



Telecom Egypt Announces Full Year 2006 Results

Presenters

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

Wael Ziada

Good morning, good afternoon everybody this is Wael Ziada from EFG Hermes. I would like to welcome you all to Telecom Egypt Full Year 2006 Results Conference Call that we are very happy to be hosting today.

From Telecom Egypt we have with us Mr. Akil Beshir the Company's Chairman & CEO, Mr Ali Salama, TE's Vice President for Financial Affairs, Mr. Tarek Tantawy, TE's Director of Investment, Treasury & Investor Relations and Ms. Eman Anis, Investor Relations Manager.

I will now hand the call back to Telecom Egypt to Mr. Tarek Tantawy for a Safe Harbour Statement. Have a good call, thank you very much.

Tarek Tantawy

Thank you for the introduction and for hosting the conference call. Good morning, good afternoon everyone. Before I go to the Safe Harbour Statement let me tell you as well that we do have with us Ms. Inas Basta Investor Relations Manager of Vodafone Egypt in light of the new cooperation agreement we have and in light of the shareholding stake, we now have her as well to answer any questions about Vodafone Egypt. Now back to the 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 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.

So that was the statement. The conference call will start with a Presentation on the Operational and Financial highlights of the year

followed by a Q&A Session. Let me now hand over to Mr. Akil Beshir, Chairman and CEO of Telecom Egypt.

Akil Beshir

Good morning and good afternoon everyone. As usual thank you also for taking the time to be with us on this call today. Before I take you through the highlights of our 2006 results, I would like to make sure that all of you have noticed that we are once again reporting both consolidated and standalone numbers today. For the purposes of this call we will comment on the consolidated figures only.

Our performance this year has undoubtedly been positively affected by the Egyptian economy, which continues to be one of the fastest growing economies among emerging markets, with real GDP growth of 6.3 per cent and rising GDP per capita having a positive effect on personal disposable income. Factors such as these, in addition to a young population, set a positive trend for the macro-economic backdrop in which our company operates. As our first year as a public company 2006 was both an exciting and challenging year for Telecom Egypt. There is little doubt that our market is changing and in response to these challenges and opportunities we have begun to change the emphasis of our business also.

As many of you know, our focus has been shifting from simply increasing fixed-line penetration among retail customers, to driving profitability through the development of high-spend customer segments. This is where we believe that a growing demand for a greater variety of additional services and convergent technology exists.

Despite this, our net subscriber additions were 411 thousand customers in 2006. This means that, at 10.8 million, our customer base remains the largest in the region.

Other operators are becoming more active in the Egyptian telecommunications market, and they all carry traffic over our state-of-the-art backbone. During 2006 we recognised this opportunity and invested to upgrade transmission capacity to cater for this heightened demand from mobile operators and internet service providers. The growing demand coming from other operators has had a significant positive impact on revenues derived from wholesale services, which represent a growing percentage of our total revenue mix. This stands at 30 percent in 2006 compared to 27 percent in 2005. This represents a key focus area for TE in the coming year and will partially compensate for any decline in international revenues as a result the expected liberalisation.

While further news from the National Telecommunications Regulatory Authority is anticipated, in respect of the liberalisation of the international gateway, we have no further update on the time frames for this today.

The full year results provide a tangible illustration of the success of our programme to rebalance tariffs. Our customer base has responded well to the increases and we have seen no real decline in usage. Increase in revenues from local call and subscriptions have contributed to a year-on-year rise in consolidated revenues of 11 per cent, ahead of our targets. This takes monthly ARPU to 58.7 Egyptian pounds for the full year 2006. We view this as a very pleasing trend and a positive indicator for 2007.

Importantly cost-based tariff rebalancing, and the resulting incremental increase in local voice revenue and revenues coming from subscriptions came without an associated cost. This has therefore had a positive impact on EBITDA margins at 57% for the full year versus 55.2% in 2005. We have worked hard to sustain EBITDA margins of above 50 percent for the last five years and I am immensely proud of this track-record.

The increase in net profit translates to a net profit margin of 25.6 percent, up from 24.5 percent in 2005. Correspondingly, EPS increased 16 percent year-on-year to 1.36 Egyptian Pounds.

