Jordan Telecom
Defending its Turf

NBK CAPITAL

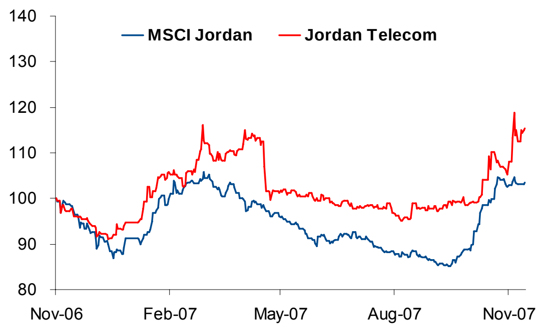
November 15, 2007

JTG Key Data

Current Price*	Avg. Value Traded per Day
JOD 5.02	JOD 340,377
52-Week High	**Market Cap**
JOD 5.17	JOD 1.255 bln
52-Week Low	**Current Number of Shares**
JOD 3.96	250 mln
Reuters	**Bloomberg**
JTEL.AM	JTEL JR
Ownership Structure	
France Telecom: 51% Govt: 32.3% Public: 6.7% Others: 10%	

Sources: Reuters, Zawya, and NBK Capital
**Price as of close on November 14, 2007*

Rebased Performance



Sources: MSCI, Reuters, and NBK Capital

JTG Key Ratios

	2006 a	2007 f	2008 f	2009 f	2010 f
P/E	14.4	13.2	12.8	12.6	12.5
EPS Growth	1%	9%	3%	2%	1%
EV/ EBITDA	6.0	5.9	5.6	5.4	5.3
EBITDA Margin	47%	43%	43%	43%	42%
EBITDA Growth	-1%	1%	5%	4%	3%
Dividend Yield	6.8%	7.4%	7.6%	7.8%	7.8%
ROAE	22%	23%	24%	24%	24%

2H2006 EBITDA a	2H2007 EBITDA f
JOD 89,331	JOD 86,175
1H2007 EBITDA a	**1H2008 EBITDA f**
JOD 84,375	JOD 84,377

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

Analyst

Diala Hoteit
Direct: +965 - 2595142
diala.hoteit@nbkcapital.com

Highlights

Jordan Telecom 12-Month Fair Value: JOD 5.06

Recommendation: Hold – Risk Level: 4**

Reason for Report: Initiation of Coverage

- Having been a member of the World Trade Organization (WTO) for more than seven years, Jordan is considered one of the most liberal telecom markets in the Middle East and North Africa (MENA) region. In 2000, the Jordanian government decided to privatize Jordan Telecom. France Telecom entered as a strategic partner, and became the majority shareholder, increasing its share in the company to 51%.

- Jordan Telecom Group (JTG) has four business units: Fixed line, mobile, Internet and data services, which are integrated into a single organization with a unified management structure. In August 2007, all the activities of JTG were re-branded as Orange, the commercial brand of France Telecom.

- In the first quarter of 2007, JTG made its first regional expansion, acquiring 51% of Lightspeed Communications, a Bahrain-based provider of telecommunications services, for JOD 3.4 million. Nevertheless, we view this acquisition as too small to have any material impact on JTG within the forecast horizon.

- We estimate JTG's active mobile subscribers, as of September 2007, at 1.48 million which represents a market share of 34%. We expect its number of subscribers to grow at a CAGR of 7% over the next five years and its market share to stabilize at 36% in 2012. As of September 2007, fixed lines reached 657 thousand, representing a 98% market share. We expect fixed lines to grow at CAGR of 4% over the next five years and market share to decline to 90%.

- Due to aggressive competition in its home and sole market, JTG's revenues have grown at a relatively slow CAGR of 5% from 2002 to 2006. We forecast that JTG's revenues will grow at a CAGR of 5% from 2007 through 2012. EBITDA margin dropped to 43.6% for the first nine months of 2007; we believe it will continue dropping to 41% in 2012. Net income for the first nine months of 2007 reached JOD 72.5 million. We forecast net income will grow at a CAGR of 3% over the next five years.

- We arrived at a 12-month fair value for JTG of JOD 5.06 per share by using two valuation methods: discounted cash flow (DCF) and peer comparison based on forward price-to-earnings ratio growth (PEG) and EV/EBITDA multiples.

***Please refer to page 2 for recommendations and risk ratings.*

Risk and Recommendation Guide

Recommendation	Upside (Downside) Potential	Risk Level*				
		1	2	3	4	5
Buy	more than 20%					
Accumulate	between 10% and 20%					
Hold	between -5% and 10%				■	
Reduce	between -10% and -5%					
Sell	less than -10%					

**1 being least risky*

EXECUTIVE SUMMARY

In 2006, France Telecom increased its stake in JTG to 51%. The new management has integrated JTG's four business units, fixed line, mobile, and Internet and data services into one organization with one management structure. In August 2007, all the activities of JTG were re-branded to Orange, the commercial brand of France Telecom. In the first quarter of 2007, JTG had its first regional expansion as it acquired 51% of Lightspeed Communications in Bahrain for JOD 3.4 million. Nevertheless, we view this acquisition as too small and believe it will have no material impact on JTG over the forecast horizon.

With four mobile operators aggressively competing in Jordan, we forecast that the penetration rate (using active subscribers) will increase from the current 72% to 85% in 2012. We estimate JTG's active mobile subscribers as of 30 September 2007 at 1.48 million which represents a 34% market share. We forecast that JTG's mobile subscribers will grow at a CAGR of 7% over the next five years, while its market share will stabilize at 36% in 2012. In 2004, JTG lost its monopoly over the fixed line market in Jordan. Nevertheless, JTG is still the market leader with a 98% market share. At the end of September 2007, there were 657 thousand fixed lines. We forecast JTG's fixed lines to grow at a CAGR of 4% over the next five years and its market share to decline to 90%.

JTG's revenues increased at a CAGR of 5% from 2002 to 2006. This relatively slow growth is attributed to aggressive competition that JTG faces in its home market, its current sole source of revenue. JTG witnessed an increase of around 12% in revenues in the first nine months of this year as compared to the same period last year, primarily because of an increase in mobile and data revenues by 31% and 28%, respectively. We anticipate the fierce competition in the Jordanian telecom market to continue. Further, with its inability to expand outside of the Middle East, we forecast JTG's revenues to grow at a CAGR of only 5% from 2007 to 2012. We expect JTG to bolster its advertising campaign and employ more qualified staff to improve the quality of its services. Hence, we forecast its EBITDA margins to remain at around 43% in 2008 and drop gradually to 41% in 2012. The company's net profit increased at a CAGR of 37% from JOD 46 million in 2004 to JOD 87 million in 2006. Accumulated net profit in the first nine months of 2007 has grown at 6% to JOD 72.5 million as compared to JOD 68.4 during the same period last year. We expect net income to rise at a CAGR of 3% from 2007 to 2012 to reach JOD 110 million in 2012.

From a valuation standpoint, using a combination of discounted cash flow (DCF) and peer comparison based on forward PEG and EV/EBITDA multiples, we believe that the fair value of JTG's share is JOD 5.06, representing a 0.4% upside potential from November 14, 2007 close. Hence we recommend a "Hold" on the stock.

Based on our subjective criteria for rating risk, we have assigned JTG a risk rating of 4 over 5. The major risks we see that could affect the value of the company's stock are:

- Increased competition in Jordan is affecting all segments of JTG's revenue; its ARPU and ARPL levels will continue to be adversely affected.
- France Telecom is restricting JTG from expanding outside Middle East, a telecom market that is approaching full saturation in terms of available licenses.

