

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Consolidated Financial Statements
Prepared in Accordance with IFRS
For the Financial Period Ended September 30, 2009
& Auditor's Review Report



Hazem Hassan

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Review Report To the Board of Directors of Telecom Egypt

Introduction

We have reviewed the accompanying consolidated financial statements of Telecom Egypt Company and its subsidiaries which comprise of consolidated statement of financial position as of September 30, 2009 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Egyptian Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Egyptian Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit, accordingly, we do not express an audit opinion.

Unqualified Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of Telecom Egypt Company as at September 30, 2009, and of its financial performance and its cash flows for the nine-month period then ended in accordance with International Financial Reporting Standards.

KPMG Hazem Hassan

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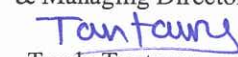
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November 23, 2009

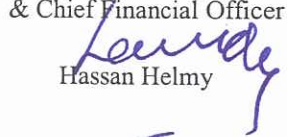
Telecom Egypt
Consolidated statement of financial position
As at 30 September 2009

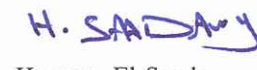
In thousands of Egyptian Pound	Note	<u>30/9/2009</u>	<u>31/12/2008</u>
Assets			
Property, plant and equipment	(13)	17 221 783	18 212 656
Intangible assets	(14)	135 631	154 991
Investment in associates	(15)	7 134 629	6 853 220
Available for sale investments	(16)	34 255	34 255
Long -term receivable	(17)	2 500	-
Deferred tax assets	(18)	133 204	121 837
Total non-current assets		24 662 002	25 376 959
Inventory	(19)	414 328	473 015
Trade and other receivables	(20)	4 513 033	4 853 444
Investments held for trading	(21)	101 103	146 478
Cash and cash equivalents	(22)	2 134 145	2 588 184
Total current assets		7 162 609	8 061 121
Total assets		31 824 611	33 438 080
Equity			
Issued capital	(23)	17 070 716	17 070 716
Reserves	(23)	5 265 286	5 120 581
Retained earnings		3 621 150	3 574 834
Total equity attributable to equity holders of the parent		25 957 152	25 766 131
Non-controlling interest		45 147	38 058
Total equity		26 002 299	25 804 189
Liabilities			
Interest-bearing loans and borrowings	(25)	919 069	1 262 722
Bonds payable	(26)	-	400 000
Deferred income		190 549	224 021
Other payables		56 735	62 718
Deferred tax liabilities	(18)	127 149	199 562
Total non-current liabilities		1 293 502	2 149 023
Bank overdraft	(22)	-	323
Bonds payable	(26)	400 000	400 000
Interest-bearing loans and borrowings	(25)	221 966	1 147 179
Trade and other payables	(27)	3 577 202	3 628 745
Provisions	(28)	329 642	308 621
Total current liabilities		4 528 810	5 484 868
Total liabilities		5 822 312	7 633 891
Total equity and liabilities		31 824 611	33 438 080

Chairman

 Akil Beshir

Chief Executive Officer
 & Managing Director

 Tarek Tantawy

Vice President
 & Chief Financial Officer

 Hassan Helmy

Financial Controller

 Hossam El-Saadawy

Auditor's review report " attached "

Telecom Egypt
Consolidated statement of comprehensive income
For the financial period ended 30 September 2009

in thousands of Egyptian Pound

	Note	For the Period		For the Period	
		From 1/7/2009 To 30/9/2009	From 1/1/2009 To 30/9/2009	From 1/7/2008 To 30/9/2008	From 1/1/2008 To 30/9/2008
Revenue	(3)	2 540 435	7 742 453	2 687 958	7 492 361
Operating expenses	(4)	(1 447 916)	(4 268 815)	(1 455 086)	(4 438 021)
Gross profit		1 092 519	3 473 638	1 232 872	3 054 340
Other income	(5)	73 389	172 264	27 765	133 631
Selling and distribution expenses	(6)	(123 317)	(367 233)	(113 731)	(328 527)
Administrative expenses	(7)	(363 141)	(1 095 103)	(343 210)	(983 765)
Other expenses	(8)	(126 543)	(320 471)	(99 383)	(235 934)
Operating profit before financing costs		552 907	1 863 095	704 313	1 639 745
Financial income	(10)	(4 227)	125 852	66 735	175 151
Financial expenses	(10)	(23 999)	(131 258)	(27 001)	(297 138)
Net financing income / (costs)	(10)	(28 226)	(5 406)	39 734	(121 987)
Share of profit in associates		359 319	955 595	316 698	882 202
Profit before tax		884 000	2 813 284	1 060 745	2 399 960
Income tax expense	(11)	(114 863)	(398 361)	(168 363)	(378 434)
Profit for the period		769 137	2 414 923	892 382	2 021 526
Other comprehensive income - Foreign currency translation differences for foreign operations		(73)	39	(50)	(302)
Total comprehensive income for the period		769 064	2 414 962	892 332	2 021 224
Profit for the period attributable to:					
Equity holders of the parent		767 949	2 410 163	891 181	2 015 132
Non-controlling interest		1 188	4 760	1 201	6 394
Profit for the period		769 137	2 414 923	892 382	2 021 526
Total comprehensive income attributable to:					
Equity holders of the parent		767 883	2 410 210	891 128	2 014 843
Non-controlling interest		1 181	4 752	1 204	6 381
Total comprehensive income for the period		769 064	2 414 962	892 332	2 021 224
Earnings per share (LE)	(24)	0.45	1.41	0.52	1.18

Telecom Egypt
Consolidated statement of cash flows
For the financial period ended 30 September 2009

