

**Mobinil FY 2009 Results**  
**11<sup>th</sup> February 2010**  
**16:00 Cairo time.**

START OF CALL

Sean Gardiner (Chair)

Hassan Kabbani (HK)

Khalid Elliacy (KE)

Yasser Radwan (YR)

Diala Hoteit (DH)

Dilya Ibragimova (DI)

Humphrey Gathungu (HG)

Delilah Heakal (DH)

Alistair Sharp (AS)

Zoltan Palfi (ZP)

Stephen Pettyfer (SP)

Martin Mabbutt (MM)

Operator Thank you for standing by and welcome to the Mobinil Year-End 2010 Conference Call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you'd like to ask a question you'll need to press \*1 on your telephone. I must advise you that this conference is being recorded today, Thursday 11 February 2010. I would now like to hand the conference over to your speaker today, Mr Sean Gardiner; please go ahead sir.

SG Thank you operator, My name is Sean Gardiner; I'm with Morgan Stanley covering EMEA telco sector. Today we're very pleased to host the 4Q and full-year results for Mobinil 4Q '09. On the line we have Mr Khalid Ellaicy, CFO and we are hoping that Mr Kabanni, CEO will join us a bit later. He's had to rush off to a meeting, so Khalid why don't you go ahead.

KE Good morning everyone; good afternoon and good evening depending on where you are in the world. I'll just start first with the safe harbour statement, make a short comment and then open the floor for questions.

First, various remarks that we may make about future expectation, plans and prospects for the Company are considered a forward-looking statement. Such statements are not actual facts and include expressions about management's opinion on the results of its strategies.

Although Mobinil believe that its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties and actual figures may differ materially from those indicated by these forward-looking statements as a result of various important factors.

Welcome all and thank you for coming and listening to our year-end and Q4 2009 results; to give a brief summary, I'm sure all of you have read the earnings release. We are quite pleased with our results. Again, we are maintaining our market leadership in the Egyptian market with 25.3 million subscribers; this is a 26% growth year-over-year. We are happy that we are continuing to grow, not only in subscribers, but also in our revenue, in our profitability and bringing in on our core strategic objective which is to focus on our customers to produce growth in revenues and produce growth in profitability.

It has been a very difficult year, of course; everybody knows how much competition has heated up in the past few months. Although we are still continuing to grow in revenues, revenues have started to slow down compared to prior years of course. This year we are growing at 6% for the Quarter and 8% for the year; this is definitely a marked reduction from last year, but of course it is very much inline with our expectation in the beginning of the year, which I've been communicating throughout. You may recall that in the first half of the year we were a little higher than that and some questions in the past were, "If you are doing 10s and 11s why are you saying that you're going to be in the single digits towards the end of the year?" It's because we were looking at this competition that is going to heat up and it has.

Our margins are doing fairly well; again we closed the Quarter with an EBITDA margin of 47.2% giving us 47% for the full-year. This is better than the full-year of 2008 and again it's due to our two core concentrations which are on-net and our cost efficiency exercise. We will talk at the end of the call about our expectations for next year. I'll leave that to the end of the call and I open now for questions.

RB Thank you very much, just a quick one actually gentlemen if it's okay? Could you just talk a little bit about the extent to which you saw any kind of hangover from some of the offers that were out in the market in Q3? Any hang over from them into Q4 and, in particular, the extent to which you think there are a lot of SIM cards put into the market in Q3 that may have affected your subscriber intake in Q4?

KE Thank you Richard, actually yes, we mentioned this in our Q3 earnings release where we said that you need to look at our Q3 and Q4 net additions as a pool. When we said at the time that we would close the year around 25 million subscribers, this is what actually we did; we closed the year at 25.3 million subscribers. There has been some moving over of subscribers because of the big promotions that we did in Ramadan where a lot of the consumers and the channels wanted to have the people on these very lucrative - to them

- plans and they knew that this was going to stop at the end of Ramadan.

Absolutely, so when you look at the subscriber growth for the year, it's 26%. It's very much in line with what we were talking about. Yes, Q4 looks a little bit weird, but that was totally anticipated.

