

Review report

To The Board of Directors of Telecom Egypt

We have reviewed the accompanying consolidated balance sheets of Telecom Egypt as of September 30, 2005 and the related consolidated statements of income, changes in the shareholders' equity and cash flows for the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our audit.

We conducted our review in accordance with International Standards on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material respects in accordance with International Financial Reporting Standards.

KPMG Hazem Hassan

Cairo, Egypt

22 November 2005

## Telecom Egypt Consolidated income statements

For the nine months ended 30 September 2005

		<u>For the period</u>		<u>For the period</u>	
		<u>From 1/7/2005</u>	<u>From 1/1/2005</u>	<u>From 1/7/2004</u>	<u>From 1/1/2004</u>
		<u>To 30/9/2005</u>	<u>To 30/9/2005</u>	<u>To 30/9/2004</u>	<u>To 30/9/2004</u>
<i>In thousands of Egyptian Pounds</i>	<b>Note</b>				
Revenue	(3)	2 308 056	6 415 861	2 136 707	5 924 147
Operating expenses	(4)	(1 395 031)	(3 967 976)	(1 264 474)	(3 654 348)
<b>Gross profit</b>		913 025	2 447 885	872 233	2 269 799
Other income	(5)	10 637	59 331	15 748	81 263
Selling and distribution expenses	(6)	(25 358)	(108 908)	(25 037)	(86 538)
Administrative expenses	(7)	(228 048)	(643 554)	(170 612)	(510 030)
Other expenses	(8)	(78 599)	(131 724)	(119 099)	(252 483)
<b>Operating profit before financing costs</b>		591 657	1 623 030	573 233	1 502 011
Financial income	(10)	81 332	572 949	49 991	242 096
Financial expenses	(10)	(102 481)	(307 097)	(119 952)	(312 913)
<b>Net financing income (costs)</b>	(10)	(21 149)	265 852	(69 961)	(70 817)
Share of profit (loss) of associates		115 517	240 248	(22)	16
<b>Profit before tax</b>		686 025	2 129 130	503 250	1 431 210
Income tax expense	(11)	(181 784)	(529 597)	(291 707)	(365 075)
<b>Profit for the period</b>		504 241	1 599 533	211 543	1 066 135
<b>Attributable to:</b>					
Equity holders of the parent		503 645	1 597 414	210 484	1 062 518
Minority interest		596	2 119	1 059	3 617
<b>Profit for the period</b>		504 241	1 599 533	211 543	1 066 135
Earnings per share (LE)	(23)	0.29	0.93	0.12	0.62

## Telecom Egypt Consolidated balance sheet

As at 30 September 2005

<i>In thousands of Egyptian Pounds</i>	<i>Note</i>	<b>30-9-2005</b>	<b>31-12-2004</b>
<b>Assets</b>			
Property, plant and equipment	(13)	22 227 631	22 490 022
Intangible assets	(14)	150 938	143 243
Investment in associates	(15)	1 433 933	12 669
Available for sale investments	(16)	86 804	1 239 578
Long-term receivable	(17)	1 209 000	1 517 000
Deferred tax assets	(18)	79 785	117 652
<b>Total non-current assets</b>		<b>25 188 091</b>	<b>25 520 164</b>
Inventories	(19)	423 230	416 021
Trade and other receivables	(20)	4 154 001	3 855 989
Cash and cash equivalents	(21)	738 632	1 156 526
<b>Total current assets</b>		<b>5 315 863</b>	<b>5 428 536</b>
<b>Total assets</b>		<b>30 503 954</b>	<b>30 948 700</b>
<b>Equity</b>			
Issued capital	(22)	17 070 716	17 112 149
Reserves	(22)	3 450 905	3 316 941
Retained earnings		1 334 333	578 801
<b>Total equity attributable to equity holders of the parent</b>		<b>21 855 954</b>	<b>21 007 891</b>
<b>Minority interest</b>		<b>21 395</b>	<b>17 940</b>
<b>Total equity</b>		<b>21 877 349</b>	<b>21 025 831</b>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	(24)	1 893 052	3 491 936
Bonds payable	(25)	2 000 000	-
Deferred income		275 181	301 962
Other payables		56 352	55 491
Deferred tax liabilities	(18)	59 852	99 662
<b>Total non-current liabilities</b>		<b>4 284 437</b>	<b>3 949 051</b>
Bank overdraft	(21)	76 907	51 968
Interest-bearing loans and borrowings	(24)	825 596	2 494 638
Trade and other payables	(26)	2 665 018	2 676 771
Provisions	(27)	774 647	750 441
<b>Total current liabilities</b>		<b>4 342 168</b>	<b>5 973 818</b>
<b>Total liabilities</b>		<b>8 626 605</b>	<b>9 922 869</b>
<b>Total equity and liabilities</b>		<b>30 503 954</b>	<b>30 948 700</b>

