TELNET HOLDING

- IPO -

Sector	IT & Communication	**Number of shares offered**	2 070 000 titres
Number of shares	11 028 000 titres	**Price**	5.8 TND
Free Float	18.77%	**Dividend payout**	January 1, 2011
Market cap.	63.96 MDT	**Subscription period**	From 18 April to 6 May 2011

➔ **We recommend investors to subscribe to the IPO**

- **Capital structure post-IPO:**

Shareholders	% of capital
Mr Mohamed Frikha	56.14%
Founders	25.09%
Public	18.77%
Total	**100.00%**

- **MARKET INDICATORS :**

	2010	2011e
P/E	20.7	18.5
D/Y	0.0%	3.6%

- **Key numbers 2009/2010 :**

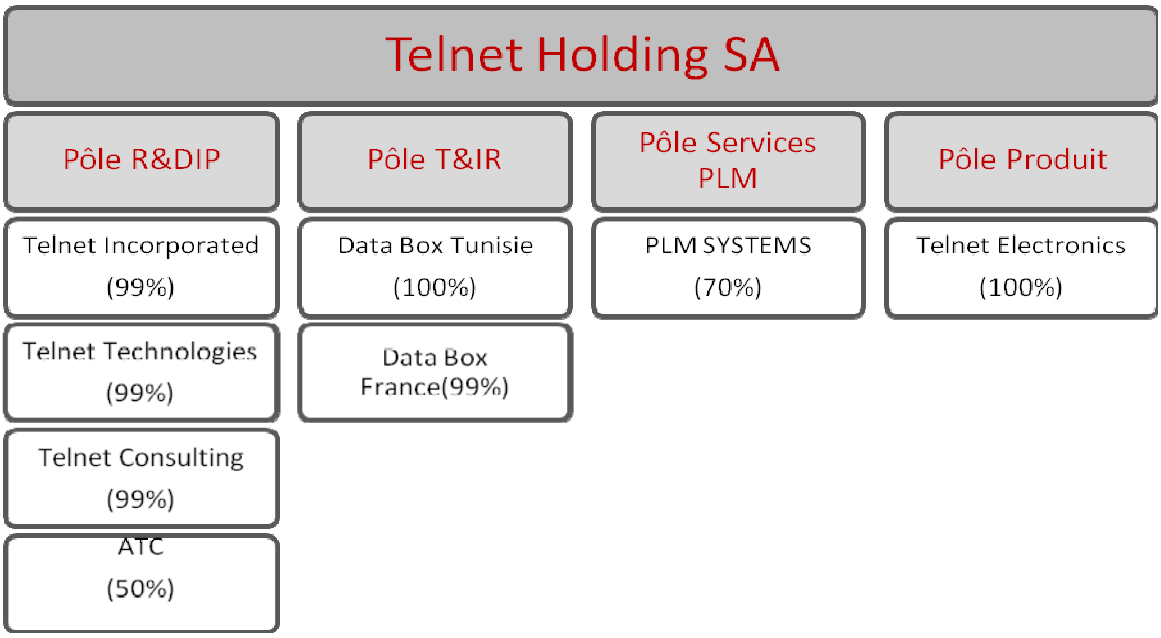
(mn TND)	2009	2010e
Turnover (consolidated)	22.880	29.326
EBITDA	3,841	4,725
Net result (consolidated)	2.421	3.095
Net debt	0.095	2.353
Stockholders' equity	14.815	19.890

KEY POINTS :

- Telnet Holding is the parent company of a group of companies specializing in the IT & Communication fields. The group experienced strong growth, both through the development of its core business, software engineering, and through its diversification into new fields. TELNET is now one of the main references in the IT & Communication sector in Tunisia.
- Telnet has entered into various partnership agreements with multinationals such as: Group Safran, Sagemcom, Altran, Thomson, Valeo, Johnson Control, Tekelec, Patton Electronics, Dassault Systemes...
- Telnet was able to develop a technical expertise in different fields of engineering by : mobilizing and retaining highly qualified engineers, setting up research laboratories, and a scientific committee for innovation in association with international experts in the IT & communications sectors.
- Telnet has a strong financial position with comfortable levels of profitability, very low debt, and a cash surplus. The IPO will help the group acquire adequate funding to safeguard its business development and maintain its strong growth rate.
- With a valuation that was based on a business plan that we deem realistic, **we recommend investors to subscribe to the IPO.**

PRESENTATION OF TELNET:

Telnet Holding groups 8 companies:



TELNET History

Telnet was founded in 1994 by a group of engineers headed by a major shareholder, with the aim to meet a growing demand for software development from foreign contractors, and particularly multinationals, operating in the telecom sector.

