

26 September 2007

Recommendation

Buy**

Upside

26.0%

Fair Value

SAR83.77

Current Price

SAR66.50

EPS FY07e

SAR2.5

Reuters Code

7020.SE

Bloomberg Code

EEC AB

Market Cap

SAR33.3 billion

US\$8.9 billion

Enterprise Value

SAR40.5 billion

US\$10.8 billion

Number of Shares Outstanding

500 million

Shareholders' Structure

35.0% | Etisalat

15.0% | General Org of Social

6.0% | Al Jomaih Holding

7.5% | Abdulaziz Al-Sughayer

6.0% | Rana Investment

6.0% | Riyadh Cables

4.5% | Abdullah and Said M.O

Binzager Company

20% | Free Float

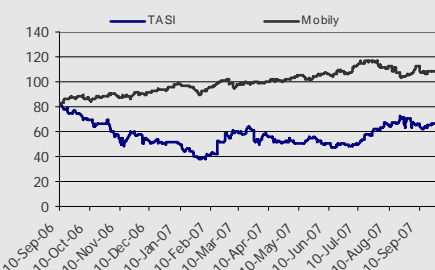
Average Daily Turnover

SAR35.2 million

US\$9.4 million

52-Week high/low

SAR75.75/38.00



* Closing of 25th September, 2007

** Refer to back cover for investment ratings.

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Etihad Etisalat (Mobily)

Telecom Services Sector | Saudi Arabia

"Mobily on the Go"

Where does the growth come from?

Despite a high mobile penetration rate of 82% in the Saudi Arabian market at the end of 2006, and the entrance of Kuwait-based MTC as the third mobile operator by 2008, we believe that there is still room for growth in the Saudi telecommunications market. Although voice revenue remains the prime contributor to overall revenue, Mobily is currently capitalizing on considerable pent-up demand for data services by developing its broadband infrastructure. With an internet and PC penetration rate reaching 21% and a broadband penetration of only 1.2%, there is, in our view, substantial potential for growth in the data services industry.

Given that 3G and 3.5G services have been met with great interest and success by people under the ages of 30 (which accounts for 69% of the Saudi population), Saudi's high population growth rate and favourable demographical profile would also play a role in the promotion of value-added services and an increased addressable market.

In addition, Mobily is in the process of building its own fibre optic network which will greatly improve its operational expenses and help elevate the level of service quality.

By the end of 2008, we expect Mobily to launch its international gateway, which would also serve as an additional source of revenue and an improved cost management tool.

Other growth drivers for Mobily lie in future cost savings that the company should incur through its infrastructure developments, which in the future would materialize in the form of improved EBITDA margins.

We expect the Saudi market's mobile penetration rate to cross 100% before the end of 2008. We believe that future growth for all mobile operators, thereafter, should be derived from operational cost efficiencies and data revenue streams, as opposed to net subscriber acquisitions only.

Expected growth in FY07

We expect Mobily should reach 8.5 million subscribers by the end of 2007, and we foresee ARPU's dropping moderately, due to the increase in competition. We project revenues to reach SAR8,545 million (US\$2,279 million), implying an annual 38.2% growth at the end of FY07. We are projecting a net income of SAR1,261 million (US\$336 million) at the end of FY07, reflecting an annual growth of 80.0%.

We estimate a target value of SAR83.77, implying an upside potential of 26.0%

We calculated an arithmetic average using the fair values derived by both the DCF valuation and our comparative valuation methods, namely the P/E and PEG ratios, and we estimate a target value per share of SAR83.77, implying an upside potential of 26.0% compared to the current market price of SAR66.50 per share. Taking into consideration all of the factors mentioned above, we have issued a Buy recommendation for Mobily.

Selected Indicators

Year End December	FY05a	FY06a	FY07e	FY08e	FY09e	FY10e	FY11e
Revenues (SAR million)	1,662	6,183	8,545	9,631	10,146	10,515	10,745
EBITDA (SAR million)	-113	2,001	2,691	3,226	3,449	3,627	3,867
EBITDA margin (%)	-6.8	32.4	31.5	33.5	34.0	34.5	36.0
Net income (SAR million)	-1,167	700	1,261	1,544	1,849	2,215	2,441
EPS (SAR)	-2.3	1.4	2.5	3.1	3.7	4.4	4.9
P/E (x)	-28.5	47.5	26.4	21.5	18.0	15.0	13.6
P/BV (x)	8.7	7.3	5.7	4.5	4.0	3.5	3.1
EV/EBITDA (x)	-359.5	20.3	15.1	12.6	11.8	11.2	10.5
DPS (SAR)	0.0	0.0	0.0	0.0	1.8	2.2	2.4
Dividend yield (%)	0.0	0.0	0.0	0.0	2.8	3.3	3.7

Source: Mobily, Beltone Financial estimates

Table of Contents

Executive Summary	3
Valuation	4
Discounted Cash Flow Valuation	4
Multiples Valuation	5
Valuation Summary	6
Financial Projections	7
Mobily's Strategy	11
Strategic Agreements and Network Expansion Plans	11
Financial Analysis	12
First Half to end June 2007	12
SWOT Analysis	13
Etihad Eaisalat (Mobily) Operations	14
Competition	15
Saudi Mobile Sector	16
Broadband	18
Saudi Economy	19
Shareholder's Structure and Trading Performance	20
Financial Statements.....	21
Balance sheet.....	21
Income Statement.....	22
Cash flows	22

Executive Summary

Positive environment fuel the growth in the telecommunications sector

Triggered by the Saudi government's efforts to fully liberalize the telecom sector, telecoms in Saudi Arabia are demonstrating much promise, spurred on by new fixed, mobile and data service licenses, to encourage private sector participation. Saudi Arabia has a relatively high GDP per capita of US\$14,500 and it also enjoys a favorable demographic profile, which should fuel future growth in the sector. The Saudi market has a relatively lower mobile penetration rate of 82% compared to the GCC average of 96%, which also offers some scope for an improved penetration rate. Given these factors, we hold a positive view on the prospects for the telecommunications sector in the Saudi market.

Liberalization in the telecom sector boosted by wealth and demographics

More potential for growth

Despite a high mobile penetration rate and the entrance of a third mobile player in the market by 2008, we believe that Mobily is likely to continue its aggressive marketing strategy to increase its total subscriber base to reach 8.5 million and 9.7 million subscribers by the end of December 2007 and 2008, respectively. Additionally, Mobily is currently developing its own network and is building a 12,600 km long fibre optic network, to establish a presence in the nascent broadband market, which should serve as another growth driver in the telecommunications industry, after voice revenues.

Subscribers expected to reach nearly 8.5 million by year end

Voice no longer the end game

Although voice revenue remains the prime contributor to overall revenue, Mobily is currently capitalizing on the considerable data service demand in the country by developing its broadband infrastructure. With internet and PC penetration rates reaching 21% in the Saudi market and broadband penetration only at 1.2%, there is significant potential for the data services industry.

Mobily looking to broadband expansion with revenues by 2009

Other growth drivers for Mobily lie in the future cost savings that the company should incur through its infrastructure developments, which in the future would materialize in the form of improved EBITDA margins. Currently, Mobily is in the process of building its own fibre optic network which should improve its operational expenses and help elevate the level of service quality.

Infrastructure spending should boost quality and EBITDA margins

In September 2007, Mobily announced that it agreed to acquire 99.9% of local data provider, Bayanat Al-Oula for SAR1.5 billion (US\$400 million). The acquisition of Bayanat would allow Mobily to grow its subscriber base by providing high quality data communications services. Bayanat had also recently announced that it had entered into a strategic agreement with Samsung to roll-out the largest WiMax network in the region.

Mobility on the Go

Part of Mobily's new strategy is to attract a large segment of the market by providing internet access for all areas in the Kingdom, even if these areas do not have a 3G or 3.5G network coverage, which would otherwise enable customers to access the internet based on EDGE technology. With continued investment in broadband access, we believe that broadband revenues should start materializing by 2009.

By the end of 2008, we expect Mobily to launch its international gateway services, which should also serve as an additional source of revenue and as a cost management tool.

International gateway by 2008

We expect significant dividends by 2009

We forecast Mobily to start paying dividends starting from 2009, following a turnaround into positive cash flow from operations after less than three years of operation. Since the company has no plans to obtain any additional financing for its CAPEX related needs, we believe that it should be able to pay large dividends comfortably. We expect the dividend payout ratio to be between 50% and 60%.

