

# Notes to the financial statements

Year ended December 31, 2003

## 1- BACKGROUND

### - Establishment of the company

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

### - Purpose of the company

The main purpose of the company includes:

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

## 2- BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are prepared under the historical cost method, in accordance with the Egyptian Accounting Standards, and in the light of provisions of applicable Egyptian laws and regulations.

## 3- SIGNIFICANT ACCOUNTING POLICIES APPLIED

### 3-1 Foreign currency translation

The company maintains its book of accounts in Egyptian pounds. Transactions denominated in foreign currencies are recorded at the declared exchange rates at the date of transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rates declared by the company's banks at that date. The exchange differences are recorded in the income statement.

During 2003, the Egyptian pound suffered a devaluation in its value against the foreign currencies, which caused foreign exchange losses. The company's management decided to apply the allowed alternative treatment according to paragraphs 20 & 47 of the Egyptian Accounting Standard No.(13), which allows to capitalize foreign exchange losses directly related to the acquisition of an asset acquired in foreign currency to the carrying amount of that asset. Thus, the company capitalized an amount of L.E. 407 414 K to fixed assets items and L.E. 384 019 K to fixed assets under construction during the current year.

# Notes to the financial statements

Year ended December 31, 2003

## 3-2 Fixed assets and depreciation

Fixed assets are stated at historical costs. The assets are depreciated using the straight-line method over the estimated useful lives of each type of assets as follows: -

Description	Estimated Useful Life
Buildings & construction	10-50 years
Machinery & equipment	6-20 years
Means of transportation	5-10 years
Tools and supplies	1-8 years
Office furniture and fixtures	3-10 years
Other assets	10 years

## 3-3 Fixed assets under constructions

This item represents the amounts incurred for the construction of fixed assets till they are ready for use and transferred to fixed assets.

## 3-4 Borrowing cost

The borrowing costs are recognized in the income statement under the "Interest Expenses" account as incurred.

## 3-5 Long term investments

### 3-5-1 Investments in subsidiaries

Investments in subsidiaries are stated at cost. At each balance sheet date the company assess whether there is any indication that the value of each investment is impaired. If such indication exists, the value of the related investment is reduced by the impairment loss for each investment, and is charged to the income statement for the year.

### 3-5-2 Available-for-sale investments

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

- The listed investments are re-measured at fair value (market value). Investments that are not listed in the stock exchange are re-measured at cost or computed value, calculated in light of an objective study of its recently approved financial statements. Any losses resulting from the decline in the market value or computed value of the investments than its cost is charged to income statement for the year.

- The inactive investments (do not have listed price in an active market, or its fair value can not be reasonably determined) are initially recorded at its acquisition cost. At each balance sheet date, if there are indications that the value of any of these investments is impaired, the value of the related investment is reduced by the impairment loss and charged to the income statement for the year.

## 3-6 Held for trading investments

Financial investments classified as held for trading are recorded initially at cost. At the end of each financial year, these investments are re-measured at their fair value (market value), the revaluation differences are charged to the income statement for the year.

# Notes to the financial statements

Year ended December 31, 2003

## 3-7 Inventories

Inventories of goods purchased for resale are valued at the lower of cost or net realizable value. Inventories of spare parts and materials are valued at cost. Cost is determined using the weighted average method. Obsolete or slow moving items are written down to their replacement value.

## 3-8 Grants

Grants are recorded on a regular basis as deferred revenues and taken to the income statement for the year in proportion with the related costs incurred.

## 3-9 Revenue recognition

- Revenues from sales of services are recognized when services are rendered in accordance with accruals basis.
- Income from investments is recognized when dividends of investees are declared.

## 3-10 End of service indemnity

The company social insurance contributions to the Social Insurance Authority for the benefit of its personnel in pursuance to the Social Insurance Authority law No. 79 of 1975 and its amendments are recorded in the " Wages and Salaries account ". In addition to the early retirement scheme which applied from 1/9/2001 (Note No.22).

## 3-11 Capital lease agreements

The accrued lease payments and maintenance expenses, in relation to the leased assets are recognized as expense in the income statement for the year. At the end of the lease agreement if the company exercised its rights to purchase the leased assets, their costs are determined at the amount of the purchase bargain option depreciated over the remaining estimated useful lives.

