

A wide-angle photograph of a modern corporate building with a glass facade, reflecting the sky and surrounding greenery. In the foreground, a large, calm body of water reflects the building and the sky. A fountain with several jets of water is visible on the left side of the water. The sky is a clear, bright blue.

MANAGEMENT DISCUSSION & ANALYSIS

Tecom Group PJSC | 2023 Financial Results



In our first full year as a publicly listed company, TECOM Group delivered on its promises and exceeded expectations. We continued to build our world-class communities by attracting partners, capital and talent to Dubai, while setting new operational and financial benchmarks to create value for our stakeholders and position the Group for further growth in the years ahead.

Our results for year 2023 demonstrate excellent growth across our business segments, while underlining the resilience of our business model in a challenging market with increasingly sophisticated customer needs. We are steadfast in our commitment to engage deeply with our current and prospective customers.

TECOM GROUP

UAE MACROECONOMIC OVERVIEW

The UAE is experiencing an economic surge, with higher oil prices, strong capital and investment inflows, and growth outlook. Gross domestic product (GDP) is forecast to increase by 2.3% in 2023, building on an exceptional 2022 in which the economy grew by 7.0% due to spiking oil production and the effect of COVID-19 stimulus measures.

With the UAE's population forecasted to reach 10 million within the next two years, the nation's population and employment grew by 0.8% and 2.5%, respectively, in 2023. This surge in population and employment is expected to lead to a rise in need for infrastructure and thereby the broader real estate sector.

DUBAI MACROECONOMIC OVERVIEW

Dubai's strong performance in 2023 was a major contributor to the UAE's positive macroeconomic outlook for the year. Dubai's GDP is forecasted to expand by about 4.6% in 2023, with rising annual inflation of approximately 4.9%, while employment is estimated to grow by 2.5% during the same period. High oil prices are expected to sustain positive investor sentiment in the region, while international tourism continues to be a major driver for Dubai's economic growth.

Gross Domestic Product
AED 458B

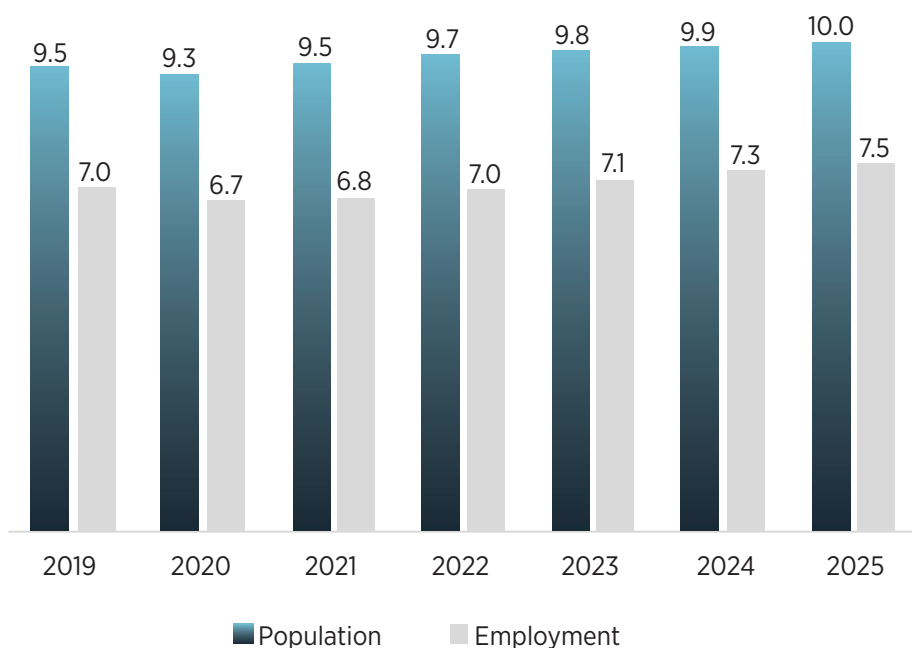
Customer Price Index
4.9%

Employment
3.0M EMPLOYEES

Population
3.6M RESIDENTS

Source: Oxford Economics (OE), Dubai Statistics Centre

UAE Population and Employment (in millions)



