

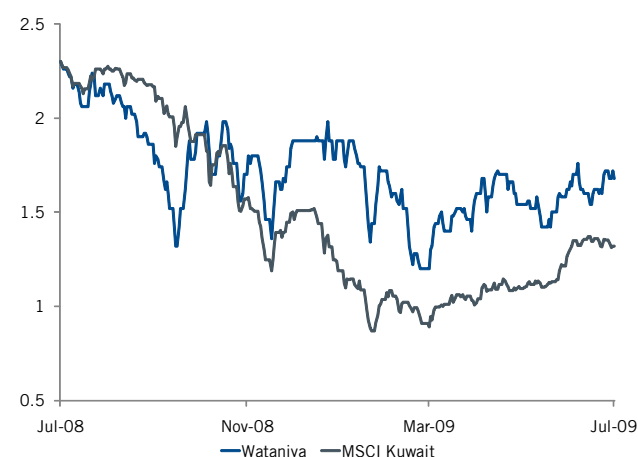
July 02, 2009

Key Data

Closing Price*	Avg. Value Traded per Day
KD 1.680	KD 525,079
52-Week High	Market Cap
KD 2.300	KD 842 mln
52-Week Low	Current Number of Shares
KD 1.200	501.16 mln
Reuters	Bloomberg
NMTC.KW	NMTC KK
Ownership Structure	
Qatar Telecom: 52.5% KIA: 24% Public: 23.5%	

* Prices as of close on July 01, 2009. Sources: Reuters, Zawya and NBK Capital

Rebased Performance



Sources: MSCI, Reuters and NBK Capital

Key Ratios

	2008 a	2009 f	2010 f	2011 f	2012 f
Adj.P/E	10.2	11.9	12.2	12.0	11.4
Adj.EPS Growth	2%	-14%	-2%	1%	5%
EV/ EBITDA	4.3	4.3	4.1	3.8	3.6
EBITDA Margin	42.3%	40.7%	40.4%	41.2%	41.5%
EBITDA Growth	26.3%	-1.0%	4.7%	7.8%	6.8%
Dividend Yield	2.7%	6.9%	3.3%	4.2%	4.4%
Adj.ROAE	24%	17%	14%	14%	13%

1Q2009 EBITDA a	3Q2009 EBITDA f
KD 44 mln	KD 53 mln
2Q2009 EBITDA f	4Q2009 EBITDA f
KD 52 mln	KD 51 mln

a = actual, f = forecast. Sources: Reuters and NBK Capital

Analysts

Diala Hoteit	Lisa Fernandes
T. +971-4-365 2855	T. +971-4-365 2856
E. diala.hoteit@nbkcapital.com	E. lisa.fernandes@nbkcapital.com

Highlights

12-Month Fair Value: KD 2.060

Recommendation: Buy – Risk Level: 4**

Reason for Report: Initiation of Coverage

- Wataniya Telecom was one of the first operators in the region to expand outside its home market. The company currently has operations in Kuwait, Tunisia, Algeria, the Maldives, Saudi Arabia, and Palestine.
- In 2007, Qatar Telecom (Qtel) bought a 51% controlling stake in Wataniya Telecom. During 2008, Qtel acquired an additional 1.5% stake in Wataniya. This newly formed conglomerate has presented each of its subsidiaries with synergy opportunities and overall cost efficiencies.
- We believe that Wataniya's three main markets still have room to grow with penetration rates still below peer countries' levels. In all three cases, this would come at the expense of ARPU; but each market has different dynamics. We forecast that the total number of Wataniya's subscribers will grow at a CAGR of 11% in the next five years.
- Wataniya's revenue grew by 17% in 2008 to KD 476 million from KD 408 million in 2007. We expect fierce competition in the telecom market; thus, we forecast Wataniya's total revenue will grow at a CAGR of around 5% in the coming five years. We forecast the EBITDA margin to continue to improve to 42% by 2013, mainly due to better cost control in the Algerian operation, increasing its contribution to the group EBITDA from 19% in 2008 to 39% by 2013.
- Wataniya had a relatively low level of debt at the end of 1Q2009, with a debt/equity ratio at 0.36x. At the end of 2008, debt for the Algerian operation was the highest; it represented 73% of the company's total long-term debt. We believe that the group has a strong and clean balance sheet, allowing the group to increase its leverage if Wataniya wishes to grow through acquisitions.
- We arrived at a 12-month fair value for Wataniya Telecom of KD 2.060 per share using a discounted cash flow based on a sum of the parts and a peer comparison based on forward PEG (price-to-earnings ratio to growth) and EV/EBITDA multiples. With an upside potential of 23% compared to the closing share price on July 01, 2009, we initiate coverage on Wataniya Telecom with a "Buy" recommendation.

** Please refer to page 32 for recommendations and risk ratings.

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EXECUTIVE SUMMARY

Wataniya Telecom started operations in December 1999 as the second mobile operator in Kuwait, breaking Zain's monopoly. Wataniya was one of the first operators in the region to expand outside its home market. The company believed that its future growth would depend on its ability to expand regionally as Wataniya's home market would face increasing competition, eventually reaching market saturation. Hence, Wataniya planted its flag in Tunisia, Algeria, the Maldives, Saudi Arabia, and Palestine by winning greenfield licenses or acquiring stakes in existing companies.

We believe that Wataniya's three main markets still have room to grow with penetration rates still below peer countries' levels. In all three cases, this would come at the expense of ARPU; but each market has different dynamics. In Kuwait, we believe that increased competition will push ARPU levels substantially lower and that both dominant players will lose market share to the newcomer. When we look at Algeria, although three operators already exist, competition is not very intense. Orascom Telecom has already announced it will concentrate on its value customers at the expense of maintaining a high market share. We believe Wataniya will benefit the most from Orascom Telecom's new strategy and increase the company's market share while witnessing a mild drop in ARPU. When it comes to Tunisia, the story is different. A strong third operator is expected to start operations in 2010; hence, we believe that the market will continue to grow while ARPU levels will also decline. We forecast Tunisiana (Wataniya's subsidiary) will maintain its dominant status despite losing market share.

Due to intensifying competition in the company's key markets, Wataniya's 2008 revenues grew by 17% from KD 408 million in 2007. We forecast Wataniya's total revenues through to 2014 by separately projecting revenues for each operation during this period. We are expecting fierce competition in the overall telecom market; thus, we forecast Wataniya's total revenue will display a CAGR of 5% in the coming five years. The EBITDA margin improved from 39% in 2007 to 42% in 2008 mainly due to better cost control in the majority of the company's operations; the Kuwaiti operation contributed 60% to the total group EBITDA. We expect the EBITDA margin for the group will stabilize at 42% by 2013. We believe that, going forward, Algeria's operational efficiency will improve, and its EBITDA margin will reach 38% in 2013, which will make Algeria the highest contributor to the group EBITDA. Wataniya had a low level of debt at the end of 1Q2009, with a debt/equity ratio of 0.36x. At the end of 2008, debt for the Algerian operation was the highest, representing 73% of the total long-term debt level. We believe that Wataniya has a strong and clean balance sheet, and this will allow the company to increase its leverage if Wataniya wishes to grow through acquisitions.

We arrived at a 12-month fair value for Wataniya of KD 2.060 per share by using two valuation methods: discounted cash flow (DCF) based on a sum-of-the-parts (SOTP) and a peer comparison based on PEG and EV/EBITDA multiples. With an upside potential of 23%, we are initiating coverage on Wataniya Telecom with a "Buy" recommendation.

We have assigned a separate risk rating for each of the operations, which resulted in each operation having its own unique cost of equity. This follows our subjective criteria for risk, risks associated with the overall operating environment, market risk relating to the investment portfolio, and currency risk. The major risks we believe could have a material impact on the value of the company's stock are:

- Kuwait remains the most important operation in terms of value; hence, aggressive competition in Kuwait will put pressure on Wataniya's margin and will affect the value of the company.
- The effects of the global economic crisis on population growth, especially in the GCC where expatriates constitute a large portion of the total population, and the potential slowdown in tourism that is expected to hit most countries will likely dampen subscriber growth and Wataniya's revenues.

VALUATION

The purpose of this valuation exercise is to use fundamental analysis to arrive at a fair value estimate for the share price of Wataniya. To arrive at this fair value, we used a combination of two valuation methods: DCF based on a SOTP and a peer comparison based on PEG and EV/EBITDA multiples. However, this does not represent a guarantee that this value is achievable within our time frame, as a wide range of variables and market dynamics can ultimately affect the market price of an asset.

Each investor must use his or her favorite mix of fundamental research, technical analysis, and market intelligence to arrive at an investment decision that matches his or her objectives and tolerance for risk.

We arrived at a fair value for Wataniya of KD 2.060 per share by allocating a greater weight (70%) to the SOTP DCF valuation, a methodology that examines the fundamentals of the company to determine its future cash-generating ability.

Figure 1 Fair Value per Share

Our 12-month fair value for Wataniya is KD 2.060

Valuation Method	Value (KD)	Weight (%)
Discounted cash flow - SOTP	2.465	70%
Peer comparison	1.137	30%
Adjusted weighted average fair value	2.060	100%

Source: NBK Capital

SOTP DCF Valuation

To value Wataniya using a SOTP DCF, we separately forecasted—through to 2014—the financial results for the company's five consolidated operations. Accordingly, each operation received individual valuations that incorporated the operation's specific market dynamics.

From forecast financial statements, we extracted free cash flows that were used in our valuation of each operation. We discounted the cash flows to the end of 2009 to obtain an estimate of the value of each of Wataniya's operations. We assigned a separate risk rating for each of the operations, which resulted in each having its own unique cost of equity. Also, we assigned different debt and equity weightings for each operation depending on our outlook for the capital structure of each operation moving forward.

Our SOTP DCF model resulted in a fair value of KD 2.465 for the share price of Wataniya. The per share valuation of each operation helps shed light on the source of the value. From Figure 2, we can see that, in terms of value, Kuwait remains the single most important country to Wataniya, accounting for 60% of the fair value; while Algeria represented 36% of Wataniya's value, and Tunisia accounted for 31% of Wataniya's value.

Figure 2 Sum-of-the-Parts Valuation

	Wataniya Operations				Net Debt	Total
	Kuwait	Tunisia	Algeria	Others		
DCF Value (KD millions)	745	765	626	(226)	(69)	
Ownership	100%	50%	71%		100%	
Value (KD millions)	745	383	444	(268)	(69)	1,235
Per Share (KD)	1.486	0.763	0.887	(0.534)	(0.137)	2.465
% of Value	60%	31%	36%	-22%	-6%	100%

Source: NBK Capital

We excluded the Palestinian operation from our valuation due to limited available information.

