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## AUDITOR'S REPORT

TO THE SHAREHOLDERS' OF TELECOM EGYPT COMPANY

We have audited the accompanying consolidated financial statements of Telecom Egypt Company (An Egyptian Joint Stock Company) and its subsidiaries, represented in the consolidated balance sheet as of December 31, 2007 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Egyptian Standards on Auditing and in the light of provisions of applicable Egyptian laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We have obtained the information and explanations, which we deemed necessary for our audit. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above together with the notes attached thereto present fairly, in all material respects, the consolidated financial position of the company as of December 31, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with Egyptian Accounting Standards, and comply with applicable Egyptian laws and regulations.

A. Fermawy

KPMG Hazem Hassan
Public Accountants & Consultants

Cairo, March 12, 2008

# Maximizing Shareholders' Value

## Consolidated Balance Sheet

As of December 31, 2007

| | Note No. | 31Dec. 2007 LE(000) | 31Dec. 2006 LE(000) |
|---|---|---|---|
| **Long-Term Assets** | | | |
| Fixed assets (net) | (4) | 19 372 408 | 21 073 795 |
| Projects in progress | (5) | 843 565 | 1 010 913 |
| Investments in affiliates | (3-6),(6-1) | 6 921 428 | 6 522 971 |
| Available for sale investments | (3-7),(6-2) | 105 970 | 91 338 |
| Other debit balances - long term | (7) | 426 303 | 1 047 940 |
| Other assets (net) | (3-9) , (8) | 223 722 | 219 190 |
| **Total Long Term Assets** | | **27 893 396** | **29 966 147** |
| **Current Assets** | | | |
| Inventory | (9) | 508 416 | 597 928 |
| Trade and notes receivable | (10) | 3 100 723 | 2 997 809 |
| Other receivables | (11) | 1 691 762 | 1 655 295 |
| Investments held for trading | (12) | 94 592 | 123 090 |
| Cash on hand and at banks | (13) | 1 302 241 | 588 845 |
| **Total Current Assets** | | **6 697 734** | **5 962 967** |
| **Current Liabilities** | | | |
| Loan installments and facilities due within one year | (14) | 1 027 034 | 890 651 |
| Bond loan installments due within one year | (21) | 800 000 | 400 000 |
| Banks-credit accounts | | 6 683 | 15 396 |
| Banks overdraft | | 769 | 77 762 |
| Suppliers & notes payable | (15) | 130 348 | 181 718 |
| Dividends payable | | 829 | 9 752 |
| Creditors and other credit accounts | (16-1) | 3 195 913 | 2 995 391 |
| Provisions | (17) | 324 382 | 481 229 |
| **Total Current Liabilities** | | **5 485 958** | **5 051 899** |
| **Working Capital** | | **1 211 776** | **911 068** |
| **Total Investments** | | **29 105 172** | **30 877 215** |

Financed as follows:-

| | Note No. | 31Dec. 2007 LE(000) | 31Dec. 2006 LE(000) |
|---|---|---|---|
| **Equity and long-term liabilities** | | | |
| **Equity** | | | |
| Paid up capital | (19) | 17 070 716 | 17 070 716 |
| Reserves | (20) | 5 019 013 | 4 264 512 |
| Retained earnings | | 1 120 490 | 801 222 |
| Translation difference adjustments | | (591) | (185) |
| Net profit for the year | | 2 534 286 | 2 426 877 |
| **Total equity attributable to equity holders of the parent** | | **25 743 914** | **24 563 142** |
| **Minority interest** | | **39 846** | **34 839** |
| **Total Equity** | | **25 783 760** | **24 597 981** |
| **Long-Term Liabilities** | | | |
| Loans and credit facilities | (14) | 2 350 988 | 4 505 439 |
| Bonds loan | (21) | 800 000 | 1 600 000 |
| Creditors and other credit accounts | (16-2) | 62 045 | 57 616 |
| Deferred tax liabilities | (3-23),(22) | 108 379 | 116 179 |
| **Total Long-Term Liabilities** | | **3 321 412** | **6 279 234** |
| **Total Equity and Long-Term Liabilities** | | **29 105 172** | **30 877 215** |

The accompanying notes from No.(1)to No.(40) form an integral part of these financial statements.

| **Chairman & Chief Executive Officer** | **Vice President & Chief Financial Officer** | **Financial Controller** |
|---|---|---|
| Akil Beshir | Tarek Tantawy | Khaled Heshmat |

Date : March 6, 2008

# Maximizing Shareholders' Value

## Consolidated Income Statement EAS

For the Financial Year Ended December 31, 2007

| | Note No. | 2007 LE(000) | 2006 LE(000) |
|---|---|---|---|
| **Operating Revenues** | | | |
| Sales of services | (23) | 9 931 888 | 9 428 527 |
| Sales of telephone sets & directories | | 61 259 | 88 278 |
| | | 9 993 147 | 9 516 805 |
| **Operating Expenses** | | | |
| Interconnection fees | (24) | 1 368 457 | 1 373 728 |
| Fuel | | 81 889 | 69 881 |
| Spare parts | | 127 258 | 89 913 |
| Maintenance | | 217 577 | 173 233 |
| Satellite subscriptions | | 19 764 | 24 308 |
| Depreciation | (4) | 2 702 795 | 2 685 502 |
| Amortization | (8) | 33 897 | 40 529 |
| Cost of telepone sets & directories sold | | 58 653 | 80 018 |
| Other operating costs | (25) | 1 432 150 | 1 284 891 |
| | | 6 042 440 | 5 822 003 |
| Gross Operating Profit | | 3 950 707 | 3 694 802 |
| **Administrative expenses** | | | |
| General & administrative expenses | (26) | 1 137 015 | 1 049 652 |
| Selling & distribution expenses | (27) | 347 594 | 272 649 |
| Provisions | (17) | 469 | 617 |
| Impairment loss on assets | (18) | 312 628 | 165 116 |
| | | 1 797 706 | 1 488 034 |
| Net Operating Profit | | 2 153 001 | 2 206 768 |

| Other Income/ (Expenses) | Note No. | 2007 LE(000) | 2006 LE(000) |
|---|---|---|---|
| Interest income | | 81 302 | 48 633 |
| Income from investments | (28) | 1 070 672 | 610 597 |
| Interest expenses | | (599 774) | (393 082) |
| Other revenues | (29) | 290 232 | 323 032 |
| Reversale of impaiment loss/(impairment) on investments in affiliates | (30) | 31 910 | (3 717) |
| Gain on sale trading investments | | 7 853 | 4 494 |
| (Loss)/ Gain in the market value of investments held for trading | | (350) | 8 146 |
| Capital loss | | (2 354) | (9 443) |
| Release of unused provisions | (17) | 115 689 | 226 131 |
| Reversal of impairment loss on trade receivable | | 35 | - |
| Foreign exchange loss | | (93 871) | (123 734) |
| | | 901 344 | 691 057 |
| Net profit for the year befor tax | | 3 054 345 | 2 897 825 |
| **Less (Add):** | | | |
| Current tax epense for the period | | 521 131 | 413 299 |
| Deferred tax | | (7 800) | 54 752 |
| Net profit for the year | | 2 541 014 | 2 429 774 |
| **attributables to:** | | | |
| Equity holders of the parent | | 2 534 286 | 2 426 877 |
| Minority interest | | 6 728 | 2 897 |
| Net profit for the year | | 2 541 014 | 2 429 774 |
| Earnings per share (LE/Share) | (32) | 1.37 | 1.34 |

The accompanying notes from No (1) to No. (40) form an integral part of these financial statements.