Source: Oxford Economics (OE)



COMMERCIAL MARKET OVERVIEW

The outlook for the commercial market in Dubai remains bright due to high demand and limited availability of quality office space. The market trend of occupiers gravitating towards new Grade A developments has continued to intensify this year. Domestic and international occupiers are actively seeking efficiently managed, ESG accredited, and well-maintained offices. The lack of Grade A developments has led to tenants encountering increasingly stringent lease terms, leaving limited room for negotiations. Secondary office stock, however, is still facing challenges, with lease rates in older buildings still trailing pre-COVID levels.

What it means for TECOM Group

For TECOM Group, our average rents across business districts continue to increase as demand for quality office space rises amid the limited availability of stock. Rising construction costs and supply chain issues are impacting project delivery timelines, which means office stock will likely remain in relatively limited supply, further driving up existing occupancy levels across our business districts.

We plan to capitalise on the high demand for Grade A space and ESG compliance through new developments and by enhancing our existing assets. Furthermore, rising interest rates have impacted business cash flows as we see increasing requests for consolidation of space, and we are making larger office spaces available to existing and prospective tenants.

As commercial real estate leaders, we innovate sustainable spaces, prioritize customer satisfaction, and consistently enhance our properties. This dual focus ensures not only customer retention but also a continuous increase in our occupancy rates



INDUSRIAL MARKET OVERVIEW

The industrial market in Dubai is a thriving sector that plays a key role in the emirate's economy, accounting for around 60% of GDP. Demand for industrial and logistics space during the first half of 2023 was the strongest on record across Dubai. The sector has witnessed continued growth since 2020. Initially, the demand was driven by companies moving their operations from another emirate to Dubai, followed by the near-shoring trend adopted by many companies. The outlook for the industrial sector lease rates is expected to stay positive with an increasing focus on grade A segment, custom made fulfilment centres and Built-to-Suit projects.

What it means for TECOM Group

TECOM's Dubai Industrial City (DI) stands in an optimal position to capitalise on the expanding industrial market and the heightened demand for warehouses. DI has strategic plans to further exploit its exclusive location advantages in the industrial zone. DI is committed to maintaining high occupancy levels in its current warehouses and bolstering revenue by aligning pricing with market trends.

WORKER ACCOMMODATION OVERVIEW

There is a range of different forms of worker accommodation available in Dubai. However, the conventional segment consists of accommodation for workers within the construction and industrial sectors. The primary target for this segment includes workers who have a low-income profile. The demand mainly stems from increased employment in the industrial sector, transport, logistics, and storage facilities.

What it means for TECOM Group

We have worker accommodation assets in DI and will look to further capitalise on the growth within this segment. Our diverse base of customers across industry segments, such as construction, manufacturing and logistics, provide our worker accommodations with multiple growth streams. In addition, we expect significant demand for our assets in DI following the development of Etihad Rail in the vicinity.



LAND LEASE OVERVIEW

Growing economic activity and favourable government initiatives specifically in the industrial, logistics, warehousing and sustainability sectors have resulted in an increased demand within the land lease segment. The lack of available high-quality stock in these segments remains the most prevalent challenge for occupiers. This has resulted in occupiers securing long-term land lease contracts and building their own facilities as per their customised requirement. The surge in demand has resulted in a shortage of available land in attractive, prime locations.

What it means for TECOM Group

DI has a significant competitive advantage with its large land bank and breadth of plot sizes. DI will continue to capitalise on this, particularly as industrial land supply becomes more limited across the city. Furthermore, supportive government initiatives for industrial segments, such as Operation 300 Billion, and DI's strategic partnerships with government entities and other stakeholders continue to facilitate increased demand for DI land leases.



