

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Consolidated Financial Statements
Prepared under IFRS

For The Financial Period Ended September 30, 2006
& Auditor's Review Report

Review report

To The Board of Directors of Telecom Egypt

We have reviewed the accompanying consolidated balance sheets of Telecom Egypt as of 30 September, 2006 and the related consolidated statements of income, changes in the shareholders' equity and cash flows for the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our review.

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

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

KPMG Hazem Hassan

Cairo, Egypt
November 21, 2006

Telecom Egypt
Consolidated balance sheets
As at 30 September 2006

In thousands of Egyptian Pound

	Note	30/9/2006	31/12/2005
Assets			
Property, plant and equipment	(13)	21 445 723	22 344 238
Intangible assets	(14)	160 179	126 769
Investment in associates	(15)	1 659 921	1 540 721
Available for sale investments	(16)	89 821	88 382
Long-term receivable	(17)	1 214 623	1 525 773
Deferred tax assets	(18)	111 493	109 130
Total non-current assets		24 681 760	25 735 013
Inventories	(19)	529 454	494 776
Trade and other receivables	(20)	4 471 426	4 164 708
Investments held for trading	(21)	120 850	-
Cash and cash equivalents	(22)	1 506 884	768 016
Total current assets		6 628 614	5 427 500
Total assets		31 310 374	31 162 513
Equity			
Issued capital	(23)	17 070 716	17 070 716
Reserves	(23)	4 152 326	3 409 882
Retained earnings		1 592 857	1 666 803
Total equity attributable to equity holders of the parent		22 815 899	22 147 401
Minority interest		31 307	22 031
Total equity		22 847 206	22 169 432
Liabilities			
Interest-bearing loans and borrowings	(25)	1 648 996	1 786 167
Bonds payable	(26)	2 000 000	2 000 000
Deferred income		246 406	266 254
Other payables		111 864	56 459
Deferred tax liabilities	(18)	195 449	170 402
Total non-current liabilities		4 202 715	4 279 282
Bank overdraft	(22)	119 988	158 474
Interest-bearing loans and borrowings	(25)	755 995	919 473
Trade and other payables	(27)	2 672 069	2 900 489
Provisions	(28)	712 401	735 363
Total current liabilities		4 260 453	4 713 799
Total liabilities		8 463 168	8 993 081
Total equity and liabilities		31 310 374	31 162 513

Chairman &
Chief Executive Officer

Eng. / Akil Beshir

Vice President &
Chief Financial Officer

Acc./ Ali Salama

Head of the
Financial Sector

Acc./ Ali Barakat

Auditor's review report "attached"

Telecom Egypt
Consolidated income statements
For the financial period ended 30 September 2006

	Note	For The Period		For The Period	
		From 1/7/2006 To 30/9/2006	From 1/1/2006 To 30/9/2006	From 1/7/2005 To 30/9/2005	From 1/1/2005 To 30/9/2005
In thousands of Egyptian Pound					
Revenue	(3)	2 455 104	6 933 633	2 308 056	6 415 861
Operating expenses	(4)	(1 507 141)	(4 270 728)	(1 395 031)	(3 967 976)
Gross profit		<u>947 963</u>	<u>2 662 905</u>	<u>913 025</u>	<u>2 447 885</u>
Other income	(5)	83 214	205 924	10 637	59 331
Selling and distribution expenses	(6)	(75 003)	(199 343)	(25 358)	(108 908)
Administrative expenses	(7)	(247 378)	(749 389)	(228 048)	(643 554)
Other expenses	(8)	(159 627)	(210 339)	(78 599)	(131 724)
Operating profit before financing costs		<u>549 169</u>	<u>1 709 758</u>	<u>591 657</u>	<u>1 623 030</u>
Financial income	(10)	63 637	193 267	81 332	572 949
Financial expenses	(10)	(95 089)	(326 349)	(102 481)	(307 097)
Net financing (costs) income	(10)	<u>(31 452)</u>	<u>(133 082)</u>	<u>(21 149)</u>	<u>265 852</u>
Share of profit in associates		172 445	370 964	115 517	240 248
Profit before tax		<u>690 162</u>	<u>1 947 640</u>	<u>686 025</u>	<u>2 129 130</u>
Income tax expense	(11)	(162 748)	(424 290)	(181 784)	(529 597)
Profit for the period		<u>527 414</u>	<u>1 523 350</u>	<u>504 241</u>	<u>1 599 533</u>
Attributable to:					
Equity holders of the parent		526 654	1 521 496	503 645	1 597 414
Minority interest		760	1 854	596	2 119
Profit for the period		<u>527 414</u>	<u>1 523 350</u>	<u>504 241</u>	<u>1 599 533</u>
Earnings per share (LE)	(24)	<u>0.31</u>	<u>0.89</u>	<u>0.29</u>	<u>0.93</u>

