



## Basic Services

### Overview

Fixed local loop, Wireless local loop and Long distance international are the backbone of telecommunication infrastructure of any country. PTA issued ample number of licenses for such services to numerous companies in an attempt to introduce healthy competition in the market. However, the investors hesitated from commencing their operations due to number of reasons including lack of investment, intense competition, right of way and political and economic instability.

FLL sector of Pakistan is facing a declining trend following the global pattern and also due to non-introduction of Local Loop Unbundling. Global fixed local loop subscribers have declined considerably in the past few years. During the first two quarters of FY 2009-10, FLL subscribers dropped by 3% coming to a total of 3.4 million. The prime reason of this decline pertains to the loss of 106,135 subscribers by PTCL in the last two quarter. Province-wise statistics reveal that Punjab has the highest number of subscribers, more than double of all other provinces combined. PTCL remains the market leader with 96% share in the FLL subscriber market while a 95% share in FLL revenue. Although subscribers of FLL have dropped but growth in revenue has been a good sign for the sector as a total of Rs. 31.2 billion have been generated by the FLL companies during Jul-Dec 09.

The WLL market of Pakistan carries high potential for growth due to its reach, relatively easy deployment procedures, investment affordability. PTA had been facilitating the sector by every possible means due to which the sector has sustained its growth; if not improving. At the end of December 2009, WLL subscribers remained 2.6 million with 1.7% penetration level. PTCL leads the market with vigorous chase by Telecard, WorldCall and Wateen. Punjab has highest number of subscribers followed by Sindh and NWFP while Balochistan has least number of subscribers. There are total of 3,490 cell sites by all operators at the end of Dec 2009. WLL sector generated revenue of Rs. 3 billion approx. in 2009 (Jan-Dec) with last two quarters generating the highest revenue.

LDI sector has constantly been improving since the deployment of Monitoring & Reconciliation of International Telephony Traffic (M&RITT) facility and strong campaign against illegal operators by PTA. The ongoing campaign of PTA where almost 20 raids have been carried out against illegal operators so far, has increased the traffic volume of licensed operators. During

the last year, LDI industry generated a revenue total of Rs. 56 billion which shows a 37% increase from the same period in 2008.

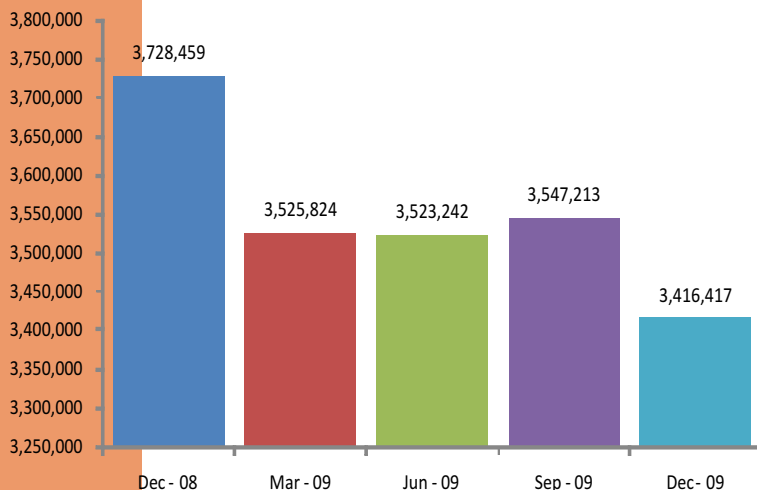
## Fixed Local Loop (FLL)

The World's veteran communication medium has been under pressure from wireless boom of the 21st century which has changed the priority options of the customers as well as investors around the world. According to ITU's ICT EYE, there were 1.28 billion fixed line connections worldwide at the end of 2006. However, that figure has dropped down to 1.25 billion by the end of 2008. On the contrary, the same database shows that mobile subscribers have reached 4 billion by end of 2008 from just 2.7 billion in 2006. Such a remarkable rise of wireless media has removed the conventional dependency on fixed line infrastructure and the trend is obvious in Pakistan as well. PTCL has been a sole provider of basic telephony in Pakistan for a long time but quality issues always haunted this giant of telecom industry. PTA, being the regulator, tried to cater this issue by introducing competition in the market via de-regulation of the sector in 2004. A total of 84 licenses had been issued to 37 companies, however, the operators failed to make any significant progress and to date 34 licenses of 17 operators have been cancelled by PTA due to failure in meeting their roll out obligations. Most of the remaining operators are operational and the rest are expected to commence their services during the allotted time.

