



Telecom Egypt Announces First Quarter 2009 Results

Presenters

- Mr. Akil Beshir, Chairman & CEO
- Mr. Tarek Tantawy, Vice President & CFO
- Mr. Ahmed Fathallah, Director of Investment & Investor Relations.
- Mr. Mohamed Kamal, Investor Relations Manager

Stephen Pettyfer Good morning, good afternoon everybody this is Stephen Pettyfer from Merrill Lynch/ Bank of America. I would like to welcome you all to Telecom Egypt's First Quarter 2009 Results Conference Call that we are delighted to be hosting today.

From Telecom Egypt we have with us Mr. Akil Beshir, the Company's Chairman and Chief Executive Officer, Mr. Tarek Tantawy, TE's Chief Financial Officer, and Mr. Ahmed Fathallah, Director of Investment and Investor Relations.

The conference call will start with a discussion of the quarter's Operational and Financial highlights of the quarter followed by a Q&A Session. I will now hand the call back to Telecom Egypt's IR Manager Mr. Mohamed Kamal for a Safe Harbour Statement. Have a good call, thank you very much.

Mohamed Kamal Thank you, Stephen, 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 I will now pass you over to Mr. Chairman.

Akil Beshir

Thank you, Mohamed, and welcome all. Before we open the line for your questions, I would like to take you through our first quarter operational and financial results.

Once again we report to you amid an uncertain and challenging economic environment. The effects of the global recession are being felt far and wide and we must be clear: Egypt is not isolated from this. GDP growth forecasts now stand reduced at four percent for 2009.

At the same time, the domestic telecommunications market continues to present challenges to our business, as the mobile operators aggressively pursue subscriber acquisition.

Against this backdrop of economic and market uncertainty, I am particularly encouraged by our solid first quarter 2009 performance. We report to you today a six percent year-on-year growth in revenues, an EBITDA before provisions margin comfortably above management targets, plus net profit growth of 72 percent in comparison to Q1 2008. These achievements are no mean feat – and reflect the continued hard work of TE's workforce and management.

Before we go through the quarterly performance in more detail I would like to talk to you about some of the factors that are currently impacting our business. I have already referenced the challenging economic environment we find ourselves in.

Our experience through many economic cycles over the years shows that while telecommunications spending is not immune to recession, it is more resilient than other sectors as it is not considered a discretionary item.

However, we must be realistic. As the global recession continues some of our customers are beginning to experience a degree of financial pressure, which impacts their ability to pay their telephone bills. As a result, you will notice we are starting to see some impact in our subscriber base, which declined slightly quarter-on-quarter.

This movement reflects an increase in disconnections by Telecom Egypt of subscribers who have exceeded the agreed payment terms. It is worth mentioning that we have relaxed the company's credit policy last year to give more time to our customers to pay their dues. In light of the economic conditions this year we believe it is only prudent to tighten our credit policy in order to reduce bad debts even if this comes at the expense of more disconnections.

As you will appreciate we are operating in an exceptional environment and one which makes forecasting trends challenging. With little visibility regarding the depth and duration of the recession our ability to predict the impact on our customers is limited and hence we are not in a position today to update you on the impact of tightening our credit policy on the net subscriber additions for the year guidance but generally we expect that tightening the credit policy will have some impact on the reported number of subscribers but less significant

impact on revenues. During the first quarter of this year, over 60% of disconnections are for subscribers whose ARPU is lower than our healthy average of EGP 50.5 per month. Typically those disconnected spend less than EGP 23 per month, which is why we have not seen this impact revenue growth in the quarter.

Meanwhile, the Egyptian telecommunications market continues to present us with both challenges and opportunity. As we have discussed previously, the mobile operators continue to market their tariffs aggressively. Historically, the pre-existing interconnection agreement has unfairly prevented TE from competing with these operators on price, and mobile usage has increased. In combination, these factors have pressured fixed line usage levels and consequently impacted our retail voice revenues.

