

Full Year 2018 Earnings Release

21 February 2019

Telecom Egypt today announces its FY 2018 results ending 31 December 2018.

Full year 2018 key highlights

- **Consolidated revenue** closed at EGP 22.8bn, recording a 23% increase YoY driven by strong growth in the retail segment (+36% YoY) contributing 71% of total growth. Wholesale grew 12% YoY boosted by the Bharti Airtel agreement (EGP 1.6bn).
- **Customer base** rose across all segments. Fixed broadband grew 29% YoY and fixed voice 10% YoY. Mobile subscribers reached 3.9mn subscribers as of year-end.
- **EBITDA** grew 18% YoY, in line with our FY guidance recording a margin of 27%.
- **Operating profit** landed at EGP 3.6bn, normalizing Etisalat dispute settlement provisions in 2017, operating profit would have grown by +14% YoY.
- **Net Profit** came in at EGP3.5bn, reporting +14% YoY.
- **In-service CapEx intensity** reached 37%, slightly lower than last year's 40% as we expedited the fibre replacement program to end by 2020 instead of 2022.
- **Net Debt** recorded EGP 12.9bn for FY 2018 representing 2.1x of EBITDA rising from 1.3x in FY 2017. The normalized effective interest rate for FY 18 is 9.1%.
- Management proposed a **dividend of EGP 0.25 per share** for FY 2018.

Adel Hamed, Group Chief Executive, commented:

"2018 was a truly transformative year for Telecom Egypt as its strong operational performance led it to exceed the full year guidance in absolute terms. The year is marked with the strong retail growth driven by the launch of data-centric offers in both fixed and mobile and the introduction of the Indigo Plus offering, which turned WE into a fully convergent brand. Additionally, we have fortified our international positioning with the acquisition of MENA Cable Co. and the deal with Bharti Airtel. Our priorities for 2019 will focus on capitalizing on our leading position in Egyptian homes adding to our products a triple and quad-play offering (fixed voice and broadband, IPTV and mobile). We are also looking forward to our greater role in the nation-wide digital transformation initiative. We have started with the schools' connectivity project in Q3 2018 and we are expecting more of these projects with other government institutions in 2019. We will capitalize on our resilient and wide national and international network; efficiently utilize our assets and depend on our highly competent work force as key enablers of our growth strategy. Finally, I am very pleased with the recently announced deal with Vodafone Group on dividends. This will avail Telecom Egypt with the much-needed liquidity to deleverage, enhance its profitability as well as focus on strategic cost cutting initiatives to improve the cost structure of the company."

Telecom Egypt Latest Events

Main events in Q4 2018

- ✓ TE signed a USD 500mn medium-term syndicated loan to support its capital and operational expenditure and refinance existing short-term facilities. First Abu Dhabi Bank PJSC (FAB) and Mashreq Bank PSC (Mashreq) were mandated as Joint Book-runners and Mandated Lead Arrangers of the facility.
- ✓ TE and Liquid Telecom, the leading pan-African telecoms group, announce the signing of a Memorandum of Understanding (MoU) whereby both parties will explore collaboration opportunities in three fields: data centre deployment, financial investment in infrastructure and the development of financial inclusion applications.

Subsequent events to Q4 2018

- ✓ The government of Egypt, being TE's major shareholder with an ownership of 80%, has announced changing some of its representatives in TE's Board of Directors by a decree from the Egyptian Prime Minister with immediate effect and for the remaining period of Board of Directors. The Board of Directors appointed Eng. Adel Hamed as the new Managing Director and Chief Executive Officer. The decision comes in line with the Egyptian government's plan to speed up the national digital transformation initiative, where Telecom Egypt has a strategic role in facilitating and accelerating such transformation for the country.
- ✓ TE and Orange Data announce the signing of a new agreement on bitstream access services enabling Orange Data as the first operator to sign this agreement to provide its customers with higher speed internet services.
- ✓ TelecomTelecom Egypt (TE) and Vodafone Egypt announce the signing of two ten-year transmission and infrastructure agreements with a total value of EGP 10.85bn. Additionally, Vodafone Egypt has proposed a dividend of EGP12.2bn, of which Telecom Egypt's share is the equivalent of EGP 5.5bn.

