

Saudi Telecom Co Updated: 12/01/02

Presentation

Telecom Privatization and Learnings in the Kingdom of Saudi Arabia

Dubai
January 2002

OECD Global Conference on Telecommunications Policy
for the Digital Economy

Saudi Telecom Co Updated: 12/01/02

Four main levers are driving the restructuring of telecommunications in Saudi Arabia, ahead of market liberalization

DRIVERS OF TELECOMMUNICATIONS DEVELOPMENT IN SAUDI ARABIA

- 1 -

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Telecommunications development can generate a positive impact on economic growth ...

CORRELATION BETWEEN COMMUNICATIONS INDUSTRY PERFORMANCE AND ECONOMIC DEVELOPMENT

KEY PRODUCTIVITY DRIVERS

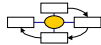
- ➔ Easier, more frequent communications
- ➔ Wider access to data and information
- ➔ Reduced transaction costs
- ➔ Improved market effectiveness

SHARE OF PRODUCTIVITY GAINS DRIVEN BY COMMUNICATIONS AND INFORMATION

Note: * Sector performance based on Key Performance Indicators
Source: BASH Analysis

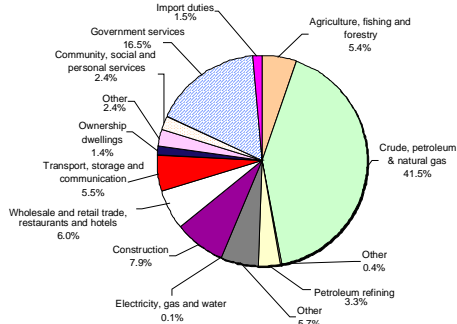
Note: Calculated by comparing input requirement changes with and without ICT improvements
Source: DRI, BLS, BASH Analysis

- 2 -



... and contribute through the Information and Communication Technologies platform (ICT) to all sectors in the Kingdom

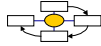
Saudi Arabia GDP Breakdown by Economic Activity (2000)



Development Potential through ICT (non-exhaustive)

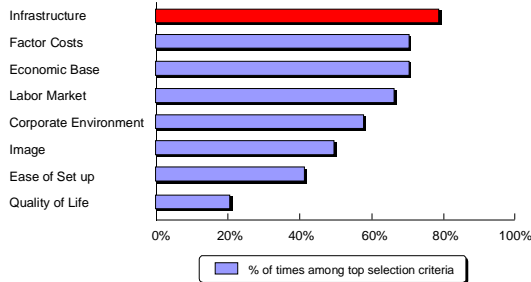
Sector	Impact
Crude, petroleum, natural gas	Medium
Construction	Medium
Wholesale and retail trade, restaurant and hotels	Medium
Transport, storage of communication	High
Government services	High
Agriculture, fishing and forestry	Medium
Community, social and personal service	High

Source: Statistical Yearbook, Central Department of Planning, National Account 2000 - 3 -

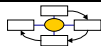


In the context of committing foreign direct investment, high-quality general infrastructure, including telecom, is a key pre-requisite

RELATIVE IMPORTANCE OF LOCATION SELECTION PARAMETERS FOR INVESTMENT BY FOREIGN COMPANIES

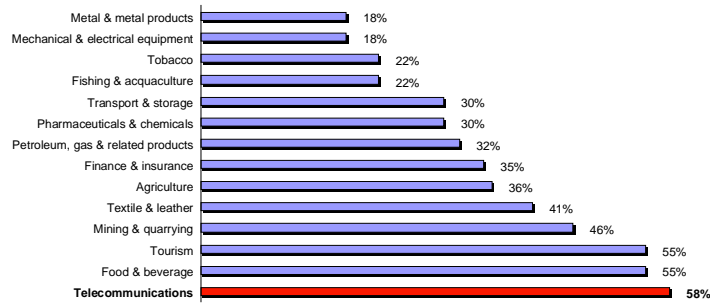


Source: BAAH Survey 1998

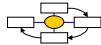


In fact, the telecommunications sector, where under privatization, has been the main recipient of foreign investments in other geographies