## Consolidated Statement of Cash Flows EAS

For the Financial Year Ended December 31, 2007

| Cash flows from operating activities | Note No. | 2007 LE(000) | 2006 LE(000) |
|---|---|---|---|
| Cash receipts from trade receivables | | 7 856 530 | 7 520 697 |
| Sales tax collected from receivables | | 668 947 | 524 704 |
| Stamp tax and fees collected (from third party) | | 55 261 | 83 542 |
| Deposits received from receivables | | 75 916 | 50 241 |
| Cash paid to suppliers | | (766 493) | (663 380) |
| Cash paid to employees | | (1 315 217) | (1 039 759) |
| Cash paid on behalf of employees | | (300 102) | (318 041) |
| Dividends paid to shareholders & employees | | (1 291 286) | (1 089 897) |
| **Net cash from operating activities** | | **4 983 556** | **5 068 107** |
| | | | |
| Interest paid | | (637 834) | (326 522) |
| Payments to Tax Authority | | (560 994) | (577 374) |
| Payments to Sales Tax Authority | | (533 918) | (607 510) |
| Other proceeds / (paid) net | | 193 873 | 21 303 |
| **Net cash provided by operating activities** | | **3 444 683** | **3 578 004** |
| | | | |
| **Cash flows from investing activities** | | | |
| Payment for purchase of property, plant and equipment and projects in progress | | (944 821) | (1 936 707) |
| Poceeds from sale of fixed assets | | 891 | 2 290 |
| Payments for purchase of investments | | (110 955) | (4 859 018) |
| Proceeds from sale of investments | | 77 150 | 138 749 |
| Interest received | | 72 570 | 44 693 |
| Dividends received | | 755 982 | 345 105 |
| **Net cash used in investing activities** | | **(149 183)** | **(6 264 888)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings & facilities relating to acquisition of property, plant and equipment and intangible assets. | | (270 840) | (428 625) |
| Repayment of other borrowings & facilities | | (1 765 936) | (1 088 366) |
| Payments by minority for capital increase in subsidiary companies | | - | 12 904 |
| Payments of Bonds loan | | (400 000) | - |
| Proceeds from long term loans | | - | 4 525 000 |
| Repayment of banks credit accounts | | 8 713 | 403 665 |
| Repayment of financial lease obligations | | (40 327) | (44 254) |
| Payments for long term obligations | | (820) | (759) |
| **Net cash (used in) / provided by financing activities** | | **(2 486 636)** | **(2 572 235)** |
| | | | |
| **Net increase (Descrease) in cash and cash equivalents during the year** | | **808 864** | **(114 649)** |
| Translation difference adjustments | | 31 | 65 |
| Cash and cash equivalents at the beginning of the year | (13) | 483 888 | 598 472 |
| **Cash and cash equivalents at the end of the year** | (13) | **1 292 783** | **483 888** |

The accompanying notes from No. (1) to No. (40) form an integral part of these financial statements.

# Maximizing Shareholders' Value

## Consolidated Statement of Changes in Equity EAS

For the Financial Year Ended December 31, 2007

| | Paid up Capital LE(000) | Legal Reserves LE(000) | Other Reserves LE(000) | Fair Value Reserve LE(000) | Retained Earnings LE(000) | Translation Difference Adjustments LE(000) | Net Profit LE(000) | Total equity Attributable to Equity Holders of the Parent LE(000) | Minority Interest LE(000) | Total Equity LE(000) |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as of 1/1/2006 | 17 070 716 | 373 766 | 3 036 194 | 6 814 | 402 035 | (78) | 2 097 275 | 22 986 722 | 22 031 | 23 008 753 |
| Adjustments to retained earnings | | | | | (2 605) | | | (2 605) | (227) | (2 832) |
| Minority Interest's share in capital increase of subsidiary company | | | | | | | | | 12 904 | 12 904 |
| Transferred from minority interest due to the change in capital shareholding percentage | | 45 | | | 479 | | | 524 | (524) | |
| Transferred to reserves | | 93 064 | 650 000 | | | | (743 064) | | | |
| Dividends for the year 2005 | | | | | (1 394) | | (951 576) | (952 970) | (2 246) | (955 216) |
| Increase in other reserves by the adjustments made in the land caption | | | 104 629 | | 12 | | | 104 641 | | 104 641 |
| Transferred to retained earnings | | | | | 402 639 | (4) | (402 635) | | | |
| Translation difference adjustments | | | | | 56 | (103) | | (47) | 4 | (43) |
| Net Profit for the year 2006 | | | | | | | 2 426 877 | 2 426 877 | 2 897 | 2 429 774 |
| **Balance as of 1/1/2007** | **17 070 716** | **466 875** | **3 790 823** | **6 814** | **801 222** | **(185)** | **2 426 877** | **24 563 142** | **34 839** | **24 597 981** |
| Transferred to reserves | | 104 501 | 650 000 | | | | (754 501) | | | |
| Dividends for the year 2006 | | | | | (33 560) | | (1 299 553) | (1 333 113) | (1 712) | (1334 825) |
| Adjustments to retained earnings | | | | | (20 275) | | | (20 275) | | (20 275) |
| Transferred to retained earnings | | | | | 372 823 | | (372 823) | | | |
| Translation difference adjustments | | | | | 280 | (406) | | (126) | (9) | (135) |
| Net profit for the year | | | | | | | 2 534 286 | 2 534 286 | 6 728 | 2 541 014 |
| **Balance as of 31/12/2007** | **17 070 716** | **571 376** | **4 440 823** | **6 814** | **1 120 490** | **(591)** | **2 534 286** | **25 743 914** | **39 846** | **25 783 760** |

The accompanying notes from No.(1)to No.(40) form an integral part of these financial statements.

## 1- BACKGROUND

### - Establishment of the company

Arab Republic of Egypt National Telecommunication Organization (ARENTO) was established pursuant to Law No.153 of 1980. Effective from 27/3/1998 and pursuant to Law No.19 of 1998, the legal form of (ARENTO) was amended after the revaluation of its assets on 26/3/1998 to become an Egyptian Joint Stock company under the name of Telecom Egypt Company (TE) subject to the provisions of the Company Low No. 159 of 1981 and Capital Market Law No. 95 of 1992.

### - Purpose of the company

The main purpose of the company includes:

- Establishing and operating telecommunications networks.
- Providing telecommunications services.
- Operating and maintaining the networks, equipment and machinery necessary to provide the services.
- Executing projects necessary to accomplish its purposes.
- Cooperating with international companies and organizations to connect the Arab Republic of Egypt with the world.

By virtue of the approval of the company's Extra-Ordinary General Assembly held on 6/12/2005, the following activities were added to its objectives: "Real estate investment for serving its purposes, and executing its projects and in order for the company to achieve its purposes, it is entitled to establish or participate in establishing new companies or existing companies operating in the same, complementary or related activities". Annotation to this effect was made in the commercial registry on 16/1/2006.

## 2- SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the parent company and subsidiaries under its control as it holds more than 50% of their capitals.

The following listing of subsidiaries is included in the consolidated financial statements:

| Subsidiaries name | Percentage share % | |
|---|---|---|
| TE Data - S.A.E. | 95.04 % | |
| The Egyptian Telecommunication Company for Information Systems (Xceed) - S.A.E | 97.66 % | |
| Middle East Radio Communication ( MERC) - S.A.E. | 50.90 % | (Direct & Indirect) |
| Centra Technologies - S.A.E. | 58.76 % | |

## 3 - SIGNIFICANT ACCOUNTING POLICIES APPLIED

### 3-1 Basis of preparing the consolidated financial statements

**3-1-1** The Unconsolidated financial statements are prepared in accordance with the historical cost basis, except for some investments valued with its fair value, and in light of the provisions of applicable Egyptian laws and regulations.

### 3-1-2 Consolidation basis

- Consolidated financial statements were prepared by combining similar items of assets, liabilities, equity, revenues and expenses stated in the financial statements of the parent company and its subsidiaries.
- The carrying amount of the parent company's investment in each subsidiary and the parent company's portion in the equity of each subsidiary are eliminated.
- All inter-group balances and transactions, and any material unrealized gains arising are eliminated.
- Minority interests in the net equity and net profits of subsidiaries controlled by the parent company was included in a separate item in the "equity caption" in the consolidated balance sheet, and it was calculated at the equivalent of the carrying amounts of their portion in the net assets of subsidiaries on the consolidated balance sheet date.

