

|                     |       |
|---------------------|-------|
| Current Price (AED) | 16.95 |
| Target Price (AED)  | 21.00 |
| 1-year Total Return | 28%   |

#### Company Data

|                         |            |
|-------------------------|------------|
| Country                 | UAE        |
| Sector                  | Telecom    |
| Exchange                | ADSMI      |
| Shares Outstanding (mn) | AED 4,538  |
| Market Cap (mn)         | AED 76,911 |
| Net Debt (mn)           | AED 592    |
| Minority Interest (mn)  | AED 2,207  |
| Enterprise Value (mn)   | AED 79,710 |

#### Stock Data

|                |            |
|----------------|------------|
| 52 Week High   | AED 23.00  |
| 52 Week Low    | AED 14.30  |
| Yield          | 2.65%      |
| Beta vs. ADSMI | 1.19       |
| Bloomberg      | ETISALT UH |

#### Performance—Past Twelve Months



#### Investment Highlights

- We are initiating coverage on Etisalat with a Buy recommendation based on the fact that the stock is trading at a significant discount to regional peers, which we believe is unjustified. Our one year target price of AED 21 in conjunction with our forecasted dividend implies a total return of 28%.
- Etisalat is currently trading at 6.4x's trailing EV/EBITDA and 13x's trailing earnings. Both of these multiples are materially below regional peer trading multiples. If Etisalat achieves our target price and financial forecast the company will be trading at 7x's 2007 EV/EBITDA in a year's time.
- We believe that Etisalat will continue to see growth in a number of key business lines within the UAE, in spite of Du's entrance into the market. We come to this conclusion based on the following variables: growing mobile subscriber base, increased mobile penetration rate, stable ARPU, and increased broadband penetration.
- While Etisalat's domestic business will slow as a result of Du, we anticipate top and bottom line growth as a result of the company's cross border expansion. Operations in Egypt and Afghanistan will represent a greater proportion of top line growth with Mobily and PTCL contributing to strong bottom line growth.
- A key to our target price is an assumed lift in valuation over the coming year(s). The company has one of the highest EBITDA margins in the region, and a bottom line that will continue to grow as a result of its aggressive cross border expansion. Etisalat is trading at a significant discount to regional and global peers. We do not feel this discount is justified.
- The key risk to our analysis is our assumed lift in valuation on Etisalat shares. Additional risks include Du capturing significantly more market share than our forecast and Etisalat making aggressive acquisitions which destroy shareholder value.

#### Financial Highlights

| (AED mn)             | Year End as of December 31st |        |        |        |         |         |          |
|----------------------|------------------------------|--------|--------|--------|---------|---------|----------|
|                      | 2005A                        | 2006A  | 2007E  | 2008E  | 2009E   | 2010E   | 2011E    |
| Revenue              | 12,866                       | 16,290 | 18,552 | 19,790 | 20,925  | 21,707  | 22,655   |
| Revenue Growth       | 23.3%                        | 26.6%  | 13.9%  | 6.7%   | 5.7%    | 3.7%    | 4.4%     |
| EBITDA               | 9,808                        | 12,534 | 13,272 | 13,952 | 14,595  | 14,951  | 15,363   |
| EBITDA Margin        | 76.2%                        | 76.9%  | 71.5%  | 70.5%  | 69.7%   | 68.9%   | 67.8%    |
| EBITDA Growth        | 21.2%                        | 27.8%  | 5.9%   | 5.1%   | 4.6%    | 2.4%    | 2.8%     |
| Net Income           | 4,256                        | 5,860  | 6,524  | 7,406  | 8,413   | 9,116   | 9,406    |
| Net Income Margin    | 33.1%                        | 36.0%  | 35.2%  | 37.4%  | 40.2%   | 42.0%   | 41.5%    |
| Net Income Growth    | 24.5%                        | 37.7%  | 11.3%  | 13.5%  | 13.6%   | 8.4%    | 3.2%     |
| EPS                  | 1.17                         | 1.29   | 1.44   | 1.63   | 1.85    | 2.01    | 2.07     |
| EPS Growth           | 13.2%                        | 10.1%  | 11.3%  | 13.5%  | 13.6%   | 8.4%    | 3.2%     |
| Dividend Per Share   | 0.48                         | 0.45   | 0.61   | 0.64   | 0.68    | 0.71    | 0.74     |
| Payout Ratio         | 40.7%                        | 34.8%  | 42.6%  | 39.4%  | 36.4%   | 35.3%   | 35.9%    |
| Net Debt (cash)      | (9,659)                      | 592    | 455    | (621)  | (3,449) | (7,174) | (11,112) |
| Book Value           | 15,726                       | 21,394 | 24,801 | 29,064 | 34,416  | 40,568  | 47,046   |
| Book Value Per Share | 4.33                         | 4.72   | 5.47   | 6.41   | 7.58    | 8.94    | 10.37    |

#### Valuation

|                |       |       |       |       |       |       |       |
|----------------|-------|-------|-------|-------|-------|-------|-------|
| EV/Revenue     | 6.2   | 4.9   | 4.3   | 4.0   | 3.8   | 3.7   | 3.5   |
| EV/EBITDA      | 8.1   | 6.4   | 6.0   | 5.7   | 5.5   | 5.3   | 5.2   |
| P/E            | 14.5  | 13.1  | 11.8  | 10.4  | 9.1   | 8.4   | 8.2   |
| Dividend Yield | 2.8%  | 2.7%  | 3.6%  | 3.8%  | 4.0%  | 4.2%  | 4.4%  |
| PB             | 4.9   | 3.6   | 3.1   | 2.6   | 2.2   | 1.9   | 1.6   |
| ROE            | 27.1% | 27.4% | 26.3% | 25.5% | 24.4% | 22.5% | 20.0% |

NOTES: Per share data does not include announced bonus dividend of 10%. EPS data is based on outstanding shares as per calendar year end. All dividend data is based on cash dividends paid during the year.

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## FORECAST AND FINANCIAL OVERVIEW

After years of generating excess returns via a national monopoly, Etisalat will be faced with a competitive operating environment for the first time. While competition coming into their domestic market is certainly not a positive factor for shareholders, we believe that the equity market has significantly discounted Etisalat's earning potential in the UAE market.

**Exhibit 1.1: UAE Key Performance Indicators – 2005 to 2011 (Millions)**

| Key Indicators<br>(AED mn) | Year End as of December 31st |        |        |        |        |        |        |
|----------------------------|------------------------------|--------|--------|--------|--------|--------|--------|
|                            | 2005A                        | 2006A  | 2007E  | 2008E  | 2009E  | 2010E  | 2011E  |
| Revenues                   | 12,866                       | 16,290 | 18,552 | 19,790 | 20,925 | 21,707 | 22,655 |
| EBITDA                     | 9,808                        | 12,534 | 13,272 | 13,952 | 14,595 | 14,951 | 15,363 |
| EBITDA Margin              | 76%                          | 77%    | 72%    | 71%    | 70%    | 69%    | 68%    |
| Net Income                 | 4,256                        | 5,860  | 6,524  | 7,406  | 8,413  | 9,116  | 9,406  |
| Net Income Margin          | 33%                          | 36%    | 35%    | 37%    | 40%    | 42%    | 42%    |

*We expect EBITDA to reach 15.4 billion by 2011*

Source: Company Reports, GCG Analysis

While revenue growth in the UAE will certainly slow, Etisalat's aggressive cross border expansion plans will provide support for top and bottom line growth. For details on assumptions regarding Du's entrance into the UAE market please see the section "What to Du".

### Revenues

Du's entrance into the UAE telecom market will certainly slow Etisalat's top line growth. While we do not expect to see the same strength in revenue growth domestically as we have seen in the past, we do anticipate an upward trend. As operations in Egypt and Afghanistan mature, they will represent a greater proportion of top line growth.

**Exhibit 1.2: Etisalat Top Line Growth Estimates – 2006 to 2011 (Thousands)**



*Du's entrance into the UAE market will slow Etisalat's top line growth, but not to a great extent*

Source: Company Reports, GCG Analysis

### UAE Operations

We believe that Etisalat will continue to see growth in a number of key business lines within the UAE, in spite of Du's entrance into the market. We come to this conclusion based on the following variables: a growing mobile subscriber base, increased mobile penetration rate, stable ARPU (Average Revenue Per User), and increased broadband penetration.

### Growing Subscriber Base

Total UAE mobile subscribers are expected to increase significantly over the coming years – with a favorable demographic picture and a continuous influx of foreign workers, the population of the UAE is expected to continue its strong rate of growth. We have used IMF population numbers and assume that the UAE's population reaches 6.6 million by 2011. Exhibit 1.3 shows our Population, Mobile Penetration and Blended ARPU assumptions for our forecast period.

**Exhibit 1.3: UAE Population, Mobile Penetration and ARPU – 2005 to 2011**

*Mobile Penetration is expected to reach 148% by 2011*

|                    | 2005  | 2006  | 2007E | 2008E | 2009E | 2010E | 2011E |
|--------------------|-------|-------|-------|-------|-------|-------|-------|
| Population ('000)  | 4,680 | 5,038 | 5,423 | 5,749 | 6,036 | 6,338 | 6,655 |
| Mobile Penetration | 96%   | 110%  | 121%  | 131%  | 140%  | 147%  | 148%  |
| Mobile ARPU (AED)  | 136   | 166   | 157   | 149   | 141   | 134   | 127   |

Source: IMF, Company Reports, GCG Analysis

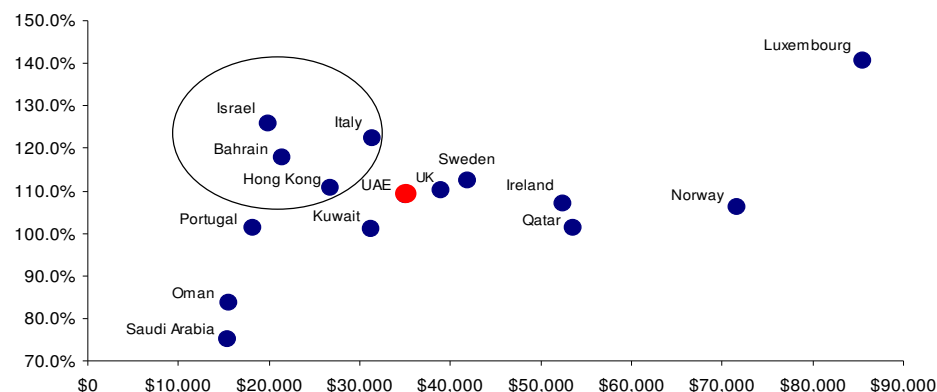
Note: ARPU Numbers based on number of subscribers at year end

### Growing Mobile Penetration Rate

A growing population base, in conjunction with an increase in mobile penetration, will significantly increase the size of the mobile market in the UAE. While the UAE has one of the highest penetration rates in the region, countries in Europe and Asia have penetration rates significantly higher. Considering the UAE's high GDP per capita relative to countries with higher mobile penetration rates, we believe mobile penetration will reach 148% by 2011.

**Exhibit 1.4: GDP Per Capita vs. Mobile Penetration (2006)**

*UAE has one of the highest GDP per capita and highest penetration rates in the region*



Source: IMF, Company Reports, GCG Analysis

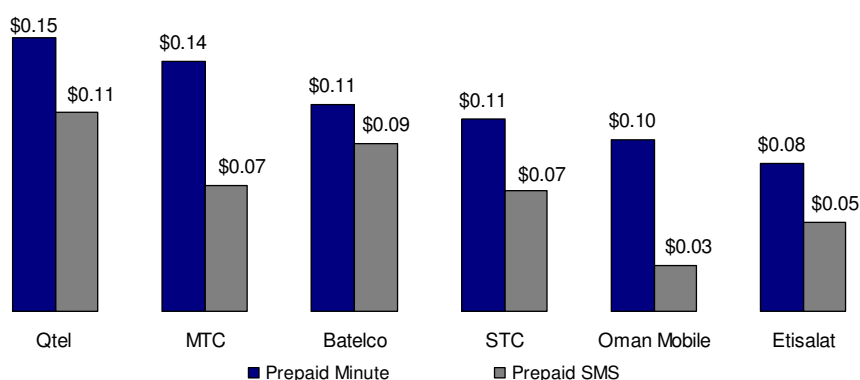
### Stable ARPU

While increased penetration is generally followed by falling ARPUs, we believe that Etisalat has the chance to be an exception. We do recognize that ARPUs in the country will fall as a result of competition; however, we do not think the decline will be as substantial as in other countries. We base this assumption on the fact that the UAE has one of the highest GDPs per capita in the world and thus the ability to support higher ARPUs.

More importantly, the acceptance of Etisalat's 3G network is in its infancy stage. Customers in the UAE have only begun to subscribe to the Mubashir service leaving substantial room for ARPU appreciation and/or stabilization. Etisalat is only in the early stages of rolling out products supported by their 3G network. The company has recently launched Location Based Services such as "Mobile Map" which allows a user to request a GPS generated map to be sent to them via SMS. A variation of this service, called "Nearest" allows users to request a map of the nearest points of interest. In addition to these services, Etisalat has recently launched its Mobile TV Service: up to ten live streaming television channels will be available on a user's 3G compatible handset. With a larger channel menu (vs. Du's seven channels) and a drastically lower price (dh39/month vs. Du's dh80/month) we anticipate this service to be well received by the company's 3G users. We are forecasting that Etisalat's ARPU will fall to AED 127 by 2011.

Additionally, Etisalat offers some of the lowest rates in the region on a per minute basis. While the company generates significant revenues from renewal charges, we do not see a tremendous opportunity for the company to decrease fees on a per minute basis.

**Exhibit 1.5: Regional Operator Rates (2006)**



*Etisalat offers some of the lowest rates in the region on a per minute basis*

Source: Company Reports

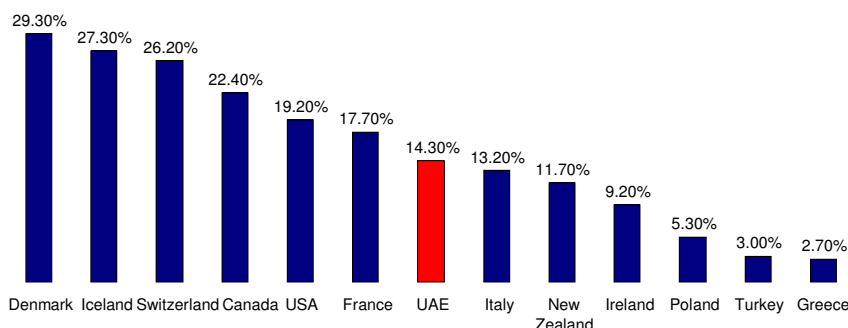
### Increased Broadband Penetration

Overall internet penetration in UAE is significantly lower than many countries in the OECD. Countries such as Denmark and the Netherlands are approaching 30% penetration, while the UAE is significantly behind at less than 15% total internet

penetration. The majority of Etisalat's internet subscribers use dial up and we believe that the higher margin broadband services (both residential and business) provide a significant opportunity for revenue growth.

**Exhibit 1.6: Global Internet Market Penetration (2006)**

*UAE's Internet Penetration rate is significantly lower than most countries in the OECD*

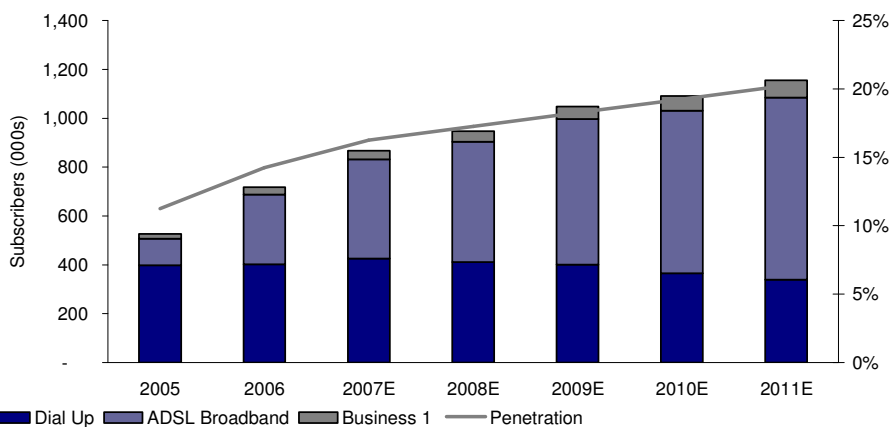


Source: OECD

We are expecting total internet penetration to reach 20% by 2011 (compared with 14% in 2006) with business and home broadband accounting for 15% in 2011 (compared to 3% in 2005).

