



## Hazem Hassan

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*Translation from Arabic*

### **Auditor's Limited Review Report**

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

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

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

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

**KPMG Hazem Hassan**  
**Public Accountants & Consultants**


Cairo, November 12, 2006

**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**  
**Consolidated Balance Sheet**  
**As of September 30, 2006**

	Note No.	30/9/2006 LE(000)	31/12/2005 LE(000)
<b>Long-Term Assets</b>			
Fixed assets (net)	(4)	20 648 088	21 833 589
Projects in progress	(5)	1 359 184	1 146 797
Investments in affiliates	(3-6)+(6-1)	1 681 341	1 539 465
Available for sale investments	(3-7)+(6-2)	96 635	95 197
Long-term receivables	(7)	1 121 751	1 512 901
Other assets (net)	(3-9)-(8)	160 179	126 769
<b>Total Long Term Assets</b>		<u>25 067 178</u>	<u>26 254 718</u>
<b>Current Assets</b>			
Inventory	(9)	529 454	494 776
Trade and notes receivable	(10)	2 943 279	2 559 673
Debtors and other debit accounts	(11)	1 603 936	2 160 735
Investments held for trading	(12)	120 850	—
Cash on hand and at banks	(13)	1 506 884	768 016
<b>Total Current Assets</b>		<u>6 704 403</u>	<u>5 983 200</u>
<b>Current Liabilities</b>			
Loan installments and facilities due within one year	(14)	364 529	476 487
Banks - credit accounts		364 835	419 061
Banks overdraft		119 988	158 474
Suppliers & notes payable	(15)	119 203	103 768
Dividends payable		10 660	36 593
Creditors and other credit accounts	(16-1)	2 724 554	2 926 577
Provisions	(17)	712 401	1 255 653
<b>Total Current Liabilities</b>		<u>4 416 170</u>	<u>5 376 613</u>
<b>Working capital</b>		<u>2 288 233</u>	<u>606 587</u>
<b>Total investments</b>		<u>27 355 411</u>	<u>26 861 305</u>
Financed as follows:-			
<b>Equity and long-term liabilities</b>			
<b>Equity</b>			
Paid up capital	(19)	17 070 716	17 070 716
Reserves	(20)	4 159 249	3 416 774
Retained earnings		804 063	402 035
Translation difference adjustments		( 109)	( 78)
Net profit for the period / year		1 516 107	2 097 275
<b>Total equity attributable to equity holders of the parent</b>		<u>23 550 026</u>	<u>22 986 722</u>
<b>Minority Interest</b>		<u>31 307</u>	<u>22 031</u>
<b>Total Equity</b>		<u>23 581 333</u>	<u>23 008 753</u>
<b>Long-Term Liabilities</b>			
Loans and credit facilities	(14)	1 578 258	1 734 821
Bonds loan	(21)	2 000 000	2 000 000
Creditors and other credit accounts	(16-2)	111 864	56 459
Deferred tax liabilities	(3-23), (22)	83 956	61 272
<b>Total Long-Term Liabilities</b>		<u>3 774 078</u>	<u>3 852 552</u>
<b>Total Equity and Long-Term Liabilities</b>		<u>27 355 411</u>	<u>26 861 305</u>

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

Chairman  
And the Executive President

  
Eng./Akil Beshir

Deputy of the Executive President  
for Financial & Commercial

  
Acc./Ali Salama

Head of the  
financial sector

  
Acc./Alf Barakat

Date : November 9, 2006

Auditor's Review Report "Attached"

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

	Note No.	For the financial period from 1/1/2006 to 30/9/2006 <u>LE(000)</u>	For the financial period from 1/1/2005 to 30/9/2005 <u>LE(000)</u>
<b><u>Operating Revenues</u></b>			
Sales of services	(23)	6 856 267	6 274 210
Sales of telephone sets & directories		65 295	141 336
		<u>6 921 562</u>	<u>6 415 546</u>
<b><u>Operating Expenses</u></b>			
Interconnection fees	(24)	985 824	915 451
Fuel		44 044	41 395
Spare parts		93 869	76 121
Maintenance		90 824	68 324
Satellite subscriptions		17 493	17 153
Depreciation	(4)	1 996 114	1 880 059
Amortization	(8)	23 079	20 968
Cost of telephone sets & directories sold		73 727	155 942
Other operating costs	(25)	931 180	770 371
		<u>4 256 154</u>	<u>3 945 784</u>
<b>Gross Operating Profit</b>		<u>2 665 408</u>	<u>2 469 762</u>
<b><u>Administrative expenses</u></b>			
General & administrative expenses	(26)	695 459	621 082
Selling & distribution expenses	(27)	193 415	114 208
Provisions	(17)	16 318	89 494
Impairment loss on trade and other receivables	(18)	189 386	36 803
		<u>1 094 578</u>	<u>861 587</u>
<b>Net Operating Profit</b>		<u>1 570 830</u>	<u>1 608 175</u>
<b><u>Other Income / (Expenses)</u></b>			
Interest income		39 282	19 155
Income from investments		395 920	269 071
Interest expenses		( 219 119)	( 300 132)
Other revenues	(28)	187 002	79 451
Reversal of impairment loss / (impairment loss) on available for sale investments		1 458	( 3 218)
Gain on sale of investments		4 493	37 626
Increase of market value of held for trading investments		5 907	—
Gain on sale of fixed assets		( 2 083)	1 237
Foreign exchange ( loss) gain		( 96 659)	293 761
Release of unused provisions	(17)	10 660	260 490
Reversal of impairment loss on trade receivables	(18)	44 560	—
		<u>371 421</u>	<u>657 441</u>
<b>Net profit for the period before tax &amp; minority interest</b>		<u>1 942 251</u>	<u>2 265 616</u>
<b><u>Less:</u></b>			
Current tax expense		401 762	431 878
Deferred tax expense		22 528	—
<b>Net profit before minority interest</b>		<u>1 517 961</u>	<u>1 833 738</u>
<b><u>Less:</u></b>			
Minority interest		1 854	2 119
<b>Net profit for the period after tax &amp; minority interest</b>		<u>1 516 107</u>	<u>1 831 619</u>
Earnings per share (LE/Share)	(31)	<u>0.89</u>	<u>1.07</u>

