

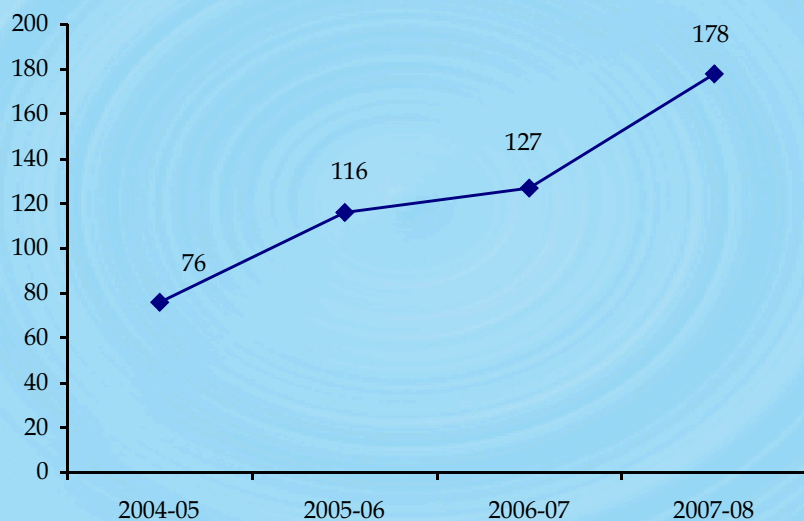
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Carrier Services ...LDI

Carrier Services.....LDI

Pakistan opened its telecom markets in 2003 and awarded licenses to private operators for provision of telecom services in various segments including the Long Distance and International service licenses. PTA awarded LDI category licenses to 14 operators who were mandated only for long distance and International traffic to and from Pakistan. Private LDI operators rapidly rolled out the infrastructure which was mandated under the license and required to vacate the bond submitted to PTA. These operators started their business by establishing their Points of Presence in each Telecom Region and leased circuits (if required) from the incumbent operator for long time. Total points of presence grew by about 40% in 2007-08 and reached 178 in June 2008 compared to 2006-07.

Figure - 20
Point of Presence (LDI)



Earlier, the sector was monopolized by PTCL and calling rates were too high particularly for international destinations. Soon

after getting license, a price war started among LDI operators and tariffs for international calls from Pakistan dropped to as low as Rs. 0.99 per minute for various destinations of western countries. In the first two years, few operators earned huge profit and international traffic increased manifolds. On the other hand, drop in international termination rates improved international incoming traffic tremendously. However, a levy of APC encouraged the illegal international incoming traffic which caused loss to the revenues of LDI as well to national exchequer.

In this situation, a tough competition among LDI operators and falling tariffs started dwindling profit margins of the LDI operators who rushed to PTA to save the sector from disaster. It was suggested that PTA should have set floor price to avoid the price war. PTA following policy issued by Government of Pakistan took several measures to make LDI business sustainable including increase in APC rates and deployment of facility to monitor illegal international incoming traffic (Gray Traffic). The technical facility became operational in May 2008 and significant reduction in leakage of LDI revenue has been witnessed. PTA is also making efforts to establish a “International Traffic Monitoring System (IMS)” to provide a common platform to all LDI operators which would be helpful to stop price undercutting and settlement of liabilities.

