

## Final Transcript

### AUERBACH GRAYSON: Telecom Egypt Second Quarter 2017 Earnings Call

August 15, 2017/11:00 a.m. EDT

#### SPEAKERS

Ahmed Adel – Beltone

Mohamed Kamal – Investor Relations Director

Ahmed El Beheiry – Managing Director and Chief Executive Officer

Mohamed Shamroukh – Senior Vice President and Chief Financial Officer

#### ANALYSTS

Omar Maher – EFG Hermes

Sarah Shabayek – Arqaam

Amine Wafy – Renaissance Capital

Hassan Abdel-Gelil – CI Capital

Michael Shen – Moon Capital

Louise Pillay – Barclays

#### PRESENTATION

Moderator

Good afternoon and welcome to Telecom Egypt's Q2 2017 Financial Results Conference Call. As a reminder, this call is restricted to clients at Beltone and Telecom Egypt 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. [Operator instructions]. As a reminder, the conference is being recorded.

Thank you. I will now turn the conference over to our host, Ahmed Adel from Beltone. Please go ahead.

A. Adel

Thank you, operator. Good morning and good afternoon, everyone. This is Ahmed Adel from Beltone. I would like to welcome you all to Telecom Egypt's Second Quarter 2017 Results Conference Call. From Telecom Egypt, we have with us Mr. Ahmed El Beheiry, Telecom Egypt's Managing Director and Chief Executive Officer; Mr. Mohamed Shamroukh, Senior Vice President and Chief Financial Officer; Mr. Mohamed Kamal, Investor Relations Director; and Mr. Shaymwe Hashwesh, Investor Relations General Manager.

I will now hand the call to Mr. Mohamed Kamal for opening remarks. Thank you very much.

M. Kamal

Thank you, Ahmed Adel. Thanks to Beltone for hosting the conference call. Good morning and good afternoon, ladies and gentlemen. Welcome to today's Telecom Egypt Second Quarter 2017 Conference Call. Our Managing Director and Chief Executive Officer, Ahmed El Beheiry, will start by giving a recap on Egypt's economic and political status, and the changes that involved our company addressing the key strategic and operational actions that have been already set. Then, our CFO, Mohamed Shamroukh, will take us through the company's business plan and remarking on some selected financial elements. The call will then continue with a Q&A session as usual.

Now, before going on with the call, I'll start with a 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 our forward-looking statements to differ from actual future events or results.

I'll now hand over the call to Telecom Egypt's Managing Director and Chief Executive Officer, Mr. Ahmed El Beheiry. Please go ahead, sir.

A. El Beheiry

Thank you, Mohamed. Good morning and good afternoon, everyone. Thank you for joining us today.

During the last days we have witnessed major economic reforms leading to today's stable economic recovery. Our government undertook aggressive fiscal

and monetary reforms, including new [indiscernible] of reducing energy subsidies and supporting both private and public reform activities. All of those have a positive impact on the economy at large.

Also, our government looked over many other developments driving the economic growth. We have seen a legal framework for investment and those [ph] aiming to address the new investments: currency flotation and [indiscernible] controlled entities; introducing initiatives to support development and achievements of financial enclosure; liberalizing the energy sector and boosting resources, discoveries and securing most sustainable energy resources; vast investment in telecom infrastructure build; further develop a liberalization of Telecom industry, introducing a fourth player to total Telecom operations; stock market activities creating confidence in the economy; IMS approving an extended fund facility and arrangement for around twice billion US dollars supporting the government's comprehensive economic reform program; securing local and regional political stability with strong focus on a stable economic growth.

Now, we'd like to have more focus on our domestic Telecom sectors. On the regulatory front, as late as June 2017, the 4G spectrum was available to all local licensed operators, obligating to the size [indiscernible] process on historically allocated spectrums before officially empowering a 4G commercial launch soon.

Now, let's have an outlook on Telecom Egypt's operations. Looking on our financial results announced today, we can see the following. Our top line to bottom line beats market consensus. We have an impressive top line quality growth of 41% year-over-year and 11% quarter-on-quarter. Consolidated [ph] growth of 39% year-on-year and 7% quarter-on-quarter with a healthy margin of 32%. Bottom line growing by 22% year-over-year and a healthy margin of 27%. With this exceptional performance management is working on mitigating the forthcoming challenges related to the company's financial leverage, mobile [indiscernible] amortization and asset depreciation.

