

subscribers, up 141 percent on the same period last year.

While broadband revenues currently constitute a relatively small part of our total revenue base, with more than 60 percent of Egyptians under the age of 25 and one third under the age of 15, the country's demographic profile is considered highly favorable to further increases in demand for broadband access and data services.

Recent figures show that Egypt is now the third biggest market in the Middle East for newly acquired PCs [Source: Business Monitor International] and with Internet penetration having increased, we believe that the potential for a further expansion of household broadband penetration, currently at 2.8 percent is persuasive.

While still a small component of total revenue, the success of our internet offering has been instrumental in partially offsetting the slowdown in retail voice revenues during the period. Internet and data revenues rose 82 percent to EGP 335 million in 2007, driven further by rapid uptake of a promotional offer introduced in September of this year designed to combat illegal broadband connection sharing.

The concept behind this promotion, a limited traffic quota at a reduced monthly rate of EGP 45 from EGP 95, is to provide an attractive alternative to sharing and thereby reduce the number of illegal connections.

Wholesale

Over the past couple of years our revenue mix has changed, and as the sole network provider in Egypt we have been focussed on expanding our successful wholesale offering. Our fully digitalized and extensive backbone has been central to this effort and has enabled us to cater for the growing demand from other operators to carry traffic over our network.

The increase in mobile traffic generated by mobile operators has undoubtedly given us a significant uplift. Our wholesale opportunity is growing strongly driven by higher mobile penetration which resulted in 31 percent growth in mobile-to-fixed interconnection revenue and 94 percent growth in infrastructure leasing.

Through the investment income we receive from Vodafone Egypt and through increased demand for infrastructure by the mobile operators, we continue to benefit from the growth in mobile services in Egypt.

Wholesale revenues now represent one of Telecom Egypt's fastest growing revenue lines. Having grown from EGP 2.8 billion in 2005 to EGP 3.5 billion in 2007, total wholesale revenues have now overtaken total voice revenues we derive from our fixed line base.

Domestic

As competition increases in the Egyptian mobile telecommunications market, we are able to add to our own income streams by capturing a portion of the revenue generated by other providers of telecommunications services.

There were two main factors driving the increase in domestic wholesale revenues. The first is the increase in mobile-to-fixed traffic. The second is revenues from infrastructure leasing, doubling year-on-year to reach EGP 458 million in 2007, resulting from an increase in mobile demand, the entrance of a third mobile operator and the advent of 3G services.

Total domestic wholesale revenues rose 62 percent from EGP 473 million in 2006 to EGP 767 million in 2007.

International

International comprised 78 percent of wholesale revenues in 2007 as international telecommunications traffic continued to rise during the year. This was primarily attributable to a combination of the growth in mobile-to-international traffic, resulting from Egypt's continued integration into the regional and world economies. As a result of this, and due to our state-of-the-art infrastructure, demand from other telecoms operators for use of our network continues to grow.

International wholesale revenues increased 14 percent from EGP 2.4 billion in 2006 to EGP 2.7 billion in 2007.

Expansion

In recent years, our strategy has been to increase our international presence. As part of this strategy, the company holds an effective 50 percent interest in Consortium Algerien de Telecommunications s.p.a. (CAT), the alternative fixed-line operator in Algeria.

The difficulties we have faced, having launched services in Algeria in February 2006, are well-documented. Having taken the decision to close the operation, towards the end of 2007 and into 2008 the situation has changed to a great extent. Recent events would suggest that the regulatory position within Algeria is changing in support of a liberal market. We still believe that Algeria's low fixed line teledensity and a fast growing economy makes it an attractive market for telecommunications providers. Historically, the Algerian fixed line market has been underserved and unexploited potential for growth remains.

With a strong year behind us, our strategy for 2008 is to continue to focus on optimizing our network to grow wholesale revenues and identify and develop new opportunities, at home and overseas, that might provide for sustainable, long-term growth.

