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Telecom Egypt Announces First Half 2008 Results

Presenters

- Mr. Akil Beshir, Chairman & CEO
- Mr. Tarek Tantawy, Vice President & CFO
- Mr. Ahmed Fathallah, Director of Corporate Finance, Investment & IR
- Ms. Alia Allouba, Investor Relations Manager

Jean-Charles Lemardeley Good morning and good afternoon everyone. It is Jean-Charles Lemardeley from JP Morgan. I would like to welcome you all to Telecom Egypt First Half 2008 Results conference call; we are very happy to host the event today. From Telecom Egypt we have with us today Mr. Akil Beshir, Telecom Egypt's Chairman and CEO, Mr. Tarek Tantawy, Vice President and CFO; Mr. Ahmed Fathallah, Director of Corporate Finance, Investment and Investor Relations and Ms. Alia Allouba, Investor Relations Manager.

The conference call will start with a presentation on the operational and financial highlights for the first six months of the year followed by Q&A. I will now hand over the call to Telecom Egypt to Ms. Alia Allouba for a Safe Harbour Statement.

Alia Allouba Thank you, Jean-Charles, 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 reading a 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, and before handing over to Mr. Akil Beshir, Chairman and CEO of Telecom Egypt, I would like to draw your attention that we have uploaded a presentation on our website summarizing our performance in the first six months of 2008. During this call we might refer to particular slides in the presentation so it will be helpful if you view this simultaneously. I will now pass you over to Mr. Chairman.

Akil Beshir Thank you Alia and good morning and good afternoon everyone.

As usual, I welcome you to today's call and look forward to taking your questions in just a moment. First, I will comment briefly on today's consolidated results which are presented to you under Egyptian GAAP, I will then go into a little more detail on the numbers and Vodafone Egypt's performance. Finally, we will move on to questions.

Before we look in more depth at TE's performance in the first half of this year, I'd like to take a moment to set the context. As many of you know, TE sits at the very heart of the Egyptian telecommunications market. As Egypt's only fixed line network, we have one of the largest and most stable fixed line customer bases in the MENA region. We also provide connectivity to mobile operators, and control the entire wholesale Internet business via our fully-modernised network - the backbone of our business. Our market has changed considerably since liberalisation and the results we will present to you today indicate how we have responded to these challenges, and highlight the evolution of our offering. Our extensive network has helped us deliver significant growth over the past few years. Subscriber growth over the last 4 years has averaged 6.5% per annum - I view this as a substantial achievement.

During the first half of 2008, we have been gaining new customers and recorded gross additions of more than 200 thousand. However, in this same period we have enacted a significant number of disconnections, removing customers who have not been paying their bills and we are not in the business of sacrificing profitability just to expand beyond the existing footprint. This is the reason that net additions for the half year are currently 38 thousand. Our year-end target of adding 250 thousand subscribers net is not being revised today as we wish to await the outcomes of several initiatives related to the recent round of tariff rebalancing. We expect to have better visibility on this at the end of the third quarter and will bring you a comprehensive update then. Our record of growing revenues, 8.6% percent each year on average since 2003, is apparent. Delivering stable top line growth in the context of greater competition has been challenging and the composition of our revenue base has altered dramatically. In 2005, just 29% of total consolidated revenues were derived from wholesale. Within just three years this has increased to 40% of the total today. This is notable, as it represents an excellent balancing item to the pressure mobile competition has placed on our retail business.

Profitability is a key metric against which the management team is evaluated. EBITDA has grown at a compound annual growth rate of 8.4 percent, allowing us to sustain very healthy EBITDA margins. Even with salary increases being paid in the first two quarters of this year we have retained an EBITDA margin before provisions for the first 6 months for the year of above 50 percent. This is within management expectations.