TOP FDI RECIPIENT INDUSTRIES IN SELECTED DEVELOPING COUNTRIES (1996 - 1998)



Source: UNCTAD 1999

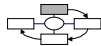


Saudi Arabia had a leading fixed-lines development program in the mid-80s, and is back to being the fastest growing market in the region

**FIXED LINES IN OPERATION
NUMBER OF LINES AND 5-YEAR GROWTH**

	1970	1975	1980	1985	1990	1995	2000
Saudi Arabia	83,600	138,000	319,576	905,909	1,234,000	1,719,412	2,964,730
		47%	132%	183%	36%	39%	72%
UAE	N/A	25,808	120,591	207,052	396,435	672,330	1,020,097
		N/A	367%	72%	91%	70%	52%
Kuwait	38,000	89,000	157,000	221,882	331,406	382,287	467,067
		134%	76%	41%	49%	15%	22%
Oman	557	3,701	17,286	41,320	104,679	169,939	225,436
		564%	367%	139%	153%	62%	33%
Bahrain	6,300	14,000	41,220	69,297	93,995	140,850	170,976
		122%	194%	68%	36%	50%	21%
Qatar	8,100	12,300	30,600	69,501	92,071	122,701	160,191
		52%	149%	127%	32%	33%	31%

Source: ITU 2001

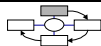


The mobile sector in Saudi Arabia has been on the fastest growth path in the region over the past five years

**MOBILE LINES IN OPERATION
NUMBER OF LINES AND 2-YEAR GROWTH**

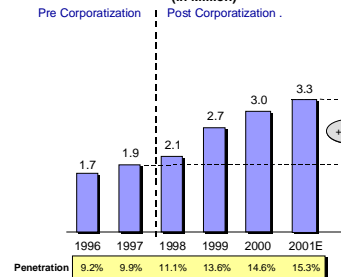
	1991	1993	1995	1997	1999	2001
Saudi Arabia	15,331	15,910	16,008	332,068	836,628	2,315,100
		4%	1%	1974%	152%	177%
UAE	43,008	70,586	128,968	309,373	832,267	1,752,580
		64%	83%	140%	169%	111%
Kuwait	43,000	64,311	117,609	210,000	300,000	920,130
		50%	83%	79%	43%	207%
Oman	3,672	5,616	8,052	59,822	124,119	192,450
		53%	43%	643%	107%	55%
Bahrain	7,354	11,360	27,600	58,543	133,468	283,000
		54%	143%	112%	128%	112%
Qatar	4,057	4,289	18,469	43,476	84,365	148,700
		6%	331%	135%	94%	76%

Source: ITU 2001, Mobile Operators 2002

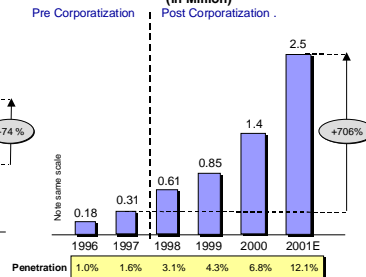


Specifically, the Saudi Arabian voice market has been growing rapidly since the corporatization of STC

**STC PSTN NUMBER OF WORKING LINES
(1996 - 2001)
(in Million)**

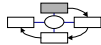


**STC MOBILE SUBSCRIBER BASE
(1996 - 2001)
(in Million)**



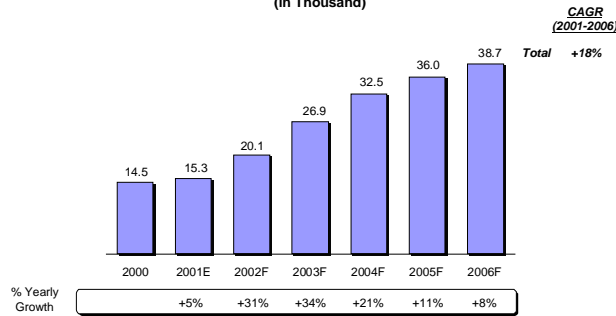
Source: STC Operational Report 1996-1999, Engineering Planning, BAAH Analysis

Further rapid growth in the voice market is expected in the next 5 years

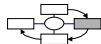


The total market for data circuits could reach over 38,000 circuits by 2006, corresponding to a yearly increase of 18%

FORECASTED NUMBER OF DATA CIRCUITS (2000 - 2006) (in Thousand)



Source: STC 5-Year Strategic Plan, BA&H Analysis

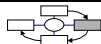


In recognition of this potential, the Kingdom has initiated a sector liberalization program ...