Telecom Egypt
Consolidated statement of cash flows
For the financial period ended 30 September 2006

In thousands of Egyptian Pound	Note	For The Period			
		From 1/7/2006 To 30/9/2006	From 1/1/2006 To 30/9/2006	From 1/7/2005 To 30/9/2005	From 1/1/2005 To 30/9/2005
Cash flows from operating activities					
Cash receipts from customers		2 023 109	5 996 139	1 456 269	5 446 904
Cash paid to suppliers		(232 853)	(581 026)	(66 877)	(348 493)
Cash paid to employees		(382 696)	(1 102 226)	(135 682)	(869 842)
Cash (paid) proceeds in operations (net)		(246 898)	(874 891)	(201 882)	(528 304)
Interest paid		(55 802)	(220 436)	(70 338)	(333 199)
Income taxes paid		(158)	(355 967)	(7 997)	(160 126)
Net cash from operating activities		1 104 702	2 861 593	973 493	3 206 940
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		568	2 179	14 840	16 826
Proceeds from sale of investments		75 000	110 000	-	88 294
Interest received		25 686	44 457	5 843	13 027
Dividends received		183 600	339 697	114 276	141 406
Acquisition of property, plant and equipment and intangible assets		(420 930)	(1 158 718)	(546 233)	(1 611 731)
Acquisition of investments		-	(221 949)	(598)	(669 692)
Net cash (used in) investing activities		(136 076)	(884 334)	(411 872)	(2 021 870)
Cash flows from financing activities					
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment and intangible assets		(42 950)	(257 920)	(97 106)	(551 713)
Repayment of borrowings & facilities relating to others		-	(11 118)	(2 628)	(1 508 744)
Proceeds from (repayment of) borrowings & bank facilities		36 824	(54 226)	(199 624)	(1 197 965)
Proceeds from bonds		-	-	-	2 000 000
Proceeds from loans		-	-	-	29 531
Proceeds from issuance of capital-subscribed into by minority		-	9 615	-	3 256
Repayment of financial lease obligations		(11 070)	(33 190)	(7 983)	(21 177)
Dividends paid		(617 057)	(852 603)	(44 201)	(381 000)
Net cash (used in) financing activities		(634 253)	(1 199 442)	(351 542)	(1 627 812)
Net movement in cash and cash equivalents		334 373	777 817	210 079	(442 742)
Cash and cash equivalents at 1 January		-	609 542	-	1 104 560
Translation difference adjustments		(431)	(463)	(7)	(93)
Cash and cash equivalents at 30 September	(22)	333 942	1 386 896	210 072	661 725

Telecom Egypt
Consolidated statement of changes in equity
For the financial Period ended 30 September 2006

	Note No	Share capital	Statutory reserve	Other reserve	Translation reserve	Fair value reserve	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
In thousands of Egyptian Pound										
Balance at 1 January 2005		17 112 149	322 347	2 595 983	(34)	398 645	578 801	21 007 891	17 940	21 025 831
Net profit for the year 2005		-	-	-	-	-	1 929 985	1 929 985	2 754	1 932 739
Transfer to reserves		-	51 390	410 014	-	-	(461 404)	-	-	-
Reversal of reserve		-	-	-	-	(398 645)	-	(398 645)	-	(398 645)
Effect of the resolution of the Extra-ordinary general assembly held on September 21, 2005	(23)	(41 433)	-	30 197	-	-	-	(11 236)	-	(11 236)
Exchange differences arising on translation of foreign operation		-	-	-	(44)	-	62	18	(6)	12
Transfer from minority interest		-	29	-	-	-	455	484	(484)	-
Minority interest share in capital		-	-	-	-	-	-	-	2 661	2 661
Dividends to shareholders		-	-	-	-	-	(381 000)	(381 000)	-	(381 000)
Employees & members Board bonus in subsidiaries		-	-	-	-	-	(96)	(96)	(92)	(188)
Minority interest		-	-	-	-	-	-	-	(742)	(742)
Balance at 31 December 2005		17 070 716	373 766	3 036 194	(78)	-	1 666 803	22 147 401	22 031	22 169 432
Net profit for the period ended 30 September 2006		-	-	-	-	-	1 521 496	1 521 496	1 854	1 523 350
Transfer to reserves		-	93 064	650 000	-	-	(743 064)	-	-	-
Exchange differences arising on translation of foreign operation		-	-	-	(27)	-	56	29	5	34
Minority interest share in capital increase of subsidiary company		-	-	-	-	-	-	-	9 615	9 615
Dividends to shareholders		-	-	-	-	-	(853 536)	(853 536)	-	(853 536)
Reducing of other reserves against decrease of the land		-	-	(625)	-	-	-	(625)	-	(625)
Adjustments to retained earnings		-	-	-	-	-	246	246	(76)	170
Transferred to retained earnings		-	-	-	(4)	-	4	-	-	-
Transferred from minority interest due to the Change in capital shareholding percentage		-	36	-	-	-	481	517	(517)	-
Minority interest		-	-	-	-	-	371	371	(1 605)	(1 234)
Balance at 30 September 2006		17 070 716	466 866	3 685 569	(109)	-	1 592 857	22 815 899	31 307	22 847 206

