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Translation from Arabic

Auditor's Limited Review Report

To The Board of Directors Of Telecom Egypt Company

We have reviewed the accompanying financial statements of Telecom Egypt Company - an Egyptian joint stock company – represented in the balance sheet as of September 30, 2006 and the related 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 Standards 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 this opinion.

Based on our limited review for the 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 financial statements are not presented fairly in all material respects in accordance with Egyptian Accounting Standards.

KPMG Hazem Hassan
Public Accountants & Consultants

Cairo, November 9, 2006

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

	Note No.	30/9/2006 LE(000)	31/12/2005 LE(000)
<u>Long Term Assets</u>			
Fixed assets (net)	(4)	20 541 925	21 763 811
Projects in progress	(5)	1 336 887	1 139 739
Investments in subsidiaries & affiliates	(6-1)	1 646 379	1 429 494
Available for sale investments	(6-2)	96 635	95 197
Other debit balances - long term	(7)	1 121 751	1 512 901
Other assets	(8)	80 712	99 799
Total Long Term Assets		24 824 289	26 040 941
<u>Current Assets</u>			
Inventories	(9)	517 649	486 523
Trade receivables	(10)	2 898 660	2 521 199
Debtors and other debit accounts	(11)	1 596 651	2 149 120
Cash at banks and on hand	(12)	1 426 747	698 463
Total Current Assets		6 439 707	5 855 305
<u>Current Liabilities</u>			
Loans installments and facilities due within one year	(13)	364 012	476 487
Banks - credit accounts		362 182	419 061
Banks overdraft		118 508	157 349
Suppliers	(14)	76 512	94 287
Dividends payable		10 635	36 586
Creditors and other credit accounts	(15)	2 701 944	2 900 105
Provisions	(16)	711 822	1 255 074
Total Current Liabilities		4 345 615	5 338 949
Working Capital		2 094 092	516 356
Total investments		26 918 381	26 557 297
Financed as follows:-			
<u>Shareholders' Equity & Long -Term Liabilities</u>			
<u>Shareholders' Equity</u>			
Paid up capital	(18)	17 070 716	17 070 716
Reserves	(19)	4 156 460	3 415 291
Retained earnings		527 842	384 638
Net profit for the period / year		1 446 707	1 835 871
Total Shareholders' Equity		23 201 725	22 706 516
<u>Long Term Liabilities</u>			
Loans and credit facilities	(13)	1 578 258	1 734 821
Bonds loan	(20)	2 000 000	2 000 000
Creditors and other credit balances	(15)	54 704	54 704
Deferred tax liabilities	(3-21), (21)	83 694	61 256
Total Long Term Liabilities		3 716 656	3 850 781
Total Shareholders' Equity and Long Term Liabilities		26 918 381	26 557 297

The accompanying notes from No. (1) to No. (38) 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./Ali Barakat

Date : November 8, 2006

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Income Statement

For The Financial Period From January 1, 2006 to September 30, 2006

	Note No.	For the Financial Period From 1/1/2006 To 30/9/2006 LE(000)	For the Financial Period From 1/1/2005 To 30/9/2005 LE(000)
<u>Operating Revenues</u>			
Sales of services	(22)	6 678 241	6 164 189
Sales of telephone sets & directories		65 295	141 336
		<u>6 743 536</u>	<u>6 305 525</u>
<u>Operating Expenses</u>			
Interconnection fees	(23)	992 153	922 389
Fuel		44 044	41 395
Spare parts		92 006	76 119
Maintenance		87 481	68 157
Satellite subscriptions		17 493	17 153
Depreciation & amortization		1 996 674	1 886 661
Cost of telephone sets & directories sold		73 727	123 993
Other operating costs	(24)	826 590	728 814
		<u>4 130 168</u>	<u>3 864 681</u>
Gross Operating Profit		<u>2 613 368</u>	<u>2 440 844</u>
<u>Administrative expense</u>			
General & administrative expenses	(25)	698 845	632 752
Selling & distribution expenses	(26)	160 615	97 296
Provisions	(16)	16 318	89 494
Impairment loss on other receivables	(17)	185 775	36 510
		<u>1 061 553</u>	<u>856 052</u>
Net Operating Profit		<u>1 551 815</u>	<u>1 584 792</u>
<u>Other Income / (Expenses)</u>			
Interest income		37 661	17 316
Income from investments		349 600	141 575
Interest expenses		(219 119)	(300 132)
Other revenues	(27)	192 725	82 982
Reverse of impairment loss / (impairment loss)on long term investments		1 437	(4 794)
Reverse of impairment loss on trade receivables		44 560	—
Gain on sale on long-term investments		—	37 626
Release of unused provisions		10 660	260 333
(loss) / Gain on sale of fixed assets		(781)	1 237
Foreign exchange (loss) gain		(97 799)	296 544
		<u>318 944</u>	<u>532 687</u>
Net profit for the period before tax		1 870 759	2 117 479
Current tax expense		401 614	431 817
Deferred tax expense		22 438	—
Net profit for the period after tax		<u>1 446 707</u>	<u>1 685 662</u>
Earnings per share (LE / Share)	(30)	<u>0.85</u>	<u>0.98</u>

The accompanying notes from No. (1) to No. (38) form an integral part of these financial statements.