Positive operational cash flows in less than 3 years

Dividends expected by 2009

Buy Recommendation, with a target value of SAR83.77

We calculated an arithmetic average using the fair values derived by both the DCF valuation and our comparative valuation methods, namely the P/E and PEG ratio analysis. We calculated a target value per share of SAR83.77, implying an upside potential of 26.0% compared to the current market price of SAR66.50 per share. Our DCF valuation yielded a fair value of SAR84.41 per share, which is 27% higher than the current trading price. To capture a better reflection of the company's current growth stage of operations, we used the PEG ratio analysis as part of our comparative valuation, deriving a value of SAR122.53 per share. The P/E ratio analysis yielded a fair value of SAR43.72 per share, which is lower than both the PEG and DCF values. That noted, we do not believe that the value yielded by the P/E ratio is a true reflection of Mobily's fair value since the company has not reached the maturity stage relative to its peers. Taking into consideration all of the factors mentioned above, we have issued a Buy recommendation for Mobily.

Target value of SAR83.77 per share, a 26.0% upside potential

Initiation coverage: Buy recommendation

Valuation

Discounted Cash Flow

Discounted Cash Flow Valuation

The company's DCF valuation results in a 12-month fair value of SAR84.41 per share, which is 27% higher than the current trading price of SAR66.50 per share. We based our valuation on the following assumptions:

A cost of equity of 12.50% : This is the sum of a risk-free rate of 5.5% equivalent to the average yield 12-month risk free rate, and a risk premium of 7.0%, in addition to a terminal growth rate of 3.5%.

WACC calculated for each year depending upon the capital structure: Based on an after-tax cost of debt of 5.8%, we calculated a weighted average cost of capital (WACC) of 8.2% for 2007.

Table 1 | Value of Operations: DCF Approach (SAR 000)

Year	Free Cash Flow	PV of FCF
2007	156,433	153,220
2008	2,490,811	2,237,195
2009	3,524,230	2,875,916
2010	4,612,232	3,382,701
2011	5,255,129	
Terminal Value	61,760,683	
PV of all cash flows		40,846,953
Minus: Net debt		(7,292,420)
Equity Value		42,203,567
Number of shares (000)		500,000
12-month fair value per share		84.41

Source: Beltone Financial estimates

Table 2 | DCF Sensitivity Analysis (value per share SAR)

Cost of Equity	Terminal Growth Rate				
	1.5%	2.5%	3.5%	4.5%	5.5%
14.5%	55.7	60.2	65.6	72.1	80.1
13.5%	61.9	67.4	74.0	82.2	92.4
12.5%	69.3	76.1	84.4	94.9	108.4
11.5%	78.2	86.7	97.4	111.2	129.8
10.5%	89.1	100.0	114.1	133.0	159.7

Source: Beltone Financial estimates

Multiples Valuation

In our comparative valuation we have selected a number of mobile operators working in the GCC, developed and developing markets.

PEG Analysis

Using the peer group, average PEG 07e & 08e, we derived a target value of SAR122.53 per share. Since Mobily is in its relatively early phase, we believe that the value derived by this ratio would better reflect the company's earnings potential and the current stage of operation.

Table 3 | Comparative Valuation on Market Multiples

Company	Country	PEG	
		PEG 07	PEG 08
China Mobile Ltd	HK	3.3	0.9
Emirates Telecom	UAE	1.1	1.4
Maroc Telecom	Morocco	0.9	1.8
Cosmote Mobile Telecomm. SA	Greece	0.7	0.7
Bharti Airtel	India	0.7	0.7
QTEL	Qatar	0.5	0.2
Reliance Communication Ventures Ltd.	India	0.4	0.6
Vympelkom OAO (JSC Vimpel-Communications)	Russia	0.4	0.6
Partner Communications Co Ltd	Israel	0.1	1.5
Average		0.9	0.9
Mobily	Saudi Arabia	0.3	1.0

Source: Beltone Financial; Reuters * All closing prices as of September 25th 2007

P/E Analysis

Using the peer group, average P/E 07e & 08e, we arrived a target price of SAR43.72 per share, which is notably lower than both values derived by the DCF and the PEG analysis. We believe that since, as we noted above, Mobily is currently in the early stage of its operations and is spending heavily on CAPEX. Its earnings therefore, are more adversely affected by the relatively high depreciation and amortization expenses compared to other operators in our peer group who have already established their infrastructure and are not faced with these relatively high non-cash expenses. Accordingly, we believe that the P/E valuation method may not be a true indication of the company's potential and fair value.

The Saudi Arabian stock market has, over the past few years, tended to trade at a premium P/E multiple versus other emerging markets. In addition, Mobily has consistently outperformed the Saudi market, since its IPO in October 2004, with a year- to-date share price increase of 19.7% compared to a 0.3% fall for the Saudi Tadawul stock market index, indicating the continuing domestic demand for Mobily from Saudi's retail and institutional investor base.

Table 4 | Comparative Valuation on Market Multiples

Company	Country	P/E	
		P/E 07	P/E 08
China Mobile Ltd	HK	29.3	23.2
Bharti Airtel	India	27.6	21.3
Reliance Communication Ventures Ltd.	India	25.7	19.3
Vympelkom OAO (JSC Vimpel-Communications)	Russia	22.2	17.5
Turkcell	Turkey	18.5	15.6
Mobile Telecommunications Company (MTC)	Kuwait	18.2	15.4
MTN Group	South Africa	17.8	14.2
Cosmote Mobile Telecomm. SA	Greece	17.5	14.4
Maroc Telecom	Morocco	15.7	14.6
Orascom Telecom	Egypt	14.5	13.0
Emirates Telecom	UAE	13.5	12.4
Telekomunikacja Polska SA	Poland	13.5	12.9
Partner Communications Co Ltd	Israel	13.1	12.1
Bahrain Telecommunications Co	Bahrain	12.3	11.7
QTEL	Qatar	11.9	8.7
Jordan Telecom	Jordan	11.6	11.6
MobiNil	Egypt	11.4	12.0
Saudi Telecom	KSA	10.9	10.7
Average		17.0	14.5
Mobily	Saudi Arabia	26.4	21.5

Source: Beltone Financial; Reuters * All closing prices as of September 25th 2007

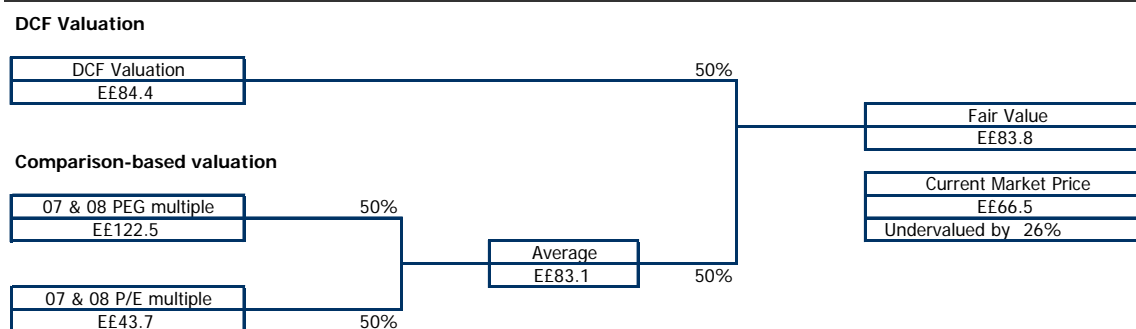
Valuation Summary

Given that the Saudi market's mobile penetration rate is likely to cross 100% before the end of 2008, we believe that future growth for all mobile operators is set to be derived from operational cost efficiencies and data revenue streams, as opposed to net subscriber acquisitions only. As mentioned before, Mobily is already exploring revenue streams other than voice services, and is extending on its CAPEX to improve its infrastructure, which should enable it to reduce operational costs and improve EBITDA margins.

We calculated an arithmetic average using the fair values derived by both the DCF valuation and comparative valuation methods. Thus, we have estimated a target value per share of SAR83.77, implying an upside potential of 26.0% compared to the current market price of SAR66.50 per share. Taking into consideration all of the factors mentioned above, we issue a Buy recommendation for Mobily.

*Buy recommendation,
with a target value of
SAR83.77*

Chart 1 | Valuation Summary



Source: Beltone Financial estimates

Financial Projections

Competitive landscape

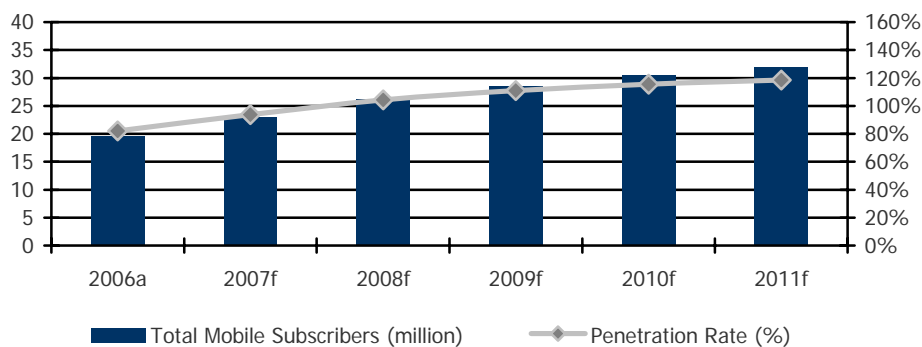
Competition is already strong between STC and Mobily, following STC's gearing up of its marketing efforts to catch up with Mobily's aggressive entrance into the market. Competition is expected to intensify further with the entry of MTC in 2008, thereby increasing penetration rates and net subscriber additions.