Sensitivity Analysis

We performed a sensitivity analysis (Figure 3) on two important inputs to our SOTP DCF valuation model: the cost of equity and the perpetual growth rate used in computing the terminal value.

Figure 3 Sensitivity Analysis

We performed a sensitivity analysis on two major inputs for the DCF model

		Cost of Equity Increments				
		-1.00%	-0.50%	Base case	+0.50%	+1.00%
Growth Increments	-1.00%	KD 2.420	KD 2.332	KD 2.250	KD 2.173	KD 2.102
	-0.50%	KD 2.544	KD 2.444	KD 2.352	KD 2.266	KD 2.187
	Base case	KD 2.684	KD 2.570	KD 2.465	KD 2.369	KD 2.280
	+0.50%	KD 2.842	KD 2.711	KD 2.592	KD 2.483	KD 2.384
	+1.00%	KD 3.022	KD 2.871	KD 2.735	KD 2.612	KD 2.500

Source: NBK Capital

Peer Group Comparison

We compared Wataniya to five other telecom operators with considerable operations outside their home countries (Figure 4).

We obtained the consensus forward earnings per share (EPS) for 2009 and the consensus earnings growth estimates for each of the peer group members for the next five years. The simple average PEG for the sample, excluding the highest and lowest values, was 1.50. Wataniya, in contrast, currently trades at a higher PEG of 4.15, based on our 2009 forecast EPS and our 5-year earnings growth rate.

We also valued Wataniya relative to the EV/2009EBITDA for the same sample. The simple average EV/2009EBITDA for the sample, excluding the highest and lowest values, was 4.76. Wataniya, in contrast, currently trades at an EV/2009EBITDA of 4.79, based on our 2009 forecast EBITDA and net debt levels.

Using a simple average of the two multiples, and excluding outliers among the five companies in the sample, we estimate the value of a Wataniya share at KD 1.137. This implies that Wataniya is currently overvalued, considering the current market price of KD 1.680.

Figure 4 Forward PEG and EV/2009EBITDA Multiples Comparison

Company	Market Data		EV / 2009 EBITDA	2009 Forecast EPS	PEG
	Price* (Local Currency)	Market Cap (USD Millions)			
Zain	1.2	17,553	6.33	0.09	2.38
Orascom	29.9	4,820	4.15	3.60	0.47
Turkcell	5.6	12,245	4.77	0.57	4.89
MTN Group Ltd.	11,831	25,427	4.69	994.27	1.02
Millicom Intl. Cellular	56.3	6,104	4.83	5.42	1.09
Weighted average			5.11		2.06
Simple average			4.95		1.97
Simple average excluding outliers			4.76		1.50
Median			4.77		1.09

*Prices as of last close. Sources: Reuters Knowledge and NBK Capital

BULLS VS. BEARS

BULL STORY

- Wataniya's main operation is in Kuwait, which is a cash-generating mature market. Wataniya also operates in two growing markets, Algeria and Tunisia.
- Wataniya benefits from a favorable demographic outlook, as 26% of the company's population under coverage is under the age of 14.
- Wataniya had a low level of debt at the end of 1Q2009, with a debt/equity ratio at 0.36x. We believe that Wataniya has a strong and clean balance sheet, allowing the company to increase its leverage if Wataniya wishes to grow through acquisitions.
- Qtel's acquisition of Wataniya will benefit the company, as it will have access to cheap financing and more purchasing power.

BEAR STORY

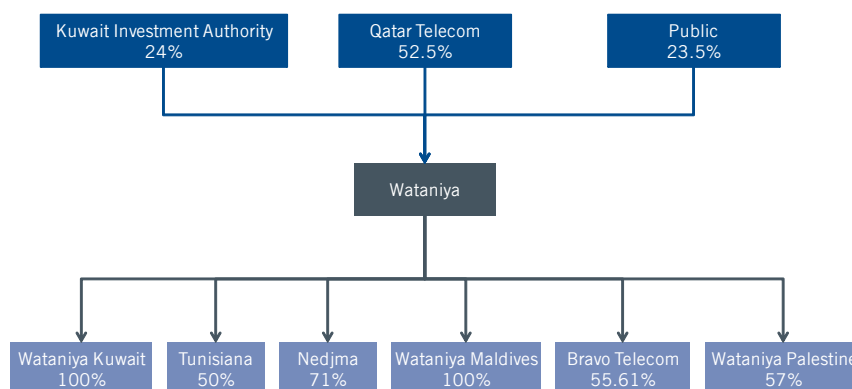
- The entry of Viva (STC's subsidiary) as the third mobile operator in Kuwait will put pressure on Zain's and Wataniya's margins. The first significant evidence for that was the cancellation of called-party pays. This was first announced by the new operator Viva and was quickly adopted by the two dominant operators. However, this has led to substantial network congestion, mainly due to landlines calling mobiles virtually for free, since landlines pay only a yearly subscription fee and are not charged a variable per-call fee. We believe since this will have a negative impact on the profitability of Wataniya going forward, especially since billing of fixed lines will be fought heavily by Kuwaitis who are used to large social benefits from the government.
- Wataniya's expansion in Algeria and Tunisia is subject to currency fluctuations, affecting the net contribution to Wataniya's bottom line.
- Wataniya will face more competition as the Ministry of Communication in Tunisia awarded a fixed-line and a mobile license to France Telecom. In addition, the telecom regulator in Algeria might privatize Algerie Telecom.

WATANIYA'S FOOTPRINT

Wataniya was one of the first operators in the region to expand outside its home market. The company believed that future growth would depend on the company's ability to expand regionally as Wataniya's management believed its home market would eventually face increased competition and reach saturation. The Wataniya Group currently has around 11 million mobile subscribers across six countries (Kuwait, Tunisia, Algeria, Saudi Arabia, the Maldives, and Palestine), and around 76 million people under license. The average penetration rate in countries under license for the group is still low at 14%. Through these acquisitions, The Wataniya Group has diversified its business operations into markets with different dynamics; mature and growing markets while being the second player in the majority of the company's operations. Additionally, Wataniya Group has a low level of debt, thus we believe that the company can leverage its strong balance sheet if Wataniya wishes to pursue further acquisitions.

In 2007, Qatar Telecom (Qtel) bought a 51% controlling stake in Wataniya Telecom from Kuwait Projects Company Holding (KIPCO) and other parties for USD 3.8 billion. During 2008, Qtel acquired an additional 1.5% stake in Wataniya. Through this acquisition, Qtel expanded its mobile operations over ten mobile markets with different dynamics and is on the right track to reach its goal to be among the top 20 telecommunications companies globally by the year 2020.

Figure 5 Company Structure



Source: Wataniya annual report

SO WHAT IS THE STORY IN EACH COUNTRY?

Kuwait: Fierce Competition

With the duopoly status that Zain and Wataniya have been enjoying over the years, the mobile market drifted into a lull, compared to neighboring countries where fierce competition was raging. Between 2005 and 2008, mobile subscribers in Kuwait grew at a CAGR of only 11% compared to an average of 37% for the other GCC countries. However, this did not stop penetration rate expansion; we estimate that the penetration rate (based on the active number of subscribers) in Kuwait rose from 80% in 2005 to 94% in 2008. In 1Q2009, the mobile market in Kuwait reached 100% penetration, and when considering countries comparable to Kuwait on a GDP per capita level, we find that the penetration rate in Kuwait at the end of 1Q2009 is still 11% below the 113% average for the peer group. However, with the awarding of the third mobile license to a consortium led by STC (branded as Viva), Kuwait witnessed a revival of the mobile market. At the end of 2008, Viva aggressively entered the Kuwaiti market. Competition was focused on local call tariffs, which were among the highest in the region. The first significant move was the cancellation of the long-standing incoming fee that subscribers had to pay to receive calls from local landlines as well as from abroad (called party pays). This offer was

first announced by the new operator Viva and was quickly adopted by the other two operators. However, this offer has led to substantial network congestion, mainly due to landlines calling mobiles virtually for free, since landlines pay only a yearly subscription and no variable per-call fee. We believe that this will have a negative impact on the profitability of Zain and Wataniya. As a matter of fact, the 1Q2009 results were a good indicator of the effect of the cancellation of the incoming fee. Zain's Kuwaiti operation reported a 14% YoY drop in revenues and a drop in EBITDA margin from 53% in 1Q2008 to 48% in 1Q2009. As for Wataniya, it witnessed a 9% YoY drop in its revenues from Kuwait, and a drop in the EBITDA margin from 51% in 1Q2008 to 47% in 1Q2009. We believe that Wataniya will continue to witness weak growth due to aggressive competition among the three operators. However, management is counting on trying to reduce interconnection costs in Kuwait to mitigate the cancellation of incoming fees. In addition, Wataniya will continue investing in its 3G and HSDPA network as growing demand for data will represent additional revenue opportunities.

Tunisia: Tunisiana breaking the leadership of Tunisie Telecom

Last year was a turning point for the mobile market in Tunisia; the second mobile operator Tunisiana broke Tunisie Telecom's market leader position, edging ahead with a market share of 51%, up from 48% in 2007. With the entry of a third mobile operator, we believe that both operators in Tunisia will lose market share.

Algeria: Different disclosures, competitive environment, and potential for growth

We have encountered difficulties in calculating the penetration rate and market share in Algeria due to different disclosure by the three mobile operators. If we use Orascom Telecom's "Djezzy" press release, then we would estimate the number of Algeria Telecom subscribers to be around 2.5 million. When we use Wataniya's "Nedjma" disclosure, the estimated number of Algeria Telecom subscribers would be around 5 million. Accordingly, it is definitely below Algeria Telecom's disclosure of more than 9 million active mobile subscribers. Thus, we tend to believe that the penetration rate in Algeria was between 64% and 72% at the end of March 2009, which proves that the market has potential for growth.

Others: Negative contribution to Wataniya's bottom line

Saudi Arabia: In 2002, Public Telecommunications Company Ltd. (PTC) signed a Build-Operate-Transfer (BOT) agreement with Saudi Telecom Company (STC) to offer both the public and corporate sectors digital radio network services based on Digital Enhanced Network (iDEN) technology in Saudi Arabia—branded as "Bravo Telecom." Wataniya International owns 55.61% of the company, and National Advanced Systems Co. Ltd. (NASCO), the main provider of technical communication solutions in Saudi Arabia, owns 44.39% of Bravo. The operation has been loss-making since launching its services in July 2005. We fail to see the value of this operation to Wataniya.

Maldives: The telecommunications authority of the Maldives broke the 16-year telecommunications monopoly of Dhiraagu and awarded Wataniya the second GSM license in February 2005. Wataniya Telecom Maldives is unprofitable, but in 2008, it managed to reduce its losses by 9% compared to 2007.