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

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

	Note No.	For the financial period from 1/1/2006 to 30/9/2006 <u>LE(000)</u>	For the financial period from 1/1/2005 to 30/9/2005 <u>LE(000)</u>
<b><u>Cash flows from operating activities</u></b>			
Cash receipts from trade receivables		5 500 367	5 446 905
Sales tax collected from trade receivables		378 481	329 811
Stamp tax and fees collected (from third party)		79 063	82 124
Deposits received from trade receivables		38 228	40 007
Cash paid to suppliers		( 581 026)	( 158 199)
Cash paid to employees		( 764 815)	( 714 315)
Cash paid on behalf of employees		( 244 042)	( 229 484)
Dividends paid to shareholders & employees		( 945 972)	( 587 573)
<b>Net cash from operating activities</b>		<u>3 460 284</u>	<u>4 209 276</u>
Interest paid		( 220 436)	( 333 199)
Payments to corporate Tax Authority		( 542 322)	( 329 690)
Payments to Sales Tax Authority		( 537 377)	( 520 290)
Other proceeds / (payments) (net)		( 151 278)	( 9 863)
<b>Net cash provided by operating activities</b>		<u>2 008 871</u>	<u>3 016 234</u>
<b><u>Cash flows from investing activities</u></b>			
Payment for purchase of property, plant & equipment and projects in progress		(1 158 718)	(1 802 025)
Proceeds from sale of property plant & equipment and other assets		2 179	16 826
Payments for purchase of investments		( 221 950)	( 669 692)
Proceeds from sale of investments		110 000	88 294
Interest received		44 457	13 027
Dividends received		339 697	141 406
<b>Net cash used in investing activities</b>		<u>( 884 335)</u>	<u>(2 212 164)</u>
<b><u>Cash flows from financing activities</u></b>			
Repayment of borrowings & facilities relating to acquisition of property, plant & equipment, projects in progress and intangible assets.		( 257 920)	( 551 713)
Repayment of other borrowings & facilities		( 11 118)	(1 508 744)
Payments by minority for capital increase in subsidiary companies		9 615	3 256
Proceeds from long - term bonds issued		—	2 000 000
Proceeds from long - term loans		—	29 531
Repayment of banks credit accounts		( 54 226)	(1 197 965)
Payment of financial lease obligations		( 33 190)	( 21 177)
Increase in long-term obligations		120	—
<b>Net cash used in financing activities</b>		<u>( 346 719)</u>	<u>(1 246 812)</u>
<b>Net Increase (Decrease) in cash and cash equivalents during the period</b>		777 817	( 442 742)
Translation difference adjustments		( 463)	( 93)
Cash and cash equivalents at the beginning of the period	(32)	<u>609 542</u>	<u>1 104 560</u>
<b>Cash and cash equivalents at the end of the period</b>	(32)	<u>1 386 896</u>	<u>661 725</u>

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

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

	<u>Paid up capital</u>	<u>Legal reserve</u>	<u>Other reserves</u>	<u>Fair value reserve</u>	<u>Retained earnings</u>	<u>Translation difference adjustments</u>	<u>Net profit</u>	<u>Total equity attributable to equity holders of the parent</u>	<u>Minority interest</u>	<u>Total equity</u>
	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>
Balance as of 1/1/2005	17 112 149	322 347	4 308 086	16 819	413 705	( 34)	1 025 167	23 198 239	17 940	23 216 179
Adjustments to retained earnings	—	—	—	—	(11 742)	—	—	(11 742)	—	(11 742)
Minority interest's share in capital increase	—	—	—	—	—	—	—	—	2 661	2 661
Transferred to reserves	—	51 390	410 014	—	—	—	(461 404)	—	—	—
Dividends for the year 2004	—	—	—	—	(25 901)	—	(548 312)	(574 213)	(834)	(575 047)
Adjustment to revaluation surplus of sold investments	—	—	—	(10 005)	10 005	—	—	—	—	—
Reducing of other reserves against decrease the land & other assets according to the Extra-ordinary General Assembly resolution on 21/9/2005	—	—	(1 723 339)	—	—	—	—	(1 723 339)	—	(1 723 339)
Reducing the share capital according to the Extra-ordinary General Assembly resolution on 21/9/2005	(41 433)	—	41 433	—	—	—	—	—	—	—
Transferred from minority interest due to the change in capital shareholding percentage	—	29	—	—	455	—	—	484	(484)	—
Transferred to retained earnings	—	—	—	—	15 504	(53)	(15 451)	—	—	—
Translation difference adjustments	—	—	—	—	9	9	—	18	(6)	12
Net profit for the year 2005	—	—	—	—	—	—	2 097 275	2 097 275	2 754	2 100 029
Balance as of 31/12/2005	17 070 716	373 766	3 036 194	6 814	402 035	(78)	2 097 275	22 986 722	22 031	23 008 753
Adjustments to retained earnings	—	—	—	—	246	—	—	246	(76)	170
Minority interest's share in capital increase of subsidiary company	—	—	—	—	—	—	—	—	9 615	9 615
Transferred from minority interest due to the change in capital shareholding percentage	—	36	—	—	481	—	—	517	(517)	—
Transferred to reserves	—	93 064	650 000	—	—	—	(743 064)	—	—	—
Dividends for the year 2005	—	—	—	—	(1 394)	—	(951 576)	(952 970)	(1 605)	(954 575)
Reducing of other reserves against decrease of the land	—	—	(625)	—	—	—	—	(625)	—	(625)
Transferred to retained earnings	—	—	—	—	402 639	(4)	(402 635)	—	—	—
Translation difference adjustments	—	—	—	—	56	(27)	—	29	5	34
Net profit for the period	—	—	—	—	—	—	1 516 107	1 516 107	1 854	1 517 961
Balance as of 30/9/2006	17 070 716	466 866	3 685 569	6 814	804 063	(109)	1 516 107	23 550 026	31 307	23 581 333

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

**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**

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

**1. BACKGROUND**

- **Establishment of the company**

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

- **Purpose of the company**

The main purpose of the company includes:

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

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

**2. SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

	<b><u>Subsidiaries name</u></b>	<b><u>Percentages share %</u></b>
	TE Data – S.A.E.	95.04 %
The Egyptian Telecommunication Company for Information Systems (Xceed) – S.A.E		97.66 %
Middle East Radio Communication ( MERC) – S.A.E.		51.00 %
Centra Technologies – S.A.E.		55.02 %

### **3. SIGNIFICANT ACCOUNTING POLICIES APPLIED**

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

**3-1-1** The financial statements are prepared under the historical cost basis and in accordance with the Egyptian Accounting Standards and in the light of the provisions of applicable Egyptian laws and regulations.

