

Omantel

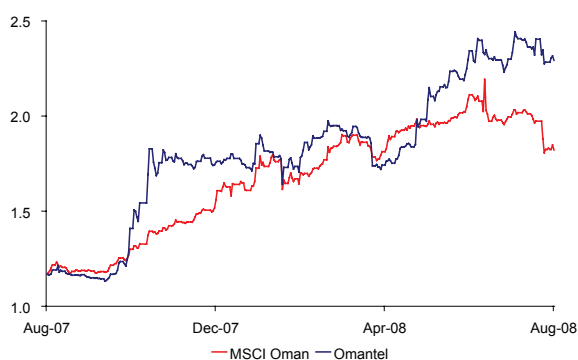
Makeover to Take on Rivals

Key Data

Closing Price*	Avg. Value Traded per Day
OMR 2.293	OMR 1.10 mln
52-Week High	Market Cap
OMR 2.442	OMR 1.72 bln
52-Week Low	Current Number of Shares
OMR 1.132	0.75 mln
Reuters	Bloomberg
O TL.OM	O TEL OM
Ownership Structure	
Government:70% Public:21% Pension Funds:9%	

* Price as of close August 5, 2008. Sources: Reuters, Zawya, and NBK Capital

Rebased Performance



Sources: MSCI, Reuters, and NBK Capital

Key Ratios

	2007a	2008 f	2009 f	2010 f	2011 f
P/E	15.4	13.4	12.5	11.8	11.4
EPS Growth	39%	14%	7%	6%	4%
EV/ EBITDA	8.5	7.4	6.9	6.5	6.1
EBITDA Margin	53%	54%	53%	53%	53%
EBITDA Growth	20%	15%	7%	7%	5%
Dividend Yield	4.4%	6.0%	6.4%	6.8%	7.0%
ROAE	36%	35%	33%	33%	31%

3Q2007 EBITDA a	4Q2007 EBITDA a
OMR 56,359	OMR 50,815
1Q2008 EBITDA a	2Q2008 EBITDA f
OMR 54,879	OMR 55,394

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

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Highlights

12-Month Fair Value: OMR 2.570

Recommendation: Accumulate - Risk Level: 4**

Reason for Report: Initiation of Coverage

- Omantel recently took its first step toward international expansion. It currently owns 56.8% of Worldcall Telecom in Pakistan which operates in the fixed-line and broadband segments.
- Omantel and Nawras do not disclose their active subscriber numbers. Hence, to reflect the real penetration rate in the country, we estimate the number of inactive subscribers in Oman to be around 24% of the total subscribers throughout our report. We estimate Omantel active subscribers' market share at 57% with 1.2 million subscribers at the end of March 2008. We forecast that Omantel's mobile subscribers will grow at a CAGR of 4% over the next five years, pushing market share to 52% by 2013. We do not expect that a second fixed license will be issued before the beginning of 2009. With 268,000 fixed-lines at the end of 2007, we forecast Omantel's fixed-lines to grow at a CAGR of 4% over the next five years and its market share to decline to 95%.
- Omantel's revenue grew at a CAGR of 16% between 2005-2007. With fierce competition in the telecom market, we forecast Omantel's revenue to grow at a CAGR of 6% from 2008 through 2013. EBITDA margin improved to 53% in 2007 on the back of the reduction of royalty fees to 7%. We believe that EBITDA margin will decline to reach 51.8% by 2013.
- We arrived at a 12-month fair value for Omantel of OMR 2.570 per share by using a sum-of-parts valuation for the Omani and Pakistani operations. This value represents 12% upside potential compared to the close of August 5, 2008, hence our "Accumulate" recommendation. Nevertheless, with the government selling 25% of Omantel to a strategic investor, we expect the price to overshoot on the back of speculation on the premium that will be paid for this transaction. We believe that the recent rise of the share price is due to the remarkable financial performance of Omantel as well as the potential premium such a transaction would command.

** Please refer to the last page for recommendations and risk ratings.

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EXECUTIVE SUMMARY

2005 was a remarkable year for the telecom sector in Oman: 30% of Omantel was listed on the Muscat Securities Market and a second GSM license was awarded to Nawras, a joint venture between Danish TDC and Qatar Telecom (QTEL). In 2008, the Telecom Regulatory Authority (TRA) gave five companies Class II licenses to operate as basic mobile service resellers. The TRA intends to further liberalize the sector by issuing a new fixed-line license, as well as selling 25% of Omantel to a strategic partner.

Omantel recently took its first step toward international expansion. It currently owns 56.8% of Worldcall Telecom in Pakistan which operates in two segments: fixed-line and broadband.

With the full liberalization of the Omani telecom market, competition is expected to intensify. Omantel and Nawras do not disclose their active mobile subscriber numbers. Hence, to reflect the real penetration rate in the country, throughout our report we estimate the number of inactive mobile subscribers in Oman to be around 24% of the total subscribers. We forecast that active mobile subscriber penetration rate will increase from 79% in 1Q2008 to 111% in 2013. We estimate Omantel active mobile subscribers' market share at 57% with 1.2 million subscribers at the end of March 2008. We forecast that Omantel's mobile subscribers will grow at a CAGR of 4% over the next five years, pushing market share to 52% by 2013. We do not expect that the second fixed license will be issued before the beginning of 2009. With 268,000 fixed-lines at the end of 2007, we forecast Omantel's fixed-line to grow at a CAGR of 4% over the next five years and its market share to decline to 95%.

Due to its conservative nature and reliance on its home market, Omantel has performed modestly in recent years in terms of revenue growth as compared to other regional players. As of year end 2007, Omantel revenues grew by 13% to OMR 365 million, compared to OMR 324 million in 2006. We forecast Omantel's total revenues through 2013 by separately projecting revenues for each business segment during this period. We are expecting fierce competition in the overall telecom market, thus we forecast Omantel's revenue will grow at a CAGR of 6% from 2008 through 2013.

We arrived at a 12-month fair value for Omantel of OMR 2.570 per share by using a sum-of-parts valuation for the Omani and Pakistani operations. This value represents 12% upside potential compared to the close of August 5, 2008, hence our "Accumulate" recommendation. Nevertheless, with the government selling 25% of Omantel to a strategic investor, we expect the price to overshoot on the back of speculation on the premium that will be paid for this transaction. We believe that the recent rise of the share price is due to the remarkable financial performance of Omantel as well as the potential premium such a transaction would command.

Based on our subjective criteria for risk, we have assigned Omantel a risk rating of 4 on a scale of 1 to 5. One of the major risks we see that could affect the value of the company's stock is the fact that Omantel has enjoyed a monopolistic environment for a long time. As the TRA is aiming to further liberalize the telecom sector, we expect all segments of Omantel's revenues to be affected.

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 Omantel in the next 12 months. However, 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 Omantel of OMR 2.570 per share by using a sum-of-parts valuation. For Omantel's operations in Oman, we used two valuation methods: Discounted cash flow (DCF) and peer comparison based on the forward price-to-earnings-to-growth ratio (PEG) and EV/EBITDA. As for its operations in Pakistan via Worldcall Telecom, we valued the listed subsidiary using its latest market value.

The 12-month fair value of OMR 2.570 represents a 12% upside potential compared to the close of August 5, 2008, hence our "Accumulate" recommendation. This recommendation is based on the current status of the company. Nevertheless, with the partial sale that the Omani government intends to complete before the end of 2008, we expect the price of Omantel to overshoot because of the premium that will be paid for this transaction. We believe that the reason behind the upward trend that the price of Omantel has been experiencing since October 2007 is the remarkable financial performance of the company and the potential premium a strategic investor would pay for the partial acquisition of the company.

Figure 1 Sum-of-Parts Valuation

	Valuation Method	Total Value in OMR (million)	Stake	Per Share Value	% of Total Value
Omantel	DCF & Peer Comparison	1,905	100%	2.540	99%
Worldcall Telecom	Market Value	42	56.8%	0.032	1%
Total Value		1,947		OMR 2.570	100%

Source: NBK Capital

Our 12-month fair value for Omantel is OMR 2.570

VALUATION OF OMANI OPERATIONS

We specified a weight for each method, as shown in Figure 2. The greater weight is assigned to DCF, as this method examines the fundamentals of the company to determine its future cash-generating ability.