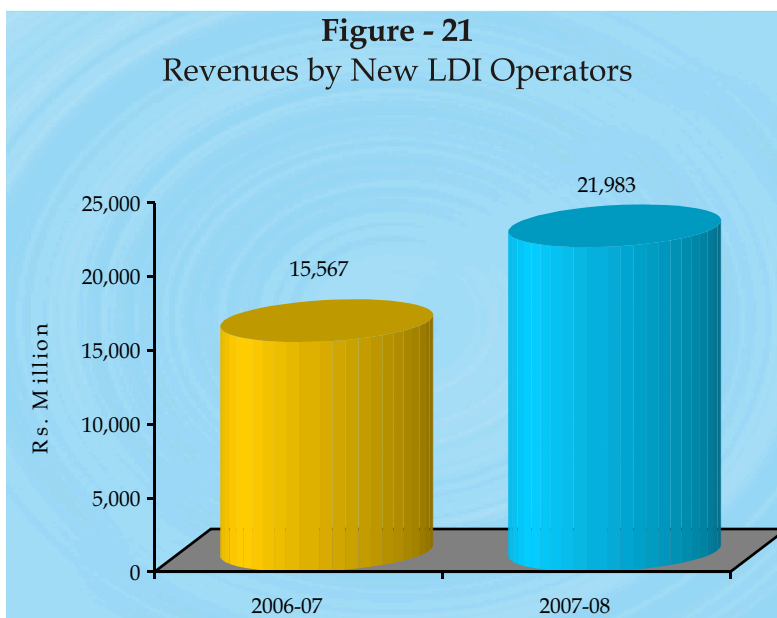
Financials

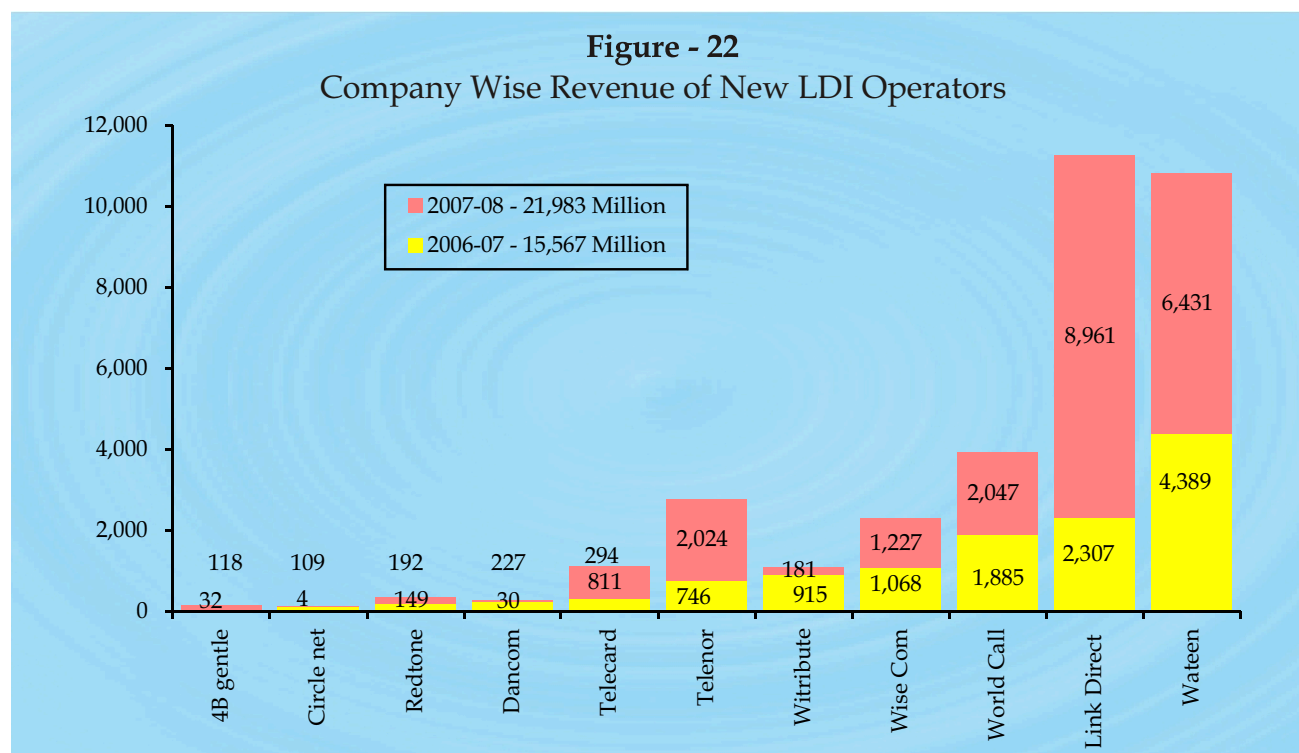
Revenues of new LDI operators had shown about 42% growth in the year 2007-08 compared to previous year. Total revenues of new LDI players reached Rs. 21.9 billion in the year 2007-08 compared to Rs. 15.5 billion of previous year. New LDI players have succeeded in generating revenue due to low tariffs which increased traffic many folds.