VALUATION

The purpose of this valuation exercise is to arrive, through the use of fundamental analysis, at a fair value estimate of the share price that should prevail for JTG in the next 12 months. This does not represent a guarantee that this value is achievable within that time frame, as a wide range of variables and market dynamics 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 12-month fair value for JTG of JOD 5.06 per share by using two valuation methods: discounted cash flow (DCF) and peer comparison based on forward price-to-earnings ratio to growth (PEG) and EV/EBITDA multiples.

We specified a weight for each method, as shown in Figure 1. The greater weight is assigned to DCF, as this method examines the fundamentals of the company to determine its future cash-generating ability. The 12-month fair value of JOD 5.06 is 0.4% higher from November 14, 2007 close. Hence we recommend a "Hold" on the stock.

Although the company is considering acquisition targets, we did not incorporate any such acquisitions into our forecast. Furthermore, we did not integrate Lightspeed acquisition into our model, since we do not expect it to have any material impact on JTG's cash flows over the forecast horizon.

Our 12-month fair value for JTG is JOD 5.04

Figure 1 Fair Value per Share

Valuation Method	Value	Weight
Discounted cash flow	JOD 5.33	80%
Peer comparison	JOD 3.89	20%
Weighted average fair value	**JOD 5.04**	**100%**

Source: NBK Capital

Discounted Cash Flow Valuation

Our DCF valuation (Figure 2) is based on forecast financial results through 2012. The DCF valuation is a function of the following major variables, which have been estimated by our models:

- Future net operating profit less adjusted taxes (NOPLAT), which is driven primarily by expectations of sales and operating expenses
- Future changes in working capital
- Future net expenditures on fixed assets
- The weighted average cost of capital (WACC), which is a weighted average of our estimated cost of equity and the after-tax cost of debt
- The long-term expected growth rate in NOPLAT and the expected rate of return on net new invested capital (RONIC)

From the forecasted financial results, we extracted the free cash flows that were used in our valuation. We discounted those cash flows to a point in time that is 12 months into the future to obtain an estimate of the value of the company's operations. After subtracting net debt and minority interest and adding the value of non-operating assets, we arrived at a total equity value of JOD 1,332 million.

In order to estimate the value of JTG's operations, we incorporated a varying WACC into our model. Our selection of a cost of equity of 11.5% is based mainly on interest rate levels and the operating environment.

Using the DCF valuation method, we arrived at a fair value per share of JOD 5.33

Figure 2 DCF Valuation

Figures in JOD Thousands*	Forecast				
Fiscal Year Ends December	2008	2009	2010	2011	2012
Net Operating Profit after Tax	**88,047**	**89,593**	**89,951**	**93,159**	**97,484**
Add: Depreciation and Amortization	63,756	68,310	73,103	78,187	83,550
Gross Cash Flow	**151,804**	**157,903**	**163,055**	**171,346**	**181,034**
(Incr.)Decr. in Working Capital	3,737	3,589	4,076	4,938	4,780
(Incr.)Decr. in Operating Fixed Assets	(67,636)	(61,474)	(64,712)	(68,624)	(72,412)
Free Cash Flow from Operations	**87,905**	**100,018**	**102,419**	**107,660**	**113,402**
Terminal Value	**-**	**-**	**-**	**-**	**1,064,381**

Value of Operations in 12 Months	**1,093,422**
Add: Excess Cash	266,510
Add: Value of Long-Term Investments	-
Add: Value of Other Long-Term Assets	6,106
Less: Total Debt	(33,982)
Less: Minority Interest	(319)
Value of Equity in 12 Months	**1,331,737**
Per Share Value in SAR	**5.33**

**Except per share value. Source: NBK Capital*

Sensitivity Analysis

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

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

Figure 3 DCF Sensitivity

		Growth				
		4.50%	4.75%	5.00%	5.25%	5.50%
Cost of Equity*	10.50%	JOD 5.83	JOD 5.90	JOD 5.97	JOD 6.05	JOD 6.14
	11.00%	JOD 5.51	JOD 5.57	JOD 5.62	JOD 5.68	JOD 5.75
	11.50%	JOD 5.24	JOD 5.28	JOD 5.33	JOD 5.37	JOD 5.42
	12.00%	JOD 5.01	JOD 5.04	JOD 5.07	JOD 5.11	JOD 5.15
	12.50%	JOD 4.80	JOD 4.83	JOD 4.85	JOD 4.88	JOD 4.91

**Variations in the cost of equity result in variations in WACC. Source: NBK Capital*

PEER GROUP COMPARISON

We compared JTG with publicly traded incumbents that operate in countries with similar mobile penetration rates as Jordan (Figure 4).

We obtained the consensus forward earnings per share (EPS) and the consensus earnings growth estimates for each of the companies (For STC and Batelco, we used our forecast published on July 25, 2007, and August 19, 2007 respectively). The simple average PEG for the sample, excluding the highest and lowest values, was 1.97. JTG, in contrast, currently trades at a higher PEG of 4.34, based on our 2008 forecasted EPS and next-four-years earnings growth rate.

We also valued JTG against the EV / 2008EBITDA of the same sample. The simple average EV / 2008EBITDA for the sample, excluding the highest and lowest values, was 5.98. JTG, in contrast, currently trades at an EV / 2007EBITDA of 5.31, based on our 2008 forecasted EBITDA and net debt levels.

Using the simple average of the two multiples, excluding the outliers among the five companies in the sample, we estimate the value of a JTG share at JOD 3.89. This implies that JTG is currently overvalued, considering the current market price of JOD 5.02.

The average EV/EBITDA for the sample, excluding the outliers, stands at 5.98

Figure 4 Forward PEG and EV / 2008EBITDA Multiples Comparison

Company	Market Data		EV / 2008 EBITDA	2008 Forecast EPS	PEG
	Price* (Local Currency)	Market Cap (USD Millions)			
Mobistar	61	5,442	6.58	4	3.5
Telkom	17,070	13,179	4.83	1,672	2.3
Globe Telecom	1,615	4,862	5.37	122	0.9
Telekomunikacja Polska SA	22	11,829	4.88	2	1.3
STC	72	38,629	7.10	7	2.9
Batelco	0.97	3,082	8.20	0.08	1.4
Weighted average			**6.27**		**2.38**
Simple average			**6.16**		**2.04**
Simple average excluding outliers			**5.98**		**1.97**
Median			**5.98**		**1.86**

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

BULLS VS. BEARS

BULL STORY

- JTG is a fully integrated telecommunications company providing mobile, fixed line, and Internet services.
- JTG is backed by France Telecom, which provides expertise in dealing in a highly competitive market.
- A favorable demographic outlook, as 33% of Jordan's population is under the age of 14. According to JTG management only 5% of them have a mobile phone.
- The relative political stability of the country attracts tourists from the gulf.
- Interest in joining the WTO has pushed Jordan to speed up the process of liberalization and reform in many markets, particularly the telecom sector.

BEAR STORY

- France Telecom is putting some restrictions on JTG's expansion outside Jordan. JTG is only allowed to expand its operations in the Middle East, which is approaching full saturation in terms of available licenses.
- JTG currently relies only on its home market to generate revenues.
- The telecom market in Jordan is fully liberalized; competition between operators is very aggressive; the ARPU and ARPL levels are affected.
- The potential introduction of a Mobile Virtual Network Operator (MVNO) will further stimulate competition in the mobile market.

