

12 August, 2010



Telecom Egypt announces Half Year 2010 Results

Presenters

Mr. Tarek Tantawy, CEO & Managing Director

Mr. Hassan Helmy, Vice President & CFO

Mr. Ahmed Fathallah, Director of Investment & Investor Relations

Mr. Mohamed Kamal, Investor Relations General Manager

Sergey Fedoseev

Good morning and good afternoon, everyone. This is Sergey Fedoseev from HSBC.

I would like to welcome you all to Telecom Egypt's First Half 2010 results conference call. From Telecom Egypt we have with us Mr. Tarek Tantawy, Chief Executive Officer and Managing Director, Hassan Helmy, Chief Financial Officer and Vice President, Ahmed Fathallah, Director of Investment & Investor Relations and Mohamed Kamal, the General Manager of Investor Relations.

As usual the conference call will begin with a discussion of the key highlights of the first half of the year followed by a brief Q&A session. I will now hand the call back to Mohamed Kamal for Safe Harbor statements. Thank you very much.

Mohamed Kamal

Thank you, Sergey for the introduction and for hosting the conference call. Good morning and good afternoon everyone.

As a standard rule of corporate governance of Telecom Egypt, I will first start by reading a short Safe Harbor 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. 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.

That was the statement. I will now pass you over to Tarek Tantawy, the Chief Executive Officer and Managing Director of Telecom Egypt.

Tarek Tantawy

Thank you Mohamed, and good afternoon everyone. We report to you today a first half characterized by stable revenues, increased net profit and progress in our projects that will enhance our business in the future.

Our performance in Q2 was solid and I believe the set of numbers we are reporting today reflect this. Reporting a revenue growth of 8% in Q2 versus Q1 of 2010 is an achievement especially when such growth has been coupled with maintaining our EBITDA before-provisions margin at the 52% level.

Operationally our committed Capex program improvement project execution means that we are on track in terms of infrastructure enhancements and network maintenance. Our submarine cable projects are progressing well and we are beginning to capture revenue contributions from these initiatives.

As Egypt's telecommunications market is still incredibly dynamic. We continue to see the initial intense land grab for mobile subscribers, which is placing a degree of pressure on the revenues and margins of mobile operators.

On the retail services front, we have reported a revenue growth of 9% on the previous quarter. While we do not attempt to compete solely on price, we have been much more active in promotional terms during the second quarter and the outcome has been highly positive. Over the recent quarter, we have won back subscribers and traffic by ensuring our competitiveness is better known while not compromising our principles of quality, reliability, and value-added services.

During the second quarter, we launched a promotion which offered residential

customers 3000 free minutes to be consumed over six months and no installation fees. As a result of this and other compelling offers in the three months from 1 of April to 30 of June, we recorded net subscriber additions of more than 110,000 customers.

We continue to service other operators as they seek to make efficient use of our state-of-the-art infrastructure. And this resulted in wholesale revenues also increasing by 8% on Q1 of 2010.

We have always been a very profitable company with excellent margins which we protect seriously. But the composition of our top line has shifted significantly ever since our IPO five years ago. It is now comprised of both retail services including internet and data and wholesale including submarine cable services. This offers us greater resilience and opportunity.

Our subsidiary, TE Data, continues to grow even in a market which is becoming more and more competitive, more than 61% market share of the Egyptian ADSL market and TE Data now having 740,000 customers, 48% higher than last year adding 64.6 thousand customers of these during the second quarter alone.

We continue to work closely with TE Data to ensure that it builds on and protects its leading market position. TE Data continues to attract new customers using innovative products and promotions which provide compelling subscription offers such as free routers, free installation, and bundling with flat rate voice products. It is combining them with additional attractive lifestyle benefits for retail customers.

Broadband also offers us the opportunity to cross-sell our services. And I firmly believe that we will continue to see consumer behaviour as it relates to telecommunications services continue to evolve.

