



Managing Exposure in Emerging Markets

Barry Wolde Yohannes
Group Treasurer, Celtel International B.V.

***6th Annual Conference on Trade, Treasury and Cash
Management in the Middle East***
11-12 March 2008,

Dubai -UAE

----- CELTEL -----

- Celtel was founded in 1998 by Mo Ibrahim, a Sudanese entrepreneur
- Celtel is the largest mobile player in Sub Saharan Africa (ex SA)
- Mobile is **not** a substitute, but the only means of communications

The advertisement features a photograph of a man and a woman sitting on a grassy field, smiling and talking. A soccer ball is on the ground between them. The background is a soft-focus outdoor setting. The text is overlaid on the image and a red banner at the bottom.

www.celtel.com

Share. Your time.

Introducing Me2U, Celtel direct phone-to-phone airtime balance transfer. Share. With a friend. Top up their phone directly from yours. Celtel to Celtel. Any amount you choose. 24 Hours a day. Wherever you are, wherever they are. Find out more - just send a blank SMS to 432 now. It's another first from Celtel.



Making life better

The largest footprint across Africa

420m Population Under Licence (50% of continent)

Over 27 Million Customers

Invested over \$6bn of capital in our 16 operations



•Burkina Faso

•Niger

•Chad

•Sudan

•Nigeria

•Sierra Leone

•Ghana

•Gabon

•Congo Brazzaville

•DRC

•Tanzania

•Zambia

•Malawi

•Madagascar

•Kenya

•Uganda

Celtel Revenues: \$3,200 in 2007

Celtel EBITDA: \$1,200 in 2007

Over 98% of staff and mgmt is African

The Leading Pan African Mobile Operator and an original African brand



Celtel



Africa has been known for trading between communities without having geographical/political boundaries

For generations communities that live across the national borders have moved between the countries

Zain subsidiary **Celtel** is the only operator present in Burkina Faso, Chad, Republic of Congo, Democratic Republic of Congo, Gabon, Kenya, Malawi, Niger, Nigeria, Sudan, Tanzania, Uganda and other 4 African countries

Switch on.
Africa's most preferred network.