By leveraging our existing assets and our unique geographical position, we feel confident that Telecom Egypt can provide an exceptional international wholesale offering building on our domestic network. Added to this we will continue to evaluate potential acquisitions and investment opportunities for the future in the Middle East and North Africa and to a lesser extent Africa and Eastern Europe that meet our criteria and advance our position as a leading regional telecommunications specialist.

Financial Review

Year ended 31 December 2007, compared to twelve months ended 31 December 2006, in accordance with IFRS

Telecom Egypt has continued to demonstrate robust revenue and subscriber growth, while closely managing costs to increase profitability. By closely managing expenditure we have sustained EBITDA margins of over 50 percent for the last 6 years.

While our operational and financial performance in 2007 is reflective of our own efforts, it is underpinned by a buoyant Egyptian economy. Current macro economic factors including strong GDP growth, currency stability and favourable demographics have all contributed positively to consumer spending, service penetration levels in both voice telephony and internet and increased levels of service usage.

Our strong operational performance has been masked somewhat by the impairment charge relating to our Algerian operation, taken in 2007. This affected our financials for the 12 months period ending December 2007 in two ways. First, a non-recurring and non-cash impairment loss on long term receivables of EGP 247 million. Secondly, a share of loss of associates of EGP 59 million. Hence, the total negative financial impact related to our investment in Algeria amounted to EGP 306 million.

The impact on our bottom line of the one off impairment is a distraction from some excellent operational performance. When stripping out the effect of the impairment loss on the bottom line for the reporting period, consolidated net profit would have shown a 10 percent year-on-year increase.

Revenues

Consolidated revenues increased by five percent in 2007 to EGP 10 billion for the year ended 31 December 2007, from EGP 9.5 billion for the same period in 2006. Our revenue mix reflects the changing nature of the Egyptian telecommunications market. In line with our business strategy, the main driver for growth in the period was the revenues we derive from domestic and international wholesale, which increased 22 percent in total and now accounts for 35 percent of our total revenues.

Revenues from retail services

Although retail revenues have slightly decreased from EGP 6.7 billion in 2006 to EGP 6.5 billion in 2007, this decline has been more than compensated for by the increase in wholesale revenues, as we cater for capacity requirements of other operators.

Meanwhile, through Telecom Egypt's subsidiary company TE Data, take up of internet and data services has demonstrated impressive growth as ADSL subscribers more than doubled during the year, representing a 52 percent market share. Internet and data revenues reached EGP 335 million in 2007, compared to EGP 184 million in 2006.

In 2007, we experienced some pressure on local, long distance and fixed to mobile retail revenues. Overall this resulted in a 13 percent decline in total retail revenues.

Revenues from wholesale services

Total revenues from domestic wholesale services rose substantially on the previous year, ending 2007 up 62 percent on those achieved in the twelve months ended 31 December 2006, at EGP 767 million. This was driven by two factors: mobile-to-fixed interconnection; and revenue from leasing Telecom Egypt's extensive infrastructure to other telecoms providers, which witnessed a 94 percent increase.

Mobile-to-fixed traffic has increased considerably as a result of higher mobile penetration. This has led to a rise in revenues from mobile-to-fixed call interconnection by 31 percent to EGP 309 million for the twelve months ended 31 December 2007 from EGP 236 million for in 2006.

Wholesale revenues from mobile-to-international calls also increased by 34 percent to EGP 1,076 million for the twelve months ended 31 December 2006 from EGP 801 million for the same period in 2006.

An increase in incoming international traffic has led to revenues from incoming international calls rising by 3.5 percent to EGP 1.6 billion for the twelve months ended 31 December 2007 from EGP 1.5 billion for same period in 2006.

Operating expenses

Operating expenses increased by 4 percent to EGP 6 billion for the twelve months ended 31 December 2007 as a result of increases in maintenance costs, fuel expenses and other operating costs, including expenses relating to electricity, stationary, water and transportation.

Selling and distribution expenses

Salaries and other selling and distribution expenses were the main contributors to a 28 percent increase in selling and distribution expenditure, to EGP 362 million for the full year ended 31 December 2007 from EGP 283 million for 2006.

