



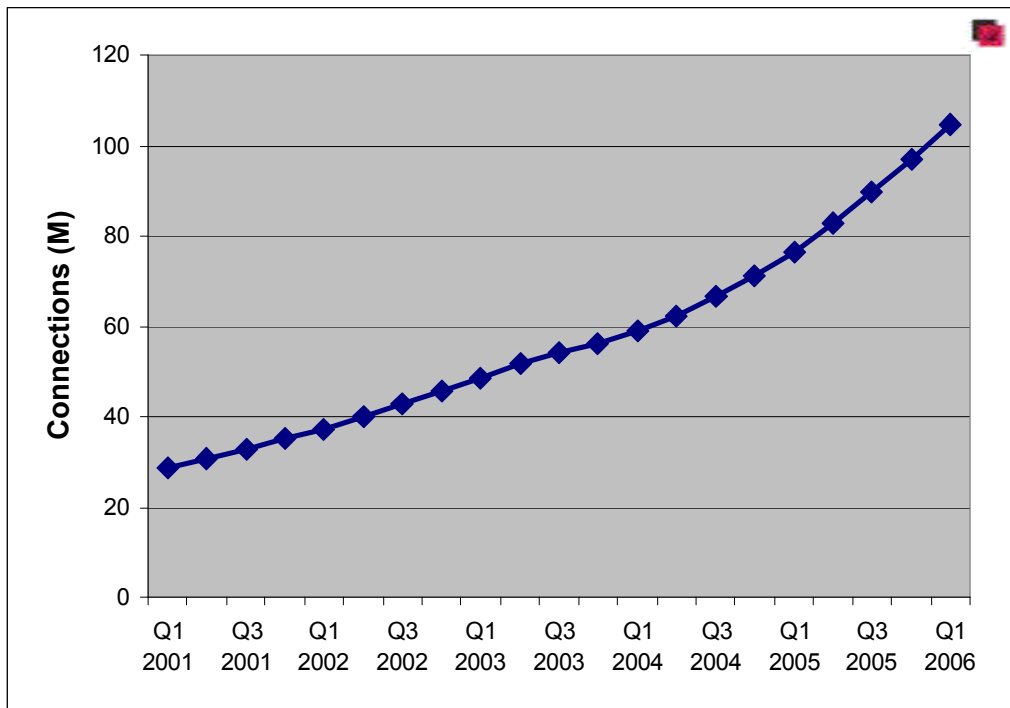
Middle East: connections pass 100 million as growth surges

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As a region, the Middle East has enjoyed a surge in growth in its cellular markets over the last two years, with the annual growth rate rising to 37% over the last few quarters. It passed through the 100 million connections threshold during Q1 2006. The market penetration has risen from 10% in 2001 to 35% today. It is a very diverse region with a mixture of very large and very small countries, as well as a mix of mature and developing cellular markets. We expect the high growth rates to continue as some of the larger, but less well-developed cellular markets, including Iran and Iraq, move into their high growth phase.

Figure 1 Cellular connections and penetration in the Middle East



Source: Wireless Intelligence, May 2006



Our definition of the Middle East region is the ISO definition, based on geography. It consists of Afghanistan, Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates (UAE) and Yemen.