### 3-2 Foreign currency translation

The company and some of its subsidiaries maintain its books of accounts in Egyptian Pound. Transactions denominated in foreign currencies are recorded at the declared exchange rates at the date of transactions. At the consolidated balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates declared by the banks dealing with the company and its subsidiaries. The exchange differences are recorded in the consolidated income statement.

### 3-3 Financial statements translation for foreign operations

TE Data Jordan wholly owned by TE Data Egypt Keeps its accounting records in Jordanian Dinar and Xceed Middle East FZ-LLC (Dubai), wholly owned by The Egyptian Telecommunication Company for Information Systems (Xceed) Keeps its accounting records in AED. Assets and liabilities are translated to Egyptian Pound at the foreign exchange rate in effect at the date of the balance sheet date. Revenues and expenses are translated to Egyptian Pound at rates approximating to the foreign exchange rate ruling at the date of transactions. The share of the parent company in cumulative translation adjustments is recorded in a separate item under the caption of equity in the consolidated balance sheet.

### 3- 4 Fixed assets and depreciation

Fixed assets are carried at cost less accumulated depreciation and accumulated impairment losses and are depreciated using the straight-line method over the estimated useful lives of each type of assets as follows: -

| Description | Estimated Useful life (Years) |
|---|---|
| Buildings & constructions | 10 - 50 |
| Machinery & equipment | 5 - 20 |
| Means of transportation | 5 - 10 |
| Tools and supplies | 1 - 8 |
| Office furniture, fixtures and Information systems devices | 3 – 16.67 |
| Decoration & fixtures | 5 |
| Fixtures on the Trunk Radio Network | 8 |

### 3-5 Projects in progress

This item represents the amounts incurred for projects in progress till being ready for the intended use in operations, then, they are transferred to fixed assets at its cost.

### 3-6 Investments in affiliates

The investments in affiliates in the consolidated financial statements shall be accounted for by applying the equity method. Under this method, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The income statement of the investor includes the investor's share of the profit or loss of the investee.

If the investment is acquired and held with a view to its subsequent disposal in the near future, in this case, investments in affiliates shall be accounted for by applying the cost method. Under this method, the investment fair value is adjusted by any impairment in this value, and the income statement of the investor includes income from investments up to the dividends received from the investee's after the acquisition date.

### 3-7 Available-for-Sale Investments

**3-7-1** Available-for-sale investments that have a quoted market price in an active market are measured at fair value and shall be recognized directly in equity, if there is objective evidence that an impairment loss has been incurred, impairment loss shall be recognized in income statement.

**3-7-2** Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost. In case of the existence of impairment, the carrying amounts of these investments are reduced by this impairment and are recognized in income statement.

Income from investment measured at cost is recognized only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition.

### 3-8 Held for trading investments

Financial investments classified as held for trading are recorded initially at cost. At the end of each financial year, these investments are re-measured at their fair value (Market value). Gain or loss arising from a change in the fair value shall be included in the net profit or losses for the year in which it arises.

### 3-9 Other assets and amortization

Other assets are non monetary assets that can be reliably estimated and from which future economic benefits are expected to flow to the company and are represented in:-

- Right of way, right of using of international circuits services and cables.
- Internet services license – TE Data.

These intangible assets are stated at cost less accumulated amortization and impairment losses and are amortized over (10-20) years provided that their useful lives should be within the term of concession and usufruct rights.

### 3-10 Inventory

- Inventory is valued at the lower of cost or net realizable value at the date of balance sheet. Cost is determined using the weighted average method.
- Work in progress is valued at cost at the latest production process reached.
- Finished goods are valued at the manufacturing cost or net selling value.

### 3-11 Accounts, notes receivable, debtors & other debit accounts

Receivables, debtors & other debit accounts are stated at nominal value less impairment loss for any amounts expected to be irrecoverable, and they are classified as current assets, however, amounts that are expected to be collected after more than one year are classified as long-term assets.

### 3-12 Impairment of assets

The carrying amounts of the Company's assets, other than inventory, note No.(3-10) and deferred tax assets note No.(3-22) are reviewed at each consolidated balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the necessary studies are prepared to estimate the asset's prospective recoverable amount.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### 3-13 Provisions

Provisions are recognized when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the obligation can be reasonably estimated. Provisions are reviewed at the consolidated balance sheet date and amended when necessary to reflect the best current estimate.

### 3-14 Borrowing cost

The borrowing costs are recognized in the income statement as an expense is incurred.

### 3-15 Grants

Grants are recorded in the balance sheet as deferred revenues and should be recognized in the income statement as income over the periods necessary to match them with the related costs, on a systemic basis.

### 3-16 Trading creditors & other payables

Trading creditors and other payables are stated at the nominal value, also liabilities (payables) are stated at the value which will be paid in the future and this is against received goods and services.

### 3-17 Revenue recognition

- Revenues from sales of services are recognized when services are rendered to the customers.
- Revenues from telephone sets & directories sales are recognized when goods are delivered to customers and invoices are issued.

### 3-18 End of service indemnity

The company contributes to Social Insurance Authority for the benefit of its personnel in pursuance to the Social Insurance Authority law No. 79 of 1975 and its amendments. These contributions are recorded in the "Wages and Salaries account" in addition to the early retirement scheme applied from 1/9/2001 (Note No. 31).

### 3-19 Capital lease agreements

The accrued lease payments repair and maintenance expenses of leased assets under the capital leasing agreements are recognized as an expense in the income statement for the year. At the end of the lease agreement if the company exercised its rights to purchase the leased assets. These assets are recorded as fixed assets and their costs are determined at the amount of the purchase bargain option stated in the lease agreement and depreciated over the remaining estimated useful lives.

### 3-20 Accounting estimates

The preparation of the financial statements according to the Egyptian Accounting Standards require that the management use estimates and assumptions that affect the values of the assets and liabilities and the revenues and expenses during the financial periods and years. The actual results may be different from those estimates.

The same accounting policies and principles applied to the periodical financial statements were implemented, and there was no change in the accounting estimates of the amounts recorded in the regular financial periods preceding the current financial year, in addition, there were no change in the accounting estimates of the amounts recorded in the previous financial years.

### 3-21 Reserves

**- Legal Reserve**

According to the company's Article of Associations, 5% of the net profit is set aside to form a legal reserve. The transfer to legal reserve cease once the reserve reach 50% of the company's paid in capital, however, if the reserve falls below the defined level (50% of the company's paid in capital), then the company is required to resume setting aside 5% of the net profit.

**- Fair Value Reserve**

When re-measured investments are sold the Fair Value reserve related is transferred to retained earnings.

### 3-22 Income tax

Income tax on the profit or loss for the Year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is measured using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### 3-23 Transactions with related parties

Transactions with related parties that are undertaken by the company in the course of its ordinary transactions are recorded according to the conditions laid down by the company's management on the same bases of dealing with third party.

### 3-24 Cash flow statement

Cash flow statement is prepared according to the direct method. Cash & cash equivalents comprise cash balances, time deposits which do not exceed three months and bank overdrafts that are repayable on demand and form an integral part of the company's cash management and they are included as a component of cash equivalents for the purpose of the statement of cash flows.