Phase 1

September 27, 2006

One Network was introduced in East Africa



Kenya



Tanzania



Uganda

Phase 2

June 08, 2007

One Network expanded to



DRC



Congo B



Gabon

Phase 3

November 22, 2007

One Network roll-out expands service to



Nigeria



Niger



Chad



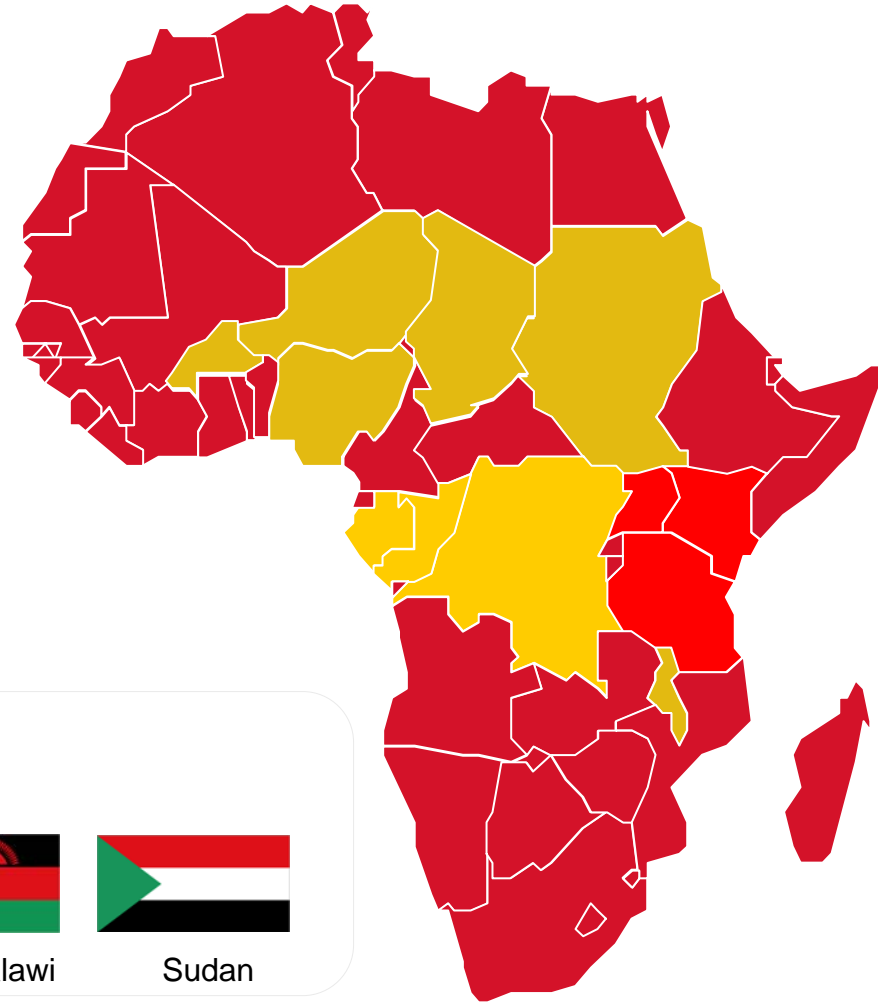
Burkina Faso



Malawi

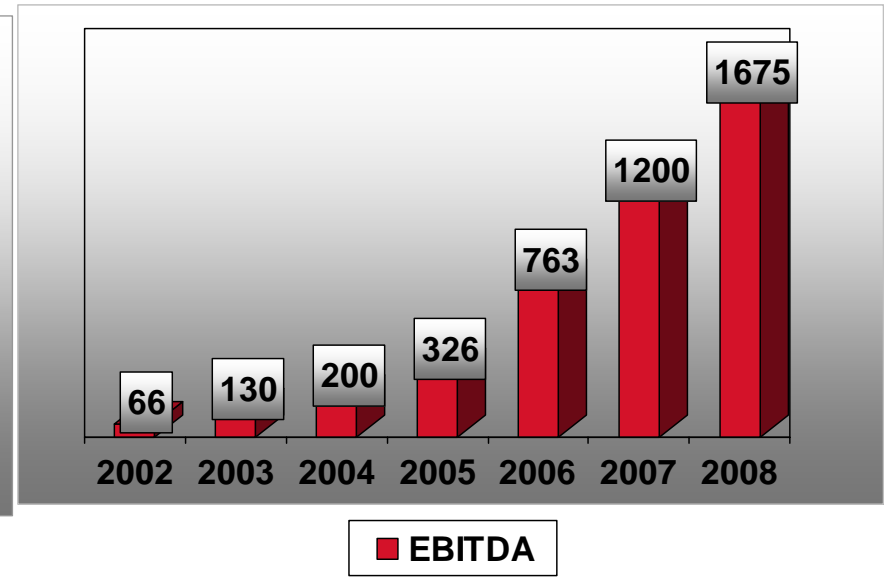
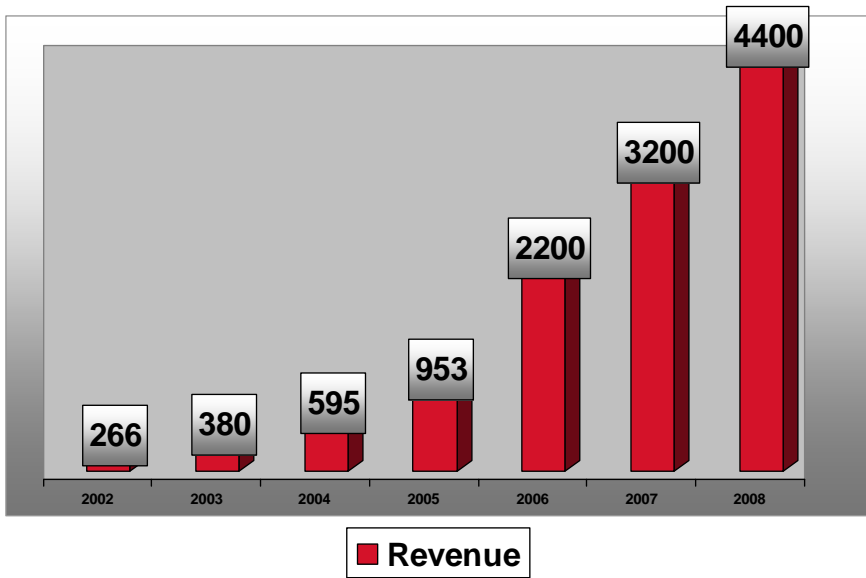


