

15 Aug. 2007



## Telecom Egypt Announces Half Year 2007 Results

---

### Presenters

- Mr. Akil Beshir, Chairman & CEO
- Mr. Tarek Tantawy, Vice President for Financial Affairs
- Mr. Mohamed Elnawawy, Vice President for International & Regulatory Affairs
- Ms. Alia Allouba, Investor Relations Assistant Manager

**Karim Khadr:** Good morning, good afternoon everybody this is Karim Khadr from HSBC. I would like to welcome you all to Telecom Egypt First Half 2007 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 and CEO, Mr. Tarek Tantawy, Vice President and CFO and Ms. Alia Allouba, Assistant Manager Investor Relations.

The conference call will start with a presentation on the operational and financial highlights of the first six months of 2007 followed by a Q&A Session. I will now hand the call back to Telecom Egypt to Ms. Alia Allouba for a Safe Harbour Statement. Have a good call, thank you very much.

**Alia Allouba:** Thank you Karim 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 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, let me now hand over to Mr. Akil Beshir, Chairman and CEO of Telecom Egypt.

**Akil Beshir:** Thank you Alia. Good morning and good afternoon everyone. 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 HY 2007 consolidated results, I would like to welcome Tarek to the call in his new role of CFO. Most of you have known Tarek in his previous capacity of Director of Treasury, Investments and Investor Relations. He has now assumed his new role as CFO succeeding Ali Salama, who retired last month. Tarek will be taking you through several financial items in just a moment.

I would like to also welcome Mohamed Elnawawy who joins us on the call. Mohamed is our Vice President for international and regulatory affairs and we intend to give you an update today on some of the activities he and his team have been focusing on.

During the second quarter of 2007 we have built upon our solid position at the end of the first quarter to again record total revenue growth of 5 percent relative to the previous quarter and 9 percent year-on-year for the six month result. Once again this translates to a stable monthly ARPU of EGP 55.20 for the quarter.

When we examine the breakdown of revenues for the first six months, access revenues increased 10% year on year mainly as a result of the increase in subscription revenues. Total retail revenues for the period amounted to EGP 3.2 billion

Our customer base, which now stands at almost 11 million - 10.96 million to be exact, remains one of the largest and most stable in the region. Net additions have slowed in line with our strategic shift away from simply increasing fixed-line penetration among retail customers.

However, we are working hard to ensure our guidance of 400 to 500 thousand net additions by year end is met. Accordingly we have introduced two marketing initiatives during the third quarter which we believe will stimulate new customer interest. Two offers currently being marketed extensively waive the subscription fee of EGP 500 normally required to sign up for a new line and instead require either a monthly fee of EGP 25 and the use of pre-paid calling cards or a monthly fee of EGP 30 which includes EGP 8 free calls. We are currently testing this kind of 'pay as you go' top-up contract without an initial connection fee to see how potential customers respond to it. I will of course provide you with an update on the performance of these initiatives later on during the year.

I would also like to mention here that we have submitted a request to the regulator to reduce the interconnection fees between fixed and mobile. This is

something, you know that interconnection fees are fixed in an interconnection agreement.

However, with the latest continuous reductions in mobile tariffs, we believe it's only fair that we reduce the interconnection rates between fixed and mobile. And the regulator is looking into it and discussing it with mobile operators. And of course we'll report to you whenever we conclude an agreement on that.

Where we continue to demonstrate real growth is in the retail data and wholesale segments.

The focus so far in 2007 has been to capitalize on the opportunity to expand on our successful wholesale offering. Our fully digitalized and extensive backbone has been key to this effort and has enabled us to service growing demand from other operators to carry traffic over our network. As I reported to you last quarter, the benefit to TE of heightened activity from other operators in the Egyptian telecommunications market is extremely important. As the sole fixed network provider in Egypt, our wholesale services have delivered EGP 1.6 billion in revenue in the first half of the year. This represents 34 percent of our revenues and is a year-on-year increase of 32 percent when compared with the first six months of 2006.

The leasing of our infrastructure to other operators is a key commercial opportunity for TE in the remainder of 2007 and has already more than doubled in comparison with the same period last year. Given the rise in mobile demand, the entrance of the third mobile operator and the advent of 3G services, this is an exciting rapid growth segment for TE and we are confident that performance can be maintained in the full year result. You will find this revenue stream captured under 'other domestic wholesale' revenues in the P&L.