## Subscribers Statistics

At the end of December 2009, FLL connections reached 3,416,417 with a decline of 3% in last two quarters. Although first quarter of FY 2009-10 showed positive growth trend, the second quarter, however, depicted the biggest drop in connections since last four quarters, mainly due to loss of 106,135 subscribers by PTCL. Although penetration of fixed line is

FLL Subscribers



just 2% but it must be considered that in most of the cases, one line caters for many users at home or office for instance. Among major operators other than PTCL, NTC provides telecom services primarily to Government departments catering 104,404 subscribers almost the same as in December, 2008. NayaTel has 19,100 connections with 1% growth while WorldCall holds 11,358 subscribers with decline of 4%. Brain and Union are the smallest players in the market; however, Brain has performed well achieving the highest growth rate of 7%.

PTCL leads the market share with an almost 96% share followed by NTC, Worldcall, NayaTel and Brain. NayaTel has expanded its coverage area in the recent past as well and is offering triple play services in areas of Rawalpindi as well.

Fixed Local Loop Subscribers by Province Dec-09

	Punjab	Sindh	NWFP	Balochistan	Total
PTCL	1,867,224	926,177	372,842	102,399	3,268,642
NTC	63615	27575	9485	3729	104,404
Nayatel	19,100				19,100
WorldCall	1,781	9,577			11,358
Brain	9,213				9,213
Union	3,700				3,700
<b>Total</b>	<b>1,964,633</b>	<b>963,329</b>	<b>382,327</b>	<b>106,128</b>	<b>3,416,417</b>

Table given below shows the provincial distribution of FLL industry. Punjab has a higher base than all of the other provinces combined. Sindh is at second place with 0.96 million fixed lines operating in the areas. NWFP and Balochistan have 0.38 and 0.1 million active lines by end of December, 2009. With USF spending heavily for

deploying fibre to rural areas, it is expected that the provision of fibre will increase the penetration level of telephony.

## PTCL Overview

PTCL is the oldest and the largest telecom company of Pakistan. It has the largest Basic Services infrastructure in Pakistan since it owns the largest stake in subscribers, coverage, revenue and traffic of local loop services. Apart from local loop, PTCL is also the biggest LDI and Broadband operator in the country, therefore its performance heavily affects industry statistics and customer perception about overall telecom services of the country.

## PTCL Revenues & Profits

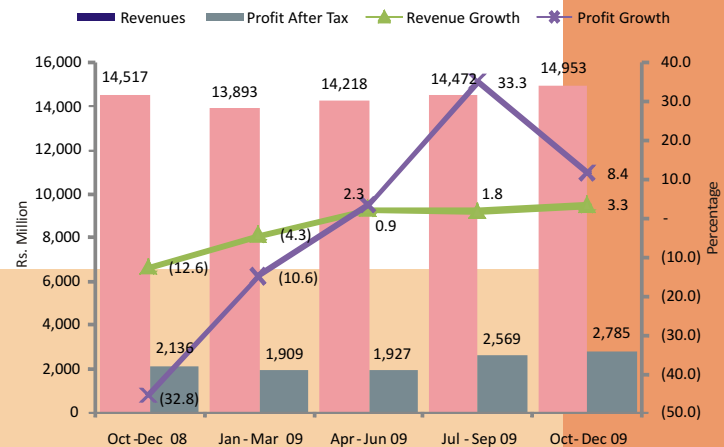
PTCL revenues depict the combined statistics of its local loop (FLL & WLL) and LDI services. Although PTCL has lost considerable number of FLL and WLL subscribers in the last quarter, its revenues have been growing at a steady pace after June 09. Figure given below shows the quarterly performance of PTCL in terms of revenue and profit. The revenue growth of PTCL has been relatively linear in the last three quarters after overcoming the revenue losses in the previous two quarters (Dec 08-Jan09). Growth rate of profit after tax has performed well as it rose from negative 32% all the way up to positive 33.3% in Sep 09. It is a big achievement by the incumbent that it managed to keep its profitability intact under difficult circumstances such as the economic slow down and general decline in its subscriber figures.

PTCL has the highest number of subscribers in fixed local loop sector with 3,268,642 subscribers at the end of December, 2009. However, comparing this figure with that of December 2008, it depicts a decline of 9%, and a net loss of 312,745 subscribers. This heavy decline in the PTCL's subscriptions had a huge impact on overall industry statistics. A close analysis of this decline points to a number of reasons: -