We already find that consumers increasingly want products that can link seamlessly at home or on the move with a reliable data capability. This plays to Telecom Egypt's strengths and we have already developed several products and commercial offers which meet this need. These opportunities offer both competitive advantage

and financial benefit as today's result once again confirmed.

I will now hand you over to Hassan Helmy, who will provide you with a more detailed breakdown of today's financial results.

Hassan Helmy

Thank you Tarek. Let me first talk through our revenue for the second quarter.

Total retail revenues were 1.4 billion Egyptian pounds during the second quarter, a 9% increase on the previous quarter. With this, access revenue comprising connection and subscription were flat quarter-on-quarter at 453 million pound reflecting the promotional activities which Tarek has already mentioned.

Voice segment revenues increased 8% quarter-on-quarter to 580 million Egyptian pounds with a notable increase in local call revenues. Internet and data revenue primarily driven from TE Data, our fully-owned subsidiary, grew 24% year on year and 8% on the previous quarter.

Wholesale revenue have increased in terms of both quarter-on-quarter and year-on-year comparisons. They reach 1.3 billion Egyptian pounds in Q2 2010, an increase of 15% compared to Q2 2009.

During the quarter, 329 million Egyptian pounds of this came from domestic wholesale with growth primarily driven by income from internet service provider and capacity sales to mobile operator. International wholesale revenue accounted for the remaining 970 million Egyptian pounds during the quarter.

The 14% year-on-year growth was primarily driven from sale from our international submarine cable business. We recognize 154 million from cable services during the second quarter of 2010. But this business was not up and running in 2009.

Moving through the income statement while cost of goods sold have increased slightly due to the cost associated with the cable business revenue, as we indicated in our previous call, SG&A expenses decreased by 5% year on year. The result is an EBITDA before provisions of 2.8 billion Egyptian pounds for the half year which reflects margin of 53%.

Our business is highly cash generative and net profit margin continues to expand benefitting from our longstanding investment in Vodafone Egypt.

Despite the competitive mobile market in Egypt and the aggressive promotion run by mobile operators, Vodafone has gained market share, growing its customer base by more than a quarter in just 12 months to reach nearly 26 million subscribers at 30 June 2010.

Vodafone Egypt generated revenue of just under 3 billion Egyptian pounds in the first quarter ending June 30, 2010, nearly 3% above the previous quarter. The minor decline in revenue when compared to the first quarter ending June 2009 is due to the decrease in the call cost because of the aggressive competition between the mobile operators.

Net profit for Q1 2010 reached 766 million Egyptian pounds compared with 706 million Egyptian pounds in Q1 2009, an increase of 8.5%. In a highly dynamic market, our investment in Vodafone contributed income of 430 million Egyptian pounds for the second quarter alone.

TE total consolidated net profit during the second quarter is 971 million Egyptian pounds, a 23% increase on Q2 in 2009 and almost 2 billion pounds for the half year. This translates to earning per share of 0.57 Egyptian pounds for the second quarter and 1.15 for the half year.

Telecom Egypt's Capex during the first half year of 2010 showed an increase of nearly 19% in comparison with the first half of 2009 as a result of the increased investment in our infrastructure facilities to meet the mobile operators and ISP's needs. For the quarter ending - June 30 2010, total Capex reached 210 million which was within management expectations.

With that, Operator, please open the line to questions.

Martin Mabbutt

Oh hi. Thanks for the call. A couple of questions if I may. Firstly, on the investment income which is primarily Vodafone, I mean the quarterly increase is very large. And

I was wondering if there's any sort of special items which have given rise to that.

As you said it was 430 in Q2. It was only 300 in Q1 and 280 last year. And obviously that looks at obviously what's going on in the market. That's the first question.

And the second question is on the capacity sales. I wondered if you could say whether all of that 154 million fell within the international business and what your expectation is for the year and whether there are any special margin effects which come from those capacity sales please.