Now, we will have some highlights on the much anticipated mobile launch. We are keeping our mobile launch target dates during September, as I expressed in the last quarter conference call. We are phasing out our old brand into a new brand identity that will be launched—leading [ph] into the mobile launch. All the streams [ph] related the mobile launch is on track. I can confirm that everything including SIM cards, [indiscernible] roaming, the [indiscernible] roaming

agreements, radio science, call, billing, everything is on track for a mobile launch to be put in place in September as planned.

With that, I will conclude my statement and hand the call over to our CFO [audio disruption]. Thank you and please, go ahead.

M. Shamroukh

Thank you, Ahmed. Good morning and good afternoon, everyone, and as I promised before, I will talk you through a quick review on the company's five-year business plan as a truly total telecom operator, but just before that I will try to give you a taste on how TE management relies its market entity.

Management aims to enter the mobile the market as total telecom competitor, riding on the strong growth of mobile data services and leverage its new LT network, as well as its extensive infrastructure assets with an emphasis on fiber technology. Unlike other operators, we aim to center our offering and service around customer evolving needs through additional customer journey and data usage, while keeping pace with technological advancement to maintain the company's competitive edge. With more emphasis on data usage and strength, demands for [indiscernible] services, be it fixed [ph] or mobile, we anticipate to increase rapidly in the coming years as it has become an indicative infrastructure for future as data hungry consumers and enterprise users progressively demand for communication and [indiscernible] services.

Continued for both organic and the cloud-based service were new technologies and market trends evolved towards big data and IoT services and the [indiscernible] technologies ever more development on fiber-based [indiscernible] broadband connectivity, in which we considerably understand how to [indiscernible] up and the defining of the telecom market future. As well, we intend to disrupt the markets through an [indiscernible] and competitive product and service leveraging as a strong asset and providing the best value for its customer.

Now, with the management well assist [ph] five-year business plan, what I will be about to state will be according to our conservative plan, giving a flavor on a company level only guidance as that is how we as management drive the business to date.

While expecting total service revenue as projected to grow at five years' CAGR of 11% for the coming five years, at which mobile contribution to the total company service revenue is expected to be of 13% on year 2022. Mobile revenue will be mostly attributed to data service-wise [indiscernible] market. The company EBITDA margins will be in the vicinity of mid to high 20s over the five coming years, considering a gradual increase in the [indiscernible] ratio from 50% in 2018 to 90% by 2022.

Lastly, our CapEx to revenue ratio, on the average of 14% for the coming five years. With that said, management decided to rationalize CapEx spend as follows. On the ratio accessed by deploying in a key traffic/revenue generating area, based on traffic, distribution, heat maps and only if it generates a positive return on investments while advising [ph] to the average application stipulated in the mobile license. Management committed CapEx spend amounting to almost \$400 million covering all [indiscernible] elements to operate 2G, 3G and 4G for both mobile and data service covering all long-term capacity for business support system for radio access networks as per coverage applications [indiscernible]. While any source of [ph] roll out [indiscernible] will be driven by mostly a comparative return on investment, the national roaming grades and based on the commercial and financial size profitability models.

Now, with a year guidance that was announced before with our full-year results, I would like to run through some revisions that have been made, too. For the total service revenue, our guidance for 2017 will be in the late 20s percentage, our EBITDA margins to be in the late 20s to early 30s percentage and for the CapEx service revenue to be a percentage of 40%.

Now, before concluding my statement, I will try to address some of the earlier announced loan facility of EGP 13 billion and any consequences financial [indiscernible] related to that. As I just mentioned, the financing facility is up to EGP 13 billion, which means that the needs to tap such facility will be gradually and slowly related to business/CapEx requirements. According to today's financial report, as of 30<sup>th</sup> of June 2017, TE net debt position stands at EGP 4.8 billion Egyptian, which reflects a strong cash generation of TE business and its ability to repay old dues according to the terms and conditions agreed upon.

Also, I'm pretty sure, you have all noticed that yet to date, we have not recognized on the profit and losses statement any interest expense related to the debt facility. That is due to the fact that according to our accounting center, we took capitalized interest expenses off our CapEx and [indiscernible].

Meanwhile, the management is working restlessly with the asset options to reduce [indiscernible] on debt on the Egyptian pound, giving us a current lending rate of 19.75% while gaining [indiscernible].

