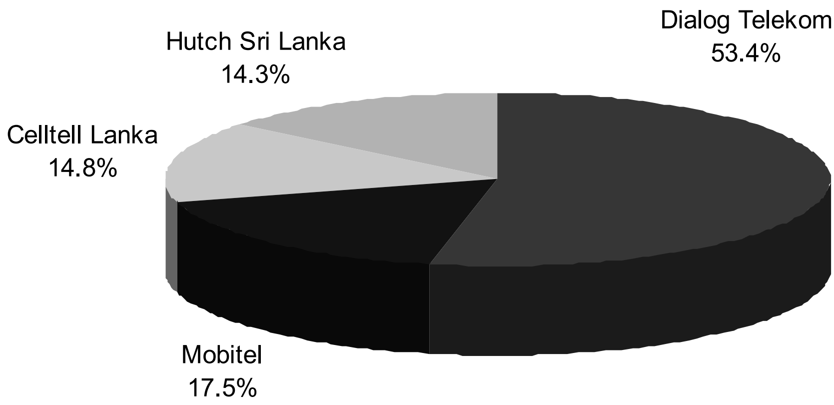
3.3 Market Share Analysis

Dialog, Sri Lanka's biggest mobile operator by subscriber base in 2007, obtained a 3G license and was the first operator in South Asia to introduce 3G services in August 2006. In the same year, Dialog recorded the highest subscriber net additions of 0.98 million from 2005. Dialog's aggressive expansion involves coverage and capacity expansion of its GSM mobile network, expansion of its International Gateway infrastructure and the entry into other sectors across all regions of Sri Lanka.

Meanwhile, MobiTel, Tigo, and Hutch Sri Lanka have consistently grown their subscriber base between 2005 and 2007. Competitive tariff changes across mobile operators had been fairly moderate throughout 2007 as the salient focus had been for the mobile operators to expand network coverage as well as migrate to global system for mobile communication ("GSM") networks. In an effort to increase its prepaid subscriber market share, MobiTel, which is also a 3G contender, had introduced a new prepaid tariff plan in March 2006, which offered calls to any network at Rs.5 throughout the day. This resulted in a dramatic increase in MobiTel's prepaid subscriber base, which was the smallest in 2005, as it grew by 256.1% to achieve 0.7 million subscribers in 2006. Hutch Sri Lanka has also been associated with the provision of more innovative mobile communication means to the rural communities through the 'SimPhony Payphone Network' systems. Essentially, the service, without mobile handsets, utilizes Hutch Sri Lanka's network connections as well as the payphone concept to allow subscribers access to value-added services ("VAS") such as voicemail, SMS, missed call alerts, and caller identification through special public phones.

Chart 3.4 depicts mobile operator market share by mobile subscribers in Sri Lanka in 2007.

Chart 3.4: Mobile Operator Market Share by Subscribers (Sri Lanka), 2007



Note: As at end 2007, Bharti Airtel has yet to launch its mobile service.

Source: Frost & Sullivan

Factors such as low mobile penetration and the lack of fixed-line infrastructure will serve as an impetus for rapid growth in the Sri Lankan mobile market. Cheaper prepaid packages and reduction in cost of entry-level handsets are expected to enhance affordability within the rural areas and lower-end segments of the market.

3.4 Industry Challenges

Economic, Political and Social Considerations

The mobile operator's business, prospects, financial condition and profitability may be affected by the development of the economic and political environment in Sri Lanka like other companies in this sector. Any adverse development in the political situation, economic uncertainties or changes in the regulatory environment could materially and adversely affect the business activities and financial performance of the mobile operator.` These risks include political instability, inflationary pressure, currency fluctuations terrorist activities and vulnerability to natural disasters. Internal security is a major concern for the ruling Government of Sri Lanka, and US$1.5 billion was appropriated for 2007's defense budget. However, prolonged unrest spurred by political factions in several areas within the country remains a considerable factor amongst foreign investors from committing larger investments to develop mobile telecommunication infrastructure as well as to expand coverage at a more rapid pace.

Regulatory Risks

The Sri Lankan Government had issued the National Telecommunication Policy ("NTP") in 1994 with objectives that included the provision of telecommunications facility on demand, achievement of universal service in all villages, and cost-based tariffs. The TRCSL was established under the Sri Lanka Telecommunication (Amendment) Act No. 27 of 1996. The regulator exercises power to recommend grant licenses, establish general framework of licensing, spectrum allocation, interconnection charges, and facilitate new entrants and changes to the industry's competition structure. Any changes by the regulator in its laws and regulations could adversely affect a mobile operator's financial condition or results of operations.

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.

Declining ARPU

Global trends dictate a declining trend in mobile ARPU. Although Sri Lanka still possesses much room for growth given a mobile penetration rate of 38.1% in 2007, the market faces similar declining trend for ARPU within the medium-term due to intensifying competition, both internal and external.

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 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. While mobile operators in Sri Lanka own their network infrastructure, the risk of natural disasters contributes to the risk profile of mobile operators. To remain competitive, mobile operators are also burdened by the need for extensive expansion plans given the fast growing subscriber base in Sri Lanka. Any failure to accommodate growth in network expansion could also have an adverse impact on the company.

Increased Levy on Mobile Phones

An increased levy on mobile handsets from the initial 2.5% to 10.0% represents a major setback to the country's GSM and CDMA mobile markets. One of the basic requirements for mobile services to thrive is to ensure a vast dissemination of handsets. The four-fold increase in levy may become burdensome for the majority of the population, threatening adverse implications such as a less bullish mobile subscriber growth in the near term.

Instilling Partiality for 3G Services within a Low-Teledensity Market

In 2006, Sri Lanka embraced commercial 3G services when mobile penetration rate stood at only 26.1%. Across Southeast Asia, with the exception of Indonesia which rolled-out Wideband Code-Division Multiple Access ("WCDMA") networks in 2006 at less than 30% penetration in the country, most countries have only launched the service when penetration was well above 45%.The major restraints for 3G services across the Asia Pacific have been the relatively expensive mobile handsets and low mobile data consumption. The conditions necessary for a significant 3G service uptake in Sri Lanka include unconventional service price points, more granular target market strategies, and more attractive service bundles and packages.