Our 12-month fair value for the Omani operations is OMR 2.540

Figure 2 Fair Value per Share

Valuation Method	Value	Weight
Discounted cash flow	OMR 2.580	80%
Peer comparison	OMR 2.360	20%
Weighted average fair value	OMR 2.540	100%

Source: NBK Capital

Discounted Cash Flow Valuation

Our DCF valuation (Figure 3) is based on the forecasted financial results through 2013. The DCF valuation is a function of the following major variables, which have been estimated by our model:

- 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 OMR 1.935 billion.

In order to estimate the value of Omantel's operations, we incorporated a varying WACC into our model. The chosen cost of equity (11.46%) is mainly a function of interest rate levels, risks in the operating environment, and a subjective assessment of the equity risk premium.

Figure 3 DCF Valuation

Figures in OMR Thousands*	Forecast				
	2009	2010	2011	2012	2013
Net Operating Profit after Tax	140,741	148,375	153,520	156,989	158,971
Add: Depreciation and Amortization	78,098	85,288	92,857	100,855	109,237
Gross Cash Flow	218,839	233,662	246,377	257,844	268,208
(Incr.)Decr. in Working Capital	883	2,008	2,826	2,732	3,341
(Incr.)Decr. in Operating Fixed Assets	(74,152)	(79,090)	(83,264)	(87,975)	(92,200)
Free Cash Flow from Operations	145,570	156,580	165,939	172,602	179,349
Terminal Value	-	-	-	-	1,770,667
Value of Operations in 12 Months	1,761,260				
Add: Excess Cash	245,797				
Add: Value of Long-Term Investments	8,442				
Add: Value of Other Long-Term Assets	-				
Less: Total Debt	(79,169)				
Less: Minority Interest	(1,060)				
Value of Equity in 12 Months	1,935,270				
Per Share Value in OMR	2.580				

Using the DCF valuation method, we arrived at a fair value per share of OMR 2.580

*Except per share value. Source: NBK Capital

Sensitivity Analysis

We performed a sensitivity analysis (Figure 4) on two important inputs for our DCF valuation model: the cost of equity and the perpetual growth rate used in computing the terminal value.

Figure 4 DCF Sensitivity

		Growth				
		4.50%	4.75%	5.00%	5.25%	5.50%
Cost of Equity*	10.46%	OMR 2.854	OMR 2.893	OMR 2.936	OMR 2.983	OMR 3.035
	10.96%	OMR 2.681	OMR 2.711	OMR 2.744	OMR 2.779	OMR 2.817
	11.46%	OMR 2.533	OMR 2.556	OMR 2.580	OMR 2.607	OMR 2.636
	11.96%	OMR 2.403	OMR 2.421	OMR 2.440	OMR 2.460	OMR 2.482
	12.46%	OMR 2.290	OMR 2.304	OMR 2.318	OMR 2.333	OMR 2.350

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

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

Peer Group Comparison

We compared Omantel with publicly traded incumbents that operate in countries with mobile penetration rates similar to Oman (Figure 5).

We obtained the consensus forward earnings per share (EPS) and the consensus earnings growth estimates for each of the companies (for Jordan Telecom, we used our forecast published on May 18, 2008). The simple average PEG for the sample, excluding the highest and lowest values, was 3.19. Omantel, in contrast, currently trades at a lower PEG of 3.14, based on our 2008 forecasted EPS and next-four-years earnings growth rate.

We also valued Omantel against the EV/2008EBITDA of the same sample. The simple average EV/2008EBITDA for the sample, excluding the highest and lowest values, was 6.62. Omantel, in contrast, currently trades at an EV/2008 EBITDA of 6.29, 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 Omantel shares at OMR 2.360. This implies that Omantel is currently undervalued, considering the current market price of OMR 2.293.

Figure 5 Forward PEG and EV/2008EBITDA Multiples Comparison

The average EV/EBITDA for the sample, excluding the outliers, stands at 6.62

Company	Market Data		EV / 2008 EBITDA	2008 Forecast EPS	PEG
	Price* (Local Currency)	Market Cap (USD Millions)			
Maroc Telecom	185	22,481	9.65	11	5.9
Telenor	81	26,594	6.51	9	1.0
Mobistar	54	5,439	6.06	5	3.4
Jordan Telecom	6	2,194	7.30	0.39	4.8
Telekomunikacja polska	24	16,278	5.11	1.78	1.4
Weighted average			7.16		2.88
Simple average			6.93		3.29
Simple average excluding outliers			6.62		3.19
Median			6.51		3.41

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

VALUATION OF PAKISTANI OPERATIONS

In February 2008, Omantel acquired 65% of Worldcall Telecom for USD 193 million; this implies a total value for the company of USD 297 million. However, the effective stake of Omantel is actually 56.8% due to conversions of loans, which resulted in the increase in number of share from 752 million to 860.6 million. Worldcall Telecom is a publicly listed company on Karachi and Lahore Stock Exchanges. It is licensed to provide LDI, WLL, and broadband services in Pakistan.

For the valuation of Worldcall Telecom, we used the current market value of the company since we could not do an explicit forecast of its financial statements due to limited guidance from Omantel on the Pakistani market and its operations. Using the market value of Worldcall Telecom as of August 5, 2008 of OMR 42 million, we calculate the value of Omantel's share in Worldcall Telecom to be OMR 0.03 per share.

BULLS VS. BEARS

BULL STORY

- Oman has a favorable demographic outlook, as 43% of Oman's population is under the age of 14.
- The Omani government is planning to sell 25% of Omantel to a telecom operator with experience in competitive markets. This strategic investor is expected to help Omantel in growing its business in this competitive environment.
- Omantel is in the process of merging its fixed-line and Internet services with Oman mobile into a single company. We believe this would enhance operational efficiency and reduce overall costs.
- Omantel owns the country's sole international gateway.
- By acquiring Worldcall Telecom, a fixed-line and broadband operator in Pakistan, Omantel expanded its footprint in an underpenetrated fixed-line and broadband market.
- Interest in joining the World Trade Organization (WTO) has pushed Oman to speed up the process of liberalization and reform in many markets. The free trade agreement between Oman and the USA is expected to further accelerate the sector liberalization process.

BEAR STORY

- Omantel has been enjoying a monopolistic environment for a long time. Nawras, the second mobile operator, gained 41% of market share after three years of operation. As the TRA is aiming to further liberalize the telecom sector, we expect all other segments of Omantel's revenues to be affected. The TRA is planning to issue a fixed-line license in the near future, and will probably open the international gateway.
- Recently, the TRA issued Class II licenses to five companies as resellers of basic mobile services, putting more pressure on existing operators.
- Mobile number portability was introduced in Oman in August 2006. It allows customers to switch from one service provider to another while keeping the same mobile phone number. With Nawras in the market and the entry of five basic mobile service resellers, Omantel will face more pressure to keep its customers.
- The management of Omantel will face tough competition from the existing service providers in Pakistan.

OVERVIEW OF OMAN TELECOM MARKET

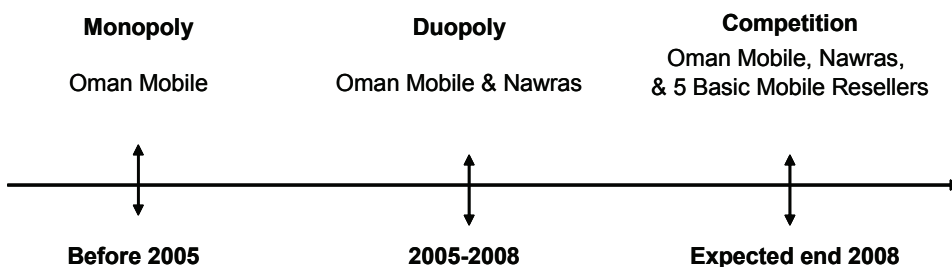
REGULATORY ENVIRONMENT & POTENTIAL NEW LICENSES

In compliance with the WTO agreements, the Omani government has started to put its liberalization strategy into action. In 2002, the TRA was established with the aim of regulating the telecommunications sector and introducing competition. In 2005, it opened the mobile market by granting the second GSM license to Nawras, a joint venture between Danish TDC and Qatar Telecom (Qtel). The exclusivity enjoyed by Oman Mobile and Nawras ended in February 2008. In June 2008, the TRA awarded Class II licenses to five companies as resellers of basic mobile services.