FINANCIAL OVERVIEW

Continuing on our robust growth trajectory, we delivered strong year-on-year growth, both in revenue and net profit for the year. Underlying operating performance continues to be strong with 2023 revenue up 10% from last year, supported by positive momentum across core businesses. We closed the year with a record net profit of AED 1,078m, demonstrating 49% growth over last year.

Our robust balance sheet fundamentals and healthy cash flow are enabling us to deliver on our strategic priorities to drive growth, and to deliver superior shareholder returns in 2023 and beyond.

Overall, this strong performance reflects the successful execution of our financial strategy, demonstrating resilience and adaptability in a dynamic economic landscape. As we move forward, we remain dedicated to sustaining this positive momentum and delivering sustained value to our stakeholders.



“ The Group has achieved remarkable success in 2023, reporting a substantial year on year revenue growth of 10% and crossing AED 2 billion milestone for the first time ”

Income Statement	2023	2022	Variance	Variance %
Revenue AED Million	2,169	1,973	196	10%
EBITDA AED Million	1,654	1,347	307	23%
EBITDA Margin	76%	68%	8%	
Net Profit AED Million	1,078	726	353	49%
NET Profit Margin	50%	37%	13%	

REVENUE

2023 witnessed exemplary growth in our top line revenue with the Group surpassing the AED 2 billion milestone for the first time since incorporation. The substantial 10% growth in revenue validated the strength of our strategy, building the Company's confidence and driving momentum. TECOM emerged stronger and leaner, and better equipped to advance its growth agenda in 2023 and beyond.

During the year, our strategic initiatives led to continued growth

in all business segments. Product expansion efforts, particularly via D/Quarters and in5 resulted in notable contributions to the topline. Additionally, our focus on customer satisfaction has resulted in numerous business partners expanding their leased space showing their trust in our ecosystem.

The success of partnerships and targeted marketing efforts has significantly enhanced our market visibility, directly impacting the increase in revenue attributed to these efforts.

Commercial Leasing AED Million

2023	1,124
2022	1,047
2021	900

Industrial Leasing AED Million

2023	304
2022	274
2021	244

Land Lease AED Million

2023	502
2022	436
2021	439

Services & Others AED Million

2023	240
2022	216
2021	182

Revenue
AED 2,169M

EBITDA
1,654M

Net Profit
1,078M

Land Occupancy
94%

BTL Occupancy
89%

WALT (Including Land)
9.9 Years

COMMERCIAL LEASING

Commercial Leasing boasted stellar financial performance in 2023, accounting for 52% of the Group's revenue. This was on the back of bolstered demand for high-quality offices and co-working spaces coupled with a short supply in the market. TECOM's 10 commercial business districts continued to be the preferred choice for Fortune 500 and other multinational companies aiming to tap into opportunities in the UAE and wider region. Specifically Grade A offices in our business districts experienced average occupancy levels above 90% during the year.

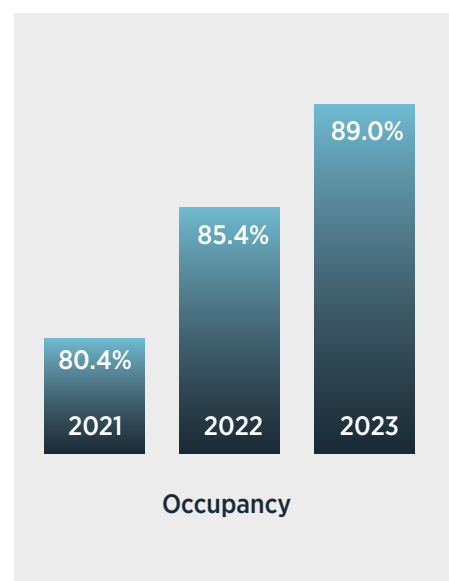
Compared to previous year, the Commercial Leasing segment exhibited a revenue surge of AED 76 million, translating to a remarkable 7% increase from AED 1,047 million in 2022 to AED 1,124 million in 2023. Growth was driven by increased occupancy levels across the portfolio, as well as improvements in rental rates across the central business districts.

