

## Vodafone Egypt Conference Call

**Monday, May 9, 2005**

17:00 Hrs UK Time, 15:00 Hrs Cairo Time

Chaired by **Mr. Ian Gray**

Moderated by **Ms. Gihane Halawa**



### ***Gihane Halawa***

Good afternoon ladies and gentlemen, welcome to Vodafone Egypt conference call. On the line with us we have Vodafone's management who achieved these amazing results, we have Mr Ian Gray, Vodafone CEO, Mr Martin Moorhouse, the CFO, Mr Omar El-Sheikh, the Corporate Affairs Director, Mr Shereef El Prince, Strategic Planning and IR Senior Manager and Mrs Radwa Afifi from the IR Support. Mr Gray will give a short presentation, briefing us about the company's performance, and then the floor will be opened to questions. Mr Gray?

### ***Ian Gray***

Thank you very much Gihane, this is Ian Gray speaking, good morning, good afternoon to all of you. I would first of all like to thank all of you for finding the time to listen in and thank you Gihane for setting up this conference call today. As I think you will probably all realize, we're relatively pleased with the results that were announced, they are all detailed in the preliminary announcement, which I hope you've all had the chance to see. Today we're going to work on the basis that you've had a chance to read that and then pick out what we saw as the key points within it. But before I go on to any specific comments about the numbers, as we would always do, I'd like to hand over to Martin Moorhouse to go through our conventional disclaimer statement, so safe harbour coming from Martin please, thank you.

### ***Martin Moorhouse***

Good morning and good afternoon everyone, this is our customary disclosure statement. Certain information disclosed during this conference call consists of forward-looking statements reflecting the current view of the company with respect to future events and are subject to certain risks, uncertainties and assumptions. May factors could cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward looking statements, including worldwide economic trends, the economic and political climate of Egypt, the Middle East and changes in business strategy and various other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in such forward-looking statements. The company undertakes no obligation to republish revised forward-looking statements to reflect change events or circumstances. And that ends the disclaimer statement.

### ***Ian Gray***

Thank you very much Martin. I'm going to come onto elements of interpretation, our interpretation of the results. Clearly, for the year we're seeing total revenue up 34% and in the last quarter it's up 35% and I think it's worth highlighting the fact that clearly the customer numbers are up more than that, they're up 44% on the year, and the net growth in the quarter has clearly been very high but I do think it's worth emphasising the fact that the total revenue, which is the share of spend that we're getting from consumer's wallet, is sitting at round about the 35% mark. Clearly we've kept the costs tight and everything else, so we've seen the EBITDA going up 37% in the year, 54% in the quarter and we need to bear in mind on that, we've had some minor adjustments that Martin will touch on in the last quarter which sort of balances out so that the year's figure, up 37%, is what we're more focused on. EBIT up 41% for the year, 60% for the quarter; again, all in all from our point of view we see these as being results which validate the strategy we've been following in the marketplace. And the strategy we've been following is actually, I come back to words I've used before, which is actually to make mobile telephony more accessible and more affordable. And we've also touched before on the fact that we felt the market may be getting very close to a point of inflection and I think the evidence there is that that may well be the case. I think the key to the acceleration in customer growth, since the very end of the last quarter and this quarter, has actually been the improvement in the economy and in particular, with an improvement in the economy, an improvement in consumer optimism. The next driver that's been coming through is the actual pricing and making the product more accessible; the connection prices have been coming down at the same time as the cost of handsets has been coming down, so that again has made it easier for many more people to come into the marketplace. We also introduced, as an industry, I mean the tariffs changed last summer so in terms of the product being more affordable and people were actually more, people were able to make calls from 50 Piasters, which made the usage much easier for people, and we're seeing, I think, the combination of the economy, the activation prices, the

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handset prices and the apparent affordability of the product to have run combining, in reaching and getting to this stage of the market.