## Telecom Egypt Consolidated statement of cash flows

For the nine months ended 30 September 2005

		<u>For the period</u>		<u>For the period</u>	
		From 1/7/2005	From 1/1/2005	From 1/7/2004	From 1/1/2004
<i>In thousands of Egyptian Pounds</i>	Note	To 30/9/2005	To 30/9/2005	To 30/9/2004	To 30/9/2004
<b>Cash flows from operating activities</b>					
Cash receipts from customers		1 756 960	5 446 904	1 629 860	4 631 081
Cash paid to suppliers		63 770	(348 493)	(60 751)	(475 585)
Cash paid to employees		(413 881)	(869 842)	(216 240)	(667 857)
Cash paid in operations (net)		(362 045)	(528 302)	(188 479)	(424 015)
Interest paid		(70 338)	(333 199)	(67 154)	(309 897)
Income taxes paid		(2 187)	(160 126)	(1 993)	(22 177)
<b>Net cash from operating activities</b>		972 279	3 206 942	1 095 243	2 731 550
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment and intangible assets		14 840	16 826	3 065	4 246
Proceeds from sale of investments		-	88 294	-	-
Interest received		5 843	13 027	-	4 609
Dividends received		114 276	141 406	30 535	31 169
Acquisition of property, plant and equipment and intangible assets		(546 233)	(1 611 731)	(593 664)	(1 410 795)
Acquisition of investments		(598)	(669 692)	(2 626)	(6 516)
<b>Net cash (used in) investing activities</b>		(411 872)	(2 021 870)	(562 690)	(1 377 287)
<b>Cash flows from financing activities</b>					
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment and intangible assets		(97 106)	(551 713)	(149 301)	(643 403)
Repayment of borrowings & facilities relating to others		(2 628)	(1 508 744)	(65 288)	(255 259)
Repayment of borrowings & bank facilities		(199 739)	(1 197 965)	-	-
Proceeds from bonds		-	2 000 000	-	-
Proceeds from loans		-	29 531	-	37 109
Proceeds from borrowings & facilities		-	-	46 937	449 131
Proceeds from issuance of capital-subscribed into by minority		-	3 256	-	-
Repayment of financial lease obligations		(7 983)	(21 177)	(5 930)	(14 598)
Dividends paid		(42 634)	(381 000)	(110 000)	(441 592)
<b>Net cash (used in) financing activities</b>		(350 090)	(1 627 812)	(283 582)	(868 612)
Net movement in cash and cash equivalents		210 317	(442 740)	248 971	485 651
Cash and cash equivalents at 1 January		-	1 104 558	-	97 074
Translation difference adjustments		(6)	(93)	-	-
<b>Cash and cash equivalents at 30 September</b>	(21)	210 311	661 725	248 971	582 725

Telecom Egypt  
Consolidated statement of changes in equity

For the nine months ended 30 September 2005

<i>In thousands of Egyptian Pound</i>	Note NO	Share capital	Statutory reserve	Other reserve	Translation reserve	Fair value reserve	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
Balance at 1 January 2004		17 112 149	267 485	2 422 256	-	132 530	35 531	19 969 951	16 605	19 986 556
Net profit for the year		-	-	-	-	-	1 298 129	1 298 129	2 694	1 300 823
Transfer to reserves		-	54 862	218 571	-	-	(273 433)	-	-	-
Reversal of reserve		-	-	(44 844)	-	-	-	(44 844)	-	(44 844)
Exchange differences arising on translation of foreign operation		-	-	-	(34)	-	-	(34)	-	(34)
Change in fair value of available for sale investment		-	-	-	-	266 115	-	266 115	-	266 115
Adjustments		-	-	-	-	-	(1 426)	(1 426)	-	(1 426)
Dividends to shareholders		-	-	-	-	-	(480 000)	(480 000)	-	(480 000)
Minority interest		-	-	-	-	-	-	-	(1 359)	(1 359)
Balance at 31 December 2004		17 112 149	322 347	2 595 983	(34)	398 645	578 801	21 007 891	17 940	21 025 831
Net profit for the year		-	-	-	-	-	1 597 414	1 597 414	2 119	1 599 533
Transfer to reserves		-	51 417	410 014	-	-	(461 431)	-	-	-
Reversal of reserve		-	-	-	-	(398 645)	-	(398 645)	-	(398 645)
Effect of the resolution of the Extraordinary general assembly held in September 21, 2005	(22)	(41 433)	-	71 250	-	-	-	29 817	-	29 817
Exchange differences arising on translation of foreign operation		-	-	-	(72)	-	62	(10)	-	(10)
Transfer from minority interest		-	-	-	-	-	487	487	(487)	-
Minority interest share in capital		-	-	-	-	-	-	-	2 657	2 657
Dividends to shareholders		-	-	-	-	-	(381 000)	(381 000)	-	(381 000)
Minority interest		-	-	-	-	-	-	-	(834)	(834)
Balance at 30 September 2005		17 070 716	373 764	3 077 247	(106)	-	1 334 333	21 855 954	21 395	21 877 349

## Notes to the consolidated financial statements

### 1. Background and activities

Telecom Egypt (the “Company”) is an Egyptian Joint Stock Company registered in the Arab Republic of Egypt and is engaged in the provision of public communications and associated products and services. The consolidated financial statements of the Company for the nine months ended 30 September 2005 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and jointly controlled entities.

The registered office of the Company is 26 Ramsis Street, Cairo, Egypt. Mr Akil Bashir is the Company’s Chairman.

The financial statements were authorized for issue by the directors on 21 November 2005.

### 2. Significant accounting policies

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB) with due acknowledgement of the interpretation of the International Financial Reporting Interpretation Committee (IFRIC).

In compliance with the Egyptian Companies Law, the Group prepares another set of consolidated financial statements in accordance with Egyptian Accounting Standards (EASs). The primary differences between IFRSs and EASs include, but not limited to the following:

- Recognition of certain finance leases arrangements;
- Recognition of employees’ share in dividends; and
- Capitalization of certain foreign exchange losses as part of asset cost.

#### (b) Basis of preparation

The financial statements are presented in Egyptian Pound, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value; financial instruments classified as available-for-sale and fixed assets that were valued in 1998.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

## Notes to the consolidated financial statements

### Significant accounting policies (continued)

#### (c) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### (ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

##### (iii) Transactions eliminated on consolidation

Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### (d) Foreign currency

##### (i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Egyptian Pound at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

##### (ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to Egyptian Pound at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Egyptian Pound at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

##### (iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. They are released into the income statement upon disposal.

## Notes to the consolidated financial statements

### Significant accounting policies (continued)

#### (e) Property, plant and equipment

##### (i) Owned assets

Items of property, plant and equipment are stated at cost as deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy k).