Sudan





CelTel Revenue and Profit Growth : M USD





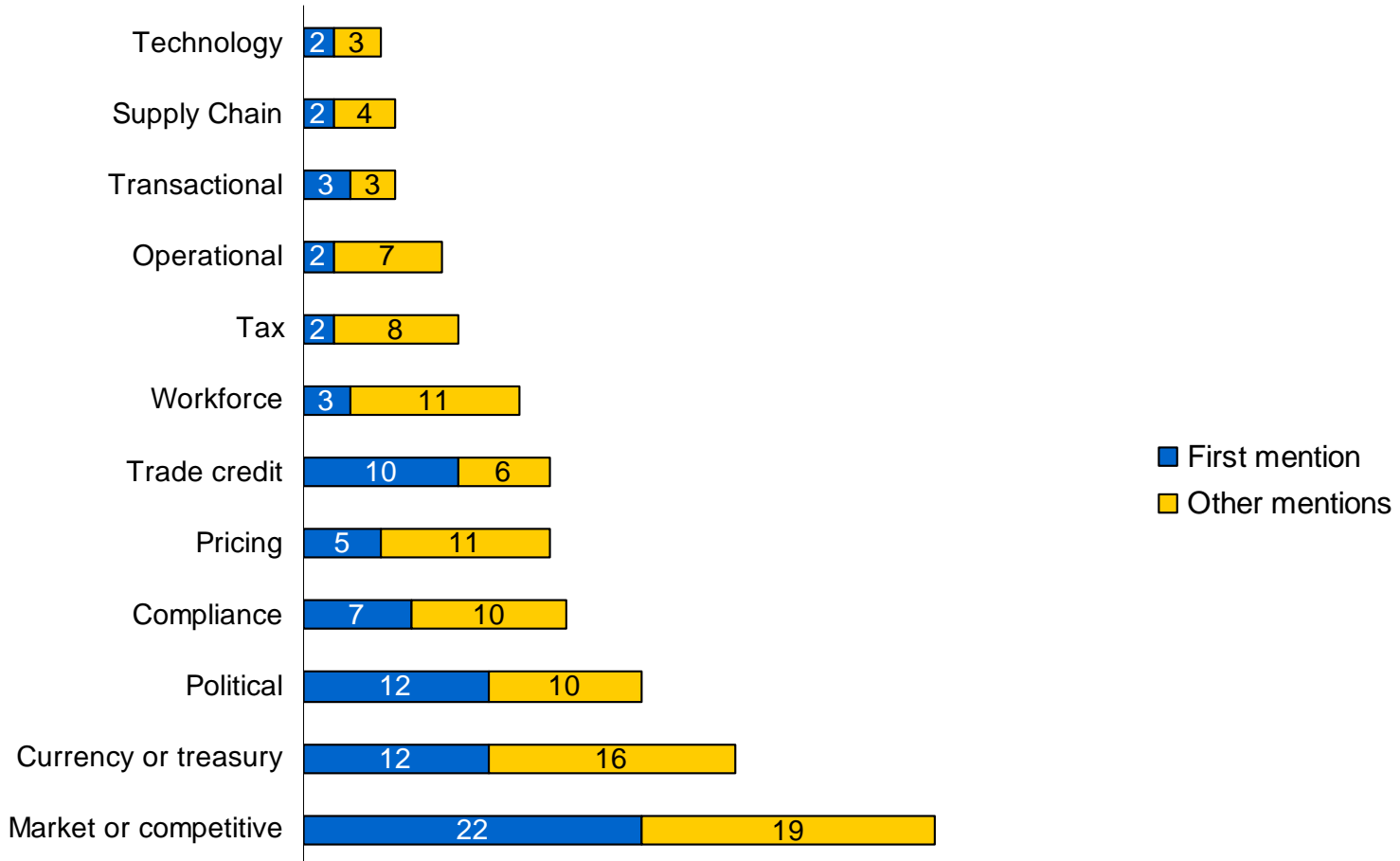
African Treasury Challenges



- Restrictive Regulatory Environment
- Non-Developed Financial Markets
- The Cash “ Burden”
- Forex Unavailability & Currency Non-Convertibility
- Onerous Risk Premiums on Financing