OBJECTIVES OF TELECOMMUNICATIONS LIBERALIZATION IN SAUDI ARABIA (1997)

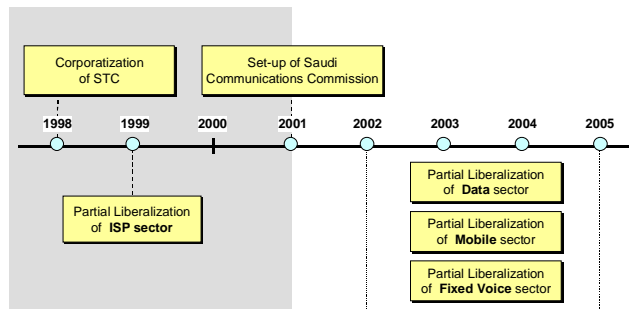
- ▶ Develop the telecommunications sector in terms of coverage and network with the objective to meet the **social and economic requirements** of the Kingdom
- ▶ **Stimulate investments** in the telecommunications sector and create a competitive environment that provides services at fair charges
- ▶ Promote **economic efficiency** of the sector in general and the incumbent telecom operator in specific through well functioning market economy
- ▶ Withdraw the government's active engagement (financing, strategic planning, operating) from the telecommunications sector which is better suited to private enterprises
- ▶ Spread and **democratize share ownership**, and contribute to the **expansion of the local capital market**

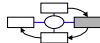
Source: Saudi Arabian Telecommunications Regulations 1997, BA&H Analysis



... starting with the corporatization of the Saudi Telecom Co (STC). Significant developments are expected over the 2002-2005 period

LIKELY MARKET LIBERALIZATION PATH -- SAUDI ARABIA





The Saudi Communications Commission, as the regulatory authority, was formed in 2001, following a Ministry-Integrated model

REGULATORY MODEL IN SAUDI ARABIA

Division Between Ministry & SCC		SCC Board Structure	
Ministry	SCC		
<ul style="list-style-type: none"> Defines telco policy Ministry submits license requirements to Council of Ministers for prior approval Ministry grants the SCC its powers Ministry reviews frequency plan before requesting approval from Council of Ministers Ministry approves SCC Board recommendations concerning fixed/mobile licenses Parties may contest SCC adjudication to Minister Governor appointed by King on Ministry recommendation 	<ul style="list-style-type: none"> Implements telco policy Issues licenses (upon approval) Draws up its statutory regulations Sets frequency plan Reviews license requests for Fixed/Mobile services Adjudicates disputes and issues fines 		

Source: Saudi Arabian Telecoms Law 2001, BA&H Analysis

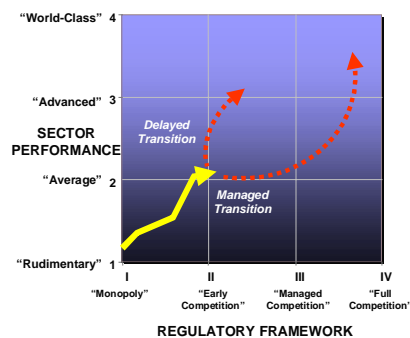


The priority for the SCC is to confirm the liberalization timetable, define the secondary legislation and develop its organization

- ▶ The challenge for the SCC will be to design and effectively operate an Authority that will meet the extensive short term needs of the emerging market as well as be able to adjust, in the long run, to the requirements of a more liberalized market
- ▶ For the SCC Board, the most urgent tasks are as follows:
 - Confirm the **liberalization schedule** for the Saudi Telecommunications Market
 - Identify key functional responsibilities that need to be supported and develop appropriate **statutory regulations and procedures**
 - Design the **organizational model** for the Agency, and identify the required **staff resources** and potential budgetary needs