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Statement of Cash Flows
For The Financial Period From January 1, 2006 to September 30, 2006

	Note No.	For the Financial Period From 1/1/2006 To 30/9/2006 LE(000)	For the Financial Period From 1/1/2005 To 30/9/2005 LE(000)
<u>Cash flows from operating activities</u>			
Cash receipts from trade receivables		5 367 708	5 275 418
Sales tax collected from receivables		378 481	329 811
Stamp tax and fees collected (from third party)		79 063	82 124
Deposits received from receivables		38 228	40 007
Cash paid to suppliers		(470 048)	(136 310)
Cash paid to employees		(715 081)	(699 594)
Cash paid on behalf of employees		(242 642)	(214 159)
Dividends paid to shareholders & employees		(942 365)	(585 992)
Cash generated from operating activities		3 493 344	4 091 305
Interest paid		(220 115)	(333 199)
Payments to Tax Authority		(531 732)	(319 564)
Payments to sales Tax Authority		(527 479)	(518 345)
Other proceeds /(payments) net		(188 413)	72 891
Net cash provided by operating activities		2 025 605	2 993 088
<u>Cash flows from investing activities</u>			
Payment for purchase of property, plant and equipment and projects in progress		(1 086 267)	(1 746 939)
Proceeds from sale of fixed		21 559	16 826
Payments for purchase of investments		(216 885)	(722 033)
Proceeds from sale of investments		—	88 294
Interest received		32 435	11 312
Dividends received		349 708	141 406
Net cash used in investing activities		(899 450)	(2 211 134)
<u>Cash flows from financing activities</u>			
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment, projects in progress and other assets		(257 920)	(551 713)
Repayment of borrowings & facilities relating to others		(11 118)	(1 508 744)
Payment of banks credit accounts		(56 879)	(1 197 965)
Proceeds from long - term loans		—	29 531
Proceeds from long - term bonds issued		—	2 000 000
Payment of financial lease obligations		(33 113)	(21 177)
Net cash used in financing activities		(359 030)	(1 250 068)
Net Increase (Decrease) in cash and cash equivalent		767 125	(468 114)
Cash and cash equivalent at the beginning of the period	(31)	541 114	1 041 107
Cash and cash equivalent at the end of the period	(31)	1 308 239	572 993

The accompanying notes from No.(1) to No. (38) form an integral part of these financial statements.

Telecom Egypt Company

(An Egyptian Joint Stock Company)

Statement Of Changes In Shareholders' Equity

For The Financial Period From January 1, 2006 to September 30, 2006

	<u>Share</u> <u>capital</u> <u>LE(000)</u>	<u>Legal</u> <u>reserve</u> <u>LE(000)</u>	<u>Other</u> <u>reserves</u> <u>LE(000)</u>	<u>Fair Value</u> <u>reserve</u> <u>LE(000)</u>	<u>Retained</u> <u>earnings</u> <u>LE(000)</u>	<u>Net</u> <u>profit</u> <u>LE(000)</u>	<u>Total</u> <u>LE(000)</u>
Balance as of 1/1/2005	17 112 149	321 850	4 308 086	16 819	412 276	1 008 663	23 179 843
Adjustment on retained earnings	—	—	—	—	(11 742)	—	(11 742)
Transferred to reserves	—	50 433	410 014	—	—	(460 447)	—
Dividends for the year 2004	—	—	—	—	(25 901)	(548 216)	(574 117)
Adjustment of 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)
Reducing the share capital according to the Extra-ordinary General Assembly resolution on 21/9/2005	(41 433)	—	41 433	—	—	—	—
Net profit for the year 2005	—	—	—	—	—	1 835 871	1 835 871
Balance as of 31/12/2005	17 070 716	372 283	3 036 194	6 814	384 638	1 835 871	22 706 516
Transferred to reserves	—	91 794	650 000	—	—	(741 794)	—
Dividends for the year 2005	—	—	—	—	—	(950 873)	(950 873)
Reducing of other reserves against decrease of the land	—	—	(625)	—	—	—	(625)
Transferred to retained earnings	—	—	—	—	143 204	(143 204)	—
Net profit for the period	—	—	—	—	—	1 446 707	1 446 707
Balance as of 30/9/2006	<u>17 070 716</u>	<u>464 077</u>	<u>3 685 569</u>	<u>6 814</u>	<u>527 842</u>	<u>1 446 707</u>	<u>23 201 725</u>

The accompanying notes from No. (1) to No. (38) form an integral part of these financial statements.

