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Egyptian Company for Mobile Services S.A.E. (Mobinil)

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Rating Table:

Category	Current Rating	Previous Rating*
Entity Rating: Senior Unsecured	A+	A+
Bond Rating: Senior Unsecured	A	n.a.
Rating Outlook	Stable	Stable

Operating Statistics:

Figures in EGP mn	1H09*	FY08	FY07	FY06
AROA %	14.1	16.6	20.9	22.1
AROE %	75.9	98.6	107.9	96.4
EBIT Margin %	30.8	31.8	28.9	33.0
EBITDA	5,136.5	4,836.6	3,667.8	3,215.6
EBITDA Margin %	49.2	48.8	44.5	50.5

* Annualized Figures
NB: EBITDA and EBIT figures exclude provisions and provisions no longer required figures.

Balance Sheet Statistics:

Figures in EGP mn	1H09*	FY08	FY07	FY06
Turnover	10,430.0,	10,003.0	8,247.8	6,362.1
Total Assets	13,629.6	13,657.7	10,053.4	7,375.9
Debt/EBITDA(x)	1.1	1.1	1.1	0.6
EBITDA/Interest Ex. (x)	6.5	8.2	29.6	19.4

* Annualized Figures
NB: EBITDA and EBIT figures exclude provisions and provisions no longer required figures.

Opportunities/Strengths

- Leading position in the Egyptian mobile phones market, with a strong and reputable brand name.
- Strong and reputable shareholders, having a strategic interest in their Egyptian operations.
- Room for growth in the local mobile market.
- Focus on organic growth at home market.
- Healthy profit margins and relatively low debt financing profile.
- Low doubtful receivables given the predominance of pre-paid customers.

Risks/Weaknesses

- Uncertainty with regard to the company's shareholding structure going forward in view of the pending arbitration case between its two shareholders.
- Increasingly competitive operating environment following the entry of the 3rd mobile operator in Egypt, which may put pressure on margins and market share.
- Further growth implies penetrating the low end market, which might result in lower ARPU.
- High dividend distributions to meet the shareholders return expectations; coupled by significant capex requirements to support the needed capacity expansion affects free cashflow position.
- Existing disputes with the Regulator and further reduction in termination rates might put downward pressure on margins; at the same time they might affect the traffic shift from mobile to fixed line.
- The high level of prepaid implies risks of high churn rate and lower value subscribers. However, this is the nature of the mobile market in Egypt, where 97% of the market is pre-paid.

This Analysis provides a discussion of the factors underpinning the credit rating

Company Profile

The Egyptian Company for Mobile Services (ECMS) is the leading wireless telecom service provider in Egypt. ECMS operates under the brand name Mobinil and has 24.65mn subscriber as of September 2009 (20mn as of December 2008), which translates into approximately 44% of market share. Its network of 3,800 sites and 34 switches currently covers most of the urban areas in Egypt, or 99.66% of the population.

ECMS was initially established in November 1997 by the state-owned Arab Republic of Egypt National Telecommunication Organization (ARENTO), which was succeeded by Telecom Egypt. The company commenced its operations in May 1998, when all the mobile-related assets of TE were sold off to Mobinil Telecommunications, a consortium comprised of one local and two international telecom giants, Orascom Telecom Holding (OTH), France Telecom (FT), and Motorola. Currently, the company is owned by two of its founding shareholders (Refer to Annex 1), OTH (rated B1 on a global scale rating, negative according to Moody's) and FT/Orange Group (rated A3 on a global scale rating, stable according to Moody's), with direct and indirect ownership of 34.6% and 36.4% respectively. The remaining 29% of the shares represent free float. Mobinil is listed in Egypt Stock Exchange and is considered one of the most actively traded companies in the market.

Summary Rating Rationale

Mobinil's ratings are based on the company's well-established brand and leading position in the Egyptian mobile market with a 44% market share in 3 mobile operators market. The low telecom penetration rate of around 70% as of June 2009 suggests a growth potential, which Mobinil is well positioned to take advantage of. Apart from its strong business position, the ratings also take into consideration the company's solid balance sheet, healthy profitability and good operational cash flow. On the negative side, the rating factors the risks associated with a high dividend policy and the need to continue to reduce its operating costs in an increasingly competitive market. The company's rating is also constrained by the uncertainty over the possible outcome of the arbitration case between the two shareholders. Another challenge facing the management is the increasingly difficult balancing act between meeting the shareholders' high return expectations, investing heavily in the business, and maintaining a healthy leverage position.

Key Rating Considerations

BUSINESS RISK FACTORS

FACTOR 1: Size, Scale, Business Model and Competitive Environment

Mobinil is a leading mobile operator in Egypt. It is the largest national player in terms of subscriber base, with more than 24.6mn customers across the country (44% market share), as of September 2009. Despite the moderate size and scale of the business by industry norms, Mobinil still enjoys some of the benefits of larger companies by making use of the strength and size of its major shareholders - FT and OT, when making equipment purchases and entering into roaming agreements. Furthermore, Mobinil's commercial and marketing departments maintain strong links with their counterparts at FT and OT, sharing best practice and market knowledge. Thus, the relationship with its main shareholders gives the company some additional strength, beyond that of a pure national player.