By 1995, the company obtained its first contract with SAT, a subsidiary of the French group Sagem. SAT will continue to be Telnet's main customer and its most important growth drive.

With the increase in business activity and number of customers, and in order to ensure a harmonious development of its activities, Telnet has gradually established subsidiaries, whose activities now revolve around three main businesses all related to the IT & communication sector. Telnet was converted into a holding in late 2010, in preparation for the IPO.

Activities

1. R&D in product engineering. Telnet specializes in Software Development for Information Technology, computing, scientific and technical fields and real time embedded applications in addition to software unit test used for critical applications. These software activities cover the following areas: Telecom, multimedia, industry, smart card, automotive, security, defence & avionics, and information systems.

   Telnet operates in these businesses through four separate legal entities: Telnet Incorporated, Telnet Technologies, Altran Telnet Corporation (ATC) and Telnet Consulting.

2. Telecom & Networks. Telnet specializes in the supply, design, installation, rollout and integration of solutions in telecommunication and data networks (LAN/WAN/MAN) as well as carrying out subcontracting work at the local, regional and international scales for the benefit of equipment manufacturers of national and international telecommunication.

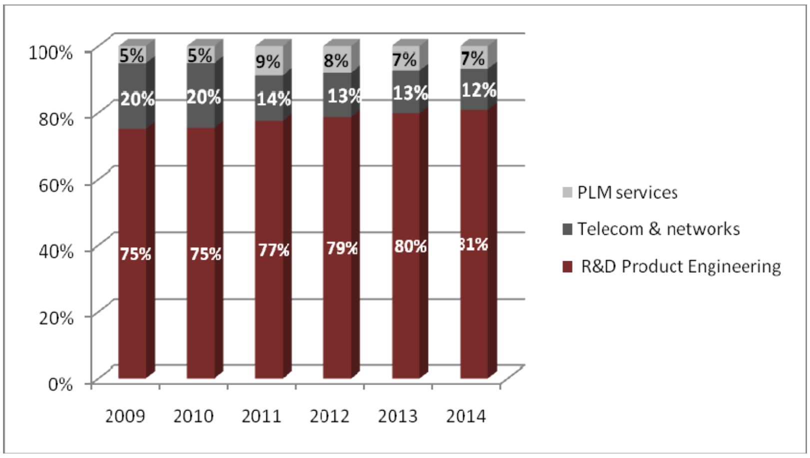
- **Telecommunication Network Activities:** Rollout and commissioning of network solutions at the national, regional and international levels in the following fields: Access networks using xDSL technologies, Monitoring Systems of mobile telephone networks (GSM, GPRS, UMTS and Voice over IP), Telecommunication transfer equipments STP...
- **Corporate Network Activities:** This activity covers supply, design, installation and commissioning of LAN/WAN solutions related to corporate networks.
- **Value Added Solutions and Services:** This activity covers the study of setting up of telecommunication solutions for the new value added areas (Call Centers, Data Center) in addition to audio-video conferencing solutions in partnership with POLYCOM.

3. "Product Life Cycle Management" (PLM) is an approach that can manage all information relating to products and the production process and resources that support them. This service is destined for the manufacturing industries, namely mechanical and electrical. One of the main players in this field is Dassault Systemes, who is world leader.
The entity which handles this part of the business is PLM Systems, which provides:

- The marketing, operation, and technical support of PLM software from Dassault Systèmes (CATIA, ENOVIA, DELMIA, SIMULIA and 3DVIA),
- The marketing, operation, and technical support of metrology for 3D for HEXAGON METROLOGY.

On its three core businesses, Telnet concluded various partnership agreements as aforementioned.