RB Could I just follow up on that in terms of the impact on ARPU? Did you see a lot of the pricing effectively hanging over the market as well into Q4 for offers that were still valid as a legacy of Q3? What kind of exit run-rate are we looking at for the year in terms of stripping those effects out, in terms of how we come into 2010?

KE We'll give you some broad numbers on 2010 subscribers where we think we will end in 2010, but no, going into 2010 there are no more of these legacy, late activations – let's call them. Now, everything that is happening is new stuff purely.

RB Sorry ... ARPU rather than subscribers. I mean did you...?

KE The ARPU is much more complicated. The ARPU is affected not only because of the ads that happen between Q3 and Q4 it's the kinds of ads, these tariffs that I have across a flat on-net cross-net rate, and of course to the activity that happened in Q4 regarding our new tariff plans and future tariff plans that we might do. The effect on ARPU is not just a one-to-one relationship with the activations and the shift on the activations between Q3 and Q4. It has very little to do with that.

RB Maybe I could just make the question a little bit more straightforward then; do you think that ARPU at the end of the Quarter was higher than the ARPU at the beginning of the Quarter?

KE ARPU at the end of the Quarter higher than at the beginning: no, ARPU will always continue to decline because you're adding the lower end mostly prepaid ARPU ... prepaid subscribers always, so...

YR And prices continue to decline.

KE Competition continues to affect pricings; so no; the net effect will be that always ARPUs will be on the decline.

SG Thank you very much

SG Can you just talk about the changes from the Regulator in terms of promotional activity from January and

whether you've seen any of your competitors launching promotions recently?

KE It's a very difficult topic to talk about what the Regulator is doing and not doing really, but what we've seen is that there's been a lot more room for people to do what they want, supposedly, as a general term, between the competition. We've seen the competition really do some aggressive offers and not just Etisalat, of course, but also Vodafone. We've seen during the Fourth Quarter Vodafone almost matching identically the offers of the other competitor.

Now the Regulator has ... there's been talk about saying that now the operators can do offers as they please without just giving 24-hour notice. Yes, that's been communicated, but there is a catch.

There is a linkage between your on-net tariff and interconnect fees between the offers. In effect they are saying if you do play around with your on-net tariff we will hurt you, or we will change your interconnect with your other operators. We do not feel that is a correct way to operate in any market, just to be frank; on-net has nothing to do with interconnect. Yes, there is some more freedom to operate, but we think this freedom is pretty much skewed to certain other operators.

SG Have you seen any of those other operators take any price action recently in January or has there been no real response to this new regime?

KE No, in January I don't think they have done anything recently, the other operators.

YR No they did, Vodafone did and stop the clock promotion and Etisalat is giving a very aggressive new acquisition offer and 90 minutes free.

KE That is Yasser Radwan our Chief Commercial Officer

SG And yourselves have you taken any price action in the current Quarter, in the January month?

YR We did a move in early December with introducing a new on-net tariff and we are pursuing it during January and February.

DI I have two questions; the results were impressive and especially your effort to have more efficiencies on SG&A. Going forward where do you see your SG&A? Would you be able to reach the same levels as for example Russian operators, Turkish operators or South African operators? Their SG&A varies between 20 and 30% of revenue.

My second question is regarding roaming revenue; we have seen a very good pick up of roaming in the Fourth Quarter. Could you talk us through whether that is due to your promotions on international calls, or whether that is due to pick up in tourism in general? Perhaps you can extrapolate whether you are seeing any positive trends in the first few weeks of 2010.

KE We haven't given out our SG&A number yet. The number that we have in the release is operating expenses excluding depreciation and amortisation. This includes of other stuff other than just SG&A; but yes, we are very pleased with what we are doing with cost efficiency.

Where we will arrive I really do not want to comment on right now. Also we are very aware of risks of going too far on cost efficiency where it might hurt quality and hurt the business. We have gone a very long way into maintaining our profitability, but with extreme competition and reduction of growth in revenues, there is going to be a limit to the profitability margins of 47 and 45% that we have been seeing in the past year. A lot of your costs or most of your costs are basically fixed. What we will see is that on the long term we should, once markets stop growing and they reach a certain maturity, which should be in a couple of years from now, we will see margins start to go up because revenues will still continue to grow somewhat. There is no longer any growth of our subscribers, the network and all that kind of stuff. Those kind of growth costs will start to slow down.