I mentioned earlier the change in our revenue mix. In the context of aggressive competition from mobile operators, we have not been complacent. Specifically we have sought to leverage our strongest asset – our extensive network. We derive revenues from the retail segment and increasingly from other providers directing traffic over this infrastructure. By diversifying our business in this way we have offset the impact which fixed-to-mobile substitution may be having on retail voice revenues. Let us be clear - TE only benefits from the increase in mobile traffic and has shown a corresponding increase in domestic wholesale revenues, now standing at EGP 546 million. This is before we even consider the contribution VE now makes to our bottom line.

Opening up a market to competition has to be fair to all parties and, subsequent to the close of the second quarter, we have implemented a second round of tariff rebalancing. This gives us the opportunity to compete with the mobile operators on a more level footing for local, long distance and fixed to mobile call types. The first effects of these changes will be shown in the third quarter.

Mobile operators are marketing themselves aggressively to consumers, promoting very low prices. To date we have been unable to compete fairly with these promotions, due to the existing interconnection agreements that have been in place since 1998. These agreements stipulated a fixed interconnection rate for TE but have allowed the mobile operators to negotiate a lower rate between themselves, meaning TE has been unable to offer its customers a rate competitive to those offered by the mobile operators. We raised this issue with the mobile operators and the Regulator and are optimistic that our discussions will ultimately be favourable to our customers. Any reductions in termination rates will be passed on to the consumer directly, reducing fixed to mobile tariffs. These discussions are ongoing and we hope to be in a position to update you on this later during this same quarter. I strongly believe that Egypt remains a dynamic and exciting telecommunications market which offers significant opportunities to TE. As you can see, we are working hard to evolve our business accordingly.

Within the space of five years TE Data has developed a 56% market share and an ADSL subscriber base of over 300 thousand, more than double its position at the same time last year. This year TE

Data is on course to deliver another record set of results and we believe that, as internet penetration increases, it is ideally placed to benefit. TE Data provides us with more than just a revenue contribution - as the Egyptian market leader it gives us an edge. We can cross-sell to our existing customers, while also providing new customers with a rounded communications package. For example, on the North coast of Egypt we are currently promoting an offer for a phone line, plus an ADSL line for EGP 499 for one year.

As I reported to you in the first quarter, aggressive price reductions have meant that customer numbers are growing faster than revenues. Despite this pressure on industry margins, our investment in Vodafone Egypt has once again made a substantial contribution to our results, contributing EGP 607 million in investment income for the period ended 30th June of 2008. Please remember that Vodafone Egypt reports a financial year ended on 31st of March, so the numbers we are presenting to you today are for the three months from 1st of April to 30th of June 2008. In this highly competitive environment, VE management continues to deliver against its strategic and financial objectives. During this period, Vodafone Egypt recorded net additions of 1.1 million subscribers, taking its customer base to more than 15 million. This base generated a total of 7.1 billion voice minutes in the last three months to end of June 2008 and year-on-year; this is an increase of 48 percent. Financial performance was also strong for the last 3 months; Vodafone Egypt reached service revenue of EGP 2.8 billion, up 17 percent year-on-year. Correspondingly, Vodafone Egypt's net profit for the three months to end of June 08 reached EGP 737 million, representing a year-on-year increase of 5%.

Vodafone Egypt's focus has always been towards revenue and profitability instead of number of subscribers. At 30th of June 2008, Vodafone Egypt had a revenue share of 54% and a share of net profit after tax excluding Etisalat of 63.4%. Vodafone Egypt's capex figures reached EGP 368 million for the 3 month period**.**

While the second fixed line auction is now due for the 18th of September, the build out of any second network will require significant time and money, while also accompanied by coverage obligations and given that our network extends to cover 95% of Egypt, we fully anticipate that the second fixed line operator will, indeed, be a wholesale customer of ours. Liberalisation of the international gateway has not had a visible impact on the revenues we derive from this segment. Our exclusivity agreement with Vodafone Egypt is an important part of the puzzle and our talks with MobilNil are also advancing

One of the most exciting new opportunities that we have been working on since 2007 has been TE North, a submarine cable designed to capitalize on the combination of our unique geographic position and the capacity of our infrastructure. For more than two decades TE's 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. With a capacity that will make this one of the largest cable systems in the region, we are increasing the service footprint of the existing TE Transit Corridor, linking Sidi Krir in Egypt to Marseille in France. This will enable us to capture a portion of the non-serviced demand for IP traffic capacity from Asia and India into the West and lower the cost point for TE Data.