1. *Poor Quality of Service - PTCL has the oldest infrastructure in the country which requires frequent maintenance from the incumbent; but the same has not been done by PTCL on regular basis resulting into poor quality of services. Ultimately, people have started to shift towards wireless media to avoid unnecessary interruptions caused due to poor QoS.*
2. *Lack of Investment in Network - PTCL has not been expanding its infrastructure to the un-served and under-served areas. As more people are realizing the need for communication and the requirement for telecom services gets stronger, it is an excellent opportunity for the incumbent to grow its market size by investing in the un-served areas.*
3. *High call rates to cellular networks and vice versa - Since the inception of cellular services in Pakistan, call rates from PTCL to cellular networks have been high which compels its customers to use mobile in addition to PTCL. Same is the case for calls from cellular networks to PTCL except for Ufone which is the sister company of PTCL. Decreasing call rates to other mobile networks may improve PTCL's revenue stream.*

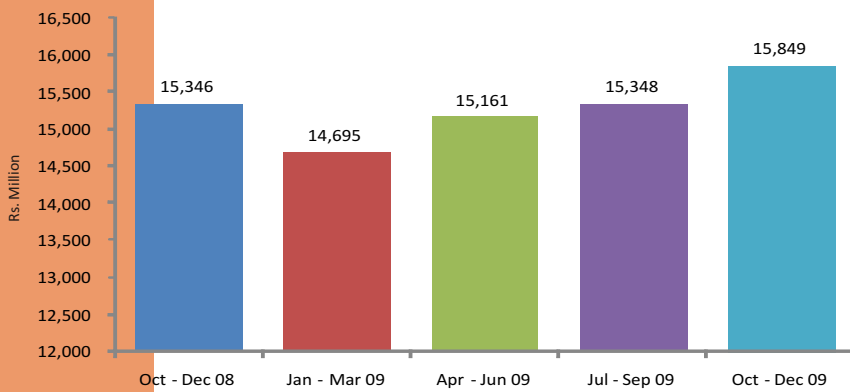
In view of the above, it is evident that there is a lot of opportunity for PTCL to improve its subscriptions, revenues, profits and general public perception about its services. If PTCL fails to grab this opportunity, it is likely that the new operators will benefit the most out of it.

PTCL - Revenue & Profit after Tax



In view of the above, it is evident that there is a lot of opportunity for PTCL to improve its subscriptions, revenues, profits and general public perception about its services. If PTCL fails to grab this opportunity, it is likely that the new operators will benefit the most out of it. However, PTCL is starting to take serious note of the situation and devising new strategies to improve the customer's base. Year 2009-10 has been declared as the "Year of Customer Care and Gain" by PTCL which is an attempt to put forth all efforts towards retaining existing customers. In this connection, PTCL has recently started a new offer to bring back the displeased customers by providing incentives like no restoration charges, waiving off fixed charges for those months in which the service is not used, easy installments of outstanding payments and convenient reactivation facilities. With such offers and better customer care, the incumbent is hopeful of re-gaining the customer's trust and bringing the growth to the positive side of the scale in the near future.

### Fixed Local Loop Revenues



shown significant growth in the past two quarters; however, WorldCall and NTC have not been able to sustain their revenues.

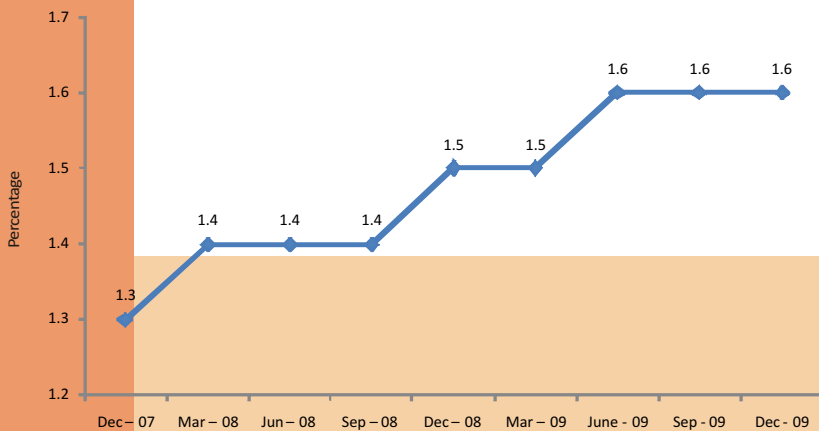
### Revenues

Fixed line revenues have remained relatively steady for the last one year with the only drop seen in Jan-March 09. FLL sector has generated about Rs. 31.2 billion revenue during the last two quarters almost same as July-December, 2008. Although local loop industry has been losing subscribers in the past quarters, the good part is that revenues have been improving. Again, as FLL industry is more or less a monopoly of PTCL, its revenue share of 95% is the main contributor of total FLL revenue. PTCL, NayaTel and Brain have

### Wireless Local Loop

The WLL market as compared to fixed line in Pakistan is more aggressive due to competition thus providing right ingredients

#### WLL Teledensity



to flourish. The regulator at its end had been creating conducive environment for the growth of WLL services, however, due to certain reasons the growth did not match the expectations. PTCL being a multi service operator could not concentrate properly on WLL and the new licensees' lower investment capabilities to increase coverage and limited mobility issue are hindering WLL growth in the country. The industry showed an average growth rate of 16% during 2009 thus making WLL subscribers today stand at 2.69 million.