Telecom Egypt
Notes to the consolidated financial statements
For the financial period ended 30 September 2006

1. Background and activities

Telecom Egypt (the “Company”) is an Egyptian Joint Stock Company registered in the Arab Republic of Egypt and is engaged in the provision of public communications and associated products and services. The consolidated financial statements of the Company for the nine months ended 30 September 2006 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and jointly controlled entities.

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

2. Significant accounting policies

(a) Statement of compliance

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

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

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

(b) Basis of preparation

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

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

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

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

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

(c) *Basis of consolidation*

(i) *Subsidiaries*

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

(ii) *Associates*

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

(iii) *Transactions eliminated on consolidation*

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

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

(d) *Foreign currency*

(i) *Foreign currency transactions*

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

(ii) *Financial statements of foreign operations*

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

(iii) *Net investment in foreign operations*

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

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

(e) Property, plant and equipment

(i) Owned assets

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

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

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

(ii) Leased assets

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

(f) Intangible assets

(i) Measurement

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

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

(ii) Subsequent expenditure

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

(iii) Amortization

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

(g) Investments

(i) Investments in equity securities – available for sale

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

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

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

(ii) Held or trading investments

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

(h) Receivables

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

(i) Inventories

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

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

(j) Cash and cash equivalents

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

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

(k) Impairment

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

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

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

(i) Calculation of recoverable amount

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

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

(ii) Reversals of impairment

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

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

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

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

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

(l) Interest-bearing borrowings

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

(m) Employee benefits

(i) Pension

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

(n) Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Trade and other payables

Trade and other payables are stated at cost.

(p) Revenue

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

- **Voice services:** revenues are measured in terms of traffic minutes processed or transmission capacity provided and are recognized in the period in which the connection is provided.
- **Value added services:** these services include call waiting and divert, callers ID and hotline are recognized in the period in which the service is provided.
- **Data services:** revenue from the provision of managed bandwidth to business customers is recognized over the period in which the bandwidth is provided.
- **Other services:** revenue from web hosting and internet access is recognized over the life of the contract and over the period that the service is provided respectively.

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

- **Sale of goods:** revenue from sale of telephone sets and directories is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(q) Grants

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

(r) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(ii) Net financing costs

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

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

(s) Income tax

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

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

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

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

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

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

3. Revenue

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

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
Retail Services:		
Access:		
Connections	138 850	295 506
Subscriptions	1 178 407	965 723
	1 317 257	1 261 229
Voice:		
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
	2 773 545	2 626 870
Internet & Data	126 090	78 029
Others	696 731	784 457
Total Retail	4 913 623	4 750 585
Wholesale:		
Domestic:		
Mobile to fixed interconnection	163 692	162 014
Others	177 694	113 973
	341 386	275 987
International:		
Mobile to international	565 792	483 525
Incoming international call	1 112 832	905 764
	1 678 624	1 389 289
Total wholesale	2 020 010	1 665 276
Total revenues	6 933 633	6 415 861

* include dial up revenue

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

4. Operating expenses

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
Interconnection fees	985 895	925 748
Fuel	44 044	41 395
Spare parts	93 869	76 121
Maintenance	90 824	68 324
Satellite subscriptions	17 493	17 153
Depreciation	1 965 939	1 844 245
Amortization	23 079	20 968
Cost of telephone sets & directories	73 727	155 941
Salaries & wages	558 873	509 831
Compulsory social security contributions	81 025	77 442
Employees' share in dividends	44 678	88 835
Other operating costs	291 282	141 973
	4 270 728	3 967 976

5. Other income

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
Release of unused provisions	10 660	157
Grant	26 852	26 781
Gains on disposal of property, plant and equipment	-	1 237
Reversal of decline in trade and other receivables	44 560	-
Reversal of decline in investments	1 458	-
Rental income	4 759	1 456
Others	117 635	29 700
	205 924	59 331