We expect MTC to be a tough competitor in the Saudi market, as the company has successfully launched networks in 6 Middle Eastern and 14 sub-Saharan African countries. MTC's Middle East operations cover Bahrain, Kuwait, Iraq, Sudan, Lebanon and Jordan, which allows MTC a wide experience of mobile telecom operations in the region, particularly within countries with very high penetration rates.

Competition expected to heat up

MTC a tough competitor, with vast experience in the regional market

Chart 2 | Existing and forecast mobile subscribers and overall penetration rates in the KSA



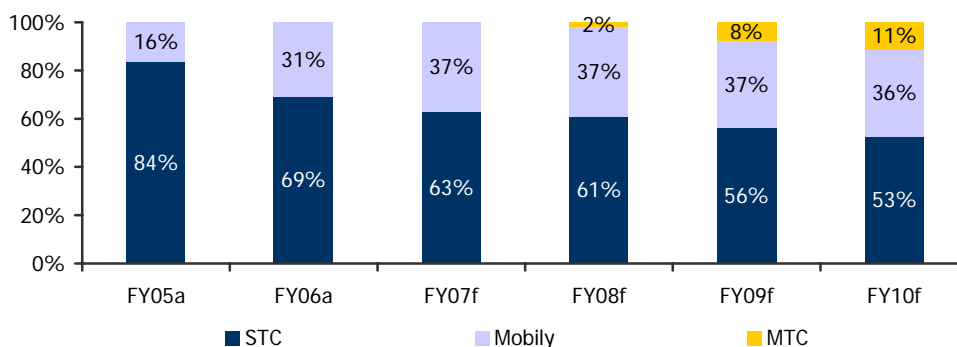
Source: Communications and Information Technology Commission (CITC), Beltone Financial estimates

In preparation for the third entrant, we anticipate that both Mobily and STC will start to roll-out new products and services to build upon its existing subscriber base, and that following MTC's launch in 2008, all three players would continue delivering new products to capture a larger market share. Accordingly, we believe that ARPUs could start to follow a modest declining pattern in a best case scenario, or fall sharply if MTC inaugurates its entrance into the Saudi market by resorting to a price war. We believe that the Kingdom's penetration rates should cross 100% before the end of 2008 and could reach saturation levels thereafter. By the end of our forecast period, we forecast that Mobily's market share could stabilize at 36%.

Competing to acquire a larger market share may lead to ARPU decline

100% penetration before end of 2008

Chart 3 | Existing and forecast STC, Mobily and MTC Subscriber market shares



Source: Communications and Information Technology Commission (CITC), Beltone Financial estimates

Revenues

Mobily is likely to concentrate on the postpaid segment and high net worth customers, who were previously not addressed in the group's marketing efforts. With the increase in the number of high net worth postpaid subscribers, overall ARPU would not deteriorate as strongly as it might otherwise have done, with the concentration on low net worth prepaid subscribers. We expect total postpaid subscribers to represent around 12% of total subscribers by the end of 2007.

Focus should be on increasing postpaid subscribers and high net worth

With the Saudi economy booming, many businesses have flourished and have become more demanding in their telecommunication needs, thus creating a higher need for a more efficient well-rounded and integrated telecommunication service. Mobily has become the first telecom operator in Saudi Arabia to launch a business brand targeting the corporate sector, namely Mobily Business – which is distinct from the company's mass-market consumer offerings. Through this new business brand, Mobily was the first to introduce Blackberry services in the Saudi market. Mobily also made it easier and more attractive for companies to become mobile subscribers by introducing innovative customer-tailored offerings that are attractive to corporate users at more attractive price schemes.

Higher demand for integrated telecom services

Mobily has invested heavily in improving its broadband operations which have proven to be very successful and popular in the Saudi market especially among people less than 30 years of age (which is equivalent to approximately 69% of the Saudi population). We believe that data revenues are primed to have the largest growth, with our expectations that in the medium to long term, data revenues would become the second largest contributor to overall revenue following voice services. We believe that future data revenues should offset, to a large extent, the natural ARPU dilution that will be accompanied by the increase in subscribers.

Improvements in broadband services to increase data revenues

Mobily is also providing internet access for all areas in the Kingdom, even if these areas do not have 3G or 3.5G network coverage. With continued investment in broadband access, we believe that broadband revenues should start materializing by 2009.

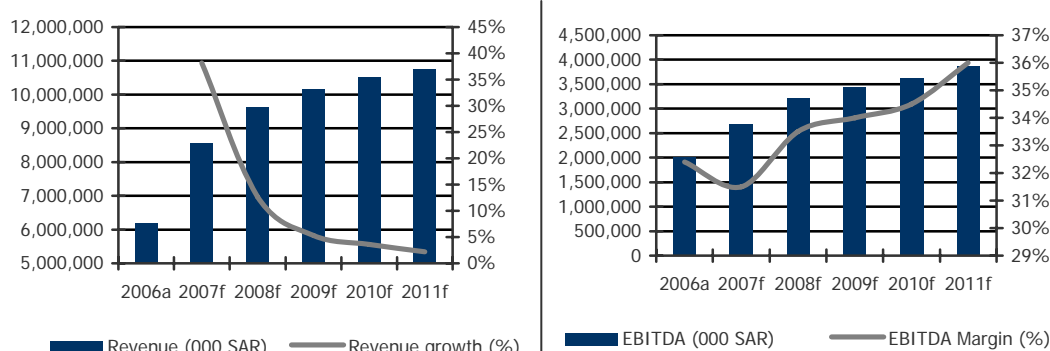
Provision of internet access all the time

It is worth noting that Mobily's peak season is usually during Ramadan and Hajj, since there is immense roaming subscriber demand, in addition to Mobily rolling out a number of promotional offers to acquire new subscribers. We expect Mobily to activate its international gateway by the end of 2008, thereby serving as an additional source of revenue and a cost reduction mechanism.

Ramadan and Hajj peak season

We estimate total subscribers to reach 8.5 million by the end of 2007, of which 1 million are expected to be postpaid subscribers. We forecast revenues to reach SAR8,545 million (US\$2,279 million) by the end of 2007, a 38.2% increase over 2006 results, and SAR9,631 million (US\$2,568 million) by the end of 2008, a 12.7% increase.

Chart 4 | Revenue and EBITDA



Source: Mobily, Beltone Financial estimates

EBITDA

With Mobily completing its first and second phases of its independent network expansion, and with expectations to complete its third and final phase by 2008, national roaming costs, which currently represent over 13% of total cost of services, should be reduced to a large extent. Furthermore, with the completion of Mobily's fibre optic network by 2008, interconnection costs, which represent over 45% of total cost of services would also be reduced. We estimate that EBITDA margins are set to improve after 2007, and throughout our remaining forecast period, reaching 31.5% at the end of 2007 and 36.0% by 2011.

Reduction of cost by developing its independent network

Further reduction in cost with new fibre optic

Table 5 | Key Performance Indicators

	2006a	2007f	2008f	2009f	2010f	2011f
Subscribers (million)	6.1	8.5	9.7	10.4	11.0	11.5
Annual net additions (million)	3.8	2.4	1.2	0.7	0.6	0.5
Market Share (%)	30.9	37.0	37.0	36.5	36.3	36.0
Revenues (million)	6,183	8,545	9,631	10,146	10,515	10,745
EBITDA (million)	2,001	2,691	3,226	3,449	3,627	3,867
APRU (SAR monthly)	83.4	82.6	81.8	80.2	78.5	77.0
APRU (US\$ monthly)	22.3	22.0	21.8	21.4	20.9	20.5

Source: Beltone Financial estimates

Long-term Debt

Mobily entered into long term finance totaling SAR10.782 billion (US\$2.875 billion) to settle its existing short term debt and shareholder loans. The new long term debt is to be repaid over six years of unequal semi-annual installments starting in 2007 and ending in 2012. The company is expected to use the remaining debt balance for further expansion plans.

