

Telecom Egypt Announces Nine Months 2009 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 Manager

Nadine Ghobrial Good morning, good afternoon everybody. This is Nadine Ghobrial of EFG Hermes. I would like to welcome you all to Telecom Egypt's Third Quarter 2009 Results Conference Call.

From Telecom Egypt we have with us Mr. Tarek Tantawy, TE's CEO & Managing Director, Mr. Hassan Helmy, TE's newly appointed Vice President & CFO, Mr. Mohamed Elnaway, TE's Vice President & Chief Strategy Officer, Mr. Ahmed Fathallah, Director of Investment and Investor Relations, and Mr. Mohamed Kamal, TE's IR Manager.

As usual, the conference call will start with a discussion of the highlights of the quarter followed by a Q&A Session. I will now hand the call back to Mohamed Kamal for a Safe Harbor Statement. Thank you very much.

Mohamed Kamal Thank you Nadine 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 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. We 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. I will now pass you over to Tarek Tantawy, Chief Executive Officer and Managing Director of Telecom Egypt.

Tarek Tantawy Thank you Mohamed and welcome to you all.

Before we take you through our main financial and operational highlights for the first nine months of the year, I would like to introduce our new Chief Financial Officer, Hassan Helmy who joins me on today's call for the first time.

Hassan joined the team in September from KPMG where he was responsible for leading the firms' audit practice, of more than 900 professionals, since 2005. Overall, he brings with him more than seventeen years of audit experience, serving a combination of multi-national and some of Egypt's largest companies.

As an experienced finance professional, I am confident that Hassan will make a substantial contribution to our business.

I'm sure that you will join me in welcoming him to the team. Many of you will no doubt meet Hassan in person in due course as he spearheads our investor relations programme.

I will turn over the call to Hassan for his remarks in just a moment.

The nine month results we have reported to you today are testament to TE's resilience and determination. Reporting revenue growth of 3.3% over the last nine months is an immense achievement, particularly when this has been delivered in such an aggressive market backdrop.

The challenges I reported to you last quarter, in respect of the land-grab for mobile subscribers, have intensified over the course of the year and particularly over the summer period. This will be little surprise to those of you who monitor the promotional activities of the main participants in the Egyptian Telecommunications market. But, it is a dynamic which has a direct bearing on the composition of our revenues and will continue to transform the Egyptian Telecommunications landscape.

In this context, I want to take a moment to talk about the way in which we now think about our business model.

There are short-term tactical strategies being played out in the market which we are responding to with our own promotional activities. However, it is important not to lose sight of the longer-term trends that will define the market in the coming decade.

Firstly the demographic profile of Egypt, which is heavily slanted towards a younger population, is such that latent demand for voice and data services is still pent up and represents a growth opportunity across all categories. While mobility for voice services is sought-after, this group is also likely to value the convergence capability of fixed line technologies for the home. We firmly believe that mobile and fixed offerings are not mutually exclusive but instead, going forward, will co-exist to service different requirements.

Secondly within TE's overall revenue mix, the importance of stand-alone telephony services - as categorised by our residential voice and access business - will be more evenly balanced by revenues from Broadband data as well as the solutions we provide to enterprise and wholesale customers. Consequently, we are applying a more segmented customer-centric approach to the way we view our model and its evolution. Over time the result will be a higher monthly ARPU residential base, a core suite of enterprise services and an international and national wholesale services portfolio which powers the businesses of mobile and data operators, third-party, submarine cable operators and our own retail business.

So as you can see, our medium and long-term strategy is mindful of mitigating the impact of external effects on our top line by ensuring greater diversity across customer segments, whether those customers be residential, business or wholesale.

Ultimately this is designed to protect our margins, which remain some of the strongest in the industry, and ensure that our business has a bright future. In such challenging conditions, our diversified business model continues to deliver strong bottom-line growth. I view an 18% increase in consolidated net profit as a significant achievement.

