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## Telecom Egypt Announces First Quarter 2006 Results

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### Presenters

- Mr. Akil Beshir, Chairman
- Mr. Ali Salama, Vice Chairman; Financial & Commercial Affairs
- Mr. Tarek Tantawy, Director of Investment, Treasury & Investor Relations

**Operator:** Welcome to the Telecom Egypt First Quarter 2006 Results hosted by EFG – Hermes.

**Wael Ziada:** Good morning, good afternoon everybody this is Wael Ziada from EFG Hermes. I would like to welcome you all to Telecom Egypt First Quarter 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, Mr. Ali Salama the Chief Financial Officer and Mr. Tarek Tantawy the Director of Investor Relations.

The conference call will start by a Presentation on the Quarter's main Operational and Financial highlights followed by a Q&A Session. 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 Wael 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 a Safe Harbour Statement. During the course of this

conference call, we may make forward-looking statements regarding future events or the future performance of the Company. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. When relying on forward-looking statements, you should carefully consider the political, economic, social and legal environment in which Telecom Egypt operates. Such forward-looking statements speak only as of the time of this call today. Accordingly, Telecom Egypt does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise other than as required by applicable laws, the Listing Rules or Prospectus Rules of the United Kingdom Listing Authority, the Egyptian Capital Markets Authority or the Cairo and Alexandria Stock Exchange. The documents filed from time to time with these authorities may identify important factors that could cause actual results to differ materially from those contained in any forward-looking statements.

So that was the statement, let me now hand over to Mr. Akil Beshir Chairman of Telecom Egypt.

**Akil Beshir:** Thank you Tarek. Good morning and good afternoon everyone. I would like to thank you all for taking the time to be with us on this call today. Before I take you through the highlights of Q1 results, I would like to make sure that all of you have noticed the way we now report the revenue breakdown in the Notes to the Financial Statements which is now aligned in terms of grouping under both Egyptian Accounting Standards and IFRS.

We have also changed the way in which we report ARPU to only include subscribers recurring revenues which we believe is more relevant. Both of these disclosure changes should, in our view, assist both investors and analysts to better understand and compare the Company's financial performance. Let me now take you through the headlines of our Q1 results.

We are pleased with the results of the First Quarter of 2006 in which we continued to deliver top line growth of 7% relative to Q1 '05 and succeeded in maintaining a very healthy EBITDA margin. We have also put tight controls on our CAPEX spending, which has reduced by

144 million pounds when compared with that of Q1 '05 to close at 500 million Egyptian pounds.

One of the most important factors for stimulating demand in our domestic fixed line business can be discount promotions offered on connection fees. During the First Quarter of 2006 we did not have any such promotional offers and as a result our net subscriber additions were 90,000 subs versus 100,000 subscribers added in Q1 '05. This gradual slowing is also to be expected as our market matures and we reach our coverage targets.

As committed prior to our IPO tariff re-balancing has been approved by the regulator and has been effective from 1<sup>st</sup> April '06. We have also reduced our residential connection fees by 50% effective from April '06 and expect to see the results of the tariff re-balancing and reduction in connection fees in our half year results. For those of you that are new to the Company, the most recent tariff re-balancing was intended to enable us to compete more effectively in Egypt's fully liberalized Telecommunications market. It comprised of increasing subscription fees for residential subscribers from 8 – 10 Egyptian pounds per month and increasing business subscription fees from 13 – 16 pounds per month. We have also reduced free minutes given to residential subscribers from 166 minutes per month to 50 minutes and we have also increased the first minute charge for our local calls from 5 piasters to 6 piasters.

Despite the impact of our tariff re-balancing measures having not yet taken effect, I am pleased to point out that monthly ARPU was stabilized at 54.83 Egyptian pounds for the First Quarter.

During the First Quarter, TE Data our retail internet and data service provider performed exceptionally well in a rapidly growing sector. ADSL subscribers actually increased by over 200%. By the end of Q1 the Company's market share of Broadband subscribers increased to 35% versus 28% in Q1 '05. We are now ranked first in terms of market share of Broadband subscribers but we still need to further stimulate demand in the market and encourage adoption of Broadband services. We believe that the Egyptian market holds a strong potential for further Broadband subscriber growth that is yet to be seen.