Certain items of property, plant and equipment that had been revalued to fair value in 1998 are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

##### (ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases and are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy k).

##### (iii) Subsequent costs

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

##### (iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

• Buildings	10 - 50	years
• Machinery and equipment	6 - 20	years
• Vehicles	5 - 10	years
• Tools and other equipment	1 - 8	years
• Office furniture and fixtures	3 - 16.67	years

#### (f) Intangible assets

##### (i) Measurement

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy k).

## Notes to the consolidated financial statements

### Significant accounting policies (continued)

#### (ii) Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### (iii) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Intangible assets are amortized from the date they are available for use. The estimated useful lives range between 10 to 20 years.

#### (g) Investments in equity securities – available for sale

Financial instruments held by the Group that are classified as being available-for-sale are stated at fair value, with any resultant gain or loss being recognized directly in equity, except for impairment losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in income statement.

The fair value of financial instruments classified as available-for-sale is their quoted bid price at the balance sheet date.

Financial instruments classified as available-for-sale investments are recognized / derecognized by the Group on the date it commits to purchase / sell the investments.

#### (h) Receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy k). Long-term receivable is initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

#### (i) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

#### (j) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and time deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### (k) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy i) and deferred tax assets (see accounting policy s), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy k (i)).

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.

## Notes to the consolidated financial statements

### Significant accounting policies (continued)

#### Impairment (continued)

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is recognized in income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in income statement.

#### (i) Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### (ii) Reversals of impairment

An impairment loss in respect of a receivable carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through income statement.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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.

#### (l) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

#### (m) Employee benefits

##### (i) Pension

The Group contributes to the government social insurance system for the benefits of its personnel in accordance with the social insurance law. Under this law the employees and the employers contribute into the system on a fixed percentage –of - salaries basis. The Group's liability is confined to contributions amount. Contributions are charged to income statement using accrual basis of accounting.

## Notes to the consolidated financial statements

### Significant accounting policies (continued)

#### (n) Provisions

A provision is recognized in the balance sheet when the Group has a present 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### (o) Trade and other payables

Trade and other payables are stated at cost.

#### (p) Revenue

Revenue represents the value of services provided and equipment sold. It includes revenue received and receivable from revenue sharing agreements entered into with national and international telecommunication operators in respect of traffic exchange. Revenue is recognized as set below:

- **Voice services:** revenues are measured in terms of traffic minutes processed or transmission capacity provided and are recognized in the period in which the connection is provided.
- **Value added services:** these services include call waiting and divert, callers ID and hotline are recognized in the period in which the service is provided.
- **Data services:** revenue from the provision of managed bandwidth to business customers is recognized rateably over the period in which the bandwidth is provided.
- **Other services:** revenue from web hosting and internet access is recognized over the life of the contract and rateably the period that the service is provided respectively.
- **Sale of goods:** revenue from sale of telephone sets and directories is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

#### (q) Grants

Grants are recognized in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognized as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in the income statement as other operating income on a systematic basis over the useful life of the asset.

#### (r) Expenses

##### (i) Operating lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

## Notes to the consolidated financial statements

### Significant accounting policies (continued)

#### (ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### (ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, and foreign exchange gains and losses.

Interest income is recognized in the income statement as it accrues, using the effective interest method. Dividend income is recognized in the income statement on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

#### (s) 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 or substantially 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 asset & 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 based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, 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.

## Notes to the consolidated financial statements

### 3. Revenue

The Group's operations are considered to fall into one broad class of business, telecommunication and information services and hence, segmental analysis of assets and liabilities is not considered meaningful. Revenue can be analyzed as follows:

<i>In thousands of Egyptian Pound</i>		<b>30 September 2005</b>	<b>30 September 2004</b>
<b>Retail Services:</b>			
<b>Access:</b>			
Connections		295 506	293 335
Subscriptions		965 723	836 490
		1 261 229	1 129 825
<b>Voice:</b>			
Local *		1 191 573	1 163 117
Long distance		326 312	356 071
Fixed to international		308 407	288 593
Fixed to mobile interconnection		800 578	713 085
		2 626 870	2 520 866
<b>Internet &amp; Data</b>		78 029	62 691
<b>Others</b>		784 457	639 256
<b>Total Retail:</b>		4 750 585	4 352 638
<b>Wholesale:</b>			
<b>Domestic:</b>			
Mobile to fixed interconnection		162 014	142 962
Others		113 973	98 108
		275 987	241 070
<b>International:</b>			
Mobile to international		483 525	505 290
Incoming international call		905 764	825 149
		1 389 289	1 330 439
<b>Total wholesale</b>		1 665 276	1 571 509
<b>Total revenues</b>		6 415 861	5 924 147

\* include dial up revenue

## Notes to the consolidated financial statements

### 4. Operating expenses

<i>In thousands of Egyptian Pound</i>		<b>30 September 2005</b>	<b>30 September 2004</b>
Interconnection fees		954 911	884 602
Fuel		41 395	37 045
Spare parts		76 121	65 798
Maintenance		68 324	53 933
Satellite subscriptions		17 153	18 361
Depreciation		1 844 245	1 758 939
Amortization		20 968	18 993
Cost of telephone sets & directories		155 941	94 117
Salaries & wages		509 831	471 549
Compulsory social security contributions		77 442	72 527
Employees' share in dividends		88 835	85 778
Other operating costs		112 810	92 706
		<b>3 967 976</b>	<b>3 654 348</b>

### 5. Other income

<i>In thousands of Egyptian Pound</i>		<b>30 September 2005</b>	<b>30 September 2004</b>
Release of unused provisions		157	31
Grant		26 781	26 160
Gains and losses on disposal of property, plant and equipment		1 237	-
Rental income		1 456	1 095
Others		29 700	53 977
		<b>59 331</b>	<b>81 263</b>

During 2003, the Group obtained a grant from the USAID to finance certain assets; the grant amounted to US\$ 54 950 k. The grant had been recognized as deferred income and is being amortized over the useful lives of the related assets.