In 2007, the government reduced the royalty fees for mobile and fixed-line services to 7% from 12% for mobile services and 10% for fixed-line services. The TRA intends to further liberalize the sector by issuing a new fixed-line license. We do not expect that the second fixed license will be issued before the beginning of 2009.

Figure 6 Liberalization of Mobile Operations

Oman is currently a duopoly market. In 2008, five companies received Class II licenses as resellers of basic mobile services.



Source: NBK Capital

MOBILE MARKET

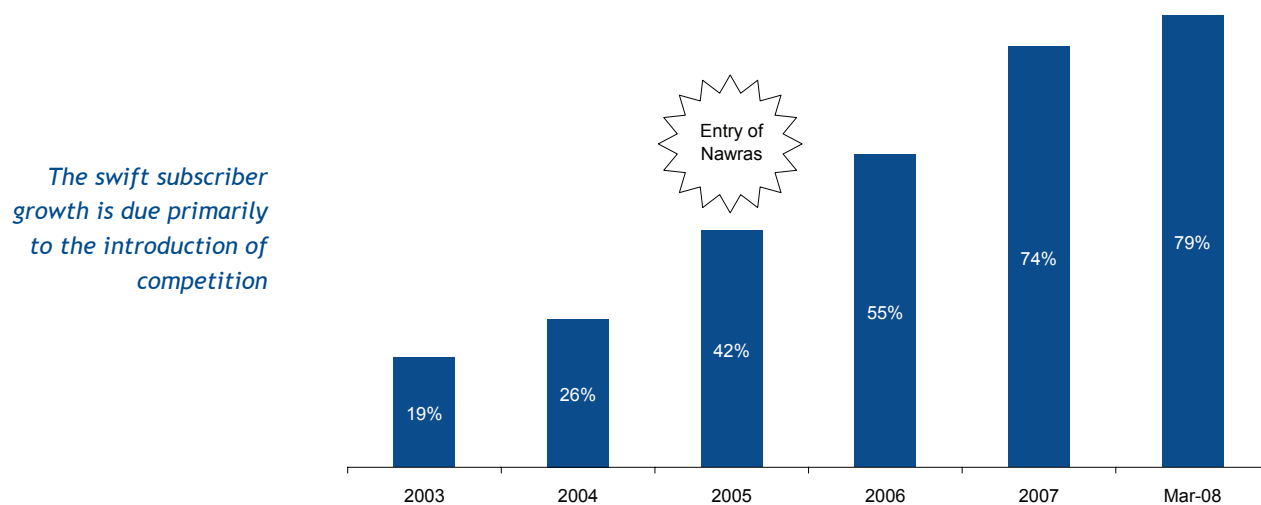
List of Operators: Currently, the mobile market in Oman is served by two GSM companies:

- 1) Oman Mobile is Omantel's mobile subsidiary. It received its formal mobile license in February 2004.
- 2) Nawras Telecom is a joint venture between Danish TDC and Qtel. Qtel owns 55% of Nawras. It received its mobile license in February 2005.

Penetration Rate & Subscriber Split: Omantel and Nawras do not disclose their active subscriber numbers. The companies use different definitions for active subscribers. Omantel considers a subscriber as active when the subscriber makes at least one chargeable call or SMS in a year. However, the international definition of an active subscriber is one that makes a chargeable call or SMS during a 90-180 day period. The TRA recently announced that 25% of Omani mobile subscribers are inactive. Hence, to reflect the real penetration rate in the country, throughout our report we estimate the number of inactive subscribers in Oman to be around 24% of the total subscribers.

In 2004, before the introduction of competition, the active penetration rate was around 26%; it grew to 74% in 2007. We estimate that at the end of March 2008, the total number of active subscribers stood at 2.04 million, which translates into a penetration rate of 79%. The active subscriber base witnessed a CAGR of 41% from 2003 to 2007. This swift growth was due primarily to the introduction of competition, which helped in developing the telecom sector in Oman, in improving customer services, and in introducing new technologies (Figure 7).

Figure 7 Penetration Rate* Evolution



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

We expect subscriber growth to continue in the coming years, especially given Oman's favorable telecom environment:

- A favorable demographic profile, with 43% of the population under the age of 14.
- Strong macroeconomic indicators bolstered by high oil prices, strong growth in non-oil exports and slower import growth.

When considering countries comparable to Oman on a GDP per capita level, we find that the penetration rate in Oman is below the prevailing average for the peer group, which currently stands at 109% (Figure 8).

Figure 8 Oman Mobile Penetration Rate vs. Peer Countries

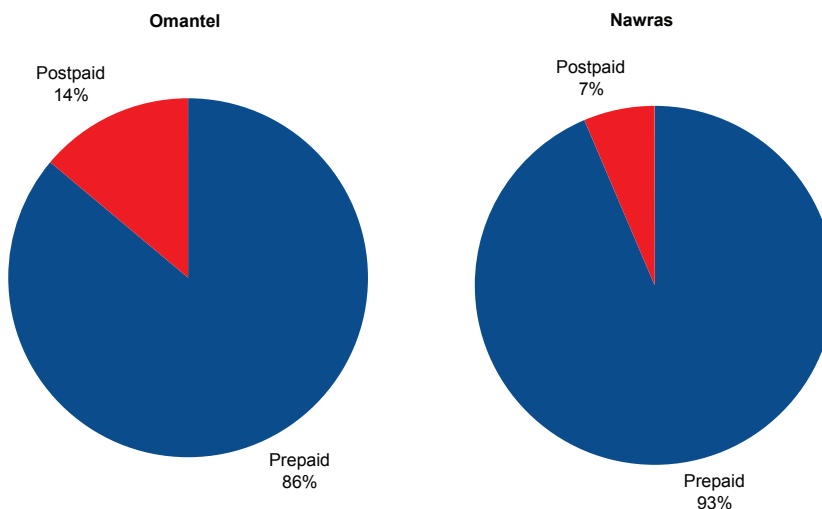
Country	2004	2005	2006	2007	1Q2008
Czech Republic	105%	113%	121%	129%	130%
Estonia	94%	106%	118%	119%	121%
Hungary	81%	87%	94%	102%	103%
Malta	76%	82%	86%	91%	92%
Slovakia	79%	84%	90%	107%	105%
Taiwan	97%	93%	95%	99%	103%
Average	89%	94%	101%	108%	109%
Oman*	26%	42%	55%	74%	79%

Mobile penetration in Oman is below the peer-group average

* Based on estimated active subscribers. Sources: Annual reports, Moody's Statistical Handbook (Country Credit) May 2007, ITU, Informa database, and NBK Capital

Omantel is the market leader in Oman, with 57% market share. Similar to other MENA markets, the Omani market is dominated by prepaid subscribers, which represent 87% of the total market. Prepaying is common in the MENA region due to flexible and affordable terms for owning a prepaid line. Omantel's prepaid subscribers represent 86% of total subscribers, whereas, for Nawras they represent 93% (Figure 9).

Figure 9 Subscriber Split as of March 2008



Prepaid subscribers dominate the market in Oman

Sources: Informa database and NBK Capital

ARPU: The ARPU calculation was based on the average estimated number of active subscribers in Oman. We estimated the total monthly blended ARPU in Oman as of December 2007 at USD 43, which is 50% higher than the peer-group average (Figure 10).