Tarek Tantawy

Okay. Well thank you, Martin, for both questions. I'll start by the second one on capacity sales. Yes, the 154 million is all related to capacity sales. We said that our estimate for this year is that submarine-cable related revenues should be in the range of 600 to 800 million pounds.

And in terms of margin implications, if you recall we said there are differences when it comes to margins for the terrestrial part versus the wet part. So in Q1 all of the revenues recognized were relating to the terrestrial part which has a very high margin and in the second quarter the 154 million pounds are primarily related to the terrestrial - sorry, to the wet part which has a lower margin. So the submarine cable revenues actually have put some pressure on group reported margin in Q2 versus Q1.

If you would basically isolate the submarine-related revenues and costs in both quarters you would have seen an increase in the EBITDA margin before provisions in Q2 versus Q1.

On the investment income when it comes to Vodafone, yes you're right. There are some adjustments which we've referred to. I'll have Hassan cover this. But there are adjustments which relate to the number reported in Q1 when it comes to investment income. Hassan, would you like to take this?

Hassan Helmy

Martin, if you recall in our Q1 conference call we've mentioned that our income from Vodafone was impacted by one-off adjustments relating to employees' share in profit, and that particular item was charged to expense in Q1, as a result of VFE's

decision not to distribute dividends. However, during the second quarter, VFE decided to distribute dividends and the employees' share in profit which was charged to expense was reclassified as a deduction from equity in accordance with Egyptian Accounting Standards. So for us, we have taken in Q2 our share of this as a deduction from equity.

Tarek Tantawy

Yeah. Maybe to add on to what Hassan was saying, two remarks here. One, I wouldn't like such an adjustment to undermine the strong performance of Vodafone Egypt in the first half of this year. Vodafone has been doing very well. They've been closing the gap when it comes to the number of customers with the first mobile operator and in terms of profitability even the reporting an 8% growth year on year when it comes to their Q1 numbers.

The other thing to keep in mind is that if you look at the entire six months period, not Q2 alone, then the adjustment wouldn't really make a big difference. I mean Q1 numbers were understated and this has been adjusted in Q2. So the six months, when you compare with H1 of the previous years, I think the growth is mainly coming from the strong performance of Vodafone Egypt than it is coming from any other adjustments.

Martin Mabbutt

Okay. That's great. Thanks very much.

Tarek Tantawy

You're welcome.

Stephen Pettyfer

Thanks and good afternoon. I wondered if you could give us a little bit more color on the domestic wholesale business. It's always a little bit sort of lumpy but seeing as in the second quarter particularly it's picked up quite sharply. Thanks.

Tarek Tantawy

Sure. Good afternoon, Stephen. As you probably remember, the domestic wholesale mainly relates to the services that we provide to other licensed operators in Egypt, and those services are mainly selling and leasing transmission capacity to mobile operators and ISPs and offering them co-location services in our facilities.

The other line item relates to mobile - to fixed interconnection, and this is mainly the

termination fees that we get for incoming calls.

The driver here has been mainly more demand for capacity, transmission capacity required by the mobile operators to cater for the increase in traffic on their networks.

Stephen Pettyfer Okay. So is the second quarter sort of a sustainable level then?

Tarek Tantawy Oh yes.

Stephen Pettyfer Thank you.

Tarek Tantawy You're welcome.

Maddy Singh Hi. Thank you. Two questions. First can you please update us on the progress on the mobile strategy? Do you have a definite plan now because during the last call you said that you'll update the market during the second quarter call?

And second question is on the one-off items in income statement. I thought it was related to the penalties and fines which you have charged to customers. Are these items expected to occur again in the future? And should we assume a similar run rate in the future? Thank you.

Tarek Tantawy Okay. Well first on mobile I have nothing to update you on during this call with the exception that, the aspiration to become a total telecoms operator is still there and we continue to explore our various options.

Having said that, obviously those kinds of aspirations are not causing any overhang because as you probably know we have already gone for an interim dividend distribution. And we will use, and we will take our time to see what would be the best course of action to become a total telecoms provider. But there is nothing new to be said on this call.

