Project Nigat - Partial Privatisation of Ethio Telecom

Investment Teaser

15 June 2021
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### Ethio Telecom | Glossary

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tbody>
<tr>
<td>ARPU</td>
<td>Average Revenue per User</td>
</tr>
<tr>
<td>ADSS</td>
<td>All-dielectric self-supporting</td>
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<tr>
<td>BPO</td>
<td>Business Process Outsourcing</td>
</tr>
<tr>
<td>CAGR</td>
<td>Compounded Annual Growth Rate</td>
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<tr>
<td>Deloitte</td>
<td>Deloitte Consulting Limited</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings Before Interest, Tax, Depreciation and Amortisation</td>
</tr>
<tr>
<td>ECA</td>
<td>Ethiopian Communications Authority</td>
</tr>
<tr>
<td>ECA</td>
<td>Ethiopian Birr</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FY</td>
<td>Financial Year</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GSM</td>
<td>Global System for Mobile Communication</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
</tr>
<tr>
<td>IDI</td>
<td>ICT Development Index</td>
</tr>
<tr>
<td>IoT</td>
<td>Internet of Things</td>
</tr>
<tr>
<td>ISSPs</td>
<td>Impact Sourcing Service Providers</td>
</tr>
<tr>
<td>LTE</td>
<td>Long Term Evolution</td>
</tr>
<tr>
<td>MoU</td>
<td>Minutes of Usage</td>
</tr>
<tr>
<td>NBE</td>
<td>National Bank of Ethiopia</td>
</tr>
<tr>
<td>OPGW</td>
<td>Optical ground wire</td>
</tr>
<tr>
<td><strong>Project Nigat</strong></td>
<td>Proposed Partial Privatisation of Ethio Telecom</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>WCDMA</td>
<td>Wideband Code Division Multiplexing Access</td>
</tr>
</tbody>
</table>
1. **The Opportunity**

- Ethio Telecom is one of the oldest telecom enterprises in Africa, having provided telecom services over the last 127 years to Ethiopians. Currently, it is the sole provider of integrated telecommunication services in Ethiopia and is one of the five largest Ethiopian SOEs. As of April 2021, Ethio Telecom’s total subscriber base was about 54.7m, with 43.7m active subscribers.
- The Government of the Federal Democratic Republic of Ethiopia ("Ethiopian Government") holds 100% stake in Ethio Telecom ("the Company"). The Ethiopian Government is proposing a partial privatisation of the Company by selling 40% of the Company's equity share capital ("the Stake").
- **Opportunity to acquire the Stake at offer and become shareholder in the Company to leverage the vast untapped potential offered by Ethiopia’s underpenetrated telecom market.**

2. **Ethiopia macroeconomic environment**

- Over the last decade to 2019, Ethiopia has become one of the fastest growing economies in Africa and globally, with real GDP growth averaging 9.8% per annum. The economic disruptions caused by the COVID-19 pandemic slowed Ethiopia’s real GDP growth to 6.1% in 2020 compared to the 2.1% contraction in Africa’s real GDP.
- The real GDP growth is expected to slow down to 4.0% in 2021, mainly due to the prolonged economic impact of COVID-19 pandemic and high inflation levels. However, the economy is expected to gradually recover, with real GDP growth reaching 8.7% in 2022 on the back of sustained reforms in business environment and increased infrastructural spend to spur economic growth.
- Ethiopia’s young populace (which accounted for 56.5% of the population as of 2020), low urbanisation levels, high GDP growth rate, the Government’s economic liberalisation agenda and increased private sector investment offers valuable organic growth opportunities for telecom players and investors.
- Implementation of ‘Digital Ethiopia 2025’ Strategy is expected to lead to accelerated adoption of high-speed data services across IoT / M2M and cloud-based solutions finding use cases across multiple industries.

3. **Telecom sector**

- As of April 2021, Ethiopia’s telecom sector was largely characterised by (i) low tele-density and mobile penetration (53.5% and more than 50%, respectively) compared to 90+ in major African economies), (ii) low mobile broadband penetration rate (3G and 4G subscribers accounted for c. 46% of total mobile subscriptions. 4G penetration rate stands at a mere c. 2.6%).
- The low tele-density, mobile and internet penetration offer a huge untapped potential for the telecom investors. Further, Ethio Telecom’s mobile money services will provide a valuable opportunity for upscaling the financial inclusion of the unbanked population via access to the mobile banking channels. **Mobile money (Telebirr) subscriber number reached 4m in one month after launch in May 2021.**
- The Ethiopian Government’s plan to liberalise the telecom sector to spur private sector investment will further accelerate growth in this sector.

