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Telecom Egypt

Telecom Egypt Announces First Quarter 2007 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

Osman Zaki Good Morning, Good Afternoon, this is Osman Zaki from Merrill Lynch in London. I would like to welcome you all to Telecom Egypt's First Quarter 2007 Results Conference Call that we are delighted to be hosting today. From Telecom Egypt we have with us Mr Akil Beshir, the company's Chairman, Mr Ali Salama, Telecom Egypt's Vice President for Financial Affairs, Mr Tarek Tantawy, Telecom Egypt's Director of Investment, Treasury and Investor Relations and Miss Eman Anis, Investor Relations Manager. The conference call will start with a presentation on the operation and financial highlights of the quarter followed by a Q&A session. I will now hand the call to Eman for a safe harbour statement. Have a good call and thank you very much.

Eman Anis Thank you Osman 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 but would 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 Ali Salama, Vice President for Finance at Telecom Egypt.

Ali Salama

Thank you Eman. This is Ali Salama; I am the CFO of Telecom Egypt. For some circumstances Mr Akil Beshir will join us later in the Q&A session but I will continue with the presentation. 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 Q1 2007 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. After what was an exceptional performance in the final quarter of 2006, I am greatly encouraged by our solid start to the year. In the first quarter we have recorded a 9 percent year-on-year increase in total revenue which translates to a monthly ARPU of EGP 55.40.

When compared with the first quarter of 2006, the effects of our tariff rebalancing programme are again very visible. Subscription revenues have increased 21 percent since the first quarter of 2006.

In terms of local calls, as the final quarter of 2006 showed, tariff rebalancing does not in itself appear to have resulted in any decline in usage. When compared on a year-on-year basis local call revenues were flat. However, a quarter-on-quarter comparison (Q406 to Q107) shows a decline in local call revenues. I would like to take you through the reason for this.

During the first quarter of 2007, we were forced to embark on a round of numbering changes for operational efficiency purposes and to allow for future expansion. Typically, this kind of switch over requires substantial planning and time to prepare the customers' expectations and behaviour for the smoothest transition.

A further phase of these numbering changes is now expected in the second quarter and I can assure you that our teams are now primed to facilitate customers in this transition and ensure any short term financial impact on local call revenues is much reduced.

As I reported to you last quarter, the activities of other operators in the Egyptian telecommunications market are accelerating, driven by heightened demand from the end customer for telecommunications services. These operators carry traffic over our state-of-the-art backbone. The growth in demand from other operators to connect to our network has again given rise to a healthy quarterly result from our wholesale services, which now represent 31 percent of our total revenue mix. Wholesale revenues were up 19 percent versus Q1 last year and represent a key commercial opportunity for TE in the remainder of 2007;

having the potential to compensate for any erosion in international revenues as a result of proposed liberalisation.

As many of you know, our customer base, which now stands at 10.9 million, remains one of the largest and most stable in the region, while our focus has been gradually shifting from simply increasing fixed-line penetration among retail customers, to driving profitability through the development of higher-spend customer segments.

I am confident that these strategic decisions we have taken are paying off. They are already translating into strong financial result and I believe that this will continue throughout the short and medium term.

Importantly, the rebalancing of subscription fees and local call tariffs comes without an associated cost and despite a 4 percent increase in our subscriber base and a 9 percent increase in total revenues we have continued to contain our operating costs. I am immensely proud of our track-record on cost-control – a key target of management.

When taken after provisions, EBITDA for the quarter was 8 percent above that of the first quarter 2006. We have worked hard to sustain EBITDA margins of above 50 percent and the first quarter of 2007 was no exception. EBITDA margins were stable for the period at just under 57 percent.

In the first quarter 2007, consolidated net profit increased year-on-year by 22 percent to EGP 585 million, giving us a consolidated net profit margin of 24.6 percent. The increase was primarily the result of the solid increase in revenues, tight cost controls and an increase in income from investments resulting from the higher stake in Vodafone Egypt. Correspondingly, EPS increased 22 percent year-on-year to EGP 0.34.

TE stands to benefit from rapid growth in mobile penetration in Egypt, not only as a strategic investor in Vodafone Egypt, but also from the positive effect of mobile related income streams and interconnection fees. A sizeable portion of our international traffic comes from Vodafone Egypt, to whom we provide exclusive international gateway services. This agreement already places us in a very sound position to compete once the liberalisation happens.

Vodafone Egypt is delivering on its strategy and outperforming its competitors in terms of its share of mobile revenues and EBITDA margins. This investment continues to deliver a strong financial result for us - contributing EGP 243 million in the first quarter.

We have also been making progress in agreeing tangible outcomes from the strategic, co-operation agreement signed with Vodafone Egypt. Our strategic focus for 2007 is the expansion of new services and our close collaboration with Vodafone Egypt on shared customer propositions will be an important part of this. Over the last 5 months we have been working hard, with VE, on the nature of this commercial collaboration and I expect to be able to announce more on this during the second quarter.