Palestine: In 2006, the Palestinian National Authority awarded Wataniya International the second mobile license, breaking the monopoly of Paltel. Wataniya has not yet announced the date of the commercial launch. Currently, Paltel is the only operator serving the country; the mobile market is characterized by a low penetration rate, 33% at the end of 1Q2009. In May 2009, Zain Group entered into an agreement with Paltel for a share-swap transaction; this agreement will allow Zain to have an equity shareholding of 56.53% in exchange for Paltel owning 100% of Zain Jordan. According to Zain's press release, Paltel will be a part of the "One Network", thus putting pressure on Wataniya before its entry. The "One Network" will encourage Palestinians living in Jordan to be part of Zain Group and enjoy the low tariffs.

OVERVIEW OF KUWAIT TELECOM MARKET

REGULATORY ENVIRONMENT

Kuwait was the first country in the GCC to introduce a second telecom operator. Kuwait is currently the only country without a telecommunications regulatory authority, an anomaly by global standards. Presently, the Ministry of Communications (MOC) is the regulatory entity for telecommunications in Kuwait. At the end of 2008, the MOC granted the third mobile license to a consortium lead by Saudi Telecom (STC) for USD 3.49 billion. We still believe that the establishment of a regulator should have preceded the introduction of a third operator. That way, the regulator would be responsible for further liberalization of the sector, setting up a proper regulatory framework, and opening the door to local and international players interested in entering the market.

Figure 6 Liberalization of Telecom Market in Kuwait



Source: NBK Capital

MOBILE MARKET

List of Operators: Currently, Kuwait's mobile market is composed of three wireless companies, with the government owning 24% of each:

- Zain - National Investment Company owns 18%
- Wataniya Telecom - Qtel owns 52.5%
- Kuwait Telecom Company - STC owns 26%

Penetration Rate and Market Share: For years, both Zain and Wataniya enjoyed a cozy duopoly in Kuwait, which led to slow growth in the number of subscribers compared to other GCC countries. Between 2003 and 2008, mobile subscribers in Kuwait grew at a CAGR of 14% compared to an average of 36% for the other GCC countries. We estimate that the penetration rate (based on the active number of subscribers) in Kuwait rose from 80% in 2005 to 94% in 2008. In 1Q2009, the mobile market in Kuwait reached 100% penetration.

At the end of 2008, STC (branded as Viva) aggressively entered the Kuwaiti market. Competition was focused on local call tariffs, which were among the highest in the region. The first significant move was the cancellation of the long-standing incoming fee that subscribers had to pay to receive calls from local landlines as well as from abroad. This offer was first announced by the new operator Viva and was quickly adopted by the other two operators. However, this offer has led to substantial network congestion, mainly due to landlines calling mobiles virtually for free, since landlines pay only a yearly subscription. We believe that this will have a negative impact on the profitability of Zain and Wataniya. The 1Q2009 result is a good indicator of the effect of the cancellation of the incoming fee. Zain's Kuwaiti operation reported a 14% YoY drop in revenues and a drop in EBITDA margin from 53% in 1Q2008 to 48% in 1Q2009. As for Wataniya, it witnessed a 9% YoY drop in its revenues from Kuwait, and a drop in the EBITDA margin from 51% in 1Q2008 to 47% in 1Q2009.

When considering countries comparable to Kuwait on a GDP per capita level, we find that the

penetration rate in Kuwait at the end of 1Q2009 is 11% below the 113% average for the peer group (Figure 7).

Figure 7 Mobile Penetration Rate in Countries Comparable to Kuwait

Country	2005	2006	2007	2008	1Q2009
Australia	93%	97%	103%	111%	114%
Belgium	84%	92%	101%	108%	110%
France	79%	84%	89%	92%	94%
Japan	71%	74%	78%	83%	84%
Singapore	99%	108%	128%	143%	147%
Sweden	109%	115%	115%	126%	128%
Average	89%	95%	102%	110%	113%
Kuwait	80%	79%	83%	94%	100%

Sources: Annual reports, Informa database, ITU, and NBK Capital

At the end of 1Q2008, Zain continued to reign as the market leader, with a 52% market share in Kuwait. The Kuwaiti market is dominated by prepaid subscribers, representing 76% of the total market. The high number of low-income expatriate subscribers and the ease of getting a subscription are the main reasons for this.

ARPU: Given the duopoly status of the Kuwaiti mobile market that lasted for years, blended ARPU per month is still high compared to the peer-group. At the end of 2008, blended ARPU per month in Kuwait was around USD 60, 34% higher than the peer-group average (Figure 8).

Figure 8 Kuwait Monthly Blended ARPU vs. Peer Countries

Country	2004	2005	2006	2007	2008
(All figures in USD)					
Australia	38	33	34	41	45
Belgium	37	46	46	46	46
France	45	46	47	49	53
Japan	60	62	56	52	54
Singapore	31	31	32	35	34
Sweden	33	22	28	33	36
Average	41	40	41	43	45
Kuwait*	49	47	58	62	60

* In 2008, Kuwait's ARPU does not include revenue from Viva. Sources: Annual reports, IMF, Informa database, ITU, and NBK Capital

With the entry of Viva, the three operators started to flood the market with competitive offers that subscribers in Kuwait were deprived of for years. For example, the Blackberry solution, which is witnessing unprecedented growth, was provided only by Zain; now both Viva and Wataniya provide this service at a competitive pricing scheme. The lower-end customers are not forgotten either, fully subsidized handsets are now offered to prepaid customers.

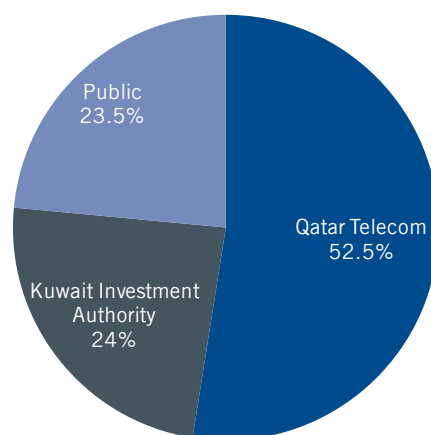
WATANIYA-KUWAIT OVERVIEW

BASIC INFORMATION

In 1997, National Mobile Telecommunications Company (NMTC), branded as Wataniya Telecom, was awarded the second telecom license (50-year license) in Kuwait; this ended the 14-year monopoly of Mobile Telecommunications Company (branded as Zain). As of July 1999, Wataniya's shares were registered and traded on the Kuwait Stock Exchange; the company's mobile operations were launched soon after in December 1999.

In March 2007, Qtel International Investment, a wholly owned subsidiary of Qtel, acquired 233.7 million shares (51%) of Wataniya Telecom from Kuwait Projects Company Holding (KIPCO) group for USD 3.72 billion. During 2008, Qtel acquired a 1.5% additional stake in Wataniya for USD 51,281 million.

Figure 9 Ownership Structure



Source: Wataniya annual report

Wataniya and Zain have long enjoyed a comfortable duopoly in the mobile market. However, with the entry of Viva, Wataniya will face more pressure to maintain the company's current level of market share. At the end of 2008, Wataniya was able to grasp only 28% of net additional subscribers compared to 49% in 2007. Wataniya's mobile subscribers grew by 11% during 2008 and reached 1.31 million, and the company's market share fell from 43% in 2007 to 41% in 2008.

As for 1Q2009, Wataniya's mobile subscribers reached around 1.36 million, which translates into a market share of 39%. Viva increased its market share to 9% at the end of 1Q2009, at the expense of both Wataniya and Zain.

WATANIYA-KUWAIT FINANCIAL ANALYSIS AND FORECAST

MOBILE MARKET FORECAST

With the entry of a third operator into the mobile market and with 27% of the Kuwaiti population under the age of 14, the mobile market in Kuwait is likely to continue to grow. We forecast that the penetration rate in Kuwait (based on active subscribers) will reach 114% in 2013 (Figure 10).

Figure 10 Mobile Market in Kuwait

(000's)	2008a	2009f	2010f	2011f	2012f	2013f
Penetration Rate	94%	103%	108%	110%	112%	114%
Peers' Penetration Rate	113%	112%	116%	118%	120%	122%
Total Active Subscribers	3,233	3,670	3,983	4,199	4,425	4,661
Market Share:						
<i>Wataniya</i>	41%	38%	37%	36%	35%	34%
<i>Others</i>	59%	62%	63%	64%	65%	66%
Wataniya Kuwait's ARPU (USD)						
<i>Total Blended</i>	52	45	41	39	39	38

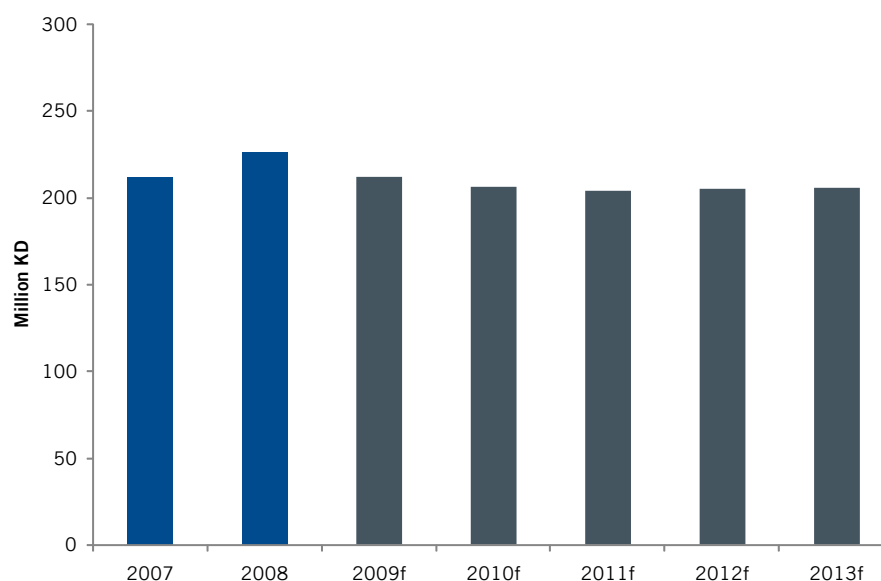
Sources: Annual reports, IMF, Informa database, and NBK Capital

We forecast that the total number of subscribers in Kuwait will grow at a CAGR of 8% between 2008-2013; due to the expected harsh competition between operators, we forecast Wataniya's market share will decrease to 34% in 2013. The increase in subscribers and a decrease in tariffs will lead to the dilution of blended ARPU; we expect Wataniya's monthly blended ARPU will decrease from USD 52 in 2008 to USD 38 in 2013.