Revenues from international services continue to contribute significantly to our success, with increased traffic in both mobile to international and incoming international calls resulting in revenue rise of 23 percent in the first half of the year versus 2006.

No discussion of international services would be complete without giving you an update on our TE North project.

As many of you know, a key pillar of our strategy is to capitalize on the combination of our unique geographic position and the capacity of our fully digitalized infrastructure, Egypt's only fixed network. For more than two decades the TE's Transit Corridor, the terrestrial infrastructure linking the Red Sea to the Mediterranean Sea, has been the route of choice for all crossing submarine cable systems in this geography.

It is our intention now to increase the service footprint of the existing TE Transit Corridor by building a private submarine cable system that links Egypt to Europe. This project is called TE North.

The TE North project has two major strategic benefits. The opportunity to capture a portion of the non-serviced demand for IP traffic capacity from Asia and India into the West is significant, as this demand is forecasted by most commentators to continue to rise. Furthermore, not only does this allow us to extend our transit service footprint further but also has a positive benefit to our national market, by allowing us to lower the cost point of the TE group retail internet arm.

This programme is not a new departure. Our ability to deliver this project is simply an extension of what our Transit Corridor has achieved in the past twenty years. TE North complements our tradition in serving the submarine cable systems to take part in connecting nearly 2.5 billion people in Asia to the Western Hemisphere and vice-versa. We take this tradition very seriously and continue to enhance the TE Transit Corridor. As part of the TE North programme additional diverse terrestrial routes over the Sinai Peninsula are also under review to add further resilience to the corridor and favorable economics by avoiding cable build in shallow waters.

We expect to bring you further updates on this project during the course of the next six months and will not be giving guidance on today's call regarding the expected revenue contribution or profitability of this enterprise. However, where possible, Mohamed and I will be happy to try to answer your questions on the strategic rationale and operational planning as far as possible.

Before that, I would also like to make several comments today about the contribution of our wholly-owned Internet subsidiary and our investment in Vodafone Egypt.

Our retail Internet business, TE Data, continues to make inroads into the retail ADSL market, having achieved a 48 percent market share by the end of the first quarter. Our ADSL subscriber base has already grown 21.5 percent in the last three months alone; and has almost trebled in size since the first six months of 2006.

Some of you will have read about the government driven initiative to fight the illegal sharing of broadband connections among households. This practice has a negative impact on the quality of service perceived by the sharing users, as well as distorts broadband penetration indicators.

We will shortly be launching a reduced entry level price plan with the aim of providing an attractive alternative to sharing and thereby reducing the number of illegal connections. Our entry-level ADSL broadband price will be cut by more than 50 per cent to EGP 45 per month. The new price plan has a limited traffic quota of 2 Giga Bytes (GB) per month. Each additional 1 GB is charged at LE 10.

As most of you know we have invested a great deal of time and money in building our relationship with Vodafone Egypt. Our strategic investment in this business continues to yield positive financial outcomes from mobile related income streams.

In a highly competitive market, the management team at Vodafone Egypt continues to deliver on its strategy and to outperform its peers. I am aware of the market's interest in the mobile business. Given VE is now effectively free of its reporting requirements as a private company; we have an agreement in place to provide you with selected operational and financial performance indicators within our own reporting.

This investment continues to deliver a strong financial result for us - contributing EGP 507 million in investment income for the half year.

There is one further operational update I would like to share with you, which is highly pertinent to any discussion of our profitability in the quarter.

For some time now I have kept you abreast of the difficulties we have been facing in our Algerian joint venture. The anti-competitive practices we have encountered there have been unforeseeable and very unfortunate. Last quarter, I informed you that we had taken the step of freezing all further investment into this operation. We have now taken the decision to try and extricate ourselves from

this venture as the regulatory position is unchanged and we see little support of the spirit of the liberal market. It is unclear precisely what the outcome will be, but I assure you that I will continue to keep you apprised of the situation as soon as a final course of action is decided upon.

There is, of course, a direct financial impact of this decision, which Tarek will be discussing with you shortly in more depth. So with that I will now hand over to him. Over to you Tarek.