While looking at revenues of new LDI operators it appears that some LDIs are making reasonable profits while a couple of them have been unable to maintain continued service and are in doldrums. Since acquisitions and mergers are considered to add to shareholder values as they create new synergy in the market and result in salvaging the invested infrastructure, PTA facilitated all

reasonable acquisitions and mergers for further growth of the sector. The acquisition of World Call and Burraq are two such examples. Among new players, Link Direct earned highest revenue which is a sister

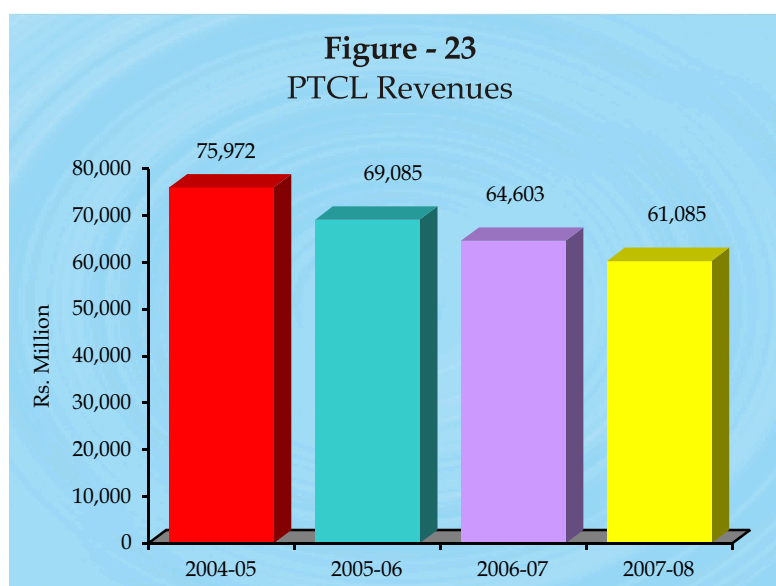
Figure - 21
Revenues by New LDI Operators





organization of a leading mobile operators in Pakistan. Link Direct earned about 4 times more revenues in the year 2007-08 compare to previous year. Second to Link Direct is Wateen telecom who earned Rs. 6,431 billion revenues a growth of 46% in the year 2007-08.

The revenues of incumbent, PTCL are continuously declining since it had to face competition in the market in 2005. PTCL reported highest revenue in the year 2004-05 when it reached Rs. 75.97



billion but since then these are continuously declining. Since, 2004-05, PTCL revenue have declined by about 19.6% and reached Rs. 61.09 billion in 2007-08. Although, loss of revenue to PTCL can be attributed to the market share grabbed by other LDIs and lower tariffs by cellular mobile operators, but another school of thought believes that it is totally due to competitive tariffs and will become better with increased international call patterns.

The LDI market is growing every year, as the companies are establishing their own networks and reducing their dependence on PTCL backbone. Similarly few LDI companies have sold their shares to

foreign investors. This has brought in more FDI in the country. Worldcall has sold its 60% shares worth US\$ 200 million to Omantel and Burraq telecom has sold its 30% shares worth US\$ 220 million to Qtel, a Qatar based company. Last year total investment in the LDI sector was around US\$ 600 million, which declined to US\$ 390 million in the year 2007-08. Main contributor to the investment in the

year were Link Direct and Wateen telecom, where Wateen has laid down their own OFAN while Link Direct is a sister organization of Mobilink.