REVENUE

Wataniya's revenue in Kuwait grew at a CAGR of 13% from 2005 to 2008. Kuwait's operation remains the highest contributor to Wataniya's total revenues; it represented 48% of total revenues and reached KD 227 million in 2008 compared to KD 212 million in 2007, a growth of only 7%. The reasons for the weak growth in 2008 were the new offers and packages that Wataniya offered to its subscribers ahead of the launch of Viva in December 2008. As for 1Q2009, total revenue decreased by 9% compared to the same period last year, reaching KD 49.5 million. The company lost around KD 2.87 million of revenue due to the cancellation of the called-party pays.

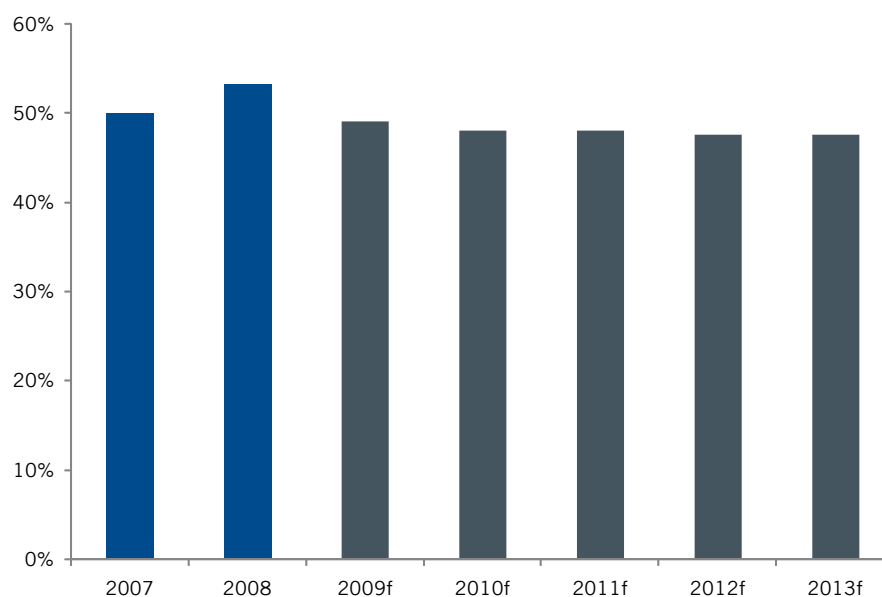
We believe that Wataniya will continue to witness weak growth due to aggressive competition among the three operators. We forecast that revenues will continue to decline over the coming four years (Figure 11). The Algerian operation is expected to overtake the place of the Kuwaiti operation as the highest contributor to Wataniya's total revenues; we believe that the Kuwaiti operation will contribute to 34% of the total group revenue by 2013.

Figure 11 Wataniya Kuwait Actual and Forecast Revenue

Sources: Wataniya annual reports and NBK Capital

PROFITABILITY

By the end of 2008, earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to KD 121 million compared to KD 106 million in 2007. The EBITDA margin improved from 50% in 2007 to 53% in 2008 due to better cost control. In 1Q2009, due to a decline in revenue, EBITDA also declined by 16% compared to the same period in the previous year, pushing the EBITDA margin down to 47% compared to 51% in 1Q2008.

Figure 12 Wataniya Kuwait Actual and Forecast EBITDA Margin

Sources: Wataniya annual reports and NBK Capital

We believe the increased competition in Kuwait will put more pressure on the top line of Wataniya's operation in Kuwait. We expect Wataniya to increase its advertising expenditure over the next few years; the company needs to come up with innovative products and services to attract new subscribers and to retain existing ones. Hence, we forecast a continued decline in EBITDA over our forecast horizon and expect the EBITDA margin to reach around 47.5% by 2013.

Reported net profit for Wataniya in Kuwait declined by 4% in 2008, compared to 2007. According to management, net profit in 2007 included a profit from the disposal of investments that amounted to KD 12.1 million. Excluding this, net profit increased by 11.6% in 2008 compared to 2007 to reach KD 84 million. As for 1Q2009, net profit edged down by 2% to KD 17.7 million, compared to 1Q2008.

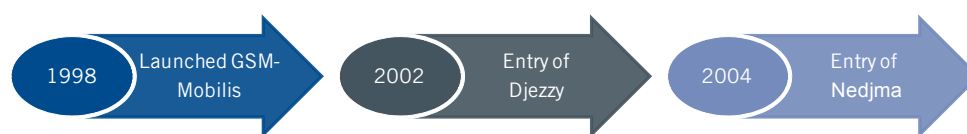
OVERVIEW OF ALGERIA TELECOM MARKET

REGULATORY ENVIRONMENT

The telecom market in Algeria was dominated by the government-owned Algerie Telecom, which controlled the mobile and fixed-line services in the country. In 2001, the government of Algeria ended this monopoly by establishing a timetable for reform of the telecom sector with the objective of introducing competition and bringing the telecom sector in Algeria in line with global standards. The first step was the establishment of the Post and Telecommunications Regulatory Authority (Autorité de la régulation des postes et de la telecommunication - ARPT), an independent body to manage the telecom sector. The deregulation of the telecom sector saw the entry of foreign telecom operators, Egypt's Orascom Telecom in 2001 and Kuwait's Wataniya Telecom in 2003. During 2008, the telecom regulator issued many new regulations for telecom operators to follow:

- Customer identification
- New sales process
- New promotion policy

Figure 13 Liberalization of Telecom Market in Algeria



Source: NBK Capital

MOBILE MARKET

List of Operators: The mobile market in Algeria is currently composed of three companies:

- Mobilis – The incumbent Algerie Telecom launched its GSM network in 1998 under the brand name Mobilis.
- Orascom Telecom Algeria branded as Djezzy – In 2001, Egypt's Orascom Telecom was awarded the second mobile license with a winning bid of USD 737 million. In February 2002, Djezzy launched the second telecom operation. Djezzy's GSM license expires in 2016, with an option to renew the contract for two 5-year periods.
- Nedjma – In December 2003, Wataniya Telecom was awarded the third mobile license in Algeria for USD 421 million. The company was licensed to operate a dual-band GSM network for an initial 15-year period. In August 2004, Wataniya's Telecom Algeria commenced its GSM operations under the brand name of Nedjma.

Penetration Rate and Market Share: We have encountered difficulties in calculating the penetration rate and market share in Algeria due to different disclosure by the three mobile operators. If we use Orascom Telecom's "Djezzy" press release, then we would estimate the number of Algerie Telecom subscribers to be around 2.5 million. When we use Wataniya's "Nedjma" disclosure, the estimated number of Algerie Telecom subscribers would be around 5 million. Accordingly, it is definitely below Algerie Telecom's disclosure of more than 9 million active mobile subscribers. Thus, we tend to believe that the penetration rate in Algeria was between 64% and 72% at the end of March 2009, which proves that the market has potential for growth.

We would like to highlight that, during 2008, the telecom regulator obliged the three operators to apply a customer identification procedure. This resulted in the disconnection of many subscribers during the year, which in turn resulted in a decline of around 2% in the total number of mobile subscribers.

When considering countries comparable to Algeria on a GDP per capita level, we find that, at the end of 1Q2009, our estimated penetration rate prevailing in Algeria is around 37% below the average for the peer group, which stood at 101% at the end of the same period (Figure 14).

Figure 14 Algeria Mobile Penetration Rate vs. Peer Countries

Country	2005	2006	2007	2008	1Q2009
Albania	46%	57%	69%	85%	91%
Colombia	48%	65%	73%	88%	92%
Ecuador	48%	64%	74%	84%	87%
Macedonia	62%	70%	96%	114%	123%
Thailand	48%	63%	83%	96%	99%
Ukraine	64%	106%	111%	113%	114%
Average	53%	71%	84%	97%	101%
Algeria	32%	49%	62%	62%	64%

Sources: Annual reports, IMF, Informa database, and NBK Capital

After the aggressive competition from Nedjma and Mobilis and the restrictions and constraints imposed by the telecom regulator in Algeria, Orascom shifted to a value strategy rather than a growth one. We believe that Orascom will lose part of its market share but will remain the market leader in the country.

ARPU: We estimate that the total monthly blended ARPU in Algeria (excluding Algerie Telecom) as of December 2008 is USD 11, which is 8% lower than the peer-group average (Figure 15).

Figure 15 Algeria's Monthly Blended ARPU vs. Peer Countries

Country	2004	2005	2006	2007	2008
(All figures in USD)					
Albania	25	23	21	20	21
Colombia	12	11	9	10	10
Ecuador	13	12	11	9	9
Macedonia	20	14	15	16	16
Thailand	15	11	9	13	8
Ukraine	14	10	8	7	8
Average	16	13	12	13	12
Algeria ARPU*	26	17	13	11	11

*Excludes Algerie Telecom. Sources: Annual reports, IMF, Informa database, and NBK Capital

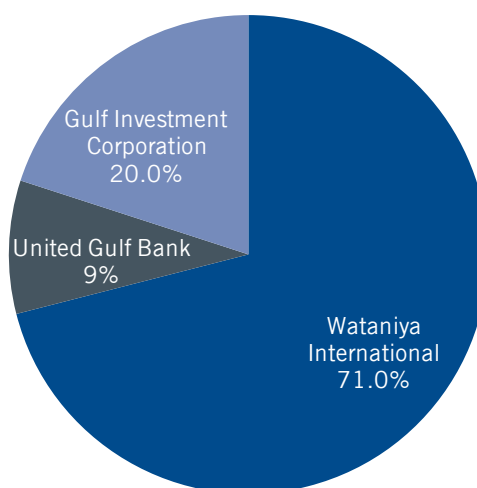
ARPU levels have been decreasing, especially given the increasing competition among the three operators in Algeria. We believe that this downward trend will continue as the Algerian telecom market heads toward saturation and maturity.

NEDJMA OVERVIEW

BASIC INFORMATION

On December 2, 2003, Wataniya Telecom was awarded the third mobile license in Algeria with a bid of USD 421 million. According to the license agreement, the company was licensed to operate a dual-band GSM network for the initial 15-year period. On August 25, 2004, Wataniya's Telecom Algeria commenced its GSM operations under the brand name of Nedjma. During its first year of operation, the company captured 6% of the market.

Figure 16 Ownership Structure



Source: Zawya

The commercial launch of Nedjma put the mobile market in Algeria on a different path. As of December 2008, Nedjma's mobile subscribers had increased to 5.1 million; Nedjma has grown at a CAGR of 105% since the company started operations in 2004 up to 2008.

NEDJMA FINANCIAL ANALYSIS AND FORECAST

MOBILE MARKET FORECAST

The introduction of competition shook the Algerian mobile market. Mobile subscribers have witnessed swift growth, achieving a CAGR of 47% between 2004 and 2008. Based on peer country analysis, we forecast that the penetration rate in Algeria will reach 90% by 2013, and total subscribers will grow at a CAGR of 9% from 2008 to 2013.