That concludes my presentation assuring that we will continue leveraging against our strategic plan and [audio disruption] expect expanding the top line in a profitable manner. We look forward to maintaining this profit [ph] in the coming quarter.

I will hand the call back to our operator to open the line for your questions.

Moderator [Operator instructions]. We will begin with the line of Omar Maher with EFG Hermes. Please go ahead.

O. Maher Thank you very much. Good afternoon, gents. Mohamed, I just had a question on the guidance that you provided, if you could repeat the 2017 guidance. And then, I just wanted to ask also about the five-year guidance, because it seems that from the earnings release, the figures that were mentioned for the mobile contribution in 2022 is closer to 16%, but if I heard you correctly, you said 13% and then CapEx you say is also strikingly different from what was mentioned in the earnings release.

So, I appreciate it if you could repeat the guidance for the five years and for 2107 as well, and then—

M. Shamroukh For 2017, again as I said, the gross are expected to be in 20 percentage for the total service revenue. EBITDA margins, we are expecting it to be in the late 20s to the early of 30s and the CapEx to service revenue is 40%. For the five-year business plan, we are expecting to grow at a CAGR of 11% for the coming five years. At year 2022, we are expecting the total mobile revenue to be of 16% the total company revenue and on average, except for 2017, we are expecting to return back to our normal CapEx to service revenue of 15%.

O. Maher Okay, and that excludes 2017?

M. Shamroukh That excludes 2017, yes.

O. Maher Okay.

M. Shamroukh For the guidance for the five years starting from 2018.

O. Maher Alright, and then, my second question if I may, is on the, well it was mentioned last quarter, regarding the negotiation with the regulatory authority to set [ph] the remaining payments of the license up front given what happened with the devaluation and the potential for getting a discount on the payment of the license possibly. I wanted to ask whether there's any same progress on that front or not, and if you could again, highlight the total expected CapEx investment that is required for the mobile operation.

M. Shamroukh

I will answer your first part of the questions regarding the payment of the remaining part of the license up front and getting a discount. Actually, it's one of the financing options. What as management tried to do is to reduce the burden of interest expenses where you some up front with suppliers getting a discount, changing some of the loan facility into hard currency to get lower interest rate, trying to pay up front and get discounts. All of these options are open for discussion. I think now, options are more in favor of transform a part of that debt facility into dollars to get lower interest rate instead of paying the remaining part of the license.

For the \$400 million, as I mentioned, again, it covers all [indiscernible] elements. Now, with the \$400 million, Telecom Egypt is full-fledged mobile operator. It can offer 2G, 3G, 4G, mobile service, includes voice and data, and any CapEx expense, as I said, will be justified from a commercial and financial perspective by better return on investment to convert with the current national roaming grade. So, actually, the rollout will be based on profitability of each side and each cluster of the radio network.

Now, with this \$400 million, we are a full-fledged mobile operator covering all the capacity needs for our five-year expansions for the core elements, for the billing systems, CRM, everything as has been mentioned from CO [ph].

O. Maher

Thank you very much.

M. Shamroukh

You're welcome.

Moderator

Next, we will go to the line of Sarah Shabayek with Arqaam. Please go ahead.

S. Shabayek

Good evening, gentlemen. In regards to the guidance that was mentioned, I heard something but the line was a bit unclear on payout ratio of 50% to 90%. I just wanted to verify this.

Also, in regards to total CapEx for the mobile, did you say \$400 million or \$600 million?

My last question is in regards to the five-year guidance in terms of the EBITDA margin which you're expecting to be in mid 20s to high 20s. So, this is obviously a drop from the margin that you're reporting today. So, what are the main contributors to the lower margins going forward?

M. Shamroukh

Again, as I said, the reasons—I will start by the last part of your question. The reasons for lower margins, actually, is coming from the fact for the coming two to three years, so it cannot be based on national roaming where some margins are not that accretive to our current margins, but again, we are working closely to have better margins by looking after the areas where there's traffic and trying to allow our radio network.

For CapEx, I said \$400 million, not \$600 million.

For the payout ratio, yes, we are expecting according—it's not a commitment from the management, but as per the business plan, we see that this will be an ability according to the current CapEx commitment and the coming five-years business plan to have a payout ratio of 30% which will come to 90% in 2022.

