

Telecom Egypt Q1 2017 Earnings Call

**Chaired by: Sameh Refaat
CI Capital
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Operator: Good afternoon, and welcome to the Telecom Egypt Conference Call. As a reminder, this call is restricted to clients of CI Capital and Telecom Egypt's investors and should not be attended by press or media. Participant comments are not for attribution.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number 1 on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

I will now pass over to our host, Sameh Refaat, from CI Capital. Please go ahead.

Sameh Refaat: Good morning, good afternoon and good evening, everybody. This is Sameh Refaat from CI Capital, which is glad to be hosting Telecom Egypt's first quarter 2017 results conference call.

With us from Telecom Egypt, we have the Managing Director and Chief Executive Officer, Mr. Ahmed El Beheiry; the Group's Chief Financial Officer, Mr. Mohamed Shamroukh; and the Media and Investor Relations Director, Mr. Mohamed Kamal.

I would now like to hand over the call to Mr. Mohamed Kamal.

Mohamed Kamal: Thank you, Sameh.

I thank CI Capital for hosting the conference call. Good morning and good afternoon, everybody. As usual, I will start now with the safe harbor statement. We

may make some forward-looking statements in the course of this conference call. These statements will be based on the information available to us as of today and you should, therefore, not assume in the future that we continue to hold these views.

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.

That stated, I would now like to introduce you to Mr. Ahmed El Beheiry, Telecom Egypt's Managing Director and Chief Executive Officer who will make some opening remarks. Mr. Beheiry, please go ahead.

Ahmed El Beheiry: Thank you, Mohamed. Good morning and good afternoon, everyone. Thank you for joining us in today's call. As you may know, this is my first opportunity to host such a call. This is the first quarter results that I'll be commenting on.

It's an exciting time to lead one of Egypt's most inspiring businesses with a strong heritage and bright future. Telecom Egypt has started 2017 very strongly with year on year revenue growth recorded consistently across the various segments, and a growing contribution from our investment in Vodafone Egypt, as well as committed cost controls delivering strong margins at the top-end of our expectations as a management team.

My colleague, Mohamed Shamroukh, our CFO, will take you through the numbers in detail shortly. First, I would like to take a moment to make a few comments on the operational context driving our last quarter's performance.

Data services continue to drive our top line growth. Today, two-thirds of our retail revenues comes from data-related services as Egypt's young demographics accelerate demand for high quality reliable broadband access. To this end, our strategic investments that we have briefed you about last year of upgrading our fiber network has enabled our business to respond effectively to growing demands from retail and wholesale clients.

Now, looking at the P&L, it is very clear that the healthy operational growth and the hard work of the team is translating to a very positive margin profile. We continue to generate significant free cash flow, which is critical as we take our next steps over the next few months and become the first and real total telecom operator.

As you know, the focus for 2017 is to provide services under the license we were awarded in 2016. This was a brief about the quarterly results. I'll take a moment now to brief you about our strategy going forward, then I will hand over the call to Mohamed Shamroukh for the details.

We have signed last year in August a license to operate mobile services. In Telecom Egypt, we foresee this year as the year of transformation. So, we started this month by transforming our organization and we will be focusing on enterprise businesses in both retail and wholesale. In mobile, we will focus on entering the mobile consumer market through our enterprise focus. Our ICT and IOT services are on the top of our interest in the coming period.

And now, I will hand over the call to Mr. Mohamed Shamroukh.

Mohamed Shamroukh: Thank you, Mr. CEO. Good morning and good afternoon, everyone. Looking at the financial performance for first quarter of 2017, our consolidated revenue reached EGP 4.2 billion, an increase of 36.7 percent versus the same period last year and when normalized it would be nine percent on a year on year organic growth.

I will now start with the retail segment. Our revenue in the home service business units increased by 26.6 percent compared to the first quarter of 2016 to EGP 1.3 billion. We now serve around 5.5 million fixed-line home customers and almost 60 percent of these customers are dual-play customers. TE's broadband footprint continues to lead the market. We now have 3.2 million home ADSL customer and are leading the ADSL market share reaching 75.3 percent.