Increasing Threat from Fixed Wireless Services

Prepaid services offered through CDMA fixed-wireless provides limited mobility communication with similar rates to fixed-line charges. In Sri Lanka, they consist of fixed-line players such as Suntel, Lanka Bell, and Sri Lanka Telecom. TRCSL had issued both Suntel and Lanka Bell with an allocation in 800MHz spectrum in 2005, whilst Sri Lanka Telecom received its license in 2006. This can put them in direct competition with mobile service providers that will be competing for the same potential subscriber base in suburban and rural areas. Except for full mobility, fixed wireless access currently offers all the major capabilities and value-added services of mobile services. Potential subscribers in rural areas with low incomes and less need for mobility may be more attracted to fixed wireless packages that offer lower tariffs. In August 2007, Dialog launched its new fixed wireless network (on CDMA 450MHz) through its subsidiary, Dialog Broadband Networks, in response to the increasing competition within the wireless local loop ("WLL") space. CDMA

450MHz services are known to offer numerous benefits for enabling fully mobile or fixed WLL services to cover an expansive geographic area in a cost effective manner.

3.5 Barriers to Entry

Mobile telecommunication has become one of Sri Lanka's high growth market sectors in recent years. The local Government is relying on contributions from this sector to fund the country's development as well as to gradually reduce its dependency on the textile trade. Hence, barriers to entry have been significantly reduced to encourage both the inflow of foreign investments and construction of mobile infrastructure across the country. General sentiments toward foreign participation in the mobile sector remain very encouraging. To illustrate the favorable conditions within this industry, TRCSL, in 2006, made an exception in issuing a 3G license to a fifth mobile operator (Bharti Airtel was subsequently appointed) at US$4 million. This was a US$1 million less than the initial price paid for 3G licenses on the 2 GHz band. The move was meant to attract another experienced mobile operator into the market, thereby ensuring sufficient competition for 3G services to thrive locally. Spectrum allocation had also been deployed on a first-come, first-serve basis and the market requires spectrum realignment due to the increasing number of industry participants and the initial lack of standardization when issuing spectrum. Conditions remain conducive to growth for new participants entering the mobile telecommunication market in Sri Lanka within the near-to-medium term. The shift to protect the interest of local participants will gradually take place when basic mobile infrastructure is readily available across the country and when mobile saturation moves into the 60% to 80% bracket.

3.6 Relevant Laws and Regulations

The TRCSL is a regulatory body set up to oversee the recommendation of grant licenses, establishment of general framework for licensing, spectrum allocation, interconnection charges, and facilitation of new entrants and changes to the industry's competition structure. The regulatory body was established under the Sri Lanka Telecommunication (Amendment) Act No.27 of 1996 to boost competition within the industry by promoting the widespread availability and use of network services, including underserved areas or for underserved groups within the community.

3.7 Supply Conditions

The mobile operators are expected to roll-out their expansion plans for 3G network coverage over the next 2 to 5 years. Leading mobile operator, Dialog, has been permitted to carry out 3G network trials since 2004 and has a planned investment of US$150 million within the country over the next 2 years. Dialog's aggressive expansion involves coverage and capacity expansion of its GSM mobile network, expansion of its International Gateway infrastructure and the entry into other sectors across all regions of Sri Lanka. Overall, the mobile operators in Sri Lanka are granted more flexibility in terms of business opportunities, compared to the more rigid conditions elsewhere in Asia Pacific. TRCSL had also been cautious about service domination by any one party, by maintaining healthy competition through the inclusion of specific participants at certain junctures.

3.8 Demand Conditions

Essentially, Sri Lanka's mobile subscribers are sensitive to price hikes. The prepaid segment holds the majority of total subscriber count (89.5% in 2007) and its industry outlook is to remain prepaid inclined. However, the degree of price sensitivity may not be as severe as initially anticipated, as other factors, such as availability of wider network coverage, have shown to have a greater impact over lower tariffs on subscriber additions. Networks with smaller coverage and which require more time to mature are compensated with more competitively-priced service offerings by the relevant mobile operators, whereas the bigger mobile operators which possess better coverage and network stability are in a position to retain a higher margin. The total mobile subscriber base in Sri Lanka is expected to grow rapidly at a CAGR of 15.0% from 2007 to 2012. It is also expected that churn rates will gradually increase during this period, as operators compete in tariff changes to capture market share.

3.9 Reliance and Vulnerability to Imports

Generally, the telecommunications industry in Sri Lanka 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 Sri Lanka 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.

3.10 Product Substitution

The threat of product substitution arises from other businesses which are able to provide mobility services via a different technology or business model. An imminent threat to Sri Lanka's current choice of wireless technology is WiMAX. WiMAX licenses had been issued to fixed-line incumbent, Sri Lanka Telecom Limited, and Dialog and in January 2007, Dialog launched the WiMAX pilot in 6 areas across the country (Hambantota, Matara, Galle, Kurunagala, Anuradhapura, and Polonnaruwa). Commercial mobile services will remain a more favorable service to consumers within the near-to-medium term. WiMAX services could potentially affect the competitive mobile landscape when compatible WiMAX handsets become widely available and affordable and when service price points become more competitive.

3.11 Market Size and Growth Forecast

Mobile subscriber base in Sri Lanka is expected to grow at a CAGR of 15.0% from 8.0 million in 2007 to reach approximately 16.1 million in 2012, driven by its large addressable market, increased affordability of prepaid plans and a conducive regulatory environment for telecommunications operators.

3.12 Prospects for Industry Players

There is still room for growth in the Sri Lankan mobile market, given its low mobile penetration rate. The prepaid segment is expected to remain a key growth driver of mobile revenues over the next five years as mobile operators turn to rural markets to grow their subscriber base. On top of competing on network coverage and breadth of services, frequent tariff changes are expected to take place within the market, which would in turn affect blended ARPU.

