

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Consolidated Financial Statements
For The Financial Period Ended June 30, 2006
& Auditor's Limited Review Report

Auditor's Limited Review Report

To The Board of Directors Of Telecom Egypt Company
(An Egyptian Joint Stock Company)

We have performed a limited review on the accompanying consolidated balance sheet of Telecom Egypt Company - an Egyptian joint stock company – as of June 30, 2006 and the related consolidated statements of income, cash flows and changes in equity for the financial period then ended. These financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review.

Our review was made in accordance with the Egyptian Standard on Auditing relating to the limited review. This standard requires that we plan and perform the review to obtain reasonable assurance that the financial statements are free of material misstatement. Our review work is limited to obtaining the required information from company's personnel and analytical procedures applied for financial data and thus provide less assurance than the audit procedures applied according to the Egyptian Standards on Auditing for the purpose of issuing an opinion on the financial statements and, accordingly, we do not express an audit opinion.

Based on our limited review for the consolidated financial statements of Telecom Egypt Company for the period ended June 30, 2006 nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements are not presented fairly in all material respects in accordance with Egyptian Accounting Standards.

KPMG Hazem Hassan
Public Accountants & Consultants

Cairo, August 10, 2006

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Financial Position
As of June 30, 2006

	Note No.	30/6/2006 LE(000)	31/12/2005 LE(000)
<u>Long-Term Assets</u>			
Fixed assets (net)	(4)	21 072 083	21 833 589
Projects in progress	(5)	1 257 511	1 146 797
Investments in affiliates	(3-6):(6-1)	1 303 285	1 301 785
Available for sale investments	(3-7):(6-2)	96 635	95 197
Long-term other receivables	(7)	1 085 123	1 512 901
Other assets (net)	(3-9):(8)	155 749	126 769
Total Long Term Assets		24 970 386	26 017 038
<u>Current Assets</u>			
Inventory	(9)	468 951	494 776
Trade and notes receivable	(10)	2 768 753	2 559 673
Debtors and other debit accounts	(11)	2 703 339	2 160 735
Investments held for trading	(12)	192 327	—
Cash on hand and at banks	(13)	1 139 308	768 016
Total Current Assets		7 272 678	5 983 200
<u>Current Liabilities</u>			
Loan instalments and facilities due within one year	(14)	392 118	476 487
Banks - credit accounts		327 562	419 061
Banks overdraft		86 354	158 474
Suppliers & notes payable	(15)	92 269	103 768
Dividends payable		655 724	36 593
Creditors and other credit accounts	(16-1)	2 800 284	2 926 577
Provisions	(17)	1 259 283	1 255 653
Total Current Liabilities		5 613 594	5 376 613
Working capital		1 659 084	606 587
Total investments		26 629 470	26 623 625
Financed as follows:-			
<u>Equity and long-term liabilities</u>			
<u>Equity</u>			
Paid up capital	(19)	17 070 716	17 070 716
Reserves	(20)	4 159 874	3 416 774
Retained earnings		566 327	403 611
Translation difference adjustments		(112)	(78)
Net profit for the period / year		1 111 579	1 858 019
Total equity attributable to equity holders of the parent		22 908 384	22 749 042
Minority Interest		30 544	22 031
Total Equity		22 938 928	22 771 073
<u>Long-Term Liabilities</u>			
Loans and credit facilities	(14)	1 565 948	1 734 821
Bonds loan	(21)	2 000 000	2 000 000
Creditors and other credit accounts	(16-2)	57 075	56 459
Deferred tax liabilities	(3-23) , (22)	67 519	61 272
Total Long-Term Liabilities		3 690 542	3 852 552
Total Equity and Long-Term Liabilities		26 629 470	26 623 625

The accompanying notes from No. (1) to No. (39) form an integral part of these financial statements.

Chairman

Deputy chairman for Financial &
Commercial Affairs

Head of the financial sector

Eng./Akil Beshir

Acc./Ali Salama

Acc./Ali Barakat

Date : August 7, 2006

Auditor's Limited Review Report "Attached"

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Income Statement
For The Financial Period Ended June 30, 2006

	Note No.	For the financial period from 1/1/2006 to 30/6/2006 LE(000)	For the financial period from 1/1/2005 to 30/6/2005 LE(000)
<u>Operating Revenues</u>			
Sales of services	(23)	4 427 533	4 038 276
Sales of telephone sets & directories		43 483	69 530
		4 471 016	4 107 806
<u>Operating Expenses</u>			
Interconnection fees	(24)	631 479	579 035
Fuel		27 096	24 052
Spare parts		64 463	55 157
Maintenance		36 936	42 210
Satellite subscriptions		11 327	8 242
Depreciation	(4)	1 309 092	1 247 585
Amortization	(8)	15 306	14 747
Cost of telephone sets & directories sold		54 226	81 343
Other operating costs	(25)	603 953	486 663
		2 753 878	2 539 034
Gross Operating Profit		1 717 138	1 568 772
<u>Administrative expenses</u>			
General & administrative expenses	(26)	456 318	387 920
Selling & distribution expenses	(27)	120 662	83 550
Provisions	(17)	10 996	40 316
Impairment loss on trade and other receivables	(18)	38 231	38 360
		626 207	550 146
Net Operating Profit		1 090 931	1 018 626
<u>Other Income / (Expenses)</u>			
Interest income		22 850	10 570
Income from investments		338 881	137 111
Interest expenses		(141 706)	(200 181)
Other revenues	(28)	137 127	51 208
Reversal of impairment loss on available for sale investments		1 437	—
Impairment loss on available for sale investments		—	(3 006)
Gain on sale of investments		979	20 941
Increase of market value of held for trading investments		5 898	—
Gain on sale of fixed assets		41	758
Foreign exchange (loss) gain		(82 223)	298 700
Release of unused provision		—	157
		283 284	316 258
Net profit for the period before tax & minority interest		1 374 215	1 334 884
<u>Less:</u>			
Current tax expense		255 450	295 304
Deferred tax expense		6 092	—
Net profit before minority interest		1 112 673	1 039 580
<u>Less:</u>			
Minority interest		1 094	1 523
Net profit for the period after tax & minority interest		1 111 579	1 038 057
Earnings per share (LE/Share)	(31)	0.65	0.61

The accompanying notes from No. (1) to No. (39) form an integral part of these financial statements.