On the enterprise side, we revenue remains flat compared to the first quarter of 2016 with EGP 554 million. On a quarter on quarter basis, the segment shows a decline of 27.4 percent, this decline led total retail revenue to decline by 5 percent on a quarterly basis and mainly relates to the recognition of infrastructure projects

revenue in Q4 2017 to serve the urban development. These revenues are volatile in nature and gave us quite an uplift in 2016. This quarter there was a delay in recognition and mainly the delay was related to the renewal of the contract with governmental authorities, which in turn delayed the PO assigned to Telecom Egypt in the first quarter of 2017.

The contribution of the data services continues to drive our growth in this segment, contributing namely by two-third of the retail revenue during the first quarter of 2017 up from 52 percent comparative to the first quarter of 2016.

Now, I will go through the wholesale side. The wholesale business unit contributed strongly to our top line in the first quarter reflecting a combination of underlying operations and the positive effect of the exchange rate floatation. In terms of revenue growth contribution, our international customer affairs business unit in particular was the main driver. Revenues from the domestic wholesale business unit increased by 23.1 percent year on year to reach EGP 888 million in the first quarter of this year reflecting the increased demand from local licensed operators for TE's infrastructure services.

On the international carrier affair's front, the business grew by 83.6 percent compared to 2016 contributing EGP 1.2 billion in the first quarter of the year. This mainly stems from the positive effect of the floatation of Egyptian currency.

Finally, our international customers and network business unit grew by 105 percent year on year reaching revenue of EGP 299 million in the quarter when compared to the final quarter of 2016. This revenue profile looks less impressive, however I would remind you that there the revenue has a cyclical nature and we are now focusing on agreements that are likely to materialize in the second half of the year.

Moving to the costs side, total costs increased by almost 49.1 percent on the increase in the international cost directly related to the exchange rate floatation that happened in the last quarter of 2016. Also, salaries increased by 15 percent in order to compensate higher inflation levels in the country which took effect in the first of Jan 2017 contributing to the higher cost this quarter.

That said, in the first quarter of 2016 we are still able to deliver an EBITDA of EGP 1.4 billion representing an increase of 40.6 percent versus the same period last year. This represents a healthy 33 percent EBITDA margin for this quarter.

Vodafone Egypt's contribution to our bottom line normalized in the first quarter of 2017 after the effects of the devaluation of the Egyptian currency had result in a loss in the last quarter of 2016. The business contributed EGP 675 million during the period under review. Overall, Telecom Egypt reported a net profit after tax of EGP 1.3 billion in the first quarter of this year, reflecting five percent increase over the same quarter last year.

This translated to a net profit margin for the quarter of 32 percent, at the top end of management's expectation and earnings per share of EGP 4.78 for the quarter. This reflects the ability of the business to show top line growth, healthy EBITDA and bottom line margins to deliver value to our investors.

Finally, on the capital expenditures, this quarter it stood at EGP 501 million in line with management's expectations. We continue to deliver against our strategic plan and focus on expanding the top line in a profitable way. We look forward to maintaining this focus in the coming quarters.

That concludes my presentation. I will now hand the call back to the operator to open the line for your questions.

Operator, please go ahead.

Operator: Thank you. We can now start with questions and answers. If you wish to ask a question, please press star 1.

OK. We have your first question from the line of Sarah Shabayek from Arqaam Capital. Please ask your question.

Sarah Shabayek: Good afternoon, gentlemen, three questions if I may. The first directed to Mr. Ahmed El Beheiry. Over the last few years there has been quite a few changes to

the CEO position, but actually the strategy hasn't changed at all with the changes in management. And I was wondering whether--

Ahmed El Beheiry: I'm sorry; I'm not hearing you so well. The line is not so clear, can you repeat the question again, please.

Sarah Shabayek: OK. Is this better?

Ahmed El Beheiry: Yes, very much better.

Sarah Shabayek: OK. Great. So, my first question relates to the changes in management. We've seen several changes in the CEO position over the last year, however, the strategy has not changed. So, should we be expecting the same strategy again under your leadership or should we expect changes in the overall strategy this time?

My second question relates to the EBITDA margin. We've seen a slight improvement in the EBITDA margin compared to Q1 '16 in spite of interconnect cost increasing almost 100 percent year over year as well as the aggressive salary increase. So, I was wondering what kind of cost efficiencies offset these two cost increases in order to maintain a stable EBITDA margin.