Notable contributions were made by all business sectors. The Design sector specifically experienced

phenomenal revenue growth, attributed to the consistently high occupancy, and rent rate escalations driven by new leases and strategically negotiated lease renewals. Other business sectors including Education, Technology, Media and Science also made significant contributions to revenue growth, banking on stable occupancies, new leases and strong customer retention and satisfaction.

In 2023 we welcomed more than 1,000 new customers to our commercial facilities.

Overall Occupancy levels increased in 2023 across the TECOM commercial properties to 89%, an improvement of 4% compared to the previous year. Retention stood at 93%, with the typical lease tenure lasting between one and five years.



Gross Leasable Area (sqft)

9.5M

WALT

2.8 Years

Commercial Buildings

147

Annual Passing Rent (AED)

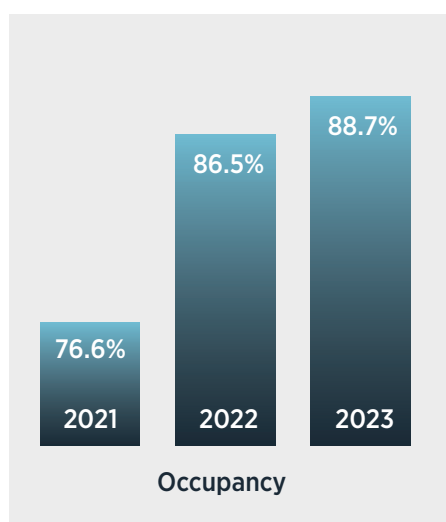
1,119M

INDUSTRIAL LEASING

In 2023, the Industrial Leasing segment accounted for 14% of TECOM Group's revenue. The segment demonstrated robust growth, with revenues of AED 304 million, marking an increase of AED 31 million or 11% from the previous year. The leasing performance in both warehouse and worker accommodation products has exhibited commendable growth, with persistent increase in occupancy alongside lease rate escalations.

Our wide-ranging leasing options across Dubai Industrial City, Dubai Science Park, and Dubai Production City continued to be the prime choice for leading multinationals seeking to expand their operations in the region and beyond.

Overall occupancy increased from 86% at the end of 2022 to 89% at the end of 2023. Warehousing achieved an occupancy rate of 94%. Further, overall customer retention rate for Industrial Leasing was 88%.



Gross Leasable area (sq.ft.)

11.5M

Warehouses

1,128

Worker Accommodation Buildings

81

Annual Passing rent (AED)

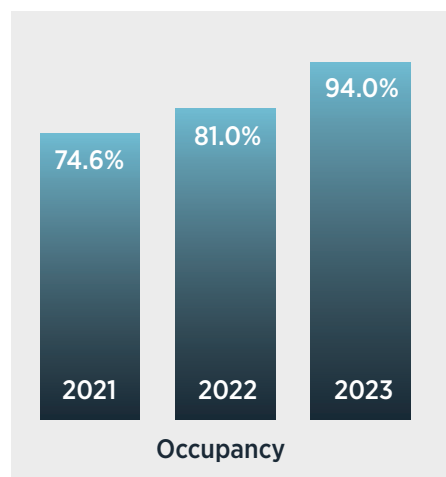
319M

LAND LEASING

TECOM's Land Leasing segment contributed 23% of the Group's revenue this year, earning AED 502 million. This was a 15% improvement on the segment's 2022 revenues of AED 436 million.

Economic trends in the region have positively influenced the demand for industrial land, aligning with our portfolio. Overall we served more than 600 active land lease customers across nine business districts. Total land leased area amounted to 155 million square feet at the end of 2023. This was a 21 million square feet increase compared to 2022, more than the previous year's expansion of 10 million square feet. Occupancy stood at 94% at the end of 2023, compared to 81% the previous year.

Growth was largely due to a shortage of industrial land in the market and efficient utilisation of the opportunity by TECOM, with companies centralising their locations and securing larger plots.