In terms of the commercial potential of this project, I would like to share with you a few numbers that explain why TE North is such a secure and attractive project. The total CAPEX of developing this project is expected to be in the region of USD 150-160 million. To date we have signed contracts for a total value of USD 176 million. As you can see this exceeds the cost of the project, with the majority of capacity still available. In the meantime, we continue to discuss potential contracts with new partners and hope to announce further news on this front later in the year. To update you on progress of the actual build, project engineering is going according to plan. The marine survey, the land route, the landing station development, the manufacturing and cable laying are all synchronized and on time according to plan. We will continue to keep you updated on the progress of this project. Completion is expected in the second half of 2009 and I look forward to updating you in due course.

Now, to look at the period under review in a little more depth I will now pass you over to TE's Chief Financial Officer, Tarek Tantawy.

Tarek Tantawy

Thank you, Mr Beshir. I will be starting with slide 12 of the presentation that Alia was referring to earlier and that was uploaded on our website. Total consolidated revenues for the first six months of 2008 were EGP 4.8 billion, compared with EGP 4.9 billion in June 2007. As we have already explained, this very slight decrease is a result of the effects of mobile substitution mainly felt in Q1 2008. However, the impact on retail voice revenues is partially offset by the corresponding increase in domestic wholesale revenues plus a greater contribution from TE Data. EBITDA before provisions was EGP 2.4 billion, impacted by the one-off employee bonuses in the first quarter and increase in salaries. EBITDA margin before provisions remains within management expectations at 50 percent for the six months to the end of June 2008. The outstanding increase in Net Profit after Tax, which was not affected by the slight decline in revenues, was achieved as a result of the wholesale revenue growth, decrease in interest expense, cost rationalization plan and increase in investment income mainly due to the contribution from Vodafone Egypt, a major contributor to our bottom line. Consequently Earnings per Share have increased by 24 percent year-on-year to EGP 0.73.

Let's look at retail revenues first, in a little more depth. Total retail revenues were EGP 2.9 billion for the first half, compared with EGP 3 billion for the same period last year. Total access revenues, which incorporate connections and subscriptions, were EGP 916 million, compared to EGP 936 million for the first half of 2007. Seasonality typically means there are fewer new connections in the first half of the year. For example, in 2007 we added more than half our net subscriber additions between October and December. As we have previously mentioned, mobile operators have wasted no time in launching aggressive promotions in the landgrab for subscribers. While this did have a particular impact in the first quarter of this year, our figures today show that in the second quarter we have begun to mitigate these effects on retail voice. Customer usage is returning across our competitive call types and when viewed quarter-on-quarter our retail voice business turned in a 4.5 percent growth.

Recognising the need to further stimulate subscriber additions and voice usage, as of 01 July we implemented our planned tariff rebalancing program which has increased the cost of both residential and business subscriptions, connection fees have decreased as well to stimulate new customer additions. We have also reduced the prices of our fixed to mobile and domestic long distance calls to ensure that we remain competitive versus the current offerings by the mobile operators. Previous rebalancing resulted in no decline in usage and we are optimistic that this will be the case again. The impact of this latest rebalancing will first be seen in the third quarter of this year, and we look forward to updating you on this. We are also very pleased with the performance of TE Data which was the driver for the strong growth of Internet and data services, with revenues from this business increasing by 31 percent year-on-year.

Moving down the breakdown further, you can see our wholesale revenues increased 4 percent year-on-year. The key driver for this growth was our domestic infrastructure leasing business, which has driven the increase of 21 percent for the same period last year. While revenues have declined very slightly, Consolidated Net Profit actually grew by 24% to EGP 1.2 billion. Our Net Profit margin now stands at a very impressive 25.8 percent. Correspondingly, Earnings per Share grew to EGP 0.73 from EGP 0.58. This increase in profit can be attributed to the increased contribution from Vodafone Egypt of over EGP 600 million, recorded under the 'income from investments' line of our accounts as well as the decrease in interest expense and increase in other income.