Below is the breakdown of 2009 consolidated revenues by business line. The breakdown is virtually the same for 2010.



Source: Telnet, Axis

Telnet has a staff of approximately 500, of which 440 are engineers. TELNET was able to establish a strong corporate culture which led to a progressive decrease in the rate of rotation of engineers (14% in 2009 against 30% in 2007).

Favorable environment

- Tunisia was selected by a large number of multinational companies operating in the IT field, namely Microsoft, SAGEM, Orascom, TeCom-DIG, France Telecom, CISCO Systems, HP, ALTRAN, ADP, Alcatel Lucent, HR Access, Huawei Technologies, Siemens, and STMicroelectronics in order to either develop a production facility, a regional representation, or a regional support facility. Tunisia has thus become a preferred destination for off and on-shoring.

Telnet has taken advantage of this favorable environment, which can provide:

- Qualified and competent workforce. Tunisia has in fact made sustained efforts to put in place high level training programs to prepare employees for the IT sector.

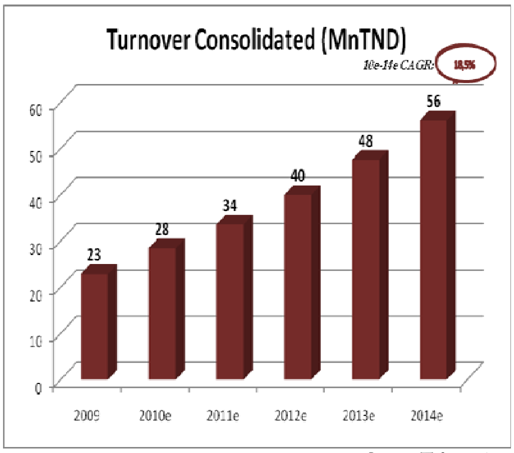
	Quality of scientific research institutions	Availability of engineers and scientists on the labor market
Germany	5.8	4.9
France	5.4	5.6
Czeck Republic	4.9	5.4
Tunisia	4.3	5.5
Spain	4.1	4.6

Source : Global competitiveness report 2008-2009,WEF Davos

- One of the most modern telecom infrastructures in the Mediterranean and Africa regions, which cover the entire country and have high-speed multifunction switches that provide voice, internet and multimedia. Tunisia is ranked first in Africa in terms of telephone density and number of PCs per capita, and first in North Africa for access to IT & communication. Tunisia has a number of world-class technology and cyber parks.

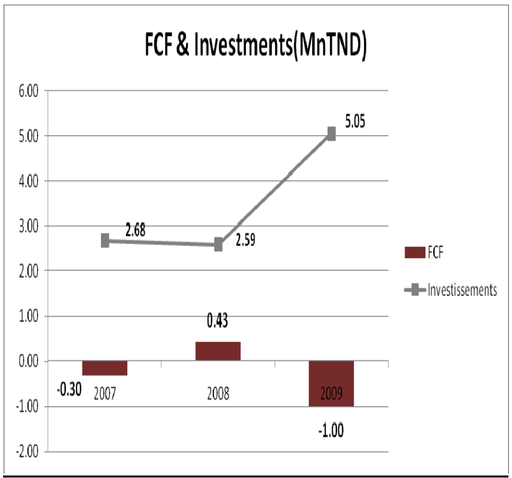
ANALYSIS OF HISTORICAL FINANCIAL ACHIEVEMENTS (2007-2009):

- Turnover for the group increased by an average of 32.3% over the period 2007-2009, this despite the international financial and economic crisis.