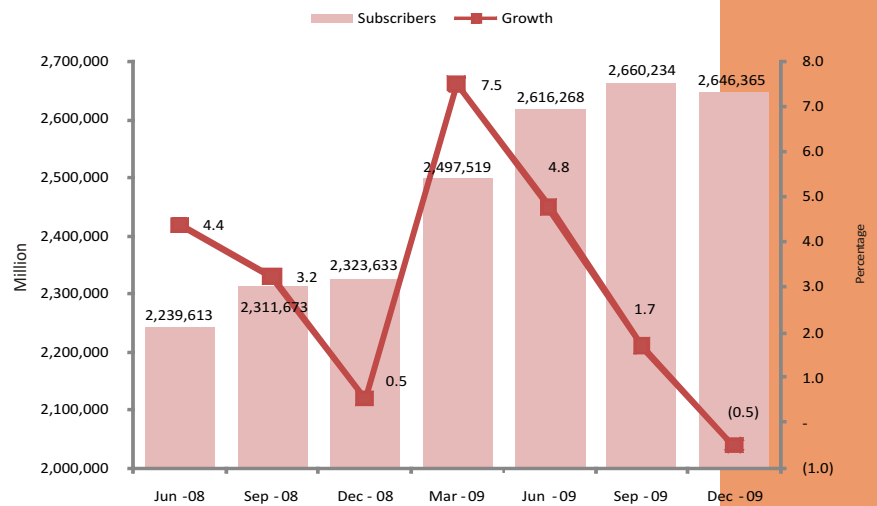
The WLL penetration in the country stands at 1.7% at the end of Dec'09 whereas it was 1.3% in Dec' 08 showing a growth rate of 31% in one year. The growth during 2009 remained consistent and almost insignificant in month on month basis. Such low WLL penetration levels show that the

service is not popular among the masses at all. A comprehensive strategy is required for the uplift of this sector.

There were 2.6 million WLL subscribers in the country at the end of Dec'09. The subscriber base has been growing with an average growth rate of 15% per quarter during the year. The year started with 2.3 million subscribers and ended at 2.6 million. However, the growth was not uniform among the quarters of 2009 and least growth was witnessed in the last two quarters of 2009 i.e. 1.7 and 1.1 respectively. During the first quarter the increase in subscribers was impressive and growth crossed 7% but after that decline started which is still carrying on. Lower growth rates were experienced due to decreasing subscriber figures of PTCL, which is the market leader in WLL segment.

PTCL initially started off very well in WLL and it seemed that the operator would recover the fixed line loss from WLL services. The company also got license to operate WLL services in AJK region in December 2008 and a jump in the subscribers was witnessed in the very next quarter. The impact of this expansion is no longer visible as the company is now focusing more on mobile, internet broadband, wireless broadband and smart TV services, thus making the fixed-line and WLL subscribers to go in the back ground. PTCL today has a total WLL subscribers base of 1.2 million but the growth had been slow for the operator mainly due to competitive and attractive packages offered by WLL competitors and mobile operators. NTC started its WLL services in the local market very late as compared to other operators, and today maintains around 11,000 subscribers. With such big network for fixed services, NTC was not expected to have any issue of attracting customers but growth in one year was not significant. Companies including World Call, Great Bear, Wateen, Mytel, Link Direct have 573,760, 65,740, 124,036, 138 and 20,237 subscribers. Telecard is the only company which showed significant growth during the year where its subscribers grew from 534,412 to 650,208. PTCL and Link Direct are two companies that have shown drop in subscriber's base in the last quarter from 1,302,794 to 1,244,145 and 22,360 to 20,237.