**Tarek Tantawy:** Thank you Mr. Beshir.

We have indeed started the year in good shape, operationally and financially. Total consolidated operating revenues for the first half are at strong levels, increasing 9 percent year-on-year to EGP 4.9 billion.

Our total revenue mix continues to evolve and while in the last quarter retail revenues, primarily made up of access services, voice and internet & data, were almost flat, we have recorded a 32 percent increase on half year domestic and international wholesale service revenues. We are very happy with the performance of our wholesale business and will continue to work hard to ensure that our network meets and exceeds the requirements of other operators.

Profitability continues to be a major focus for management. Our track-record on cost-control speaks for itself.

EBITDA before provisions and extraordinary effects for the half year reached EGP 2.7 billion, 10 percent up on the same period in 2006. This gives us a stable EBITDA margin before provisions and extraordinary effects for the period, at 56.3 percent. I view this as a very positive underlying margin trend.

Mr. Beshir has already provided you with an update on the status of the Algerian venture. This affected our financials for the 6 months period ending June 2007 in two ways. First, a non recurring and non cash impairment loss on assets of EGP 258 million. Secondly, a share of loss of associates which appears under income from investments of EGP 43 million. Hence the total negative financial impact related to our investment in Algeria amounted to approximately EGP 300 million

The impact on EBITDA after provisions right through to the bottom line of the one off impairment loss of EGP 258 million 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 remarkable 20% year on year increase.

Telecom Egypt's network is fully digitalized and requires very limited modernization. Even with the surge in demand from other operators we still have significant headroom capacity. This position has allowed us to scale back our capex programme. Comparable capex related cash flows have reduced year-on-year by 36 per cent to EGP 475 million versus EGP 738 million by end of Q2 in 2006.

Concerning the ongoing disclosure of Vodafone Egypt results which Mr. Beshir touched on earlier I would like to reiterate that being a private company in a highly competitive mobile market is a privilege that Vodafone Egypt should benefit from. At the same time we will make sure that the analyst and investor community get sufficient operational and financial performance metrics that help them understand how the company is evolving. We will be reporting on a quarterly basis as part of Telecom Egypt's reporting key operational and financial metrics for Vodafone Egypt. The operational metrics that will be reported will

shed some light on the subscriber base, ARPU and Total voice minutes while financial metrics will be limited to revenue, net profit and net fixed asset additions. I would like to also draw your attention to the fact that Vodafone Egypt's financial year ends in March while that of Telecom Egypt ends in December.

Concerning Vodafone Egypt's operational metrics for their first quarter ending June 2007, total active subscribers reached approximately 11 million with organic customer net additions of close to 1mn. Average customers have increased 50% relative to the same quarter last year with a positive reaction to the introduction of life time validity offer for prepaid customers. Global ARPU amounted to EGP 76/month with prepaid ARPU of EGP 60/month and post-paid ARPU of EGP 309/month. Total voice minutes for the first quarter reached 4.8 billion minutes.

Concerning the financial performance of Vodafone Egypt during their first quarter ending June 2007, service revenue increased 40% year on year to reach EGP 2.4 billion, net profit for the first quarter reached EGP 699 million, which represents a growth of 33% year-on-year, while net fixed asset additions during the period amounted to EGP 670 million.

Finally, before handing back to Mr. Beshir, I would like to remind you that we geared up the balance sheet in 2006 to increase the efficiency of our capital structure and finance the acquisition of the additional stake in Vodafone Egypt primarily by debt. This meant that net debt rose to EGP 6.8 billion at the end of 2006. Since the beginning of 2007 we have been slowly reducing our net debt position which as at 30 June 2007 stood at EGP 5.9 billion.

With that, I would now like to hand back to Mr. Beshir for his closing remarks.

**Akil Beshir:** Thank you Tarek.

As you can see from our financial results for the first 6 months of 2007, we continued delivering revenue growth as well as maintaining very healthy EBITDA Margin which has always been of utmost importance to our management team. We continue to explore new revenue opportunities opening up as a result of liberalization, while ensuring that the level of service and flexibility our retail customers experience is of the highest standard.