3.13 Overview and Outlook of Economy

3.13.1 Overview of Sri Lankan Economy in 2007

Sri Lanka's GDP grew by 6.5% for the year 2007. This was a slightly slower growth rate compared to the previous year's 7.4%.The major reason for the decrease in growth is attributed to unrest in the north and east of the country as well as the lack of rainfall causing a decline in agricultural harvest.

Agriculture contributed 11.9% to the country's economy in the first half of 2007. The growth is mainly attributed to valued-added agricultural products such as rubber and livestock. Undesired weather conditions also caused a drop in the hydroelectricity and total industrial sector growth. The industrial sector contributed 27.7% whilst the service industry contributed 60.4% to Sri Lanka's GDP within the first half of 2007. Growth from service sector was attributed mostly to wholesale and retail trade. The indirect effects from weather conditions in Sri Lanka are believed to have an insignificant impact on the mobile telecommunication service sector.

3.13.2 Outlook of Sri Lankan Economy in 2008

Sri Lanka's 2008 budget has a heavy military component, with a planned budget increase of 20% from the previous year. The budget will be used to manage the civil war currently on-going within the country. Other items on the budget proposal include import levies upon motored vehicles, wide screen TV and other luxury good. Infrastructure levy places a 10% tax on mobile phones, which is likely to cause an adverse effect to the industry in the medium term. The Government is also set to introduce incentives for foreign investors by offering a five-year tax break for investment projects that value over Rs.5 million and employ 50 or more people.

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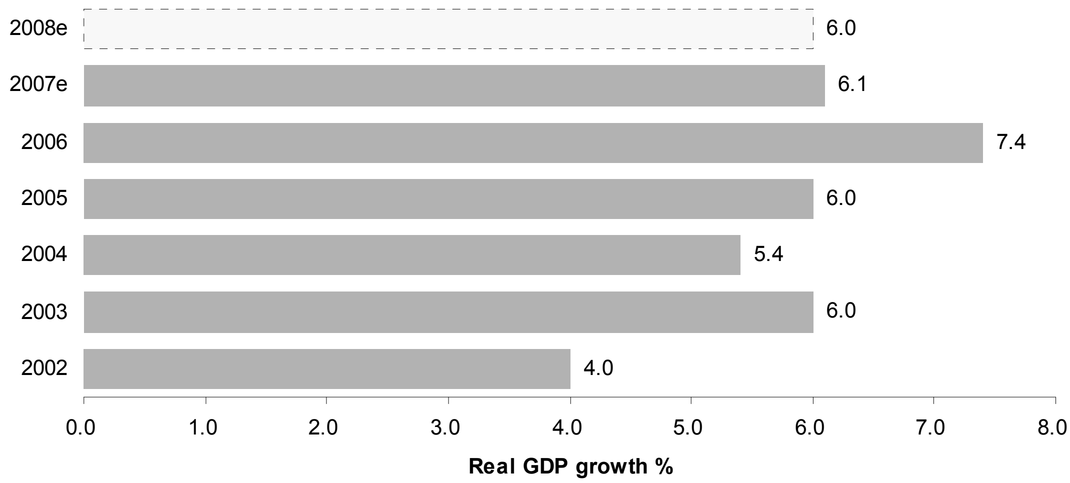
Chart 3.5 depicts the real GDP growth for Sri Lanka from 2002 to 2008.

Chart 3.5: Real GDP Growth (Sri Lanka), 2002-2008



Source: Asian Development Bank (ADB)

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4. EXECUTIVE SUMMARY OF THE MOBILE TELECOMMUNICATIONS MARKET IN BANGLADESH

4.1 Industry/Market Segmentation

The cellular industry in Bangladesh has been witnessing year-on-year growth of well over 100% in the past few years. The market has grown at a rapid pace of 99.9% CAGR between 2003 and 2007. As of December 31, 2007, there were 35.1 million total mobile subscribers[6]. At a penetration rate of 23.4%, there still remains a huge room for growth considering its population size and economic growth. Factors contributing to this growth include deregulation of the telecommunication sector, low levels of teledensity, inadequate fixed phone infrastructure, and high competition following the entry of new operators and massive foreign direct investments by telecom giants.

The local mobile market comprised predominantly prepaid users, which accounted for more than 93.3% of its total subscriber base as of December 31, 2007. Due to the disproportionately large prepaid segment and high price sensitivity, the ARPU in Bangladesh is among the lowest in Asia Pacific at BDT266.9 (US$3.9). The prepaid segment is expected to remain a key growth driver of mobile revenues in the medium term, from 2008 to 2012, as mobile operators turn to rural markets to grow subscriber base.

Figure 4.1 provides details on mobile subscribers and mobile penetration in Bangladesh from 2003 to 2007.

Figure 4.1: Total Mobile Subscribers and Mobile Penetration (Bangladesh), 2003-2007

	2003	2004	2005	2006	2007
Mobile penetration [7]	1.6%	3.4%	6.7%	14.4%	23.4%
No. of subscribers ('000)	2,200	4,836	9,672	21,279	35,153
Proportion of prepaid subscribers	93.5%	94.0%	94.3%	94.2%	93.3%

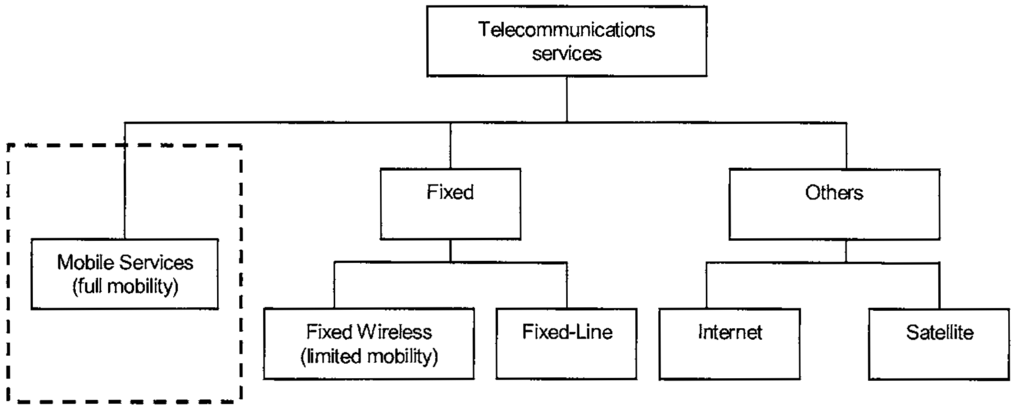
Source: Bangladesh Telecommunication Regulatory Commission ("BTRC"), Frost & Sullivan

[6] Total mobile subscriber and mobile penetration numbers for Bangladesh as of December 31, 2007 are from Frost & Sullivan and the BTRC.
[7] Mobile penetration refers to the percentage of total mobile subscribers against the country's population. Country population is provided by Frost & Sullivan.