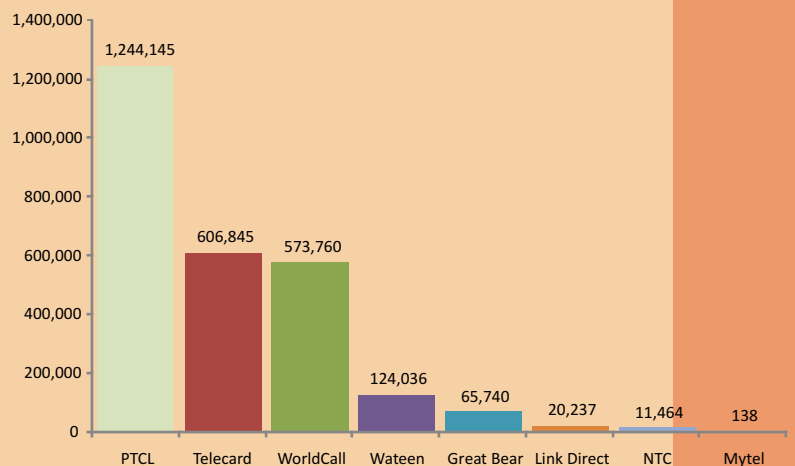
### WLL Subscribers and Growth



### WLL Subscribers

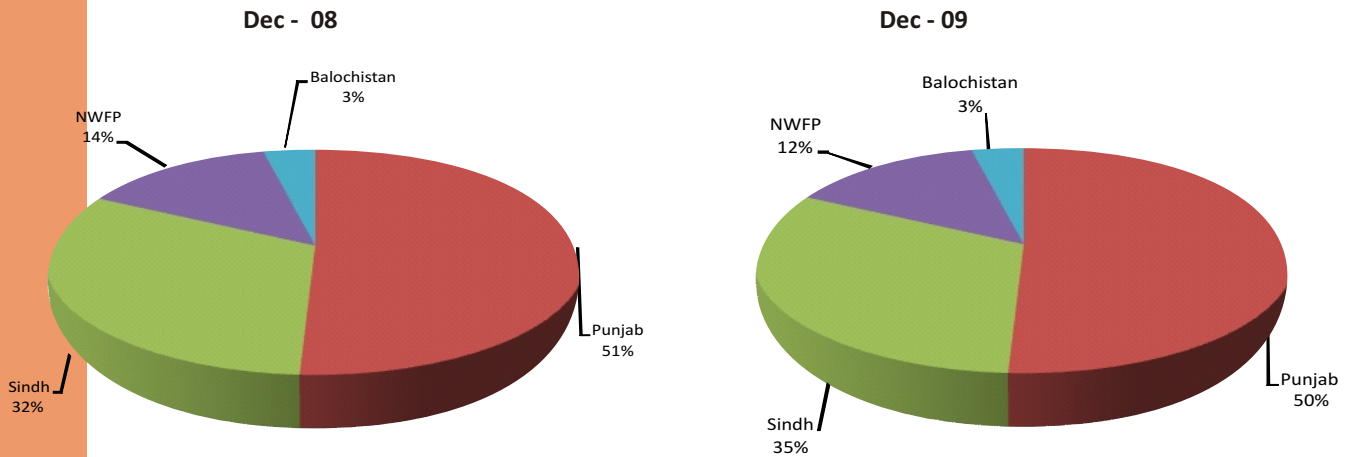
	Jun 08	Sep 08	Dec - 08	Mar-09	Jun 09	Sep 09	Dec - 09
PTCL	1188416	1,188,125	1,133,462	1,245,827	1,305,675	1,302,794	1,244,145
NTC	0	7,046	7,746	8,498	10,272	10,629	11,464
WorldCall	487387	517,424	537,054	539,672	559,362	565,118	573,760
Telecard	479208	506,827	534,412	566,445	582,907	593,547	606,845
Great Bear	62886	63,310	64,345	66,391	66,389	65,584	65,740
Wateen	21577	27,318	39,310	55,896	72,176	100,064	124,036
Mytel	139	139	138	138	138	138	138
Link Direct		1,484	7,166	14,652	19,349	22,360	20,237
<b>Total</b>	<b>2,239,613</b>	<b>2,311,673</b>	<b>2,323,633</b>	<b>2,497,519</b>	<b>2,616,268</b>	<b>2,660,234</b>	<b>2,646,365</b>

### WLL Subscribers by Operator (Dec 09)



Analyzing the provincial situation, Punjab has maximum subscribers followed by Sindh and then NWFP, Balochistan has least number of subscribers. While looking at the company wise situation only PTCL, Telecard and Wateen have some presence in Balochistan all other companies do not operate in this province. Great Bear is only operating in Punjab and Mytel in NWFP. Keeping in view provincial situation the operators need to focus on NWFP and Baluchistan in order to increase their market share.