4. **Deal Structure**

- The transaction structure will be in the form of sale of the 40% shareholding of the Company to potential foreign investors.
- Further, the Ethiopian Government plans a further 5% equity stake sale to the public (local investors). As such, post Transaction, the Ethiopian Government will retain 55% equity stake in the Company.

Source(s): World Bank; IFC, Fitch solutions and Management Information
Ethio Telecom | Transaction Structure

**Pre transaction**

The Ethiopian Government (100% stake) → Ethio Telecom

**Post transaction**

Foreign investors (40% stake) + The Ethiopian Government (60% stake) → Ethio Telecom

**Transaction structure**

- The partial privatisation of Ethio Telecom will involve the sale of 40% equity stake in the Company by the Ethiopian Government to foreign investors; and
- The Ethiopian Government will retain a controlling stake in the Company (60%) post partial privatisation.
- The sale of equity stake will not constitute an issuance of new shares but rather a partial sale of the existing shares of Ethio Telecom.
Ethio Telecom | Ethiopia Telecom Industry Overview

Ethio Telecom is currently the sole provider of all telecommunication services and infrastructure in Ethiopia. In May 2020, the Ministry of Finance and ECA had launched the process for issuance of two new telecom licenses in Ethiopia in addition to the partial privatisation of Ethio Telecom.

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**Tele density**

- Low tele-density of c. 53.5% as against 90%+ in major African countries, indicates significant scope for increase in penetration.¹
  - Actual tele-density could be much lower post accounting for multiple sim phenomenon.
  - The low tele-density offers organic opportunities to upscale telecom services.

**Smart phone adoption**

- Smartphones as a % of total connections stand at 44% in Ethiopia which is in line with Sub-Saharan Africa average of 44%.²
  - That said, smartphone adoption continues to rise rapidly in the region, as cheaper devices become available.

**Internet penetration**

- Mobile broadband penetration i.e., 3G and 4G subscribers as a % of total mobile subscribers currently stands at c. 46% with 4G penetration only at c. 2.6%.³
  - Relatively low 4G adoption, presents significant opportunity to provide high speed data services and internet consumption.

**Infrastructure**

- Tower density in Ethiopia at ~1 tower for every 14k+ population.³ The number of towers in the country with plans to increase from around 7.3k in 202 towers to 8k towers in 2021.

**Unbanked population**

- As per the NBE, more than 75% of the population is unbanked. Further, nearly 40% of all bank branches are in capital city, Addis Ababa.⁴
  - This indicates extensive scope of increased financial inclusion, especially to the unbanked population, through mobile banking channels.

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¹ Source: Figures as at April 2021 as provided by Ethio Telecom management
² Source: The Mobile Economy, Sub-Saharan Africa 2020, GSM Association
³ Source: Towerxchange’s Sub-Saharan African guide, Q1 2021 update and Planning and Development Commission FDRE
⁴ Source: National Bank of Ethiopia

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Ethio Telecom | Ethiopia Macroeconomic Overview – At a glance

Ethiopia has historically ranked as one of Africa’s fastest growing economies, with growth averaging 9.0% between 2015 and 2019. A country with a young population, low urbanization levels, high GDP growth rate and Government’s push to promote private sector investment, offers growth opportunity in ICT services.

### Political

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Rank – Ethiopia</th>
<th>Rank–Avg. EAC&lt;sup&gt;(1)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public perception of Economic Opportunity Foundations (Out of 38)</td>
<td>7</td>
<td>15&lt;sup&gt;(2)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Political Stability and Absence of Violence</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>Regulatory Quality Index</td>
<td>17</td>
<td>30</td>
</tr>
</tbody>
</table>

- The Government has taken steps to improve infrastructure and attract foreign investment and private sector investment in the economy.
- Political instability due to conflict in the Tigray region and postponement of the 2020 elections, expected to subside post the elections in June 2021.