**Exhibit 1.7: UAE Internet Market Penetration Rates – 2005 to 2011**

*UAE's Internet Penetration is expected to reach 20% by 2011*



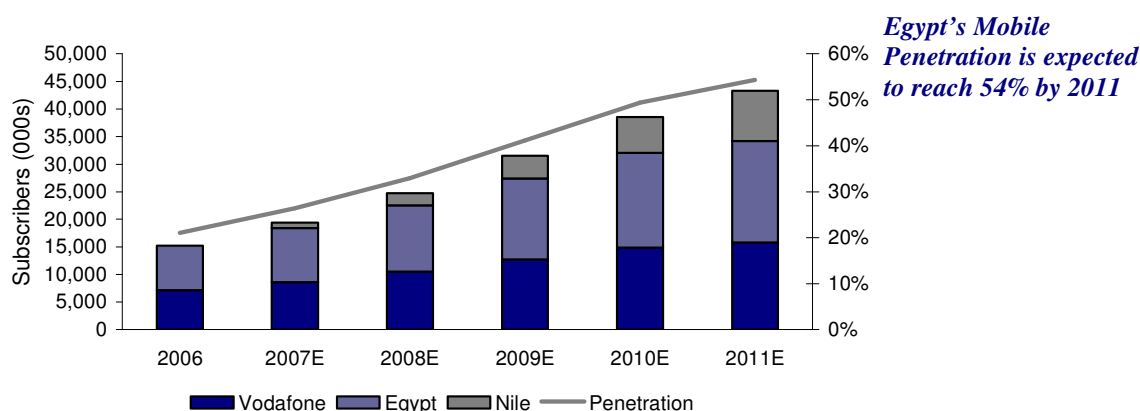
Source: IMF, Company Reports, GCG Analysis

### **Nile Telecom (Etisalat Misr)**

Etisalat has made a major commitment to Northern Africa by spending nearly \$3 billion on licenses in Egypt. For details regarding the bidding process and Nile Telecom operations please see our Company Overview in the Appendix A. We are forecasting that market penetration in Egypt reaches 54% by 2011 and that Nile

Telecom obtains 21% of the mobile market. This is contrary to management guidance which is forecasting 25% market share within three years of operations.

### Exhibit 1.8: Market Penetration – Egypt Carriers - 2006 to 2011



Source: IMF, Company Reports, GCG Analysis

While ARPUs in Egypt are between \$13 and \$11, we are forecasting Nile Telecom's ARPU to be \$14 in 2007 and gradually decreasing to \$11 by 2011. We have assumed a higher ARPU for Nile Telecom because of their 3G network and their expected ability to attract high value clients. MobiNil has announced that they will not pursue a 3G license while Vodafone Egypt will be purchasing a 3G license at an estimated cost of approximately \$600 million. While 2G will dominate Nile Telecom's subscriber base, their 3G license will provide a boost to ARPU over the long run.

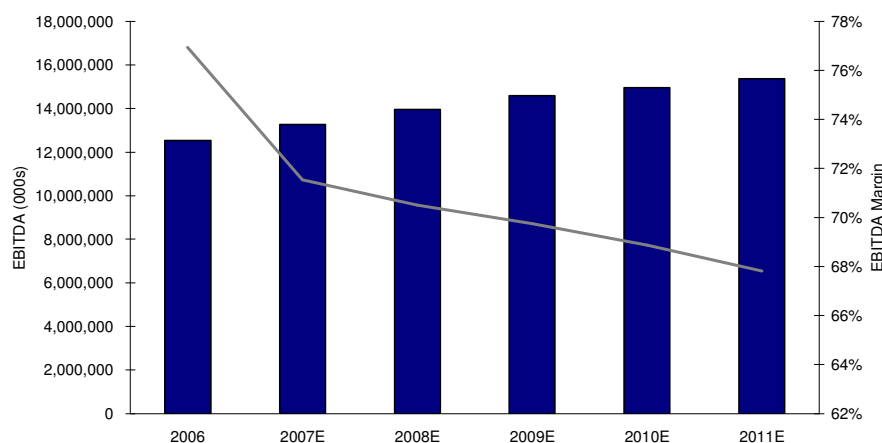
After spending significantly on a 2G and 3G license for Egypt, we are forecasting positive EBITDA for Nile Telecom by 2009. We believe that Etisalat was extremely aggressive in bidding for the license (Please see Company Overview for details on the license bidding) and we are yet to understand how the company is going to generate a positive return on invested capital in Egypt. Excluding the cost of the license (\$2.9 billion) and the capital spending that has taken place in 2006, we estimate that Nile Telecom is worth approximately \$3 billion based on future cash flow. In our opinion, Nile Telecom will not create shareholder value in the long run.

### EBITDA

While we expect revenue to continue to increase, we do anticipate a falling EBITDA margin in the UAE and for the company as a whole. Etisalat has the largest EBITDA margin in the region. In 2006, the company generated EBITDA of AED 12.5 billion representing a margin of 77%. With the addition of Du into the UAE market Etisalat will be required to increase the level of service provided to clients. The drive for better service, in conjunction with competitive pricing will result in an erosion of margins over time. We are forecasting EBITDA margins will fall to 68% by 2011.

**Exhibit 1.9: UAE EBITDA and EBITDA Margin - 2006 to 2011**

*With Du's entry into the market EBITDA Margins are expected to fall to 68% by 2011*



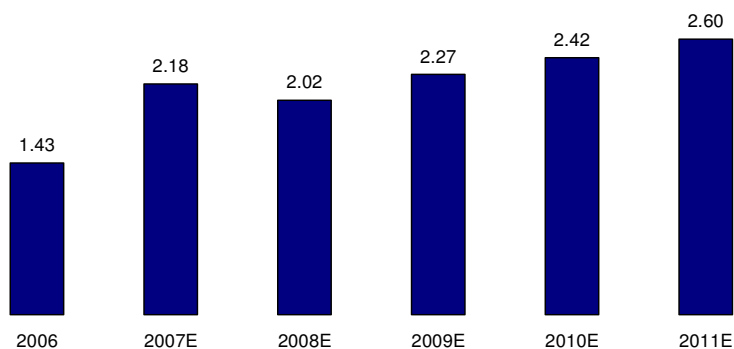
Source: Company Reports, GCG Analysis

### **Capital Spending**

In order to complete the build out of networks in Egypt and Afghanistan, we are forecasting capital spending of AED 2.1 billion and AED 2 billion in 2007 and 2008. We assume a Capex to Sales ratio between 5% to 10% for the remainder of our forecast period.

**Exhibit 1.10: Forecasted Capital Expenditures - 2006 to 2011 (Billions)**

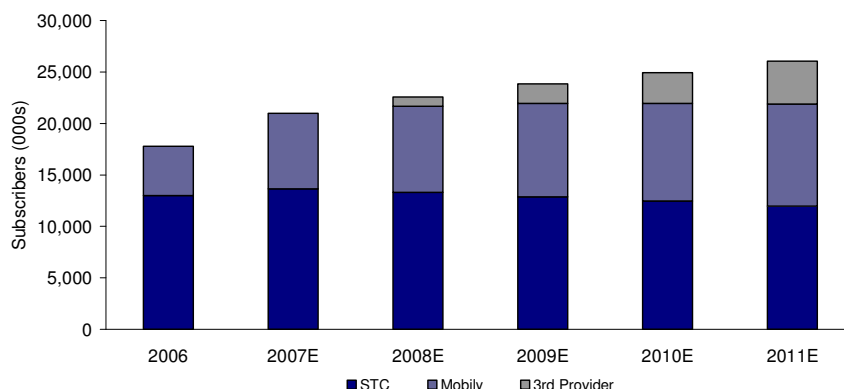
*Capital Expenditures are expected to continue to increase in the future*



Source: Company Reports, GCG Analysis

### **Mobily**

Mobily's success has exceeded the most optimistic forecasts. The company has managed to generate positive EBITDA and Net Income after only two years while capturing more than 30% of the mobile market in Saudi Arabia. Exhibit 1.11 displays carrier market share in Saudi Arabia for our projection period.

**Exhibit 1.11: Saudi Arabia's Carriers Market Share – 2006 to 2011**


*Both STC and Mobily will begin to lose market share once the 3<sup>rd</sup> provider enters the market*

Source: Company Reports, IMF, GCG Analysis

We estimate revenue growth to remain robust in 2007 and 2008. However, with a third license expected to be awarded in 2007 and operations to begin in 2008, we see revenue growth slowing.

**Exhibit 1.12: Mobily Key Performance Indicators – 2006 to 2011**

| SAR (mn)       | 2006  | 2007E | 2008E  | 2009E  | 2010E  | 2011E  |
|----------------|-------|-------|--------|--------|--------|--------|
| Total Revenues | 6,183 | 9,719 | 11,722 | 12,519 | 12,917 | 13,235 |
| Revenue Growth |       | 57%   | 21%    | 7%     | 3%     | 2%     |
| EBITDA         | 2,029 | 3,870 | 5,219  | 6,003  | 6,374  | 6,610  |
| EBITDA Margin  | 32.8% | 39.8% | 0.0%   | 47.9%  | 49.3%  | 49.9%  |
| Net Income     | 700   | 2,624 | 4,047  | 5,079  | 5,705  | 6,145  |

*Mobily's Revenue Growth will slow in the next four years when the third mobile license is issued*

Source: Company Reports, GCG Analysis

### Second Fixed Line

Our base case scenario does not include Mobily securing the second fixed line license in the KSA. While Mobily has stated its intentions of pursuing the second fixed line license, there is no guarantee that they will win the bidding process. If Mobily does win the bidding process we estimate that the second license will add approximately SAR 1 billion, per year, to EBITDA by 2010.

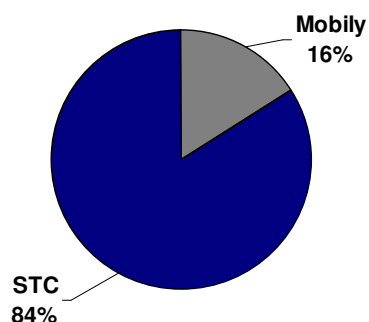
### Third Mobile License in the Kingdom

We expect Mobily to continue capturing Saudi Arabian market share in the near future. However, the regulatory authority in Saudi Arabia, The Communications and Information Technology Commission, is set to license a third mobile carrier in addition to its second fixed line carrier. Our assumptions assume that a third mobile carrier begins operations in 2008.

While Mobily currently controls approximately 30% of the mobile market in the Kingdom, Mobily's market capitalization is only 16% of the total Saudi Telecom (STC + Mobily) market capitalization.

**Exhibit 1.13: Saudi Market Capitalization**

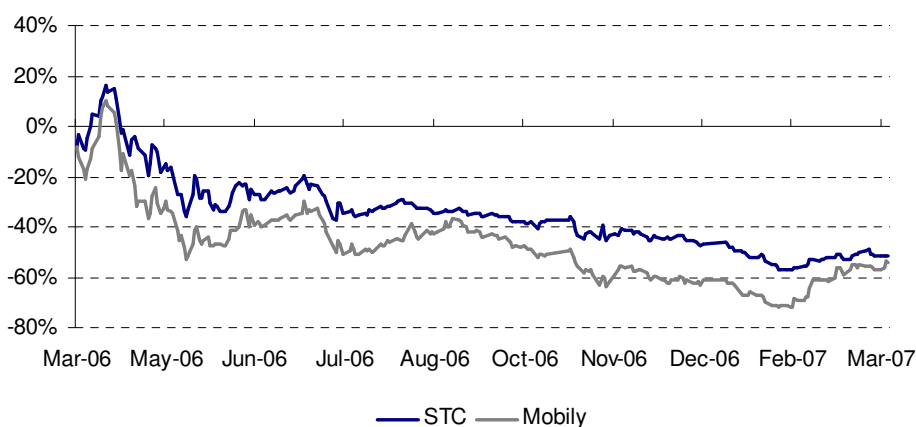
*Mobily's Market Capitalization is only 16% of the total Saudi Telecom market capitalization*



Source: Company Reports, GCG Analysis

**Exhibit 1.14: Performance - Last Twelve Months**

*Both Mobily and STC have lost tremendous value in the past year*



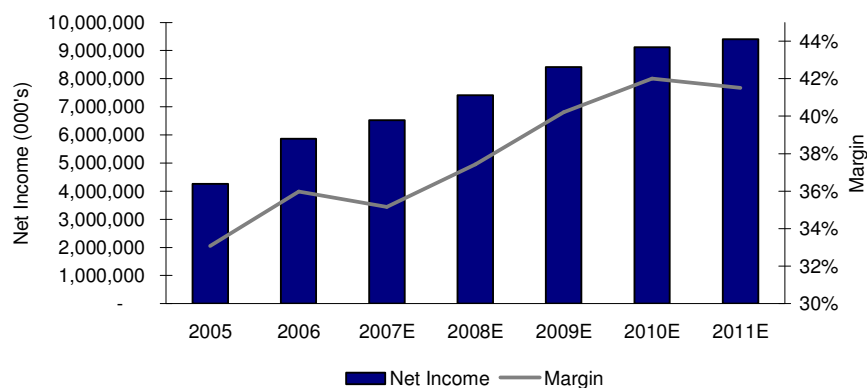
Source: Bloomberg

### **Net Income**

Etisalat's core business has changed in the past two years. It has moved from a telecom operator focused on its domestic market, to a holding company structure with diverse business units and interests around the world. For this reason, we believe that financial markets must pay greater attention to Net Income vs EBITDA as income from other subsidiaries becomes a core component of their business. Etisalat is only going to increase its portfolio of foreign holdings and the line item of "Income from Associated Companies" will only become more significant.

We anticipate net income to increase to AED 9.4 billion by 2011. While margins in the UAE will decrease over the next five years, net income will be driven by investments made in Saudi Arabia, Egypt, Afghanistan and Pakistan. We have forecasted that the UAE Royalty falls to 40% by 2011.

**Exhibit 1.15: Etisalat Net Income and Net Income Margin – 2005 to 2011**



*Net Income growth is expected to remain strong as a result of international holdings*

Source: Company Reports, GCG Analysis

## WHAT TO DU?

Assumptions surrounding Du's entrance into the UAE telecom market are a critical component of our analysis. While Etisalat is making a significant commitment to expanding beyond its domestic market, the reality is that the UAE will remain its major source of revenue over our forecast period. Du's ability to capture new entrants coming into the mobile market while attracting Etisalat customers seeking a change is a key determinant in our analysis.

### *The Mobile Market*

The mobile market in the UAE is currently saturated – with a penetration rate of approximately 110%. This metric alone signals a daunting task for a new entrant. To overcome this hurdle Du will be looking to implement two fundamental strategies in their attempt to gain market share.

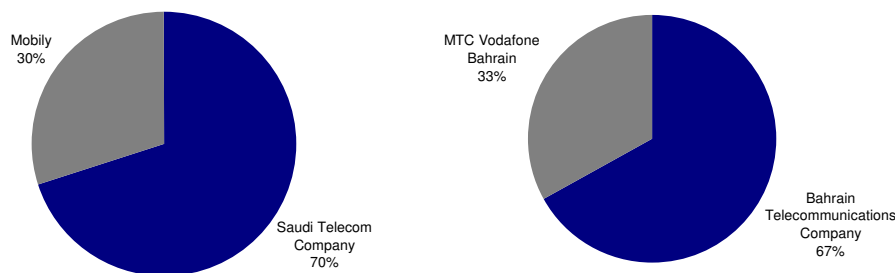
- Targeting defection of high value customers from Etisalat via (effectively) lower tariffs and higher levels of customer service.
- Focusing on capturing newcomers to the UAE. With substantial net migration in the near future Du will be looking to capitalize on these potential clientele.