**WLL Subscribers Share by Province**

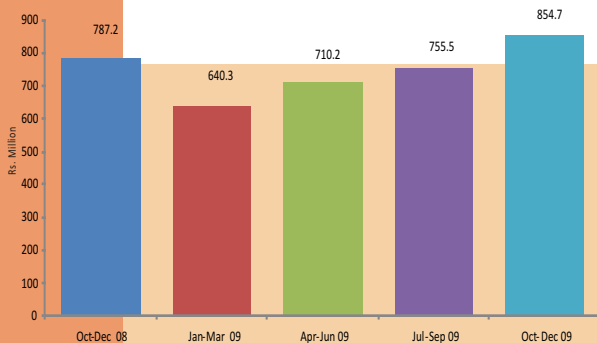


There are total of 3,467 cell sites by all operators at the end of Dec 2009. PTCL being the largest operator has maximum cell sites (1,482) spread across all four provinces including AJK. Wateen has second largest share in cell site with total 929 cell sites by end of 2009. Although World Call and Telecard have bigger share of WLL market but the cell sites are not comparable with Wateen as they have only 406 and 297 cell sites respectively as compared to Wateen with more than 900 of them. Due to lack of investment with companies it has become difficult to increase the coverage and increase more cell sites. Consequently rumors of mergers among current operators are becoming stronger.

**WLL Cell Sites Dec 09**

	Punjab	Sindh	NWFP	Balochistan	AJK	NA	Total
PTCL	808	332	222	89	28	3	1,482
WorldCall	264	121	21				406
Telecard	132	116	13	8			274
Great Bear	42						42
Wateen	597	255	53	24			929
Mytel			2				2
Link Direct	114	214	3	1			332
Total	1,977	1,042	315	125	28	3	3,467

**Revenues by New WLL Operators**



Although the WLL segment is not doing well in terms of subscriber growth and network coverage the quarterly turnover is showing an average increase of 10% in each quarter of 2009. The total turnover of the WLL sector in 2009 (Jan-Dec) stands at Rs. 3 billion approximately. This turnover however does not reflect total figures as PTCL WLL revenue is not included. Telecard has second largest subscriber wise share but revenue wise second largest share is of Worldcall. Wateen is also doing well in terms of revenues where in 2009 its revenues crossed Rs. 900 million.

The objective of introducing Wireless Local Loop services in Pakistan was to bridge the digital divide between urban and rural Pakistan. The Regulator gave time for industry to get mature and

helped operators overcome teething problems but the technology still remains expensive with competing mobile services. Limited mobility and handheld terminal issues are exerting pressure on the growth of this industry. The service is still popular in the urban areas and a dire potential is there in rural population but the operators have to realize the importance of investment and better tariff packages. A right recipe is required to give boost to this segment.

## Long Distance & International (LDI)

LDI sector is an important part of any telecommunication structure which is responsible to deal with international traffic involving huge foreign exchange earnings for the country as well as for the sector. Pakistan's LDI market had been under quandary for quite sometime due to high settlement rates and low revenue figures. The issue of illegal call termination was another major setback for the infant companies and the absence of any established system of reconciliation of international minutes further worsened the situation. However, LDI companies did not leave grounds and fulfilled their roll out obligations of establishing 14 Points of Presence at the least.

During the de-regulation period, PTA issued LDI licenses to 14 companies in an attempt to create a level playing field for all the operators. PTA had been in close coordination with the LDI operators on working out a plausible solution to their problems. Improvement of settlement rates from US \$12.5 to \$10.5 by the regulator boosted the sector's traffic and revenues. Formation of "Monitoring and Reconciliation of International Telephone Traffic Regulations 2008" and deployment of Monitoring and Reconciliation of International Telephone Traffic (M&RITT) facility to block the illegal IPs involved in routing grey traffic to Pakistan has had a tremendous impact on curbing this menace. In last two quarters alone, PTA has carried out 20 raids against illegal exchanges across the country and also blocked more than 2200 IPs involved in carrying illegal traffic which were causing severe loss to the Government and industry. Apart from this, analysis of heavy callers' data continued with great success resulting in detection of several cases of illegal termination. A total number of 5000 SIMS & IMEIs have also been blocked so far.

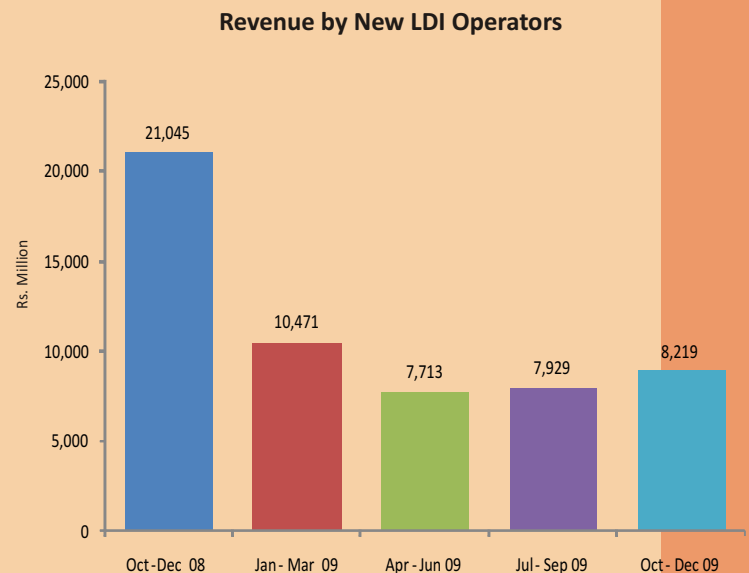
PTA's efforts along with determination of LDI operators has given a new life to this important sector and it is a strong expectation that LDI companies will further progress as illegal exchange operators get discouraged by constant pressure of PTA.