I would like to take a moment to discuss costs. As you know, the management team has always worked hard to protect margins and we pride ourselves on maintaining an EBITDA margin before provisions of over 50 percent. In April, we updated you on an increase in employee costs, in line with the salary increases that took place in local market this year. We have also indicated that the second increase would happen in May. The reason for those increases is our commitment to ensure that in a more competitive market for telecommunications professionals we continue to attract and retain talent. This was especially pertinent in light of the recent 30% increase in civil servant salaries, made by the Government and indications that private sector companies will follow. Of course, as we continue to adapt our business in an evolving telecommunications landscape, tight control of costs is very important and protecting what we have achieved as a Net Profit Margin of 26 percent, will be a key focus for the management team.

Continuing on this topic, slide number 15 of the presentation illustrates the breakdown of the major cost points we strip out to arrive at our EBITDA calculations. As you will see there are three major cost areas in addition to provision and impairment: first interconnection costs during the period were EGP 660 million, comprising 14 per cent of total revenues. Personnel costs include costs relating to our employees remuneration and other contributions. In the first six months of 2008, these costs came in at EGP 1 billion, representing almost 21 percent of total revenues, a slight increase driven by the non-recurring items I mentioned earlier. Other operating expenditure was EGP 730 million, or 15 percent of sales in the period.

A prudent approach to cash management is critical and we have used surplus cash to reduce our debts. Our work to deleverage has significantly reduced our net debt position which now stands at EGP 3.2 billion from EGP 5.9 billion in June 2007. Deleveraging in this way and ensuring a sound balance to the corporate structure provides us with ultimate financial flexibility when it comes to international expansion. Reducing total debt levels in the first half of this year by more than EGP 900mn coupled with the largest dividend in the company's history of EGP 1.7bn which was paid in April is a real reflection of the company's strong cash flow generation ability. CAPEX continues to decrease year-on-year in line with our rationalisation program, reaching EGP 456 million for the first six months of the year.

With that I conclude our review of the financial and operational detail, and I will now hand back to Mr Beshir for his closing remarks.

Akil Beshir Thank you, Tarek. Before opening up to your questions, I would like to discuss some final points. We have been discussing with you for some time now the evolving market in Egypt. I firmly believe that a developing market and increased competition presents many opportunities for TE. To take one example, over the past three and a half years, the growing mobile market in Egypt has transformed our business. Wholesale revenues now constitute 40 percent of our top line, while the income from our investment in Vodafone Egypt has grown from EGP 507 million in June 2007, to EGP 607 million for the first six months of 2008. Our network serves us well here.

Additionally, new projects such as TE North, which leverage our primary strength will become increasingly important. I know that many of you will be keen to confirm whether we remain on track to meet the guidance that we gave at the beginning of the year. We fully expect that the marketing initiatives we have underway - the tariff rebalancing I mentioned earlier, plus a positive outcome of the renegotiation of the interconnection agreement with mobile operators to restore retail revenues, will ensure we remain on track to achieve 2 to 3 percent growth in the full year.

With that I would like to open up to your questions. Operator, please go ahead.

Questions and Answers Session

(Coordinator) Your first question comes from Istvan Matetoth from Credit Suisse

Istvan Matetoth A very good afternoon everybody, I have two quick questions: first could you please elaborate what your view is on the revenue outlook in the Second Half, particularly on retail revenues and what you feel the impact of the rebalancing will be on your revenues and demand in the Second Half? I would also like to see your views whether you would expect some acceleration in the net additions in the fixed line business, or do you think that this relatively sluggish growth in the Second Quarter will remain? And secondly this offer, the EGP499 per year for a fixed line in broadband, could you tell us how popular it is and is it something which you are happy to extend, or is it something going on currently now for the next few months?