Figure 10 Oman Monthly Blended ARPU vs. Peer Countries

Oman’s monthly blended ARPU is 50% higher than the average in peer countries

	2004	2005	2006	2007
<i>(All figures in USD)</i>				
Czech Republic	21	24	25	27
Estonia	30	27	23	25
Hungary	25	25	24	26
Malta	40	41	41	43
Slovakia	19	20	22	26
Taiwan	22	26	26	23
Average	26	27	27	28
Oman*	57	47	45	43

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

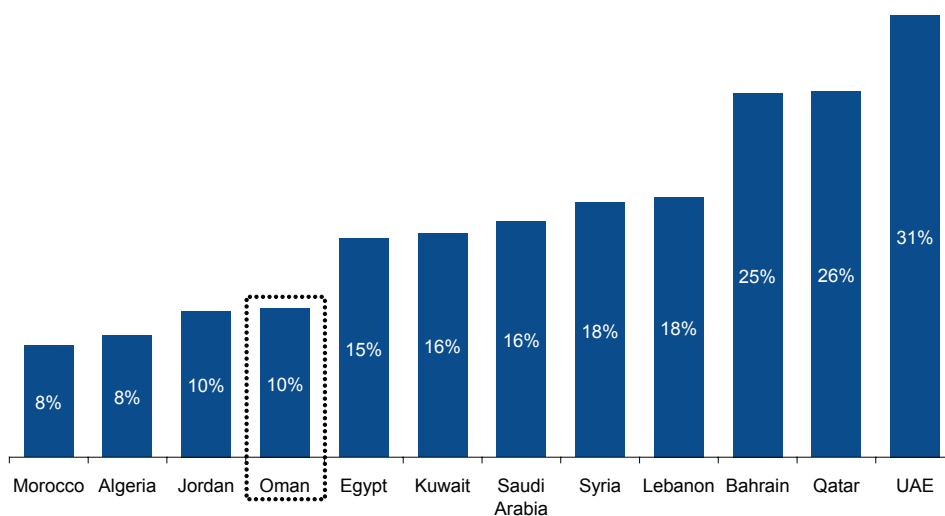
ARPU is still relatively high in Oman as compared to its peers, due to favorable economic conditions. But with further liberalization, operators will face more pressure to maintain the same level of ARPU. We believe operators will offer customers more competitive packages at lower prices.

FIXED-LINE MARKET

Omantel is currently the only licensed fixed-line provider in Oman. However, the TRA is expected to issue a second fixed-line license in the near future. Fixed-line services grew at a very modest rate of 4% between 2003 and 2007, with a penetration rate of 10% at the end of 2007. The penetration rate in Oman is among the lowest in the MENA region. However, according to Omantel management, since each household in Oman has an average of 6.5 people, there is not much room for growth in the fixed-line sector as the household penetration rate reached 68% at the end of 2007.

Figure 11 Fixed-Line Penetration Rate in the MENA region in 2007

Household penetration rate reached 68% at the end of 2007



Sources: ITU, IMF, and NBK Capital

INTERNET AND BROADBAND MARKET

Internet and data services were introduced by Omantel in 1997 and are considered fixed-line operations. According to the TRA, the number of Internet subscribers grew from 49,425 in 2005 to 115,506 by the end of March 2008. Omantel has an agreement with FLAG Telecom which makes the Sultanate an Internet transit point between the Middle East and Africa. Omantel plans to tap into the younger, wealthy population of Oman by providing high-speed broadband services. As for Nawras, it offers mobile Internet services based on EDGE technology, delivering data speeds to mobile devices three times faster than a GSM/GPRS network. Nawras is currently using 3G services; according to management, Omantel is expected to launch 3G services in the third quarter of 2008.

BASIC MOBILE SERVICE RESELLERS

On June 28, 2008, the TRA issued Class II licenses to five companies to operate as basic mobile service resellers. These five companies are: Injaz International, Kalam Telecommunications, Majan Telecom, Mazoon Mobile and Arabia connect. According to the TRA, these five companies will have commercial agreements with existing mobile operators to purchase minutes at wholesale rates without having to own or operate their own networks. The TRA has clearly stated that these five companies are not categorized as MVNOs.

PAKISTAN TELECOM MARKET OVERVIEW

REGULATORY ENVIRONMENT

In view of the growing worldwide trend of liberalization, the Pakistani government started the process of deregulating the telecom sector in 1995. This led to the introduction of full competition in the mobile and fixed-line sectors. Under the Telecom Reorganization Act, the Pakistan Telecommunication Authority (PTA) was established in January 1996 to regulate the establishment, operation, and maintenance of telecommunication services in Pakistan.

FIXED-LINE MARKET

List of Operators: The major providers of fixed-line services in Pakistan are as follows:

- 1) Pakistan Telecommunication Company Limited (PTCL) is the incumbent operator and is currently the market leader in the Pakistani fixed-line segment. It lost its monopoly over basic telephony on December 31, 2002.
- 2) National Telecommunication Corporation (NTC) provides telecom services exclusively to the government.
- 3) Brain Telecommunication is a service provider that offers telephone service, video, and data over an optical fiber network.
- 4) WorldCall Telecom was the first company to start Long Distance & International (LDI) services in November 2004.
- 5) Union Communication provides Payphone and Local Loop (LL) services. The company was incorporated in the year 2000.
- 6) Nayatel is a triple-play service provider in Pakistan providing high-speed Internet, video, and telephone service, all over a single broadband connection.

The fixed-line penetration rate in Pakistan has stayed at around 3% since 2003, following a CAGR for fixed-lines of only 5% between 2003 and 2007.

WIRELESS LOCAL LOOP MARKET

Wireless Local Loop (WLL) is a system that connects wireless users to the public switched telephone network (PSTN) using wireless technology and other circuitry to connect the wireless user and the exchange equipment.

List of Operators: The six major service providers of WLL in Pakistan are:

- 1) PTCL: Lost its monopoly over basic telephony on December 31, 2002. It currently has a market share of 58%.
- 2) Telecard Limited: A licensed wireline service provider in Pakistan. It currently has a market share of 20%.

- 3) WorldCall Telecom: Uses WLL to provide telephony and data services using wireless CDMA technology. The service was launched in June 2005. It currently has a market share of 19%.
- 4) Great Bear International Services: A WLL service provider in Pakistan operating under the DIALLOG brand. It currently has a market share of 2%.
- 5) Burraq Telecom Limited: A licensed provider in Pakistan. Qatar Telecom acquired Burraq Telecom in May 2007. It currently has a market share of less than 1%.
- 6) Wateen Telecom: A Pakistan-based telecommunications company. Currently, it has a market share of 1%.
- 7) Mytel: Started operations in 2006. It currently has a market share of less than 1%.

INTERNET MARKET

The number of Internet subscribers reached 3.5 million at the end of 2007, a growth of 46% compared to 2006.

The broadband market has started expanding since the completion of the fiber optic network in 2007. With 80,000 broadband subscribers, the market is currently underpenetrated with a penetration rate of 2%.

OMAN TELECOMMUNICATIONS COMPANY OVERVIEW

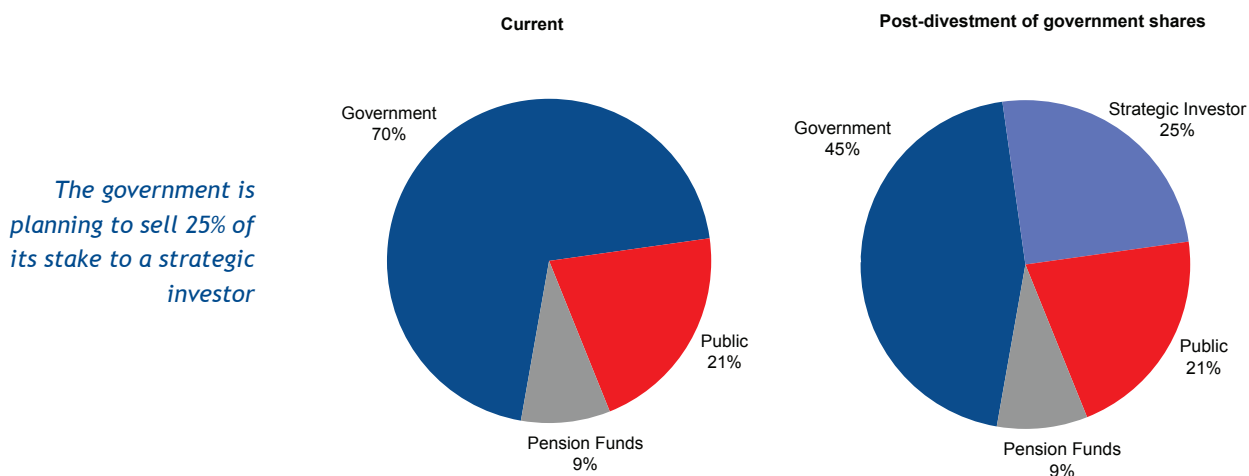
BASIC INFORMATION

Since the early 1970's, the General Telecommunications Organization (GTO) was in charge of communications in Oman. In 1999, the GTO was transformed into Oman Telecommunication Company (Omantel), which was privatized in March 2002. In 2004, the TRA granted Omantel two Class I licenses:

- 1) To provide mobile services for 15 years.
- 2) To provide fixed-line services for 25 years.