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Statement of Cash Flows
For The Financial Period Ended June 30, 2006

	Note No.	For the financial period from 1/1/2006 to 30/6/2006 LE(000)	For the financial period from 1/1/2005 to 30/6/2005 LE(000)
<u>Cash flows from operating activities</u>			
Cash receipts from trade receivables		3 636 071	3 689 944
Sales tax collected from trade receivables		240 053	205 244
Stamp tax and fees collected (from third party)		71 153	67 408
Deposits received from trade receivables		25 753	28 039
Cash paid to suppliers		(348 173)	(281 616)
Cash paid to employees		(517 782)	(455 961)
Cash paid on behalf of employees		(165 053)	(147 566)
Dividends paid to shareholders & employees		(272 241)	(469 492)
Net cash from operating activities		<u>2 669 781</u>	<u>2 636 000</u>
Interest paid		(164 634)	(262 861)
Payments to corporate Tax Authority		(480 066)	(294 801)
Payments to Sales Tax Authority		(438 444)	(366 621)
Other proceeds /(payments) net		(53 878)	184 931
Net cash provided by operating activities		<u>1 532 759</u>	<u>1 896 648</u>
<u>Cash flows from investing activities</u>			
Payment for purchase of property, plant & equipment and projects in progress		(737 788)	(1 065 498)
Proceeds from sale of property plant & equipment and other assets		1 611	1 986
Payments for purchase of investments		(221 949)	(669 094)
Proceeds from sale of investments		35 000	88 294
Interest received		18 771	7 184
Dividends received		156 097	27 130
Net cash used in investing activities		<u>(748 258)</u>	<u>(1 609 998)</u>
<u>Cash flows from financing activities</u>			
Repayment of borrowings & facilities relating to acquisition of property, plant & equipment, projects in progress and intangible assets.		(214 970)	(454 607)
Repayment of other borrowings & facilities		(23 148)	(1 506 116)
Payments by minority for capital increase in subsidiary companies		9 615	3 256
Proceeds from long - term loans		—	29 531
Proceeds from long - term bonds issued		—	2 000 000
Repayment of banks credit accounts		(91 050)	(998 341)
Payment of financial lease obligations		(22 120)	(13 194)
Payments of long-term obligations		616	—
Net cash used in financing activities		<u>(341 057)</u>	<u>(939 471)</u>
Translation difference adjustments		(32)	(86)
Net Increase (Decrease) in cash and cash equivalents during the period		443 444	(652 821)
Cash and cash equivalents at the beginning of the period	(32)	609 542	1 104 560
Cash and cash equivalents at the end of the period	(32)	<u>1 052 954</u>	<u>451 653</u>

The accompanying notes from No.(1) to No. (39) form an integral part of these financial statements.

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Statement Of Changes In Equity
For The Financial Period Ended June 30, 2006

	<u>Paid up capital</u> <u>LE(000)</u>	<u>Legal reserve</u> <u>LE(000)</u>	<u>Other reserves</u> <u>LE(000)</u>	<u>Revaluation reserve</u> <u>LE(000)</u>	<u>Retained earnings</u> <u>LE(000)</u>	<u>Translation difference adjustments</u> <u>LE(000)</u>	<u>Net profit</u> <u>LE(000)</u>	<u>Total equity attributable to equity holders of the parent</u> <u>LE(000)</u>	<u>Minority interest</u> <u>LE(000)</u>	<u>Total equity</u> <u>LE(000)</u>
Balance as of 1/1/2005	17 112 149	322 347	4 308 086	16 819	415 281	(34)	1 025 167	23 199 815	17 940	23 217 755
Adjustments to retained earnings	—	—	—	—	(11 742)	—	—	(11 742)	—	(11 742)
Minority interest's share in capital increase	—	—	—	—	—	—	—	—	2 661	2 661
Transferred to reserves	—	51 390	410 014	—	—	—	(461 404)	—	—	—
Dividends for the year 2004	—	—	—	—	(25 901)	—	(548 312)	(574 213)	(834)	(575 047)
Adjustment to revaluation surplus of solid investments	—	—	—	(10 005)	10 005	—	—	—	—	—
Reducing of other reserves against decrease in the land & other assets according to the Extra-ordinary General Assembly resolution on 21/9/2005	—	—	(1 723 339)	—	—	—	—	(1 723 339)	—	(1 723 339)
Reducing the share capital according to the Extra –ordinary General Assembly resolution on 21/9/2005	(41 433)	—	41 433	—	—	—	—	—	—	—
Transferred from minority interest due to the change in capital shareholding percentage	—	29	—	—	455	—	—	484	(484)	—
Transferred to retained earnings	—	—	—	—	15 504	(53)	(15 451)	—	—	—
Translation difference adjustments	—	—	—	—	9	9	—	18	(6)	12
Net profit for the year 2005	—	—	—	—	—	—	1 858 019	1 858 019	2 754	1 860 773
Balance as of 31/12/2005	17 070 716	373 766	3 036 194	6 814	403 611	(78)	1 858 019	22 749 042	22 031	22 771 073
Adjustments to retained earnings	—	—	—	—	246	—	—	246	(76)	170
Minority interest's share in capital increase of subsidiary company	—	—	—	—	—	—	—	—	9 615	9 615
Transferred from minority interest due to the change in capital shareholding percentage	—	36	—	—	481	—	—	517	(517)	—
Transferred to reserves	—	93 064	650 000	—	—	—	(743 064)	—	—	—
Dividends for the year 2005	—	—	—	—	(1 394)	—	(951 576)	(952 970)	(1 605)	(954 575)
Transferred to retained earnings	—	—	—	—	163 383	(4)	(163 379)	—	—	—
Translation difference adjustments	—	—	—	—	—	(30)	—	(30)	3	(27)
Net profit for the period	—	—	—	—	—	—	1 111 579	1 111 579	1 093	1 112 672
Balance as of 30/6/2006	17 070 716	466 866	3 686 194	6 814	566 327	(112)	1 111 579	22 908 384	30 544	22 938 928

The accompanying notes from No. (1) to No. (39) form an integral part of these financial statements.