## 3-12 Cash flows statement

The Cash Flows statement is prepared using the direct method.

## 3-13 Deferred taxes

Due to the nature of the Egyptian tax law and legislations, applying the principles of the deferred taxes according to the International Accounting Standards "Taxes on Income" will not usually result in material deferred tax liabilities. Further, if this application results in deferred tax assets it will be recognized in the financial statements whenever there is a sufficient comfort that these assets will be realized in the foreseeable future.

# Notes to the financial statements

Year ended December 31, 2003

## 4- FIXED ASSETS (NET)

	Note No.	Land L.E. (000)	Buildings & construction L.E. (000)	Machinery & equipment L.E. (000)	Means of transportation L.E. (000)	Tools supplies L.E. (000)	Office furniture & fixtures L.E. (000)	Total L.E. (000)
<b>Cost</b>								
Cost as of 1/1/2003		4 059 112	13 540 665	11 945 654	84 857	31 770	316 824	29 978 882
Additions for the year		12 539	1 453 573	2 243 744	11 322	7 652	21 565	3 750 395
Capitalized foreign exchange losses	(3-1)	-	107 755	299 659	-	-	-	407 414
Disposals for the year		-	(309)	(288 893)	(2 328)	(681)	(81 562)	(373 773)
<b>Total cost as of 31/12/2003</b>		<b>4 071 651</b>	<b>15 101 684</b>	<b>14 200 164</b>	<b>93 851</b>	<b>38 741</b>	<b>256 827</b>	<b>33 762 918</b>
<b>Accumulated depreciation</b>								
Accumulated depreciation as of 1/1/2003		-	3 081 682	4 534 264	40 779	24 263	180 866	7 861 854
Depreciation during the year		-	772 411	1 413 004	15 192	2 482	38 421	2 241 510
Previous year adjustments - depreciation		-	-	55 251	61	-	-	55 312
Accumulated depreciation of disposals		-	(23)	(282 032)	(2 201)	(680)	(81 521)	(366 457)
<b>Accumulated depreciation as of 31/12/2003</b>		<b>-</b>	<b>3 854 070</b>	<b>5 720 487</b>	<b>53 831</b>	<b>26 065</b>	<b>137 766</b>	<b>9 792 219</b>
<b>Carrying value as of 31/12/2003</b>		<b>4 071 651</b>	<b>11 247 614</b>	<b>8 479 677</b>	<b>40 020</b>	<b>12 676</b>	<b>119 061</b>	<b>23 970 699</b>
<b>Carrying value as of 31/12/2002</b>		<b>4 059 112</b>	<b>10 458 983</b>	<b>7 411 390</b>	<b>44 078</b>	<b>7 507</b>	<b>135 958</b>	<b>22 117 028</b>
<b>Depreciation for the year is charged as follows:- L.E(000)</b>								
Operating expenses			2 205 922					
General & administrative expenses			35 588					
			<b>2 241 510</b>					

# Notes to the financial statements

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
5 - FIXED ASSETS UNDER CONSTRUCTION		
Land	-	2 209
Buildings and construction *	84 953	544 076
Machinery and equipment *	881 540	1 092 096
Means of transportation	7 173	1 955
Tools and supplies	11 527	4 588
Office furniture and fixtures	32 124	5 612
Advance payments	243 153	290 686
Letters of credit	40 353	13 262
	<b>1 300 823</b>	<b>1 954 484</b>

\* Building & construction and machinery & equipment items include an amount of L.E 83 456 K and L.E 300 563 K respectively which represents a capitalized foreign exchange losses as disclosed in note No. (3-1).

