I. Executive Summary

Project Finance Advisors ("PFA") has been retained to provide multi-disciplinary analysis and assistance for the Office National de l'Electricité's ("ONE") potential entry into the fiber optic telecommunications field (the "Phase II Study" or the "Study"). The Phase II Study represents a continuation of PFA's recently completed Fiber Optic Telecommunications Technical Assistance (the "Phase I Study") completed under funding from the Unites States Trade and Development Agency ("US TDA").

PFA's has been tasked to develop financial data for ONE's potential entry into the telecommunications sector. As discussed at more length in Task 4.2, PFA has designed an economic model to bracket a number of financial returns from operating a Data Services license using infrastructure constructed upon ONE's telecommunications ROW (the 'Project"). Specific assumptions that have been made for each component of PFA's economic review are detailed in Task 4.2. In general, PFA's Economic and Business Valuation Terms of Reference mandates a review of the following issues:

- The economic viability of the Project (as measured form the prospective of ONE, its partner and aggregate cash inflows and outflows) under an optimized financial structure. The viability analysis is based on a number of varying assumptions relating to revenue, capital, operating costs, and fees that would be imposed for award of the telecoms license by the Agence Nationale de Règlementation des Télécommunications ("ANRT").

- Revenue and market capture estimates based on development of the market entry strategies outlined in PFA's Market Assessment (Task 1 and Task 2).

- Estimates of the expected cost of implementation, factoring in capital costs (both for immediate construction of the network and thereafter for installation of wireless equipment for customer installations as well upgrades to capital equipment); operational costs for administration and maintenance of the network (including any retraining expenses for ONE personnel); taxes; and other cash requirements. These costs are referred to as "Project Costs" and their estimation is discussed in more detail in Section VI of Task 4.2. As will be discussed, estimates of Project Costs along with the assumed capital structure carries very important implications for PFA's economic viability analysis.

- A preliminary valuation and relative share contribution for many of the tangible and intangible assets that would be contributed by ONE or its partner towards implementation of the Project. These assets include the following:

  - ✓ Physical assets already in place for the network at the time the partner acquires the license to provide service.

  - ✓ In-kind assets contributed to the venture by ONE including an economic valuation of its Rights of Way (the subject of this Task Order).

- ✓ Services provided by ONE for maintenance of the network (e.g., personnel costs, vehicle fleets and other upgrade costs).

- ✓ Immediate cash requirements and longer term cash requirements for a comprehensive build-out of a commercial Data Services network.

Output of PFA's assessment also consists of a set of pro-forma US GAAP style financial statements on a pooled basis[1]. As of the time of development of the model, it was not certain whether ONE and its partner could participate by owning shares in a telecoms subsidiary (see Legal and Regulatory Assessment in Task 3). In early July 2001, the Moroccan government issued a new "projet du loi" for ONE that appears to have broadened its Enabling Law. The effect of such an amendment is that its direct investment in a telecoms "affiliate" with a partner is allowed after authorization from the Prime Minister.

As mentioned above, as part of its general economic and business valuation, PFA has been asked by ONE to provide a preliminary estimate of the value of its Rights of Way ("ROW") in order to better prepare it for the call for tender process with ANRT. This valuation is subsumed as part of PFA's larger economic valuation for the Project. However, its importance for ONE and determining ONE's relative share of the any jointly owned subsidiary are obvious. As such, the methodology guiding this valuation has been enumerated below.

While consideration will be given for ONE's ROW by a partner, the rights themselves does not constitute an upfront capital cost for project implementation, such as optical fiber costs. Rather, the value of ONE's ROW will serve as a bargaining chip to help ONE negotiate a fair and reasonable rate of return for its proposed participation as an alternative infrastructure provider. Information for valuing or accessing ROW in Morocco is limited by the relatively few telecommunications licenses that have been issued by ANRT. PFA has applied a number of techniques commonly used in the utility sector in the United States to the Moroccan context to estimate value.

The valuation of ONE's ROW is integrated into PFA's comprehensive cashflow model to measure the profitability of the venture and ONE's rate of return as a participant.

PFA key findings for this task are as follows:

- Acquisition of ROW by companies or other telecoms license holders are freely available because they reside in the public domain (see Task 3, Legal and Regulatory Review). However, valuation of ROW should not therefore assume that they are "free" because of accessibility under Moroccan law. While any national operator of a public telecommunications network can demand access to the public domain, public enterprises (établissements publiques), such as ONE, have control over their facilities and

[1] As discussed more fully in Task 4.2, PFA is not an accredited Moroccan accounting firm and makes no representations as to the sufficiency of these pro-formas under Moroccan accounting regulations. Where applicable principles of accounting for telecoms companies under US GAAP and FASB rules have been applied to generate income statements, balance sheets and cashflow statements for the Project as whole.

infrastructure similar to that of private landowner over its property. As a result, ONE can charge for access to its ROW through its concessionary powers.

- ONE has the right to license the use of these rights to a telecoms company through contract.
- Other operators would naturally incur high costs and time delays by developing their own ROW and building their own infrastructures on the public domain.
- Market based approaches for measuring ONE's ROW yield a value of [This information has been deleted due to business confidentiality] based upon commonly called "Across the Fence" or ATF methodologies. PFA believes this estimate is too high and probably contains significant price distortions. The ATF methodology applied is based on data from Nationale des Autoroutes du Maroc[2] ("ADM") grant of access along its highways to Méditel for the second GSM license.
- The methodology PFA recommends is called "marginal avoided costs" or "savings" and represents the savings an operator would recognize by collaborating with ONE. This methodology is increasingly being used by purchasers of access rights as their chosen valuation method, especially when they have freedom of choice to independently install infrastructure.
- At a minimum, PFA estimates that ONE's partner could recognize savings of [This information has been deleted due to business confidentiality] by gaining access to ONE's ROW. This amount should represent a "floor" price for ONE in future negotiations with the license winner.
- However, the ability to immediately use a contiguous corridor afforded by ONE's transmission facilities brings *added value* to the Project that should not be ignored in the appraisal methodology. Appraisal methodology typically captures such added value through the use of multiples. In this case a multiple has been estimated using different present valuations of cashflow through simulations of the economic model. To capture the multiple the recognition of revenue (and profit) was delayed under from implementing a one-year lag in project implementation assuming the license holder would not use ONE's ROW.

[This information has been deleted due to business confidentiality]

- Use of these values in conjunction with the expected capitalization of the project may improve the likelihood that ONE would be able to structure a profitable return. The results indicate real value to a telecoms provider, and the ability for ONE to create value by contribution of its ROW.

[2] ADM is a governmentally created entity with authority for development of roads and highways. ADM is a public entity but is structured as a société anonyme; far different than the ONE structure. It currently has the ability to set up telecommunications infrastructures along the two highways it controls – Casablanca-Larache and Rabat-Fes (See Task 3 for more discussion).