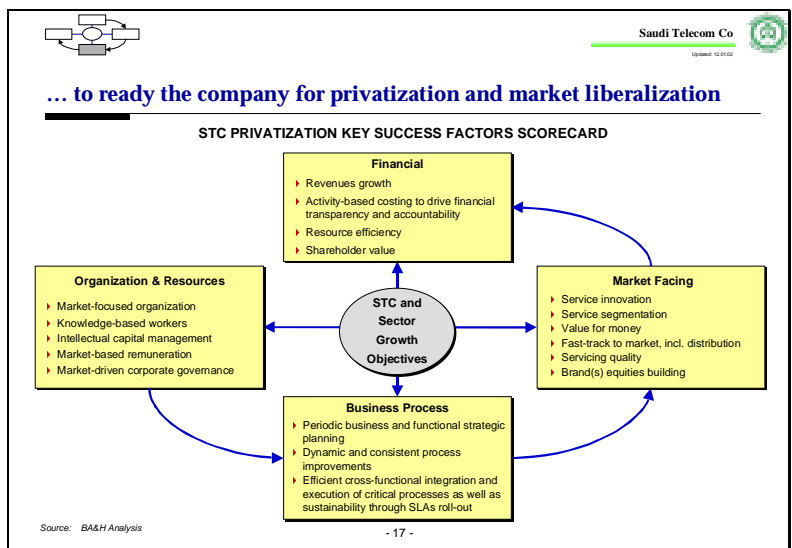
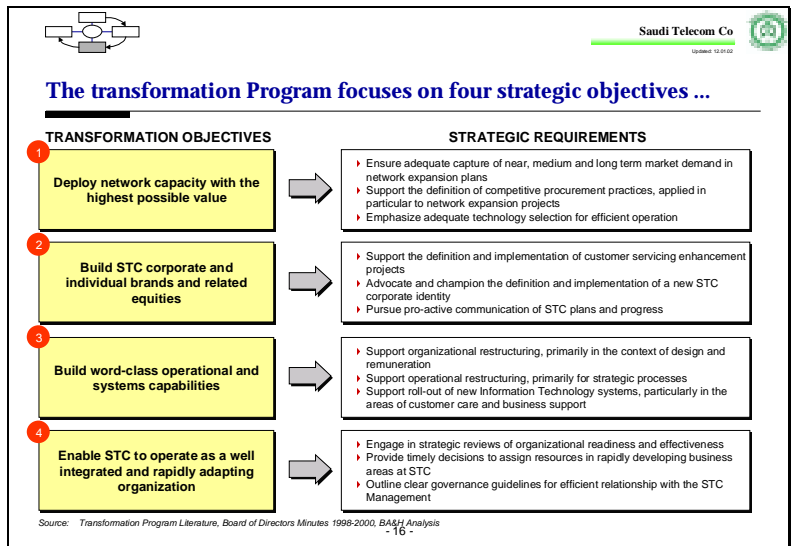
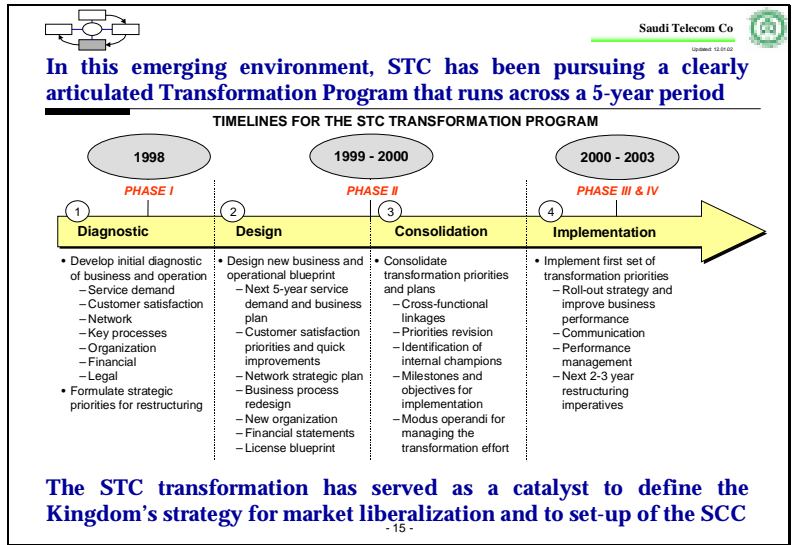