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

6. Selling and distribution expenses

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
Salaries & wages	82 348	71 757
Compulsory social security contributions	11 001	10 182
Fixed assets depreciation	647	915
Employees' share in dividends	5 928	-
Sales commissions & others	99 419	26 054
	199 343	108 908

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

7. Administrative expenses

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
Salaries & wages	320 609	284 166
Compulsory social security contributions	27 704	26 879
Early retirement compensations	3 043	7 010
Employees' share in dividends	24 394	59 223
Fixed assets depreciation	105 621	64 864
Board of directors' bonus	1 634	1 942
Taxes & customs fees	78 935	30 457
Training & development services	29 900	50 427
Advertising	23 936	20 185
Others	133 613	98 401
	749 389	643 554

8. Other expenses

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
Increase in provisions	16 318	89 494
Impairment loss on trade and other receivables	189 386	36 803
Impairment loss on long-term investments	-	3 218
Net loss on disposal of property , plant and equipment	2 083	-
Others	2 552	2 209
	210 339	131 724

9. Personnel expenses

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
<u>Salaries & wages:</u>		
Operating expenses	558 873	509 831
Selling & distribution expenses	82 348	71 757
Administrative expenses	320 609	284 166
	961 830	865 754
Compulsory social security contributions	119 730	114 503
Early retirement compensations	3 043	7 010
Employees' share in dividends	75 000	148 058
	1 159 603	1 135 325

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

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

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

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

10. Net financing (costs) income

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
Interest income	41 465	21 705
Unwind of discount & accretion of interest relating to long-term receivable	138 000	164 000
Income from investments – dividend	3 402	37 197
Net gain of disposal of investments	4 493	56 286
Increase of market value of held for trading investments	5 907	-
Net foreign exchange gain	-	293 761
Financial income	193 267	572 949
Interest expense	229 690	307 097
Net foreign exchange loss	96 659	-
Financial expenses	326 349	307 097
Net financing (costs) income	(133 082)	265 852

11. Income tax expense

Recognized in the income statement

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
Current tax expense		
Current period	401 762	431 878
Deferred tax expense		
Origination and reversal of temporary differences	22 528	97 719
Total income tax expense in income statement	424 290	529 597

12. Current tax assets and liabilities

The current tax asset of LE 111 493 K, (2005: 109 130 K) represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments. The current tax liability of LE 195 449 K (2005:170 402 K) represents the amount of income taxes for items taxable in future periods in respect of accelerated depreciation and fair value reserve of available for sale securities.

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

13. Property, plant and equipment

	Land & buildings	Machinery & equipment	Vehicles	Office furniture & fixtures	Tools & other equipment	Under construction	Total
In thousands of Egyptian Pound							
Cost							
Balance at 1 January 2006	18 649 458	16 197 091	115 824	842 176	60 752	907 964	36 773 265
Adjustments to the opening balance	-	(18 094)	-	-	-	18 094	-
Reclassification	(9 146)	-	-	9 146	-	-	-
Acquisitions	247 878	564 206	4 805	119 310	967	1 100 099	2 037 265
Disposals	(625)	(7 464)	(1 550)	(488)	(111)	-	(10 238)
Transferred to fixed asset	-	-	-	-	-	(860 752)	(860 752)
Effect of movements in foreign exchange	-	(13)	-	(16)	-	-	(29)
Balance at 30 September 2006	<u>18 887 565</u>	<u>16 735 726</u>	<u>119 079</u>	<u>970 128</u>	<u>61 608</u>	<u>1 165 405</u>	<u>37 939 511</u>
Depreciation							
Balance at 1 January 2006	5 517 931	8 475 510	99 704	302 359	33 523	-	14 429 027
Adjustments to the opening balance	-	(499)	-	(329)	-	-	(828)
Reclassification	(229)	-	-	229	-	-	-
Depreciation charge for the period	691 486	1 238 444	11 247	127 050	3 980	-	2 072 207
Disposals	-	(5 244)	(805)	(455)	(111)	-	(6 615)
Effect of movements in foreign exchange	-	(2)	-	(1)	-	-	(3)
Balance at 30 September 2006	<u>6 209 188</u>	<u>9 708 209</u>	<u>110 146</u>	<u>428 853</u>	<u>37 392</u>	<u>-</u>	<u>16 493 788</u>
Carrying amounts							
At 31 December 2005	13 131 527	7 721 581	16 120	539 817	27 229	907 964	22 344 238
At 30 September 2006	<u>12 678 377</u>	<u>7 027 517</u>	<u>8 933</u>	<u>541 275</u>	<u>24 216</u>	<u>1 165 405</u>	<u>21 445 723</u>

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

Fully depreciated assets

Property, plant and equipment cost includes LE 1 523 million relating to fully depreciated assets.