## 6 - LONG TERM INVESTMENTS

	Participation %	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Investments in subsidiaries			
- Middle East Radio Communication (MERC)	51	3 825	3 825
- T.E. Information Technology	92.5	9 250	2 312
- T.E. Data	92.5	55 500	55 500
- Centra Technologies	51	6 191	3 012
		<b>74 766</b>	<b>64 649</b>

## Available for sale investments

Participations in foreign satellites companies & organizations		95 278	93 434
Investment in Vodafone Egypt		619 227	-
Investments in other local companies		82 212	72 011
		<b>796 717</b>	<b>165 445</b>
		<b>871 483</b>	<b>230 094</b>

# Notes to the financial statements

Year ended December 31, 2003

## INVESTMENT IN VODAFONE - EGYPT

### First Stage

The company bought 20 640 000 shares representing 8.6% of Vodafone - Egypt's shares as per CIBC invoice dated 21/12/2003 at L.E. 32.5 per share including a coupon of L.E. 2.5 per share.

All of these shares have been pledged in favor of Misr Banque in its capacity as a representative of the lending banks as a guarantee and collateral for the joint medium term loan amounting to L.E. 670.8 million granted for financing the purchase of these shares. These shares have been kept in the custody of Misr for Clearing, Settlement and Central Depositories in favor of the said bank.

### Second Stage

In accordance to the the company's board of directors decision dated 20/12/2003 Telecom Egypt would buy 40 560 000 shares which represent 16.9% of the shares owned by Vodafone International Co., (PLC) at L.E. 19.875 per share to be paid in the equivalent U.S. Dollars amount as agreed.

This transaction has not been yet executed till the seller and the buyer fulfill the procedures necessary for this transaction and transfer the ownership of the shares. Pursuant to the agreement concluded between the company and some local banks on 21/12/2003, acquisition of these shares shall be financed from a loan amounting to U.S.\$ 132 million.

### Third Stage

Upon the completion of the first and the second stages the company would then transfer the ownership of 61 200 000 shares representing 25.5% of Vodafone Egypt shares to a newly established company "Wataneya for Telecommunication". The new company shares would be equally owned by Telecom Egypt and Vodafone International Co. (PLC). Accordingly 51% of Vodafone Egypt's shares (122 400 000 share) shall be transferred to the newly formed company.

# Notes to the financial statements

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
7 - OTHER ASSETS (NET)		
Usufruct for land occupied by TE	18 870	18 870
Leased circuits	82 683	82 509
Right of way (Flag cable)	82 618	82 618
Right of way (SMW2, SMW3, Elitar cables)	114 544	114 784
	<b>298 715</b>	<b>298 781</b>
Less: Accumulated amortization at year end	143 976	114 801
	<b>154 739</b>	<b>183 980</b>
	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
8 - INVENTORIES		
Spare parts	159 483	144 981
Materials supplies	2 307	1 307
Telephone sets and directories	51 024	37 357
Others - cables and supplies	132 154	79 638
	<b>344 968</b>	<b>263 283</b>
Add: Letters of credit	12 685	17 961
	<b>357 653</b>	<b>281 244</b>

# Notes to the financial statements

Year ended December 31, 2003 31/12/2003 31/12/2002  
L.E. (000) L.E. (000)

## 9 - TRADE RECEIVABLES (NET)

Governmental sector	289 357	345 724
Private sector	2 369 862	1 957 763
Foreign telecommunication companies and organizations	858 078	513 504
	<b>3 517 297</b>	<b>2 816 991</b>
Less: Provision for doubtful debts	1 044 083	801 420
	<b>2 473 214</b>	<b>2 015 571</b>

31/12/2003 31/12/2002  
L.E. (000) L.E. (000)

## 10 - DEBTORS & OTHER DEBIT ACCOUNTS (NET)

Suppliers - debit balances	34 609	43 745
Deposits with others	2 854	969
Employees loans	2 101	2 522
Customs Authority - deposits	3 172	826
Accrued revenues	33 810	1 177
Tax Authority	50 182	34 599
Employees loyalty grant (Note No. 22)	47 974	85 822
Other debit accounts*	3 390 456	2 879 312
	<b>3 565 158</b>	<b>3 048 972</b>
Less: Provision for doubtful debts	108 430	39 864
	<b>3 456 728</b>	<b>3 009 108</b>