Segmentation of telecommunications services in Bangladesh can be summarized in the following diagram. Frost & Sullivan defines the mobile market as full mobility services which include GSM and CDMA mobile services. While fixed wireless access provides an alternative but limited mobility to wireless mobile services, it is categorized as part of fixed services. Fixed wireless service providers which are gaining popularity include Dhaka Telecom Limited, WorldTel Bangladesh Ltd. ("WorldTel"), Bangladesh Telecom Limited ("BTL") and others. For the purpose of this report, historical data for Bangladesh was derived based on publicly disclosed subscriber base of mobile operators in the market as well as estimates from other secondary sources.

Chart 4.1 depicts the market segmentation of telecommunication services in Bangladesh.

Chart 4.1: Market Segmentation of Telecommunications Services in Bangladesh



Source: Frost & Sullivan

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4.2 Key Industry Participants

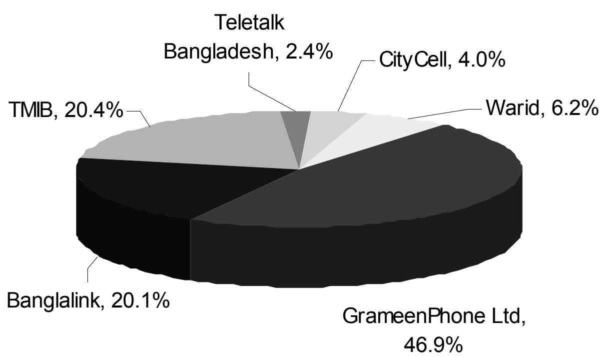
Despite the high growth, competition is intense among the country's six mobile operators. As of December 31, 2007, GrameenPhone Ltd. accounted for approximately 46.9% of the country's mobile subscribers, with competition coming from (in order of subscriber size): Sheba Telecom (Pvt.) Ltd ("Banglalink") which is wholly owned by Egypt's Orascom Telecom;TMIB; Warid Telecom Bangladesh (part of UAE-based Abu Dhabi Group) ("Warid Telecom"); Pacific Bangladesh Telecom ("CityCell", Singapore Telecom is a stakeholder); and TeleTalk (a unit of domestic fixed-line incumbent Bangladesh Telegraph and Telephone Board ("BTTB")). All operators offer GSM services apart from CityCell which runs a CDMA network.

4.3 Market Share Analysis

The largest operator is GrameenPhone with approximately 16.5 million subscribers as of December 31, 2007. Grameenphone is the dominant operator in the marketplace dwarfing its competitors in terms of both subscriber base and revenues.

Chart 4.2 depicts mobile operator market share by mobile subscribers in Bangladesh as of December 31, 2007.

Chart 4.2: Mobile Operator Market Share by Subscribers (Bangladesh), 2007



Source: BTRC, Frost & Sullivan

The industry witnessed its first round of price competition after Egyptian Orascom acquired Sheba Telecom and launched the Banglalink brand in February 2005. By December 31, 2007, Banglalink, with 7.1 million subscribers, had become the third largest operator as a result of its aggressive pricing strategy and fast network rollout.

As of December 31, 2007, GrameenPhone, Banglalink and TMIB had market shares of 46.9%, 20.1% and 20.4%, respectively and accounted for approximately 87.4% of total mobile subscribers in the country.

The mobile market has a mobile penetration of approximately 23.4% as of December 31, 2007 and the country's large population of 150 million still offers a huge room for growth. Moreover, 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.

The rural areas also remain largely untapped. Mobile operators are carrying out aggressive marketing campaigns in such areas and are launching more affordable prepaid packages to capture the suburban and rural users, fuelling the overall mobile subscriber growth in the country.

Foreign investment has been a major driver that has been fuelling the growth of the mobile market. Foreign operators, in collaboration with local partners, have been working to overcome entry barriers.

Intense competition for market share among the top three mobile operators has resulted in a price war. Lower call rates have benefitted consumers, fuelling growth in the first-time user market. Handset prices have also come down due to increased volume of sales, resulting in a significant decrease of overall expenditure of subscribers.

4.4 Industry Challenges

Low ARPU Market; Largely Prepaid Users

The Bangladesh mobile market is a low ARPU market where prepaid services dominate. As of December 31, 2007, 93.3% of the total mobile subscribers were prepaid users. Moreover, pricing pressure due to increasing competition from new players, coupled with the growing popularity of prepaid packages have had an impact on blended ARPU over the years. The reduction in blended ARPU is expected to persist, as the mobile operators reach out to rural segments in their efforts to gain market share. High prepaid subscriber concentration and low-yielding ARPU also indicate the users' low propensity to spend on premium content applications.

Inexpensive Handsets Dominate the Market

The ultra-low end segment of the phone market is growing rapidly where handsets cost less than BDT2,047 (US$30) each. Lack of affordability of advanced end-user devices is restraining the growth of data intensive content and applications. General Packet Radio Service ("GPRS") usage as well as content downloads are low due to lack of storage space in the low cost handsets.

Users with Low Education and Literacy

Proper education relating to new technology is crucial in emerging countries as the consumers in these nations are ambivalent about new technology. Hence, the immense prospects and benefit of mobile services should be communicated to them.

Even though the growth of the mobile industry is rapidly increasing, the market remains to be largely voice-centric. Mobile data services revenue barely contributes to the overall mobile revenues. One of the main reasons for this is the low SMS usage, especially among those who reside in rural areas who are not accustomed to using the Romanised characters of their mobile key pads.