My third question is in relation to Vodafone Egypt. This is the first quarter, where there are no KPIs reported by Telecom Egypt for Vodafone Egypt, neither on revenue nor on customers and I was wondering why that is the case. And also, the investment income almost doubled compared to Q1 '16. I remember the last number before the FX loss in Q4 was the Q3 results at 420 million, so what's reported in Q1 '17, is quite a significant increase. So, I was wondering whether this is a one-off positive adjustment.

Ahmed El Beheiry: Are you done?

Sarah Shabayek: Yes.

Ahmed El Beheiry: Thank you for the question. They are very interesting ones, indeed. So, I'll start with the first relating to the strategy. I will not be in a position to comment on the position of the former CEOs and strategies that they have put for Telecom Egypt.

However, let's say I will comment on the borderline, when I come and then how I take it further. So, I as I mentioned in my earlier comments, this year is by nature a transformation year. So, we have the mobile license and the integration with Ericsson. And let's mention a more interesting topic that whether we like it or not fixed broadband is pushing all the telecom operators into cloud computing and 4G is pushing everyone into Internet of Things.

So, the telecom market from left to right is completely changing. So, indeed Telecom Egypt is at the verge of transformation. My focus during the coming period will be, as you may know we are leading in the enterprise market through our fixed broadband presence.

Our strategy is very clear, we will look at these markets, we will build our presence in cloud computing. We will use it as an entry door for the consumer market in the mobile. We are not interested in destroying value in the consumer market or the mobile and we will preserve the market as much as we can.

However, at the same time I see this as a new strategy. As I mentioned I'm only commenting on the borderline, when I arrived and the change I have put through. So earlier, there was a lot of focus on the consumer market. Now, as I mentioned, our focus will be our organic business and the enterprise market looking at growing it moving into cloud computing, IoT and using it as an entry for the consumer market in the mobile segment.

Don't get me wrong, I will not leave the consumer market on the mobile side untapped, however my main entrance to the mobile market will be through the enterprise segment. We are also looking into future potential investment in data centers that will allow cloud computing services internationally.

So there are many things as I said happening nowadays. So definitely this year there will be a new strategy for us. I hope this answers your first question.

Sarah Shabayek: Yes. It's much clearer. However, I'm just wondering whether you'd be able to make it for the Q3 launch just because the strategy is changing aggressively from the previously communicated strategy on tapping mainly the consumer market, so in terms of mobile launch are you still committed to the Q3 timing?

Ahmed El Beheiry: Nothing changed actually. We're trying to make it on time, our strategy will ensure no delays on the launch of mobile services.

Sarah Shabayek: OK, that's very clear.

Ahmed El Beheiry: Thank you. So there's a second question?

Mohamed Shamroukh: The second actually which is on costing. You know we have faced a huge cost corresponding to the revenue growth this quarter. The devaluation affected two segments, which are our international customer and international carriers.

But, again, our guidance for 2017 as we communicated to the market is to maintain the EBITDA margin in line with management's expectations. Regarding Vodafone, I just said we faced a huge devaluation impact resulting in a lot of forex losses for Vodafone in the fourth quarter and, again, there's a lot of accounting treatments from Vodafone's side that has been evaluated at a much higher rate last year, that have been reversed this quarter into forex gains. So actually it's a one off, it's non-operational.

As for the disclosure, I think it's part of the current negotiation between Telecom Egypt and Vodafone. As you know, we have to agree on the level of communication, which is not finalized yet. So please accept our apology for not being able to communicate any numbers until we reach an agreement regarding this issue.

Ahmed El Beheiry: Does this answer your questions?

Sarah Shabayek: Yes, this answers my question, thank you.

Ahmed El Beheiry: Thank you Sarah.

Operator: Thank you. Your next question comes from the line of (unidentified participant), please ask your question.

(unidentified participant): Thank you gentlemen for the presentation. I have just one main question and that's surrounding your involvement in the mobile space in Egypt.

Obviously, from what I understand you have an agreement now with Orange, if you can share a bit more light on whatever you can share with us regarding that. You also mentioned that your strategy would target the enterprises to reach the mobile subscribers. I just wanted to have a better sense of how you will tackle this, knowing that most corporates probably already have a mobile phone, what offers

would you give them or what will be your competitive edge, your distinctive advantage against existing mobile players?

And also how would you deal with the conflict of interest between your stake in Vodafone and the fact that you are teaming up with one of their competitors, what's the latest development on that issue? Thank you.