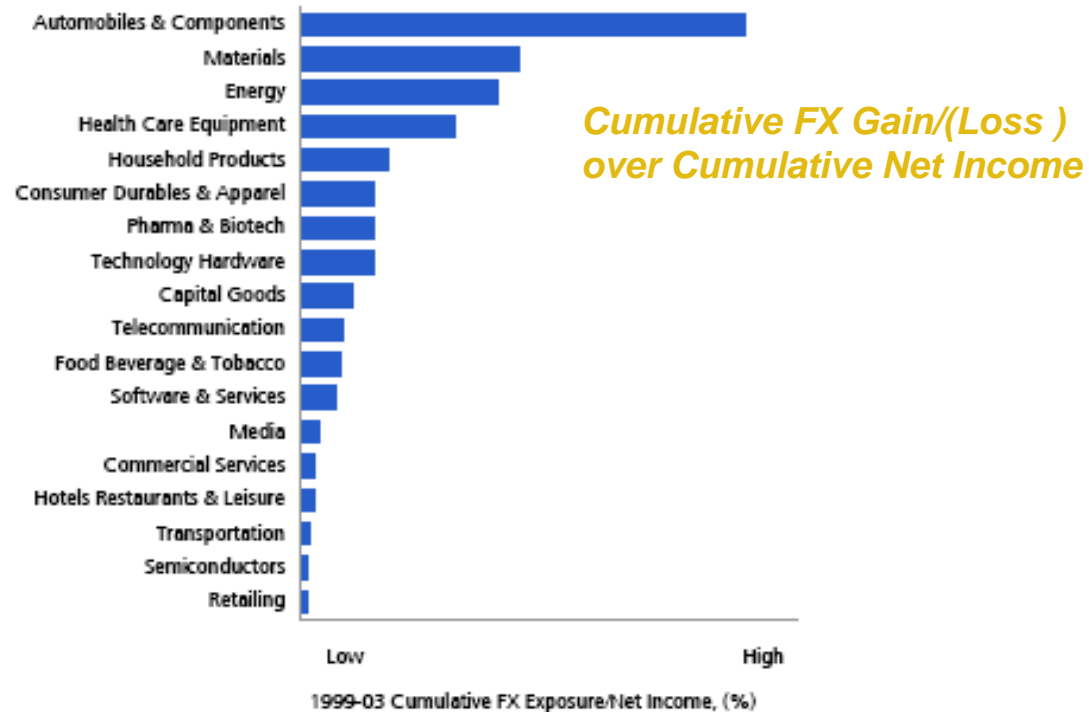
The cash "BURDEN"





Source: Ernst & Young Survey Risk Management in Emerging Markets 2007

Figure 1 – FX Exposure by Industry'



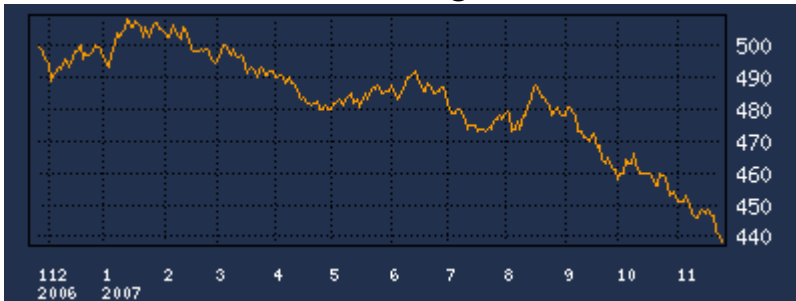
Source : UBS-FX Policy Revisited Strategy & Tactics