Regulatory Risks

There are several regulatory issues which are hindering the growth of the mobile industry:

Evolving Spectrum Framework

With the rapid growth of mobile subscription in Bangladesh, the industry is concerned with spectrum availability in the future as well as methodology and quantum of spectrum allocation. Most of the valuable spectrum, the radio frequencies that enable wireless communications, is currently occupied by various Governmental agencies, mainly for defense purposes. Due to lack of spectrum space, operators are not able to increase their capacity despite growing demand.

High Taxes

The possibility of increased taxation and duty to the mobile sector cannot be discounted in the run-up to the annual National Budget. Bangladesh has one of the highest taxes on mobile services in South Asia. For instance, Subscriber Identity Module ("SIM") Value Added Tax ("VAT") is BDT800. This is diverting resources away from the mobile communications sector towards other sectors.

Unfair Competition Due To Licensing Policies and Asymmetric Regulation

There are several policies in Bangladesh that create an environment of unfair competition due to licensing policies and asymmetric regulation. Private PSTN operators have been able to provide limited mobility service encroaching on mobile operators' territory.

Natural Disaster Risks

Bangladesh, by virtue of its geography, is very vulnerable to natural disasters. Natural calamities, such as floods, tropical cyclones, tornadoes, and tidal bores occur almost every year. Recently, in November 2007, the country was hit by one of the deadliest cyclones. The strong winds battered the national power grid which resulted in a subsequent power outage for almost two days. However, the telecommunication networks were less affected than expected as most mobile operators seemed well-equipped either with backup batteries or generators to keep their network base stations running.

Declining ARPU

Due to intensifying competition, declining ARPU adds to the risk of a mobile operator. Entry of new operator Warid Telecom in May 2007, will further drive down average prices. According to Grameenphone, its revenue growth has been recently hit by increased competition and lower call charges. As of September 30, 2007, its ARPU decreased by 29%, year-on-year, primarily due to decreasing average prices.

Future Threat from Fixed Wireless Services

Currently, even though fixed wireless operators offer basic voice services using mobile technology and enjoy a lenient taxation regime, fixed wireless operators are not being able to compete directly with mobile operators as they are prohibited from offering mobility under the terms of their license. However, a threat to the industry may arise if the number of fixed wireless service providers increases. Services provided by fixed wireless service providers such as Dhaka Telecom Limited are already gaining popularity as an alternative for fixed services offered by incumbent BTTB.

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4.5 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 over-crowded nature of the industry. Nevertheless, regulatory reforms expanding operating license of fixed wireless service providers and the allocation of additional licenses for interconnection exchanges ("ICX") and International Gateway ("IGW") licenses have lowered regulatory entry barriers to the telecommunications industry in Bangladesh. However, BTRC has barred foreign companies including existing majority foreign-owned cellular operators from applying for licenses under the ILDTS Policy, such as ICX and IGW.

4.6 Relevant Laws and Regulations

The BTRC is the independent regulatory body. The objective of the commission includes issuing license to operators, managing of the radio frequency spectrum, controlling tariffs and promoting effective competition in the telecommunication sector.

Even though BTRC's prime objective is to promote healthy growth in the industry, some of its policies are severely hampering the level playing fields in the telecom sector, especially for the mobile industry. A major issue is the spectrum allocation in the country. Most of the valuable spectrum is being occupied by various Government agencies for defense purpose and mobile operators' allocated spectrum spaces have not been increased to match their growth. Hence, the mobile operators are not being able to increase their capacity even though the demand is there.

Two other major regulatory challenges are issues concerning taxation and interconnection charges. High taxes have been levied on this industry and, ultimately, the consumer pays. Operators subsidies most of the taxes including VAT on SIM. However, VAT on call charges are passed on through to the customer. Currently, the interconnection system seems to greatly favor the less productive fixed-line services while harming the more productive mobile industry depriving the mobile operators of their revenues.

In July 2007, the BTRC implemented an interim tariff regulation on the maximum and minimum tariffs charged by mobile operators while in the process of formulating a comprehensive 'Tariff Regulation' in consultation with the industry. These decisions cover tariff and marketing promotions.

There are also restrictions on the mobile operators' handling of international calls. Until recently, only BTTB was allowed to operate an international gateway. The BTRC awarded three international gateway (IGW), two interconnection exchange (ICX) and one international internet gateway (IIG) licenses to six companies on February 25, 2008. Subsequently, BTRC also awarded the IGW, ICX and IIG licenses to the incumbent BTTB on March 25, 2008.

4.7 Supply Conditions

To address the low ARPU but growing market, it is imperative for operators to minimize costs and expand their coverage faster and in a more cost-effective way. Thus vendors, in order to target emerging markets, remain focused on providing 'Low Cost of Ownership' for operators. For instance, Ericsson has been heavily marketing their Ericsson Expander, a technology which enables mobile operators to reduce both their capital expenditures and operating expenditures by reducing number of sites.

In emerging markets such as Bangladesh, while consumers and operators want handsets that meet specific performance requirements exceeding expectations for quality, reliability and design, price of the handset remains the biggest hurdle to mobile phone ownership. To address such a market, handset vendors are taking initiatives to provide decent quality mobile phones that cost less than BDT2,047 (US$30) a piece.

4.8 Demand Conditions

The mobile market in the country is still in its growth stage, with a mobile penetration of approximately 23.4% as of December 31, 2007. Bangladesh's large population of 150 million offers a huge room for growth. Moreover, subscriber penetration for fixed-line services in Bangladesh is very low, less than 1.0% (as of December 31, 2007). 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.

Rural markets which house more than 80.0% of the country's population are still largely untapped. In the near term, mobile operators, who are already carrying out aggressive marketing campaigns in such areas, are expected to launch more affordable prepaid packages to capture the suburban and rural users fuelling the overall mobile subscriber growth in the country.

4.9 Reliance and Vulnerability to Imports

Generally, the telecommunications industry in Bangladesh 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 Bangladesh 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.