Hassan, would you like to take the second question.

Hassan Helmy On the other income. This is reported net "other income and expense", so the increase there is attributable mainly to the refund of customs duty that was paid in

the previous year, almost 70 million Egyptian pounds , and lower level of donation. The current year donation is much lower as compared to the previous year.

Maddy Singh

But are these items expected to occur at the same rate in future quarters as well or it could go back to the previous normal rate?

Hassan Helmy

No, we still have so many to collect from the customs authorities and you will see throughout the remaining two quarters money is coming again of the same magnitude or larger.

Maddy Singh

Okay. So 76 million or larger in future quarters.

Tarek Tantawy

Yes.

Maddy Singh

Okay and sorry, just to follow up again on the mobile side, on the dividend you said that you have only announced interim dividends. But is that something we should assume for future as well that you will be, you know, if future dividends are largely in the future because of your mobile strategy?

Tarek Tantawy

I'm sorry, could you repeat the question again?

Maddy Singh

Because the dividend was cut during 2009, because you wanted to have flexibility when pursuing the mobile strategy. Now when you say that, that overhang is gone, should we assume that future dividends will go back to the normal level which used to be earlier?

Tarek Tantawy

There is no need to make any assumptions. This is what actually happened a couple of months ago. We've gone with another interim dividend distribution and we've actually paid an absolute amount what we did pay in the previous year.

Maddy Singh

Yes, yes. But for future should we assume a similar amount, total similar amount for future?

Tarek Tantawy

I mean, the dividend decision is still seven or eight months away so I don't think there is a need to have any speculations at this in time. But it's the normal policy that

if no use for the cash, we will just go for a dividend payment. If there is something which we need the cash for, we'll definitely update the market then.

Maddy Singh Okay thank you.

Tarek Tantawy You're welcome.

Alexander Balakhnin Yes hi. One quick question on the one-off items in your P&L. So basically this provision related to the receivables, can you tell us what is the nature of this revenue basically which you write down?

Tarek Tantawy Well, we'll not go into the details of the reported figure for provisions. All that we can say at this point is that, it mainly relates to several wholesale customers. And there is some element of, you know, one-off item in it which Hassan can give an indication on the magnitude of one-off element in it.

Hassan Helmy It's almost 100 million pound.

Tarek Tantawy Okay?

Alexander Balakhnin Yes. And second question which I have is I probably missed it but did you have revenues in this quarter related to the Transit Corridor or your - you sold different cable systems?

Tarek Tantawy Oh, 100% of the revenues relating to submarine cables relate to the wet part not to TE Transit Corridor.

Alexander Balakhnin Thanks.

Tarek Tantawy You're welcome.

Richard Barker Thank you very much. Good afternoon. Two questions, please, if I may. Firstly, what - on the subject of the transit corridor revenues, maybe I have been under a bit of misunderstanding but it seems as though there's sort of one off element of these revenues. It's perhaps not quite as big as at least I had understood it to be.

And I just wondered if you could maybe talk us through the revenue recognition policy attaching to these revenues - over what kind of period are we likely to see these revenues materializing? Because clearly I think you've talked in the past about, you know, a fairly substantial amount of total revenue already having booked even if it has not already been recognized.

That's the first thing. And then secondly, Tarek, if I may, I've noticed that in the local press recently there was what looked like an interview that you had perhaps given with one of the papers talking about a 6 to 8 billion Egyptian pound investment program over the next three years, talking about various options including acquisitions in the data space and the enterprise services space, maybe in Egypt.

I just wondered if you could talk a little bit about some of those items and maybe talk us through this investment strategy which you seem to have been out running. Thank you.

Tarek Tantawy

Okay well, first Richard on the intended investments over the coming three years. The question during the interview was mainly addressing Telecom Egypt's Capex plan during the coming period, and the 6 to 8 billion, as I said, averages between 2 to 2.5 billion pounds every year.

