16 November 2006

Telecom Egypt Announces Nine Months 2006 Results

Presenters

- Mr. Akil Beshir, Chairman
- Mr. Ali Salama, Vice President for Financial & Commercial Affairs
- Mr. Tarek Tantawy, Director of Investment, Treasury & Investor Relations
- Ms. Eman Anis, Investor Relations Manager

Operator: Welcome to the Telecom Egypt nine months results conference call, hosted by Stephen Pettyfer from Merrill Lynch.

Stephen Pettyfer: Thank you, good morning and good afternoon everyone. Stephen Pettyfer from Merrill Lynch, delighted to be hosting the Telecom Egypt 9 months results call today. On the line from Cairo we have Akil Beshir, Chairman and CEO, Ali Salama, CFO, Tarek Tantawy Director Investment Treasury and Investor Relations and Eman Anis, Investor Relations Manager. I will now hand over to Eman.

Eman Anis: Thank you Stephen for the introduction and for hosting the conference call. Good morning and good afternoon everyone. As a standard rule of Corporate Governance at Telecom Egypt I will first start by reading a safe harbour statement.

We may make some forward looking statements in the course of this conference call; these will be based on information available to us as of today and you should therefore not assume in the future that we will continue to hold these views then. We do not commit to notify you if our views change, we refer to our public filings for some factors that may cause forward looking statements to differ from actual future events or results.

That was the statement; let me now hand over to Mr. Akil Beshir, Chairman and CEO of Telecom Egypt.

Akil Beshir: Thank you Eman. Good morning and good afternoon everybody. As usual, thank you all for taking the time to be with us on this call today. Before I take you through the highlights of today's results I would like to make sure that all of you have noticed that we are once again reporting both consolidated and stand alone numbers today. We have been working hard to deliver these numbers to the market and at the same time to assist with your understanding of our progress and aid comparability.

Since, for the purpose of this call, I will comment on the consolidated figures you should note that we will now reference the income from our investment in Vodafone Egypt using the equity method of accounting rather than the cost basis used previously. I will draw your attention to another point. We are changing the way in which we calculate CAPEX related cash flows and Ali Salama will take you through this in detail during the call. I will now take you through the highlights of our consolidated results for the first 9 months of 2006.

As anticipated, and as I reported to you last quarter, growth in our fixed line subscriber base is slowing. We are reached 10.72 million fixed line subscribers in the first 9 months of 2006 which means that net subscriber additions were just 1% up on the previous quarter.

As I disclosed in our statement this morning, for the first time the affect of tariff rebalancing which has been in effect since 1st April 2006 are worthy of knowing. Our customer base has actually responded well to the increase and we have seen no real decline in usage. In fact subscription and local call revenues rose by 22% and 14% respectively in comparison with the same period in 2005. This has translated to a higher monthly ARPU, now standing at 61.2 Egyptian pounds in the third quarter of '06.

We view this as a very pleasing trend and a positive indicator for the rest of the year and beyond. Furthermore it is the first tangible illustration of what can be achieved as a result of our medium and long term strategy of shifting our focus to subscriber segment, with demand for additional telecommunication services is intensifying.

It is these segments which will ultimately be more profitable for us. What's more, the technical scope of our infrastructure positions us well to embrace the growing demand among existing retail and wholesale customers for greater capacity and service. We have taken this strategic decision with the objective of securing maximum long term shareholder value for our investors, but also to ensure that our business is in the best possible competitive shape as it faces the challenges and opportunities of a changing Egyptian telecommunications landscape.

Once again, revenue growth has been sustained at 8% for the period, with a decline in new connection revenues being more than off set by the increase in subscription and local call revenues observed during the first 9 months of '06. This means that we remain comfortably on track to reach targeted consolidated revenue growth of between 6 – 7% by the end of the year. This growth has been achieved while maintaining a very healthy EBITDA margin which is aligned with management expectation for this year.