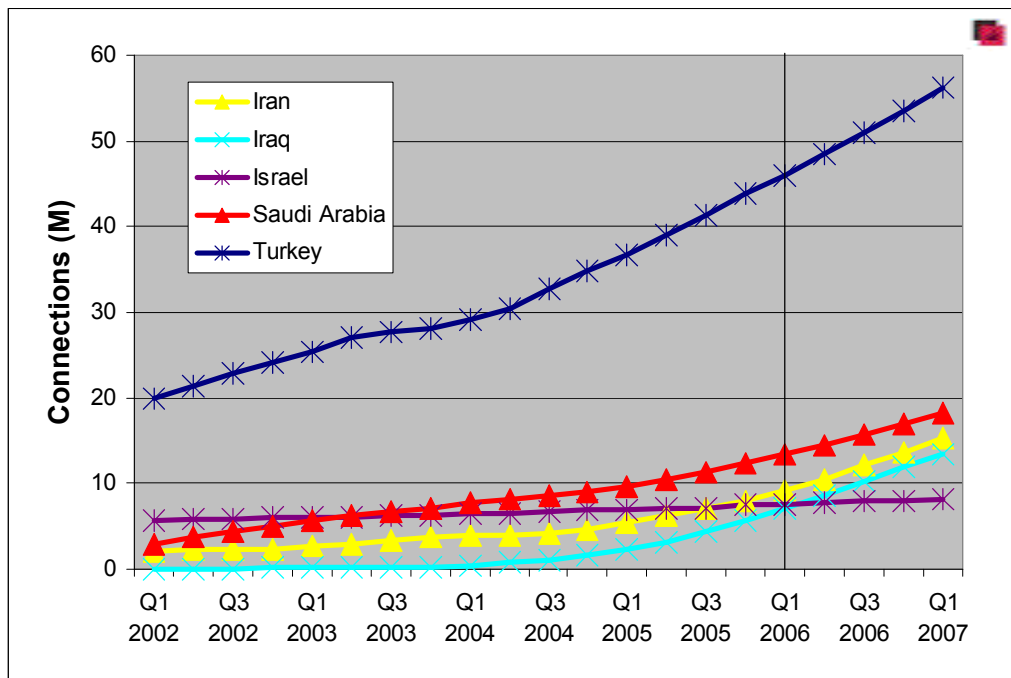
Analysis

Within the Middle East region there is great diversity between the markets, with a full mix of large and small countries, and mature and developing cellular markets.

Largest markets

The top five markets in the Middle East, by number of connections, are shown in Figure 2.

Figure 2 **Top five Middle East markets by number of connections**



Source: Wireless Intelligence, May 2006

The sheer scale of the Turkish market dominates the picture at present, with 46 million connections today and a penetration of 63%.

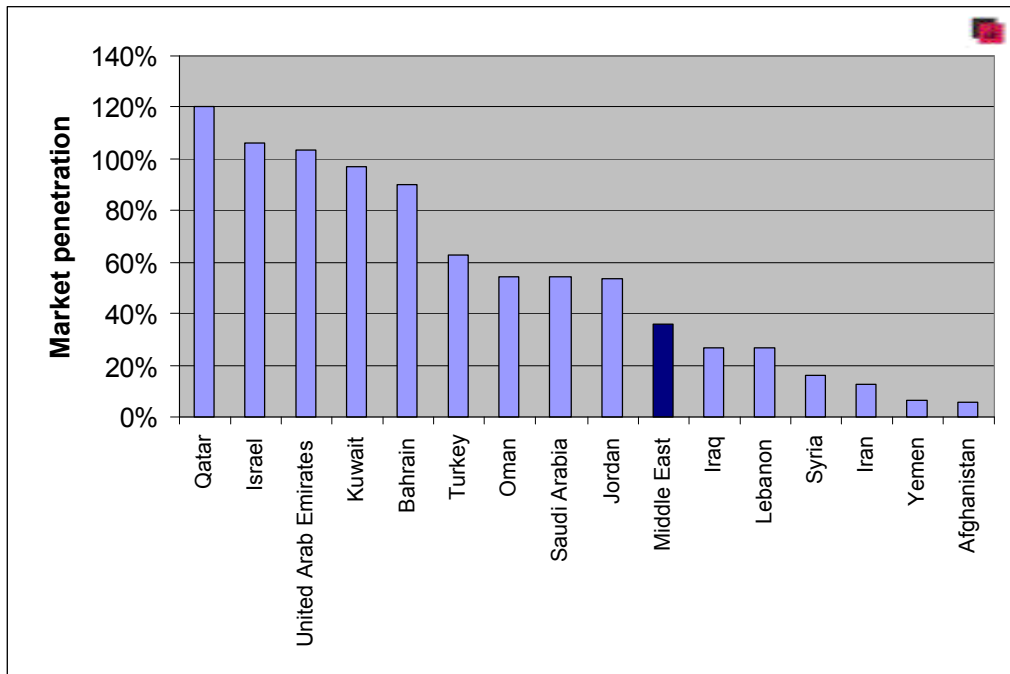
Saudi Arabia, one of the earlier countries to adopt cellular in the mid 1980s, has historically had a very long, slow growth path, but is now moving into much higher growth. Iran and Iraq have also both moved into a higher growth phase.