# Notes to the financial statements

Year ended December 31, 2003

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
*Other debit accounts include the following amounts:-		
Description		
- Payments on account to the National Telecommunication Regulatory Authority for the license of Wataneya for Telecommunication (Note 23).	1 975 000	1 757 600
- Payments of 10% for capital contribution in Wataneya for Telecommunication - under establishment - Telecom Egypt owns 98% of the share capital.	9 800	9 800
- Advances for the new building paid on behalf of the Wataneya for Telecommunication for the company building, designs and engineering services.	59 572	32 094
- Payments on account of corporate tax	1 002 020	880 210
	<b>3 046 392</b>	<b>2 679 704</b>

# Notes to the financial statements

Year ended December 31, 2003

	31/12/2003	31/12/2002
	L.E. (000)	L.E. (000)

## 11 - CASH ON HAND AND AT BANKS

Banks - time deposits	79 148	182 414
Banks - current accounts	62 853	31 112
Cash on hand	5 868	6 052

	147 869	219 578
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Time deposits as of 31/12/2003 include an amount of L.E 14 145 K blocked in favor of some banks as a guarantee the letters of credit granted to the company (against L.E 98 260 K as of 31/12/2002)

## 12 - SHARE CAPITAL

The company's authorized, issued and fully paid up capital is determined at L.E 17 112 149 K represented in 171 121 490 shares of L.E 100 each and owned by the Egyptian government.

## 13 - LOANS AND FACILITIES

	31/12/2003	31/12/2002
	L.E. (000)	L.E. (000)

Local loans and local suppliers' facilities	1 706 513	1 028 591
Governmental loans	1 006 843	925 599
Foreign loans	1 556 284	1 042 992
Bank and foreign suppliers' facilities	1 099 792	1 487 114

	5 369 432	4 484 296
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Less: Installments due within one year	1 104 839	1 023 031
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	4 264 593	3 461 265
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# Notes to the financial statements

Year ended December 31, 2003

	Balance as of 1/1/2003 L.E. (000)	Addition during the year L.E. (000)	Reclassification L.E. (000)	Used during the year L.E. (000)	Balance as of 31/12/2003 L.E. (000)
14 - PROVISIONS					
Provisions for contingent liabilities					
Tax provision	1 172 329	153 554	10 000	(35 550)	1 300 333
Claims and contingencies	36 477	-	172 077	-	208 554
Others	39 412	-	-	-	39 412
	1 248 218	153 554	182 077	(35 550)	1 548 299
Provisions for doubtful debts					
Trade receivables	801 420	424 740	(182 077)	-	1 044 083
Debtors and other debit accounts	39 864	68 566	-	-	108 430
	841 284	493 306	(182 077)	-	1 152 513
Provisions for obsolete inventory items	18 297	-	-	-	18 297
	2 107 799	646 860	-	(35 550)	2 719 109

\* Provision for obsolete inventory items are netted against their related type of inventory balances.

# Notes to the financial statements

Year ended December 31, 2003 31/12/2003 31/12/2002  
L.E. (000) L.E. (000)

## 15 - SUPPLIERS

Local - suppliers	68 903	52 106
Foreign - suppliers	3 127	2 895

	72 030	55 001
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16 - CREDITORS AND OTHER CREDIT ACCOUNTS 31/12/2003 31/12/2002  
L.E. (000) L.E. (000)

Tax authority	102 022	187 766
Deposits from others	531 902	497 355
Fixed assets suppliers	288 250	262 299
Accrued interest	133 880	93 143
Accrued expenses	51 420	61 091
Social insurance authority	18 215	13 848
Customers - credit balances	150 722	156 816
Dividends payable	241 637	243 000
Other credit accounts	287 903	272 552
Deferred revenues*	337 669	-

	2 143 620	1 787 870
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Less: Tax payments due after one year	54 704	132 746
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	2 088 916	1 655 124
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\* Deferred revenues are represented in the value of the grant presented by the USAID to finance some of the company's projects.