I talked to you all last quarter about our decision to tighten our credit policy so as to reduce our exposure to increased levels of customer default. This did result in a sharp one-off, decline in total subscribers for the second quarter of the year and I know that there was some concern in the market that this may be repeated in the third quarter.

What you can see from today's numbers is that one-off peak in disconnections we saw in the second quarter has not been repeated. There was some minor overlap between the periods in question which resulted in a loss of two hundred thousand subscribers at the beginning of the quarter. The corresponding increase in monthly ARPU, which now stands at EGP 56.7 for the nine months period, is testament to the fact that our revenues have not been significantly impacted as a result of our leaner subscriber base.

Notably, subsequent to the period in review we have introduced two promotions. First the reduced connection fee promotion we ran in the final quarter of 2008. Second, and for the first time we have reduced our domestic long-distance rates from 13th October to the end of November to match local minute rates prices. Both promotions are currently intended to run until the end of November and I will update you on the progress when we come to report full year figures.

All in all our revenues have grown by 3.3% over the course of the last nine months when compared with the same period in 2008. Retail revenues for the nine month period were flat as the largest constituent of this segment is still derived from voice, where we felt most pressure from fixed to mobile substitution.

Internet and data revenues comprising mainly of TE Data, Telecom Egypt's Internet and Data retail arm, yet again during the nine months under review increasing by 18% on 2008. During the first nine months of the year TE Data has added 147 thousand new subscribers, representing a growth of 68% in subscriber base year-on-year, and placing its market share at 61%. We expect Broadband data revenues which have recorded a 27% CAGR over the last five years, will play even more of a balancing item going forward.

Overall, the increase in total consolidated revenues was primarily attributable to our wholesale offering. Nine month wholesale revenues have increased 10% year-on-year to EGP 3.2 Billion. Our extensive and modern infrastructure remains the network of choice domestically and our international gateway remains the router for incoming and outgoing traffic.

I would now like to hand-over to Hassan to take you through some further highlights.

Hassan Helmy

Thank you Tarek and may I say that I am delighted to be on board and to get involved straightaway in reviewing our financial and operational performance for the period. I look forward to meeting you all over time.

The uplift in our total revenues, combined with our prudent cost management and reduction in interconnection rates, translated to nine month EBITDA before provisions of EGP 4.2 Billion. This represents a margin of close to 54%.

Across TE the commitment has always been to deliver consistently strong profits from the business and its investments. This has once again translated into an 18% rise in consolidated net profit, which now stands at EGP 2.6 Billion for the nine month period, or a net profit margin just above 33%.

Capex, for the nine month period as a result of the TE North build out, ongoing maintenance of our infrastructure and the continual work to maintain our Broadband data capability reached just under EGP 700 Million. As a business, we will continue to deploy cash to maintain our position as a provider of choice and invest in value-enhancing projects such TE North.

With the actions taken to reduce our net debt position we actually ended the quarter in a positive net cash position of EGP 737 Million. This comes a quarter earlier than planned and gives me great confidence that TE is in excellent shape financially and stands more than ready to cope with both opportunities that may arise and the changing times. During the first nine months total debt repayments amounted to EGP 1.6 Billion and we have recently announced that we will be early repaying EGP 400 Million of additional debt before year end.

With that I would like to hand back to Tarek.

Tarek Tantawy

Thank you Hassan. I have a few final points I would like to make.

As I said to you last quarter, management actions to reduce the risks faced by our business from an increased threat of payment default, means that reaching 100,000 to 200,000 net subscriber additions this year is now unlikely. We believe that because we have taken the necessary steps to improve the quality of our customer base and protect ourselves from unnecessary risk, we will likely be in negative territory on net subscriber additions by year end.

We maintain revenue guidance for the full year while I would say that based on the nine months' results I would upgrade our guidance for EBITDA margin before provisions to the low 50's instead of the high 40's. On the Capex guidance front, I would also update the guidance for full year Capex to be between EGP 1-1.3 Billion instead of the previous guidance of EGP 1.5 – 2 Billion.