Figure 17 Mobile Market in Algeria

(000's)	2008a	2009f	2010f	2011f	2012f	2013f
Penetration Rate	62%	68%	75%	82%	86%	90%
Peers' Penetration Rate	97%	105%	111%	115%	117%	118%
Total Subscribers	21,807	24,099	26,798	29,756	31,871	33,853
Market Share:						
<i>Nedjma</i>	23%	27%	29%	31%	32%	33%
<i>Others</i>	77%	73%	71%	69%	68%	67%
Nedjma's ARPU (USD)						
<i>Total Blended</i>	7.8	7.5	7.3	7.1	7.0	7.0

Sources: Annual reports, IMF, Informa database, and NBK Capital

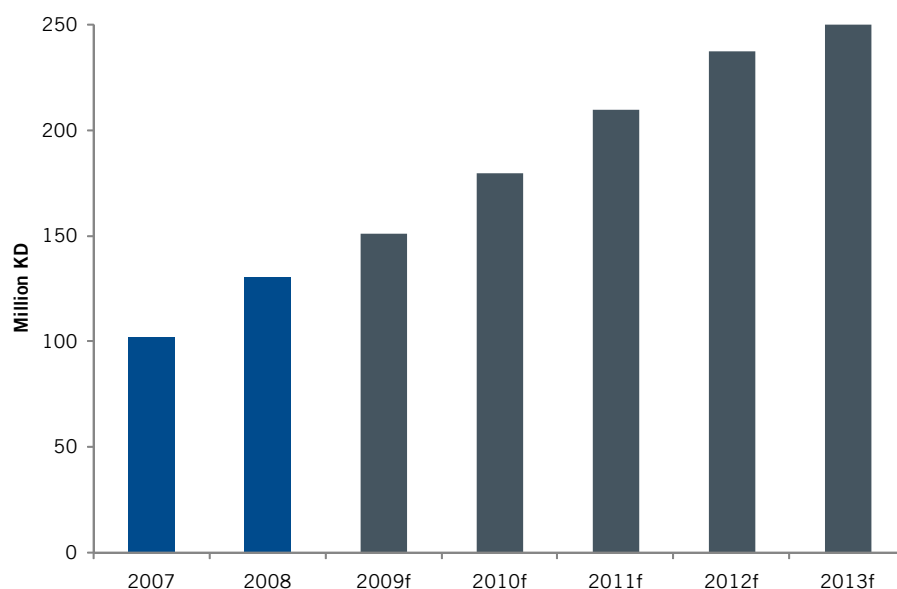
We forecast Nedjma subscribers to grow at a CAGR of 17% between 2008 -2013 and we expect the company's market share to reach 33% in 2013.

Nedjma's blended ARPU is low compared to Djezzy's ARPU (USD 17 at the end of 2008) and to the peer-group average ARPU; thus, we do not believe that blended ARPU will aggressively decrease further. We forecast the blended ARPU to reach USD 7 by 2013, compared to USD 7.8 at the end of 2008.

REVENUE

Wataniya's operation in Algeria through Nedjma remains the second highest contributor to the Wataniya Group's top-line; at the end of 2008, the Algerian operation accounted for 27% of the group's total revenue.

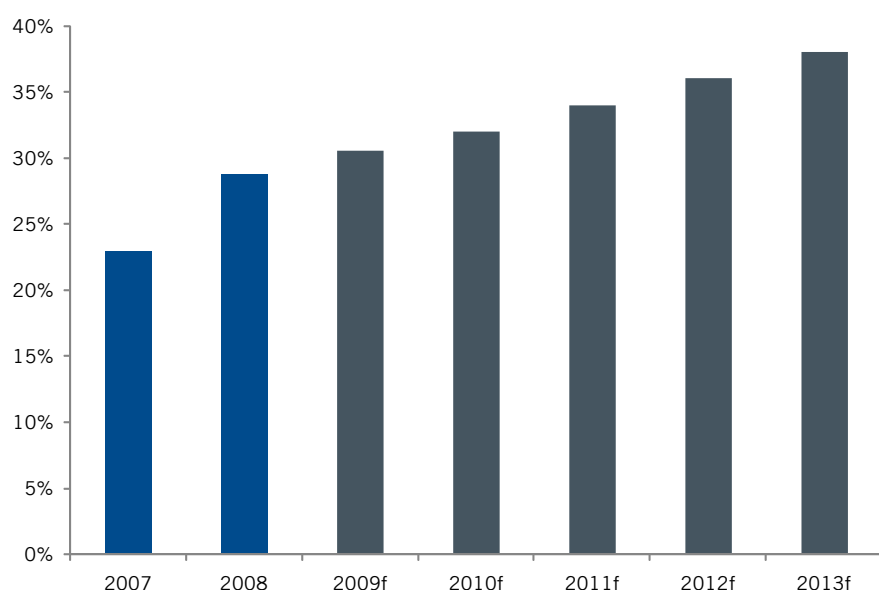
Nedjma's revenue witnessed a CAGR of 46% from 2005 to 2008. We attribute this growth to the surge in Nedjma's mobile subscriber base. At the end of 2008, revenue reached around KD 130 million, compared to KD 102 million in 2007, a growth of 28%. As for 1Q2009, fueled by 19% growth in the number of subscribers, revenue reached KD 33.2 million, a growth of 13% compared to 1Q2008. Figure 18 presents a summary of our revenue forecasts, which projects a CAGR of 15% from 2008 to 2013. By 2011, we expect that the Algerian operation will overtake the Kuwaiti operation by being the main revenue contributor to the Wataniya Group.

Figure 18 Nedjma's Actual and Forecast Revenue

Sources: Annual reports and NBK Capital

PROFITABILITY

It took Nedjma around two years to break even in terms of EBITDA; it turned positive in 2006 and achieved an EBITDA margin of 20%. By the end of 2008, EBITDA totaled KD 37.6 million compared to KD 23.3 million in 2007. The EBITDA margin, meanwhile, improved from 23% in 2007 to 29% in 2008. According to management, the company was able to reduce advertising expenses, which drove the cost improvement. In 1Q2009, EBITDA grew by 26% compared to the same period in the previous year, with the EBITDA margin improving from 27% in 1Q2008 to 30% in 1Q2009.

Figure 19 Nedjma's Actual and Forecast EBITDA Margin

Sources: Annual reports and NBK Capital

With time, we expect Nadjma to become more efficient at the operating level. Hence, we forecast EBITDA to rise at a CAGR of 21% between 2008 and 2013, which translates into an EBITDA margin of 38% by 2013.

In terms of net profit, Nadjma continues to report a net loss, although the company's EBITDA turned positive in 2006. At the end of 2008, the company reported a net loss of KD 9.4 million, compared to a net loss of KD 9.7 million during 2007. As for 1Q2009, the bottom line succumbed to the negative effect of foreign currency fluctuations; the 5% depreciation in the foreign exchange rate increased net losses to KD 5 million in 1Q2009 from KD 1.4 million in 1Q2008.

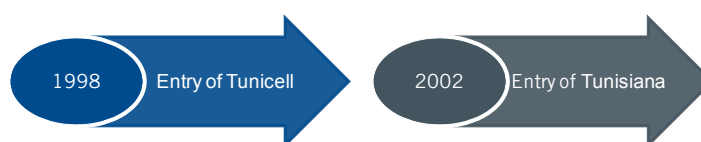
OVERVIEW OF TUNISIA TELECOM MARKET

REGULATORY ENVIRONMENT

Before the liberalization of the telecom market in Tunisia, Tunisie Telecom was the only telecom operator in the country. The government of Tunisia had full ownership of the company and was responsible for maintaining and developing the country's infrastructure. However, with Tunisia joining the WTO in 1997, the country took some steps to open the telecom market.

In 2001, the telecom regulator—Instance Nationale des Telecommunications (INTT)—was established. INTT is responsible for solving disputes and regulating interconnection between the telecom operators. The Ministry of Technology and Communication, on the other hand, is the policymaker for the telecom industry and is responsible for licensing. The second mobile license was issued in 2002, and was granted to Tunisiana.

Figure 20 Liberalization of Telecom Market in Tunisia



Source: NBK Capital

MOBILE MARKET

List of Operators: Currently, the mobile market in Tunisia is served by two GSM operators:

- Tunicell: Tunisie Telecom's mobile subsidiary Tunicell was created in 1998.
- Tunisiana is a joint venture between Wataniya Telecom (50%) and Orascom Telecom (50%). Tunisiana received its license in March 2002.

Penetration Rate and Market Share: In 2001, before the onset of competition, the mobile penetration rate was around 5%; it grew to 20% in 2003, just a year after Tunisiana's commercial launch. The year 2008 was a turning point for the mobile market in Tunisia; the second mobile operator Tunisiana broke Tunisie Telecom's market leader position, edging ahead with a market share of 51%, up from 48% in 2007. We estimate that, at the end of 1Q2009, the total number of mobile subscribers stood at 8.3 million, which translates into a penetration rate of 80%.

When considering countries comparable to Tunisia on a GDP per capital level, we find that, at the end of 1Q2009, the penetration rate in Tunisia is 12% below the prevailing average for the peer group, which stood at 91% (Figure 21).

Figure 21 Tunisia's Penetration Rate vs. Peer Countries

Country	2005	2006	2007	2008	1Q2009
Albania	46%	57%	69%	85%	91%
Ecuador	48%	64%	74%	84%	87%
Peru	20%	32%	50%	65%	69%
Thailand	48%	63%	83%	96%	99%
Tunisia	56%	71%	76%	82%	83%
Ukraine	64%	106%	111%	113%	114%
Average	47%	65%	77%	88%	91%
Tunisia	53%	65%	74%	80%	80%

Sources: IMF, Informa database, and NBK Capital

At the end of 1Q2009, Tunisiana continued to gain market share, which inched up to 51.6%, compared to 51% at the end of 2008.

ARPU: We estimate the total monthly blended ARPU for Tunisiana as of December 2008 at USD 14, which is 25% higher than the company's peer-group average (Figure 22).