### 6. Selling and distribution expenses

<i>In thousands of Egyptian Pound</i>		<b>30 September 2005</b>	<b>30 September 2004</b>
Salaries & wages		71 757	66 776
Compulsory social security contributions		10 182	10 357
Fixed assets depreciation		915	1 053
Sales commissions & others		26 054	8 352
		<b>108 908</b>	<b>86 538</b>

## Notes to the consolidated financial statements

### 7. Administrative expenses

<i>In thousands of Egyptian Pound</i>		<b>30 September 2005</b>	<b>30 September 2004</b>
Salaries & wages		284 166	246 578
Compulsory social security contributions		26 879	39 967
Early retirement compensations		7 010	8 118
Employees' share in dividends		59 223	57 185
Fixed assets depreciation		64 864	28 819
Board of directors' bonus		1 942	1 875
Taxes & customs fees		30 457	8 674
Training & development services		50 427	12 147
Advertising		20 185	20 388
Others		98 401	86 279
		<b>643 554</b>	<b>510 030</b>

### 8. Other expenses

<i>In thousands of Egyptian Pound</i>		<b>30 September 2005</b>	<b>30 September 2004</b>
Increase in provisions		89 494	202 900
Impairment loss on trade and other receivables		36 803	45 088
Impairment loss on long-term investments		3 218	-
Net loss on disposal of property, plant and equipment		-	2 363
Others		2 209	2 132
		<b>131 724</b>	<b>252 483</b>

### 9. Personnel expenses

<i>In thousands of Egyptian Pound</i>		<b>30 September 2005</b>	<b>30 September 2004</b>
<u>Salaries &amp; wages:</u>			
Operating expenses		509 831	471 549
Selling & distribution expenses		71 757	66 776
Administrative expenses		284 166	246 578
		<b>865 754</b>	<b>784 903</b>
Compulsory social security contributions		114 503	122 851
Early retirement compensations		7 010	8 118
Employees' share in dividends		148 058	142 963
		<b>1 135 325</b>	<b>1 058 835</b>

On May 9, 2001 the board of directors of Telecom Egypt approved an early retirement scheme; under this scheme employees' loyalty program was established, the program was financed by a loan obtained by Telecom Egypt and repayable by the program whilst the related interest is borne by Telecom Egypt. Under the loyalty program the employee who early retired received compensations related to number of years of service. The first phase of the early retirement scheme was completed on August 31, 2002. During 2002, the board of directors approved the allocation of LE 100 million to the loyalty program to finance early retirement compensations, funds granted by Telecom Egypt to the employees' loyalty program are to be repaid on the original date of retirement of the employees. During 2003 Telecom Egypt contributed to the loyalty program LE 55 million and became committed to increase such contribution by a compound 10% annually. Early 2004, the employees' loyalty program was retroactively registered as separate private social insurance fund effective January 2003.

## Notes to the consolidated financial statements

In accordance with Egyptian Law, employees receive 10% of dividends distributed to shareholders with a maximum of one year salary.

### 10. Net financing income (costs)

<i>In thousands of Egyptian Pound</i>		<b>30 September 2005</b>	<b>30 September 2004</b>
Interest income		21 705	8 942
Unwind of discount & accretion of interest relating to long-term receivable		164 000	167 000
Income from investments - dividend		37 197	31 170
Net gain of disposal of investments		56 286	16
Net foreign exchange gain		293 761	34 968
Financial income		572 949	242 096
Interest expense		307 097	312 913
Financial expenses		307 097	312 913
Net financing income (costs)		265 852	( 70 817)

### 11. Income tax expense

#### Recognized in the income statement

<i>In thousands of Egyptian Pound</i>	<b>30 September 2005</b>	<b>30 September 2004</b>
<b>Current tax expense</b>		
Current period	431 878	510 329
<b>Deferred tax expense *</b>		
Origination and reversal of temporary differences	97 719	(145 254)
	97 719	(145 254)
Total income tax expense in income statement	529 597	365 075

\* Deferred tax expense for 30 September 2004 are shown net of an amount of LE 159 779 k relating to the reduction of the applicable tax rate.

### 12. Current tax assets and liabilities

The current tax asset of LE 79 785 k, (2004: 117 652) represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments. The current tax liability of LE 59 852 k (2004:99 662 k) represents the amount of income taxes for items taxable in future periods in respect of accelerated depreciation and fair value reserve of available for sale securities.

## Notes to the consolidated financial statements

## 13. Property, plant and equipment

<i>In thousands of Egyptian Pound</i>	<b>Land &amp; buildings</b>	<b>Machinery &amp; equipment</b>	<b>Vehicles</b>	<b>Office furniture &amp; fixtures</b>	<b>Tools &amp; other equipment</b>	<b>Under construction</b>	<b>Total</b>
<b>Cost</b>							
Balance at 1 January 2005	18 060 027	14 793 260	102 067	492 410	50 862	1 069 741	34 568 367
Prior year Adjustment	-	(2 600)	-	-	-	-	(2 600)
Reclassification	-	-	-	-	-	(2 766)	(2 766)
Acquisitions	440 858	586 841	13 603	79 820	6 548	1 568 731	2 696 401
Disposals	-	-	(1 806)	(1)	-	(1 045 535)	(1 047 342)
Effect of movements in foreign exchange	-	(13)	-	(23)	-	-	(36)
Balance at 30 September 2005	18 500 885	15 377 488	113 864	572 206	57 410	1 590 171	36 212 024
<b>Depreciation &amp; impairment losses</b>							
Balance at 1 January 2005	4 639 914	7 127 022	67 589	214 984	28 836	-	12 078 345
Depreciation charge for the period	658 099	1 167 237	10 915	70 259	3 514	-	1 910 024
Prior year Adjustment	-	(2 600)	-	-	-	-	(2 600)
Disposals	-	-	(1 369)	(1)	-	-	( 1 370)
Effect of movements in foreign exchange	-	(3)	-	(3)	-	-	(6)
Balance at 30 September 2005	5 298 013	8 291 656	77 135	285 239	32 350	-	13 984 393
<b>Carrying amounts</b>							
At 1 January 2005	13 420 113	7 666 238	34 478	277 426	22 026	1 069 741	22 490 022
At 30 September 2005	13 202 872	7 085 832	36 729	286 967	25 060	1 590 171	22 227 631