In terms of business model, Mobinil is a national wireless operator with a focus on growing its operations organically and with no appetite for regional or international expansion. In general, **MERIS** views a mobile only operation as a less robust business model than a fully integrated telecom. Integrated players have sounder platforms for adopting a range of new products and benefit from the diversity of their business risks. Nevertheless, pursuing an integrated business model in Egypt is currently not an option for the wireless operators, as long as Telecom Egypt remains the sole provider of fixed-line services. The auction of a second fixed-line operator license has been postponed a number of times by the government, and will probably not materialize any time soon in view of the currently difficult economic situation worldwide.

Furthermore, the wireless mobile operators in the country are prohibited from participating in the 2nd fixed line process, although their shareholders are not subject to the same restrictions. With equal note, the government offered in September three licenses for combined cable television, telephone and internet licenses (Triple Play); which is according to management is not anticipated to have significant impact on mobile operators.

Notwithstanding the abovementioned, Mobinil is well-positioned to take advantage of the huge growth potential of the Egyptian mobile market. Although mobile market penetration in Egypt has shown rapid growth in recent years rising from some 11% in 2004 to around 70% in mid 2009, it still remains well below that of many regional peers, suggesting further opportunities for growth. The Egyptian market comprises a large number of low-spending pre-paid customers, who currently account for approximately 97% of the total subscriber base as of June 2009.

Competitive pressures in the Egyptian mobile market have intensified significantly following the entry of the 3rd mobile operator in the market in May 2007, which broke the duopoly previously enjoyed by Mobinil and Vodafone. The launch of the commercial operations by Etisalat Misr has resulted in loss of market share for the existing operators. However, the impact on Vodafone's position has been more pronounced, given that both Vodafone and Etisalat are competing on the technological front. Mobinil has tried to differentiate itself by pursuing a customer-oriented, rather than a technology-oriented strategy. It is perceived as the only real Egyptian operator and the management intends to maintain and develop this image of customer intimacy.

Going forward, Mobinil intends to focus on maintaining its market share leadership by growing its subscriber base steadily, as well as developing the usage of voice and messages inside its existing customer base. Operationally, the company aims at improving its cost and capex efficiency, while upgrading its network capacity and making rational investments in new technologies.

Mobinil offers a diversified product mix covering both the corporate and retail market segments. With regard to the retail segment it pursues a dual strategy, targeting both the lower and higher ends of the market. Staying close to the customers, understanding their needs and creating the right products to address the clients' different needs is at the core of Mobinil's commercial strategy. Voice telephony is the main revenue stream for Mobinil, but the company also provides other services including mobile broadband and mobile TV after the recent rollout of the 3G network. Going forward, the company will continue expanding in non-organic and value added services to compensate for the expected decline in its core business. In 2009, the company penetrated the internet market by adding 100,000 subscribers, capturing 35% of this segment. With equal note, management is also counting on the Mobile Wallet - a service which will be launched before the end of the year - to address new customers with different needs.

Factor 2: Operating Environment

(a) Regulatory Framework

In **MERIS**'s view, the regulatory environment in Egypt is still somewhat volatile with a considerable degree of uncertainty. Liberalization of the Egyptian telecom market started in 1998 through the issuance of two mobile network operating licenses. Furthermore, 1998 saw the establishment of the Ministry of Communications and Information Technology (MCIT) with the responsibility of developing Egypt's ICT infrastructure, stimulating the knowledge economy and forging an e-government strategy and a legal framework that is in line with international digital requirements. Liberalization was further advanced by the Telecommunication Regulation Law (No. 10) of February 2003. The law rests on four main pillars: information disclosure, free competition, the provision of universal services, and user protection. A central aspect of the law was the creation of the National Telecom Regulatory Authority (NTRA), which replaced the Telecom Regulatory Authority (TRA) in 2003 and took over all the regulatory functions as an independent regulatory authority.

The NTRA grants all telecommunication operating licenses. Since 2003, it has awarded over 20 licenses to operators who offer telecom services to the Egyptian market, including mobile, payphone, prepaid calling cards, internet, data and VSAT (satellite) services. The NTRA has also announced an auction for a second fixed-line license; however, so far the tender has been postponed three times and might remain on hold for long, given the current status of the global economy. As we highlighted earlier, the government announced in 3Q09, the bid for the Triple Play license)Gated Community License) ………..

While liberalization has been progressing relatively smoothly, criticism has centered on the overprotection of the incumbent telecom operator. Among some of the challenges to the liberalization process is the role of the Minister in overseeing both the regulator and Telecom Egypt, a dual role that makes for a difficult balancing act.

The intricate position of the regulator has been played out in the recent interconnection dispute between Mobinil and Telecom Egypt (TE). The NTRA had sided with TE's decision to lower its fixed-to-mobile termination rates, despite the existing effective agreement between TE and the wireless operator. Mobinil has appealed the decision and has filed a law suit against the NTRA to resolve the interconnection dispute. Both law suits are currently on going. As a counteraction, TE is allegedly asking for EGP 2bn in compensation. The legal counsel considers Mobinil to be in a strong legal position, nonetheless, the overall position still remains uncertain. While the above-mentioned contingent liability is considered a significant exposure, thanks to the strong funds flow from operations, **MERIS** believes that the implications of such a contingency (if applicable) on Mobinil's financial position will be moderate. From an operational perspective, the continuous decline of interconnection rates is perceived as a main threat to the wireless operator, putting downward pressure on its revenues and returns. Furthermore, the implication of the new regime changing consumer behavior is considered another concern, as it might result in a traffic shift towards the fixed-line service, which will again negatively affect mobile operators.

