

Q2 2018 Earnings Release

14 August 2018

Telecom Egypt (Ticker: ETEL.CA; TEEG.LN) today announces its Q2 2018 results ending 30 June 2018.

H1 2018 key highlights

- **Consolidated revenue** crosses EGP 10bn for the first time increasing 16% YoY as data services (+45% YoY) continue to lead growth boosted by fixed broadband.
- **Mobile revenue** already contributed a high single digit to retail revenue demonstrating management effort to monetize the successful customer acquisition witnessed since launch.
- **Customer base expansion** across the board with fixed voice customers growing 11%, a clear reversal of trend continues supported by the continuation of fixed broadband customer growth of 27%. Additionally, mobile net additions reached 1mn year-to-date.
- **EBITDA** came in at EGP 3.3bn growing 19% YoY recording a margin of 32.5%, stable YoY thanks to strong cost control including employee and call cost management.
- **Operating profit** grew 11% YoY despite the high level of Capex reflected on the increased depreciation (+23% YoY) and cost of the license represented in the hike in amortization.
- **Net Profit** declined 18% to EGP 2.1bn on a decline in investment income from Vodafone Egypt and the impact of higher financing expenses. H1 2018 net profit was weighed on by Q1 performance as Q2 net profit increased 4% YoY and 66% QoQ thanks to operational growth offsetting the increase in D&A and finance expenses.
- **CAPEX** amounted to EGP 1.7bn representing 17% of sales.

Ahmed El Beheiry, Group Chief Executive, commented:

“We are extremely proud of this quarter’s operational performance. Telecom Egypt has been able to maintain its net profit YoY with a slight increase in Q2 2018 thanks to the management team’s effort to strictly follow the long-term strategy put before the BoD at the beginning of the year and to overcome through operational efficiency the challenges of higher costs of marketing new products, the impact of Capex spending on depreciation and the higher borrowing costs. I am extremely pleased with the operating profit growth we achieved this quarter of 26% YoY, which has helped us to offset all the base effect on the bottom line of being in a new investment phase.

It is important to highlight that our strategy relies on targeted investments in order to fulfil our goals for the company and the country. Our main focus lies on three objectives: (1) the successful integration and monetization of the newly established mobile business to boost growth, (2) overhauling Egypt’s internet infrastructure to provide the best service quality and induce revenue plus economic growth, and (3) to expand Egypt’s international network with the aim of enabling our vision of Egypt as a digital hub. Our ambitious investment strategy, while long-term in nature, has already shown results in H1 2018 with operational profit growing by 11% YoY in such a critical phase of the company’s history. We are extremely proud of such performance noting that the impact on

net profit in H1 2018 is an expected by-product of such investment strategy and the high interest macro environment.

The events in the past few months were a direct reflection of our efforts to fulfil the aforementioned strategy. On the retail side: two critical product launches were introduced to the market; our mobile postpaid product “Indigo” and our fixed broadband revamp to “WE Internet”. Both products target to increase our share of wallet of the customer’s spending, while at the same time offer our customers a completely new top-notch experience. On the wholesale front, several agreements were signed to secure our existing revenue streams, but also to improve our positioning in the mobile market. On the latter, we are very pleased to have been able to revise our national roaming agreement with Etisalat in our favour as well as to achieve asymmetric mobile termination rates through commercial agreements with Etisalat and Orange.”

Telecom Egypt Latest Events

Main events in Q2 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.
- ✓ 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.

Subsequent events to Q2 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 an MOU with Liquid Telecom that will enable the later to shortly complete Africa's terrestrial fibre network stretching all the way from Cape Town, South Africa to Cairo in Egypt. Liquid Telecom will link its network from Sudan into Telecom Egypt's network via a new cross border interconnection – bringing together a 60,000km network that runs from Cape Town, through all the Southern, Central, and Eastern African countries, and has now reached the border between Sudan and Egypt.
- ✓ 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 the first MoU with Etisalat Misr to provide the latter with virtual fixed voice services. The agreement covers all the basic terms that shall allow both companies to formalize a commercial agreement in due course.

Customer Base

(000's)	2Q 18	2Q 17	Δ %yoy	1Q 18	Δ % qoq
Fixed Line					
Voice	7,402	6,671	11%	7,265	2%
Data	4,643	3,652	27%	4,366	6%
Mobile	3,305	-	N/A	2,930	13%

Revenue breakdown

EGPm	H1 18	H1 17	Δ % yoy	2Q 18	2Q 17	Δ % yoy	1Q 18	Δ % qoq
Home & Consumer	3,764	2,590	45%	1,935	1,328	46%	1,829	6%
Enterprise	1,212	1,187	2%	629	677	-7%	583	8%
Domestic Wholesale	1,965	1,673	17%	1,085	828	31%	880	23%
International Carriers	2,236	2,512	-11%	1,140	1,326	-14%	1,096	4%
International Customers & Networks	947	774	22%	554	434	28%	393	41%