## Notes to the consolidated financial statements

### Property, Plant and Equipment (continued)

#### Fully depreciated assets

Property, plant and equipment cost includes LE 899 million relating to fully depreciated assets.

#### Leased equipment and vehicles

The Group leases equipment and vehicles under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment and vehicles at a beneficial price. At 30 September 2005, the net carrying amount of leased equipment and vehicles was LE 73 907 k (2004: LE 57 847 k)

#### Depreciation

The depreciation charge is recognized in the following line items in the income statement:

<i>In thousands of Egyptian Pound</i>	<b>30 September 2005</b>	<b>30 September 2004</b>
Operating expenses	1 844 245	1 758 939
Selling & distribution expenses	915	1 053
General & Administrative expenses	64 864	28 819
	1 910 024	1 788 811

## Notes to the consolidated financial statements

### 14. Intangible assets

<i>In thousands of Egyptian Pound</i>	<b>Land usufruct</b>	<b>Right of way</b>	<b>Internet service license</b>	<b>Right of using ROU</b>	<b>Total</b>
<b>Cost</b>					
Balance at 1 January 2005	1	278 011	20 197	20 196	318 405
Acquisitions	-	-	-	28 710	28 710
Disposals	-	(60)	-	-	(60)
Effect of movements in foreign exchange	-	-	(10)	-	(10)
Balance at 30 September 2005	1	277 951	20 187	48 906	347 045
<b>Amortization</b>					
Balance at 1 January 2005	-	152 811	19 995	2 356	175 162
Amortization for the period	-	19 021	16	1 931	20 968
Prior year adjustment	-	(8)	-	-	(8)
Disposals	-	(15)	-	-	(15)
Balance at 30 September 2005	-	171 809	20 011	4 287	196 107
<b>Carrying amounts</b>					
At 1 January 2005	1	125 200	202	17 840	143 243
At 30 September 2005	1	106 142	176	44 619	150 938

#### Land usufruct

Telecom Egypt has indefinite rights to use 826 plots of land; these plots of land were designated to Telecom Egypt, by presidential and ministerial decrees, for use in specific purposes. These rights were valued at notional amount of LE 1 per plot of land.

#### Amortization charge

The amortization charge is recognized in the following line items in the income statement:

<i>In thousands of Egyptian Pound</i>	<b>30 September 2005</b>	<b>30 September 2004</b>
Operating expenses	20 968	18 993
	20 968	18 993

## Notes to the consolidated financial statements

### 15. Investments in associates

The Group has the following investment in associate:

<i>In thousands of Egyptian Pound</i>	Ownership		Carrying amount	
	30 September 2005	31 December 2004	30 September 2005	31 December 2004
Vodafone Egypt. (SAE)	25.50%	8.60%	1 420 660	-
Nile on line. (SAE)	27.27 %	27.27%	13 273	12 669

During January 2005, Telecom Egypt has increased its shareholding stake in Vodafone Egypt by 16.9% to reach 25.5%. Effective of that date the investment was reclassified from available-for-sale investment, valued at fair value, to investment in associate accounted for in accordance with equity method of accounting.

Telecom Egypt is committed, by virtue of a joint venture agreement, to swap its direct investment in Vodafone Egypt with 50% of the share capital of Wataneya for Telecommunication, the remaining 50% of Wataneya share capital shall be owned by Vodafone International Co. (PLC), Wataneya shall own 51% of Vodafone Egypt share capital.

Summary financial information on associates – 100 percent:

<i>In thousands of Egyptian Pound</i>	Assets	Liabilities	Equity	Revenues	(loss)/ profit
<b>31-12 2004:</b>					
Nile on line	82 337	35 887	46 450	27 948	(5 779)
<b>30-9-2005:</b>					
Nile on line	81 069	33 546	47 523	23 102	1 073
Vodafone Egypt	6 832 000	3 740 000	3 092 000	2 836 000	786 000
	6 913 069	3 773 546	3 139 523	2 859 102	787 073

### 16. Available for sale investments

<i>In thousands of Egyptian Pound</i>	30 September 2005	31 December 2004
Equity securities available for sale - Foreign	16 851	70 553
Equity securities available for sale - Local	69 953	70 152
Investment in Vodafone	-	1 098 873
	86 804	1 239 578

## Notes to the consolidated financial statements

### 17. Long-term receivable

<i>In thousands of Egyptian Pound</i>	<b>30 September 2005</b>	<b>31 December 2004</b>
National Telecommunication Regulatory Authority	1 600 000	1 975 000
Accretion of interest / (Discount)	23 000	(141 000)
Amortized cost	1 623 000	1 834 000
Current portion	(414 000)	(317 000)
	1 209 000	1 517 000

During 2002, Telecom Egypt acquired a license for establishing and operating the third mobile network in Egypt for an amount of LE 1 975 million settled to the National Telecommunication Regulatory Authority (NTRA), subsequently and due to market condition management decided to waive its right to the license and refund the amount paid. On 20<sup>th</sup> December 2003 Telecom Egypt, Vodafone Egypt and The Egyptian Company for Mobile Services signed a memorandum of understanding, based on this memorandum Telecom Egypt waived its right to the frequency band 1800 MHTZ to Vodafone Egypt and The Egyptian Company for Mobile Services (mobile operators), and in return the mobile operators were obliged to settle cash installments to NTRA for using the frequency band 1800 MHTZ. Telecom Egypt required NTRA to transfer cash collected from the mobile operators to one of its lending banks.