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Notes to the 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 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. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are prepared in accordance with the historical cost basis and in the light of the provisions of applicable Egyptian laws and regulations.

3. SIGNIFICANT ACCOUNTING POLICIES APPLIED

3-1 Foreign currency translation

The company maintains 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 balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates declared by the banks dealing with the company at that date. The exchange differences are recorded in the income statement.

3-2 Fixed assets and depreciation

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

<u>Description</u>	<u>Estimated Useful life</u>
Buildings & constructions	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

3-3 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.

3-4 Investments in Subsidiaries and affiliates

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

3-5 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 net profit or loss for the period in which it arises.
- 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 the 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.

3-6 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). Gain or loss arising from a change in the fair value shall be included in the net profit or loss for the period in which it arises.

3-7 Amortization of other assets

This item represents the usufruct of cables circuits. These other assets are amortized over (10-20) years provided that their useful lives do not exceed the period of the usufructs.

3-8 Inventories

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

3-9 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.

3-10 Impairment of assets

The carrying amounts of the Company's assets, other than inventory ,note no.(3-8) and deferred tax assets note no.(3-21) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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.

3-11 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 balance sheet date and amended when necessary to reflect the best current estimate.

3-12 Borrowing cost

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

3-13 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.

3-14 Trade & Other Payables

Trade and other payables are stated at cost and liabilities are stated at future values from goods and services actually received.

3-15 Revenue recognition

- Revenues from sales of services are recognized when services are rendered to the customers.
- Income from investments is recognized when dividends of investees are declared by the general assembly resolutions.

3-16 Expenses

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

3-17 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. 28).

3-18 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.

3-19 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.

3-20 Reserves

- Legal Reserve

According to the company's Article of Association requirements, 5% of the net profit is set aside to form a legal reserve . The transfer to legal reserve cease once the reserve reach 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 Generally 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.

3-21 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.

3-22 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 management and the same bases of dealing with third party.

3-23 **Cash flow statement**

Cash flow statement is prepared according to the direct method. Cash & cash equivalents comprise cash balances, time deposits and bank overdrafts that are repayable on demand and form an integral part of the company's cash management 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	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>Cost</u>							
Balance at 1/1/2006	2 336 291	16 541 885	16 567 244	99 535	60 601	705 662	36 311 218
Adjustment on opening balance	—	—	(18 094)	—	—	—	(18 094)
Additions for the period	1 406	275 808	554 277	207	922	74 591	907 211
Disposals for the period	(625)	(27 076)	(7 464)	(855)	(111)	(3 067)	(39 198)
Balance at 30/9/2006	2 337 072	16 790 617	17 095 963	98 887	61 412	777 186	37 161 137
<u>Depreciation & Impairment</u>							
Balance at 1/1/2006	—	5 553 416	8 620 915	78 462	33 438	261 176	14 547 407
Adjustment on opening balance	—	—	(499)	—	—	—	(499)
Depreciation for the period	—	700 413	1 268 491	8 473	3 956	98 759	2 080 092
Accumulated depreciation for disposals	—	(646)	(5 244)	(723)	(111)	(1 064)	(7 788)
Balance at 30/9/2006	—	6 253 183	9 883 663	86 212	37 283	358 871	16 619 212
Carrying amounts at 30/9/2006	2 337 072	10 537 434	7 212 300	12 675	24 129	418 315	20 541 925
Carrying amounts at 31/12/2005	2 336 291	10 988 469	7 946 329	21 073	27 163	444 486	21 763 811

- Cost of fixed assets included an amount of LE 1 511 million relating to fully depreciated assets still in use.