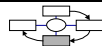
The corporatization of STC is helping to shape the liberalization strategy in the Kingdom towards a managed transition



THE CASE FOR MANAGED TRANSITION

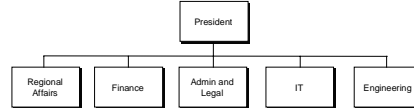
- Competition drives performance by attracting more capital from more players, who compete for customer based on lower price and better services
- Strong network externalities in communications and e-commerce suggests significant advantages to countries that move early
- Adequate management of market liberalization ensures the viability of competition and mitigates unreasonable market expectations before full competition is achieved
- Experiences of delayed competition or over-rushed full competition have proven to be detrimental to almost all stakeholders



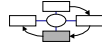
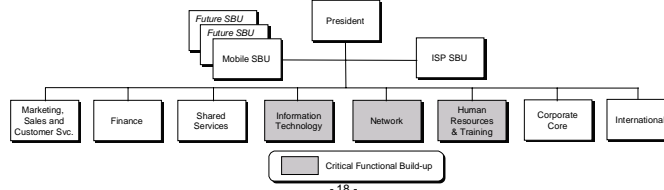


STC is implementing a market-focused organization designed around a mix of functional and business units ...

HISTORICAL STC ORGANIZATION STRUCTURE

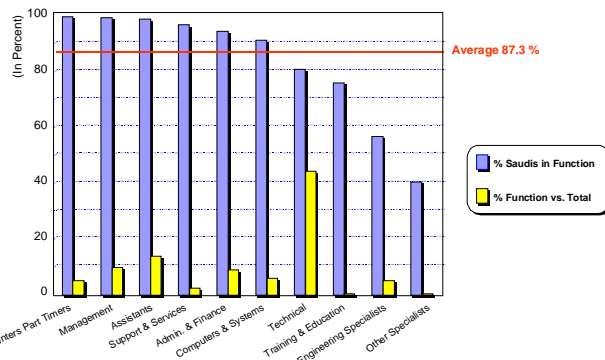


UNDER-IMPLEMENTATION STC ORGANIZATION STRUCTURE (18-month process)

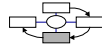


... and is committed to the development of the national human capital. STC's effort received the highest level recognition in the Kingdom

LEVEL OF SAUDI HUMAN CAPITAL AT STC

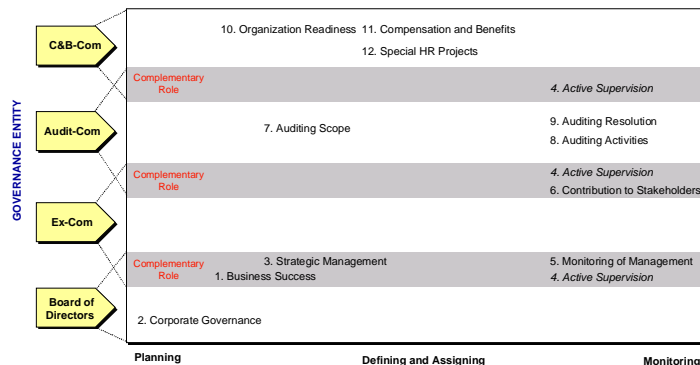


Source: STC HR Department 2001



STC is also instituting a market-focused corporate governance to ensure transparency, equity, and accountability