Securing exposure to Egypt's fast-growing mobile market has in many ways characterised the year for Telecom Egypt. Mobile penetration in Egypt continues to grow rapidly and, TE stands to benefit, not only as a strategic investor in Vodafone Egypt, but also from the positive effect of mobile related income streams on our core business.

In an intensely competitive market, our team demonstrated the fiscal discipline required to be firm on price during the auction of Egypt's third mobile license, as well as the determination to increase our exposure to this exciting market through an alternative route.

Vodafone Egypt is delivering on its strategy and outperforming its competitors in terms of its share of mobile revenues and EBITDA. By increasing our investment in Vodafone Egypt, now at 44.66 per cent, we maintain our access to Vodafone Egypt's strong financial performance, but, crucially, have further cemented our relationship with the overall Vodafone Group.

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. A sizeable portion of international traffic comes from Vodafone Egypt, so the signature of the recent strategic co-operation agreement with Vodafone Egypt means that we will continue to provide exclusive international gateway services for VE's international traffic under an extension of the existing agreement and places us in a very sound position to compete once the liberalisation happens.

As with last quarter, I would draw your attention to the fact that we now report the income from our investment in Vodafone Egypt using the equity method of accounting, rather than the cost basis used previously.

The demand for Internet access and services also continues to increase, representing an enormous opportunity for the company. The Internet and data market in Egypt is characterised by low PC and Internet penetration levels (at 2.7 per cent and 11.3 per cent respectively), as well as a large student population presenting significant demand potential. There are various initiatives in place to increase PC access, notably from the Ministry of Communications and Information Technology, which is subsidising access to make PCs more affordable.

Consequently, our retail Internet business, TE Data, performed exceptionally well during 2006, increasing its share of the market to 45 per cent; reaffirming its position as the broadband market leader. Internet and data revenues have grown 38% year on year and we fully expect strong organic growth to continue in the future.

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

Ali Salama

Thank you Mr Chairman. As Mr Beshir described, operational initiatives undertaken to ensure that the overall revenue mix continues to evolve have delivered a highly positive financial effect for the full year result. We have increased total consolidated operating revenues by 11 percent year-on-year to EGP 9.5 billion.

The profile of our revenues is changing, and while you are all aware of the composition of the revenues we derive from local and international retail voice, I would draw your attention to the increasing contribution from wholesales services as a result of the success of our interconnection services to other operators. Wholesale revenues now account for 30 percent of our total revenue mix, up from 27 percent in 2005, at EGP 2.8 billion.

As Mr Beshir mentioned the impact of cost-based tariff rebalancing has also been felt increasing local call revenues and subscription revenues in the retail segment at no cost. The increase in subscription revenues by 21 percent, 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 9 percent year-on-year to reach EGP 3.8 billion. Local call revenues made up 52 percent of this total, increasing 24% on 2005, as a result of higher volumes of billable voice traffic and the net effects of tariff rebalancing.

EBITDA before provisions of EGP 5.3 billion translates to a significant increase in EBITDA margin – now standing at 56.4 percent. We view this as a very positive underlying margin trend. We have stripped out

provisions when presenting this to you so as to present a more accurate picture of underlying operational performance. The provisions no longer required in the 2006 financial year are a one-off item and relate to the favourable settlement of our dispute with the Egyptian taxation authority.

Despite foreign exchange losses in 2006 of EGP 125 million compared with a foreign exchange gain of EGP 335 million in 2005, EBIT still increased 13 percent on the previous year, reaching EGP 3.3 billion.

As I reported last quarter, we have changed the way in which we calculate capex related cash flows. Today's capex calculation no longer includes the repayment of old debts relating to the purchase of property, plant and equipment. Comparable capex related cash flows have reduced year-on-year by 22 percent in 2006 to EGP 1.9 billion. As you know, we are a cost conscious business and have already implemented stringent investment protocols, however, I appreciate that this figure is slightly ahead of management guidance. We have carefully judged the investments in our network to further upgrade and optimise transmission capacity, made to respond to heightened demand from other operators; and feel this work positions us well for 2007.