- Depreciation for the period are charged as follows:-

	<u>LE(000)</u>
Operating expenses	1 977 652
General & administrative expenses	102 176
Selling & distribution expenses	264
	<u>2 080 092</u>

5. PROJECTS IN PROGRESS

	30/9/2006	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>
Land	6 150	6 528
Buildings and constructions	143 275	125 466
Machinery and equipment	720 706	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>1 336 887</u>	<u>1 139 739</u>
	=====	=====

6. LONG TERM INVESTMENTS

	30/9/2006		31/12/2005	
	Participation	<u>LE (000)</u>	Participation	<u>LE (000)</u>
	%		%	
6-1 <i>Investments in subsidiaries & affiliates</i>				
- Middle East Radio Communication (MERC)	51.00	3 825	51.00	3 825
- T. E. Information Technology	97.66	31 250	97.66	31 250
- T. E. Data	95.04	299 385	93.33	84 000
- Centra Technologies	55.02	8 634	55.02	8 634
- Vodafone Egypt *	25.50	1 287 805	25.50	1 287 805
- Nile On Line (NOL)	27.27	12 668	27.27	12 668
- Wataneya for Telecommunication	50.00	125	50.00	125
- Consortium Algerien de Tele – communications (CAT)	33.00	133	33.00	133
- International Telecommunication Consortium Limited. (ITCL)	50.00	54	50.00	54
- Egypt Trust	35.71	2 500	25.00	1 000
		<u>1 646 379</u>		<u>1 429 494</u>
		=====		=====

Market value of investments in Vodafone Egypt according to the Egyptian Stock Exchange prices on September 30, 2006 amounts to L.E 5 912 532 K.

6-2 *Available for sale investments*

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

Investments in Vodafone – Egypt

- The investments in Vodafone Egypt as of 30/9/2006 represent the ownership of 61 200 000 shares representing 25.5% 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 discussions with Vodafone International Company (PLC)..

- Purchasing an additional percentage of 23.47% of Vodafone Telecom Egypt shares in October 2006

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 L.E 100 per share and this is upon the approval of the company's board of directors in its meeting on September 18, 2006.

On October 2006, the Company purchased 56 330 637 of Vodafone Egypt shares of 23.47% at a total cost of L.E 5 643 798 K, accordingly, 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 operation of these shares was made from the company's own resources.

- On November 8, 2006 a new strategic co-operation agreement was signed between Vodafone- Egypt 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. OTHER DEBIT BALANCES – LONG TERM

These balances are represented in the following:

	<u>30/9/2006</u> <u>LE (000)</u>	<u>31/12/2005</u> <u>LE (000)</u>
- The amounts due from National-Telecommunication Regulatory Authority for the license fees paid to the said Authority for the third operator after waiver of this license by the third operator after warier of this license (Note No. 29).	1 080 000	1 600 000
<u>Less:</u> The current portion to be collected during next year recorded under “debtors and other debit accounts” (Note No. 11).	520 000	520 000
	<hr/>	<hr/>
	560 000	1 080 000
- The interests balances for the period from 1/4/2005 till the financial position date, that shall be settled by (NTRA) for the license’s charges paid to (NTRA) for the third mobile phone network as a part of the last installment which is payable on 31/3/2009 (Note No. 29).	<hr/>	<hr/>
	180 000	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/>	<hr/>
	120 979	201 987
<u>Less:</u> 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. 28)	<hr/>	<hr/>
	27 865	33 078
<u>Less:</u> 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

	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>	Total <u>LE(000)</u>
<u>Cost</u>						
Cost at 1/1/2006	1 720	48 755	95 910	1	131 566	277 952
Adjustment on opening balance	—	—	—	—	(100)	(100)
Balance at 30/9/2006	<u>1 720</u>	<u>48 755</u>	<u>95 910</u>	<u>1</u>	<u>131 466</u>	<u>277 852</u>
Balance at 1/1/2006	731	21 351	60 363	—	95 708	178 153
Adjustment on opening balance	—	—	—	—	(35)	(35)
Amortization during the period	129	1 828	7 205	—	9 860	19 022
Balance at 30/9/2006	<u>860</u>	<u>23 179</u>	<u>67 568</u>	<u>—</u>	<u>105 533</u>	<u>197 140</u>
Carrying amounts at 30/9/2006	<u>860</u>	<u>25 576</u>	<u>28 342</u>	<u>1</u>	<u>25 933</u>	<u>80 712</u>
Carrying amounts at 31/12/2005	<u>989</u>	<u>27 404</u>	<u>35 547</u>	<u>1</u>	<u>35 858</u>	<u>99 799</u>

9. INVENTORIES

	30/9/2006	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>
Spare parts	155 971	158 774
Materials supplies	636	356
Telephone sets and directories	45 462	42 154
Others – project cables and supplies	281 607	278 349
	<hr/>	<hr/>
	483 676	479 633
<u>Add:</u>		
Letters of credit	33 973	6 890
	<hr/>	<hr/>
	517 649	486 523
	<hr/> <hr/>	<hr/> <hr/>