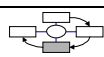
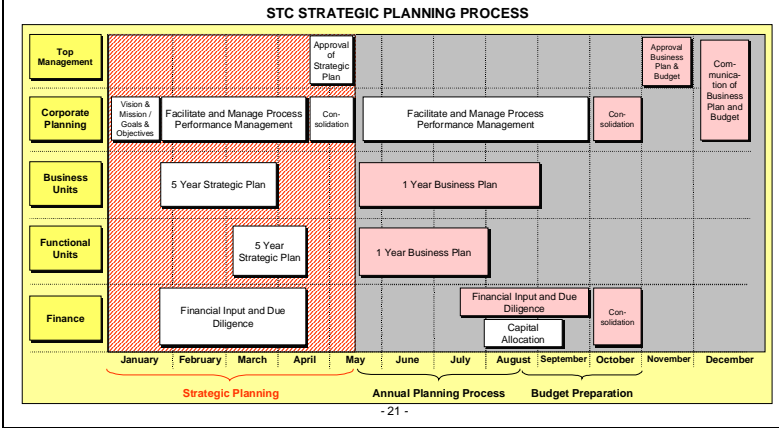
CORPORATE GOVERNANCE MODEL AT STC



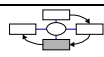
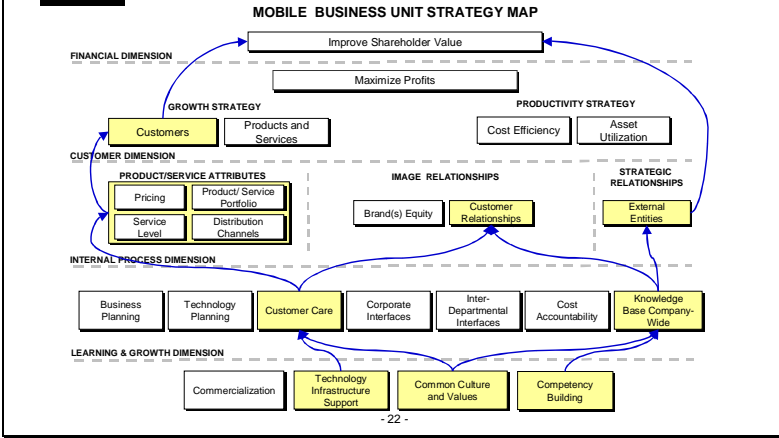
Source: B&H Analysis



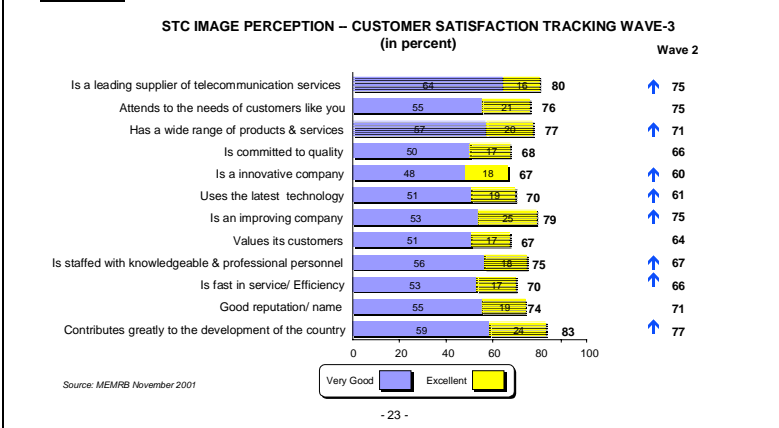
STC resources are being aligned and optimized through a diligent strategic planning process which is in its third-year implementation

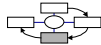


The resulting business strategies are being mapped and focused to maximize shareholder through adequate customer focus ...



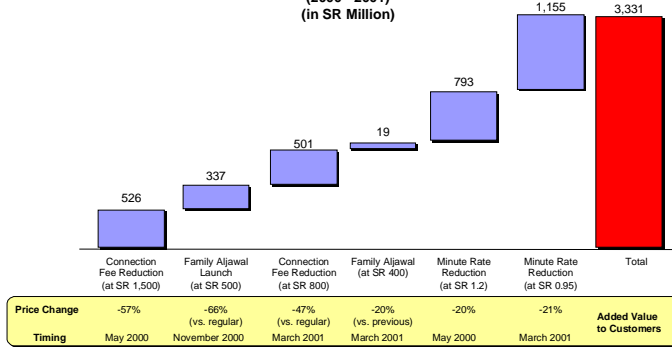
... and are yielding marked improvements in customer satisfaction