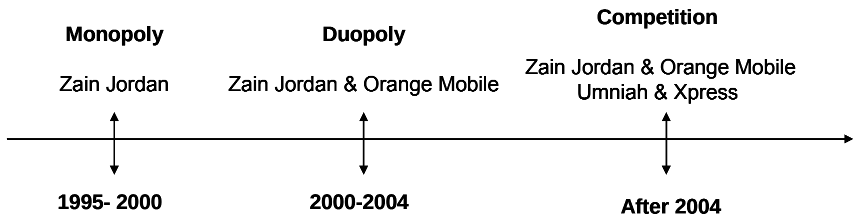
OVERVIEW OF JORDAN TELECOM MARKET

REGULATORY ENVIRONMENT & POTENTIAL NEW LICENSES

A member in the WTO for more than seven years, Jordan is one of the most liberal telecom markets in the MENA region. In 1995, the Telecommunications Regulatory Commission (TRC) was established as an independent body to manage the telecom sector. The TRC main mission was to put an end to the Zain Jordan (formerly known as Fastlink) and Orange (formerly known as MobileCom) duopoly. At the end of 2004, the TRC granted a third GSM license to Umniah and a digital radio tranking license to Xpress. The TRC also ended the monopoly of JTG on the fixed lines at the end of 2004. At the end of 2006, Umniah won the Fixed Broadband Wireless Access license for USD 11.8 million. Umniah will now have the capabilities to offer broadband internet access and voice services. On the other hand, early this year, the TRC began consultations on implementing a Mobile Virtual Network Operator (MVNO) in Jordan and published the terms that constitute the TRC's regulatory decision on provisioning this service in Jordan.

Figure 5 Three-Stage Liberalization of Mobile Operations

Jordan is one of the most liberal telecom markets in the MENA region



Source: NBK Capital

MOBILE MARKET

List of Operators: Jordan is the only country in the MENA region to have four mobile operators:

1) Zain Jordan was the first mobile provider in the country; Zain Group owns 96.5% of this company.

2) Orange mobile is part of JTG, which provides mobile solutions.

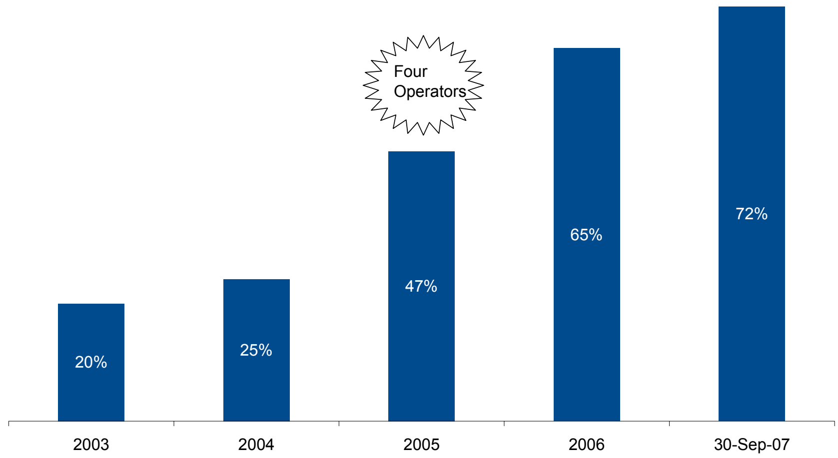
3) Umniah was granted the third GSM license in August 2004; in 2006, Batelco acquired 96% of Umniah as part of its new expansion plan.

4) Xpress Telecommunications launched its services in June 2004, offering a new form of telecommunications solutions based on the Integrated Digital Enhanced Network (iDEN) technology.

Penetration Rate & Subscriber Split: In general, all telecom companies in the MENA region do not disclose their number of active subscribers. Thus, we estimated the number of inactive subscribers to be around 13% of total subscribers. In 2002, before the introduction of competition, the penetration rate was 20%; it grew to 65% in 2006. We estimate that at the end of September 2007 the total number of active subscribers stood at 4.37 million, which translates into a penetration rate of 72%. The subscriber base witnessed a CAGR of 50% from 2003 to 2006. This swift growth was due primarily to competition, which helped in developing the telecom sector in Jordan, improving customer care, and introducing new technologies (Figure 6).

After the entry of Umniah and Xpress, Jordan witnessed swift subscriber growth, primarily due to competition

Figure 6 Penetration Rate* Evolution



** Based on estimated active subscribers. Sources: Annual reports, Informa database, and NBK Capital*

When considering countries comparable to Jordan on a GDP per capita level, we find that the penetration rate in Jordan is above the prevailing average for the peer group, which currently stands at 66% (Figure 7). However, we believe that the real penetration rate in Jordan is lower due to the influx of affluent Iraqis fleeing the security situation in the neighboring country.

Jordan's penetration rate is above the average in peer countries

Figure 7 Jordan Mobile Penetration Rate vs. Peer Countries

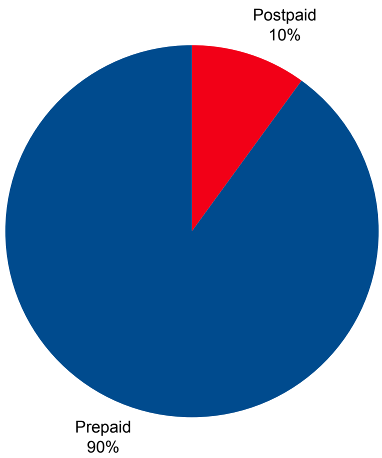
Country	2003	2004	2005	2006	30-Sep-07
China	20%	24%	29%	34%	38%
Dominican Republic	24%	29%	36%	48%	55%
Ecuador	18%	27%	46%	62%	70%
Peru	11%	15%	20%	31%	42%
Thailand	35%	43%	47%	62%	76%
Ukraine	14%	29%	64%	105%	115%
Average	**20%**	**28%**	**40%**	**57%**	**66%**
Jordan*	**20%**	**25%**	**47%**	**65%**	**72%**

** Based on estimated active subscribers. Sources: Annual reports, Moody's Statistical Handbook (Country Credit) May 2006, ITU, Informa database, and NBK Capital*

As of today, Zain Jordan is the market leader in Jordan, with 43% market share, followed by Orange, Umniah, and Xpress, which have market shares of 34%, 21%, and 2%, respectively. Like other MENA markets, the Jordanian market is dominated by prepaid subscribers, which represent 90% of the total market. Prepaying is common in the MENA region due to flexible and affordable terms for owning a prepaid line (Figure 8).

Figure 8 Mobile Subscribers Split in Jordan as of December 2006

Prepaid subscribers dominate the market in Jordan



Sources: Informa database, and NBK Capital

ARPU: The ARPU calculation was based on the average estimated number of active subscribers in Jordan. We estimated the total monthly blended ARPU in Jordan as of December 2006 at USD 22, which is 117% higher than the peer-group average (Figure 9).

Figure 9 Jordan Monthly Blended ARPU vs. Peer Countries

Jordan's monthly blended ARPU is 117% higher than the average in peer countries

Country	2003	2004	2005	2006
(All figures in USD)				
China	12	9	9	11
Ecuador	12	13	12	10
Peru	19	18	13	12
Thailand	13	15	13	12
Ukraine	15	14	9	7
Average	**14**	**14**	**11**	**10**
Jordan*	**35**	**37**	**27**	**22**

** Based on estimated active subscribers. Sources: Annual reports, ITU, Informa database, and NBK Capital*

ARPU levels have been decreasing in recent years, especially with the effervescing competition in Jordan during the last three years. We believe that this downward trend will continue over the next few years with the saturation and maturity of the market.