Gross Leasable area (sq.ft.)
164M

Number of Plots
789

Annual Passing Rent (AED)
481M

Occupancy Rate
94%



SERVICES AND OTHERS

This year, Business Services continued to grow by offering exemplary services to TECOM Group's customers. In 2023, Business Services contributed 11% of TECOM's total revenue. Of the Division's revenue, 58% was attributable to axo, our business and government smart services platform.

This was followed by D/Quarters, property management and leasing, and freelancer services.

Overall Revenue from our Services and Others segment experienced a solid growth of 11% to reach AED 240 million. This growth was attributed to rising demand for co-working spaces alongside stable performance of our well-known visa services.

COST

Income Statement	2023 AED Million	2022 AED Million	Variance AED Million	Variance %
Direct Costs	(389)	(410)	21	5%
Operating Expenses	(174)	(259)	85	33%
Total	(563)	(669)	106	16%

DIRECT COSTS

Our Direct costs, encompassing facilities management, utilities, and visa services cost dropped by AED 21 million during 2023. That was primarily driven by lower costs of sales for visa services, as new products were introduced with different cost structures.

In line with our ESG framework we continued our commitment to green energy initiatives with investments in solar generation projects keeping our utility cost on a flatter trajectory, despite the addition of new leasing spaces.



OPERATING EXPENSES

Operating expenses (OPEX) of the Group comprise of general and admin expenses, marketing and consulting costs, payroll expense, provisions for doubtful debts, cost recoveries and other operating expenses.

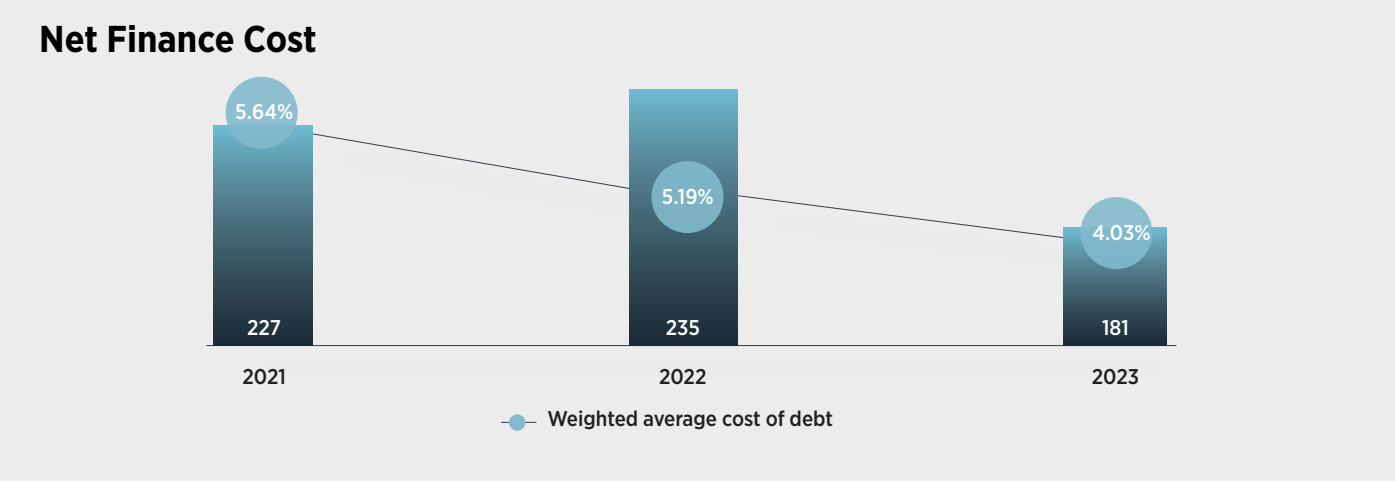
This year we witnessed a decrease of AED 85 million in our OPEX that is attributed to prudent cost control and reversal of bad debt provisions driven by efficient receivables and collections management.

FINANCE COST (NET)

The Group’s weighted average cost of debt exhibited a declining trend over the years reaching 4.03% in 2023, reflecting efficient capital and debt management. Derivative financial instruments, such as interest rate swaps, provided security, with a current fair value of AED 219 million fully recognised in equity.

