



Chairman's Statement

2006 was our first year as a public company. It was both an exciting and challenging year for Telecom Egypt and our team has shown great skills and expertise in adapting to rapid change in the market environment for telecommunications in the MENA region.

Securing exposure to Egypt's fast-growing mobile market has in many ways characterised the year for Telecom Egypt. In an intensely competitive market, our team demonstrated the fiscal discipline required to be firm on price during the auction of Egypt's third mobile license, as well as the tenacity required instead to increase our exposure to this exciting market through an alternative avenue. Our increased investment in Vodafone Egypt, now at 44.66 percent, continues to deliver a strong financial result for the Company (EGP 609 million at year end). With mobile penetration in Egypt at 24.6 percent and expected to grow rapidly in the future, TE stands to benefit, not only as a strategic investor in Vodafone Egypt, but also from the effect of mobile related income streams on our core business.

There is little doubt that our market is changing and in response to these challenges and opportunities we have begun to change the emphasis of our business also. Our focus has been shifting from strictly increasing fixed-line penetration among retail customers, to driving profitability through the development of high-spend customer segments where a growing demand for a greater variety of additional services and convergent technology exists. Despite this, we have added 411 thousand customers in 2006 bringing the total size of our customer base to 10.8 million; continually one of the largest and most stable in the region.

The full year results provide a tangible illustration of the success of our programme to rebalance tariffs in favour of a more competitive environment. Our customers have responded well to the increases and we have seen no real decline in usage. An increase in revenues from local call and subscriptions has contributed to a year-on-year rise in consolidated revenues of 11 percent, ahead of our targets. This takes monthly ARPU to EGP 58.7 for the full year 2006.

Management initiatives undertaken to ensure that the overall revenue mix continues to evolve have combined to deliver a highly positive financial effect for the full year result. I would draw your attention to the increasing contribution from the wholesale segment as a result of the success of our interconnection service to other operators. Wholesale revenues now account for 30 percent of our total revenue mix, up from 27 percent in 2005, at EGP 2.8 billion.

Profitability is at the forefront of our minds and importantly these revenue enhancing initiatives have largely been achieved without an associated cost. This has therefore had a positive impact on EBITDA margins at 57%, continuing the trend we have worked hard to sustain for the last five years. Furthermore, the corresponding increase in net profit translates to a net profit margin of 25.6 percent and a rise of 16 percent in earnings per share.

The demand for Internet access and services continues to escalate in Egypt, representing an enormous opportunity for Telecom Egypt. The Internet and data market in Egypt is characterised by low PC penetration and Internet penetration levels (2.7 percent and 11.3 percent respectively)¹ as well as a large student population presenting significant demand potential. Throughout the year we have continued to undertake a number of proactive measures to further increase Internet penetration and accessibility to PCs through our ongoing "PC for every home" initiative, as well as commercial initiatives to improve affordability.

Our retail Internet business, TE Data, performed exceptionally well during 2006, tripling its subscriber base and reaffirming its position as the broadband market leader with 45 percent market share. Internet and data revenues have grown at a CAGR of 87 percent over the past four years and we fully

expect strong organic growth to continue in the future.

Telecom Egypt's network is fully digitalised and requires very limited modernisation, but as a leader in technological advancement, we recognise that the continued quality of our infrastructure is critical to our future success and aspirations. In July of this year, we successfully completed the rollout of our ATM network improving the integrity of our service further and have continued to augment switching capacity which now stands at 13.35 million lines, despite rationalisations in our capital expenditure budget. As I promised last year, we have also continued to exploit new technologies to enable new services and have fully operational CDMA network infrastructure in place in the Delta, Upper Egypt and North Sinai areas.

Our performance this year has undoubtedly been buoyed by the growing strength and stability we have witnessed in the Egyptian economy and that of the region in which we operate. The Egyptian economy is today one of the fastest growing among the emerging markets, with real GDP growth of 6.3 percent² and rising GDP per capita having a positive effect on personal disposable income. Factors such as these, combined with stabilizing inflation and a young population set a positive trend for the macro-economic backdrop in which our company operates.

The liberalisation of the telecommunications landscape in Egypt is one of the biggest transformations we face as a company. As TE's exclusivity in international voice expired at the end of 2005, it was difficult to predict precisely what pace this change would take. To-date we have been taking steps to capitalise on the opportunity to build on our successful interconnection services and expand wholesale services - a development we regard as a core

opportunity for the coming year.

Looking forward, I am confident that Telecom Egypt is set for ongoing success in the year ahead. Our team's dedication to improving customer service levels, expanding our product and service offering and harnessing the opportunity presented by our existing markets, will continue unabated.

To succeed in this ambition, it is my goal to ensure that Telecom Egypt has the skills and leadership to embrace the ongoing evolution within our key markets. Our ambition to recruit, promote and retain the best talent in the industry goes on. Our highly targeted recruitment and management development programme will continue, within strict operational parameters, throughout 2007 and is designed to ensure that TE benefits from innovative and committed individuals right across our organisation.

In summary, I believe that we are in a strong position both financially and operationally to drive our business forward in the coming years and achieve ongoing success for our shareholders. Our management team is equipped with the depth of experience and talent required to successfully implement our strategy and to harness the great opportunities our market continues to present. I would like to thank our employees for their hard work throughout the year and our customers and shareholders for their ongoing loyalty. I look forward to leading Telecom Egypt into what is set to be another successful and exciting year.

Akil Beshir
Chairman & CEO

1 - UN Statistics Division, Business Monitor International, hot telecom, MCIT, CAPMAS

2- Source: CBE & EFG-Hermes (2006/2007 estimates)