The significant excess network capacity now built into our infrastructure mean that the Company's Capex rationalization plans can continue into 2007, freeing up free cash flow for shareholders or strategic investments. Finally, we have geared up the balance sheet in 2006 to increase the efficiency of our capital structure. In financing the acquisition of the 19 percent additional stake in Vodafone Egypt primarily by Debt, net debt has risen to EGP 6.8 billion up from EGP 4 billion in 2005. As a result, net debt to equity ratio has reached 28 percent by the end of 2006 versus 18 percent in 2005.

Before I hand over again to Mr Beshir, I would like to point out that we fully intend to issue our IFRS Statements towards the end of the month and continue to work with our auditors to close this time gap.

Now back to Mr Beshir for his closing remarks.

Akil Beshir

Thank you Ali.

The telecommunications market in Egypt is developing rapidly, and 2006 was an important year, in particular in mobile and data services.

2006 results provide the first tangible illustration of what can be achieved as a result of our medium and long term strategy of shifting our focus to profitable segments and wholesale services.

The technical scope of our infrastructure already positions us well to embrace the growing demand among existing retail and wholesale customers for greater capacity and services. In 2007, TE will take

further steps to capitalize on the opportunity to build and expand its successful interconnection wholesale services specifically.

With that I would like to open up to your questions. Operator, please go ahead.

Q&A Session

Sandip Bhatt

I want to ask about the future plan with regards to the cash that you would generate year on year as the business grows. Any plan going outside of Egypt or doing something else apart from your Algerian fixed license and anything in concrete? Number two, what is your view of the 3G license fees paid by Vodafone in which you have a 45% holding? Is it too much even that Etisalat has overpaid?

Akil Beshir

I will answer the first part. Concerning the cash, well obviously you can see from our finances that going forward that would generate a lot of cash. As we always say, we are not in the business of compiling cash. So at any point of time, if we do not have an investment opportunity; whether a new license or acquisition of an existing operation or other investment opportunities that we are looking at. If we don't have investment opportunity in the medium term, obviously we will be looking at utilising the cash for the benefits of our shareholders, either by paying more dividends or buying back shares from the government.

Concerning the 3G, the amount that Vodafone pays for a 3G license, I will ask Inas to comment on it.

Inas Basta

Yes, we have always stated that the amount paid for the 3G license is not related to data or mobile plus or mobile TV, we have always stated that the name of the game was the capacity that we needed. There was no more capacity available at the 1800 and we needed that amount for growing the business and for the continuity of Vodafone.

Akil Beshir

If I may add one thing. One other benefit that Vodafone got through signing for the 3G license is an extension of the license because, as you know, the current GSM license is 15 years, started in '98 so there were six more years to go. So signing for 3G extended the license for 15 years from today, meaning that Vodafone has gained 9 more years in the license from GSM and 3G.

Ben Joseph

I was wondering if you could give us a little bit more colour on the CAPEX outlook for the next couple of years please. Obviously this year's number was a little higher than expected. But I appreciate it appears as an investment in wholesale revenues. Can you just give us a little more colour for next year? Are these upfront investments that you have made going to drive 2007 and 2008 revenue or is there going to be more Capex requirements in the short term?