Net finance cost dropped by AED 54 million from AED 235 million in the previous year to AED 181 million in 2023. Factors influencing this drop

included lower margin on refinanced facility and derivative instruments, along with interest income earned on efficiently managed surplus funds.

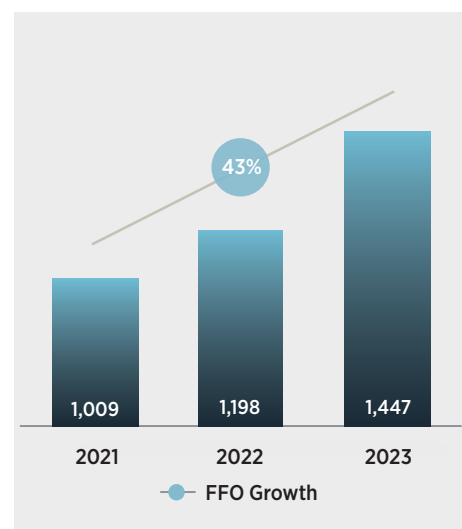


RECURRING FREE CASHFLOW (RFCF)

The Group's recurring free cash flow of AED 1,189 million has consistently demonstrated resilience and effectiveness with a 23% growth and 72% conversion from EBITDA, showcasing its prowess in generating positive cash flow from core operations. This not only underscores financial stability but also hints at potential avenues for strategic investments or returning value to shareholders in the form of dividends.

FUNDS FROM OPERATIONS (FFO)

FFO remains a key metric for evaluating the financial strength and income-generating capacity of the Group's real estate assets. FFO performance has been vigorous, with a noteworthy 21% growth to AED 1,447 million, underscoring the Group's strong cash generation from core operations. 87% EBITDA conversion to FFO reflects a strong cash conversion from core activities of the Group.



BALANCE SHEET

Income Statement	2023 AED Million	2022 AED Million	2021 AED Million
Investment Properties	11,865	11,874	13,368
Cash & Bank	1,535	1,261	1,246
Total Assets	14,814	14,555	16,364
Debt	4,352	4,342	3,965
Equity (IFRS - Net Assets)	6,329	5,968	5,613
Net Debt	2,817	3,081	2,719

Solid equity growth of 6% for the year to reach AED 6,329 million despite dividend distributions indicates a strong financial foundation, providing a cushion for operational fluctuations and potential expansions. No change in outstanding debt from 2022 apart from amortisation of arrangement fee, as we recycled equity for any capital expenditures and maintained a healthy balance between debt and equity. We also remained significantly better off the debt covenants over the year.

Growth in assets of 2% underscores effective capital allocation and strategic investments, contributing to

the Group's overall value. Adequate cash and bank balance of AED 1,535 million alongside AED 3,200 million un-utilised debt facility showcase liquidity readiness, offers flexibility for operational needs and strategic opportunities. Healthy working capital position reflects efficient day-to-day operational management, ensuring the Group can meet its short-term obligations.

In summary, the balance sheet paints a picture of a financially sound company, strategically managing its resources to foster stability, growth, and sustained shareholder value.

“TECOM Group maintained strategic focus to achieve growth during another year of robust valuation uplift, reflecting our unwavering focus on maximizing shareholder value”

Valuation

22,935M

7.7% Growth YoY

Return on Equity

18%

Return on Assets

7%

CASH FLOW

Income Statement	2023 AED Million	2022 AED Million	2021 AED Million
Operating Cashflow	1,631	1,504	1,254
Investing Cashflow	(477)	(1,043)	494
Financing Cashflow	(761)	(953)	(1,550)
Net Cashflow	393	(492)	198
Cash & Cash Equivalents	670	277	768

Our operating cashflows currently stand at AED 1,631 million, representing an increase of 8% over 2022. This growth reflects strong working capital management in general, along with efficient receivables management in particular.