#### **3-1-2 Consolidation basis**

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

#### **3-2 Foreign currency translation**

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

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

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

### **3-4 Fixed assets and depreciation**

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

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

### **3-5 Projects in Progress**

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

### **3-6 Investments in affiliates**

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

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

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

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

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

### **3-8 Held for trading investments**

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

### **3-9 Other assets and amortization**

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

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

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

### **3-10 Inventories**

Inventories are valued at the balance sheet date at the lower of cost or net realizable value. Cost is determined using the weighted average method.

- Work in progress is valued at cost at the latest production process reached.
- Finished goods are valued at the manufacturing cost or net selling value.

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

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

### **3-12 Impairment of assets**

The carrying amounts of the Company's assets, other than inventory, note No.(3-10) and deferred tax assets note No.(3-23) are reviewed at each consolidated balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the necessary studies are prepared to estimate the asset's prospective recoverable amount.

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

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

### **3-13 Provisions**

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

### **3-14 Borrowing cost**

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

### **3-15 Grants**

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

### **3-16 Trading Creditors & Other Payables**

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

### **3-17 Revenue recognition**

- Revenues from sales of services are recognized when services are rendered to the customers.
- Revenues from telephone sets & directories sales are recognized when goods are delivered to customers and invoices are issued.
- Income from investments is recognized when dividends of investees are declared by the General Assembly resolutions.

### **3-18 Expenses**

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

### **3-19 End of service indemnity**

The company contributes to Social Insurance Authority for the benefit of its personnel in pursuance to the Social Insurance Authority law No. 79 of 1975 and its amendments. These contributions are recorded in the "Wages and Salaries account" in addition to the early retirement scheme applied from 1/9/2001 (Note No. 29).

### **3-20 Capital lease agreements**

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

### **3-21 Accounting estimates**

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

### **3-22 Reserves**

#### **- Legal Reserve**

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

#### **- Other reserves**

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

#### **- Fair Value reserve**

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

### **3-23 Income tax**

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

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

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

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

### **3-24 Transactions with related parties**

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

**3-25 Cash flow statement**

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

4- **FIXED ASSETS (net)**

	Land	Buildings & constructions	Machinery & equipment	Means of transportation	Tools & supplies	Office furniture & fixtures	Decoration & fixtures	Total
	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>
<b><u>Cost</u></b>								
Balance as at 1/1/2006	2 336 291	16 541 885	16 643 199	101 286	60 752	735 972	449	36 419 834
Adjustment to the opening balance	—	—	( 18 094)	—	—	—	—	( 18 094)
Additions for the period	1 406	275 808	579 924	773	967	78 543	375	937 796
Disposal for the period	( 625)	—	( 7 464)	( 1 550)	( 111)	( 412)	( 76)	( 10 238)
Reclassification	—	( 9 146)	—	—	—	( 2 655)	11 801	—
Translation differences	—	—	( 13)	—	—	( 13)	( 3)	( 29)
<b>Balance as at 30/9/2006</b>	<b>2 337 072</b>	<b>16 808 547</b>	<b>17 197 552</b>	<b>100 509</b>	<b>61 608</b>	<b>811 435</b>	<b>12 546</b>	<b>37 329 269</b>
<b><u>Depreciation &amp; Impairment</u></b>								
Accumulated depreciation as at 1/1/2006	—	5 553 416	8 648 516	79 297	33 523	271 368	125	14 586 245
Adjustment to the opening balance	—	—	( 499)	—	—	( 329)	—	( 828)
Depreciation for the period	—	701 085	1 283 447	8 752	3 980	103 288	1 830	2 102 382
Accumulated depreciation of disposal	—	—	( 5 244)	( 805)	( 111)	( 400)	( 55)	( 6 615)
Reclassification	—	( 229)	—	—	—	( 664)	893	—
Translation differences	—	—	( 2)	—	—	( 1)	—	( 3)
<b>Balance of accumulated depreciation as at 30/9/2006</b>	<b>—</b>	<b>6 254 272</b>	<b>9 926 218</b>	<b>87 244</b>	<b>37 392</b>	<b>373 262</b>	<b>2 793</b>	<b>16 681 181</b>
<b>Carrying amounts as at 30/9/2006</b>	<b>2 337 072</b>	<b>10 554 275</b>	<b>7 271 334</b>	<b>13 265</b>	<b>24 216</b>	<b>438 173</b>	<b>9 753</b>	<b>20 648 088</b>
<b>Carrying amounts as at 31/12/2005</b>	<b>2 336 291</b>	<b>10 988 469</b>	<b>7 994 683</b>	<b>21 989</b>	<b>27 229</b>	<b>464 604</b>	<b>324</b>	<b>21 833 589</b>

- Cost of fixed assets included an amount of LE 1 523 million relating to fully depreciated assets still in use.

Depreciation for the period are charged as follows:-

	<u>LE(000)</u>
Operating expenses	1 996 114
General & administrative expenses	105 621
Selling & distribution expenses	647
	<u>2 102 382</u>

## 5. PROJECTS IN PROGRESS

	<b><u>30/9/2006</u></b>	<b><u>31/12/2005</u></b>
	<b><u>LE (000)</u></b>	<b><u>LE (000)</u></b>
<b><i>Telecom Egypt - Parent</i></b>		
Land	6 150	6 528
Buildings and constructions	142 628	124 819
Machinery and equipment	720 271	442 967
Means of transportation	301	387
Tools and supplies	264	115
Office furniture and fixtures	23 688	39 441
Advance payments	390 104	495 523
Letters of credit	52 399	29 312
	<u>1 335 805</u>	<u>1 139 092</u>
<b><i>T.E Data – a subsidiary company</i></b>		
Land	975	-
Advance payments	20 215	7 705
<b><i>T.E Information Technology - a Subsidiary Company</i></b>		
Advance payments	2 189	-
	<u>1 359 184</u>	<u>1 146 797</u>
	=====	=====

## 6. LONG TERM INVESTMENTS

	30/9/2006		31/12/2005	
	Participation %	LE (000)	Participation %	LE (000)
<b>6-1 Investments in affiliates</b>				
- Vodafone Egypt *	25.62	1 665 953	25.50	1 525 465
- Nile On Line (NOL)	27.27	12 709	27.27	12 688
- Wataneya for Telecommunication	50.00	125	50.00	125
- Consortium Algerien de Tele – communications (CAT) **	33.00	-	33.00	133
- International Telecommunication Consortium Limited. (ITCL)	50.00	54	50.00	54
- Egypt Trust	35.71	2 500	25.00	1 000
		-----		-----
		1 681		1 539
		341		465
		=====		=====
		==		=

\* Market value of investments in Vodafone Egypt according to the Egyptian Stock Exchange prices on September 30, 2006 amounts to L.E 5 940 331 K.

