



Emirates Telecommunication Corporation, Etisalat

Annual Update

Target Price	Market Price	Recommendation	Upside Potential	Investment Grade
AED27.13	AED17.95	Strong Buy	51%	Growth

Share Data

Report Date	August 31, 2008
Company Abbreviation	Etisalat
Sector	Telecommunication
Traded Market	ADX
Report Reason	Update
Valuation Methodology	DCF
Previous Report Date	2005
Previous Target	AED31.0
Exchange Rates	USD1/AED3.67 SAR1.0197/AED1 PKR18.938/AED1 EGP1.4443/AED1
Stock Currency	AED
Reuters Code	ETEL.AD
Outstanding Shares (mln)	5,986.91
Par Value/Share (AED)	AED1
Financial Year Ending	December
Mkt. Cap (AED mln)	107,465.0
Weight to (PEMI)	21.31%
Price Low – High (AED) (52Wk.)	14.33 — 22.2
Relative Performance (52Wk.)	-18.5%

Shareholders Ownership Stake

UAE Ministry of Finance	60%
Free Float—UAE Nationals	40%

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Stock Performance Chart (AED / Share)



- Etisalat continues to demonstrate solid operational performance, both at home and abroad, on the back of strong economic growth in the UAE (FY07a GDP growth 22%) and a combination of high growth potential and low penetration levels across its international playing field. The company's UAE operation has exhibited a 7% increase in mobile subscribers, a 17% expansion in internet subscribers and a 2% rise in fixed line users as of most recent 1H2008 data, solidifying Etisalat's dominance across the domestic telecommunications market.
- Etisalat boosted its overseas holdings through increasing its stake in several operations during 2007 and 2008 allowing the company to fully consolidate associated operations into financial statements. The company purchased an additional 32% stake in West Africa's Atlantique Telecom (AT), bringing its share to 82%, raised its stake in Sudan's Canar by 45% to 82% after acquiring USD159 million worth of equity in the Sudanese fixed line operator and upped its holdings in Tanzania's Zantel to a majority 51%.
- Mobile subscriber additions in the UAE registered 1.977 million in 2007 versus a population increase of only 0.354 million in the same year, equivalent to a ratio of 5.6 new lines to each new resident. Our numbers point to the addition of a further 2.036 million new mobile lines by the end of this year, and a CAGR of 12.5% over our forecast horizon FY08-FY12.
- Consolidated revenues registered a 31% increase in FY07 to AED21.34 billion, with the mobile segment contribution responsible for a dominant 63.5% of the aggregate, up 100 bps and 600 bps over 2006 and 2005 numbers, respectively. This came as the UAE added 852,000 mobile subscribers taking its total to 6.372 million, up a 15% y-o-y and local ARPU rose by 11% to USD46. Revenues stemming from the UAE internet and data segment meanwhile continued to reflect the most aggressive growth, increasing 43% y-o-y to reflect a combined 16.4% of the aggregate, as internet penetration in the UAE increased to 43%.
- Our sum-of-the-parts valuation on Etisalat, comprising of a combination of DCF, market value and book value techniques, depending on the availability of necessary data, yields a long term fair value of AED27.13 per share, illustrating 51% upside potential over the current market price. Accordingly we assign a Strong Buy recommendation on the stock.

Fiscal Year	2006a	2007a	2008f	2009f	2010f
Revenues	16,290	21,340	27,795	32,165	35,867
Growth	26.6%	31.0%	30.3%	15.7%	11.5%
EBITDA Margin	76.5%	71.9%	68.9%	69.0%	68.8%
Net Income	5,860	7,297	9,872	10,660	11,702
EPS (AED)	0.98	1.22	1.65	1.78	1.95
EPS Growth	37.7%	24.5%	35.3%	8.0%	9.8%
DPS (AED)	0.60	0.60	0.75	0.90	1.10
Book Value / Share (AED)	4.23	4.82	5.08	5.96	6.81
P/E (x)	18.34	14.73	10.89	10.08	9.18
Dividend Yield	2.53%	2.79%	4.18%	5.01%	6.15%
P/BV (x)	5.60	4.47	3.53	3.01	2.63

Latest Developments on the Domestic Front

The company's UAE operation has shown a 7% increase in mobile subscribers, a 17% expansion in internet subscribers and a 2% rise in fixed line users as of most recent 1H 2008 data

Etisalat continues to demonstrate solid operational performance, both at home and abroad, on the back of strong economic growth in the UAE (FY07a Nominal GDP growth 22%) and a combination of high growth potential and low penetration levels across its international playing field. The company's UAE operation has shown a 7% increase in mobile subscribers, a 16.6% expansion in internet subscribers and a 2% rise in fixed line users as of most recent 1H2008 data, solidifying Etisalat's dominance across the domestic telecommunications market. Du has meanwhile, as expected, proven itself a staunch competitor across all segments, specifically outperforming in terms of new mobile additions, capturing 57% in 2007 and 61% in 1H2008 translating into a 21% market share as of June 2008. We are, however, expecting Du's momentum to slow somewhat going forward, and are projecting a more even distribution of new subscriptions starting 2010. This will occur as the players begin to compete head-to-head in terms of mobile product offerings, and post the inter-connection of both incumbents' fixed line networks allowing customers to pre-select their operator.

36% of the UAE's population are below 25 years of age

High mobile subscriber growth in the UAE continues to prove a function of benign country demographics (36% of the population are below 25 years of age). With 82% of the UAE population comprised of expatriates (4.34 million as of 2007) expanding at ca. 7.8% per annum, approximately 300,000 new foreigners are expected to relocate to the UAE this year. Improved GDP per capita levels (USD37,505 in 2007a; USD42,255 in 2008e), a 7% population CAGR 2008-2012 compounded by a significant increase in business start-ups are the main catalysts behind our projected mobile penetration rates (168% 2008F and 181% 2012F) positioning the UAE among the most highly penetrated markets in the world.

Internet penetration reaching 1.152 million by the end of the year taking the country's internet penetration to 50%

Etisalat's internet subscription growth also continues to prove buoyant, registering a 16.6% rise in the first half of 2008 to 1.02 million users versus 0.875 million at the end of 2007. This came after Etisalat's monthly subscription prices were reduced and installation was made both simpler and more convenient. With continued improvements in education standards across the region, in addition to the UAE's cementing of its status as a regional business hub and tourist destination we are foreseeing aggressive internet penetration growth going forward, reaching 1.152 million by the end of the year taking the country's internet penetration to 50%.

Providing the Latest Technology

Etisalat continues to expand and improve on its wide spectrum of value added telecom services, securing a first mover advantage, on a regional basis, in various new technologies including 3G and Blackberry services. Etisalat's UAE clients currently enjoy access to 3.5G, WAP, GPRS, MMS, Push-to-Talk, Blackberry, Mobile Cam, Mobile TV, Pay TV, High-Speed Broadband Internet, Web Hosting and Mobile Phone Payment services, with the company's medium term strategy of providing a similar range of services across the 16 countries within its operational footprint likely to go a long way towards positioning it amongst the top 10 telecom providers worldwide by 2010.

Services and Infrastructure Development

The NGN network, which will enable Triple-Play functionality, is expected to be complete by 2011

Etisalat's focus on infrastructure investments both locally and internationally has paved the way for both improved services and more cost-efficient operations. The company dedicated a cumulative AED2.04 billion on expanding infrastructure in the first half of 2008, versus AED3.46 billion in 2007 and AED1.43 billion in 2006. Etisalat's 3G network now covers 97% of the UAE population and the Next Generation Network (NGN) currently under development is a clear example of how the company is working on reducing its operating and maintenance costs, in conjunction with improving services. The NGN allows the transmission of voice, video and data over a single network enabling Triple-Play functionality. The advantages include significantly lower maintenance costs associated with a single network as opposed to the current status of three networks, as well as value-added services in the form of significantly faster transmission speeds and higher bandwidth on a fiber-optic backbone. The NGN network is expected to be complete by 2011, at which time Etisalat's annual CAPEX is set to decline significantly.

Credit Ratings

On 22nd July 2008, Etisalat received its first credit rating from Moody's Investors Service of Aa2, adding to previously awarded ratings out of Standard & Poor's and Fitch of A+ and AA-, respectively. Associated ratings are necessary to facilitate funding of any future expansion plans the company may execute, with Etisalat's CFO Salem Ali Al-Sharhan having pointed to the possibility of several large, new acquisitions prior to year end.

Latest Developments Abroad

Sale of Share in Saudi's Mobily

In accordance with the Saudi Royal Decree stating that the founding shareholders of Etihad Etisalat Consortium (EEC) were required to reduce associated holdings in the company by 20% within the first three years of incorporation, Etisalat divested 25% of its stake in Mobily for a total consideration of AED1.784 billion, bringing ownership down to 26.25%. The sale was completed on 3rd April 2008 and the proceeds were booked in 2Q2008 results.

Fixed Wireless Market Promises Growth in Pakistan but Pressure on ARPU is High

PTCL introduced its fixed wireless services under the brand name Vfone in 2007 and its CDMA-based Wireless Local Loop (WLL) network is poised to become the largest WLL network in Pakistan, reaching cities and villages across the country giving the company an approximate 60% market share in 2007. However, PTCL's mobile operator, Ufone, is facing strong competition from five other mobile operators forcing it to slash calling rates to amongst the lowest in the world. PTCL's fixed line subscriber figures are expected to decline further over the coming period from the current 4.305 million to 3.699 million lines by 2012 as fixed to mobile substitution momentum gathers pace.

Attracting 2.149 million Egyptian Subscribers in the first Eight Months

Etisalat Egypt sold 1 million mobile lines within the first 50 days of operations and continued with its aggressive campaign to reach 2.149 million subscribers by the end of 2007, equivalent to 7% of the market. Etisalat was the first to offer 3.75G services in Egypt, bringing media-rich content like Mobile TV, high-speed internet and video calling to the market. An aggressive marketing strategy is expected to negatively affect ARPU in the medium term (USD6.1 2007a, USD5.8 2008f), which is expected to remain relatively low until the company solidifies its position and begins attracting quality, high-spending clients.

International Investments & Consolidation; Atlantique, Canar and Zantel

Etisalat boosted its overseas holdings through increasing its stake in several of its operations during 2007 and 2008 allowing the company to fully consolidate associated operations into financial statements. The company purchased an additional 32% stake in West Africa's Atlantique Telecom (AT), bringing its share to 82%. AT enjoys majority ownership of seven mobile operators across West Africa, all exhibiting extremely low mobile penetration rates and high single-digit GDP growth offering excellent growth prospects. In fact, AT saw a 104% increase in cumulative mobile subscribers from 1.4 million in 2006 to 2.8 million in 2007. Revenue increased in parallel rising 118% from AED539 million in 2006 to AED1.173 billion in 2007.

Etisalat also raised its stake in Sudan's Canar by 45% to 82% after acquiring USD159 million worth of equity in the Sudanese fixed line operator. This came after Canar demonstrated strong growth, increasing its customer base by 50% during the course of the year and reaching a fixed line market share of 58% with more growth expected in this under-penetrated country (2.9% fixed line penetration in 2007). Holdings in Tanzania's Zantel were further increased to a majority 51% while the associated subsidiary has begun rolling out a new network using state-of-the-art technology aimed at covering 75% of the country by year-end.

Penetration of Nigeria and Indonesia

Etisalat further acquired a 40% stake in Mubadala's Emerging Markets Telecommunications Services Limited (EMTS) in 2007, which had acquired a new license to provide integrated telecom services in Nigeria, the most highly populated country in Africa. Etisalat is required under the terms of the agreement to manage the new company, employing its valuable know-how and experience in launching services by mid-2008. This was followed by the acquisition of 15.97% of Indonesia's Excelcomindo in December 2007 for a consideration of AED1.609 billion (USD438 million). Excelcomindo is the third largest operator in Indonesia and controls 16.3% of the mobile market made up of around 15.5 million subscribers. Excel has built an advanced mobile network with a fiber-optic infrastructure that covers all the major cities of the country. This investment represents an important move for Etisalat into the Far East and paves the way for potential moves into India, China or other of the Far Eastern countries. Growth potential is extremely promising in our opinion given that mobile penetration in Indonesia registered only 41% in 2007 with Nominal GDP projected to grow by 12.75% this year.

