



# Telecom Egypt

## Earnings Release 2Q 2015

Cairo, August 10 2015: Telecom Egypt (te) (Ticker: ETELCA; TEEG.LN), today announced its consolidated financial results for the second quarter, ending 30 June 2015. The financial statements have been prepared in accordance with Egyptian Accounting Standards.

# Telecom Egypt Announces 2Q 2015 Consolidated Results

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## Highlights & CEO Statement

Highlights for the Second Quarter 2015 period include:

- Consolidated Revenues were EGP 3,025 million, up from EGP 2,761 in Q1 2015, reflecting growth of 9.6%.
- EBITDA was EGP 881 million, delivering a solid margin of 29.1%, reflecting a .27% growth over Q1 2015.
- Net Profit After Tax was EGP 378 million, a year-on-year growth of 55%. Earnings Per Share (EPS) for the second quarter reached EGP 0.22. While EPS for the six month period stood at EGP 0.55 reflecting an improvement of 22% over the comparative period in 2014.
- Retail ADSL market share of 69.7% with net ads of 247 thousands subscribers and EGP 73.18 ARPU.
- Capex of EGP 1 billion, as at 30 June 2015.
- Net cash position of EGP 2,071 million, as at 30 June 2015.

### Chief Executive Officer's Statement

"Today's results for the second quarter 2015 are a good indicator of both the environment in which we operate and the ongoing modernization of Telecom Egypt, as we continue to serve the evolving telecommunications needs of our customers and fulfil our customer-centric approach.

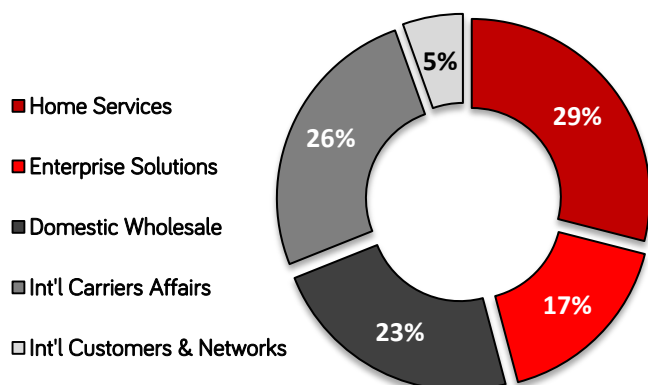
"With the understanding that the first half of 2014 brought with it a number of non-recurring revenues, the overall performance has been healthy over the last quarter. We have reported a significant increase, in net profit compared to last year.

"Retail revenues remain strong, buoyed by the increased demand for data services. This continues to underpin the decision to upgrade our infrastructure, with a key focus on network modernization, both in terms of the core and access networks, seen through the rollout of MSAN technology. Providing state-of-the-art fiber-based technologies enables us to set the groundwork for the future of mobile.

"The Wholesale business continued the trend of strong growth seen in the first quarter of the year. This demonstrated great resilience in the business model, as mobile traffic over our modern network, as well as usage by other ISPs ensured that demand for capacity remained high.

"Our customers are our primary concern. As discussed previously, entering the mobile space through acquiring 4G spectrum remains a top strategic priority for Telecom Egypt, with the goal of meeting the needs of our customers with a single bundled telecommunications service."

## Revenues by Lines of Business:



### Home Services Business Unit:

| HS BU (In EGP Millions) | H1 2015      | H1 2014      | Change%      | Q2 2015    | Q2 2014    | Change%      |
|-------------------------|--------------|--------------|--------------|------------|------------|--------------|
| Voice                   | 781          | 860          | -9.2%        | 394        | 426        | -7.3%        |
| Data                    | 937          | 683          | 37.2%        | 482        | 353        | 36.5%        |
| <b>Total</b>            | <b>1,718</b> | <b>1,543</b> | <b>11.3%</b> | <b>877</b> | <b>779</b> | <b>12.5%</b> |