I would like to also touch on the third Mobile License tender and our plans for this. As you all probably know by now we have teamed up with Telecom Italia and submitted our technical proposal to the regulator on the 4<sup>th</sup> May and we believe that our partnership with Telecom Italia is an ideal mix of strong local market

telecommunications expertise coupled with extensive, technical and commercial experience in operating GSM and UMTS mobile networks. There have been 10 other technical proposals submitted by other consortia and as expected this license has attracted lots of attention. It has been announced by the regulator that the evaluation of the bids will take 6 – 8 weeks and during this period we will continue to work closely with our partners and advisors to determine the appropriate license fee and our bidding strategy. I will keep you updated during the coming period with how things are developing on that front.

Let me now hand over to Ali Salama our CFO to walk you through our financial performance for Q1 '06.

**Ali Salama:** Thank you Mr. Chairman. Hello again everyone. Before I take you through our financial performance I would like to draw your attention to the fact that our financial statements has been prepared in accordance with Egyptian Accounting Standards and are presented on a stand alone basis. We will issue our IFRS Statements during the first week of June 2006 and we are working very hard on decreasing the time difference between issuing both sets of financials on the same time.

Let me now take you through the Company Financial Performance for Q1. Revenues for the quarter amounted to 2.11 billion compared to 1.98 billion in Quarter 1 2005 representing a growth of 7%. EBITDA grew by 3% reaching 1.2 billion Egyptian pounds representing an EBITDA margin of close to 58%. EBIT grew by 6% relative to Q1 2005 to reach 736 million despite of recognizing a Foreign Exchange loss this quarter of 26 million versus Foreign Exchange gain of 182 million in the first Quarter of 2005.

Net profit after tax was positively impacted by the lower corporate tax rate now in effect increasing by 44% to reach 536 million Egyptian pounds versus 373 million at Q1 2005. This represents earnings per share of 0.31 Egyptian pounds versus 0.22 in Q1 2005.

I would like to also pick up on the CAPEX figures Mr. Beshir talked about. CAPEX related cash flow have amounted to 500 million Egyptian pounds during the quarter versus 644 million in Q1 2005 representing a decline of 22%. We still estimate CAPEX for the year to be in the range of 2.8 to 2.9 billion Egyptian pounds and we are carefully putting in the necessary mechanisms to keep a tight control on CAPEX spending. I would like to also reiterate what has been said in our previous conference call that we expect a sharp decline in CAPEX starting from 2007 due to the shift in the Company's strategy

from achieving penetration targets into focusing on adding more profitable subscribers.

We still have a very conservative capital structure in which debt to equity stands at 19.2% by the end of Quarter 1 and I am very comfortable and confident that the Company can raise sufficient funds in order to fund the Mobile License should our consortium be successful in the award.

Now let me hand back over to Mr. Chairman for his closing remarks.

**Akil Beshir:** Thank you Ali. Just to wrap up, I believe we have done well in the First Quarter of the year seeing the anticipated growth level in our fixed line subscriber base, stabilizing ARPU and a rapid growth in Broadband data services all achieved while maintaining EBITDA margins, increasing net profit and substantially reducing CAPEX. We now look forward to see the impact of tariff re-balancing on our half year results.

One final thing I haven't touched on is our regional expansion into the Algerian market. I announced the launching of Commercial Services in Algeria earlier in the First Quarter and after just over a month of operations, our progress has been very solid. This business is at a very early stage but I look forward to providing you with operational guidance for the performance of this market later in 2006. With that I would like now to open the floor for any questions.

### **Q&A Session**

**Istvan Mate-Toth (Credit Suisse):** I have two very quick questions. One of them is for Mr. Salama to elaborate a bit on what these 'other' items were which rose relatively sharply among selling and marketing and general and administrative expenses and shall we expect this kind of growth rate to remain for the rest of the year? and secondly in light of the First Quarter results and we note in the second quarter you will have some price increases coming through. Are you inclined at this stage to upgrade your revenue guidance for the full year?

**Tarek Tantawy:** Istvan I am sorry, are you referring to.., which note are you referring to?

**Istvan Mate-Toth:** The Sales and Marketing and G&A. There are items which are called 'others' in both of them and they rose relatively sharply year on year and I was just wondering what is the rate to whether this

is going to; the First Quarter growth and will this remain for the rest of the year?

**Tarek Tantawy:** Istvan, most of these revenue streams are really unpredictable in nature and within the overall context of Telecom Egypt revenue they are really immaterial so it is very difficult to give specific guidance on what will happen although these levels will be sustainable in the future.