Ufone is facing strong competition from five other mobile operators forcing it to slash calling rates, and fixed line subscriber figures are expected to decline further

Etisalat will manage the new operation in Nigeria.

Single-Digit Mobile Penetration in Afghanistan

Infrastructure development and operations of Etisalat Afghanistan, the country's fourth mobile license, were launched in August 2007 covering all major as well as smaller cities. Etisalat has further expanded its physical presence in the country to over 1,000 retailers and offers advanced services including GPRS and MMS. Despite not having the most tranquil political environment, Nominal GDP grew by 25% in 2007 and is expected to expand by a further 27% this year, providing excellent potential in a country where mobile penetration is only 9%.

UAE – Etisalat

UAE Economy

Nominal GDP in the UAE grew at CAGR 21.4% between 2003 and 2007

With the UAE home to 8% and 3% of the world's oil and gas reserves, respectively, in addition to a consumption level of ca. 16% of GDP, and oil prices reaching highs of USD147/barrel, the resulting petrodollar windfall has had massive implications for economic prosperity, both directly and indirectly. Direct benefits can be seen in the form of a solid Current Account (2007a 18.6%/GDP) and State Budget (2007e 10.6%/GDP) surpluses, while indirect consequences as importantly and in stark contrast to the oil boom of the 1980s, are evident in a boost of authorities' confidence to embark on an unprecedented massive fiscal expansion drive, catalyzing GDP growth components of Gross Fixed Capital Formation (GFCF) and consumption, fuelling a nominal GDP CAGR of 21.4% between 2003 and 2007. Nominal growth is also expected to continue in the double digits in 2008, accelerating to 25.1%, on the back of an aggressive average increase in hydrocarbon prices over the period, while our medium term economic growth forecasts suggest a buoyant 15.6% CAGR 2009-2012.

Figure 1: UAE Population and Economic Data

	2007a	2008f	2009f	2010f	2011f
Population ('000)	5,300	5,677	6,076	6,497	6,952
Nominal GDP (USD billions)	198.8	248.7	301.4	350.8	397.1
Nominal GDP Growth	22%	25.1%	21.2%	16.4%	13.2%
GDP per Capita (USD)	37,505	43,803	49,602	53,996	57,125
Inflation	11%	15%	13%	9%	6%

Source: UAE Central Bank, Prime estimates

UAE Telecom Market

Telecommunications Regulatory Authority (TRA) Developments

TRA now requires each operator to publish the number of active mobile subscribers, as opposed to total number of lines valid

The TRA recently instructed Etisalat and Du to undergo the necessary changes to their fixed-line networks that will allow customers to pre-select their carrier. The goal is to lower local and international calling costs and provide the consumer with more freedom. Du currently provides off-peak rates for international calls around the clock as opposed to Etisalat's off-peak timings between 9 PM and 7 AM only.

The TRA has also outlined new disclosure standards, requiring each operator to now publish the number of active mobile subscribers, as opposed to total number of lines valid. An active subscriber is defined by the TRA as any subscriber who initiated a call, sent a message or received a call during the past 90 days. Du has since revised its subscriber numbers for 2007 from 1.5 million down to 1.125 million and its 1H2008 figures from 2.3 million subscribers to 1.85 million. Du added 725,000 active subscribers by the end of the first half of 2008 versus Etisalat's more moderate 458,000 net additions (39% of the total). Etisalat has yet to undertake any revisions to its published subscriber numbers following the decree.

Foreign Ownership and Federal Royalty; As Is

Ownership of Etisalat shares remain closed to non-UAE nationals despite various and repeated press reports that foreign ownership rights are to be granted. Company management continue to be in favor of a removal of the current restrictions on share ownership, lobbying for change; however which is yet to occur.

Etisalat continues to pay a federal royalty amounting to 50% of net profit, a significant contribution to the federal government's annual budget. Once again much has been made of reports concerning the possibility of a gradual reduction in royalties to 40% by 2011, at which time Du is expected to begin generating profits and accordingly becomes subject to royalty payments. No official announcement on the matter has of yet been made, however, and our base case valuation scenario assumes continuation of the existing 50% levy on annual net profits throughout our forecast horizon.

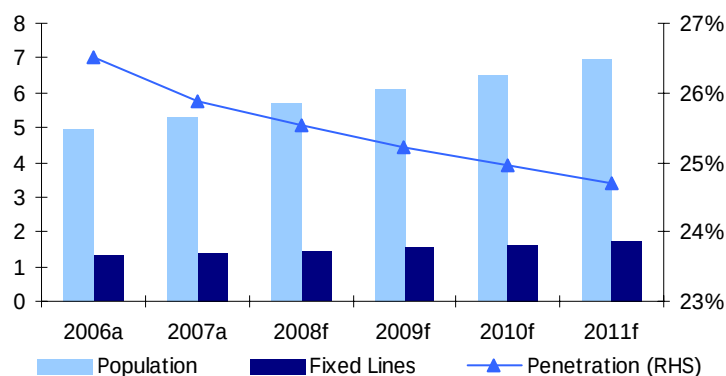
Fixed Line Market

Fixed Line penetration at 26% in the UAE due to fixed to mobile substitution and modest growth in fixed lines.

Fixed line penetration in the UAE has averaged ca. 27% over the past 5 years, falling gradually from 28% in 2003 to 26% last year. We are foreseeing this downward trend to continue over the coming period due to continued and indeed growing fixed to mobile substitution, specifically with regards to the expanding expatriate population. With a large portion of expatriates sharing living premises owning a personal fixed line is not a possibility, while easy access and low fares associated with mobile lines has ensured it as the preferred telecommunication choice within the UAE.

We expect fixed line penetration to reach 24% in 2012 as growth in fixed lines remains relatively modest, expanding at a projected CAGR of 5.8% during this period. We foresee the addition of 78,000 fixed lines this year versus 60,000 in 2007 (a 30% increase) taking the market size to 1.449 million lines and keeping penetration steady at 26%.

Figure 2: UAE Fixed Line Market (millions)



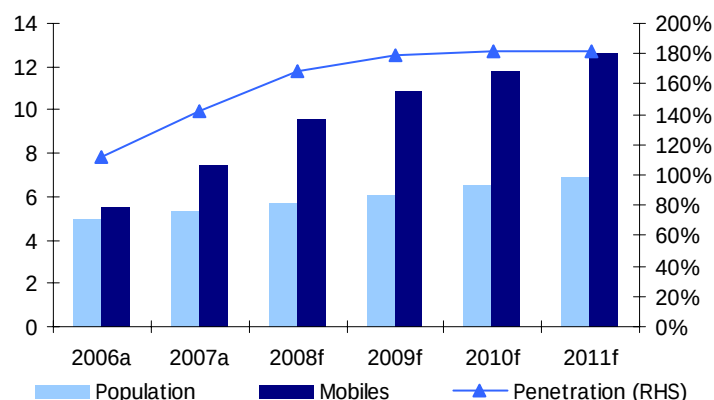
Mobile Market

Mobile penetration leapt 3,000 bps y-o-y to 141% in 2007 as 1.977 million subscribers were added

Our estimates show that the UAE mobile penetration rate leapt 3,000 bps y-o-y to 141% in 2007, and we expect a further increase to 168% by the end of 2008 on the back of strong economic growth (25.1% Nominal GDP growth), a healthy influx of expatriates exploiting job opportunities (estimated at 300,000 in 2008) and increased tourist visits (estimated at 7.961 million 2008, 11.1% y-o-y growth). Developments such as the tallest building in the world (Burj Dubai) and the only allegedly 7-star hotel in the world (Burj Al-Arab) are among many tourist attractions designed to encourage an increasing number of people from all across the world to visit this country helping sustain growth over the long-term.

Mobile subscriber additions registered 1.977 million in 2007 versus a population increase of only 0.354 million in the same year, equivalent to a ratio of 5.6 new lines to each new resident. Our numbers point to the addition of a further 2.036 million new mobile lines by the end of this year, and a CAGR of 12.5% over our forecast horizon FY08-FY12, with penetration peaking at 181% in 2010 at which time we expect signs of market saturation to present themselves. Out of a projected 13.493 million mobile subscribers in the UAE in 2012 we expect Etisalat to hold a dominant 9.115 million, equivalent to a 68% market share.

Figure 3: UAE Mobile Market (millions)



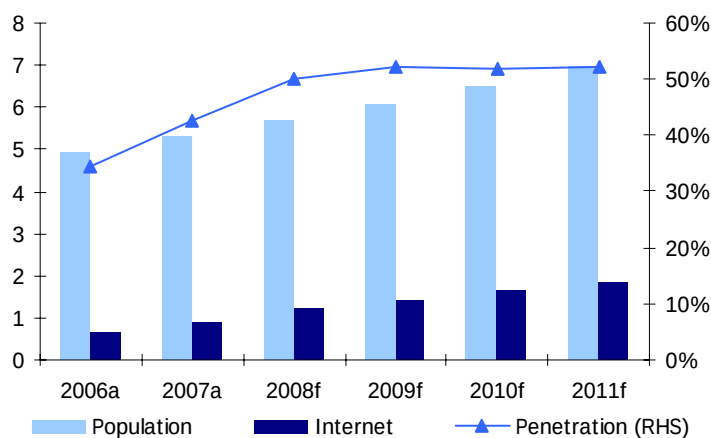
Internet Market

The TRA calculates internet penetration based on 2.5 users per internet subscription yielding an internet penetration rate of 43% in the UAE in 2007

The TRA calculates internet penetration based on 2.5 users per internet subscription yielding an internet penetration rate of 43% in the UAE in 2007. Broadband internet use is growing aggressively within both the household and business segments with the demand outlook remaining bullish despite the fact that the UAE has the highest internet penetration rate within the Middle East.

We are expecting internet penetration to settle at 50% by the end of 2008 and 52% by 2012, assuming a steady decrease in users per line to 1.85 in the latter year. The total number of internet lines is estimated to reach 1.212 million by year-end, a 34% increase over last year's 0.904 million. The internet market is expected to grow at a CAGR of 18.3% over our forecast horizon ending in 2012, with total internet lines culminating at 2.093 million in the associated year. Etisalat will remain the dominant player in this segment due to its current control of over 95% of fixed lines in the country allowing it easy access to the vast majority of existing households and is expected to retain a dominant 89% of the market by the end of 2012.

Figure 4: UAE Internet Market (millions)



Etisalat

Services

Etisalat continues to expand and improve on its wide spectrum of value added telecom services, securing a first mover advantage, on a regional basis, of various new technologies including 3G and Blackberry services. Etisalat UAE clients currently enjoy access to 3.5G, WAP, GPRS, MMS, Push-to-Talk, Blackberry, Mobile Cam, Mobile TV, Pay TV, High-Speed Broadband Internet, Web Hosting and Mobile Phone Payment services. In addition to individuals and professionals, Etisalat further provides enterprise customers with tailored services to meet associated requirements and SMB (Small & Medium Business) customers with value added, cost effective solutions. The company has added more retail outlets in malls and the airport to ensure services are more readily accessible across the board for consumers.

Competition

Etisalat enjoys various competitive advantages over the new incumbent, including a very strong cash position, an experienced management team, equally advanced services, market dominance and customer loyalty

Du managed to capture 15% of the mobile market and 3.4% of the fixed line market by the end of 2007 with the competitive landscape expected to continue shifting over the coming 5 years (Etisalat 68% and Du 32% of the mobile market by 2012). With both companies majority owned by the UAE government, the state is targeting two successful operators prior to the full liberalization of the telecom sector in 2015.

Nevertheless, Etisalat enjoys various competitive advantages over the new incumbent, including a very strong cash position, an experienced management team, equally advanced services, market dominance and customer loyalty as a result of a 30-year monopoly status within the market prior to 2006. Etisalat is also diversifying its operations internationally exploiting synergies whenever possible and transforming itself into a strong international player with a global brand name.