| Operational KPI           | Unit      | YoY Analysis |         | QoQ Analysis |         |
|---------------------------|-----------|--------------|---------|--------------|---------|
|                           |           | H1 2015      | H1 2014 | Q2 2015      | Q2 2014 |
| Home Fixed Line Customers | Mn        | 5.57         | 5.64    | 5.57         | 5.64    |
| Home ADSL Customers       | 000's     | 2,298        | 1,717   | 2,298        | 1,717   |
| Home Voice ARPU           | EGP/Month | 23.82        | 25.20   | 24.37        | 24.92   |
| Home ADSL ARPU            | EGP/Month | 74.00        | 67.00   | 73.00        | 68.00   |

The Home Services Business Unit continued its trend to date of ongoing growth driven from an increase in data revenues from rising customer numbers. Total revenues for the second quarter were EGP 877 million, up 12.5% year on year from EGP 779 million. Data revenues increased 36.5% to EGP 482 million in Q2 2015, offsetting the decline traditional national voice revenues.

### Enterprise Solutions Business Unit:

| ES BU (In EGP Millions) | H1 2015    | H1 2014    | Change%      | Q2 2015    | Q2 2014    | Change%      |
|-------------------------|------------|------------|--------------|------------|------------|--------------|
| Voice                   | 565        | 661        | -14.4%       | 331        | 394        | -16.0%       |
| Data                    | 277        | 242        | 14.3%        | 146        | 122        | 20.3%        |
| Others                  | 49         | 36         | 34.3%        | 34         | 31         | 10.8%        |
| <b>Total</b>            | <b>890</b> | <b>939</b> | <b>-5.1%</b> | <b>511</b> | <b>546</b> | <b>-6.4%</b> |

| Operational KPI                   | Unit      | YoY Analysis |         | QoQ Analysis |         |
|-----------------------------------|-----------|--------------|---------|--------------|---------|
|                                   |           | H1 2015      | H1 2014 | Q2 2015      | Q2 2014 |
| Enterprise Fixed Line Subscribers | Mn        | 1.08         | 1.06    | 1.08         | 1.06    |
| Enterprise ADSL Subscribers       | 000's     | 147          | 115     | 147          | 115     |
| Enterprise ARPU                   | EGP/Month | 57.62        | 67.34   | 58.59        | 62.77   |

The Enterprise Business Unit experienced an overall decline in revenues year on year, dropping by 6.4%. A portion of this was impacted by the continued hang over from reclassifications that came in effect in the first quarter, as well as ongoing discounted promotional activities from the start of the year.

The Enterprise Business Unit continue to pursue its New Regional based Strategy– focusing on SMEs with customized full-fledged portfolios and enhancing customer experience through regional operational experience.

#### Domestic Wholesale Business Unit:

| DW BU <i>(In EGP Millions)</i> | H1 2015      | H1 2014      | Change%     | Q2 2015    | Q2 2014    | Change%     |
|--------------------------------|--------------|--------------|-------------|------------|------------|-------------|
| Domestic                       | 943          | 789          | 19.5%       | 500        | 454        | 10.1%       |
| International                  | 396          | 449          | -11.8%      | 198        | 238        | -16.7%      |
| <b>Total</b>                   | <b>1,339</b> | <b>1,238</b> | <b>8.1%</b> | <b>699</b> | <b>692</b> | <b>0.9%</b> |

| Operational KPI                | Unit | YoY Analysis |         | QoQ Analysis |         |
|--------------------------------|------|--------------|---------|--------------|---------|
|                                |      | H1 2015      | H1 2014 | Q2 2015      | Q2 2014 |
| International Outgoing Minutes | %    | -9.4%        | -16.4%  | -10.6%       | -16.6%  |

The Domestic Wholesale Business Unit experienced an increase in total revenues, rising 0.9% on Q2 2014 to EGP 699 million, reporting EGP 1,339 million for the half year period. This also reflected a 9.1% growth in revenues versus Q1 2015. The growth year on year was driven largely by an increase in all domestic infrastructure business unit services, most notably with heightened IRU sales.