# Notes to the financial statements

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
17 - SALES OF SERVICES		
Domestic call revenues		
Local calls	1 403 874	1 064 110
Long distance calls (excluding mobile revenue)	371 375	427 467
Local telegram and telex	10 522	10 119
<b>Total domestic call revenues</b>	<b>1 785 771</b>	<b>1 501 696</b>
Mobile domestic revenues		
Fixed to mobile revenue	959 444	1 110 712
Mobile to fixed interconnection revenue	139 862	91 782
<b>Total mobile revenues</b>	<b>1 099 306</b>	<b>1 202 494</b>
Other local revenues		
Connection fees	464 012	504 915
Subscription fees	925 545	670 290
Leased lines	46 941	49 360
Others	690 486	633 402
<b>Total other revenues</b>	<b>2 126 984</b>	<b>1 857 967</b>
International revenues		
International calls (excluding mobile to international)	419 910	407 892
Revenue from international operators	1 069 344	671 493
Mobiles international revenues	468 228	367 164
International telegram and telex	2 316	3 952
<b>Total international revenues</b>	<b>1 959 798</b>	<b>1 450 501</b>
<b>Total revenues from sales of services</b>	<b>6 971 859</b>	<b>6 012 658</b>

# Notes to the financial statements

Year ended December 21, 2003

## 18 - INTERCONNECTION FEES

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Fixed to mobile interconnection fees	802 229	815 951
Payments to international operators (telephone)	240 869	192 317
Payments to international operators (telegram & telex)	1 839	2 458
	<b>1 044 937</b>	<b>1 010 726</b>

## 19 - OTHER OPERATING COSTS

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Salaries	668 282	527 558
Electricity & water	13 017	10 876
Stationery & printing	47 325	33 752
Transportation cost	11 447	9 894
Business telephone cost	10 696	11 030
	<b>750 767</b>	<b>593 110</b>

## 20 - GENERAL & ADMINISTRATIVE EXPENSES

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Salaries	448 808	373 275
End of service compensation - early retirement program	9 684	61 284
Depreciation	35 588	22 865
Bad debts	68	36
Tax and customs duty	11 261	5 691
Bank charges & commissions	30 548	18 443
Others	126 071	108 718
	<b>662 028</b>	<b>590 312</b>

# Notes to the financial statements

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
21 - OTHER INCOME / (EXPENSES)		
Rent income	929	861
Fines (net)	(6 402)	6 182
Sundry revenues	31 525	46 902
Prior years' (expenses) / income (net)	33 083	(140 563)
	59 135	(86 618)

## 22 - EARLY RETIREMENT SCHEME

- The company's board of directors approved in its meeting on May 9, 2001 an early retirement scheme for its employees. This plan was implemented during the twelve months ended 31/8/2002 (First phase). The cost of these compensations is financed by a Bank loan granted to the company. The principle loan will be repaid from employees' loyalty fund however, the interest will be charged as expenses when incurred.

- The company's board of directors approved in its meetings on March 20, 2002 and December 30, 2002 to finance an amount of L.E 65 000 K and L.E 35 000 K respectively to the employees loyalty fund in order to facilitate financing of the retired employees compensation (the second and third phases). These amounts would be refunded from employees loyalty fund upon their legal retirements.

- The actual compensations charged to income statement for the year 2003 and paid to the retired employees amounted to L.E. 9 684 K.

- The amounts to be refunded during the year 2004 amounted to L.E 8 446 K (the current portion) and the amounts to be refunded starting from January 2005 and up to the year 2011 is L.E 39 528 K (the long term portion).

# Notes to the financial statements

Year ended December 31, 2003

## 23 - WAIVER OF THE LICENCE OF THE THIRD MOBILE NETWORK

- The company obtained a licence to establish the third mobile phone network against an amount of L.E. 1 975 million paid to the National Telecommunication Regulatory Authority (NTRA). However, due to the current recession in the market, the company decided to waive its right in this license and recover the license fees paid to NTRA.

- Pursuant to the memorandum of understanding dated December 20, 2003, concluded between Telecom Egypt and both Vodafone Egypt Co. and Mobinil, the parties agreed that the two mobiles operators would pay to NTRA cash installments in order to obtain the frequency band 1800 MHTZ previously granted to Telecom Egypt and waived to the two mobile operators.

- The company requested NTRA to transfer its right in the cash installments paid by the two mobiles operators within the agreed payment conditions and time schedule to Misr Bank in its capacity as a lender and a representative of the lenders to the company towards its acquisition of 25.5% of Vodafone Egypt Shares. The company obtained the approval from NTRA regarding this transfer of right on December 22, 2003.