### Economic

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Ethiopia</th>
<th>Avg. EAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP&lt;sup&gt;(3)&lt;/sup&gt; Growth – 2015 to 2019 (%)</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>FDI – 2015 to 2019 (USD bn)</td>
<td>17</td>
<td>3.4&lt;sup&gt;(6)&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

- Ethiopia has shown real GDP growth of 9% from 2015 to 2019, which is higher than the average of EAC countries.
- Ethiopia has witnessed significant FDI inflow over 2015 – 2019 as compared to average EAC countries.

### Social

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Ethiopia</th>
<th>Avg. EAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Age, Human Development Index&lt;sup&gt;(4)&lt;/sup&gt;</td>
<td>19.8, 0.5</td>
<td>18.3, 0.5</td>
</tr>
<tr>
<td>GINI index&lt;sup&gt;(5)&lt;/sup&gt;</td>
<td>35</td>
<td>42&lt;sup&gt;(6)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Level of Urbanisation</td>
<td>22%</td>
<td>23%</td>
</tr>
</tbody>
</table>

- Young demographics, improving and lower income inequality in Ethiopia as compared to average EAC countries as indicated by Gini Index.
- Largely youthful working age population, which accounted for 56.5% of the population as of 2020. This is expected to have a positive impact on the mobile subscriber base, uptake of smartphones and internet consumption.

### Technological

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Ethiopia</th>
<th>Avg. EAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall ICT development Index Rank (Out of 192)</td>
<td>170</td>
<td>156&lt;sup&gt;(6)&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

- Government has initiated “Digital Ethiopia 2025” digital transformation initiative with the key objectives of job creation, increased forex and inclusive prosperity. The national strategy is set to transform the country’s digital space and increase leverage on technology.
- IDI rank continues to be low, which also indicates significant opportunity for Ethiopia to expand ICT infrastructure and access.

Note(s): (1) EAC – East African Community is an inter governmental organisation of 6 members (Burundi, Kenya, Rwanda, South Sudan, Tanzania, Uganda); (2) Does not include data for South Sudan and Rwanda; (3) GDP Constant LCU; (4) Human Development Index ranges from 0-1: 0 represents “natural zero”, 1 represents “aspirational target”; (5) Gini index of 0 represents perfect income equality, 100 implies perfect inequality; (6) Does not include data for South Sudan; Source(s): World Bank; ITU; African Business; Mo Ibrahim Foundation; United Nations
Real GDP growth is expected to slow down to 4.0% in 2021, mainly due to the prolonged COVID-19 effects on the economy and subdued private consumption. However, sustained reforms in the business environment and infrastructural spend is expected to drive economic growth in the medium term.

Ethiopia Real GDP Growth Rate and CPI

- Ethiopia’s recovery in 2021 will remain below pre-historic levels mainly due to constrained private consumption, high inflation levels and subdued economic activity as a result of the prolonged impact of COVID-19 impact.
- The IMF projects the economy’s growth to average 8.2% between 2022 and 2025, building on an already strong infrastructure project pipeline (particularly in hydropower, road and rail) and reforms in the business environment to drive growth.
- The rebound in the economic growth in the medium term will lead to increased private consumption levels and thus increased uptake of consumer and enterprise telecom products and services.

The ETB/USD FX rate averaged ETB/USD 28 between 2017 and 2020. Fitch solutions projects the exchange rate to weaken to an average of ETB/USD 43.7 between 2021 and 2025.

- The NBE is expected to continue managing the ETB in the medium term, only allowing gradual depreciation to prevent inflation from soaring out of control.
- Sustained current-account deficits coupled with a low level of foreign reserves will maintain pressure on the ETB between 2021 and 2025. A depreciating currency will lead to increased costs for telecommunication infrastructure and may delay Ethiopia’s adoption of the Digital Ethiopia 2025.
As of 2020, Ethiopia’s population was largely youthful with 56.5% of the population aged 15-64 years as of 2020. This is a favourable demographic for the telecom sector since a youthful population is expected to drive growth in the mobile subscriber base and consumption of telecom products and services such as internet, smartphone purchases and subscription services.