Tarek Tantawy First on the revenue outlook in the second half; we firmly believe that with the recent round of tariff rebalancing this will put retail revenues back on track and we have said before that we expect for a full year of tariff rebalancing we expect incremental revenues to be in the range of EGP400-500 million; so we should assume incremental revenues in the coming half of almost EGP250 million. On net additions, in fact what would be a concern for us more is that if gross adds were declined, but the fact is gross adds did not decline as much in the first six months of the year; it’s a matter of the increase in number of disconnections. We have talked to our customers and tried to understand why they disconnected their lines, and in the vast majority of the cases it was mainly for people that were late in paying their bills; so it has nothing to do with their demand for the fixed services being not there anymore. We think net adds will pick up again, especially with the reduction in connection fees as part of the tariff rebalancing scheme, and we always introduce promotions as we go during the year which we have not done until now.

Lastly on the combined offering of Telecom Egypt and TE Data in the North Coast; the idea of this offering was mainly to address - Egyptians usually during summer time go to the North Coast in their summer houses - and the idea was to address their demand for that particular period of the year and I have to say it has been very successful. What is more important is not that particular product offering, the more important thing is the fact that we're now starting to offer rounded telecommunications services to our customers and that was just the beginning of it. Going forward we'll definitely capitalise on this in trying to offer more fixed and data services as a bundle to our customers nationwide.

Istvan Matetoth My question was that this problem is the big acceleration in DSL connection then, if you will extend this offer for the rest of the year, is that correct?

Tarek Tantawy The big what sorry?

Istvan Matetoth The big acceleration in DSL connections; if you extend this offer for the rest of the year; is this your expectation as well?

Tarek Tantawy Yes, it does not have to necessarily be that very same offer, but we expect that bundling both fixed and data services will definitely help to push broadband penetration.

Istvan Matetoth Thank you very much Tarek

(Coordinator) Your next question comes from Denise Molina from E2 Research

Denise Molina Hi, good afternoon, thanks for the call. Just two questions: first just around the net adds disconnections; I just want to understand are you actively going to customers that haven't paid their bill over a certain period of time and disconnecting them and over what period of time do you then consider them disconnect eligible? And the second question is actually on the tax; I'm just looking at the Egyptian accounting standards accounts that you put out, and it looks like the effective tax rate was about 14% in the Second Quarter, which looks a bit lower than 17–18% range you had for the First Quarter in 2007.

Tarek Tantawy First on our policy for disconnecting non-paying subscribers; the policy that we had a couple of weeks ago was to disconnect any subscriber that has an overdue bill for more than six months, and at the time of disconnection we definitely removed those from our active subscribers base. We have recently considered this and if you look at our ARPU breakdown you'll figure out that almost one-third of our ARPU comes from incoming calls. So we have decided to increase the time where the subscriber that did not pay the bill can still have more time to pay it, but during that extra time which is now an additional three months, its set at the subscriber can receive incoming calls and can only generate outgoing calls through the pre-paid cards, which will help us increase our revenues and at the same time try and limit our exposure to bad debts. On the tax issue I always draw your attention to the fact that the investment income from Vodafone is not taxable. It's very important in any effective tax rate calculation that you strip out the investment income from Vodafone and you'll figure out that the tax rate did not change much. In all cases the unconsolidated financials there is a clear note on how the tax is calculated, and we'll be happy to try and work you through the calculation perhaps after the call or sometime later.

Denise Molina That's great; can I just follow up on the net additions - disconnects; in terms of the time subscriber base, how many of them are close to that new nine month level? How many customers do you think you would still have to disconnect even on the nine months?