## 4- FIXED ASSETS (net)

| | Land | Buildings & Constructions | Machinery & Equipment | Means of Transportation | Tools & Supplies | Office Furniture & Fixtures | Decoration & Fixtures | Fixtures on Trunk Radio Network | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | LE (000) | LE (000) | LE (000) | LE (000) | LE (000) | LE (000) | LE (000) | LE (000) | LE (000) |
| Balance as at 1/1/2007 | 2 443 859 | 17 061 833 | 17 888 163 | 100 690 | 562 95 | 921 401 | 12 734 | 151 | 38 485 126 |
| Adjustment to the opening balance | (24) | (15 873) | (13 742) | | | (1) | | (16) | (29 656) |
| Additions for the year | 6 836 | 264 744 | 717 850 | 842 | 1 103 | 214 935 | 7 921 | 138 | 1 214 369 |
| Disposals for the year | | (4110) | (65 744) | (3045) | (1 946) | (620) | | | (75 465) |
| Translation differences | | | (34) | | | (20) | (4) | | (58) |
| **Balance as at 31/12/2007** | **2 450 671** | **17 306 594** | **18 526 493** | **98 487** | **55 452** | **1 135 695** | **20 651** | **273** | **39 594 316** |
| | | | | | | | | | |
| **Depreciation & Impairment** | | | | | | | | | |
| Accumulated depreciation as at 1/1/2007 | | 6 488 062 | 10 379 096 | 87 909 | 31 263 | 421 588 | 3 408 | 5 | 17 411 331 |
| Adjustments to the opening balance | | (172) | (283) | | | | | | (455) |
| Depreciation for the year | | 992 266 | 1 696 726 | 7 069 | 5 678 | 175 920 | 3 970 | 41 | 2 881 670 |
| Accumulated depreciation of disposal | | (641) | (64 611) | (2 807) | (1 945) | (620) | | | (70 624) |
| Translation differences | | | (8) | | | (5) | (1) | | (14) |
| **Balance of accumulated depreciation as at 31/12/2007** | **–** | **7 479 515** | **12 010 920** | **92 171** | **34 996** | **596 883** | **7 377** | **46** | **20 221 908** |
| **Carrying amounts as at 31/12/2007** | **2 450 671** | **9 827 079** | **6 515 573** | **6 316** | **20 456** | **538 812** | **13 274** | **227** | **19 372 408** |
| **Carrying amounts as at 31/12/2006** | **2 443 859** | **10 573 771** | **7 509 067** | **12 781** | **25 032** | **499 813** | **9 326** | **146** | **21 073 795** |

- Cost of fixed assets included an amount of LE 4 012 million relating to fully depreciated assets still in use.

**Depreciation for the year are charged as follows:**

| | LE (000) |
|---|---|
| Operating expenses | 2 702 795 |
| General & administrative expenses | 176 550 |
| Selling & distribution expenses | 2 325 |
| | **2 881 670** |

## 5- PROJECTS IN PROGRESS

| | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|
| *Telecom Egypt - Parent* | | |
| Land | 6 593 | 4 876 |
| Buildings and constructions | 258 963 | 194 725 |
| Machinery and equipment | 321 605 | 448 265 |
| Means of transportation | 290 | 301 |
| Tools and supplies | 47 | 62 |
| Office furniture and fixtures | 17 641 | 16 580 |
| Advance payments | 203 536 | 330 573 |
| Letters of credit | 19 074 | 3 887 |
| | **827 749** | **999 269** |
| *T.E Data – a Subsidiary Company* | | |
| Land | - | 1 300 |
| Buildings and constructions | 10 391 | 152 |
| Advance payments | 3 130 | 9 867 |
| *T.E Information Technology - a Subsidiary Company* | | |
| Advance payments | 2 295 | 325 |
| | **15 816** | **11 644** |
| | **843 565** | **1 010 913** |

## 6- LONG TERM INVESTMENTS

### 6-1 Investments in affiliates

| | 31Dec. 2007 Participation % | LE (000) | 31Dec. 2006 Participation % | LE (000) |
|---|---|---|---|---|
| - Vodafone Egypt * | 44.79 | 6 888 385 | 44.66 | 6 507 462 |
| - Nile On Line (NOL) | 27.27 | 30 418 | 27.27 | 12 830 |
| - Wataneya for Telecommunication | 50.00 | 125 | 50.00 | 125 |
| - Consortium Algerien de Tele – communications (CAT) ** | 33.00 | - | 33.00 | - |
| - International Telecommunication Consortium Limited. (ITCL) | 50.00 | 54 | 50.00 | 54 |
| - Egypt Trust | 35.71 | 2 500 | 35.71 | 2 500 |
| | | **6 921 482** | | **6 522 971** |
| Less:- Impairment loss on investments of International Telecommunication Consortium Limited. (ITCL) | | 54 | | - |
| | | **6 921 428** | | **6 522 971** |

* Market value of investments in Vodafone Egypt shares according to the last execution price on Cairo & Alexandria Stock Exchange on September 22, 2007 amounts to LE 10 439 283 K before the Vodafone Egypt shares were delisted from the Egyptian Stock Exchange during September 2007 .

** Investments in Consortium Algerien de Tele –communications (CAT) amounting to L.E 133 K do not appear as a result of achieving loss in the investee company that exceeds the investments amount.

### 6-2 Available for sale investments

| | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|
| - Participations in foreign Satellite companies & organizations | 26 683 | 26 683 |
| - Investments in other local companies | 79 287 | 64 655 |
| | **105 970** | **91 338** |



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### Investment in Vodafone – Egypt

- The investments in Vodafone Egypt as of 31/12/2007 represent the ownership of 107 499 569 shares representing 44.79 % of Vodafone Egypt shares.

- During year of 2006 the company purchased 45 980 529 shares of Vodafone Egypt Shares. The purchase of these shares was financed by a syndicate loan granted from local banks with an amount of L.E 4 525 000 K, the loan balance as of 31/12/2007 amounted to L.E.1 917 000 K (note No.14) while the remaining part of financing the purchase transaction of these shares was financed from the company's own resources.

- On November 8, 2006 a new strategic co-operation agreement was signed between Vodafone Egypt Company and Telecom Egypt Company by virtue of which the company shall enjoy a prolongation of the term of the agreement between the two companies, and shall continue to provide international telecommunication services.

- During March 2007 the company purchased 319 040 shares of Vodafone Egypt Shares with aggregate cost amounting to L.E. 27 455 K. Purchasing transaction was financed from the company's own resources.

### Investments in Middle East Radio Communication Company (MERC)

On January 23, 2007 the ownership of 2% from the shares of Middle East Radio Communication Company (MERC) was transferred to **T.E. Data**, (a subsidiary company) with its par value.

### Investments in Nile On Line (NOL)

On October 2nd, 2007 The Board of Directors of Telecom Egypt approved to sell Telecom Egypt's share in Nile on Line Company **(NOL)** (which represents 27.27% of the total paid-in capital), and a Memorandum of Understanding regarding the said sale was signed. The procedures necessary to finalize such memorandum are in progress and to accomplish the sale transaction.

### Investments in EgyNet Company (Available for sale investments )

On October 2nd, 2007 The Board of Directors of Telecom Egypt approved to sell Telecom Egypt's share in **EgyNet** Company (which represents 16.46% of the total paid-in capital), and a Memorandum of Understanding regarding the said sale was signed. The procedures necessary to finalize such memorandum are in progress and to accomplish the sale transaction.

### 7- OTHER DEBIT BALANCES – LONG TERM

These balances are represented in the following:

| | Note No. | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|---|
| The amounts due from National - Telecommunication Regulatory Authority for the license fees paid to the said Authority for the third operator after waiver of this license. | | 560 000 | 1 080 000 |
| **Less:** | | | |
| The current portion to be collected during next year recorded under "debtors and other debit accounts". | (11) | 520 000 | 520 000 |
| | | **40 000** | **560 000** |
| Balance represent accrued interests till the balance sheet date, that shall be settled by (NTRA) for the license's charges paid to (NTRA) for the third mobile phone network amounted L.E. 480 million which should be paid as a part of the last installment amounted to L.E. 520 million due on 31/3/2009. | | 330 000 | 210 000 |
| Payments made on behalf of consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria. | (7-1) | 414 759 | 366 892 |
| Due from Loyalty Fund Grant | (31) | 19 404 | 26 128 |
| **Less:** | | | |
| The current portion to be collected during next year from Loyalty Fund Grant. | (11) | 5 601 | 6 724 |
| | | **13 803** | **19 404** |
| Payments under capital increase for Egypt Trust and Technology Development Fund companies till recording in the commercial registration of this increase. | | 42 500 | |
| | | **841 062** | **1 156 296** |
| **Less:** | | | |
| Impairment loss on other debit balances - long term | (7-1) | 414 759 | 108 356 |
| | | 426 303 | 1 047 940 |



### 7-1 Finance to Consortium Algerian Telecommunication (CAT) - Algeria

Telecom Egypt financed Consortium Algerian Telecommunication (CAT) by an amount of LE 414 759 K where Telecom Egypt participation is 50% (Direct & Indirect), this company suffers a material decrease in recoverable amount of the tangible & intangible company's assets, that is likely to result in a material impairment loss, in the light of these circumstances there is high probability that Telecom Egypt couldn't refund the finance given to CAT and the income statement was charged for the year by L.E. 306 403 K (include an amount of 246 969 K represents impairment loss for this item, and 59 434 K represents Telecom Egypt share in the loss of investment) and for the last years before 2007 by L.E. 108 356 K which represents Telecom Egypt share in the loss of investment for the years before 2007.

