



# Telecom Egypt

## Earnings Release

### Q1 2014

Cairo, May 13 2014: Telecom Egypt (te) (Ticker: ETEL.CA; TEEG.LN), today announced its consolidated financial results for the First quarter, ending 31 March 2014. The financial statements have been prepared in accordance with Egyptian Accounting Standards.

## Highlights & CEO Statement

### Highlights

- Consolidated revenues for Q1 2014 were EGP 2,564 million.
- EBITDA of EGP 805 million for Q1 2014.
- Net Profit After Tax of EGP 549 million, representing a net profit margin of 21.4%.
- Earnings Per Share (EPS) for the period of EGP 0.32, up 29.7% from Q4 2013.
- Home and Enterprise ADSL subscribers up 24.3% year-on-year, representing a 63.4% market share.
- Positive contribution from Vodafone Egypt (VFE) of EGP 154 million.

### Chief Executive Officer's Statement

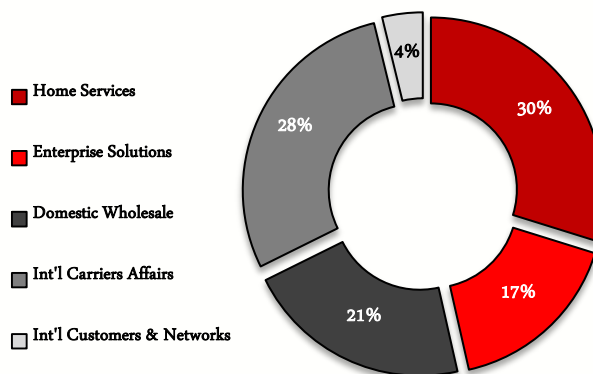
“Orientating our business to the way in which our customers use telecommunications services is already having a positive impact on customer satisfaction levels across home, enterprise and wholesale segments.

“The vital step on this path is the ability to directly meet the needs of our customers for a single bundled telecommunications service by gaining mobile capability. The Ministry of Communications and Information Technology and the National Regulator confirmed in an official statement that they will grant te a license to provide mobile services and in response te announced officially its acceptance and willingness to pay for the announced license fees.

“With more than one third of Egypt’s growing population under 25, the youth segment continues to be a key driver of usage patterns. The needs of this new generation have and are changing the telecommunications landscape. We have once again seen significant growth in demand for broadband services during the quarter under review and I also hope in the near future to have commenced operations in mobile, benefitting Egypt’s youth segment and the wider telecommunications market.

“Already to ensure we are able to adequately capitalize on the future opportunity, we have started our significant investment program, to upgrade our nationwide access network, supported by our strong net cash position of EGP 6,305 million at Q1 2014. This will improve and update the company’s nationwide network from copper-based technologies to modern fiber-based technologies (across four million ports), a deployment which will enable us to carry more and higher capacity traffic of a better quality.”

### Revenues by Lines of Business:



### Home Services Business Unit:

(In EGP Millions)	Q1 2014	Q1 2013	Change%	Q1 2014	Q4 2013	Change%
HS BU	764	722	5.8%	764	757	0.9%

KPI	Unit	Year on Year Analysis		Quarter on Quarter Analysis	
		Q1 2014	Q1 2013	Q1 2014	Q4 2013
Home Voice Revenue Growth	%	-13.4%	-21.3%	-7.2%	-8.3%
Home Data Revenue Growth	%	31.2%	26.0%	5.8%	5.5%
Home Fixed Line Subscribers	Mn	5.73	6.11	5.73	5.72
Home ADSL Subscribers	000's	1,645	1,314	1,645	1,558
Home ARPU	EGP/Month	25.28	25.52	25.28	25.89

The Home Services business unit reported a 5.8% year-on-year increase in revenues for the first quarter 2014, and a 0.9% increase compared to Q4 2013. Voice and broadband services delivered improved revenue performance over the period, due to an increase in the customer base and the effectiveness of its decentralization strategy, to deliver customized products to different regions across Egypt.

During the quarter, we maintained a focus on promotional activity, aimed at customer retention, 50LE per line, and new campaigns, specifically National '3PT/minute' and F2M '14PT/minute' offers.

Customer demand for broadband continued to grow in the first quarter 2014. In the first three months of the year, te added 87 thousand ADSL subscribers net, up 76.9% on the same period in 2013.