And this will be mainly driven by how quickly we can take on more broadband subscribers, so most of the plan relates to investments in either fiber to the curb or fiber to the home rollouts nationwide. And this will have to be part, or very close coordinated with the government because the government will have its plans as well when it comes to availing broadband on a national scale. So nothing here is exceptional when it comes to investment. It has nothing to do with acquisitions.

The other part of your question, when it comes to becoming some sort of a total solution provided to our enterprise customers, this mainly relates to the - what we're looking into today of having first commercial partnerships with one or two systems integrators which are operating in the local market that complements our service portfolio to enterprise customers.

And if we see lots of progress and lots of value added, this is when we can consider an acquisition in the IT space. But in all cases, again, we're not talking, you know, hundreds of millions. We're talking very small transactions that only would happen if it complements our service offering to enterprise customers.

I recommend on your question on the revenue recognition on the submarine cable because I think we've at least mentioned this on more than one occasion, so for the sake of everyone's time, I'd recommend that we take this offline with either, you know, Hassan or Ahmed. You can talk to either of them and they will be very happy to walk you through the revenue recognition mechanism.

Richard Barker

Okay I'll book an appointment with Ahmed. Thank you.

Tarek Tantawy

You're welcome.

Christian Kern

Good afternoon. I have three questions if I may. The first one, could you give us a quick update on the competitive landscape in mobile as well as in fixed in terms of what recent initiatives and promotions you've seen? Second, is can you give us a brief update on the mobile termination rates situation you see over the next 12 to 18 months developing?

And the third question would be with regards to your wholesale services business, you mentioned that there have been a couple new entrants. Maybe can you help us understand which ones are the most aggressive ones there? And also it doesn't seem that the impact on your revenue line has shown yet, so when you would expect that to materialize. Thank you.

Tarek Tantawy

Okay, so on your third question you referred to new entrants in wholesale?

Christian Kern

Yes, on Page 2 of your press release you've got a section on the wholesale services business. In the second paragraph say in spite of new entrants to the international gateway market, international wholesale rates from X to Y.

And I wanted to see who really is your key competitor there and also when you would expect the main impact from that to show because you have shown a year-on-

year increase obviously and when new entrants come in and which I would have expected the other way. And I'm not sure when that's going to happen time wise.

Tarek Tantawy

Okay, well, on the first question on the competitive landscape, I think things have been quite for some time. And in my view, it seems that many of the mobile operators are basically running out of that. Competition has been very tough for the past 18 months. And I think the results which were announced by the operators show where we are today.

Having said that I expect that Ramadan will be as competitive as always and we'll see some promotions in the coming period. But in more cases, my expectations are that this kind of aggression when it comes to pricing practices and behaviour would not continue in 2011. Those are my expectations. You never know what will happen on the ground.

The only major I would say change, this happened maybe a day or two ago, and that has to do with Ramadan - and it was one of the operators started offering a per second billing scheme. So it's not very cheap when you compare it with the other promotions. But just the idea of moving into per second billing I think can put lots of pressure on the mobile operators if this ends up into some sort of an offer which will be matched by the others at lower prices.

Other than this, I'm not seeing many changes on the voice on the mobile voice front on the mobile data. We've seen all three mobile operators now having a foothold in fixed broadband, but we continue to lead the market and I do not see any changes in the market shares when it comes to fixed broadband even with the entry of mobile operators in that space.

On your second question on mobile termination rates, well, this issue is currently being handled through two ways. One is obviously the litigation which is taking place between the operators and the regulator. And in some of those cases, we are not even a party to such litigations although the outcome may impact us but we're not a party to these litigations.

And this process, I mean, there are no predictions when it comes to when will it end precisely but the court has issued a ruling, some sort of a summary judgment on the termination rates which was later on appealed by the regulator and I think they will keep on moving in courts. I wouldn't expect that the picture will become clearer before 12 to 18 months.

