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EARNINGS RELEASE | 2017 FINANCIAL RESULTS

Arabia Investments (AIND) records EBITDA growth of 77% in all non-auto business to reach EGP 127.4 million; and cleans up balance sheet on 2016 losses allowing for full upside in future years

Arabia Investments & Development Holding (AIND) issues its audited financial statements, showing significant growth in two business lines, and positive results in its auto business. The company has also invested to date an additional EGP 77 million in subsidiary companies to capitalize the underlying businesses.

A Summary of Business Line Results*

(EGP million)	2016 Consolidated	2017 Consolidated	*Growth %*
Revenues:			
Construction and Building Materials	491.6	619.7	*26%*
Non-Banking Financials	300.5	363.9	*21%*
Automotive	686.4	407.9	*(41%)*
Holding Company & Investments Held for Sale	1.4	8.9	-
Total Revenues	**1,479.9**	**1,400.3**	***(5%)***
EBITDA:			
Construction and Building Materials	20.3	45.0	*122%*
Non-Banking Financials	62.2	95.7	*54%*
Automotive	111.1	19.3	*(83%)*
Holding Company & Investments Held for Sale	(10.4)	(13.3)	*28%*
Total EBITDA	**183.2**	**146.7**	***(20%)***
Total EBITDA Excluding Auto	**72.1**	**127.4**	***77%***

* Some items have been re-categorized for analytical purposes

1. **The Construction and Building Materials Segment** recorded revenues of EGP 619.7 million, with growth of 26% year-on-year, and EBITDA of EGP 45.0 million, up by 122% year-on-year. The segment enjoys strong momentum, driven by:
   a. **Kahromika**, a 47-year old icon in the electromechanical segment, has a backlog of EGP 400 million targeting to reach EGP 1.0 billion by end-2018. In addition to its backlog, it has landed tenders worth EGP 240 million, currently under negotiation. The company underwent management change in December of 2017 leading to major operational restructuring efforts, the fruits of which should be larger top-line growth within the context of a significantly higher profit orientation that begin to converge with industry norms.
   b. **Toblat**, a leader in cement blocks, interlock and tiles, plans a 50% capacity expansion. Toblat has acquired a new land plot in the North Coast to house a new factory, coupled with an additional line in its current location. In doing so, the company tapped on attractively priced financing through the CBE initiatives that have been made available to small businesses.

2. **The Non-Banking Financials Segment** recorded revenues of EGP 363.9 million, up 21% year-on-year and EBITDA of EGP 95.7 million, up from EGP 62.2 million in 2016, marking growth of 54%. Results are strong in light of the fact that 2017 was a difficult year for the sector to navigate due to a high-interest rate environment, leading to inflated risk, particularly in non-Cairo based SME business and consumer finance at large. 2018 presents us with notable opportunities across both our non-banking financial subsidiaries:

    a. **Rawaj Finance**, our consumer finance operation, is currently focused on the financing of automobiles. It is witnessing leaping demand in the area of used vehicles, a faster growing and more lucrative segment of the auto finance business where it intends to grow its auto exposure. In addition, Rawaj is planning two rounds of full-portfolio securitization, which should bring a jump in gains in 2018.

    b. **Upper Egypt Lease**, the first and leading SME financing company in Egypt, has applied for a factoring license, a business deemed highly complementary to its current portfolio. UE Lease was focusing its efforts in 2017 on cautious growth in the comfort zone of Cairo and Giza, which enjoys higher accessibility and controls in light of the higher risks associated with SME business at large, and particularly in less developed governorates. 2018 should see more growth as interest rates taper off and the company moves its focus back to a more geographically diversified portfolio, which should also see profitability boosted.

3. **The Auto Segment** recorded EBITDA of 19.3 million in 2017, down from EGP 111.1 million in 2016. It is noteworthy that our auto subsidiary, CDCM, suffered huge FX losses in 2016, leading to negative bottom line, versus subdued EBITDA this year and a positive bottom line of EGP 11.0 million. Management is expecting a flat outlook post-2018 as management weighs its strategic options in light of the opportunity cost of capital, the competitive landscape of the automotive market right now, and market expectations for muted sales in the sector at large. Any new developments in this segment would serve as an upside to shareholders.

Making Good with the Auditor

New management came in to find a heavily qualified set of financial statements. We have made it our primary concern to address the most impactful of these qualifications by recognizing an unrealized FX loss of 387 million in our auto business. In our year-end statements, we have restated 2016 to reflect these losses as per auditor recommendations.

Radical Clean-Up on Holding Level

Our auto business made operational gains this year and is expected to continue making gains in 2018, combined with interest income due to a net cash position. Having said that, the auto business without a strong brand remains small in scale as compared to the historical investment cost. As such we have fully impaired the goodwill of this business, a non-cash treatment which allows us to reap upside in the future should there be positive surprises associated with a new brand alliance. We have also taken legal and tax provisions across holding and subsidiary levels to address potential risks and liabilities.

AIND Records EGP 15 million in Net Profits after Minorities on an Adjusted Basis

Financial Results, Actual & Adjusted for Extraordinary/ Non-Recurring	2016 Consolidated	2017 Consolidated	*2017 Normalized*
Net Profit Non-Banking Financials and Construction & Building Materials	22.2	28.8	*36.6*
Net Profit/ (Loss) Auto Business	(383.7)	11.0	*3.9**
Non-Cash Impairments in AIND on Auto Business	-	(195.4)	-
Non-Recurring FX Gain/(Loss) on AIND Investment in Auto Business	104.1	(4.4)	-
Net Profit/(Loss) for AIND Stand-alone and Investments Held for Sale	(8.9)	(20.5)	*(13.6)*
Consolidated Net Profit/(Loss)	**(266.4)**	**(180.4)**	***26.9***
Consolidated Net Profit/(Loss) After Minorities	**(273.6)**	**(189.0)**	***14.9***

* Excludes non-recurring revenues and net interest income

New Management, New Rules

Since a change in management took place in AIND in July of 2017, substantial work has been done on many fronts:

1. **Institutionalization** of the company via a new Board encompassing an impressive diversity of experience and a wealth of operational background, both locally and internationally; implementation of corporate governance, business policy, procedure guidelines and compliance; and aligning of management and shareholder interests via pre-defined KPIs
2. **Restructuring** of subsidiary operations, entailing the change of Board structures, executive management, organization structure and cost reduction
3. **Redirecting of capital** to high-growth, high-return businesses and working on the divestiture of non-performing or dormant assets, with the investment of EGP 14 million in the Non-Banking Financial segment in H2 2017 and an additional EGP 51 million in the Construction & Building Materials segment in Q1 of 2018
4. **Working to increase stakes** in more attractive business segments and seeking new opportunities that would complement the company's portfolio in these
5. **Driving cross-selling and cost synergies** between subsidiaries

AIND Targets for 2018

AIND targets EGP 1.5 billion in top line for 2018, with EBITDA of over EGP 200 million and consolidated profits of EGP 80 million.

Why Great Operational Gains Have Yet to Trickle Down to the Bottom Line

1. Clean-up and restructuring costs on subsidiary level resulting in **one-off** expenses and provisions
2. High interest expense due to **high interest rate** environment, most impactful on the non-banking financials segment, but reversing during the course of 2018
3. Huge **one-off impairment** of a loss that effectively happened in November of 2016 during devaluation and that has already been factored into share price and is only being rectified now.
4. Holdings in small **non-performing assets currently held for sale**, whose impact would be negligible going forward and which have already been impaired during our restructuring process

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