Main events in the 9 months ending September 2018

January 2018

- ✓ A new investor relations portal was launched adapting the "WE" approach in January 2018.
- ✓ Telecom Egypt and Etisalat Misr signed a final settlement agreement in regards to a dispute on international calls services in January marking the end of all historical legal disputes with the domestic mobile operators. Based on the settlement, Telecom Egypt paid USD 48mn to Etisalat Misr to mitigate an exposure of more than USD 140mn. Prior to signing Telecom Egypt had already booked in Q4 2017 EGP 1bn in provisions relating to the court case.

February 2018

- ✓ Telecom Egypt renewed its transmission and infrastructure services agreement with Vodafone Egypt in February 2018. The agreement takes effect starting January 2018 for three years. The new agreement raises Vodafone Egypt's minimum committed revenue to Telecom Egypt to EGP 2.37bn over the period of the agreement.
- ✓ Telecom Egypt signed an agreement with Orange Data to provide bitstream services for three years. The agreement formalizes the existing relationship with Orange Data to use Telecom Egypt's fibre network through a new pricing mechanism based on capacity utilization that allows TE to capitalize on the expected growth in the data market.

March 2018

- ✓ Telecom Egypt had announced a potential investment opportunity in submarine cables that is expected to maximize returns from the cable business and ensure the continuation of the current revenue stream. Accordingly, the Board of directors determined to reduce the earlier proposed dividend for FY 2017 to EGP 0.25 from EGP 1 per share to avail financing for this potential investment.

April 2018

- ✓ Launched WE mobile post-paid offering under the name of "Indigo" marking the second product launch for mobile customers after the launch of its prepaid offering in September 2017 and the recharge platform earlier this year. The product also marks the first integrated bundle for WE including both a mobile line as well as ADSL service.
- ✓ Launched our revamped fixed broadband offering rebranding to "WE Internet", which offers the highest speed, best reliability, and introduces a new top-notch customer experience. Subscribers can now enjoy a speed up to 100 mbps that has replaced our old internet speed offering a maximum of 16 mbps.

May 2018

- ✓ The BoD approved the acquisition of Middle East and North Africa Submarine Cable (MENA Cable) by a 50% owned subsidiary, Egyptian International Submarine Cables Company for a total enterprise value of USD 90m and Telecom Egypt subsequently signed a Sale and Purchase Agreement with Orascom Telecom Media and Technology Holding S.A.E (OTMT).
- ✓ The BoD approved a 5-year USD 500mn syndicated loan to refinance outstanding short-term USD debt and to provide a cushion for working capital needs.
- ✓ A USD 200mn renewable short-term financing deal was signed with African Export-Import Bank and managed by ADIB Egypt.
- ✓ Telecom Egypt signed a long-term financing agreement with Huawei and Chinese Banks. Huawei facilitated providing competitive financing conditions to Telecom Egypt to finance the

roll-out of the 4G network and the deployment of transmission and core networks. The tenor of the facility is 48 months with a grace period of 24 months.

July 2018

- ✓ TE signed an amendment of the national roaming agreement with Etisalat Misr sealed in June 2017. The new agreement provides better financial and service quality terms availing improved commercial conditions for Telecom Egypt. Both companies also signed the first letter of intent (LoI) for mobile termination rates, which included a preferential termination rate for Telecom Egypt.
- ✓ TE signed three agreements with Orange Egypt for international telecom, transmission, and mobile termination services.
- ✓ The Middle East Investor Relations Association (MEIRA) in partnership with Extel ranked Telecom Egypt among the top five leading corporates for investor relations in Egypt.
- ✓ TE signed a MOU with Liquid Telecom that will enable the latter to complete Africa's terrestrial fibre network stretching all the way from Cape Town, South Africa to Cairo in Egypt.