The NTRA's ruling in September last year to readdress termination rates with mobile operators will level the playing field and relieve the pressure on our retail business.

The effect of tariff rebalancing which came into effect in July 2008 and was therefore not in evidence in the first quarter of 2008 has led to an increase in local call revenues of some 20% year on year in the first three months of 2009. Total retail revenues actually increased modestly by two percent year-on-year, to EGP 1.5 billion.

Internet and Data revenues, comprising mainly of TE Data, yet again grew year-on-year – increasing by 27 percent to reach EGP 146 million. In the first quarter alone, TE Data added 52 thousand new subscribers, marginally increasing its market share from 59 percent to 60 percent quarter-on-quarter.

TE's business is now much more diversified, offering a more stable exposure to a dynamic and ever-changing market. While TE's retail revenues continue to face some pressure from mobile substitution, we still benefit from the growing mobile market through third party usage of our infrastructure plus our stake in Vodafone Egypt.

For the first time, wholesale revenues have exceeded 41 percent of total revenues in the first quarter. Looking at the overall picture, it is clear that this segment of our business will continue to offer a stable revenue stream as mobile telecommunications usage in Egypt continues to increase.

The uplift in total revenues combined with our prudent cost management and reduced costs for interconnection translated to an EBITDA before provision of EGP 1.4 billion and representing a margin of 53.5 percent above our expectations. This is translated into a consolidated net profit of EGP 961 million – 72 percent higher than one year ago.

It is clear from the numbers we present to you today that TE continues to behave with caution and with the interests of our shareholders at the forefront of our minds.

While these first quarter results are encouraging, we are not complacent and continue to seek opportunities to further increase market share and revenues, plus exploiting business opportunities that offer us further potential for stable income.

For example, TE Data has recently introduced a number of promotions designed to encourage greater broadband penetration, across a range of customers, cross-selling where applicable.

In June 2008 TE Data launched a Family ADSL package – offering parents a broadband option that provides fast internet access which automatically blocks inappropriate material from the internet.

In February 2009 TE Data, in collaboration with Telecom Egypt, launched Business Max – a bundled voice and internet package targeting small and medium enterprises.

During February 2009, TE Data also launched the Super 512 offer in February 2009, offering unlimited 512Kb speed for EGP 99 plus a router for EGP 40 upfront and EGP 20 monthly instalments.

Statistics proved that the three offers reached the targeted consumers and competently provided them with the aspired services. For example, customer acquisitions in TE Data's Super 512K offer jumped from 8% to 28% of net adds; meaning that the offer met consumers needs acquiring high speed with minimum cost, on the other hand, Family ADSL assisted in the wide spread of safe internet usage within maintaining the cultural and religious values. In addition to this, Business Max offered a full office solution for Small & Medium Enterprises, which had a good impact in the market in terms of possessing unique value proposition to this specific sector in Egypt; value for money and combined solution.

We have discussed previously the benefits of our TE North project in opening up an additional revenue stream; lowering the cost point for TE's existing customers; and capitalizing on TE's transit corridor.

We continue to make progress towards completion, we anticipate commercial launch later in the fourth quarter of this year. This is the earliest possible point at which we may recognise revenue from the project – further information on this will be made available to you closer to completion.

I will now hand over to Tarek for a more detailed discussion of the financial highlights for the first quarter.

Tarek Tantawy

Thank you, Mr Beshir.

As we have already highlighted, six percent revenue growth in the current economic and market context is very respectable – but converting this into a 72 percent increase in net profit is a significant achievement for the company.

Let me first take you through the revenue breakdown in more depth.

Total retail revenues for the quarter were EGP 1.5 billion, compared to EGP 1.4 billion for Q1 2008. While this was a relatively modest growth in revenues, at two percent, this steady increase in Internet & Data revenues as well as access revenues demonstrates the company's ability to offset some of the pressure on its voice revenue stream as a result of fixed to mobile substitution.