Traffic

Low tariffs and growing demand of telecom services across Pakistan has boosted telecom traffic by manifold. Particular the international traffic has increased tremendously and extra sources (under sea cable) are being installed to cater for this growing international traffic. It has been reported that few operators are involved in undue cutting. PTA is taking straight action against such operators.

International Outgoing Traffic

With low tariffs, a sudden jump has been witnessed in international outgoing traffic in last few years. In the year 2007-08 international outgoing traffic grew by about 31% and reached 1.6 billion minutes. However, this growth was more than 200% in the year 2006-07. Reason behind this slow growth could be the price war among LDI operators which hit the business of few operators adversely and they have to close the business. It is expected that LDI will make up the loss in traffic due to corrective measures taken by regulator for the growth of the sector which include the deployment of technical solution to counter grey traffic, establishment of Reconciliation of International Incoming Traffic system and revision of APC.

Link direct, Wateen and Telenor are major new LDI operators who enjoy a

Table - 13
Investment by LDI Operators

US\$ (Million)

	2006-07	2007-08
Witribute	12	17.4
Dancom	2	-
Telenor	23	5.63
Wateen	1	58.1
Link Direct	494	300
Wise Com	3	8.5
Multinet	68	-
Telecard	-	0.65
Total	603	390.1
Estimated		

Figure - 24
International Outgoing Minutes by LDI Operators

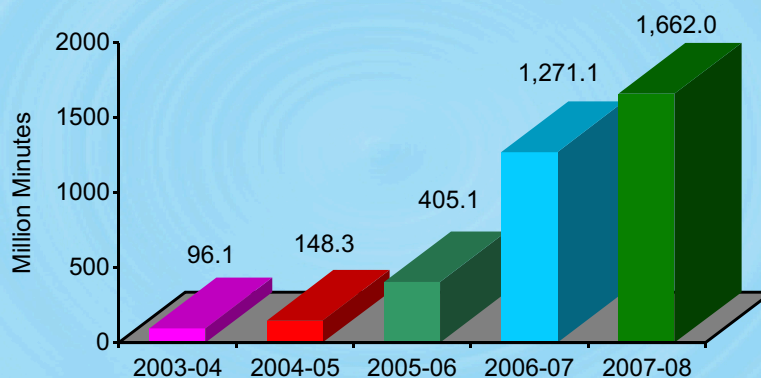
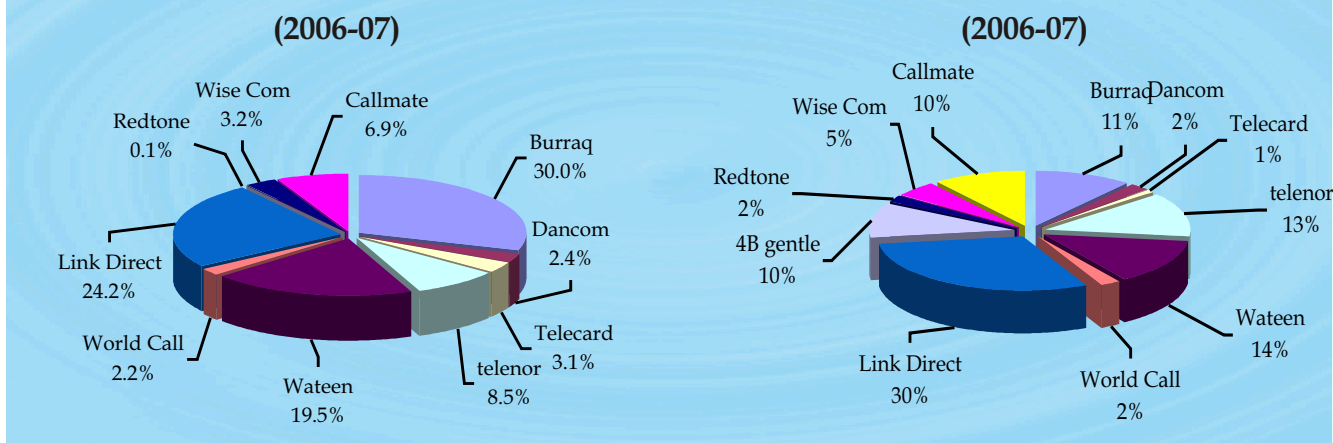