(b) Technology Risk

MERIS's ratings take into consideration a company's exposure to technological advancement and how well positioned it might be in handling such developments. The ratings also factor in the potential capital expenditure implications of any technological improvements and advances.

Mobinil continues to be in a highly expansionary phase with sizeable capex requirements. In October 2007, Mobinil acquired a 3G license from the NTRA following the purchase of such by the other two wireless operators in the market. In addition, it extended its existing licenses to end with the new 3G license in 2022 against a total consideration of EGP 3.7bn and an ongoing license payment of 2.4% of total revenues less certain cost items. The need to extend the life of its existing 2G license and increase its network capacity, as well as the necessity to remain competitive in the higher value customer segment, were the main drivers behind the management's decision to purchase a 3G license. In Egypt, the 3G service still has a limited appeal due to the high handset costs and narrow content availability. Therefore, it can hardly be expected to reach critical mass in the near future and enhance profits significantly. Nevertheless, Mobinil began offering 3G services in September 2008, and is progressively establishing 3G connectivity. Currently it maintains pockets of 3G connectivity within major cities. Capital expenditure commitments associated with the roll-out of a 3G network are not expected to exceed 10% of total capex, given the still limited network capacity requirements. Thus, the bulk of the expected capital expenditures will be used to upgrade and expand the company's existing 2G network.

(c) Market Share

With approx 23mn subscribers, Mobinil is the uncontested market leader in the Egyptian wireless market, accounting for 1H09 44.06% of the subscribers' base. The balance belongs to Vodafone (39.27%), and Etisalat (16.67%). Prior to the entry of the 3rd GSM operator, the market was split almost equally between Mobinil and Vodafone, with Mobinil enjoying a slim lead.

Mobinil's subscriber base remains mostly prepaid, with post-paid customers accounting for only 2.9% of all subscribers. The rapid expansion of prepaid services in the market has been the main tool for the operators in their quest for expanding their respective market shares. The increasing prominence of prepaid tariffs, however, has been reflected in the operators' declining ARPU levels, as prepaid spending levels are 6-7 times lower than postpaid levels. This stark difference in spending levels between the two market segments illustrates the acute need for operators to improve their subscriber mixes and introduce new services. Both Mobinil and Vodafone have approximately the same number of postpaid customers.

However, given Vodafone's narrower customer base, it appears to have a better subscriber mix, as illustrated by its higher ARPU levels. At the end of 2Q09, Mobinil's global ARPU had fallen 11% y-o-y, from EGP 46 down to EGP 40. The decline in blended ARPU was driven mainly by a drop in postpaid ARPU, which fell by over 17% y-o-y – to reach EGP 219/user - vs. only a 6% drop for prepaid ARPU to reach EGP 33/user. Vodafone's blended ARPU was down by close to 23.45%, reaching LE 47.6.7vs. EGP 62.1 a year ago. Unlike Mobinil, however, Vodafone's decreasing ARPU was driven mainly by a decline in postpaid ARPU, which drop nearly to 22.9% y-o-y, while Vodafone postpaid ARPU fell by only 20.9%. It is notable that although Mobinil ARPU figures are relatively lower than its main competitor, nonetheless, the harshness of the drop is in the favor in Mobinil. Going forward, Mobinil's main commercial target will be to regain its leadership in the high value segment, where it has to compete fiercely with Vodafone.

Factor 3: Management's Financial Strategy

For the six month ended June 2009, Mobinil generated EGP 5.2bn of revenue and EGP 2.6bn of EBITDA (EGP 10bn and 4.8bn, respectively as of December 2008). So far the company's financial strategy has been to increase its financial leverage, while maintaining 100% dividend payout as long as financial conditions made it possible, and also to invest heavily to rollout the 3G network and further upgrade and expand its existing 2G network. The company's financial flexibility comes mainly from the ability to cut back its dividends or scale back on its infrastructure investments in case of any delays or difficulties in obtaining the necessary lines of credit.

In terms of expansionary strategy, the company remains committed to its growth within Egypt, with no appetite for further diversification by embarking on a regional expansion. In view of the still low GSM penetration rates in the Egyptian market as well as Mobinil's well-established position and strong brand recognition, the domestic wireless market is still considered attractive, holding significant opportunities for organic growth.

MERIS would like to note that the outcome of the difference of opinion between the two main shareholders of ECMS – FT and OT –in their capacity as owners of 100% of the shares of Mobinil, which owns 51.03% of ECMS' shares, is still not clear. The initial disagreement was caused by the two owners' differing views in 2007 on the company's operational tactics in preparation for the entry of the 3rd GSM operator. The ensuing arbitration ended up with the arbitration tribunal instructing OT to sell its stake in the Mobinil holding company to FT. Till date, the share transfer did not materialize, pending an offer from FT for the entire share capital of ECMS. After several rejections, FT's mandatory offering to minority shareholders was approved on December 10, 2009 by the Egyptian Financial Supervisory Authority (EFSA) and its validity period ends on January 14, 2010. OT filed a petition against the EFSA approval. The timeframe for definitively resolving the difference of opinion is not clear yet.

So far, the difference of opinion has had no impact on the day-to-day management of the operator. While the difference of opinion raises some uncertainty with regard to the possible outcome, **MERIS** believes that whatever the outcome may be, the operator will remain committed to its management strategy and financial targets.