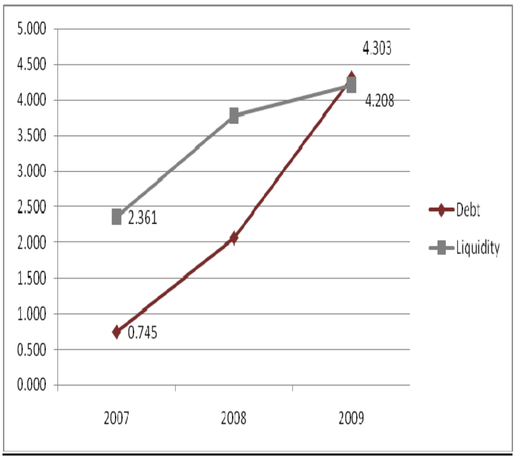


Source: Telnet, Axis

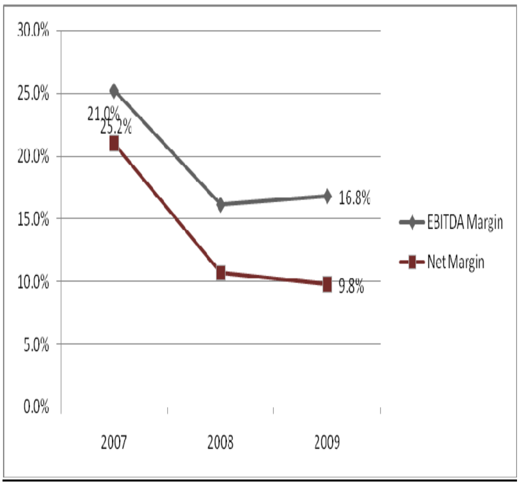
-FCF has significantly decreased over the period 2007-2009 due to the combination of lower EBITDA and higher investments (construction of its new headquarters).



- Over the period 2007-2009, debt has risen sharply. However, net debt remains negative for the entire period.



-EBITDA margin decreased by 18.4% over the period 2007-2009, mainly due an increase in overhead at Telnet Technologies (created in 2006).
Net margin decreased by 31.8% over the same period, following the increase in financial charges related to bank loans.



RECENT FINANCIALS (31/12/2010):

Consolidated numbers (TND)	4Q 2009	4Q 2010	31/12/2009	31/12/2010
Operating profit	6 671 710	8 779 507	22 879 721	29 325 511
R&D in product engineering	4 765 163	6 674 731	17 186 626	21 895 858
Telecom & networks	1 214 952	1 617 438	4 506 092	5 798 212
PLM services	691 595	487 338	1 187 003	1 631 441
investment income			1 735	182
Financial charges	152 150	43 671	358 187	710 499
Operating expenses (*)	4 837 274	7 162 155	19 038 804	24 600 751
Overhead costs	2 595 784	3 994 101	9 846 128	13 456 617
Operating expenses other than overhead costs	2 241 490	3 168 054	9 192 676	11 144 134
EBITDA margin			16.79%	16.11%

Source: Telnet, Axis

Telnet confirmed that its activity was not impacted by recent events which affected our country. This is explained by two main reasons:

- Telnet's business is for export markets, meaning its clients are predominantly multinational companies.
- Telnet's business in not dependant on transportation, raw materials or logistics.

STRATEGY & OUTLOOK:

The group's overall objective in the medium term is to become a designer of new technology in order to ensure sustained growth and profitability. This objective has driven the group's strategy.

➢ **R&D in product engineering:**

Heart of the group's business, it will be consolidated. The main actions to be undertaken are:

- Increased investment in skill training and the renewal of quality certifications that reflect the high level of expertise in the field.

- Innovation on products offered to customers, which will allow it to stand out against its competitors. The group plans to expand into three new fields, robotics, biomedical, and renewable energy, following the signing of a partnership with the atomic and alternative energy commission, and the accession to Robotics Masters.

- Geographic diversification : the group plans to consolidate its presence in the European market by establishing a subsidiary in Germany.

➢ **Telecom & Networks:**

Telnet has adopted a development strategy focusing following areas:

- The diversification of partnerships;
- Geographical diversification to Algeria by creating a permanent structure, motivated by the presence of a large local client, Orascom Algeria.

➢ **PLM services:**

Development prospects for PLM systems clearly illustrate the synergies that exist between this and other fields within the group. Thus, this division is considering:

- Geographical diversification to Algeria, where the group plans to launch its Data Box entity. Heavy industries have a strong presence in Algeria, and should be prime users for this service.

- The development of a training program for CATIA from Dassault Systèmes, as part of an ambitious certification program launched by the Ministry of Communication and Technologies. PLM systems has been accredited by Dassault Systèmes and recognized by the Ministry of Communication and Technology as a "Certified Educational Partner".