Total access revenues, comprising connections and subscriptions, were EGP 536 million, compared to EGP 459 million in Q1 2008. This 17 percent increase is a direct result of tariff rebalancing which came into effect in July 2008.

Total voice revenues, the second largest component of revenues in the quarter after international wholesale revenues, reached EGP 680 million. This represents a slight decline on the same period in 2008 primarily due to the increased pressure on this segment from the mobile market. However, it is worth highlighting that the largest constituent of TE's voice revenues, derived from local calls, has seen a significant increase year-on-year as a result of our steps to address inconsistencies in pricing with a second round of tariff rebalancing implemented in the second half of 2008.

As TE Data further increased its market share, revenues from internet and data continued to grow, up 27 percent year-on-year to reach 146 million for Q1 2009. While quarter-on-quarter there has been some decline in comparison to Q4 2008, this does not relate to TE Data's broadband revenues, which saw a 24 percent quarter-on-quarter increase in revenues and more than doubled when compared to the first quarter of last year..

TE Data added 52 thousand new subscribers in the first quarter alone and now holds close to 60 percent share of the retail ADSL market, up from 59 percent at the end of December 2008. At the end of March 2009, TE Data had 477 thousands subscribers, an increase of 83 percent in comparison to the end of March 2008.

Wholesale revenues are now a major part of Telecom Egypt's revenue mix, accounting for almost 42 percent of the total revenue base. Total wholesale revenues for the first three months of 2009 were EGP 1.1 billion, compared to EGP 952 million during the same period in 2008 – an 11 percent increase year-on-year.

The increase in this segment was driven by domestic wholesale revenues reflecting the increased mobile traffic across our expansive and modern digital network.

International wholesale revenues increased 12 percent year-on-year and this segment was the largest contributor to total revenues.

The uplift in total revenues was further enhanced by our work to maintain healthy margins against an uncertain economic back drop. In addition, to a careful cost management programme, the reduction in our interconnection costs by 32% year-on-year which is attributed mainly to two things. Firstly, less fixed to mobile traffic, and secondly the NTRA ruling that came out in September of last year which included amongst other things the reduction in mobile termination rates. It is worth mentioning that we continue to account for revenues and interconnections costs based on the NTRA ruling.

Staff costs accounted for EGP 541 million in the first quarter, compared to EGP 513 million year-on-year. As per our statements last year, we have not made any increase to staff salaries in the first quarter, with this not anticipated until early in the third quarter of the year, when it should be in the vicinity of seven to ten percent.

EBITDA before provisions for the first quarter of 2009 was a very healthy coming in at EGP 1.35 billion, 12 percent up compared to last year. I am also pleased to report our EBITDA before provisions margin remains comfortably above management expectations at 53 percent.

We recorded a foreign currency gain of EGP 51 million in the quarter – compared to EGP 50 million loss for the same period last year mainly as a result of the strengthening dollar.

Our investment in Vodafone Egypt continues to offer TE significant value as a means of accessing the mobile market. VE itself contributed EGP 350 million directly to TE's bottom line, reflecting a strong quarterly and full year performance.

Consolidated Net Profit significantly increased year-on-year – 72 percent up to EGP 961 million – plus a 60 percent quarter-on-quarter increase. Net Profit Margin remains in line with management expectations at 38 percent. This translated into an EPS of EGP 0.56.

Our state-of-the-art infrastructure is critical to the quality and breadth of our services. While we have significant excess capacity, providing us with the opportunity to further grow our customer base and volume, TE continues to invest in this and other important projects, such as TE North. In the first quarter of 2009, Capex was EGP 178 million.

Finally, I am particularly pleased with the strength of the company's capital structure. For over two years, we have embarked on a debt reduction program in order to swiftly reduce our net debt position. For the first time in our history as a company we are now in a net cash

position of EGP 1.8 billion compared to EGP 2 billion in net debt in March 2008. Our cash and cash equivalents as of 31 March 2009 stood at almost EGP 4.2 billion. I should point out however that this net cash position is before the annual dividend payment as well as the income tax payment which took place in April.