Ahmed El Beheiry: Thank you. So let me start with the second part, which is Vodafone, if you allow me? So in Telecom Egypt, our position is very clear, we don't foresee a conflict of interest. Yes, as we earlier said, we accept the disclosure that Vodafone showed us and we are in negotiations with them on which level of inputs we are allowed to publicly disclose. However, our position is quite clear, we don't foresee any conflict of interest from our side. I hope this makes it clear.

Back to the first part, in regards to the national roaming agreement with Orange. This in fact was a vital step towards our launch. Without it, I could have not had a timeline that I could communicate officially. So, yes, indeed it's a very important step. What I can communicate to the public on that regard is that it is a nationwide agreement and it will allow us to serve our potential customers for mobile in our first day of launch.

I will not be able to give more details about it. Going to the second thought, which is a very interesting question from your side because it's the whole go-to market strategy of ours. So I only can give you the strategy, which I have highlighted. Yes, and your question is very valid. The enterprise market is as full of mobile as much as the consumer market.

However, we foresee our entry point through the enterprise market. Yes, we will end up having a price war for an already mature consumer market. So rest assured we have made our exercise and there are things in the pipeline in terms of products that we would allow us to gain market share in the mobile market. However, as I mentioned, I would ask you to allow me to keep this info for later until the launch.

(unidentified participant): OK, thank you.

Ahmed El Beheiry: Thank you.

(unidentified participant): And thanks for your answer. I just have one follow-up if I may, you mentioned that there is no conflict of interest, what's the regulator's view on that?

Ahmed El Beheiry: I would love you to refer to them because as far as I know, I have no official communication from any authority in Egypt about this.

So as far as I am concerned and I am here as CEO of Telecom Egypt, I can only talk about Telecom Egypt, we foresee no conflict of interest, but to answer your question, I didn't receive anything from any official organization in Egypt regarding this. And if you may need more information, I think you would be better getting the info from the regulator.

Operator: OK, Thank you very much.

Ahmed El Beheiry: Thank you so much.

Operator: Thank you. Your next question comes from the line of Omar Maher from EFG Hermes, please ask your question.

Omar Maher: Good afternoon, thank you gents for the call. Just have a quick question going back on the original commitment to launch the mobile business by 3Q 17.

Now my question is if I remember correctly, originally, you were talking about approximately six months window from the time you received the frequencies until the launch date. Now you haven't received the frequencies yet and we're at the end of May. So presumably if you get the frequencies in the next couple of weeks,

then this means that the launch will not take place before December or November at best. So is there a change in the launch window that you needed to a shorter period of time?

And the second question is, I want to ask if there's any update on receiving the frequencies from the government? So far we haven't heard of any frequencies being handed over by the armed forces to the government that's helpful to the ministry or the regulator. And if you could comment on the context of the recent news that we heard about the armed forces having launched its own 4G network and how that plays into availing or freeing up the frequencies for the mobile operators? That would be highly appreciated.

Ahmed El Beheiry: Thank you, Omar. Very interesting questions there. So I'll start with the launch scale. Look, any mobile greenfield operator is managed through war rooms so it will be verified and it is verified.

The frequencies are not yet delivered however, we are having our plans squeezed to keep the launch date as is. Many factors are changing on the ground, yes, our business in building greenfield mobile networks shows us that you should not be allowing external factors to affect your plan. This is what we have been told, this was done before and this is what we'll try to do again. But to answer your question clearly, the frequencies are not yet delivered, I expect them to be delivered very soon.

This is affecting us indeed, however, we try to accommodate it as much as we can. So I hope this makes the launch date question clear. About the frequencies, and the third interesting question about the army, it's not moved, it was like a trial for 4G calls for their internal use. So this is their proprietary right, and it has been always the case by the way that the army has their own frequencies, building their own network for their own use has been always the case. So I don't foresee any risk on the commercial side of it.

However, this is my personal view, I'm not aware of the details of it but from my personal experience, this is a déjà vu for me, this is something that has been always going on through the years, through the history of the telecom industry. And back to the frequencies, yes, frequencies in Egypt are an issue but the progress that has

been made during the last year thanks to the effort of the ministry of telecom has contributed to allowing the four mobile operators to receive and I'm proud to say four mobile operators because until last August, it was only three.

So we have received four rounds of frequencies and this will be something that will be recurrent because if we want the industry and the economy of Egypt to flourish then the industry of the telecom information technology needs to flourish and it needs the forces to carry the data and it only happens through frequencies. So I'm very optimistic that the years to come will allow the four mobile operators to receive more frequencies allowing for better services and more innovation. Does this make it clear for you Omar?