On 27<sup>th</sup> January 2005 Telecom Egypt concluded an agreement with NTRA whereby Telecom Egypt undertook not to bid for a license to establish and operate a G.S.M mobile network within the frequency band 1800 MHTZ in the Arab Republic of Egypt until 30<sup>th</sup> November 2007, and in return Telecom Egypt shall receive LE 1 975 million, previously settled by Telecom Egypt, in addition to LE 480 million on installments throughout 2006 to 2009. The remaining installments payment schedule is as follow:

<i>In thousands of Egyptian Pound</i>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	520 000	520 000	520 000	520 000

The undertaking signed by Telecom Egypt is limited to the frequency band 1800 MHTZ and does not affect TE's ability to obtain a license for the third generation mobile (G3).

In line with the accounting policy (2.h) the long –term receivables was discounted to its present value, the discount and unwind of discount were treated as financial expense and financial income see note (10&28).

## Notes to the consolidated financial statements

### 18. Deferred tax assets and liabilities

#### Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of Egyptian Pound</i>	Assets		Liabilities		Net	
	30 September 2005	31 December 2004	30 September 2005	31 December 2004	30 September 2005	31 December 2004
Property, plant and equipment	-	-	59 612	-	(59 612)	-
Intangible assets	-	-	240	-	(240)	-
Available for sale investments	-	-	-	99 662	-	(99 662)
Provisions	79 785	117 652	-	-	79 785	117 652
Net tax assets / liabilities	79 785	117 652	59 852	99 662	19 933	17 990

### 19. Inventories

<i>In thousands of Egyptian Pound</i>	30 September 2005	31 December 2004
Spare parts, supplies and cables	407 291	378 941
Telephone sets and directories	15 624	37 080
Work in process	315	-
	423 230	416 021

### 20. Trade and other receivables

<i>In thousands of Egyptian Pound</i>	30 September 2005	31 December 2004
Trade receivables due from associate	6 893	23 733
<b>Other trade and notes receivable:</b>		
Governmental sector	223 817	212 072
Private sector	1 838 547	1 917 666
Foreign telecommunication operators	441 062	422 665
Others	-	17 469
Notes receivables	-	105
	2 510 319	2 593 710
<b>Other receivables and pre-payments:</b>		
Advance payments to suppliers	57 469	55 760
Deposits with others	9 441	4 858
Long-term receivable – current portion	414 000	317 000
Payments on the account of corporate tax	481 799	481 799
Other receivables	680 973	402 862
	4 154 001	3 855 989

Trade and other receivables (excluding long-term receivable – current portion) are non-interest bearing and are shown net of allowance for impairment. Management determines the adequacy of the allowance based upon reviews of individual customer, current economic conditions, past experience and other pertinent factors.

## Notes to the consolidated financial statements

### 21. Cash and cash equivalents

<i>In thousands of Egyptian Pound</i>		30 September 2005	31 December 2004
Bank balances		57 315	111 803
Time deposits		660 952	1 031 242
Cash on hand		20 365	13 481
		738 632	1 156 526
Bank overdrafts		(76 907)	(51 968)
Cash and cash equivalents in the statement of cash flows		661 725	1 104 558

Time deposits at 30 September 2005 included an amount of LE 12 705 k blocked in favor of banks as guarantee for letters of credits (2004: LE 8 586 k).

### 22. Capital and reserves

#### Share capital

The authorized share capital comprised 171 121 490 ordinary shares, ordinary shares have a par value of LE 100. The share capital had been settled by in kind contribution by the Egyptian Government, the sole owner of the shares.

On September 21, 2005 the extraordinary meeting of the shareholders resolved the decrease of the issued share 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 new land entitlement for TE as a result of the amendment of the total land area near the Satellite Station in Maadi amounting to LE 29 817 k.

The extraordinary meeting of the shareholders also resolved to decrease the par value per share from LE 100 to LE 10. Accordingly, the company's issued capital become LE 17 070 716 k represented in 1707071600 shares of par value LE 10 each which are wholly owned by government.

Legal procedures to affect the resolution of the extraordinary meeting of the shareholders in the commercial registry are currently being completed.

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

#### Statutory Reserve

The Egyptian Companies Law requires all companies incorporated in Egypt to transfer 5% of net profit for the year to statutory reserve, until it reaches a minimum of 50% of the issued share capital. The reserve is not available for distribution; however, it may be used in share capital increase or offsetting losses.

#### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

#### Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognized.

### Other reserve

Other reserve represents profits set aside based on the resolutions of the general shareholders meeting, the reserve includes LE 18 110 k representing capital gains realized on disposal of property, plant and equipment. The reserve, excluding the capital gains, is distributable.

### Dividends

No dividends were proposed by the directors for the nine months ended 30 September 2005. Dividends are declared by shareholders resolution after year end. The dividends have not been provided for and there are no income taxes consequences.