Forecasting Du's success in capturing market share from Etisalat is important for an analysis of Etisalat's mobile operations going forward. We have referenced the effects on the incumbent upon entry of newcomers in markets such as Bahrain, Oman, and Saudi Arabia. In each case the incumbent GCC monopoly was met with competition for the first time. In the Saudi market, Mobily broke the monopoly in 2005 and has managed to capture 30% of the market share within 2 years of operations. In Bahrain, MTC Vodafone launched as the second telecom operator in 2003 and has captured 33% market yet. While these markets do not share the exact same parameters as the UAE they offer valuable insight.

Exhibit 2.1 displays the expected market share and subscriber numbers of both operators throughout our projection period.

### Exhibit 2.0: Split of Market Share - 2006

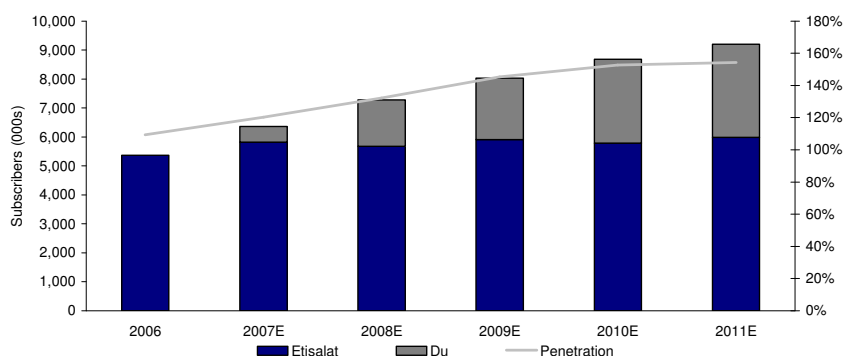
*In Saudi and Bahrain the second telecom operator has managed to capture over 30% of market share*



Source: Company Reports, GCG Analysis

We are forecasting Du obtains 35% of the mobile market by 2011. While Mobily has been able to capture 30% market share in less than two years, we do not anticipate Du having the same degree of success. When Mobily entered the market mobile penetration in the Kingdom was close to 40% allowing Mobily to capture many of the new mobile users. With the UAE's penetration exceeding 100% we expect Du will have more difficulty in obtaining market share than Mobily.

**Exhibit 2.1: UAE Mobile Market Share – 2006 to 2011**



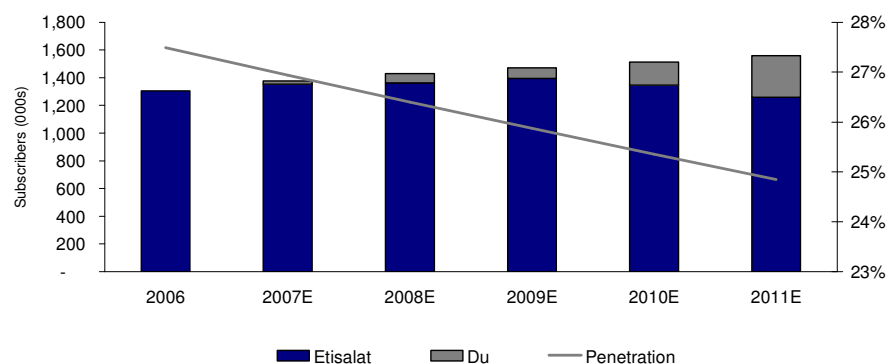
*We expect Du to obtain 35% market share by 2011*

Source: IMF, Company Reports, GCG Analysis

### Fixed Line

Du will roll out its fixed line division by targeting new real estate developments and eventually, with a Local Loop Unbundling (LLU) agreement mandated with Etisalat, they will target the remainder of the market by 2008. At the time of this publication Du's fixed line tariff rates have not been disclosed, however, we have formulated an estimate for the market share of both carriers throughout our forecast period.

**Exhibit 2.2: UAE Fixed Line Market Share – 2006 to 2011**



*Fixed Line Penetration in the UAE is forecasted to drop to 25% by 2011*

Source: IMF, Company Reports, GCG Analysis

By 2011, we anticipate that Du will capture 15% of the fixed line market in the UAE.

The fixed line division of Etisalat's operations is expected to take a hit as Du penetrates the arena. Not only do we expect Etisalat to lose defecting subscribers but

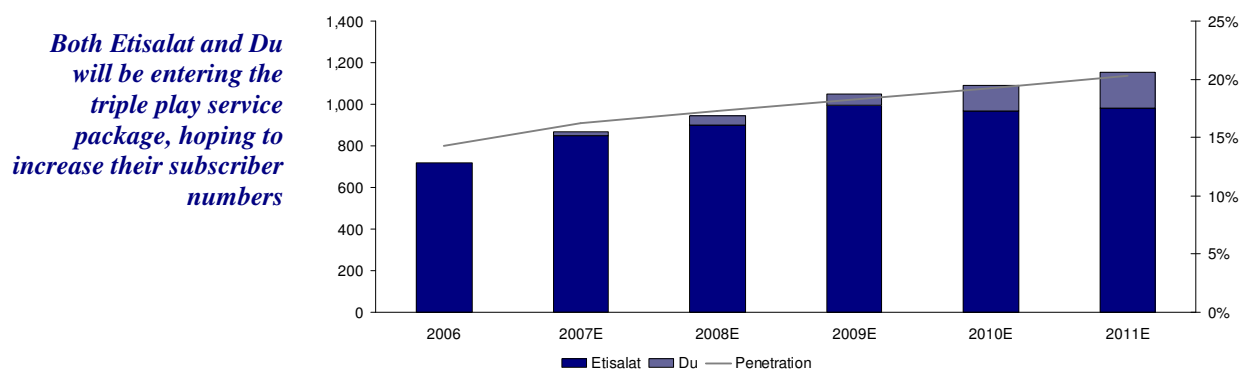
they will also have to concede on revenues of their remaining subscribers in order to retain them.

### *Internet*

Complementing Du's fixed line services will be their entrance into the ISP marketplace. ISP services are expected to be a part of Du's triple play package; internet, telephone, and television programming via one wire. Our estimations of internet market share acquired by Du are highly correlated with our assumptions on their fixed line success. Both Du and Etisalat are keen to enter triple play service packaging, and as such we expect those who choose Du fixed line services to also use Du's internet service.

Exhibit 2.3 displays the estimated subscriber base for both Etisalat and Du, as well as the estimated internet penetration rate of the UAE.

**Exhibit 2.3: UAE Internet Market Share – 2006 to 2011**



Source: IMF, Company Reports, GCG Analysis

For more information on our analysis of Du's entrance into the UAE market, please refer to our sensitivity analysis on page 20.

## THE ROAD AHEAD

### *More To Come*

There is no doubt that Etisalat will continue down the acquisition path. With its largest shareholder being the cash rich government of UAE, a substantial increase in dividends does not appear to be a real consideration. While the telecom sector has enormous capital expenditure requirements, Etisalat will be flush with cash in coming years.

We are forecasting positive net cash (Cash less all Outstanding Debt) by 2008. The company currently has a relatively low debt to equity ratio. Additional leverage in conjunction with cash holdings will provide ample currency for acquisitions.

### *Algeria*

Since mid 2006 Etisalat has been in contact with government officials in Algeria regarding entry into the country's telecommunications sector. Two options have been tabled: acquiring a stake in state owned Algerie Telecom or acquiring a newly issued mobile license. The figures reported suggest the acquisition of 35% of Algerie Telecom could cost Etisalat up to \$3 billion. There has been no mention of cost regarding a newly issued license.

Mobile services in Algeria are currently provided by three companies, Mobilis, Orascom, and Wataniya – together they have achieved a penetration rate of 68%. The large population (IMF estimates of 33 million – 2006) and the country's burgeoning economy, fueled by high oil prices, have made Algeria an intriguing target market for Etisalat. Etisalat was seriously considering a bid for Wataniya as a gateway into the Algerian market. They have since missed this opportunity as Q-Tel has won the winning bid. Wataniya has operations in Kuwait, Iraq, Tunisia, The Maldives, and Algeria. This acquisition was consistent with both Etisalat's recent expansion strategy and their desire to enter the Algerian Market.

### *Q-Tel Stealing Etisalat's Thunder*

Kuwait Projects Company, Kipco, formed a consortium of shareholders canvassing to sell a total of 51% of Wataniya's stock. Qatar Telecom (Qtel) bid \$3.72 billion for a stake in Kuwait's Mobile Telecommunications Company (Wataniya), making it the largest acquisition in the Gulf Arab Telecommunications industry. The agreement will give Qtel a 51% stake in Wataniya. Qtel will pay 4.6 dinars per share for Wataniya, which traded at 3.1 dinars prior to the announcement of the acquisition, representing a 48% premium. The acquisition will add revenues worth \$1.9 billion to Qtel in 2007 and net income is expected to increase by 70%.

**Exhibit 3.0: Wataniya Acquisition – Deal Metrics**

|                                                                                                           | Pre-acquisition (USD) | Post-acquisition (USD) |
|-----------------------------------------------------------------------------------------------------------|-----------------------|------------------------|
| <i>Qtel paid a premium of 48% over current share price, representing an EV/EBITDA multiple of 13.5x's</i> |                       |                        |
| Share Price                                                                                               | 10.62                 | 15.75                  |
| EBITDA                                                                                                    | 584,479,452           | 584,479,452            |
| Net Income                                                                                                | 265,321,918           | 265,321,918            |
| Enterprise Value                                                                                          | 5,583,622,247         | 7,937,451,836          |
| P/E                                                                                                       | 18.33                 | 27.21                  |
| EV/EBITDA                                                                                                 | 9.55                  | 13.58                  |

Source: Company Reports, GCG Analysis

While Wataniya will certainly be viewed as a missed opportunity by Etisalat, we think that management should be applauded for not overbidding. A share premium of nearly 50% and EV/EBITDA of 13.5x's is certainly an expensive price. Over time, we believe that the equity market will perceive management's restraint favorably.

**Other transactions - Hutchison Telecommunications International Limited (HTIL)**

HTIL recently sold its 67% stake in Hutch Essar, its Indian subsidiary, to Vodafone Group, for total consideration of \$13 billion (inclusive of \$1.96 billion in debt). The Indian market is one of the fastest growing mobile markets in the world and it is estimated that total subscribers doubled to 155 million by the end of 2006 with penetration of approximately 14%. While there is no direct impact on Etisalat, the price paid to enter the Indian mobile market is a reflection of the increasing value of global telecom assets.

**Exhibit 3.1: Hutchison Telecom Intl. Ltd. Acquisition – Deal Metrics**

|                                                                                         | Hutchison Telecom International Limited - Deal Metrics |
|-----------------------------------------------------------------------------------------|--------------------------------------------------------|
| <i>The value of global telecom assets are rising, as is seen by recent acquisitions</i> |                                                        |
| Percentage Acquired                                                                     | 67%                                                    |
| Cash consideration                                                                      | \$11.08 billion                                        |
| Assumed Debt                                                                            | \$1.96 billion                                         |
| Acquisition Price                                                                       | \$13.04 billion                                        |
| Implied Enterprise Value                                                                | \$19.46 billion                                        |
| Subscribers*                                                                            | 22.3 million                                           |
| Price / Subscriber                                                                      | \$872.00                                               |

\*12 months to June 2006

Source: Company Reports, Bloomberg, GCG Analysis

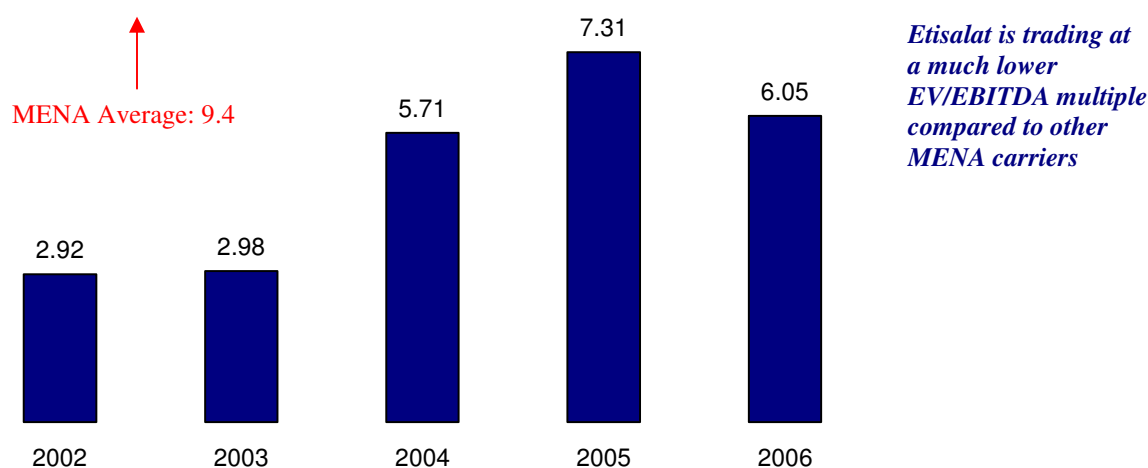
## VALUATION

We are initiating coverage on Etisalat with a Buy recommendation based on our belief that Etisalat is trading at an unjustified discount to regional peers. Our one year target price of AED 21 in conjunction with our forecasted dividend implies a total return of 28%. Etisalat is currently trading at 6.4x's trailing EV/EBITDA and 13x's trailing earnings. Both of these multiples are materially below regional peer trading multiples. If Etisalat achieves our target price and financial forecast the company will be trading at 7x's 2007 EV/EBITDA in a year's time. We anticipate that Etisalat will experience a lift in valuation closer to that of its regional peers, which are currently trading at an average trailing EV/EBITDA of 9.4x's. It is important to note that our valuation does not reflect the announced 10% bonus shares in February but is based on current outstanding shares.

### *Discount to Comparable Companies*

Etisalat is currently trading at 6.4x's EV/EBITDA (LTM) compared to its regional MENA peers of 9.4x's. Our target price assumes a significant lift in valuation. Please see comparables at the end of our valuation section.

**Exhibit 4.0:– Etisalat Enterprise Value/EBITDA – 2002 to 2006**



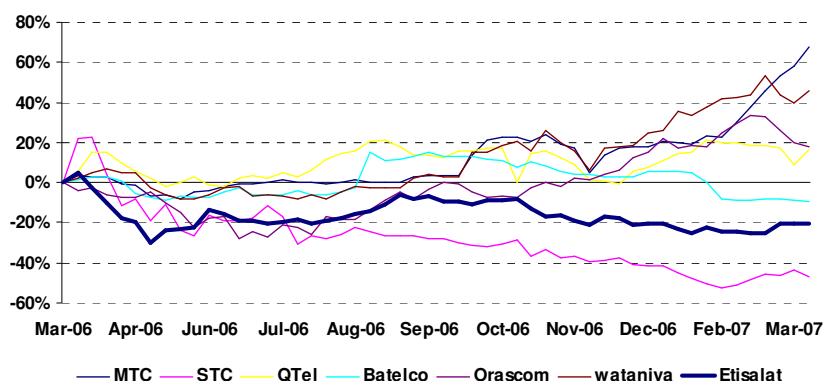
Source: GCG Analysis

We believe that the market is currently pricing in a discount for the following reasons:

1. **Weak market conditions** – Market sentiment in the region has been very poor over the past 12 months with major indices in the region down more than 50%. While the market as a whole has deteriorated, Etisalat's decline has been second only to STC's in telecoms sector. Considering Etisalat's current valuation we feel that the market decline for Etisalat's shares has been overdone.

Exhibit 4.1: Regional Carriers Performance – Last Twelve Months

*STC, Etisalat and Batelco have shed the most since last year, as market sentiment has driven prices lower*



Source: Bloomberg

2. **Anticipation of competition in domestic market** – Du's entrance into the UAE telecom market has significantly spooked Etisalat's market participants. There is a great deal of uncertainty regarding how Etisalat will respond to competition and their strategy for continued growth from both the top and bottom line.
3. **Aggressive cross border expansion** – With competition coming to the UAE, growth opportunities at home will be limited. Etisalat has aggressively pursued licenses and acquisitions in foreign markets. While we applaud their strategy, they have received a great deal of negative press regarding the price they have paid for these assets. The market appears worried about management's fiscal responsibility and their ability to win a bidding process without significantly overspending. We think that management's decision not to pursue the Wataniya transaction will create positive sentiment in the market.