Figure - 25
International Outgoing Traffic Share by new LDI Operators



significant share in overseas call termination. Link Direct and Telenor are the sister companies of major Mobile phone operators who pass on traffic through these companies and reap the benefit of terminating international calls onto their sister organizations. Overall the international outgoing traffic by new LDI players increased by 35% in the year 2007-08 compare to previous year. In the year 2006-07, New LDi operators terminated 912.3 million minutes while this year they have terminated over 1.2 billion minutes to their respective networks. Link Direct has increased its international outgoing traffic significantly where its share in total international traffic of new LDIs has increased from 24% in 2006-07 to 30% in the year 2007-08. Wateen and Burraq telecom have lost their share by 5% and 195 respectively.

International Incoming Traffic

Overall the international incoming traffic in the country has shown an increase of 163% on fixed line networks in 2007-08 whereas this increase was

Figure - 26
International Incoming Traffic by LDI Operators

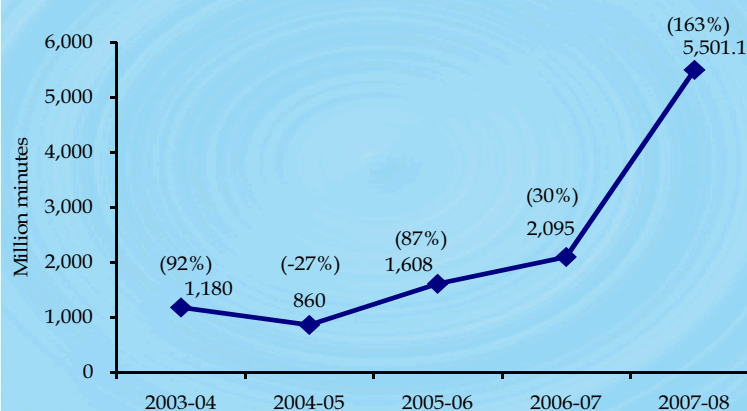


Figure - 27
International Incoming Traffic share by Country
July - December 2008

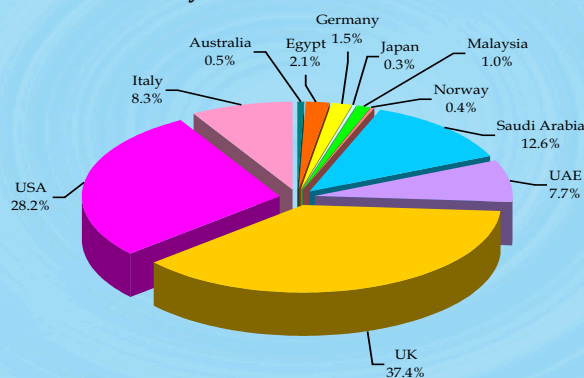
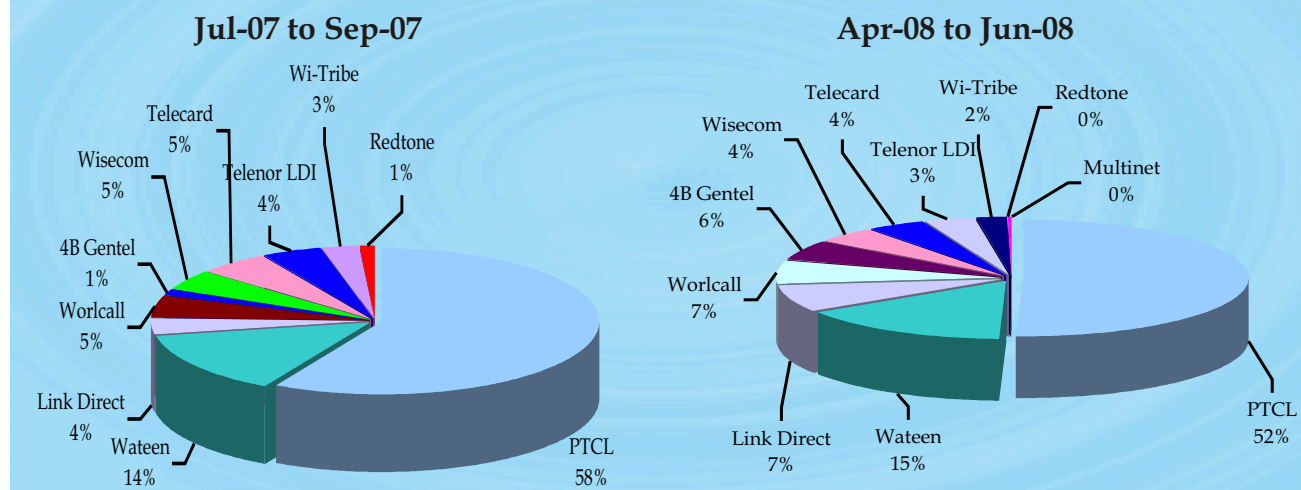