<i>In thousands of Egyptian Pound</i>	30 September 2005	31 December 2004
LE 2.23 per qualifying ordinary share for 2004	-	381 000
	-	381 000

## 23. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share at 30 September 2005 was based on the profit attributable to ordinary shareholders of LE 1 597 414 k, (30-9-2004: LE 1 062 518 k) and a weighted average number of ordinary shares outstanding during the period ended 30 September 2005 of 1 711 076 790 (30-9-2004:1 711 214 900), calculated as follows:

### Profit attributable to ordinary shareholders

<i>In thousands of Egyptian Pound</i>	30 September 2005	31 September 2004
Profit for the period	1 599 533	1 066 135
Profit attributable to ordinary shareholders	1 597 414	1 062 518

### Weighted average number of ordinary shares

<i>In thousands of shares</i>	30 September 2005	31 September 2004
Issued ordinary shares at 1 January *	1 711 215	1 711 215
Effect of decrease of shares in September 2005	(138)	-
Issued ordinary shares at 30 September	1 711 077	1 711 215

\* The outstanding shares numbers in comparative figures have been adjusted to reflect the effect of the stock split, as per the resolution of the extraordinary meeting of the shareholders held on September 21, 2005 see note 22.

Notes to the consolidated financial statements

## 24. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 28(iii).

<i>In thousands of Egyptian Pound</i>		<b>30 September 2005</b>	<b>31 December 2004</b>
<b>Non-current liabilities</b>			
Secured bank loans		-	82 357
<b>Unsecured bank loans:</b>			
Local banks		12 581	1 046 228
Governmental loans		711 210	675 043
Foreign loans		1 017 368	1 340 753
Finance lease liabilities		56 949	45 950
Foreign suppliers facilities		94 944	301 605
		1 893 052	3 491 936
<b>Current liabilities</b>			
Short-term borrowings		270 287	1 468 252
Current portion of secured bank loans		-	42 840
<b>Current portion of unsecured bank loans:</b>			
Local banks		12 581	237 241
Governmental loans		135 411	157 943
Foreign loans		171 820	198 612
Current portion of finance lease liabilities		22 861	16 736
Foreign suppliers facilities		212 636	373 014
		825 596	2 494 638

## Notes to the consolidated financial statements

### Interest-bearing loans and borrowings (continued)

#### Security

Foreign suppliers facilities include an amount of LE 10 952 k secured by letters of guarantee issued in favor of the suppliers.

#### Repayment

	Loan	Effective Interest Rate	Total	12 months or less	2-3 years	4-5 years	More than 5 years
Local banks loans	L.E.	10.75- 11.5 %	25 162	12 581	12 581	-	-
<b>Total local loans</b>			25 162	12 581	12 581	-	-
Governmental Loans	L.E.	8%	22	22	-	-	-
Governmental Loans *	U.S.\$	4 - 16%	807 672	126 796	175 654	189 986	315 236
Governmental Loans	SK	0.15%	3 696	2 109	1 587	-	-
Governmental Loans	EURO	4 - 6.37%	35 230	6 484	13 560	10 122	5 064
<b>Total Governmental loans</b>			846 620	135 411	190 801	200 108	320 300
Foreign loans	J.Y	3 - 3.5%	117 091	25 568	60 516	29 647	1 360
Foreign loans	EURO	0.75 - 8.2%	1 061 927	146 252	291 916	173 984	449 775
Foreign loans	L.D	3.5%	10 171	-	-	-	10 171
<b>Total foreign loans</b>			1 189 189	171 820	352 432	203 631	461 306
Foreign suppliers' facilities - local	L.E.	3%	2 481	2 481	-	-	-
Foreign suppliers' facilities - foreign	EURO	2.5 - 5.50%	184 202	143 138	41 064	-	-
Foreign suppliers' facilities - foreign	J.Y	2.5 - 3.0%	113 636	59 756	53 880	-	-
Foreign suppliers' facilities - foreign	U.S.\$	3%	7 261	7 261	-	-	-
<b>Total foreign suppliers' facilities</b>			307 580	212 636	94 944	-	-
			2 368 551	532 448	650 758	403 739	781 606

\*include a loan of LE 46 056 k bears interest ranged from 8 % - 16 % due in March 2006

#### Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
<i>In thousands of Egyptian Pound</i>	30-9-2005	30-9-2005	30-9-2005	31-12-2004	31-12-2004	31-12-2004
Less than one year	31 773	8 912	22 861	23 823	7 087	16 736
Between one and five years	67 984	11 035	56 949	54 395	8 445	45 950
	99 757	19 947	79 810	78 218	15 532	62 686

Under the terms of the lease agreements, no contingent rentals are payable.

## Notes to the consolidated financial statements

### 25. Bonds payable

On 4<sup>th</sup> September 2004 the extraordinary general assembly meeting of the shareholders approved the issuance of 20 million nominal marketable non convertible bonds at a par value of LE 100 each for a period of (5) years. These bonds were offered to public subscription and were issued in two tranches as follows:

- 1- The first tranche representing 50% of the bonds at a fixed annual interest equal 10.95%, to be paid quarterly.
- 2- The second tranche was the remaining other 50% of the bonds at a variable annual interest equal 0.7 % plus the discount rate of the Central Bank of Egypt and to be paid quarterly.

The purpose of issuing these bonds is to partially settle long-term loans and finance of future investments.

In February 2005, the bonds were fully subscribed into, proceeds were used to settle portion of long-term loans, overdrafts granted from local banks in LE.