\*\*Investment in Consortium Algerien de Telecommunications (CAT) is shown a Nil balance as the company realised a net loss exceeds the carrying amount of this investment.

<b>6-2 Available for sale investments</b>		
- Participations in foreign Satellite companies & organizations	26 683	25 245
- Investments in other local companies	69 952	69 952
	-----	-----
	96 635	95 197
	=====	=====

### Investment In Vodafone – Egypt

- The investments in Vodafone Egypt as of 30/9/2006 represent the ownership of 61 487 741 shares representing 25.62% of Vodafone Egypt shares.
- By virtue of an agreement between the company and Vodafone – Egypt, Wataneya for Telecommunication Company was established on January 27, 2005 in order to transfer the ownership of its shares in Vodafone – Egypt, Wataneya for Telecommunication Company with participation percentage of 50% by Telecom Egypt and such agreement was not renewed till this date, the issue of whether to transfer the ownership of Vodafone- Egypt to Watanya for Telecommunication is currently being under discussion with Vodafone International Company (PLC)..

### Purchasing an Additional Percentage Of 23.47% Of Vodafone Telecom Egypt Shares

- On September 19.2006, the company announced its desire to purchase an additional percentage of Vodafone Egypt shares with a maximum limit reaches 24.4% at a value of .E. 100 per share. During September 2006 one of the company's subsidiaries purchased 287 741 shares of Vodafone telecom Egypt at a total cost of L.E. 28 033K.

- On October 2006, the Company purchased 56 042 896 shares of Vodafone-Egypt shares of 23.35 % at a total cost of L.E 5 614 969 K, accordingly the, the company's total No. of shares became 117 530 637 shares of 48.97%.

The purchase of these shares was financed by a syndicate loan granted from local banks with an amount of L.E 4 525 000 K to be settled on ten unequal semi-annual installments starting from March 31,2007 till September 30, 2011 while the remaining part of financing the purchase was made from the company's own resources.

- On November 8, 2006 a new strategic co-operation agreement was signed between Vodafone company and Telecom Egypt Company by virtue of which shall enjoy a prolongation of the term of the agreement between the two companies, and shall continue to provide international telecommunication services, also the agreement includes the company's approval of selling a limited percentage of its shares in Vodafone Egypt Company that shall not exceed 4.69% and shall not fall below 3.97% by L.E. 100 per share.

## 7. LONG-TERM OTHER RECEIVABLES

These balances are represented in the following:

	<b><u>30/9/2006</u></b> <b><u>LE (000)</u></b>	<b><u>31/12/2005</u></b> <b><u>LE (000)</u></b>
- The amounts due from National-Telecommunication Regulatory Authority for the license fees paid to the said Authority for the third operator after waiver of this license by the third operator after warier of this license (Note No. 30).	1 080 000	1 600 000
<b><u>Less:</u></b> The current portion to be collected during next year recorded under "debtors and other debit accounts" (Note No. 11).	520 000	520 000
	<hr/>	<hr/>
	560 000	1 080 000
- The interests balances for the period from 1/4/2005 till the balance sheet date, that shall be settled by (NTRA) for the license's charges paid to (NTRA) for the third mobile phone network as a part of the last installment which is payable on 31/3/2009 (Note No. 30).	<hr/> 180 000	<hr/> 90 000
- Payments made on behalf of consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria.	334 570	221 585
- Amounts due from the employees in consideration of the company's shares floated in public offering and purchased and distributed by the company to its employees. The value of these purchased shares shall be paid by employees over 24-months starting from 1/1/2006, and these shares are subject to a 6 month ban period starting from the date of closing subscription.	<hr/> 120 979	<hr/> 201 987
<b><u>Less:</u></b> The current portion to be collected during next year which was recorded under "debtors and other debit accounts" (Note No. 11).	99 926	106 799
	<hr/>	<hr/>
	21 053	95 188
- Due from Loyalty Fund Grant (Note No. 29)	<hr/> 27 865	<hr/> 33 078
<b><u>Less:</u></b> The current portion to be collected during next year from Loyalty Fund Grant (Note No.11)	1 737	6 950
	<hr/>	<hr/>
	26 128	26 128
	<hr/>	<hr/>
	1 121 751	1 512 901
	<hr/> <hr/>	<hr/> <hr/>

**8- OTHER ASSETS (net)**

	Right of way (BRITAR) <u>LE(000)</u>	Right of way (ALITAR) <u>LE(000)</u>	Right of way (Flag cable) <u>LE(000)</u>	Usufruct for land occupied by TE <u>LE(000)</u>	Right of way (SMW2, SMW3) <u>LE(000)</u>	Right of using (ROU) <u>LE(000)</u>	Internet license <u>LE(000)</u>	Total <u>LE(000)</u>
<b>Cost</b>								
Cost as at 1/1/2006	1 720	48 755	95 910	1	131 566	48 906	20 189	347 047
Adjustment to the opening balance	—	—	—	—	( 100)	—	—	( 100)
Additions for the period	—	—	—	—	—	56 556	—	56 556
Translation differences	—	—	—	—	—	—	( 3)	( 3)
<b>Balance as at 30/9/2006</b>	<b>1 720</b>	<b>48 755</b>	<b>95 910</b>	<b>1</b>	<b>131 466</b>	<b>105 462</b>	<b>20 186</b>	<b>403 500</b>
<b>Accumulated amortization &amp; impairment losses</b>								
Balance as at 1/1/2006	731	21 351	60 363	—	95 708	22 109	20 016	220 278
Adjustment to the opening balance	—	—	—	—	( 35)	—	—	( 35)
Amortization during the period	129	1 828	7 205	—	9 860	4 042	—	23 079
Translation differences	—	—	—	—	—	—	( 1)	( 1)
<b>Balance as at 30/9/2006</b>	<b>860</b>	<b>23 179</b>	<b>67 568</b>	<b>—</b>	<b>105 533</b>	<b>26 151</b>	<b>20 030</b>	<b>243 321</b>
<b>Carrying amounts as at 30/9/2006</b>	<b>860</b>	<b>25 576</b>	<b>28 342</b>	<b>1</b>	<b>25 933</b>	<b>79 311</b>	<b>156</b>	<b>160 179</b>
<b>Carrying amounts as at 31/12/2005</b>	<b>989</b>	<b>27 404</b>	<b>35 547</b>	<b>1</b>	<b>35 858</b>	<b>26 797</b>	<b>173</b>	<b>126 769</b>

