

## Q2 2019 Earnings Release

8 August 2019

Telecom Egypt today announces its Q2 2019 results ending 30 June 2019.

### H1 2019 key highlights

- **Consolidated revenue** totalled EGP 12.7bn, increasing 25% YoY on the back of higher data services and increased cable projects revenue mainly owed to the recognition of the USD 20mn PEACE cable crossing.
- **Customer base** demonstrated improved trends across all segments with fixed voice customers growing 11% YoY, fixed broadband increasing by 19% YoY and mobile reporting a 29% growth.
- The company recorded a total cost of EGP 1bn for **the Early Retirement Program (ERP)** with c2000 employees signing up, which will be paid to the employees in Q3. Such cost led to the decline of EBITDA to reach EGP2.6bn and net profit stabilized at EGP 2.1bn.
- Excluding the ERP, **EBITDA** would reach EGP 3.6bn, growing 11% YoY recording a margin of 29% and **net profit** would land at EGP 2.9bn.
- **Normalized net profit** increased 41% YoY as a result of forex gains, EBITDA growth and the rebound in Vodafone's investment income.
- **In-service CapEx intensity** reached 29% as a result of the company's plan to accelerate infrastructure and network development to complete the copper-to-fibre replacement program in 2 years rather than 4, ending by 2020.
- **Net debt** amounted to 10.2bn, representing 1.6x of annualized EBITDA compared to 2.1x in FY 2018.

### Adel Hamed, Group Chief Executive, commented:

"This quarter, our operational and financial performance demonstrated our ability to successfully execute our strategy and maximize our return on investment by enhancing the quality of our services, which was clearly reflected in the notable growth of our data revenue. The recognition of PEACE cable revenue that was introduced last April also contributed to the 24% YoY top line growth.

We are very pleased with the launch of WE SPACE internet offerings that represent a shift in the Egyptian broadband market through the introduction of high speed bundles with speeds that start from up to 30 Mbps instead of 5Mbps, allowing us to better monetize our network investments. Additionally, the company has completed the groundwork for the preparation for the nationwide launch of IPTV services and the WE Wallet to fulfil our strategy of leading the market as a total ICT provider.

In parallel to our strong revenue growth, we successfully implemented cost cutting initiatives including the restructuring of our debt, which lowered this quarter's interest costs, and the activation of the early retirement program that will further reduce our expenses on the short-run."

## Telecom Egypt Latest Events

### Main events in Q2 2019

- ✓ Telecom Egypt signed a landing party agreement with PEACE Cable International Network Co. and PCCW Global. The total value of the agreement amounts to USD 45mn over the lifetime of the cable. Telecom Egypt also signed a binding letter of intent with PEACE & HENGTONG OPTIC-ELECTRIC offering PEACE redundancy with a total value of USD 20mn in exchange for competitive pricing on fibre optic cables that will be utilized in TE's strategic plans for fibre deployment inside Egypt.
- ✓ The Europe, Middle East and Africa Finance magazine announced Telecom Egypt as the winner of the 'best structured finance deal in North Africa' in its 2018 repricing and restructuring awards. The award was granted for Telecom Egypt's USD 500mn medium-term syndicated loan signed in October 2018 and arranged by First Abu Dhabi Bank PJSC (FAB) and Mashreq Bank PSC (Mashreq).

### Subsequent events to Q2 2019

- ✓ Telecom Egypt announced in July 2019 a new shift in its fixed broadband offering in line with its large project to develop its network capabilities and improve the quality of internet services in Egypt. TE raised the maximum speed of its internet bundles to start at 30Mbps instead of 5Mbps and increased the packages' quota to cater to the increased usage.
- ✓ Telecom Egypt and Banque Misr signed in July 2019 an agreement to launch the WE mobile wallet. The service is designed to enable customers to safely and securely send, receive and store money using a smartphone application. The mobile wallet will allow customers to deposit and withdraw cash from WE stores and link their Banque Misr debit/ credit cards to the wallet.
- ✓ Telecom Egypt and Etisalat Misr signed two virtual fixed voice agreements that enable Etisalat Misr to provide fixed voice services to its customers through utilizing part of Telecom Egypt's network. The parties also signed two bitstream agreements to enable Etisalat Misr to provide the new VDSL technology to its customers, relying on Telecom Egypt's network that recently underwent major developments.
- ✓ Telecom Egypt signed in July 2019 a strategic partnership agreement with Cable Network Egypt (CNE) to provide Telecom Egypt's customers with Internet Protocol television services (IPTV) in collaboration with various content providers. Under this agreement, Telecom Egypt will provide its customers with content and TV channels through an interactive and unmatched IPTV platform. The company will offer numerous packages especially tailored to serve all customer segments and include content such as entertainment, sports, TV series, movies and kids channels, among others.