Figure 22 Tunisiana's Monthly Blended ARPU vs. Peer Countries

Country	2004	2005	2006	2007	2008
(All figures in USD)					
Albania	25	23	21	20	21
Ecuador	13	12	11	9	9
Peru	18	13	13	11	9
Thailand	15	11	9	13	8
Tunisia	23	17	14	15	13
Ukraine	14	10	8	7	8
Average	18	14	13	12	12
Tunisiana ARPU	25	16	15	14	14

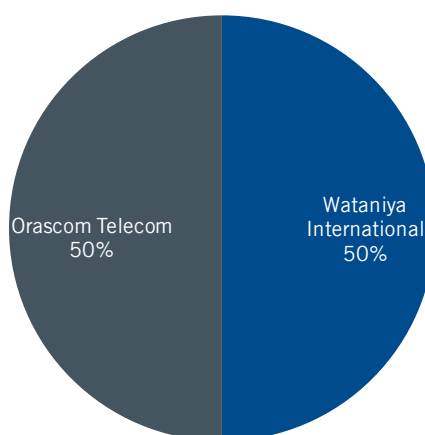
Sources: Annual reports, Informa database, ITU, and NBK Capital

TUNISIANA OVERVIEW

BASIC INFORMATION

In March 2002, Orascom Telecom was awarded the second mobile license in Tunisia. However, due to certain financial issues Orascom Telecom faced, it had to sell 50% of the company to Wataniya for USD 113.5 million. Tunisiana launched its operations in December 2002.

Figure 23 Tunisiana Ownership Structure



Source: Zawya

Tunisiana's mobile subscribers grew at a CAGR of 54% between 2003 and 2008; we estimate the number of mobile subscribers reached around 4.3 million in 1Q2009.

TUNISIANA FINANCIAL ANALYSIS AND FORECAST

MOBILE MARKET FORECAST

According to a press release issued by the Tunisian Ministry of Communication Technologies in May 2009, only two telecom operators, France Telecom and Turkcell, showed interest in the third mobile license in Tunisia. On June 26, 2009, the ministry announced that a consortium led by France Telecom won the license for mobile and fixed-line for USD 189.7 million and would begin the services in the beginning of next year.

With three mobile operators, the market will be running on different dynamics. Competition will intensify between operators, especially if the winner is a major player in the telecom market. We believe that the penetration rate will reach 100% in 2013, up from 80% in 2008, and subscribers will grow at a CAGR of 6% between 2008-2013. As competition increases, the current operators will be facing a harder time to maintain their current market share. We estimate that Tunisiana's market share will reach 49% in 2013. Tunisiana's ARPU will be diluted at a faster pace; competition will force operators to decrease tariffs and bring innovative offers to the market. On the operating level, Tunisiana will be facing more pressure on the company's EBITDA margin as a direct effect of competition (Figure 24).

Figure 24 Mobile Market in Tunisia

(000's)	2008a	2009f	2010f	2011f	2012f	2013f
Penetration Rate	80%	85%	90%	95%	98%	100%
Peers' Penetration Rate	91%	97%	103%	108%	110%	112%
Total Active Subscribers	8,327	8,988	9,640	10,308	10,772	11,135
Market Share:						
<i>Tunisiana</i>	51%	51%	51%	50%	50%	49%
<i>Others</i>	49%	49%	49%	50%	50%	51%
Tunisiana's ARPU (USD)						
<i>Total Blended</i>	14	13	13	12	11	11

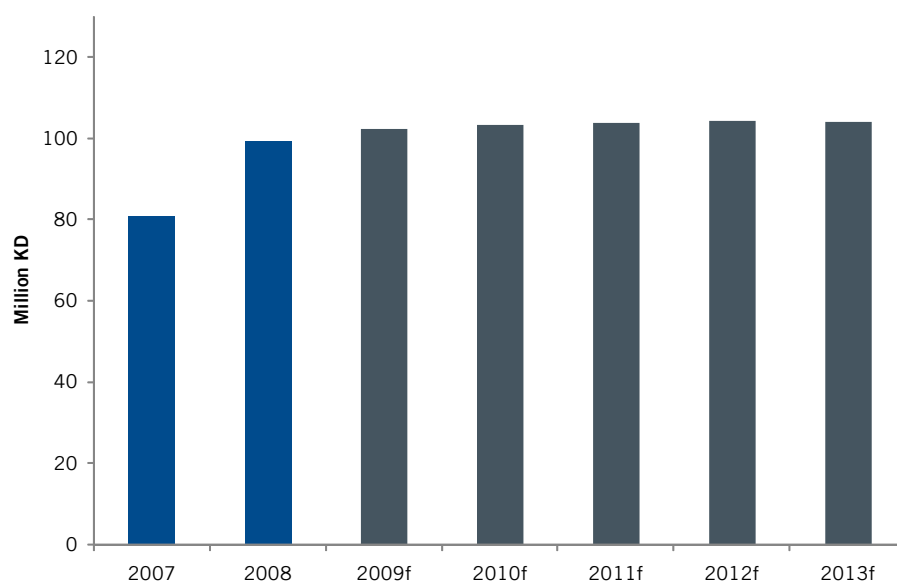
Sources: Annual reports, IMF, Informa database, and NBK Capital

REVENUES

Wataniya Group owns 50% of Tunisiana; and this 50% share represented the third largest contributor to Wataniya's top-line at the end of 2008, accounting for 21% of the group's total revenue.

Tunisiana's total revenue witnessed a CAGR of 28% from 2005 to 2008. We attribute this growth to increases in Tunisiana's mobile subscriber base. As of the 2008 year-end, Tunisiana's total revenue reached around KD 198 million, compared to KD 161 million in 2007, a growth of 23%. As for 1Q2009, Tunisiana's total revenue reached KD 44 million, a slight 0.4% decline in growth, compared to 1Q2008.

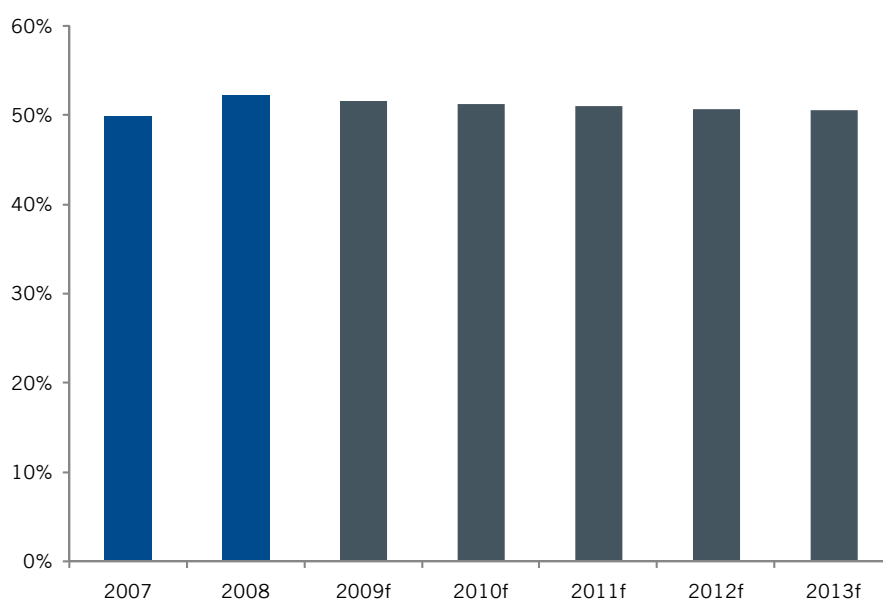
We forecast Tunisiana's total revenue through 2014 in relation to the growth in the company's mobile subscriber base and the expected level of competition. Figure 25 presents a summary of our revenue forecast, which projects slight growth from 2008 through 2013.

Figure 25 Tunisiana's Actual and Forecast Revenue

Sources: Annual reports and NBK Capital

PROFITABILITY

By the end of 2008, Tunisiana's EBITDA totaled KD 104 million, compared to KD 80 million in 2007; the EBITDA margin improved from 50% in 2007 to 52% in 2008. Based on the available information in the annual report, we estimate that Tunisiana's total operating expenses as a percentage of revenue declined from 50% in 2007 to 48% in 2008; this improved efficiency led to an increase in the EBITDA margin in 2008. In 1Q2009, Tunisiana's total EBITDA margin improved to 54% from 52% in 1Q2008.

Figure 26 Tunisiana's Actual and Forecast EBITDA Margin

Sources: Annual reports and NBK Capital

Going forward, we believe Tunisiana's EBTIDA margin will face some pressure from the expected entry of a third mobile operator. We forecast the EBITDA margin to decline to 51% by 2013 (Figure 26).

Tunisiana's total net income has been improving over time; the total net income grew at a CAGR of 92% from 2005 to 2008. At the end of 2008, Tunisiana recorded an increase of 64%, with net income reaching KD 42 million. In 1Q2009, Tunisiana's bottom line grew by 27% compared to 1Q2008.

GROUP FINANCIAL ANALYSIS AND FORECASTS

MOBILE MARKET FORECAST

The majority of Wataniya's operations are facing intense competition, with their respective markets approaching saturation. We envisage that growth in the subscriber base will slow, mainly due to the effects of the financial crisis on population growth, especially in the GCC where expatriates constitute a large portion of the total population, and the potential slowdown in tourism that is expected to hit the majority of the countries. We forecast that the total number of Wataniya's subscribers will grow at a CAGR of 11% between 2008 and 2013, which will result in the penetration rate for the three main markets, set out below (Figure 27).

Figure 27 Summary of Wataniya's Three Main Markets

Wataniya's markets are approaching saturation

Company	Country of Operation	Penetration Rate		Market Share		No. of subs. in millions		ARPU in USD	
		2008a	2013f	2008a	2013f	2008a	2013f	2008a	2013f
Wataniya Kuwait	Kuwait	94%	114%	41%	34%	1.3	1.6	52.4	37.8
Nedjma	Algeria	62%	90%	23%	33%	5.1	11.2	7.8	7.0
Tunisiana	Tunisia	80%	100%	51%	49%	4.3	5.5	14.5	11.1

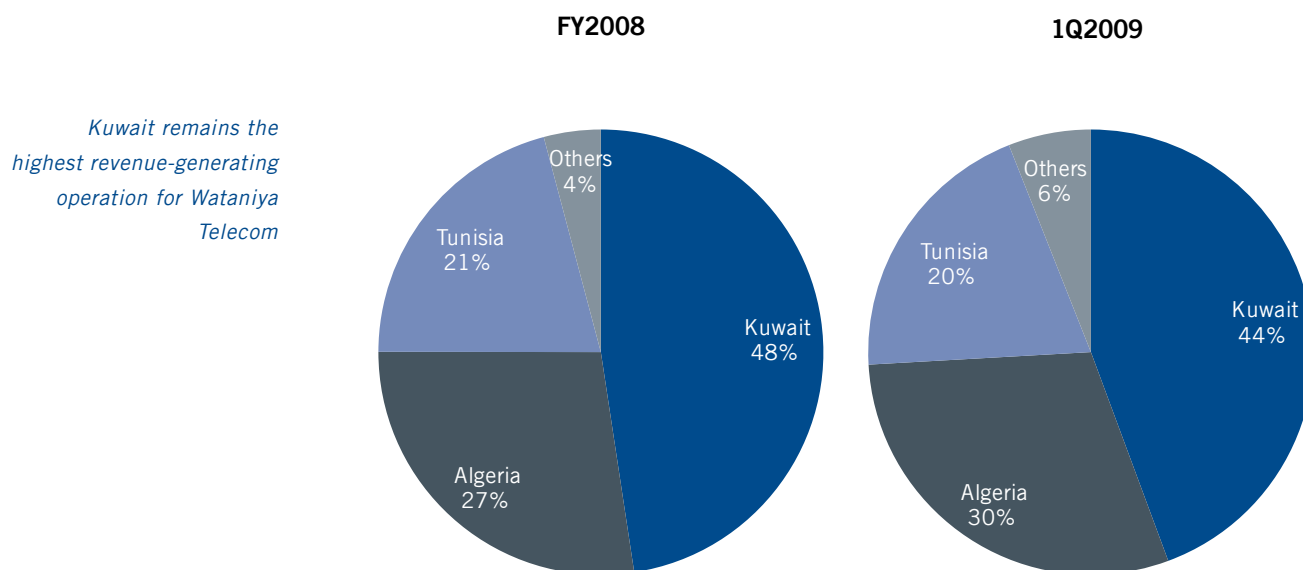
Sources: Annual reports, IMF, Informa, and NBK Capital