## 9. INVENTORY

	<b><u>30/9/2006</u></b> <b><u>LE (000)</u></b>	<b><u>31/12/2005</u></b> <b><u>LE (000)</u></b>
Spare parts	155 971	158 774
Materials supplies	636	356
Computers & Pc's components	11 525	7 838
Others – project cables and supplies	280 791	277 737
Finished goods	339	149
Telephone sets and directories	45 462	42 154
Consignment goods	757	878
	<hr/>	<hr/>
	495 481	487 886
<b><u>Add:</u></b>		
Letters of credit	33 973	6 890
	<hr/>	<hr/>
	529 454	494 776
	=====	=====

## 10. TRADE & NOTES RECEIVABLE

	<b><u>30/9/2006</u></b> <b><u>LE (000)</u></b>	<b><u>31/12/2005</u></b> <b><u>LE (000)</u></b>
Governmental sector	367 640	294 679
Private sector	2 645 322	2 529 850
Foreign telecommunication companies and organizations	743 896	902 257
	<hr/>	<hr/>
	3 756 858	3 726 786
<b><u>Less:</u></b>		
Impairment loss on trade receivables	814 429	1 168 062
	<hr/>	<hr/>
	2 942 429	2 558 724
Notes receivable	850	949
	<hr/>	<hr/>
	2 943 279	2 559 673
	=====	=====

## 11. DEBTORS & OTHER DEBIT ACCOUNTS

	<b><u>30/9/2006</u></b> <b><u>LE (000)</u></b>	<b><u>31/12/2005</u></b> <b><u>LE (000)</u></b>
Suppliers – debit balances	117 458	56 716
Deposits with others	9 568	6 957
Employees’ loans	1 858	1 335
Customs Authority - deposits	1 653	3 047
Accrued revenues	2 438	8 665
Tax Authority	63 930	110 089
Sales Tax Authority - advances	398 523	196 656
Employees loyalty grant (Note No. 7)	1 737	6 950
Other debit accounts*	1 348 007	1 924 873
	<u>1 945 172</u>	<u>2 315 288</u>
<b><u>Less:</u></b>		
Impairment loss on debtors & other debit accounts balances	341 236	154 553
	<u>1 603 936</u>	<u>2 160 735</u>
	=====	=====

\* Other debit accounts include the following amounts: -

	<b><u>30/9/2006</u></b> <b><u>LE (000)</u></b>	<b><u>31/12/2005</u></b> <b><u>LE (000)</u></b>
- The current portion to be collected within one year from the National Telecommunication Regulatory Authority for the license fees of Wataneya for Telecommunication (Note No. 7).	520 000	520 000
- The current portion to be collected during next year for the balances due from the employees for the company’s shares distributed to them (Note No. 7)	99 926	106 799
- Amounts due from the main shareholders of the company (Ministry of Finance) for payment of public offering expenses on behalf of the seller (Ministry of Finance).	-	15 345
- Amounts paid to (NTRA) on the account of frequency charges for year 2006	40 000	-
- Payments on the account of corporate tax.	285 996	1 002 089
	<u>945 922</u>	<u>1 644 233</u>
	=====	=====

## 12. INVESTMENTS HELD FOR TRADING

Held for trading investments amounted to LE 120 850 K represented in the following:

**30/9/2006**  
**LE (000)**

### TE Data a Subsidiary Company

Value of 1 043 817 unit of commercial International Bank Investment Fund – Osoul Fund with price LE 114.78 for each unit at financial position date. 119 809

### TE Information Technology – a Subsidiary Company

Value of 9 067 unit of commercial International Bank Investment Fund – Osoul Fund with price L.E 114.80 for each unit at financial position date. 1 041

120 850  
=====

## 13. CASH ON HAND AND AT BANKS

	<b>30/9/2006</b> <b><u>LE (000)</u></b>	<b>31/12/2005</b> <b><u>LE (000)</u></b>
Banks- time deposits	1 344 538	668 147
Banks -current accounts	134 066	66 858
Cash on hand	28 280	33 011
	<u>1 506 884</u> =====	<u>768 016</u> =====

Time deposits at 30/9/2006 include the following:-

- An amount of LE 7 422 K blocked in favor of some banks as a guarantee for the letters of credit granted to the company (against LE 9 565 K at 31/12/2005).
- An amount of LE 300 K deposits blocked against visa cards in favor of American Express Bank.

14- LOANS AND FACILITIES

Description	Loan Currency	Long term loan	Long term loan	Balance	Balance	Annual	<u>Repayment schedule</u>
		Instalments due within one year <u>LE(000)</u>	Instalments due within more than one year <u>LE(000)</u>	as of 30/9/2006 <u>LE(000)</u>	as of 31/12/2005 <u>LE(000)</u>	Interest Rate %	
<b><u>Telecom Egypt - the parent</u></b>							
Local banks loans	L.E.	12 581	—	12 581	21 500	Caibor + 2.55 %	Semi-annual instalments ending on 24/9/2007
<b>Total local loans</b>		<b>12 581</b>	<b>—</b>	<b>12 581</b>	<b>21 500</b>		
Governmental Loans	L.E.	—	—	—	22	8%	
Governmental Loans	U.S.\$	87 933	627 668	715 601	796 957	4%	Semi annual / annual instalments ending on 24/1/2014
Governmental Loans	SK	1 398	282	1 680	3 341	0.15% +	Semi annual instalments ending on 31/12/2007
Governmental Loans	EURO	7 305	23 316	30 621	33 507	agency commission	
						4 - 6.37%	Semi annual instalments ending on 29/12/2012
<b>Total Governmental loans</b>		<b>96 636</b>	<b>651 266</b>	<b>747 902</b>	<b>833 827</b>		
Foreign loans	J.Y	24 420	62 990	87 410	102 777	3 -3.5%	Semi annual instalments ending on 20/3/2012
Foreign loans	EURO	148 262	851 407	999 669	1 001 610	0.75 - 8.2%	Semi annual instalments ending on 30/6/2036
Foreign loans	L.D	—	—	—	10 171	3.5%	
<b>Total foreign loans</b>		<b>172 682</b>	<b>914 397</b>	<b>1 087 079</b>	<b>1 114 558</b>		
Foreign suppliers' facilities - local	L.E.	—	—	—	427	3%	
Foreign suppliers' facilities - foreign	EURO	39 840	3 409	43 249	144 104	3.18 - 5.50%	Semi annual / annual instalments ending on 1/12/2008
Foreign suppliers' facilities - foreign	J.Y	42 273	9 186	51 459	96 892	2.75%	Semi annual instalments ending on 14/12/2007
<b>Total foreign suppliers' facilities</b>		<b>82 113</b>	<b>12 595</b>	<b>94 708</b>	<b>241 423</b>		
<b><u>T.E Data - a subsidiary company</u></b>							
Short term loans	Jordan	517	—	517	—		
	Dinar	364 529	1 578 258	1 942 787	2 211 308		