4.10 Product Substitution

The threat of product substitution may arise from other businesses which are able to provide the mobility services via a different technology or business model. In Bangladesh's mobile market, a threat to the industry may arise from fixed wireless services if their number increases. Currently, even though WLL operators offer a cellular service using CDMA and enjoy a comparatively lenient taxation regime, they are not being able to compete directly with mobile operators as they are prohibited from offering mobility under the terms of their license.

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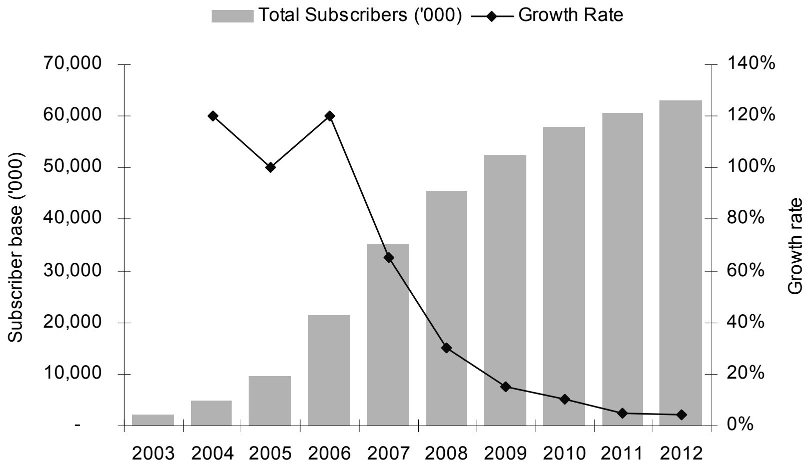
4.11 Market Size and Growth Forecast

Chart 4.3 shows the historical and forecast for Bangladesh's mobile subscriber base between 2003 and 2012.

Chart 4.3: Total Mobile Subscribers and Growth Rates (Bangladesh), 2003-2012



Mobile subscriber CAGR (2007-2012): 12.4%

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

The high growth cellular industry in Bangladesh has been witnessing year-on-year growth of well over 100% in the past few years, from 2004 to 2006. As of December 31, 2007 there were 35.1 million total mobile subscribers at a mobile penetration rate of 23.4%. Bangladesh is expected to reach 63.1 million subscribers by 2012 growing at a CAGR of 12.4% and increasing the country's mobile penetration rate to 37.8%.

The Bangladesh mobile market has huge potential given its relatively low mobile subscriber penetration and low fixed teledensity. Increasing competitive pressure to drive down prices and reducing entry-level handset costs would fuel demand from first time users. The prepaid segment is envisaged to continue driving mobile revenues, which would gradually increase in proportion alongside greater penetration into rural markets. The number of mobile phone subscribers in

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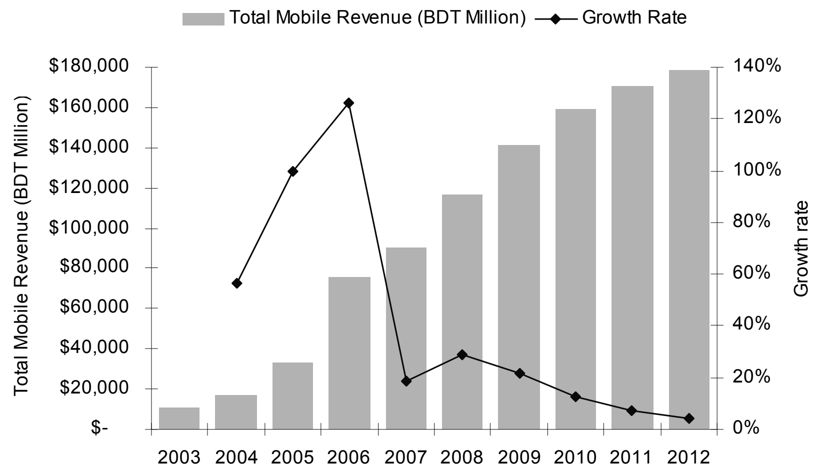
Chart 4.4 shows the historical and forecast revenues for the mobile market in Bangladesh between 2003 and 2012.

Chart 4.4: Total Mobile Revenues and Growth Rates (Bangladesh), 2003-2012



Mobile revenue CAGR (2007-2012): 14.6%

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

In 2007, the profit margins of all the mobile operators in Bangladesh were impacted by the large fines they had to pay after having been accused of being involved in illegal VoIP businesses. BTRC fined Grameenphone BDT1.68 billion (US$24.5 million), CityCell BDT1.50 billion (US$21.9 million), AKTEL BDT1.45 billion (US$21.1 million), and Banglalink BDT1.25 billion (US$18.2 million) for illegal VoIP trade.

4.12 Prospects for Industry Players

The Bangladesh mobile market has huge potential given its relatively low mobile subscriber penetration and low fixed teledensity. Mobile revenue in Bangladesh has been growing at a very rapid pace, reaching BDT76.0 billion in 2006 and growing by 18.7% to BDT90.2 billion in 2007. It is expected that mobile revenues will grow at a CAGR of 14.6% between 2007 and 2012 to reach BDT178.2 billion at the end of the forecast period.

Increasing competitive pressure to drive down prices and reducing entry-level handset costs would further fuel demand from first time users. The prepaid segment is envisaged to continue driving mobile revenues, which would gradually increase in proportion alongside greater penetration into rural markets. Despite the high growth, competition among the existing players is high. The market is bracing itself for even stiffer competition with the launch of the sixth mobile operator. For new players, they would have little option but to offer attractive priced packages and lure customers with low prices in order to compete with existing players.

4.13 Overview and Outlook of Economy

4.13.1 Overview of Bangladesh's Economy in FY2007

GDP grew by 6.5% in FY2007. The economic performance continued to remain strong, driven by improved domestic and external demand. The growth is fuelled by a dynamic garment sector, acceleration in private consumption, and a record increase in overseas workers' remittances. The industry sector continued to maintain robust performance because of steady growth in export-oriented manufacturing. The services sector, especially the mobile market, experienced strong growth in line with rapid growth in the overall industry.