August 2018

- ✓ TE announced a strategic partnership with Airtel for global submarine cable systems wherein, Airtel will get IRUs (Indefeasible Right of Use) on Middle East North Africa Submarine Cable (MENA Cable) and TE North Cable Systems. In addition, Airtel will also take large capacities on a long-term basis on two new state-of-the-art Cable Systems (SMW5 & AAE1).
- ✓ TE signed a MoU with Etisalat Misr to provide the latter with virtual fixed voice services. This is the first such agreement in the market and covers all the basic terms that shall allow both companies to formalize a commercial agreement in due course .

September 2018

- ✓ TE concluded the acquisition of Middle East and North Africa Submarine Cable "MENA" from Orascom Investment Holding "OIH" through its subsidiary Egyptian International Submarine Cable Company "EISCC" with a total enterprise value of USD 90mn.
- ✓ TE's BoD approved the acquisition of the remaining 50% of Egyptian International Submarine Cable Co. at a value of USD 15mn.
- ✓ TE signed an agreement with Bharti Airtel for global submarine cable systems to formalize its strategic partnership announced on 6 August 2018. The agreement grants Airtel IRUs (Indefeasible Right of Use) on Middle East and North Africa Submarine Cable "MENA Cable" and TE North Cable Systems. Additionally, Airtel will take large capacities on a long-term basis on two new cable systems (SMW5 & AAE1).
- ✓ WE launched its 'one bill' offering under the name "Indigo PLUS" marking its transformation to a fully integrated total telecom operator bundling fixed broadband, fixed voice, and mobile.

Customer Base

(000's)	4Q 18	4Q 17	Δ %YoY	3Q 18	Δ % QoQ
Fixed Line					
Voice	7,865	7,145	10%	7,589	4%
Data	5,237	4,070	29%	4,968	5%
Mobile	3,861	2,300	68%	3,589	8%

Revenue breakdown

EGPm	FY 18	FY 17	Δ %	4Q 18	4Q 17	Δ % YoY	3Q 18	Δ % QoQ
Home & Consumer	8,064	5,662	42%	2,215	1,654	34%	2,085	6%
Enterprise	3,215	2,627	22%	852	903	-6%	1,151	-26%
Domestic Wholesale	3,571	3,304	8%	818	855	-4%	788	4%
International Carriers	4,424	4,868	-9%	1,077	1,073	0%	1,111	-3%
International Customers & Networks	3,496	2,106	66%	450	956	-53%	2,099	-79%

Income statement summary

EGPm	FY 18	FY 17	Δ %	4Q 18	4Q 17	Δ % YoY	3Q 18	Δ % QoQ
Revenue	22,771	18,567	23%	5,413	5,442	-1%	7,233	-25%
EBITDA	6,130	5,184	18%	802	1,261	-36%	2,036	-61%
EBIT	5,779	4,343	33%	647	-69	1031%	2,052	-68%
NPAT	3,484	3,052	14%	-22	-431	95%	1,448	-102%
EPS	1.61	1.38	17%	-0.12	-0.36	66%	0.74	-116%
Margins								
EBITDA Margin %	26.9%	27.9%	(100 bps)	14.8%	23.2%	(837 bps)	28.2%	(1,334 bps)
EBIT Margin %	25.4%	23.4%	199 bps	11.9%	-1.3%	1,323 bps	28.4%	(1,643 bps)
NPAT Margin %	15.3%	16.4%	(114 bps)	-0.4%	-7.9%	751 bps	20.0%	(2,043 bps)

Results discussion

FY 2018:

- **Total revenue** hit EGP 22.8bn, growing 23% YoY.
- **Retail** revenue grew 36% YoY fuelled by the +43% YoY in data services revenue.
- **Mobile** maintained its high single digit contribution to the total retail revenue and a low single digit to the top line across the year.