Leased equipment and vehicles

The Group leases equipment and vehicles under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment and vehicles at a beneficial price. At 30 September 2006, the net carrying amount of leased equipment and vehicles was LE 89 018 k (2005: LE 69 021 k).

Depreciation

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

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
Operating expenses	1 965 939	1 844 245
Selling & distribution expenses	647	915
General & Administrative expenses	105 621	64 864
	<u>2 072 207</u>	<u>1 910 024</u>

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

14. Intangible assets

	Land usufruct	Right of way	Internet service license	Right of using ROU	Total
In thousands of Egyptian Pound					
Cost					
Balance at 1 January 2006	1	277 951	20 189	48 906	347 047
Adjustment to the opening balance	—	(100)	—	—	(100)
Acquisitions	—	—	—	56 556	56 556
Effect of movements in foreign exchange	—	—	(3)	—	(3)
Balance at 30 September 2006	<u>1</u>	<u>277 851</u>	<u>20 186</u>	<u>105 462</u>	<u>403 500</u>
Amortization					
Balance at 1 January 2006	—	178 153	20 016	22 109	220 278
Adjustment to the opening balance	—	(35)	—	—	(35)
Amortization for the period	—	19 022	15	4 042	23 079
Effect of movement in foreign exchange	—	—	(1)	—	(1)
Balance at 30 September 2006	<u>—</u>	<u>197 140</u>	<u>20 030</u>	<u>26 151</u>	<u>243 321</u>
Carrying amounts					
At 31 December 2005	<u>1</u>	<u>99 798</u>	<u>173</u>	<u>26 797</u>	<u>126 769</u>
At 30 September 2006	<u>1</u>	<u>80 711</u>	<u>156</u>	<u>79 311</u>	<u>160 179</u>

Land usufruct

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

Amortization charge

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

	30 September 2006	30 September 2005
In thousands of Egyptian Pound		
Operating expenses	23 079	20 968
	<u>23 079</u>	<u>20 968</u>

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

15. Investments in associates

The Group has the following investment in associate:

In thousands of Egyptian Pound	Ownership		Carrying amount	
	<u>30 September 2006</u>	<u>31 December 2005</u>	<u>30 September 2006</u>	<u>31 December 2005</u>
Vodafone Egypt. (SAE)	25.62%	25.50%	1 644 533	1 526 740
Nile on line. (SAE)	27.27%	27.27 %	12 709	12 669
Wataneya for Telecommunication	50.00%	50.00%	125	125
Consortium Algerien de Tele – communications (CAT)	33.00%	33.00%	—	133
International Telecommunication Consortium Limited. (ITCL)	50.00%	50.00%	54	54
Egypt Trust	35.71%	25.00%	2 500	1 000
Total			1 659 921	1 540 721

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.

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 LE 100 per share. During September 2006 one of the company's subsidiaries purchased 287 741 shares of Vodafone Egypt at a total cost of LE 28 033K.
- On October 2006, the Company purchased 56 042 896 shares of Vodafone- Egypt shares of 23.35 % at a total cost of LE 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 LE 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 LE 100 per share.

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

Summary financial information on associates – 100 percent:

In thousands of Egyptian Pound	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Profit/(Loss)</u>
31-12-2005:					
Nile on line	80 738	34 216	46 522	31 685	72
* Vodafone Egypt	7 635 000	4 127 000	3 508 000	4 325 000	1 202 000
	<u>7 715 738</u>	<u>4 161 216</u>	<u>3 554 522</u>	<u>4 356 685</u>	<u>1 202 072</u>
30-9-2006:					
* Vodafone Egypt	7 876 000	4 046 000	3 830 000	3 839 000	1 249 000
Nile on line	82 043	35 444	46 599	28 848	77
Consortium Algerien de Tele –communications (CAT)	655 029	823 837	(168 808)	15 922	(144 601)
** Wataneya for Telecommunication	-	-	-	-	-
** International Telecommunication Consortium Limited. (ITCL)	-	-	-	-	-
** Egypt Trust	-	-	-	-	-
	<u>8 613 072</u>	<u>4 905 281</u>	<u>3 707 791</u>	<u>3 883 770</u>	<u>1 104 476</u>

* Reported figures for Vodafone Egypt for 31/12/2005 relating to revenues and profit for the nine months period ended 31 December, 2005, and for 30/9/2006 relating to revenues and profit for the six months period ended 30 September, 2006