Our capital expenditure during 2023 was AED 433 million, which is 29% lower compared to 2022, as we are in design stage of the upcoming growth projects however we continued to invest in enhancement of our existing assets.

On the financing activities front, in the absence of major capital expenditure, we just paid off dividends and the interest on loan balance which was drawn last year.

RFCF Dividend
Coverage

149%

EPRA NTA
Per Share

3.43AED

Loan
To Value

12%

Available
Funds

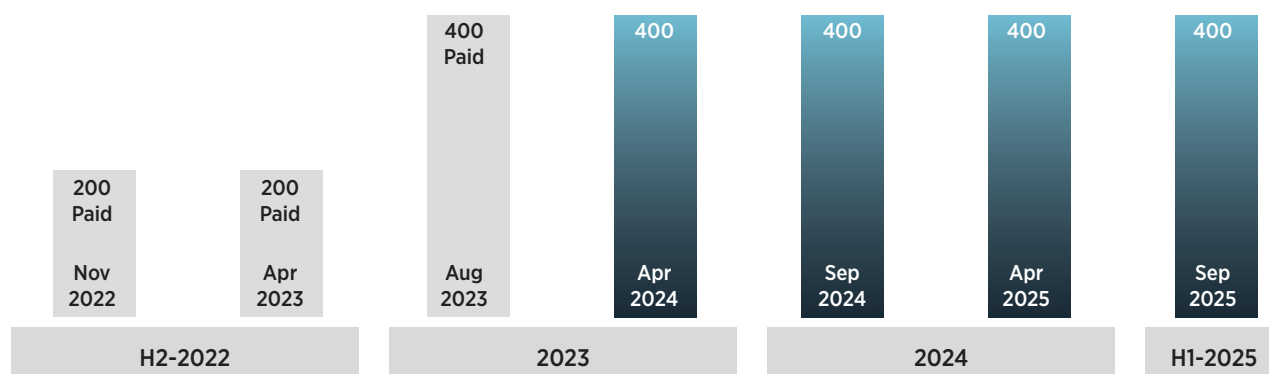
4,735

DIVIDENDs

In June 2022, we announced our dividend policy as part of our IPO prospectus, with a commitment of semi-annual dividend pay-outs adding to AED 800 million per annum.

We have delivered on this commitment since the Group's listing and remain committed to honoring our future dividend pay-outs of AED 800 million annually, as per our dividend policy based on our strategy and business model.

With our healthy profitability and cashflows, we have a strong dividend coverage ratio of 149%, based on 2023 recurring free cashflow and planned annual dividend.



CAPITAL MANAGEMENT AND FUNDING

In the realm of capital management, our Group has demonstrated a commitment to excellence, implementing strategies that have not only optimised our financial structure by maintaining robust leverage levels and healthy interest cover but also led to a substantial reduction in finance costs. Through meticulous evaluation and strategic decision-making, we successfully refinanced our debt at more favourable terms. This proactive measure resulted in a remarkable 1.08% reduction in interest rate margin on refinanced facility and 23% reduction in overall finance costs compared to the previous fiscal year, underscoring our dedication