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Notes to the Consolidated Financial Statements
For The Financial Period Ended June 30, 2006

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 Law 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:

<u>Subsidiaries name</u>	<u>Percentages share %</u>
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.	51.00 %
Centra Technologies – S.A.E.	55.02 %

3. SIGNIFICANT ACCOUNTING POLICIES APPLIED

3-1 Basis of preparing the consolidated financial statements

3-1-1 The financial statements are prepared under the historical cost basis and in accordance with the Egyptian Accounting Standards and in the 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 financial position 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 for the period.

3-3 Financial statements translation for foreign operations

TE Data Jordan, wholly owned by TE Data Egypt – a subsidiary company – 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) – a subsidiary company – 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 financial position 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 financial position.

3-4 Fixed assets and depreciation

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

<u>Description</u>	<u>Estimated Useful life (Years)</u>
Buildings & constructions	10 - 50
Machinery & equipment	6 - 20
Means of transportation	5 - 10
Tools and supplies	1 - 8
Office furniture, fixtures and Information systems devices	3 – 16.67
Decoration & fixtures	5

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

Investments in affiliates are stated at cost. In case of the existence of impairment in the carrying amounts of these investments, the related investment is reduced by this impairment loss, and charged to the income statement for the year.

3-7 Available-for-Sale Investments

Available-for-sale investments are recorded at cost and re-measured as follows:

- The listed investments in the stock exchange are re-measured at the end of each financial period at fair value (market value).

- Investments that are not listed in the stock exchange are re-measured at cost or computed value, calculated in the light of an objective study of the company's recently approved financial statements by the companies issuing such notes. Any losses resulting from the decline in the market value or computed value of the investments compared with the cost are charged to the income statement for the period.
- The inactive investments (do not have listed price in an active market, or their fair value can not be reliably measured) are recorded at their acquisition cost. In case of impairment in the carrying amounts of these investments, the related investment is reduced by the impairment loss and charged to the income statement for the period for each investment.

3-8 Held for trading investments

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

Inventories of goods purchased for resale are valued at the lower of cost or net realizable value. Inventories of spare parts and materials are valued at cost. Obsolete or slow moving items are written-down to their replacement value. 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.(3-23) are reviewed at each consolidated financial position 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 financial position 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 as incurred.

3-15 Grants

Grants are recorded as deferred revenues and should be recognized 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.
- Income from investments is recognized when dividends of investees are declared by the General Assembly resolutions.

3-18 Expenses

All operating expenses recorded including general & administrative expenses are recognized in the income statement in the financial period when incurred.

3-19 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. 29).

3-20 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.

3-21 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.

3-22 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 ceases once the reserve reaches 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.

- **Other reserves**

The General Assembly may, upon the suggestion of the Board of Directors, form other reserves.

3-23 Income tax

Income tax on the profit or loss for the period 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 period, using tax rates enacted at the financial position 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.

3-24 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)**

	<u>Land LE(000)</u>	<u>Buildings & constructions LE(000)</u>	<u>Machinery & equipment LE(000)</u>	<u>Means of transportation LE(000)</u>	<u>Tools & supplies LE(000)</u>	<u>Office furniture & fixtures LE(000)</u>	<u>Decoration & fixtures LE(000)</u>	<u>Total LE(000)</u>
<u>Cost</u>								
Balance as at 1/1/2006	2 336 291	16 541 885	16 643 199	101 285	60 752	735 972	449	36 419 833
Adjustment to the opening balance	—	—	(18 094)	—	—	—	—	(18 094)
Additions for the period	1 298	148 956	423 042	85	663	61 190	158	635 392
Disposal for the period	—	—	—	(843)	(111)	(412)	(76)	(1 442)
Reclassification	—	(9 146)	—	—	—	(2 655)	11 801	
Translation differences	—	—	7	—	—	5	1	13
Balance as at 30/6/2006	2 337 589	16 681 695	17 048 154	100 527	61 304	794 100	12 333	37 035 702
<u>Depreciation & Impairment</u>								
Accumulated depreciation as at 1/1/2006	—	5 553 416	8 648 516	79 296	33 523	271 368	125	14 586 244
Adjustment to the opening balance	—	—	(499)	—	—	(329)	—	(828)
Depreciation for the period	—	456 124	845 175	5 980	2 694	68 125	1 225	1 379 323
Accumulated depreciation of disposal	—	—	—	(556)	(111)	(400)	(55)	(1 122)
Reclassification	—	(229)	—	—	—	(664)	893	
Translation differences	—	—	1	—	—	1	—	2
Balance of accumulated depreciation as at 30/6/2006	—	6 009 311	9 493 193	84 720	36 106	338 101	2 188	15 963 619
Carrying amounts as at 30/6/2006	2 337 589	10 672 384	7 554 961	15 807	25 198	455 999	10 145	21 072 083
Carrying amounts as at 31/12/2005	2 336 291	10 988 469	7 994 683	21 989	27 229	464 604	324	21 833 589

- Cost of fixed assets included an amount of LE 1 467 million relating to fully depreciated assets still in use.