We think that there are a number of factors that the market is not pricing accordingly and we anticipate a gradual lift in valuation over time – thus the reason for us using a higher EV/EBITDA multiple in our target price and a higher terminal multiple in our DCF analysis:

1. **Acquisitions have worked to date** - While Etisalat's acquisition strategy has undoubtedly been aggressive, they have been successful with their first venture. The license paid for by Etihad Etisalat (Mobily) was considered to be very expensive at the time of the purchase. The consortium bid 10% more than the next closest bid. The success of Mobily in its first 22 months of commercial operations has been tremendous. While we are unable to quantify and project this level of success onto its other ventures (mainly Egypt) perhaps Etisalat will surprise the market once again in Egypt, Pakistan and Afghanistan.
2. **Highest margins in the region** – Etisalat has the highest EBITDA margin in the region. While we expect EBITDA margin to erode over time, Etisalat maintains the highest margin by a substantial amount and we believe it deserves a premium for this margin.
3. **Options for financing** – Etisalat has significant resources to continue its expansion plans. Currently, net debt is negligible and is expected to fall to zero over the next two years (assuming no additional acquisitions). This leaves the

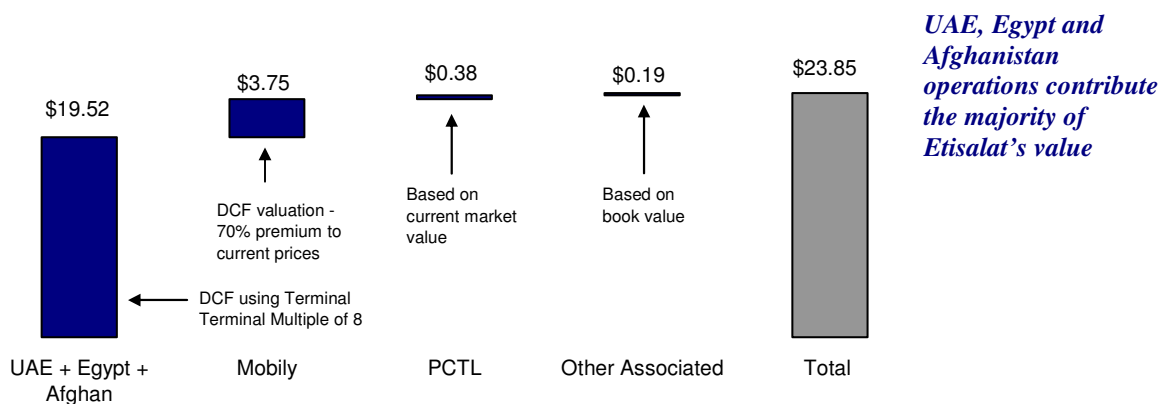
company with significant room to finance acquisitions through leverage. While leverage remains an option for financing, we also believe that equity financing is a viable option and should be considered, especially when fair value and market value converges.

4. **Foreign restrictions** – Currently, only UAE nationals are able to hold the stock of Etisalat. This greatly limits the demand for the stock and we think that if these regulations were to be revised, we would see a lift in its price which would allow for a much strong currency to support its acquisition strategy. While there has been no indication that the restriction on foreign ownership will be lifted, with foreigners being able to buy Du in the secondary market, we believe that the restriction placed on Etisalat could be removed in the future.

### Sum-of-parts-analysis

While we have set our one year target price at AED 21, our sum-of-parts analysis has arrived at an estimate of fair value for Etisalat shares of AED 24.

**Exhibit 4.2: Sum of Parts Valuation - Etisalat**



Source: GCG Analysis

### UAE + Egypt + Afghanistan Valuation

#### Free Cash Flow Calculations

We anticipate that Etisalat's consolidated operations (UAE + Egypt + Afghanistan) will be generating Free Cash Flow of AED 6 billion and EBITDA of AED 15 billion by 2011.

**Exhibit 4.3: Etisalat Free Cash Flow – 2007 to 2011**

*We expect Etisalat's  
Free Cash Flow to  
reach AED 6 billion  
by 2011*

|                               | Year End as of December 31st |             |             |             |             |
|-------------------------------|------------------------------|-------------|-------------|-------------|-------------|
|                               | 2007E                        | 2008E       | 2009E       | 2010E       | 2011E       |
| EBITDA                        | 13,271,662                   | 13,951,837  | 14,594,663  | 14,950,951  | 15,362,948  |
| Net Interest Income (expense) | (355,201)                    | (252,763)   | (83,559)    | 133,027     | 351,851     |
| Federal Royalty and Taxes     | (6,500,141)                  | (6,745,284) | (6,615,231) | (6,379,133) | (6,603,654) |
| Changes in Working Capital    | 134,612                      | (1,022,088) | 169,640     | 409,938     | 528,692     |
| Capex                         | (2,177,810)                  | (2,024,132) | (2,267,310) | (2,424,892) | (2,600,888) |
| Acquisitions                  | (978,884)                    | (978,884)   | (978,885)   | (978,884)   | 0           |
| Minority Interest             | 252,293                      | 120,524     | (127,697)   | (405,776)   | (631,358)   |
| Free Cash Flow                | 3,646,531                    | 3,049,211   | 4,691,621   | 5,305,231   | 6,407,591   |

\*NOTE - Minority Interest reflects EBITDA Minority Interest. Federal Royalty and Taxes have been adjusted to show the impact of minority holdings

Source: GCG Analysis

*Weighted Average Cost of Capital (WACC)*

For discounting our projected cash flow we have used the assumptions as outlined in Exhibit 4.4.

**Exhibit 4.4: Etisalat Weighted Average Cost of Capital Components**

*We have used a WACC  
of 11.07% in our DCF  
analysis*

| Weighted Average Cost of Capital |               |
|----------------------------------|---------------|
| Cost of Debt                     | 5.65%         |
| Risk Free Rate (10 Year US)      | 5.50%         |
| Company Beta                     | 1.19          |
| Equity Market Premium            | 7.0%          |
| Cost of Equity                   | 13.8%         |
| <b>WACC</b>                      | <b>11.07%</b> |

Source: Bloomberg, GCG Analysis

We have taken the current capital structure (year end 2006) as our debt-to-equity ratio: the company is funded by 34% debt and 66% equity. We have used a 7% equity market risk premium, which we apply to all of our MENA securities. We arrive at our equity risk premium by taking a 5% equity risk premium for developed markets and applying a 2% Emerging Markets premium. We have taken a Beta of 1.19 relative to the ADSM Index.

*Discounted Cash Flow*

We prefer to use a terminal multiple (EV/EBITDA) in 2011 vs. a perpetual growth rate for valuation purposes. While Etisalat is currently trading at 6.4x's EV/EBITDA we have applied an 8x's multiple reflecting a rise in valuation as discussed previously. Again, we are anticipating a lift in valuation closer to regional peers. Based on our forecasted cash flow, WACC and Terminal Value, we arrive at a value for operations in the UAE, Egypt and Afghanistan of AED 20.

**Exhibit 4.5: Etisalat Valuation – Discounted Cash Flow Analysis**

|                      |             | 2007E     | 2008E     | 2009E     | 2010E     | 2011E       |
|----------------------|-------------|-----------|-----------|-----------|-----------|-------------|
| 2011 EBITDA          | 15,362,948  |           |           |           |           |             |
| EV/EBITDA Multiple   | 8           |           |           |           |           |             |
| 2011 Terminal Value  | 122,903,584 |           |           |           |           |             |
| Discount Rate        |             | 0.900     | 0.811     | 0.730     | 0.657     | 0.592       |
| Total Cash Flows     |             | 3,646,531 | 3,049,211 | 4,691,621 | 5,305,231 | 129,311,175 |
| Discounted Cash Flow |             | 3,283,100 | 2,471,701 | 3,424,014 | 3,485,951 | 76,499,258  |
| Sum of Discounted CF | 89,164,024  |           |           |           |           |             |
| Less Net Debt        | 592,103     |           |           |           |           |             |
| Equity Value         | 88,571,921  |           |           |           |           |             |
| Outstanding Shares   | 4,537,500   |           |           |           |           |             |
| Equity Per Share     | 19.52       |           |           |           |           |             |

*We are expecting a rise in valuation and hence have used an EV/EBITDA multiple of 8x's for valuation purposes*

Source: GCG Analysis

We have removed all debt associated with the company to arrive at our equity value. This debt may not be directly related to operations in the UAE, Egypt and Afghanistan.

Our 8x's terminal multiple is equivalent to a perpetual growth rate of approximately 6%. Exhibit 4.6 outlines the equivalent perpetual growth rate relative to an EBITDA terminal multiple in determining a terminal value.

**Exhibit 4.6: Etisalat Valuation – Growth vs. Multiple**

| 2011 Terminal EV   | Terminal Growth | Equivalent EV/EBITDA Multiple |
|--------------------|-----------------|-------------------------------|
| 79,402,668         | 3%              | 5.17                          |
| 90,634,005         | 4%              | 5.90                          |
| 105,566,105        | 5%              | 6.87                          |
| <b>126,388,878</b> | <b>6%</b>       | <b>8.23</b>                   |
| 157,444,618        | 7%              | 10.25                         |

*Our 8x's Terminal Multiple is equivalent to a perpetual growth rate of approximately 6%*

**Mobily Valuation**

Our Mobily forecast model and DCF analysis arrives at an equity value of SAR 99, which represents a premium of 71% based on the current price of SAR 58. We have used our Mobily DCF valuation (SAR 99) in our Etisalat sum-of-parts valuation. We can conclude that Mobily represents about AED 3.75 per Etisalat share, or 15% of our combined Etisalat value.

**Exhibit 4.7: Mobily Valuation – Discounted Cash Flow**

|                          | Market Value | GCG DCF    |
|--------------------------|--------------|------------|
| Price (SR)               | 58.5         | 99         |
| Shares Outstanding       | 500,000      | 500,000    |
| Total Equity Value       | 29,250,000   | 49,698,332 |
| Etisalat Ownership       | 35%          | 35%        |
| Etisalat Stake           | 10,237,500   | 17,394,416 |
| Exchange Rate AED/SAR    | 0.979        | 0.979      |
| Etisalat Value AED       | 10,024,560   | 17,032,612 |
| Value Per Etisalat Share | 2.21         | 3.75       |

*Mobily represents about 15% of our combined Etisalat fair value*

Source: Bloomberg, GCG Analysis

### *Pakistan Telecommunications Company (PTCL) Valuation*

We have used the current price for PTCL in our valuation. While Etisalat paid Rs 117 per share for their 26% stake, the company is now trading at Rs 48. At current prices this translates to AED 0.38 per Etisalat share.

#### **Exhibit 4.8: Pakistan Telecommunications Company (PTCL) Valuation**

*PTCL only contributes  
about 3% to our fair  
value of Etisalat*

|                          | Current Price | Purchase Price |
|--------------------------|---------------|----------------|
| Price (SR)               | 48            | 117            |
| Shares Outstanding       | 5,100,000     | 5,100,000      |
| Market Cap               | 244,800,000   | 596,700,000    |
| Etisalat Ownership       | 26%           | 26%            |
| Etisalat Stake           | 63,648,000    | 155,142,000    |
| Exchange Rate AED/SAR    | 0.06051       | 0.06051        |
| Etisalat Value AED       | 3,851,340     | 9,387,642      |
| Value Per Etisalat Share | 0.38          | 0.55           |

Source: GCG Analysis

### *Sensitivity Analysis*

We have conducted a sensitivity analysis to show the effect of several key assumptions in our analysis.

#### *Case 1: Du Effect:*

While Etisalat is expanding aggressively across borders, the UAE remains the key market in our forecast period. Essential in our analysis are the assumptions around mobile market share and ARPU.

The two variables used in this scenario were the expected market share Du would capture by 2011 and Etisalat's expected ARPU in 2011. Exhibit 4.9 shows the effect on the current price of our estimate of fair value for various combinations of the two variables. Our base case is highlighted and it assumes 35% market share for Du and an ARPU of 127.

#### **Exhibit 4.9:– Scenario Analysis – Du Market Share and Etisalat ARPU**

|                                                                                                                                        | ARPU (\$) | Market Share |       |       |       |       |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------|--------------|-------|-------|-------|-------|
|                                                                                                                                        |           | 45%          | 40%   | 35%   | 30%   | 25%   |
| <i>Even if Du captures<br/>45% of the market share<br/>by 2011, our estimate of<br/>fair value is well above<br/>the current price</i> | 117       | 21.98        | 22.62 | 23.21 | 23.83 | 24.45 |
|                                                                                                                                        | 122       | 22.25        | 22.92 | 23.53 | 24.17 | 24.81 |
|                                                                                                                                        | 127       | 22.53        | 23.21 | 23.85 | 24.51 | 25.17 |
|                                                                                                                                        | 132       | 22.80        | 23.51 | 24.17 | 24.85 | 25.53 |
|                                                                                                                                        | 137       | 23.07        | 23.80 | 24.48 | 25.18 | 25.89 |

Source: GCG Analysis

Our scenario analysis highlights the fact that we think the market has discounted Du's entrance into the market too aggressively. Even if Du were to obtain 45% market share, and ARPU's were to drop to 117, our estimate of fair value remains

well above the current price (AED16.95), close to our one year target price of AED 21.00, and below our sum-of-parts valuation.

*Case 2: WACC and Terminal Multiple Effect:*

Our terminal multiple assumption has a significant impact on our sum-of-parts valuation. Using our base WACC number of 11.07% there is an AED10 range in our estimate of fair value.

**Exhibit 4.10:– Scenario Analysis – WACC and Terminal Multiple**

| WACC  | Terminal Value Multiple |       |       |       |       |       |
|-------|-------------------------|-------|-------|-------|-------|-------|
|       | 5.0                     | 6.0   | 7.0   | 8.0   | 9.0   | 10.0  |
| 10.1% | 18.41                   | 20.50 | 22.60 | 24.69 | 26.79 | 28.88 |
| 10.6% | 18.12                   | 20.17 | 22.22 | 24.26 | 26.31 | 28.36 |
| 11.1% | 17.84                   | 19.84 | 21.84 | 23.85 | 25.85 | 27.85 |
| 11.6% | 17.57                   | 19.52 | 21.48 | 23.44 | 25.40 | 27.36 |
| 12.1% | 17.30                   | 19.21 | 21.13 | 23.04 | 24.96 | 26.88 |

*A change in Etisalat's Terminal Value Multiple produces an AED 10 range in our DCF Valuation*

Source: GCG Analysis

### Exhibit 4.11: Key Comparables – MENA Region and International Telecom Operators

#### Select MENA Telecom Operators

| Select MENA Telecom Operators         |            |       |      |             |             |       |            |          |           |        | Millions of \$US |       |            |        |       |           | \$     |      |             |
|---------------------------------------|------------|-------|------|-------------|-------------|-------|------------|----------|-----------|--------|------------------|-------|------------|--------|-------|-----------|--------|------|-------------|
| Company                               | Price      |       | ARPU | Subscribers | \$ millions |       |            | Revenue  |           | EBITDA |                  |       | Net Income |        |       | Valuation |        |      |             |
|                                       | Local      | US\$  |      |             | US\$        | 000's | Market Cap | Net Debt | Div Yield | Value  | Growth           | Value | Growth     | Margin | Value | Growth    | Margin | P/E  | EV / EBITDA |
| Mobile Telecommunications Co.         | KWD 4.82   | 16.68 | 45   | 1,513       | 21,044      | 3,140 | 1.53%      | 4,188    | 68.1%     | 1,973  | 59.8%            | 47.1% | 1,126      | 49.6%  | 26.9% | 18.70     | 12.47  | 5.88 |             |
| Saudi Telecom Co.                     | SAR 76.00  | 20.27 | 39   | 13,800      | 40,538      | (776) | 7.57%      | 9,011    | 7.4%      | 5,577  | 4.3%             | 61.9% | 3,413      | 14.5%  | 37.9% | 11.88     | 7.13   | 4.41 |             |
| Qatar Telecom                         | QAR 239.80 | 65.77 | 64   | 920         | 6,577       | (211) | 4.18%      | 12,124   | 29.6%     | 721    | 17.4%            | 59.5% | 454        | 12.9%  | 37.4% | 14.49     | 8.85   | 5.26 |             |
| Bahrain Telecom Co.                   | BHD 0.82   | 2.16  | 41   | 600         | 2,594       | (95)  | 5.89%      | 623      | 6.9%      | 305    | 8.8%             | 48.9% | 241        | 14.4%  | 38.7% | 10.77     | 8.28   | 4.49 |             |
| Orascom Telecom Holding               | EGP 379.00 | 66.45 | 11   | 9,267       | 14,618      | 3,303 | 0.99%      | 4,099    | 54.6%     | 1,746  | 52.7%            | 42.6% | 741        | 82.5%  | 18.1% | 19.73     | 10.34  | 4.41 |             |
| National Mobile Telecommunication Co. | KWD 2.88   | 9.96  | 45   | 1,069       | 4,565       | 538   | 6.63%      | 1,482    | 40.2%     | 446    | 34.7%            | 30.1% | 339        | 45.1%  | 22.9% | 18.45     | 9.61   | 3.71 |             |
| Average                               |            | 30.21 | 41   | 4,528       | 14,989      | 983   | 4.47%      | 5,254    | 34.5%     | 1,795  | 29.6%            | 48.4% | 1,052      | 36.5%  | 30.3% | 15.67     | 9.45   | 4.69 |             |
| Etisalat                              | AED 16.95  | 4.62  | 45   | 5,535       | 20,945      | 161   | 2.65%      | 4,436    | 20.9%     | 3,413  | 20.5%            | 76.9% | 1,596      | 27.9%  | 36.0% | 13.13     | 6.36   | 4.89 |             |