Celtel-FX impact on Operations

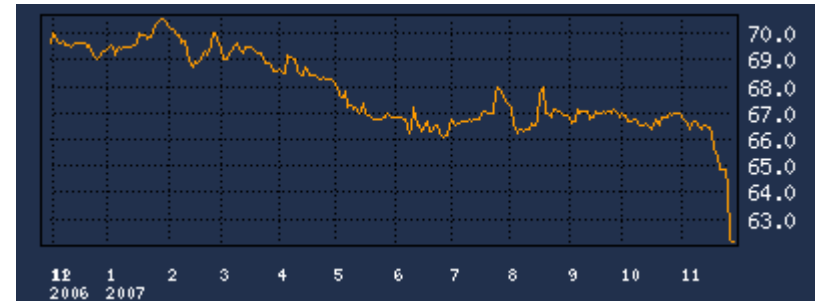


CFA Region



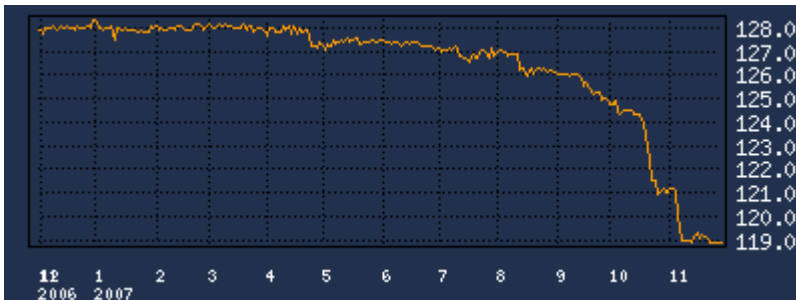
- CFA/US\$ rate down from 500 to 440
- Impact on Operational CF YTD is US\$ million

KSH



- KSH/US\$ rate down from 69 to 62 (**now back to 69!!!!**)
- Impact on Operational CF YTD is US\$ million

Naira



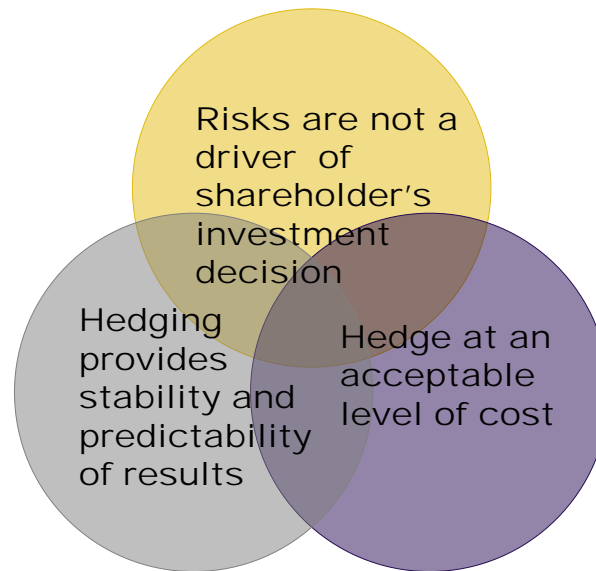
- Naira/US\$ rate down from 128 to 119
- Impact on Operational CF YTD is US\$ million

Kwacha



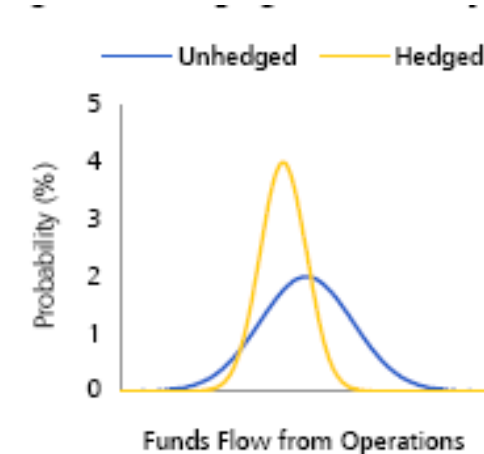
- Kwach/US\$ rate down from 4300 to 3750
- Impact on Operational CF YTD is US\$ million