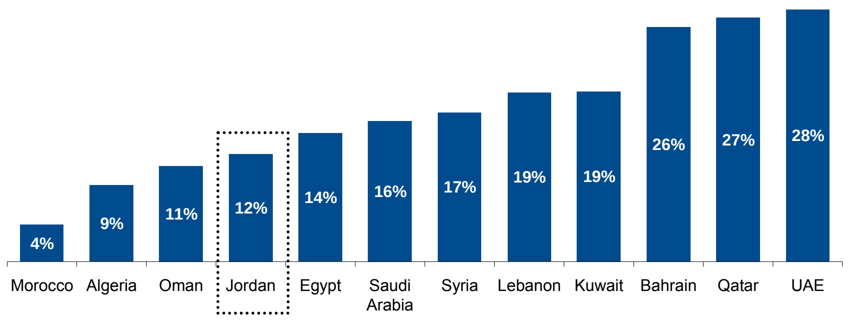
Fixed Line Market

In 2004, the TRC decided to fully liberalize the telecom market in Jordan by granting new fixed line licenses. With this decision, JTG is no longer the sole provider of fixed line services in Jordan. Nevertheless, JTG is still the market leader, with 98% market share.

Similar to other countries in the region, the fixed line penetration rate in Jordan reached 12% in 2006, following a CAGR for fixed lines of only 2% between 2002 and 2006. The fixed line business constitutes 61% of JTG's revenues; it dropped by 6% in 2006 compared to the previous year due to pressure from GSM operators, which offer attractive rates. However, this line of business only constituted 67% of EBITDA. This segment is also witnessing severe competition in international calls, especially following increased expatriate population in the country.

Figure 10 Fixed Line Penetration Rate in 2006

Fixed line penetration rate for Jordan is around 12%



Sources: ITU, and NBK Capital

Data Services

Jordan has been enjoying Internet access since 1996. As of December 2006, 10 ISPs were operating in Jordan. This service is considered to be in its infant stage and is expected to witness high growth in the coming years. The two major players are Batelco Jordan and Orange (formerly known as Wanadoo).

MVNO

As said earlier, the TRC began consultations on implementing MVNO in Jordan and published the terms that constitute the TRC's regulatory decision on the provision of this service in Jordan. The potential introduction of an MVNO into the Jordanian telecom market will definitely put more pressure on mobile operators. Companies working under an MVNO network will lease capacity from existing operators and then sell this capacity under their own brand to end users. It will allow customers to have low-cost and more mobile services. We believe that the decision to implement an MVNO will take time since the TRC should reach a fair agreement with the existing operators on the leasing terms.

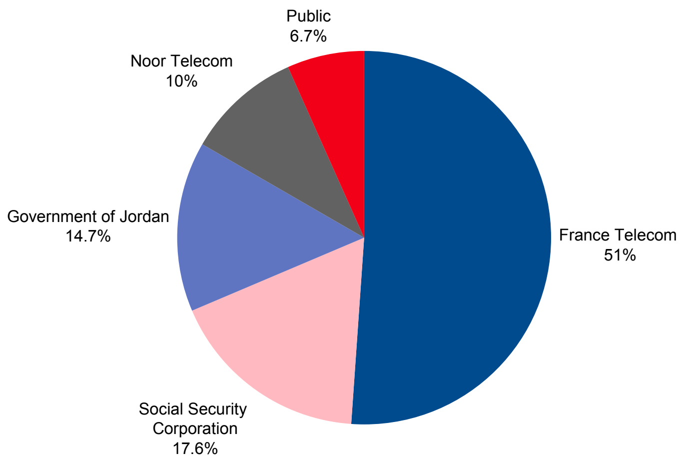
JORDAN TELECOM GROUP OVERVIEW

BASIC INFORMATION

Telecommunication Corporation was established in 1971 by the Jordanian government, which used to totally own it. In 1997, it was renamed Jordan Telecommunications Co. and was registered as a public limited company, which provided fixed line services. Nevertheless, in December 1999, the Jordanian government decided to privatize the company by selling 40% of its stake to a joint venture of France Telecom and Arab bank. In 2006, France Telecom increased its share in the company to reach 51% in 2006 (Figure 11).

France Telecom owns 51% of JTG

Figure 11 JTG Current Ownership Structure



Source: Analysts Presentation

JTG was awarded the second mobile license in 2000. In February 2006, JTG announced the integration of the operations of Jordan Telecom (fixed line), MobileCom (mobile), Wanadoo (Internet) and e-Dimension (data services) into a one organization with a one management structure. In August 2007, all the activities of JTG were re-branded to Orange, the commercial brand of France Telecom Group. In the first quarter of 2007, JTG did its first regional expansion by acquiring 51% of Lightspeed Communications, a provider of telecommunications services based in Bahrain.

JORDAN TELECOM GROUP

JTG is composed of four business units: Mobile, fixed line, Internet and data services.

Orange Mobile

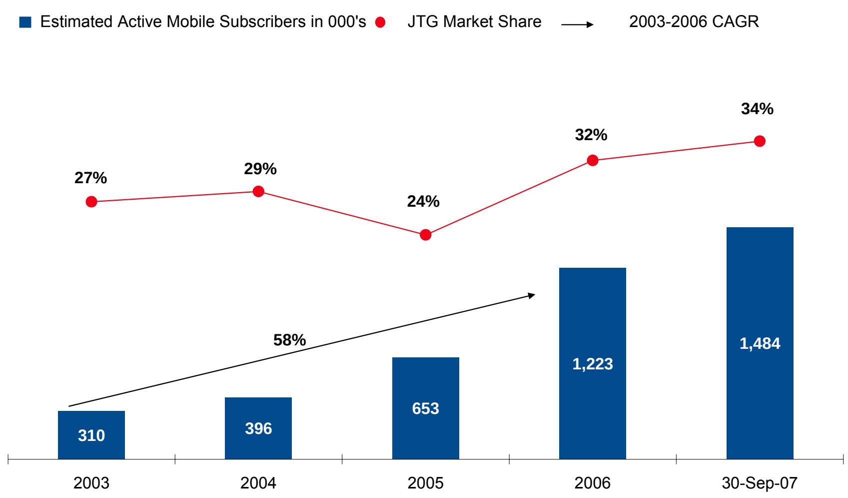
The mobile service of JTG was formerly branded Mobilecom. It is the second mobile operator in Jordan with 34% market share. We estimated Orange Mobile's active subscribers to be around 1.48 million at the end of September 2007; it grew at a CAGR of 58% between 2003 and 2006.

Prepaid subscribers constituted 91% of total subscribers in 2006 as compared to 80% in 2005. According to management, the reasons behind the growth in prepaid subscribers and drop in postpaid subscribers are affordable prices and usage flexibility of the prepaid lines.

In order to face the fierce competition, Orange Mobile is offering many value-added services such as roaming, GPRS and MMS. These services are considered to be the key elements for growth in the future. Orange Mobile's blended monthly ARPU stood at USD 17 at the end of 2006.

Mobile subscribers in Jordan witnessed a CAGR of 58% between 2003-2006

Figure 12 Evolution of Mobile Subscribers Over the Years



Sources: Annual report, and NBK Capital

Orange Fixed Line

The fixed line segment in JTG is well-positioned to endure the pressure from competitors. Until today, Orange Fixed has been able to remain the dominant player and only lost 2% market share. Total fixed lines reached 677 thousand in 2006, a growth of 2% compared to 2005. PSTN lines dropped by 2% and represented 91% of total lines in 2006. As for Asymmetric Digital Subscriber Line (ADSL) and leased lines, it grew in 2006 by 76%. We believe that the high demand for ADSL and broadband services will boost the number of fixed lines later on. Nevertheless, if we compare the fixed lines at the end of the first nine months of 2007 to the same number at the end of 2006 we note that it dropped by 3%. According to JTG management, this drop was the result of cleaning the PPT lines (prepaid telephony) following the change of the cancellation period from one year to five months.