There remains a growing demand from local licensed mobile operators for infrastructure services, driven by the vibrant growth across both mobile and data services.

#### International Carriers Affairs Business Unit:

| ICA BU <i>(In EGP Millions)</i> | H1 2015     | H1 2014      | Change%      | Q2 2015    | Q2 2014    | Change%      |
|---------------------------------|-------------|--------------|--------------|------------|------------|--------------|
| International Settlement        | 1,535       | 1,552        | -1.1%        | 774        | 820        | -5.7%        |
| <b>Total</b>                    | <b>1535</b> | <b>1,552</b> | <b>-1.1%</b> | <b>774</b> | <b>820</b> | <b>-5.7%</b> |

| Operational KPI                | Unit | YoY Analysis |         | QoQ Analysis |         |
|--------------------------------|------|--------------|---------|--------------|---------|
|                                |      | H1 2015      | H1 2014 | Q2 2015      | Q2 2014 |
| International Incoming Minutes | %    | -14.1%       | -15.5%  | -17.2%       | -2.8%   |

Despite year on year declines in revenues, the International Carriers Affairs Business Unit's performance compared to the first quarter 2015 is positive. While the business unit experienced a minor drop in traditional international inbound volumes, this was considerably offset by a 27% increase in the transit activities volumes and associated revenues.

Overall, the Business Unit continues to operate in a challenging global environment reflected in the slight decline year on year in revenues, with ongoing pressure put on the international wholesale voice business from the spread of OTT applications.

Of particular note is the ongoing decline in the Gulf market, which continues to have an impact in terms of business volumes, as well as the growing solid bypass activities, which are slowly eating up the traditional voice business; both of which have an affect revenues.

#### International Customers & Networks Business Unit:

| IC&N BU <i>(In EGP Millions)</i> | H1 2015 | H1 2014 | Change% | Q2 2015 | Q2 2014 | Change% |
|----------------------------------|---------|---------|---------|---------|---------|---------|
| Revenue Growth                   | 304     | 1,160   | -73.8%  | 165     | 1,030   | -84.0%  |

| Revenue Breakdown              | Unit | YoY Analysis |         | QoQ Analysis |         |
|--------------------------------|------|--------------|---------|--------------|---------|
|                                |      | H1 2015      | H1 2014 | Q2 2015      | Q2 2014 |
| Cable Projects                 |      | 0            | 881     | 0            | 881     |
| Ancillary Services (O&M)       | Mn   | 86           | 87      | 46           | 43      |
| Capacity Sales                 | Mn   | 161          | 128     | 90           | 74      |
| International Customer Support | Mn   | 57           | 64      | 30           | 32      |

In comparison to the previous quarter, revenues for the business unit increased 19.2% from EGP 139 million in Q1 2015, driven by the growing demand for international capacity sales, a result of the recently introduced competitive pricing scheme for capacity and IP transit services to the international market.

However, the Business Unit experienced a significant decline in revenues year on year, dropping 84% from EGP 1,030 million in Q2 2014. This drop was attributable to the Business Unit having reported an exceptional second quarter in 2014, resulting from the conclusion of two major non-recurring transactions with the SMW-5 cable system and AAE1 cable system respectively.