Our retail Internet business, TE Data, continues to make inroads into the retail ADSL market, having achieved a 46.5 percent market share by the end of the first quarter. Its ADSL subscriber base has already grown 20 percent in the first three months of the year; and 186 percent since 31 March 2006. The technical ability and service excellence of the TE Data team, combined with a desire to grow the market as well as their share in it, means we are confident that during 2007 we will further cement our position as the broadband market leader.

Now I will take you over to the financial performance of Telecom Egypt for the first quarter of 2007. We have started the year in good shape, operationally and financially. Total consolidated operating revenues for the first quarter are at very strong levels, increasing 9 percent year-on-year to EGP 2.4 billion.

Total retail revenues, primarily made up of retail services, voice and internet & data, increased 5 percent year-on-year. Meanwhile wholesale revenues, comprised of both domestic and international, rose more than 19 percent. The growth in demand from other operators to connect to our extensive network has again given rise to a healthy quarterly result from our wholesale services, which now represent 31 percent of our total revenue mix.

Profitability continues to be a major focus for management. EBITDA just under EGP 1.4 billion translates to a stable EBITDA margin – standing at 57 percent for the first quarter. We view this as a very positive underlying margin trend.

There was some improvement in the performance of the Egyptian Pound against the Euro when comparing 1Q 2007 and 1Q 2006, with foreign exchange losses of EGP 14 million compared with a loss of EGP 25 million in 1Q 2006. EBIT increased 27 percent on the previous year, reaching EGP 860 million.

Our existing digital fixed-line network is extensive, with more than 25,000 kilometres of fibre optic cables covering 95 percent of populated areas in Egypt gives us significant headroom and has allowed us to scale back our Capex programme.

Comparable Capex related cash flows have reduced year-on-year by 23 percent to EGP 265 million versus EGP 346 million.

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. As you know net debt rose to EGP 6.8 billion at the end of 2006. Since the beginning of 2007 we have reduced net debt to EGP 5.8 billion by 31 March 2007. This represents a net debt to equity ratio of 25 percent.

To conclude with that I would like to open to you questions, Operator.

[Question and Answer Session]

Dina Elshawnay Hello Mr. Salama. I just wanted to ask about your operations in Algeria, there has been mixed talk about whether it's ongoing or is it going to come to a halt and how profitable it is at the moment and the problems that you've had with incumbent over there?

Ali Salama Would you repeat your question please?

Dina Elshawnay My question was regarding the Algerian operations with OT and how far has it come and there's been mixed talk as to whether is it still ongoing or is there talk that it might sort of be stopped and OT might withdraw out of the operations and how far are the negotiations going with the incumbent over there?

Tarek Tantawy The operation in Algeria, it was said before that it's not doing very well because of anti-competitive factors by the incumbent. Actually Mr Beshir was in Algeria last week talking to the regulator and the Ministry there to try and negotiate better interconnection terms and better protection for the second fixed line operator there, and we expect to receive a positive response from the regulator. In the meantime and until all those issues are sorted out, we have almost freezed all the investments there in Algeria and the same is happening from OT aside, we only basically pay the bare minimum to sustain the operation in terms of paying salaries and supplier dues. We're not injecting any more cash. At this point in time we would say that all options are open in terms of continuing the operation or closing it down and withdrawing from the market, we're still talking to OT and talking to the relevant parties in Algeria.

Dina Elshawnay Okay, thank you.

(Operator) The next question comes from the line of Steven Pettyfer. Please go ahead.

Stephen Pettyfer Yes, Good Afternoon everyone, Stephen Pettyfer from Merrill Lynch. Two questions if I may. Firstly you mentioned that you would scale back your Capex plans for the year and I wondered based on your previous guidance of 1.7 to 1.8 billion whether or not you would be revising that lower for the full year and my second question concerns the prospects of an interim dividend and I am wondering if you could update us on your thinking there? Thank you.

Akil Beshir Okay, I'll take the second question and then Tarek take the first one. Concerning the interim dividends, as we indicated before we have been generating a lot of cash and unless we do have an investment opportunity to use the cash for the best interests of our shareholders, we'd be looking at either paying more dividends or buying back shares, and we have just got the approval of our general assembly to change the settings of Telecom Egypt to allow for interim dividends. So going forward, yes we will be looking at paying interim dividends unless we do have a compelling investment opportunity.

Tarek Tantawy Stephen, concerning the Capex number, until now we still stick to our Capex guidance at the beginning of the year and if definitely updates came up in that respect we'll be doing this later on in the year.

Stephen Pettyfer Thanks very much.

(Operator) The next question comes from the line of Ms Shrouk Diab. Please go ahead.

Shrouk Diab Hello Good Evening everyone. I just wanted to ask the question concerning the monthly ARPU. I've noticed that year on year it has actually strengthened by 1% but I am a bit concerned when comparing with the fourth quarter of 2006, it has actually declined by 10%. So if you could just enlighten me a bit more about this and where do you foresee the direction output going at the end of the year? Thank you very much.