Sharp growth in manufacturing continued. According to ADB, output of medium-sized and large manufacturing enterprises expanded by 11.2% during the first seven months (July–January) of FY2007 compared with the same period in FY2006. The increase in production was broad-based covering both export and domestic market-oriented enterprises. The output of small-scale manufacturing also registered strong performance; during the first half of FY2007 production increased by 11.2% compared to the same period of FY2006. Although growth in manufacturing is encouraging, production is hindered due to infrastructure bottlenecks, particularly power shortages.

The spiralling price hike of essentials is currently the biggest pressure on the economy. Lack of institutional monitoring mechanism, information gap among different stake holders, increased production cost of domestic commodities, too many market intermediaries, dislocation in market structure due to anti-corruption drives and increased transportation costs are the major causes behind the creeping price inflation.

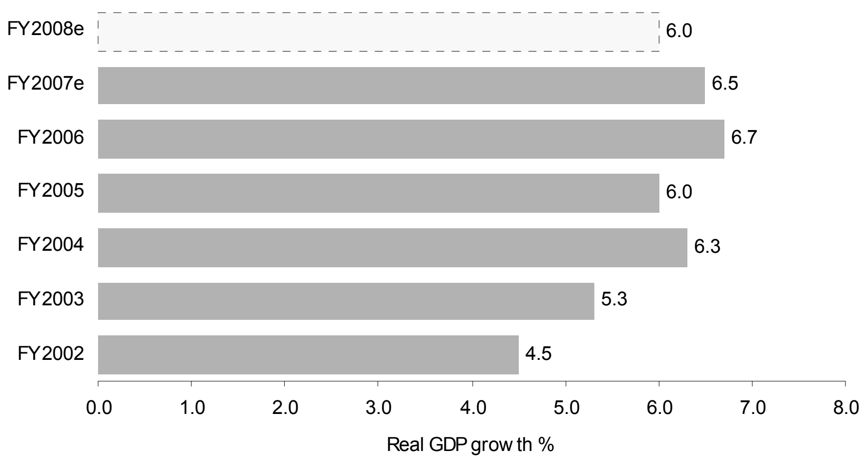
4.13.2 Outlook of Bangladesh's Economy for 2008

The ADB anticipates GDP growth to be below 6.0% in FY2008, compared with 6.5% in FY2007, because of the recent natural disasters that has affected the country. Further there is a slowdown in external demand for garments. According to the ADB, the economic prospects will depend on post-flood and post-cyclone rehabilitation, recovery of the garment sector, and political stability in the lead-up to the general elections scheduled for the end of 2008. The severe cyclone of mid-November 2007 added to the uncertainty for economic prospects.

The budget deficit in fiscal year 2007/08 (July-June) is expected to rise to the equivalent of 5.2% of GDP, compared with an official target of 4.2%. In light of the latest inflation data the Economist Intelligence Unit has revised up its inflation forecast for 2008 to 8.7%, from 8.0% in its January report.

Chart 4.4 depicts the real GDP growth for Bangladesh from 2002 to 2008.

Chart 4.4: Real GDP Growth (Bangladesh)



Source: Industry Sources, Asian Development Bank (ADB)

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5. EXECUTIVE SUMMARY OF THE MOBILE TELECOMMUNICATIONS MARKET IN CAMBODIA

5.1 Industry/Market Segmentation

Cambodia is one of the fastest growing mobile markets in Southeast Asia, having grown at a CAGR of 41.1% between 2003 and 2007. However, as of December 31, 2007, subscriber base was less than 2.5 million, with a corresponding mobile penetration rate of 17.3%, is a sign that the country's mobile sector has lagged behind that of neighbouring countries. Despite the huge demand potential in the country, the Cambodian mobile market is dominated by three main players, namely CamGSM Company Limited ("MobiTel"), Cambodia Shinawatra Co., Ltd. ("Camshin") and Telekom Malaysia International (Cambodia) Co., Ltd ("TMIC"). Although Applifone Company Ltd. ("Applifone") was granted licenses in 2006, it launched its GSM services under the brand name "Star-Cell" only on October 25, 2007. Currently it offers services only in Phnom Penh and Koki. The anticipated entry of new players such as Altimo Telecommunications Holding ("Altimo") (Russia), Cambodia Advance Communications Co. Ltd ("CADCOMMS"), SK Telecom (South Korea), and Viettel Mobile (Vietnam) will lead to increase competition and is likely to drive growth via lower tariffs and increased mobile coverage.

Figure 5.1 provides details on mobile subscribers and mobile penetration in Cambodia from 2003 to 2007[8].

Figure 5.1: Total Mobile Subscribers and Mobile Penetration (Cambodia), 2003-2007

	2003	2004	2005	2006	2007
Mobile penetration [9]	4.7%	6.5%	8.4%	11.4%	17.3%
No. of subscribers ('000)	619	862	1,138	1,578	2,456
Proportion of prepaid subscribers	98.1%	97.8%	96.9%	97%	96.9%

Source: Frost & Sullivan

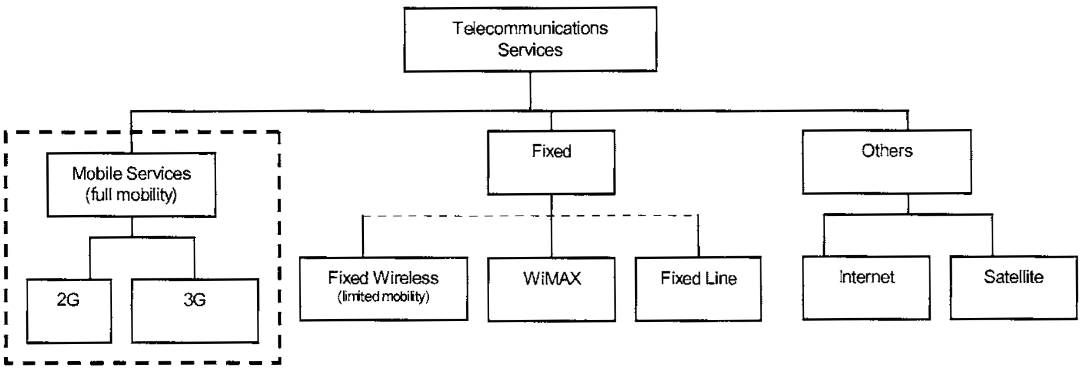
[8] Total mobile subscriber and mobile penetration numbers for Cambodia as of December 31, 2007 is derived based on publicly disclosed subscriber base of mobile operators in the market, and secondary research sources.
[9] Mobile penetration refers to the percentage of total mobile subscribers against the country's population. Country population is provided by Frost & Sullivan.