In thousands of Egyptian Pound	Note	For The Period			
		From 1/7/2009 To 30/9/2009	From 1/1/2009 To 30/9/2009	From 1/7/2008 To 30/9/2008	From 1/1/2008 To 30/9/2008
Cash flows from operating activities					
Cash receipts from customers		1 914 268	6 822 359	1 979 474	6 347 523
Cash paid to suppliers		(124 971)	(632 200)	(195 569)	(632 367)
Cash paid to employees		(592 030)	(1 689 020)	(517 613)	(1 635 027)
Cash paid in operations (net)		(147 495)	(569 469)	(172 787)	(317 137)
Interest paid		(15 945)	(195 650)	(124 537)	(302 744)
Income taxes paid		-	(449 282)	-	(449 282)
Net cash from operating activities		1 033 827	3 286 738	968 968	3 010 966
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		361	12 851	166	4 797
Proceeds from sale of investments		39 411	205 212	40 000	75 000
Interest received		18 985	122 584	30 636	76 220
Dividends received		1 075	677 008	819 999	1 316 962
Acquisition of property, plant and equipment and intangible assets		(260 521)	(697 169)	(202 529)	(658 193)
Acquisition of investments		(43 598)	(152 877)	(62 351)	(93 351)
Net cash provided by investing activities		(244 287)	167 609	625 921	721 435
Cash flows from financing activities					
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment and intangible assets		(33 416)	(157 076)	(16 195)	(168 478)
Repayment of other borrowings & facilities		(130 000)	(1 102 500)	(407 261)	(814 521)
(Repayment) proceeds from borrowings & bank facilities		-	-	(5 912)	3 447
Repayments of bonds loan		-	(400 000)	-	(400 000)
Proceeds from capital payment		-	3 685	-	-
Proceeds from bank credit accounts		(952)	2 258	-	-
Repayment of financial lease obligations		(7 895)	(25 245)	(10 702)	(32 143)
Dividends paid		-	(2 219 193)	(6)	(1 706 276)
Repayment of long – term liabilities		(5 486)	(5 779)	(173)	(703)
Net cash used in financing activities		(177 749)	(3 903 850)	(440 249)	(3 118 674)
Net movement in cash and cash equivalents		611 791	(449 503)	1 154 640	613 727
Cash and cash equivalents at 1 January		-	2 577 111	-	1 292 783
Translation difference adjustments		(94)	11	(55)	(263)
Cash and cash equivalents at 30 September	(22)	611 697	2 127 619	1 154 585	1 906 247

Telecom Egypt
Consolidated statement of changes in equity
For the financial period ended 30 September 2009

In thousands of Egyptian Pound	Share capital	Statutory reserve	Other Reserve	Translation reserve	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2008	17 070 716	571 376	4 440 823	(591)	2 942 795	25 025 119	39 846	25 064 965
Net profit for the period from 1/1/2008 to 30/9/2008	—	—	—	—	2 015 132	2 015 132	6 394	2 021 526
Other comprehensive income - Foreign currency translation differences for foreign operations	—	—	—	(348)	59	(289)	(13)	(302)
Transferred to reserves	—	108 229	—	—	(108 229)	—	—	—
Decrease in the other reserves by the adjustments made in the land caption	—	—	(93)	—	—	(93)	—	(93)
Adjustments to retained earnings	—	—	—	—	(2 167)	(2 167)	—	(2 167)
Dividends to shareholders	—	—	—	—	(1 707 072)	(1 707 072)	—	(1 707 072)
Non-controlling interest	—	—	—	—	—	—	(2 414)	(2 414)
Adjustments to Non-controlling interest	—	—	—	—	—	—	(321)	(321)
Balance at 30 September 2008	17 070 716	679 605	4 440 730	(939)	3 140 518	25 330 630	43 492	25 374 122
Reclassification to the opening balance	—	416	—	—	(416)	—	—	—
Net profit for the period from 1/10/2008 to 31/12/ 2008	—	—	—	—	432 724	432 724	(682)	432 042
Transferred to reserves	—	173	—	—	(173)	—	—	—
Adjustments to retained earnings	—	—	—	—	2 356	2 356	(5 093)	(2 737)
Other comprehensive income - Foreign currency translation differences for foreign operations	—	10	—	586	(175)	421	20	441
Adjustments to Non-controlling interest	—	—	—	—	—	—	321	321
Balance at 31 December 2008	17 070 716	680 204	4 440 730	(353)	3 574 834	25 766 131	38 058	25 804 189
Payments under capital increase	—	—	—	—	—	—	3 675	3 675
Net profit for the period	—	—	—	—	2 410 163	2 410 163	4 760	2 414 923
Transferred to reserves	—	144 727	—	—	(144 727)	—	—	—
Other comprehensive income - Foreign currency translation differences for foreign operations	—	(3)	—	(19)	69	47	(8)	39
Adjustments to retained earnings	—	—	—	—	4	4	—	4
Dividends to shareholders	—	—	—	—	(2 219 193)	(2 219 193)	—	(2 219 193)
Non-controlling interest	—	—	—	—	—	—	(1 338)	(1 338)
Balance at 30 September 2009	17 070 716	824 928	4 440 730	(372)	3 621 150	25 957 152	45 147	26 002 299

Telecom Egypt
Notes to the consolidated financial statements
For the financial period ended 30 September 2009

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 2009 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 Ramses Street, Cairo, Egypt. Mr. Akil Bashir is the Company's Chairman.

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 ("EAS"). The primary differences between IFRS and EAS 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 referred to as "Egyptian Pound" or "LE" 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 that are 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 amount 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.

Telecom Egypt
Notes to the consolidated financial statements – (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.

Telecom Egypt
Notes to the consolidated financial statements – (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	5 - 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).