**Istvan Mate-Toth:** Ok and the revenue guidance?

**Tarek Tantawy:** Revenue guidance – we still, we would like to stick to our earlier revenue guidance for very simple reasons. First of all the tariff re-balancing will be effective from Q2 however several consumer groups for example are asking for like boycotting the Company for a day or two in order to make us change our minds so over the short term, we might not see the full impact of this but over the longer term, usage levels should be higher than the current levels. So this is why I want to stick to our earlier guidance and let's see the impact on the ground in Q2 and if we see a major change, we will definitely change our forecast for the full year.

**Istvan Mate-Toth:** Ok, thank you.

**Osman Zaki (Merrill Lynch):** My question is actually centered on the internet segment. Can you give us an idea about the number of ADSL lines you have installed at end Q1 and also is it my understanding that the Financial Statements that were released today are just for Telecom Egypt, they are not consolidated, and they do not include revenues from TE Data?

**Ali Salama:** The consolidated Financial Statements on Egyptian Accounting Standards will be posted on the Stock Exchange tomorrow morning. The IFRS consolidated financials will be issued at first week of June.

**Osman Zaki:** And what about the ADSL lines, can we get an idea about the number?

**Tarek Tantawy:** Osman you are concerned with the ADSL additions in the First Quarter of 2006 only?

**Osman Zaki:** The total number you have at the end of Q1.

**Tarek Tantawy:** At the end of Q1 it was close to 39,000 subscribers.

**Osman Zaki:** Ok, thank you so much.

**Hashim Omran (EFG Hermes – Asset Management):** I just have two questions regarding the effective tax rate and a question regarding the third Mobile License. Concerning the tax rate – can you please tell us what the effective tax rate was in Q1 '05 and what it was for this quarter? Secondly regarding the Third Mobile License – In the case of winning the actual bid, can you please give us a run down of what procedures will be followed to dispense the stake in Vodafone and at what price will that be executed and what time frame would that be executed in?

**Ali Salama:** For the effective tax rate for First Quarter 2006 was 20%. The effective tax rate for the First Quarter in 2005 was 42%. As you see in our Income Statement the tax is 131 million and deferred tax is 841.

**Akil Beshir:** Concerning the third Mobile License, as I said earlier, we have submitted our bid as a consortium with Telecom Italia among 11 consortia; we will work hard on trying to win the License obviously. If and when we win the License then we will be required to divest our stake in Vodafone Egypt. By law we cannot keep more than 10%, we intend to divest all our stake and we will do that actual work with Vodafone on selling the stake and will announce at the right time our action there.

**Hashim Omran:** Can you tell us does Vodafone have the first right of buying your stake or will it be open to somebody else?

**Akil Beshir:** No, they do not.

**Hashim Omran:** They do not have the first right. I am sorry just one last question. I am looking at your number from income from investments and I am noticing a very sharp increase. I realize that Vodafone distributed the dividend during the time period but wasn't there a dividend distributed in the same period as last year? What is the reason for the significant difference? I think the difference is around 140 million.

**Tarek Tantawy:** In the Q1 2006 of the 165 million have in dividend income; 153 million are from Vodafone Egypt because they distributed 2.5 pounds per share in Q1 2006. That wasn't the case in the last year.

**Hashim Omran:** Ok, thank you very much.

**Shorouk Diab (Beltone Financial):** I wanted for you to restate the dividends per share of Vodafone, I didn't catch that I am sorry.

**Tarek Tantawy:** We have in Vodafone 61.2 million shares and the dividend per share for Q1 2005, 2006 I am sorry was 2.5 pounds per share. So that adds up to close to 153 million pounds in dividend income from Vodafone in the First Quarter of 2006.

**Istvan Mate-Toth (Credit Suisse):** Just two follow up questions. I saw that revenues from incoming internet and calls have been growing fairly strongly. Is this usual in the first quarter or was this mainly due to volume or a change in the composition of the calls and again should we expect this trend to continue and secondly your interconnect expenses were flat. I suppose this is probably due to the fact that your traffic had shifted a little bit. Could you elaborate on that one as well please?

**Tarek Tantawy:** Well the international business whether it be outgoing or incoming have been performing very solidly during the past period despite of most of the pessimistic research reports that went out. This is mainly happening because of higher number of minutes coming into this market and out of Egypt and because of course of the delay in the liberalization of the international gateways. So we expect that this performance will continue during the coming quarters and for the interconnection fee, I am sorry Istvan could you repeat that again?