The local mobile market comprised predominantly prepaid users, which accounted for approximately 97% of its total subscriber base in 2007. Due to the disproportionately large prepaid segment and high price sensitivity, the ARPU level in Cambodia stood at approximately US$10.

Segmentation of telecommunications services in Cambodia can be summarized in the following diagram. The mobile market is defined as full mobility services which include 2G and 3G services. While fixed wireless access provides an alternative but limited mobility to wireless mobile services, Frost & Sullivan has categorized this service as part of fixed services, consistent with industry definition. Fixed wireless services is a limited mobility communication service that enables call rates similar to fixed-line charges. Camshin and Camintel S.A. ("Camintel") are key providers of such services. For this purpose, historical data for Cambodia was derived based on publicly disclosed subscriber base of mobile operators in the market.

Chart 5.1 depicts the market segmentation of telecommunication services in Cambodia.

Chart 5.1: Market Segmentation of Telecommunications Services in Cambodia



Source: Frost & Sullivan

The Cambodian mobile market experienced a good growth with the addition of 0.8 million new subscribers in 2007. Mobile subscriber base in Cambodia is expected to grow at a CAGR of 20.2% from 2007 to 2012, against a penetration of 39.7% by 2012. The acceleration of fixed-to-mobile substitution, increasing mobile network coverage and increasing competition from greenfield operators is likely to stimulate future growth

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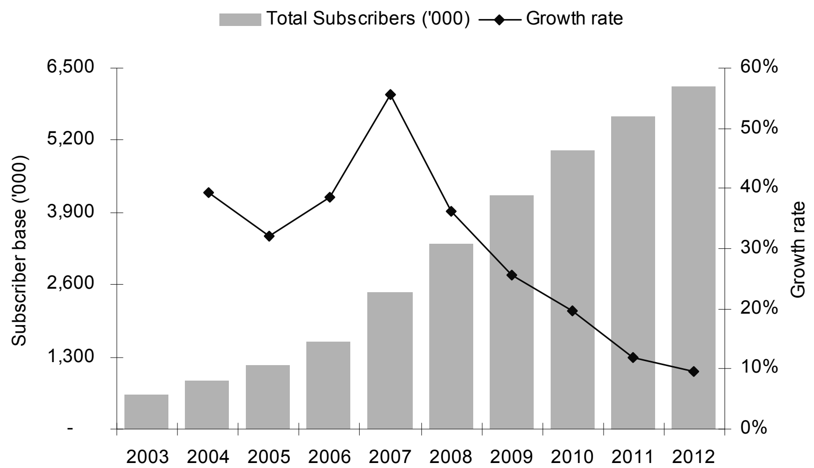
Mobile revenue in Cambodia has been growing at a very rapid pace; revenue charted a 33.7% growth in 2007 compared to the previous year, increasing the revenue to US$239.3 million in 2007, against a subscriber base of 2.5 million. Cambodia's total mobile revenues are expected to grow at a CAGR of 17.7% from 2007 to 2012 to reach US$541.0 million in 2012.

Chart 5.2 depicts the mobile subscriber and growth rates in Cambodia from 2003 to 2012.

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



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

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

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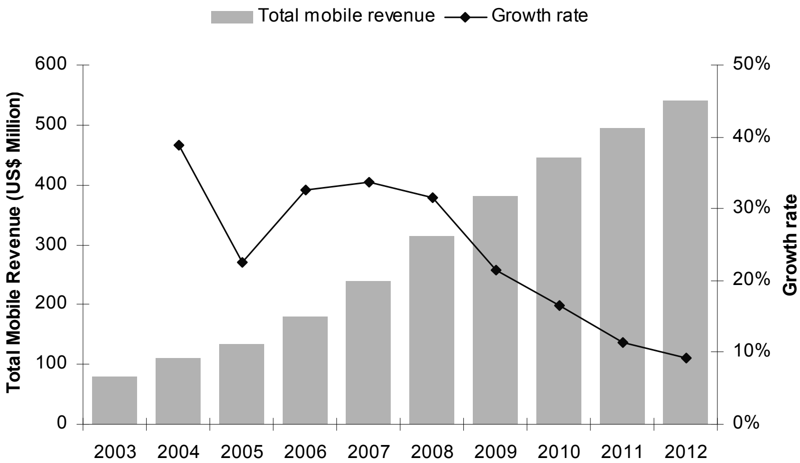
Chart 5.3 depicts the total mobile revenue and growth rate in Cambodia from 2003 to 2012.

Chart 5.3: Total Mobile Revenues and Growth Rates (Cambodia), 2003-2012



Mobile revenue compound annual growth rate (CAGR) (2007-2012): 17.7%
Note: All figures are rounded; the base year is 2007. Source: Frost & Sullivan

5.2 Key Industry Participants

The key industry participants are MobiTel, Camshin and TMIC, which collectively accounted for 99.1% of total mobile subscribers in the country as of December 31, 2007. This year is likely to see four potential new operators enter the market: Altimo, CADCOMMS, SK Telecom, and Viettel Mobile. Together with Applifone, AZ Com, and Cambodia Mobile Telephones (Camtel), these operators are likely to form the Tier-2 market and are expected to stimulate growth in the market. 3P Networks Inc. from the United States is currently negotiating with the authorities for a significant frequency spectrum acquisition to offer services in Cambodia. It will be difficult for such high numbers of operators to be viable in a small market like Cambodia and there may be some consolidation in the mid to longer term.

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