I talked to you at the start of the year about our strategic focus on optimizing the technical scope of our infrastructure and the opportunity to expand further our successful wholesale service offerings. The TE North project embodies this vision and I hope that you will share our passion for it. This is exactly the kind of strategic value enhancing investment you can expect us to pursue.

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

### **[Questions and Answers Session]**

We have a question from the line of Istvan Mate-Toth from Credit Suisse.  
Please go ahead.

**Istvan Mate-Toth:** Hi. Good afternoon, Mr. Beshir and Tarek. Congratulations with the results. I have two quick questions. The first one is could you please talk a little bit more about the wholesale business, which I think continues to perform very strongly?

And could you please talk a little bit more where you expect additional revenue growth - from which product areas in the wholesale segment? And what are - what is the margin outlook for your wholesale activities going forward?

And secondly, it seems to me that you have generated around 2 billion Egyptian pounds of free cash in the first half. And if I correctly recall, earlier on your guidance for the full year was between 3 - 3.5.

It seems to me that you are doing much better than your original guidance. And do you think that you are going to beat this 3 – 3.5 or we'll have a slightly different cash flow picture in the second half of the year?

**Tarek Tantawy:** Okay. Well let me take your questions one by one. The first question concerning the wholesale and the growth coming from it, the major area that has been growing rapidly is an item called Others under domestic wholesale.

And this primarily comprises the leasing of our infrastructure to mobile operators and Internet service providers. We have said earlier on in this year that we expect with the growth of mobile subscribers and the introduction of these services that we expect more demand for using our backbone.

And we - if I remember correctly, I've given this guidance that this number should at least double in 2007. And we have been working towards this. We do not believe that this has reached now the peak yet. We believe that there is more growth to come from the mobile business.

The other area that has been growing is the mobile-to-fixed interconnection. And again, that's basically coming from the, you know, the increase in mobile subscribers and the mobile calls originating from the mobile network to the fixed line.

Concerning the margin of the wholesale business, we do not report separate margins for each part of the business. Our guidance, however for the total

EBITDA margin is to remain in the mid-50s in this year and said that we expect later on for our EBITDA margin after liberalization to remain in the mid to low 50s.

Have this answered all your questions or...

**Istvan Mate-Toth:** Yeah. Thank you very much. So I mean on the wholesale side my only question was is the margin sustainable? And whatever the margin is, is it going to be the same, is it going to go up, is it going to go down?

**Tarek Tantawy:** Yeah. After the liberalization I mean you should expect some pressure on margins. I mean we'd not give official guidance for 2008 yet but you should expect some pressures.

**Istvan Mate-Toth:** Okay.

**Tarek Tantawy:** Concerning the free cash flow, yes, definitely we have been, exceptionally doing well in the past period. And I'm not sure if you include in the number you referred to, the investment the income from Vodafone or not.

**Istvan Mate-Toth:** I do.

**Tarek Tantawy:** Yes. So definitely, you know, I mean part of the positive performance is the excellent quarter - excellent half year by Vodafone Egypt. And this we expect to continue in the future. So yes, I expect that we'll be beating the 3.5 billion free cash flow figure towards year end.

**Istvan Mate-Toth:** Thank you very much.

**(Coordinator):** Thank you. Our next question comes from Osman Zaki from Merrill Lynch. Please go ahead.

**Osman Zaki:** Yes. Hi. Good afternoon, everyone. Just three questions if I may. One is actually on the guidance. Can you please now after your guidance for '07 in terms of revenue growth and also in terms of CAPEX? The CAPEX seems to be a bit light now.

Also shall we expect a further impairment concerning Algeria in this year or is that it?

And finally, on the local call weakness that we're still seeing, shall we expect this to continue to persist for the balance of the year? Thank you.

**Tarek Tantawy:** Okay. Well concerning the revenue growth, if you remember again the guidance was given earlier in the year was for 3% to 4% for the full year. And that was taking into account that liberalization of international gateways will happen earlier on.

So now I would say yes, we - you know, we should be achieving more than 3% to 4% due to the fact of the delay in the liberalization. But again, I wouldn't expect something in the range of 8% to 9%. I would say a more reasonable guidance would be between 5% to 6% for the full year.

Concerning the CAPEX, there has been no change in our CAPEX guidance. And it's very important to point out that our capital expenditure in the second half of the year tends to be more than the first half.