The company's cash flow position has been under pressure over the past years as it has used its financial flexibility to increase shareholders returns and sustain its competitive position. Historically, Mobinil has been following a high dividend payout policy to meet its shareholders' objectives. The company's cashflow has also been used to support the high capex and investment requirements, especially those associated with the payment of the 3G license and network upgrading. The company's high dividend payout policy, coupled with the capital intensive nature of the industry, as well as the uncertainty in the banking sector, may constrain Mobinil's financial flexibility to an extent. Going forward, the company's management has affirmed its commitment to balance the shareholders' high return requirements with the need to maintain a healthy debt profile. Accordingly, the company will be flexible in reviewing the future strategy based on market, economic and funding conditions.

Management strategy and tolerance for financial risk will directly affect its debt level and credit quality and is therefore paramount for the rating grade.

FACTOR 4: Operating Performance

Mobinil stands in a strong position in this category, reflecting healthy EBITDA margins over the last years. However, the company's profitability is expected to be negatively affected in the future as a result of intensified market conditions, high capex and investment expenses, and the uncertainty in the macro economic conditions. Nonetheless, based on the management assumptions and given the recently implemented operating efficiency schemes, the negative impact on the profitability is expected to be contained and EBITDA margins should be maintained around their historical level.

Revenue Improvements Continue Driven by Organic Growth

Mobinil generated EGP 5.2bn revenues in 1H09 up from EGP 4.7bn on a y-o-y basis. The strong revenue growth was backed by Mobinil's expanding customer base (1H09: 23mn subscribers with 23% increase over the same period), and by the drop in tariff rates, especially for prepaid customers, which had a positive impact on usage rates. In its earnings release for the 3rd quarter ending September 2009, management reported revenue and EBITDA figures of EGP 8.0bn and 3.8bn, respectively; corresponding to 9% and 14% growth rate at the same period. EBITDA margin was maintained within the same range (47.5%). Going forward, the growth pace is projected to slow down significantly due to the competitive environment and the growth base of the industry.

Figure 2: Revenue and Profitability

Figures in EGP mn	1H09	FY08	FY07	FY06
Revenue	5,215.0	10,003.0	8,247.8	6,362.1
Growth (%)*	11.0	21.3	28.9	18.6
EBIT	1,605.2	3,173.3	2,381.9	2,101.7
EBITDA	2,568.3	4,836.8	3,667.8	3,215.6
EBITDA Margin (%)	49.2	48.4	44.5	50.5
Operating Profit Margin (%)	30.8	31.8	28.9	33.0
Interest Expense	(394.3)	(586.6)	(124.0)	(165.9)
Interest Income	15.6	40.4	29.6	34.7
Net Income	959.7	1,969.0	1,823.8	1,526.0
Net Income Margin (%)	18.4	19.7	22.1	24.0

* Y-o-Y Basis
NB: EBITDA and EBIT figures exclude provisions and provisions no longer required figures
Net Income Figures after deducting Minority Interest

...... Operating margins have also been maintained within the same range

With regard to operating margins, as the table above summarizes, Mobinil has consistently reported a strong EBITDA margin – within 49% range. The improvement in operating performance was driven from the control measures management initiated to arrest the expected slow down trend; the counter effect mainly come through the operating cost efficiency scheme, which was initiated early last year and focuses on maintaining items which exhibit a higher rate of increase than that of the revenue. According to management and results, this program has proven to be successful so far. On the other hand, net income margin pressure is evident, too, due to the increase in interest expenses. despite the fact that management projected operating margins to be maintained within the same range, **MERIS** believes that the sustainability of this level of profitability in the short to medium term is questionable for a number of reasons, including: the 2.4% revenue sharing agreement associated with the 3G license, which will be paid to NTRA annually starting from FY09, intensified competition, along with the uncertainty in the macro-economic conditions.

In terms of revenue mix, prepaid continues to be the company's focal point accounting for more than 97% of customer base and corresponding to an average of 78% of revenue as of June 2009; a pattern that is expected to continue in the future. It is worth mentioning that due to the price cuts and management efforts to redesign the offered products, the prepaid bracket contribution to total revenue has improved notably since mid FY06, when prepaid accounted also for 97% of the customer base, but generated only 37% of total revenue. The price per minute dropped gradually from EGP 1.75/minute to less than EGP 0.4/minute over the last years, which had a positive impact on blended AUPU (increased by 24% over last two years to stand at 161 Minutes in 2Q09). Despite the improvement, ARPU figures decreased to drop to EGP 40/user in 1H09, reporting 15% decrease on a Y-o-Y basis (FY08: EGP 46/user). By service type, voice revenue is considered the main revenue driver, accounting for more than 80% in 1H09. Despite the fact that the share of non-voice and other revenues registered a slight increase, voice revenue will continue to be the dominant revenue driver, since the Egyptian consumer is mainly voice oriented.

Roaming revenue comes next with 3% of revenue in 1H09 (FY08: 5%), while other revenue and non-voice revenue account for the remaining balance. The decline in roaming figures attributed to the financial crisis, coupled by the intensified global competition, a practice which is foreseen to continue in the future.

In general, Mobinil has been more aggressive in terms of customer acquisition – especially in the middle and lower-end segments, which jeopardizes its ARPU figures as well as its profitability margins to an extent. This feature of Mobinil's business model was evident in the company's relatively lower profitability figures compared to its peer group (Vodafone's global ARPU figures stand EGP 47.6 in 2Q09). **MERIS** believes that going forward the company's margins will remain under pressure as Mobinil's future growth will continue to be driven mainly through further penetration of the middle and lower-end segments as with its competitors.