- **Enterprise solutions** witnessed a 22% spike, thanks to the +13% growth YoY in fixed data and voice revenues for the second year in a row and the EGP 482mn of the schools' connectivity project.
- **Domestic wholesale** revenue rose by 8% YoY whereas the +15% YoY in infrastructure revenue overcame the 23% YoY drop in outgoing international calls.
- The company's **ICA** unit dialled a decline of 9% YoY, in line with the global trend for international voice traffic. Two-thirds of the business unit's decline is related to low margin transit revenue.
- **IC&N** revenue rose 66% increase YoY, mainly driven by the execution of the Bharti deal in Q3-18 (EGP 1.6bn).
- **EBITDA** reached EGP 6.1bn, growing 18% YoY, recording a margin of 27% (-100bps YoY). The slight margin decline is driven by the increase in advertising expenses that was partially offset by the decline in total call cost as a percentage of top line.
- **Net Profit** amounted to EGP 3.5bn growing 14% YoY. Normalizing for dispute settlement impact on 2017, net profit for 2018 would have declined by 15% on the 2x higher net interest and finance costs, the full year impact of the 4G license amortization and the 6% decline in our share in Vodafone's income.

Q4 2018:

- **Total revenue** came in almost flat YoY at EGP 5.4bn. **Retail revenue** growth (+ 20% YoY) driven by the rise in data revenue was offset by the drop in **IC&N** revenues (-53%), the latter declined as a result of the absence of cable projects and lower capacity sales.
- **Enterprise solutions** declined 6% YoY due to a 60% YoY decrease in complimentary access services. Complimentary access services and cable projects are volatile on a quarterly basis and projects were pushed to Q1 2019.
- **Mobile** contributed a high single digit to total retail revenue.
- **Domestic Wholesale** declined by of 4% on a 43% lower outgoing international calls revenue. Infrastructure services continued to grow by 6% YoY.
- **ICA** revenue remained stable YoY as growth in incoming international traffic revenue (+10% YoY) was offset by the decline in low-margin transit revenue.
- **EBITDA** margin stood at 15%, reporting a 36% decline YoY. We note that Q4 margin is traditionally lower due to end of year costs. Nevertheless, this quarter also witnessed one-off costs and higher margin project revenue (enterprise and IC&N) was pushed to Q1 2019. Normalized EBITDA margin for the quarter stood at 17.8% and EBITDA would have declined by 24% YoY due to higher marketing costs and the push of high margin revenue.
- **Operating and net profit** almost breakeven at EGP 0.03bn and 0.02bn in line with the shift of project revenue to Q1 2019, the 2x higher net interest expense.

Balance sheet summary

<i>EGPm</i>	FY 18	FY 2017	Δ %
Current Assets	12,344	8,905	39%
Net Fixed Assets	21,534	18,253	18%
Long Term Investments	13,606	11,824	15%
Other Long Terms Assets	16,422	13,651	20%
Total Assets	63,907	52,633	21%
Current Liabilities (Excl. STD)	12,280	12,784	-4%
CPLTD	13,304	6,679	99%
LTD	550	614	-10%
Other Non-Current Liabilities	5,285	2,066	156%
Total Liabilities	31,419	22,143	42%
Total Shareholder Equity	32,488	30,490	7%
Total Liabilities & Shareholder Equity	63,907	52,633	21%

Cash flow summary

<i>EGPm</i>	FY 18	FY 17	Δ %
Net Cash Provided By Operating Activities	3,496	4,649	-25%
Net Cash Flows from Investing Activities	-9,272	-7,360	26%
Net Cash Flows from Financing Activities	6,156	2,190	181%
Net Change In Cash & Cash Equivalents	379	-520	-173%
Translation Differences of Foreign entities	-12	2	-716%
Beginning of period cash	507	1,025	-51%
End of period cash	874	507	72%

– End –

Please refer to Telecom Egypt's full financial statements that can be downloaded from the website: ir.te.eg

For more information, contact:

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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 own operation, the company owns a 45% stake in Vodafone Egypt, the leading and most profitable mobile operator in Egypt.

Telecom Egypt's shares and GDRs (Ticker: ETEL.CA; TEEG.LN) are traded on The Egyptian Exchange and the London Stock Exchange.