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

(ii) Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increase 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

(i) 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.

(ii) 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.

(h) Receivables

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

(i) Inventory

Inventory is 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 inventory is based on the weighted average principle and includes expenditure incurred in acquiring the inventory and bringing them to their existing location and condition.

(j) Cash and cash equivalent

Cash and cash equivalent comprise 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.

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

(k) Impairment

The carrying amounts of the Group's assets, other than inventory (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.

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.

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

(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 the amount of its contribution. Contributions are charged to income statement using accrual basis of accounting.

(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 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 over the period that the service is provided respectively.

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

- **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.

(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 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 or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

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 amounts 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.

(T) *Financial risk management*

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group objectives, policies and processes for measuring and managing risk, and the Group management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group risk management framework.

The Group risk management policies are established to identify and analysis the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(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.

Trade & other receivables and debtors

The Group exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group customer base, including the default risk has less of an influence on credit risk. Approximately 100% of Group revenue is attributable to sales transaction with many customers, and the management of the Group stated credit policy which suspends services for delinquent customers and impose fines on late payments followed by cutting off lines then contract termination.

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

The Group ensures that the sufficient cash on demand to meet expected operational expenses for a suitable period, including the service of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(iii) Currency risk

The Group is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of the Group, primarily the U.S. Dollars (USD).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level through purchase or sale of the foreign currencies with current prices when that is necessary to face non long term balance.

(v) Other market prices risk

Equity price risk arises from available-for-sale investments held for strategic rather than trading purposes. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Executive Management. The primary goal of the Group investment strategy is to maximise investment returns.

(vi) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, and control the stock holders level. There were no changes in the Group approach to capital management during the period, The Group is not subject to externally imposed capital requirements.

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

3. Operating 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:

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
Retail Services:		
Access revenue	1 585 497	1 457 575
Voice revenue	2 132 179	2 271 141
Internet service & data transmission	484 968	410 007
Others	321 588	419 533
Total Retail Services	4 524 232	4 558 256
Wholesale Services		
Domestic	791 063	806 793
International	2 427 158	2 127 312
Total Wholesale Services	3 218 221	2 934 105
Total Operating Revenues	7 742 453	7 492 361

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

4. Operating expenses

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
Interconnection fees	704 634	965 808
Fuel	69 975	62 636
Spare parts	103 851	116 985
Maintenance	181 967	114 745
Satellite subscriptions	15 122	12 791
Depreciation	1 792 965	1 865 646
Amortization	18 483	24 288
Cost of telephone sets & directories	9 630	14 603
Salaries & wages	781 462	749 574
Employees' vacations	7 098	12 462
Compulsory social security contributions	83 379	75 510
Frequencies & license charge (NTRA)	197 296	118 422
Employees' share in dividends	102 285	84 713
Other operating costs	200 668	219 838
	4 268 815	4 438 021

5. Other income

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
Deferred revenues amortization *	33 472	33 472
Release of unused provisions	7	17 261
Rental income	1 597	2 893
Reversal of impairment of accounts receivable	44	-
Others	137 144	80 005
	172 264	133 631

* Deferred revenues amortization for the period ended 30/9/2009 represents amortization of the grants presented by the USAID to finance some of the company's projects, as well as the grants presented by the projects management of Marine Cables for the construction of a building in Alexandria and the right of way for marine cables.

6. Selling and distribution expenses

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
Salaries & wages	143 245	125 104
Employees' vacation	1 007	2 411
Compulsory social security contributions	15 021	12 001
Fixed assets depreciation	4 915	3 475
Employees' share in dividends	14 507	11 675
Sales commissions & others	188 538	173 861
	367 233	328 527

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

7. Administrative expenses

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
Salaries & wages	518 473	479 370
Employees' vacation	4 091	8 098
Compulsory social security contributions	31 567	27 996
Early retirement compensations	33 036	15 430
Employees' share in dividends	70 708	53 612
Fixed assets depreciation	180 838	134 079
Taxes & customs fees	91 038	87 237
Training & development services	19 609	884
Advertising	46 339	51 986
Others	99 404	125 073
	1 095 103	983 765

8. Other expenses

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
Increase in provisions	21 342	4 230
Impairment loss on long term receivables	7 135	17 408
Impairment loss on trade and other receivables	186 322	180 296
Impairment loss on available for sale investments	-	12 296
Net loss on disposal of property, plant & equipment and intangible assets	7 746	12 921
Others	97 926	8 783
	320 471	235 934

9. Personnel expenses

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
<u>Salaries & wages:</u>		
Operating expenses	781 462	749 574
Selling & distribution expenses	143 245	125 104
Administrative expenses	518 473	479 370
	1 443 180	1 354 048
Compulsory social security contributions	129 967	115 507
Early retirement compensations	33 036	15 430
Employees' vacations	12 196	22 971
Employees' share in dividends	187 500	150 000
	1 805 879	1 657 956

On May 9, 2001 the Board of Directors of Telecom Egypt approved an early retirement scheme; under this scheme employees' loyalty program was established. Under the loyalty program the employee who early retired received compensations related to number of periods 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.

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

Early 2004, the employees' loyalty program was retroactively registered as separate private social insurance fund effective January 2003.