#### Select Global Telecom Operators

| Select Global Telecom Operators |           |       |             |          |           |         |                  |        |        |        |            |        |        |       |             |              |      |  |
|---------------------------------|-----------|-------|-------------|----------|-----------|---------|------------------|--------|--------|--------|------------|--------|--------|-------|-------------|--------------|------|--|
| Company                         | Price     |       | \$ millions |          |           |         | Millions of \$US |        |        |        |            |        |        |       |             | Valuation    |      |  |
|                                 | Local     | US\$  | Market Cap  | Net Debt | Div Yield | Revenue |                  | EBITDA |        |        | Net Income |        |        | P/E   | EV / EBITDA | EV / Revenue |      |  |
|                                 |           |       |             |          |           | Value   | Growth           | Value  | Growth | Margin | Value      | Growth | Margin |       |             |              |      |  |
| Singapore Telecommunications    | SGD 3.18  | 2.06  | 32,773      | 3,350    | 4.59%     | 8,479   | -0.3%            | 4,290  | 3.3%   | 50.6%  | 2,898      | 26.9%  | 34.2%  | 11.31 | 8.42        | 4.26         |      |  |
| China Telecom Corp Ltd.         | HKD 3.60  | 0.46  | 37,545      | 14,498   | 2.08%     | 22,193  | 4.4%             | 11,640 | 2.1%   | 52.4%  | 3,525      | -2.5%  | 15.9%  | 10.65 | 4.49        | 2.35         |      |  |
| Deutsche Telekom                | EUR 14.01 | 18.41 | 71,623      | 57,439   | 5.77%     | 80,603  | 2.9%             | 19,792 | -14.9% | 24.6%  | 4,696      | -40.6% | 5.8%   | 15.25 | 7.02        | 1.72         |      |  |
| Rogers Communications           | CAD 38.00 | 32.75 | 20,803      | 6,080    | 0.31%     | 7,529   | 26.1%            | 2,312  | 26.6%  | 30.7%  | 327        | N/A    | 4.3%   | 63.58 | 11.63       | 3.57         |      |  |
| Telecom Italia                  | EUR 2.13  | 2.80  | 54,248      | 53,597   | 6.58%     | 40,816  | 5.5%             | 16,525 | -3.3%  | 40.5%  | 3,922      | -14.1% | 9.6%   | 13.83 | 7.75        | 3.14         |      |  |
| Average                         |           | 11.30 | 43,398      | 26,993   | 0.04      | 31,924  | 7.7%             | 10,912 | 2.8%   | 39.8%  | 3,074      | -7.6%  | 14.0%  | 22.93 | 7.86        | 3.01         |      |  |
| AVERAGE (Global + MENA)         | 20.76     | 41    | 2,270       | 29,194   | 13,988    | 4.17%   | 18,589           | 21.1%  | 6,353  | 16.2%  | 44.1%      | 2,063  | 14.4%  | 22.1% | 19.30       | 8.65         | 3.85 |  |

Note: Revenue, EBITDA, and Net Income values and margins are based on most recent available trailing twelve month data  
Revenue, EBITDA, and Net Income growth are three year CAGRs

Source: Company Reports, GCG Analysis

## FINANCIALS

| Income Statement (AED mn)     | Year End as of December 31st |              |              |              |               |               |               |               |               |               |
|-------------------------------|------------------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                               | 2002A                        | 2003A        | 2004A        | 2005A        | 2006A         | 2007E         | 2008E         | 2009E         | 2010E         | 2011E         |
| Revenues                      | 8,004                        | 9,226        | 10,434       | 12,866       | 16,290        | 18,552        | 19,790        | 20,925        | 21,707        | 22,655        |
| Operating Expenses            | 1,827                        | 2,070        | 2,344        | 3,058        | 3,756         | 5,280         | 5,838         | 6,330         | 6,756         | 7,292         |
| <b>EBITDA</b>                 | <b>6,178</b>                 | <b>7,156</b> | <b>8,090</b> | <b>9,808</b> | <b>12,534</b> | <b>13,272</b> | <b>13,952</b> | <b>14,595</b> | <b>14,951</b> | <b>15,363</b> |
| EBITDA Margin                 | 77%                          | 78%          | 78%          | 76%          | 77%           | 72%           | 71%           | 70%           | 69%           | 68%           |
| Others / Share of Results     | (176)                        | (58)         | 53           | 88           | 338           | 1,328         | 1,906         | 2,314         | 2,596         | 2,822         |
| Depreciation and Amortization | (1,175)                      | (1,424)      | (1,236)      | (1,373)      | (1,391)       | (1,472)       | (1,574)       | (1,668)       | (1,778)       | (1,896)       |
| Other expenses                | 0                            | 0            | (191)        | (11)         | (25)          | 0             | 0             | 0             | 0             | 0             |
| EBIT                          | 4,826                        | 5,674        | 6,716        | 8,512        | 11,456        | 13,127        | 14,284        | 15,240        | 15,768        | 16,289        |
| Interest Income (net)         | 90                           | 72           | 120          | 0            | 214           | (355)         | (253)         | (84)          | 133           | 352           |
| EBT                           | 4,917                        | 5,745        | 6,835        | 8,512        | 11,670        | 12,772        | 14,031        | 15,156        | 15,901        | 16,641        |
| Royalty and Taxes             | 2,458                        | 2,873        | 3,418        | 4,256        | 5,860         | 6,507         | 6,766         | 6,654         | 6,440         | 6,688         |
| Minority Interest             | 0                            | 0            | 0            | 0            | (50)          | (259)         | (141)         | 89            | 345           | 547           |
| <b>Net Profit</b>             | <b>2,458</b>                 | <b>2,873</b> | <b>3,418</b> | <b>4,256</b> | <b>5,860</b>  | <b>6,524</b>  | <b>7,406</b>  | <b>8,413</b>  | <b>9,116</b>  | <b>9,406</b>  |
| <b>EPS</b>                    | <b>0.82</b>                  | <b>0.96</b>  | <b>1.04</b>  | <b>1.17</b>  | <b>1.29</b>   | <b>1.44</b>   | <b>1.63</b>   | <b>1.85</b>   | <b>2.01</b>   | <b>2.07</b>   |

| Balance Sheet (AED mn)                 | Year End as of December 31st |               |               |               |               |               |               |               |               |               |
|----------------------------------------|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                        | 2002A                        | 2003A         | 2004A         | 2005A         | 2006A         | 2007E         | 2008E         | 2009E         | 2010E         | 2011E         |
| <b>Assets</b>                          |                              |               |               |               |               |               |               |               |               |               |
| Cash and Bank Balances                 | 5,471                        | 7,917         | 7,802         | 9,659         | 10,304        | 5,129         | 4,809         | 6,241         | 8,570         | 11,112        |
| Debtors                                | 861                          | 753           | 1,569         | 3,116         | 2,812         | 3,096         | 3,782         | 3,996         | 4,108         | 4,227         |
| Stores                                 | 96                           | 94            | 86            | 105           | 66            | 69            | 90            | 114           | 137           | 146           |
| Others                                 | 136                          | 119           | 148           | 360           | 371           | 392           | 411           | 431           | 442           | 453           |
| <b>Total Current Assets</b>            | <b>6,564</b>                 | <b>8,883</b>  | <b>9,605</b>  | <b>13,239</b> | <b>13,553</b> | <b>8,686</b>  | <b>9,093</b>  | <b>10,782</b> | <b>13,257</b> | <b>15,939</b> |
| Fixed Assets                           | 9,096                        | 8,669         | 8,606         | 8,480         | 8,496         | 9,681         | 10,612        | 11,691        | 12,818        | 14,003        |
| Investments in Associated Undertakings | 303                          | 217           | 1,946         | 2,208         | 11,854        | 13,094        | 14,892        | 17,074        | 19,357        | 21,817        |
| Other Investments                      | 98                           | 98            | 227           | 365           | 365           | 365           | 365           | 365           | 365           | 365           |
| Loans to Associated Undertakings       | 0                            | 0             | 0             | 35            | 410           | 410           | 410           | 410           | 410           | 410           |
| Intangibles                            | 0                            | 0             | 0             | 0             | 11,230        | 10,750        | 10,270        | 9,790         | 9,310         | 8,829         |
| <b>Total Non Current Assets</b>        | <b>9,498</b>                 | <b>8,985</b>  | <b>10,778</b> | <b>11,089</b> | <b>32,355</b> | <b>34,301</b> | <b>36,550</b> | <b>39,330</b> | <b>42,259</b> | <b>45,424</b> |
| <b>Total Assets</b>                    | <b>16,062</b>                | <b>17,868</b> | <b>20,384</b> | <b>24,328</b> | <b>45,908</b> | <b>42,987</b> | <b>45,643</b> | <b>50,112</b> | <b>55,516</b> | <b>61,363</b> |
| <b>Liabilities</b>                     |                              |               |               |               |               |               |               |               |               |               |
| Creditors                              | 3,871                        | 4,344         | 4,829         | 6,228         | 8,568         | 8,967         | 8,588         | 8,932         | 9,425         | 10,017        |
| Short term Debt                        | 0                            | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             |
| Short term Loans from Invest Partners  | 0                            | 0             | 0             | 0             | 1,537         | 0             | 0             | 0             | 0             | 0             |
| AP on acquisition of an Investment     | 0                            | 0             | 0             | 0             | 979           | 979           | 979           | 979           | 0             | 0             |
| Proposed Dividend                      | 750                          | 750           | 825           | 908           | 1,588         | 1,668         | 1,751         | 1,838         | 1,930         | 2,027         |
| Other current liabilities              | 880                          | 887           | 1,042         | 1,049         | 932           | 976           | 1,060         | 1,142         | 1,205         | 1,281         |
| <b>Total Current Liabilities</b>       | <b>5,501</b>                 | <b>5,981</b>  | <b>6,696</b>  | <b>8,184</b>  | <b>13,605</b> | <b>12,590</b> | <b>12,377</b> | <b>12,892</b> | <b>12,561</b> | <b>13,325</b> |
| Long term Debt                         | 0                            | 0             | 0             | 0             | 6,981         | 2,648         | 2,231         | 1,813         | 1,396         | 0             |
| AP on acquisition of an Investment     | 0                            | 0             | 0             | 0             | 2,937         | 1,958         | 979           | 0             | 0             | 0             |
| Others non-current liabilities         | 416                          | 369           | 403           | 417           | 991           | 991           | 991           | 991           | 991           | 991           |
| <b>Total Non Current Liabilities</b>   | <b>416</b>                   | <b>369</b>    | <b>403</b>    | <b>417</b>    | <b>10,909</b> | <b>5,597</b>  | <b>4,201</b>  | <b>2,805</b>  | <b>2,387</b>  | <b>991</b>    |
| <b>Shareholders Equity</b>             |                              |               |               |               |               |               |               |               |               |               |
| Share Capital                          | 3,000                        | 3,000         | 3,300         | 3,630         | 4,538         | 4,538         | 4,538         | 4,538         | 4,538         | 4,538         |
| Reserves                               | 7,130                        | 8,500         | 9,950         | 12,020        | 14,419        | 16,019        | 17,619        | 19,219        | 20,819        | 22,419        |
| Other Gains (losses)                   | 0                            | 0             | 0             | 0             | 163           | 163           | 163           | 163           | 163           | 163           |
| Retained Earnings                      | 15                           | 18            | 35            | 76            | 67            | 2,133         | 4,938         | 8,599         | 12,807        | 17,138        |
| Minority Interest                      | 0                            | 0             | 0             | 0             | 2,208         | 1,949         | 1,807         | 1,897         | 2,242         | 2,789         |
| <b>Total Shareholders' Equity</b>      | <b>10,145</b>                | <b>11,518</b> | <b>13,285</b> | <b>15,726</b> | <b>21,394</b> | <b>24,801</b> | <b>29,064</b> | <b>34,416</b> | <b>40,568</b> | <b>47,046</b> |
| <b>Total Liabilities and SE</b>        | <b>16,062</b>                | <b>17,868</b> | <b>20,384</b> | <b>24,328</b> | <b>45,908</b> | <b>42,987</b> | <b>45,643</b> | <b>50,112</b> | <b>55,516</b> | <b>61,363</b> |

## APPENDIX A: COMPANY OVERVIEW

### *Company Background*

Established in 1976, Emirates Telecommunications Corporation (Etisalat) has evolved into one of the world's largest telecommunications companies. The group has diverse telecommunications operations in Middle East, Africa, and Asia.

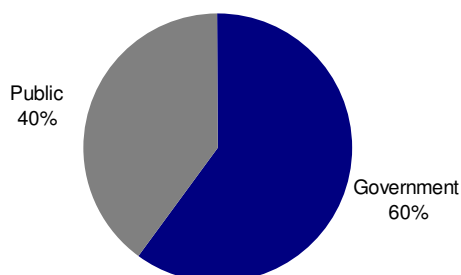
Etisalat was one of the longest standing telecom monopolies in the GCC before the recent entry of Emirates Integrated Telecommunications Company (Du). Having operated unfettered for three decades the company was able to leverage their market power into substantial financial gains. In fact, Etisalat has long been the UAE's most profitable organization outside of the oil sector. Furthermore, with a 50% royalty on profits Etisalat has also the second most important revenue stream for the UAE government – after oil exports, of course.

Exhibit 5.0 displays the ownership structure of Etisalat. The 40% public float is traded on the Abu Dhabi Securities Market and is available only to nationals.

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#### Exhibit 5.0:– Etisalat Ownership Structure

*60% of Etisalat is government owned, with the remaining 40% being publicly traded on the ADSM*



*Source: Company Reports*

Etisalat currently has over 10,000 employees; approximately half of which are local Emarati. Nearly three-quarters of the senior management at the company are of UAE decent, which highlights the company's policy of filling positions with local citizens whenever possible. Of notable senior management, His Highness Mohammed Hassan Omran Al Shamsi chairs the board of directors and Mohammed Khafan Al Qamzi heads the company as Chief Executive Officer.

**Exhibit 5.1: Etisalat - Board Members (2006)**

| Position      | Name                                                    |
|---------------|---------------------------------------------------------|
| Chairman      | H.E. Mohammed Hassan Omran Al Shamsi                    |
| Vice-Chairman | H.E. Khalaf Bin Ahmed Al Otaiba                         |
| Member        | H.E. Sheikh Ahmed Mohammed Sultan Bin Suroor Al Dhaheri |
| Member        | H.E. Eisa Bin Nasser Al Serkal                          |
| Member        | H.E. Hamad Mohammad Al Hur Al Suwaidi                   |
| Member        | H.E. Dr. Omar Moahammad Bin Sulaiman                    |
| Member        | H.E. Omar Saif Mohammad Al Huraiz                       |
| Member        | H.E. Saeed Mubarak Rashid Al Hajeri                     |
| Member        | H.E. Saeed Mohamed Al Sharid                            |
| Member        | H.E. Abdulla Ibrahim Al Daboos                          |
| Member        | H.E. Abdul Rahman Al Rustomani                          |

Source: Company Reports

**Plan B – Cross Border Acquisitions**

Saturation and encroaching competition in Etisalat's home market has encouraged them to explore opportunities outside of their domestic borders for continued growth – and they have done just that.

