

**EGYPTIAN COMPANY FOR MOBILE SERVICES
(MOBINIL)**



**INDEPENDENT FINANCIAL ADVISOR
FINAL REPORT**



**PRIME CAPITAL
INVESTMENT BANKING**

The information included in this IFA Report is subject to change or amendments without prior notice

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Independent Financial Advisor Report

The Egyptian Company for Mobile Services (Mobinil)

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Executive Summary

The Egyptian regulator required the Company to assign an Independent Financial Advisor (IFA) to provide a valuation report for the Company. As such, Prime was mandated to prepare a IFA Report for Mobinil based on Prime's analysis of the Company's financial performance in the future. Accordingly, Prime prepared 5-year financial projections for the Company including investment cost requirements and resulting projected income statements, balance sheets, cash flow statements, and associated financial ratios based on the information provided from and discussions with Mobinil's Management regarding its future financial performance and operation.

Valuation Methodologies

Many methods can be used to value a company. In reality business valuation is often a combination of these different approaches. Our valuation is derived from the following methods:

- A. Discounted Cash Flow (DCF) Valuation.
- B. Comparable Valuation based on EV/EBITDA multiples for listed telecom companies.
- C. EV/EBITDA multiples for the latest acquisitions in the telecom sector.
- D. Greenfield Proxy: a value indicator that we opted to use is the cost of establishing a wireless Greenfield operator in Egypt and developing it to become similar to that of Mobinil's in terms of capacity and current number of subscribers.

Based on the above valuation methodologies we have derived Mobinil's fair value under two scenarios:

I. First Scenario: Fair value for a portfolio investor:

For a portfolio investor, Mobinil should be valued in the range of EGP 263-265 per share, which are the fair values derived from EV/EBITDA median of comparable listed operators and the company's DCF, respectively.

II. Second Scenario: Fair value for a strategic investor:

Mobinil is a strategic addition to the subsidiaries of any telecom operator. Thus, the price paid for controlling an asset with the quality of Mobinil in a market such as Egypt should be higher than that paid by a portfolio investor who is a minority investor with no strategic interest or control. We believe that Mobinil should be valued in the range of EGP 283-337 per share derived from the Greenfield proxy calculation detailed in the valuation section of this report and the share price implied by the median EV/EBITDA multiple of recent acquisitions in the telecom sector.

It is worth noting that we have avoided using any subjective measures to reach the acquisition range of Mobinil as we have directly applied the median multiple without special considerations to the higher profitability of Mobinil or the fact that it is the market leader with the highest market share.

Figure 1&2: Fair value ranges under the two scenarios:

EGP per Share	Median EV/EBITDA Multiple of comparable listed operators	DCF
Range of fair value for a portfolio investor	263	265

Source: Prime's Estimates

EGP per Share	Greenfield Proxy Calculation	Median EV/EBITDA multiple of recent acquisitions
Range of fair value for a strategic investor	283	337

Source: Prime's Estimates

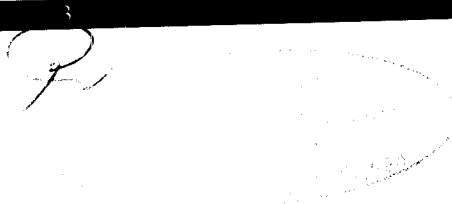
Detailed assumptions for each of the above valuation methodologies:

A. DCF Valuation

An equity value of EGP 26.49 billion is reached, translating into a value per share of EGP 264.9.

The Capital Asset Pricing Model (CAPM) is utilized, assuming a constant risk free rate of 10.24%, over the forecasted period based on average yield for traded medium term T-Bonds, and a beta of 0.83, the most conservative beta for Mobinil sourced from Bloomberg. Additionally, a 5.5% market premium is applied. Consequently, cost of equity stood at 14.81%. Moreover, a perpetual growth rate of 2% is applied to calculate the terminal value.

The DCF Model identifies the net present value of the company's operating free cash flows by discounting them at the weighted average cost of capital (WACC). The free cash flow is calculated by

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subtracting the funds needed for financing the growth of the Company from its net operating profit less adjusted taxes. Using the DCF Model and applying a variable WACC with an average of 11.36% throughout the projection period, an equity value of EGP 26.49 billion is reached, translating into a value per share of EGP 264.9.

Figure 3: DCF Valuation Table

EGP 000		Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Perpetual
Free Cash Flow.....		(310,048)	3,545,994	3,980,799	4,278,874	4,462,492	-
Present Value of Cash Flows...	10,841,655	(279,240)	2,859,053	2,881,245	2,788,427	2,592,170	-
Continuing Value.....		-	-	-	-	-	34,489,664
Present Value Of Continuing Value	20,034,335	-	-	-	-	-	20,034,335
Value Of Operations.....	30,875,990						
Adjustments for Intra-year.....	1.00						
Adjusted Value for Operation...	30,875,990						
Add: Excess Cash.....	668,243						
Entity Value.....	31,544,233						
Less: Value of Debt.....	5,055,600						
Shareholder Value.....	26,488,633						

Source: Prime's Projections

B. Fair Value based on Relative Valuation of Listed Comparables

Based on the median trading multiples of an EV/EBITDA of 6x, Mobinil should be valued at a price per share of EGP 263.