Tarek Tantawy Yes, well definitely there was a drop from the exceptionally good performance in Q4 last year. Mr Salama has touched on this earlier in his opening remarks; the main reason for the drop is the decline in local call revenues per subscriber because of the change in numbering. We have said as well that this change in numbering is a continuous phase that will happen again in the coming quarter but we expect that the impact will be less severe than what happened in Q1. So we expect ARPU to increase again starting from Q2, probably not to the 61.11 Pounds that was at Q4 but somewhere in between in the 57, 58 Pounds range.

Shrouk Diab Thank you.

(Operator) I have another question now from the line of Miss Maha El Dahan. Please go ahead.

Maha El Dahan Yes my question is just concerning any ideas for future expansion outside of Egypt seeing how the Algerian operation is fairing; are there any thoughts now to go anywhere else?

Akil Beshir Well it remains an important part of our strategy to go regional, to expand in the region, of course if there's any other opportunity outside the region we will also to look into it. At the moment we do not have any particular opportunities, we keep looking. The last one we were considering was Saudi Arabia which we decided to bid because of the terms of the license but we will continue and we have our eyes everywhere for opportunities, either Greenfield licenses or acquisitions of existing operations.

Maha El Dahan Okay, thanks very much.

Akil Beshir You're welcome.

(Operator) The next question I have is from the line of Denise Molina. Please go ahead.

Denise Molina Hi Good Afternoon. Just to follow up on Algeria, I was wondering if you were considering the Algeria Telecom privatisation and if you think that that's off the table for now for this year? Also if you would look deeper into Africa in terms of other privatisations and then secondly, I just wanted to ask if you could give us your underlying growth outside of the tariff advance seen for revenue?

Akil Beshir Okay. Of course Algiers Telecom is something that we look at when it materialises. The problem is that it has been set for the last two years that it will be privatised, nothing has happened yet but when it does obviously yes, this will be something that we look at and technically it is out of the question.

Tarek Tantawy Sure, apart from the tariff rebalancing we expect growth coming mainly from the wholesale part of the business due to the increased demand of other operators, more specifically the demand coming from the three mobile operators that we expect to increase with the introduction of 3G services. The other driver would be the increase in broadband penetration but just to be clear on this, I mean we never claimed that we are a growth company, I mean we are growing at moderate levels so do not expect like a 10 or 20% growth in revenues, we expect a moderate 5 to 6% starting from the coming year but to be very precise on this we need to wait to see the exact timing of the international liberalisation as well.

Denise Molina Can I just follow up on that actually, did you previously talk about a 3 to 4% revenue growth rate for year?

Tarek Tantawy Yes, that's correct for 2007, yes.

Denise Molina So you're now more thinking that it's closer to 5 to 6%.

Tarek Tantawy No, no, I was referring to the coming year 2008.

Denise Molina 2008. Okay. I'm sorry just one more question and then I'll be done. In terms of the international, do you have any updates on that because Mobinil mentioned on their conference call that they would get documents by the end of this month?

Tarek Tantawy Well concerning the exact timing of the liberalisation, we have said before that we expect the likely scenario is to give the existing mobile players international licenses. Several announcements have been made that it will be happening soon but we do not expect competition up and running before late Q2 or early Q3.

Denise Molina Thank you.

(Operator) The next question I have is from the Olga Bystrova. Please go ahead.

Olga Bystrova Good Afternoon. You mentioned on margins that in the first quarter you considered the trends to be quite positive. What do you expect for the full year all said for the remainder of the year and what could be the risks to your assumptions? And the second question, just to follow up on dividends and option for cash flows, do you think the investments opportunities that you mentioned, are there any imminent ones that you have in mind or was it used in a conceptual state? Thank you very much.

Ali Salama I'm sorry could you repeat the first question again please?

Olga Bystrova The first question, you mentioned on margins, first quarter margins were strong and you have seen some positive underlying trends if I understood correctly. What would you expect for the remainder of the year and what could be the risks to your assumptions?

Tarek Tantawy Well yes we expect to sustain margins in the mid 50's so with the first quarter EBITDA margin of 57% we think yes, this is sustainable. The down side for this would be a more than expected severe impact on the international liberalisation which we do not foresee under the current liberalisation scenario that's being on the table, just giving the mobile operators a license. Concerning the second question, was that related to the investment in the region you meant?

Olga Bystrova Yes, options for your cash, capital deployment and spare cash expenditures? Now you mentioned that you would pay interim dividends or consider paying interim dividends unless you see some investment opportunities, so I was wondering if you have any investment opportunities in mind that could be imminent or was this sort of a conceptual statement?

Tarek Tantawy Well it is a conceptual statement and for the time being there is nothing, which seems to be in the light.

Olga Bystrova Okay, thank you very much.

(Operator) Okay, thank you for your questions. I have no additional questions at this time. Mr Beshir will be rejoining shortly. A reminder ladies and gentleman, if you would like to ask a question, please press key star and one.

Ali Salama I understand there are no additional questions?

(Operator) No additional questions.

Ali Salama Okay. Thank you everybody for joining our conference call and we promise that we will work to improve our performance operationally and financially and thank you for your participation.