10. TRADE RECEIVABLES

	30/9/2006	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>
Governmental sector	361 808	294 679
Private sector	2 603 225	2 490 142
Foreign telecommunication companies and organizations	743 896	902 257
	<hr/>	<hr/>
	3 708 929	3 687 078
<u>Less:</u>		
Impairment loss on trade receivables	810 269	1 165 879
	<hr/>	<hr/>
	2 898 660	2 521 199
	<hr/> <hr/>	<hr/> <hr/>

11. DEBTORS & OTHER DEBIT ACCOUNTS

	30/9/2006	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>
Suppliers – debit balances	115 579	54 045
Deposits with others	7 735	4 623
Employees' loans	1 699	1 264
Customs Authority - deposits	1 653	3 047
Accrued revenues	3 052	7 941
Tax Authority – with holding tax	62 710	87 584
Sales Tax Authority – advances	398 523	196 656
Employees loyalty grant (Note No.7)	1 737	6 950
Other debit accounts*	1 344 291	1 941 563
	<u>1 936 979</u>	<u>2 303 673</u>
<u>Less:</u>		
Impairment loss on debtors & other debit accounts balances	340 328	154 553
	<u>1 596 651</u>	<u>2 149 120</u>
	=====	=====

* **Other debit accounts include the following amounts: -**

	30/9/2006	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>
- The current portion to be collected within one year from the National Telecommunication Regulatory Authority for the license fees of Wataneya for Telecommunication (Note No. 7).	520 000	520 000
- The current portion to be collected during next year for the balances due from the employees for the company's shares distributed to them (Note No. 7)	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. CASH ON HAND AND AT BANKS

	<u>30/9/2006</u>	<u>31/12/2005</u>
	<u>LE (000)</u>	<u>LE (000)`</u>
Banks- time deposits	1 323 129	605 669
Banks -current accounts	76 422	60 243
Cash on hand	27 196	32 551
	<u>1 426 747</u>	<u>698 463</u>
	=====	=====

Time deposits at 30/9/2006 include an amount of L.E 1 956 K blocked in favor of some banks as a guarantee for the letters of credit granted to the company (against L.E. 6 460 K at 31/12/2005).

13- **LOANS AND FACILITIES**

Description	Loan Currency	Long term loan installments due within one year	Long term loan installments due within more than one year	Balance as of 30/9/2006	Balance as of 31/12/2005	Annual Interest Rate	<u>Repayment schedule</u>
		<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>%</u>	
Local banks loans	L.E.	12 581	—	12 581	21 500	Cibor + 2.55 %	Semi-annual instalments ending on 24/9/2007
Total local loans		<u>12 581</u>	<u>—</u>	<u>12 581</u>	<u>21 500</u>		
Governmental Loans	L.E.	—	—	—	22	8%	
Governmental Loans	U.S.\$	87 933	627 668	715 601	796 957	4 %	Annual instalments ending on 24/1/2014
Governmental Loans	SK	1 398	282	1 680	3 341	0.15% + agency commission	Semi annual instalments ending on 31/12/2007
Governmental Loans	EURO	7 305	23 316	30 621	33 507	4 - 6.37%	Semi annual instalments ending on 29/12/2012
Total Governmental loans		<u>96 636</u>	<u>651 266</u>	<u>747 902</u>	<u>833 827</u>		
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%	
Total foreign loans		<u>172 682</u>	<u>914 397</u>	<u>1 087 079</u>	<u>1 114 558</u>		
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
Total foreign suppliers' facilities		<u>82 113</u>	<u>12 595</u>	<u>94 708</u>	<u>241 423</u>		
		<u>364 012</u>	<u>1 578 258</u>	<u>1 942 270</u>	<u>2 211 308</u>		

— Foreign suppliers' facilities in Euro include L.E. 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.

14. SUPPLIERS

	30/9/2006	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>
Local - suppliers	76 127	91 855
Foreign - suppliers	385	2 432
	<u>76 512</u>	<u>94 287</u>
	=====	=====

15. CREDITORS AND OTHER CREDIT ACCOUNTS

	30/9/2006	31/12/2005
	<u>LE (000)</u>	<u>LE (000)</u>
Tax Authority – (withholding tax)	140 486	75 740
Deposits from others	641 065	602 813
Fixed assets creditors	242 406	389 652
Accrued interest	50 081	73 931
Accrued expenses	205 469	208 750
Social Insurance Authority	17 275	18 501
Clients – credit balances	243 692	215 593
Credit balance for social, cultural and sportive activities	168 434	119 214
Other credit accounts	376 823	352 525
Deferred revenues*	246 406	266 254
Tax Authority – income tax	22 897	260 502
Current tax for the period / year	401 614	371 334
	<u>2 756 648</u>	<u>2 954 809</u>
<u>Less:</u>		
Tax payments due after one year	54 704	54 704
	<u>2 701 944</u>	<u>2 900 105</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- PROVISIONS