Three recent license acquisitions have helped Etisalat build a foundation to diversify their stream of revenue.

In August 2004 a consortium led by Etisalat won the second mobile license in Saudi Arabia. Etisalat claimed a 35% stake in the \$3.3 billion bid. The new company, Etihad Etisalat (Mobily), began operations in 2005. Since its inception Mobily has been the fastest growing mobile operator in the MENA region; as of early 2007 the company attracted 6 million GSM subscribers. We profile Mobily's operations in Saudi Arabia further on in this report.

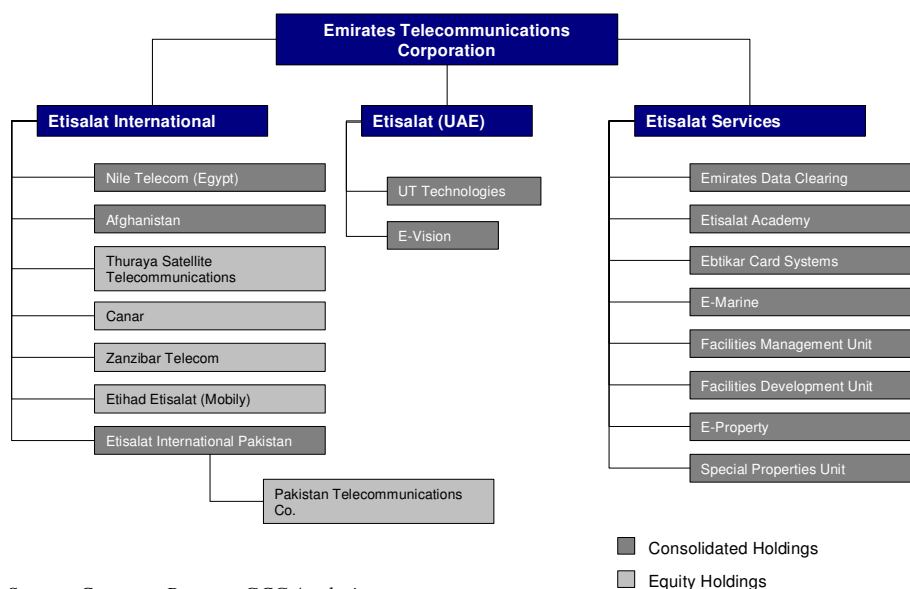
Etisalat was very aggressive on the license acquisitions front in 2006. In May the company signed an agreement with local authorities in Afghanistan to provide mobile services in the war torn country. The fifteen year renewable license for the country's fourth provider cost Etisalat \$40.1 million.

Later in 2006 a consortium led by Etisalat won a license to be the third mobile services provider in Egypt – after Orascom's Mobinil and Vodafone Egypt. The \$2.9 billion bid was the second highest for a telecom license in the region, second only to their own bid for the second mobile license in Saudi Arabia.

The new, more dynamic Etisalat has strategically entered other markets as well, including Pakistan, Zanzibar, and seven West African countries. Exhibit 5.2 displays the holdings and operations of Etisalat in their newly reformed organizational structure.

**Exhibit 5.2:– Etisalat – Holdings and Organizational Structure**

*Etisalat's structure is slowly moving towards that of a holding company*



Source: Company Reports, GCG Analysis

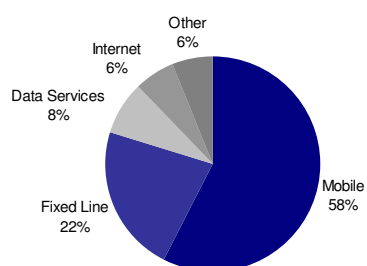
**The Top Line**

Almost 60% of Etisalat's revenues are derived from their mobile operations. In fact, the proportion of revenue has been increasing in the last two fiscal years stemming from the overall emergence of mobile usage in the region. Judging from the company's newly acquired licenses, we expect this trend to continue into the near future.

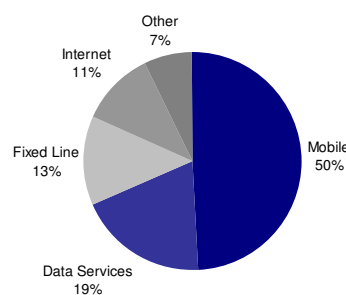
Exhibit 5.3 details the origin of Etisalat's revenues in 2005 and our forecast in 2011 (Exhibit 5.4).

**Exhibit 5.3:– Etisalat – Source of Revenues (2005)**

*Almost 60% of Etisalat's revenues come from their mobile operations*



Source: Company Reports, GCG Analysis

**Exhibit 5.4:– Etisalat – Source of Revenues (2011E)**


Etisalat's next largest revenue stream comes from their UAE fixed line services. In 2005 approximately 22% of the company's revenue was generated from their land line division. However, with increased competition in the UAE land line market and

concentration on international mobile markets we expect the proportion of revenue generated from land line operations to decrease.

### ***Regional Operations - The United Arab Emirates***

#### ***Mobile Division***

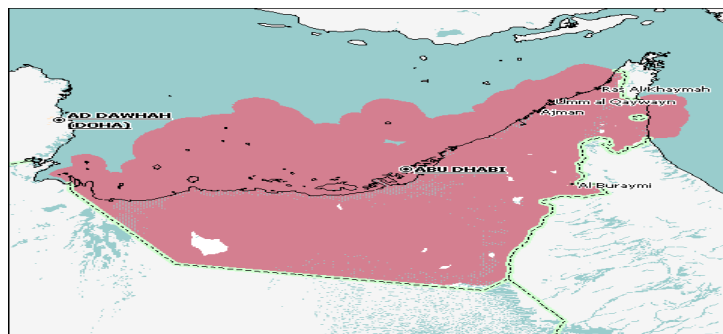
The mobile market in the UAE is one of the regions' most developed. Penetration reached 109% at year-end 2006, technically more than one mobile telephone per person. This saturation is largely due to multiple mobile phone usage by some customers (i.e. customers using one mobile phone specifically for business purposes and one for personal use).

Etisalat's mobile telephone division is the company's most significant source of revenue with just under 60% of company's revenues coming from its mobile operations – over AED 7.4 billion in 2005.

Etisalat's UAE network infrastructure is state of the art. It has a Second Generation GSM network with EDGE capabilities which are able to handle the delivery of value added content (such as ring-tones, music, etc) as well as standard voice communication. Furthermore, since the end of 2003 the company has been operating a world class 3G network under the brand name 'Mubashir'. The network allows for, amongst other features, video calling and high speed internet access.

Etisalat's network in the UAE covers a vast majority of the country, with an exception of barren land (known as the Empty Quarter) close to the border of Saudi Arabia. Exhibit 5.5 displays Etisalat's network coverage in the UAE.

**Exhibit 5.5:– Etisalat Network Coverage in the UAE**



*Etisalat covers a vast majority of the UAE, except some barren land close to the Saudi border*

Source: GSM Association

The first quarter of 2007 will, for the first time, show how Etisalat handles competition in their home market. Du has recently announced their tariffs – and unsurprisingly they are comparable to those of Etisalat. The main difference is that Du will charge on a per second basis (refer to exhibit 5.6) while Etisalat currently levies charges in minute/half minute blocks. Etisalat has announced they will match the per-second offer, but are likely waiting for the market's response to decide whether to follow through with their announcement.

Tariffs in the UAE are already amongst the lowest in the region and as such there is little room for undercutting. Having said this, its not surprising that Du announced similar nominal prices. Exhibit 5.6 displays the full tariff schedule comparisons of Du and Etisalat.

**Exhibit 5.6:– Etisalat and Du Mobile Charges - Comparison**

*As tariffs in the UAE are already among the lowest in the region, Du has announced nominal prices similar to those of Etisalat*

| Charges                      | Amounts in AED                 |       |
|------------------------------|--------------------------------|-------|
|                              | Etisalat                       | Du    |
| <b>Prepaid</b>               |                                |       |
| - SIM Card                   | 165                            | 155   |
| - Annual Fee                 | 100                            | 100   |
| <b>Postpaid</b>              |                                |       |
| - SIM Card                   | 185                            | 125   |
| - Monthly Fee                | 20                             | 30    |
| <b>Call Charges</b>          |                                |       |
| - Per Second                 | -                              | 0.005 |
| - First Minute               | 0.30                           | -     |
| - Per Incremental 30 seconds | 0.15 (peak)<br>0.12 (off peak) | -     |
| <b>SMS Charges</b>           |                                |       |
| - Local                      | 0.18                           | 0.18  |
| - International              | 0.60                           | 0.60  |

Source: Company Websites, GCG Analysis

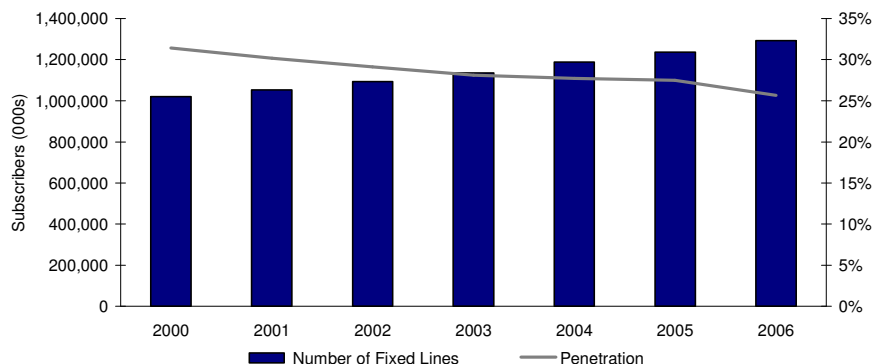
#### *Fixed Line Division*

Etisalat's fixed line operations have not been an area of high growth recently. Consumers in the UAE have continued the global trend of opting for mobile telephones rather than a traditional fixed line; and with mobile tariffs amongst the regions lowest who could blame them?

At present Etisalat serves close to the entire fixed line market – with the exceptions being an estimated 20,000 lines in the free-zones being served by Du. There are currently 1.3 million fixed line subscribers in the country, resulting in an estimated 25.6% penetration rate. Exhibit 5.7 displays the number of fixed line subscribers and the corresponding penetration rate in the last six years.

**Exhibit 5.7:– Etisalat Fixed Line Market Penetration – 2000 to 2006**

*Number of Fixed Lines is expected to go up to 1.3 million subscribers by 2011*



Source: IMF, Company Reports, GCG Analysis

Fixed line subscriptions have steadily increased in the last six years. From just over 1 million subscribers in 2000, Etisalat now serves approximately 1.3 million customers. While subscribers have increased steadily penetration has steadily decreased. Essentially, this implies that the rate of net migration has been higher than the rate of fixed line subscriber growth.

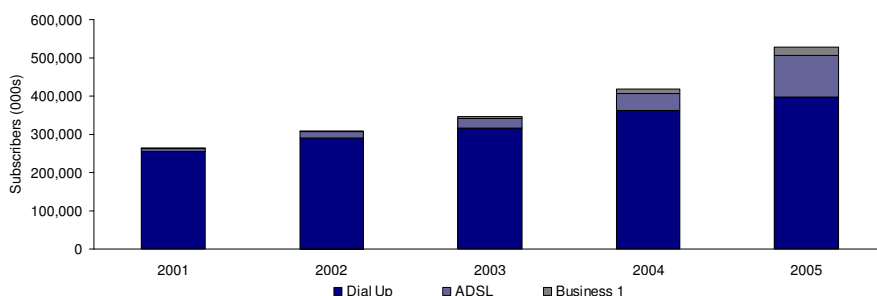
Revenues from fixed line services in 2005 reached approximately AED 2.85 billion, just over 6% higher than that of the previous year.

### *Internet Operations – (formerly ‘eCompany’)*

The internet operations of Etisalat have been growing consistently since the company began providing services in 1995. In 2005 the company cut its broadband tariffs by up to 47% in a bid to increase the country’s lagging penetration of high speed internet. This tactic has been successful in helping boost penetration levels.

Despite the price reductions on ADSL the fact remains that the majority of the internet subscribers in the UAE use a dial up connection. The relatively high prices of ADSL have discouraged higher levels of broadband penetration. Exhibit 5.8 depicts the number of Etisalat subscribers as well as the type of connection they use.

**Exhibit 5.8:– Etisalat Internet Market Share – 2000 to 2006**



*High prices of ADSL have discouraged higher levels of broadband penetration in the UAE*

Source: Company Reports, GCG Analysis

Internet operations accounted for 6.2% of Etisalat’s revenues in 2005. This is the highest proportion of total revenues that internet services have ever made up for Etisalat (5.8% in 2004, 5.3% in 2003). Despite having to now compete with Du, we feel that net migration and increased economic activity will result in continued growth of Etisalat’s internet division.

### *E-vision*

Etisalat’s cable television service ‘e-vision’ has network capabilities to reach over 300,000 households in Abu Dhabi, Dubai, Sharjah, Ajman and Al Ain. Various packages of television content including Showtime and Orbit are transmitted on a digital hybrid fiber coaxial line.

### *Etisalat International*

#### *Etisalat Misr – Nile Telecom*

In mid 2006 Etisalat led a winning consortium for Egypt’s third mobile. The license allows the new company, Etisalat Misr, to install and operated both a 2G and 3G

network for a period of 15 years. The company will operate under the brand name Nile Telecom.

As per the conditions of the license Nile Telecom will be permitted to use the network infrastructure of the incumbents Mobinil and Vodafone. This will facilitate the launch of services expected to occur in March 2007. Nile Telecom is expected to launch initial services in the major urban centers of Cairo and Alexandria and in major tourist centers such as Sharm El Sheikh and Hurghada. The fully implemented 3G network is largely expected to service the banks of the Nile River – where a vast majority of Egyptians live.

However, the picture is not all rosy. Our estimates of ARPU for the existing carriers in Egypt are low (\$11 - \$13; See GCG MENA Mobile Telecom Report) and are expected to further decline once Etisalat begins operations. Being the only carrier currently licensed to run a 3G mobile network, Etisalat will be looking to leverage this advantage and target the country's high value clients into switching to the new technology.

Exhibit 5.9 depicts the results of the three stages of bidding. In all three stages Etisalat entered with the highest bid.

**Exhibit 5.9:– Etisalat – Bidding Stages – Nile Telecom (Etisalat Misr)**

*Etisalat was the highest bidder in all three stages of bidding for Egypt's 3<sup>rd</sup> license*

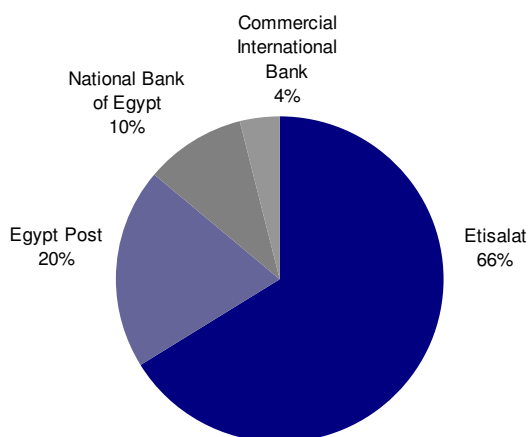
|               | Stage 1      | Stage 2      | Stage 3      |
|---------------|--------------|--------------|--------------|
| Etisalat      | 10.9 billion | 13.9 billion | 16.7 billion |
| Telecom Egypt | 7.3 billion  | 12.2 billion | nil          |
| MTC           | 7.2 billion  | nil          | 14.2 billion |
| Qtel          | 6.9 billion  | 12.8 billion | nil          |
| MTN           | 6.5 billion  | nil          | nil          |

Source: Business Today

The member's of Etisalat's consortium include: Etisalat (66%), Egypt Post (20%), National Bank of Egypt (10%), and Commercial International Bank (4%).