Orange Internet

Wanadoo was acquired from Global one in May 2001. It was re-branded to Orange in 2007. It is the leading Internet Service Provider (ISP) in Jordan with 50% market share. As of September 2007, total number of subscribers reached 55.7 thousands a growth of 44% compared to December 2006.

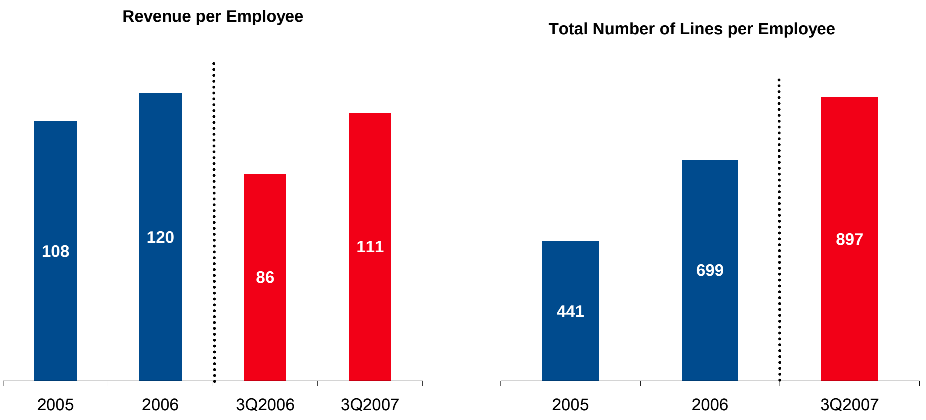
Orange Internet targets both individuals and businesses by providing ADSL, dial up Internet, easy dial up, pay as you go Internet, Internet roaming and Internet faxaway. Moreover, Orange Internet is the exclusive reseller of Equant products like Internet Protocol Virtual Private Networks (IPVPN).

PRIVATIZATION EFFECT ON JTG

1) **Downsizing of work force:** In order to remain competitive with all the market changes and technological advancements, JTG had to offer early retirement schemes to some of its employees who are above the age of 45 and/or with no university degree. This had an immediate effect on operational efficiency, which is expected to improve in the long run (Figure 13).

JTG is in the process of improving its efficiency indicators

Figure 13 Efficiency Indicators in JOD



Sources: JTG Analysts Presentation

2) **Re-branding:** After the integration of its operations into a single management structure, JTG re-branded all the activities to Orange, the commercial brand of France Telecom Group.

JTG'S STRATEGY

According to JTG management, growth in the next years revolves around these strategic objectives:

Offer customers the best experience:
- *Leverage Orange brand international coverage*
- *Improve customer quality perception*
- *Develop loyalty optimization program*

Sustain growth in core business:
- *Improve share of market in identified segments*
- *Utilize Orange roaming alliance umbrella*

Transform the operational model to customers centric:
- *Improve employee efficiency*

- *Improve revenue assurance and control fraud*

Pursue the right growth options in:

- *Broadband*
- *E-Commerce*

To be able to meet the demands of its customers and differentiate itself from its competitors, JTG combined its operations into one single organization. This will allow the group to bring synergies by offering fixed line, mobile and data services.

EXPANSION MARKETS

France Telecom limited any expansion of JTG within the Middle East region. In the first quarter of 2007, JTG did its first regional expansion by acquiring 51% of Lightspeed Communications for JOD 3.4 million, a provider of telecommunications services based in Bahrain. JTG will be providing bundled broadband services for the residential and corporate sectors. The objective of JTG is to ensure its management can manage an operation outside its home market and grab market share.

JTG FINANCIAL ANALYSIS AND FORECASTS

MOBILE MARKET FORECAST

We expect the penetration rate in Jordan to reach 85% in 2012

The mobile market in Jordan has witnessed steady growth since the introduction of competition. We forecast that the penetration rate in Jordan (for active subscribers) will lag penetration rates reached in peer countries, primarily because of differences in demographics, to reach 85% in 2012 (Figure 14).

Figure 14 Mobile Market in Jordan

(000's)	2005a	2006a	2007f	2008f	2009f	2010f	2011f	2012f
Population	5,800	5,900	6,100	6,300	6,400	6,600	6,800	7,006
Penetration Rate*	47%	65%	73%	77%	80%	82%	84%	85%
Peers' Penetration Rate	40%	57%	70%	78%	83%	85%	87%	88%
Total Active Subscribers	2,729	3,838	4,479	4,878	5,123	5,397	5,679	5,975
Market Share:								
JTG	24%	32%	34%	35%	36%	36%	36%	36%
Others	76%	68%	66%	65%	65%	64%	64%	64%
JTG's Blended ARPU (USD)	25	17	14	14	14	14	13	13

** Based on estimated active subscribers. Sources: Annual reports, EIU, Informa database, and NBK Capital*

Based on experience in similar countries, we estimated that 13% of total subscribers to be inactive. We then forecast that total active subscribers will grow at a CAGR of 7% in the next five years, while JTG's market share will inch up to 36% by 2012.

We believe that with further market liberalization, JTG will continue to provide special offers to its subscribers. JTG is targeting all segments, especially the corporate and the youth. We forecast that the total blended ARPU will drop gradually from USD 17 in 2006 to USD 13 in 2012, especially since the company is focusing on prepaid subscribers, who have lower ARPU than postpaid subscribers.

FIXED LINE MARKET FORECAST

We divided the fixed line business into two segments:

Voice: JTG lost its monopoly of fixed lines in 2004, but it was able to maintain its leadership position until recently. We forecast that the fixed line penetration rate will reach 13% in 2012, with no growth in fixed lines in the next five years. We forecast that JTG's market share will decrease to 90% by 2012.

Data: With the evolution of technology, Internet business is expected to grow in Jordan. We forecast that ADSL and leased lines will grow at a CAGR of 21% in the next five years. The expected growth in Internet penetration will boost the demand for fixed lines.

The ARPL per month for voice and data was approximately USD 39 in 2006, and we are forecasting it to decrease to USD 35 in 2012, owing to the competitive environment (Figure 15).

We expect the fixed line penetration rate in Jordan to reach 13% in 2012

Figure 15 Fixed Line Market in Jordan

(000's)	2005a	2006a	2007f	2008f	2009f	2010f	2011f	2012f
Population	5,800	5,900	6,100	6,300	6,400	6,600	6,800	7,006
Penetration Rate	12%	12%	11%	11%	11%	11%	12%	13%
Total Fixed-Line	670	691	665	680	710	752	816	883
Market Share:								
JTG	99%	98%	98%	96%	95%	94%	92%	90%
Others	1%	2%	2%	4%	5%	6%	8%	10%
Percentage of Total Lines								
Fixed Line	*95%*	*91%*	*85%*	*82%*	*78%*	*74%*	*71%*	*68%*
ADSL and Leased Line	*5%*	*9%*	*15%*	*18%*	*22%*	*27%*	*30%*	*32%*
JTG's Blended ARPL (USD)	42	39	38	38	37	36	35	35