### 8. OTHER ASSETS (net)

| Cost | Right of Way (BRITAR) LE (000) | Right of Way (ALITAR) LE (000) | Right of Way (Flag Cable) LE (000) | Usufruct for Land Occupied by TE LE (000) | Right of Way (SMW) LE (000) | Right of Way using (ROU) LE (000) | Internet License LE (000) | Total LE (000) |
|---|---|---|---|---|---|---|---|---|
| Cost as at 1/1/2007 | 1 720 | 48 755 | 95 910 | 1 | 176 142 | 105 462 | 20 185 | 448 175 |
| Additions for the year | | | | | 17 250 | 31 220 | | 48 470 |
| Disposals for the year | | (7 552) | | | (2 032) | | | (9 584) |
| Translation differences | | | | | | | (4) | (4) |
| **Balance as at 31/12/2007** | **1 720** | **41 203** | **95 910** | **1** | **191 360** | **136 682** | **20 181** | **487 057** |
| **Accumlated amortization & impairment losses** | | | | | | | | |
| Balance as at 1/1/2007 | 903 | 23 790 | 69 968 | | 82 972 | 31 317 | 20 035 | 228 985 |
| Amortization during the year | 172 | 2 343 | 9 494 | | 14 550 | 7 318 | 20 | 33 897 |
| Translation differences | | | | | | | | |
| Accumulated depreciation of disposal | | (3 965) | | | (1 675) | | | (5 640) |
| Impairment for other assets | | | | | | 6 094 | | 6 094 |
| **Balance as at 31/12/2007** | **1 075** | **22 168** | **79 462** | | **95 847** | **44 729** | **20 054** | **263 335** |
| **Carrying amounts as at 31/12/2007** | **645** | **19 035** | **16 448** | **1** | **95 513** | **91 953** | **127** | **223 722** |
| **Carrying amounts as at 31/12/2006** | **817** | **24 965** | **25 942** | **1** | **93 170** | **74 145** | **150** | **219 190** |



### 9- INVENTORY

| | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|
| Spare parts | 239 627 | 184 035 |
| Material supplies | 1 352 | 1 116 |
| Computers & PC's components | 1 545 | 9 199 |
| Others – project cables and supplies | 186 921 | 311 627 |
| Finished goods | 13 040 | 4 446 |
| Telephone sets and directories | 14 504 | 39 216 |
| Consignment goods | 531 | 552 |
| | **457 520** | **550 191** |
| **Add:** | | |
| Letters of credit | 50 896 | 47 737 |
| | **508 416** | **597 928** |

### 10. TRADE & NOTES RECEIVABLE

| | Note No. | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|---|
| Governmental sector | | 434 642 | 347 881 |
| Private sector | | 2 487 691 | 2 783 515 |
| Foreign telecommunication companies and organizations | | 1 088 701 | 755 004 |
| | | **4 011 034** | **3 886 400** |
| **Less:** | | | |
| Impairment loss on trade receivables | (18) | 911 463 | 889 591 |
| | | **3 099 571** | **2 996 809** |
| **Add:** | | | |
| Notes receivable | | 1 152 | 1 000 |
| | | **3 100 723** | **2 997 809** |



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## 11- OTHER RECEIVABLES

| | Note No. | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|---|
| Suppliers – debit balances | | 78 912 | 90 961 |
| Deposits with others | | 10 029 | 7 667 |
| Employees' loans | | 1 059 | 1 128 |
| Customs Authority - deposits | | 3 043 | 3 043 |
| Accrued revenues | | 7 108 | 2 932 |
| Tax Authority- withholding tax | | 73 431 | 75 752 |
| Sales Tax Authority - advances | | 487 701 | 378 115 |
| Employees loyalty grant | (31) | 5 601 | 6 724 |
| Other debit accounts* | | 1 338 895 | 1 370 367 |
| | | 2 005 779 | 1 936 689 |
| **Less:** | | | |
| Impairment loss on other receivables | (18) | 314 017 | 281 394 |
| | | 1 691 762 | 1 655 295 |

*** Other debit accounts include the following amounts: -**

| | Note No. | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|---|
| The current portion to be collected during next year from the National Telecommunication Regulatory Authority for the license fees of Wataneya for Telecommunication. | (7) | 520 000 | 520 000 |
| Amount due from the employees for the company's shares distributed to them and paid by the company. | | 880 | 94 490 |
| Payments on the account of corporate tax. | | 285 996 | 285 996 |
| | | 806 876 | 900 486 |

## 12. INVESTMENTS HELD FOR TRADING

Held for trading investments amounted to LE 94 592 K represented in the following:

| TE Data a Subsidiary Company | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|
| Value of 410 368 unit of commercial International Bank Investment Fund – Osoul Fund with price LE 126.19 for each unit at balance sheet date. | 51 784 | 122 033 |
| Value of 375 612 unit of the National Societe Generale Bank Investment Fund with price L.E 110.923 for each unit at balance sheet date. | 41 664 | |
| TE Information Technology – a Subsidiary Company | | |
| Value of 9 067 unit of commercial International Bank Investment Fund – Osoul Fund with price L.E 126.19 for each unit at balance sheet date. | 1 144 | 1 057 |
| | 94 592 | 123 090 |

## 13- CASH ON HAND AND AT BANKS

| | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|
| Banks- time deposits | 1 077 783 | 491 798 |
| Banks -current accounts | 215 495 | 78 346 |
| Cash on hand | 8 963 | 18 701 |
| | 1 302 241 | 588 845 |
| **Less:** | | |
| Bank overdraft | 769 | 77 762 |
| Blocked time deposite | 4 795 | 24 610 |
| Cheques under collection | 3 894 | 2 585 |
| Cash & cash equivalents as per in cash flow statement | 1 292 783 | 483 888 |