#### te Financial Highlights:

##### Income Statement – Summary:

| <i>(In EGP Millions exclude Per share Data)</i> | H1 2015      | H1 2014      | Change%       | Q2 2015      | Q2 2014      | Change%       |
|---|--------------|--------------|---------------|--------------|--------------|---------------|
| <b>Sales Revenue</b>                            | <b>5,786</b> | <b>6,432</b> | <b>-10.0%</b> | <b>3,025</b> | <b>3,868</b> | <b>-21.8%</b> |
| Home Services                                   | 1,718        | 1,543        | 11.3%         | 877          | 779          | 12.5%         |
| Enterprise Solutions                            | 890          | 939          | -5.1%         | 511          | 546          | -6.4%         |
| Domestic Wholesale                              | 1,339        | 1,238        | 8.1%          | 699          | 692          | 0.9%          |
| Int'l Carriers Affairs                          | 1,535        | 1,552        | -1.1%         | 774          | 820          | -5.7%         |
| Int'l Customers & Networks                      | 304          | 1,160        | -73.8%        | 165          | 1,030        | -84.0%        |
| <b>EBITDA</b>                                   | <b>1,576</b> | <b>2,535</b> | <b>-37.8%</b> | <b>881</b>   | <b>1,730</b> | <b>-49.1%</b> |
| EBITDA Margin %                                 | 27.2%        | 39.4%        |               | 29.1%        | 44.7%        |               |
| <b>EBIT</b>                                     | <b>1,132</b> | <b>1,809</b> | <b>-37.4%</b> | <b>523</b>   | <b>1,219</b> | <b>-57.1%</b> |
| EBIT Margin %                                   | 19.6%        | 28.1%        |               | 17.3%        | 31.5%        |               |
| <b>NPAT</b>                                     | <b>932</b>   | <b>763</b>   | <b>22.2%</b>  | <b>378</b>   | <b>243</b>   | <b>55.4%</b>  |
| NPAT Margin %                                   | 16.1%        | 11.9%        |               | 12.5%        | 6.3%         |               |
| <b>EPS</b>                                      | <b>0.55</b>  | <b>0.45</b>  | <b>22.2%</b>  | <b>0.22</b>  | <b>0.14</b>  | <b>55.4%</b>  |

## Costs:

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te retains a very careful approach to cost management. te continues to evaluate opportunities for increased cost optimization as part of an ongoing review. A number of factors continue to impact costs, which were no different in the second quarter, accounting for the small increases experienced quarter on quarter and year on year.

## EBITDA:

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EBITDA for the second quarter 2015 amounted to EGP 881 million, a decrease of 49.1% compared Q2 2014, but an increase of 27% over Q1 2015. The decline was attributable to the recognition of non-recurring project revenues in the first six months of 2014, combined with the effect of annual inflation adjustment of salaries.

The EBITDA margin for Q2 2015 was 29.13%, which remains in line with management's expectations and market consensus.

EBIT reached EGP 523 million for the period, a decrease of 57.1% on the second quarter of 2014. This decline was also a result of higher margin non-recurring revenues in H1 2014.

## Income from Investments:

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Total Income from investments, mainly representing te's stake in Vodafone Egypt (VFE), dropped to EGP 168 million, down 23.0% year-on-year and 35.0% on Q1 2015.

During the period under review, VFE generated revenues of EGP 3,570 million, an increase of 5.7% compared with the same period 2014. Closing customers as at 30 June stood at 39,506 million, down 5.8% year on year and 1.7% on the previous quarter.

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

## Vodafone Egypt Financial Highlights-

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| <i>(In EGP Millions)</i> | First Quarter Ending June |           |          | Previous Quarter Comparison |          |          |
|--------------------------|---------------------------|-----------|----------|-----------------------------|----------|----------|
|                          | June 2015                 | June 2014 | % Change | Q1 15/16                    | Q4 14/15 | % Change |
| Total Revenue            | 3,570                     | 3,377     | 5.7%     | 3,570                       | 4,164    | -14.3%   |
| Net Profit               | 573                       | 486       | 17.9%    | 573                         | 576      | -0.5%    |
| CAPEX                    | 895                       | 637       | 40.4%    | 895                         | 1,377    | -35.0%   |