FACTOR 5: Financial Strength

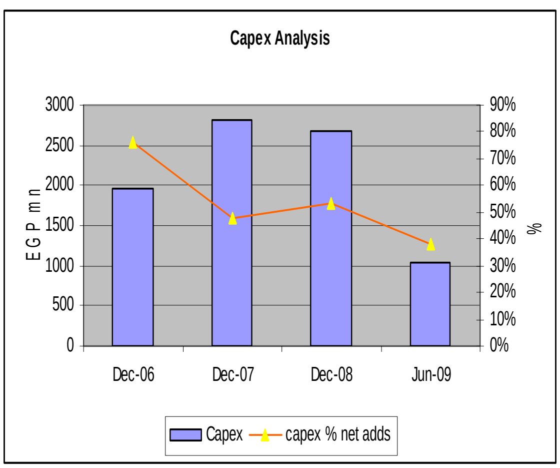
Improvement in EBITDA Figures; Nonetheless, Net Free Cash Flow Has Remained Negative

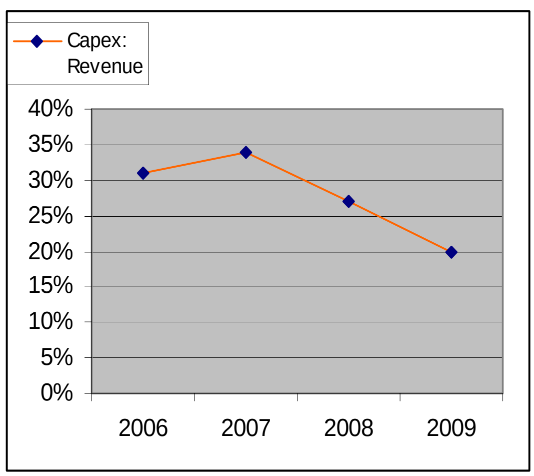
Figure 3: Cash Flow & Coverages

Figures in EGP mn	1H09	FY08	FY07	FY06
EBITDA	2,568.0	4,836.8	3,667.8	3,215.6
Working Capital	(531.0)	(508.5)	(479.1)	(162.2)
Tax	(208.1)	(354.7)	(376.3)	(381.1)
Interest Paid	(394.3)	(586.6)	(124.0)	(165.9)
CAPEX and Investments	(1,207.8)	(3,589.9)	(3,283.6)	(2,119.5)
Dividends Paid	(709.2)	(1,196.8)	(1,771.0)	(1,501.3)
Net Free Cash Flow	(482.5)	(1,399.7)	(2,366.2)	(1,114.3)
RCF/Capex (x)	1.0	0.9	0.3	0.7
EBITDA / Interest Expenses (X)	6.5	8.2	29.6	19.4

As mentioned earlier, EBITDA figures have shown a continuous improvement in recent years, nevertheless, Mobinil's cash flow position was affected by the excessive cash outlays related to the company's aggressive expansion plan and high dividend distribution. In **MERIS's** view, the cash flow metrics will remain pressured in the coming year until the full payment of the 3G license fees. As highlighted earlier, management might have to cut down dividends and possibly scale down or hold off its capex and investments should market conditions make such cash preservation tactics necessary.

.... Aggressive investment and capital expenditure (capex) plan to match the strategic plan





For the past three years, Mobinil has been following an aggressive expansion plan in order to sustain its competitive market position. This was reflected in the considerable cash outlays to support its capex requirements, as well as the payments for the 3G license acquisition. Capex and license payments in FY07, FY08 and 1H09 were EGP 3.3bn, EGP 3.6bn and 1.1bn, respectively. The outlook for the capex/investment plan is to continue the trend peaking in FY10 when it is projected to reach EGP 4.5bn. As highlighted earlier, the investment plan is split between capex requirement and license fees. The latter amounts to EGP 3.35bn, EGP 750mn of which was paid up front in FY08, and the remaining balance is to be settled in three annual installments by 2011. As part of the license agreement, Mobinil's is also obliged to pay annually to NTRA 2.4% of total revenue less certain cost items for the life of the license. Going forward, management has projected that the 3G roll-out will be maintained within 10% of capex figures.

Capex figures comprise growth in additions, network coverage, and non-network needs. As the graphs above illustrate, capex compared to operating activities, as measured by capex to revenue peaked in 2007. In 2008 it stood at 27%, and is expected to bottom down at 11% in 2014.

As of June 2009, the total number of sites stands at 4,059, compared to 3800 sites in FY08, while the number of gateways and stations increased to 35 facilities at the same reporting period.

.... Aggressive dividend policy, pressuring free cash flow position

As highlighted earlier, Mobinil had an aggressive dividend policy, distributing more than 90% of its profit after deducting legal and statutory reserves. Despite the fact that management has shown commitment to reviewing the distribution policy in case of any distress, **MERIS** recognizes the difficulty of the task given the importance of Mobinil's dividend distributions to its shareholders' and is concerned about the possibility of leveraging the company up.

In terms of coverage, Mobinil's position dropped sharply to 6.5x in 1H09 down from almost 30x in FY07. The reason behind that was the higher debt level linked to network enhancement, license fees and working capital requirements. Nonetheless, the coverage ratio remains healthy, thanks to the strong EBITDA figures.