➢ **Plans to manufacture a Telnet product:**

In addition to these main areas of development, the group is actively pursuing, with the support of a specialist international firm, a project to mass-produce prototypes created by the R&D Product Engineering unit. This activity could be an important vector of development for the group in the medium-term.

Feasibility studies for the project will be finalized in the first half of 2011. This activity will be launched under the name: Telnet Electronics.

Forecasts:

(In KTND)	2009	2010e	2011p	2012p	2013p	2014p	TCAM 2010-2014
Revenue	22 880	28 818	33 572	39 974	47 580	56 090	**18,12%**
Consumables	3 127	3 676	3 306	3 717	4 193	4 751	**6,62%**
Overhead costs	9 846	13 284	18 145	21 250	25 057	29 853	**22,44%**
Other operating costs	6 066	6 495	5 745	6 656	7 829	9 272	**9,31%**
EBITDA	**3 841**	**5 362**	**6 375**	**8 351**	**10 502**	**12 214**	**22,85%**
Depreciation and amortization	956	1 179	1658	1711	1811	1540	**6,91%**
EBIT	**2 885**	**4 183**	**4 717**	**6 640**	**8 691**	**10 674**	**26,39%**
Net financial charges	356	776	637	427	361	312	**-20,37%**
Investment income	2	2					
Other ordinary gains	84	152					
Other ordinary losses	28	189					
Results before taxes	**2 585**	**3 370**	**4 080**	**6 213**	**8 329**	**10 361**	**32,42%**
Taxes	164	276	620	762	924	1 050	**39,66%**
Net result	**2 421**	**3 095**	**3 460**	**5 451**	**7 406**	**9 313**	**31,71%**

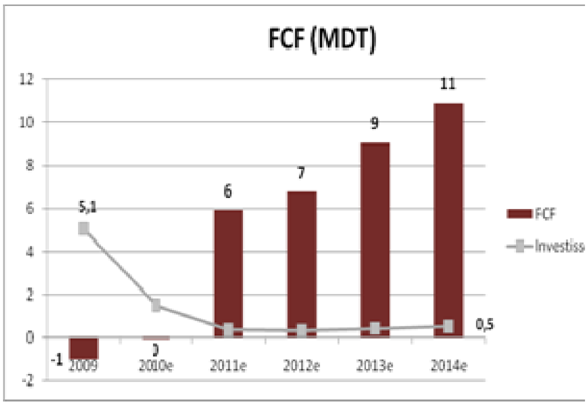
Source : Prospectus

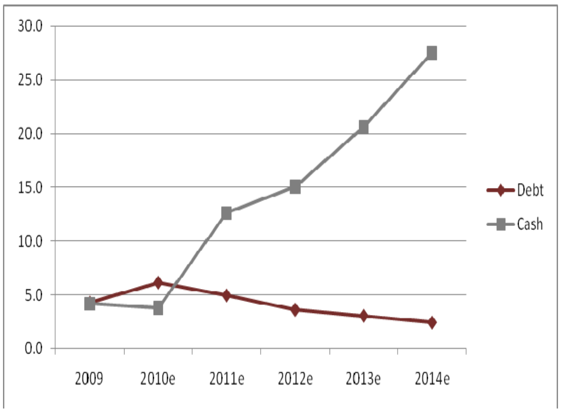
Solvency ratios	2009	2010e	2011p	2012p	2013p	2014p
Gross margin rate	**86.3%**	**87.2%**	**90.2%**	**90.7%**	**91.2%**	**91.5%**
Operating margin	12.6%	15.5%	14.1%	16.6%	18.3%	19.0%
EBITDA margin	16.8%	18.6%	19.0%	20.9%	22.1%	21.8%
Net Margin	**10.6%**	**10.7%**	**10.3%**	**13.6%**	**15.6%**	**16.6%**

Turnover is expected to increase on average by 18.5% over the period 2010-2014, compared to a historical trend of 32.3% over the past 3 years. The field of R&D PE should strengthen its leading position in the consolidated sales forecast, going from 75% in 2009 to 81% in 2014.

R&D PE should account for 65% of the group's net profit, followed by Telecom with 19.5%, and PLM, where despite its small contribution in terms of turnover (7% in 2014) would generate an average of 15.5% of net profit for the group.