It is worth noting that we prefer to use EV/EBITDA multiple as the base for our comparison since it is the most relevant multiple to the operational performance of any company before being distorted by financing decisions as in the case of PE multiple or dividend policies as in the case of PBV multiple.

Figure 4: Median EV/EBITDA of Comparable Listed Companies & their Profitability Margins

	EV/EBITDAx	ROS%	EBITDA Margin*
Median	6.0	14%	36%
Mobinil	5.6**	18%	48%

Source: Bloomberg

*Based on trailing 12 months for the sector

** Based on a price of EGP 245 per share for Mobinil

Global telecoms trade at an EV/EBITDA of 6x, 6.4% higher than Mobinil's EV/EBITDA of 5.6x when calculated on a price of EGP 245. This earns Egyptian telecoms a valuation premium due to following sector specific reasons since in comparison to the rest of the operators, the Egyptian telecom sector enjoys:

- 1) Relatively low penetration of 69.84% when compared to penetration levels exceeding 100% in many of the countries in our comparable universe which will be translated into relatively larger room for growth.
- 2) Higher profitability margins for the operators in the sector reflected in an EBITDA margin and ROS of 48% and 18% for Mobinil respectively for trailing 12M EBITDA% and ROS%, compared to a sector median of 36% and 14% EBITDA margins and ROS respectively.

C. Fair Value Based on Comparable Multiples for the Latest Acquisitions in the Telecom Sector

Applying the median EV/EBITDA multiple to Mobinil of 7.45x renders a price per share of EGP 337.

It is worth noting that we have avoided using any subjective measures to reach the acquisition price of Mobinil as we have directly applied the median multiple without special considerations to the higher profitability of Mobinil or the fact that it is the market leader with the highest market share.

Figure 5: Median EV/EBITDA of Recent Telecom Acquisitions & their EBITDA Margin

	EV/EBITDA	EBITDA%	Penetration Rate
Median	7.45	41%	62%
Mobinil (column 1&2 only)	5.6*	47%**	69.8%***

Source: Reuters and acquisition reports

* Based on a price of EGP 245 per share for Mobinil

** Mobinil's estimated EBITDA end 2009

*** Penetration rate as per the NTRA in Sep 2009

Recent M&A activities in the global telecom market have reached high multiples in some places marking an EV/EBITDA of around 8.4x in Morocco which, in our opinion, is the most recent and most comparable deal to an acquisition in the Egyptian telecom sector. The high multiples could be explained by the following:

- 1) Scarcity of telecom licenses both fixed and mobile;
- 2) Unavailability of markets with growth potentials due to saturation in penetration rates;
- 3) Defensive nature of the telecom industry has earned investors maintained demand despite of the credit crunch, on the contrary to most of the industries which experienced and yet to experience subsiding demand;
- 4) Operators in developing countries should trade at a higher EV/EBITDA to their comparables in developed markets since they present a potential on two folds. First, a short term growth in subscribers over the next 3 years where such economies will exceed penetration rates of 100%. Second, a growing migration in technology where smart phones and DSL unsaturated penetration rates, hence value added services (VAS) profitability is still in its infancy stages. VAS is another source of growth yet to be explored in developing countries when compared to developed countries which have already started witnessing an upward inflection in their growth rates derived from the expansion in their VAS.

The above table includes the median of most of the published telecom acquisitions that took place during 2008 and 2009. EBITDA margins, EV/EBITDA multiples and penetration rates of the deals included in the median are snapshots at the time of acquisition. As shown, the median EV/EBITDA multiple for acquisitions is 7.45x, with EBITDA margins of acquired entities roaming around the median of 41% and penetration rates of around 62%.

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D. Value Indicator based on the Greenfield Proxy Exercise

An investment of EGP 28.3 billion is required to establish a wireless operator with the size of Mobinil translating into EGP 283 per share.

In an another attempt to value Mobinil, we have run an exercise to calculate the cost of establishing a wireless Greenfield operator in Egypt and develop it to become similar to that of Mobinil's in terms of capacity and current number of subscribers.

The assumptions we used to reach a ballpark figure for the investment cost were as follows:

- 1) License upfront fee paid by Etisalat to acquire the third license as a proxy for the license fee.
- 2) The net book value of Mobinil's fixed assets as estimated by the end of 2009.
- 3) The estimated Subscriber Acquisition Costs (SAC) per sub multiplied by 25m subscribers, the ending subs balance of Mobinil in 2009.
- 4) The revenue share payable by Etisalat to the NTRA on an annual basis applied to Mobinil's revenues from 2010 until the maturity year of Etisalat's license and discounted to its present value.
- 5) We deducted the present value of the amount payable by Mobinil in 2010 for its 3G license.

It should be taken into consideration that this value excludes any subjective measures which include several facts such as:

- 1) Mobinil is the market leader with a market share of 46.1% as per the NTRA disclosures by the end of 3Q09.
- 2) Mobinil is one of the most profitable telecom assets worldwide with an estimated EBITDA margin of 47% by the end of 2009.
- 3) The above calculation does not attribute any value to Mobinil's brand equity or the highly qualified staff members that took Mobinil more than 10 years to build and retain.
- 4) The potential growth yet to be seen in the Egyptian market due to its relatively low penetration rates and yet to be seen expansion in VAS.

A handwritten signature in blue ink is written over a circular stamp. The stamp contains some illegible text and a central emblem.

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