## LDI Revenues

During the last calendar year, LDI industry generated a revenue total of Rs. 56 billion which shows a 37% increase from the same period in 2008. LDI revenues have been declining in the first two quarters of 2009, however, a rising trend is observed in the last two quarters. A big drop was observed during the period from Jan-Mar 09 where revenues dropped by almost 50%. A further decrease in the next quarter made the situation graver. However, the last two quarters showed significant positive growth where revenues grew consistently.

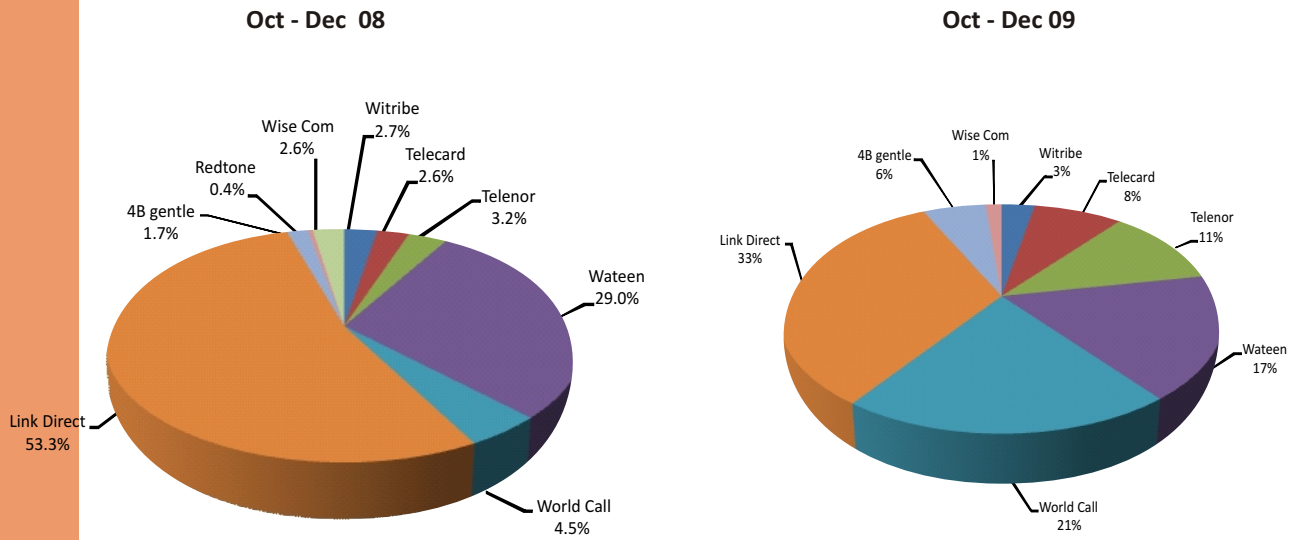
LDI revenues are dependent upon the total international traffic (incoming + outgoing) carried by the operator to and from the country. PTCL has been

holding the highest share in revenues since long and the fact remains true in the last two quarters as well. However, a look at



the LDI operators other than PTCL reveals that there has been a lot of loss and gain going on in the market share of major companies. Figure given below shows the change in market share of LDI companies for the same quarter over the past two year. The biggest winner in the race seems to be WorldCall which managed to increase its revenue share from a mere 4.5% to 21% in last one year.