You should also consider that TE Data now is comprising a bigger part of the group capital expenditure due to their fast growth. And with the introduction

of the new entry package for the broadband, the 50% cheaper prices, this should be - this should even boost broadband subscribers, which will entail more CAPEX. So CAPEX guidance remains as is.

Concerning Algeria, no, I mean the investment now is carried at zero on our books. So you shouldn't expect further impairments. What might happen is that if we - if the situation remains as is and operations continue making losses in the coming quarter, you might see in our income statement a share of loss on the investment income.

But at the same time, this share of loss is reversed by the release of the impairment. So the net effect would be zero. So do not expect anything more.

Concerning the local calls, the figure we report includes both - it actually includes three things -- the normal fixed-to-fixed call, dial-up Internet and the audio text, which is the premium numbers. It has been expected that both dial-up Internet revenues and audio text will be declining. So this is affecting, you know, the picture in a way.

And the other thing is the numbering plan we have referred to is definitely having some impact as well, even in the second quarter. We have embarked on another wave of changing the numbering in several areas in Cairo and this definitely had a negative impact.

We are hopeful that by Q3, figures should look much better than what happened in the first two quarters of the year.

**Osman Zaki:** Great. Can I just follow up? One more question regarding dividends. Are we too optimistic to factor in an interim dividend this year?

**Tarek Tantawy:** Well we have nothing to say in that respect in this quarter. I mean the bylaws have been changed and they now allow for interim dividend. But no decision has been made as to whether to go ahead for it now or not.

**Osman Zaki:** Okay. Great. Thank you very much.

**(Coordinator):** Thank you. Once again, to ask a question, please press star followed by 1 and record your name. You have a question from (Ranjit Thomas). Please go ahead.

**Ranjit Thomas:** Hi. Thanks for taking my question. Had a question on your 3.5 billion of free cash flow. Does that include the NTRA payment and dividends you expect from Vodafone Egypt?

And secondly, on your CAPEX, is your CAPEX guidance 1700 to 1800? And, you know, if you're going to reach that, it would require a substantial ramp in Q3 and Q4, much larger than what you had last year. So I just wanted you - wanted to see if you - if that was your intention.

And my last question was, you know, on the company's free cash flow. You're trading at maybe a single-digit multiple of free cash flow -- you know, one of the cheapest valuations in the world. Are you - will you consider doing a buyback of stock or, you know, are you looking just at dividends?

**Tarek Tantawy:** First of all, let me start by the free cash flow question. I really now cannot go into the details of how each one of us defines free cash flow.

But the figure we have been referring to excludes the license reimbursement from the TRA. We this as - you know, it's not a recurring thing and it will

happen in 2008 and 2009 and that's it. So we don't include it in any reference we make.

Concerning the CAPEX guidance, well yes, I mean we - we've said that - we'll stick to our CAPEX guidance because again, we need to spend as well - in relation to the normal capital expenditure on modernizing the network and adding on new subscribers, we need to invest as well in making the network capable to cater for the increasing demand of the mobile operators and ISPs.

Mr. Beshir, would you like to take the share buyback?

**Akil Beshir:** As we indicated several times before, since we'll be generating a lot of cash, then of course we have to use the cash for the best interest of our shareholders. So our first option is to invest it either in expanding geographically if we have the right opportunity or expand in different business like the TE North cable system for example.

In case we do not - we have the cash and we do not have a compelling investment opportunity, then obviously we'll be looking at, you know, returning it to our shareholders either by paying interim dividends or buying back shares.

**Ranjit Thomas:** Okay. Thank you. That's helpful. And on the free cash flow, does it include dividends from Vodafone Egypt? And, you know, what are you expecting in terms of dividends or how much of dividends for the year are you expecting from that investment?

**Tarek Tantawy:** Yes, it does include dividends from Vodafone Egypt. But we'll not be giving guidance during this quarter on the dividends coming I mean for the full year from Vodafone.

**Ranjit Thomas:** Okay. Thank you very much.

**(Coordinator):** Thank you. We have a question from the line of (Maha Ashur) from Dow Jones. Please go ahead.

**Maha Ashur:** I just had a question about the Algerian operation. Mr. Beshir, you mentioned that you are looking to extricate yourself from the venture. Is that also a feeling that is shared by Orascom Telecom? Are you currently in negotiations with them?

