



## AZERBAIJAN REPUBLIC PROJECTS

| Profile No. | PROJECT NAME                         | LOCATION       |
|-------------|--------------------------------------|----------------|
| AZ1         | Internet Development (Phase 1)       | Baku & Regions |
| AZ2         | Privatization of Aztelecom (Phase 1) | Nationwide     |
| AZ3         | Telecommunications Service Expansion | Baku           |

## AZERBAIJAN REPUBLIC

### Internet Development (Phase 1)

| <b>Project Summary</b>          |                                      |
|---------------------------------|--------------------------------------|
| <b>Subsector</b>                | Telecommunications & IT              |
| <b>Location</b>                 | Baku & Regions, Azerbaijan           |
| <b>Project Cost</b>             | US\$1 Million                        |
| <b>Export Potential</b>         | US\$1 Million                        |
| <b>Project Type</b>             | Internet                             |
| <b>Project Executing Agency</b> | Azeronline Information Services Ltd. |



### Project Outline

Azeronline is a leading Azerbaijani internet service provider and a joint venture between Turkcell of Turkey and the Ministry of Communications of the Azerbaijan Republic. This project involves establishing new Point of Presence (POPs) in the Regions of Azerbaijan and opening of approximately 150 Internet Cafes all over Baku and the Republic. The Azeri Internet services market is young and limited but has strong prospects for development. Internet penetration is still low at only 12,000 subscribers countrywide, however Azeri firms and IT-savvy Azeris are showing more and more interest in the Internet. The overall economic situation, the business environment for small and medium size companies, the role of the Ministry of Communication as both regulator and commercial partner, and very limited Azeri purchasing power will determine the pace of Internet market growth. Another factor to consider is the level of integration into Western markets. Differing from the U.S. and Western Europe, the Azerbaijani market for Internet services depends more on the availability of telecom and computer infrastructure than on demand for ISP services. This dependence is due to the monopoly of Aztelecom in the public telephone system and the high charges for access to international channels (see related project profile on the expected privatization of Aztelecom).

### Technical Description

The primary project elements include:

- Points of Presence (POPs): two new POPs (in addition to current POP's in Baku City, Sumgait, Quba, Ganja and Nahcivan);
- The construction and opening of approximately 150 Internet Cafes with minimum requirements as a chain and/or franchising project to respond to increasing demands

for Internet usage in Azerbaijan. Primary markets are young professionals and students without computer access.

## **Project Site**

The location of the project will be various regions of Azerbaijan (including Lenkoran and one of the regions of Ali Bayramli, Berde, Mingechevir or Shamaxi) for the POPs and all Azerbaijan regions in general for Internet clubs.

## **Project Status/Timeline**

The project is currently in the planning stage, with rollout to be finalized by the end of 2001.

## **Equipment and Services**

Equipment needs include:

- For the Points of Presence (POP's): Internet Access Equipment, PSTN lines for dial-in demand, data transmission lines to reach Azeronline Network Operation Center.
- For Internet Cafes: Furniture, Design and Computers, Leased Lines, Internet Access Equipment.

## **U.S. Competitiveness**

Azeronline estimates a "very high" possibility of purchasing U.S. origin Internet equipment and computer hardware and software.

## **Project Financing**

Various venture capital funds and the Overseas Private Investment Corporation have expressed interest in telecoms deals that could leverage off of regional capability (i.e. Turkey-Caucasus-Central Asia). While U.S. Ex-Im is not open for private sector transactions in Azerbaijan as of Summer 2001, Ex-Im will review deals based on limited recourse project finance.

## Conclusion

While this project may seem modest, it represents an opportunity for U.S. equipment suppliers to get in “on the ground floor” of this young, upstart ISP. In just over a year, Azeronline has aggressively penetrated the Azeri Internet market – one sure to grow given the expected influx of oil and gas investment in 2001-2005. Via this project, U.S. firms have the opportunity to create Azeronline’s backbone throughout the Azeri regions and position for future sales and growth.