By contrast, Israel, which was one of the fastest countries to build up its adoption of cellular during the 1990s, is in a mature phase with a penetration of 106% and relatively slow growth.

Market penetration

Figure 3 Middle East cellular market penetration at end of Q1 2006



Source: Wireless Intelligence, May 2006

The full diversity of the region can be appreciated by looking at the market penetration levels across the countries.

Israel was leading the table until the middle of 2005. However, the smaller gulf states of Qatar, UAE, Bahrain and Kuwait have had very rapid growth since 2000, chasing one another up from around 30% penetration to 100% or more today. Their growth rates are now slowing as they move into the mature market phase.

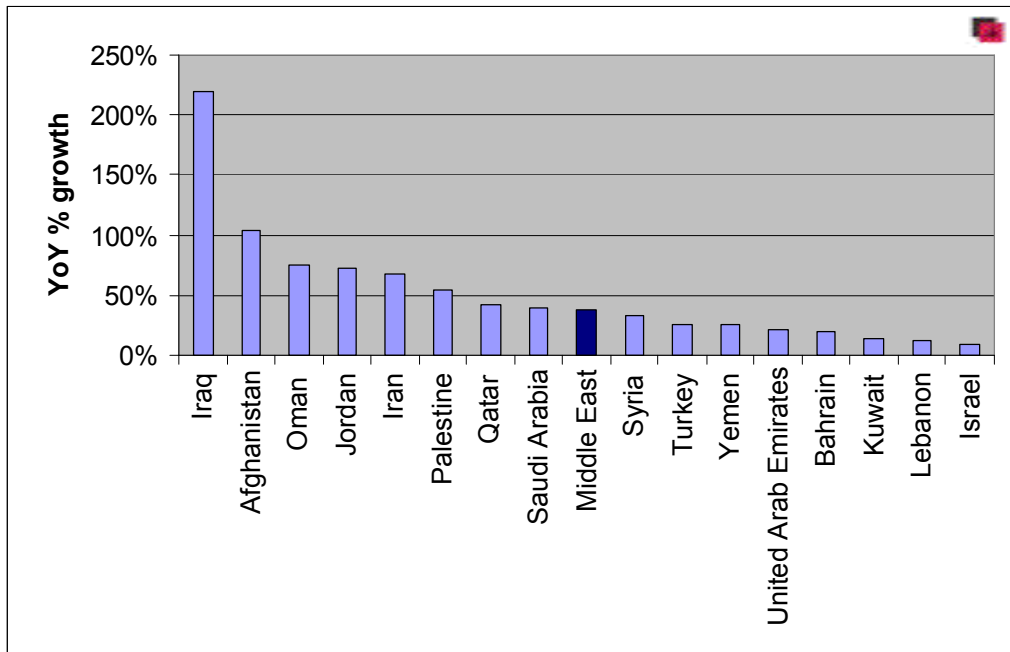
The regional average is 36%, kept lower by the less well-developed markets in the larger countries of Iraq and Iran.

Growth rates

The picture on growth rates is close to being a mirror image of the market penetration graph.



Figure 4 Middle East market growth rates at end of Q1 2006



Source: Wireless Intelligence, May 2006

The regional average is 37%.