On the roaming, no there has been no significant increase in the number of tourists in Egypt. These are basically our efforts with preferred agreements, roaming partners and of course with offers yes, on international and so on.

DI You mentioned roaming partners, how much of that would you attribute to your new agreement with Zain?

KE Not that much of detail I can go into; but Zain has been very good with us.

MM Thanks so much and good afternoon I've couple of questions; obviously margins did weaken quite significantly in the second half relative to the first half. I wanted to get a feeling for whether that was entirely because of the promotions running, or whether there were any other factors behind that. Secondly, whether you could give us any idea on the CapEx outlook, in terms of what are the drivers for 2010.

KE Okay Martin, I think the margins you are talking about are the gross margins, because the EBITDA margin has also slowed down of course. The slowing down of the margins is coming mainly from the slow down

of the revenue growth. You could see that revenue growth in the first half of the year was at year-to-date 9 and 10% and now it is down to 8% for the year. Mostly that has affected the gross margin and has affected our EBITDA margin.

On the CapEx going forward, we will be giving at the end of the call some guidance on Capex.

MM Can I just check on the margins, because often when revenue growth slows down, even margins do tend to rise? Obviously with subscriber growth slowing, I would have thought the cost of acquisition would come down and actually short term margins would go up; so just trying to get a feeling what were the factors driving that slight pressure.

KE The pressure is coming from that the price reductions are more extensive than the slow down of the costs regarding the acquisition of the new subscribers. Yes, acquisition of new subscribers is a cause for higher cost, but it is not significant because you have traffic that is going up, you have sites that you need to be putting up and all that reduction of price per minute are more extensive than any savings that you are getting out of reduced customer acquisition cost.

SP Thanks a lot two questions please; one, I just wondered if there were any specific reversals that went through the P&L in Q4. Secondly, maybe you will address this at the end of the call with your guidance, but just in terms of the CapEx outlook I wondered if you could update us specifically on what your anticipated licence costs that you will be paying in 2010 are.

KE No, this Quarter there are no unusual reversals on the OpEx side. The other non-operating income expenses that you see in Q4 are mostly forex gains in Q4; so there is nothing unusual here. Actually what was unusual was in Q4 2008, you could see that the 50.8% margin had some big provisions reversals last year.

As for our licence obligations, we already made in 2010 the payment for the third instalment, the 750 million; that was paid in January. We have a tail end payment for 1.1 billion that should be paid in December 2010.

For the CapEx, I will be giving guidance on that at the end of the call.

SP On that licence payment, what is happening with the final 750 million payment?

KE The second instalment for 750 million that is linked to 2G frequency - I repeat 2G frequency - we still have

not paid that because we still have not received the 2G frequency.

SP If you do receive that during the course of this year, will you then be paying it during the course of this year?

KE Yes

SP Do you have any indication if that is moving forward?

KE No we do not.

ZP Good afternoon Khalid two quick questions please; firstly we have seen net subscriber disconnections in the post-paid segment; I was wondering what are the reasons behind this despite aggressive Star 1000 offer.

Secondly, your new international call charges look a lot more compelling than the old ones were. I was wondering what facilitated the price cuts here. Did you manage to get better wholesale rates from Telecom Egypt, or did you decide to buy an international gateway licence on your own, or you just substituted Telecom Egypt with another wholesale provider?

KE On the first one the post-paid subscribers, no there is nothing really unusual here. It is just 24,000 something like that I think it was re-classed between the post-paid and pre-paid. We had some mobile broadband that was my mistake, put in as post-paid, but they are actually pre-paid mobile broadband; so this is a re-class here. Our post-paid is stable and doing quite well; we don't have any problems there.