Tarek Tantawy As we stand now we do not have to disconnect anyone; so until the beginning of this month we have disconnected any subscriber that had a bill overdue for over six months, which means that since we have even increased the duration, or the grace period, we do not need to disconnect any further subscribers

(Coordinator) Your next question comes from Osman Zaki from Merrill Lynch

Osman Zaki Good afternoon, I have three questions please: can you please explain the drop in the international wholesale revenues Q-on-Q. You said in your statement it was seasonality, but I looked at the previous years and Q-on-Q actually went up in Q2; so that's the first question. Second is on the tariff rebalancing; the last time you did the tariff rebalancing in 2006, we noticed a delayed effect in terms of the revenue increase kicking in, most of it came in Q4 of that year in 2006; shall we expect also the same delayed effect this year? And finally also related to the tariff rebalancing, this was the last scheduled tariff rebalancing as far as I understand; can you give us an idea going forward how will you be increasing your prices and how much will you be increasing it by?

Akil Beshir I'll answer the questions about tariff rebalancing; Tarek will address the other one. Obviously yes we did the tariff rebalancing 1st July; and the tariff rebalancing there are two things, subscription fee and the minute charge; so the subscription fee is the only thing that is paid in advance, so we start seeing the impact of the increase in subscription fee as of 1st July. The other thing which we did with tariff rebalancing, we increased the local minutes charged - both the first and the subsequent minutes - and reduced the fixed to mobile tariff and the connection fee and the domestic long distance. These new tariffs apply to traffic generated as of 1st July, so we didn't see it on this Quarter, however; the next bill will be 1st October, we'll see the impact of the tariff rebalancing on two months because there is always a one month delay. The October bill will include, June, July and August. So July and August will have the impact and then of course the January bill, the next one, will have the full impact. Concerning the next tariff, obviously after what we did now, we do not foresee another wave of tariff rebalancing in the next few months, that's for sure.

Osman Zaki But what about next year; do we expect something later next year? How will you increase your prices after that; is it to keep in line with the inflation, or will there be another schedule of tariff increases approved by the Regulator?

Akil Beshir Of course it has to be approved by the Regulator, but it will depend on inflation as one factor; and cost as another factor. For example in the case of the fixed to mobile; termination rate is the most important factor. Such as termination rates that went down as what happened between mobile to mobile. Obviously, as we mentioned earlier, this will result in a decrease we will pass onto the customer to be competitive, so once we reduce the termination rate, we obviously will reduce the tariff as well.

Tarek Tantawy Osman, maybe to add to this as well, you have mentioned several times increase your prices; I think that the last tariff rebalancing was a true rebalancing in the essence of some prices being reduced and others being increased. Overall we believe that we are in good shape as far as current prices are concerned and at the end of the day we are not working in isolation, we are competing heads on with the mobile operators for voice traffic. We will have to wait and see how the market evolves; we cannot just say that we will be increasing or reducing prices at this stage. However I think we are in good shape in terms of having most of our call types now being provided at above cost, which is something that we did not have a couple of years ago. On to your question on the international; you are right, it has nothing to do with seasonality, and in fact if you would have looked at the international revenues for this quarter there would have been an increase. The fact is we had to do an adjusting entry and that is pure accounting; since last year there was a difference between the billing to our customers and hence revenue recognition, and what was actually collected. There was an over billing for almost – it was close to EGP100 million and that EGP100 million was an adjusting entry which happened in the second quarter. So effectively you should have seen the revenues higher by EGP100 million in Q2 of this year.

Osman Zaki Will there be another adjustment later on, or does that take care of the adjustments for the year?

Tarek Tantawy In our business in any reporting period there is a period where we have to estimate revenues as this happens before the billing, however the magnitude of any adjustments will not be that large.

Osman Zaki Ok great, thank you very much.

(Coordinator) Your next question comes from Dearbhla McHenry from Pyramid Research

Dearbhla McHenry I have a couple of questions about the internet and data number that you have on slide 13 of your presentation; I just wanted to clarify first does that include revenues of dial-up and DSL, or is that just DSL, or what does that include exactly? I was also wondering whether it is possible to give us an ARPU for DSL and whether you have any ARPU figures on your earnings results; I guess that includes both the voice and DSL? I was just wondering if you could separate that out just to get a DSL ARPU by itself. Lastly I was wondering if you could share anything about trends in dial-up usage in terms of numbers and subscribers and in terms of minutes per month. .