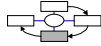


STC's actions are yielding strong value added to customers

ADDED VALUE TO CUSTOMERS THROUGH TARIFF REDUCTIONS -- ALJAWAL (2000 - 2001)
(in SR Million)

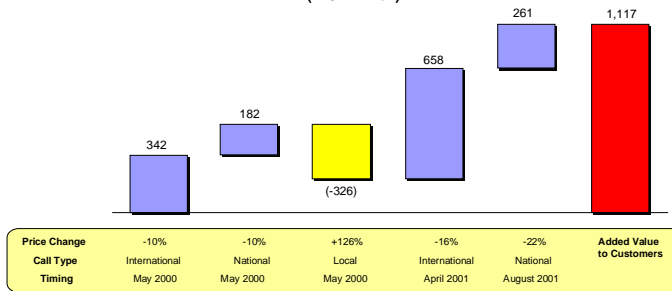


Note: Revenue impact is measured by annualizing the difference of the new tariff versus the previously applicable one
Source: BA&H Analysis

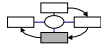


STC's actions are yielding strong value added to customers ... (cont'd)

ADDED VALUE TO CUSTOMERS THROUGH TARIFF REDUCTIONS -- FIXED LINES (2000 - 2001)
(in SR Million)

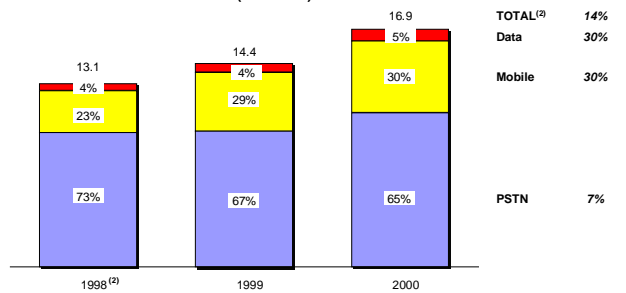


Note: Revenue impact is measured by annualizing the difference of the new versus the previously applicable one, applied to the previous year observed traffic
Source: STC Toll Discount Reports 1999-2001, BA&H Analysis