Free cash flow (FCF) will return to surplus levels starting in 2011, following a decrease in investments, which should return to normal levels. This will result in a cash surplus throughout the forecast period, and a low level of debt.





Source: Telnet, Axis

VALUATION:

Four valuation methods were used to determine Telnet's value: EVA, good-will, comparables, and DCF. The following parameters were used:

- A risk-free rate equal to 5.6%, which is the rate on the 9 year note, with March 2019 maturity,
- A market risk premium of 6.8%, which is in the range of rates usually retained for the latest listings on the TSE,
- An unlevered beta for the group of 0.95, corresponding to the weighted average beta of the various businesses of the group,
- A growth rate at infinity of 1.5%, a particularly conservative assumption for a company with strong growth, catering to European economies, where the majority of its customers are based.

The WACC used for the actualization of the DCF and terminal value is **12.06%**.

Synthesis of methods used :

KTND	Valuation	Price/share	Discount/premium of IPO price relative to valuation	
DCF	76 600	7,510	-22,77%	Discount
GW	59 904	5,873	-1,24%	Discount
EVA	72 136	7,072	-17,99%	Discount
COMPARABLES	58 322	5,718	1,44%	Premium
Weighted average*	68 340	6,693		
Discount		**-13,34%**		
IPO price	**59 160**	**5,800**		

* DCF/EVA 60%
GW 20%
COMPARABLES 20%

The weighted average of the four methods used leads to a value of 6.7 TND/share. At 5.8 TND /share, Telnet is offered at a 13.3% discount.

The valuation multiples of TELNET:

	P/E		D/Y	
	2010	**2011**	**2010**	**2011**
TELNET	20.7	18.5	0.0%	3.6%
Market	14.0	15.2	3.1%	3.0%
TELNET/Market	147.86%	121.71%	-	120.00%

The relatively high PE is justified by the growth potential of the group, thanks to:

- An excellent mastery of its businesses, which gives Telnet the tools to retain its existing clientele, and to grow with them.
- Its plans to develop new areas of expertise, the constant training of employees, and the establishment of a scientific committee for innovation are likely to not only allow Telnet to broaden the range of services offered, but also broaden its customer base.
- Telnet's sectors of activity are still growing, and its main customers are in France. However, the group plans to expand into Germany and Algeria, which will allow it to broaden its customer base even further.
- It's important to note that the Business Plan does not include the Telnet Electronics project still under study. Management believes that this project can be an important vector of development for the group.
- Telnet provides an estimated dividend yield for 2011 of 3.6%, higher than the market average of 3.1% for 2010.

➔ Given all of the above, **we recommend investors to subscribe to this IPO.**

Schedules:

➢ Balance sheet (KTND)

Assets	31/12/2009	31/12/2008	Shareholders'equity & liabilities	31/12/2009	31/12/2008
Intangible assets	53	43	Share capital	1 000	1 000
Tangible assets	13 777	9 328	Reserves	11 394	9 850
Long-term investment	174	196	Net income	2 421	1 926
Other non-current assets	0	0			
goodwill	420	0	Loans	323	152
			Provisions	420	55
Stocks	1 129	292	Accounts payable	3 880	1 565
Receivables and related accounts	6 979	6 049	Other current liabilities	5 181	4 073
Other current assets	1 787	855	Banking and other financial liabilities	3 981	1 912
Liquidity	4 208	3 772			
Total Assets	**28 599**	**20 534**	**Total shareholders' equity & liabilities**	**28 599**	**20 534**

➢ Income statement (KTND)

	2009	2008	Var 2009-2008
Turnover	22 650	16 638	**36.13%**
EBITDA	3 841	2 706	**41.92%**
EBITDA Margin	17%	16%	**0.69%**
Operating income	**2 885**	**2 089**	**38.09%**
Operating margin	13%	13%	**0.18%**
Financial result	-356	-90	**--**
Ordinary results	56	27	**109.08%**
Consolidated results	**2 421**	**1 926**	**25.66%**
Net Result Grouup Share	**2 237**	**1 794**	**24.72%**
Net margin	11%	12%	**-0.89%**