

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Consolidated Financial Statements
Prepared under IFRS
For The Financial Period Ended September 30, 2007
& Auditor's review report

Review Report
To The Board of Directors of Telecom Egypt

Introduction

We have reviewed the accompanying consolidated balance sheets of Telecom Egypt as of September 30, 2007 and the related consolidated statements of income, changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Unqualified Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of Telecom Egypt as at September 30, 2007, and of its financial performance and its cash flows for the nine-month period then ended in accordance with International Financial Reporting Standards.

KPMG Hazem Hassan

Cairo, Egypt
November 18 , 2007

Telecom Egypt
Consolidated balance sheets
As at 30 September 2007

In thousands of Egyptian Pound	<u>Note</u>	<u>30/9/2007</u>	<u>31/12/2006</u>
Assets			
Property, plant and equipment	(13)	19 946 252	21 535 119
Intangible assets	(14)	206 368	219 190
Investment in associates	(15)	6 586 307	6 544 096
Available for sale investments	(16)	99 477	84 524
Long-term receivable	(17)	500 500	1 116 536
Deferred tax assets	(18)	143 778	123 416
Total non-current assets		27 482 682	29 622 881
Inventory	(19)	535 561	597 928
Trade and other receivables	(20)	4 738 123	4 615 488
Investments held for trading	(21)	81 559	123 090
Cash and cash equivalents	(22)	2 109 740	588 845
Total current assets		7 464 983	5 925 351
Total assets		34 947 665	35 548 232
Equity			
Issued capital	(23)	17 070 716	17 070 716
Reserves	(23)	5 011 969	4 257 513
Retained earnings		2 195 375	2 510 888
Total equity attributable to equity holders of the parent		24 278 060	23 839 117
Minority interest		37 047	34 839
Total equity		24 315 107	23 873 956
Liabilities			
Interest-bearing loans and borrowings	(25)	3 492 123	4 571 182
Bonds payable	(26)	1 200 000	1 600 000
Deferred income		279 807	313 279
Other payables		59 718	57 616
Deferred tax liabilities	(18)	215 270	239 595
Total non-current liabilities		5 246 918	6 781 672
Bank overdraft	(22)	54 976	77 762
Bonds payable	(26)	800 000	400 000
Interest-bearing loans and borrowings	(25)	1 239 051	931 508
Trade and other payables	(27)	2 868 657	3 002 105
Provisions	(28)	422 956	481 229
Total current liabilities		5 385 640	4 892 604
Total liabilities		10 632 558	11 674 276
Total equity and liabilities		34 947 665	35 548 232

Chairman & Chief
Executive Officer

Akil Beshir

Vice President & Chief
Financial Officer

Tarek Tantawy

Financial Controller

Khaled Heshmat
Auditor's review report " attached "

Telecom Egypt
Consolidated income statements
For the financial Period ended 30 September 2007

	Note	For The Period		For The Period	
		From 1/7/2007 To 30/9/2007	From 1/1/2007 To 30/9/2007	From 1/7/2006 30/9/2006	From 1/1/2006 30/9/2006
In thousands of Egyptian Pound					
Revenue	(3)	2 601 286	7 477 744	2 455 104	6 933 633
Operating expenses	(4)	(1 610 988)	(4 515 225)	(1 507 141)	(4 270 728)
Gross profit		990 298	2 962 519	947 963	2 662 905
Other income	(5)	82 924	179 239	83 214	205 924
Selling and distribution expenses	(6)	(83 246)	(244 817)	(75 003)	(199 343)
Administrative expenses	(7)	(298 334)	(860 168)	(247 378)	(749 389)
Other expenses	(8)	(19 630)	(344 261)	(159 627)	(210 339)
Operating profit before financing costs		672 012	1 692 512	549 169	1 709 758
Financial income	(10)	60 630	165 000	63 637	193 267
Financial expenses	(10)	(212 805)	(551 912)	(95 089)	(326 349)
Net financing income (costs)	(10)	(152 175)	(386 912)	(31 452)	(133 082)
Share of profit in associates		273 306	702 097	172 445	370 964
Profit before tax		793 143	2 007 697	690 162	1 947 640
Income tax expense	(11)	(109 564)	(370 025)	(162 748)	(424 290)
Profit for the period		683 579	1 637 672	527 414	1 523 350
Attributable to:					
Equity holders of the parent		681 818	1 633 751	526 654	1 521 496
Minority interest		1 761	3 921	760	1 854
Profit for the period		683 579	1 637 672	527 414	1 523 350
Earnings per share (LE)	(24)	0.40	0.96	0.31	0.89