In the first quarter, Telecom Egypt repaid in excess of EGP 777 million of debt, with EGP 200 million of this amount representing early repayment for debt that was due in 2010. We anticipate by the end of 2009 TE will be in a net cash position, leaving us securely positioned to optimise growth opportunities as they present themselves – and to continue providing excellent shareholder value.

With that, I will now hand back to Mr Beshir for his closing remarks.

Akil Beshir

While TE's performance during the first quarter has been very strong we are still in a period of prolonged economic uncertainty with limited visibility on its duration. When I look at our business, I remain confident that TE's service offering is the right one and positions us well to continue to offer stable shareholder returns through the turbulence.

We are not complacent - our management team remains sensitive to market dynamics and continues to review potential opportunities and threats to ensure we respond nimbly where required. Furthermore, the steps we have taken over recent years to reinforce our solid financial footing allows us to maintain significant flexibility in our business and leverage our role at the heart of the Egyptian telecommunications market.

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

Q&A SESSION BEGINS

Richard Barker

Thank you very much. Congratulations on the results gentlemen, they're surprisingly strong I have to say.

Can I just ask you a couple of questions about a couple of things you've mentioned Tarek; about interconnection and about bad debt provisions; Can you just talk a little bit about why did the interconnect costs fell quite so much? Why was it a bit obvious that the traffic patterns must have changed quite significantly?

Secondly, on the bad debt impairment provisions, you talked about the Q4 stage that you would be expecting to make similar levels in provision in 2009 as to what you made in 2008, that doesn't seem to be too much of a provision made in the first quarter. Are you still sticking to that kind of guidance in terms of where the provision for the full year will end up?

Tarek Tantawy

Thank you for the questions. First on the reduction in interconnection costs, the main reduction is not actually on the traffic. Yes traffic

declined between fixed and mobile but it's more relating to the ruling of the NTRA back in September of last year.

The thing I should draw your attention to, is that if you compare the numbers to Q4 of last year the decline in interconnection cost is still large, despite the fact that the NTRA ruling applied back then as well and that was mainly because of almost 30 million pounds in interconnection costs that can be looked at as one-offs in Q4 of last year. Those relate to interconnection costs with other operators not the mobile operators.

Generally the NTRA ruling reduced mobile termination rates to 11.3 piasters versus the previous termination rate which ranged between 21 and 27 piasters depending on whether it's peak or off peak and hence you know the significant reduction interconnection costs of 30% year on year.

As far as the provisions are concerned, again we said last year that a big part of the provisions was related to troubled wholesale customers, so that can be looked at as one-offs. The other part relates to the ongoing dispute with the mobile operators. Obviously as the legal situation develops we review our provision policy and based on discussions we had with our legal advisors, we believe that the provisions made in the fourth quarter of last year are more than appropriate to cover for Q1 2009 as well.

So I'm not in a position today to tell you whether we'll be providing for more in the coming quarters depending on how the legal suits develop, we will definitely update you on this in the coming quarter.

Denise Molina

Thanks very much for the call. I just wanted to go back to the net loss on the fixed lines. In the last call you mentioned that you had a backlog of around 240 thousand potential subscribers from the promotion given in the fourth quarter and if you look at that backlog and add in the loss of subscribers, it's partly that you lost about 400,000 lines in the first quarter, so I was just wondering how many of those are voluntary versus involuntary, meaning that the ones that were not paying on time?

And then the second question just wanted to go back to earlier comments you made about the capex, it looks like you're spending about 11% of your budget so far. Are you going to be lowering capex guidance or are you sticking to your 1.5-2 billion one?

Tarek Tantawy

If I may first start with the capex question. Obviously capex spending is very seasonal so we're not updating guidance today. As the year progresses if we find that there is a need to update guidance we will be doing this probably by Q2 or Q3 results announcement.