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)

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
Interest income	102 616	83 273
Unwind of discount & accretion of interest relating to long-term receivable	14 000	81 000
Income from investments – dividend	5 257	5 467
Net loss from sale of long term investments	-	(1 605)
Net gain of disposal of held for trading investment	624	7 016
Increase of market value of held for trading investment	3 355	-
Financial income	125 852	175 151
Interest expense	127 079	286 769
Net foreign exchange loss	4 179	8 799
Decrease of market value of held for trading investments	-	1 570
Financial expenses	131 258	297 138
Net financing income / (costs)	(5 406)	(121 987)

11. Income tax expense

Recognized in the income statement

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
Current tax expense		
Current period	482 141	413 226
Deferred tax assets		
Origination and reversal of temporary differences	(83 780)	(34 792)
Total income tax expense in income statement	398 361	378 434

12. Current tax assets and liabilities

The current tax asset of LE 133 204 K (2008: 121 837 K) represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments. The current tax liability of LE 127 149 K (2008: 199 562 K) represents the amount of income taxes for items taxable in future periods in respect of accelerated depreciation for assets and other assets.

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

13. Property, plant and equipment

	Land & buildings	Machinery & equipment	Vehicles	Office furniture & fixtures	Tools & other equipment	Under construction	Total
In thousands of Egyptian Pound							
Cost							
Balance at 1 January 2009	19 700 460	18 373 371	143 882	1 480 136	56 312	931 248	40 685 409
Reclassification	-	(265 264)	-	265 264	-	-	-
Acquisitions	289 058	175 028	5 789	179 511	2 211	939 521	1 591 118
Disposals	(582)	(136 784)	(1 791)	(39)	(33)	(593 272)	(732 501)
Effect of movements in foreign exchange	-	(47)	2	23	-	-	(22)
Balance at 30 September 2009	19 988 936	18 146 304	147 882	1 924 895	58 490	1 277 497	41 544 004
Depreciation							
Balance at 1 January 2009	8 354 620	13 050 688	130 724	896 961	39 760	-	22 472 753
Reclassification	-	(140 435)	-	140 435	-	-	-
Depreciation charge for the period	700 236	1 000 899	8 353	265 502	3 728	-	1 978 718
Disposals	(131)	(127 455)	(1 576)	(29)	(27)	-	(129 218)
Effect of movements in foreign exchange	-	(22)	-	(10)	-	-	(32)
Balance at 30 September 2009	9 054 725	13 783 675	137 501	1 302 859	43 461	-	24 322 221
Carrying amounts							
At 31 December 2008	11 345 840	5 322 683	13 158	583 175	16 552	931 248	18 212 656
At 30 September 2009	10 934 211	4 362 629	10 381	622 036	15 029	1 277 497	17 221 783

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

Fully depreciated assets

Property, plant and equipment cost includes LE 7 899 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 2009, the net carrying amount of leased equipment and vehicles was LE 37 200 k (2008: LE 56 539 k).

Depreciation

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

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
Operating expenses	1 792 965	1 865 646
Selling & distribution expenses	4 915	3 475
General & administrative expenses	180 838	134 079
	1 978 718	2 003 200

14. Intangible assets

In thousands of Egyptian Pound	Land usufruct	Right of way	Internet service license	Right of using ROU	Total
Cost					
Balance at 1 January 2009	1	306 846	20 182	145 429	472 458
Disposals	-	(2 128)	-	-	(2 128)
Effects of movements in foreign exchange	-	-	(3)	(8)	(11)
Balance at 30 September 2009	1	304 718	20 179	145 421	470 319
Amortization					
Balance at 1 January 2009	-	214 188	20 074	83 205	317 467
Amortization for the period	-	14 633	15	3 835	18 483
Accumulated amortization for disposals	-	(1 257)	-	-	(1 257)
Effects of movements in foreign exchange	-	-	(2)	(3)	(5)
Balance at 30 September 2009	-	227 564	20 087	87 037	334 688
Carrying amounts					
At 31 December 2008	1	92 658	108	62 224	154 991
At 30 September 2009	1	77 154	92	58 384	135 631

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

Land usufruct

The company has indefinite rights to use 826 plots of land; these plots of land were designated to the company, 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:

In thousands of Egyptian Pound	For the Period	
	From 1/1/2009 To 30/9/2009	From 1/1/2008 To 30/9/2008
Operating expenses	18 483	24 288
	18 483	24 288

15. Investments in associates

The Group has the following investment in associates:

In thousands of Egyptian Pound	Ownership		Carrying amount	
	30 September 2009	31 December 2008	30 September 2009	31 December 2008
Vodafone Egypt. (SAE)	44.95%	44.95%	7 074 306	6 791 597
Wataneya for Telecommunication	50.00%	50.00%	125	125
Consortium Algerien de Tele – communications (CAT)	33.00%	33.00%	—	—
International Telecommunication Consortium Limited. (ITCL)	50.00%	50.00%	—	—
Egypt Trust	35.71%	35.71%	198	1 498
Technology Development Fund Company	46.15%	46.15%	60 000	60 000
Total			7 134 629	6 853 220

- Investment in Consortium Algerien de Telecommunications (CAT) amounting to LE 133 K is shown a nil balance as the company realised a net loss that exceeds the carrying amount of this investment.
- Investment in International Telecommunication Consortium Limited. (ITCL) amounting to LE 54 K is shown a nil balance as it was totally impaired.

Investment in Vodafone – Egypt

- The investments in Vodafone Egypt as of 30/9/2009 represents the ownership of 107 869 799 shares representing 44.95 % of Vodafone Egypt shares.