Iraq leads the way with annual growth to March 2006 of 220%, clearly rising from a fairly small base as part of its reconstruction. Afghanistan posted just over 100%, while Oman, Jordan, Iran and Palestine all showed growth of between 55% and 75% over the year.

This high growth is down to:

- recent licensing – more than half of the operators are under five years old, and more operators will enter the market in 2006 in Iran and Jordan
- competition
- good strategies – for example, Roshan, the later entrant in Afghanistan, won the 1995 GSM Award for best marketing campaign for its approach. It was praised for navigating through religious, ethnic and cultural issues, and particularly for highlighting women in a positive role. It is now the leading mobile operator by number of connections.

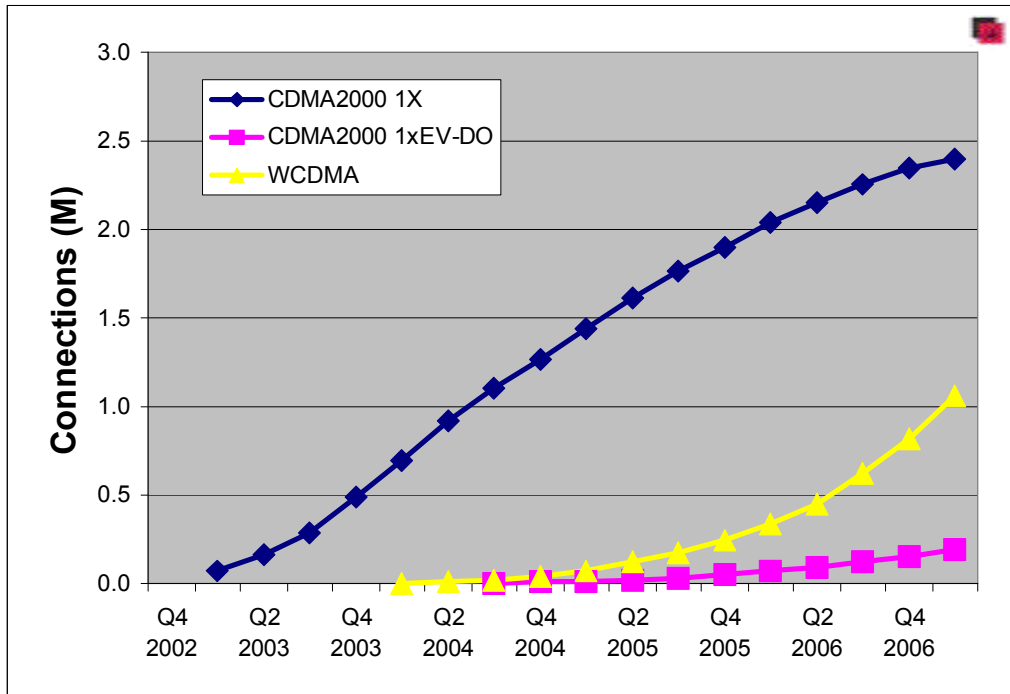
We expect the strong growth in the region to continue for some years as the two large countries – Iran and Iraq – develop their cellular markets.



Move to 3G

At present GSM is completely dominant in the region, with 102 million of the 105 million connections. However, higher-speed networks are being introduced and are starting to grow, again led by Israel but now more widely adopted.

Figure 5 **Higher-speed cellular network growth in the Middle East**



Source: *Wireless Intelligence, May 2006*

CDMA2000 1X and 1X EV-DO exist in Israel, which has all the digital technologies in use. EV-DO was introduced in late 2004 and is starting to build up share, even as 1X is still growing.

WCDMA has been adopted more widely around the region in Bahrain, Israel, Qatar, Saudi Arabia and UAE. It is starting to grow strongly now, although nearly two-thirds of the volume is in Israel and the majority of the rest is in the UAE at present.



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