- Ethiopia’s population was estimated at 114.9m as of 2020 and is expected to grow at an average rate of 2.5% between 2021 and 2025, to reach 129.7m in 2025.
- The population is largely youthful with 56.5% of the population aged 15-64 years, 42.2% aged between 0-15 years and 1.2% aged 65+ years.
- The digital age population is largely youthful thus providing favourable demographics for Ethio Telecom’s medium-term strategy of growing data subscription and internet consumption. However, with most of the population residing in rural areas (c. 78% as of 2020), Ethio Telecom will have to invest on necessary infrastructure to drive subscriber growth in rural areas.
According to World Bank Ease of Doing Business Report 2020, Ethiopia was ranked 159 out of 190 countries globally, a similar position to the 2019 rankings.

In 2020, the Ethiopian Investment Commission as a part of economic reforms and to improve the ease of doing business ranking, revised the investment proclamation (including new areas for FDI) to allow more FDI participation in the country.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>DB 2019 rank</th>
<th>DB 2020 rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of doing business (overall rank)</td>
<td>159</td>
<td>159</td>
</tr>
<tr>
<td>Ease of doing business (score)</td>
<td>49</td>
<td>48</td>
</tr>
<tr>
<td>Starting a business</td>
<td>167</td>
<td>168</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>168</td>
<td>142</td>
</tr>
<tr>
<td>Getting electricity</td>
<td>131</td>
<td>137</td>
</tr>
<tr>
<td>Registering property</td>
<td>144</td>
<td>142</td>
</tr>
<tr>
<td>Getting credit</td>
<td>175</td>
<td>176</td>
</tr>
<tr>
<td>Protecting minority investors</td>
<td>178</td>
<td>189</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>130</td>
<td>132</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>154</td>
<td>156</td>
</tr>
<tr>
<td>Resolving insolvency</td>
<td>148</td>
<td>149</td>
</tr>
</tbody>
</table>

**Starting a business**
- Simplified preregistration and registration formalities (publication, notarisation, inspection, and other requirements)
- Ethiopia made starting a business easier by removing the need to obtain a certificate of competence for certain types of businesses

**Dealing with construction permits**
- Ethiopia improved building quality control by mandating a final inspection once construction is completed and strengthening qualification requirements for construction professionals.

**Registering Property**
- Ethiopia improved the quality of its land administration system by publishing the official list of documents required for property registration as well as statistics on the number of transactions for the previous calendar year and the service standard for delivering a legally binding document.

Key:
- Improvement in DB 2020 from DB 2019 rankings
- Decline in DB 2020 from DB 2019
The Government of Ethiopia has approved the country’s National Digital Transformation Strategy – Digital Ethiopia 2025 in 2020, set to transform the country’s national economy through four major pathways.

**Pathway 1: Unleashing value from Agriculture**
- Agriculture accounts for 32.8% of the GDP, 85% of the country’s workforce and 90% of export revenue.
- The key agriculture technologies to be explored are around IoT and Blockchain. The adoption of these technologies creates a substantial market for Ethio Telecom’s enterprise revenue services and will increase financial inclusion.

**Pathway 2: The Next Version of Global Value Chains in Manufacturing**
- Two specific opportunities identified for Ethiopia to succeed on this pathway are; enabling the adoption and creation of new communication technologies in industrial parks to expand access to global markets and enhancing digitally enabled logistics management approaches to boost export.
- The adoption of these opportunities creates a market opportunity for Ethio Telecom’s telecommunication infrastructure and cloud services.

**Pathway 3: Building the IT enabled services**
- Two specific opportunities identified for Ethiopia to succeed on this pathway are; providing infrastructure to high potential talent centers and reframing and operationalising the IT Park to attract leading BPO, specifically ISSPs.
- This pathway paves way for the growth of Ethio Telecom’s telecommunication infrastructure, traditional connectivity, cloud services, and fintech services.

**Pathway 4: Digital as the driver of tourism competitiveness**
- Three specific opportunities identified for Ethiopia to succeed on this pathway are; driving digitalisation across the tourism industry by setting up a tourism digitalisation task force, improving tourist inflow and increasing tourist activity through targeted digital marketing strategies, and building capacity of tourism SMEs to adopt digital technologies (including improving online presence and accepting digital payments). This pathway create an opportunity for the expansion of Ethio Telecom’s mobile money and fintech, and enterprise services.
The timeline below presents major milestones in the Ethiopian telecommunications sector.