Omar Maher: Yes. Thank you Ahmed. And one follow-up question if I may, what's the length of the technical testing phase that you would need from the date you receive the frequencies until you're able to make at least a soft launch for the network?

Ahmed El Beheiry: Actually testing is not the lengthy part at all. The lengthy part is the network rollout. So there is a preparation phase when you need the frequencies to get the service, to build the sites. So we try to anticipate now as much as we can because we don't have the frequencies at hand and we accommodated quite a good part of the delay. But the testing part is not as lengthy as you may think. The more difficult part, is the part of the rollout.

Omar Maher: Sorry. And how much in terms of percentage are you done with rolling out the network for 4G sites?

Ahmed El Beheiry: Now, we still – I don't have frequencies so I don't have anything to add to that, but we still have a considerably good number of sites.

Omar Maher: OK. Would you say it's more than 50 percent or less if you can disclose that?

Ahmed El Beheiry: The thing is and this is very important, for our customers the least part of our operational plan that affects the launch is the radio part. I want to have this clear, so the preparation of the billing is way more important.

The preparation of the core packet switch is way more important. The preparation of the international roaming agreement is way more important. Because on the day of the launch, I can really launch with zero radio sites because of the national roaming. So it's somehow a question that is more financial to us.

The more radio sites, the more we pay less for national roaming. But for our customers, it will be a seamless experience from the first day, so they will feel that we have built hundreds of sites or a few sites for them it will be the same.

But today, we are – to answer your question, like 50 percent of the plan is already in radio sites. Is it clear?

Omar Maher: Yes, that's very clear. Yes. Thank you.

Ahmed El Beheiry: Thank you so much.

Operator: Thank you. Your next question comes from the line of Erik (inaudible) from (inaudible) please ask your question.

Erik (inaudible): Hi. I just was hoping we could get a little more color. You said earlier that a large part of the earnings in the Vodacom Egypt were because of an FX gain, I just didn't understand either how big of the results are from a gain and it looks like the currency hasn't moved since December, so I wasn't sure why there would be such a big FX effect in the results.

And also just more generally there's so many one offs in these numbers in the last two quarters, It would be very helpful to explain how it goes from extreme losses, to huge gains. As an analyst, it's getting very hard to get any idea what the actual earnings of Telecom Egypt are, and so to the extent you guys could give some numbers around all of these effects that are impacting the results, it would help, maybe a slide deck or something could go along with the earnings.

But anyway, my basic question is just could you clarify what this gain that you're talking about in the Vodafone?

Mohamed Shamroukh: ... correctly, since I can't hear you very well. Regarding Vodafone, as I said is the forex that's happened, the fx gain that had happened this quarter is mainly related

to accounts receivables versus liabilities and products onsite. And unfortunately, I will not be able to disclose any more information regarding this point. Of course, one-offs, whenever there's a one-off that we see that impact our result, we normalize to show the organic story as we did in the last quarter's results conference call, but during this quarter, there's no one-offs that materially impacted us that should be normalized.

Erik (inaudible): Except for this FX gain, right?

Mohamed Shamroukh: Sorry?

Erik (inaudible): Except for in the Vodafone results, you're saying there is an FX gain.

Mohamed Shamroukh: Yes, there's a one-off FX, yes.

Erik (inaudible): And is it like after the amount or...

Mohamed Shamroukh: Sorry, I didn't get it.

Erik (inaudible): OK. But it sounds like it is substantial.

Ahmed El Beheiry: ...the -- actually the contribution from Vodafone is normally in the vicinity of 400 million Egyptian pounds. So if you -- if you standardize it at this rate, that's the normal.

(Erik (inaudible)): I mean, yes, it's been -- over the last six months you've all been trying understand...

Mohamed Shamroukh: ... because actually the income from investment from Vodafone is highlighted in a different line on the financial statements so you can separate the net profit from TE's organic performance.

(Erik (inaudible)): Thank you.

Operator: Thank you. Once again, it's star one if you wish to ask a question. I have a question from the line of Michael Shen from Moon Capital. Please ask your question.