Income statement summary

EGPm	H1 18	H1 17	Δ %	2Q 18	2Q 17	Δ % yoy	1Q 18	Δ % qoq
Revenue	10,125	8,736	16%	5,343	4,592	16%	4,782	12%
EBITDA	3,293	2,778	19%	1,787	1,436	24%	1,506	19%
EBIT	3,080	3,177	-3%	1,835	1,504	22%	1,245	47%
NPAT	2,058	2,520	-18%	1,284	1,229	4%	774	66%
EPS	1.21	1.48	-18%	0.75	0.72	4%	0.45	66%
Margins								
EBITDA Margin %	32.5%	31.8%	72 bps	33.4%	31.3%	217 bps	31.5%	195 bps
EBIT Margin %	30.4%	36.4%	(595 bps)	34.3%	32.8%	159 bps	26.0%	830 bps
NPAT Margin %	20.3%	28.8%	(852 bps)	24.0%	26.8%	(274 bps)	16.2%	784 bps

Results discussion

Q2 2018:

- Total revenue recorded at EGP 5.3bn growing 16% YoY.
- **Retail** revenue drove 75% of overall growth as the **Home & Consumer** business unit's growth of 46% YoY offset the 7% decline in **Enterprise Solutions** and led to **retail** revenue growth of 28%.
- The decline in **Enterprise Solutions** revenue is a result of the drop in Complimentary Access Services revenue, which is volatile in nature and depends on the completion of infrastructure projects in new urban communities.
- **Wholesale** revenue grew 17% QoQ and 7% YoY on growth in domestic wholesale, mainly resulting from IRU sales to mobile network operators in addition to the normal growth in transmission services.
- **EBITDA** grew by 24% YoY on the efficient management of call and employee costs, which offset higher advertising expenses and the low margin start-up nature of the mobile segment.
- **Advertising expenses** amounted to a minor 4% of revenue and the noticeable hike in Selling and Distribution Expenses relates to the absence of advertising costs in Q2 2017.
- **NPAT** grew by 4% YoY and 66% QoQ as operational growth offset increased expenditure below the EBITDA absent in the prior year namely higher depreciation & amortization expenses (+53%) and interest/ finance expense.

H1 2018:

- Total revenue of H1 2018 grew by 16% with an equal YoY growth in Q1 and Q2 2018.
- **Home & Consumer** business unit led the growth in revenue, driven by the significant rise of data revenue, which represents 64% of total YoY revenue growth.
- **Wholesale** services managed to grow by 4% YoY boosted by a hike in **Domestic** and **IC&N revenue** compensating for the decline of **ICA** revenue in line with the global trend.
- **Call costs** dropped as a percentage of revenue to 21% from 23% last year due to regulatory action driven by TE's **wholesale** team limiting illegal bypass.

- H1 2018 witnessed an increase **Selling & Distribution** expenses as a result of our increased focus on marketing and advertising especially with the new product launches. In H1 2017, advertising expenses were close to absent. Nevertheless, advertising expenses represent a minor 3% of H1 2018 revenue.
- **EBITDA** came in at EGP3.3bn growing 19% YoY as revenue growth outpaced that of expenditure. **Employee costs** dropped to 23.5% of revenue from 24.8% a year earlier.
- **Amortization expense** noticeably increased as the mobile network amortization started in September 2017, while **depreciation** grew 23% YoY as a direct effect from the increased investment in our 4G mobile network and the modernization of the broadband infrastructure in Egypt.
- **Net Profit after Tax** declined by 18% to total EGP 2.1bn in H1 2018 weighed on by the decline in net profit in Q1 2018. We note that **operating profit** grew by 11% YoY and that the decline is mainly non-operational.

Balance sheet summary

EGPm	2Q 18	FY 17	Δ %
Current Assets	9,506	8,905	7%
Net Fixed Assets	19,266	18,253	6%
Long Term Investments	12,203	11,824	3%
Other Long Terms Assets	12,921	13,650	-5%
Total Assets	53,896	52,632	2%
Current Liabilities (Excl. STD)	10,916	12,784	-15%
CPLTD	8,666	6,679	30%
LTD	576	614	-6%
Other Non-Current Liabilities	2,396	2,066	16%
Total Liabilities	22,554	22,143	2%
Total Shareholder Equity	31,342	30,490	3%
Total Liabilities & Shareholder Equity	53,896	52,632	2%

Cash flow summary

EGPm	2Q 18	2Q 17	Δ %
Net Cash Provided By Operating Activities	1,695	2,165	-22%
Net Cash Flows from Investing Activities	-2,931	-3,051	-4%
Net Cash Flows from Financing Activities	1,539	1,948	-21%
Net Change In Cash & Cash Equivalents	303	1,063	-72%
Translation Differences of Foreign entities	-4	-5	-25%
Beginning of period cash	507	1,101	-54%
End of period cash	806	2,159	-63%

– 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.