- Tarek Tantawy** Before we do this let me first explain what happened in 2006. Our guidance was for the standalone finances, which was for LE 1.7 billion for the full year but what actually happened was that we spent LE 1.8 billion so it is slightly above target. On a consolidated basis these results came at LE 1.9 billion CAPEX because of the higher CAPEX spending by TE Data as well, our internet and data arm, due to taking more broadband subscribers. We will only be giving guidance for 2007 in this conference call. We expect that on a standalone basis for the coming year we will be spending between LE 1.5 – 1.6 billion and on a consolidated basis it is between LE 1.7 – 1.8 billion.
- Istvan Mate-Toth** In the fourth quarter you had extremely robust wholesale revenues. I have two questions relating to that. Do the Q4 wholesale revenues signal the underlying strength in this new business line or maybe it was an issue of shifting revenue between Q3 and Q4? Secondly, could you elaborate a bit more on what your expectations are for the wholesale business and what the exact nature of this is. Is this essentially a bit of refilling you are doing or do you think there are more revenue streams to come maybe from some of the domestic players in Egypt?
- Tarek Tantawy** Well the others item under wholesale business is primarily sale of transmission capacity to mobile operators and ISPs. The license of all operators in Egypt and that includes Mobile and ISPs does not allow them to build their backbone and they have to use Telecom Egypt's backbone unless we fail to provide them with whatever capacity they need which has never happened and never will. So, actually we have seen very solid growth in 2006 and we believe that this is not the full potential of it because what happened in 2006 was that the growth came from the higher demand from both existing operators Mobinil and Vodafone. In 2007 we expect to see as well the demand of the third entrant coming in and more importantly by both the third entrant and Vodafone Egypt getting 3G licenses. This will mean that they will be needing more transmission capacity and hence more revenues. So we see this as a very sizeable business that would be rapidly growing over the coming couple of years. I hope this answers your question?
- Istvan Mate-Toth** Yes, so basically what we saw in Q4 was the underlying robustness of this business. There weren't any accounting issues relating to it.
- Tarek Tantawy** No, not at all no.
- Marc Hammoud** I have two questions. One on the internet business because basically it is clear that the growth and the future growth will come from internet and data segment, so can you give us more colour on your plan to develop the ADSL business? Where do you see the numbers of ADSL subscribers reaching by end of 2007 and 2008? I would like to understand because I think the NTRA is controlling prices, how is the competition basically applying in the market?

My second question is on the international expansion strategy that you have. You announced that you are not going to bid for the Saudi fixed line license, is there any plan to expand anywhere else or is it going to be suspended for this year?

Akil Beshir

Concerning our Internet business, of course as you can see internet penetration mainly broadband is quite low and it stands at about 215,000 subscribers at the moment. There were two constraints to the development of the internet and broadband business in particular. One is the cost of the service and the other one is the PC penetration. Concerning the costs, last year we reduced the costs to about 16 dollars per month for the 256k connection. This in itself boosted the demand so growth is now 15-20,000 per month, so we expect the penetration to double by the end of the year to at least 400,000. Also concerning the PC penetration, there are several initiatives by Telecom Egypt and by the Ministry to make PCs more affordable at favourable payment terms for consumers. The most recent initiative which was as a result of the cooperation between the Ministry of Communication, Information and Technology, Microsoft and Intel, now anybody can get reasonable configuration PC for a monthly instalment of about 8 USD for about three years. So we believe this will make the difference, will boost the PC penetration and will grow the Broadband market. Plus of course, the fact that you know developing content is starting and ISPs like TE Data are beginning to offer some content services. The first one was the world soccer cup 2006 which was broadcast on ADSL which was very successful. They launched recently a service TE-VU for video on demand service. It is still small in size but it is growing. Concerning international expansion, definitely international expansion is still and will remain an important part of our strategy. We decided not to bid in Saudi Arabia because after studying this particular opportunity we didn't find it attractive for several reasons. One of them of course is the structure of the consortium which was actually dictated by the regulators according to which we would have 15% equity and of course no control. They indicated that they will give an unlimited number of licenses but I mean no one knows the specific number of licenses, it is not an auction, it is a very small fee, 5 million Saudi riyals and as we expected, actually they got ten bids so we expect them to grant several licenses, I am not sure how many and we would end up competing with several operators, most of them will be offering both mobile and fixed services which will put us in more of a handicap situation. So those...plus the fact that penetration in Saudi is not that low to make us believe that there will be significant growth there. For those three reasons we decided not to bid for Saudi but this doesn't at all mean that we are suspending our regional expansion policy.

Marc Hammoud

Any particular markets you are looking at right now?

Akil Beshir

Yes we are, obviously we cannot disclose this at the moment but yes, we are looking at every possible opportunity in the region whether it is a new license or acquisition of an existing operation.