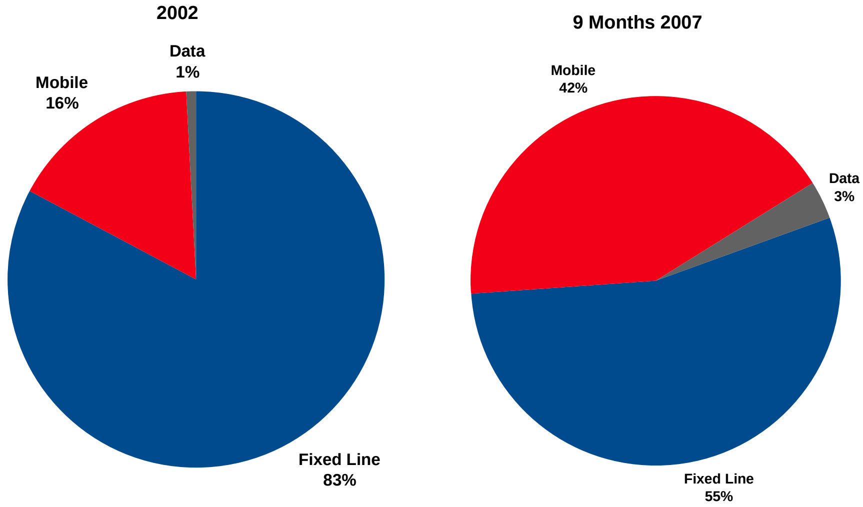
Sources: Annual reports, EIU, and NBK Capital

REVENUES

JTG's revenues increased at a CAGR of 5% from 2002 to 2006. This relatively slow growth is a result of aggressive competition, reliance on its home market for all of its revenues and inability to grow non-organically. At the end of 2006, revenues (excluding intercompany revenues) grew by 3% JOD 363 million, compared to JOD 352 million in 2005. The results for this year's first nine months witnessed an increase of around 12% in revenues as compared to the same period last year, primarily because of an increase in mobile and data revenues by 31% and 28%, respectively. We believe that the strength of JTG over its competitors is its ability to provide bundled packages for fixed, mobile and data services. During 2007, JTG consolidated Lightspeed. Its revenues represented only 0.07% of total JTG revenues and amounted to JOD 0.2 million. We did not incorporate this company into our forecasts as we don not expect it to have any material impact on JTG's cash flow over the forecast horizon.

A clear fixed-to-mobile substitution effect is being seen in Jordan, as in all other countries and is reflected in JTG's revenues. Fixed line contribution to total revenues decreased from 83% of total revenues at the end of 2002, to 55% today. Moreover, data revenues started picking up; total contribution in 2002 was around 1%, and today it reached 3% (Figure 16).

Figure 16 Dissection of Revenues Year-End 2002 and Nine Months 2007



Sources: JTG Financial Statements

Mobile revenues have risen from 16% of total revenues in 2002 to the current 42%

Fixed line

JTG's fixed line revenues had a drop of 3% from 2002 and 2006. In 2006, fixed line revenues (excluding intercompany revenues) reached JOD 220 million, a decrease of 6% compared to 2005. As for the first nine months of 2007, fixed line revenues reached JOD 163, a drop of 0.7% compared to the same period last year.

The major reasons behind this drop are:

- Starting in 2000, JTG has been adjusting its tariff, plans by cutting international and national tariffs while increasing local and access tariffs
- Fixed to mobile substitution
- Strong competition in the international voice market. Some companies are offering international calls at lower rates than JTG

Figure 17 Fixed line Revenues Analysis

Revenues from traffic are decreasing

% of Total Fixed-Line Revenues	2004	2005	2006
Traffic revenues	78%	71%	62%
Connection, subscription & others	17%	20%	24%
Leased line & other data	5%	9%	14%

Sources: Annual reports, and NBK Capital

Mobile

The mobile business has been the shining star in JTG; it is the main booster of growth. Mobile revenue grew at a CAGR of 28% from 2002 to 2006. In 2006, revenues (excluding intercompany revenues) grew by 20% to JOD 132 million compared to

JOD 110 million in 2005. As for the first nine months of 2007, mobile revenues reached JOD 127 million, a growth of 31% compared to the same period last year.

Data Communications

As of 30 September 2007, revenues from data communications contributed to 3% of total revenues generated since the beginning of the year. This segment has been growing over the years; at a CAGR of 44% from 2002 to 2006. During 2006, it grew by another 44% to JOD 10.5 million due to an increase in ISP revenues and international data services by around 53% and 10% respectively.

In the first nine months of 2007, data revenues grew at 28% to JOD 9.6 million from JOD 7.5 million during the same period last year.

Forecasted Revenues

We forecast JTG's total revenues (excluding intercompany revenues) through 2012 by separately projecting the revenues of its mobile, fixed line and data operations during this period. Figure 18 presents a summary of our revenue forecast, which projects a CAGR of only 5% from 2007 through 2012. This slow growth in total revenues is primarily due to the expected fierce competition in the overall telecom market in Jordan and the inability of JTG to expand outside the Middle East.

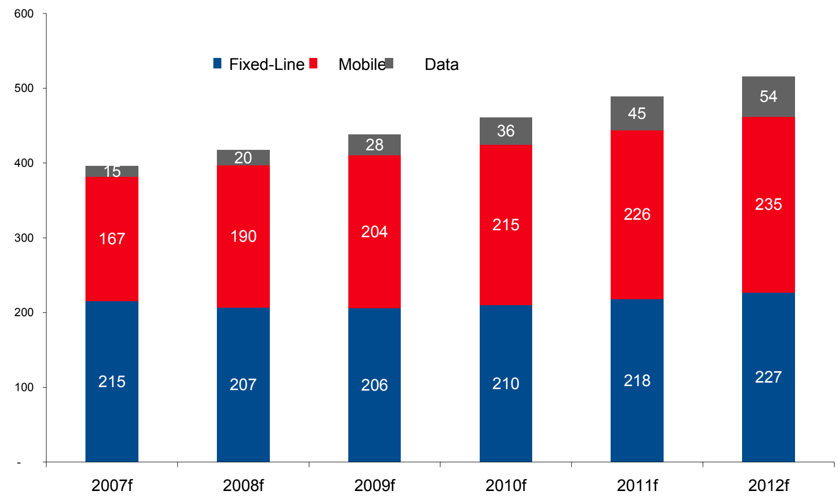
- Based on our forecast, the contribution of fixed line services to total JTG revenues will continue to decrease for the next five years to reach 44% in 2012. This is mainly because of the continued competition and fixed to mobile substitution. As said earlier, the fixed line is divided into voice and data. We expect the contribution of leased lines to total fixed revenues to increase from the current 23% to 47% in 2012 due to increased interest in ADSL services.

- We estimate revenues from the mobile segment to peak at 47% of total revenues in 2009-2010 and thereafter settle at 46% of total revenues in 2012.

- With increased demand for Internet and broadband services, we expect revenues from data to increase in the coming five years to reach 10% in 2012.

We forecast total revenues to reach SAR 516 million in 2012

Figure 18 Segmental Revenue Forecast



Source: NBK Capital

EBITDA

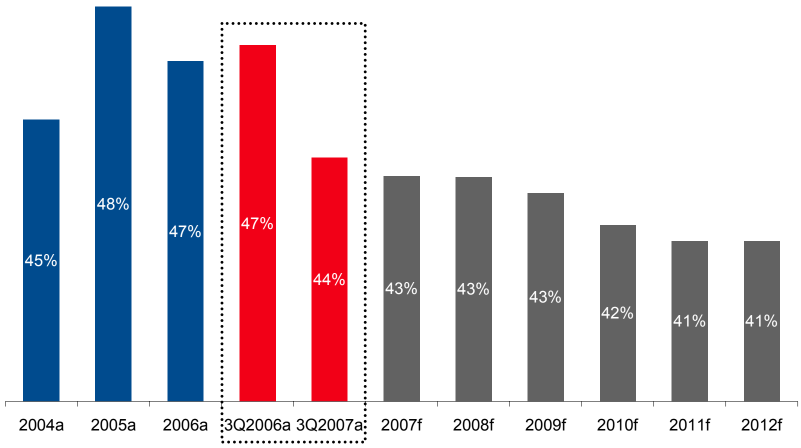
By end-2006, earnings before interest, taxes, depreciation, and amortization (EBITDA) totaled JOD 169 million as compared to JOD 170 million in 2005.