	Balance as of 1/1/2006 <u>LE(000)</u>	Charged to income statement <u>LE(000)</u>	Used during the period <u>LE(000)</u>	Release of unused provisions <u>LE(000)</u>	Balance as of 30/9/2006 <u>LE(000)</u>
<u>Provision for contingent liabilities, claims and others</u>					
Tax provision	1 115 598	16 318	(527 656)	—	604 260
Claims provision	139 476	—	(21 254)	(10 660)	107 562
	<u>1 255 074</u>	<u>16 318</u>	<u>(548 910)</u>	<u>(10 660)</u>	<u>711 822</u>

	Balance as of 1/1/2006 <u>LE(000)</u>	Charged to income statement <u>LE(000)</u>	Used during the period <u>LE(000)</u>	Reverse of impairment loss of assets <u>LE(000)</u>	Balance as of 30/9/2006 <u>LE(000)</u>
17- <u>IMPAIRMENT LOSS OF ASSETS</u>					
On trade receivables	1 165 879	—	(311 050)	(44 560)	810 269
On debtors and other debit accounts balances	154 553	185 775	—	—	340 328
	<u>1 320 432</u>	<u>185 775</u>	<u>(311 050)</u>	<u>(44 560)</u>	<u>1 150 597</u>
Write-down in inventory (obsolete & slow moving items)	<u>16 955</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16 955</u>

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

18. CAPITAL

The company's authorized, issued and paid in full capital is L.E. 17 112 149 K, represented in 171 121 490 shares at a par value of L.E. 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 L.E. 41 433 K representing the value of lands transferred to Ministry of Communication & Information Technology by L.E. 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 L.E. 29 817 K.
- Decrease of the par value per share from L.E. 100 to L.E. 10.

Accordingly, the company's issued capital has become L.E. 17 070 716 K represented in 1 707 071 600 shares at a par value of L.E. 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.

19. RESERVES

	30/9/2006	31/12/2005
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Legal reserve	464 077	372 283
Fair value reserve	6 814	6 814
General reserve	3 667 459	3 018 084
Capital reserve	18 110	18 110
	<u>4 156 460</u>	<u>3 415 291</u>
	=====	=====

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

20. BONDS LOAN

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

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

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

21. DEFERRED TAX

Deferred Tax Assets and Liabilities

	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
	<u>30/9/2006</u>		<u>31/12/2005</u>	
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Fixed assets	-	(195 181)	-	(170 380)
Inventory	3 391	-	3 391	-
Trade and other receivables	32 872	-	25 793	-
Provisions	46 913	-	50 095	-
Accrual (liabilities)	28 311	-	29 845	-
Total deferred tax assets (liability)	<u>111 487</u>	<u>(195 181)</u>	<u>109 124</u>	<u>(170 380)</u>
Net deferred tax liability	<u>-</u>	<u>83 694</u>	<u>-</u>	<u>61 256</u>
	=====	=====	=====	=====

22. SALES OF SERVICES

	For the Financial period From 1/1/2006 To 30/9/2006 <u>L.E. (000)</u>	For the Financial period From 1/1/2005 To 30/9/2005 <u>L.E. (000)</u>
Retail Services:		
Connections	138 850	295 506
Subscriptions	1 178 407	965 723
Total	<u>1 317 257</u>	<u>1 261 229</u>
Voice:		
Local	1 359 289	1 191 573
Long distance	329 288	326 312
Fixed to international	295 010	308 407
Fixed to mobile international	789 958	800 578
Total	<u>2 773 545</u>	<u>2 626 870</u>
Internet & Data	<u>6 728</u>	<u>11 762</u>
Others	564 473	604 604
Total	<u>571 201</u>	<u>616 366</u>
Total Retail	<u>4 662 003</u>	<u>4 504 465</u>
Wholesale:		
Domestic:		
Mobile to fixed interconnection	163 692	156 461
Others	177 694	113 974
	<u>341 386</u>	<u>270 435</u>
International		
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>
Total wholesale	<u>2 016 238</u>	<u>1 659 724</u>
Total revenues from sales of services	<u>6 678 241</u>	<u>6 164 189</u>