— Foreign suppliers' facilities in Euro include LE 4 168 K equivalent to Euro 566 K against letters of guarantee issued by National Bank of Egypt in favour of Siemens as a guarantee for this facility settlement.

— The available unused balance of Foreign Loans and Facilities at 30/9/2006 amounting to L.E. 26 720 K.

## 15- SUPPLIERS & NOTES PAYABLE

	<b>30/9/2006</b>	<b>31/12/2005</b>
	<b><u>LE (000)</u></b>	<b><u>LE (000)</u></b>
Suppliers - local	79 851	93 127
Suppliers - foreign	36 713	7 504
Notes payable	2 639	3 137
	<u>119 203</u>	<u>103 768</u>
	=====	=====

## 16- CREDITORS AND OTHER CREDIT ACCOUNTS

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

	<b>Note</b>	<b>30/9/2006</b>	<b>31/12/2005</b>
	<b><u>No.</u></b>	<b><u>LE (000)</u></b>	<b><u>LE (000)</u></b>
Tax Authority		143 526	80 566
Deposits from others		641 235	605 848
Fixed assets creditors		242 406	389 652
Accrued interest		50 081	73 931
Accrued expenses		215 459	216 128
Social Insurance Authority		18 003	18 987
Clients – credit balances		245 120	215 372
Credit balance for social, cultural and sportive activities		168 434	119 214
Deferred revenues*		246 406	266 254
Other credit accounts		383 929	363 275
Tax Authority – income tax		22 897	260 720
Current income tax for the period / year		401 762	371 334
		<u>2 779 258</u>	<u>2 981 281</u>
<b><u>Less:</u></b>			
Tax payments due after one year	(16-2)	54 704	54 704
		<u>2 724 554</u>	<u>2 926 577</u>
		=====	=====

\* Deferred revenues include an amount of L.E 239 474 K represents the balance of the grant presented by the USAID to finance some of the company's projects after deducting the accumulated amortization at September 30, 2006.

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

Creditors and other long-term accounts represent:-

	<b>Note</b>	<b>30/9/2006</b>	<b>31/12/2005</b>
	<b><u>No.</u></b>	<b><u>L.E (000)</u></b>	<b><u>L.E (000)</u></b>
<b>Telecom Egypt – parent company</b>			
Tax payment due after one year	(16-1)	54 704	54 704
Telecom Egypt share in Consortium Algerien de Telecommunications loss		55 283	-
<b>T.E Information Technology – a subsidiary Company</b>			
The additional retirement compensations due to the company's employees		1 877	1 755
		<u>111 864</u>	<u>56 459</u>
		=====	=====

**17- PROVISIONS**

	<b>Balance as of 1/1/2006 <u>LE(000)</u></b>	<b>Charged to the income statement <u>LE(000)</u></b>	<b>Used during the period <u>LE(000)</u></b>	<b>Release of unused provisions <u>LE(000)</u></b>	<b>Balance as of 30/9/2006 <u>LE(000)</u></b>
<b><u>Provision for contingent liabilities, claims and others</u></b>					
Tax provision	1 115 598	16 318	( 527 656)	—	604 260
Claims provision	140 055	—	( 21 254)	( 10 660)	108 141
	<u>1 255 653</u>	<u>16 318</u>	<u>( 548 910)</u>	<u>( 10 660)</u>	<u>712 401</u>

**18- IMPAIRMENT LOSS OF ASSETS**

	<b>Balance as of 1/1/2006 <u>LE(000)</u></b>	<b>Charged to the income statement <u>LE(000)</u></b>	<b>Used during the period <u>LE(000)</u></b>	<b>Reverse of impairment loss of assets <u>LE(000)</u></b>	<b>Balance as of 30/9/2006 <u>LE(000)</u></b>
On trade receivables	1 168 062	2 703	( 311 776)	( 44 560)	814 429
On debtors and other debit accounts balances	154 553	186 683	—	—	341 236
* Write-down in inventory (Obsolete & slow moving items)	17 040	—	—	—	17 040
	<u>1 339 655</u>	<u>189 386</u>	<u>( 311 776)</u>	<u>( 44 560)</u>	<u>1 172 705</u>

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

## 19. CAPITAL

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

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

- Decrease of issued capital by a net amount of LE 41 433 K representing the value of lands transferred to Ministry of Communication & Information Technology by LE 71 250 K and the value of land reverted to for T.E as a result of the amendment of the total land area near the satellite station in Maadi amounting to LE 29 817 K.
- Decrease of the par value per share from L.E. 100 to LE 10.

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

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

## 20. RESERVES

	<b>30/9/2006</b>	<b>31/12/2005</b>
	<b><u>LE (000)</u></b>	<b><u>LE (000)</u></b>
Legal reserve	466 866	373 766
Revaluation reserve of available for sale investments	6 814	6 814
General reserve	3 667 459	3 018 084
Capital reserve	18 110	18 110
	<u>4 159 249</u>	<u>3 416 774</u>
	=====	=====

Legal reserve amounting to LE 3 667 459 at 30/9/2006 represents the dividends transferred to the general reserve for years 99/2000 till 2005 after the decreases decided by the Extra-ordinary General Assembly Meetings held on 29/3/2005 & 21/9/2005. During the period it was also decreased by an amount of L.E 625 K against disposing the same amount from the land.

