



Mr. Akil Beshir
Chairman

Telecom Egypt truly sits at the heart of Egypt's telecommunications market. However, 2007 has been a year of much change for our business. It is important to note that the sustained performance we bring to you in this report is being delivered in the context of a rapidly changing telecoms landscape in Egypt and that our team has shown great skill and expertise in continuously delivering characteristically strong results.

There are three pillars to our future strategy: optimising our state-of-the-art network, servicing the growing demand for broadband Internet and data services and leveraging our expertise as a profitable operator overseas.

Our fully modernised network is the backbone of our business and, with 11.2 million lines, we have one of the largest subscriber bases in the region. We still have excess capacity in our network and as Egypt's only fixed line network I believe that we have a significant opportunity to service the growing Egyptian telecommunications market.

Over the last five years we have recorded a compound annual growth rate of 7.7 percent in terms of subscribers and 10 percent in revenues. For the year under review, our revenues approached EGP 10 billion, a year-on-year rise of 5 percent, achieved while maintaining our profitability.

2007 has been characterised by a change in our business model. Market liberalisation and increasing demands for mobile and internet services have combined to alter the composition of our revenue mix. As our top line growth of 5 percent shows, this has been an opportunity for us to generate further income.

The competition for mobile subscribers has resulted in aggressive marketing from the mobile operators and our retail voice revenues have come under pressure. However, any retail revenue we lose to the mobile operators partially comes back to us through the investment income we derive from Vodafone Egypt and, secondly, through more demand for capacity from mobile operators to cater for the increased traffic. For retail and wholesale customers alike, our service

stands for value and quality. Reliability is a great asset and our infrastructure supports us well here.

The full year results provide a substantial demonstration of the success of our wholesale offering in particular. When domestic and international wholesale revenues are combined, they now account for a greater proportion of our total revenues versus last year. Over the last five years, we have seen a compound annual growth rate of 25 percent in wholesale revenues and in 2007 these totalled EGP 3.5 billion.

I am confident that this trend will continue into 2008 and, at the time of writing, talks with other mobile operators regarding interconnection agreements and international gateway services provision are well underway. Our objective is to ensure that we make it economically attractive for international and local operators to stay with us long-term.

The combination of our unique geographical position and the capacity of our fully-digitalized infrastructure is compelling. For more than two decades TE 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. We are building on this with our submarine cable project TE North for which 2007 was an important year of progress. Spanning more than 3,000 km TE North is one of the largest cable systems in the world in terms of density. The project will increase the service footprint of the existing TE Transit Corridor by building a private submarine cable system that links Sidi Krir in Egypt to Marseille in France to capture a portion of the non-served demand for IP traffic capacity from Asia and India into the West and vice versa. This will also lower the cost point for international bandwidth for TE and its subsidiaries. During 2007, we announced three contracts, pre-selling 25 percent of the physical capacity to anchor customers. We have also made progress in selecting our partners for the build, working with world class operators, such as Alcatel-Lucent.

Through our internet subsidiary TE Data we are now a clear ADSL market leader and have captured more than half of the market for broadband internet access, with more than 222 thousand ADSL subscribers, up 141 percent on the same period last year.

While still a small component of our total revenues, our internet offering comprised an increased proportion of our retail revenues during the period. Internet and data revenues rose 82 percent from EGP 184 million to EGP 335 million for 2006 and 2007 respectively.

In a highly competitive market, Vodafone Egypt's offering continues to be compelling and management are executing well on their strategy. The Egyptian mobile market also continues to evolve at pace and our investment in Vodafone Egypt has delivered another strong income stream in 2007, contributing EGP 1.1 billion to our bottom line. Vodafone Egypt reports a financial year ending on 31 March, so for the nine months in review, Vodafone Egypt recorded net additions of 3.7 million subscribers, representing a growth of over 75 percent relative to 2006. This has created a subscriber base of more than 13.3 million customers, a base comparable to our own, which generated a total of 16.3 billion minutes.

Our desire to expand outside of the domestic market remains intact and we continue to evaluate carefully opportunities for financial and strategic investments that draw upon our expertise.

The difficulties we have been facing in our Algerian joint venture have been a matter of public record which have led us to freeze all further investment into this operation. However, recent events would suggest that the regulatory position is seemingly changing in support of a liberal market and we are now in discussions as to how our presence in this market might continue and develop. I view this as an extremely encouraging development as we continue to believe in the market's potential.

Telecommunications bring many positive social, environmental and economic benefits for those who use them. For Telecom Egypt, corporate social responsibility is inextricably linked to the services we provide. We firmly believe that in addition to offering world-class services, Telecom Egypt must continue to be a responsible and active corporate citizen. Throughout 2007 we were proud to contribute to a diverse range of causes that impact daily life in Egypt, including healthcare, social programmes, education and culture.

We continue to be involved in both local and national programmes. In March 2007 we contributed 150 personal computers to the Heliopolis Services Development Society, which aims to provide resources and support for hospitals, libraries and education in Cairo. During 2007 summer, we financially supported the national 'Reading for All' campaign, which aims to increase literacy across all age groups and social groups. In May 2007 we were proud to sponsor the 6th Arab-African Business Women's Forum.

Telecom Egypt is particularly supportive of Egypt's healthcare infrastructure and in 2007 worked with the Children's Cancer Hospital-57357 and made donations to the Breast Cancer Foundation of Egypt (BCFE), the Ain-Shams Children's Hospital and a haemodialysis centre in Kalyoubia. We were also pleased to bear the construction costs for an organ transplant centre at Ain-Shams University.

Our performance during 2007 has indeed been positively affected by the Egyptian economy, which continues to be one of the fastest growing economies among emerging markets.

As a result the telecommunications market in Egypt continues to develop rapidly, and 2007 was a pivotal year for us. We have worked hard to ensure that the challenges facing our business are met head on but liberalisation of the telecommunications landscape in Egypt remains one of the biggest challenges we face as a company, and I am encouraged by the resilience we, as a company, are showing in adapting to a changing model.

We have started 2008 in excellent shape, both financially and operationally and are executing on our vision to be one of the regions most successful integrated telecommunications companies. TE continues to benefit from innovative and committed individuals across our organisation. To conclude, I would like to thank our employees, who have demonstrated continued commitment throughout the year, alongside our customers and shareholders for their ongoing loyalty.

Even with more than 150 years of operation behind us, I feel more confident than ever that the best is yet to come.

Akil Beshir
Chairman & CEO