## 14. LOANS AND FACILITIES

| Description | Loan Currency | Long Term Loan Installment Due Within One Year LE (000) | Long Term Loan Installment Due Within More Than One Year Le (000) | Balance as of 31/12/2007 LE (000) | Balance as of 31/12/2006 LE (000) | Annual Interest Rate % | Repayment Schedule |
|---|---|---|---|---|---|---|---|
| Local banks loans* | L.E. | | | | 8 919 | 9.25% | Semi-annual installments ending on 24/9/2007 |
| Local banks loans (Vodafone loan Note No.6) | L.E. | 814 500 | 1 102 500 | 1 917 000 | 3 495 000 | Average rate of deposits & loans (Corridor) + 1% | Unequal semi-annual instalments ending on 31/3/2010 |
| Total local loans | | 814 500 | 1 102 500 | 1 917 000 | 3 503 919 | | |
| Governmental Loans | U.S.$ | 90 062 | 536 502 | 626 564 | 740 990 | 4% | Annual installements ending on 24/1/2018 |
| Governmental Loans | SK | | | | 1 476 | 0.15% (agency commission) | Semi annual installements ending on 31/12/2007 |
| Governmental Loans | EURO | 7 015 | 17 388 | 24 403 | 29 871 | 4 - 6.37% | Semi annual installements ending on 29/12/2012 |
| Total Governmental loans | | 97 077 | 553 890 | 650 967 | 772 337 | | |
| Foreign loans | J.Y | 24 425 | 29 621 | 54 046 | 77 405 | 3 - 3.5% | Semi annual installements ending on 20/3/2012 |
| Foreign loans | EURO | 87 621 | 664 977 | 752 598 | 973 059 | 0.75 - 6% | Semi annual installements ending on 30/6/2036 |
| Total foreign loans | | 112 046 | 694 598 | 806 644 | 1 050 464 | | |
| Foreign suppliers' facilities - foreign | EURO | 3 411 | | 3 411 | 29 023 | 5.50% | Semi annual installements ending on 1/12/2008 |
| Foreign suppliers' facilities - foreign | J.Y | | | | 40 347 | 2.75% | Semi annual installements ending on 14/12/2007 |
| Total foreign suppliers' facilities | | 3 411 | | 3 411 | 69 370 | | |
| | | 1 027 034 | 2 350 988 | 3 378 022 | 5 396 090 | | |

- Foreign suppliers' facilities in Euro include L.E. 3 411 K equivalent to Euro 423 K against letters of guarantee issued by National Bank of Egypt in favor of Siemens as a guarantee for this facility settlement.

- The available unused balance of Foreign Loans and Facilities at 31/12/2007 amounting to L.E. 18 790 K.

- On 3/12/2007 an accelerated payment was done for vodafone loan amounting L.E.1 035 000 K.

### 15- SUPPLIERS & NOTES PAYABLE

| | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|
| Suppliers - local | 124 994 | 145 837 |
| Suppliers - foreign | | 33 408 |
| Notes payable | 5 354 | 2 473 |
| | 130 348 | 181 718 |

### 16- CREDITORS AND OTHER CREDIT ACCOUNTS

#### 16-1 Creditors and other credit accounts (current)

| | Note No. | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|---|
| Tax Authority | | 161 049 | 151 768 |
| Deposits from others | | 722 778 | 661 859 |
| Fixed assets creditors | | 330 635 | 409 288 |
| Accrued interest | | 73 189 | 113 155 |
| Accrued expenses | | 192 860 | 187 864 |
| Social Insurance Authority | | 18 804 | 16 880 |
| Clients – credit balances | | 201 728 | 227 924 |
| Credit balance for social, cultural and sportive activities | | 206 982 | 140 114 |
| Deferred revenues* | | 268 650 | 313 279 |
| Other credit accounts | | 552 687 | 391 426 |
| Tax Authority – income tax | | 124 | 23 239 |
| Current income tax for the year | | 521 131 | 413 299 |
| | | 3 250 617 | 3 050 095 |
| **Less:** | | | |
| Tax payments due after one year | (16-2) | 54 704 | 54 704 |
| | | 3 195 913 | 2 995 391 |

* The deferred revenues amounting to 268 650 K at December 31, 2007 represents the grants presented by the USAID to finance some of the company's projects, as well as the grants presented by the projects management of Marine Cables for the construction of a building in Alexandria and the right of way for marine cables after deducting the accumulated amortization at December 31, 2007.

#### 16-2 Creditors and other credit accounts (long-term)

Creditors and other long-term accounts represent:-

| | Note No. | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|---|
| Telecom Egypt – parent company | | | |
| Tax payment due after one year | (16-1) | 54 704 | 54 704 |
| T.E Information Technology – a subsidiary company | | | |
| The additional retirement compensations due to the company's employees | | 4 436 | 2 912 |
| Due to suppliers as a result of purchasing communications machinery and supplies. | | 2 905 | |
| | | 62 045 | 57 616 |

### 17- PROVISIONS

| | Balance as of 1/1/2007 LE (000) | Charged to the Income Statement LE (000) | Used During the Year LE (000) | Release of Unused Provisions LE (000) | Transfer From Creditors and Other Credit Accounts LE (000) | Balance as of 31 Dec. 2007 LE (000) |
|---|---|---|---|---|---|---|
| Provision for contingent liabilities, claims and others | | | | | | |
| Tax provision | 373 088 | 291 | | (68 793) | 371 | 304 957 |
| Claims provision | 108 141 | 178 | (41 998) | (46 896) | | 19 425 |
| | 481 229 | 469 | (41 998) | (115 689) | 371 | 324 382 |

Claims provision related to lawsuits in respect of claims by a contractor for alleged losses and various claims for damages for breach of contract, and expected social insurance claim in respect of contracts concluded with suppliers.

### 18- IMPAIRMENT LOSS OF ASSETS

| | Note No. | Balance as of 1/1/2007 LE (000) | Charged to the Income Statement LE (000) | Reversal of Impairment LE (000) | Translation Difference Adjustments LE (000) | Balance as of 31 Dec. 2007 LE (000) |
|---|---|---|---|---|---|---|
| Impairment Loss on trade receivables | (10) | 889 591 | 21 907 | (35) | | 911 463 |
| Impairment Loss on other receivables | (11) | 281 394 | 32 658 | | (35) | 314 017 |
| Impaiment loss on other assets | (8) | | 6 094 | | | 6 094 |
| Impaiment loss on long-term other receivables | | | 246 969 | | | 246 969 |
| * Write-down in inventory ( Obsolete & slow moving items ) | | 18 081 | 5 000 | | | 23 081 |
| | | 1 189 066 | 312 628 | (35) | (35) | 1 501 624 |

* Write-down in inventory balances is netted against their related type of inventory balances.

## 19- CAPITAL

The company's authorized, issued and paid in full capital is LE 17 112 149 K, represented in 171 121 490 shares at a par value of LE 100 each. All shares are fully owned by the Egyptian government.

On September 21, 2005, the Extra-ordinary General Meeting resolved the following:-

- Decrease of issued capital by a net amount of LE 41 433 K representing the value of lands transferred to Ministry of Communication & Information Technology by LE 71 250 K and the value of land reverted to for T.E as a result of the amendment of the total land area near the satellite station in Maadi amounting to LE 29 817 K.

- Decrease of the par value per share from L.E. 100 to LE 10.

Accordingly, the company's issued and fully paid capital has become LE 17 070 716 K represented in 1 707 071 600 shares at a par value of LE 10 each and annotation was made to this effect in the Commercial Register on 24/11/2005.

Thus, Egyptian Government owned 80% after floating 20% of company's shares in public offering in December 2005.

## 20- RESERVES

| | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|
| Legal reserve | 571 376 | 466 875 |
| Revaluation reserve of available for sale investments | 6 814 | 6 814 |
| General reserve | 4 422 713 | 3 772 713 |
| Capital reserve | 18 110 | 18 110 |
| | 5 019 013 | 4 264 512 |

General reserve amounted to L.E 4 422 713 K at 31/12/2007 representing the dividends transferred to the general reserve for years 99/2000 till 2006 after deducting L.E 1 618 710 K which represent the adjustments on the land during year 2005 & 2006.

## 21- BONDS LOAN

- In February 2005, the Company issued 20 million nominal marketable bonds not convertible into shares at a par value of L.E. 100 each for year of 5 years. These bonds were offered for public subscription and issued in two portions as follows:

1- The first portion shall be 50% of the bonds at a fixed annual interest equal 10.95% to be paid quarterly.

2- The second portion shall be the other 50% of the bonds at a variable annual interest equal 0.7% plus the discount rate of the Central Bank of Egypt to be paid quarterly.

The purpose of issuing these bonds is partial settlement of long-term loans and bank overdraft accounts in local currency.

During the year 2007 the first installment amounting to L.E 400 million was paid.

The bonds installments due during the year 2008 amount to L.E. 800 million and have been classified in the balance sheet as current liabilities.