## 21. BONDS LOAN

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

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

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

## **22. DEFERRED TAX**

### *Deferred Tax Assets and Liabilities*

	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>30/9/2006</b>		<b>31/12/2005</b>	
	<b><u>LE (000)</u></b>	<b><u>LE (000)</u></b>	<b><u>LE (000)</u></b>	<b><u>LE (000)</u></b>
Fixed assets	-	(195 449)	-	(170 402)
Inventory	3 391	-	3 391	-
Trade and other receivables	32 872	-	25 793	-
Provisions	46 919	-	50 101	-
Accrual (liabilities)	28 311	-	29 845	-
Total deferred tax assets (liability)	<u>111 493</u>	<u>(195 449)</u>	<u>109 130</u>	<u>(170 402)</u>
Net deferred tax liability	<u>-</u>	<u>83 956</u>	<u>-</u>	<u>61 272</u>
	=====	=====	=====	=====

## 23. SALES OF SERVICES

	<b>For the financial period from 1/1/2006 to 30/9/2006 <u>LE (000)</u></b>	<b>For the financial period from 1/1/2005 to 30/9/2005 <u>LE (000)</u></b>
<b>Retail services:</b>		
<b>Access:</b>		
Connections	138 850	295 506
Subscriptions	1 178 407	965 723
<b>Total</b>	<u>1 317 257</u>	<u>1 261 229</u>
<b>Voice:</b>		
Local	1 359 289	1 191 573
Long distance	329 288	326 312
Fixed to international	295 010	308 407
Fixed to mobile interconnection	789 958	800 578
<b>Total</b>	<u>2 773 545</u>	<u>2 626 870</u>
Internet & Data	126 090	78 029
Others	623 137	648 358
<b>Total</b>	<u>749 227</u>	<u>726 387</u>
<b>Total Retail</b>	<u><b>4 840 029</b></u>	<u><b>4 614 486</b></u>
<b>Wholesale:</b>		
<b>Domestic:</b>		
Mobile to fixed international	163 692	156 461
Others	177 694	113 974
<b>Total</b>	<u>341 386</u>	<u>270 435</u>
<b>International:</b>		
Mobile to international	565 792	483 525
Incoming international call	1 109 060	905 764
	<u>1 674 852</u>	<u>1 389 289</u>
<b>Total Wholesale</b>	<u><b>2 016 238</b></u>	<u><b>1 659 724</b></u>
<b>Total revenues from sales of services</b>	<u><b>6 856 267</b></u> =====	<u><b>6 274 210</b></u> =====

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

## 24. INTERCONNECTION FEES

	<b>For the financial period from 1/1/2006 to 30/9/2006 <u>LE (000)</u></b>	<b>For the financial period from 1/1/2005 to 30/9/2005 <u>LE (000)</u></b>
Fixed to mobile interconnection fees	640 347	572 191
Fixed calls for internet & audio text companies fees	120 208	135 418
Dues against outgoing international calls	224 935	207 313
Dues against outgoing international telegram & telex	334	529
	<hr/>	<hr/>
	985 824	915 451
	<hr/> <hr/>	<hr/> <hr/>

## 25. OTHER OPERATING COSTS

	<b>For the financial period from 1/1/2006 to 30/9/2006 <u>LE (000)</u></b>	<b>For the financial period from 1/1/2005 to 30/9/2005 <u>LE (000)</u></b>
Salaries	558 873	550 956
Compulsory social security contributions	81 025	77 442
Electricity & water	5 362	6 686
Stationary & printed materials	40 792	11 246
Transportation cost	10 498	51 002
Business telephone cost	32 390	16 573
Rent	2 816	206
Frequencies & license charge (NTRA)	128 720	29 163
Others	70 704	27 097
	<hr/>	<hr/>
	931 180	770 371
	<hr/> <hr/>	<hr/> <hr/>

## 26. GENERAL & ADMINISTRATIVE EXPENSES

	<b>For the financial period from 1/1/2006 to 30/9/2006 <u>LE (000)</u></b>	<b>For the financial period from 1/1/2005 to 30/9/2005 <u>LE (000)</u></b>
Salaries	319 953	305 643
Compulsory social security contributions	27 704	26 879
End of service compensation-Early retirement program	3 043	7 010
Depreciation	105 621	64 864
Training	27 383	50 423
Bad debts	395	157
Tax and customs duty	74 301	29 170
Bank charges & commissions	17 774	13 445
Others	119 285	123 491
	<hr/>	<hr/>
	695 459	621 082
	<hr/> <hr/>	<hr/> <hr/>

## **27. SELLING & DISTRIBUTION EXPENSES**

	<b>For the financial period from 1/1/2006 to 30/9/2006 <u>LE (000)</u></b>	<b>For the financial period from 1/1/2005 to 30/9/2005 <u>LE (000)</u></b>
Salaries	82 348	77 057
Compulsory social security contributions	11 001	10 182
Depreciation	647	915
Tax and customs duty	2 416	3 258
Rent	706	627
Advertisements	13 724	4 313
Others	82 573	17 856
	<u>193 415</u>	<u>114 208</u>
	=====	=====

## **28. OTHER REVENUES / (EXPENSES)**

	<b>For the financial period from 1/1/2006 to 30/9/2006 <u>LE (000)</u></b>	<b>For the financial period from 1/1/2005 to 30/9/2005 <u>LE (000)</u></b>
Donations	(2 552)	(2 209)
Sundry revenues	214 174	120 104
Prior years' income / (expenses)	(24 620)	(38 444)
	<u>187 002</u>	<u>79 451</u>
	=====	=====

## **29. EARLY RETIREMENT SCHEME**

- The company's board of directors approved in its meeting dated May 9, 2001 an early retirement scheme for its employees. The scheme was implemented during the twelve months ended 31/8/2002 (First phase). The cost of these compensations is financed by a Bank loan granted to the company. The principal loan will be repaid from employees' Loyalty Fund and the interest will be charged to the company as expenses when incurred.
- The company's board of directors approved in its meetings dated March 20, 2002 and December 30, 2002 to finance an amount of L.E 65 000 K and L.E 35 000 K respectively for the employees' Loyalty Fund to facilitate financing the retired employees' compensations (the second and third phases), provided that these amounts should be refunded from employees Loyalty Fund upon their legal early retirements. The amount of LE 72 135 K was refunded as of September 30, 2006.
- On January 15, 2004 the employees' Loyalty Fund was registered in the Register of the Egyptian Private Social Insurance Funds and the grant accounts was transferred to the account of Loyalty Fund which will pay

these balances to the company on the dates of the legal early retirement of the employees.