EBITDA margin improved from 45% in 2004 to 48% in 2005, after the reduction in government revenue share and management fees by around 57%. The EBITDA margin in 2006 declined to 46.6% due to a 6% increase in operating expenses.

In the first nine months of 2007, EBITDA grew by 3 % compared to the same period last year. While EBITDA margin declined to 43.6%. JTG had to bear the cost of rebranding and employee exit packages which cost around JOD 5 million (Figure 19).

Figure 19 Actual and Forecasted EBITDA Margin

EBITDA margin in 3Q2007 declined to 43.6%, mainly because JTG had to bear the cost of rebranding



Sources: Annual reports and NBK Capital

We expect JTG's revenues to be affected by the intensification of competition and the launch of Umniah fixed line operations. We expect JTG to bolster its advertising campaign and improve the quality of its staff to better serve its clients. Hence, we are forecasting a decrease in the EBITDA margin to 43% between 2007 and 2009, and we predict it will reach 41% in 2012.

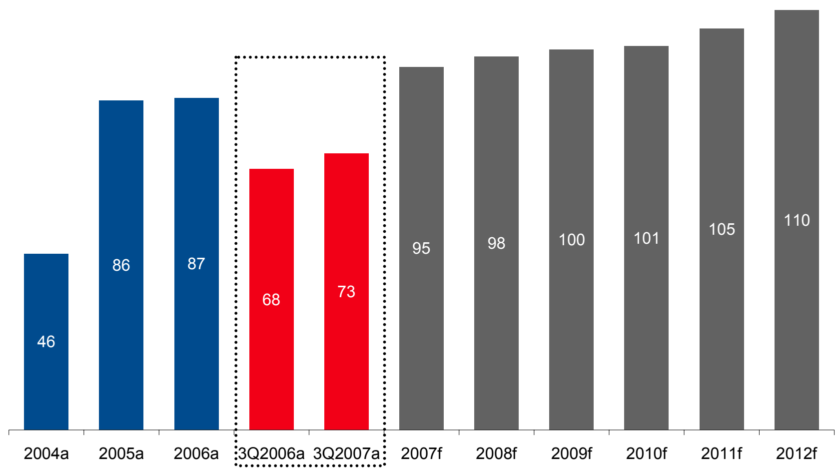
PROFITABILITY

The company's net profit increased from JOD 46 million in 2004 at a CAGR of 37% to JOD 87 million in 2006. In the first nine months of 2007, accumulated net profit grew at 6% to JOD 72.5 million as compared to JOD 68.4 in the same period last year.

We expect net income to reach JOD 110 million in 2012, a CAGR of 3% from 2007 to 2012 (Figure 20).

Figure 20 Actual and Forecasted Net Profit in Million

We estimate that JTG's net income will grow at a CAGR of 3% between 2007 and 2012



Source: Annual reports and NBK Capital

CAPITAL EXPENDITURE

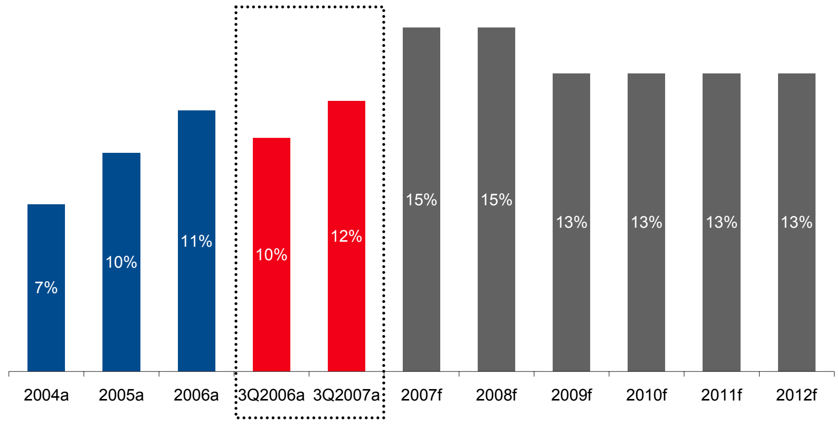
According to JTG's management, capital expenditures (CAPEX) have been increasing consistently due to:

- The large expansion of the mobile network to cope with the increase of subscribers and traffic volumes
- Expanding the broadband network to cover 95% of the total population of Jordan

CAPEX represented 11.8% of revenues for the first nine months of 2007 versus 10.2% during the same period in 2006. We believe that CAPEX will continue to increase to meet subscriber growth. We expect CAPEX to be around 15% of total revenues in 2007-2008 and then stabilize at 13% of total revenues from 2009 to 2012 (Figure 21). Our total CAPEX estimate from 2007 to 2012 is approximately JOD 369 million.

Figure 21 Capital Expenditure % of Total Revenues

We estimate that CAPEX will vary between 15% of total revenues during 2007-2008 and 13% of total revenues during 2009-2010



Source: Annual reports and NBK Capital

Financial Health

Borrowing facilities

Between 1995 and 1996, JTG signed two financial protocols with the French government with a low annual interest rate of 1%. On the other hand, in order to finance the mobile operation, JTG issued bonds for JOD 25 million on 9 July 2002, which are due on 9 July 2010. A fixed interest rate of 7.25% was applied for the first five years and an average of the prime lending rates of reference banks minus 0.25% is applied for the remaining period. Total outstanding loans as of 30 September 2007 amounted to JOD 34 million.

Cash

Cash and cash equivalents represented 48% of the total assets. JTG has no announced strategy for the use of this substantial cash balance. Expanding outside its home market is limited by France Telecom to the Middle East region. Unfortunately, expanding in this region has become very expensive due to limited availability of greenfield licenses.

Dividends

JTG's dividends policy is to pay the maximum allowed dividends after taking into consideration the financial needs of the company during the coming year. In 2005 and 2006, JTG's payout ratio was 98%. We believe that JTG will continue paying this ratio in the coming years.