Depreciation for the period are charged as follows:-

	<u>LE(000)</u>
Operating expenses	1 309 092
General & administrative expenses	69 763
Selling & distribution expenses	468
	<u>1 379 323</u>

5. PROJECTS IN PROGRESS

	<u>30/6/2006</u> <u>LE (000)</u>	<u>31/12/2005</u> <u>LE (000)</u>
<i>Telecom Egypt - Parent</i>		
Land	7 228	6 528
Buildings and constructions	135 169	124 819
Machinery and equipment	591 164	442 967
Means of transportation	301	387
Tools and supplies	115	115
Office furniture and fixtures	25 738	39 441
Advance payments	423 189	495 523
Letters of credit	65 162	29 312
	<u>1 248 066</u>	<u>1 139 092</u>
<i>T.E Data – a subsidiary company</i>		
Advance payments	9 445	7 705
	<u>1 257 511</u>	<u>1 146 797</u>

6. LONG TERM INVESTMENTS

	<u>30/6/2006</u>		<u>31/12/2005</u>	
	<u>Participation</u> <u>%</u>	<u>LE (000)</u>	<u>Participation</u> <u>%</u>	<u>LE (000)</u>
6-1 Investments in affiliates				
- Vodafone Egypt *	25.50	1 287 805	25.50	1 287 805
- Nile On Line (NOL)	27.27	12 668	27.27	12 668
- Wataneya for Telecommunication	50.00	125	50.00	125
- Consortium Algerien de Tele – communications (CAT)	33.00	133	33.00	133
- International Telecommunication Consortium Limited. (ITCL)	50.00	54	50.00	54
- Egypt Trust	35.71	2 500	25.00	1 000
		<u>1 303 285</u>		<u>1 301 785</u>

Market value of investments in Vodafone Egypt according to the Egyptian Stock Exchange prices on June 30, 2006 amounts to L.E 4 804 200 K.

6-2 Available for sale investments

- Participations in foreign Satellite companies & organizations	26 683	25 245
- Investments in other local companies	69 952	69 952
	<u>96 635</u>	<u>95 197</u>

INVESTMENT IN VODAFONE – EGYPT

The investment in Vodafone Egypt represents the ownership of 61 200 000 shares which represent 25.5% of Vodafone Egypt shares.

The company is currently in the process to transferring the ownership of its shares in Vodafone to Wataneya for Telecommunication Company, which was

established on January 27, 2005 with participation percentage of 50% by Telecom Egypt.

7. LONG-TERM OTHER RECEIVABLES

These balances are represented in the following:

	<u>30/6/2006</u> <u>LE (000)</u>	<u>31/12/2005</u> <u>LE (000)</u>
- 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 by the third operator after warier of this license (Note No. 30).	1 080 000	1 600 000
<u>Less:</u> The current portion to be collected during next year recorded under "debtors and other debit accounts" (Note No. 11).	520 000	520 000
	<u>560 000</u>	<u>1 080 000</u>
- The interests balances for the period from 1/4/2005 till the financial position date, that shall be settled by (NTRA) for the license's charges paid to (NTRA) for the third mobile phone network as a part of the last installment which is payable on 31/3/2009 (Note No. 30).	<u>150 000</u>	<u>90 000</u>
- Payments made on behalf of consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria.	<u>303 998</u>	<u>221 585</u>
- Amounts due from the employees in consideration of the company's shares floated in public offering and purchased and distributed by the company to its employees. The value of these purchased shares shall be paid by employees over 24-months starting from 1/1/2006, and these shares are subject to a 6 month ban period starting from the date of closing subscription.	<u>147 629</u>	<u>201 987</u>
<u>Less:</u> The current portion to be collected during next year which was recorded under "debtors and other debit accounts" (Note No. 11).	102 632	106 799
	<u>44 997</u>	<u>95 188</u>
- Due from Loyalty Fund Grant (Note No. 29)	<u>29 603</u>	<u>33 078</u>
<u>Less:</u> The current portion to be collected during next year from Loyalty Fund Grant (Note No.11)	3 475	6 950
	<u>26 128</u>	<u>26 128</u>
	<u><u>1 085 123</u></u>	<u><u>1 512 901</u></u>

8- **OTHER ASSETS (net)**

	Right of way (BRITAR) <u>LE(000)</u>	Right of way (ALITAR) <u>LE(000)</u>	Right of way (Flag cable) <u>LE(000)</u>	Usufruct for land occupied by TE <u>LE(000)</u>	Right of way (SMW2, SMW3) <u>LE(000)</u>	Right of using (ROU) <u>LE(000)</u>	Internet license <u>LE(000)</u>	Total <u>LE(000)</u>
<u>Cost</u>								
Cost as at 1/1/2006	1 720	48 755	95 910	1	131 566	48 906	20 189	347 047
Adjustment to the opening balance	—	—	—	—	(100)	—	—	(100)
Additions for the period	—	—	—	—	—	44 349	2	44 351
Balance as at 30/6/2006	1 720	48 755	95 910	1	131 466	93 255	20 191	391 298
<u>Accumulated amortization & impairment losses</u>								
Balance as at 1/1/2006	731	21 351	60 363	—	95 708	22 109	20 016	220 278
Adjustment to the opening balance	—	—	—	—	(35)	—	—	(35)
Amortization during the period	86	1 219	4 803	—	6 573	2 615	10	15 306
Balance as at 30/6/2006	817	22 570	65 166	—	102 246	24 724	20 026	235 549
Carrying amounts as at 30/6/2006	903	26 185	30 744	1	29 220	68 531	165	155 749
Carrying amounts as at 31/12/2005	989	27 404	35 547	1	35 858	26 797	173	126 769

9. INVENTORY

	30/6/2006	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>
Spare parts	150 072	158 774
Materials supplies	256	356
Computers & Pc's components	7 925	7 838
Others – project cables and supplies	250 552	277 737
Finished goods	2 431	149
Telephone sets and directories	36 965	42 154
Consignment goods	777	878
	<hr/>	<hr/>
	448 978	487 886
<u>Add:</u>		
Letters of credit	19 973	6 890
	<hr/>	<hr/>
	468 951	494 776
	<hr/> <hr/>	<hr/> <hr/>