I am not too sure about the second question, but all I could get is did we do any agreements with Telecom Egypt or do we have an international gateway? No on both counts; the margins are a factor of a lot of things now. We talked about that during the Summer there has been a lot of us and the competition doing these cross-net tariff plans. And they have changed a little bit the dynamics of the gross margin. They have affected the gross margin. So you can see that yes, interconnect levels have gone up a little bit because of these new tariff plans, but nothing on international no.

OZ I have two questions; one is actually a clarification of an answer for Stephen's question. Did you say the assets gain in Q4 was embedded in the line operating expenses excluding D&A in your earnings release?

The second is on your provisioning for your interconnect dispute with Telecom Egypt. Are you still provisioning for that currently, and if so what is the total amount now that you have provisioned for?

KE First the forex gain is not in EBITDA. It is on the line of non-operating expenses called 'other non-operating income/ expenses', so it is not part of EBITDA; that is the forex gain and high off loan.

We believe that we will win our lawsuit against Telecom Egypt; our lawyers tell us that. Under current accounting rules, since you have more than 50% or a probable chance of winning the lawsuit, you do not do provisions; so we do not have provisions in the books. There will be further disclosure on this in the financial statements, but the accumulated dispute now, because now the dispute has gotten a little bit more complicated. It is now not just Telecom Egypt, it is also other operators. As I said at the beginning of the call, the regulator has seen fit to link on-net tariffs to interconnect. It has changed the interconnection rates between all operators. Now the total interconnect dispute is around 326 million net on gross margin.

OZ When do we expect a resolution of the dispute?

KE I am not sure; it is still in the Court and soon arbitration. It has been sent to experts and stuff like that but there is nothing new right now.

OZ Finally, the last question on the cost optimisation you have been doing in Q4; what exactly or where in the business has this been taking place?

KE Everywhere in the business; nothing is spared. It is not just Q4; as I said this has been a programme that we have been working on for over 18 months now. Also you need to understand of course that in Q4, and this has been historically also in 2008, Q4 is less on cost than Q3; because of course Q3 has been Ramadan, has been Summer time, Summer promotions, Summer activities, so you get a lot of cost in the Summer time in Q3, then Q4 starts slow down a little bit. There is also an element of slowing down in Q4.

DH Two very brief questions; the first is, what was the interest capitalisation rate for the year? The second, if you could just comment a bit on how you see price competition evolving during 2010 and whether you expect it to centre on the post-paid segment more or the pre-paid segment or the entire market. Thank you.

KE Thank you Delila, The interest capitalisation rate it is around 11%. I am sorry could your repeat that second question again?

DH If you have any thoughts or ideas that you can share with us on how you see price competition evolving

during 2010. Should we expect similarly aggressive offers as in 2009? Do you think we will be seeing them in the post-paid segment more or in the pre-paid more? Just any indication on how you see the price environment between the operators evolving.

KE If you know it, please tell us; I do believe there will be more competitiveness, more aggressiveness, post-paid and pre-paid.

DH Throughout the market?

KE I will have to say yes.

HG I wanted to find out what percentage of your current revenue does data comprise. And you mentioned earlier that you see ARPUs will be constantly declining. Do you see this data and maybe other related services such as money transfer should you launch this, do you see these providing perhaps some support to ARPUs and margins?

KE As a percentage of revenue, data is still fairly small. We're still talking about maybe less than 3%, but it is growing very fast and we're very happy with the growth of data. We have done some really good stuff with data this year. It has good ARPUs I would have to say.

As for money transfer, we're still waiting for the Central Bank of Egypt and we have high hopes for it. How much it is will depend on a lot of variables and there are a lot of variables with this, not least of them is not the consumer attitude towards money transfers, but the retailer's attitude towards money transfer. In Egypt cash is the name of the game when you talk about a lot of the small outlets and transactions and small kiosks on the street, for those people to really accept and have faith to accept from their consumers electronic money and then go at the end of the week or end of the day to a bank or to Mobinil shop and exchange that electronic money into actual physical money is going to take a very strong leap of faith. The success of this is going to depend on a lot of things, but we are hopeful that it will have some incremental offers on data also.

HG What are the margins that you are currently seeing on data?