Refinanced its short term debt

Table 6 | Mobily's Loans

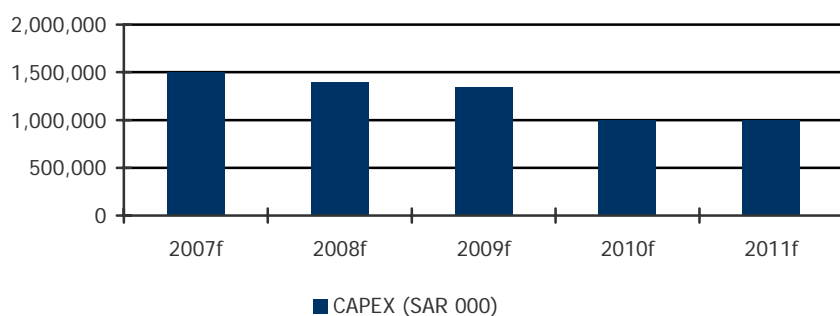
Loans	Purpose	Amount
Islamic Bridge Financing Facility		SAR 8.80 billion
Tranche A	Payment of part of license fee	SAR 5.99 billion
Tranche B (part 1)	Payment of part of license acquisition fee	SAR 0.54 billion
Tranche B (part 2)	Purchase the required network material and equipment	SAR 0.78 billion
<i>*maturity of this facility was in April 2006</i>		
<i>**The remaining balance of SAR8.8 billion loan, which account to SAR1.5 billion was not used by Mobily</i>		
Settled the first debt by raising a Syndicated Islamic (Murabaha) Bridge Loan Facility		SAR 7.13 billion
Tranche A		SAR 6.00 billion
Tranche B		SAR 1.13 billion
<i>*maturity of this facility was in March 29, 2007</i>		
Settled the second debt by a long term Islamic financing agreements with a group of local, regional and international banks		

Source: Mobily Financials

Expansion Plans

Mobily has extended its capital expenditure in 2006, as the company has developed its own network. Mobily has been able to cover 90.2% of populated areas of Saudi Arabia and will cover 96% by the end of 2007. During 2007, and until 2009, the company will be involved in a SAR1 billion (US\$267 million), fibre optic network project with Integrated Telecom Company and Bayanat Al-Oula. We believe that CAPEX in 2007 would be similar to 2006, reaching SAR1.5 billion at the end of 2007. Going forward we expect CAPEX will be SAR1.4 billion in 2008 and SAR1.3 billion in 2009.

Chart 5 | Forecast CAPEX



Source: Beltone Financial estimates

Dividend Payout

We expect Mobily to start paying dividends from 2009, since the company has already moved into positive cash flow from operations after less than three years of operation. Since the company has no plans to obtain any additional financing for its CAPEX related needs, we believe that it will be able to pay large dividends comfortably. We expect that the dividend payout ratio could be between 50% and 60%. In our forecast, we have assumed a dividend payout ratio of 50% for 2009, 2010, and 2011, increasing to 60% from 2012 and onwards.

Dividends should begin by 2009

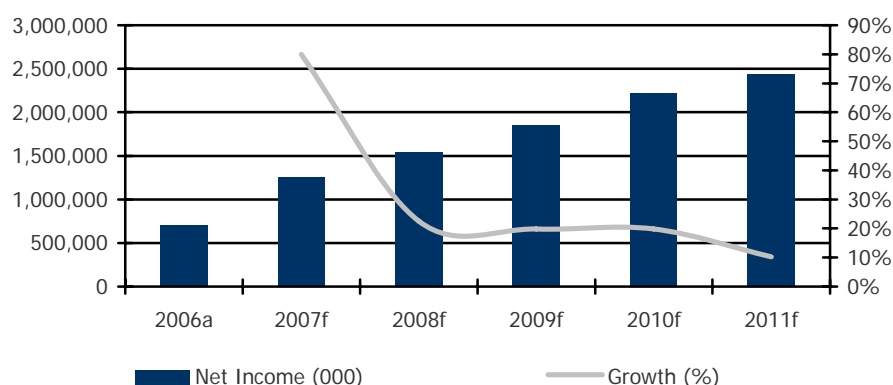
Zakat

Mobily follows the department of Zakat and Income Tax Regulations in the calculation of the zakat. Zakat is an annual payment made by Saudi individuals and companies within the provision of Islamic law and it is similar to the concept of taxes. We expect that Mobily will start paying zakat at the end of 2007 and we estimate the zakat rate to be 2.5% of the net income before zakat.

Net Income

We forecast net income to reach SAR1,261 million (US\$336 million) by the end of 2007, an 80.0% year-on-year increase, sustained by the increase in its market share and the number of subscribers. Following 2007, net income growth should start to slow down gradually as a result of Mobily reaching a more stable market share. Net income growth is expected to reach SAR1,544 million by the end of 2008, an annual 22.5% growth and SAR1,849 million by 2009, a 19.8% growth.

Chart 6 | Net Income and forecasts



Source: Beltone Financial estimates

Mobily's Strategy

Innovative Services

Mobily became the first telecom operator in Saudi Arabia to launch a business brand targeting the corporate sector, namely Mobily Business – which is distinct from the company's mass-market consumer offerings. It introduced the Blackberry service, where more than 20 banks and corporate institutions signed up to the service by the end of 2006. Additionally, it launched its 3.5G services in June 2006 and, as a result, has been able to capture more than 500,000 active subscribers utilizing these services.

Targeting the underserved segments

Marketing Strategy

Mobily is pursuing an aggressive marketing strategy in order to establish brand awareness and attract new subscribers, and is spending heavily on its marketing and advertising campaigns to create brand loyalty, and to increase its customer base by heavily promoting its broadband services. The company spent SAR280 million (US\$75 million) on advertising expenses in 2006.

Strategic Agreements and Network Expansion Plans

Mobily's Agreement with ETC

In August 2004, Mobily entered into a management agreement with Emirates Telecommunication Corporation (ETC), Mobily's holding company. Under the agreement, Mobily is required to pay an annual management fee of SAR37.5 million (US\$10 million), and in return ETC will provide senior management services. The agreement is for 7 years and can be automatically renewed for successive periods of five years, unless Mobily gives a 6 month notice of termination or ETC gives a 12 month notice of termination prior to the expiry of the applicable period.

SAR37.5 million management fee to ETC

Saudi Telecom Company (STC)

Mobily entered into an agreement with STC to provide mobile network coverage services nationwide to Mobily's customers in areas not yet covered by Mobily's network, and renewed its network usage agreement starting from June 2006 to end by 2008.

Mobily Network

According to the license requirements Mobily should have covered 7 cities by the end of June 2005. However, after one month of its operations, Mobily covered 32 cities. Currently Mobily covers 90.2% of populated areas in Saudi Arabia, and is expected to cover 96% of the population by the end of 2007.

Mobily completed its 1st and 2nd phases of its independent network expansion and is currently working on its 3rd phase of the network expansion, which is expected to be completed in 2008. Mobily intends to cover areas that have not been covered by the mobile operator's network. After Mobily establishes its own network coverage, it will enable Mobily to reduce part of its national roaming costs.

Completed 1st & 2nd phase of network

Final phase by 2008

Fibre Optic Network (Broadband)

Realizing the potential for broadband services, due to the growing demand, in addition to Saudi's low broadband penetration rate of 0.9% in 2006 (compared to the GCC broadband penetration rate average of 5.2%), Mobily entered into a strategic partnership in February 2006 with Integrated Telecom Company and data provider, Bayanat Al-Oula to develop a new fibre optic network. The network will cover 12,600 km of highways at a total investment cost of SAR1 billion (US\$267 million), with Mobily contributing one third of the total investment cost. The network is expected to be completed in 2008, relieving Mobily from its dependence on STC's network, in addition to enhancing Mobily's services by increasing the speed of transmitting data and phone services.

Developing a new fibre optic network to be fully completed by 2008

In September 2007, Mobily announced that it will acquire 99.9% of Bayanat Al Oula at a total cost of SAR1.5 billion (US\$400 million), and accordingly buy out its stake in the fibre optic network project. Bayanat was licensed by the Communications and Information Technology Commission (CITC) to build, manage and operate a data communications network in Saudi Arabia. Bayanat recently announced that it had entered into a strategic agreement with Samsung to roll-out the largest WiMax network in the region, and would start offering the service commercially in Saudi's 3 main cities, Riyadh, Jeddah and Damam its first stage.

Mobily to acquire 99.9% of Bayanat Al Oula

Financial Analysis

First Half to end June 2007

Mobily's total revenue rose by 52% to SAR3.9 billion versus SAR2.6 billion in 1H FY06. Revenue is broken down into five major categories, activation, rental, usage, interconnect and visitor roaming fees. Usage fee is the largest contributor to total revenue, accounting for 77% of the total revenues. Interconnect revenues, the second largest contributor to overall revenues after the usage fee, accounted for 16% of total revenues, and showed an increase of 24% in 1H FY07. Activation fees rose by 36%, indicating an increase in number of subscribers, which exceeded 7 million subscribers by the end of June 2007.