**Istvan Mate-Toth:** I have just noticed that the interconnect fees among expenses were roughly flat. That was any major change and we had the different revenue growth and volume growth so I would have expected there would be some interconnect leakage so was this due to the fact that that has been a shift in the composition of traffic or has there been any interconnect cuts maybe in some of the target countries. I was wondering what the reason for the flat expense?

**Tarek Tantawy:** Well actually the guys running the international business have been quite efficient during the past period. It is a matter of re-routing the international course to certain destinations and they kept on choosing the most efficient routes, mainly to the decreased interconnection costs so it is not just a matter of different volume of traffic. We had increasing revenues and at the same time maintaining interconnection costs at the previous levels.

**Istvan Mate-Toth:** Ok, so that was mainly related to the international traffic, the savings.

**Hashim Omran (EFG-Hermes Asset Management):** Sorry gentlemen one last question. I've noticed that the General and Administrative Expenses have increased from 8.5% of sales to 10% this quarter and something in Distribution Expenses have also increased by around to 1% of sales. Is this a result of more marketing activities or is the Company following a

different marketing strategy that is incurring more costs. Can you shed some light on this please?

**Tarek Tantawy:** The main increase in the G&A Expenses comes mainly from employee associated costs and it is very difficult to look at those on a quarterly basis. It is better if we look on an annual basis because it really varies from one quarter to another and we gave more attention to our marketing activities but we do not expect a material difference in marketing spending during the coming period.

**Istvan Mate-Toth (Credit Suisse):** Could you give us an update on this liberalization attempt of the IRD market. Have any problems been made on that front by the government, shall we expect something happening this year because it looks increasingly likely that probably the market will remain in good structure for the foreseeable future, has there been any developments there?

**Akil Beshir:** Nothing has happened so far. The regulator has confirmed his plans to issue an RFP for people to bid for a License. They will issue two Licenses however since they haven't started the operation so far.., well actually we are not sure when they are going to start but probably within the next month or two they will, which means that we are not going to really see competition during this year. We don't expect to see competition this year.

**Istvan Mate-Toth:** And Mr. Beshir I suppose before they issue the RFP they probably have to come to an understanding with you on termination rates and origination fees. Is progress being made there or this is still the same as before?

**Akil Beshir:** We are now finalizing an RIO for the 'Reference Interconnection Offer' which we are going to discuss with the regulator some time next month and this will be the base for the interconnection with the future competitors.

**Shorouk Diab (Beltone Financial):** I've read somewhere that in case of unfortunate event that you will not win the Third License that you have an intention of increasing your stake in Vodafone Egypt. Would you like to comment on that?

**Akil Beshir:** Yes, actually I never said that. I read it as well. No, increasing our stake in Vodafone as long as we remain a minority is only an investment decision so we will decide in this case, on pure economic basis. What we intend to do if we do not get the License of course, is to work closer with Vodafone, something that we have already started before the issue of the Third License was raised. We actually formed a team between

Telecom Egypt and Vodafone to work on how to capitalize on the partnership and what offers can we make and how we can really make use of this partnership but buying an additional stake is just an investment decision that we take based on economic considerations.

**Istvan Mate-Toth (Credit Suisse):** I am sorry I don't want to take up your time but if I may ask one more question. Depreciation has fallen among your COGS by a modest amount and you still have a heavy CAPEX Schedule. Could you just tell us why depreciation has been falling among COGS?

**Tarek Tantawy:** I think we have discussed this before. We have expected depreciation to be increasing at a slowing rate and then stabilize and then start to decline thereafter. This is mainly driven by the reduction in CAPEX and if you recall that we report our CAPEX in a way which is kind of different from what other operators do, so we include the portion of repayment of old loans related to CAPEX but if you only considered the new spending and acquiring of fixed assets, that has been going down significantly and this is why you should expect that the depreciation charges should be going down over the longer term.

**Wael Ziada:** Mr. Beshir would you like to conclude the call?

**Akil Beshir:** Well I would like to take this opportunity to thank every one of you. I know that we have taken you away from your very busy schedules to be with us on this call. We are here to answer any questions and our Investor Relations Department will be more than happy to answer any questions or give any guidance or any clarifications that any one of you would have at any time and if there are no other questions I would like to thank you again on behalf of the Telecom Egypt Team with me here today. Wish you a good day and hope to see you well in the next call. Thank you.