- S. Shabayek Just on this element, the payout ratio, so we should be expecting a much lower payout ratio starting in 2017, of 50%?
- M. Shamroukh Yes, this is as per our numbers unless, there is other—again, we are working on some [indiscernible] revenues that might be recognized this year, which might reduce the burden on the cash according to [indiscernible]. But again, as I said, this is the most conservative business plan that we projected to communicate to the market.
- S. Shabayek Okay. Sorry, two other questions—one is, guidance for 2017 on total service revenue, on [indiscernible]20, the growth for the half year was much higher. So, where are you expecting pressure in the second half of the year?
- My second question is regarding the accounting treatment for the interest expense. Basically, my understanding is that you launch in September. So, once you launch, mobile will be starting the interest expense filtering onto the P&L. What will be the treatment for the interest expense that you've already capitalized? Will it be incurred as a lump sum in the quarter, or will it be depreciated over the license period?
- M. Shamroukh It will be depreciated over the lifetime of the assets. Again, it becomes part of the CapEx cost or the assets cost. So, it will be depreciated over the lifetime of the CapEx. So, it will not have the one-off lump sum on the [indiscernible]. Interest expenses will start by—we are expecting to start by the last quarter.
- As I said in my brief, we are trying to change a big part of the current debt. As we speak, actually we are in a net debt of 4.8 and now, as of today, we are in net debt of 4.3, a reflection of the collections and generation of cash from the assets and the asset debt. There are some project revenues that we might recognize that might offset part of this debt.
- Part of this debt will be translated into dollars. So, it will ensure lower interest rate. So, I think we'll start to see interest expenses by Q4 2017.
- S. Shabayek Okay, and on the other question of why the service revenue growth will slow down in the second half of the year? At this stage, it's almost 40% year-over-year.
- M. Shamroukh Again, we try to be as more conservative as we can. This is the guidance that we gave to the market before, and we try to be on the conservative side. We might be ending up with higher revenue cost, but again, let's be now on the most conservative side. I think is 20% on the total year excluding any of the project revenues that might happen.

- S. Shabayek Okay, thank you.
- Moderator Next, we will go to the line of Amine Wafy with Renaissance Capital. Please go ahead.
- A. Wafy Hi, everyone, and thank you for the call. I just need a clarification on the CapEx of \$400 million that you just mentioned. Sorry, I was a bit late to the call so I didn't hear the beginning. Can you just briefly explain what's the timeline of this commitment and what does it include exactly? Thank you.
- M. Shamroukh Again, this is [indiscernible] element to be a mobile network. It covers business support systems, core elements of the network, outlets, renovations, everything to be a mobile network. We are now a fully-fledged mobile operator with this \$400 million.
- A. Wafy Okay, so those \$400 million have already been spent? That's how I understand it. Yes?
- M. Shamroukh Yes, it has been committed. Yes, we're committed. The BOs [ph] has been already issued.
- A. Wafy Okay, thank you very much.
- Moderator [Operator instructions]. We'll go back to the line of Amine Wafy with Renaissance Capital. Please go ahead.
- A. Wafy One follow-up question on Vodafone contribution to the bottom line of Telecom Egypt. We've seen quite a big increase in Q2 by 45% and by 80% year-on-year in the first quarter. Would you be able to share more color on that and what should we be expecting as you guys launch your mobile services in 3Q and 4Q?
- A. El Beheiry Not all of the contribution has been driven from the service growth. I have not been in a situation to disclose more about Vodafone Egypt, but Vodafone Egypt has recognized a FX [ph] gain. It has recognized FX loss since the last year and they recognized a good decent FX gain during this quarter, which has been reflected in the higher profits that we recognize during our Q2 results.
- A. Wafy Okay, thank you.
- Moderator Next, we'll go to the line of Hassan Abdel-Gelil with CI Capital. Please go ahead.
- H. Abdel-Gelil Good afternoon. I have two questions. The first I know that you said in you guidance on the 16% of revenue [ph] from mobile but is there a target market for the market share that you want to reach by the year 2022? This is the first one.
- The second one is the revenue that comes from connectivity compounds, the different compounds in Egypt, what's the contribution of it now from the total revenues and where will it be in five years?