Fixed Lines

We believe it unlikely that ARPL will undergo any direct significant changes due to the unwillingness of both operators to enter a form of price war

Etisalat's fixed line Average Revenue Per Line (ARPL), having averaged USD50 over the past 3 years is expected to fall steadily over the coming 5 years at a CAGR of -1.8% to culminate at USD47 by 2012, as fixed-line usage drops. The UAE's TRA has recently instructed Etisalat and Du to implement changes to their fixed line networks allowing customers to pre-select their carrier (operator). While the TRA's intention is to induce a reduction in fixed-line calling fares, we believe it unlikely that ARPL will undergo any significant direct changes due to the unwillingness of both operators to enter into a price war. It will, however, probably lead Etisalat to revise its international calling fares to prove more in line with Du's current, more competitive rates.

Prior to 2006 Etisalat enjoyed total control of the fixed line market with this dropping to 97% by the end of 2007 with the launch of Du's services, which were until very recently exclusively deployed across Dubai's numerous industrial, commercial and real estate development free-zones. Etisalat has been permitted by the government to operate in these areas but has yet to begin operations in associated areas.

Etisalat added 25,000 fixed lines in the first half of 2008 and we expect it to add a further 22,000 lines over the 6 month period ending December, equivalent to 47,000 new adds and an aggregate 1.372 million lines. Further forward we forecast a 3.3% fixed line CAGR through to 2012 for the segment, with Etisalat expected to witness a decline in market share from 95% by year-end to 86% at the end of our explicit forecast horizon. This will occur as the fixed line networks of both operators become interconnected, at which time Du will have access to the large number of Etisalat's existing subscribers, allowing higher churn rates and leading to subscriber poaching through special offers. With Du already operating a Triple-Play network on a fiber-optic infrastructure it is well positioned to compete with Etisalat going forward, capturing an almost equal number of new fixed lines resulting in a decrease in Etisalat's market share.

Figure 5: UAE Fixed Line Market Summary

('000)	2007a	2008f	2009f	2010f	2011f
Fixed Lines	1,371	1,449	1,532	1,622	1,717
Additions	60	78	83	89	96
Penetration Rate	26 %	26 %	25 %	25 %	25 %
Etisalat					
Subscribers	1,325	1,372	1,418	1,462	1,510
Growth	3%	4%	3%	3%	3%
Market Share	97%	95%	93%	90%	88%
Additions	40	47	46	45	48
Monthly ARPL (USD)	52	50	49	47	47
Du					
Subscribers	46	77	115	159	207
Growth	77%	68%	49%	39%	30%
Market Share	3%	5%	7%	10%	12%
Additions	20	31	38	45	48

Source: TRA, Etisalat, Du, Prime estimates

Mobiles

Etisalat lost 15% of its market share in 2007 on the back of Du's aggressive launch campaign and successful capturing of 57% of new mobile subscribers in the associated year

Etisalat's mobile ARPU has averaged USD41 over the past 3 years, and is expected to continue rising until penetration crosses the 175% level at which point growth is foreseen to begin slowing. We estimate an ARPU of USD50 in 2008 up from USD46 in 2007 due to stronger spending driven by increased liquidity, the wealth effect and wage inflation in the UAE, occurring in conjunction with unchanged mobile fares.

While Etisalat lost 15% of its market share in 2007 on the back of Du's aggressive launch campaign and successful capturing of 57% of new mobile subscribers in the associated year, we do expect a combination of brand name, first mover advantage, strong marketing team, deep pockets and technical superiority to help it retain the majority of its high-spending users and capture at least an equal number of new subscribers in the long run. In short we estimate Etisalat's market share to reach 68% by 2012 in the absence of a third operator.

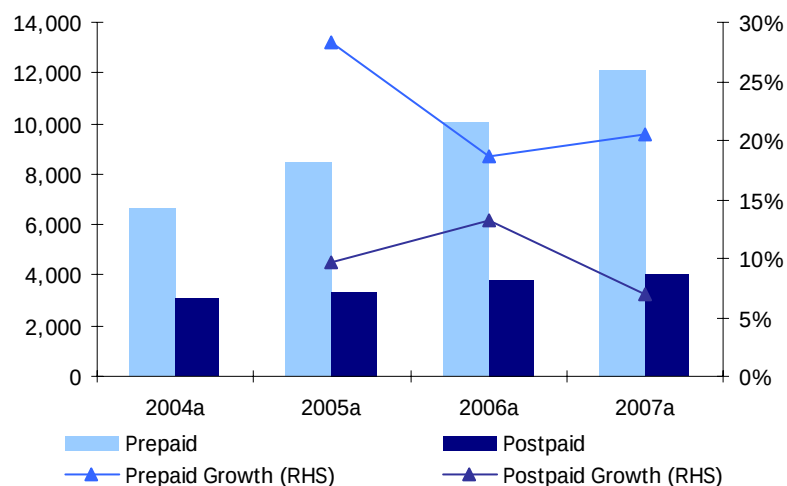
Etisalat added 458,000 mobile subscribers during the first half of 2008 and we expect another 418,000 subscribers by year end, bringing the aggregate adds for the year to 876,000, equivalent to a cumulative 7.248 million. Over the longer term Etisalat's mobile subscribers are expected to expand at a 5 year CAGR of 7.4% over the period ending 2012.

Figure 6: **UAE Mobile Market Summary**

('000)	2007a	2008f	2009f	2010f	2011f
Mobile Lines	7,497	9,533	10,857	11,783	12,617
Additions	1,977	2,036	1,324	927	834
Penetration Rate	141 %	168 %	179 %	181 %	181 %
Etisalat					
Subscribers	6,372	7,248	7,843	8,260	8,677
Growth	15%	14%	8%	5%	5%
Market Share	85%	76%	72%	70%	69%
Additions	852	876	596	417	417
Monthly ARPU (USD)	46	50	54	57	58
Du					
Subscribers	1,125	2,286	3,014	3,523	3,940
Growth	-	103%	32%	17%	12%
Market Share	15%	24%	28%	30%	31%
Additions	1,125	1,161	728	510	417

Source: TRA, Etisalat, Du, Prime estimates

Figure 7: **Etisalat's Mobile Minutes of Use (MOU millions)**



Internet and Data

Etisalat added a healthy 145,000 internet subscribers in the first half of 2008 and we expect an additional 132,000 subscribers by the end of the year

Internet and data ARPL is expected to grow only modestly, averaging 2% per annum, until the launch of Etisalat's Next Generation Network (NGN) in 2011 when added-value services and product bundles are expected to boost ARPL by a more aggressive 6% per annum to USD123 in the associated year. We also expect Etisalat to retain the majority of the internet market share (as with fixed lines) and expect a significant increase in revenue from this segment from AED4.226 billion in 2007 to AED10.76 billion in 2012, equivalent to a 20.6% CAGR.

Etisalat added a healthy 145,000 internet subscribers in the first half of 2008 and we expect an additional 132,000 subscribers by the end of the year bringing the total number to 1.152 million, a 32% increase over the 2007 figure of 0.875 million subscribers. The number of subscribers is expected to reflect a 16.4% CAGR between 2008 and 2012 to reach 1.868 million subscribers (89% of the market) in the last year of our explicit forecast horizon.

Figure 8: UAE Internet Market Summary

('000)	2007a	2008f	2009f	2010f	2011f
Internet Lines	904	1,212	1,443	1,639	1,855
Additions	220	308	231	196	216
Penetration Rate	43%	50%	52%	52%	52%
Etisalat					
Subscribers	875	1,152	1,349	1,506	1,678
Growth	33%	32%	17%	12%	11%
Market Share	97%	95%	93%	92%	90%
Additions	215	277	196	157	173
Monthly ARPL (USD)	110	112	114	116	123
Du					
Subscribers	29	60	94	134	177
Growth	21%	106%	58%	42%	32%
Market Share	3%	5%	7%	8%	10%
Additions	5	31	35	39	43

Source: TRA, Etisalat, Du, Prime estimates

Latest UAE Financial Results

EBITDA Margin continued to reflect a healthy 79.4% in 2007, which we foresee gradually declining to 70% by 2012

Etisalat's UAE operations continue to exhibit solid growth with revenues rising from AED12.6 billion in 2005 to AED16.1 billion in 2006 and AED20.1 billion in 2007, a CAGR of 26.3%. We expect revenues from UAE operations to grow by 23% this year, prior to slowing somewhat over the medium term as the market becomes increasingly saturated and mobile penetration reaches ca. 180%. The EBITDA Margin continued to reflect a healthy 79.4% in 2007, which we foresee gradually declining to 70% by 2012. CAPEX/Sales has remained below 8% over the past 2 years and is expected to be capped at 7% over the coming five years despite sizeable investments in the Next Generation Network.

Figure 9: Etisalat UAE Revenue & Subscriber Forecasts

('000)	2007a	2008f	2009f	2010f	2011f
UAE Revenues (AED '000)	20,125,000	24,822,948	28,475,711	31,392,586	34,368,812
Growth	25%	23%	15%	10%	9%
Fixed Line Subscribers	1,325	1,372	1,418	1,462	1,510
Penetration	26%	26%	25%	25%	25%
Mobile Subscribers	6,372	7,248	7,843	8,260	8,677
Penetration	141%	168%	179%	181%	181%
Internet Subscribers	875	1,152	1,349	1,506	1,678
Penetration	43%	50%	52%	52%	52%

Source: Etisalat, TRA, Prime estimates

DCF Valuation

Utilizing a Risk Free Rate of 4.85%, a Market Risk Premium of 7% and a Beta of 1.0 we conclude a DCF value of AED24.53/share for Etisalat's UAE operations. We have assigned a terminal growth rate of 3.5% and assumed stable federal royalty fees of 50% of annual net profit throughout our forecast horizon.

NB: Sensitivity analysis on a gradual reduction in the federal royalty to 40% by 2012 results in an 18% increase in our fair value to AED29.05 per share.

Figure 10: **Etisalat UAE DCF Valuation**

(AED '000)	2008f	2009f	2010f	2011f
Revenue	24,822,948	28,475,711	31,392,586	34,368,812
EBITDA	19,361,900	21,926,297	23,858,365	25,776,609
CAPEX	1,489,377	1,423,786	1,569,629	1,718,441
Free Cash Flows	8,191,573	9,539,363	10,359,553	11,169,864
Total Shareholder Value				146,829,340
Value per Etisalat Share				24.53

Source: Etisalat, Prime estimates

Saudi Arabia – Mobily

Etisalat in April 2008 divested of 25% of its share in EEC for a total consideration of AED1.784 billion

Etihaad Etisalat Consortium (EEC) won the bid for the second GSM license in Saudi Arabia in August 2004 paying USD3.25 billion (AED11.93 billion) in addition to SAR753.75 million for a 3G license. Etisalat, in April 2008, in accordance with a Saudi Royal Decree requiring founding shareholders of EEC to reduce their holdings in the company by 20% within the first three years of incorporation, divested of 25% of its share in EEC for a total consideration of AED1.784 billion, reducing its stake from 35% to 26.25%. Proceeds have been included in 2Q2008 financial results.

Mobily launched its services in May 2005, successfully capturing an impressive 39% of the market by the end of last year. This rapid growth was achieved by providing advanced services at attractive prices and through its 23 flagship stores and 104 Franchised Business Outlets, which cover all main locations across the Kingdom. Mobily's network covers 93.7% of the population in KSA and the company entered a partnership for building a fiber-optic network that will allow for high-speed broadband through mobile lines. The company further acquired 99% of Bayanat Al-Oula for Network Services S.L.L.C. during the first half of 2008, at a total cost of SAR1.50 billion. Bayanat Al-Oula holds a license to build, manage and operate a data communications network in the Kingdom. Mobily has also recently launched a new company named Mobily InfoTech Limited Company in Bangalore, India.

Saudi Arabia's Economy

Saudi Arabia has the largest economy in the gulf showing a 10.6% increase in Nominal GDP in 2006 to USD350 billion, an expected increase of 7.7% in 2007 to USD376 billion and 23.5% in 2008 to USD464 billion. GDP per Capita is also projected to reach USD18,654 this year from USD15,481 in 2007. Population in the Kingdom is expected to rise at a CAGR of 2.6% per annum reaching 27.6 million in 2012, a 14% increase from 2007, with demographics in the Kingdom very favorable where more than half the population are below the age of 23.