Hedging might Help Achieve Stability of Earnings

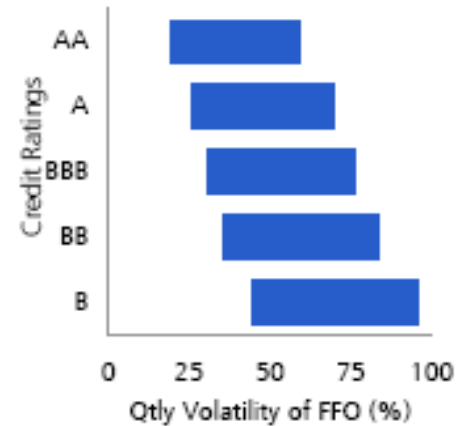


- Reduce Responsiveness of Cash flows to Exchange Rate Fluctuations
- Liquidity & Strategic Value
- Debt Capacity and Cost of Debt
 - ✓ Hedging can reduce WACC and Increase Intrinsic Value
- Transparency
 - ✓ Isolate Operating Performance & Eliminate Noise caused by FX Volatility, *Concentrate on Core Risk*

Hedging Reduces Unsystematic Risk & Cost of Debt



Illustrative)

















Source: Compustat^B

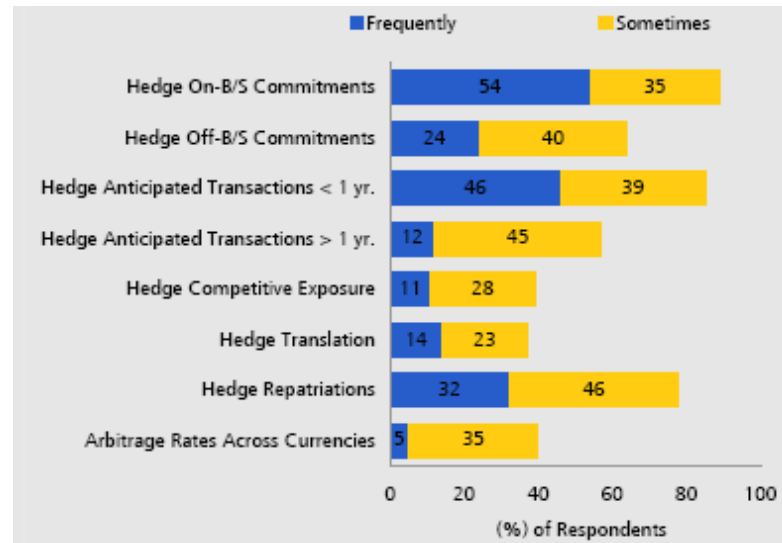
Source: UBS Investment Bank 2003-Forex Policy Revisited

Types of Forex Exposure & Hedge Rationale

Table 1 - Hedge Economic Exposure to Create Intrinsic Value

		RATIONALE			
		Create Intrinsic Value	Reduce Cost of Debt	Increase Debt Capacity	Improve Transparency
WHAT TO HEDGE?	Economic				
	Translation				
	Transaction				

 Accomplish objectives well
  Does not accomplish objectives



Nigeria		Percentage USD denominated	Percentage LCY denominated	BUDGET(USD)	USD	NGN(in USD terms)
Receipts						
- Scratch + Sim Cards			100%	1,179,014	0	1,179,014
- Handsets			100%	24,390	0	24,390
- Collections Post Paid			100%	17,845	0	17,845
- Collections-interconnect	11%		89%	371,905	40,910	330,995
- Collections Roaming	100%			10,640	10,640	0
- Other			100%		0	0
Total Receipts				1,603,794	51,550	1,552,244
Expenses						
- Trade creditors OPEX	28%		72%	389,998	109,199	280,799
- Sim cards/Scratch Cards/Handsets	52%		48%	34,865	18,028	16,839
- Interconnect Creditors	7%		93%	298,112	20,868	277,244
- Roaming creditors	100%			5,195	5,195	0
- Regulatory costs			100%	38,681	0	38,681
- Salaries and related taxes	6%		94%	146,624	6,797	137,827
Total Expenses				913,275	162,088	751,189
External Loans received	59%		41%			
External loans repaid	100%					
Bank loan/overdraft interest	33%		67%			
Net flow from financing activities				0	0	0
Capex/ Other investments	86%		14%	801,234	689,061	112,173
Divestitures						
Net Investments						