- **1994**: Telecommunication services introduced in Ethiopia.
- **1996**: Ethiopian Telecommunications Corporation is established.
- **1997**: Introduction of Internet services.
- **1999**: Ethio Telecom is established from the Ethiopian Telecommunications Corporation.
- **2007**: Introduction of 3G services.
- **2010**: Telebirr Mobile Money launched.
- **2015**: LTE Advanced is introduced in Addis Ababa in 2020 and rolled out in Bahrdar, Diredawa, Adama, Bishoftu, Mojo, Harar, Dessie, Jigjiga in 2021 with plans to cover 103 town with LTE coverage.
- **2019**: The Federal Democratic Republic of Ethiopia announces the partial privatisation of Ethio Telecom.
- **2020/21**: 4G/LTE was introduced in Addis Ababa.
- **2021**: Subscriber number reached 4m in one month.

Source: Ethio Telecom’s Management information
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Ethio Telecom | Company Overview – Profile

Ethio Telecom, Ethiopia’s sole integrated telecom service provider, generated ETB 46.2bn revenue in FY2019-20, which represented ETB 11.9bn (16.0% CAGR) increase from FY2017-18, in line with the growth in active subscribers.

Overview

- Ethio Telecom, headquartered in Addis Ababa, Ethiopia is 100% owned by the Ethiopian Government and is currently the sole provider of telephone and internet service in the country.
- Ethio Telecom’s telecommunication network and infrastructure is spread across 11 administrative regions covering c. 85% of the country by geography and c. 95% by country’s population.

Key service offerings

- **Voice**: Mobile – 2G/3G/4G, Fixed – Wired and Wireless
- **Data and Internet**: Mobile broadband, Fixed broadband & narrowband, VPN (incl. international services), Virtual Internet Service Provider
- **Satellite mobile**: Satellite mobile services
- **Value added services**: Mobile VAS, Hosting and DNS Services

Ethio Telecom also has a license to provide Mobile Money services such as domestic P2P transfers, cash outs, payments for goods and services in Ethiopia.

During FY 2019-20, Ethio Telecom generated telecom revenue of c. ETB 47.7bn, comprising of:

i. Voice includes mobile voice revenue of c. ETB 28.0bn; revenue contribution from prepaid and postpaid stood at c. 97.2% and c. 2.8% respectively.

ii. Data and Internet revenue of c. ETB 11.5bn, which comprises revenue from data services (broadband and narrowband) availed on all type of devices including mobile handset.

iii. Fixed broadband revenue of c. ETB 2.2bn.

iv. Fixed voice revenue of c. ETB 47.8mn.

v. International revenue of c. ETB 4.3bn.

vi. Subscription revenue of c. ETB 86.4mn which is the fee paid by subscribers for new connection or migration from prepaid to postpaid or vice versa and sale of mobile handsets etc.

vii. Others (including revenue from sell of device) of c. 1.25 bn.
Ethio Telecom | Company Overview – Key Operating Metrics

As of April 2021, Ethio Telecom’s total subscriber base was about 54.7m, with 43.7m active subscribers.

### Subscribers

<table>
<thead>
<tr>
<th></th>
<th>Jul-17</th>
<th>Jul-18</th>
<th>Jul-19</th>
<th>Jul-20</th>
<th>Apr-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Subscribers in millions</td>
<td>39.2</td>
<td>27.4</td>
<td>31.2</td>
<td>44.3</td>
<td>43.7</td>
</tr>
<tr>
<td>Active Subscribers in millions</td>
<td>39.3</td>
<td>38.5</td>
<td>43.9</td>
<td>46.8</td>
<td>54.7</td>
</tr>
</tbody>
</table>

- Of the total mobile subscriber base: c. 99% avail prepaid services
- Of the total subscriber base: c. 97% Residential and Enterprise c. 3%

**Data subscribers by technology:**
- Mobile voice: 3G c. 43%, 4G c. 3% and 2G c. 1%
- Data and Internet: 3G c. 25%, 4G c. 17% and 2G c. 58%

1. Mobile Voice subscribers include subscribers availing data services on mobile handset.
2. Data and Internet includes subscribers availing data services (broadband and narrowband) on devices other than mobile handset.