- M. Shamroukh      Actually, for some market share, I think it's a very confidential commercial information. We don't have the clarity from our commercial officers to disclose anything according to some market shares, so any marketing positioning or any marketing product portfolio. So, I'm so sorry, I will not be able to answer these questions and I think Mr. [indiscernible] commercial officer will be entitled soon after the launch to talk about our commercial strategy.
- For the second part, for the compound revenue, which you mean infrastructure revenue, you can look at the enterprise quote [ph], but it's a decent revenue, but again, you can have a look on the financial statement, but I can't say explicitly what are the exact numbers, but if it's close to a sense of financial, I will answer you. If it's not, we are reporting the revenue [indiscernible] services. So, actually, what is disclosed is what we can disclose right now.
- A. El Beheiry      Let me add though on that subject, on the second part, we see connectivity to compounds. As, I would say for all just mentioned, it's not something that we disclose in our financial statements, but let me assure all of you that it's something that we focus on and it is something that we put highly in our priority of activities that we will push for growth in the quarters and years to come. We are working hard on locking as much compounds as can. We are working hard on looking at major compounds and we see this as an entry to other services as ICP and INT future services.
- For the first part of your question, which is the market share that we aim in the mobile industry, we'll be very much more at ease to answer that question very soon after, maybe, in the first call after the launch, where I'll be more at ease to talk about my strategy and on adhering to the consumer and the enterprise mobile market. So, allow us to keep it undisclosed now. I'll promise more, much more details about out mobile market and the strategy in our next call.
- H. Abdel-Gelil      Okay, thanks a lot. Just to be sure, you said that the commercial launch for the mobile will be in September, right?
- A. El Beheiry      Yes.
- H. Abdel-Gelil      Okay, thanks.
- Moderator      Next, we'll go back to the line of Omar Maher with EFG Hermes. Please go ahead.
- O. Maher      Thank you. I have a follow-up question on the enterprise. I understand that you've attributed most of the strong revenue growth this quarter to the retail business, which was practically driven by the data, obviously, but I'm just trying to understand also the strength I'm seeing. Also the enterprise is doing quite well and wanted to just to understand what's driving this.

There's a bit more volatility on the quarterly basis that the revenues for enterprise solutions, [audio disruption] quarters. But I'm just trying to get a sense of whether this is driven more by—why not contract the signatures [ph] or whether this is driven by recovery and the economy. Are you experiencing improved demand that is more sustainable [audio disruption] or not?

A. El Beheiry

Let me remind you if some of you were in the previous call. The previous call was my first call as the CEO and I mentioned my strategy clearly. I said that while coming from a background of consumer-based mobile market, I very much see the strength of Telecom Egypt in the enterprise market and I emphasized the fact that my strategy is based on enterprise and we have been putting focus day after day on that. So, there will be more focus on the enterprise market as the market to be enlarged, unlocked.

On the last call I said, this is our—I see it as our bread and butter. We talk a lot nowadays in Telecom Egypt not only on the mobile launch, but more on cloud computing and big data. So the increase is no surprise for me, but I expect even more growth in the coming period on the enterprise.

O. Maher

Yes, Ahmed, I remember clearly you mentioned cloud computing and you also talked about the rollout of data centers across the country. But this is, I mean, for the rollout of data centers, this is something presumably that will take a longer period of time than a quarter to do this.

A. El Beheiry

No, no, I didn't say—I realize this revenue is from cloud computing or data centers, but I said that I'm putting focus on enterprise. The themes are mandated to look more into enterprises and to grow the revenues quarter over quarter, so there is something. There is a focus on that, because I said the short-term market focus and market growth is the bread and butter for the long term looking for the cloud computing gross to happen years to come.

But to assure you, our ICT year-over-year revenues year to date is more than 8 times what was delivered in 2016 as a whole. I'm not again disclosing the number, because we're talking services, but I'm giving you an indication on how the company focus is shifting.

O. Maher

Okay, that is clear. Thank you. Then, one follow-up question if I may, I was wondering if there are any developments in the potential talks with the regulator, if there are any at the moment, regarding any potential conflict of interest from having the investment in the mobile arm as well as the [indiscernible] at the same time.

A. El Beheiry

This is my second conference call and it seems that I will receive it every conference call. As I said last time, I foresee no conflict of interest myself, and I didn't receive any remarks from the regulatory bodies in Egypt that my position foresee any conflict of interest, and that type of question is more a regulatory question. For me, I didn't—to answer your question—no. I didn't receive any remark from the regulatory whether it is in Egypt—I mean the Telecom regulatory.