## 22- DEFERRED TAX

Deferred Tax Assets and Liabilities

| | Assets 31Dec. 2007 LE (000) | Liabilities 31Dec. 2007 LE (000) | Assets 31Dec. 2006 LE (000) | Liabilities 31Dec. 2006 LE (000) |
|---|---|---|---|---|
| Fixed assets | | (231 513) | | (232 031) |
| Other assets | | (1 952) | | (7 564) |
| Inventory | 4 616 | | 3 616 | |
| Trade and other receivables | 39 932 | | 33 701 | |
| Provisions | 49 434 | | 58 318 | |
| Accrued liabilities | 31 104 | | 27 781 | |
| Total deferred tax assets (liability) | 125 086 | (233 465) | 123 416 | (239 595) |
| Net deferred tax liability | - | 108 379 | - | 116 179 |

## 23- SALES OF SERVICES

| | 2007 LE (000) | 2006 LE (000) |
|---|---|---|
| **Retail Services:** | | |
| Connections | 195 484 | 183 230 |
| Subscriptions | 1 711 206 | 1 596 111 |
| Total | 1 906 690 | 1 779 341 |
| **Voice:** | | |
| Local | 1 736 605 | 1 969 324 |
| Long distance | 460 118 | 570 506 |
| Fixed to international | 333 784 | 371 000 |
| Fixed to mobile interconnection | 758 033 | 854 413 |
| Total | 3 288 540 | 3 765 243 |
| **Internet & Data** | 334 920 | 184 408 |
| **Others** | 935 780 | 857 861 |
| Total | 1 270 700 | 1 042 269 |
| Total Retail | 6 465 930 | 6 586 853 |
| **Wholesale:** | | |
| **Domestic:** | | |
| Mobile to fixed interconnection | 309 467 | 236 321 |
| Others | 457 534 | 236 277 |
| | 767 001 | 472 598 |
| **International** | | |
| Mobile to international | 1 075 722 | 800 698 |
| Incoming international call | 1 623 235 | 1 568 378 |
| | 2 698 957 | 2 369 076 |
| Total wholesale | 3 465 958 | 2 841 674 |
| Total revenues from sales of services | 9 931 888 | 9 428 527 |

* Comparative figures of sales of services were reclassified to confirm with the current year classification.

## 24- INTERCONNECTION FEES

| | 2007 LE (000) | 2006 LE (000) |
|---|---|---|
| Fixed to mobile interconnection fees | 926 874 | 887 711 |
| Fixed calls for internet & audio text companies fees | 119 160 | 164 706 |
| Dues against outgoing international calls | 322 111 | 320 874 |
| Dues against outgoing international telegram & telex | 312 | 437 |
| | 1 368 457 | 1 373 728 |

## 25- OTHER OPERATING COSTS

| | 2007 LE (000) | 2006 LE (000) |
|---|---|---|
| Salaries | 842 117 | 751 731 |
| Compulsory social security contributions | 98 024 | 104 644 |
| Employees' vacations | 16 027 | 214 |
| Electricity & water | 13 740 | 10 776 |
| Stationary & printed materials | 60 165 | 53 887 |
| Transportation cost | 17 204 | 15 013 |
| Business telephone cost | 53 314 | 41 522 |
| Rent | 6 886 | 4 230 |
| Frequencies & license charge (NTRA) | 174 504 | 198 951 |
| Others | 150 169 | 103 923 |
| | 1 432 150 | 1 284 891 |

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## 26- GENERAL & ADMINISTRATIVE EXPENSES

| | 2007 LE (000) | 2006 LE (000) |
|---|---|---|
| Salaries | 576 061 | 438 460 |
| Compulsory social security contributions | 34 772 | 36 267 |
| End of service compensation-Early retirement program | 4 461 | 3 889 |
| Employees' vacations | 11 372 | 227 |
| Depreciation | 176 550 | 154 869 |
| Training | 989 | 27 368 |
| Bad debts | 1 264 | 843 |
| Tax and customs duty | 77 741 | 106 293 |
| Bank charges & commissions | 7 470 | 22 297 |
| Advertisement | 42 715 | 35 404 |
| Others | 203 620 | 223 735 |
| | 1 137 015 | 1 049 652 |

## 27- SELLING & DISTRIBUTION EXPENSES

| | 2007 LE (000) | 2006 LE (000) |
|---|---|---|
| Salaries | 128 053 | 111 554 |
| Compulsory social security contributions | 13 643 | 14 315 |
| Employees' vacations | 2 385 | 55 |
| Depreciation | 2 325 | 838 |
| Tax and customs duty | 5 906 | 3 294 |
| Rent | 1 000 | 972 |
| Advertisements | 24 328 | 20 510 |
| Others | 169 954 | 121 111 |
| | 347 594 | 272 649 |

## 28- INCOME (LOSS) FROM INVESTMENTS

| | 2007 L.E. (000) | 2006 L.E. (000) |
|---|---|---|
| **Revenues (Losses) from investment in affiliated companies** | | |
| Vodafone Egypt | 1 126 366 | 710 277 |
| Nile on line ( NOL ) | 256 | |
| Consortium Algerien De Tele-Communications ( CAT ) | (59 434) | (108 489) |
| | 1 067 188 | 601 788 |
| **Revenue from available for sale investments** | | |
| Egyptian Company For Telephone Equipment | 2 211 | 1 697 |
| Arab Sat | | 1 121 |
| Information Technology Company | 129 | 271 |
| Menatel | 1 144 | 313 |
| EGTI ( Egyptian German Telecommunication Industries ) | | 5 407 |
| | 3 484 | 8 809 |
| | 1 070 672 | 610 597 |

## 29- OTHER (EXPENSES) REVENUES

| | 2007 LE (000) | 2006 LE (000) |
|---|---|---|
| Donations | (17 436) | (9 804) |
| Sundry revenues* | 307 668 | 332 836 |
| | 290 232 | 323 032 |

* Sundry revenues for the year 2007 include the following:

| | LE (000) |
|---|---|
| - Accrued interest for the year 2007 for the amounts paid to NTRA. | 120 000 |
| - Deferred revenues amortization for the year 2007. | 44 629 |

## 30- REVERSAL OF IMPAIRMENT LOSS / (IMPAIRMENT LOSS) ON INVESTEMENTS IN AFFILIATES & AVAILABLE FOR SALE INVESTMENTS

| Investments in affiliates | 2007 LE (000) | 2006 LE (000) |
|---|---|---|
| Nile On Line (NOL) | 17 332 | 143 |
| International Telecommunication Consortium Limited. (ITCL) | (54) | |
| | 17 278 | 143 |
| **Available for sale investments** | | |
| - Participations in foreign Satellite companies & organizations - Thurya Company | - | 1 437 |
| - Arab company for computers industry | (947) | - |
| - EgyNet Company | 15 900 | (5 297) |
| - Ideavelopers | (321) | - |
| | 14 632 | (3 860) |
| | 31 910 | (3 717) |

## 31- EARLY RETIREMENT SCHEME

- The company's board of directors approved in its meeting dated May 9, 2001 an early retirement scheme for its employees. The scheme was implemented during the twelve months ended 31/8/2002 (First phase). The cost of these compensations is financed by a Bank loan granted to the company. The principal loan will be repaid from employees' Loyalty Fund and the interest will be charged to the company as expenses when incurred.
- The company's board of directors approved in its meetings dated March 20, 2002 and December 30, 2002 to finance an amount of L.E 65 000 K and L.E 35 000 K respectively for the employees' Loyalty Fund to facilitate financing the retired employees' compensations (the second and third phases), provided that these amounts should be refunded from employees Loyalty Fund upon their legal early retirements. The amount of L.E. 80 569 K was refunded as of December 31, 2007.
- On January 15, 2004 the employees' Loyalty Fund was registered in the Register of the Egyptian Private Social Insurance Funds and the grant accounts was transferred to the account of Loyalty Fund which will pay these balances to the company on the dates of the legal early retirement of the employees.
- The actual compensations charged to the income statement and paid to the early retired employees' for the year amounted to L.E.4 461 K, representing the amount due on the remaining year till the legal age of retirement.
- The amounts to be refunded during a year (current portion) amounted to L.E 5 601 K and the amounts to be refunded starting from January 2009 and up to the year 2011 (the long term portion) is L.E. 13 803 K. (Note No. 7).