**Akil Beshir:** Yeah. We are negotiating with our partner, with the regulator.

Of course our first priority is to try to solve the problems and continue operation in a way that's profitable to us. Failing that, all options are open and we're doing this together with our partner.

So, so far we have no indication of what the outcome will be. But obviously we'll report to you as soon as we have something concrete.

**Maha Ashur:** Not looking to pull out of the Algerian market full stop? You're still looking at other options?

**Akil Beshir:** Well pulling out is one of the options, of course.

**Maha Ashur:** Okay. Thank you.

**Akil Beshir:** Sure.

**(Coordinator):** Thank you. We have a question from the line of Istvan Mate-Toth with Credit Suisse. Please go ahead.

**Istvan Mate-Toth:** Mr. Beshir and Tarek, I wanted to ask you two or three questions again. One of them is the margin. And it seems to me that there is a bit of inflationary pressure on some of your costs. Gross margins and other expenses have grown.

And what do you think are the key drivers of any potential cost pressure in the wireline business? And, you know, what is your view on your ability to contain costs?

And secondly, on - following up the previous questions on the dividends and share buyback, if you talk to the government, I mean is the government theoretically open to the idea of you maybe buying back a stake from the government and canceling those shares?

I think the fiscal situation in Egypt is such that probably the government would love to have some profits. That would be a fairly easier way of creating shareholder value.

Are such discussions ongoing or is the government, at least in principle, open to such a thing, do you think?

**Akil Beshir:** Okay. I'll answer the second question and ask Tarek to answer the first one. Yes, concerning the buyback, we - yes, we have talked to the government in principle, as you said. They are open to the idea. I mean there is no objection to doing it if we believe it's the right thing for the company or for our shareholders.

Obviously when the time comes that we really want to do it, then we'll start discussing it with the government. Obviously there is discussions about the price. It has to be totally transparent just to be fair to our shareholders.

**Istvan Mate-Toth:** Okay.

**Tarek Tantawy:** Concerning your question on the cost items, well I would, you know, be very careful before drawing any conclusions from only a single quarter result. Usually some of our costs, especially employee-associated costs are seasonal in nature. You know, we tend to give some bonuses throughout these to our employees and this is not uniform all over.

So in terms of major cost items, interconnection costs, this has been set and stable. Mr. Beshir has referred earlier that we are currently negotiating with the regulator and the mobile operator to change the structure of the costs. But until then, you should expect stability in terms of margins and interconnection fees at least.

And the other cost items are mainly driven by inflation. So you shouldn't expect a huge jump in any costs.

**Istvan Mate-Toth:** Okay. So if - any changes or any big increases, it's more of a seasonality issue than underlying cost pressure?

**Tarek Tantawy:** Yes. Exactly.

**Istvan Mate-Toth:** Thank you very much, Tarek.

**Akil Beshir:** Any further questions?

**(Coordinator):** Once again, if you'd like to ask a question on the phone lines, please press star followed by 1 and record your name.

**Akil Beshir:** There seem to be no further questions.

**(Coordinator):** Question from the line of Mohamed Hamdy from CI Capital. Please go ahead.

**Mohamed Hamdy:** Good afternoon. I have two questions if I may. The first question, regarding the EBITDA margin before provisions, we witnessed a drop from 57% to 55% in this quarter compared to the previous quarter.

My second question is about the voice calls. Revenues from voice calls I witnessed decreased about 6% compared to - when we compare it to your year. Thank you.

**Tarek Tantawy:** Well concerning the first point on the drop in margins, this I think is very related to what Istvan was saying earlier in terms of increasing costs in the second quarter, mainly in previously associated costs. And my answer to this is that this is not something that should be - you should not draw, you know, a trend from just a single quarter.

Could you repeat your second question, please?

**Mohamed Hamdy:** About voice revenues, we witnessed also a decrease in voice calls from - when we compared year on year. It's about 6%. Is this a trend for the following quarters?

**Tarek Tantawy:** No. It's basically coming, you know, from the fixed-to-mobile interconnection. And this is related to, again, the interconnection regime that we have been talking about.