### 26. Trade and other payables

<i>In thousands of Egyptian Pound</i>		30 September 2005	31 December 2004
<b>Trade payables:</b>			
Local suppliers		66 816	67 032
Foreign suppliers		413	1 254
Notes payable		3 206	-
		70 435	68 286
<b>Other payables:</b>			
Income tax payable		692 486	410 496
Amounts due to associate		1 647	4 058
Deposits from others		592 654	553 874
Fixed assets creditors		233 760	481 082
Customers advances		221 914	251 232
Accrued expenses		274 316	455 534
Other credit balances		577 806	452 209
		2 665 018	2 676 771

## Notes to the consolidated financial statements

## 27. Provisions

<i>In thousands of Egyptian Pound</i>	30 September 2005			30 September 2004		
	Taxes	Claims	Total	Taxes	Claims	Total
Balance at 1 January	646 316	104 125	750 441	519 709	271 081	790 790
Provision formed	84 494	5 000	89 494	148 803	54 097	202 900
Provision used	(65 131)	-	(65 131)	(40 123)	(308)	(40 431)
Provision reversed	-	(157)	(157)	-	-	-
Balance at 30 September 2005	665 679	108 968	774 647	628 389	324 870	953 259

As at September 30, 2005 provisions are mainly related to taxes, lawsuits and expected social insurance claim in respect of contracts concluded with suppliers.

## Notes to the consolidated financial statements

### 28. Financial instruments

The Group's principal financial instruments comprise bank loans, finance lease and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade receivables and trade creditors which arise directly from operations.

The Group does not enter into derivative transactions for the purpose of trading or hedging exposure to fluctuations in the foreign exchange rates or interest rates.

The main risks arising from the Group's operations are interest rate risk, foreign currency risk and credit risk.

#### (i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss.

The Group's financial assets, which include receivables from local customers and international telecommunication operators, investments bank balances and time deposits, do not represent a significant concentration of risk. Trade receivables are widely spread among customer's segmentation, strict credit control is maintained, and further appropriate level of impairment allowance is made. The Group manages the credit risk on investments by ensuring that investments are made only after careful credit evaluation of these investments. The time deposits are placed with commercial banks after careful credit evaluation of those banks.

#### (ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign exchange rates.

The Group is exposed to foreign currency risk on purchases from foreign suppliers and loans that are denominated in a currency other than the Egyptian Pound. In addition, the Group deals with international telecommunication operators. The Group's currency risk is related to changes in exchange rates applicable to the settlement of foreign currencies. The currencies giving rise to this risk are primarily US Dollar, Euro and Japanese Yen.

Certain loans and foreign suppliers payments are paid in Egyptian Pound based on the prevailing foreign currency.

As of 30 September 2005 the Group's assets and liabilities denominated in foreign currencies amounted to the equivalent of LE 1 520 089 k and LE 2 449 483 k respectively. The Group's net foreign currencies exposure as of 30 September 2005 was as follow:

Foreign currency (In thousand)	(Deficit) / Surplus	
	30 September 2005	31 December 2004
US Dollar	104 940	137 056
Euro	(183 586)	(229 627)
Sterling Pound	775	471
Japanese Yen	(4 503 053)	(5 903 234)
Swedish Krona	(10 082)	(25 249)

## Notes to the consolidated financial statements

### Financial instruments (continued)

#### (iii) Interest rate risk

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in market interest rates.

The Group is exposed to interest rate risk on its time deposit. These are short-term in nature and are denominated in US Dollar, Euro, Sterling Pound and Egyptian Pound .The average interest rate yield from short-term time deposits was:

	30 September 2005	31 December 2004
US Dollar	2 %	2.40 %
Euro	1.36 %	2.11 %
Sterling Pound	3.81 %	4.14 %
Egyptian Pound	7.66 %	7.75 %

#### 29. Fair value of financial instruments

The fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties on an arm's length basis.

Except of the investments in Vodafone Egypt and Nile on Line which are accounted for using the equity method of accounting, the carrying values of the Group's other financial instruments approximate their fair values.

#### Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

##### Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs except for investments in Vodafone Egypt and Nile on Line which were accounted for using the equity method of accounting.

##### Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

##### Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

##### Receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

##### Interest rates used for determining fair value.

The entity uses the government yield curve as of 30 September 2005 plus an adequate constant credit spread to discount financial instruments. The discount rate for minimum lease liabilities and receivables is 14%.

## Notes to the consolidated financial statements

### 30. Capital commitments

The Group's capital commitments for unexecuted portions of contracts as of 30 September 2005 amounted to LE 30 million (31 December 2004 LE 15.64 million). These commitments are expected to be settled in the following financial year.

### 31. Contingencies

<i>In thousands of Egyptian Pound</i>	30 September 2005	31 December 2004
Letters of guarantee issued by banks on behalf of the Group	12 301	28 801
Letters of credit	222 113	197 222
Uncalled installments of investees' share capital	5 450	5 450

### 32. Related parties

#### Identity of related parties

The Group has a relationship with its associate Nile on line.

#### Transaction with Associates and unconsolidated subsidiaries

During the nine months ended 30 September 2005, Nile on line was provided with internet services from within the Group's companies. The value of these services were LE 3 862 k, (2004: LE 9 883 k).

During the nine months ended 30 September 2005, net mobile services between Vodafone Egypt and TE amounted to LE 346 778 k in favor of TE.

During the nine months ended 30 September 2005, TE paid an amount of 205 208 k on behalf of Consortium Algerian Telecommunication under the account of license fee and operating expenses.

During the nine months ended 30 September 2005, TE paid an amount of LE 68 k on behalf of International Communication Consortium LTD representing the participation of International communication Consortium LTD in the share capital of Consortium Algerian Telecommunication company.

### 33. Group entities

#### Control of the Group

The Group's ultimate parent company is Telecom Egypt.

#### Subsidiaries

	Country of incorporation	Ownership interest	
		30 September 2005	31 December 2004
Middle East Radio Communication ( MERC )	Egypt	51	51
T. E. Information Technology	Egypt	97.66	92.50
T. E. Data	Egypt	93.33	92.50
Centra Technologies	Egypt	55.03	51.21
Centra Industries - Indirect ownership	Egypt	54.9	51.20
T.E Data Jordan - Indirect ownership	Jordan	93.33	92.50