Michael Shen: Hi. Thank you for taking my question. Two questions please. Firstly, can you please provide an update on revenue growth for the year given the strong performance in the first quarter? And secondly, there was a big increase in the home ADSL ARPU made in the quarter, can you help us understand the reason for this and the outlook for the rest of the year? Thank you.

Mohamed Shamroukh: As I said, the revenue grew 37 percent but, again, if you normalize the impact of the devaluation related to the revenue of both international businesses it will be nine percent. So a huge part is related to the FX devaluation. The second part is related to ARPU as I said, it was driven by (inaudible) actually (inaudible) that we did in the last quarter and we will continue. And the second part was the upselling that we started promoting for which contributed positively to the upselling of existing customers.

Michael Shen: OK. Thank you.

Mohamed Shamroukh: You're welcome.

Operator: Thank you. Your next question comes from the line Omar Maher from EFG Hermes. Please ask your question.

Omar Maher: Thank you. One last question from my end. I'm sorry if I missed this but I wanted to ask if there's any update on the national roaming agreements with the other two mobile operators.

Ahmed El Beheiry: Thank you, Omar. We are in discussion with the other two. I cannot disclose any info regarding this. You could be hearing some news soon or maybe not. So we are in discussions with the other two as well.

Omar Maher: Thank you, Ahmed. And would you -- I mean is it -- is it an option for you to stick to one agreement only in the market?

Ahmed El Beheiry: At the end of the day, it's a commercial agreement so mutual context between the two parties. There is no exclusivity and I could end up dealing with one or can end up dealing with three.

Omar Maher: All right. Thank you.

Ahmed El Beheiry: Thank you.

Operator: Thank you. Your next question comes from the line of Ivana Vilicnik from Cape Ann Asset Management. Please ask your question.

Ivana Vilicnik: Hi. Thanks for the call. I was just wondering if you could give some outlook on the CAPEX and what do you expect it to be for the rest of the year taking the first quarter number as well? Thanks.

Mohamed Shamroukh: Yes. The first quarter is a little bit low in terms of CAPEX but it is related to some internal factors, namely as I said, a huge part was dedicated to the new agreement with the governmental authority which did not take place during first quarter. But, again, we are committed to the CAPEX guidance we gave it to the market earlier. And we believe that we will meet that during the coming few quarters.

Ivana Vilicnik: OK. So we should expect CAPEX to start ramping up from the next quarter.

Mohamed Shamroukh: Yes, it would.

Ivana Vilicnik: OK. Thank you.

Operator: Thank you. Your next question comes from the line of Sarah Shabayek from Arqaam. Please ask your question.

Sarah Shabayek: Just a follow-up question. There was news on a potential syndication with banks. It was said to be around 13 billion Egyptian pounds. I was wondering whether this is the amount -- the significance of the amount is true at all -- and what is actually happening on the ground, to what extent is this loan facility coming on-stream or not. And whether there is any updates in terms of your position towards the Vodafone Egypt asset.

Mohamed Shamroukh: I will comment on the first part, which is related to the syndication. It's a little bit inaccurate. It's, as I said, it's up to 13 billion Egyptian pounds. That does not

mean necessarily we will go for 13 billion Egyptian pounds one -- on one time we will draw from it according to our needs.

We see our cash position as a healthy one, a mix between foreign currency and domestic currency is very healthy. We made lots of payments to suppliers and financed the payment for the mobile license. Our cash position is very healthy. We're almost finalizing the agreement. . For the second quarter Vodafone, I will hand over to Mr. CEO to comment.

Ahmed El Beheiry: So back to Vodafone. I mentioned earlier a statement and I will join it with a second one. And I think it will -- this would be our Telecom Egypt position. So first statement is that we don't foresee conflicts of interest. My second statement is that we in Telecom Egypt are very -- are very much happy with our investment in Vodafone Egypt. We see it as a successful investment and we have no interest to change this at all, in the future our stance may change but as of now, I don't foresee neither a conflict of interest nor an interest from our side to change the situation as of today.

Sarah Shabayek: Just allow me to sort of -- to follow up on the two answers in relation to the debt question. What would you foresee or what do you think is the adequate debt for Telecom Egypt going forward? And on the second question in regards to Vodafone, I think the message here is changing a bit because previously what has been communicated to investors was that if you keep on holding to the Vodafone investment for longer, then you would be duplicating effectively CAPEX and as such destroying shareholder value. And our understanding was that you'd actually reach a position of either buying the remaining or selling what you have at this stage to preserve shareholder value.