Finally, we have discussed on previous occasions the benefits of our TE North project and opening-up an additional revenue stream, lowering the cost point for TE's existing customers and capitalising on TE's transit corridor. This is another example of the diversity we have brought to TE's revenue mix.

Many of you have asked me when we expect to recognise revenue from this project and I can confirm to you that we are on track to launch commercially in the first quarter of the year 2010 and will begin to recognise the revenues from this project then.

While the market continues to throw up challenges, I view these as a necessary evolution and an opportunity for TE to optimise its position in the market... What's more we are now net-cash positive, with no immediate re-financing requirements and very healthy margins.

With that, operator, please open the line for questions.

Q&A SESSION BEGINS

Delilah Heakal

Good morning, good afternoon everyone, this is Delilah Heakal from Pharos Securities in Egypt. I would like to begin by congratulating you on a strong set of results and congratulate Mr. Hassam Helmy on his appointment. I was just hoping you could clarify a bit, elaborate a bit on your EBITDA margin performance for both the nine months and the third quarter. Although, during the third quarter margins came under pressure, I'm seeing that they didn't come under pressure as gradually as what was initially assumed. Is this merely a function of cost efficiency? Are there any provision reversals in that? And in a related question, I also wanted to know were the annual salary increases implemented in Q3? Thank you.

- Tarek Tantawy** Well thank you Delilah. Well first on margins. The benefits we're getting are maybe from reduced costs appears in interconnection costs because of the NTRA ruling of last year and you know this is definitely helping on the EBITDA margin front. We're also putting some other tighter cost controls for other general cost items and this is how we managed to maintain margins above the 50% level. I would expect in Q4 and with new agreement, the three-year agreement that we've signed with Vodafone Egypt to continue to provide infrastructure and international gateway services, that would have some negative impact on our margins because of obviously the additional discounts that have been given for their commitment, but we've said that we should be able to maintain overall margins above 50% during the year.
- As far as your second question is concerned relating to salaries, yes the salary increases started being effective since 1st July and the increase was at 8%.
- Delilah Heakal** **Ok, so overall the solidity of the EBITDA margins or your operational performance is purely operational, there are no one-off items in there, neither at the EBITDA level nor on the net profit level?**
- Tarek Tantawy** No, on the EBITDA level there are no one-off items at all. If we're talking about bottom line, there are some one-offs but they're minimal, they do not impact the big picture.
- Sergey Fedoseev** **Hello everybody, good results. A couple of questions. First, what kind of pricing environment do you find yourself at the moment and secondly what do you expect from the Q4?. Thank you.**
- Tarek Tantawy** Sorry Sergey, could you repeat the questions again please.
- Sergey Fedoseev** **Yes, the first one, what kind of pricing environment do you find yourself in right now and what do you expect from the Q4?.**
- Tarek Tantawy** Well I mean from a pricing environment perspective the least I can say is that we are in a period where we're seeing hostile actions and very aggressive actions being taken by all operators in the market. And that impacts our voice revenues in a way and in turn we are responding to this and the response we had initially was the domestic long-distance calls, the lower rates promotion that we're running today and I expect that this would continue at least in the coming quarter and if not in the coming year as well. I think that the key thing here is just to try and be competitive when it comes to our service offering prices and at the same time try and balance that pressure happening on voice revenues, and that has been seen across the board, so that applies for fixed voice and mobile voice as well by other services that we provide and the most prominent of which would be Broadband. If you're talking about my expectations for Q4, as far as our business is concerned, I expect a quarter in which revenues should

come more or less in line with what we did in Q3 and margins are slightly coming under pressure, so you can expect margins either in the high forties or early fifties for the fourth quarter.

Nemat Choucri **Hi everyone, this is Nemat Choucri from HC Brokerage I only have two questions. The first one is on the wholesale revenues. There was an 8% quarter on quarter drop in whole sale revenue so can you please explain why this drop happened and is this related to the new wholesale agreement with Vodafone Egypt. And the second question – do you expect that there will be disconnections in the fourth quarter '09 as well? Thank you.**

Tarek Tantawy Sorry Nemat, when you say 8% do you mean Q3 versus Q3 '09 versus what, Q2 or Q3 of last year?