10. TRADE & NOTES RECEIVABLE

	30/6/2006	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>
Governmental sector	373 862	294 679
Private sector	2 430 886	2 529 850
Foreign telecommunication companies and organizations	857 878	902 257
	<hr/>	<hr/>
	3 662 626	3 726 786
<u>Less:</u>		
Impairment loss on trade receivables	894 310	1 168 062
	<hr/>	<hr/>
	2 768 316	2 558 724
Notes receivable	437	949
	<hr/>	<hr/>
	2 768 753	2 559 673
	<hr/> <hr/>	<hr/> <hr/>

11. DEBTORS & OTHER DEBIT ACCOUNTS

	<u>30/6/2006</u> <u>LE (000)</u>	<u>31/12/2005</u> <u>LE (000)</u>
Suppliers – debit balances	136 580	56 716
Deposits with others	8 101	6 957
Employees’ loans	1 888	1 335
Customs Authority - deposits	3 047	3 047
Accrued revenues	186 268	8 665
Tax Authority	100 124	110 089
Employees loyalty grant (Note No. 7)	3 475	6 950
Other debit accounts*	2 419 341	2 121 529
	<u>2 858 824</u>	<u>2 315 288</u>
<u>Less:</u>		
Impairment loss on debtors & other debit accounts balances	155 485	154 553
	<u>2 703 339</u>	<u>2 160 735</u>

* Other debit accounts include the following amounts: -

	<u>30/6/2006</u> <u>LE (000)</u>	<u>31/12/2005</u> <u>LE (000)</u>
- The current portion to be collected within one year from the National Telecommunication Regulatory Authority for the license fees of Wataneya for Telecommunication (Note No. 7).	520 000	520 000
- The current portion to be collected during next year for the balances due from the employees for the company’s shares distributed to them (Note No. 7)	102 632	106 799
- Amounts due from the main shareholders of the company (Ministry of Finance) for payment of public offering expenses on behalf of the seller (Ministry of Finance).	-	15 345
- Amounts paid to (NTRA) on the account of frequency charges for year 2006	40 000	-
- Payments on the account of corporate tax.	1 002 089	1 002 089
	<u>1 664 721</u>	<u>1 644 233</u>

12. INVESTMENTS HELD FOR TRADING

Held for trading investments amounted to LE 192 327 K represented in the following:

	<u>30/6/2006</u> <u>LE (000)</u>
<u>TE Data a Subsidiary Company</u>	
Value of 1 698 689 unit of commercial International Bank Investment Fund – Osoul Fund with price LE 112.62 for each unit at financial position date.	191 306
<u>TE Information Technology – a Subsidiary Company</u>	
Value of 9 067 unit of commercial International Bank Investment Fund – Osoul Fund with price L.E 112.62 for each unit at financial position date.	1 021
	<hr/> <hr/> 192 327 <hr/> <hr/>

13. CASH ON HAND AND AT BANKS

	<u>30/6/2006</u> <u>LE (000)</u>	<u>31/12/2005</u> <u>LE (000)</u>
Banks- time deposits	1 011 522	668 147
Banks -current accounts	108 977	66 858
Cash on hand	18 809	33 011
	<hr/> <hr/> 1 139 308 <hr/> <hr/>	<hr/> <hr/> 768 016 <hr/> <hr/>

Time deposits at 30/6/2006 include the following:-

- An amount of LE 7 985 K blocked in favor of some banks as a guarantee for the letters of credit granted to the company (against LE 9 565 K at 31/12/2005).
- An amount of LE 300 K deposits blocked against visa cards in favor of American Express Bank.

14- **LOANS AND FACILITIES**

Description	Loan Currency	Long term loan Instalments due within one year <u>LE(000)</u>	Long term loan Instalments due within more than one year <u>LE(000)</u>	Balance as of 30/6/2006 <u>LE(000)</u>	Balance as of 31/12/2005 <u>LE(000)</u>	Annual Interest Rate <u>%</u>	<u>Repayment schedule</u>
<u>Telecom Egypt - the parent</u>							
Local banks loans	L.E.	12 581	2 628	15 209	21 500	Caibor + 2.55 %	Semi-annual instalments ending on 24/9/2007
Total local loans		<u>12 581</u>	<u>2 628</u>	<u>15 209</u>	<u>21 500</u>		
Governmental Loans	L.E.	—	—	—	22	8%	Annual instalments ending on 9/4/2006 Semi annual / annual instalments ending on 24/1/2014
Governmental Loans	U.S.\$	86 736	600 753	687 489	796 957	4%	24/1/2014
Governmental Loans	SK	2 229	281	2 510	3 341	0.15% + agency commission	Semi annual instalments ending on 31/12/2007
Governmental Loans	EURO	6 705	25 432	32 137	33 507	4 - 6.37%	Semi annual instalments ending on 29/12/2012
Total Governmental loans		<u>95 670</u>	<u>626 466</u>	<u>722 136</u>	<u>833 827</u>		
Foreign loans	J.Y	24 754	67 151	91 905	102 777	3 -3.5%	Semi annual instalments ending on 20/3/2012
Foreign loans	EURO	128 098	849 326	977 424	1 001 610	0.75 - 8.2%	Semi annual instalments ending on 30/6/2036
Foreign loans	L.D	—	—	—	10 171	3.5%	
Total foreign loans		<u>152 852</u>	<u>916 477</u>	<u>1 069 329</u>	<u>1 114 558</u>		
Foreign suppliers' facilities - local	L.E.	—	—	—	427	3%	Semi annual instalments ending on 5/3/2006 Semi annual / annual instalments ending on 1/12/2008
Foreign suppliers' facilities - foreign	EURO	75 117	6 648	81 765	144 104	3.18 - 5.50%	1/12/2008
Foreign suppliers' facilities - foreign	J.Y	55 450	13 729	69 179	96 892	2.75%	Semi annual instalments ending on 14/12/2007
Total foreign suppliers' facilities		<u>130 567</u>	<u>20 377</u>	<u>150 944</u>	<u>241 423</u>		
<u>T.E Data - a subsidiary company</u>							
Short term loans	Jordan Dinar	448	—	448	—		
		<u>392 118</u>	<u>1 565 948</u>	<u>1 958 066</u>	<u>2 211 308</u>		

— Foreign suppliers' facilities in Euro include LE 4 124 K equivalent to Euro 566 K against letters of guarantee issued by National Bank of Egypt in favour of Siemens as a guarantee for this facility settlement.