## 32- EARNING PER SHARE FOR THE YEAR

| | 2007 | 2006 |
|---|---|---|
| Net profit for the year (L.E 000) | 2 534 286 | 2 426 877 |
| **Less:** | | |
| Employees share in profit (L.E 000) | 189 675 | 132 772 |
| Board remuneration (L.E 000) | 3000 | 3 000 |
| | 2 341 611 | 2 291 105 |
| **Less:** | | |
| The parent company's share in employees & Board of directors' share of subsidiaries dividends | 2 874 | 2 391 |
| | 2 338 737 | 2 288 714 |
| Average number of outstanding shares during the year | 1 707 071 600 | 1 707 071 600 |
| **Earning per share for the year (L.E / share)** | **1.37** | **1.34** |

## 33- CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts until December 31, 2007 amounted to L.E.111 million (includes L.E 10.45 million the uncalled instalments of investees' of share capital) against L.E 105 million at 31/12/2006 (includes L.E 13 million the uncalled instalments of investees' of share capital). These commitments are expected to be settled in the following financial year except the uncalled installments of investees' share capital, which shall be settled when required by the Board of Directors for those investees companies.

## 34- CONTINGENT LIABILITIES

In addition to the amounts included in the balance sheet, as of December 31, 2007 the company had the following contingent liabilities:-

| | 31Dec. 2007 LE (000) | 31Dec. 2006 LE (000) |
|---|---|---|
| - Letters of guarantee issued by banks on behalf of the company | 65 762 | 52 207 |
| - Letters of credit | 249 041 | 264 801 |



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## 35. TAXATION

### 35-1 Corporate tax

Years till 26/3/1998

- This year covers all the years up till National Telecommunication Authority (NTA) has been transformed into Telecom Egypt. Tax inspection was made, and all disputes were settled except for certain amounts for which related provisions were formed to meet the disputes tax liabilities.

Financial years from 27/3/1998 till 31/12/2004

- Tax inspection was made till the year ended 31/12/2004 and the company was notified by Tax Forms No. (18) & (19) corporate profit tax, and it agreed on the taxable income and the differences were paid.

Financial years 2005 & 2006

- Tax return was submitted on due dates according to tax law No. 91 for year 2005.

- Tax inspection for the year 2005 was made, and the company was notified that there are no tax differences.

### 35-2 Sales Tax

- Tax inspection was made till 31/12/2006 and all due taxes were settled.

### 35-3 Salary Tax

- Tax inspection and assessment were made till 31/12/2002 and all due tax was settled.

- Tax inspection for the year from 1/1/2003 till 31/12/2004 is currently being undertaken.

### 35-4 Stamp Tax

- Tax inspection for the year from 27/3/1998 to 31/12/2000 was made and the company objected on the disputed items on the due dates and the related provisions were formed to meet the dispute tax liabilities.

- Tax inspection for the year from 1/1/2001 till 31/12/2005 is currently being undertaken.



## 36. RELATED PARTY TRANSACTIONS

There are transcations between the company and its affilites. The most important transcations during the year and related balances on the balances sheet are stated as follow:

| | Amount of Transactions Recorded in the Income Statement | Nature of Transcations During the Year | Transactions Volume During the Year | | Balance as 31/12/2007 | | Balance as 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|
| | | | Debit | Credit | Debit | Credit | Debit | Credit |
| **Debit balance included in account receivables** | LE (000) | | LE (000) | LE (000) | LE (000) | LE (000) | LE (000) | LE (000) |
| - Nile on Line (N.O.L) | — | International leased lines | 660 | 5 948 | 66 | — | 5 354 | — |
| - Nile on Line (N.O.L) | 2 322 | Local leased lines | 2 555 | 1 822 | 742 | — | 9 | — |
| - Vodafone Egypt | 570 518 | Fixed to mobile interconnection and audio text fees due to affiliates | 943 500 | 926 252 | 54 200 | — | 36 952 | — |
| | 953 513 | Intercoming and international calls, transmission & lease of company primses for affiliates | | | | | | |
| | — | | 946 715 | 934 022 | 55 008 | — | 42 315 | — |
| **Debit balance included in other debit balances - long term** | | | | | | | | |
| - Consortium Algerien de Telecommunications (CAT) | — | Paid on behalf of subsidiary to finance operating expenses | 63 515 | 15 648 | 414 759 | — | 366 892 | — |
| **Debit balance included in debtors and other debit accounts** | | | | | | | | |
| - International Telecommunications Consortium Limited (ITCL) | — | | — | 2 | 66 | — | 68 | — |
| **Credit balance included in creditors and other credit accounts** | | | | | | | | |
| - Nile on Line (NOL) | 5 464 | Internet Services | 5 323 | 5 464 | — | 1 373 | — | 1 232 |

### 37- FINANCIAL INSTRUMENTS FAIR VALUE

The financial instruments are represented in the balance of cash on hand and at banks, debtors, creditors, investments and loans. The fair value of the long-term loans cannot be determined as there is no market for these loans since the majority of these loans are preferred loans granted by the government or International Aid Organizations and Institutions. The book value of other financial instruments represents a reasonable assessment of their fair value.

### 38- MANAGEMENT OF FINANCIAL RISK

#### 38-1 Interest risk

Interest rate risk is represented in the changes in the interest rate computed on the company's debts such as loans, bonds, bank overdrafts and credit facilities which amounted to LE 4 985 474 K as at December 31, 2007. (Compared to LE 7 489 248 K as at December 31, 2006). Financing interests and exp enses related to these balances amounted to LE 599 774K during the year (compared to LE 393 082 K during the previous year), while the balance of time deposits amounted to LE 1 077 783 K as at December 31, 2007 (compared to LE 491 798 K as at December 31, 2006), and the interest income on these deposits amounted to LE 81 302 K during the year (LE 48 633 K during the previous year). In order to minimize these risks, the company's management currently seeks to obtain the best possible terms and conditions from the banks as regards the balances of credit facilities, overdrafts and loans, also, it reviews the prevailing interest rates declared by the banks on a regular basis, a matter which help mitigate the interest rate risk.

#### 38-2 Credit risk

This risk is represented in the clients and debtors' inability to pay their outstanding balances. In order to mitigate the said risk, the company suspends services for delinquent customers and imposes fines on late payments followed by cutting off lines then contract termination.

#### 38-3 Foreign currency risk

The foreign currency exchange risk represents the risk of fluctuation in exchange rates, which in turn affects the company's cash inflows and outflows as well as the value of its foreign currency assets and liabilities. As of the date of the consolidated balance sheet the company has foreign currency assets and liabilities equivalent to LE 2 211 561 K and LE 2 046 608 K respectively. The company's net exposure in foreign currencies at the financial position is as follows: -

| Foreign currencies | 31Dec. 2007 Surplus / (Deficit) (000) | 31Dec. 2006 Surplus / (Deficit) (000) |
|---|---|---|
| U.S. Dollars | 131 122 | 107 711 |
| Euro | (62 693) | (130 783) |
| Sterling Pound | 258 | 355 |
| Japanese Yen | (1 097 478) | (2 432 914) |
| Swedish Krona | (11 501) | (15 724) |
| Jordan Dinar | 741 | 329 |
| Canadian Dollars | 279 | |
| U.A.E Dirham | 347 | 134 |

As disclosed in note (3-2) "Foreign Currency Translation" the company has used the exchange rates declared by the banks that the company deals with to retranslate monetary assets and liabilities at the financial position date.

### 39- COMPARATIVE FIGURES

Certain comparative figures were reclassified to comply with the current classification of the current year.

### 40- SUBSEQUENT EVENTS

No material subsequent events occurred after the date of the financial year ended on 31/12/2007.