Nemat Choucri **No, Q2.**

Tarek Tantawy Part of it relates, yes, to some of the discounts that were granted for the long-term commitment that we got from Vodafone Egypt and perhaps that can be repeated if we sign a similar agreement with Mobinil as well but that had very little impact during the quarter because that applies not on the whole quarter but only on almost a month and half, almost half of the quarter. The other thing that put some pressure on wholesale revenues as well is international revenues, and there has been some seasonality which we see every now and then and obviously you know that the third quarter was not included, Summer time and the month of Ramadan as well, so that we've seen some decline in international traffic during the quarter.

Nemat Choucri **So as a result of the new agreement with Vodafone Egypt do you expect that the contribution of the wholesale to total sales will decrease from its previous levels?**

Tarek Tantawy No, we do not expect a decrease because on one hand you first need to understand the agreement has been based effectively on giving discounts for longer-term commitments and that is kind of a standard practice when it comes to signing long-term deals. So I view this is an offer for Mobinil as well if they want to sign a similar agreement but with the increase and the amount of traffic carried over the Mobile operators networks that should offset the discounts given..

Nemat Choucri **There was also a question on disconnections in the fourth quarter.**

Tarek Tantawy What was the question Neamat?

Nemat Choucri **Do you expect there will be disconnections in the fourth quarter '09, further disconnections?**

Tarek Tantawy Well there will be disconnections always. If your question relates to there will be negative customer additions in Q4, I'm hoping that it

will not be the case, so I'm hoping that we can maintain the existing customer base until year end.

Mr. Martin Mabbutt It's Martin Mabbutt at Nomura International in London. Two questions if I may. I wondered if you could clarify your understanding of the new fixed licences that are currently being discussed, what actually they do permit. I'm not quite clear whether they allow full-scale voice competition and the second point was just on LinkdotNet which I note that you are no longer bidding for, perhaps you can explain why?

Tarek Tantawy Well on the first question, the Regulator has actually announced tendering two new licences and the licences mainly relate to building infrastructure in the new residential compounds on the outskirts of Cairo and Alexandria. Those are the main places where you will find those new communities and, the Licence, I wouldn't call it a fully-fledged fixed Licence because at least it does not include any right to offer voice services, so voice would only be offered by Telecom Egypt and there are until now some restrictions on the size of the compounds that those new Licencees can operate in, so there has been some sort of a cap put for the compounds that they operate in at five thousand units, so anything above this only Telecom Egypt has the Rights to provide the service in.

I think more importantly you know is how we look at those Licences and as far as were concerned we look at it, many of those new comers will be focusing on value added services and they wouldn't be competing heads-on with our core offering which would include voice and to allow it to send data as well. So that's as far as the new Licences are concerned. Does this cover your question?

First we move to the other question, the second question relating to LinkdotNet. Yes, we're not in the race anymore and the reason for this is that we have submitted an offer to Link, or to the shareholders of Link and that offer has been valid for a certain period of time, we did not get a response before the expiry date and accordingly we decided that we would not be renewing our offer.

Richard Barker It's Richard Barker from Credit Suisse, set here in Dubai. Can I just take you back to the question on International Wholesale Revenue? Are you able to elaborate a little bit as to how important you think the impact of Ramadan was, how much of a contribution came from the economy and how much you think came from some changes in pricing if we are going to consider Vodafone, sorry to push you on that but I'd be interested in a little bit more detail.

The second thing I was just wondering is can you maybe talk a little bit about how you saw usage patterns change as well on the fixed line during the course of the price war on mobile that we saw in the third quarter. Thank you.