- O. Maher Okay, thank you.
- A. El Beheiry Thank you.
- Moderator Thank you. We do not have any further questions. I would now like to hand the call back to Mr.—oh, you know what, several more questions did shoot up. Do you want to take them?
- M Yes, please go ahead.
- Moderator Okay. Alright. We'll go to the line of Michael Shen with Moon Capital. Please go ahead.
- M. Shen Hi, thank you for the call. You mentioned in your release that the business plan, the five-year plan, was conservative. Can you talk about what part of the business plan is conservative?
- Also, I had a question on your business plan, you expect to reach 15% CapEx of sales over the five-year period. Does this include the \$400 million in mobile investments? What do you expect to accomplish in terms of your network capacity and these fees [ph] that you can offer in your fixed network within this CapEx budget?
- M. Shamroukh Actually, we meant by conservative that we were so conservative in our revenue targets and we were so conservative again in the cost associated with such revenue, so we assumed almost no optimization in reducing costs compared with rolling out [indiscernible]. So any size will enter those reductions in national roaming cost and in enhancement of some options. So, we considered most two conservative scenarios on the revenue and on the cost aside.
- For the CapEx, actually the \$400 million, will be issued to [indiscernible] and the 15% as I mentioned, again, this is for the normal CapEx, and any CapEx that's spent on the mobile will be again corresponding to a reduction in national roaming cost and justified the CapEx spend. Any capital spend has to justify reduction of national roaming and the burden of financing such CapEx. So, conservative on all tracts: on the CapEx, financing, revenue and cost as well.
- M. Shen Got it, and just a quick follow-up on the \$400 million. So, you mentioned this will be spent this year. Is that included within the 40% CapEx of sales guidance this year then?
- M. Shamroukh Yes.
- M. Shen Okay. Understood, okay.
- M. Shamroukh Thank you.
- Moderator Next, we'll go back to the line of Amine Wafy with Renaissance Capital. Please go ahead.

- A. Wafy                      Guys, just one follow-up question regarding your guidance of the full year 2017 and high 20s and low 30s EBITDA margin, which doesn't seem quite far from the level we've seen in the first half of '17. Which makes me wonder, are you not expecting any pressure in terms of cost, in terms of SG&A, selling and general administrative expenses, past launch of the mobile operation? As I understand, the margin is quite close to current level.
- M. Shamroukh              Again, we'll start to point to last quarter and you have to keep in your mind that Telecom Egypt is not a new entrant. We have already our [indiscernible] if you mean, we'll not have a new finance team for handling mobile service. We'll not have a new HR team, just some hirings that we already included in our business plan.
- So in terms of G&A, no we are not from expecting from day one and from today, we are [indiscernible] license that there will be an increase in the G&A and I think it is one of the competitive advantages for Telecom Egypt, including even the distribution channel and sales team [ph]. Already, we are ensuring a footprint in Egypt that will be leveraged to reduce our distribution costs and our G&A cost. So, we are committed to our guidance and we don't see during this year any pressure on the cost or on the G&A cost specifically regarding the launch of some mobile service.
- A. Wafy                      Okay, very clear, and one last question on the mid-to-high 20s EBITDA margin, this is supposed to start in 2018 for a five-year period. Right?
- M. Shamroukh              Mid-twenties, starting from 2011, because actually, it is a year versus a full year of mobile operation. This year, we're expecting late 20s to early 30s in EBITDA margin for 2017.
- A. Wafy                      Okay, and for the five-year plan, it's about the mid-20s.
- M. Shamroukh              Mid-twenties, yes, mid to high 20s, yes.
- A. Wafy                      Mid to high 20s and this is for the group, not for the mobile unit.
- M. Shamroukh              Our guidance is actually for the company, not for any service. We do not disclose per service guidance. We are talking about Telecom Egypt's total financial performance.
- A. Wafy                      We expect the mobile to contribute to about 13% of revenue in 2022.
- M. Shamroukh              Sixteen, 16.
- A. Wafy                      One, six. Okay, got it. Thank you so much, guys.
- M                              Thank you.
- Moderator                    Next, we have the line of Louise Pillay with Barclays. Please go ahead.

