EXECUTIVE SUMMARY

Fiber Optic Telecommunications Technical Assistance Final Report
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1. Executive Summary

Project Finance Advisors ("PFA") has been retained by Office National de I'Electricit6 (ONt) of Morocco to evaluate the development of a fiber optic telecommunications network along its rights of way. PFA's study is designed to help ONt management make key financial and strategic decisions concerning short-term capital expenditures, better integrate current initiatives and ultimately guide long-term considerations about possible expansion of their traditional line of business. Specifically, PFA has been asked to consider whether ONt should develop its internal telecommunications network to allow for eventual commercialization,

PFA has undertaken a technical, economic and regulatory assessment of the telecommunications sector in Morocco as well as an evaluation of ONt's internal telecommunications requirements, both current and future. These requirements were weighed carefully against regulatory issues that might arise if ONt were to enter the telecommunications sector. Specifically, the new telecommunications law (Law 24-96) on Post and Telecommunications promulgated in August 1997 requires the issuance of a license for public tele communication networks, and the licensing mechanism is carefully regulated. ONt has expressed concerns about the response of the Government of Morocco should they be viewed as a competitive telecommunications operator. Another issue of concern is the potential for erosion of ONt's statutory position as the monopoly power company in Morocco if they were to enter the telecommunications market

In sum, the study has established that commercialization of ONt's alternative network is technically feasible but not without economic, regulatory and marketing challenges. More specifically, the report concludes that a commercial network for a basic leased line business can be justified based on our technical assessment of its capital cost and its probable rate of return given basic revenue and operating cost assumptions. Our basic "business proposition" to ONt is that it pursue becoming a leased line provider in a joint venture with another telecoms partner who will actively manage the business, seek the most profitable segments of the market, and hold the actual telecoms license.

PFA's "Business Plan" takes this basic proposition and tests various other economic scenarios to determine whether ONt should seek to become more than a leased line provider to its partner as well as further exploring relevant decision making criteria (policy and otherwise) that ONE might want to prioritize in the commercialization decision. We conclude that significant profit potential exists for ONE if it embraces a more long-term growth strategy and especially if ONt can participate in growing Internet service demand in Morocco. Our transmits the basic components of our "business proposition" and our recommendation that ONt should seek to commercialize its internal telecoms network with the right partner at the right time. The report concludes with some recommendations of how to ON't may best proceed in the future.

Our report discusses the following findings in more detail:

> ONt's current build-out plans for an internal fiber-optic network imply capital expenditures of $XXXX million by the year 2002[deleted due to Business Confidentiality]. In addition, the fiber-optic network currently being built for internal purposes should have an additional $XXXX million spent to make it truly useful for ONE's internal purposes [deleted due to Business Confidentiality].

In addition to the cost for their currently planned internal network, PFA has estimated a capital requirement of $XXXX million for ONt to build and administer a commercially viable nationwide fiber optic network [deleted due to Business Confidentiality].

Although probably a short-term necessity for ON~'s internal purposes, leasing lines from Maroc T616com is a less favored long-term alternative due to cost, quality and reliability concerns. Lines leased from Maroc T616com can gradually be replaced as ON~'s internal fiber-optic network is completed.

To mitigate regulatory issues associated with a commercial telecoms venture, ONt should seek to partner with a telecoms operator that will hold the license for the network.

The form of partnership should be through a separate joint venture entity capable of borrowing funds for the cost of commercial network build out because economic returns will be maximized through a debt financing vehicle rather than additional equity contribution.

PFA's financial rate of return analysis over three potential economic scenarios clearly indicate that ONt's commercial network (administered and owned by the special purpose joint venture) should seek to provide value-added services for growing business demand in Morocco and most notably for Internet access.

The size of the telecoms market, and the GSM market in particular and its rate of growth indicate that overall demand will be sufficient to support the venture by the year of planned deployment (currently 2005 under PFA's economic and technical scenarios). In all likelihood, the greater challenge for ONt is finding the right partner.

PFA has recommended three strategies for providing value-added services that have a viable commercial potential, but others are possible. At a minimum, the commercial network should seek to capture both a higher percentage of customers requiring greater bandwidth from a leased line business as well as a larger market share (more leased lines). Thus, a partner committed to growing the number of leased lines that the venture would offer as well as developing the market for higher bandwidth should be the basis of the venture's strategy.

ONt should also consider value-added strategies such as using the commercial network as a vehicle for becoming an Internet service provider ("ISP") or entering into a profit sharing arrangement with ajoint venture partner.

Commercialization would provide a more rapid payback on internal network costs already committed to by management. The decision to keep the network as an internal system would mean that even the initial investment could not be recovered in a reasonable amount of time. Business demand is growing in Morocco as the recent $1.1 billion payment for the second GSM license attests. With the proper marketing and technical strategy, ONt can achieve economic returns by commercializing their internal network.