15- SUPPLIERS & NOTES PAYABLE

	30/6/2006	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>
Suppliers - local	52 718	93 127
Suppliers - foreign	34 994	7 504
Notes payable	4 557	3 137
	<u>92 269</u>	<u>103 768</u>
	=====	=====

16- CREDITORS AND OTHER CREDIT ACCOUNTS

16-1 Creditors and other credit accounts (current)

	Note	30/6/2006	31/12/2005
	<u>No.</u>	<u>LE (000)</u>	<u>LE (000)</u>
Tax Authority		144 120	80 566
Deposits from others		623 656	605 848
Fixed assets creditors		271 861	389 652
Accrued interest		37 249	73 931
Accrued expenses		190 013	216 128
Social Insurance Authority		20 174	18 987
Clients – credit balances		222 245	215 372
Credit balance for social, cultural and sportive activities		151 637	119 214
Deferred revenues*		248 401	266 254
Other credit accounts		406 789	363 275
Tax Authority – income tax		283 393	260 720
Current income tax for the period / year		255 450	371 334
		<u>2 854 988</u>	<u>2 981 281</u>
<u>Less:</u>			
Tax payments due after one year	(16-2)	54 704	54 704
		<u>2 800 284</u>	<u>2 926 577</u>
		=====	=====

* Deferred revenues are represented in the value of the grant presented by the USAID to finance some of the company's projects after deducting the accumulated amortization as at 30/6/2006.

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

Creditors and other long-term accounts represent:-

	Note No.	30/6/2006 L.E (000)	31/12/2005 L.E (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		2 371	1 755
		<u>57 075</u>	<u>56 459</u>
		<u>=====</u>	<u>=====</u>

17- PROVISIONS

	Balance as of 1/1/2006	Charged to the income statement for the period	Used in provision	Balance as of 30/06/2006
	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>
Provision for contingent liabilities, claims and others				
Tax provision	1 115 598	10 872	(7 366)	1 119 104
Claims provision	140 055	124	—	140 179
	<u>1 255 653</u>	<u>10 996</u>	<u>(7 366)</u>	<u>1 259 283</u>

18- IMPAIRMENT LOSS OF ASSETS

On trade receivables	<u>1 168 062</u>	<u>37 299</u>	<u>(311 051)</u>	<u>894 310</u>
On debtors and other debit accounts balances	<u>154 553</u>	<u>932</u>	<u>—</u>	<u>155 485</u>
Write-down in inventory *	<u>17 040</u>	<u>—</u>	<u>—</u>	<u>17 040</u>
	<u>1 339 655</u>	<u>38 231</u>	<u>(311 051)</u>	<u>1 066 835</u>

* 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

	<u>30/6/2006</u>	<u>31/12/2005</u>
	<u>LE (000)</u>	<u>LE (000)</u>
Legal reserve	466 866	373 766
Revaluation reserve of available for sale investments	6 814	6 814
General reserve	3 668 084	3 018 084
Capital reserve	18 110	18 110
	<u>4 159 874</u>	<u>3 416 774</u>
	=====	=====

Legal reserve amounting to LE 3 668 084 at 30/6/2006 represents the dividends transferred to the general reserve for years 99/2000 till 2005 after the decreases decided by the Extra-ordinary General Assembly Meetings held on 29/3/2005 & 21/9/2005.

21. BONDS LOAN

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

- 1- The first tranche shall be 50% of the bonds at a fixed annual interest equal to 10.95% to be paid quarterly.
- 2- The second tranche shall be the other 50% of the bonds at a variable annual interest equal to 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.

22. DEFERRED TAX

22-1 Deferred Tax Assets and Liabilities

	Assets	Liabilities	Assets	Liabilities
	30/6/2006	30/6/2006	31/12/2005	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>	<u>LE (000)</u>	<u>LE (000)</u>
Fixed assets	-	(181 899)	-	(170 402)
Inventory	3 391	-	3 391	-
Trade and other receivables	29 905	-	25 793	-
Provisions	52 276	-	50 101	-
Accrual (liabilities)	28 808	-	29 845	-
Total deferred tax assets (liability)	<u>114 380</u>	<u>(181 899)</u>	<u>109 130</u>	<u>(170 402)</u>
Net deferred tax liability	<u>-</u>	<u>67 519</u>	<u>-</u>	<u>61 272</u>

23. SALES OF SERVICES

	For the financial period from 1/1/2006 to 30/6/2006 <u>LE (000)</u>	For the financial period from 1/1/2005 to 30/6/2005 <u>LE (000)</u>
Retail services:		
Access:		
Connections	95 382	173 606
Subscriptions	763 600	635 512
Total	<u>858 982</u>	<u>809 118</u>
Voice:		
Local	878 925	780 925
Long distance	206 759	199 942
Fixed to international	197 771	206 467
Fixed to mobile interconnection	506 332	511 884
Total	<u>1 789 787</u>	<u>1 699 218</u>
Internet & Data	82 133	50 910
Others	454 634	395 589
Total	<u>536 767</u>	<u>446 499</u>
Total Retail	<u>3 185 536</u>	<u>2 954 835</u>
Wholesale:		
Domestic:		
Mobile to fixed international	103 739	99 958
Others	94 127	78 263
Total	<u>197 866</u>	<u>178 221</u>
International:		
Mobile to international	354 585	304 481
Incoming international call	689 546	600 739
	<u>1 044 131</u>	<u>905 220</u>
Total Wholesale	<u>1 241 997</u>	<u>1 083 441</u>
Total revenues from sales of services	<u>4 427 533</u>	<u>4 038 276</u>