Telecom Egypt
Consolidated statement of cash flows
For the financial period ended 30 September 2007

In thousands of Egyptian Pound	Note	For The Period			
		From 1/7/2007 To 30/9/2007	From 1/1/2007 To 30/9/2007	From 1/7/2006 30/9/2006	From 1/1/2006 30/9/2006
Cash flows from operating activities					
Cash receipts from customers		2 056 361	6 571 766	2 023 109	5 996 139
Cash paid to suppliers		(219 141)	(587 798)	(232 853)	(581 026)
Cash paid to employees		(433 348)	(1 296 380)	(382 696)	(1 102 226)
Cash paid in operations (net)		(63 109)	(163 313)	(258 365)	(881 967)
Interest paid		(147 495)	(489 503)	(55 802)	(220 436)
Income taxes paid		-	(412 933)	(158)	(355 967)
Net cash from operating activities		1 193 268	3 621 839	1 093 235	2 854 517
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		277	522	568	2 179
Proceeds from sale of investments		44 500	68 650	75 000	110 000
Interest received		17 599	36 306	25 686	44 457
Dividends received		430 025	756 002	183 600	339 697
Acquisition of property, plant and equipment and intangible assets		(184 251)	(658 815)	(420 930)	(1 158 718)
Acquisition of investments		(63 500)	(91 105)	-	(221 949)
Net cash provided by (used in) investing activities		244 650	111 560	(136 076)	(884 334)
Cash flows from financing activities					
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment and intangible assets		(37 907)	(217 406)	(42 950)	(257 920)
(Repayment of) proceeds from borrowings & facilities relating to others		(274 129)	(576 286)	12 030	(11 118)
(Repayment of) proceeds from borrowings & bank facilities		(23 462)	(151 573)	36 824	(54 226)
Proceeds from issuance of capital-subscribed into by minority		-	-	-	9 615
Repayment of financial lease obligations		(9 445)	(29 817)	(11 070)	(33 190)
Dividends paid		-	(1 194 950)	(617 057)	(852 603)
Repayment of long – term liabilities		(188)	(702)	-	(346)
Net cash used in financing activities		(345 131)	(2 170 734)	(622 223)	(1 199 788)
Net movement in cash and cash equivalents		1 092 787	1 562 665	334 936	770 395
Cash and cash equivalents at 1 January		-	486 473	-	609 542
Translation difference adjustments		59	78	(431)	(463)
Cash and cash equivalents at 30 September	(22)	1 092 846	2 049 216	334 505	1 379 474

Telecom Egypt
Consolidated statement of changes in equity
For the financial period ended 30 September 2007

	Share Capital	Statutory reserve	Other reserve	Translation 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 2006	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 from 1/1/2006 to 30/9/2006	—	—	—	—	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's 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
Net profit for the period from 1/10/2006 to 31/12/2006	—	—	—	—	920 872	920 872	1 043	921 915
Transferred from minority interest due to the change in capital shareholding percentage	—	9	—	—	(2)	7	(7)	—
Increase in other reserves by the adjustments made in the land caption	—	—	105 254	—	—	105 254	—	105 254
Exchange differences arising on translation of foreign operation	—	—	—	(76)	12	(64)	(1)	(65)
Adjustments to retained earnings	—	—	—	—	(2 851)	(2 851)	(151)	(3 002)
Minority interest's share in capital increase of subsidiary company	—	—	—	—	—	—	3 289	3 289
Minority interest	—	—	—	—	—	—	(641)	(641)
Balance at 31 December 2006	17 070 716	466 875	3 790 823	(185)	2 510 888	23 839 117	34 839	23 873 956
Net profit for the period	—	—	—	—	1 633 751	1 633 751	3 921	1 637 672
Transfer to reserves	—	104 501	650 000	—	(754 501)	—	—	—
Exchange differences arising on translation of foreign operation	—	—	—	(45)	62	17	(1)	16
Adjustments to retained earnings	—	—	—	—	125	125	—	125
Dividends to shareholders	—	—	—	—	(1 194 950)	(1 194 950)	—	(1 194 950)
Minority interest	—	—	—	—	—	—	(1 712)	(1 712)
Balance at 30 September 2007	17 070 716	571 376	4 440 823	(230)	2 195 375	24 278 060	37 047	24 315 107

Telecom Egypt
Notes to the consolidated financial statements
For the financial period ended 30 September 2007

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 2007 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)
For the financial period ended 30 September 2007

(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 increase the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iii) Amortization

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

(g) Investments

(i) Investments in equity securities – available for sale

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

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

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

(ii) Held for trading investments

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

(h) Receivables

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

(i) Inventory

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

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

(j) Cash and cash 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 inventory (see accounting policy i) and deferred tax assets (see accounting policy s), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated [see accounting policy k (i)].