Debt Profile Was Leveraged-up, a Trend which Will Continue

Figure 4: Financial Leverage

Figures in EGP mn	1H09	FY08	FY07	FY06
Short-term Debts	373.5	702.0	696.7	492.8
Long-term Debts	5,034.9	4,848.1	3,432.8	1,775.6
Total Financial Obligations	5,408.4	5,550.1	4510.4	2,668.4
Cash and Cash Equivalent	314.4	650.0	414.9	285.3
Net Financial Obligations	5,094.0	4,900.1	3,714.6	1,983.1
Other Financial Obligations	2,137.5	2,047.8	539.3	543.7
Debt Adjustments:				
Capital commitments & contingent L.	2,623	2,389	4,489.0	732.0
Others (management fees)	78.2	152.0	122.9	95.3
Adjusted Debts	8,109.6	8,091.1	8,741.4	3,095.7
Equity	2,818.7	2,239.7	1,751.5	1,630.5
EBITDA – Capex / Interest Exp.	3.9	3.7	7.0	7.6
FFO + Interest Exp/Interest Exp	6.7	7.9	31.6	19.3
Net Debt/Equity (x)	1.8	2.2	2.1	1.1
Net Debt/ EBITDA (x)	1.2	0.6	0.9	0.4
Debt / Capitalization (%)	79.2	80 .1	76.9	67.0
FCF/Adjusted Debt	(0.8)	(5.8)	(30.7)	(26.2)
RCF / Adjusted Debt (%)	18.6	42.4	37.2	60.2

As the table below details, Mobinil's leverage position has been pressured – to a certain extent – over the last two years. Nonetheless, the company's financial profile is still commensurate with an A rating grade. Mobinil's borrowing will increase further in 2009 and 2010, to operate within a leverage range (debt to EBIT ratio).

The company's debt profile is considered well spread. As of June 2009, its debt was equivalent to EGP 5.4bn, almost 7% of which was short-term in nature, containing the current portion of long-term debts and credit facilities.

As for the medium and long-term debt, it contains three bank loans. The first loan was granted in 2005, equivalent to EGP 1.8bn, with a grace period which expired in April 2008. Interest rates are a mix of fixed and variable rates, and interest is to be paid semi-annually. In addition to two syndicated loans granted in

2007 and 2008 (around EGP 2.3bn and EGP 2.2bn), enjoying a grace period which varies from two to five years and entails variable interest rate. The remaining amounts relate to a new debt which was incurred in 2Q09, amounting to EGP 610mn, with two years grace period and a variable coupon rate to be paid semi-annually.

Despite the notable increase in Mobinil's debt, the loans' grace period is designed in a way, which alleviates the pressure on the company's liquidity metrics (refer to the graph below under proposed bond section).

Furthermore, Mobinil is exposed to other financial obligations (1H09: EGP 2.14bn, FY08: 2.1bn) containing license fees, associated with the 2G and 3G spectrums (70% in 1H09), while taxes account for the remaining balance.

………… Drop in Debt Protection Ratios; However, Still within the (A) Rating Grade

The company was able to generate a good RCF to debt ratio, due to the strong operating cash flow. However, the FCF remained negative due to the capex and investment requirements. This free cash flow is expected to remain negative at least for the coming two years.

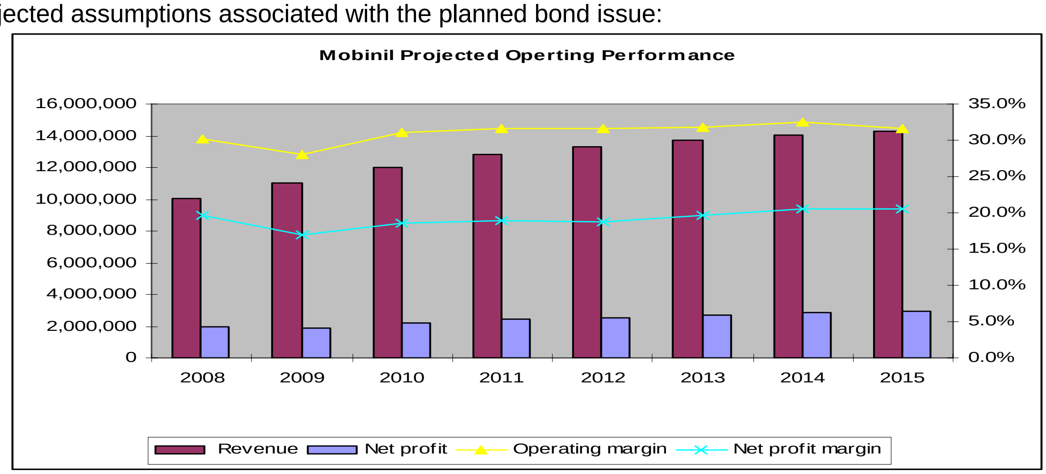
In terms of coverage ratios, despite some deterioration, the company was still able to report healthy ratios with enough room to serve interest obligations after fulfilling its on-going investment needs. As detailed in the table above, at the end of 1H09, EBITDA less capex over interest expense ratio was 3.9x, compared to around 7x in FY07, which was mainly due to the increase in both the capex requirement and interest expenses.