In July 2005, Omantel offered 30% of its capital base through an IPO of 750 million shares which raised OMR288 million (USD748 million). On July 28, 2005, Omantel was listed on the Muscat Securities Market (MSM) and became the largest company in terms of market capitalization; which currently stands at OMR 1.72 billion. The Omani government is the largest shareholder in the company, with a 70% stake. Out of the remaining 30% stake, 21% was offered to Omani individuals and 9% was allocated to pension funds in Oman. In May 2008, the government announced that it intends to further sell 25% of Omantel to a strategic investor.

Figure 12 Omantel's Ownership Structure



The government is planning to sell 25% of its stake to a strategic investor

Sources: Zawya, and NBK Capital

In February 2007, the company was restructured into Omantel (fixed-line and Internet service provider) and Oman Mobile (mobile service provider) under the control of a holding company, Omantel.

Partial Sale of Omantel

Abiding by the privatization law established in July 2004, the Omani government offered to sell 25% of its stake in Omantel to a strategic investor. Different advisors were appointed to lead the transaction:

- Financial advisors: Citigroup Global Markets Limited and National Bank of Oman.
- Legal advisors: Freshfields Bruckhaus Deringer and Al Busaidy, Mansoor Jamal & Co.
- Strategy advisor: Booz Allen Hamilton.

As per the “request for expressions of interest” document published by the Ministry of Finance in July 2008, in addition to owning 25% of Omantel, the strategic investor might have certain rights that would allow it to increase its share in the long term. The Omani government is also considering the possibility of giving the strategic partner some rights in contributing to Omantel’s management.

In order to prequalify to bid, bidders should have substantial experience in operating fixed-line and mobile services, and an operational presence in several countries with a minimum of five million active subscribers, including at least two million in one market. The potential strategic partner should also commit to retaining their stake in the company for at least five years.

The sale process is divided into two phases:

- 1) Submission of financial and technical proposals.
- 2) Submission of binding bids and transaction documents.

According to the timetable, the final negotiation and announcement of the winner is expected to be in 4Q2008.

As the opportunities for investing in the telecom market in the Gulf are diminishing, we are expecting harsh competition between regional operators for this transaction, especially if the Omani government gives management control to the strategic partner. Based on the pre-qualification criteria, some GCC operators will not be able to participate in the bidding. Wataniya and Qtel will not enter the bid due to the conflict of interest (Qtel owns 55% of Nawras) (Figure 13).

Figure 13 Potential Strategic Partners from the GCC

	Fully Intergrated Service Provider	Market Cap >USD 5 billion	Revenue >USD 1.5 billion	Assets >USD 1.5 billion	Active Subscribers > 5 billion
<i>Etisalat, STC, and Zain fit the pre-qualification criteria</i>	✓	✓	✓	✓	✓
Etisalat	✓	✓	✓	✓	✓
STC	✓	✓	✓	✓	✓
Zain	✓	✓	✓	✓	✓
Batelco	✓	✗	✗	✓	✗
du	✓	✓	✗	✗	✗

Sources: Request for expressions of interest by the Omani Ministry of Finance-July 2008 and NBK Capital

Mobile Services

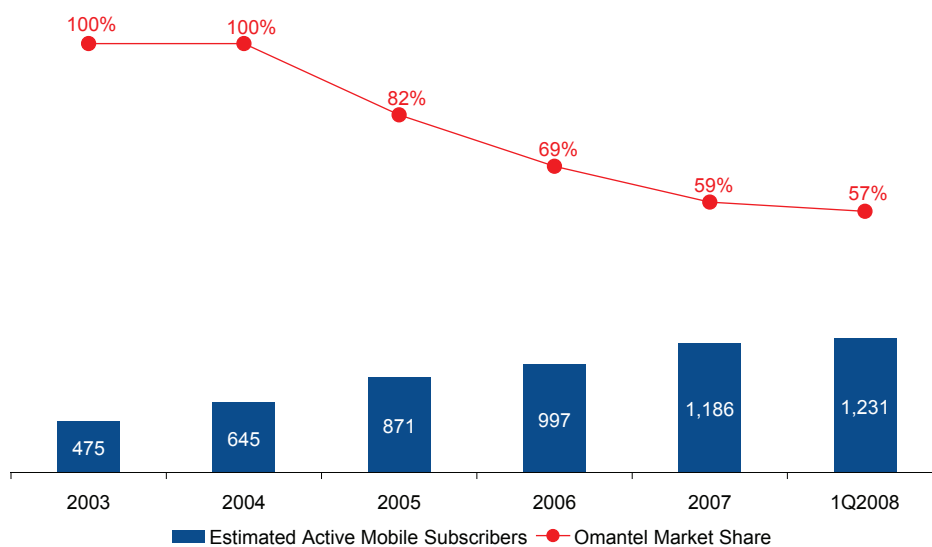
Oman Mobile is the mobile services arm of Omantel. It is the market leader with 57% market share. We are estimating that 24% of Oman mobile subscribers to be inactive, thus Oman Mobile’s active subscribers are estimated to be around 1.2 million at the end of March 2008; it grew at a CAGR of 26% between 2003 and 2007.

Prepaid subscribers constituted 86% of total subscribers in March 2008 as compared to 60% in 2003. Omantel is relying on its postpaid customers to differentiate itself from Nawras and generate more revenue.

Based on our estimate of active subscribers, Omantel’s blended monthly ARPU stood at USD 43 at the end of 2007.

Figure 14 Evolution of Mobile Subscribers over the Years

Between 2003-2007, Mobile subscribers in Oman grew at a CAGR of 26%.



Sources: Annual report, and NBK Capital

Fixed-Line Services

Omantel has implemented projects involving more than OMR 100 million between 2005 and 2006 to enhance their fixed-network infrastructure. Omantel’s fixed-line subscribers reached 274,000 at the end of March 2008; it grew at a CAGR of 4% between 2003 and 2007.

Internet and Data Services

Omantel is the sole provider of Internet services in Oman. It provides dial-up, ADSL, and leased-line Internet services. According to the TRA, the number of Internet subscribers grew from 49,425 in 2005 to 115,506 by the end of March 2008. Internet subscribers grew at a CAGR of 19% between 2005 and 2007.

OMANTEL'S STRATEGY

Integration of Omantel and Oman Mobile

According to management, Omantel has started to integrate Omantel and Oman Mobile. This integration will have a positive effect on the company:

- 1) Omantel will provide mobile, fixed-line, and Internet services in one package to customers.
- 2) It will improve the overall efficiency of the company by downsizing entities common to both companies.

Expansion into Pakistan: Worldcall Telecom Limited

Omantel recently took its first step toward international expansion. It acquired 65% of Worldcall Telecom in Pakistan. The total value of this transaction is USD 193 million. However, the effective stake of Omantel is actually 56.8% due to conversions of loans, which resulted in the increase in number of share from 752 million to 860.6 million.

Worldcall Telecom Limited is a publicly listed company on the Karachi and Lahore Stock Exchanges; it was incorporated in Pakistan in March 2001. The company started its operations in December 2004. Worldcall Telecom operates in two segments: fixed-line and broadband services.

The services provided by Worldcall Telecom in the fixed-line segment are:

- 1) Wireless Local Loop (WLL).
- 2) Long Distance & International (LDI) services.
- 3) Operation and maintenance of the public payphone network.
- 4) Establishment, maintenance, and operation of the licensed telephony services.

In the broadband segment, the services provided by Worldcall Telecom are:

- 1) Cable Internet.
- 2) Cable television services.

Worldcall Telecom holds a 70.65% stake in Worldcall Telecommunications Lanka which is a JV between Worldcall Telecom and Hayleys Limited (a business conglomerate in Sri Lanka). It handles the operation and maintenance of a public payphone network.

OMANTEL FINANCIAL ANALYSIS AND FORECASTS

MOBILE MARKET FORECAST

The introduction of competition has shaken the Omani mobile market. The mobile subscriber has witnessed swift growth in the last two years. Based on peer country analysis; we forecast that the active penetration rate in Oman will reach 111% in 2013 (Figure 15).