So on one side; it's the normal litigation channels. On the other side, this relates to arbitration cases which are there between Telecom Egypt and the mobile operators. And this I expect to know more clarity on the outcome by the coming year. So hopefully by Q2 of the coming year the picture should become, you know, much clearer.

On the wholesale question, if you mean by new entrants, the fact that the third mobile operator has an international gateway license and the fact that we have competition when it comes to submarine cables through the licenses which were issued by the regulator almost two or three years ago, I mean, the point is yes, there is competition. We're seeing competition but we still manage to protect our business.

When it comes to submarine cables, for example, we have a near 100% market share for all crossing submarine cable systems with the exception of one. And when it comes to - even to international, I think we're doing a pretty good job when it comes to protecting our retail business in addition to extending our services to Mobinil and Vodafone for their international voice service requirements as well.

Christian Con

That's very helpful. Thank you so much.

Tarek Tantawy

You're welcome.

AloK Nauani

Hi. Good afternoon. This is Alok Nauani from NBK Capital. I just have a really quick question on your subscriber growth on fixed line for the first quarter. We've seen 110,000 new subscribers. This has come on the back of fairly attractive promotions and such. Do you feel that these - that this kind of growth is actually sustainable going forward? And if so, is it going to be these kinds of promotions that

actually drive this growth? What are your views on that?

Tarek Tantawy

My view is that we had a good promotion. We had a very good quarter and I do not want to either generalize the results based on this quarter or tell you that this is not sustainable. It really depends on lots of things and how competition would evolve in the market.

And I think it's just premature to try and draw any trends here. So, it's better if we wait until the third quarter. This is when, I'd be in a position to comment on this.

Alok Nauani

Just one more question about your mobile segment. I mean, Mobinil had a fairly tough time after this quarter with their (dial) shortage and such. Could you tell us anything more about what the situation is like just for yourself, for - in terms of the long term numbering and plan evolving? Do you actually see a problem coming up for yourselves in terms of being able to add new subscribers, a similar sort of problem that Mobinil saw?

Tarek Tantawy

No. And for the sake of factual accuracy, I mean, you've brought direct questions when it comes to numbering on - for mobile operators to end because one is the operators, obviously, and the other is regulator. For the sake of factual accuracy, the regulator came out in public saying that they did not withhold any numbering ranges and they actually made numbers available to all mobile operators.

As far as we're concerned on the fixed business, there are no problems for Vodafone Egypt. We're not seeing any problems when it comes to availability of numbering.

Alok Nauani

Okay, okay. Thank you very much.

Tarek Tantawy

You're welcome.

Stephen Pettyfer

Thanks Tarek, if I could just come back to that question on Capex, the 6 billion over three years, given your spend over the last few years and your spend in the year to date, it sort of suggests that you're going to be stepping up the Capex and I wondered is that something you see as early as this calendar year or do you - is there a real

chance that you're going to step up in to the 2 billion mark in 2011?

Tarek Tantawy

So we're not seeing it in 2010 for sure Stephen. And it might be in 2011 and again, this will have to be as part of a bigger plan by the government. On one side, the Capex might increase to those levels. Or on the other side, there needs to be some sort of a commercial deal that we have with the government to compensate us for increasing our investment in broadband even in areas where it wouldn't be uneconomical to provide the service in.

So I think it's again, it's premature but for 2010 for sure we're not talking about such high levels of Capex.

Stephen Pettyfer

So is your Capex guidance for this year still around the sort of 1 to 1-1.5 billion mark?

Tarek Tantawy

Yes.

Stephen Pettyfer

Thank you.

Tarek Tantawy

You're welcome.

Closing Comment

Tarek Tantawy

Thank you operator. Ladies and gentlemen that concludes today's call. Thank you for your time and for participating. Should you have any further questions following today's results I encourage you to contact our Investor Relations team who will be happy to assist you. Thank you.