- Marc Hammoud** Does it include mobile operators or fixed line operators or fixed line licenses?
- Akil Beshir** No, at Telecom Egypt we are pursuing fixed line opportunities. However if there is an opportunity that includes both fixed and mobile obviously we will be looking at that...we will be talking to Vodafone to pursue it together if it is an attractive one.
- Marc Hammoud** Sorry, one more question again on the internet segment. I think the NTRA imposed a price on, for example, the 256k ADSL at LE 95. Then how do you compete with the other ISPs? How did you manage to increase your market share from 30% to 45% in 2006?
- Akil Beshir** Obviously we at Telecom Egypt are the wholesaler for all of those ISPs. But as TE Data, obviously TE Data differentiate itself in the level of service that they provide to the customer and the value added services like, I just mentioned TE-VU for example, you know the value added service that they offer to those customers.
- Marc Hammoud** Alright, thank you.
- Osman Zaki** I have two questions if I may, one on the guidance for 2007. Can you please provide some guidance in terms of revenue and EBITDA margin and subs? The second is on the permanent charge that you took in Q3 2006, you mentioned that there was likely to be another one either in Q4 or in Q1 for this year and I note particularly in Q4. Will you still be taking a one-off charge in Q1 2007?
- Tarek Tantawy** Well for the guidance of the coming year we expect the revenue growth in the range of 3-4%. We expect that ARPUs would slightly decline by 1 or 2% and we also said that we would be able to maintain our EBITDA margin in the mid 50s and concerning the CAPEX guidance I have given this earlier. So that is as far as the CAPEX guidance is concerned. Concerning subscriber additions, we expect to add between 400-500,000 new subscribers in 2007. Concerning the impairment charge, there have been some discussions with the auditor and actually what happened in the nine months is that as we explained before this is related to the sales tax and what the auditor has made at the time is that they have provided for 100% of the outstanding balance. After some discussions with the auditors we are now linking this sales tax with the receiver response of the company and we are applying the same ageing schedule which means that we provide for 50% if the bill is due for one year and we provide for 100% of the amount if it is over a year's time. So yes, you should expect that more will be added in the coming year in 2007 as time passes and those bits are overdue by one year.
- Osman Zaki** Can I follow up with just one more question on dividends? Have you proposed a dividend to the Board for 2006 earnings? Also, are you

thinking of changing the dividend policy going forward to more than 40% payout currently?

Tarek Tantawy Yes the Board has proposed a dividend distribution of EGP 0.50 per share pending the general assembly approval which will be held towards the end of the month. This is...it is almost 40% on a standalone basis, on a consolidated basis obviously the payout is less than 40%. What we have done as well and pending the general assembly approval we are now changing the bylaws of the company to allow for interim dividend distributions. So if we do get the approval of the general assembly we're not ruling out the possibility of giving more dividends throughout the coming year.

Istvan Mate-Toth It is a follow up question on your joint venture in Algeria. I think your partner commented only yesterday that things are not going very well. I wondered whether you still think that you can make a return on the money invested or maybe you have to cut your losses and do an impairment charge. In terms of your overall CAPEX profile what is your attitude towards things in Algeria and wouldn't your experience in Algeria mean that you would have to be quite cautious in regional expansions in general?

Akil Beshir Well, as indicated it is not doing as well as we hoped it would for the reasons explained. The competition with the incumbent which is not a fair competition, there are many uncompetitive acts, unfortunately not addressed suitably by the regulators and we voiced our concern to the regulators several times. We are now discussing with our partners, OT, what would be the best course of action but we have actually stopped investing in Algeria until we resolve the situation one way or another. Of course we have to be very cautious in our regional expansion opportunities. We had been in Algeria, as a matter of fact, but we didn't expect the competitive environment to be so unfavourable.

Tarek Tantawy When considering the impairment charge, we have already started impairing the investment there. The financials for this year, the standalone financials show an impairment charge of almost 91 million pounds and on a consolidated basis, the investment income has been hit by almost over 100 million pounds by our share of the losses in the Algerian operation. So we started impairing this investment and concerning being cautious in other international investments, yes you are right in a sense. This is why we are not now ruling out the possibility of acquiring existing operators rather than going in as a second entrant fixed line business because obviously several markets in the region are not ready yet for competition and regulators are not very keen on imposing anti competitive action, they're not serious about it. So this is why we will definitely be cautious with other investment opportunities in the future.

Operator: No further questions.

Akil Beshir

Thank you all. I would like to thank you again for being with us on this conference call. We are all very excited about the results of this year, which of course attributes to the efforts of all our employees and we thank our shareholders for the trust they put in us and we look forward to another year of continued success and we will be talking to you again when we have the Q1 results. Hopefully they will be as good as the 2006 results. Thank you very much.