## Vodafone Egypt Operational Highlights:-

|                                | First Quarter Ending June |           |          | Previous Quarter Comparison |          |          |
|--------------------------------|---------------------------|-----------|----------|-----------------------------|----------|----------|
|                                | June 2015                 | June 2014 | % Change | Q1 15/16                    | Q4 14/15 | % Change |
| Closing Customers (000's)      | 39,506                    | 41,938    | -5.8%    | 39,506                      | 40,209   | -1.7%    |
| Net Adds (000's)               | -703                      | -135      | 419.2%   | -703                        | 661      | -206.5%  |
| Total Voice Minutes (millions) | 26,207                    | 23,303    | 12.5%    | 26,207                      | 24,815   | 5.6%     |

### Net Profit:-

te's consolidated Net Profit After Tax for Q2 2015 reached EGP 378 million versus EGP 243 million in Q2 2014, a 55.4% increase.

### Balance Sheet – Summary:

| <i>(In EGP Millions)</i>                          | H1 2015       | FY 2014       | Change%      |
|---|---------------|---------------|--------------|
| Current Assets                                    | 8,538         | 9,493         | -10.1%       |
| Net Fixed Assets                                  | 11,197        | 11,070        | 1.1%         |
| Long Term Investments                             | 9,870         | 9,474         | 4.2%         |
| Other Long Terms Assets                           | 2,368         | 2,318         | 2.2%         |
| <b>Total Assets</b>                               | <b>31,972</b> | <b>32,355</b> | <b>-1.2%</b> |
| Current Liabilities (Excl. STD)                   | 4,021         | 4,498         | -10.6%       |
| CPLTD   | 79            | 84            | -5.5%        |
| LTD   | 333           | 383           | -12.8%       |
| Other Non-Current Liabilities                     | 632           | 3             | 21318.7%     |
| <b>Total Liabilities</b>                          | <b>5,066</b>  | <b>4,967</b>  | <b>2.0%</b>  |
| <b>Total Shareholder Equity</b>                   | <b>26,906</b> | <b>27,388</b> | <b>-1.8%</b> |
| <b>Total Liabilities &amp; Shareholder Equity</b> | <b>31,972</b> | <b>32,355</b> | <b>-1.2%</b> |

## Cash Flow – Summary:

| <i>(In EGP Millions)</i>   | H1 2015      | H1 2014       | Change%       |
|--|--------------|---------------|---------------|
| Net Cash Provided By Operating Activities                        | 321          | 1,068         | -70.0%        |
| Net Cash Flows from Investing Activities                         | -720         | -887          | -18.8%        |
| Net Cash Flows from Financing Activities                         | -393         | -1,777        | -77.9%        |
| <b>Net Change In Cash and Cash Equivalents during the Period</b> | <b>-792</b>  | <b>-1,596</b> | <b>-50.4%</b> |
| Translation Differences of Foreign entities                      | 0            | 1             | -48.9%        |
| Cash & Cash Equivalents at the Beginning of the Period           | 2,897        | 5,644         | -48.7%        |
| <b>Cash and Cash Equivalents at the End of the Period</b>        | <b>2,106</b> | <b>4,049</b>  | <b>-48.0%</b> |

- Cash from operating activities has been declined compared with the same period last year due to one-off cash payment to Egyptian Tax Authority.

## Investment in Infrastructure / Capital Expenditure:

Capital expenditure for Q2 2015 reached EGP 567 million, an increase of 51% on Q2 2014, representing 19% of total revenues. Capex for the first six months of the year were EGP 1,007 million.

## Net Cash Position:

te continues to enjoy a positive cash flow, backed by a strong balance sheet. It reported a net cash position of EGP 2,071 million at Q2 2015, a reflection of the cash generative nature of te's business.

To download a complete copy of te's Q2 2015 Consolidated Financial Results Statements and notes to these statements, please refer to the attached pdf: <http://ir.te.eg/FinancialStatements>

To download a complete copy of te's Q2 2015 Standalone Financial Results Statements and notes to these statements, please refer to the attached pdf: <http://ir.te.eg/EarningRelease>

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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 6.7 million subscribers as at 30 June 2015.

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.