I stand by my comments to you in June and reiterate that we fully expect to maintain an EBITDA margin in the low to mid 50s. We have reported a decline in margin when the periods under review is compared with the first 9 months of 05. But I want to make clear that this is only as a result of several non cash items. These items have impacted reported EBITDA, EBIT and net profit before and after tax.

Mr. Salama will take you through in more detail in a moment through these non cash items, but I would like to stress that when one examines the underlying financial performance more closely striping out these non cash items, there is a very positive underlying margin trend. The telecommunication market is one which rarely stands still and in Egypt we are witnessing demand from consumers and businesses for a greater range of telecommunication services which are in reality becoming increasingly convergent. This will be our focus for the future and I feel confident that we have the network and technological know how to capitalize on demand for such a service.

I am proud to say that our network is state of the art. It is already extensive and has immense capacity potential so by easing back on the pace of expansion and upgrades we have been able to make substantial reductions of 38% in capital expenditure. This is irrespective of the reporting change I mentioned earlier which Ali Salama will take you through shortly.

One area we continue to invest in is broadband internet. Demand for internet access and services is already intensifying in Egypt and TE Data's ability to capture broadband market shares shows no signs of slowing, rising to more than 41% by the end of September '06. Even in the last quarter ADSL subscribers grew by 44% and we fully expect a similar rate of organic growth to continue during the remainder of '06.

You are all aware of the outcome of the third mobile license in Egypt, which took place in July this year. I am confident that our decision to be firm on price and not over pay was the right one and was in the best interests of our shareholders. Since then we have made our intentions to collaborate with Vodafone Egypt to ensure maximum benefit is derived from this strategic stake very clear. Following the successful outcome of our tender for Vodafone Egypt shares, which was launched during Q3 06 we have further cemented our relationship with the overall Vodafone Group in entering into a strategic co-operation agreement. Our increased stake in Vodafone Egypt simply serves to underline the strategic importance of this initiative. But I should point out that because the transaction closed after the end of Q3 today's financial report is based on our previous holding of 25.5% of Vodafone Egypt.

As you can see this investment continues to deliver a strong financial result for Telecom Egypt but more importantly, our new partnership with the Vodafone Group holds great promise and will allow both companies to benefit from one another's knowledge, reach and technical strength. As I said, when the outcome of the third mobile license became known, the entry of a new mobile operator aiming to rapidly increase mobile penetration and thereby substantially increase mobile traffic is also a positive outcome for Telecom Egypt. We continue to derive substantial financial benefits for mobile interconnection fees and from fees for the use of our network.

While further news from the National Telecommunication Regulatory Authority is anticipated in respect of the liberalization of the international gateway we have no further updates on the timeframe for this today. Mobile operators are already generating a high volume of international traffic, a sizeable portion of which is from Vodafone Egypt. The commitment from Vodafone Egypt to continue to use our international gateway already places us in a very sound position to compete once the liberalization happens.

With that I will now hand over to Ali Salama, our CFO, who will take you through a little more detail of the financial performance.

Ali Salama: Thank you Mr. Beshir. Before I begin I would like to point out that today's consolidated results have been prepared in accordance with the Egyptian accounting standards and we fully intend to issue our IFRS statements towards the end of November/ early December this year.

As Mr. Beshir described total consolidated operating revenues for the 9 months ended September 30th, 2006 rose 7.9% to reach 6.9 billion Egyptian pounds compared to 6.4 billion Egyptian pounds for the first 9 months of 2005. We continue to drive 70% of our total operating revenue from retail services, consisting of access and voice. During the first 9 months of 2006 there was a notable increase in subscription revenue by 22% which more than offset the decrease in connection revenue.

Total voice revenue, made up of local, long distance, fixed to international and fixed to mobile interconnection also rose by 5.6% year on year, to reach 2.8 billion Egyptian pounds. Local call revenues made up 50% of this total increasing 14% in 2005 as a result of higher volumes of billable voice traffic and the net effect of tariff balancing. When compared with the first 9 months of 2005 total wholesale services revenue both domestic and international, increased substantially to 2 billion Egyptian pounds in 2006. And in the second quarter of this year total domestic wholesale revenues again saw a substantial increase rising 26.2% year on year, to reach 341 million Egyptian pounds at end of September 2006.