Figure 11: Saudi Arabia's Population and Economic Data

	2007e	2008f	2009f	2010f	2011f
Population ('000)	24,289	24,897	25,519	26,157	26,811
Nominal GDP (USD billions)	376.0	464.4	506.0	551.2	599.6
Nominal GDP Growth	7.70%	23.51%	8.95%	8.92%	8.78%
GDP per Capita (USD)	15,481	18,654	19,829	21,072	22,362
Inflation	4.1%	6.2%	5.6%	5.0%	4.5%

Source: IMF, Prime estimates

Saudi Arabia's Mobile Market

The Saudi mobile market opened up for a third player in mid 2008 with the entry of Kuwait's Zain as third operator using Mobily's network infrastructure

Saudi Telecommunications Company (STC) enjoyed monopolistic control over all telecom services within the Kingdom prior to the entry of Mobily in May 2005. With the advent of the new operator STC's mobile market share fell to ca. 84% in 2005, 69% in 2006, 61% in 2007 and we estimate it to reach 55% by the end of 2008 with the entry of a third operator, Zain, by mid-year. STC's monopoly over the fixed line market also ended in April 2007 with the sale of three new fixed line licenses to three consortia led by Bahrain Telecommunications Co., Hong Kong's PCCW and US-based Verizon Communications. These operators won initial approvals to operate in the Kingdom and are due to sell 25% of their shares in Initial Public Offerings before launching operations towards the end of 2008.

The Saudi mobile market opened up for a third player in mid 2008 with the entry of Kuwait's Zain as third operator using Mobily's network infrastructure and providing an attractive "One Network" offer where subscribers can place international calls to Bahrain, Iraq, Sudan and Jordan at local rates. Given the fact that Mobily and Zain are collaborating we believe a price war to be unlikely.

We saw 45% growth in overall KSA mobile subscribers in 2007 to 28.4 million from 19.6 million in 2006 where net additions in 2007 registered 63% higher than those in 2006 (8.8 million versus 5.4 million, respectively). With a third operator entering the market we project an additional 7.04 million subscribers in 2008, illustrative of 25% growth in aggregate numbers to 35.44 million. Mobile subscribers are forecast to continue expanding at CAGR of 12% from 2008 through to 2012 at which point the market size is expected to culminate at 49.88 million.

Saudi Arabia's Mobile Market (continued...)

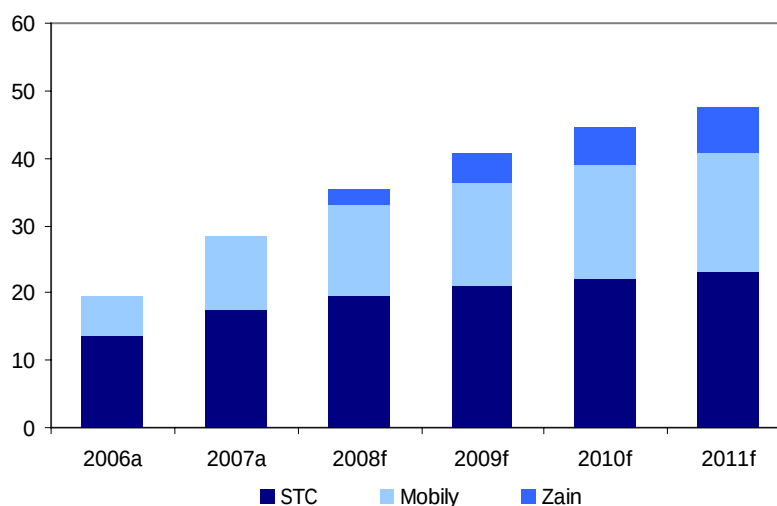
We expect Mobily to capture 2.464 million subscribers reflecting 22% annual growth yielding a total of 13.464 million lines by year end. We project Mobily's market share to reach 38% in 2008 and to remain stable above 37% throughout our forecast. As mentioned earlier, while we are not foreseeing any outright price war between Mobily and Zain, the presence of a third operator will have repercussions on Mobily's ARPU, which we foresee adopting a declining trend as the competitive landscape shifts, falling to USD16.2 in 2008 and settling at USD15.2 by 2012.

Figure 12: **Saudi Arabia's Mobile Market Data**

('000)	2007a	2008f	2009f	2010f	2011f
Mobile Lines	28,400	35,440	40,720	44,680	47,650
Additions	8,800	7,040	5,280	3,960	2,970
Penetration Rate	117 %	142 %	160 %	171 %	178 %
Mobily					
Subscribers	11,000	13,464	15,312	16,698	17,738
Growth	80%	22%	14%	9%	6%
Market Share	39%	38%	38%	37%	37%
Additions	4,900	2,464	1,848	1,386	1,040
Monthly ARPU (USD)	17.1	16.2	15.7	15.2	15.2
STC					
Subscribers	17,400	19,512	21,096	22,284	23,175
Growth	29%	12%	8%	6%	4%
Market Share	61.3%	55.1%	51.8%	49.9%	48.6%
Additions	3,900	2,112	1,584	1,188	891
Zain					
Subscribers	-	2,464	4,312	5,698	6,738
Growth	-	-	75%	32%	18%
Market Share	-	7%	11%	13%	14%
Additions	-	2,464	1,848	1,386	1,040

Source: CITC Saudi Arabia, Mobily, STC, Prime estimates

Figure 13: **Saudi Arabia's Mobile Subscribers (millions)**



Latest Financial Results

Mobily's 2007 Net Income before Zakat (tax) reached SAR1.404 billion (USD374 million), a 100% increase over 2006. The company's first half revenues showed a 24% increase from SAR3.905 billion in 1H2007 to SAR4.851 billion in 1H2008. We expect full year revenues to reach SAR9.815 billion, a 16% increase over last year's SAR8.44 billion and to continue expanding at a CAGR of 8.5% through to 2012.

DCF Valuation

Utilizing a Risk Free Rate of 4.85%, a Market Risk Premium of 7.1%, a Beta of 1.0 and a terminal growth rate of 3.5% we conclude a DCF value of AED1.23 per Etisalat share based on a 26.25% stake in Mobily. The calculations below are based on a constant exchange rate of SAR1.0197 per AED1.

Figure 14: **Mobily DCF Valuation**

(AED '000)	2008f	2009f	2010f	2011f
Revenue	9,624,923	10,617,612	11,231,328	11,930,511
EBITDA	3,418,669	3,771,261	3,989,247	4,237,589
CAPEX	1,443,739	1,061,761	1,123,133	1,073,746
Free Cash Flows	816,537	2,276,787	2,359,753	2,632,338
Total Shareholder Value				28,054,064
Value per Etisalat Share				1.23

Source: Prime estimates

Pakistan – PTCL

PTCL introduced its fixed wireless services through Vfone and its CDMA-based Wireless Local Loop (WLL) network is poised to become the largest WLL network in Pakistan

In March 2006, Etisalat International Pakistan (EIP) finalized the deal to acquire 26% of PTCL for a total consideration of USD2.6 billion. EIP is 90% owned by Etisalat and 10% owned by Dubai Islamic Bank. PTCL is the largest telecom provider in Pakistan and offers fixed line, mobile and internet services. The company offers mobile services through its fully owned subsidiary Pak Telecom Mobile Limited under the brand name Ufone, the second largest mobile operator (22% market share in 2007) in the country after Orascom Telecom's Mobilink (42% market share in 2007). Ufone recently rolled out a USD525 million expansion of its network to increase the area of coverage and provide advanced services such as wireless internet. However, Ufone is facing strong competition forcing it to slash calling rates making them among the lowest in the world consequently negatively affecting ARPU.

PTCL introduced its fixed wireless services through Vfone and its CDMA-based Wireless Local Loop (WLL) network is poised to become the largest WLL network in Pakistan, reaching cities and villages across the country giving the company around 53% in market share as of June 2008. However, this segment also faces heavy competition with 14 new WLL licenses having been sold recently.

The number of fixed line subscribers is declining and is expected to continue doing so as migration to mobiles and wireless fixed lines continues. PTCL lost 452,000 fixed line subscribers in the year ending June 2007 and 371,000 in the year ending June 2008 leading us to estimate further declines at a CAGR of -4.6% going forward through our forecast period ending June 2012.

Pakistan's Economy

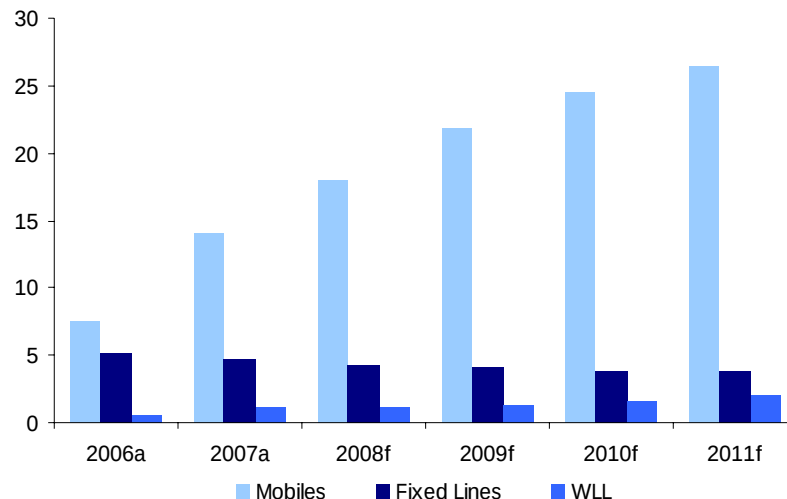
Pakistan's population currently stands in excess of 162 million, and is projected to total 163.7 million by year-end. The Pakistani economy has been expanding at a CAGR of 14.6% over the past 5 years and is estimated to grow by 11.4% in 2008 with GDP reaching USD160 billion. GDP per capita is also rising while inflation is expected to reach 8.5% this year, up from 7.8% in 2007.

Figure 15: Pakistan's Population and Economic Data

	2007e	2008f	2009f	2010f	2011f
Population ('000)	158,170	163,741	167,015	170,356	173,763
Nominal GDP (USD billions)	143.8	160.2	175.5	192.4	211.4
Nominal GDP Growth	13.20%	11.40%	9.55%	9.63%	9.88%
GDP per Capita (USD)	909	978	1,051	1,129	1,216
Inflation	7.8%	8.5%	7.5%	6.5%	5.5%

Source: IMF, Government of Pakistan, Prime estimates

Figure 1: PTCL's Subscribers (millions)



Fixed Line Market

Continued fixed line to mobile substitution over our forecast horizon is expected to result in a further – 4.5% CAGR through to 2012

A declining trend in fixed line subscriptions within the Pakistani market commenced in June 2006 with a loss of 38,000 lines, with a further cumulative 794,000 decline in subscribers having occurred over the 24 month period ending June 2008, bringing the total number of fixed lines to 4.446 million. Continued fixed line to mobile substitution over our forecast horizon is expected to result in a further –4.5% CAGR through to 2012. We expect a loss of another 252,000 lines by next June and a total loss of 638,000 lines by June 2012 to reach 3.809 million fixed lines in the associated year. Fixed line penetration stood at 3% in June 2008 and is projected to fall to 2% by 2012.

With PTCL controlling 97% of the fixed line market, the company is expected to suffer a sharp decline in fixed line revenues. However, we are expecting this to be offset in part by more positive contributions from various other segments compounded by the rollout of Triple-Play services and broadband in the near future. ARPL is expected to decline from our estimate of USD11.4 for June 2008 to USD10.8 by June 2009 and USD9.7 by June 2012.

Figure 16: **Pakistan's Fixed Line Market Summary**

('000)	2007a	2008f	2009f	2010f	2011f
Fixed Lines	4,806	4,446	4,195	4,018	3,895
Additions	-434	-360	-252	-176	-123
Penetration Rate	3%	3%	3%	2%	2%
PTCL					
Subscribers	4,676	4,305	4,066	3,898	3,781
Growth	-9%	-8%	-6%	-4%	-3%
Market Share	97%	97%	97%	97%	97%
Additions	-452	-371	-239	-167	-117
Monthly ARPL (USD)	10.2	11.4	10.8	10.3	10.0

Source: PTA, PTCL, Prime estimates

Fixed Wireless Market

With 14 new WLL licenses awarded recently, competition is increasing and we see this market growing by a further 29% by June 2009 to 2.918 million subscribers, and illustrating a 35.2% CAGR June 2008f through to 2012f

The fixed wireless or Wireless Local Loop (WLL) market has witnessed significant growth momentum since its launch 3 years ago reaching 2.261 million subscribers in June 2008, equivalent to 22% y-o-y growth. This trend is expected to continue due to strong preference for this type of technology over that of conventional fixed lines. With 14 new WLL licenses awarded recently competition is increasing and we see this market growing by a further 29% by June 2009 to 2.918 million subscribers, and illustrating a 35.2% CAGR in June 2008 through to 2012. WLL penetration registered at a minimal 1% in June 2008 and we expect it to reach 5% by mid-2012.