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

23. INTERCONNECTION FEES

	For the Financial period From 1/1/2006 To 30/9/2006 <u>L.E. (000)</u>	For the Financial period From 1/1/2005 To 30/9/2005 <u>L.E. (000)</u>
Fixed to mobile interconnection fees	640 347	572 191
Fixed calls for internet & audio text companies fees	126 537	142 356
Dues against outgoing international calls	224 935	207 313
Dues against outgoing international telegram & telex	334	529
	<hr/>	<hr/>
	992 153	922 389
	<hr/>	<hr/>

24. OTHER OPERATING COSTS

	For the Financial period From 1/1/2006 To 30/9/2006 <u>L.E. (000)</u>	For the Financial period From 1/1/2005 To 30/9/2005 <u>L.E. (000)</u>
Salaries	536 941	538 854
Compulsory social security contributions	79 040	76 372
Electricity & water	5 138	6 651
Stationary & printed materials	40 755	11 217
Transportation cost	10 461	50 614
Business telephone cost	28 865	15 943
Frequencies & Licenses charge (NTRA)	125 390	29 163
	<hr/>	<hr/>
	826 590	728 814
	<hr/>	<hr/>

25. GENERAL & ADMINISTRATIVE EXPENSES

	For the Financial period From 1/1/2006 To 30/9/2006 <u>L.E. (000)</u>	For the Financial period From 1/1/2005 To 30/9/2005 <u>L.E. (000)</u>
Salaries	306 360	296 767
Compulsory social security contributions	26 924	26 440
End of service compensation-Early retirement program	3 043	6 982
Depreciation	102 176	63 713
Bad debts	395	157
Tax and customs duty	74 186	28 912
Bank charges & commissions	17 089	13 238
Others	168 672	196 543
	<hr/>	<hr/>
	698 845	632 752
	<hr/>	<hr/>

26. SELLING & DISTRIBUTION EXPENSES

	For the Financial period From 1/1/2006 To 30/9/2006 <u>L.E. (000)</u>	For the Financial period From 1/1/2005 To 30/9/2005 <u>L.E. (000)</u>
Salaries	71 436	69 525
Compulsory social security contributions	10 290	9 784
Depreciation	264	672
Tax and customs duty	2 412	3 258
Others	76 213	14 057
	<u>160 615</u>	<u>97 296</u>
	=====	=====

27. OTHER (EXPENSES) / INCOME

	For the Financial period From 1/1/2006 To 30/9/2006 <u>L.E. (000)</u>	For the Financial period From 1/1/2005 To 30/9/2005 <u>L.E. (000)</u>
Donations	(2 552)	(2 209)
Sundry revenues	219 897	123 635
Prior years' (expenses) / income (net)	(24 620)	(38 444)
	<u>192 725</u>	<u>82 982</u>
	=====	=====

28. 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 L.E. 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 L.E. 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 L.E. 1 737 K and the amounts to be refunded starting from October 2007 and up to the year 2011 (the long term portion) is L.E. 26 128 K. (Note No. 7).

29. 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 L.E. 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 L.E. 480 million to the company after the completion of the payment of L.E. 1 975 million and L.E. 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 L.E. 375 million & 520 million were collected and the balance due from the National Telecommunication Regulatory Authority (NTRA) amounted to L.E. 1 080 million as of September 30, 2006 plus the amount of L.E. 480 million

and the remaining amounts will be collected on three equal annual installments amounting to L.E. 520 million each. The last installment shall fall due on March 31, 2009.

30. EARNING PER SHARE FOR THE PERIOD

	For the Financial period From 1/1/2006 To 30/9/2006	For the Financial period From 1/1/2005 To 30/9/2005
Net profit for the period (L.E.000)	1 446 707	1 685 662
Number of outstanding shares	1 707 071 600	1 711 076 790
Earning per share for the period (L.E / share)	<u>0.85</u>	<u>0.98</u>
	=====	=====
	(For Nine months)	(For Nine months)

31. STATEMENT OF CASH FLOWS

	<u>30/9/2006</u> L.E(000)	<u>31/12/2005</u> L.E(000)	<u>30/9/2005</u> L.E(000)
Cash and cash equivalents (as per balance sheet)	1 426 747	698 463	649 900
<u>Less:</u>			
Banks overdraft	118 508	157 349	76 907
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents (as per statement of cash flows)	1 308 239	541 114	572 993
	=====	=====	=====

32. CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts until September 30, 2006 amounted to L.E. 137 million (includes L.E 24.4 million payments of share capital investments not called) against L.E 92 million at 31/12/2005 (includes L.E 26 million payments of share capital investments not called) It is expected that these commitments shall be settled next year except for payments of share capitals of investees, which shall be settled when required by the Board of Directors for those companies.