Figure 15 Mobile Market in Oman

(000's)	2006a	2007a	2008f	2009f	2010f	2011f	2012f	2013f
Population	2,546	2,570	2,595	2,619	2,644	2,669	2,695	2,720
Penetration Rate*	55%	74%	88%	95%	100%	104%	107%	111%
Peers' Penetration Rate	101%	108%	116%	120%	123%	125%	126%	127%
Total Active Subscribers	1,397	1,898	2,276	2,486	2,648	2,771	2,878	3,026
Market Share:								
<i>Omantel</i>	69%	59%	56%	55%	54%	53%	53%	52%
<i>Others</i>	31%	41%	44%	45%	46%	47%	48%	48%
Oman Mobile's ARPU (USD)								
<i>Total Blended*</i>	45	43	41	40	39	39	39	39

We expect active penetration rate to reach 111% in 2013

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

As mentioned earlier, there is no clear definition of active mobile subscribers implemented in Oman. Thus, we estimated that 24% of the total subscribers are inactive. We forecast that the total active mobile subscribers will grow at a CAGR of 6% in the next five years, while Omantel's market share will decline to 52% by 2013.

We believe that the new wave of restructuring and transformation that will take place in Omantel will enhance the presence of the company in Oman. According to management, Omantel is in the process of integrating its operations: mobile, fixed-line, and data services, dividing the business into individual and business line, and upgrading the billing system. All these changes will encourage the existing subscribers to be more loyal and will also attract potential subscribers. We believe that Omantel will provide subscribers with bundled packages at a lower rate. Thus, we forecast that the total blended ARPU, based on estimated active subscribers, will drop gradually from USD 43 in 2007 to USD 39 in 2013.

FIXED-LINE MARKET FORECAST

Omantel is still enjoying its monopoly over the fixed-line sector and the international gateway in Oman. We forecast that the household penetration rate will increase from 68% in 2008 to 85% in 2013 with a CAGR of 5% in fixed-line subscribers between 2008 and 2013. As for the new fixed-line license, we don't believe it will be issued before 2009, thus we forecast that Omantel's market share will decrease to 95% in 2013.

Figure 16 Fixed-Line Market in Oman

(000's)	2006a	2007a	2008f	2009f	2010f	2011f	2012f	2013f
Population	2,546	2,570	2,595	2,619	2,644	2,669	2,695	2,720
Penetration Rate	11%	10%	11%	11%	12%	12%	13%	13%
Total Fixed-Line	287	268	272	288	304	320	337	354
Market Share:								
<i>Omantel</i>	100%	100%	100%	99%	98%	97%	96%	95%
<i>Others</i>	0%	0%	0%	1%	2%	3%	4%	5%
Omantel's ARPL (USD)								
<i>Total Blended</i>	49	44	42	40	38	36	35	34

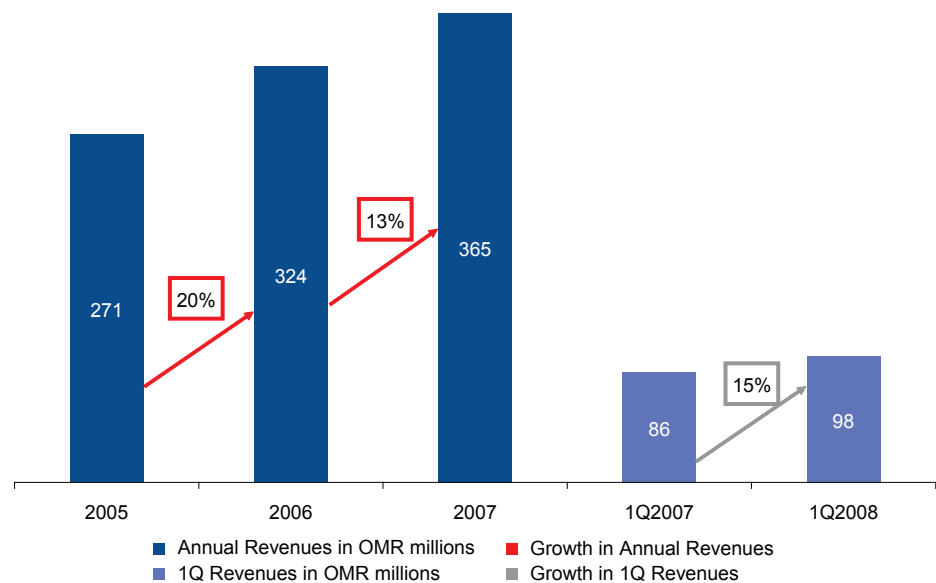
Sources: Annual reports, IMF, Omantel Management and NBK Capital

We expect the fixed-line penetration rate in Oman to reach 13% in 2013

REVENUES

Omantel's revenue witnessed a CAGR of 16% from 2005 to 2007. We attribute this swift growth primarily to the boom in mobile subscribers after Nawras came to the market, in addition to the growth witnessed in data and wholesale services.

As of year end 2007, revenues reached OMR 365 million, compared to OMR 324 million in 2006, a growth of 13% (Figure 17). At the end of 2007, while the fixed-line segment saw a decline of 7% in revenue; mobile, Internet, and data services as well as other revenues grew by 10%, 16%, and 51% respectively. As for the 1Q2008, total revenues increased by 15% compared to the same period last year, reaching OMR 98 million.

Figure 17 Omantel's Revenue

Sources: Annual reports, and NBK Capital

Fixed-Line

Fixed-line revenue continued its declining trend in 2007. Fixed-line operations, which contributed 32% of the total revenue in 2004, contributed only 15% of the total revenue in 2007. Fixed-line revenue fell at a CAGR of 11% from 2004 to 2007. In 2007, total revenues reached OMR 56.3 million, a decrease of 7% compared to 2006.

Mobile

Although mobile revenue saw a slow down in growth as compared to last year, it remains the highest contributor to total revenue (59%). Mobile revenue grew at a CAGR of 14% from 2004 to 2007. In 2007, mobile revenue grew by 10% to OMR 215 million compared to OMR 196 million in 2006. As for 1Q2008, mobile revenues grew to OMR 64.7 million, a growth of 11% compared to the same period last year.

Internet and Data Services

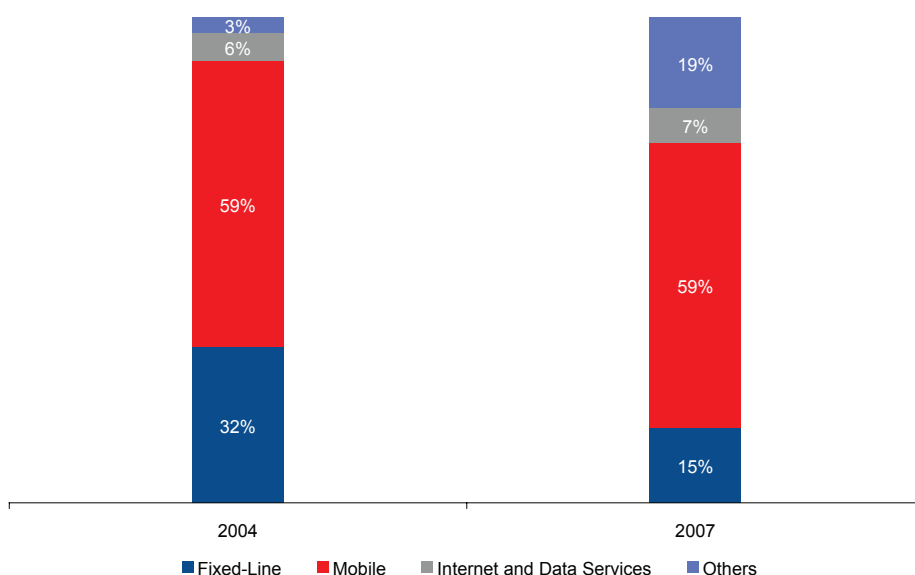
Internet and data services revenue grew by 16% in 2007 to reach OMR 25.6 million compared to OMR 22 million in 2006. This increase is due to the high demand for broadband services.

Others

The most significant growth in other revenues was generated through interconnection services provided to other telecom operators and the sale of network capacity to international operators. After Nawras started operations in Oman in 2005, the contributions of other revenue to total revenues grew from just 3% in 2004 to 19% at the end of 2007.