**Exhibit 5.10:– Etisalat Consortium Members – Nile Telecom (Etisalat Misr)**

*Etisalat is the biggest contributor (66%) in the consortium formed for the Egyptian license bid*

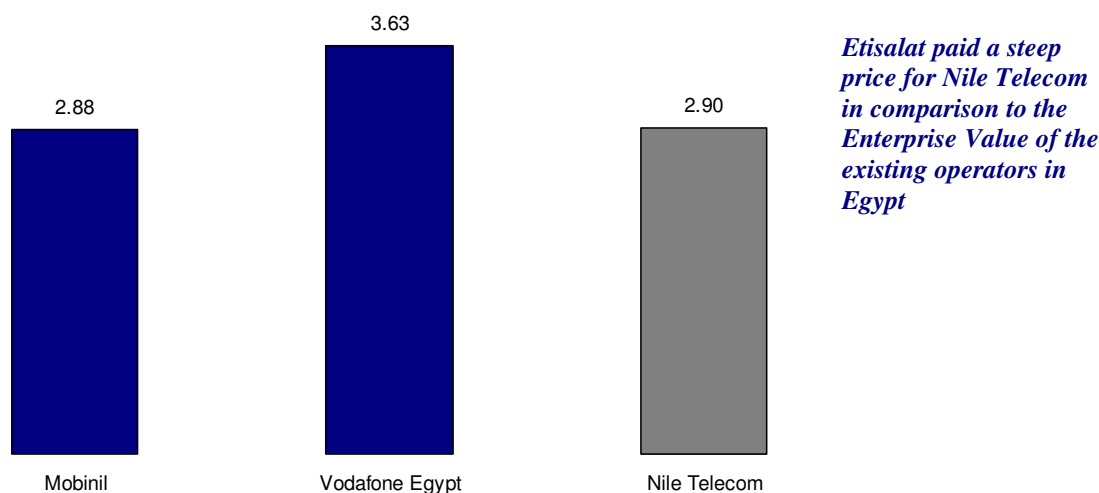


Source: Business Today

The aggressive bidding behavior of the consortium resulted in their victory with a \$2.9 billion bid, 17% higher than the next highest bidder – a consortium led by Kuwait’s MTC. To put this figure into perspective: the entire enterprise value of Vodafone Egypt at that time, with seven million subscribers, was just over \$3.5 billion.

Exhibit 5.11 depicts the Enterprise Value of the two Egyptian operators as compared to the license fee that Nile Telecom paid. When compared in this fashion, it becomes quite clear that the consortium paid a steep price for the license to operate.

**Exhibit 5.11:– Enterprise Value – Egypt Telecom Operators**



Source: Bloomberg, GCG Analysis

Exhibit 5.12 outlines purchase metrics for Etisalat’s two major transactions in the MENA region – Nile Telecom and Mobily.

**Exhibit 5.12:– Etisalat Recent Acquisitions**

| Country      | Operator Name   | Date | License | Price<br>US\$ (mn) | At Acquisition  |                   |        |                    |
|--------------|-----------------|------|---------|--------------------|-----------------|-------------------|--------|--------------------|
|              |                 |      |         |                    | Pop<br>Millions | Price/Pop<br>US\$ | Penet. | GDP/Capita<br>US\$ |
| Egypt        | Etisalat Misr   | 2006 | 3rd     | 2,909              | 70.72           | 41.14             | 21%    | 1,265              |
| Saudi Arabia | Etihad Etisalat | 2004 | 2nd     | 3,250              | 22.09           | 147.12            | 39%    | 9,758              |

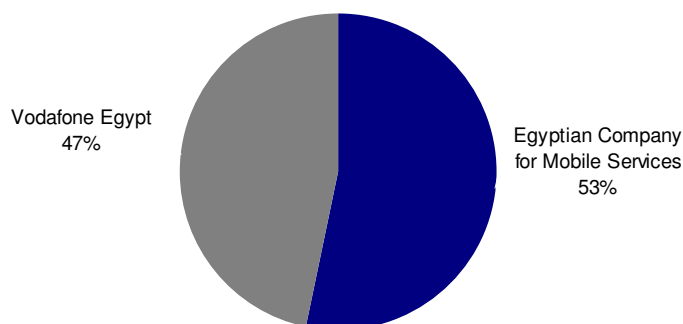
*Etisalat paid \$41.14 Price/Pop for the Egypt license as compared to \$147.12 for the Saudi license*

### *The Egyptian Mobile Sector*

The mobile sector in Egypt is currently serviced by Orascom (Mobinil) and Vodafone Egypt, who both began operations in 1998. Orascom currently has a marginal lead in terms of market share at 53%. Since neither company had a first-to-market advantage the difference likely stems from the fact that Orascom’s prepaid prices are lower than Vodafone’s.

**Exhibit 5.13:– Share of Egypt Market**

*At the time of the bid the Egyptian market was split almost 50:50 between the two telecom operators*



Source: Company Reports, GCG Analysis

Egypt has a large mobile subscriber base of approximately 15 million users. This makes it the second largest mobile market in the MENA region (behind Saudi Arabia). However, because the country's population is so large (72 million people as of 2006) the mobile penetration is amongst the lowest in the region at just 21%. The low penetration rate was the driving force behind Etisalat's aggressive bidding practice.

#### *Etihad Etisalat - Mobily*

In 2005 Etihad Etisalat (Mobily) entered the Saudi Arabian mobile market, breaking the long standing telecommunications monopoly held by incumbent Saudi Telecom Co. (STC). Since then Mobily has been the fastest growing mobile carrier in the MENA region. Mobily's subscribers numbered over 6 million as of early 2007.

Mobily did not win market share by undercutting STC's tariffs, rather, they attracted subscribers by offering them a choice. The pent up demand for a carrier other than the incumbent monopoly proved to be a substantial catalyst in driving mobile penetration in the kingdom.

Mobile Number Portability (MNP) in Saudi Arabia has facilitated customer defection from STC to Mobily. Under this system a customer can switch carriers without having to change their mobile phone number or prefix. This convenience removes some of the frictions involved when changing mobile providers.

Mobily owns and operates MENA's largest 3G network with over 345,000 subscribers. A healthy 3G subscription base is encouraging for Mobily, who it seems has managed to attract a significant number of STC's high value customers. In mid 2006 Mobily announced an upgrade to its 3G network which is now capable of video calling/streaming, high speed internet, and multiplayer gaming.

In February 2007 Mobily launched its push-to-talk services over GSM. With this system users can communicate with others with the push of a button for a flat monthly rate. The encrypted service also allows broadcast communication to up to 10 people at once.

### *Thuraya Satellite Telecommunications*

Launched in 2001, UAE based Thuraya provides satellite telecommunications such as voice, fax, and DSL services for the European, African, and Middle Eastern regions. The company currently has two Boeing communications satellites in orbit, however problems in the solar panels of one of the units has, at times, rendered it out of service.

As of March 2006 the company has over 250,000 subscribers and has sold approximately 350,000 satellite handsets.

Etisalat has a 26% equity holding in the private stock company, while the remaining ownership is divided up between the Abu Dhabi Investment Company, various telecom investment companies, and Arab governments in the MENA region.

### *Canar*

Canar Telecommunications provides 3G, fixed line, data, and internet services in Sudan. Etisalat has a 37% equity holding of the company which launched in 2005. Fixed line penetration in the troubled African country is on a decline as fixed-to-mobile substitution continues.

### *Zantel*

Etisalat owns a 34% equity stake in Zanzibar Telecom. The company's core operations are to provide fixed and mobile telecommunications services in Zanzibar. Following a ruling by the national telecom regulator in Tanzania, Zantel was granted a license to operate fixed and mobile networks on mainland Tanzania – thereby drastically increasing their prospective market.

### *Atlantique Telecom*

In 2005 Etisalat acquired a 50% stake in Atlantique Telecom (AT). The telecom holding company has majority stakes in various mobile operators in West African countries' Benin, Burkina Faso, Gabon, Niger, Togo, and the Ivory Coast. Along with the equity, Etisalat won the company's management contract for a 10 year term.

Western African telecom markets have recently become interesting investment opportunities. Subscribers in these markets are skipping the fixed line technology altogether and moving directly into mobile connectivity. Atlantique's targeting of high value customers in the major cities of these countries is a lucrative investment strategy – as such, Etisalat decided to get on board.

### *Afghanistan*

In early 2006 Etisalat won the license to become Afghanistan's fourth mobile phone provider. The company paid \$40.1 million for the rights – a small sum when compared to Etisalat's other license acquisitions.

The company has announced that it intends to spend \$300 million on infrastructure in the war torn country. The company also intends to invest in the local people by running Etisalat Academy, where locals will be trained to fill various positions in the organizations.

There are currently three operators providing mobile services in Afghanistan; Afghan Wireless Communications Company, Areeba Afghanistan, and Telecom Development Company Ltd. (Roshan). Along with Etisalat, Dubai-based Wasel Telecom is also ready to begin limited operation in Afghanistan – bringing the total expected number of carriers to five.

Roshan is the current market leader providing for half of the market with just over one million subscribers. The remaining companies share the residual market.

Etisalat's operations in Afghanistan are expected to begin in the first half of 2007.

#### *Etisalat International Pakistan*

Etisalat International Pakistan is a holding company owned by Etisalat (90%) and Dubai Islamic Bank (10%). The main holding of this company is a 26% stake in Pakistan Telecommunications Company Ltd, Pakistan's largest telecommunications provider

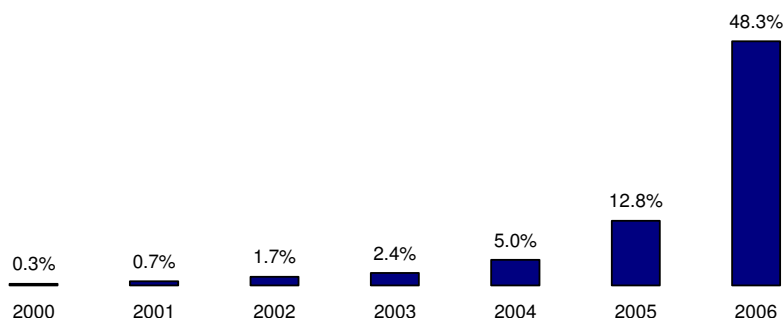
Etisalat's aggressive bidding of \$2.6 billion in the PCTL auction was met with criticism. China Mobile and SingTel placed second and third in the bidding, with offers of \$1.4 billion and \$1.16 billion respectively. Etisalat's bid of PKR 117 per share was a premium of nearly 75% over the market price, which at that time was PKR 67. Realizing that they may have overpaid, Etisalat withheld the balance of their tender as the Pakistani imposed deadline passed. Diplomatic interventions and subsequent concessions led to the finalizing of the deal in early 2006.

The mobile sector in Pakistan is currently serviced by six carriers; Orascom's MobiLink, PCTL's Ufone, Warid, Telenor, Paktel, and Instaphone. As of the end of 2006 Pakistan had just over 48 million subscribers – translating into a 31% penetration rate.

The quick progression of mobile penetration in Pakistan is shown in Exhibit 5.14.

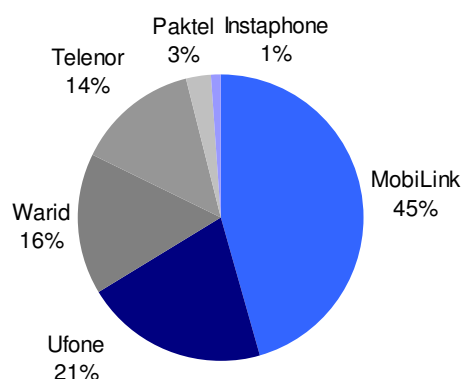
**Exhibit 5.14:– Pakistan Mobile Penetration Rates – 2000 to 2006**

*Pakistan's Mobile Penetration rates have grown exponentially since 2000*



Source: Pakistan Telecommunications Authority

Exhibit 5.15 displays the number of subscribers for each of the mobile providers in Pakistan. PCTL's operation, Ufone, is highlighted in dark blue.

**Exhibit 5.15:– Pakistan Telecom Operators - Subscribers (Millions) - 2006**


*Ufone, operated by PCTL, is the country's second largest mobile provider with over 10 million subscribers*

Source: Pakistan Telecommunications Authority

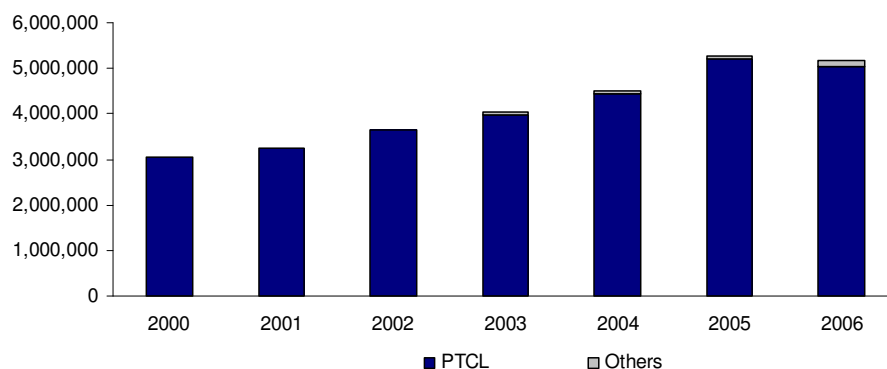
Ufone is the country's second largest mobile provider serving 10 million subscribers.

PTCL is the country's provider of wholesale bandwidth as well as a retail internet service provider under its subsidiary Paknet. The use of the internet has been slow to catch on in Pakistan. High rates charged for bandwidth and customer indifference has stalled the progression of internet penetration.

According to the International Telecommunications Union (ITU), 99% of the internet subscribers in Pakistan are connected via dial up. Accordingly, there are less than 20,000 DSL subscribers in the country. This indicates substantial potential for growth.

Similar to internet services, Pakistan's fixed line telephone penetration has lagged as compared to similarly situated countries. The quality of services is mediocre and has been an issue plaguing PCTL, the country's foremost fixed line provider. PCTL supplies just over 98% of the five million lines currently in service.

Exhibit 5.16 displays the progression of the Pakistani fixed line subscriber base.

**Exhibit 5.16:– Pakistan Fixed Line Market Share – 2000 to 2006**


*Pakistan's fixed line penetration had lagged as compared to similarly situated countries*

Source: Pakistan Telecommunications Authority

Clearly, consumers in Pakistan are substituting from fixed line to mobile usage. While 2006 was a banner year for mobile connectivity (penetration rose almost 300%), it was also a year when the country's fixed line subscriber base decreased.

#### *Other notable subsidiaries*

##### *Emirates Data Clearing House*

Emirates Data Clearing House is one of only a handful of companies in the world providing data financial clearing of worldwide roaming traffic. The company provides services in the realm of data and financial clearing, as well as negotiating international roaming agreements on behalf of mobile providers.

##### *Ebitkar Card Systems*

Located in Ajman, Ebitkar is primarily involved in the manufacturing of prepaid scratch cards, smart cards, and GSM SIM cards. The company has expanded its operations, which has resulted in a significant amount of international customers. According to the company its installed capacity is able to produce 420 million prepaid scratch cards, 50 million smart cards, and 11 million SIM cards.

##### *E-Marine*

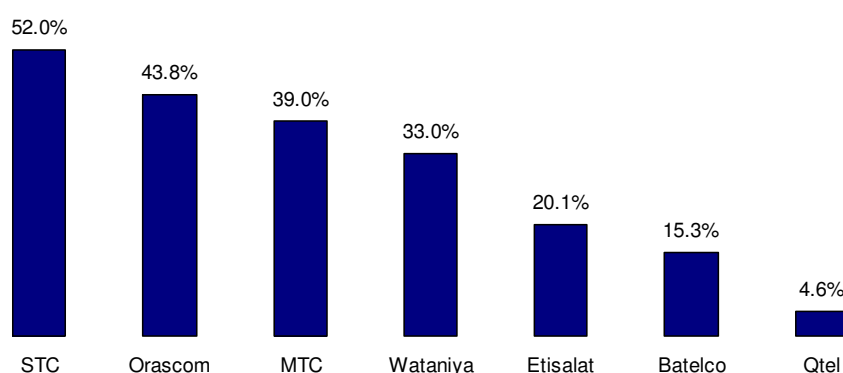
The main operations of E-marine are installation and maintenance of submarine cables. These cables, need to bridge telecommunications networks across bodies of water providing the communications backbone needed to support the region's twenty-first century needs.

In addition to installing commercial telecommunications cables the company has recently branched off into servicing the regions many offshore oil infrastructure projects.