**Enterprise Solutions Business Unit:**

<i>(In EGP Millions)</i>	Q1 2014	Q1 2013	Change%	Q1 2014	Q4 2013	Change%
ES BU	427	438	-2.6%	427	439	-2.7%

KPI	Unit	Year on Year Analysis		Quarter on Quarter Analysis	
		Q1 2014	Q1 2013	Q1 2014	Q4 2013
Enterprise Service Revenue Growth	%	-8.3%	-12.8%	-0.1%	8.8%
Enterprise Data Revenue Growth	%	12.2%	22.8%	23.9%	-14.1%
Other Subsidiary Revenue Growth	%	-38.0%	17.6%	-40.5%	17.9%
Enterprise Fixed Line Subscribers	Mn	1.06	1.08	1.06	1.06
Enterprise ADSL Subscribers	000's	112	100	112	110
Enterprise ARPU	EGP/Month	70.83	73.84	70.83	63.87

te's Enterprise business unit services Egypt's important SME sector and large key accounts, primarily within the public sector and financial industries.

The banking sectors' need to use high speed and heavy applications with voice and video capabilities has led us to increase our focus on commercializing the fiber model in this sector. During the first three months of the year, while te benefited from new deals on fiber models in the banking sector the decision-making process within the public sector continued to overshadow the Enterprise business unit as the country's stability is yet to normalize.

As a result, revenues from the Enterprise business unit slightly declined year-on-year by 2.6%.

**Domestic Wholesale Business Unit:**

<i>(In EGP Millions)</i>	Q1 2014	Q1 2013	Change%	Q1 2014	Q4 2013	Change%
DW BU	544	575	-5.4%	544	629	-13.6%

KPI	Unit	Year on Year Analysis		Quarter on Quarter Analysis	
		Q1 2014	Q1 2013	Q1 2014	Q4 2013
Domestic Revenue Growth	%	3.3%	4.3%	-16.7%	29.1%
International Revenue Growth	%	-16.7%	16.7%	-8.0%	14.6%
International Outgoing Minutes	%	-16.2%	-6.0%	-4.5%	4.3%

During the first quarter period the Domestic Wholesale business unit recorded a 5.4% year-on-year drop in revenues, primarily as a result of a continued decline in outgoing international traffic, as tourism and business levels remain depressed and slower economic growth reducing business activity traffic.

te is committed to support the needs of third party operators and has strengthened its relationship with them - working with the operators as market development partners - to ensure the highest level of service. Sales from national transmission (MNOs and ISPs) and international transmission increased during the quarter.

### International Carriers Affairs Business Unit:

<i>(In EGP Millions)</i>	Q1 2014	Q1 2013	Change%	Q1 2014	Q4 2013	Change%
ICA BU	731	888	-17.6%	731	723	1.1%

KPI	Unit	Year on Year Analysis		Quarter on Quarter Analysis	
		Q1 2014	Q1 2013	Q1 2014	Q4 2013
International Settlement Revenue Growth	%	-17.6%	50.8%	1.1%	-0.6%
International Incoming Minutes Growth	%	-25.6%	39.6%	0.2%	3.3%

Although the International Carriers Affairs business unit reported a 17.6% year-on-year decline in revenues for the first quarter of 2014, it reported slight growth of 1.1% when viewed on a quarter-on-quarter comparison. Management considers this to be a good indicator in the midst of challenges facing the international wholesale business globally.

The year-on-year decline can be attributed to three main factors: pricing pressure from regional operators who have been experiencing an intensification of competition in their own local markets as a slowdown in regional retail activities inspires price discounting; some seasonality effects traditionally associated with the first quarter; and the effects of ongoing illegal traffic phenomena.

Capitalizing on forthcoming opportunities, te is adopting the "Role-Sale" approach, a mix between retail and wholesale, to introduce new lines of business and explore new markets which will imply more streams of revenues on one side as well as securing a direct relation with the retail customer on the last end of the chain.

**International Customers & Networks Business Unit:**

<i>(In EGP Millions)</i>	Q1 2014	Q1 2013	Change%	Q1 2014	Q4 2013	Change%
IC&N BU	98	93	4.8%	98	234	-58.3%

KPI	Unit	Year in Year Analysis		Quarter on Quarter Analysis	
		Q1 2014	Q1 2013	Q1 2014	Q4 2013
IC&N Revenues Growth					
- Cable Projects	%	-	-100.0%	-	-100.0%
- Ancillary Services (O&M)	%	13.4%	49.0%	-62.8%	240.3%
- Capacity Sales	%	-1.2%	-15.5%	-53.8%	54.2%

The International Customers & Networks business unit continues to become bigger and more diversified, providing end to end services on international assets. After just a few years of full operation, the IC&N business has positioned te as a global carrier.