## Customer Base

(000's)	2Q 19	2Q 18	Δ %yoy	1Q 19	Δ % qoq
<b>Fixed Line</b>					
Voice	8,213	7,402	11%	8,093	1%
Data	5,536	4,643	19%	5,535	0%
<b>Mobile</b>	4,260	3,305	29%	4,247	0%

## Revenue breakdown

EGPm	H1 19	H1 18	Δ % yoy	2Q 19	2Q 18	Δ % yoy	1Q 19	Δ % qoq
Home & Consumer	4,940	3,764	31%	2,539	1,935	31%	2,401	6%
Enterprise	1,601	1,212	32%	851	629	35%	750	13%
Domestic Wholesale	2,250	1,965	14%	941	1,085	-13%	1,309	-28%
International Carriers	2,270	2,236	2%	1,141	1,140	0%	1,128	1%
International Customers & Networks	1,635	947	73%	1,137	554	105%	498	128%

## Income statement summary

EGPm	H1 19	H1 18	Δ %	2Q 19	2Q 18	Δ % yoy	1Q 19	Δ % qoq
<b>Revenue</b>	12,696	10,125	25%	6,609	5,343	24%	6,087	9%
<b>EBITDA</b>	2,637	3,293	-20%	735	1,787	-59%	1,903	-61%
EBIT	2,305	3,080	-25%	442	1,835	-76%	1,863	-76%
NPAT	2,131	2,058	4%	516	1,284	-60%	1,615	-68%
EPS	1.25	1.21	4%	0.30	0.75	-60%	0.95	-68%
<b>Margins</b>								
EBITDA Margin %	20.8%	32.5%	(1,175 bps)	11.1%	33.4%	(2,232 bps)	31.3%	(2,014 bps)
EBIT Margin %	18.2%	30.4%	(1,226 bps)	6.7%	34.3%	(2,765 bps)	30.6%	(2,392 bps)
NPAT Margin %	16.8%	20.3%	(354 bps)	7.8%	24.0%	(1,623 bps)	26.5%	(1,874 bps)

## Results discussion

### Q2 2019:

- **Total revenue** came in at EGP 6.6bn, growing 24% YoY.
- **Retail** revenue increased 32% YoY mainly driven by the rise in **Home & Consumer** data revenue, which constitutes 64% of total retail growth.
- **Mobile** revenue increased 15% QoQ in spite of a stable customer base due to the increase of high value customers.
- **Enterprise Solutions** increased across its business lines, recording a 35% hike compared to the same period last year on the back of the growth in managed services and NUCA projects.

- **Wholesale** rose 16% YoY owed to the surge in **IC&N** revenue that is highly attributed to the recognition of cable projects' revenues.
- **EBITDA** margin recorded 11%, coming in at EGP 0.7bn. Normalized for the ERP, EBITDA margin stood at 26% on cost inflation and a low margin cable.
- **NPAT** came in at EGP 0.5bn taking into consideration the effect of the ERP. Excluding such, NPAT would have been EGP 1.3bn on the back of forex gains that concealed the decline in investment income from Vodafone.

## H1 2019:

- The 25% YoY increase in the **top line** was led by the rise in data services revenue followed by higher cable projects revenue.
- The **Home** business unit continued to drive growth thanks to the significant rise of data revenue, which represents 65% of total YoY retail growth.
- **Wholesale** services witnessed a 20% YoY increase, mostly owed to the hike in **IC&N** mainly on the recognition of USD 20mn PEACE cable revenue.
- **Domestic wholesale** grew 14% YoY, representing 28% of wholesale growth owed to increased infrastructure and transmission revenue.
- **ICA** slightly increased as incoming international calls revenue overshadowed the decline in low-margin transit revenue.
- **EBITDA** came in at EGP2.6bn at a margin of 21%. Organically, EBITDA reached EGP 3.6bn, recording a healthy margin of 29%.
- **Normalized bottom line** for the ERP increased 41%, coming in at EGP 2.9bn on forex gains and investment income from Vodafone.

## Balance sheet summary

EGPm	2Q 19	FY 18	Δ %
Current Assets	13,723	12,344	11%
Net Fixed Assets	23,019	21,534	7%
Long Term Investments	9,773	13,532	-28%
Other Long Terms Assets	17,037	16,497	3%
<b>Total Assets</b>	<b>63,551</b>	<b>63,907</b>	<b>-1%</b>
Current Liabilities (Excl. STD)	12,481	12,280	2%
CPLTD	5,921	13,304	-55%
LTD	5,760	550	947%
Other Non-Current Liabilities	6,049	5,285	14%
<b>Total Liabilities</b>	<b>30,211</b>	<b>31,419</b>	<b>-4%</b>
<b>Total Shareholder Equity</b>	<b>33,341</b>	<b>32,488</b>	<b>3%</b>
<b>Total Liabilities &amp; Shareholder Equity</b>	<b>63,551</b>	<b>63,907</b>	<b>-1%</b>

## Cash flow summary

<i>EGPm</i>	2Q 19	2Q 18	Δ %
Net Cash Provided By Operating Activities	1,724	1,638	5%
Net Cash Flows from Investing Activities	1,241	-2,931	142%
Net Cash Flows from Financing Activities	-2,546	1,539	-265%
<b>Net Change In Cash &amp; Cash Equivalents</b>	419	246	70%
Translation Differences of Foreign entities	-9	-4	134%
Beginning of period cash	1,082	637	70%
<b>End of period cash</b>	1,492	880	69%

– End –

Please refer to Telecom Egypt's full financial statements that can be downloaded from the website [ir.te.eg](http://ir.te.eg)

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## About Telecom Egypt

Telecom Egypt is the first total telecom operator in Egypt providing all telecom services to its customers including fixed and mobile voice and data services. Telecom Egypt has a long history serving Egyptian customers for over 160 years maintaining a leadership position in the Egyptian telecom market by offering its enterprise and consumer customers the most advanced technology, reliable infrastructure solutions and the widest network of submarine cables. Aside from its mobile operation "WE", the company owns a 45% stake in Vodafone Egypt. Telecom Egypt's shares and GDRs (Ticker: ETEL.CA; TEEG.LN) are traded on The Egyptian Exchange and the London Stock Exchange. Please refer to Telecom Egypt's full financial disclosure on [ir.te.eg](http://ir.te.eg)