However, the main boost to wholesale revenue came from the international segment, mobile to international, and incoming international calls, which experienced a growth of 20.6% year on year, rising to 1.7 billion Egyptian pounds. As Mr. Beshir touched on, in comparison with 2005, supported net profit has been negatively impacted by several non cash items.

At the EBITDA level provisions and impairments of 205 million Egyptian pounds masked what was a very solid financial performance during the period when compared with the 9 months ended September 2005. To be clear, our result in the first 9 months of 2005 included a non recurring positive effect, as a result of the release of unused provisions of 260 million Egyptian pounds. At the EBIT level the consolidated result was compounded by foreign exchange losses of 97 million Egyptian pounds, versus a gain of 294 million Egyptian pounds in the first 9 months of 2005.

I would like to also pick up on the change to the way we are calculating Capex figures. Today Capex calculation has been amended further to commence from our investors and us following TE progress. It no longer includes the repayment to debt, relating to the purchase of property plant and equipment. Regardless of this change in methodology, comparable Capex related cash flow has reduced from 1.8 billion Egyptian pounds in the first 9 months of 2005 to 1.16 billion in September 30th 2006. This means that as I updated you last quarter we are on track to reach our revised Capex target between 1.6 billion to 1.7 billion Egyptian pounds by the year end.

Finally, I would like to point out that in the 12 months from September 30th 2005 to September 30th 2006 net debt has been reduced by 1.2 billion Egyptian pounds, standing at 2.8 billion Egyptian pounds at the end of this period. Now, let me hand back over to Mr. Beshir for his closing remarks. Thank you.

Akil Beshir: Thank you Ali. One final point I would like to make is that we have recently made some new management appointments, all of which are detailed on our web site, but which importantly inject renewed vigor into our efforts to secure the most promising future for Telecom Egypt at home and abroad. Our market is changing and there are opportunities and challenges ahead. But what I believe you can see from today's results and our commentary on this call is that we have technological expertise, financial flexibility and team to confront both head on.

With that I would like to open up for questions. Operator Please go ahead.

Q&A Session

Ben Joseph: Thanks for the call. I am sorry if you have already answered this but I got cut off during the call at one stage. Can you just confirm your line targets for this year and going forward? I know it is no longer the key driver for your business but just for completeness can you confirm what those targets are please?

Akil Beshir: Well, as we indicated last quarter our target for this year is around 500,000 subscriber additions and we believe that will be on that target.

Ben Joseph: Going forward, do you intend to continue growing the business by similar amounts, about 500,000 per annum? Or would you be happy if it actually slowed down

Akil Beshir: We expect next year again to add a minimum of 400, up to 500,000 new subscribers.

Ben Joseph: Thank you. One follow up, has there been any change in the dividend policy or any further thoughts on the dividend policy going forward that you can add please?

Akil Beshir: No, there is no change in our dividend policy. It remains as it is and we anticipate paying dividends at least similar, which is a minimum of 40% of our profit.

Ben Joseph: Good, thank you very much.

Istvan Mate-Toth: Good evening, thanks for the call. I want to ask two related questions. The first one is you mentioned the impairment charge on the sales tax. I was wondering what happened to the impairment for the related trade receivables? Have these already been written off at an earlier stage or will they be written off later on, so that I understand the timing between the trade receivables and the tax receivables. And in general I would appreciate if you could comment a little bit about your collection policies, or whether you are happy with the current collection processes. Should we expect a similar degree of provisioning going forward?

Second question, in your cash flow statement I have seen that the statements of the payment to the sales tax authority consistently exceed what you are collecting and I was wondering if this is a timing difference and will this at some point equalize? Or shall we expect that it will consistently be more to the Tax Authority than what is showing in the cash flow statement that you are collecting?