Can I draw your attention again to the net growth in customers has stepped up substantially in the quarter but the total revenue is actually only up round about the 35%. And with all of that in mind, I would draw your attention to the comments that we've been making regarding future ARPU. Yes we're seeing acceleration in the growth of the market but this is, as we go further into the marketplace, attracting lower spending customers. Now we're focused on net market growth and for the volumes of doubt, we're very happy with the continued accelerated growth in this last quarter but exactly how much the revenue is going to be from these customers in the future is still uncertain. We're expecting the expansion of the marketplace to be getting customers who spend less and we're also expecting to see some significance shown from the new customers added in. And the way that we count churn in the industry, we would expect to see lack of usage after either three or six months. Having attracted a lot of customers in the last three months, we're not yet seeing the net effect on an ongoing basis of some of those customers churning off. So, I mean that may sound a bit negative, a bit cautious but we're very happy with the way things are going, I just think we all have to be very realistic about it.

So reduction in prices, the marketplace driving it forward, we're seeing the early part of the growth and we, as a business, intend going forward to continue with the innovative products and services which, from our point of view, not just accelerate the growth but also help encourage the usage by all customers. So with that as an introduction, so that we can get to questions as soon as possible, I will hand over to Martin to cover some of the details on the KPI's or the P&L to highlight some other issues.

#### ***Martin Moorhouse***

Hello everyone, just to pick off from where Ian left off, I'm pleased with the results, as you might have guessed. I think the revenues are pleasing and I think the EBITDA is perhaps even slightly more pleasing with a 37% increase year on year to reach 2.4 million, 2.4 billion, I'm sorry. I would, however, like to bring your attention to a provision release within the EBITDA number of approximately 50 million which related to the settlement of a number of uncertainties, most provisions have been made against EBITDA over a number of years, many, but not all of which, related to the Spectrum purchase. I would add that our balance sheet remains conservative.

We have improved the margin for the year and I think it's down to a mix of tighter cost controls and a cost conscious nature in the business. We've targeted value driven products and promotions, we have gone for innovation at low cost, we clearly benefit from Vodafone group cost synergies, I think we've focused on value rather than numbers and then finally we obviously have a strength in visitors revenues.

Turning to finance costs, there has been a reduction in term borrowings; we've been able to make some early repayments of that and at the 31<sup>st</sup> March, term loans stood at a gross of 550 million. There are no current plans to gear up. The legal provision, as you know, we believe we are entitled to a full 10-year tax holiday, however this has not been agreed by the tax authorities; we therefore provide for the risk of losing a court case. The average for the year ended 31<sup>st</sup> March is approximately 37%.

Turning to CAPEX, for the year ended 31<sup>st</sup> March we have spent approximately 970 million on tangible additions for the year. The increase in CAPEX, then, this year is mainly attributed to the accelerated growth and, to a degree, an anticipation of future growth. CAPEX guidance for the following year is difficult as so much is dependent upon custom growth. We are reviewing it regularly but my guidance are that the best indications are that this year's capital will be not less than 1.5 billion and not more than 2.5 billion, so those are my current best indications.

Finally I'd just like to add a little bit on ARPU and a little bit of the background as to what I think is happening. In tariffs the distinction between pre pay and post pay is becoming increasingly blurred. In Egypt this split has always been very price driven and I therefore now expect some movement of higher spending customers from post pay to pre pay. This will hide the impact of the very much lower spending customers that are now coming in as additions; so therefore blended ARPU, excluding the impact of visitors, as a proportion will reflect that movement with a reduction. However, as the proportion of post pay decreases, it may well not be seen in the individual ARPU measures so we may actually reach a situation where both pre pay and post pay ARPU increases, although blended ARPU decreases as a consequence of mix. I think that's what I really wanted to say and if I pass you back to Ian for concluding remarks.

#### ***Ian Gray***

Okay, thanks Martin. I think it's basically, what I was starting off saying; we are enjoying an upswing in the marketplace in terms of the number of customers. I described it in the past as the industry going through a growth phase, taking a share of the customer's wallets and is actually adding in the maximum number of customers, maximum number of customers to be able to generate the maximum share of wallet with the customers spending less. So I mean that's how we see the marketplace moving forward and we see it as exciting times. So I'd like to hand over for questions now, thank you.