We believe that Wataniya's three main markets still have room to grow, with penetration rates still below peer countries' levels. In all three cases, this would come at the expense of ARPU; but each market has different dynamics. In Kuwait, we believe that increased competition will push ARPU levels substantially lower and that both dominant players will lose market share to the newcomer. When we look at Algeria, although three operators are already competing, competition is not very intense. Orascom Telecom has already announced it will concentrate on its value customers at the expense of maintaining a high market share. We believe Wataniya will benefit the most from Orascom Telecom's new strategy and increase the company's market share while witnessing a mild drop in ARPU. When it comes to Tunisia, the story is different. A strong third operator is expected to start operations in 2010; hence, we believe that market will continue to grow while ARPU levels will also decline. We forecast Tunisiana will maintain its dominant status despite losing market share.

REVENUE

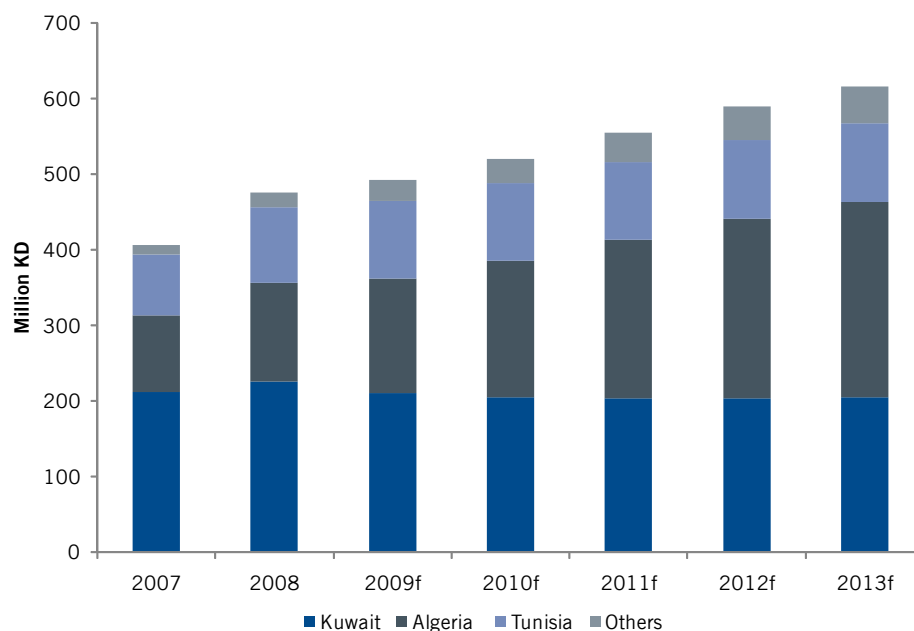
Wataniya's revenues grew by 17% during 2008 compared to 2007, with total revenues reaching KD 476 million. We attribute this swift growth primarily to revenue growth in the Algerian and Tunisian operations in 2008, which grew by around 28% and 23%, respectively. Wataniya Kuwait continued to contribute the highest portion of group revenue (48%) during 2008, followed by Algeria and Tunisia with a share of 27% and 21%, respectively (Figure 28).

As for the 1Q2009 results, Wataniya's revenue was affected by the negative growth in the company's operations in Kuwait and Tunisia. Total revenue grew by only 1.2% compared to the same period last year. Kuwait's revenue contribution to Wataniya's total revenue declined from 49% in 1Q2008 to 44% in 1Q2009.

Figure 28 Dissection of Revenues by Country of Operation

Sources: Annual reports and NBK Capital

We forecast Wataniya's total revenue through 2014 by separately projecting the revenues from the company's different operations. Figure 29 presents a summary of our revenue forecast by country, which projects a group CAGR of 5% from 2008 through to 2013.

Figure 29 Wataniya's Actual and Forecast Revenue in KD Million

Sources: Annual reports and NBK Capital

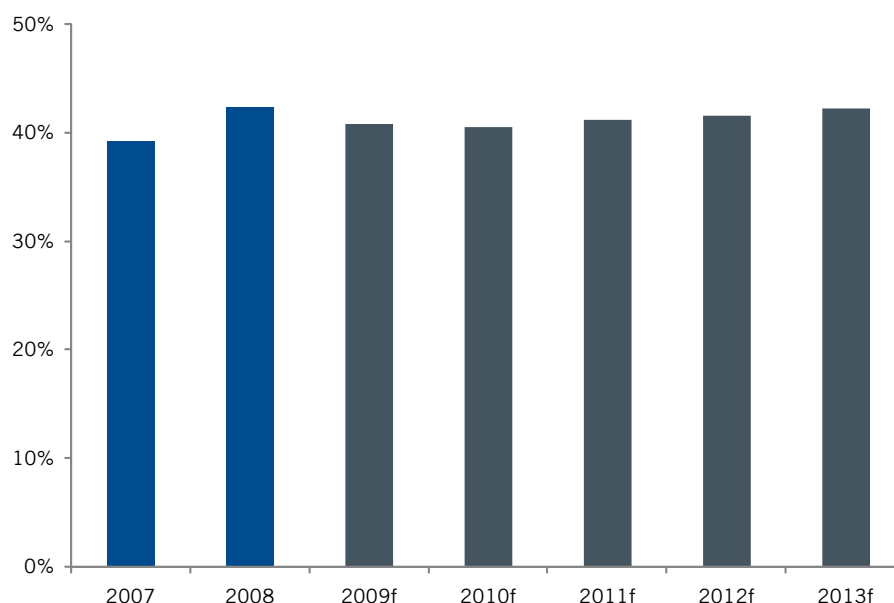
PROFITABILITY

By the end of 2008, EBITDA totaled KD 201 million compared to KD 159 million in 2007. The EBITDA margin improved from 39% in 2007 to 42% in 2008 mainly due to better cost

control in the majority of operations. The Kuwaiti operation contributed 60% to the total group EBITDA.

In 1Q009, EBITDA for the group decreased by 4% compared to the same period last year and reached KD 43.8 million, which translates into an EBITDA margin of 39%. This decline is mainly due to the slowdown in the Kuwaiti operation. As stated earlier, EBITDA in Kuwait, which constitutes 60% of the group EBITDA, dropped by 16% in 1Q2009 compared to the same period last year.

Figure 30 Wataniya's Actual and Forecast EBITDA Margin

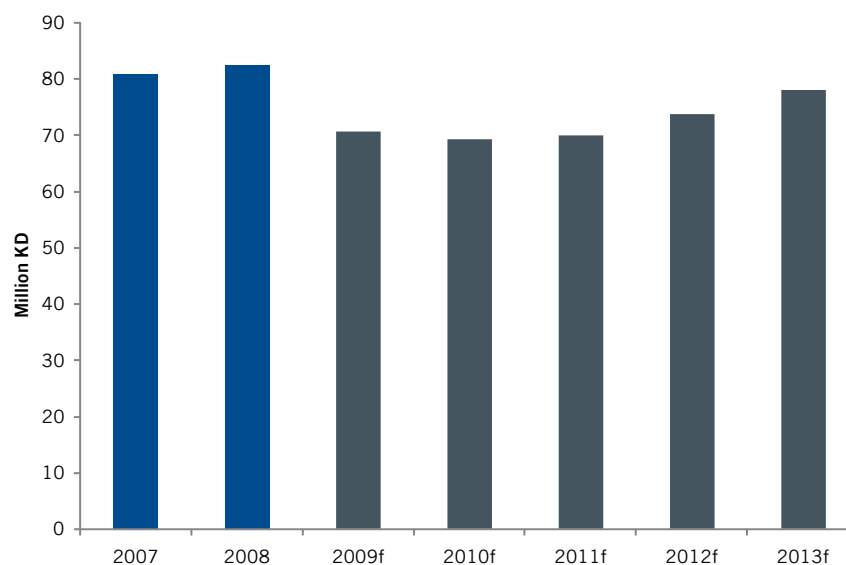


Sources: Annual reports and NBK Capital

We expect the EBITDA margin to reach 42% by 2013. We believe that, going forward, Algeria's operational efficiency will improve and its EBITDA margin will reach 38% in 2013; this will make the Algerian operation the highest contributor to group EBITDA (39%) after Kuwait.

At the end of 2008, Wataniya's net income recorded a 2% increase from KD 80.7 million in 2007 to KD 82.4 million; the company's bottom line was affected by currency fluctuations.

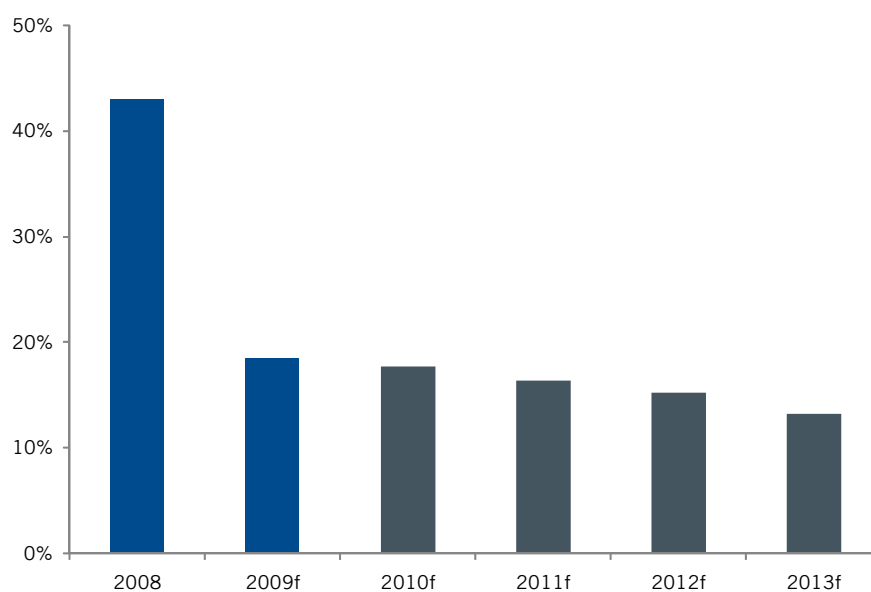
In 1Q2009, Wataniya reported net income of KD 15.3 million, a decline of 4% compared to the same period last year. This decline is mainly due to two factors: the cancellation of fees for incoming calls in Wataniya's home market, Kuwait, as well as unfavorable foreign exchange rates in Algeria. We expect net income to decline over the next five years and will reach around KD 78 million by 2013 (Figure 31). In June 2009, Wataniya won a court ruling against the MOC. Hence, the company will reverse its provisions of KD 58.4 million in 2Q2009. Till now we do not know how the company will use this amount; we expect that the management will distribute this amount as dividends for shareholders.