** The financial information of these associates were not presented because it's financial statements are not prepared

16. Available for sale investments

In thousands of Egyptian Pound	<u>30 September 2006</u>	<u>31 December 2005</u>
Equity securities available for sale – Foreign	19 869	18 430
Equity securities available for sale – Local	69 952	69 952
	<u>89 821</u>	<u>88 382</u>

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

17. Long-term receivable

In thousands of Egyptian Pound	<u>30 September 2006</u>	<u>31 December 2005</u>
National Telecommunication Regulatory Authority (NTRA)	1 080 000	1 600 000
Accretion of interest	214 000	76 000
Amortized cost	1 294 000	1 676 000
Current portion	(435 000)	(467 000)
	859 000	1 209 000
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.	120 979	201 987
Less:		
Current portion	(99 926)	(106 799)
	21 053	95 188
	1 214 623	1 525 773

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

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

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

In thousands of Egyptian Pound	2007	2008	2009
	520 000	520 000	520 000

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

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

18. Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of Egyptian Pound	Assets		Liabilities	
	<u>30 September 2006</u>	<u>31 December 2005</u>	<u>30 September 2006</u>	<u>31 December 2005</u>
Property, plant and equipment & intangible assets	-	-	195 449	170 402
Inventories	3 391	3 391	-	-
Trade & other receivables	32 872	25 793	-	-
Provisions	46 919	50 101	-	-
Accrued liabilities	28 311	29 845	-	-
Total deferred tax assets / liabilities	<u>111 493</u>	<u>109 130</u>	<u>195 449</u>	<u>170 402</u>

19. Inventories

In thousands of Egyptian Pound	<u>30 September 2006</u>	<u>31 December 2005</u>
Spare parts, supplies and cables	483 992	452 622
Telephone sets and directories	45 462	42 154
	<u>529 454</u>	<u>494 776</u>

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

20. Trade and other receivables

In thousands of Egyptian Pound

	<u>30 September 2006</u>	<u>31 December 2005</u>
Trade receivables due from associates	24 760	6 200
Other trade and notes receivable:		
Governmental sector	266 685	229 127
Private sector	1 968 768	1 791 279
Foreign telecommunication operators	682 216	532 118
Notes receivables	850	949
	<u>2 943 279</u>	<u>2 559 673</u>
Other receivables and pre-payments:		
Advance payments to suppliers	117 458	56 716
Deposits with others	9 568	6 957
Long-term receivable – current portion	534 926	573 799
Payments on the account of corporate tax	285 996	481 799
Sales Tax Authority – advances	398 523	196 656
Other receivables	181 676	289 108
	<u>4 471 426</u>	<u>4 164 708</u>

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

21. Investments held for trading

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

	<u>30 September 2006</u>
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 balance sheet date.	119 809
TE Information Technology – a Subsidiary Company	
Value of 9 067 unit of commercial International Bank Investment Fund – Osoul Fund with price LE 114.80 for each unit at balance sheet date.	1 041
	<u>120 850</u>

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

22. Cash and cash equivalents

In thousands of Egyptian Pound

	<u>30 September 2006</u>	<u>31 December 2005</u>
Bank balances	134 066	66 859
Time deposits	1 344 538	668 147
Cash on hand	28 280	33 010
	<hr/>	<hr/>
Bank overdrafts	1 506 884	768 016
	(119 988)	(158 474)
Cash and cash equivalents in the statement of cash flows	<hr/> <u>1 386 896</u>	<hr/> <u>609 542</u>

Time deposits at 30 September 2006 included an amount of LE 7 422 K blocked in favor of banks as guarantee for letters of credits (2005: LE 9 565 K).

23. Capital and reserves

Share capital

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

On September 21, 2005 the extraordinary meeting of the shareholders resolved the decrease of the issued share capital by a net amount of LE 41 433 K representing the value of lands transferred to Ministry of Communication & Information Technology by LE 71 250 K and the value of new land entitlement for TE as a result of the amendment of the total land area near the Satellite Station in Maadi amounting to LE 29 817 K.

The extraordinary meeting of the shareholders also resolved to decrease the par value per share from LE 100 to LE 10. Accordingly, the company's issued capital become LE 17 070 716 K represented in 1 707 071 600 shares of par value LE 10 each and annotation was made to this effect in the Commercial register on 24/11/2005.

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

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

Statutory Reserve

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

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

Translation reserve

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

Fair value reserve

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

Other reserve

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

Dividends

No dividends were proposed by the directors for the nine months ended 30 September 2006. Dividends are declared by shareholders resolution after year-end. The dividends have not been provided for and there are no income taxes consequences.