- L. Pillay Hello, thanks for the opportunity. You mentioned that you are rationalizing your cap expense. Can you just provide more color on that and also, what percentage of the CapEx is dollar denominated and what percentage of the net cost is dollar denominated? Thanks.
- M. Shamroukh Again, I meant by rationalizing the CapEx—now we cover most of the CapEx. Our normal CapEx to service ratio was in the range of 15% to 18%. This year, we witnessed a high in the CapEx to service revenue driven by the fact that we are launching a mobile service. We can. We have a full-fledged mobile operation right now. We issued a few and we commissioned most of the billing systems, full network, everything as has been mentioned from Mr. CEO.
- By rationalizing, the big part of the CapEx spend on the mobile five will be in the ratio [ph] part. For the ratio parts, directions and the strategies have been adapted from the new management that any cluster, any rollout, any ratio clusters [ph], any ratio size should be justified by a better return compared to the current national roaming rate. This I meant by rationalizing the CapEx spend. It has to show a return on the investment, it has to offset the CapEx spend, the burden of interest expenses, and everything.
- To tell you the truth, most of the CapEx are told in dollars [ph] not Egyptian pounds. Most of this CapEx is equipment from international suppliers. So, most of it are to dollars and the good news to Telecom Egypt is strong in dollars, so we don't have any pressure on financing such CapEx spend.
- L. Pillay Okay, thanks, but just one follow-up question. How do the offers differ from the urban and rural areas?
- A. El Beheiry Can you repeat the question, please?
- L. Pillay How do the offers differ from the urban and rural areas, in terms of if you had to offer converged offerings?
- A. El Beheiry Do you mean our commercial strategy, while entering urban and non-urban areas, rural areas?
- L. Pillay Yes.
- A. El Beheiry In terms of conversions?
- L. Pillay In terms of revenues.
- A. El Beheiry What do you mean in terms of revenues?
- L. Pillay So, going into the converged offerings, in terms of how does the revenue outlook look for the next five years?
- A. El Beheiry You mean the outlook of revenues in terms of rural versus urban?
- L. Pillay Yes.

- A. El Beheiry The market share of the demography of Egypt is very specific. So, the urban cities are the major cities in Egypt where we have most of the population condensation. You have, for example everyone is talking about Cairo traffic, but they have the Delta traffic, which is a major, major part of our traffic aims. So, for us Delta is very much an urban dense area. Cairo is a very much urban dense area. What we call rural areas in Egypt are very much the roads and the cities at the end of the roads. So, the urban traffic in Egypt contributes to more than 60% to 80% of the total traffic and enhanced revenues if this is the question.
- L. Pillay Thank you.
- A. El Beheiry Thank you. Guys, let me say that there is something very exciting happening very soon, which is the revenues of the mobile industry of the communication industry in Egypt is in terms of the late 30s, like 37 billion. Telecom Egypt was always a player in the fixed internet which is the range of the 6 billion. Very soon, we'll have a window to the 30 billion that we were never allowed to compete in. This is something which is very exciting for us and I'm sure very exciting for our investors. Starting from the next quarter, we will have this window open and we're very excited to tap in and see how we can leverage our presence there.
- Are there any other questions?
- Moderator Yes, we still have two more. We'll go to the line of Sarah Shabayek with Arqaam again. Please go ahead.
- S. Shabayek Two follow-up questions actually. I was following up on the enterprise revenue question from Omar. Basically, what you disclosed is that voice enterprise revenue jumped almost 32% quarter on quarter. So, I'm suspecting, but I want to verify, because otherwise, it wouldn't make too much sense for voice to jump such a huge increase on a quarterly basis.
- In regards to your plan to do a complete rebranding for the company, this somehow contradicts with the statement that there wouldn't be any cost pressure from mobile in the second half of the year. When are you expected to incur the rebranding cost? How big would they be and over how many quarters will you be doing this rebranding exercise?
- A. El Beheiry Let me talk about the rebranding first. So, the rebranding, again, I will not be able to disclose our marketing positioning and our brand identity values on how it will shift. The thing is Telecom Egypt is a well-established brand here and there are major activities going on, which introduction of the mobile, so we foresee a brand is repositioning. That is included in the fiscal budget that is presented to you and included in the business plan that was, again, presented to you. There is nothing on that was not recalculated before.

We talked about the CapEx and what was accounted for and we talked about—not all the activities we undergo is CapEx. So, some of it is CapEx. Some of it is OpEx and we don't foresee more. As our CFO mentioned, we don't foresee more CapEx commitment to happen during the coming two quarters.