While PTCL enjoyed a 61% market share effective June 2007, this number reflected a significant fall to 53% by June of this year, on the back of increasing competition. PTCL's 1.188 million registered subscribers as of June 2008 are foreseen to expand a further 14% to 1.353 million by June 2009, and illustrate a 19.1% CAGR over our explicit forecast horizon ending 2012. We project PTCL's WLL market share to reach 32% by 2012, as the operator continues to attract a large percentage of new subscribers through its widespread network, with Vfone as a result expected to retain its position as market leader.

Figure 17: Pakistan's Fixed Wireless Market Summary

('000)	2007a	2008f	2009f	2010f	2011f
Fixed Wireless Lines	1,850	2,261	2,918	3,969	5,651
Additions	822	411	657	1,051	1,682
Penetration Rate	1%	1%	2%	2%	3%
PTCL					
Subscribers	1,128	1,188	1,353	1,616	2,036
Growth	71%	5%	14%	19%	26%
Market Share	61%	53%	46%	41%	36%
Additions	467	60	164	263	421

Source: PTA, PTCL, Prime estimates

Mobile Market

Ufone is the second largest mobile operator in Pakistan (estimated to enjoy 21% current market share, on the back of 18.1 million subscribers) and is well positioned to remain a major player

Intense competition stemming from five other mobile operators within the Pakistani market has reflected itself in a sharp decline in mobile charges. PTCL's ARPU is forecast to drop 20% in the year ending June 2008 to USD2.8 from USD3.5 in the previous comparable period, and we are expecting further declines over the coming couple of years, albeit at a less aggressive pace to reach USD2.6 in June 2009 prior to consolidation occurring within the market, which should allow for some form of stability in terms of pricing. Mobile penetration in Pakistan is estimated at 54% as of June 2008, up from 40% in June 2007, and is expected to continue growing to reach 75% in 2012.

Our estimates show that the aggregate mobile market increased 39% by June 2008 to 88.08 million from 63.16 million in June 2007. Ufone is the second largest mobile operator in Pakistan (estimated to enjoy 21% current market share, on the back of 18.1 million subscribers) and is well positioned to remain a major player given its substantial network capabilities and range of advanced services on offer, allowing it to retain current market share levels throughout our forecast period.

PTCL's mobile subscribers witnessed a 29% growth during the year ending June 2008 to reach 18.1 million from 14 million one year earlier. We anticipate a growth of 21% in subscribers by June 2009 reaching 21.88 million and growing at CAGR of 14.6% over our forecast horizon.

Figure 18: Pakistan's Mobile Market Summary

('000)	2007a	2008f	2009f	2010f	2011f
Mobile Lines	63,160	88,020	105,422	117,603	126,130
Additions	28,653	24,860	17,402	12,181	8,527
Penetration Rate	40%	54%	63%	69%	73%
PTCL					
Subscribers	14,014	18,100	21,882	24,529	26,382
Growth	87%	29%	21%	12%	8%
Market Share	22%	21%	21%	21%	21%
Additions	6,527	4,086	3,781	2,647	1,853
Monthly ARPU (USD)	3.5	2.8	2.6	2.6	2.6
Mobilink					
Subscribers	26,466	32,032	37,253	40,907	43,465
Growth	54%	21%	16%	10%	6%
Market Share	42%	36%	35%	35%	34%
Additions	9,261	5,566	5,221	3,654	2,558

Source: PTA, PTCL, Prime estimates

Latest Financial Results

PTCL reported total revenues of PKR62.714 billion (AED3.312 billion) in latest 9M FY08 figures ending March 2008, pretty much flat relative to the PKR62.793 billion (AED3.316 billion) registered in the same period last year. Operating costs meanwhile came in at PKR72.475 billion (AED3.826 billion) versus a comparable PKR45.179 billion (AED2.386 billion) in the previous year due to an exceptional PKR23.163 billion (AED1.223 billion) expense associated with the Voluntary Separation Scheme (VSS) that the company executed during the year.

DCF Valuation

Utilizing a Risk Free Rate of 8%, a Market Risk Premium of 8.5%, a Beta of 1.0 and a terminal growth rate of 6% we conclude a DCF value of AED0.22 per Etisalat share based on a 23.4% stake in PTCL. The calculations below are based on a constant exchange rate of PKR18.938 per AED1.

Figure 19: **PTCL's DCF Valuation**

(AED '000)	*2008f	2009f	2010f	2011f
Revenue	4,414,985	4,523,932	4,664,036	4,788,199
EBITDA	97,525	2,035,769	2,098,816	2,154,690
CAPEX	1,566,997	226,197	233,202	239,410
Free Cash Flows	(83,370)	443,328	742,629	802,553
Total Shareholder Value				5,754,240
Value per Etisalat Share				0.22

Source: Prime estimates

* Fiscal year ends June

Egypt – Etisalat Misr

The company has over 18,000 points of sale and can also be accessed through 1,500 post office

A consortium led and 66% owned by Etisalat won the bid for Egypt's third mobile license in July 2006 for a total cost of USD2.9 billion (AED10.64 billion). The company has invested aggressively in building its own network infrastructure, registering a AED1.5 billion outlay in 2007 with a similar amount of CAPEX projected for 2008. Etisalat Misr was the first operator in the country to launch 3.75G services allowing the transfer of media-rich content such as video calls and mobile TV. The company has over 18,000 points of sale and can also be accessed through 1,500 post offices (Egypt Post is a shareholder in the consortium). The company acquired an international gateway license in 2007 ending Telecom Egypt's monopoly and is currently bidding for a fixed line license.

Etisalat Egypt sold one million mobile lines within the first 50 days of operations and continued with its aggressive campaign to reach 2.149 million subscribers by the end of 2007. An aggressive marketing strategy focused on attracting low-spending customers as a way to penetrate an extremely competitive market has, however, negatively affected ARPU (USD6.1 in 2007), which is expected to remain under pressure, until the company solidifies its position and begins attracting high-spending clients. We are foreseeing ARPU bottoming at USD5.5 in 2010 aided by the international gateway license, which should draw more volume and contribute to higher margins for the operator.

Egypt's Economy

Economic growth in Egypt has been buoyant over the recent period with Nominal GDP registering USD129.6 billion in 2007 and expected to reach USD160.9 billion by the end of this year (21% growth). Inflationary pressures have, however, become an increasing cause for concern hitting a 22% high in July 2008, on the back of strong economic growth and an increase in commodity prices worldwide (global bread prices were up 48.1% y-o-y in March 2008, edible oil by 45.2%), as well as various new fiscal measures introduced by the government centered around reducing subsidies. The population is expected to reach 74 million by year-end rising from 72.7 million in 2007 (a growth of 1.8% y-o-y) and expected to continue growing at a CAGR of 1.8% over our forecast horizon ending in 2012.

Figure 20: Egypt's Population and Economic Data

	2007a	2008f	2009f	2010f	2011f
Population ('000)	72,700	74,009	75,341	76,697	78,077
Nominal GDP (USD billions)	129.6	160.9	176.6	201.7	247.9
Nominal GDP Growth	18%	21%	20%	18%	17%
GDP per Capita (USD)	1,782	2,175	2,344	2,629	3,176
Inflation	11%	13.5%	13.5%	12%	11%

Source: Egypt Ministry of Finance, Prime estimates

Egypt's Mobile Market

Mobile penetration jumped to 42% in 2007 from 25% in 2006, and is expected to culminate at 55% by year-end

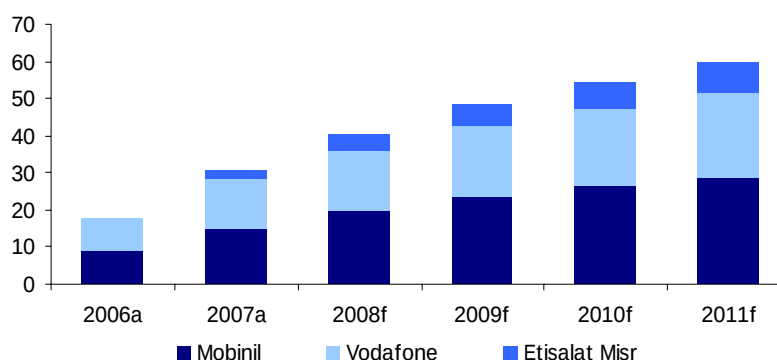
Egypt registered 30.6 million mobile subscribers at the end of 2007 with Mobinil controlling 49% of the market, Vodafone 44% and Etisalat 7%. Etisalat managed to register this associated market share after only 8 months in operation. Mobile subscriber growth in Egypt has reflected a CAGR of 48% between 2003 to 2007 and we are foreseeing further 32% growth in the market during 2008 to reach 40.426 million subscribers, and a more moderate 16% CAGR thereafter until 2012. Mobile penetration jumped to 42% in 2007 from 25% in 2006, and is expected to culminate at 55% by year-end, continuing to rise steadily settling at 80% by the end of our explicit forecast horizon ending 2012.

Figure 21: **Egypt's Mobile Market Summary**

('000)	2007a	2008f	2009f	2010f	2011f
Mobile Lines	30,600	40,426	48,288	54,576	59,608
Additions	12,885	9,826	7,861	6,289	5,031
Penetration Rate	42 %	55 %	64 %	71 %	76 %
Etisalat Misr					
Subscribers	2,149	4,085	5,666	6,993	8,108
Growth		90%	39%	23%	16%
Market Share	7.0%	10.1%	11.7%	12.8%	13.6%
Additions	2,149	1,936	1,580	1,327	1,115
Monthly ARPU (USD)	6.1	5.8	5.5	5.5	5.5
Mobinil					
Subscribers	15,118	19,835	23,495	26,277	28,391
Growth	63%	31%	18%	12%	8%
Market Share	49.4%	49.1%	48.7%	48.1%	47.6%
Additions	5,851	4,717	3,660	2,782	2,114
Vodafone					
Subscribers	13,333	16,506	19,127	21,307	23,109
Growth	58%	24%	16%	11%	8%
Market Share	43.6%	40.8%	39.6%	39.0%	38.8%
Additions	4,885	3,173	2,621	2,180	1,802

Source: Mobinil, Vodafone, Etisalat Egypt, Prime estimates

Figure 22: **Egypt's Mobile Subscribers by Operator** (millions)



Subscriber Forecasts

The company is expected to continue growing its market share steadily, however much less aggressively than has been witnessed over the past 2 years, settling at 14.2% in 2012

We expect the company to add 1.936 million subscribers in 2008 taking its total to 4.085 million subscribers, an increase of 90% over the 2.149 million added in 2007. The company is expected to continue growing its market share steadily, however much less aggressively than has been witnessed over the past 2 years, settling at 14.2% in 2012, equivalent to 9.044 million subscribers, and implying a 33% CAGR over our forecast period.

Financial Forecasts

Etisalat Misr revenues stood at AED385 million in 2007 and we expect a 171% increase to AED1.043 billion in 2008 and a CAGR of 42% over our 5 year explicit forecast period, 2008 to 2012. Etisalat Misr continues to invest heavily in infrastructure and the CAPEX bill for 2008 is expected to be in line with that of 2007, around the AED1.5 billion mark. Based on management guidance we expect an end to major CAPEX outlay effective after 2009, with the company's free cash flow expected to move into positive territory by 2010.

DCF Valuation

Utilizing a Risk Free Rate of 8%, a Market Risk Premium of 8.5%, a Beta of 1.0 and a terminal growth rate of 6% we conclude a DCF value of AED0.20 per Etisalat share based on a 66% stake in Etisalat Misr. The calculations below are based on a constant exchange rate of EGP1.4443 per AED1.