Subscribers exceeded 7 million

Table 7 | Revenues Break Down 1H 2007

SAR thousands unless stated otherwise	1H 2006	1H 2007
Activation Fees	13,312	18,127
<i>growth</i>		36%
Rental Fees	84,541	160,618
<i>growth</i>		90%
Usage	1,930,299	2,997,309
<i>growth</i>		55%
Interconnect Revenues	509,199	632,704
<i>growth</i>		24%
Visitor roaming	36,088	43,660
<i>growth</i>		21%
Other	1,576	53,177
<i>growth</i>		3274%
Total Revenues	2,575,015	3,905,595
<i>growth</i>		52%

Source: Mobily Financials

Mobily's net income showed an impressive growth of 260% to reach SAR554.5 million compared to SAR153.6 million in 1H FY06. The main reason behind the growth in the bottom line is the improvement in the EBITDA and EBIT margins. The EBITDA margin improved by 300 bps to reach 33% versus 30% in 1H FY06, while the EBIT margin reached 21% compared to 14% in 1H FY06.

Improvement in margins

Mobily's net income was affected by a 20% increase in financing costs, as the company settled its short term debt by raising a SAR7.125 billion syndicated Islamic (Murabaha) Bridge Loan Facility.

Table 8 | Mobily Income Statement

SAR thousands unless stated otherwise	1H 2006	1H 2007
Total Revenues	2,575,015	3,905,595
Cost of services	(1,170,093)	(1,806,767)
Gross Profit	1,404,922	2,098,828
General and administrative	(263,340)	(452,413)
Marketing and selling expenses	(316,198)	(270,447)
General Provision expenses	(43,191)	(91,054)
EBITDA	782,193	1,284,914
<i>EBITDA Margin</i>	<i>30.4%</i>	<i>32.9%</i>
Depreciation and Amortization	(414,312)	(484,951)
EBIT	367,881	799,963
<i>EBIT Margin</i>	<i>14.3%</i>	<i>20.5%</i>
Financing expenses	(216,949)	(261,264)
Other income	2,682	15,756
Net Profit Before Zakat	153,614	554,455
Zakat	0	0
Net Profit After Zakat	153,614	554,455
EPS (SAR/share)	0.307	1.109

Source: Mobily Financials

SWOT Analysis

Strengths

- Mobily followed, and continues to follow, an aggressive marketing strategy which enabled it to capture a 30% market share in less than two years of operation.
- The development and focus on value-added services and innovative products, particularly data revenue. This is set to become the second largest contributor to revenues, following voice.
- Development of a business brand, namely Mobily Business to attract the corporate sector in Saudi Arabia.
- The knowledge transfer from the mother company "Etisalat UAE".
- Development of a new Saudi fibre optic network to reduce the cost of services and enhance data revenues stream.

Weaknesses

- Relatively low high net-worth postpaid subscribers in Mobily's subscriber mix.
- Continuing need for high SG&A spending, especially with a new entrant of MTC to the market by 2008.

Opportunities

- Strong economic fundamentals sustained by the country's high GDP per capita due to rising oil prices.
- A favourable demographic profile as 69% of the population is under the age of 30, indicating a strong population growth.
- Strong support from the Saudi government to attract foreign direct investment in the telecommunications sector through the liberalization and reforms in its information technology sectors.
- Mobile number portability (MNP) enables mobile subscribers to keep their mobile telephone numbers when changing from one mobile network operator to another. The implementation of the MNP service will allow unsatisfied subscribers using a competitor's network, to transfer to Mobily's network easily. Therefore, if Mobily manages to provide better services than its competitors, Mobily will be able to increase its market share easily.

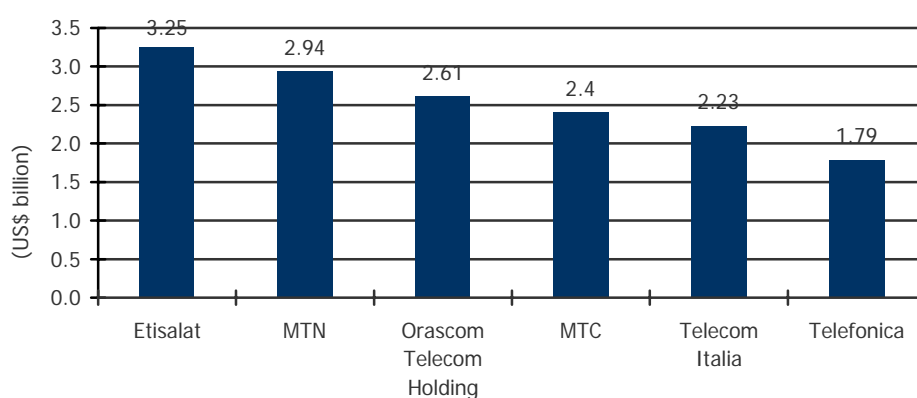
Threats

- Heightened competition stemming from the entrance of MTC by 2008, as the third mobile player, is likely to lead to decreases in ARPU.
- Mobile number portability (MNP) will lead to increased competition between operators, since it will become easier for subscribers to transfer from one operator to another.

Etihad Etisalat (Mobily) Operations

Etihad Etisalat, operating under the brand name of Mobily, won the second mobile license in the Kingdom of Saudi Arabia at a cost of SAR12.21 billion (US\$3.25 billion) for a 25 year 2G license term in August 2004. Mobily subsequently made a payment of SAR753.8 million (US\$201 million) for a 3G license, thus ending the Saudi Telecommunication Company (STC) monopoly over mobile services. The consortium included Emirates Telecommunication Corporation (ETC), which is the major shareholder (35%) and six other Saudi companies as required by the regulator Communications and Information Technology Commission (CITC). The six other consortium members were Saudi General Organization for Social Insurance, Riyadh Cables Company, Abdul Aziz Al Sughayyer, Al Jomaih and Bin Zager. The consortium was able to outbid major international telecommunications operators such as the UK's Vodafone, Bouygues of France, Telefonica Moviles of Spain, Samawat (Telecom Italia Mobile), Orascom Telecom Holding, Mobilkom Austria, FAL Holdings (Deutsche Telekom), Integrated Visions (Malaysia's Maxis), MTC and MTN of South Africa.

Chart 7 | International operators applying for the Saudi license against Etisalat



Source: Mobily, Beltone Financial

Mobily launched its services in May 2005, covering all major cities, governorates and over 14,000 km of major highways. The main activity of the company is to provide public wireless telecommunications network in Saudi Arabia. By following an aggressive marketing strategy, which included diversified packages targeting different segments of the population, Mobily was able to capture, in less than two years of operation a 30% market share, acquiring 2.3 million mobile subscribers in 2005 and 6 million subscribers in 2006.

Mobily Timeline of Events

July 2004: Mobily won the second mobile license in Saudi Arabia at SAR12.21 billion (US\$3.25 billion) and was granted for 25-year license, and paid an additional SAR753.8 million (US\$201 million) for a 3G license

Aug 2004: Management agreement with Emirates Telecommunication Corporation (ETC)

Oct 2004: Initial public offer (IPO) where Mobily offered 20% of its capital in the Saudi Stock Market

Dec 2004: Mobily started trading in the Saudi Stock Market (Tadawul)

May 2005: Launched its services, such as SMS, MMS, Mobile Internet, Stock News, GPRS, Credit Transfer, Voice Mail, Location based services and International MMS, in 32 cities, bring coverage to 79.2% of the population

Jun 2006: Launch of 3G and 3.5G network

Sep 2006: Launch of Blackberry Services

Dec 2006: Population coverage exceeded 90%, with more than 3,000 base-stations

Source: Mobily annual report

Competition

The Saudi market was the first in the Middle East and Africa region, to offer mobile number portability (MNP) to mobile users. Despite the attractiveness of mobile number portability for subscribers, it could serve as a double-edged sword for mobile operators, since it facilitates both the churn of existing customers and the acquisition of additional subscribers from competing operators. That noted, MNP should intensify competition, leading to the improvement in the quality and cost of services provided by mobile operators.

Introduction of MNP a double edged sword for mobile operators

In March 2007, Kuwaiti- based MTC won the third mobile operator license at a total bid of SAR22.91 billion (US\$6.109 billion), the offer was considered the highest price paid for a telecommunication license in the region at the time. The license has a 25-year term, allowing the company to offer both 3G and 3.5G services throughout the Kingdom. MTC is expected to launch operations in early 2008.