## Key Decision Makers

|                                     |   |
|-------------------------------------|---|
| <b>Organization or Company Name</b> | Azeronline Information Services Ltd.    |
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## AZERBAIJAN REPUBLIC

### Privatization of Aztelecom (Phase 1)

#### Project Summary

|                                 |   |
|---------------------------------|---|
| <b>Subsector</b>                | Telecommunications                        |
| <b>Location</b>                 | Azerbaijan                                |
| <b>Project Cost</b>             | US\$50+ Million<br>(expected share price) |
| <b>Export Potential</b>         | US\$10 Million                            |
| <b>Project Type</b>             | Privatization                             |
| <b>Project Executing Agency</b> | Government of Azerbaijan                  |



### Project Outline

This project identifies the planned, future privatization of Aztelecom. Aztelecom is the national telecommunications operator (stationary lines) in the Azerbaijan Republic. Aztelecom has a monopoly on long distance and international calls, including leasing of intercity and international channels. Aztelecom is regulated by the Ministry of Communications. Aztelecom offers the following services: local, intercity, and international telephony; data transmission; telegraph; telex; TV and radio broadcast; cable transmission; leasing of frequencies; Internet access; and a telephone pay-card system. At this writing, it remains unclear as to how Aztelecom would be privatized, however past transactions have seen a mixture of cash, investment obligations, and social obligations.

### Technical Description

This project would entail an undetermined acquisition of shares in the national telecommunications company. While still unclear, some informed sources suggest that over 51% of Aztelecom's shares would be put up for privatization. Azerbaijan's current telecom system, with a few notable exceptions such as Bakcell, Azercell, and Azeurotel, is in strong needs of capital infusion and strong, Western management. Azerbaijan still has a very low teledensity, with only 9.6 lines per 100 people. While this project will present interest for U.S. equity investors/operators, key issues that will need to be addressed prior to privatization include: improving range and quality of offered services; review and commercialization of the tariff system; further regulation of settlements between operators and various networks; and creation of a proper legal and normative basis in the telecoms industry.

## **Project Site**

The privatization process would involve the entire Aztelecom network throughout Azerbaijan. The corporate headquarters are based in Baku.

## **Project Status/Timeline**

Privatization of Aztelecom was authorized in Presidential decrees of March 2001, allowing the Government of Azerbaijan to begin preparations for divestiture of state shares. Informed sources in Baku widely believe that privatization is unlikely until at least 2002-2003.

## **Equipment and Services**

The equipment and services associated with the privatization process are yet to be determined, but are likely to include network expansion, particularly in traditionally underserved rural areas. An estimated base-line value for the equipment needs related to the network expansion is US\$10 million.

## **U.S. Competitiveness**

U.S. telecom/operators with experience in Eastern Europe and the former Soviet Union would be best positioned for the future privatization of Aztelecom.

## **Project Financing**

A strategic operator would be expected to bring full project finance to both the purchase of Aztelecom shares and system improvements/investment requirements that would likely be part and parcel of any tender. Given Aztelecom's weak financial health, this Azeri partner is unlikely to provide more than in-kind contributions to future system upgrades. Some venture capital funds active in the NIS and Caucasus region have expressed interest in commercially-viable telecoms deals, and further trade and project finance would be available via U.S. Ex-Im and the Overseas Private Investment Corporation.

## Conclusion

The planned privatization of Aztelecom has been discussed for several years, however this divestiture received new life via the March 2001 Presidential decrees. This is a medium to long-term project, however, as privatization in Azerbaijan has moved haltingly. Key organizational issues over the future tender of Aztelecom will need to be managed by the Ministries of Economic Development and Communications. Key pre-privatization preparation of this and other assets, including complete financial audit, issuance of IAS standard balance sheets, asset lists, and the like will be months to over a year in coming. Nevertheless, given the expansion of oil and gas investment in Azerbaijan and the likely increase demand for telecoms services, Aztelecom is a strategic asset to watch – provided the asset is properly prepared and the price is right.

## Key Decision Makers

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|-------------------------------------|---|
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## AZERBAIJAN REPUBLIC

### Telecommunications Service Expansion

#### Project Summary

|                                 |                    |
|---------------------------------|--------------------|
| <b>Subsector</b>                | Telecommunications |
| <b>Location</b>                 | Azerbaijan         |
| <b>Project Cost</b>             | US\$19.3 Million   |
| <b>Export Potential</b>         | US\$12.9 Million   |
| <b>Project Type</b>             | Expansion          |
| <b>Project Executing Agency</b> | Azeurotel JV       |



### Project Outline

This project involves expansion of Azeurotel's telecommunications services throughout Baku with a link to regional and global telecommunications networks and further penetration throughout the country in the second phase.