It reported a 4.8% increase in revenues when compared with Q1 2013, but a decline in revenues compared to the previous quarter. This was predominantly driven by a shortage in capacity, the effects of price erosion and seasonal impacts on business.



**te Financial Highlights:**
**Income Statement – Summary:**

<i>(In EGP Millions exclude Per share Data)</i>	Q1 2014	Q1 2013	Change%	Q1 2014	Q4 2013	Change%
Sales Revenue	2,564	2,717	-5.6%	2,564	2,782	-7.8%
Home Services	764	722	5.8%	764	757	0.9%
Enterprise Solutions	427	438	-2.6%	427	439	-2.7%
Domestic Wholesale	544	575	-5.4%	544	629	-13.6%
Int'l Carriers Affairs	731	888	-17.6%	731	723	1.1%
Int'l Customers & Networks	98	93	4.8%	98	234	-58.3%
<b>EBITDA</b>	<b>805</b>	<b>947</b>	<b>-15.0%</b>	<b>805</b>	<b>766</b>	<b>5.1%</b>
EBITDA Margin %	31.4%	34.8%		31.4%	27.5%	
<b>EBIT</b>	<b>590</b>	<b>745</b>	<b>-20.8%</b>	<b>590</b>	<b>590</b>	<b>0.0%</b>
EBIT Margin %	23.0%	27.4%		23.0%	21.2%	
<b>NPAT</b>	<b>549</b>	<b>858</b>	<b>-36.0%</b>	<b>549</b>	<b>555</b>	<b>-1.0%</b>
NPAT Margin %	21.4%	31.6%		21.4%	19.9%	
<b>EPS</b>	<b>0.32</b>	<b>0.50</b>	<b>-36.0%</b>	<b>0.32</b>	<b>0.25</b>	<b>29.7%</b>

**Costs:**

te retains a very careful approach to cost management. However, the increase in costs during the period was due to the 10% annual salary increase and the structured incentive rewards program, both of which came into effect as of the first quarter 2014, had an impact on costs, with a net increase of 12.2% over the same period last year.

**EBITDA:**

EBITDA for the first quarter 2014 was EGP 805 million, an increase of 5.1% compared to the Q4 2013, but a decrease of 15% year-on-year, directly attributable to lower revenues and higher costs.

EBIT was EGP 590 million for the period, remaining flat from Q4 2013, but showing a drop of 20.8% when compared to Q1 2013. This was due to the drop in Revenues and EBITDA on the previous comparative period by 5.6% and 15%, respectively.

**Income from Investment:**

Total Income from investments, mainly representing te's stake in VFE, was EGP 154 million. During the FY 2013/2014 period, VFE generated revenues of EGP 13,331 million, an increase of 5.6% compared with the same period last year.

*(Note: Vodafone Egypt's financial year is from 1 April to 31 March).*

**Vodafone Egypt Financial Highlights:-**

	<i>(In EGP Millions)</i>					
	Full Year Ending March			Previous Quarter Comparison		
	Mar. 2014	Mar. 2013	% Change	Q4 13/14	Q3 13/14	% Change
Total Revenue	13,331	12,627	5.6%	3,279	3,339	-1.8%
Net Profit	1,852	1,999	-7.4%	343	455	-24.7%
CAPEX	2,506	1,966	27.4%	791	842	-6.1%

**Vodafone Egypt Operational Highlights:-**

	Full Year Ending March			Previous Quarter Comparison		
	Mar. 2014	Mar. 2013	% Change	Q4 13/14	Q3 13/14	% Change
Closing Customers (000's)	42,073	38,256	10.0%	42,073	41,912	0.4%
Net Adds (000's)	3,817	1,054	262.2%	161	399	-59.7%
Total Voice Minutes (millions)	90,359	91,932	-1.7%	22,169	22,237	-0.3%

**Net Profit:-**

As a result of a decline in total revenues, increased costs and lower investment income, te's consolidated Net Profit After Tax for Q1 2014 reached EGP 549 million versus EGP 858 million in Q1 2013, a 36% decline.