JTG FINANCIAL STATEMENTS

Balance Sheet (JOD Thousands)	Historical			Forecast					
Fiscal Year Ends December	2004	2005	2006	2007	2008	2009	2010	2011	2012
ASSETS									
Cash and Short-Term Investments	113,627	217,501	289,428	275,101	279,530	293,608	308,776	304,947	327,650
Total Receivables, Net	43,396	44,580	44,055	51,524	54,275	56,921	59,918	63,540	67,048
Total Inventory	5,570	4,050	4,453	5,707	6,012	6,305	6,637	7,038	7,427
Other Current Assets, Total	13,437	13,501	12,917	12,982	13,047	13,112	13,178	13,244	13,310
Total Current Assets	**176,030**	**279,632**	**350,853**	**345,314**	**352,865**	**369,945**	**388,509**	**388,770**	**415,434**
Property/Plant/Equipment, Total - Net	280,199	244,440	230,704	235,087	240,007	234,212	226,861	218,338	208,241
Intangibles, Net	11,627	10,537	9,535	8,494	7,454	6,413	5,373	4,332	3,292
Long-Term Investments	3,376	-	-	-	-	-	-	-	-
Other-Long Term Assets	13,576	13,963	5,573	5,852	6,144	6,451	6,774	7,113	7,468
TOTAL ASSETS	**484,808**	**548,572**	**596,665**	**598,505**	**610,228**	**620,780**	**631,275**	**622,311**	**638,193**
LIABILITIES & EQUITY									
Accounts Payable	41,596	45,580	54,662	57,073	60,120	63,050	66,371	70,383	74,269
Accrued Expenses	28,489	43,772	71,367	59,451	62,625	65,678	69,137	73,316	77,363
Current Port. of LT Debt/Capital Leases	449	238	459	541	541	556	556	556	556
Other Current Liabilities	6,997	14,756	23,118	23,780	25,050	26,271	27,655	29,326	30,945
Total Current Liabilities	**77,530**	**104,346**	**149,606**	**140,844**	**148,337**	**155,555**	**163,719**	**173,582**	**183,134**
Long-Term Debt	35,090	33,250	33,679	33,911	33,370	32,814	32,257	6,701	6,145
Minority Interest	–	–	–	319	319	319	319	319	319
Other Liabilities, Total	11,667	11,266	11,676	11,734	11,793	11,852	11,911	11,971	12,031
Total Liabilities	**124,287**	**148,862**	**194,961**	**186,809**	**193,819**	**200,540**	**208,206**	**192,573**	**201,628**
Total Equity	**360,521**	**399,710**	**401,704**	**411,696**	**416,409**	**420,240**	**423,068**	**429,738**	**436,565**
TOTAL LIABILITIES AND EQUITY	**484,808**	**548,572**	**596,665**	**598,505**	**610,228**	**620,780**	**631,275**	**622,311**	**638,193**

Income Statement (JOD Thousands)	Historical			Forecast					
Fiscal Year Ends December	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Revenue	342,506	352,182	362,857	396,337	417,503	437,850	460,910	488,772	515,756
Cost of Revenue	113,356	115,581	123,259	142,681	150,301	157,626	165,928	175,958	185,672
Gross Profit	**229,150**	**236,601**	**239,598**	**253,656**	**267,202**	**280,224**	**294,983**	**312,814**	**330,084**
Selling/General/Admin. Expenses	50,610	55,552	57,112	67,377	70,976	76,624	85,268	92,867	97,994
Depreciation/Amortization	82,952	70,632	56,108	58,746	63,756	68,310	73,103	78,187	83,550
Other Operating Expenses	25,121	10,936	13,380	15,728	16,700	17,514	18,436	19,551	20,630
Operating Income	**70,467**	**99,481**	**112,998**	**111,804**	**115,770**	**117,777**	**118,174**	**122,210**	**127,909**
Interest Income (Exp), Net Non-Operating	(3,443)	5,207	10,101	11,688	11,359	11,796	12,500	14,564	15,000
Other, Net	(4,175)	(2,745)	(2,783)	3,165	3,277	3,334	3,345	3,459	3,620
Net Income before Taxes	**62,849**	**101,943**	**120,316**	**126,656**	**130,406**	**132,907**	**134,020**	**140,233**	**146,530**
Provision for Income Taxes	16,702	15,583	33,329	31,664	32,602	33,227	33,505	35,058	36,633
Net Income	**46,147**	**86,360**	**86,987**	**94,992**	**97,805**	**99,680**	**100,515**	**105,175**	**109,898**

Cash Flow (JOD Thousands)	Historical			Forecast					
Fiscal Year Ends December	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cash from Operating Activities	**141,219**	**175,047**	**184,647**	**126,205**	**156,175**	**162,103**	**167,822**	**177,120**	**186,624**
Cash from Investing Activities	**(22,977)**	**(26,382)**	**(28,267)**	**(54,898)**	**(56,848)**	**(50,375)**	**(53,155)**	**(56,843)**	**(60,253)**
Cash from Financing Activities	**(122,237)**	**(44,792)**	**(84,455)**	**(85,635)**	**(94,897)**	**(97,650)**	**(99,499)**	**(124,106)**	**(103,668)**
Net Change in Cash	**(3,995)**	**103,873**	**71,925**	**(14,327)**	**4,430**	**14,077**	**15,168**	**(3,829)**	**22,702**

Sources: Annual Reports and NBK Capital

NBK Capital

Kuwait
Head Office
17th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O. Box 4950, Safat 13050
Kuwait
Tel: +965 224 6900
Fax: +965 224 6904

International Network

United Arab Emirates
NBK Capital Limited
Precinct Building 3, Office 404
Dubai International Financial Center
P.O. Box 506506, Dubai
United Arab Emirates
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Turkey
NBK Capital
Arastima ve Musavirlik AS
SUN Plaza, 30th Floor
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
Tel: +90 212 276 5400
Fax: +90 212 276 5401

MENA Equity Research
Tel: +965 224 6663
Fax: +965 224 6984
E-mail: menaresearch@nbkcapital.com

Disclaimer

This document and its contents are prepared for your personal information purposes only and are not an offer, or the solicitation of an offer, to buy or sell a security or enter into any other agreement. Projections of potential risk or return are illustrative and should not be taken as limitations of the maximum possible loss or gain. The information and any views expressed are given as at the date of writing and subject to change. While the information has been obtained from sources believed to be reliable, we do not represent that it is accurate or complete, and it should not be relied on as such. NBK Capital, and its affiliates and subsidiaries, accept no liability for any direct or consequential loss arising from use of this document or its contents. At any time, NBK Capital or its employees may have a position, subject to change, in any securities or instruments referred to, or provide services to the issuer of those securities or instruments.

NBK

Kuwait
National Bank of Kuwait SAK
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 242 2011
Fax: +965 243 1888
Telex: 22043-22451 NATBANK

International Network

Bahrain
National Bank of Kuwait SAK
Bahrain Branch
Seef Tower, Al-Seef District 428
P.O. Box 5290, Manama
Bahrain
Tel: +973 17 583 333
Fax: +973 17 587 111

Jordan
National Bank of Kuwait SAK
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297
Shmeisani, Amman 11194
Jordan
Tel: +962 6 560 8800
Fax: +962 6 560 8811

Saudi Arabia
National Bank of Kuwait SAK
Jeddah Branch
Al-Andalus Street, Red Sea Plaza
P.O. Box 15385
Jeddah 21444, Saudi Arabia
Tel: +966 2 653 8600
Fax: +966 2 653 8653

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building
Justinian Street, Sanayeh
P.O. Box 11-5727, Riyad El Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 741111/742222
Fax: +961 1 747846/747866

Iraq
Credit Bank of Iraq
Street 9, Building 178
Sadoon Street, District 102
P.O. Box 3420
Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

United States of America
National Bank of Kuwait SAK
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ, UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

NBK Investment
Management Limited
13 George Street
London W1U 3QJ, UK
Tel: +44 20 7224 2288
Fax: +44 20 7224 2102

France
National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris, France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAK
Singapore Branch
9 Raffles Place #51-01/02
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +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
Tel: +84 8 827 8008
Fax: +84 8 827 8009

China
National Bank of Kuwait SAK
Shanghai Representative Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120
China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

Associates

Qatar
International Bank of Qatar (QSC)
Suhaim bin Hamad Street
P.O. Box 2001
Doha, Qatar
Tel: +974 447 3700
Fax: +974 447 3710

© Copyright Notice: This is a publication of NBK Capital. No part of this publication may be reproduced or duplicated without the prior consent of NBK Capital.