Figure 23: **Etisalat Misr's DCF Valuation**

(AED '000)	2008f	2009f	2010f	2011f
Revenue	1,042,983	1,374,060	1,695,969	1,966,374
EBITDA	(104,298)	274,812	593,589	983,187
CAPEX	1,500,000	750,000	300,000	300,000
Free Cash Flows	-1,604,298	-475,188	174,871	486,549
Total Shareholder Value				1,783,297
Value per Etisalat Share				0.20

Source: Prime estimates

Other International Operations

Sustaining Growth over the Long-Term

With an ultimate goal of becoming one of the world's leading telecom operators, Etisalat has focused intensively on international diversification in low penetration high growth markets, as key to its strategy of sustaining growth over the long-term.

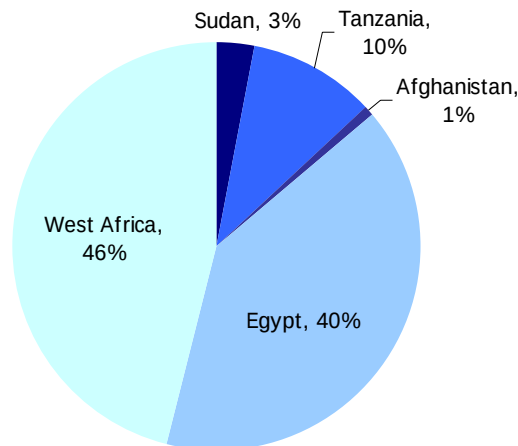
Latest Acquisitions

Etisalat acquired a 40% stake in Mubadala's EMTS, which owns a license to provide integrated telecom services in Nigeria, and 15.97% of Indonesia's Excelcomindo in December 2007

Etisalat acquired a 40% stake in Mubadala's Emerging Markets Telecommunications Services Limited (EMTS) in 2007, facilitating access to a license to provide integrated telecom services in Nigeria, the most densely populated country in Africa. Etisalat is required, under the terms of the agreement, to manage the new company, employing its valuable know-how and experience in launching services by mid-2008.

This was followed by the acquisition of 15.97% of Indonesia's Excelcomindo in December 2007 for a consideration of AED1.609 billion (USD438 million). Excelcomindo is the third largest operator in Indonesia and controls 16.3% of the mobile market made up of approximately 15.5 million subscribers. Excel has built an advanced mobile network based on fiber-optic infrastructure, covering all major cities within the country. This investment represents an important foray for Etisalat into the Far East and paves the way for potential entry into India, China or other Far Eastern countries. Growth prospects looks extremely promising, in our opinion, given that mobile penetration in Indonesia registered only 41% in 2007 with Nominal GDP projected to expand by 12% this year.

Figure 24: **Revenue Breakdown from Consolidated Subsidiaries in 2007**



West Africa – Atlantique Telecom

AT reported a 104% increase in cumulative mobile subscribers last year from 1.4 million in 2006 to 2.8 million in 2007

Etisalat International initially acquired a 50% stake in Atlantique Telecom (AT) in April 2005 for the sum of AED455 million. Since then it has upped its holdings in the West African operator purchasing an additional 20% stake in 2007 and a further 12% in May 2008, bringing total holdings to 82%. AT enjoys majority ownership in mobile operators spanning seven West African nations, namely the Ivory Coast, Benin, Burkina Faso, Central African Republic, Gabon, Niger and Togo. The combined operating environment appears extremely benign, showing an aggregate population of 64 million people, Nominal GDP of USD42 billion, reflecting high single digit growth, and an inflation rate of 2.9%. Cumulative mobile penetration as of 2006 registered 12% and reached 20% by 2007 with the subscriber base increasing from 8.2 million to 14 million during this period.

AT reported a 104% increase in cumulative mobile subscribers last year from 1.4 million in 2006 to 2.8 million in 2007, pertaining to a 600 bps increase in market share to 22% and reflected in a parallel 118% jump in revenue from AED539 million to AED1,173 million over the same period. The company broke even in terms of EBITDA last year while the bottom line registered a AED305 million net loss. AT is currently undergoing a major network rollout and overhaul, extending coverage by 60% and allowing for GPRS-EDGE capabilities.

Figure 25: **Cumulative Population and Economic Data**

	2006a	2010f	CAGRf
Population ('000)	64,000	70,000	2.3%
Nominal GDP (USD billions)	42	61	9.3%
GDP per Capita (USD)	662	862	6.8%
Average Inflation	2.9%	2.6%	-2.9%

Source: Etisalat

Figure 26: **Cumulative Mobile Market Summary & Financials**

	2005a	2006a	2007a
Penetration	-	12%	20%
Subscriber Base (mln)	-	7.7	14.0
Subscribers (mln)	0.4	1.4	2.8
Market Share (estimated)	-	18%	20%
Monthly ARPU (USD)	18.3	17.7	13.1
(AED '000)			
Revenues	312,000	539,000	1,173,000
Growth	-	73%	55%
EBITDA	(23,000)	(190,000)	9,000
Net Income	(221,000)	(218,000)	(305,000)

Source: Etisalat, Prime estimates

Sudan – Canar

According to Etisalat, fixed penetration in Sudan was a minimal 2.9% in 2007 of which Canar claimed ca. 0.2 million subscribers

During 2007, Etisalat increased its stake in Sudan based Canar from 37% to 82% by acquiring AED584 million (USD159 million) worth of equity in the Sudanese fixed line operator. Canar has demonstrated solid operational improvement, increasing its customer base by 50% during 2007 and attaining a fixed line market share of 58%. The company further expanded its fiber optic network and increased its coverage by 120% last year, offering very attractive internet and broadband packages, and is also responsible for building Sudan's first direct connection to the World Submarine Cable Network providing the infrastructure needed to carry international calling traffic.

Sudan began exporting crude oil in 1999 and the increase in production coupled with high prices, in addition to significant Foreign Direct Investment (FDI) flows are contributing to strong economic growth and a rapid rise in GDP per Capita. Sudan's population was estimated at 37.16 million in 2007 and is expected to reach 38.13 million by the end of 2008, and reflect a 2.6% CAGR over the 5 year period ending 2012. Nominal GDP growth has been aggressive since 2006, registering 33% to USD36.4 billion in that year, 26.8% in 2007 and is expected to expand by another 16.9% this year to USD54 billion. GDP per Capita is also increasing, estimated to reach USD1,415 in 2008, an increase of 14% over the 2007 figure of USD1,242. According to Etisalat, fixed penetration in Sudan was a minimal 2.9% in 2007 of which Canar claimed ca. 0.2 million subscribers, equivalent to 54% of the market, leaving the balance to the only other fixed line operator Sudatel.

Canar reported 55% growth in revenue in 2007 to reach AED245 million. The company continues to undergo significant network expansion and upgrading, however CAPEX has been on a downtrend, falling to AED72 million in 2007, down from AED139 million in the previous year.

Figure 27: Sudan's Population and Economic Data

	2007e	2008f	2009f	2010f	2011f
Population ('000)	37,159	38,126	39,117	40,134	41,177
Nominal GDP (USD billions)	46.2	54.0	68.6	77.6	86.4
Nominal GDP Growth	26.8%	16.9%	27.2%	13.1%	11.3%
GDP per Capita (USD)	1,242	1,415	1,754	1,934	2,098
Inflation	8.0%	8.0%	6.0%	4.5%	4.0%

Source: IMF, Prime estimates

Figure 28: Sudan's Fixed Line Market Summary & Financials

	2005a	2006a	2007a
Penetration	-	2.4%	2.9%
Subscriber Base (mln)	-	0.6	0.4
Subscribers (mln)	-	0.2	0.2
Market Share (estimated)	-	38%	54%
Monthly ARPL (USD)	-	-	10.6
(AED '000)			
Revenues	3,000	158,000	245,000
Growth	-	-	55%
EBITDA	(79,000)	(105,000)	(4,000)
Net Income	(76,000)	(139,000)	(72,000)

Source: Etisalat, Prime estimates

Tanzania – Zantel

The mobile penetration rate in the country is estimated at a current 20%, and is expected to witness rapid growth over the coming few years

Etisalat, having acquired 34% of Zanzibar Telecommunications Limited (Zantel) in 1999 for AED8.8 million (USD2.4 million) took the decision, in 2007, to increase its stake in the operator to a majority 51% for a total consideration of AED55.4 million (USD15.1 million). Zantel provides fixed line, mobile and internet services in both Zanzibar and mainland Tanzania. The company rolled out a new network during 2007, providing improved quality and value-added services. A new state-of-the-art nationwide network is further being developed and is expected to cover 75% of the population by the end of 2008. The completion of this network is expected to significantly enhance revenues and the number of subscribers.

The population in Tanzania was estimated at ca. 39 million at the end of last year, and is expected to continue expanding at a moderate 2% per annum over the coming 5 years. Nominal GDP growth has recorded in the double digit figures over the recent period, with associated economic momentum likely to continue over the medium term.

The mobile penetration rate in the country is estimated at a current 20%, and is expected to witness rapid growth over the coming few years. Zantel meanwhile controlled approximately 8.6% of the mobile market in 2007, sporting ca. 0.7 million subscribers.

Zantel has recorded positive revenue, EBITDA and net income for the past 3 years. The top line expanded by 44% in 2007 to AED183 million while the bottom line registered AED8 million, a 44% decline from AED18 million in 2006. The company continues to invest in infrastructure, spending AED36 million in 2006 and AED15 million in 2007.

Figure 29: Tanzania's Population and Economic Data

	2007e	2008f	2009f	2010f	2011f
Population ('000)	38,964	39,743	40,538	41,349	42,176
Nominal GDP (USD billions)	16.2	19.8	22.1	24.7	27.6
Nominal GDP Growth	13.99%	22.56%	11.45%	11.71%	11.88%
GDP per Capita (USD)	415	499	545	597	655
Inflation	7.0%	7.1%	5.2%	5.0%	5.0%

Source: IMF, Prime estimates

Figure 30: Tanzania's Mobile Market Summary & Financials

	2005a	2006a	2007a
Penetration	-	14%	20%
Subscriber Base (mln)	-	5.6	8.1
Subscribers (mln)	0.2	0.4	0.7
Market Share (estimated)	-	7.1%	8.6%
Monthly ARPU (USD)	-	-	7.1
(AED '000)			
Revenues	104,000	127,000	183,000
Growth	-	22%	44%
EBITDA	21,000	23,000	25,000
Net Income	15,000	18,000	8,000

Source: Etisalat, Prime estimates

Afghanistan – Etisalat Afghanistan

The mobile penetration rate in Afghanistan grew 300 bps last year to settle at 9% in 2007 with the number of Etisalat's mobile subscribers totaling ca. 0.11 million

Etisalat was awarded the fourth mobile license in Afghanistan in May of 2006 at a cost of AED147.2 million (USD40.1 million), with a validity of 15 years. Infrastructure development and operations were launched in August 2007 covering major as well as smaller cities, with the company also having focused intensively on expanding its retail presence, currently sporting in excess of 1,000 retailers throughout Afghanistan offering a spectrum of advanced services including GPRS and MMS.

The population in Afghanistan was estimated at 27.4 million in 2007, expected to reach 28.1 million by year-end and continue growing at 2.7% per annum. Nominal GDP is expected to accelerate reaching USD11.2 billion in 2008 from an estimated USD8.8 billion in 2007, a y-o-y increase of 27.1%. The mobile penetration rate in Afghanistan grew 300 bps last year to settle at 9% in 2007 with the number of Etisalat's mobile subscribers totaling ca. 0.11 million giving the company a 4% market share.

The company generated AED6.4 million in revenues in the last 5 months of 2007 and a net loss of AED48.4 million for the first year of operations.