Nigeria

Current rate(USD/NGN)

118.5

USD

EBITDA(Excluding Management Fees)

690,519

Cashflow Exposure

USD('000)

NGN('000)

Operational Inflow

51,550

183,940,967

Operational outflow

162,086

89,015,953

EBITDA(Without Management fees)

-110,536

94,925,014 A

CAPEX

689,061

13,292,472 B

Net Flows from Financing

0

0 C

Cashflow exposure

578,525

108,217,486 (A+B+C)



In Lieu of Derivatives (a)



- Match Revenue and Cost “Currency Footprints”
 - Review Sourcing Patterns
 - LC Pricing – Tariff Adjustment
 - Other Operational Alterations

Leading of Intra Group Payables

- Dividends
- Management Fees
- Repayment of Shareholder Loans
- Interest on Shareholder Loans
- Treasury Deposits
- Royalties

- Working Capital Management



In Lieu of Derivatives (c)



Local Currency Borrowings

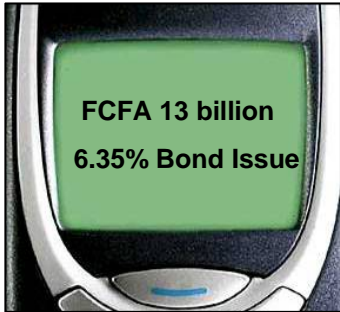
- Look at Covenants
- Look at level of Interest Rates
- Regulatory Imposition of Debt/Equity Ratios
- Credit Enhancement
- Yield Curve Management
- Be Aware of Associated Costs Not Imputed in Interest



Celtel-2007 New Local Currency Debt Natural Hedging



Burkina Faso



Nigeria



Gabon



Congo B



Tchad



Niger





Available Hedging Instruments-Emerging Markets



- Spot
- Traditional Forwards
- Non-deliverable Forwards
- Customized Forwards
- Option Contracts
- Cross Currency Swaps
- Non-Deliverable Swaps
- Non-deliverable Option Contracts
- Emerging/Frontier Markets Hedge Funds Leading the Foray



Availability of FX and Interest Rate Products



DRC	Liquidity on both buy & sell side of Mkt	N/A	N/A	N/A
Gabon		deliverable, onshore up to 9 mths liquidity up to \$ 10-15m	offshore up to 3 to 6 mths	N/A
Kenya	Liquidity on both buy & sell side of Mkt	deliverable, onshore up to 3 yrs tenors liquidity up to \$ 20-30m	offshore Up to 1yr maturities	Liquidity up to 3yrs possibly 5
Tanzania	Liquidity on both buy & sell side of Mkt	deliverable, onshore up to 3 yrs tenors liquidity up to \$ 5-10m	N/A	Liquidity up to 3yrs possibly 5
Uganda	Liquidity on both buy & sell side of Mkt	deliverable, onshore up to 3 yrs tenors	offshore up to 1 yr maturity	Liquidity up to 3yrs possibly 5



NDF's and NDO's versus Traditional Forwards and Options



- Traditional Forwards
 - ✓ Exchange of Currencies Permitted
 - ✓ Gains or losses are not cash settled (liquidation or Swap)
- Non-Deliverables
 - ✓ On the Settlement Date , no exchange of currencies
 - ✓ On the settlement date, the forward or option is marked to market and the resulting cash gain or loss is received or paid



Types of NDS



- Amortizing Swap
- Forward/delayed Start Swap
- Matching Underlying Asset/Liability



NDF's Can be Structured in Infinite Sub-Products



- Par Forward
- Participating Forwards
- Zero Cost Collar
- Convertible Forward
- Convertible Collar, etc, etc.

The risks and suitability of these and similar derivatives should be carefully evaluated!

Caveat Emptor!!