We anticipate that MTC should be a tough competitor in the Saudi market, as the company has successfully launched networks in 6 Middle Eastern and 14 sub-Saharan African countries. MTC's Middle East operations include Bahrain, Kuwait, Iraq, Sudan, Lebanon and Jordan, reflecting MTC's wide experience of mobile operations in the region, particularly within countries with very high penetration rates.

MTC expected to start operation early 2008

After enjoying a long period of monopoly, STC was caught relatively unprepared with the entry of Mobily, which enabled the new entrant to capture a noteworthy 30% market share in less than two years of operation. As a response to Mobily's tough competition and the impending entrance of MTC, STC has started to focus more on introducing broadband services and customized services, as well as the upgrade of its infrastructure to face its regional competition.

STC to focus on upgrading services to face new competition

Saudi Mobile Sector

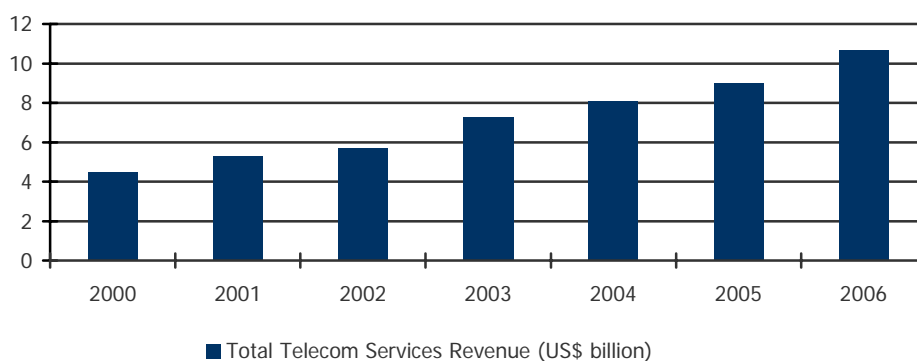
The Saudi government has been revamping its telecommunication sector by taking a number of major steps towards liberalization as part of its accession to the World Trade Organization (WTO) in 2005. Under the commitments made, the government has to allow up to 60% of foreign ownership in fixed and mobile services and up to 70% in other IT services by 2008. The government started the liberalization process by issuing two new mobile licenses, in addition to a second fixed line license. As we noted earlier, the first GSM license was awarded to Etihad Etisalat, operating under the brand name "Mobily" in July 2004 at a cost of SAR12.21 billion (US\$3.25 billion). The second GSM license was awarded to a consortium led by Kuwaiti-based, Mobile Telecommunications Company "MTC" in March 2007 at a price of SAR22.91 billion (US\$6.109 billion), which was the highest price paid for a telecommunication license in the region at the time.

Aggressive steps towards liberalization

Total revenue from telecommunication services stood at approximately US\$10.7 billion at the end of 2006, which is approximately 3% of nominal GDP. Growth in telecommunication revenues has also been healthy, growing at a CAGR of 15.2% over the past five years.

Telecommunication revenues is 3% of GDP

Chart 8 | Total Saudi Telecom Services Revenue (US\$ billion)

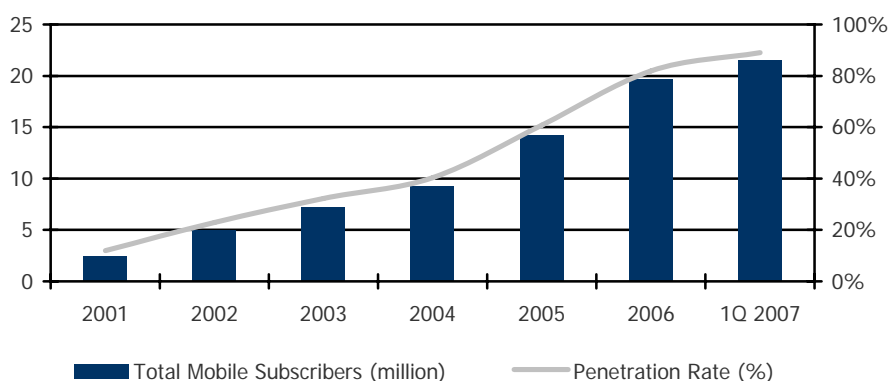


Source: Communications and Information Technology Commission (CITC)

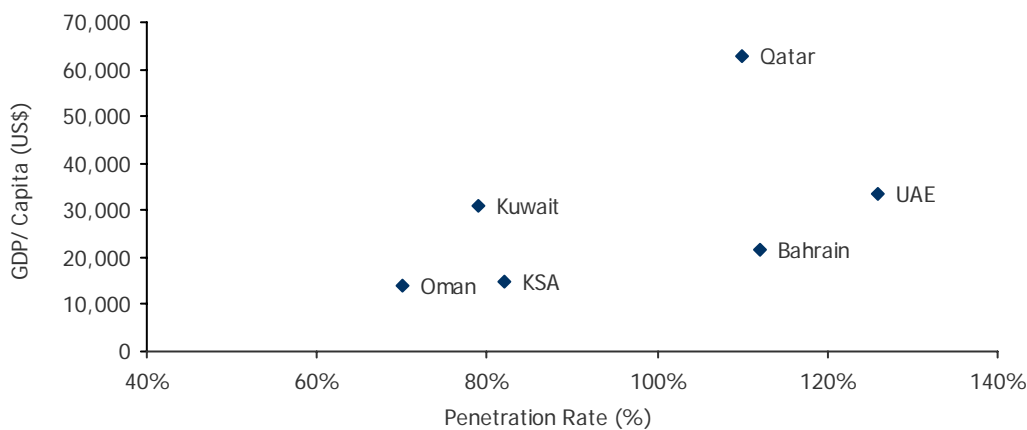
Prior to the liberalization of the telecommunication sector, Saudi Telecommunication Company (STC) was the only provider of mobile and fixed line services. At the end of 2004, and before the formal launch of Mobily, the mobile penetration rate was 40%, with STC retaining 9.2 million subscribers. However, following the entrance of Mobily in the market, penetration rates leapt to 61% in 2005 and 82% in 2006.

Ending STC's monopoly

Chart 9 | Mobile subscribers and overall penetration rates in the KSA



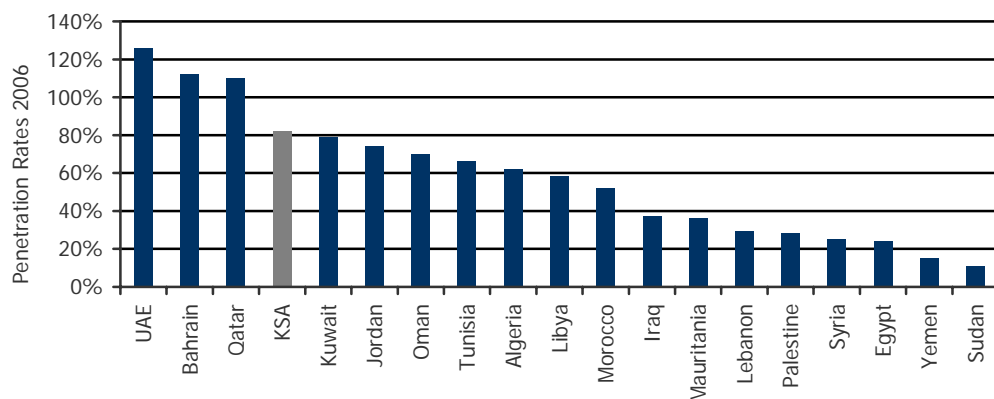
Source: Communications and Information Technology Commission (CITC)

Chart 10 | Mobile Penetration Rate versus GDP per Capita

Source: International Monetary Fund, Regulators, Mobily

In terms of penetration rates, neighbouring GCC countries namely the UAE, Bahrain and Qatar, have already surpassed the 100% penetration rate benchmark as multiple SIM cards have grown in popularity. However, it is worth noting that multiple SIM ownership is also widespread in Saudi Arabia, with customers using several different SIM cards for personal or business use, or to take advantage of promotional tariffs, which could mean that the actual number of mobile users could be lower than the figures reported by operators.

UAE, Bahrain and Qatar exceeded the 100% penetration rate

Chart 11 | Mobile regional penetration rates in 2006

Source: ITU

Given the similar economic and demographic profiles shared by these countries, this implies that Saudi Arabia could very well surpass the 100% penetration rate benchmark before the end of 2008.