Tarek Tantawy: Concerning the first question led to the impairment charge. That's a long story which really goes back to the old tax law. The problem we have faced in the past, once you record sales tax as part of the receivables, then the Tax Authority would ask you to pay immediately the sales tax irrespective of whether you collect those bills or not. So, historically we used to report sales tax under debtors and other debit accounts while the rest of the balances included under accounts receivable. This has changed, and will be changing moving forward, everything will be reported under accounts receivable due to the issuance of the new tax law.

Going back, I think you are referring to a mismatch in impairment charges between the receivables and the sales tax. Actually, you are right in a sense, but this is only attributed to a portion of the sales tax. The sales tax we are impairing now relates to bills that were not collected since 2005 and those charges are just accounting charges, we have to report them. And our policy is to impair any amounts 100% over one year has passed since the bills were due. But this has nothing to do with whether those amount to be collected or not. People are sometimes late in paying, but eventually they do pay their bills.

Istvan Mate-Toth: Going forward any impairment on the sales tax will be proportionate in the trade receivables from customers?

Tarek Tantawy: Yes, with the exception in Q4. You should expect another provision in Q4 this year or Q1 in the coming year between 100 to 120 million related to old sales tax as well. Going forward, I mean those should be predictable and included in the accounts receivable.

Istvan Mate-Toth: If you could elaborate on the mismatch between what you are showing as sales tax collected and what is being paid. Because I think what you pay is always higher.

Tarek Tantawy: No, as I told you, that's a matter of mismatching between when we collect actually the bills and when we are required to pay to the sales tax authority. As far as the Sales Tax Authority is concerned, the tax is due once we issue the bill to our client, irrespective of when we collect it. So this is why you might find in some cases that we pay more to sales tax than what we collect, and this change.

Istvan Mate-Toth: OK, so the inter term per average should be zero roughly over time. Thanks very much.

Osman Zaki: I have three questions. Can you please shed more light on the others line in Notes 25 and 27. They seem to have increased a lot over the last year on year, so it would be interesting to get some information on those. The second, if you can provide some comfort that you will be able to provide us with a minimum level of transparency regarding Vodafone Egypt, if the stock is de-listed and we no longer have the quarterly conference calls with them. Thirdly, a question on Q4 revenues, last year if you look at Q4 versus Q3, there was a slight dip in revenue. Shall we expect the same this year also or was this a one off event last year?

Akil Beshir: I will answer the second question concerning Vodafone. As usual, we are very transparent in reporting to you as much as we are allowed by law and by Vodafone of course. But, yes, we are usually transparent in our reporting, unless there is something in particular that you are asking about?

Osman Zaki: Yes, something around the usual operation, minutes of use and things that we usually get from them. Will we be able to get it from you also?

Tarek Tantawy: Being a private company is a privilege that Vodafone Egypt should enjoy going forward in a competitive market. So obviously we will be co-coordinating with Vodafone Group, being the major shareholders in the company with them, to release whatever information is sufficient for the investment community to understand what's going on in the market without jeopardizing the competitive position of the company.

Osman Zaki: Ok, thanks.

Tarek Tantawy: Concerning your questions relating to others under Notes 25 and 27. Let me take Note 27 first. The bulk of this item is the discount that we offer either to distributors for our pre-paid calling cards, or offices that we license them to offer the service. So that's the bulk of this number.

Concerning the others under Note 25 it is like 2 pages of very small items which I am not actually willing to go through, and it includes things as trivial as paying rents. It is really immaterial and we cannot even predict what will happen going forward. Maybe your question concerning Q4, I think you should keep in mind in this case that obviously Q3 performance, relative to Q2 was a fair improvement of performance because of the effect of tariff rebalancing kicking in. And we expect this to continue in the coming quarter. This obviously wasn't the case in Q4 last year, so yes you should expect a very similar performance to Q3 this year.

Osman Zaki: And if I may follow up on one more questions, I want to make sure I heard it round when Mr. Beshir was talking at the beginning. I believe I heard you were reaffirming a guidance of 6 – 7% 7 year growth this year? I thought the previous balance was 7 – 8, or am I mistaken?