………… Proposed Bond Structure

Mobinil – on a standalone basis - is currently in the process of tapping the local capital market for the second time by an unsecured bond of EGP 1.5bn, which will bear a fixed coupon rate, to be paid semi-annually. The five year issue will be a bullet bond, and will be non-convertible and callable after three years. The proceeds will be used for capex financing and refinancing partially short term debts.

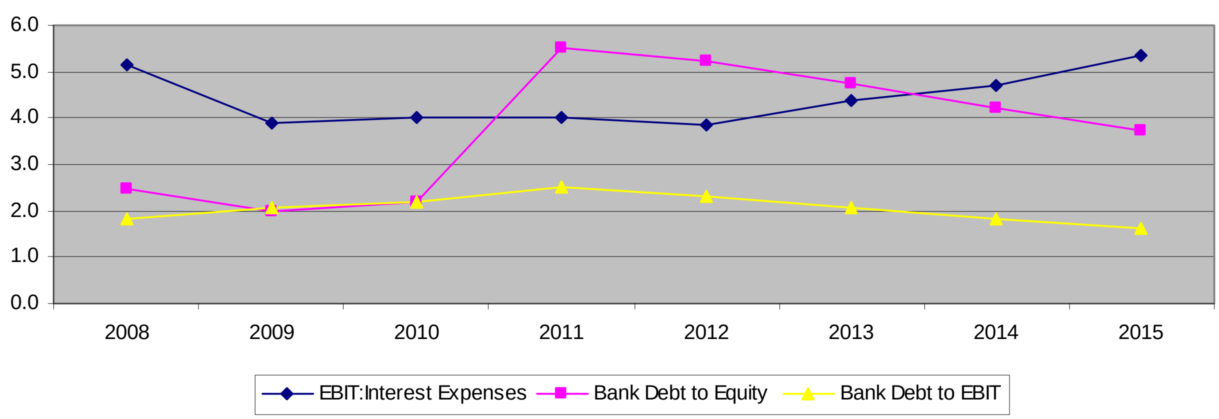
In **MERIS** view, the impact of the bond issuance on Mobinil's financial performance will be credit neutral, thanks to the strong financial metrics and the well structured debt maturity profile. The proposed bond ranks pari passu with all existing debts, Nonetheless, **MERIS** believes that from the structural point of view, this bond would be considered structurally subordinated to the company's existing debts, taking into consideration that the bond is a bullet instrument - to be paid in one payment at the end of its tenor - while other debts are amortized over the tenor of the obligation. This practice justifies the one notch lower in the bond rating compared to the entity rating.

Projected assumptions associated with the planned bond issue:

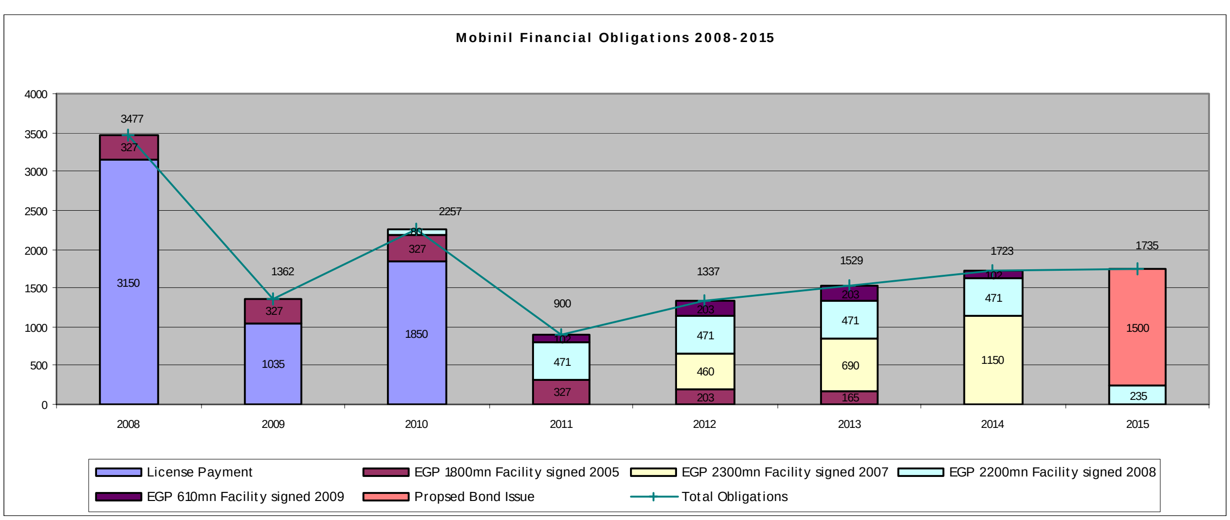


Mobinil auditors provided **MERIS** with the projected financial statements throughout the tenor of the bond (2009-2014). The auditor relied on FY08 and June 2009 actual results as base years; with the assumption of a decline in performance growth rates, reflecting the saturation of the mobile market in Egypt and the intensified competitive environment. With regard to the revenue/product mix, it will continue favoring the pre-paid business, negatively affecting ARPU figures. Nonetheless, the cost efficiency scheme which initiated earlier will moderate margins to a certain extent. Given these assumptions, **MERIS** believes that Mobinil's projections are reasonable. The company is expected to generate sufficient cash flow starting from year 2013, supported by the improvement in operating performance and the decline in capex and investments. According to the projections, the company will continue its aggressive dividends distribution policy, with the dividends payout ratio (excluding retained earnings) peaking at 194% in 2011. **MERIS** would like to note that the management did not provide any clear justification for the excessive distribution of dividends planned for 2011. Going forward, dividends payout ratio is expected to normalize within the historical range. It is worth mentioning that the forecasts and dividends projections contained in this report are based on Mobinil estimates and according to management it evidence the leeway the company has on its debt repayments and its ability to serve an attractive dividend policy; however it does not represent an intention and the distribution policy will have to be reviewed and agreed by the shareholders. With equal note, dividends distribution has to be in compliance with the dividends payout covenant of the bond. On a proforma debt issuance, Mobinil leverage and coverage metrics is expected to improve by year 2012, due to the scheduled repayment of existing debts.