We expect KSA to surpass the 100% penetration rate

Broadband

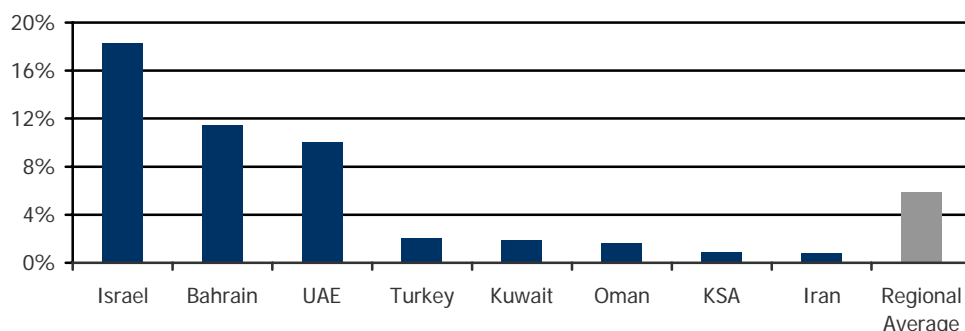
Broadband has a great opportunity for growth in the Middle East

Broadband is revealing alternative opportunities for growth in the Middle East's telecommunications industry, and in line with other emerging markets. Saudi Arabia, too, is exploring the numerous opportunities of broadband. Broadband penetration rates are relatively low in many Middle Eastern countries, mainly due to the fact that access speeds are relatively slow, and are more expensive when compared to other countries. Broadband access gained popularity in the last couple of years, with most of the GCC countries trying to emulate the strong push that the United Arab Emirates (UAE) and Bahrain have implemented towards higher broadband penetration.

Enormous growth in broadband

Low penetration rates in broadband

Chart 12 | Regional broadband penetration in 2006



Source: Business Monitor International (BMI)

The Saudi Government is encouraging investments in the broadband

The Saudi government has been taking major steps towards the liberalization of the telecommunications industry and encouraging private participation. Verizon Communications, for example, is set to invest US\$3 billion in building a new fibre-optic network linking 21 Saudi cities over the next 7 years. Saudi Arabia's Atheeb Telecom and Hong Kong's PCCW are also set to provide a combination of fixed-line and WIMAX connectivity, primarily to target the residential sector of the market.

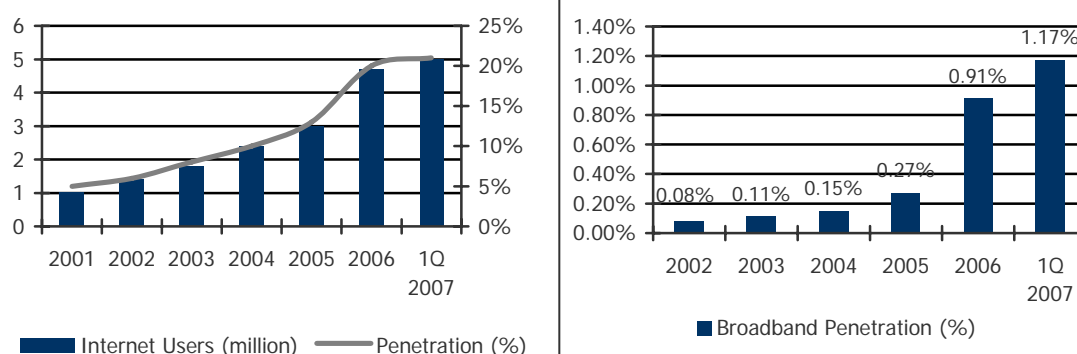
Increasing investments in broadband

High and rapid growth in demand for broadband in KSA

Broadband penetration rates in 2006 were: Bahrain 11.4%, UAE 10.0% and Israel 18.3%, compared to 0.9% in Saudi Arabia, and 1.2% in the first quarter of 2007. The low penetration rate in the Saudi market is due to the high tariffs charged for broadband services. The Saudi government, however, intends to increase the penetration rate by encouraging investments in the sector to improve the quality of the services to meet the growing demand for broadband internet access in terms of both bandwidth and technology.

Relatively low penetration rate compared to Middle East region

Chart 13 | Saudi Arabia's Internet Users and Broadband penetration rate (%)



Source: Communications and Information Technology Commission (CITC)

Saudi Arabia Background

Saudi Economy

Since around 90% of government revenue stems from oil earnings, Saudi Arabia is considered in essence an oil-based economy. Concurrently with rising oil prices, Saudi Arabia's GDP has grown notably in the past few years, and is expected to continue growing over the next few years, given global demand for oil. In order to reduce the Kingdom's dependency on energy exports, the government has been actively engaged in economic reforms that are primarily aimed at boosting non-oil sector growth to create more employment opportunities. Although the government maintains a dominant role in the economy, the state is trying also to encourage the development of the private sector, particularly in the services and utility sectors, which is evident through the recent liberalization in the telecommunication sector in particular. The Saudi economy is characterized by its high disposable income per capita and historically low inflation rates, which have risen of late due to the Saudi Riyal/US Dollar peg, which is now being removed.

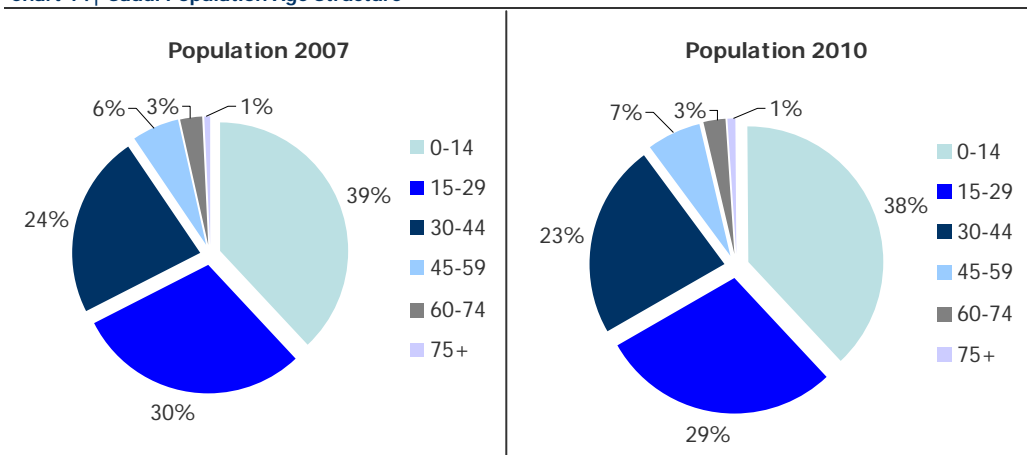
KSA taking active steps to diversify its revenue sources

Table 9 | Key Economic Data for Saudi Arabia

	2003a	2004a	2005a	2006a	2007f	2008f
Nominal GDP (US\$ billion)	214.6	250.3	309.2	348.2	375.0	400.0
<i>change</i>	13.8%	16.6%	23.5%	12.6%	7.7%	6.7%
Real GDP growth (% pa)	7.7	5.3	6.5	4.2	4.1	5.1
Real oil sector growth (% pa)	17.2	6.7	5.9	(1.5)	(1.8)	2.2
Real non-oil private sector growth (% pa)	3.9	5.3	6.6	6.3	6.2	6.3
Real non-oil (and gas) government sector growth (% pa)	3.1	3.1	7.2	8.5	7.5	6.0
Population (million)	22.3	22.8	23.4	24.0	24.5	25.1
GDP per capita (US\$)	9,623	10,978	13,214	14,508	15,306	15,936

Source: Economist Intelligence Unit (EIU) Forecasts, Beltone Financial estimates

Chart 14 | Saudi Population Age Structure



Source: US Census Bureau International Date Base

3G and 3.5G services have been met with great interest and success by people under the age of 30 (who account for 69% of the Saudi population) with Mobily acquiring more than 500,000 subscribers at the end of 2006. Given that the population base is growing steadily at 2.4% per annum and that approximately 40% of the population is between the ages of 0 and 14 years, this should potentially materialize in the form of an increased addressable market, in addition, to a widened value-added subscriber base.

3.5G services attracting the younger population

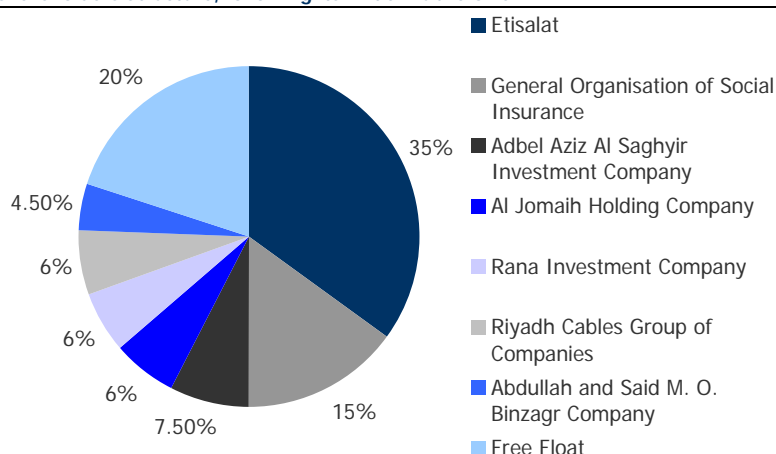
Shareholder's Structure

Under the license agreement by the CITC, Mobily had to float 40% of its capital on the Saudi Stock Market. In October 2004, the company offered 20% of its capital through an initial public offer (IPO), offering 100 million shares at SAR50 per share, the subscription for the public portion was oversubscribed 51 times. On April 2006, the company decided to split the stock into 5 shares, with a par value of SAR10 per share, where the number of shares became 500 million shares.