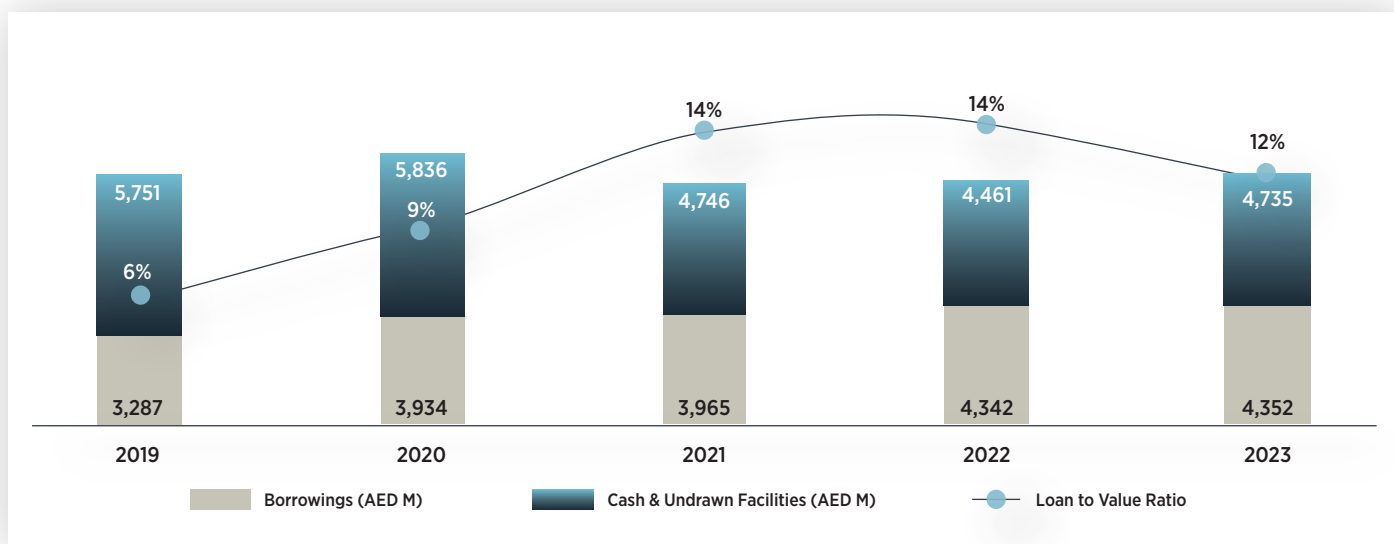
to enhancing shareholder value by minimising the impact of financing expenses on our bottom line.

A key element of our capital management success lies in our disciplined approach to working capital. By fine-tuning our receivables management processes, we have enhanced operational efficiency, reducing the need for external financing, and mitigating associated costs.

Our emphasis on risk management within our capital structure has played a pivotal role in reducing overall financial vulnerabilities and value creation for our stakeholders as we have continued with our hedging arrangements, mitigating exposure to interest rate fluctuations and credit risks.

The Group's financial headroom stands as a testament of prudent fiscal management, which not only serves as a safety net against unexpected challenges but also positions us to capitalise on growth initiatives and strategic investments that can drive sustainable long-term value.

Looking ahead, our capital management strategy remains forward-thinking and adaptable to explore innovative financing solutions that align with our long-term objectives.



Net Finance Cost
23% Lower



Debt Margin
1.08% Lower



Weighted Avg Cost of Debt
1.16% Lower

OUTLOOK

Our record performance in 2023 bears out Dubai's continuing demand for quality office space and warehousing facilities and other products that we offer. Over the past 12 months, the Real Estate Market in UAE have shown a bullish trend and has demonstrated great growth potential. We believe that we are well-positioned and have the right infrastructure, resources and technical know-how to continue capturing these growth opportunities. Looking ahead, we are confident in the economic prospects of our home market in the UAE and expect the market to remain strong and resilient as a result of ongoing reforms being undertaken by the UAE Government

despite the challenging Macro economic environment. We see opportunity in contributing to this growth by continuing to support our customers across key lanes and delivering on meeting our customers' demands and needs.

As part of our growth strategy, we will be looking to expand our commercial offerings by a combination of strategic acquisitions and developing new buildings and will also look for the opportunities to buy additional land to cater land lease demand especially in Industrial sector.

As we move forward, we remain dedicated to sustaining this positive momentum and delivering remarkable growth underpinned by strong business sentiment, a flourishing

commercial real estate market, and an overall buoyant Dubai economy. We must remain focused on executing our strategy, building a resilient business, and conforming to the highest standards of corporate governance and international best practices.



Malek Al Malek
Chairman,
TECOM Group

“To ensure sustained portfolio growth, we strategically invest in premium Grade A assets through development and acquisitions, staying one step ahead in the dynamic real estate landscape”



“ Our business districts are not just physical spaces but ecosystems brimming with potential. They are designed to encourage interaction, knowledge sharing, and collaborative growth ”



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