Figure 18 Dissection of Revenues as of December 2004 and 2007

Fixed-line to total revenue declined from 32% in 2004, to 15% in 2007



Sources: Annual reports, and NBK Capital

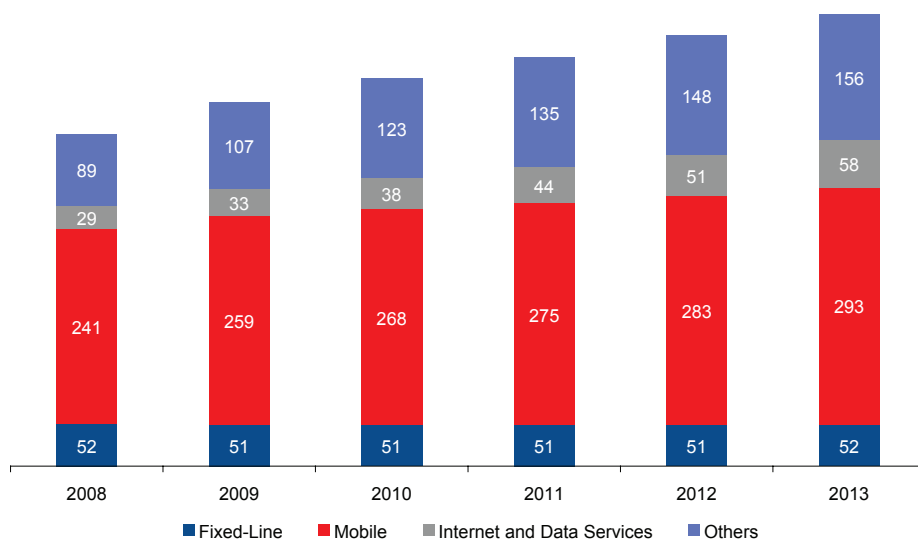
Forecasted Revenues

We forecast Omantel’s total revenues through 2013 by separately projecting the revenues of its different lines of business: fixed-line, mobile, Internet and data services, and others. Figure 19 presents a summary of our revenue forecast, which projects a CAGR of 6% from 2008 through 2013. This marginal growth is due to the decision of the TRA to open up the telecom sector in Oman which implies fierce competition in the market.

- We forecast that the contribution of the fixed-line segment to total revenue will continue to witness a downward trend in the next five years to reach 9% in 2013. Household penetration is already high and subscribers prefer to own a mobile over a fixed line.
- The contribution of the mobile segment to total revenues peaked in 2006 at 60% and then started to gradually decline. We estimate that it will settle at 52% of the total revenues by 2013. This is due to the growth in other revenues that Omantel has been witnessing lately.
- Increased interest in broadband services will boost the growth of Internet and data services. We expect revenues from Internet and data services to increase in the coming five years to reach 10% in 2013.
- As the incumbent operator with a fully built and updated network, Omantel benefited from the presence of Nawras. Omantel is providing wholesale services to Nawras. With the opening up of the telecom market, Omantel will be able to assist new operators, thus we expect the contribution of interconnection and wholesale to total revenues to increase. We expect it to reach 28% of total revenue in 2013.

Figure 19 Segment Revenue Forecast in Millions of OMR

We forecast total revenues to reach OMR 559 million in 2013

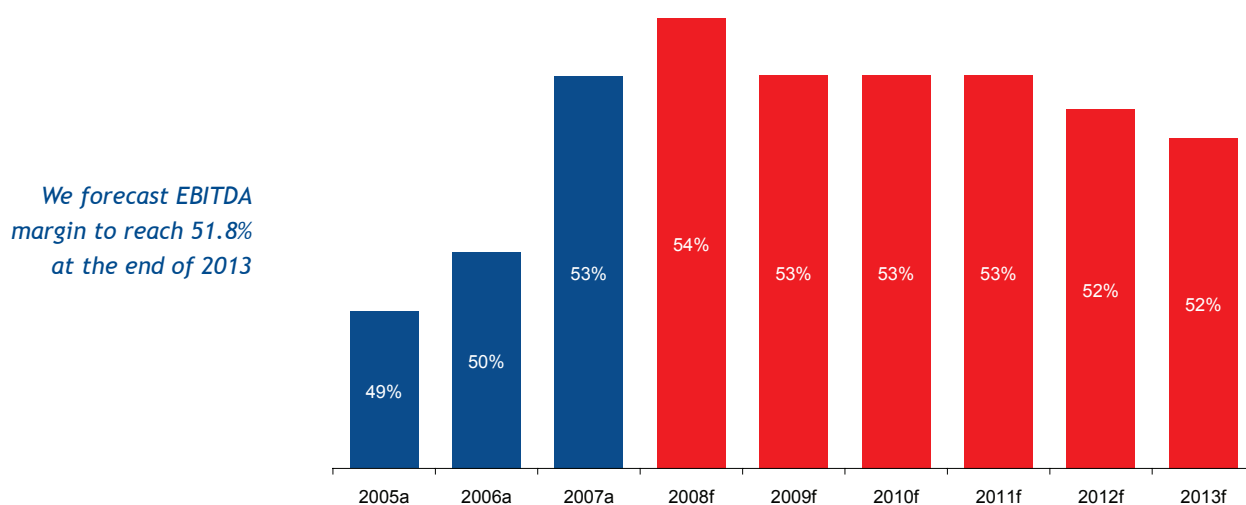


Source: NBK Capital

EBITDA

By the end of 2007, earnings before interest, taxes, depreciation and amortization (EBITDA) totaled OMR 193 million as compared to OMR 161 million in 2006. EBITDA margin improved from 50% in 2006 to 53% in 2007 after the government reduced the royalty fees for mobile and fixed-line services from 12% and 10%, respectively, to 7% for both. In 1Q2008, EBITDA grew by 28% compared to the same period in the previous year. The EBITDA margin went up to 56% in 1Q2008, compared to 50% in 1Q2007.

Figure 20 Actual and Forecasted EBITDA Margin



Sources: Annual Reports and NBK Capital

With the full liberalization that the TRA is planning to implement in Oman, we expect competition to affect all business lines of Omantel. However, the merger of Omantel and Oman mobile, and the potential entry of a strategic investor will help Omantel offset some of the effects of competition on EBITDA margins by reducing costs in general and improving efficiency. We expect the EBITDA margin to decline from 52.9% in 2007 to 51.8% by 2013.

PROFITABILITY

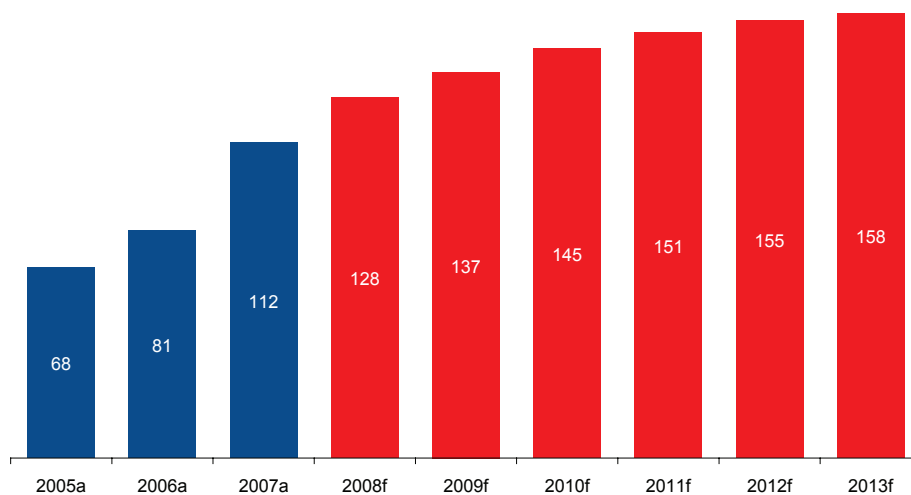
At the end of 2007, the company's net income witnessed a 39% increase from OMR 81 million in 2006 to OMR 112 million, a CAGR of 29% from 2005 to 2007.

1Q2008 was a special quarter for Omantel, as net profit witnessed a growth of 60% compared to the same period last year; it reached OMR 38 million. This growth is mainly due to a decrease in royalty fees.

We expect net income to reach OMR 158 million by 2013, a CAGR of 4% from 2008 to 2013 (Figure 21).