General & administrative expenses

Our ongoing efforts to invest and improve the quality of Telecom Egypt workforce and a mandatory increase in salaries of administrative employees have contributed to an increase in administrative expenses of 12 percent to EGP 1.2 billion for the twelve months ended 31 December 2007.

Earnings Before Interest Tax, Depreciation and Amortisation (EBITDA)

One of our key management metrics is the EBITDA margin. Our ability to maintain this profitability metric is a further demonstration of our commitment to strict cost controls. To arrive at our EBITDA calculations there are three major cost items in addition to provision and impairment.

Firstly, interconnection costs which represent 13.7 percent of total revenues, a slight decline from 14.4 percent of revenues in 2006. Second, total personnel costs, including costs relating to our employees remuneration and other contributions, which represented 19 percent of total revenues; still within industry norms. Other operating expenditure is the final item and in 2007 this was higher at 14.8 percent versus 11.9 percent in 2006.

The stability of our EBITDA margin, consistently one of the highest in the industry, is something we are immensely proud of and are committed to protecting.

Financial income and expenses

Our investment in Vodafone Egypt has again made a substantial contribution to the year end result for 2007. Our investment stake has contributed EGP 1.1 billion in investment income.

In 2007, TE registered a net foreign exchange loss of EGP 94 million down from EGP 124 million in 2006.

Interest expenses were up 50 percent from EGP 407 million in 2006 to EGP 611 million in 2007.

Income tax expense

Income tax expense increased by 10 percent, to EGP 513 million for the twelve months ended 31 December 2007 from EGP 468 million for the same period in 2006.

Net profit

As a company, we are very proud of our track record of profitability; achieved in the context of a changing market. Consolidated net profit after tax, prepared under IFRS, showed a slight decrease of 2 percent to EGP 2.39 billion for the twelve months ended 31 December 2007 from EGP 2.44 billion for the full year 2006. However, this decrease under IFRS is attributable to the recognition of certain employee costs, required under Egyptian law, that are not expensed under Egyptian GAAP. Under Egyptian GAAP equivalent consolidated net profit after tax for the period was EGP 2.5 billion, a 4.4 percent increase compared to 2006.

Investments in infrastructure

Our existing digital fixed-line network is extensive, with more than 25,000 kilometres of fibre optic cables covering ninety-five percent of populated areas in Egypt.

Because our network is fully digitalized and still has significant headroom capacity we have been able to implement a capital expenditure (capex) rationalisation program that has reduced capex, while maintaining quality and servicing the appetite for capacity from other operators. Comparable capex related cash flows were half those in 2006 coming in at EGP 891 million versus EGP 2.3 billion in 2006.

Debt

We continue to generate significant free cash flow and our objective is to put this to good work. Having geared up the balance sheet in 2006 to finance the acquisition of the additional stake in Vodafone Egypt we have taken steps to reduce net debt during 2007. This program took net debt to EGP 6.9 billion by the end of 2006, giving a net debt to EBITDA ratio of 1.27 times. We have now brought this down to 0.7 times, with net debt standing at EGP 3.7 billion as at 31 December 2007.

It is not our intention to deleverage completely. Our aim is to keep sufficient borrowing headroom to maintain maximum funding flexibility as we seek out the right investment opportunities.

Dividend policy

Our policy is to pay dividends, which we have done for the last three fiscal years, when permitted by law and subject to consideration of future capital expenditure and investment requirements, as well as our overall financial condition.

Shareholders elect to distribute all or part of the Distributable Profits at the Telecom Egypt Ordinary General Assembly. Pursuant to Egyptian legal requirements, Telecom Egypt convened an Ordinary General Assembly on 31st of March 2008 to review the audited financial statements for 2007 and to determine dividends, if any, to be distributed. All financial statements and resolutions were duly passed. The Board of Telecom Egypt has approved a dividend of EGP 1.00 per share, as decided by our annual general assembly meeting at 31st of March 2008.