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

Summary financial information on associates – 100 percent:

In thousands of Egyptian Pound	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Profit/(Loss)</u>
31-12-2008:					
* Vodafone Egypt	13 266 000	8 308 000	4 958 000	8 885 000	2 083 000
Consortium Algerien de Tele -communications (CAT)	46 251	1 040 121	(993 870)	12 700	(512 886)
** Wataneya for Telecommunication	—	—	—	—	—
** International Telecommunication Consortium Limited. (ITCL)	—	—	—	—	—
Egypt Trust	9 917	6 652	3 265	126	(5 021)
** Technology Development Fund Company	—	—	—	—	—
	13 322 168	9 354 773	3 967 395	8 897 826	1 565 093
30-9-2009:					
* Vodafone Egypt	13 425 000	7 763 000	5 662 000	6 044 000	1 443 000
** Consortium Algerien de Tele -communications (CAT)	—	—	—	—	—
** Wataneya for Telecommunication	—	—	—	—	—
** International Telecommunication Consortium Limited. (ITCL)	—	—	—	—	—
Egypt Trust	8 327	6 201	2 126	720	(3 639)
** Technology Development Fund Company	—	—	—	—	—
	13 433 327	7 769 201	5 664 126	6 044 720	1 439 361

* Reported figures for Vodafone Egypt for December 31, 2008 relating to revenues and profit for the nine months period ended December 31, 2008 and for September 30, 2009 relating to revenues and profit for the six months period ended September 30, 2009.

** The financial information of these associates was not presented because its financial statements are not prepared.

16. Available for sale investments

In thousands of Egyptian Pound	<u>30 September 2009</u>	<u>31 December 2008</u>
Equity securities available for sale – Foreign	19 869	19 869
Equity securities available for sale – Local	14 386	14 386
	34 255	34 255

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

17. Long-term receivable

In thousands of Egyptian Pound	<u>30 September 2009</u>	<u>31 December 2008</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.	-	140 000
Accretion of interest	200 000	466 000
Amortized cost	200 000	606 000
Current portion	(200 000)	(606 000)
	-	-
** Payments made on behalf of consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria.	453 902	446 767
Impairment loss on long-term receivable.	(453 902)	(446 767)
Payments under Telecom Egypt share in capital for Egypt trust Company till recording in the Commercial Register of these shares.	2 500	-
	2 500	-

* In line with the accounting policy (2.h) the long-term receivable was discounted to its present value, the discount and unwind of discount were treated as financial expense and financial income see note (10 & 29).

** Telecom Egypt financed Consortium Algerien Telecommunication (CAT) by an amount of LE 453 902 K where Telecom Egypt participation is 50% (Direct & Indirect), this company suffers a material decrease in recoverable amount of the tangible & intangible company's assets, this company also faces financial difficulties. In the light of these circumstances there is high probability that Telecom Egypt will not be able to recover the finance given to CAT. The income statement was charged for the period by LE 7 135 K and for the years before 2009 by LE 446 767 K which represents Telecom Egypt share in the loss of investment for the years before 2009.

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

18. Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of Egyptian Pound	Assets		Liabilities	
	<u>30 September 2009</u>	<u>31 December 2008</u>	<u>30 September 2009</u>	<u>31 December 2008</u>
Property, plant and equipment	—	—	(124 384)	(196 887)
Intangible assets	—	—	(2 765)	(2 675)
Inventory	7 476	4 999	—	—
Trade & other receivables	41 107	36 055	—	—
Provisions	50 434	46 233	—	—
Accrued liabilities	34 187	34 550	—	—
Total deferred tax assets (liabilities)	133 204	121 837	(127 149)	(199 562)

19. Inventory

In thousands of Egyptian Pound	<u>30 September 2009</u>	<u>31 December 2008</u>
Spare parts, supplies and cables	403 838	456 796
Telephone sets and directories	10 490	16 219
	414 328	473 015

20. Trade and other receivables

In thousands of Egyptian Pound	<u>30 September 2009</u>	<u>31 December 2008</u>
Trade receivables due from associates	203 109	175 713
Other trade and notes receivable:		
Governmental sector	126 430	252 864
Private sector	1 707 036	1 611 071
Foreign telecommunication operators	857 688	925 324
Notes receivable	2 628	368
	2 896 891	2 965 340
Other receivables and pre-payments:		
Advance payments to suppliers	60 290	63 521
Deposits with others	12 171	15 650
Long-term receivable – current portion	200 000	606 000
Amount due from the employees for the company's shares distributed to them and paid by the company	20	21
Payments on the account of corporate tax	285 996	285 996
Sales Tax Authority – advances	506 296	428 819
Other receivables	551 369	488 097
	4 513 033	4 853 444

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.

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

21. Investments held for trading

Held for trading investments amounted to LE 101 103 K represented in the following:

	<u>30 September 2009</u>	<u>31 December 2008</u>
TE Data a Subsidiary Company		
Value of 319 250 units of Commercial International Bank Investment Fund – Osoul Fund with price LE 145.62 for each unit at balance sheet date. (77 889 units with price LE 136.86 for each unit for 2008).	46 489	10 660
Value of 358 535 units of the National Societe General Bank Investment Fund with price LE 127.525 for each unit at balance sheet date. (91 771 units with price LE 119.864 for each unit for 2008).	45 722	11 000
Value of 489 695 units of Banque Misr Investment Fund day by day with price LE 15.463 for each unit at balance sheet date. (8 548 341 units with price LE 14.456 for each unit for 2008).	7 572	123 577
The Egyptian Telecommunication Company for Information Systems (Xceed) a subsidiary company		
Value of 9 067 units of Commercial International Bank Investment Fund – Osoul Fund with price LE 145.62 for each unit at balance sheet date. (9 067 units with price LE 136.86 for each unit for 2008).	1 320	1 241
	<u>101 103</u>	<u>146 478</u>

22. Cash and cash equivalents

In thousands of Egyptian Pound

	<u>30 September 2009</u>	<u>31 December 2008</u>	<u>30 September 2008</u>
Bank balances	242 323	340 239	321 351
Time deposits	1 873 901	2 233 896	1 578 971
Cash on hand	13 811	7 768	11 702
Cheques under collection	4 110	6 281	4 795
	<u>2 134 145</u>	<u>2 588 184</u>	<u>1 916 819</u>
Bank overdrafts	-	(323)	(413)
Cheques under collection	(4 110)	(6 281)	(4 795)
Blocked time deposits	(2 416)	(4 469)	(5 364)
Cash and cash equivalents in the statement of cash flows	<u>2 127 619</u>	<u>2 577 111</u>	<u>1 906 247</u>

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

23. 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 1 707 071 600 shares of par value LE 10 each and annotation was made to this effect in the Commercial register on 24/11/2005.