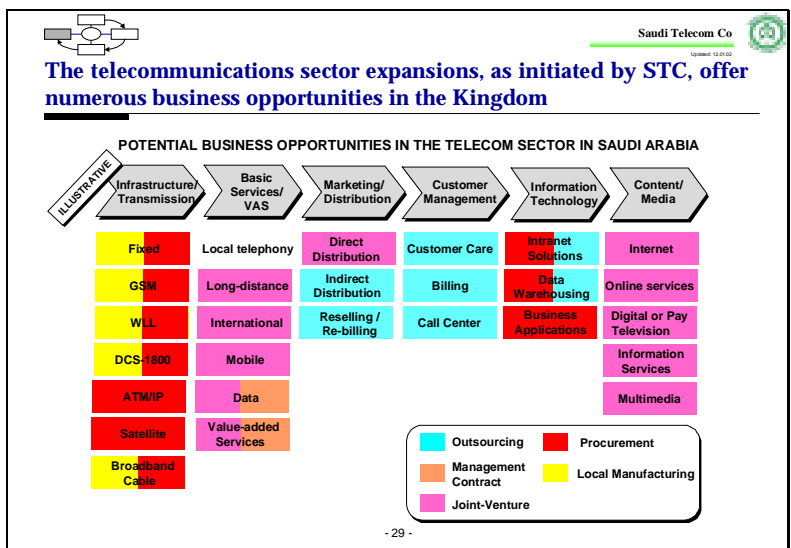
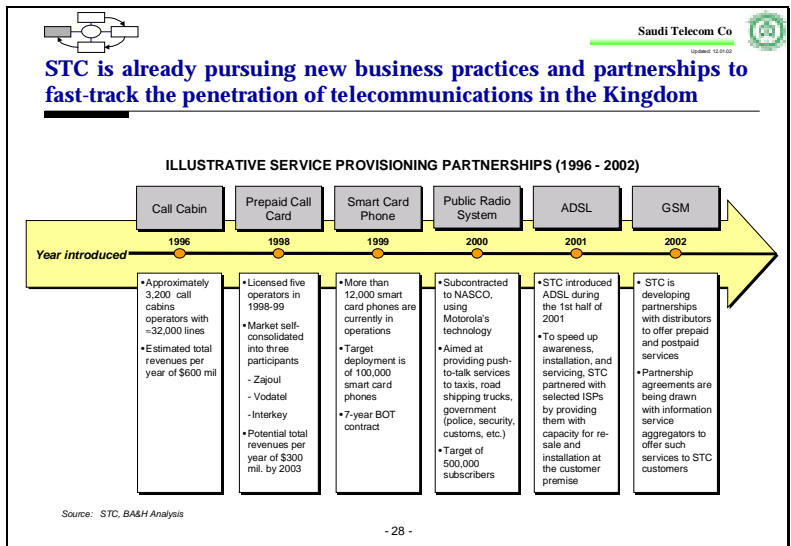
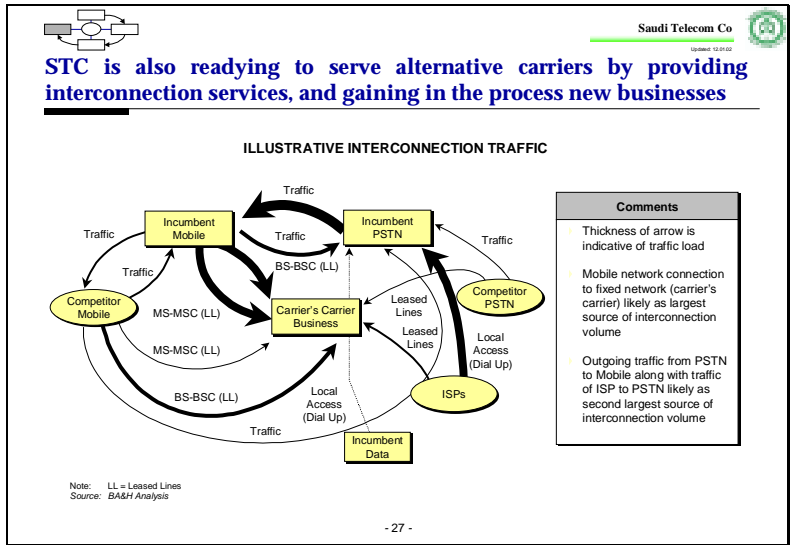


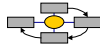
As a result, STC is achieving a 14% annual growth rate on average. Further rapid growth is expected in the next 3 years

STC REVENUES⁽¹⁾ INCLUDING SETTLEMENT (1998 - 2000)
(SR Billion)



Note: 1) ISP revenues not included
2) Financial Statement revenues for 1998 have been annualized based on the available 8 months results
Source: STC Financial Statements 1998, 1999, 2000; Budget 2001; BA&H Analysis





The corporatization of STC and its preparation for market liberalization is a challenging as well as a rewarding undertaking

- ▶ STC has embraced the corporatization and privatization imperatives, in preparation for market liberalization, with an emphasis on delivering a market-focused performance across all facets of its business
 - Business and functional planning
 - Human capital management
 - Organization and operation alignment
 - Technology and systems readiness

- ▶ The passage from a Ministry entity to a corporatized business has been challenging and rewarding
 - The company is dealing with a plethora of challenges that must be met within a short time-frame
 - ... Achieving strategic focus and governance
 - ... Aligning organization and people (future mode of operation, required skills, accountability, etc.)
 - ... Aligning business practices (services, tariffs, etc.)
 - ... Developing markets and educating customers (innovation, expectation, etc.)
 - ... Ready for future challenges and risks (liberalization, regulation, economic imperatives, etc.)
 - The company is achieving significant progress, and the potential for development remain considerable
 - ... Improving shareholder value
 - ... Enhancing customer focus and servicing
 - ... Building the future of the STC community