In thousands of Egyptian Pound

LE 0.50 per qualifying ordinary share for 2005

<u>30 September 2006</u>	<u>31 December 2005</u>
-	853 536
-	853 536

24. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 September 2006 was based on the profit attributable to ordinary shareholders of LE 1 521 496 k , (30 September 2005 : LE 1 597 414 k) and a weighted average number of ordinary shares outstanding during the period ended 30 September 2006 of 1 710 071 600 (30 September 2005 :1 711 076 790), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of Egyptian Pound

Profit for the period
Profit attributable to ordinary shareholders

<u>30 September 2006</u>	<u>30 September 2005</u>
1 523 350	1 599 533
1 521 496	1 597 414

Weighted average number of ordinary shares

In thousands of Egyptian Pound

Issued ordinary shares at 1January
Effect of decrease of shares in September 2005
Average number of ordinary shares at 30 September

<u>30 September 2006</u>	<u>30 September 2005</u>
1 707 072	1 711 215
-	(138)
1 707 072	1 711 077

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

25. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 29 (iii).

	<u>30 September 2006</u>	<u>31 December 2005</u>
In thousands of Egyptian Pound		
Non-current liabilities		
Unsecured bank loans:		
Local banks	—	8 919
Governmental loans	651 266	709 214
Foreign loans	914 397	954 644
Finance lease liabilities	70 738	51 346
Foreign suppliers facilities	12 595	62 044
	<u>1 648 996</u>	<u>1 786 167</u>
Current liabilities		
Short-term borrowings	364 835	419 061
Short-term loans	517	-
Current portion of unsecured bank loans:		
Local banks	12 581	12 581
Governmental loans	96 636	124 613
Foreign loans	172 682	159 914
Current portion of finance lease liabilities	26 631	23 925
Foreign suppliers facilities	82 113	179 379
	<u>755 995</u>	<u>919 473</u>

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

Security

Foreign suppliers facilities include an amount of LE 4 168 K secured by letters of guarantee issued in favor of the suppliers.

Repayment

In thousands of Egyptian Pound	Loan <u>Currency</u>	Effective Interest <u>Rate</u>	<u>Total</u>	12 months <u>or less</u>	2-3 <u>Years</u>	4-5 <u>years</u>	More the <u>5 years</u>
<u>Telecom Egypt – the parent:</u>							
Local banks loans	LE	CAIBOR+2.55 %	12 581	12 581	-	-	-
Total local loans			12 581	12 581	-	-	-
Governmental Loans *	U.S.\$	4%	715 601	87 933	85 217	92 170	450 281
Governmental Loans	SK	Agency comition+0.15%	1 680	1 398	282	-	-
Governmental Loans	EURO	4 - 6.37%	30 621	7 305	12 646	7 956	2 714
Total Governmental loans			747 902	96 636	98 145	100 126	452 995
Foreign loans	J.Y	3 - 3.5%	87 410	24 420	46 020	16 538	432
Foreign loans	EURO	0.75 -8.2%	999 669	148 262	265 538	153 297	432 572
Total foreign loans			1 087 079	172 682	311 558	169 835	433 004
Foreign suppliers' facilities - foreign	EURO	3.18 - 5.5%	43 249	39 840	3 409	-	-
Foreign suppliers' facilities - foreign	J.Y	2.75%	51 459	42 273	9 186	-	-
Total foreign suppliers' facilities			94 708	82 113	12 595	-	-
<u>TE Data – a subsidiary company</u>							
Short-term Loans	Jordan Dinar		517	517	-	-	-
			1 942 787	364 529	422 298	269 961	885 999

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

Finance lease liabilities

Finance lease liabilities are payable as follows:

In thousands of Egyptian Pound	Minimum lease payments 30-9-2006			Minimum lease payments 31-12-2005		
	Interest 30-9-2006	Principal 30-9-2006	Interest 31-12-2005	Principal 31-12-2005		
Less than one year	37 520	10 889	26 631	32 165	8 240	23 925
Between one and five years	83 200	12 462	70 738	60 851	9 505	51 346
	120 720	23 351	97 369	93 016	17 745	75 271

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

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

26. Bonds payable

- In February 2005, the Company issued 20 million nominal marketable bonds not convertible into shares at a par value of LE 100 each for 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 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.