Back to the first question on backlog, yes we said that we have a backlog of a couple of hundred thousand subscribers last year, but you should bear in mind that this backlog came as a result of the promotion that was done for eliminating the connection fees. When we've done

this promotion, this was done across the country which resulted in a huge demand centre. And the problem that we are in this year is that in many of those areas there wasn't any excess capacity, which entails lots of cable work which needs to be done as well and when it comes to cable work things can take some time.

So the backlog is still there.

As far as disconnections are concerned, the vast majority of disconnections are mainly coming from non-paying subscribers, so there are some discretionary disconnections but those don't represent the material number given in the big picture.

Teeja Boye

Good afternoon. Thanks for the conference call. There were just 2 questions I wanted to ask you; it's with regard to the Government share holding which is 80%. Have there been any reports out there that the Government might be looking to reducing that stake or how much...we don't know. I would want to get your view on that.

And then secondly on these acquisitions, you made it clear that you want to make an acquisition within the region and I just wanted to get an update on that? How close are you? And then what sort of, I know you described some sort of tariffs, the ones you would want to pick up, but what are you looking at in terms of budget and would you be prepared to take on debt to complete this acquisition if it fits the criteria you are looking for?

Akil Beshir

Concerning the Government shareholding, yes the Government had a plan actually by almost the middle of last year, about a year ago, to divest another stake between 10 and 15%, that was the plan then and they were working on it but of course due to the global economic crisis and the lower evaluations, the Government decided that it's not the right time to do it. So the plan was put on hold.

We really don't know when the Government will re-visit the issue.

And of course you know the Government have to keep majority in anyway, but what was planned last year was the 10-15% stake.

And of course we will report to you whenever the plan is re-visited again.

Concerning acquisitions, yes we continue actively looking for acquisitions. The target is simply, or at least our preference or ideal target would be an existing rather than a green field licence, an existing operation, an integrated operation fixed and mobile and in the MENA region and this is the ideal profile of our target.

Then of course we have other criteria concerning the return and so on and this will really depend on the country and what would be the associated risk, the country risk or the business risk.

- Teeja Boye** Is there a limit as to how much you could spend to make this acquisition?
- Akil Beshir** No, there is not. We didn't put any limit, it really will depend on the target and there is nothing that we can report at the moment for this. As I said an on-going operation but once we have the right target and once there is serious talks then we'll report that.
- Teeja Boye** Ok. And in theory the outlook would be sort of to supplement internal informs to make this acquisition if needed?
- Akil Beshir** Yes, yes, of course. And of course one of the factors is that we have never and we will never overpay for any asset and that's why we haven't done many acquisitions so far because we don't overpay for any assets while sometimes some other people are willing to.
- Shaymaa El Nemr** Thank you for your time. I have a couple of questions for you. Can you please elaborate more on the improvement in EBITDA and whether you expect this to be sustained going forward? Like a reversal of a one time item that reflected positively on this.
- And also can you please provide us with some details on why the positive impact of lower interconnection fees on the operating level was more significant compared to the previous two quarters when tariff rebalancing became effective July 2008?
- Tarek Tantawy** Ok, well first on EBITDA, the part of the improvement or a big part of it is related to higher, sorry lower interconnection costs as part of the NTRA ruling and there is no reversal of any unusual items. So that's the normal course of business.
- However you should bear in mind that we do not believe that this EBITDA level is sustainable mainly because until now there hasn't been any salary increases and those should happen in the second half of the year.
- So we still stick to our guidance of EBITDA margin in the high forties.
- As far as interconnection is concerned, I'm sorry it seems that you have mixed 2 things together; the tariff rebalancing with interconnection, so when you referred to the previous 2 quarters, actually in Q3 of last year the new interconnection prices were only applicable on 27 days during the quarter. They were only applicable for the full Q4. So a more accurate comparison would be Q1 this year with Q4 of last year and as said earlier on the call, there was 30 million pounds in one off interconnection fees in Q4 of last year.
- So the current or the reported level of interconnection expenses in the first quarter of '09 are what we believe the kind of the sustainable level of interconnection costs.
- Sandy Batt** Good afternoon my question is, if you can give some more comment on the cash situation? You mentioned that you have I see on the

balance sheet about 4 billion, you have to pay dividends on next of March figure, so after dividends and after tax and what sort of capex should I consider for this year?