Figure 31: **Afghanistan's Population and Economic Data**

	2007e	2008f	2009f	2010f	2011f
Population ('000)	27,407	28,139	28,890	29,662	30,454
Nominal GDP (USD billions)	8.8	11.2	13.2	15.0	16.9
Nominal GDP Growth	25.45%	27.10%	17.89%	13.25%	12.58%
GDP per Capita (USD)	323	399	459	506	555
Inflation	13.0%	19.6%	9.2%	6.0%	5.4%

Source: IMF, Prime estimates

Figure 32: **Afghanistan's Mobile Market Summary & Financials**

	2006a	2007a
Penetration	6%	9%
Subscriber Base (mln)	1.7	2.5
Subscribers (mln)	-	0.11
Market Share (estimated)	-	4%
Monthly ARPU (USD)	-	9.3
(AED '000)		
Revenues	-	6,400
Growth	-	-
EBITDA	-	(43,800)
Net Income	-	(48,400)

Source: Etisalat, Prime estimates

Indonesia – Excelcomindo

Mobile penetration in Indonesia was at 41% according to Etisalat, up from 28% in 2006, and Excelcomindo's market share is also in a steady uptrend rising from 14% in 2006 to 19.6% in 2007

Etisalat acquired 15.97% of Indonesia's Excelcomindo in December 2007 for AED1.609 billion (USD438 mln). Excelcomindo is the third largest operator in Indonesia and controls 16.3% of the mobile market with around 15.5 million subscribers. Excel has built a high-quality mobile network with a fiber-optic infrastructure that covers all the major cities of the country. This investment represents an important foray for Etisalat into the Far East and paves the way for potential entry into India, China and or other Far Eastern countries.

Growth prospects look extremely promising in our opinion, with a population of 225 million, expected to expand to 240 million by 2012 and nominal GDP growth of 19% in 2007, projected to increase a further 13% this year and continue at a 10.4% CAGR over the coming 5 years. Mobile penetration in Indonesia was at 41% according to Etisalat, up from 28% in 2006. The company's market share is also in a steady uptrend rising from 14% in 2006 to 19.6% in 2007 on the back of a 63% increase in subscribers from 9.5 million to 15.5 million in 2007.

The company generated revenues of AED3.27 billion in 2007, illustrating buoyant 29% y-o-y growth. Excelcomindo has proven profitable since 2006 and continues to invest in developing and maintaining its infrastructure, spending AED70 million in 2006 and AED85 million in 2007.

Figure 33: Indonesia's Population and Economic Data

	2007e	2008f	2009f	2010f	2011f
Population ('000)	224,938	227,862	230,824	233,825	236,865
Nominal GDP (USD billions)	432.9	488.1	536.2	587.5	645.8
Nominal GDP Growth	18.82%	12.75%	9.84%	9.58%	9.92%
GDP per Capita (USD)	1,925	2,142	2,323	2,513	2,726
Inflation	6.4%	7.1%	5.9%	4.9%	4.3%

Source: IMF, Prime estimates

Figure 34: Indonesia's Mobile Market Summary & Financials

	2005a	2006a	2007a
Penetration	-	28%	41%
Subscriber Base (mln)	-	68	79
Subscribers (mln)	7.0	9.5	15.5
Market Share (estimated)	-	14%	19.6%
Monthly ARPU (USD)	5.7	4.9	5.0
(AED '000)			
Revenues	1,681,000	2,528,000	3,270,000
Growth	-	50%	29%
EBITDA	678,000	998,000	1,372,000
Net Income	(88,000)	255,000	98,000

Source: Etisalat, Prime estimates

Nigeria – Etisalat

Etisalat acquired a 40% stake in Mubadala's Emerging Markets Telecommunications Services Limited (EMTS) in 2007, facilitating access to a license to provide integrated telecom services in Nigeria. Etisalat is required, under the terms of the agreement, to manage the new company, employing its valuable know-how and experience in launching services by mid-2008.

Positioned as the most densely populated country in Africa, Nigeria sports close to 144 million inhabitants and a moderate mobile penetration rate of 66% as of 2007. The country's economy is expanding aggressively with GDP expected to reach USD220 billion in 2008, reflecting 32% growth y-o-y.

Figure 35: **Nigeria's Population and Economic Data**

	2007e	2008f	2009f	2010f	2011f
Population ('000)	143,854	147,810	151,874	156,051	160,342
Nominal GDP (USD billions)	166.8	219.9	250.6	273.1	292.3
Nominal GDP Growth	13.54%	31.87%	13.95%	8.97%	7.03%
GDP per Capita (USD)	1,159	1,488	1,650	1,750	1,823
Inflation	5.5%	8.6%	8.5%	8.5%	8.5%

Source: IMF, Prime estimates

Other Investments

Thuraya is a satellite phone and broadband provider offering dual GSM/Satellite handsets. Thuraya's services span over 112 countries in Europe, Africa, the Middle East and Asia with the third satellite launched in January 2008 to cover Eastern Asia and Australia. The company has 223,000 subscribers generating revenues of AED581 million in 2006 and AED689 million in 2007 (18.5% increase). Etisalat's share of guaranteed fees amounting to AED89.84 million was converted into fully paid equity shares at AED2.25 per share taking the company's stake in Thuraya from 27.427% to 28.042%.

Etisalat's other smaller investments include:

- A 1% stake (1.47 million shares) in Qatar's Qtel, which was acquired at a cost of AED120.1 million and valued on a market capitalization basis at AED242 million as of 26th August 2008. Etisalat previously owned 1.1 million shares of Qtel but subscribed to a rights issue (1 share for every 3 shares owned) in May 2008, for an additional 366,667 shares worth AED59 million.
- A 4% holding (29.24 million shares) in Sudan Telecom Company, purchased for AED74.89 million and valued on a market capitalization basis at AED177.2 million as of 26th August 2008.
- A 2.5% stake (2.5 million shares) in Emirates-Sudan Bank purchased for AED9.28 million and stated at book value as of at 1H2008, which is equal to the acquisition price.
- AED50 million worth of UT Technologies LLC, a 50% owned JV between Etisalat and Seven Emirates for Investment and International Trade LLC for the purpose of installing infrastructure and managing home networks.
- Trust Certificates of Wings FZCO, incorporated in the Dubai Airport Free Zone, with associated holdings valued stated at cost of AED91.9 million.
- Government of Dubai's Civil Aviation Department certificates, maturing in November 2009, stated at cost of AED128.6 million.

NB: Investments valued using the market capitalization method employ the market price as of 26th August 2008.

Etisalat Services

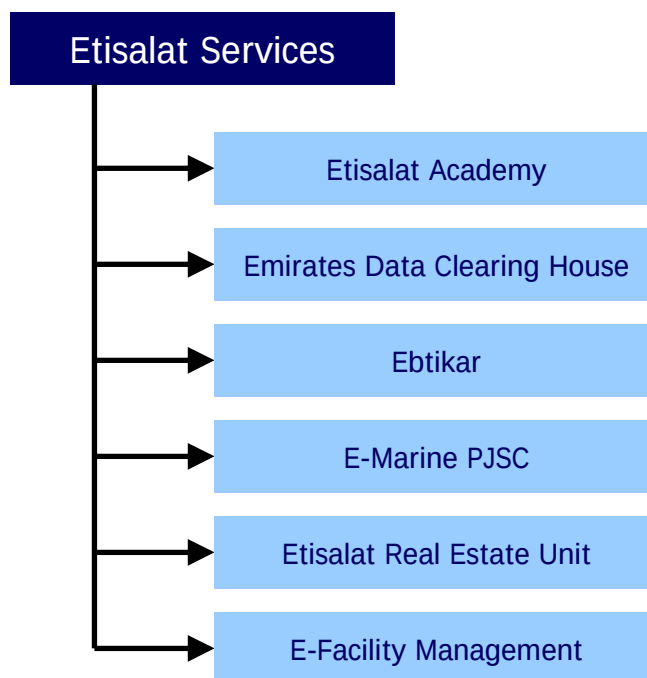
The following is a list of various companies comprising Etisalat Services. The descriptions below were provided by Etisalat as part of the company's 2007 annual report. All are 100% owned subsidiaries.

Etisalat Academy offers various training courses and seminars for Etisalat staff and external clients throughout the Middle East. The Academy delivers training programs to almost all of its international subsidiaries as well as some of its regional competitors. In addition to its main IT Security-focused course offerings the Academy launched certification courses in accounting and finance in collaboration with ACCA-UK. Etisalat Academy is growing and expanding its operations throughout the Middle East, North Africa and Asia.

Emirates Data Clearing House (EDCH) is one of only four clearinghouses worldwide. It allows local mobile subscribers to use GSM networks of other countries in order to make international voice and data calls. EDCH supports roaming services of 57 mobile operators in 39 countries with services such as data clearing, financial clearing, record conversion and inter-operator tariff verification.

Ebtikar manufactures a wide variety of prepaid scratch cards, smart memory cards and GSM SIM cards for both local and regional clients. Its factory in Ajman was recently recognized as the "Best Big National Factory" in 2007. The company continues to explore new products and services for future implementation.

E-marine PJSC installs, maintains and repairs submarine telecommunication and power composite cables. In addition to these activities the company provides marine route surveys, cable freight and storage services, chartering and marine project management and consultancy services.



Consolidated Financials

Consolidated Revenues Continue to be Driven by Domestic Operations

Consolidated revenues registered a 31% increase in FY07 to AED21.34 billion, with the mobile segment contribution responsible for a dominant 63.5% of the aggregate

Etisalat's revenues have reflected impressive growth over the past few years on the back of a continuous increase in the spectrum of value-added services on offer, in conjunction with a significant increase in mobile and internet usage within the UAE, and implementation of the company's international expansion plans.

Consolidated revenues registered a 31% increase in FY07 to AED21.34 billion, with the mobile segment contribution responsible for a dominant 63.5% of the aggregate, up 100 bps and 600 bps over 2006 and 2005 numbers, respectively. This came as the UAE added 852,000 mobile subscribers taking its total to 6.372 million, up a 15% y-o-y and local ARPU rose by 11% to USD46. Other subsidiaries contributing to consolidated mobile segment revenue performance last year include Etisalat Misr, which added 2.149 million subscribers within only eight months of operations (ARPU of USD6.1), Etisalat Afghanistan which added 110,000 subscribers during its first year of operations (ARPU of USD9.3), and Atlantique Telecom and Zantel, which saw 104% and 75% subscriber growth last year, sporting associated ARPUs of USD13 and USD7.1.

Revenues stemming from the internet and data segment continued to reflect the most aggressive growth, increasing 43% y-o-y to reflect a combined 16.4% of the aggregate

Revenues stemming from the internet and data segment meanwhile continued to reflect the most aggressive growth, increasing 43% y-o-y to reflect a combined 16.4% of the aggregate, as internet penetration in the UAE increased to 43%. Etisalat UAE added 215,000 new subscribers in 2007 compared to 133,000 in 2006 bringing total internet subscribers to 875,000 while the ARPL held steady at USD110.

The continued fixed to mobile substitution trend, specifically within local operations, saw fixed line revenue contribution to the consolidated top line fall to 14.3% from 17% in 2006 and 22% in the prior year. This was due to only modest, 5% growth, in UAE fixed line subscribers during 2007 and an 8% increase in ARPL to USD52. In terms of consolidated subsidiary performance, Canar's contribution to this segment remained relatively minimal at an estimated AED30 million.

Figure 36: Group Revenue and EBITDA (AED billions)

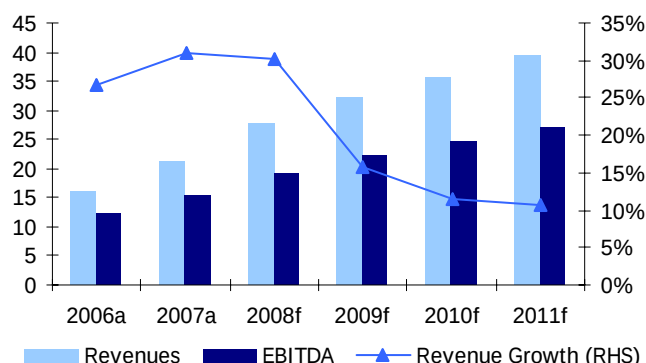
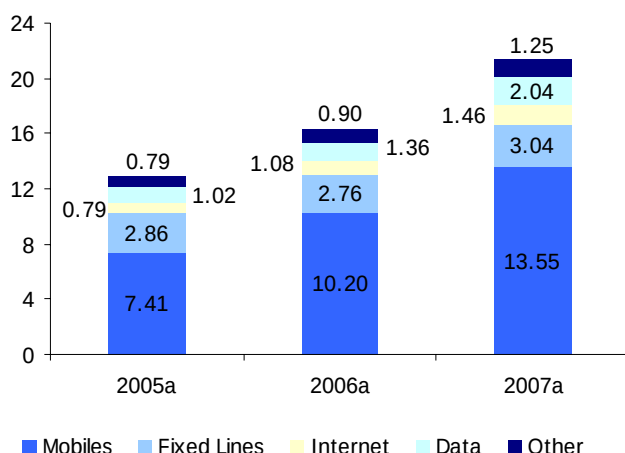


Figure 37: Group Revenue by Segment (AED billions)



Etisalat International

In terms of geographical breakdown, UAE operations continued to constitute the bulk of consolidated revenues in 2007 (having grown 25.2% y-o-y), bringing up in excess of 94% of the aggregate. On the other hand, consolidated international subsidiaries posted full-year top lines as follows: Egypt AED385 million, West Africa AED1.173 billion, Sudan AED245 million, Tanzania AED183 million and Afghanistan AED6.4 million. Revenues of the latter three operations, in addition to Nigeria, are expected to remain relatively muted in 2008, while our numbers for Egypt operations point to a more aggressive 85% increase in 2008 to a substantial AED688 million in consolidated revenues.