33. CONTINGENT LIABILITIES

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

	<u>30/9/2006</u>	<u>31/12/2005</u>
	<u>L.E (000)</u>	<u>L.E (000)</u>
- Letters of guarantee issued by banks on behalf of the company	30 355	5 470
- Letters of credit	307 832	452 998

34. TAXATION

34-1 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.

34-2 Sales Tax

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

34-3 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.

34-4 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.

35- **RELATED PARTY TRANSACTIONS**

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

35-1 ***Related party transactions with subsidiaries***

	Amount of transactions recorded in the income statement	Nature of transaction during the <u>period</u>	Transaction volume during the period		Balance as of 30/09/2006		Balance as of	
			Debit	Credit	Debit	Credit	Debit	Credit
			<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>	<u>L.E. 000</u>
<u>Debit balances included in projects in progress</u>								
Middle East Radio Communication (MERC)	—	Supply & install of network	435	—	435	—	—	—
			435	—	435	—	—	—
<u>Debit balance included in trade receivables</u>								
— Egyptian Telecommunication Company for Information System	5 767	Lease of company Premises	5 767	3 310	2 457	—	—	—
— T.E Data	20 815	Contribution in Flag Cable revenue	20 815	26 437	23 852	—	29 474	—
— T.E Data	32 696	Leased locations & installation of networks	35 508	35 508	—	—	—	—
— Middle East Radio Communication (MERC)	156	Leased lines	156	156	—	—	—	—
			62 246	65 411	26 309	—	29 474	—
<u>Debit balance included in debtors and other debit accounts</u>								
— Egyptian Telecommunication Company for Information System	—	Purchase of fixed assets on behalf of the company	145	—	145	—	—	—
— T.E Data	—	Sale of fixed assets (Plaza Tower) for the subsidiary company	29 731	20 021	9 710	—	—	—
			29 876	20 021	9 855	—	—	—
<u>Credit balance included in suppliers accounts</u>								
— Egyptian Telecommunication Company for Information System	32 073	Services render from subsidiary company	35 516	35 280	—	12 008	—	12 244
— Centra for technology	5 098	Purchase of computers from subsidiary company	5 512	5 530	—	1 767	—	1 749
			41 028	40 810	—	13 775	—	13 993
<u>Credit balance included in creditors and other credit accounts</u>								
— T.E Data	6 329		6 704	6 329	—	3 351	—	3 726
			6 704	6 329	—	3 351	—	3 726

35-2 *Related party transactions with affiliates*

	Amount of transactions recorded in the income statement	Nature of transaction during the period	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>
<u>Debit balance included in account receivables</u>								
— Nile On Line (N.O.L)	506	International leased lines	—	506	5 694	—	6 200	—
— Nile On Line (N.O.L)	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
<u>Debit balance included in other debit balances - long term</u>								
— Consortium Algerien de Telecommunications (CAT)		Paid on behalf of subsidiary to finance operating expenses	114 511	1 526	334 570	—	221 585	—
<u>Debit balance included in debtors and other debit accounts</u>								
— International Telecommunication Consortium Limited (ITCL)			—	—	68	—	68	—
<u>Credit balance included in creditors and other credit accounts</u>								
— Nile On Line (NOL)	30 382	Internet services	31 513	30 382	—	1 483	—	2 614

36. 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.

37. MANAGEMENT OF FINANCIAL RISK

37.1 Interest risk

Interest rate risk is represented in the changes in the interest rate computed on the company's debts such as loans, bank overdrafts and credit facilities which amounted to LE 4 422 960 K as at September 30, 2006. (compared to LE 4 787 718 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 of the previous year), while the balance of time deposits amounted to LE 1 323 129 K as at September 30, 2006 (compared to LE 605 669 K as at December 31, 2005), and the interest income on these deposits amounted to LE 37 661 K during the period (LE 17 316 K during the previous period of the previous year). 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.

37.2 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.

37.3 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 balance sheet the company has foreign currency assets and liabilities equivalent to L.E 2 403 712 K and L.E 2 047 898 K respectively. The company's net exposure in foreign currencies is as follows: -

<u>Foreign currencies</u>	<u>(Deficit)/surplus (000)</u>
U.S. Dollars	271 220
Euro	(143 398)
Sterling Pound	331
Japanese Yen	(2 836 191)
Swedish Krona	(15 585)

As disclosed in note (3-1) “Foreign Currency Translation” the company has used the declared exchange rates by the banks that the company deals with to retranslate monetary assets and liabilities at the balance sheet date.

38. COMPARATIVE FIGURES

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