- Tarek Tantawy** Well unfortunately Richard, on the first one, we would not be giving more details as to the breakdown and the effect of each and every thing which you mentioned. On the second question relating to the effect of traffic. Well obviously the effect on our traffic, when we see a large reduction in mobile prices and have seen this on several of the promotions that they did, this definitely triggers more fixed mobile substitution. Having said that, the other encouraging thing is, that would be new promotions that we had by reducing the domestic long-distance calling rates, we're seeing now, I would say, a significant spike in our traffic which basically means to me that at the end of the day it's all about pricing and if price reductions continue on the mobile operator's front then we will have to be competitive ourselves and this is when we would either look at either promotions to reduce prices or perhaps permanent price reductions for certain products that we offer.
- Richard Barker** **On the usage change, the thing I'm getting at is, do you see a reduction pretty much uniform across the board of all types of traffic, local, DLD, ILD, are they all affected the same or do some get affected more than others?**
- Tarek Tantawy** No definitely not. So some are affected more than others and the main pressure always come on fixed to mobile, domestic long-distance, those are the two areas we've seen most of the pressure coming.
- Zoltan Palfi** **Good afternoon, I have a couple of questions, please. I was wondering what are the key reasons behind your Capex guidance cut is some of your Capex just rescheduled to 2010 or you think it's a real saving. Secondly, you mentioned the salary increase was 9% in the quarter but I was wondering, given that the personal expenses grew only by around 3% did you manage to reduce the number of employees working for the Group. Thirdly, I think you commented in Reuters that you are planning to roll-out a fibre-optics network in selected areas of Egypt. I was wondering what is the business rationale here and, finally, in the previous year you used to receive dividends from Vodafone Egypt, usually in the first quarter as well which I don't see coming through in the cash-flow statement this year. Is there any particular reason for this?**
- Tarek Tantawy** ok, well, that's an extensive list of questions so apologies if I forget some of them and please remind me if I skip any. So first on Capex reduction. Well, part of the reduction is mainly coming from better deals that we now have with our vendors and I think one of the benefits that we had was that we were in pretty solid financial shape in the past year and we definitely could come up with much better deals when it comes to pricing from vendors. The other part relates to delay in some of the projects and one of them, so the plan for TE North initially was to be ready before year end, now it's pushed for Q1 of the coming year so that has an impact on moving part of the Capex in the coming year as well.

On employees, well, there has been, we've said this several times before, we have been running a voluntary early retirement scheme so there has been a decline overall in the number of employees, we're now at fifty two thousand employees, previously we were at fifty four thousand, but more importantly there were other savings in employee-related costs. We're not talking salaries here, we're talking about other costs and benefits that we used to provide but has nothing to do with the salaries and this is how we've only seen the increase of 3%.

On the fibre to the home, the rationale for doing this. Well obviously we all realised that this is not a country-wide roll-out that we would be doing. This would be done only in selected areas when we see demand for, I would say, super high-speed internet connectivity and additionally content-related services and those are typically found on the new residential communities evolving on the outskirts of Cairo and Alexandria. So, rest assured that we wouldn't be obviously doing fibre to the home or even fibre to the curb all over the Nation.

Could you remind me of your last question please?

Zoltan Palfi

Yes sure, You usually receive a dividend from your Vodafone stake in the third quarter, at least based on the pressure of the previous years', did you receive any in this quarter? I don't see it coming through on the cash-flow statement?

Tarek Tantawy

No, we did not receive any dividends in this quarter and there was a general assembly for Vodafone Egypt yesterday that took the decision to delay the dividend distribution this quarter. The grounds for such a decision was based on the fact that, as you all probably know, there has been an ongoing inter-connection dispute and we saw clearly in the notes of the Financial Statements that Mobinil have filed for arbitration against us and we have responded to this with a counter-claim and at the same time we went to arbitration against Vodafone Egypt as well and Vodafone plc to solve the inter-connection dispute. And the general assembly was of the view yesterday that since this is a recent action then from the majority share-holders point of view they thought that it was wise to just delay the decision of the dividend until they see the impact of such an arbitration case.