### Average Revenue Per User (ARPU)

<table>
<thead>
<tr>
<th></th>
<th>Jul-17</th>
<th>Jul-18</th>
<th>Jul-19</th>
<th>Jul-20</th>
<th>Apr-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blended ARPU</td>
<td>62</td>
<td>82</td>
<td>95</td>
<td>74</td>
<td>97</td>
</tr>
</tbody>
</table>

- Mobile voice c. ETB 66
- Fixed Voice c. ETB 73
- Data and internet c. ETB 45
- Fixed broadband c. ETB 896

Source: Management information

1. ARPU has been derived from the active subscriber base.
2. Data and internet includes all subscribers availing data services (broadband and narrowband) on all type of devices including mobile handset.

### Other KPIs as at April 2021

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. revenue/ min (Voice)</td>
<td>c. ETB 0.39</td>
</tr>
<tr>
<td>Avg. revenue/MB (data)</td>
<td>c. ETB 0.08</td>
</tr>
<tr>
<td>MoUs per user</td>
<td>c. 147mins</td>
</tr>
<tr>
<td>Data usage per user</td>
<td>c. 0.55 GB</td>
</tr>
</tbody>
</table>

Source: Management information
# Ethio Telecom | Company Overview – Key Financial Information

## Income Statement

<table>
<thead>
<tr>
<th>ETB m</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>YTD21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>34,376</td>
<td>36,036</td>
<td>46,244</td>
<td>28,446</td>
</tr>
<tr>
<td>Direct costs</td>
<td>(3,031)</td>
<td>(3,419)</td>
<td>(4,844)</td>
<td>(3,554)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>31,345</td>
<td>32,617</td>
<td>41,400</td>
<td>24,891</td>
</tr>
<tr>
<td>EBITDA</td>
<td>26,401</td>
<td>23,592</td>
<td>26,030</td>
<td>14,795</td>
</tr>
<tr>
<td>GP margin</td>
<td>91.2%</td>
<td>90.5%</td>
<td>89.5%</td>
<td>87.5%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>76.8%</td>
<td>65.5%</td>
<td>56.3%</td>
<td>52.0%</td>
</tr>
</tbody>
</table>

Source: FY19, FY20 and YTD21 Management Accounts, Deloitte Analysis
YTD covers: 01 July 2020 to 31 December 2020

## Income statement overview

- Revenue, which primarily comprised mobile voice and mobile data revenue, increased by ETB 11.9bn (16.0% CAGR) between FY18 and FY20 due to the 4.5m net increase in active subscriber numbers and the increase in ARPU from ETB 841 to ETB 1,017 over the same period.
- The increase in direct costs was driven by Phase 2 of the Telecom Expansion Project (“TEP”), which commenced in FY18. TEP involved improving network service quality, increasing coverage and capacity on mobile service through purchase of high-speed fibre optic capacity and increased networks maintenance.
- Gross profit, EBITDA and net profit margins averaged 90.4%, 66.2% and 17.1% respectively, between FY18 and FY20.

## Balance Sheet

<table>
<thead>
<tr>
<th>ETB m</th>
<th>30-Jun-18</th>
<th>30-Jun-19</th>
<th>30-Jun-20</th>
<th>31-Dec-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>39,494</td>
<td>38,986</td>
<td>40,949</td>
<td>40,933</td>
</tr>
<tr>
<td>Current assets</td>
<td>45,722</td>
<td>38,804</td>
<td>37,995</td>
<td>38,889</td>
</tr>
<tr>
<td>Total assets</td>
<td>85,216</td>
<td>77,790</td>
<td>78,944</td>
<td>79,822</td>
</tr>
<tr>
<td>Equity</td>
<td>18,279</td>
<td>16,606</td>
<td>13,452</td>
<td>25,291</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>36,954</td>
<td>32,574</td>
<td>32,398</td>
<td>27,232</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>29,983</td>
<td>28,610</td>
<td>33,094</td>
<td>27,299</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>85,216</td>
<td>77,790</td>
<td>78,944</td>
<td>79,822</td>
</tr>
</tbody>
</table>

Source: FY19, FY20 and YTD21 Management Accounts, Deloitte Analysis
YTD covers: 01 July 2020 to 31 December 2020