Tarek Tantway I am sorry, we probably only remembered the first question so the first question was on page 13 which is the internet and data and the answer is yes, it includes both dial-up and broadband. Your second question was the broadband ARPU, is this correct?

Dearbhla McHenry Yes.

Tarek Tantawy We don't report this, unfortunately, as a separate line item. What were the other two questions?

Dearbhla McHenry I was wondering whether you can share anything about how the 255–343 for internet and data revenues, how is that broken down between dial-up and DSL? The other question was dial-up trends in terms of subscribers and in terms of usage? Are people still using it? Is it growing, shrinking or what?

Tarek Tantawy I cannot give you specific numbers, but the bulk of the internet and data revenue line item is broadband data, it is not dial-up. The trend for dial-up internet has been declining in terms of usage and in terms of even your number of unique phone lines that access the internet through dial-up; it has been more or less stable. What is happening is that, high users of dial-up are migrating to broadband. In essence we expect dial-up revenues to keep on declining year-on-year and it does not represent a substantial part of our revenues anyway.

(Coordinator) Your next question comes from Denise Molina from E2 Research

Denise Molina Just a two-question follow up; I know that you touched on the interconnections and I was wondering if you could give us a little bit more on the sense of timing, when you think that might be resolved. We heard from Mobinil earlier this week that they are still looking at the terms, maybe looking for slightly different terms on what they have been shown, just the impression that they gave on the call. Second question was on the interim dividend; if you could just update us on your thoughts on that?

Akil Beshir Concerning the interconnection, we started negotiating with three mobile operators on the interconnection; we are more or less with Vodafone in agreement. With Mobinil and Etisalat we are also in agreement with each one of them, but the problem was in having the three of them agree on one interconnection rate. To explain this, each one of them has different views on the interconnection power; our main concern is that we have what we call a non-discrimination interconnection, meaning that what we are asking for is to terminate on mobiles at the same rate as the mobile operators terminate on each other.

It does not make much difference for us whether it is 10 or 15 or 18 or whatever, as long as we all terminate the same, because our objective is to be competitive in our tariffs in fixed to mobile versus the mobile-to-mobile; and on this particular point the value of the actual tariff - the actual termination rate - this is where the three of them have different views. And that is why we went to the Regulator asking for arbitration according to the law, giving him the position of each one of them and we told the Regulator that we accept this and I will accept any of the three views of the three operators as long as there is non-discrimination.

Time frame for this is supposed to be end of August for the Regulator to give a ruling on that. What we are sure of is that the Regulator will accept our demand to have non-discrimination because this is actually in the law, in the Telecom law, that we should not have any discrimination in the law. Whether it will be 10 piasters or 12 piasters or 15 piasters, that is what the regulator will rule after hearing everyone. I believe Mohammed Elnawawy has joined the call now.

Mohamed Elnawawy Yes Mr Chairman I am online; I actually have been here through out the call and would you like me to comment on the interconnection agreement in Egypt?

Akil Beshir Yes if you want to comment on that.

Mohamed Elnawawy The current interconnection framework is the framework that was tied in 1998; in 2003 telecommunications law in Egypt prohibited discrimination interconnection and required that it would be cost based. As such we have negotiated with the mobile operators a structure by which we would readjust our present revenue sharing agreement which is certainly not non-discriminatory as the mobile operators in between themselves do offer each other a much slower interconnection rate. And accordingly we are now expecting to reap the results of this discussion. On route we did need to stick to the guidance of the Dispute Resolution Board, which is a body within the Regulator that is responsible for a new interconnection agreement and has accounting opinions related to fairness, within the article of the law which as I said requires non-discrimination and requires that interconnection be done cost basis.

We expect to receive recommendation decisions from the Regulator within the month of August, and accordingly we expect to be implementing the few frame works immediately thereafter.

Denise Molina So we should expect an interconnect agreement at the beginning of September basically?