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

24. INTERCONNECTION FEES

	For the financial period from 1/1/2006 to 30/6/2006 <u>LE (000)</u>	For the financial period from 1/1/2005 to 30/6/2005 <u>LE (000)</u>
Fixed to mobile interconnection fees	417 763	360 091
Fixed calls for internet & audio text companies fees	70 799	86 045
Dues against outgoing international calls	142 624	132 538
Dues against outgoing international telegram & telex	293	361
	<u>631 479</u>	<u>579 035</u>

25. OTHER OPERATING COSTS

	For the financial period from 1/1/2006 to 30/6/2006 <u>LE (000)</u>	For the financial period from 1/1/2005 to 30/6/2005 <u>LE (000)</u>
Salaries	373 453	339 951
Compulsory social security contributions	54 519	51 671
Electricity & water	3 323	3 675
Stationary & printed materials	28 925	35 971
Transportation cost	7 299	6 414
Business telephone cost	15 888	9 473
Rent	1 759	310
Others	34 476	19 756
Frequencies & license charge (NTRA)	84 311	19 442
	<u>603 953</u>	<u>486 663</u>

26. GENERAL & ADMINISTRATIVE EXPENSES

	For the financial period from 1/1/2006 to 30/6/2006 <u>LE (000)</u>	For the financial period from 1/1/2005 to 30/6/2005 <u>LE (000)</u>
Salaries	213 807	184 930
Compulsory social security contributions	18 704	18 046
End of service compensation-Early retirement program	2 108	5 943
Depreciation	69 763	46 261
Training	4 880	16 742
Bad debts	89	76
Tax and customs duty	46 750	22 234
Bank charges & commissions	4 485	12 146
Others	95 732	81 542
	<u>456 318</u>	<u>387 920</u>

27. SELLING & DISTRIBUTION EXPENSES

	For the financial period from 1/1/2006 to 30/6/2006 <u>LE (000)</u>	For the financial period from 1/1/2005 to 30/6/2005 <u>LE (000)</u>
Salaries	54 577	47 078
Compulsory social security contributions	7 353	6 749
Depreciation	468	668
Tax and customs duty	1 527	1 364
Rent	462	422
Advertisements	6 457	2 058
Others	49 818	25 211
	<u>120 662</u>	<u>83 550</u>

28. OTHER REVENUES

	For the financial period from 1/1/2006 to 30/6/2006 <u>LE (000)</u>	For the financial period from 1/1/2005 to 30/6/2005 <u>LE (000)</u>
Compensation and penalties (net)	(1 485)	(1 443)
Sundry revenues	155 823	77 778
Prior years' income / (expenses)	(17 211)	(25 127)
	<u>137 127</u>	<u>51 208</u>

29. 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 LE 70 397 K was refunded as of June 30, 2006.
- 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 period amounted to LE 2 108 K, representing the amount due on the remaining period till the legal age of retirement.
- The amounts to be refunded during a year (current portion) amounted to LE 3 475 K and the amount to be refunded starting from July 2007 and up to the year 2011 (the long term portion) is LE 26 128 K. (Note No. 7).

30. WAIVER OF THE LICENSE OF THE THIRD MOBILE OPERATOR

- The company obtained a license to establish the third mobile phone operator against an amount of L.E. 1 975 million paid to the National Telecommunication Regulatory Authority (NTRA). However, due to the current recession in the market, the company decided to waive its right in this license and recover the license fees paid to (NTRA).
- Pursuant to the memorandum of understanding dated December 20, 2003 concluded between Telecom Egypt and both Vodafone Egypt Co. and Mobinil, the parties agreed that the two mobile operators would pay to (NTRA) cash installments in order to obtain the frequency band 1800 MHTZ previously granted to Telecom Egypt and waived to the two mobile operators.
- The company requested (NTRA) to transfer its right in the cash installments paid by the two mobile operators within the agreed payment conditions and time schedule to Misr Bank in its capacity as a lender and a representative of the lenders to the company to finance its acquisition of 25.5% of Vodafone Egypt Shares. The company obtained the approval from (NTRA) regarding this transfer of right on December 22, 2003.
- On January 27, 2005 an agreement was made between Telecom Egypt and the National Telecommunication Regulatory Authority (NTRA) whereby the company committed itself not to apply for obtaining a license to build and operate a mobile phone network in Egypt using the (G.S.M) system with the frequency band of 1 800 MHTZ till November 30, 2007 against the commitment of (NTRA) to pay LE 1 975 million – previously paid by Telecom Egypt to (NTRA) – to Misr Banque according to the terms of the transfer of right dated 22/12/2003, in addition to the payment of LE 480 million to the company after the completion of the payment of LE 1 975 million and LE 25 million due to (NTRA).

The restriction mentioned above does not prohibit or prejudice the right of the company to apply to (NTRA) for obtaining a licenses to provide mobile telecommunication services of the third generation (G3) or any other higher or equal mobile telecommunication services or infra-structure whether during or after the restriction period.

- On April 2005, February 2006 the first and the second installment due from the National Telecommunication Regulatory Authority (NTRA) amounting to LE 375 million & 520 million were collected and the balance due from the National Telecommunication Regulatory Authority (NTRA) amounted to LE 1 080 million as of June 30, 2006 plus the amount of LE 480 million and the remaining amounts will be collected on three equal annual installments amounting to LE 520 million each. The last installment shall fall due on March 31, 2009.