So I'm looking at year end cash number assuming you don't do any acquisitions?

Tarek Tantawy We obviously cannot report today any figures beyond March 31 2009 but you can obviously do the maths. So the total cash and cash equivalents at the end of March were 4.2 billion Egyptian pounds and that was followed by the dividend payment in April of 2.2 billion pounds and an income tax payment of close to 500 million pounds as well.

We'll not be giving guidance on the cash levels towards the end of the year, but we expect again that we'll be in a net cash position.

And as far as capex is concerned, the guidance that we've given and we're sticking to until now is 1.5-2 billion pounds for the full year.

Zoltan Palfi Good afternoon and congratulations on the very strong numbers. Two clarifying questions please; Tarek you have mentioned earlier that you plan to increase salaries by 7-10% in Q3; I was wondering how do you see the headcount of the organisation developing in this year? Do you see employees taking advantage of that early retirement scheme that you are offering?

Secondly, international wholesale revenue growth reaccelerated this quarter despite a very challenging economy environment; I was wondering what the key growth drivers were and how sustainable it is for the rest of the year?

Tarek Tantawy On salaries, yes you're right, the expected increase is between 7-10% and we're still doing our best to try and reduce headcount. We're doing this through a voluntary early retirement scheme and we have to say that the numbers of applicants for that theme are increasing by time. We're hopeful that by the end of this year we can reduce the labour force by 1,500 to 2,000 employees.

As far as international wholesale revenues are concerned, the main growth is coming from incoming international revenues and that has to do with the efforts of the management team to try and tackle the issue of illegal Voice over IP for incoming calls. And we have to say that the international team has been very successful in capturing a big part of the incoming illegal traffic and this is mainly done by 2 things; one is to try and basically close down the businesses operating illegally and other and a more significant thing is by reducing grades for certain routes mainly to basically attract the traffic back from the illegal by-passers.

Shahinda Al Guindi Congratulations for the great results. I had just a couple of questions, first of all is your guidance that you gave earlier about the sales growing by 1% for the whole year, for '09 is that still your guidance?

- Tarek Tantawy** Yes it is.
- Shahinda Al Guindi** And regarding the TE North, can you please give me any updates about TE North?
- Akil Beshir** The TE North project is going on as planned and its completion date is towards the end of the year, so the earliest time that we'll start realising any revenues from it will be the end of the year, Q4.
- So it is on target.
- Shahinda Al Guindi** Ok, and regarding the capex for TE North, I'm not sure if you mentioned that, but have you already finished all the capex for the submarine cable?
- Tarek Tantawy** No we said that the total expected capex is between 140-150 million dollars and actually the bigger part of this capex will be done during the course of 2009.
- Shahinda Al Guindi** Ok, and regarding Vodafone's market share, as of date, do you have a percentage of that?
- Tarek Tantawy** Yes, it's close to 42% but in all cases you know the market share of subs is becoming more and more irrelevant given the bigger picture. It's more about share of traffic and share of high value customers.
- Shahinda Al Guindi** And are there any updates about the second fixed line licence that the Government was considering?
- Akil Beshir** No, there's no update. As you know it was in late August last year, 3 weeks before the due date the regulator announced that they will put a hold on the process for a year and then revisit the issue.
- No talks so far about this issue at all.
- Shahinda Al Guindi** And there was also a submarine cable that you are part of, that's connecting the UK to India? What's happening with this far?
- Akil Beshir** Yes, the EIG, Europe India Gateway. It's going on again and this one we are one of several operators partnering in this project and of course EIG, one of the contracts we had for TE North is one of the three, is selling capacity to EIG to connect to cover the part of Egypt.
- So it's expected, the project EIG is expected second quarter of 2010 to be completed.
- Dearbhla McHenry** Hi, good afternoon. I have 2 quick questions about the market and two others about your future plans.