Zoltan Palfi

Thanks very much Tarek and can you give us any time, when can we expect the final decision of this arbitration. How long can Vodafone delay paying dividends potentially?

Tarek Tantawy

Well, actually I'm not in such a hurry after all, we are net-cash positive. If that dividend comes soon then all the better, if it does not, if it does not cause any short-term or even long-term problems for us. Unfortunately I cannot give an indication on the duration of arbitration and we'll make sure that we keep you updated perhaps on a quarterly basis on the developments on that front.

- Richard Barker** Just to come back on a different question. To do with the dividend and, more to do in fact with your deeper relationship between depreciation and Capex and the implications that has for distributable for reserves. There's obviously a huge different at the moment between Capex and depreciation and if anything that gap seems to be widening. I'm telling you what that is doing is reducing your distributable profits, obviously unless you decide to do some kind of capital restructure. I just wonder in order to avoid cash being unnecessarily trapped in the company, is there anything you can do about changing those dynamics and specifically about restructuring the balance sheet maybe so that the earnings are a bit more reflective of the cash-flows that the company is generating?
- Tarek Tantawy** Well Richard you know, unfortunately that's the way we need to do our accounting, so it's very difficult to change the rules here. I think the best way of addressing your questions is perhaps to have some time over the phone, perhaps off-line, with our CFO to discuss it because it seems to me, now in my new position, so I'm not the CFO anymore, it's a very complicated question. So let's address it off-line if you do not mind.
- Zoltan Palfi** Good afternoon gentlemen and thank you for offering the follow-up. I was trying to get some more clarification about the relationship of Vodafone Egypt. Given that you signed this three-year agreement it seemed that the relationship has been working better than it used to do in the previous quarter. In light of this it sounds all the more surprising that Vodafone Group decided to delay the dividend payment. Can you please offer some more colour about the dynamics between you and Vodafone and the background if that's possible please?
- Tarek Tantawy** I think the fact of distributing dividends or withholding dividends for a reason does not have a direct implication on the relationship we have as two corporations working together.
- Mohammed Hamdi** Hi, Good afternoon, I am Mohammed Hamdi from CI Capital Holding. I have one question if I may. I witnessed in the Financial Statements in other revenues below the line the accrued interests for the amounts paid to the Regulator. If you can just give us a clear picture on this item.
- Tarek Tantawy** Well, this item, I mean that basically goes back to like maybe three or four years ago when Telecom Egypt used to have the third mobile Licence and that Licence has been surrendered and the price paid for that Licence has been being repaid by the two existing operators, Mobinil and Vodafone, so part of the payment included, since it's almost over four years, included interest as well and the number your referring to relates to interest and obviously by time that interest is being repaid as we speak. Starting from next year you should not be seeing this anymore because the last instalment, including the interest, would have been paid.

Martin Mabbutt It's Martin Mabbutt from Nomura again, Just a quick one on internet and data which I saw grew very much more slowly in Q3 than historically, perhaps you could tell us why that was and I also wanted to clarify in next year, presumably you will take all the capacity sales on TE in Q1 or Q2 and perhaps you could remind us what that figure would be roughly at this stage?

Tarek Tantawy Well, first on the internet and data question. Bear in mind that the internet and data line item in our revenues includes not just Broadband Internet, so it includes Dial-up Internet as well which has been fading away by time. Having said that the Broadband revenues as well you did not see the usual growth pattern mainly because of the promotional offers that were done in the second & third quarter of the year. So there were several promotions running in parallel including offering double speed at the same price and other promotional activities as well which have put some pressure, although short-term on Broadband ARPU. Your second question was?

Martin Mabbutt TE North. You'll obviously take the element of straightforward capacity sales through presumably in 2010. I just wondered whether you could update us on how large that number was expected to be?

Tarek Tantawy No we did not give any guidance on the capacity sales until now and I expect that we would be doing so once the system is up and running and that expect this to happen in Q1 of the coming year. So this should happen with the full year results score.

END OF CALL