The net profit margin for the period was 21.4%; this translates to a decreased EPS of EGP 0.32.



**Balance Sheet – Summary:**

<i>(In EGP Millions)</i>	Q1 2014	FY 2013	Change%
Current Assets	12,315	11,030	11.6%
Net Fixed Assets	11,058	11,243	-1.6%
Long Term Investments	8,847	8,693	1.8%
Other Long Terms Assets	1,719	1,672	2.8%
<b>Total Assets</b>	<b>33,939</b>	<b>32,639</b>	<b>4.0%</b>
Current Liabilities (Excl. STD)	6,776	3,728	81.8%
CPLTD	85	107	-20.7%
LTD	438	475	-7.9%
Other Non-Current Liabilities	10	12	-18.9%
<b>Total Liabilities</b>	<b>7,309</b>	<b>4,322</b>	<b>69.1%</b>
<b>Total Shareholder Equity</b>	<b>26,631</b>	<b>28,316</b>	<b>-6.0%</b>
<b>Total Liabilities &amp; Shareholder Equity</b>	<b>33,939</b>	<b>32,639</b>	<b>4.0%</b>

**Cash Flow – Summary:**

<i>(In EGP Millions)</i>	Q1 2014	Q1 2013	Change%
Net Cash Provided By Operating Activities	1,362	1,379	-1.3%
Net Cash Flows from Investing Activities	(142)	34	-522.3%
Net Cash Flows from Financing Activities	(54)	(84)	-35.3%
<b>Net Change In Cash and Cash Equivalents During the Period</b>	<b>1,166</b>	<b>1,329</b>	<b>-12.3%</b>
Translation Differences of Foreign entities	(0)	2	-113.4%
Cash & Cash Equivalents at the Beginning of the Period	5,644	6,325	-10.8%
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>6,810</b>	<b>7,657</b>	<b>-11.1%</b>

**Investment in Infrastructure / Capital Expenditure:**

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Capital expenditure for Q1 2014 reached EGP 226 million versus EGP 151 million in Q1 2013, up 49.8%. This represented 8.8% of total revenues for the period. Capital expenditure for the quarter is lower than anticipated because of the timing of contracts. te successfully signed a number of contracts towards the end of the quarter, which will come into effect during the second quarter of the year.

**Net Debt Position:**

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te continues to boast a very healthy balance sheet, with a net cash position of EGP 6,305 million at Q1 2014, a reflection of the cash generative nature of te's business.

**To download a complete copy of te's Q1 2014 Consolidated Financial Results Statements and notes to these statements, please refer to the attached pdf:**

**To download a complete copy of te's Q1 2014 Standalone Financial Results Statements and notes to these statements, please refer to the attached pdf:**

- Ends -

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**Notes to Editors:**

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*Within this statement, we may make forward-looking statements regarding future events or the future performance of the Company. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. When relying on forward-looking statements, you should carefully consider the political, economic, social and legal environment in which Telecom Egypt operates. Such forward-looking statements speak only as of the time of this release today. Accordingly, Telecom Egypt does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise other than as required by applicable laws, the Listing Rules or Prospectus Rules of the United Kingdom Listing Authority, the Egyptian Financial Supervisory Authority or The Egyptian Exchange. The documents filed from time to time with these authorities may identify important factors that could cause actual results to differ materially from those contained in any forward-looking statements.*

**About Telecom Egypt:**

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**Telecom Egypt (te), Egypt's incumbent telecommunications operator, started its operations in 1854 with the first telegraph line in Egypt. Then it was corporatized in 1998 to replace the former Arab Republic of Egypt National Telecommunication Organization (ARENTO). The Company is the largest provider of fixed-line services in the Middle East and Africa with 6.8 million subscribers as at 31 March 2014.**

**te provides retail telecommunication services including access, local, long distance and international voice, Internet and data, and other services. The company also provides wholesale services including bandwidth capacity leasing to ISPs, and national and international interconnection services. te's services also include the provision of narrowband and broadband internet access through its subsidiary TE Data. TE Data has active operations in Egypt and Jordan.**

te currently participates in the mobile segment in Egypt by providing mobile interconnectivity through its current, increased 44.95% holding in Vodafone Egypt, one of the three existing Egyptian mobile operators.

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