Lots of offers have been done in the mobile front. And we have said that probably the most part of our business exposed to fixed-to-mobile substitution is fixed-to-mobile calls and the long distance - domestic long distance calls. So definitely there has been some pressure in this area.

**Mohamed Hamdy:** Okay. Thank you.

**(Coordinator):** Thank you. You have a follow-on question from Osman Zaki from Merrill Lynch. Please go ahead.

**Osman Zaki:** Yes. I had just a follow-up question on what Mr. Beshir said earlier about hitting the subscriber target for '07 in the range of 400,000 to 500,000. But also in '08 I believe you give the same guidance for '08, 400,000 to 500,000. Shall we now expect a lower number of net adds in 2008? Thanks.

**Akil Beshir:** No. No, we should not. Our guidance remains the same, 400,000 to 500,000.

**Osman Zaki:** Okay great. Thank you.

**Akil Beshir:** You're welcome.

**(Coordinator):** We have a question from Marise Ananian.

**Marise Ananian:** Yes. My question is concerning the tax rate in the second quarter. According to my calculation you paid 25% in the second quarter of 2007. So why is it that high? Why is it 25%? And is it sustainable for the rest of the year?

**Tarek Tantawy:** I'm not sure. I mean did you just divide the income tax expense by the net profit before tax and this came out at 25?

**Marise Ananian:** Yes. Yes.

**Tarek Tantawy:** Yes. The thing you should consider is that not all accounting expenses are approved by the Tax Authority. I mean something like the impairment charge wouldn't be acknowledged as an expense tax-wise.

So you should strip out whatever is not relevant. And what we pay - the tax rate is 20% on taxable income only.

**Marise Ananian:** All right. Thank you.

**Tarek Tantawy:** You're welcome.

**(Coordinator):** Thank you. Once again, please press star and then 1 to ask a question. You have a question from Istvan Mate-Toth. Please go ahead.

**Istvan Mate-Toth:** My follow-up question was the source of the interconnect regime, you referred several times that there are some possible changes to this. And I would like to understand it better what the new structure would roughly be and what the main key changes would be.

**Akil Beshir:** Which regime, the interconnection?

**Istvan Mate-Toth:** Yes.

**Akil Beshir:** Yeah. Well the way it is now is that there's an interconnection agreement between us and the wire operators, which actually fixes the tariff for fixed-to-mobile and mobile-to-fixed calls and defines the - it's a revenue share agreement. All right? So we split the revenue between us.

What's happened is that mobile operators started, you know, refusing mobile-to-mobile calls and with the introduction of a third operator actually it was - it's now, you know, a unified interconnection rate between the three mobile operators of 11.5 piasters per minute.

So we - our argument with the regulator is that there is no - if the mobile operators can sell minutes to each other at this price, there's no reason why they should not be able to sell to us at the same - at mostly the same price.

So what we're asking for is first to reduce the interconnection rate to Telecom Egypt with mobile operators. And, you know, change from a revenue share model to a just interconnection rate and each one of would price his calls the way he sees. So that's the argument.

**Istvan Mate-Toth:** Okay. So basically you are pressing for a much lower mobile termination rate from fixed-to-mobile, right?

**Akil Beshir:** Yes. Exactly. Yeah.

**Istvan Mate-Toth:** So - because there's no asymmetry. If you're at fixed-to-mobile versus mobile-to-mobile, the interconnection is different.

**Akil Beshir:** The - right now it's - the tariff is 45 piastres peak, 35 off peak. And we get 40% of that and the mobile operators get 60%.

**Istvan Mate-Toth:** Exactly, because you have to pay like 25 or something, right?

**Akil Beshir:** Exactly. Yeah. So instead of 27, 25 we want to, you know, we want to reach much, much lower.

**Istvan Mate-Toth:** Okay. Thank you very much.

**Akil Beshir:** You're welcome.

**(Coordinator):** Thank you. Once again, to ask questions, please press star followed by 1 and record your name. At this time we're showing no further questions. Would like to ask a question, please press star followed by 1.

**Akil Beshir:** Well there seems to be no further questions. So if this is the case, I would like to thank you all for being with us on this call today and I look forward to talking to you again next quarter with again another set of excellent results. Thank you very much.

**(Coordinator):** Thank you. That concludes today's conference call. You may now disconnect.

**END**