27. Trade and other payables

	<u>30 September 2006</u>	<u>31 December 2005</u>
In thousands of Egyptian Pound		
Trade payables:		
Local suppliers	79 851	93 127
Foreign suppliers	36 713	7 504
Notes payable	2 639	3 137
	119 203	103 768
Other payables:		
Income tax payable	424 659	632 054
Amounts due to associate	1 483	314
Deposits from others	641 235	605 848
Fixed assets creditors	242 406	389 652
Customers advances	245 120	215 058
Accrued expenses	340 540	389 864
Dividends payable	10 660	36 593
Other credit balances	646 763	527 338
	2 672 069	2 900 489

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28. Provisions

In thousands of Egyptian Pound	<u>30 September 2006</u>			<u>31 December 2005</u>		
	Taxes	Claims	Total	Taxes	Claims	Total
Balance at 1 January	595 308	140 055	735 363	646 316	104 125	750 441
Provision formed	16 318	-	16 318	14 120	36 115	50 235
Provision used	(7 366)	(21 254)	(28 620)	(65 128)	(28)	(65 156)
Provision reversed	-	(10 660)	(10 660)	-	(157)	(157)
Balance at end of the period /year	604 260	108 141	712 401	595 308	140 055	735 363

As at September 30, 2006 provisions are mainly related to taxes, lawsuits, and expected social insurance claim in respect of contracts concluded with suppliers.

29. Financial instruments

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

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

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

(i) Credit risk

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

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

(ii) Foreign currency risk

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

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

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

As of 30 September 2006 the Group's assets and liabilities denominated in foreign currencies amounted to the equivalent of LE 2 452 391 K and LE 2 092 525 K respectively. The Group's net foreign currencies exposure as of 30 September 2006. was as follow:

Foreign currency	(Deficit) / Surplus	
	<u>30 September 2006</u>	<u>31 December 2005</u>
In thousands of Egyptian Pound		
US Dollar	270 020	146 348
Euro	(141 985)	(170 998)
Sterling Pound	375	461
Japanese Yen	(2 836 191)	(4 092 891)
Swedish Krona	(15 585)	(15 525)
Jordan Dinar	(93)	(265)
Libyan Dinar	-	(3 876)
U.A.E Dirham	508	-

(iii) Interest rate risk

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

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

	<u>30 September 2006</u>	<u>31 December 2005</u>
US Dollar	4.68%	3.39%
Euro	2.37%	2.24%
Sterling Pound	4.14%	4.35%
Egyptian Pound	5.87%	6.63%

30. Fair value of financial instruments

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

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

Estimation of fair values

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

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Notes to the consolidated financial statements – (Continued)

Securities

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

Interest-bearing loans and borrowings

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

Finance lease liabilities

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

Receivables / payables

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

Interest rates used for determining fair value.

The entity uses the government yield curve as of 31 December 2005 plus an adequate constant credit spread to discount financial instruments. The discount rate for minimum lease liabilities and receivables is 14%.

31. Capital commitments

The Group's capital commitments for unexecuted portions of contracts as of 30 September 2006 amounted to LE 166 million includes LE 13 million payments of uncalled share capital investments (2005: LE 96 million includes LE 15 million payments of uncalled share capital investments). These commitments are expected to be settled in the following financial year except uncalled installments of investees' share capital which will be settled when requested by the directors of the investees.

32. Contingencies

In thousands of Egyptian Pound

Letters of guarantee issued by banks on behalf of the Group

Letters of credit

30 September 2006

31 December 2005

48 959

8 270

307 832

452 998

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Notes to the consolidated financial statements – (Continued)

33. Related parties

Identity of related parties

The Group has a relationship with its associate **Nile on line, Vodafone Egypt, consortium Algerian Telecommunication and International Communication Consortium LTD.**

Transaction with Associates and unconsolidated subsidiaries

During the period ended 30 September 2006, local leased lines to Nile On Line LE 2 527 k in favor of the group and internet services in favor of Nile On Line LE 30 382 k.

During the period ended 30 September 2006 , fixed to mobile interconnection and audio text fees in favor of Vodafone Egypt LE 353 164 k and transmission , lease of company's primeses in favor of the group LE 167 450 k.

During the period ended 30 September 2006, the company paid an amount of 112 985 K on behalf of Consortium Algerian Telecommunication to finance the license fee and operating expenses of consortium company in Algeria.

34. Group entities

Control of the Group

The Group's ultimate parent company is Telecom Egypt.

Subsidiaries

	Country of incorporation	Ownership interest	
		<u>30 September 2006</u>	<u>31 December 2005</u>
Middle East Radio Communication (MERC)	Egypt	51.00	51.00
T. E. Information Technology	Egypt	97.66	97.66
T. E. Data	Egypt	95.04	93.33
Centra Technologies	Egypt	55.02	55.02
* Centra Industries - Indirect ownership	Egypt	54.90	54.90
** T.E Data Jordan - Indirect ownership	Jordan	95.04	93.33
*** Xceed Middle East FZ – LLC – Indirect ownership	Dubai	97.66	--

* Centra Technologies participate in Centra Industries – a subsidiary – with 99.78% of its share capital.

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

*** Xceed Middle East - a fully owned subsidiary by TE Information Technology.