**Share in Total Revenue by New LDI Operators**

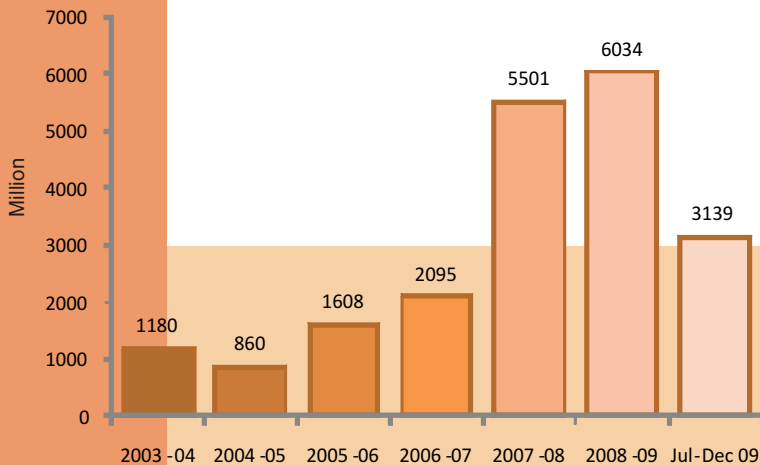


Similarly, 4B Gentle, Telegard, Telenor and Wi-tribe also increased their market share in the last few quarters. With so many gainers, the net result affected the market share of Link Direct severely as it lost 60% of its market share over the year. Same is the case with Wateen whose 29% share in revenue cut down to 17% by the end of this year.

**Traffic**

During FY 2008-09, LDI sector had seen a tremendous growth in the total international traffic owing to the deployment of Monitoring & Reconciliation of International Telephony Traffic (M&RITT) facility thorough which PTA was able to bust numerous illegal gateways inside Pakistan. During the last two quarters alone, PTA in collaboration with FIA has carried out

**LDI Traffic**



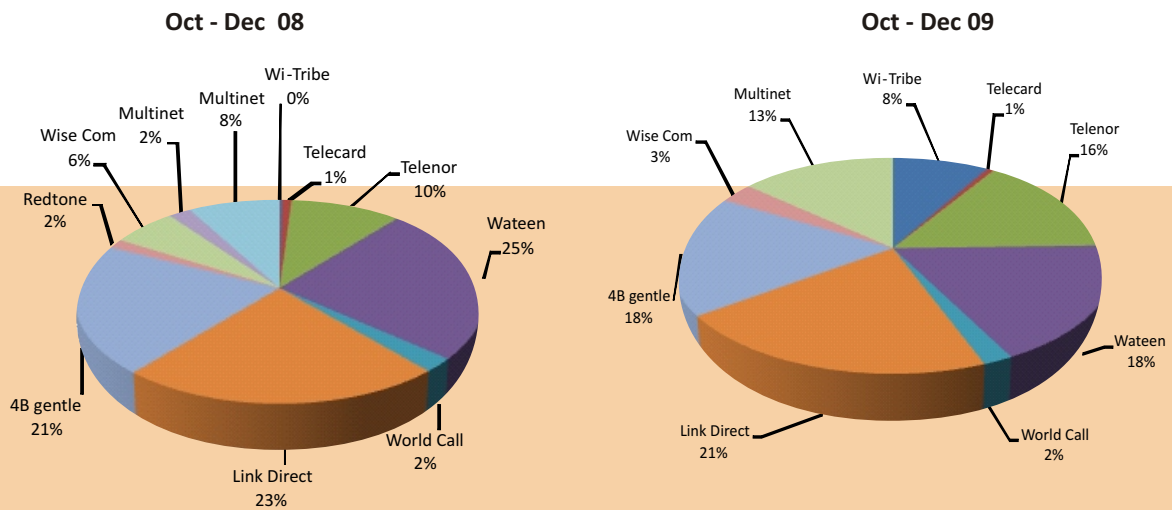
20 raids against illegal operators, apprehended the culprits and thus saved billions in revenue to National Exchequer. This led to increased traffic on network of licensed LDI operators and ultimately better revenues. The total international traffic carried from and to Pakistan reached 4.7 billion minutes during Jul-Dec 2009 which shows a 13% increase from the 4.14 billion during the first two quarters of 2009. The total international outgoing minutes generated by new LDI companies during the last two quarters stood at 1.56 billion which means 10% growth from the first six months of 2009. Total incoming traffic grew by 15% for the period from Jul-Dec 09 totalling 3.14 billion minutes. New LDI operators are gaining momentum and the market share is changing day by day. Currently, Link Direct has the highest stake of 21% in the total international minutes followed by 4BGentle



and Wateen, both at 18%. Although holding the top three spots, these three companies have actually lost their market share when compared to market position in December, 2008. This shows a significant change in the market where traffic seems to converge towards equal distribution of traffic among the big operators. Operators like Telenor, Wi-Tribe, and Multinet have improved their market position in last year.

Basic services are essential to bridge the digital divide and provide telecom facilities to all corners of the country. Service availability, network quality, subscriber addition and overall growth of the telecom heavily depend upon the success of local loop and LDI services. Apart from this, the proliferation of other services like Broadband is also directly proportional to efficient and robust local loop infrastructure. With constant support of PTA and improvement in economic condition of the country, the situation is expected to improve in the future.

### Share in LDI Traffic by New Operators



Note: Oct - Dec 08 Shares of LDI Operators are revised