Ahmed El Beheiry: OK. So it's very clear that here is the - going back to the first question that I answered on the call, whether or not change of management could come with change of strategy.

And I'm not sure what was really presented to you here, but I actually have a fundamental opposition to the statement that had our investments in Vodafone

Egypt is jeopardizing the shareholder value, while we are entering the mobile market through Telecom Egypt.

Simply, I'll -- I'll put the statement as simple as it is. We are very happy with our investment in Vodafone Egypt. This doesn't mean that a future may come and this position wouldn't change, but what is really preserving our shareholder's interest is that this investment is a successful investment and we are happy with it. And we foresee no change on that in the coming period.

Sarah Shabayek: OK. So you don't think that you'll be duplicating CAPEX by launching a 4G network while Vodafone is launching its own 4G network.

Ahmed El Beheiry: That is different. That is different. Rest assured I'm not going to build a network in 2017 like the one they started building in 1998. So our radio coverage will be completely different. Yes, I will have an umbrella coverage of normal mobile operators type of coverage, but on the rest of the radio coverage, there is many options on the table that allow for the integration with our fixed broadband through Wi-Fi serving our customers through small cell design. So I don't want to go into more on details on that, but I mean the comparison between investment there and whether we are doubling CAPEX here and there, not at all. I'm sure not at all.

But, again, Telecom Egypt will be the first total telecom provider in the market. Things could change, yes. Why not? But understand that we are very happy with our investment in Vodafone Egypt and we're looking to keep it.

Sarah Shabayek: OK. And just a follow up on this because we are touching upon CAPEX, are you still committing to the mobile CAPEX guidance of five billion over five years?

Ahmed El Beheiry: Five billion?

Sarah Shabayek: Five billion Egyptian pounds in CAPEX for mobile only over five years.

Ahmed El Beheiry: Initially, yes. But this would be subject to revision in the coming period.

Sarah Shabayek: OK.

Ahmed El Beheiry: So next quarter, the strategy would have been more translated into operational plans and I'll be more than happy to give you more clearance.

Sarah Shabayek: Thank you very much.

Ahmed El Beheiry: Thank you.

Operator: Thank you. Your next question comes from the line of (unidentified participant). Please ask your question.

(unidentified participant): Hi, gentlemen. Sorry, I have a follow up. Just on your staff and your strategy in ruling out mobile. My understanding is you are going to use your existing employees, yet at the same time, one of the big issue for Telecom Egypt was the number of staff you have and the related cost to it. What's the outlook on that? Are you looking to maybe let some people go, or what's going to happen?

Ahmed El Beheiry: We don't want anybody to go. So, again, thank you for the question. It's a serious one. Telecom Egypt as you may know, yes, we are proudly serving the Egyptian people and we are -- we are from everywhere, from north to south, from east to west.

And the number of employees we have sometimes is not only a number. To give you an example, in the mobile network, our regional distribution turns out to be a very huge advantage in acquiring sites.

So Telecom Egypt as an organization that has advantages being reachable anywhere, being with this level of number of employees. So for your second thought or the question which is still valid. Yes, we'll need to add some expertise. And the expertise should also built step by step and we are very cautious and we are trying to utilize our people as much as we can. So we will try to utilize our people as much as we can and we are adding -- we are headhunting the remaining that we would -- may need.

However, I don't want you to look at the headcount at Telecom Egypt as a negative contribution to the mobile segment as I gave you an example, turned out that the way Telecom Egypt is regionally distributed and the number of employees that are

everywhere is a huge contribution to a fast delivery of the mobile network. And it will be having the same effect in sales distribution.

(unidentified participant): Yes, yes. Thank you very much. So I was just actually thinking more -- not in terms of getting rid of your employees but more in early retirement schemes which you kind of had in the past as well.

Ahmed El Beheiry: This is something that is not on the table today. If it will become part of our strategy, I'll inform you right away.

(unidentified participant): Thank you.

Male: Thank you.

Operator: Thank you. There are no further questions at this time. Please continue.

Ahmed El Beheiry: So are we done? So thank you all for taking the time today to join us on this call. Looking forward for updating you on our progress during the rest of year. If you have questions that have not been answered by today's call, please don't hesitate to

get in touch with our investor relations team. Thank you so much. It was a very fruitful call. Thanks.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may all now disconnect.

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