I was wondering first of all can you share what dial up revenues are? What revenues from dial up internet are?

Tarek Tantawy Dial up revenues? Unfortunately we do not report it separately but it's not a big component of internet revenues and it has been declining consistently for the past couple of years, mainly because most of the high dial-up users are now migrating to broadband.

Dearbhla McHenry Ok. So may be 15% of internet revenues or?

Tarek Tantawy I'm sorry we will not discuss fine numbers but it is not a bit component of internet revenues.

Dearbhla McHenry I was wondering whether you might be able to share what the most popular DSL packages are on the business side and the residential side.

Tarek Tantawy Yes on the residential side the most popular one is the entry level 256K package. And for businesses, it obviously depends on the size of the business, but generally it would be the 1 Meg connection.

Dearbhla McHenry Ok, great. And then I was wondering, you mentioned in the introduction that you're expecting among the various benefits of the TE North project is that the end user prices for broadband would decline, I was wondering why Telecom Egypt would want to reduce its prices for DSL when you don't really have competition on broadband provision in Egypt?

Akil Beshir It's the affordability. The objective of lowering the cost of the DSL is to increase the penetration and to kill the phenomena that you have of sharing. We have phenomena that some people, somebody would subscribe for a DSL connection and then share it with his neighbours and that's why we introduced the 256 limited download package, which is subsidised by the Government.

So the intention, the objective is actually to increase as much as possible the ADSL penetration. So why reduce the price before the affordability, so everybody can afford to have a connection.

Dearbhla McHenry Ok, great. And just one last quick question, I've noticed that from observing the Egyptian market the number of people who routinely use things like Yahoo voice or Skype to make calls with the Gulf, it's now called the voice, chat over instant messenger, increasing dramatically. I was wondering whether you have policies in mind to take care of the impact on your international voice wholesale revenues.

Tarek Tantawy Well the policy in general is to be competitive on pricing. You cannot stop all of those applications but until now it's allowed for anyone to basically use Skype or the like for their own use, but they're not allowed to resell the service.

In our case and until now we're not really seeing a significant negative impact from all those applications.

Richard Barker Just a couple of follow ups. Firstly, can you just tell us is there or what the level of debt is within Vodafone Egypt?

And then secondly I just wondered if you could talk about what the various component parts of your capex projects budget for this year are and roughly some order of magnitude for those.

Tarek Tantawy Well for Vodafone Egypt the total debt level, if I remember correctly, is in the range of 3-3.5 billion pounds and for capex, roughly speaking it's one-third, it falls as one-third maintenance capex and two-thirds for mainly broadband capex, upgrading the transmission capacity as well as the TE North project.

Richard Barker Sorry can I just come back on that. What you were just saying, let me say very ballpark that the TE North spend this year is going to be roughly 500 million Egyptian, is that right? So effectively half of that, two-thirds that you just talked about that's split between broadband and TE North is split roughly 50:50 between broadband and TE North?

Tarek Tantawy And transmission as well. Yes, TE North yes it's close to 500 million pounds which leaves the balance for broadband and upgrading the transmission capacity of the network.

Denise Molina Thanks for the call. Just to go back to the TE North revenue this year, you mentioned before a figure of 176 million dollars to potential revenues, I'm just wanting to clarify if that's correct and if we possibly see that come through in the first quarter?

And secondly on the cash use policy, the search for an acquisition seems to have been going on for a while and you seem to be implying that there's nothing immediate, is there a chance that this year be more aggressive on the dividend may be than your interim dividends and maintain your search for an acquisition, because obviously you'll be building cash not only this year, but next year and this one as well?

Tarek Tantawy On the first question on TE North revenues, yes the number you said is correct, the 176 million dollars, those are in pre-sale, so those are contracts that we have already signed with customers.