- S. Shabayek Yes, I understand. I was referring to the OpEx element of the rebounding costs. How much would that be in terms of costs that you would have to incur at the time of launch?
- A. El Beheiry Disclosing such an activity is like giving you a [indiscernible] with my campaign on it. So, what I can say, it's calculated in the fiscal budget that is presented and it's calculated in the fiscal budget that results in the EBITDA margin that you see on the [indiscernible].
- Trust me, it is not very different from the commercial budget that any of my competitors has a regular budget quarter over quarter. It's just taking Telecom Egypt into an industry where everyone has a quarterly budget for a brand identity and for commercial identity. Telecom Egypt was very shy in that and we will not be shy further.
- S. Shabayek Okay and for the enterprise revenue?
- M. Shamroukh For the enterprise actually, the process is coming from [indiscernible]. I'm wondering why you are saying it's coming from [indiscernible]?
- S. Shabayek Actually, this is on the earnings review. It's a 32% quarter-on-quarter growth. It was 432 million up from 244.
- M. Shamroukh This is a total enterprise serving?
- S. Shabayek Voice enterprise.
- M. Shamroukh Voice is 543 million for a separate [ph] half compared with 516 the same half last year.
- S. Shabayek Quarter-on-quarter [audio disruption].
- M. Shamroukh For the quarter, it's 256 for the second quarter, 286 for the first quarter, 233 for the same quarter as last year, I mean, Q2 2016.
- S. Shabayek Maybe, I'm mistaken. I'll double check the numbers. Thank you.
- M. Shamroukh Okay, just send me the numbers and I can reply to you.
- S. Shabayek Thank you.
- Moderator One more question from the line of Michael Shen with Moon Capital. Please go ahead.

- M. Shen Two follow-up questions from me also. Firstly, in the second quarter your debt as well as your cash increased and I was wondering what do you think would be the appropriate cash balance given obviously debt is very expensive right now at 19.7%. Does it make sense to take some of that excess cash and pay down the debt on the credit facility?
- My second question is on your five-year business plan. You mentioned the revenue upside and the upside on the cost. If you take that into account, what would your five-year business plan look like under the scenario where you see some of the upside being realized?
- M. Shamroukh For the first part of your question, if I understood you correctly, you mean the personal [ph] cash and it is now [indiscernible] is 19.75.
- Again, you might not attend the whole call. I said that we're working on a different financing option right now, not necessarily to have a facility in Egyptian pounds. We are working to transform a part of the facility into hard [ph] currency. Accordingly, it will be a huge reduction in interest expenses, going down from the current level of 19.75 to almost six or [ph] plus minus percentage.
- Actually, we are working. We have some strategic thinking on leverage of some of the non-operating asset of Telecom Egypt to reduce a personal Egyptian part of the debt. So all the options are open for discussion and I think we are now in discussion with support of director to reduce the interest expense. It will not be [indiscernible] expense is 19.75.
- Again, I did communicate the five-year business plan. Again, we will not be entitled to disclose that optimistic part of the five-year business plan. We said it's the most conservative side. It's the worst scenario that might happen. It is conservative on both sides, on the cost and on the revenue side. I'm not entitled to say what would be the situation if optimization for the national roaming cost happens.
- M. Shen Just on the debt side, my question is more related to do you anticipate holding this level of cash and equivalents going forward or do you anticipate taking some of the cash to reduce the gross level of debt?
- M. Shamroukh Again, definitely, our target is to reduce the debt as possible. Actually, I didn't get your point of holding the cash. We do not have cash and we are [indiscernible].
- M. Shen My question is related to obviously you have over 2 billion of cash today, do you anticipate reducing that level or do you anticipate holding this level going forward?
- M. Shamroukh No, cannot reduce it. I got it. We cannot reduce it. There's no meaning to have this cash while there's debt expenses at the percentage [ph] of 19.75.
- M. Shen Okay, thank you.

- M. Shamroukh Operator?
- Moderator There are no further questions, so I'll hand the call back over to Mr. Ahmed El Beheiry, the Managing Director and Chief Executive Officer of Telecom Egypt.
- A. El Beheiry Thank you all for taking the time to join this call and your patience in hearing the progress we are making as well as our plans for the future. I'm personally very excited about the opportunity, the refined commercial focus and the business structure offers for Telecom Egypt.
- I look forward to reporting progress to you on the next quarter results with more emphasis on the company's total telecom operations. In the meantime, if you have any further queries, please don't hesitate to get in touch with our Investor Relations team. Thank you all. Thanks a lot.
- Moderator Ladies and gentlemen, a replay service for this call will be available for one week after the call. That does conclude your conference for today. Thank you for your participation. You may now disconnect.