## Questions and Answers

### **Benita Mikolajewicz - ING Barings London**

*Yes good afternoon and congratulations on great results. I have a few questions if I may, first one on net additions because I have noticed that essentially this quarter, for the first time since my history accounts data show, you actually have taken a lead on the market in terms of net additions so maybe you can elaborate a little bit more what do you think if the reason maybe you, it is a result of certain new products you have introduced, maybe you can elaborate a little bit more on that? And also going forward in the year, do you think that this sort of pace of net additions is possible to be maintained? And also on EBITDA margin, maybe you can tell us a little bit more about outlook for the next year? And also again on the products side, you've mentioned that some of your prospect customers are moving to the pre pay, taking pre paid offers so maybe you can elaborate a little bit more on the reasons for that? Thank you.*

Thank you Benita, I will try not to be here for 20 minutes answering that set of questions. First of all, in terms of the net ads in the quarter, we have, for a long time, been recently comfortable with 47, 48% share of customers in total and we've been driving, relatively speaking, value proposition into the marketplace. And for those who are hearing a siren in the background we're not about to be arrested we're just based in Cairo! And, you know, the movement in net ads this quarter has moved us back into that position. I mean overall we had lost a bit of share, we'd lost a bit of share in the period up to end of December. I mean I think it's come about for a number of reasons, I think that there is an element of choice on the part of the customers choosing Vodafone because of the services that we make available, we currently have a capability in pre pay of transferring balances from one customer to another which, in itself, is attractive and that's allowed us to operate with a very small premium in the activation prices. We made a conscious decision to reduce the premium on the activation prices to boost our share a bit. So this was rather more a trade push rather than a consumer pull through, as a change in pattern. Going forward I think that, depending on the offers in the marketplace, the challenge we face at the moment is that some of the offers in the marketplace have actually made it more attractive for a customer to take out a new line than to purchase a recharge card and we have certainly attempted to tune our offers and we would expect our competitor to be doing, we end up fairly close but we're always playing one thing against the other, we've got much more differentiation now than we had 12 months ago but by and large I don't think either of us can afford to keep attracting new customers purely to cannibalise the existing base. So we may see our gross ads slightly come back, we would then expect the churn to come back a little bit as well. So the net ads, I go back to what I said at the beginning, the net ads we've seen in the first quarter does not, in any way, reflect any pattern of customers who have bought a new line and intend to dispose of the previous line, netting off against the gross ads. So what we've seen in this first quarter is virtually only an increase in gross, you know, some churn will follow through, so I would expect the increase in net to slow a little going forward. Equally we are seeing the marketplace turn to accelerated growth and it is hard to predict where that's going to go. I mean I think I probably spent some time saying not an awful lot on that. With regards to the EBITDA margin going forward I'll ask Martin to comment on the margin.

I think one of the things that, given the level of growth in the marketplace and the recent nature of that, it is probably more difficult to look forward this year than in any previous quarter. Therefore I think what I say is, given a, need to be given a wider degree of range than would perhaps normally be the case. In terms of EBITDA margin I think I would probably see it a couple of points of through the course in the year but I think, again, it's another one that will be by the end of the first quarter, probably more by the end of the second quarter we'll get a much better view as to where it's going.

I think we need to highlight on that though that the EBITDA margin that Martin is referring to is what we see as the underlying rate rather than the most recent quarter which had an exceptional lift because of those modest adjustments.

*Sure. Is there any...*

In terms of the pre and post, in Egypt the decision by a customer whether to try and get a pre pay or a post pay line has traditionally been driven by a view of their usage and the minute rate rather than any particular natural trend to pre and post. And I think we, and probably Mobinil as well, have talked about this in the past; that we have a number, and have had for some time, a number of customers who, in many other countries, would be in pre pay but in Egypt have worked hard to find themselves in post pay.

With the new products and the new tariffs introduced, in particular a product we introduced in April called the El Khat Business Line that is aimed at high spending, high minutes or high usage pre pay customers. I would expect to see some migrations within pre pay and I would expect to see some of the probably lower spending post pay customers move to a more natural home which is pre paid. And therefore, and again I'm aware that Mobinil have said this, I think we are going to see a blurring of the boundaries between pre pay and post pay, which in Egypt I know has been traditionally very marked, I



think we will see that boundary change and I think we will see the range of ARPUs that underlie the averages that we declare increasing as we go forward. That sort of paints the picture.

*Sure, maybe one follows up on EBITDA if I may? Can you tell us what was the impact on EBITDA margin in the first quarter of this year of last quarter of your fiscal year, of the industry deal which was signed in January and I think you are expensing some of the cost of this arrangement.*

I would rather not give that level of detail.