In terms of revenue recognition, the earliest possible point to recognise revenues would be the fourth quarter of this year, but that is obviously not for the full 176 million dollars. Part of it would be recognised and almost half of it in fact which relates to any asset sale and the part which relates to the right of use sale over 15 years; that would be accrued over the lifetime of the right of use.

The cash use policy basically falls within a bigger policy of shareholder returns, so the intention on our side is not to keep piling the cash, so we would go for more dividends if we do not find the right

investment opportunity. But there are no intentions for the time being for any interim dividend.

Denise Molina Could I just follow up on the TE North revenue potential, so in the fourth quarter this year could we then see something along the lines of around 400 million Egyptian pounds in revenue from TE North if it's completed?

Tarek Tantawy Well again it depends on the actual delivery to customers, so potentially yes, but again some part of this might drag in to 2010 as well.

Shakir Iqbal I just have a quick question on your net cash. What are your thoughts about an optimal balance sheet structure?

Tarek Tantawy Well the answer in today's market is obviously the most conservative structure possible. So in the past we wouldn't have any issues in running net debt levels of 2-3 times net debt to EBITDA, but in today's markets we do not have any intention to gear up to do a special dividend if we will.

We would only gear up to finance an acquisition.

If market conditions change in the coming year, let's say, then yes, I mean we might have appetite to take on more debt to achieve a more optimal capex structure.

Shakir Iqbal Ok, and as a follow up on acquisitions, do you see any opportunities to enter other markets or opportunities in Morocco specifically?

Tarek Tantawy We wouldn't be talking about particular markets. Again it's an ongoing process and we keep assessing every opportunity as it arises.

So we wouldn't rule out Morocco, it's one possibility but again, it does not have to necessarily be, it can be in Morocco or anywhere else in the MENA region.

Radwa Alsharkawi Congratulations on your results. I have two questions. Can you please give us a breakdown of Vodafone's ARPU in terms of global pre-paid and post-paid and my second question is, can you quantify in case of the ruling regarding the dispute of interconnection with mobile subscribers if it's ruled the other way around in terms of going to the old scheme, is it possible to quantify what will be the impact on their financials?

Tarek Tantawy First apologies on Vodafone, we will not be releasing any further information other than the ones in the press release, obviously because of the competitive situation in the market.

On your second question on the interconnection, it's actually quantified in our financial statements. It appears on note 37 which basically shows the difference if we were to apply the old interconnection rates.

Zoltan Palfi Thank you for the follow up, just to make sure that I understand your revenue guidance correctly, does it incorporate any revenues from the TE North project in Q4 or is it excluding the revenue contribution from TE North?

Tarek Tantawy It does not include any significant revenues from TE North.

Zoltan Palfi Right, so the revenue guidance of the Quarter plus 1% is basically related to your organic business as of today?

Tarek Tantawy Yes, that's correct.

Shahinda Alguindi Sorry I just want to get this clear about the revenue from TE North. I know that you're supposed to be expecting 500 million US dollars over 15 years, that's for the right of use right?

Tarek Tantawy That's for the total revenues including the 176 million dollars in pre-sales.

Shahinda Alguindi Ok, that's the total or is it only the right of use without the sale?

Akil Beshir No, that's the total.

Shahinda Alguindi That's the total. So it's basically 500 million over 15 years which is about 186 million Egyptian pounds.

Akil Beshir No, 500 million dollars, it's close to 3 billion Egyptian pounds.

Akil Beshir Well I'd like to thank each and every one of you for being with us on this call. As you see we have again a very solid quarter results and I look forward to talking to you in our next conference call when we issue our Q2 results, which I hope will be as good as Q1.

Thank you all very much.

(Coordinator) That does conclude our conference for today. Again, a replay of this call will be available from Thursday the 14th May at 5:00 UK time and will be available for two weeks. To access this replay the number is +44-207-136-9233 the access code is 49091395 hash.
Thank you very much.

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