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

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 period 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 2009. The dividends have not been provided for and there are no income taxes consequences.

In thousands of Egyptian Pound

	<u>30 September 2009</u>	<u>31 December 2008</u>
LE 1.30 per qualifying ordinary share for 2008	—	2 219 193
	—	2 219 193

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

24. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 September 2009 was based on the profit attributable to ordinary shareholders of LE 2 410 163 k (30 September 2008: LE 2 015 132 k) and a number of ordinary shares outstanding during the period ended 30 September 2009 of 1 707 071 600 (30 September 2008: 1 707 071 600), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of Egyptian Pound	<u>30 September 2009</u>	<u>30 September 2008</u>
Profit for the period	2 414 923	2 021 526
Profit attributable to ordinary shareholders	<u>2 410 163</u>	<u>2 015 132</u>

Number of ordinary shares

In thousands	<u>30 September 2009</u>	<u>30 September 2008</u>
Issued ordinary shares at 1 January	1 707 072	1 707 072
Number of ordinary shares at 30 September	<u>1 707 072</u>	<u>1 707 072</u>

25. 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 29 (iii), (v).

In thousands of Egyptian Pound	<u>30 September 2009</u>	<u>31 December 2008</u>
Non-current liabilities		
Unsecured bank loans:		
Local banks	105	197 637
Governmental loans	351 131	453 444
Foreign loans	547 969	575 098
Finance lease liabilities	19 864	36 543
	<u>919 069</u>	<u>1 262 722</u>
Current liabilities		
Short-term loans	8 860	6 602
Current portion of unsecured bank loans:		
Local banks	42	905 042
Governmental loans	102 901	100 105
Foreign loans	86 195	104 338
Current portion of finance lease liabilities	23 331	27 796
Foreign suppliers facilities	637	3 296
	<u>221 966</u>	<u>1 147 179</u>

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

Security

Foreign suppliers facilities include an amount of LE 637 K secured by letters of guarantee issued in favor of the suppliers.

Repayment

In thousands of Egyptian Pound	Loan <u>Currency</u>	Effective Interest <u>Rate</u>	Total	12 months or less	1-2 Years	3-5 years	More than 5 years
Car loan – subsidiary	LE	7%	147	42	85	20	-
Total local loans			147	42	85	20	-
Telecom Egypt – the parent:							
Governmental loans	U.S.\$	4%	442 339	97 302	74 532	182 668	87 837
Governmental loans	EURO	4 – 6.37%	11 693	5 599	3 119	2 975	-
Total Governmental loans			454 032	102 901	77 651	185 643	87 837
Foreign loans	J.Y	3 – 3.5%	21 209	15 932	4 736	541	-
Foreign loans	EURO	0.75 - 6%	612 955	70 263	68 689	156 360	317 643
Total foreign loans			634 164	86 195	73 425	156 901	317 643
Foreign suppliers' facilities - foreign	EURO	5.50%	637	637	-	-	-
Total foreign suppliers' facilities			637	637	-	-	-
			1 088 980	189 775	151 161	342 564	405 480

- The available unused balance of Foreign Loans and Facilities at 30/9/2009 amounting to LE 18 769 K.

Finance lease liabilities

Finance lease liabilities are payable as follows:

In thousands of Egyptian Pound	Minimum lease payments 30-9-2009	Interest 30-9-2009	Principal 30-9-2009	Minimum lease payments 31-12-2008	Interest 31-12-2008	Principal 31-12-2008
Less than one year	27 090	3 759	23 331	34 134	6 338	27 796
Between one and two years	12 826	1 483	11 343	25 032	3 065	21 967
Between three and five years	9 048	527	8 521	16 231	1 655	14 576
	48 964	5 769	43 195	75 397	11 058	64 339

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

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

26. Bonds payable

- 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 portions as follows:

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

These bonds were used for partial settlement of long-term loans and bank overdraft accounts in local currency.

The bonds will be repaid / amortized on five equal instalments starting on December 1st, 2007 and provided that the last instalment will be repaid / amortized in February 2010.

Bonds loan balance as of September 30, 2009 amounted to LE 400 million (fifth instalment), and it was classified in the current liabilities in the statement of financial position.

27. Trade and other payables

	<u>30 September 2009</u>	<u>31 December 2008</u>
In thousands of Egyptian Pound		
Trade payables:		
Local suppliers	86 637	204 989
Notes payable	1 207	10 847
	<hr/> 87 844	<hr/> 215 836
Other payables:		
Income tax payable	123 717	179 818
Current income tax for the period / year	482 141	542 967
Deposits from others	748 046	754 254
Fixed assets creditors	199 430	271 904
Customers advances	351 942	297 095
Accrued expenses	454 015	589 477
Dividends payable	795	795
Other credit balances	1 129 272	776 599
	<hr/> 3 577 202	<hr/> 3 628 745

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

28. Provisions

In thousands of Egyptian Pound	<u>30 September 2009</u>				<u>31 December 2008</u>			
	Taxes	Claims	Guarantee	Total	Taxes	Claims	Guarantee	Total
Balance at 1 January	286 997	21 424	200	308 621	304 957	19 425	—	324 382
Provision formed	21 248	94	—	21 342	849	1 999	200	3 048
Provision used	(84)	(230)	—	(314)	(11 185)	—	—	(11 185)
Provision reversed	(7)	—	—	(7)	(7 624)	—	—	(7 624)
Balance at end of the period / year	308 154	21 288	200	329 642	286 997	21 424	200	308 621

As at September 30, 2009 provisions are mainly related to taxes, lawsuits, and expected social insurance claim in respect of contracts concluded with suppliers.