Mohamed Elnawawy Did you say September or December?

I think as soon as the decision comes this August we would implement it immediately. I think that we should be implementing it as early as September.

Denise Molina Thanks, and the dividends?

Tarek Tantawy Dividends; on the interim dividend we have referred in our introductory part of this call on the largest ever dividend in the Company's history which happened in April. There is no intention for another interim dividend to happen during 2008.

(Coordinator) Your next question comes from Nick Padgett from Frontaura

Nick Padgett I have two macro questions: the first is on inflation; I am curious…how has the increase in inflation affected consumer behaviour? My second question is with regard to Algeria I am interested in both an update on your specific investment there and also the Government there has been making some very unfriendly statements on foreign investment in recent weeks and I am just curious your thoughts on how that might affect both you and other foreign investors.

Akil Beshir Concerning the inflation; of course, yes, we do have high inflation close to 20%. So far we have not seen the impact of inflation on telecom spending, but if and when this happens we expect mobile operators to see it first. If you look at anybody's fixed line bill and mobile bill, obviously mobile bills are much higher, because there is a significant difference. So it might end up as an advantage for TE if people start working out the figures and start using more fixed line to save on the bills. Fixed to mobile substitution, when it happens - in most cases it is more expensive to use mobile, but it is just the convenience, the address book on the handset and so on. But when pressure on their bill happens and they try to cut costs, obviously they will start to save first on their mobile bills rather than the fixed line bills.

Concerning Algeria you are very right; the situation has improved after the two high level visits that we made to Algeria - one with the Minister and one with the Prime Minister - visiting with the Algerian Prime Minister in both visits and all the officials there. People showed their interest to solve our problems and improve the regulatory regime and so on, so we actually started building our new business case, because obviously many things changed in the market since then. However a lot of changes happened since then in Algeria; it started with actually almost everybody that we negotiated with has changed, except the Minister. The Prime Minister is now a different one; the Regulator was changed; the CEO of the Algerian company has changed; and then more recently these remarks you mentioned - negative remarks about foreign investment. So we are now actually reconsidering our position in view of those changes, whether this new attitude will be negative on our case, or some people believe that it might be positive, because it means that first they are not going to privatise Algeria Telecom, which was one of the main problems that we had because of the intention of privatising the company and so the efforts to protect its business. And also this new attitude means that they are not going to offer any more licences.

We are looking at all sides of the issue very carefully, discussing it with our partners from Orascom Telecom in order to decide what is the best course of action for us. Of course, I suppose when we decide what we are going to do with Algeria we will make this known to you.

Nick Padgett I don’t know how much you can comment, but the recent comments about wanting to have greater local ownership in foreign investment as well as reinvestment requirements should you get tax breaks. Would that affect what you were planning, or is it just really too confusing to know really what the impact might be of the various statements?

Akil Beshir Yes of course this is affected in our decision of course.

(Coordinator) Your next question comes from Osman Zaki from Merrill Lynch

Osman Zaki Tarek this is a question for you; I missed what you said to Istvan when he asked about the incremental revenues from the tariff rebalancing; did you say it was 400-500 or did you say 250?

Tarek Tantawy To Istvan I said EGP400-500 million for a full year.

Osman Zaki For a full year…

Tarek Tantawy Istvan's question was regarding the Second Half of the year only; my answer was in the range of EGP250 million in incremented revenues.

Osman Zaki For just the Second Half?

Tarek Tantawy Yes.

Closing Comments

Akil Beshir I would like to thank everyone of you for being with us on this call and we are very excited about the business; we mentioned obviously that we are very pleased with the development in our increase in our net profit. We are very pleased with the performance of Vodafone Egypt and its contribution to our business. We are also very happy with the increase in our wholesale revenues and with the expected changes in the regulatory regime in terms of interconnection, which we are confident that the ruling will be favourable to us; so we're looking forward for another good Half Year to the end of this year and I look forward to have the next call with you when we publish the results of the Third Quarter; so thank you everybody for being with us today.