## APPENDIX B: MENA MOBILE TELECOMMUNICATIONS OVERVIEW

The ability to be continuously connected has appealed to many segments of the MENA region: business community, students, and blue collar workers have embraced mobile telecommunications and all the benefits derived from its use. As a result of this broad acceptance, the MENA mobile market can be characterized by one word: *growth*. Subscribers, revenues, capital spending and earnings have increased significantly over the past three years. Exhibit 6.0 highlights the compound annual growth rate of earnings for the major publicly traded carriers in the region. Most have shown double digit growth in profit over the past three years.

**Exhibit 6.0: Net Income – Three Year CAGR (2005)**



*STC and Orascom lead the pack with strong growth in net income*

Source: Company Reports, GCG Analysis

While the MENA mobile market can be characterized by the word *growth*, the Gulf Cooperation Council (GCC) countries, and its carriers, are distinctly different than the rest of the MENA region. The GCC is characterized by high ARPUs and penetration rates that, in many instances, exceed 100%. While the remainder of the MENA region is generally characterized by low ARPUs and low penetration.

The material difference between these two geographic segments has resulted in a number of the GCC carriers aggressively pursuing opportunities beyond their domestic markets. Etisalat, along with other regional giants such as MTC, Batelco, Qtel, and Wataniya, have all undergone cross border expansion.

### *Liberalization in the MENA region*

A catalyst towards cross border expansion has been the liberalization of the telecommunications industry. Due to the relatively low capital expenditure required to build a mobile network (compared to fixed line), the mobile marketplace is well suited to foster competition and the MENA region has welcomed liberalization. This cost differential has provided the support for a continued monopoly in fixed line market and competition in the mobile market.

Exhibit 6.1 depicts the consequences of the network cost differential; while fixed line competition in the region has begun, the majority of countries in the region have one fixed line provider and more than one wireless provider.

**Exhibit 6.1: MENA Telecommunications Providers (2006)**

*All the action is in the mobile telecommunication sector*

|              | Fixed Operators | Mobile Operators |
|--------------|-----------------|------------------|
| Algeria      | 2               | 3                |
| Bahrain      | 1               | 2                |
| Egypt        | 1               | 2                |
| Iraq         | 1               | 3                |
| Jordan       | 1               | 4                |
| Kuwait       | 1               | 2                |
| Saudi Arabia | 1               | 2                |
| Lebanon      | 1               | 2                |
| Libya        | 1               | 2                |
| Morocco      | 1               | 2                |
| Oman         | 1               | 2                |
| Palestine    | 1               | 1                |
| Qatar        | 1               | 1                |
| Syria        | 1               | 2                |
| Tunisia      | 1               | 2                |
| UAE          | 1               | 2                |
| Yemen        | 1               | 3                |

While liberalization has been the catalyst for increased mobile competition, fixed line competition is minimal

Source: GCG Analysis

The MENA telecommunications industry has been embracing market liberalization over the past decade. Since 2000, the number of mobile carriers has doubled to 38, ending many of the long standing monopolies in the region. The region is beginning to experience the benefits that competition has on service and pricing.

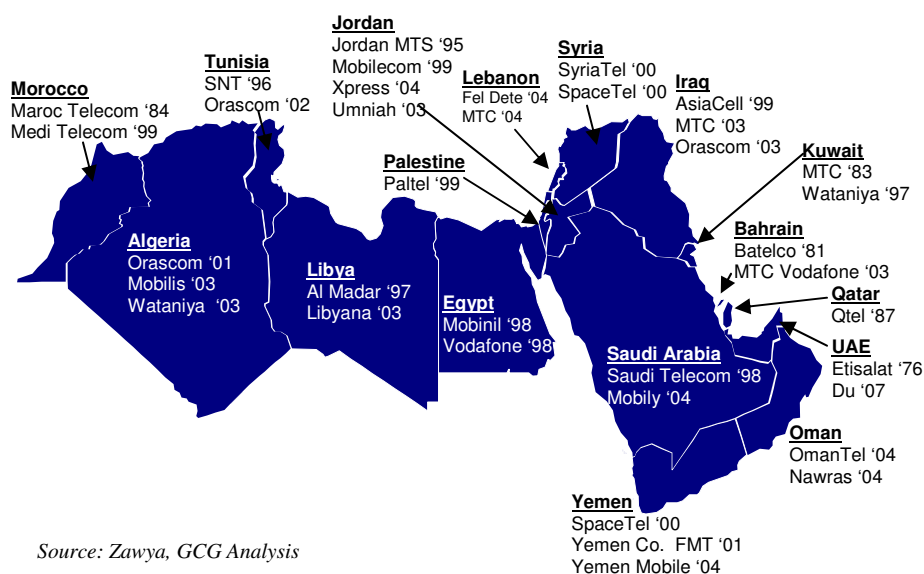
Competition has lowered prices and greatly increased mobile penetration across the region. New mobile licenses being offered by governments have generated exceptional interest by entities looking to continue their historic growth via mobile operations.

#### ***MENA Mobile Operators***

In the last decade the mobile telecom industry in the MENA region has experienced significant changes; the industry is no longer monopolized by fixed line carriers.

There are currently 38 operators providing mobile services in the region's 17 countries. Exhibit 6.2 is a comprehensive list detailing who is providing mobile services in each MENA country as of early 2007.

## Exhibit 6.2: MENA Mobile Carriers (2007)



*There are currently 38 mobile providers in the region*

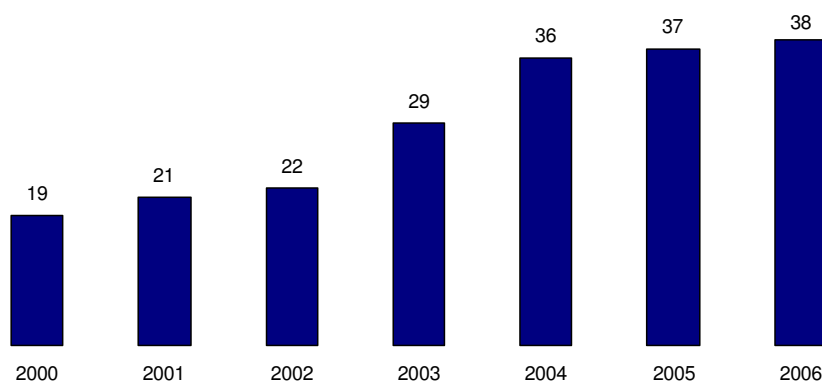
Source: Zawya, GCG Analysis

## A Changing Landscape

The list of service providers has changed significantly over the past few years. Many of the regulatory regimes have opened up; in some cases, pushed to do so by their bid to gain entry to the WTO. As a result, we have seen an abundance of new service providers enter the market.

Exhibit 6.3 tracks the number of mobile telecom providers operating in the region in the recent past.

## Exhibit 6.3: Number of MENA Mobile Carriers – 2000 to 2006



*From 2002 to 2006 the number of mobile carriers in the region increased by over 60%*

Source: Zawya, GCG Analysis

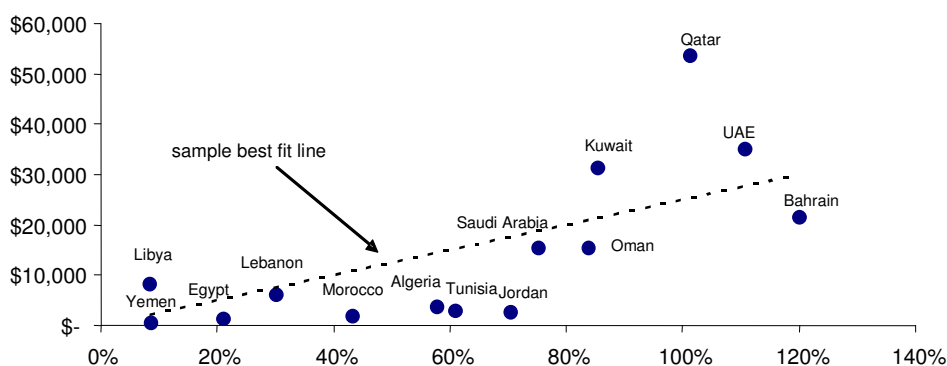
The most significant of the changes in the landscape took place during 2003 and 2004; in that period alone the number of carriers in the region rose by nearly 35%. At the end of 2006, the mobile telecom sector in the MENA region was supplied by a total of 38 providers.

### *MENA Mobile Penetration*

Mobile penetration in the MENA region varies substantially. In few other regions of the world would you find such distinct variation. The lowest of the range is in Yemen, where around 10% of the population has a mobile phone. In the other extreme there is Bahrain, where estimates of mobile penetration have topped 120% - technically more than one mobile phone per person. In fact, the variations in penetration rates mirror the high variations in GDP per capita in the region – brought about by, amongst others, different natural resource endowments.

**Exhibit 6.4: GDP Per Capita vs. Penetration Rate - 2006**

*Unsurprisingly, the wealthier countries have higher mobile penetration rates*



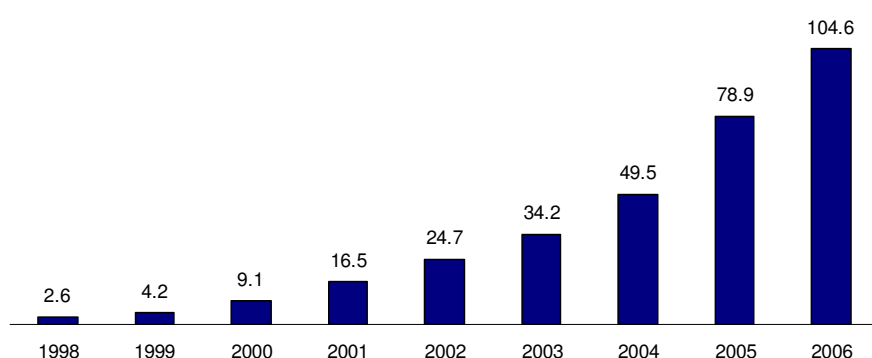
Source: IMF, Company Reports, GCG Analysis

Note: The GDP value on the dotted line when penetration rate equals 100 is roughly \$25,000

Exhibit 6.4 shows the richer countries in the region have higher penetration rates. Countries with a GDP per capita of over \$10,000 tend to have significant mobile penetration rates – 75% plus. Furthermore we notice that the richest countries have penetration rates exceeding 100%. Roughly, holding all other characteristics constant, a country in the MENA region will reach 100% penetration when their GDP per capita has reached \$25,000.

### *Subscriber Growth Remains Strong*

Since 1998 the region has experienced a compound annual growth rate in mobile subscribers of just under 60%. Exhibit 6.5 displays the subscriber figures in the region as of 2006, excluding Iraq.

**Exhibit 6.5: MENA Mobile Subscribers, ex Iraq – 1998 to 2006 (Millions)**


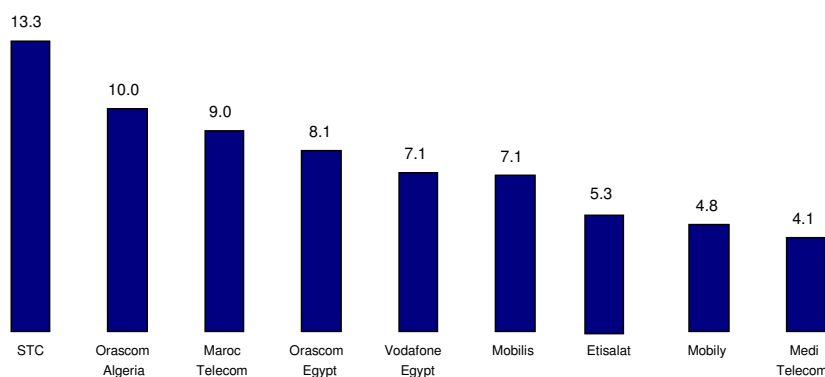
*Growth in subscribers has been exponential in the last few years*

Source: ITU, MENA Carriers, GCG Analysis  
Note: Iraq was excluded due to problematic data

Growth has accelerated in the past few years in conjunction with robust economic activity in the region. In eight years the region has gone from a little more than 2.5 million subscribers to just under 105 million. It is evident that consumers in the region are adopting mobile telephones as an increasingly important medium of voice telecommunication.

The top 10 mobile providers in the region provide services for more than 65% of mobile subscribers. Unsurprisingly, the carriers with the largest amount of subscribers generally come from the most populous countries in the region such as Egypt, Algeria, and Morocco.

Exhibit 6.6 displays the carriers with the largest subscriber base.

**Exhibit 6.6: Largest Subscriber Base (2006, Millions)**


*North African carriers dominate when categorized by number of subscribers*

Source: Carrier's Reports, GCG Analysis

Saudi Telecom Company is the largest provider by subscriber base at 13.3 million. Two of the Orascom operations in North Africa (Egypt and Algeria) are amongst the largest subscriber bases in the region. In fact, North Africa has six of the top nine service providers by subscribers.

The growth in subscribers has resulted from a few major developments. Popularity and convenience of mobile telecommunication, combined with its recent affordability has made mobile the telecommunication medium of choice.

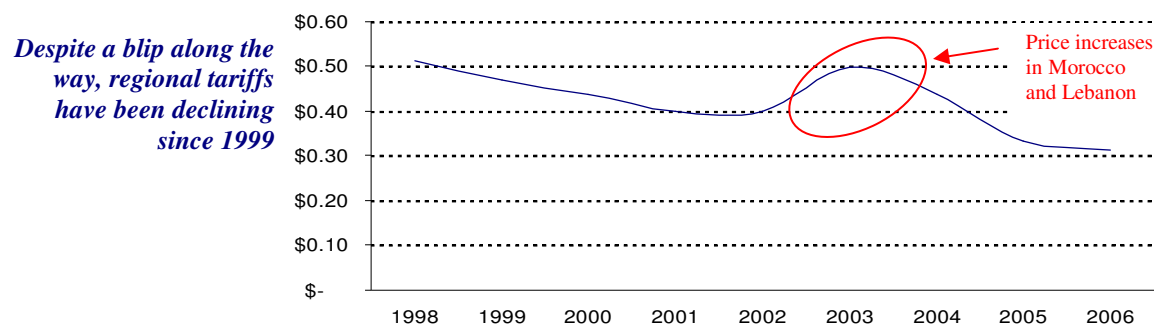
### *Price Decline With Increased Competition*

The affordability of mobile connectivity as a source for subscriber growth should not be underestimated. It has been increasingly an influential factor for two reasons:

- Lowering the price has made mobile telephony a viable option for a larger portion of the population.
- Lowering the price has enticed substitution from fixed line telecommunication. For some, mobile connectivity is their sole form of communication.

Exhibit 6.7 displays the average price for a 3 minute call from a mobile phone.

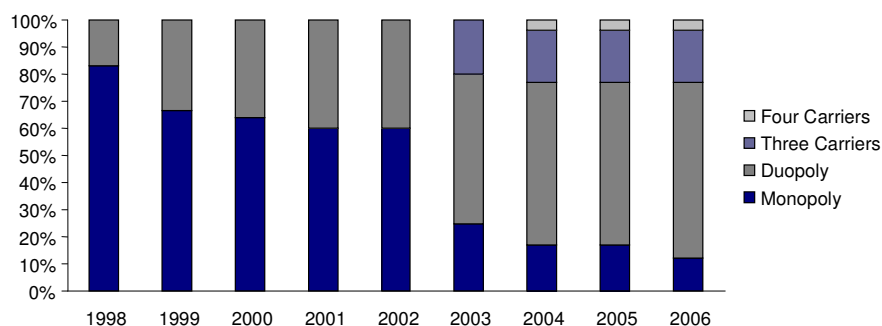
**Exhibit 6.7: Price of 3 Min. Local Mobile Phone Call –MENA Average (\$US)**



Source: ITU, GCG Analysis

From 1998 to 2006 the average price in the region has decreased by just under 40%. This resulted largely from increased competition and an attempt to increase penetration by capturing customers who may not value the service as highly, and thus are not willing to pay high prices.

Exhibit 6.8 shows the relatively quick liberalization progress that has occurred in the MENA region.

**Exhibit 6.8: Evolution of the Competitive Environment – 1998 to 2006**


*In 1998 over 80% of the countries were served by monopolies*

Source: Zawya, GCG Analysis

As recent as 1998 almost 85% of the countries in the region were served by monopolistic providers; in 2006 it was less than 15%. Additionally, since 2003 some countries have opened up their mobile telecom sector to three or more providers. Currently Jordan is the only country in the region with four providers.

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