Mobily offered 20% of its capital in the IPO

The company is still waiting the approval of the Saudi stock market regulator for the secondary public offer for the additional 20% of the company's capital in the market.

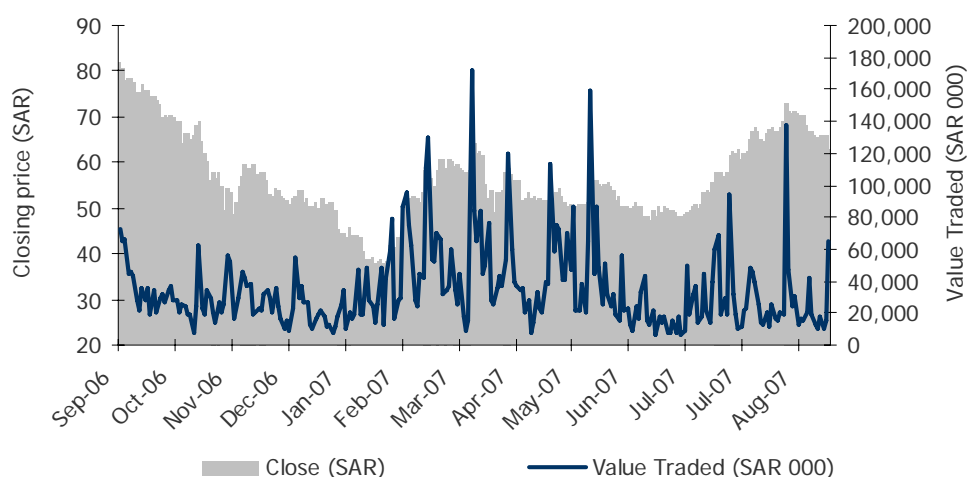
Chart 15 | Mobily's Shareholders Structure, following its Initial Public Offer



Source: Mobily annual report

Trading Performance

Chart 16 | Price Relative to Performance



Source: Tadawul and Beltone Financial

Financial Statements

Balance sheet

Fiscal year ends December All figures in SAR 000s unless stated otherwise	FY05a	FY06a	FY07e	FY08f	FY09f	FY10f	FY11f
Total Cash & Liquid Assets	185,172	547,523	969,250	1,153,098	1,522,925	3,134,826	1,236,386
Net Accounts Receivable	166,822	739,228	1,201,027	1,413,007	1,451,013	1,490,879	1,563,146
Inventory	32,075	38,048	48,463	54,620	57,540	58,339	55,637
Other Current Assets	782,765	716,688	819,414	791,601	750,524	777,850	794,820
Total Current Assets	1,166,834	2,041,487	3,038,154	3,412,327	3,782,001	5,461,893	3,649,989
Net Plant & Equipment	2,723,840	3,847,532	4,519,558	4,530,861	3,905,562	2,341,455	247,072
Net Intangibles	12,313,626	11,800,160	11,280,990	10,761,821	10,242,651	9,723,482	9,204,312
Total Assets	16,204,300	17,689,179	18,838,703	18,705,009	17,930,214	17,526,830	13,101,373
Short Term Debt	7,348,129	7,839,943	259,027	144,362	-	-	314,669
Current Portion of Long Term Debt	-	-	722,394	1,444,788	1,444,788	1,444,788	1,444,788
Accrued Expenses	2,133,514	1,687,156	430,778	364,136	255,734	259,283	247,277
Total Payables	876,118	1,516,376	1,830,806	1,820,682	1,854,072	1,814,983	1,607,302
Due to related parties	193,251	179,335	158,060	139,976	124,604	111,539	100,433
Other Current Liabilities	218,017	320,294	288,265	259,438	233,494	210,145	203,841
Total Current Liabilities	10,769,029	11,543,104	3,689,329	4,173,382	3,912,692	3,840,738	3,918,311
Long Term Debt	-	-	9,337,212	7,170,030	5,725,242	4,280,454	(1,444,788)
Subordinated debt	1,600,000	1,600,000					
Provisions	2,650	13,096	18,334	23,835	29,793	35,752	37,540
Total Liabilities & Provisions	12,371,679	13,156,200	13,044,875	11,367,247	9,667,728	8,156,944	2,511,062
Common Stock	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Retained Earnings	(1,167,379)	(467,020)	793,828	2,337,762	3,262,486	4,369,886	5,590,311
Total Net Worth	3,832,621	4,532,980	5,793,828	7,337,762	8,262,486	9,369,886	10,590,311
Total Liabilities & Net Worth	16,204,300	17,689,180	18,838,703	18,705,009	17,930,214	17,526,830	13,101,373

Source: Beltone Financial estimates, Mobily

Income Statement

Fiscal Year Ends December All figures in SAR 000s unless stated otherwise	FY05a	FY06a	FY07e	FY08f	FY09f	FY10f	FY11f
Total Revenue	1,661,737	6,183,236	8,545,321	9,631,143	10,145,969	10,515,379	10,744,787
Cost of Services	(967,240)	(2,661,184)	(3,930,847)	(4,430,326)	(4,667,146)	(4,731,921)	(4,512,810)
Selling, General & Administrative Expenses	(754,614)	(1,397,374)	(1,751,791)	(1,781,761)	(1,826,274)	(1,945,345)	(2,148,957)
General Provision Expense	(52,650)	(124,174)	(171,610)	(193,416)	(203,755)	(211,174)	(215,781)
EBITDA	(112,767)	2,000,505	2,691,073	3,225,640	3,448,794	3,626,940	3,867,239
Depreciation & Amortization	(739,141)	(844,979)	(950,871)	(1,082,524)	(1,109,191)	(1,112,423)	(1,055,226)
Net Operating Profit	(851,908)	1,155,526	1,740,202	2,143,116	2,339,604	2,514,518	2,812,013
Financing Cost	(347,641)	(478,680)	(426,303)	(548,045)	(459,831)	(371,617)	(283,403)
Non-Operating Income (Expenses)	(1,199,549)	676,846	1,313,899	1,595,071	1,879,773	2,142,901	2,528,610
Non-Operating Income (Expenses)	32,170	23,513	-	-	-	-	-
Earnings Before Provisions & Zakat	(1,167,379)	700,359	1,293,177	1,583,522	1,896,871	2,271,589	2,503,436
Zakat	-	-	(32,329)	(39,588)	(47,422)	(56,790)	(62,586)
Net Profit After Zakat	(1,167,379)	700,359	1,260,848	1,543,934	1,849,449	2,214,799	2,440,850

Source: Beltone Financial estimates, Mobily

Cash flows

Fiscal Year Ends December All figures in SAR 000s unless stated otherwise	FY05a	FY06a	FY07e	FY08f	FY09f	FY10f	FY11f
Net Operating Profit	(851,908)	1,155,526	1,707,872	2,103,528	2,292,182	2,457,728	2,749,427
Depreciation & Amortization	739,141	844,979	950,871	1,082,524	1,109,191	1,112,423	1,055,226
Cash Flow	(60,117)	2,124,679	2,830,354	3,379,468	3,605,128	3,781,324	4,020,434
Change in WI	2,439,238	(230,041)	(1,570,193)	(314,000)	(116,176)	(139,946)	(323,632)
Cash Flow from Operations	2,379,121	1,894,638	1,260,160	3,065,468	3,488,952	3,641,379	3,696,801
CAPEX	(2,797,368)	(1,455,205)	(1,103,728)	(574,657)	35,278	970,853	1,558,327
Cash Flow from Investing	(2,797,368)	(1,455,205)	(1,103,728)	(574,657)	35,278	970,853	1,558,327
Financial Payments	-	-	(20,722)	(733,943)	(1,444,788)	(1,444,788)	(1,469,962)
Cash Flow After Financial Payments	(418,247)	439,433	135,711	1,756,868	2,079,442	3,167,444	3,785,167
Cash Flow from Financing	13,948,129	491,814	878,690	(837,059)	(144,362)	-	(3,965,785)
Net Cash Flow	237,822	486,526	593,336	377,265	573,581	1,823,075	(1,682,658)

Source: Beltone Financial estimates, Mobily

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