Mobinil Projected Leverage & Coverage Position



As mentioned earlier, the company's debt is considered well structured, taking into account that the loans' grace period is designed in a way, which alleviates the pressure on the company's liquidity metrics.



Bond Covenants:

So far **MERIS** has not been furnished with the final bond prospectus and the signed/final legal opinion; nonetheless, the rating grade is based on our assumptions that the bond will be subject to some financial and non-financial covenants including:

- Net Debt to EBITDA are not more than 3.0x through the entire life of the issue.
- Dividends distribution is subject to fulfilling the financial covenants stipulated on the PSN and the financial obligations associated with the bond issue;
- The bondholders should rank pari passu with any potential lenders; moreover, the issuer legal entity, as well as the cross corporate guarantors ensure that all their tangible assets are free of pledge, a practice which will be maintained over the tenor of the bond.

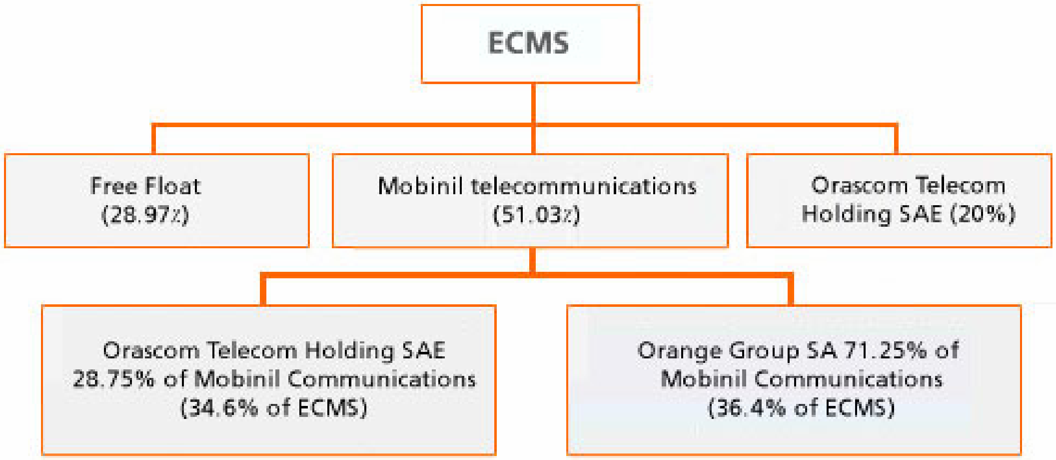
With equal note, management undertakes to inform in writing the bondholders assembly with any material change in the ownership structure. Moreover, the issue should be immediately early redeemed (the outstanding balance plus the interest due till the tenor of the bond) in case the strategic shareholders (FT and/or OT) stake - individually or collectively – falls below 50+one share; unless the sale is made to a qualified/reputable telecom investor with at least global investment grade rating by Standard & Poors, Moody's Investor Service or any other equivalent rating agency accepted by the bondholders. The written approval of the majority of the bondholders is mandatory to the execution of the selling transaction.

Other Considerations:

Liquidity Position is Considered Adequate....

Mobinil's liquidity position is considered adequate. As of June 2009, Mobinil had around EGP 314mn in cash and cash equivalent, in addition to other credit facilities amounting to EGP 700mn, fully unutilized and secured from 10 different banks. Furthermore, as we highlighted earlier, the management is currently in the process of issuing an EGP 1.5bn five-year bond. The bond will be denominated in local currency to finance expansion and working capital needs.

Annex 1: Shareholding Structure



Orascom Telecom Holding SAE

Orascom Telecom is a world leading telecommunications company operating GSM networks in high growth markets in the Middle East, Africa and South Asia, having a total population under license of approximately 453 million with an average mobile telephony penetration of approximately 46% as of September 30th, 2008.

Orascom Telecom had over 79 million subscribers as of September

FT Group - Orange

France Telecom is a world leading telecommunication operator, serving more than 177 million customers in five continents as of September 30, 2008, of which two thirds are Orange customers. As of September 30, 2008 the group had 117.6 million mobile customers and more than 12 million broadband internet (ADSL) customers.

Annex 2: National Rating Scale

Quality of credit	Long	Short	
Gilt edged	AAA	Prime 1	Investment Grade
Very high	AA+ AA AA-	Prime 1	Investment Grade
Upper-medium	A+ A A-	Prime 1 / Prime 2	Investment Grade
Medium grade	BBB+ BBB BBB-	Prime 2 / Prime 3	Investment Grade
Questionable	BB+ BB BB-	Not Prime	Speculative Grade
Poor quality	B+ B B-	Not Prime	Speculative Grade
Very poor	CCC+ CCC CCC- CC C	Not Prime	Speculative Grade