*All right, and just a final thing from my side; maybe if you can tell us what was your level of roaming revenues this quarter?*

Certainly, they're in at about 13%.

*Right, so it is quite an increase, I think it was closer to 10, 11% before, yes?*

It's up a little bit but only a little bit.

*All right, okay, thank you very much.*

Thank you.

### **Stephen Pettyfer - Merrill Lynch London**

*Thank you, good afternoon; just two questions please from me. One is just, look at your revenue number that you reported; can you give us a split between service revenue and the rest? And secondly on your CAPEX guidance, and I appreciate it's very difficult to make numbers at this point in the year, but can you give us a feel for what sort of net ad numbers that range of 1 1/2 to 2 1/2 would scribe to you?*

If we're in the 1 1/2 to 2 1/2 it's a very wide range of numbers, wide range of net ads. I think we have ended up spending approximately a billion over this last year and I think it would be fair to say that we are close to capacity with the amount we've spent, for the number of customers we have added on. So we have actually taken up some of our forward build on that and everything else, and that's why if we were to add on round about the same number of customers in the coming year, we would probably need the 1 1/2, it would be, in order of magnitude I mean that, that would be it. So I think that, in fairness, 1 1/2 to 2 1/2 would be a very wide range indeed. Yes, 1 1/2 to 2 would probably represent 1 1/2 to 2 million customers added on.

*Sorry, was that 1 1/2 to 2 1/2 or 1 1/2 to 2?*

I wouldn't want to disagree with my Finance Director but I mean I'm quite comfortable thinking we're not going to spend more than 2. You did it in the introduction.

Did I?

Yes.

My apologies it should be 1 1/2 to 2.

*Oh, a little cooler then, thank you.*

Okay, revenue split between service revenue and the rest.

Steven what I can do is I can give you acquisitions percentage of total revenue, which I think will get you there.

*Okay.*

That's 9% from quarter, actually unchanged from the previous quarter and the other number that everyone asks, Data was 6% and again, unchanged from the previous quarter.

*Okay thanks, and as a follow up, can I just ask, given your comments about market share driving, having been related to your net ads; if, for some reason, your worthy competitor turns up the heat a bit, does that mean that you'll follow suit to maintain market share around the current levels?*

Forgive me, I seem to remember someone on the last call referring to this as a cosy duopoly and we're now in a highly competitive marketplace. I mean we have always seen it as a competitive marketplace with some differences in the way that we and the competition have approached the market. From our point of view at the end of the day, genuinely we want to maximize shareholder value and grow the profit as fast as possible. For some time, in particular in the difficult economic conditions, we saw that as best achieved by keeping everything relatively tight, going for good growth but getting maximum profitability with an acceptable rate of growth. We now see the route to maximum profitability as actually maximizing growth, and keeping the margins, as good as is possible whilst trying to maximize the growth and that's why we're flagging, we would expect the margins to come down a bit. So I think from that point of view we do not have customer market share as a goal, what we do have is good profit growth in the business but we won't get that unless we have an acceptable level of cuts in the market share and that's basically what we've been doing. And it has, you know, the marketplace has been quite messy on occasions and I think that indicates the fact that neither operator really wants to give too much ground to the other one.

*Thank you.*

***Abdul Ghasar - Informa Telecoms London***

*Hi everybody, I was wondering if you could give me a split between post paid and pre paid subscribers.*

We're approximately 85/15 in terms of the closing date and that will certainly be in the details that we put out.

*Excellent.*

I mean the precise numbers we've got on this; we've got, on pre paid, 3511, post paid 625.

*Okay, would it be possibly to give numbers as to MMS subscribers and GPRS subscribers?*

No, I mean we don't show that, I mean frankly, again, by way of background, even GPRS usage in this marketplace is not a significant contributor to our data percentage. The data percentage of revenue is primarily driven by SMS.

*Okay, excellent, thank you very much.*

### **Closing Comments**

Okay, well thank you to those of you who are live on the line and thank you also to those of you who I know that will be listening in on a future occasion. Thank you to Gihane for organising the call and I look forward to speaking to you all in about another three months or so. Thank you.