Tarek Tantawy: At the very beginning of the year it was 6 – 7, but actually the performance of the company for the first 6 months maybe have led you to believe certain things. But anyway, we think we are on target as we promised at the beginning of the year.

Osman Zaki: So, 6% – 7%, great, thank you very much.

Istvan Mate-Toth: Question regarding your cash flows. If you look at your operating cash flow generation in the third quarter alone there was a significant dip in operating cash flow compared to the average cash flow generation in the first two quarters. It seems to me that the main culprit is what you call cash paid to suppliers. And, I wonder whether you could elaborate a little bit more upon the development of your working capital needs going forward for the 4th quarter and going forward. Do you think that the operating cash flow generation of this quarter is more normal, or do you think that has been a dip because there's a bit of a contrast between your strong revenue performance and your operating cash flow performance in the third quarter?

Tarek Tantawy: The item you are referring to is a reason for why there was a decline, but more importantly, you should take in consideration as well the dividend paid to employees and shareholders. The government has elected to take their dividends much later than the other shareholders and they received it in August if I remember correctly. So that's a sizeable amount which had a negative impact.

The other item you are referring to, concerning cash paid to suppliers, this is mainly related to payments for consumables. Part of this is related to all balances from the previous year but if you look at this item, quarter on quarter, this item was fairly the same in Q1 this year it was very close and there was a dip in the second quarter and then back again in this quarter. So again, the bulk of this is related to buying spare parts to maintain our network.

Istvan Mate-Toth: Thanks very much. Maybe Mr. Beshir could you say whether you have any new plans anywhere, international I think a few fixed licenses are potentially coming up in Africa and the Middle East. And secondly, would it be possible to tell us a little bit about Algeria, how the operations are going there. I think there has been a recent management change there. Is everything according to plan, ahead of plan, are you happy how things are going there. That would be very useful.

Akil Beshir: Concerning the expansion in the region, we always say we look at every possible opportunity. Right now we are looking at Saudi Arabia; we are looking at the second fixed license in Saudi Arabia. We have got the tender documents, we are studying it and based on this study will decide whether or not we will pursue this opportunity. And if we do, we have potential Saudi Partners with us, because the rules are they have certain rules put in their tender document as how the partnership should be and who should be participating in that. So it is premature now to say whether or not we are going to pursue this.

Concerning Algeria, the answer is that it is not going as planned, as we indicated before we faced in starting the operation some problems. First with the regulator in getting the spectrum that we should get, which is in our license. They were trying to change the spectrum which was too late because we couldn't change equipment. So finally it took some time to get the spectrum, so we had a late start. Then we faced some uncompetitive acts by the incumbent which was not promptly addressed by the regulator despite of our complaint, but finally it was. Of course we changed the management as you mentioned, but also we have hired Booz Allen who helped us with developing the business plan in the first place to go to Algeria and we have a team working there now, until end next week, to report back to us what exactly the situation is, what went wrong, why we are not on plan and what we should do to go back on track. And when we have more information, of course, we will report it to you.

Istvan Mate-Toth: OK, but Mr. Beshir, they way you see this is more a kind of execution problem, that you didn't get things maybe right at the beginning, or is it possible you are having second thoughts about the market opportunity in general?

Akil Beshir: No, the market opportunities are still there. Even the incumbent with all they did this year in placing our competition, sometimes dumping the products, sometimes offering free lines, still the penetration is less than 8%. So, we still see the potential, there is a need for data there, for broadband and the potential is still there. The country's economy is still very strong and the GDP growth is quite high. I believe all the ingredients are still there for good performance going forward.

Istvan Mate-Toth: This is very helpful, thank you very much.

Akil Beshir: If we have no further questions, let's wrap up. I would like to thank you all for joining us in this call, as usual, among your busy schedule and we will be very happy to report to you hopefully our good results for the year in March 2007. Thank you all.