29. Financial instruments

The Group's principal financial instruments comprise of 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 credit risk, liquidity risk, foreign currency risk and interest rate risk

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

(i) *Credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<u>Note No</u>	<u>30 September 2009 LE (000)</u>	<u>31 December 2008 LE (000)</u>
Trade and other receivables	(20)	4 513 033	4 853 444
Investments in associates	(15)	7 134 629	6 853 220
Available for sale investments	(16)	34 255	34 255
Cash at banks	(22)	2 120 334	2 580 416
		13 802 251	14 321 335

(ii) *Liquidity risk*

The following are the expected maturities of financial liabilities at the balance sheet date.

	<u>Carrying Amount LE (000)</u>	<u>One year or less LE (000)</u>	<u>From 1-2 Years LE (000)</u>	<u>From 3-5 Years LE (000)</u>	<u>More than five years LE (000)</u>
September 30, 2009					
Trade and other payables	3 577 202	3 577 202	-	-	-
Other payables	56 735	-	-	-	56 735
Interest-bearing loans and borrowings	1 141 035	221 966	162 504	351 085	405 480
Bond loan	400 000	400 000	-	-	-
	5 174 972	4 199 168	162 504	351 085	462 215
December 31, 2008					
Trade and other payables	3 628 745	3 628 745	-	-	-
Other payables	62 718	-	-	1 870	60 848
Interest-bearing loans and borrowings	2 409 901	1 147 179	397 319	406 277	459 126
Bond loan	800 000	400 000	400 000	-	-
	6 901 364	5 175 924	797 319	408 147	519 974

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

(iii) Foreign currency risk

Details	LE (000)	U.S. Dollars (000)	LE (000)	Sterling Pound (000)	LE (000)	Euro (000)	LE (000)	Japanese Yen (000)	Other Currencies (000)	Total LE (000)
30/09/2009										
Receivables	870 794	158 217	—	—	335	42	—	—	6 226	877 355
Accrued interest - deposits	125	23	—	—	194	24	—	—	—	319
Other debit balances	26 200	4 760	—	—	3 519	436	—	—	23 436	53 155
Cash on hand & at banks	501 184	91 062	2 655	300	401 698	49 817	—	—	1 112	906 649
Total assets	1 398 303	254 062	2 655	300	405 746	50 319	—	—	30 774	1 837 478
Suppliers and notes payable	44 636	8 110	—	—	562	70	—	—	265	45 463
Creditors & other credit balances	45 527	8 272	44	5	72 603	9 004	—	—	16 072	134 246
Banks overdraft	—	—	—	—	—	—	—	—	—	—
Foreign loans & facilities	442 339	80 370	—	—	625 285	77 546	21 210	344 314	—	1 088 834
Total liabilities	532 502	96 752	44	5	698 450	86 620	21 210	344 314	16 337	1 268 543
Risk surplus (deficit)	865 801	157 310	2 611	295	(292 704)	(36 301)	(21 210)	(344 314)	14 437	568 935
Closing exchange rate as of 30/9/2009	—	5.5038	—	8.8704	—	8.0634	—	0.0616	—	—
Average exchange rate during period	—	5.5647	—	8.5761	—	7.8121	—	0.0598	—	—
31/12/2008										
Receivables	935 908	169 779	—	—	5 983	769	—	—	3 435	945 326
Accrued interest - deposits	1 812	329	—	—	6 213	799	—	—	—	8 025
Other debit balances	281	50	—	—	—	—	—	—	1 260	1 541
Cash on hand & at banks	879 088	159 471	2 389	300	463 643	59 608	—	—	21 523	1 366 643
Total assets	1 817 089	329 629	2 389	300	475 839	61 176	—	—	26 218	2 321 535
Suppliers and notes payable	37 170	6 743	—	—	224	29	—	—	578	37 972
Creditors & other credit balances	49 933	9 058	69	8	69 225	8 900	—	—	16 223	135 450
Banks overdraft	—	—	323	40	—	—	—	—	—	323
Foreign loans & facilities	536 746	97 369	—	—	662 716	85 202	36 820	600 817	—	1 236 282
Total liabilities	623 849	113 170	392	48	732 165	94 131	36 820	600 817	16 801	1 410 027
Risk surplus (deficit)	1 193 240	216 459	1 997	252	(256 326)	(32 955)	(36 820)	(600 817)	9 417	911 508
Closing exchange rate as of 31/12/2008	—	5.5125	—	7.9802	—	7.7782	—	0.0613	—	—
Average exchange rate during 2008	—	5.4565	—	10.0561	—	8.1049	—	0.0531	—	—

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

(iv) Sensitivity analysis

A 10% strengthening of the foreign currencies against the EGP as of 30 September 2009 would have increased profit by the amounts LE 56 893 K (LE 91 151K as of December 31, 2008). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

A 10% weakening of the foreign currencies against the EGP at 30 September 2009 would have had the equal but opposite effect on the foreign currencies to the amounts shown above, on the basis that all other variables remain constant.

