

Investor's Eye

Telecom Egypt and Orange Sign Settlement Ending All Legal Disputes

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telecomegypt₁

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Our strategy: partnership and focus

Starting a new phase where partnership is the key

Telecom Egypt starts a new phase as the first total telecom operator in Egypt. With its new brand “We” in the market, Telecom Egypt needs to begin this important phase without any historical burdens and clear up the backlog of historical disputes to sustain financial growth in the coming years and clean the balance sheet.

Telecom Egypt welcomes cooperation with the licensed mobile operators, which are perceived as Telecom Egypt’s successful partners, not only competitors in the retail space. The settlement marks the first step in the way for future expansion of the business relationship as the mobile operators are a significant contributor to Telecom Egypt’s wholesale revenue. The launch of “We” allows the mutual leasing of network components, where Telecom Egypt will lease radio access network and the mobile operators’ Telecom Egypt’s access/core network.

Avoiding uncertainty and focusing on what’s important

Prolonged disputes only lead to uncertainty and distraction, while Telecom Egypt needs to become a fast and dynamic operation with a focus on the huge opportunities in the Egyptian telecom market:

- Addressing the youth segment through our data offering
- Underpenetrated fixed broadband market
- Infrastructure projects and being part of the economic reform

Telecom Egypt needs to focus on its own internal operations to extract efficiencies and develop synergies with its newly launched mobile segment

Status of legal disputes: two



Dispute duration:	Sep. 2008 to Dec. 2015	Sep. 2008 to 2017	Litigation started June 2015 for claims dated back to 2007 to present
Services under dispute:	Interconnection rates	Interconnection rates, transmission and international services	International services
Cash flow impact:	Vodafone to distribute cash of which telecom Egypt received EGP1.5bn	Orange to pay 74m.	n/a*

* Telecom Egypt is in mature discussions to reach a settlement with Etisalat Misr

Vodafone Egypt Settlement

The Ordinary General Assembly of Telecom Egypt held on Wednesday, 30th of March 2016, by unanimous vote of the Shareholders present and represented in the Meeting, approved authorizing the Board of Directors to settle the dispute between Telecom Egypt and Vodafone and take all necessary procedures for the completion of the settlement and signing the related contracts in accordance with the following framework:

1. Vodafone Egypt and its shareholders shall be committed to distribute cash dividends not less than EGP3.34 billion from Vodafone' retained earnings, of which telecom Egypt share to be EGP1.5 billion to be distributed in two equals during its two general assemblies which supposed to be held on April and June 2016.
2. Vodafone Group to waive the arbitration case against Vodafone Egypt concerning the use of Vodafone Group' trademark and the commitment of the two parties to agree on prices regarding the use of Vodafone Egypt of Vodafone Group' trademark to continue by 0.7% without any adjusting for the period from 1st April 2008 until 31st March 2016, 1% for the period from 1st April 2016 until 31st March 2017, 1.25% for the period from 1st April 2017 until 31st March 2018, 1.5% for the period from 1st April 2018 until 31st March 2019, and 1.75% for the period from 1st April 2019 until 21st January 2022.
3. The approval of adding an annex to the transmission services agreement between the two parties to increase the minimum commitment of Vodafone Egypt to EGP 1.55bn up from 1.38bn in the period from January 2015 to December 2017*.
4. Telecom Egypt shall be committed not to appeal against the ruling of the nullity No. 28 of 123 regarding the released ruling of the nullity in the arbitration case No. 650 of 2009.
5. According to the settlement agreement, Telecom Egypt shall approve that any future disputes related to the interconnection rate agreement shall be only with Vodafone Egypt as the only party of the interconnection agreement.

* Telecom Egypt signed a new agreement with Vodafone Egypt on 2 November 2017 for a period of 5 years ending 2022 and a total value of EGP 12bn.



Orange Egypt Settlement

As per this settlement agreement, Telecom Egypt and Orange Egypt will settle all the pending disputes related to interconnection, infrastructure and international gateway services mainly (i) the arbitration case no. 644 for the year 2009 before the Cairo Regional Centre for International Commercial Arbitration, and (ii) Court case no. 341 for the 8th Judicial Year before the Economic Court of Cairo; and any direct or indirect related legal proceedings.

The agreement marks the complete settlement of all pending disputed amounts between Telecom Egypt and Orange Egypt covering the period from 2008 to October 2017 relating to interconnection, leased lines and international services. Within the framework, both companies have also agreed to undertake the necessary legal steps to waive the above mentioned disputes.

In terms of financial impact for Telecom Egypt, based on the agreement Telecom Egypt will book in Q4 2017 on its P&L additional revenue of EGP 49m and impairment to receivables of EGP 225m. The latter however is a non-cash charge and the settlement agreement in fact will lead to a net positive cash flow to Telecom Egypt of EGP 74m.

Orange settlement: financial impact

Disputed services :

Local interconnection

International gateway services

Transmission leased line

Settlement summary:

The settlement was satisfactory due to the net positive impact on cash flow of EGP 74m.

Financial Impact

Income statement

↑ Revenues 49
↑ Provisions 225
↓ NPBT 179

Balance Sheet

↓ Receivables 670
↓ Impairments 398

Cash flows

↑ Revenue 49
↑ Orange payment 25

Next Steps

1. Waiving all Legal Disputes

Orange and Telecom Egypt will take all the necessary steps to waive all the legal disputes.

2. New Interconnection Regime

Work with Orange to reach an interconnection agreement within a year from the settlement date. The new agreement will include mobile-mobile interconnection as the old one only tacked fixed-to-mobile termination.

3. Solving the dispute with Etisalat

Telecom Egypt will work with Etisalat to reach a settlement agreement in order to have cleared all disputes with mobile operators.

Thank You

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