



Chairman's Statement

2008 has been an unprecedented year globally - a year in which macro economic pressures and market dynamics have presented our business with significant challenges. The global economic crisis has impacted the Egyptian market, but not as severely as elsewhere in the world and we continue to enjoy strong fundamentals.

Telecom Egypt (TE) has a long history as a company and during previous periods of economic uncertainty we have shown resilience. Time and time again, we have demonstrated that our service offering, while not recession-proof, holds up through periods of market volatility.

There is little doubt that the global economy will continue to be affected for some time. However, our experience shows that consumer spending on telecoms in Egypt, while not essential, is not considered discretionary spend and does not decline as sharply as other consumer goods.

In spite of these challenges we have been able to report total consolidated revenues in 2008 which exceed EGP 10 billion for the first time and annual growth in net profit of 10 percent.

As Egypt's only fixed line network, TE continues to sit in an enviable position at the heart of the Egyptian telecommunications market. We provide connectivity to mobile operators and control all of the wholesale internet business. A well-functioning telecommunications sector is a critical component of any national economy and will continue to underpin the development of Egypt in the global market.

The challenges to our business do not only arise from global markets, but also from domestic market dynamics. As the market has liberalised, the intensity of competition has grown. Currently, we see this most in the quest for mobile subscribers. Such new developments raise regulatory questions for our market.

Market liberalisation and increasing demands for mobile and internet services have combined to alter the composition of our revenue mix. Our business today is much more diversified than ever before, but for retail and wholesale customers alike, our service stands for true value and quality. In 2008, we recorded total revenues of EGP 10.1 billion, EGP 3.9 billion of which were attributable to wholesale. Over the last five years we have seen a compound annual growth rate of 19 percent in wholesale revenues. Wholesale revenues now comprise 39 percent of TE's total revenues in 2008 – five years ago, the corresponding figure was just 23 percent.

While our retail voice revenue base has seen some negative impact from fixed-to-mobile substitution, our position as the network of choice for other operators means that any decline we have seen during the period under review has been partially offset by an increase in wholesale revenues.

Retail voice revenues have been pressured as a result of aggressive pricing practices from the mobile operators. We are seeking to address these issues through the appropriate regulatory channels.

TE's retail customer base now exceeds 11.7 million, delivering monthly average revenue per user (ARPU) of EGP 51 in 2008. During the year, we added over 474 thousand subscribers net, an increase of 12.5 percent on the net subscriber additions in 2007. A key driver to this growth was the success of the promotional activities we launched in the final quarter of the year.

Despite the increase in telecommunications activity, we continue to have excess capacity in our network giving us significant opportunity to service the growing market. Our fully digitalized network consists of more than 27,000 km of fiber optic cables with switching capacity of 14.3 million.

TE Data now holds ADSL market share of 59 percent. TE Data's management have made substantial efforts to maintain consistency in retail pricings and add value by improving and enhancing the service portfolio. We are keen to continue this trend and accordingly the focus on the costs of the company will be a real emphasis in 2009.

2008 was an important year of progress for our TE North build. 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 Egypt to France, enabling us to capture a portion of the non-serviced demand for IP traffic capacity from Asia and India into the West and vice versa. Crucially, TE North will also lower the cost point for international bandwidth for TE and its subsidiaries. Building on the 2007 contracts in relation to TE Transit Corridor and TE North with IMEWE, SEACOM and VSNL, in 2008 we also signed a US\$50 million contract with EIG in relation to TE's Transit Corridor.

While the competitive landscape has placed pressure on the margins of the mobile operators, we have worked hard to maintain profitability. In 2008, strong top line performance was coupled with a very healthy EBITDA before provisions margin above 51 percent.

Our investment in Vodafone Egypt (VE) has again made a substantial financial contribution to TE's results, delivering EGP 1.3 billion in investment income for the twelve month period. *Please note that Vodafone Egypt reports a financial year ending on 31 March.*

The company has a total subscriber base of more than 17.6 million customers, up 32 percent on 2007, which generated a total of 22.9 billion minutes in nine months in 2008. This represents a year-on-year increase in voice minutes of 41 percent.

Such strong operational performance has enabled the VE management team to deliver solid financial performance, with service revenues increasing 15 percent year-on-year, in spite of competitive pricing pressures. VE's profitability was also resilient. The company recorded a year-on-year increase of 10.5 percent when compared with the same period of 2007.

As a result, TE's consolidated net profit for the full year period was EGP 2.8 billion, followed by TE's distribution of the highest ever dividend payment in its history of EGP 1.3 per share.

Careful management of TE's significant free cash flow to fund our debt repayment program, something that we implemented in 2007, means we are in a very secure position. We maintain significant cash reserves and have no immediate refinancing requirements.

As can be seen from the performance we have reported, we continue to behave with caution and with the interests of our shareholders at the forefront of our minds. Shareholder value is at the heart of how we are building our business. In more difficult times, it is even more important to show leadership and behave in a responsible and sustainable way. Our commitment to transparency and the highest standards of corporate governance is unwavering. These are the principles by which we live and work.

As I look out to 2009, I take confidence in our ability to fund debt maturity, to fulfil our capital expenditure commitments and, in the absence of new acquisition opportunities, maintain a healthy dividend payment from our free cash flow.

I feel confident that we have started 2009 in good shape, with projects such as TE North on track and generating significant commercial interest; an increasing portion of growth businesses in the form of TE Data and Vodafone Egypt; a more diversified revenue base than ever before and robust margins which continue to produce significant shareholder returns.



Akil Beshir
Chairman & CEO