KE No, I really can't disclose that.

SG A follow up question; can you talk about your M&A strategy, probably related to data as well, because you were looking at LINKdotNET in the past. Maybe you can just update us on what you are looking at for

broadband or M&A within Egypt.

KE We're still looking at LINKdotNET; we're still in the bidding, but the deal has not been finalised yet; so that is the only M&A that we are looking at right now.

SG Is there a clearer timetable for that deal?

KE Not that I am aware of.

NG Good afternoon, Looking at your reported global minutes, we see a slight drop from last Quarter. What is the reason for that, especially with the 8PT on-net promotion during the Quarter?

KE Hi Nadine, Global minutes have gone down a little bit, but this is mostly seasonality. I don't see anything really affecting the minutes of use except seasonality. We will still see minutes of use will grow with usage and with the coming in with new subscribers.

RB I just wanted to come back to you on your comments earlier about interconnect. I just wondered if you could maybe explain a little bit more about exactly what is going on with the interconnect rates now under the new regime. Is it a situation where effectively you're paying different rates to different people? How do those rates compare to what the Regulator has required you to bill and maybe just a little bit of an overview on that?

You mentioned a number, I think it is 326 million on gross margin; what kind of period does that relate to. Is that the total cumulative amount so far, or what?

KE The 326 is the cumulative amount so far since this whole thing started back in 2008.

As for the interconnect let me try to make it as simple as possible, something that is really very complicated. Basically what the Regulator has done is saying, okay interconnect will be a function of on-net. I will take a percentage of your on-net retail price and that will be your interconnect. So now he goes to X company, says what is your on-net price, it is X, so it is X times Y; this is the interconnect money that you receive from everybody else. We have three mobile operators and we have three different interconnects. That is basically it; we're not sure how they are calculating it either, but that is basically it.

I pay something to Vodafone, then Vodafone pays something totally different to me. I pay something to Etisalat and Etisalat pays something totally different to Vodafone.

RB Where are you ending up on all that? Compared to where you were charging before, how does that compare?

KE It is bad for us; I can tell you that.

RB But as bad as the 11.3 that the Regulator talked about?

KE You need to know that the interconnect between mobile operators was a flat 11 piastres; it is a reduced rate on that.

AS I just wanted to know ... I was hoping that you could extrapolate on your comment that you expected more to come in the price war. With the numbers coming down so low, where can it go to in 2010?

KE I can't say that Alastair.

AS Is there a different way to drag in more usage or more customers?

KE Of course; we always try to manage profitability with price reduction. What we hope is that the other players will have common sense to see that severe price reductions will only hurt the business long term. If profitability for all operators becomes so bad that you cannot invest into the networks, what we will see is a degradation of quality of service for everyone. We will defend our market share position. We will be competitive in the market and if it does mean on short term to reduce our profitability; so be it.

AS You accept that is likely to happen in 2010?

KE It is likely to happen yeah.

MM I am sorry to harp on about this; it is just another on interconnect. Is it your understanding that this current arrangement is just awaiting final determination for all parties regarding the original arrangement obviously the one which we have got the legal disputes about? Or is this something that will actually be the replacement for that?

KE The NTRA's opinion that this is their right to do so; our opinion is that it is not their right to do so. This is the basis of our lawsuit against the NTRA. What we believe is that our lawsuits will make all these things

null and void.

MM Including the current arrangement?

KE If need be we file another lawsuit on the current arrangement; we are discussing that with our lawyers right now. If we need to do that then we will do that.

Thank you all for joining us today; as promised I will give you some guidance on 2010. We hope to close 2010 around 28 million subscribers; our revenue growth, we will expect it to slow down. We have seen it has slowed down in 2009 and we expect that to continue. Revenue growth is expected to be around 5%. Our EBITDA margin is expected to be affected by this reduction of revenue growth. We expect that margins will be in the lower to mid 40s and our tangible CapEx, excluding licence payments that I talked about, is expected to be around EGP2.5-3 billion for 2010.

With that I would like to thank you again for participating in our call and hope to talk to you soon. Thank you.