## 24 - EARNING PER SHARE

	For the year ended 2003 L.E. (000)	For the year ended 2002 L.E. (000)
Net profit for the year (L.E. 000)	1 087 305	790 871
Less:		
Employees' share in profit	140 929	55 930
Board of Directors' bonus	1 996	-
	944 380	734 941
Number of outstanding shares	171 121 490	171 121 490
Earning per share for the year (L.E. / share)	5.52	4.29

# Notes to the financial statements

Year ended December 31, 2003

## 25 - CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted portion of contracts amounted to L.E. 12 million (L.E. 39 million at 31/12/2002).

## 26 - CONTINGENT LIABILITIES

In addition to the amounts included in the balance sheet, as of December 31, 2003 the company had the following contingent liabilities:

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
- Letters of guarantee issued by the company's banks on its behalf	51 490	178 000
- Letters of credit	280 066	418 787
- Uncalled installments in investees share capital	14 475	23 037

## 27 - TAXATION

- Corporate tax

- The tax period up to 26/3/1998 was inspected and assessed by the Tax Department and the company accounted for that tax liabilities according to the tax department assessment.

- The tax years from 27/3/1998 and up to 30/6/2000 were inspected and the company received Form No. 18 and 19. The company appealed the tax assessment before the internal appeal committee on due dates and certain disputed items were raised to the higher appeal committee. The aggregate disputed amount approximated L.E. 12.8 billions mainly includes L.E. 11.4 billions arising from the revaluation of ARENTO net assets as of 26/3/1998 transferred to Telecom Egypt Company on 27/3/1998 in accordance with law No. 19 for the year 1998.

The Appeal Committee on 11/3/2004 agreed with the Tax Department decision to subject the surplus arising from the revaluation of ARENTO net assets to corporate tax. The company's management and its advisors are of the opinion that such tax assessment is erroneous on the ground that, transformation process is not a taxable activity according to the tax law and the public authorities are subject to corporate tax in respect to taxable activities only. Further, there is no legal provision subjecting revaluation surplus per se to tax.

The company is currently in the process to undertake the necessary actions to challenge the Tax Department regarding this issue before court. The ultimate outcome of this issue cannot presently be determined till a final court decision is rendered. Accordingly, the company has not formed any provision for this issue and also the company's management and its advisors believe that even if a court final decision would be granted in favor of the Tax Department, the owner of the company will bear such taxes (The Egyptian Government represented by the Ministry of Finance).

# Notes to the financial statements

Year ended December 31, 2003

The company formed the adequate provisions for tax liabilities in relation to the other corporate tax disputes transferred to the Appeal Committee.

- The tax period from 1/7/2000 till 31/12/2001 was inspected and the company received the tax department assessment in Form 18. The company appealed against this assessment on due dates and the appeal was transferred to the internal appeal committee, which decided to file the disputed matters to the Higher Appeal Committee. The company formed the adequate provisions for tax liabilities in relation to the disputed matters.
- The year 2002 has not been inspected yet by the tax department and the company submitted the tax return on due dates.

- Sales tax

There is a recent dispute between the Sales Tax Authority and the company as of May 2003 on whether the interconnection charges between the company's network and the other licensed telecommunication networks in Egypt is subject to sales tax.

The Sales Tax Authority notified the mobile operators that the interconnection charges between the other licensed telecommunication networks in Egypt and the company's network is subject to sales tax based on the assumption that this charge is work performed on behalf of others (Rental and use of equipment). The tax on this revenue, as included in the sales tax department letter amounted to approximately L.E. 226 million for the period since inception to December 31, 2001 without the additional sales tax.

The mobile operators would claim the due sales tax relating to the interconnection charges from fixed to mobile phones from the company. In case the company would receive a claim from the sales tax department for interconnection charges from mobile to fixed phones it would also claim it from the mobile operators.

The company's management believes that subjecting the interconnect charge to tax is not legal, as the total cost of the call has already been taxed and that the interconnect charges are just a portion of the call. Accordingly, the company has not formed any provision in this regard.

The company was inspected for sales tax till the year ended December 31, 2002 and settled all the sales tax and the additional tax assessments except for the interconnection charges from fixed to mobile phones and as mentioned in the preceding paragraph.