- The actual compensations charged to the income statement and paid to the early retired employees' for the period amounted to LE 3 043 K, representing the amount due on the remaining period till the legal age of retirement.
- The amounts to be refunded during a year (current portion) amounted to LE 1 737 K and the amount to be refunded starting from October 2007 and up to the year 2011 (the long term portion) is LE 26 128 K. (Note No. 7).

### **30. WAIVER OF THE LISENCE OF THE THIRD MOBILE OPERATOR**

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

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

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

### **31. EARNING PER SHARE FOR THE PERIOD**

	<b>For the financial period from 1/1/2006 to 30/9/2006</b>	<b>For the financial period from 1/1/2005 to 30/9/2005</b>
Net profit for the period after minority interest (LE 000)	1 516 107	1 831 619
Average number of outstanding shares during the period	1 707 071 600	1 711 076 790
Earning per share for the period (LE / share)	<u>0.89</u>	<u>1.07</u>
	=====	=====
	(For Nine months)	(For Nine months)

### **32. STATEMENT OF CASH FLOW**

	<b>30/9/2006 LE (000)</b>	<b>31/12/2005 LE (000)</b>	<b>30/9/2005 LE (000)</b>
Cash and cash equivalents (as per balance sheet)	1 506 884	768 016	738 632
<u>Less:</u>			
Banks overdraft	119 988	158 474	76 907
	<u>1 386 896</u>	<u>609 542</u>	<u>661 725</u>
	=====	=====	=====

### **33. CAPITAL COMMITMENTS**

The company's capital commitments for the unexecuted parts of contracts until September 30, 2006 amounted to L.E. 166 million (includes L.E 13 million payments of uncalled share capital investments) against L.E 96 million at 31/12/2005 (includes L.E 15 million payments of uncalled share capital investments. These commitment are expected to be settled in the following financial year except for payments of share capitals of investees, which shall be settled when required by the Board of Directors for those companies.

### **34. CONTINGENT LIABILITIES**

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

	<b>30/9/2006 LE (000)</b>	<b>31/12/2005 LE (000)</b>
- Letters of guarantee issued by banks on behalf of the company	48 959	8 270
- Letters of credit	307 832	452 998

## **35. TAXATION**

### ***35-1 Corporate tax***

#### ***Years till 26/3/1998***

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

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

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

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

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

### ***35-2 Sales Tax***

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

### ***35-3 Salary Tax***

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

### ***35-4 Stamp tax***

- Tax inspection for the period from 27/3/1998 to 31/12/2000 was made and the company objected on the disputed items on the due dates and the related provisions were formed to meet the dispute tax liabilities.
- Tax inspection for the period from 1/1/2001 till 31/12/2005 is currently being undertaken.

36- **Related party transactions with affiliates**

There are transactions between the Company and its affiliates. The most important transactions during the period and related balances on the balance sheet date are stated as follows:

	Amount of transactions recorded in the income statement <u>L.E. 000</u>	Nature of transaction during the <u>period</u>	Transaction volume during the period		Balance as of 30/9/2006		Balance as of 31/12/2005	
			Debit	Credit	Debit	Credit	Debit	Credit
			<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>
<b><u>Debit balance included in account receivables</u></b>								
— Nile On Line (N.O.L)	506	International leased lines	—	506	5 694	—	6 200	—
— Nile On Line (N.O.L)	2 527	Local leased lines	2 780	—	2 780	—	—	—
— Vodafone Egypt	353 164	Fixed to mobile interconnection and audio text fees due to affiliates	595 102	578 502	16 286	—	—	314
	167 450	Transmission, lease of company premises for affiliates						
			597 882	579 008	24 760	—	6 200	314
<b><u>Debit balance included in other debit balances - long term</u></b>								
— Consortium Algerien de Telecommunications (CAT)		Paid on behalf of subsidiary to finance operating expenses	114 511	1 526	334 570	—	221 585	—
<b><u>Debit balance included in debtors and other debit accounts</u></b>								
— International Telecommunication Consortium Limited (ITCL)			—	—	68	—	68	—
<b><u>Credit balance included in creditors and other credit accounts</u></b>								
— Nile On Line (NOL)	30 382	Internet services	31 513	30 382	—	1 483	—	2 614

## **37. FINANCIAL INSTRUMENTS FAIR VALUE**

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

The book value of other financial instruments represents a reasonable assessment of their fair value.

## **38. MANAGEMENT OF FINANCIAL RISK**

### **38.1 Interest risk**

Interest rate risk is represented in the changes in the interest rate computed on the company's debts such as loans, bonds, bank overdrafts and credit facilities which amounted to LE 4 427 610 K as at September 30, 2006. (Compared to LE 4 788 843 K as at December 31, 2005). Financing interests and expenses related to these balances amounted to LE 219 119 K during the period (compared to LE 300 132 K during the previous period), while the balance of time deposits amounted to LE 1 344 538 K as at September 30, 2006 (Compared to LE 668 147 K as at December 31, 2005), and the interest income on these deposits amounted to LE 39 282 K during the period (LE 19 155 K during the previous period). In order to minimize these risks, the company's management currently seeks to obtain the best possible terms and conditions from the banks as regards the balances of credit facilities, overdrafts and loans, also, it reviews the prevailing interest rates declared by the banks on a regular basis, a matter which help mitigate the interest rate risk.

### **38.2 Credit risk**

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

### **38.3 Foreign currency risk**

The foreign currency exchange risk represents the risk of fluctuation in exchange rates, which in turn affects the company's cash inflows and outflows as well as the value of its foreign currency assets and liabilities. As of the date of the consolidated balance sheet the company has foreign currency assets and liabilities equivalent to LE 2 452 391 K and LE 2 092 525 K respectively. The company's net exposure in foreign currencies at the financial position is as follows:

<u>Foreign currencies</u>	<u>surplus / (Deficit) (000)</u>
U.S. dollars	270 020
Euro	(141 985)
Sterling Pound	375
Japanese Yen	(2 836 191)
Swedish krona	(15 585)
Jordan Dinar	(93)
Emirate Dirham	508

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

### **39. COMPARATIVE FIGURES**

Certain comparative figures were reclassified to confirm the current classification of these consolidated financial statements. The significant restatements related to the investment increase in affiliates – Vodafone Egypt, as well as the increase in income from investments and net profit for the period / year by the company's share in the operating result of the investee's due to applying the equity method instead of the cost method, hence the company's management decided to held the investment and not to dispose them in the near future.