Figure 31 Wataniya's Actual and Forecast Net Profit

Sources: Annual reports and NBK Capital

CAPITAL EXPENDITURE

Wataniya continues to improve the existing network in the majority of its operations. During 2008, group CAPEX was equivalent to 43% of total revenues. The main network expansion in 2008 was in Algeria, which constituted 32% of the total CAPEX. Based on the requirements of each operation, we expect CAPEX to account for around 18% of total revenue in 2009 and to reach 13% of total revenues in 2013.

Figure 32 Capital Expenditure as a % of Total Revenue

Sources: Annual reports and NBK Capital

FINANCIAL STATEMENTS

Balance Sheet (KD Thousands)		Historical		Forecast				
Fiscal Year Ends December		2007	2008	2009	2010	2011	2012	2013
ASSETS								
Cash and Short-Term Investments		79,469	113,352	136,124	120,820	145,991	176,535	223,108
Total Receivables, Net		93,243	76,361	49,147	51,815	54,905	58,059	60,393
Total Inventory		4,796	6,474	5,327	5,658	5,880	6,150	6,286
Prepaid Expenses		15,828	15,821	12,429	13,202	13,720	14,349	14,668
Total Current Assets		193,336	212,008	203,027	191,495	220,495	255,092	304,456
Property/Plant/Equipment, Total - Net		329,801	380,810	407,819	423,702	428,127	421,394	396,776
Intangibles, Net		181,330	256,637	241,473	227,217	212,987	198,776	184,538
TOTAL ASSETS		754,800	901,121	904,596	895,313	915,142	929,443	940,611
LIABILITIES & EQUITY								
Accounts Payable		52,968	56,610	44,391	47,148	48,999	51,246	52,386
Accrued Expenses		131,799	171,220	145,503	153,404	162,552	171,888	178,801
Other Current Liabilities		30,431	55,162	-	-	-	-	-
Total Current Liabilities		263,793	301,235	222,689	233,347	244,346	255,929	238,088
Long-term Debt		158,456	138,080	105,286	72,491	39,697	6,902	-
Other Liabilities, Total		2,795	46,794	46,794	46,794	46,794	46,794	46,794
Total Liabilities		449,214	531,110	424,750	404,730	382,279	357,807	327,799
Total Equity		305,586	370,011	479,846	490,583	532,864	571,636	612,812
TOTAL LIABILITIES AND EQUITY		754,800	901,121	904,596	895,313	915,142	929,443	940,611
Income Statement (KD Thousands)								
Fiscal Year Ends December		2007	2008	2009	2010	2011	2012	2013
Total Revenue		407,569	475,970	489,393	515,966	546,736	578,138	601,387
Cost of Revenue		151,857	168,932	177,563	188,594	195,997	204,986	209,543
Gross Profit		255,712	307,038	311,830	327,373	350,739	373,152	391,844
Selling/General/Admin. Expenses		86,807	92,851	97,879	103,193	109,347	115,628	120,277
Depreciation/Amortization		68,046	78,213	89,310	99,158	108,823	118,316	126,877
Other Operating Expenses		28,362	38,919	39,151	41,277	43,739	46,251	48,111
Operating Income		72,497	97,055	85,490	83,744	88,830	92,957	96,579
Interest Income (Exp), Net Non-Operating		(2,780)	(13,208)	(8,294)	(5,820)	(3,800)	236	4,541
Other, Net		(400)	(400)	(400)	(400)	(400)	(400)	(400)
Net Income before Taxes		69,317	83,447	76,796	77,524	84,630	92,794	100,720
Provision for Income Taxes		(2,247)	11,832	11,163	10,501	14,037	15,793	17,408
Net Income After Taxes		71,564	71,615	65,633	67,023	70,593	77,001	83,312
Minority Interest		9,185	10,814	4,981	2,116	(656)	(3,260)	(5,265)
Reversal of Provision				58,402				
Net Income		80,749	82,429	129,017	69,139	69,937	73,740	78,047
Cash Flow (KD Thousands)								
Fiscal Year Ends December		2007	2008	2009	2010	2011	2012	2013
Cash from Operating Activities		189,513	240,659	128,946	200,223	211,792	225,693	235,595
Cash from Investing Activities		(92,474)	(160,225)	(66,501)	(118,477)	(117,612)	(115,959)	(106,170)
Cash from Financing Activities		(73,871)	(47,893)	(39,672)	(97,050)	(69,010)	(79,189)	(82,852)
Foreign Exchange Effect		438	1,342					
Net Change in Cash		23,606	33,883	22,772	(15,304)	25,170	30,544	46,573

Sources: Company's financial statements and NBK Capital

RISK AND RECOMMENDATION GUIDE

Recommendation		Upside (Downside) Potential		
Buy		more than 20%		
Accumulate		between 10% and 20%		
Hold		between -5% and 10%		
Reduce		between -10% and -5%		
Sell		less than -10%		
RISK LEVEL				
Low Risk		High Risk		
1	2	3	4	5

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NBK CAPITAL**Kuwait****Head Office**

17th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O.Box 4950, Safat 13050
Kuwait
T. +965 2224 6900
F. +965 2224 6905

MENA Research

19th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq,
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6663
F. +965 2224 6905
E: menaresearch@nbkcapital.com.kw

Brokerage

8th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6964
F. +965 2224 6978
E: brokerage@nbkcapital.com

United Arab Emirates**NBK Capital Limited**

Precinct Building 3, Office 404
Dubai International Financial Center
P.O.Box 506506
Dubai, UAE
T. +971 4 365 2800
F. +971 4 365 2805

Turkey**NBK Capital**

Arastima ve Musavirlik AS,
Sun Plaza, 30th Floor,
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
T. +90 212 276 5400
F. +90 212 276 5401

NATIONAL BANK OF KUWAIT**Kuwait****National Bank of Kuwait SAK**

Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
T. +965 2242 2011
F. +965 2243 1888
Telex: 22043-22451 NATBANK

Jordan**National Bank of Kuwait SAK**

Head Office
Al Hajj Mohd Abdul Rahim Street
Hijazi Plaza, Building # 70
P.O.Box 941297,
Amman -11194, Jordan
T. +962 6 580 0400
F. +962 6 580 0441

United States of America**National Bank of Kuwait SAK
New York Branch**

299 Park Avenue, 17th Floor
New York, NY 10171, USA
T. +1 212 303 9800
F. +1 212 319 8269

United Kingdom**National Bank of Kuwait (Intl.) Plc
Head Office**

13 George Street,
London W1U 3QJ, UK
T. +44 20 7224 2277
F. +44 20 7224 2101

**NBK Investment
Management Limited**

13 George Street
London W1U 3QJ, UK
T. +44 20 7224 2288
F. +44 20 7224 2102

France**National Bank of Kuwait (Intl.) Plc
Paris Branch**

90 Avenue des Champs-Elysees
75008 Paris, France
T. +33 1 5659 8600
F. +33 1 5659 8623

Singapore**National Bank of Kuwait SAK
Singapore Branch**

9 Raffles Place #51-01/02
Republic Plaza, Singapore 048619
T. +65 6222 5348
F. +65 6224 5438

Vietnam**National Bank of Kuwait SAK
Vietnam Representative Office**

Room 2006, Sun Wah Tower
115 Nguyen Hue Blvd, District 1
Ho Chi Minh City, Vietnam
T. +84 8 3827 8008
F. +84 8 3827 8009

China**National Bank of Kuwait SAK
Shanghai Representative Office**

Suite 1003, 10th Floor,
Azia Center, 1233 Lujiazui Ring Rd.
Shanghai 200120, China
T. +86 21 6888 1092
F. +86 21 5047 1011

ASSOCIATES**Qatar****International Bank of Qatar (QSC)**

Suhaim bin Hamad Street
P.O.Box 2001
Doha, Qatar
T. +974 447 3700
F. +974 447 3710

Turkey**Turkish Bank
Head Office**

Valikonagl Avenue No. 1
P.O.Box 34371 Nisantasi,
Istanbul, Turkey
T. +90 212 373 6373
F. +90 212 225 0353

INTERNATIONAL NETWORK**Bahrain****National Bank of Kuwait SAK
Bahrain Branch**

Seef Tower, Al-Seef District
P.O. Box 5290, Manama, Bahrain
T. +973 17 583 333
F. +973 17 587 111

Saudi Arabia**National Bank of Kuwait SAK
Jeddah Branch**

Al-Andalus Street, Red Sea Plaza
P.O. Box 15385
Jeddah 21444, Saudi Arabia
T. +966 2 653 8600
F. +966 2 653 8653

United Arab Emirates**National Bank of Kuwait SAK
Dubai Branch**

Sheikh Rashed Road, Port Saeed Area,
ACICO Business Park
P.O. Box 88867, Dubai
United Arab Emirates
T. +971 4 2929 222
F. +971 4 2943 337

Lebanon**National Bank of Kuwait
(Lebanon) SAL**

Sanayeh Head Office
BAC Building, Justinian Street
P.O. Box 11-5727, Riyad El Solh
1107 2200 Beirut, Lebanon
T. +961 1 759 700
F. +961 1 747 866

Iraq**Credit Bank of Iraq**

Street 9, Building 187
Sadoon Street, District 102
P.O.Box 3420, Baghdad, Iraq
T. +964 1 7182198/7191944
+964 1 7188406/7171673
F. +964 1 7170156

Egypt**Al Watany Bank of Egypt**

13 Al Thamar Street
Gameat Al Dowal AlArabia
Fouad Mohie El Din Square
Mohandessin, Giza, Egypt
T. +202 333 888 16/17
F. +202 333 79302

KUWAIT ▪ DUBAI ▪ ISTANBUL