Monetary Unions in Francophone Africa Region

West Africa

Central Africa

Economic Unions

WEAMU

CEMAC

Regional Central Bank

BCEAO

BEAC

Common Currency

CFA (XOF)

CFA (XAF)

Exchange Rate per Euro

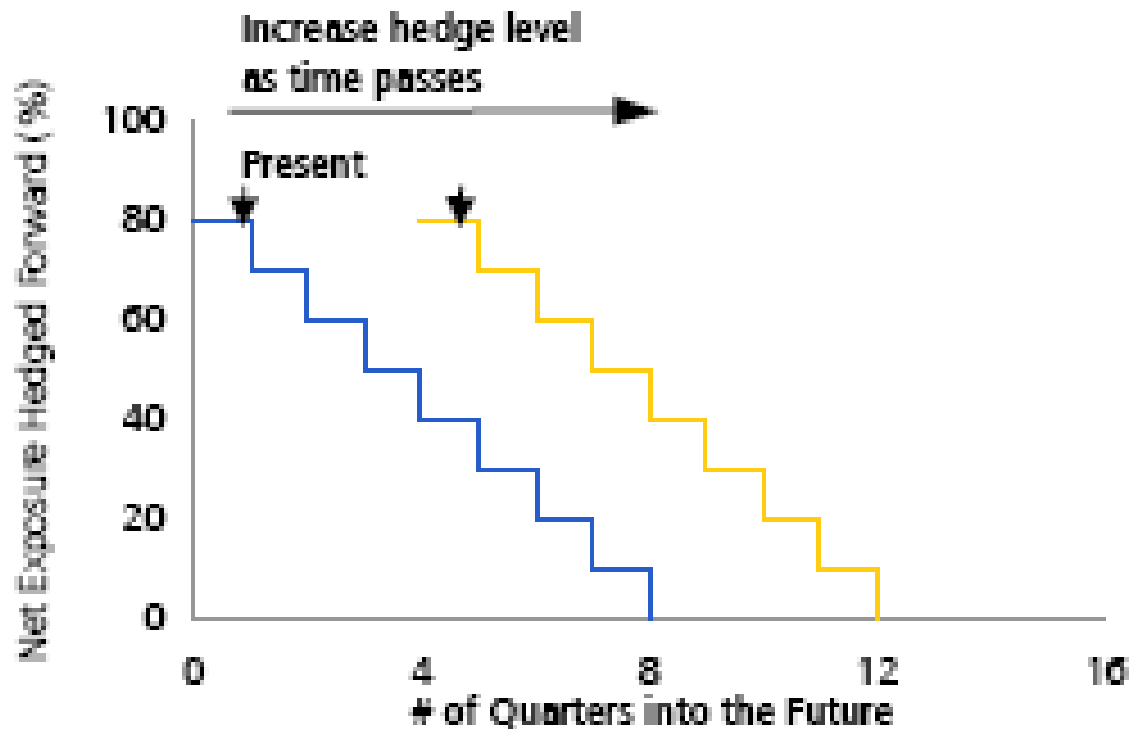
655,957

655,957

Members

Benin,
Burkina Faso,
Ivory Coast,
Guinea Bissau
Mali
Niger,
Senegal

Cameroon
Central African Republic
Chad
Congo Brazzaville
Equatorial Guinea
Gabon





How Do We Account for Hedges in Exotic Currencies??



- The Dark Corridors of Hedge Accounting
- Mark to Market Reference
- Equity or P/L ??
- Defining the Functional Currency

“The most common hedge metric – did the hedge make money? is also the most meaningless, because it ignores the gain or loss on the hedged exposure.”

Source: Greenwich Treasury Advisors



Salient Points in Emerging Market FX Exposure Management



- Make sure operational mechanisms have been exhausted before considering hedging with financial derivatives
- Try to implement natural hedges before engaging in financial derivatives.
- Hedging should be coordinated and executed at the corporate/group level even when done on behalf of particular Operations.
- Anticipate accounting implications related to hedging
- Make sure pricing of customized exotic products is transparent
- Most of all make sure that cost of hedging is justifiable
- It is always easier to hedge transactional exposure than translation exposure in an emerging market environment through financial hedging instruments