(v) Interest rate risk

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

At the reporting date the interest rate profile of the company's interest-bearing financial instruments was:

In thousands of Egyptian Pound	<u>30 September 2009</u>	<u>31 December 2008</u>
<u>Fixed rate instruments</u>		
Financial assets – deposits	1 873 901	2 233 896
Financial liabilities (Interest-bearing loans, borrowings and bonds)	1 341 035	1 707 401
	<u>3 214 936</u>	<u>3 941 297</u>
 <u>Variable rate instruments</u>		
Financial liabilities (Vodafone loan)	-	1 102 500
Financial liabilities (bonds)	200 000	400 000
	<u>200 000</u>	<u>1 502 500</u>

30. 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, Nile on Line and Consortium Algerien de Telecommunications (CAT) 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, Nile on Line, Consortium Algerien de Telecommunications (CAT) and Egypt Trust 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.

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

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 September 30, 2009 plus an adequate constant credit spread to discount financial instruments. The discount rate for minimum lease liabilities and receivables is 14%.

31. Capital commitments

The Group's capital commitments for unexecuted portions of contracts as of 30 September 2009 amounted to LE 54 million includes LE 7.95 million payments of uncalled share capital investments (2008: LE 102 million includes LE 10.45 million payments of uncalled share capital investments). These commitments are expected to be settled in the following financial year except uncalled installments of investees' share capital which will be settled when requested by the directors of the investees.

32. Contingencies

	<u>30 September 2009</u>	<u>31 December 2008</u>
In thousands of Egyptian Pound		
Letters of guarantee issued by banks on behalf of the Group	72 431	63 789
Letters of credit	180 325	191 722

33. Related parties

Identity of related parties

The Group has a relationship with its associate **Vodafone Egypt and Consortium Algerien de Telecommunications (CAT)**.

Transaction with Associates and unconsolidated subsidiaries

During the period ended 30 September 2009, fixed to mobile interconnection, audio text fees and sale of products and services in favor of Vodafone Egypt LE 273 386 k and transmission, international calls, lease of company's premises in favor of the group LE 791 245 k and the balance due from Vodafone Egypt at 30 September 2009 amounted to LE 203 109 k (note 20).

Balance due from Consortium Algerian de Telecommunications (CAT) at 30 September 2009 amounted to LE 453 902 k (note 17) including foreign currency translation difference of 7 135 k for the nine months ended 30 September 2009.

Telecom Egypt
Notes to the consolidated financial statements – (Continued)

34. Group entities

Control of the Group

The Group's ultimate parent company is Telecom Egypt.

Subsidiaries

	Country of incorporation	Ownership interest	
		<u>30 September 2009</u>	<u>31 December 2008</u>
Middle East Radio Communication (MERC)-(Direct & Indirect)	Egypt	50.90	50.90
The Egyptian Telecommunication Company for Information Systems (Xceed)	Egypt	97.66	97.66
T. E. Data	Egypt	95.04	95.04
Centra Technologies	Egypt	58.76	58.76
* Centra Industries - Indirect ownership	Egypt	58.63	58.63
* Centra Distribution – Indirect ownership	Egypt	58.74	58.74
** T.E Data Jordan - Indirect ownership	Jordan	95.04	95.04
*** Xceed Middle East FZ – LLC – Indirect ownership	UAE	97.66	97.66
*** Xceed Customer Care Maroc	Morocco	97.66	97.66
Telecom Egypt France	France	100.00	100.00
TE Investment Holding- Direct & Indirect ownership	Egypt	100.00	-

* Centra Technologies participate in Centra Industries & Centra Distribution - subsidiaries - with 99.78%, 99.98% respectively of its share capital.

** TE Data Jordan - a fully owned subsidiary by TE Data Company.

*** Both Xceed Middle East and Xceed Customer Care Maroc - are fully owned subsidiaries by The Egyptian Telecommunication Company for Information Systems (Xceed).

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Notes to the consolidated financial statements – (Continued)

35. Interconnect agreement with mobile companies

Telecom Egypt company filed a complaint with the Dispute Resolution Board of the National Telecommunication Regulatory Authority (NTRA) with the purpose of changing interconnect rates with the mobile operators. The NTRA issued a ruling on the dispute on September 3, 2008 by changing the interconnect prices between the fixed and mobile networks. However, Mobinil objected to the administrative decision issued by the NTRA and filed a lawsuit on November 1, 2008 against the NTRA before the Administrative Court at the State Council asking for cessation and nullifying the NTRA decision in addition to the cancellation of all the consequent effects of the said decision. On the other hand, Vodafone – Egypt also filed a lawsuit against NTRA and Telecom Egypt before the Administrative Court to claim the cessation of the administrative decision and the nullity of the said decision, the urgent request for cease of the decision was rejected for both objections.

The company and its external Legal Counsel is of the opinion that the possibility that the appeals of ceasing the administrative decision will be rejected is probable and that the decision issued by the NTRA should be enforced as of issuance date, not following this ruling is against the law and that appealing the ruling does not cease the administrative decision.

The amount in dispute between Telecom Egypt and the mobile operators in relation to the said dispute during the period from September 3, 2008 till the end of September 2009 amounted to LE 372 453 616 in favor of Telecom Egypt including an amount of LE 244 223 101 relating to the current period from beginning of January 2009 to end of September 2009. Meanwhile, Telecom Egypt recorded revenues and expenses of the interconnect services between the company and the mobile companies according to the administrative decision issued by NTRA.

During the current financial period, Mobinil filed arbitration claim number 644 for 2009 against the company for the purposes of reviewing the amounts related to the above mentioned subject.

During the subsequent financial period, the company filed a counter claim against the arbitration filed by Mobinil; also the company filed arbitration claim number 650 for 2009 against Vodafone for the purposes of reviewing the amounts in light of the prevailing agreement and the provisions of the Communications Law. These arbitrations claims are still in the early stages.