Azeurotel is a joint venture between the Ministry of Communications of the Azerbaijan Republic and LUKoil Europe Ltd. of UK, established in 1995 to provide a full range of telecommunications services. It enjoys solid market position with 20,000 subscribers in Baku including almost all the major oil companies and Azeri government agencies.

The purpose of the project is to expand sphere of service, increase number of subscribers, improve quality of communications, and offer new communications services, such as ISDN, PBX, DECT wireless communications.

### Technical Description

Currently Azeurotel provides the following services:

- Telephony services (local, long distance, international); access to INTELSAT; DECT wireless communications; telephone-automates; digital channels and traffic);
- Multipurpose trunk connection NOKIA ACTIONET;
- Organization and administration of leased lines for corporate communications solutions (protection from accidental or unauthorized access, safe data transmission);
- ISDN multimedia services (data, voice, video data);
- Data transmission services (S.W.I.F.T., REUTERS, Western Union, Dow Jones Telerate, Internet, etc.)

In phase one development, Azeurotel wishes to increase network volume up to 85,000 numbers; increase volume of DECT wireless communication services; and to further provide additional numbers with Internet, IP telephony, Frame Relay, ATM, VoIP, WAP and high speed access to all services.

Tasks of the project include:

- Renovate four Automatic Telephone Exchanges buildings;
- Supply modern technology for the six telephone stations located in these buildings;
- Consolidate the telephone stations into one Azeurotel telecommunications network.

Second phase of the development program includes:

- Expansion of the existing SDH network, coverage of all telephone networks in Baku, establishment of a new SDH circle on a higher level with application of STM-16 multiplexors.
- Establishment of an ATM network based on existing fiber-optic lines;
- Establishment of Cable TV service after installation of a high-speed SDH circle and linear development of the existing fiber-optic cable;
- Expansion of the DECT wireless communication subscribers to 10,000 of general expansion to 105,000 subscribers

Further expansion of the network in Baku and Absheron peninsula up to 300,000 subscribers with 50,000 DECT (CDMA and TDMA format) clients and provide with package services (Internet, IP-telephony, Frame Relay, VoIP, WAP, Data) for 200,000 clients.

This profile includes only development of the first phase.

## **Project Site**

The project covers territory in the Baku area. Further development of the Azeurotel network throughout the country will include development of communication links from Baku to the northern border with Russia (Yalama), and to the South to the border with Iran (Astara).

## **Project Status/Timeline**

The first phase of the project extends from 2001 to 2002. Second phase of the development covers 2002 - 2007. Azeurotel has established relations with major suppliers and is continuously in touch with major equipment suppliers for new services and advanced technology.

## **Equipment and Services**

Digital Switches will be used for expansion of the existing network.

## **U.S. Competitiveness**

As many U.S. companies enjoy the status of industry leaders in the telecommunications market, U.S. designed and manufactured equipment is competitive in terms of quality to its Western European peers. However, local experts believe that U.S. made equipment is more expensive than its European counterpart, and it is logistically easier to get service, maintenance contacts with European companies. However, a key element is to meet the conditions of the local infrastructure as well as to provide sustained and safe communications services.

## **Project Financing**

\$19,279,000 is required for the first stage of the project. Azeurotel is planning to allocate \$1,770,000 from its own resources and is planning to take a loan in the amount of \$17,500,000. Azeurotel has been IAS audited by Ernst & Young for the past four years.

## **Conclusion**

With sustained expansion and development of the petrochemical development in Azerbaijan and in the Caspian region, U.S. Embassy – Baku sees a potential for increased demand for complex telecommunication services and solutions. Azeurotel is one of the major telecommunication service providers in the Baku area, distinguished by its wide choice and high quality of services. Responsiveness of Azeurotel to needs for advanced telecommunication services could be an opportunity for multiple procurement and service contracts in Azerbaijan and in the region.

## Key Decision Makers

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|-------------------------------------|---|
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