Figure 21 Actual and Forecasted Net Profit in OMR Billion

We forecast Net Profit to grow at a CAGR of 4% between 2008 and 2013



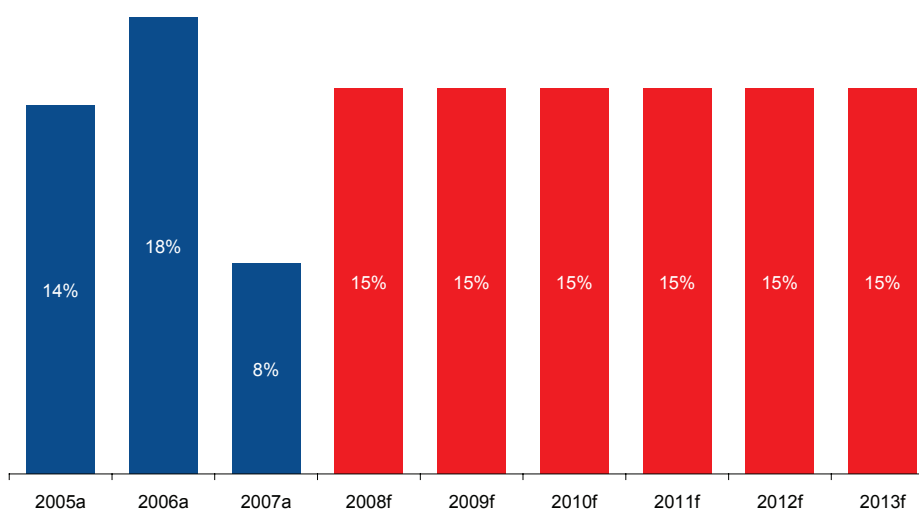
Sources: Annual Reports and NBK Capital

CAPITAL EXPENDITURE

Omantel is still improving its existing network. Next Generation Network layout is still in process. In May 2008, Omantel chose Siemens Nokia to upgrade 90% of its network. The CAPEX at the end of 2007 was OMR 30 million. This constitutes 8% of total revenue. We believe that CAPEX will increase to meet subscriber growth, thus we expect CAPEX to be around 15% of total revenues for the forecast period. Our total CAPEX estimate from 2008 to 2013 is approximately OMR 440 million.

Figure 22 Capital Expenditure % of Total Revenue

We estimate that CAPEX will increase to 15% of revenues



Sources: Annual Reports and NBK Capital

FINANCIAL HEALTH

Borrowing Facilities

At the end of 2007, total liabilities decreased by 14% from OMR 175 million to OMR 151 million. According to management, amounts owed to the government in the form of loan repayments to government, taxation, and royalty charges accounted for 42% of the total liabilities in 2007.

Cash

At the end of 2007, cash and cash equivalents represented 22% of the total assets. Omantel placed 54% of the cash on short term deposit with different commercial banks. The interest rate for these deposits varies from 2.3% to 5.3% per annum and matures between one and three months from the date of deposit.

Dividends

In 2006 and 2007, the dividend payout ratio was 65% and 67%, respectively. A cash dividend of OMR 70 million was approved for 2007 by the shareholders at the annual general meeting held at the end of March 2008. This amount was paid out in April 2008. We expect Omantel to increase its payout ratio to 80% in the coming years.

FINANCIAL STATEMENTS*

Balance Sheet (OMR Thousands)		Historical			Forecast				
Fiscal Year Ends December	2005	2006	2007	2008	2009	2010	2011	2012	2013
ASSETS									
Cash and Short-Term Investments	47,564	54,805	106,383	232,660	273,006	301,795	333,849	368,657	407,491
Total Receivables, Net	28,791	38,159	55,980	63,719	69,658	74,296	78,218	82,643	86,612
Total Inventory	5,189	3,418	3,757	4,440	5,393	5,752	6,661	7,422	8,114
Prepaid Expenses	6,571	4,302	4,557	5,180	6,292	6,711	7,771	8,659	9,466
Other Current Assets, Total	-	-	4,594	4,594	4,594	4,594	4,594	4,594	4,594
Total Current Assets	88,115	100,684	175,271	310,592	358,943	393,148	431,093	471,975	516,276
Property/Plant/Equipment, Total - Net	320,168	313,092	275,315	271,768	270,615	267,210	260,410	250,323	236,079
Intangibles, Net	39,608	36,815	34,022	31,229	28,436	25,643	22,850	20,057	17,264
Long-Term Investments	6,626	6,717	7,808	8,198	8,608	9,039	9,491	9,965	10,463
TOTAL ASSETS	454,517	457,308	492,416	621,788	666,602	695,040	723,844	752,320	780,083
LIABILITIES & EQUITY									
Accounts Payable	1,852	7,284	8,670	9,989	12,134	12,942	14,988	16,699	18,256
Accrued Expenses	16,366	21,823	24,799	28,776	31,458	33,553	35,324	37,323	39,115
Current Port. of LT Debt/Capital Leases	35,757	39,112	13,379	-	15,834	15,834	15,834	15,834	15,834
Other Current Liabilities	91,250	86,815	95,594	100,374	105,392	110,662	116,195	122,005	128,105
Total Current Liabilities	145,225	155,034	142,442	139,139	164,818	172,991	182,341	191,861	201,310
Long-Term Debt	51,527	13,139	-	79,169	63,335	47,501	31,668	15,834	-
Deferred Income Tax	2,129	5,135	5,976	6,275	6,589	6,918	7,264	7,627	8,008
Minority Interest	655	767	980	1,029	1,080	1,134	1,191	1,251	1,313
Other Liabilities, Total	1,741	1,797	2,050	2,050	2,050	2,050	2,050	2,050	2,050
Total Liabilities	201,277	175,872	151,448	227,662	237,873	230,595	224,513	218,622	212,681
Total Equity	253,240	281,436	340,968	394,126	428,730	464,446	499,331	533,698	567,402
TOTAL LIABILITIES AND EQUITY	454,517	457,308	492,416	621,788	666,602	695,040	723,844	752,320	780,083
Income Statement (OMR Thousands)									
Fiscal Year Ends December	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Revenue	270,596	323,632	365,311	411,089	449,405	479,332	504,630	533,182	558,788
Cost of Revenue	11,186	20,091	32,028	36,998	44,940	47,933	55,509	61,849	67,613
Gross Profit	259,410	303,541	333,283	374,091	404,464	431,399	449,121	471,333	491,175
Selling/General/Admin. Expenses	60,249	61,634	67,475	71,941	78,646	83,883	83,264	87,975	92,200
Depreciation/Amortization	55,170	67,341	68,003	71,357	78,098	85,288	92,857	100,855	109,237
Other Operating Expenses	67,235	80,760	72,598	80,574	88,083	93,949	98,907	104,504	109,523
Operating Income	76,756	93,806	125,207	150,220	159,637	168,279	174,092	177,999	180,216
Interest Income (Exp), Net Non-Operating	(55)	(1,851)	3,383	(3,958)	(3,167)	(2,375)	(1,583)	(792)	-
Other, Net	1,079	164	676	-	-	-	-	-	-
Net Income before Taxes	77,780	92,119	129,266	146,262	156,471	165,904	172,509	177,208	180,216
Provision for Income Taxes	9,634	11,011	16,692	17,551	18,776	19,908	20,701	21,265	21,626
Net Income After Taxes	68,146	81,108	112,574	128,711	137,694	145,995	151,808	155,943	158,590
Minority Interest	(375)	(412)	(542)	(553)	(564)	(575)	(587)	(598)	(610)
Net Income	67,771	80,696	112,032	128,158	137,130	145,420	151,221	155,344	157,979
Cash Flow (OMR Thousands)									
Fiscal Year Ends December	2005	2006	2007	2008	2009	2010	2011	2012	2013
Cash from Operating Activities	116,712	158,957	177,932	204,814	220,680	236,418	249,836	261,290	272,189
Cash from Investing Activities	(78,500)	(57,292)	(32,769)	(65,408)	(74,562)	(79,520)	(83,716)	(88,450)	(92,698)
Cash from Financing Activities	(69,430)	(94,424)	(93,585)	(13,130)	(105,772)	(128,109)	(134,066)	(138,033)	(140,657)
Net Change in Cash	(31,218)	7,241	51,578	126,277	40,347	28,789	32,054	34,808	38,834

*Omani operations only. Sources: Annual Reports and NBK Capital



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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				
1	2	3	4	5
Low Risk			High Risk	