## Balance sheet overview

- Mobile network equipment is the largest non-current asset class constituting 42% of PPE as at 31 December 2020.
- The bulk of the non-current liabilities related to promissory notes, which pertained to vendor financing agreements that Ethio Telecom has with its suppliers for the TEP and next generation projects.
- Ethio Telecom was in a positive net asset position throughout the analysis period. Ethio Telecom made dividend payouts of ETB 6b, ETB 4b and ETB 1b in FY19, FY20 and YTD21 respectively, which represented 82%, 108% and 8% of the profit after tax of those respective periods.
## Ethio Telecom | Company Overview – Infrastructure Overview

### Spectrum
- Total spectrum bandwidth of 300+ MHz across 450, 800, 850, 900, 1800, 2100 and 2600 MHz.
- The Company also has 5G spectrum in 500MHz (n78 3.5GHZ) and 3300-3800 MHz.

### Tower sites
- 7400+ tower sites (700+ sites in Addis Ababa); of which c. 96% are greenfield towers and remaining are rooftop towers.
- Length: Ranges from 2 metres – 102 metres with an average height of 36 metres.
- Tower split by power source: Mains + DG: c. 45%, Mains only: c. 29%, Solar only: c. 21% and remaining are combination of mains, DG and solar.

### Other infrastructure sites
- 3400+ fixed sites, 1250+ IP sites, 1100+ backbone sites and 500+ other sites (PTP, IBS etc.)

### Fibre network
- c. 21,000+ km of fibre network spread across Ethiopia; of which Terrestrial c. 57%, OPGW c. 36%, Backhaul c. 5% and ADSS c. 2%.
- Laying type: Buried c. 85% and Aerial c. 15%.

### Data centre
- 1.28MW data center with c. 99.982 % uptime, <1.6 hours of down time per year, >72-hour power outage protection and N+1 fault tolerant providing.
- Data center has a total capacity of 160 racks with two backup generators.

### Satellite and VSAT
- 3 satellite hubs in an area with no terrestrial link access and also for customers in need for back up services such as banks, military facility, government offices etc.

### Mobile Money License
- License to provide Mobile Money services which inter-alia includes domestic P2P transfers, cash outs, payments for goods and services, etc. The Company has launched the Telebirr Mobile Money services in May 2021 and subscriber numbers reached 3.5m in one month to June 2021.

### Real-estate
- 7,777 real estate properties (including BTS and non BTS sites)

**Source:** Management information  
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Low tele-density of c. 53.5%\(^1\) as against 90%+ in major African countries offers huge potential for growth on account of customer addition. Actual tele-density could be much lower post accounting for multiple sim phenomenon.

Mobile broadband penetration i.e., 3G and 4G subscribers as a % of total mobile subscribers currently stands at c. 46%\(^1\) with 4G penetration only at c. 2.6%\(^1\)

Relatively low 4G adoption, presents significant opportunity to provide high speed data services.

Enterprises form a very small portion of Ethio Telecom’s customer base. Enterprise subscriber base of c. 1.6m\(^1\).

In terms of offerings, Ethio Telecom provides traditional services such as fixed voice, broadband, MPLS-VPN etc.; Going forward, Ethio Telecom can expand its services to include IoT/M2M and cloud-based offerings.

Significant value unlocking potential through sharing of unutilised tower tenancies and fiber capacity with other telecom players.

With the introduction of new players post completion of liberalisation process, license awardees would depend on sharing Ethio Telecom’s infrastructure given existing restrictions on independent tower companies to set up presence in Ethiopia.

Ethio Telecom possesses mobile money license and can provide digital financial services such as domestic P2P services, cash outs, payments for goods and services.

Given vast unbanked population, mobile money can become a key enabler to enhance financial inclusion and create significant opportunity for Ethio Telecom by creating an additional revenue stream.

Home broadband penetration in Ethiopia is extremely low. Management discounted prices by up to 79% in 2020, which increased the number of users from 137k in March 2020 to 349k in April 2020.

Currently, out of total population of c. 103m, home broadband subscribers stand at c. 349k\(^1\). With rise in data consumption taking place indoors, home broadband segment presents as one of key growth areas for Ethio Telecom.

\(^1\) Figures as at April 2021; Source: Management information
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