EBITDA

The EBITDA margin fell 400 bps in FY07 to 71.9%, following an increase in equity stakes in a number of lower margin yielding, international subsidiaries to a controlling and accordingly consolidated 50% plus level. Etisalat Misr, Canar and Afghanistan posted losses in terms of EBITDA in 2007 totaling an aggregate AED544 million, whereas Zantel and Atlantique Telecom added a minimal AED34 million to the associated KPI.

Share of Associates' Results

The company booked AED380 million in profits generated by associated operations in FY07, up 42% y-o-y, following an aggressive 97% jump in Mobily's net income to AED1.38 billion, and in spite of a 25.3% bottom line drop for PTCL in the year ending June 2007; the latter a function of an increase in costs associated with doubtful debts and technical service fees. PTCL further posted a large increase in costs in 1H2008 booking a charge of PKR23.2 billion in association with the Voluntary Separation Scheme (VSS) it offered to its employees in relation to post-retirement benefits.

Net Income & Tax Rate

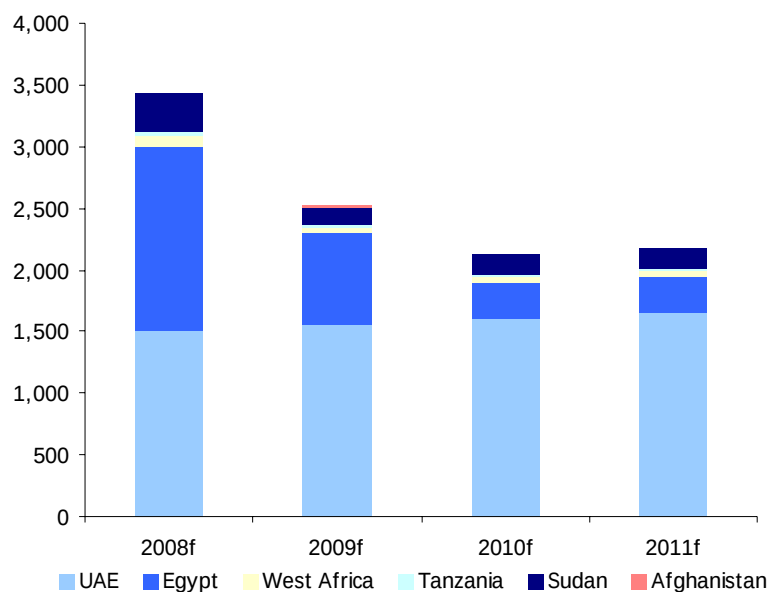
Consolidated net income registered a 24.5% increase to AED7.297 billion (equivalent to a 34.2% ROS), while the effective tax rate recorded 53.9%. As expected, four out of five fully consolidated subsidiaries continued to run in the red in 2007, with Etisalat Misr in specific registering the largest bottom line loss pertaining to AED1.7 billion, followed by Atlantique Telecom at AED305 million.

CAPEX

Heavy spending in the UAE will continue until the NGN is complete in 2011

Etisalat's capital expenditure, having averaged AED1.43 billion per annum between 2000 and 2006, witnessed a sharp jump to AED3.46 billion last year (CAPEX/Sales 16.2%) and recorded a further AED2 billion as of 1H FY08, on the back of large outlays both at home and abroad. Heavy spending in the UAE will continue until the NGN is complete in 2011, while significant 3.75G infrastructure spending in Egypt is also expected to remain high through to mid 2009.

Figure 38: **Group CAPEX Breakdown** (millions)



Valuation

Sum of the Parts

Our sum-of-the-parts valuation on Etisalat, comprising of a combination of DCF, market value and book value techniques, depending on necessary data availability, yields a long term fair value of AED27.13 per share, illustrating 51% upside potential over the current market price. Accordingly we assign a Strong Buy recommendation on the stock.

Figure 39: **Etisalat Group Sum of the Parts Valuation**

(AED '000)	DCF Value	Etisalat's Stake	Etisalat's Share (AED'000)	Value Per Etisalat Share	Share Price Contribution
Etisalat	146,829,340	100.0%	146,829,340	24.53	90.4%
Etihad Etisalat (Mobily)	28,054,619	26.3%	7,364,338	1.23	4.5%
PTCL	5,754,240	23.4%	1,346,492	0.22	0.8%
Etisalat Misr	1,783,297	66.0%	1,176,976	0.20	0.7%
Other Investments			5,718,788	0.96	3.5%
Total			162,435,934	27.13	
Total Outstanding Shares (mln)	5,986.91				
Current Share Price	17.95				
Current Market Cap. (AED mln)	107,465.0				
Upside Potential	51%				

Source: Etisalat, Prime estimates

Figure 40: **PE Ratio Comparison**

	Country	PE Ratio	
		2008f	2009f
STC	Saudi Arabia	9.9x	10.6x
MTC Zain	Kuwait	17.2x	14.3x
NMTC	Kuwait	11.1x	10.6x
Qtel	Qatar	11.2x	9.2x
OmanTel	Oman	12.8x	11.8x
Batelco	Bahrain	9.5x	8.5x
Maroc Telecom	Morocco	18.1x	17.1x
Telecom Egypt	Egypt	9.2x	7.9x
Orascom Telecom	Egypt	11.8x	10.2x
Komstar	Russia	17.5x	12.6x
Millicom	Luxembourg	14.5x	12.1x
Magyar Telecom	Hungary	10.3x	10.1x
Turkcell	Turkey	8.9x	8.4x
China Mobile	China	14.2x	12.0x
China Telecom	China	12.2x	12.2x
SK Telecom	South Korea	11.6x	9.3x
Bharti Airtel	India	17.9x	14.7x
Average		12.8x	11.3x
Etisalat		11.3x	9.8x

Source: Reuters, Prime estimates

CONSOLIDATED FINANCIAL STATEMENTS

(Figures in AED millions)

Income Statement	2006a	2007a	2008f	2009f	2010f
Revenues	16,290.3	21,339.9	27,795.2	32,164.6	35,866.7
Growth	26.6%	31.0%	30.3%	15.7%	11.5%
COGS	3825.8	5993.7	8633.2	9987.1	11183.2
EBITDA	12,464.5	15,346.1	19,162.0	22,177.5	24,683.5
Growth	26.6%	23.1%	24.9%	15.7%	11.3%
EBITDA Margin	76.5%	71.9%	68.9%	69.0%	68.8%
Depreciation & Amortization	1397.1	1961.9	2154.4	2360.5	2511.7
Operating EBIT	11,067.4	13,384.2	17,007.6	19,816.9	22,171.7
Net Interest	214.0	119.6	67.2	441.0	449.5
Other Income Net	388.2	635.6	3169.4	1602.5	1789.4
Pre Tax Income	11,669.6	14,139.4	20,244.1	21,860.4	24,410.6
Pre Tax Income Growth	37%	21%	43%	8%	12%
Income Tax	5859.7	7418.9	10729.4	11586.0	12937.6
NPAT	5,809.9	6,720.4	9,514.7	10,274.4	11,473.0
Growth	36.2%	15.7%	41.6%	8.0%	11.7%
Minority Interest	-49.9	-576.2	-356.8	-385.3	-229.5
Net Income	5,859.7	7,296.6	9,871.5	10,659.7	11,702.5
Growth	37.7%	24.5%	35.3%	8.0%	9.8%
ROS	36.0%	34.2%	35.5%	33.1%	32.6%

Balance Sheet	2006a	2007a	2008f	2009f	2010f
Cash & Marketable Securities	10,304.0	9,432.6	15,701.7	19,818.1	24,167.9
Trade Receivables-Net	2,812.2	2,257.3	3,879.5	4,489.3	5,006.0
Inventory	65.9	175.2	228.2	264.1	294.5
Other Current Asset	371.4	1,035.5	1,348.7	1,560.7	1,740.4
Total Current Asset	13,553.5	12,900.6	21,158.0	26,132.2	31,208.8
Net Fixed Assets	8,495.6	11,876.0	14,224.9	15,671.0	17,590.7
Other Assets	23,859.4	27,671.1	27,671.1	27,671.1	27,671.1
Total Assets	45,908.5	52,447.7	63,054.1	69,474.4	76,470.7
Short Term Bank Debt	1,537.4	343.0	787.5	911.3	1,016.2
Accounts Payable	8,568.5	13,230.5	17,232.8	19,941.7	22,237.0
Dividend Payable	1,588.1	1,746.9	4,491.5	5,383.1	6,611.9
Other Current Liabilities	1,911.4	2,344.9	2,806.7	3,090.7	2,331.3
Total Current Liabilities	13,605.4	17,665.4	25,318.5	29,326.9	32,196.5
Long-Term Debt	6,980.6	4,783.9	3,472.0	1,992.6	1,258.2
Other Long Term Liabilities	6,135.8	5,941.4	3,828.4	2,443.1	2,213.7
Total Shareholders' Equity	19,186.7	24,057.0	30,435.2	35,711.8	40,802.3
Total Liabilities & Shareholders' Equity	45,908.5	52,447.7	63,054.1	69,474.4	76,470.7

Free Cash Flow Statement	2006a	2007a	2008f	2009f	2010f
NOPLAT	5,295.1	6,214.3	7,690.4	8,694.9	9,773.4
Non-Cash Items	1,397.1	1,961.9	2,154.4	2,360.5	2,511.7
Gross Cash Flow	6,692.2	8,176.3	9,844.8	11,055.5	12,285.1
Gross Investments	7,821.8	2,162.4	4,246.1	2,527.0	4,250.2
Non-Operating Cash Flow	193.3	302.1	1,489.6	1,091.3	1,218.6
Free Cash Flow	(936.3)	6,315.9	7,088.4	9,619.8	9,253.5
<i>Financing Cash Flow</i>					
Interest Income After-Tax	(451.8)	(590.0)	(601.8)	(633.4)	(589.8)
Investment Income After-Tax	0.0	0.0	0.0	0.0	0.0
Increase in Excess Cash, M. Sec. & Subsidiaries	10,162.4	856.6	5,163.8	3,646.1	3,951.3
After-Tax Interest Expense	130.3	239.1	267.1	145.2	108.8
Decrease in Debt & Bonds	(8,518.0)	3,391.2	867.4	1,355.6	629.5
Provisions Used	(3,928.0)	727.7	1,000.0	1,000.0	0.0
Dividends Paid	1,992.0	2,259.7	1,390.1	4,106.3	5,153.7
Non-Appropriation Items	0.0	0.0	0.0	0.0	0.0
Shareholders Equity	(323.1)	(568.4)	(998.3)	0.0	0.0
Total Financing Flow	(936.3)	6,315.9	7,088.4	9,619.8	9,253.5

Source: Company Financials, Prime estimates

Stock Recommendation Guidelines

Recommendation	Target-to-Market Price (x)
Strong Buy	$x > 25\%$
Buy	$15\% < x < 25\%$
Accumulate	$5\% < x < 15\%$
Hold	$-5\% < x < 5\%$
Reduce	$-15\% < x < -5\%$
Sell	$-25\% < x < -15\%$
Strong Sell	$x < -25\%$

Investment Grade	Explanation
Growth	3 Yr. Earnings CAGR > 20%
Value	Equity Positioned Within Maturity Stage of Cycle
Income	Upcoming Dividend Yield > Average LCY IBOR
Speculative	Quality Earnings Reflect Above Normal Risk Factor

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