31. EARNING PER SHARE

	For the financial period from 1/1/2006 to 30/6/2006	For the financial period from 1/1/2005 to 30/6/2005
Net profit for the period after minority interest (LE 000)	1 111 579	1 038 057
Average number of outstanding shares during the period	1 707 071 600	1 711 214 900
Earning per share for the period(LE / share)	0.65	0.61
	=====	=====
	(For six months)	(For six months)

Par value of share has been reduced from LE 100 to LE 10 according to the resolution of the Extra-Ordinary General Assembly Meeting dated September 21, 2005 , thus the number of shares has become 1 707 071 600 shares and the previous period's earning per share has been modified as a result of modifying number of shares.

32. STATEMENT OF CASH FLOWS

	<u>30/6/2006</u> <u>LE (000)</u>	<u>31/12/2005</u> <u>LE (000)</u>	<u>30/6/2005</u> <u>LE (000)</u>
Cash and cash equivalents (as reported in the financial position)	1 139 308	768 016	479 938
<u>Less:</u>			
Banks overdraft	86 354	158 474	28 285
	1 052 954	609 542	451 653
Cash and cash equivalents at the end of the period	1 052 954	609 542	451 653
	=====	=====	=====
	==	==	==

33. CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts till June 30, 2006 amounted to LE 181 million (LE 96 million at 31/12/2005). It is expected that these commitments shall be settled next year except for payments of share capitals of investees, which shall be settled when required by the Boards of Directors of these investees.

34. CONTINGENT LIABILITIES

In addition to the amounts included in the balance sheet, as of June 30, 2006 the company had the following contingent liabilities:-

	<u>30/6/2006</u>	<u>31/12/2005</u>
	<u>LE (000)</u>	<u>LE (000)</u>
- Letters of guarantee issued by banks on behalf of the company	160 991	8 270
- Letters of credit	278 687	452 998

35. TAXATION

35-1 Corporate tax

Years till 26/3/1998

- This period covers all the years up till ARENTO 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 31/12/2002

- These financial years were inspected, and the dispute was transferred to the Internal Committee then to the Appeal Committee for the period from 27/3/1998 till 31/12/2000, and all disputed items were resolved except for the differences relating to the revaluation of the assets and liabilities of ARENTO at the time of transforming it into a joint stock company, however, this dispute was settled by virtue of an agreement between the company and the Income Tax Authority on 26/9/2004, and the taxes due for these financial years were resolved till 31/12/2002 according to the minutes of the committee executing the agreement between the Tax Authority and the company. The company has formed a provision for the whole tax amount as agreed upon.

Financial year from 1/1/2003 till 31/12/2003

- Tax inspection was made and the company was notified by Tax Form No.(18), and the company agreed on the taxable income and the provision was formed including all the tax differences.

Financial year from 1/1/2004 till 31/12/2004

- Tax inspection was made and the company was notified of uncontested form No. (19) – corporate profit tax, and it agreed on the taxable income and the differences were paid.

Financial year from 1/1/2005 till 31/12/2005

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

35-2 Sales Tax

Tax inspection was made till 31/12/2005, and all due taxes were settled.

35-3 Salary Tax

- Tax inspection and assessment were made till 31/12/2000 and all due tax were settled.
- Tax inspection for the period from 1/1/2001 till 31/12/2002 is currently being undertaken, and the company formed a provision on an estimated basis to meet the liabilities that may result from tax inspection.

36- **RELATED PARTY TRANSACTIONS WITH AFFILIATES**

There are transactions between the company and its affiliates. The most important transactions during the period and related balances on the financial position date are stated as follows:

	Amount of transactions recorded in the income statement <u>L.E. 000</u>	Nature of transaction during the period	Transaction volume during the period		Balance as of 30/6/2006		Balance as of 31/12/2005		
			Debit	Credit	Debit	Credit	Debit	Credit	
			<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>	
<u>Debit balance included in account receivables</u>									
Nile On Line (N.O.L)	506	International leased lines	—	506	5 694	—	6 200	—	
Nile On Line (N.O.L)	1 433	Local leased lines	1 576	—	1 576	—	—	—	
Vodafone Egypt	355 236	Mobile services	357 274	355 236	1 724	—	—	314	
			<u>358 850</u>	<u>355 742</u>	<u>8 994</u>	<u>—</u>	<u>6 200</u>	<u>314</u>	
<u>Debit balance included in other debit balances - long term</u>									
Consortium Algerien de Telecommunications (CAT)		Paid on behalf of subsidiary to finance operating expenses	82 776	363	303 998	—	221 585	—	
<u>Debit balance included in debtors and other debit accounts</u>									
International Telecommunication Consortium Limited (ITCL)	—		—	—	68	—	68	—	
<u>Credit balance included in creditors and other credit accounts</u>									
Nile On Line (NOL)	30 692	Internet services	31 513	30 692	—	1 793	—	2 614	

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 4 371 982 K as at June 30, 2006. (Compared to LE 4 788 843 K as at December 31, 2005). Financing interests and expenses related to these balances amounted to LE 141 706 K during the period (compared to LE 200 181 K during the previous period), while the balance of time deposits amounted to LE 1 011 522 K as at June 30, 2006 (Compared to LE 668 147 K as at December 31, 2005), and the interest income on these deposits amounted to LE 22 850 K during the period (LE 10 750 K during the previous period). 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 financial position the company has foreign currency assets and liabilities equivalent to LE 2 109 226 K and LE 2 110 205 K respectively. The company's net exposure in foreign currencies at the financial position is as follows: -

<u>Foreign currencies</u>	<u>surplus / (Deficit) (000)</u>
U.S. dollars	215 437
Euro	(146 381)
Sterling Pound	369
Japanese Yen	(3 292 121)
Swedish krona	(16 600)
Jordan Dinar	(687)
Emirate Dirham	763

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

Some comparative figures were reclassified to confirm to the current classification of the financial statements.