Figure - 28

Quarter-wise International Incoming Traffic by Company
2007-08



30% during 2006-07. PTCL has major share in the total incoming traffic which counts to 52% of total international incoming traffic. It has terminated more than 3 billion minutes in 2007-08. Rest of LDI have about 48% share in international traffic. Among new LDI operators Wateen is the major operator whose share was counted about 15% in total international incoming traffic on fixed networks.

Statistics of first 6 months of the fiscal year 2007-08 (July-December 2007) exhibits that major sources of international incoming traffic were USA and UK who together have share more than 65% in total international incoming traffic in the country. Third largest contributor of international incoming traffic in the country is Saudi Arabia from where 33 million minutes were terminated during the first 6 months of fiscal year and its total share in international traffic was about 13%.

Acquisitions/Mergers

A few local telecom companies have been acquired by foreign investors and some other deals are reported to be in pipeline. Since then conditions have been improved with consolidation in the market and replacement of weak by strong and aggressive operators. The acquired telecom companies are providing multiple services including LDI & LL and mark difference in traffic has been witnessed after

Table - 14
Acquisition in LDI Market

	Companies who acquired shares	Companies who sold shares	Share acquired (%)	Amount paid US\$ Million
1	Qtel, Qatar	Buraq	75%	12.3
2	Oman tel	World Call	60%	220.0

Source: Various Press Reports



new investment. It is hoped that more merger and acquisitions will bring new investment in the sector and give a positive impetus to the growth. The LDI segment in particular will benefit from increased investment through acquisition and LDI services will flourish in the country. Two recent acquisitions have been made through investments from Middle-East, details are given in Table - 14.

PTA's Facilitation to LDI Sector

To safe guard the interest of new players PTA took several measures including the mandatory interconnection and lease of media from PTCL. These measures helped the growth of LDIs in instances where the new entrant was unable to lay its own fiber. However, at least three new entrants have deployed their own long distance fiber networks and are still expanding.

LDI operators are considered to be the victims of incoming international grey traffic. Grey traffickers make handsome profits by bypassing national gateways causing revenue loss to the government and the 'Long Distance & International' operators. To combat grey traffic, licensed operators are reported to be violent of terminainge international traffic at a much lower rate than approved. The Authority has taken several steps to curb this menace. These measures include 'Technical Facility to Monitor IP Bandwidth" facility acquired recently through LDI consortia. PTA is also establishing a "International Traffic Monitoring System". Platforms is planned to be placed at PTA to have better control on undercutting. Similarly, PTA considers that encouraging acquisition or replacement of sick LDIs with those interested parties which have a viable operational plan will further enhance the sector without increasing the overall number of LDI licensees.