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

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

(i) Calculation of recoverable amount

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

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

(ii) Reversals of impairment

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

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

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

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

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

(l) Interest-bearing borrowings

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

(m) Employee benefits

(i) Pension

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

(n) Provisions

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

(o) Trade and other payables

Trade and other payables are stated at cost.

(p) Revenue

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

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

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

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

(q) Grants

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

(r) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(ii) Net financing costs

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

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

(s) Income tax

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

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

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:

In thousands of Egyptian Pound	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
Retail Services:		
Access:		
Connections	137 756	138 850
Subscriptions	1 276 528	1 178 407
	1 414 284	1 317 257
Voice:		
Local *	1 336 893	1 359 289
Long distance	363 401	456 383
Fixed to international	249 914	295 010
Fixed to mobile interconnection	604 368	662 863
	2 554 576	2 773 545
Internet & Data	218 253	126 090
Others	743 693	696 731
Total Retail	4 930 806	4 913 623
Wholesale:		
Domestic:		
Mobile to fixed interconnection	218 361	163 692
Others	353 868	177 694
	572 229	341 386
International:		
Mobile to international	745 198	565 792
Incoming international call	1 229 511	1 112 832
	1 974 709	1 678 624
Total wholesale	2 546 938	2 020 010
Total revenues	7 477 744	6 933 633

* include dial up revenue

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

4. Operating expenses

	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
In thousands of Egyptian Pound		
Interconnection fees	1 004 606	985 895
Fuel	53 039	44 044
Spare parts	85 652	93 869
Maintenance	123 516	90 824
Satellite subscriptions	15 292	17 493
Depreciation	2 045 439	1 965 939
Amortization	29 716	23 079
Cost of telephone sets & directories	47 673	73 727
Salaries & wages	631 534	558 873
Employees' vacations	16 027	-
Compulsory social security contributions	74 198	81 025
Frequencies & license charge (NTRA)	132 059	128 720
Employees' share in dividends	50 550	44 678
Other operating costs	205 924	162 562
	4 515 225	4 270 728

5. Other income

	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
In thousands of Egyptian Pound		
* Deferred revenues amortization	33 472	26 852
Reversal of decline in investments	33 232	1 458
Release of unused provisions	38 853	10 660
Reversal of decline trade and other receivables	-	44 560
Rental income	3 137	4 759
Others	70 545	117 635
	179 239	205 924

* Deferred revenues amortization for the period ended 30/9/2007 represents amortization of the grants presented by the USAID to finance some of the company's projects, as well as the grants presented by the projects management of Marine Cables for the construction of a building in Alexandria and the right of way for marine cables.

6. Selling and distribution expenses

	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
In thousands of Egyptian Pound		
Salaries & wages	94 718	82 348
Employees' vacations	2 240	-
Compulsory social security contributions	10 268	11 001
Fixed assets depreciation	1 483	647
Employees' share in dividends	6 650	5 928
Sales commissions & others	129 458	99 419
	244 817	199 343

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

7. Administrative expenses

	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
In thousands of Egyptian Pound		
Salaries & wages	430 771	320 609
Employees' vacations	11 372	-
Compulsory social security contributions	26 748	27 704
Early retirement compensations	3 246	3 043
Employees' share in dividends	32 800	24 394
Fixed assets depreciation	138 412	105 621
Taxes & customs fees	76 849	78 935
Training & development services	2 984	29 900
Advertising	25 948	23 936
Others	111 038	135 247
	860 168	749 389

8. Other expenses

	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
In thousands of Egyptian Pound		
Increase in provisions	22 207	16 318
Impairment loss on long term receivable	248 500	-
Impairment loss on trade and other receivables	59 046	189 386
Impairment loss on affiliate and available for sale investments	1 001	-
Net loss on disposal of property , plant and equipment and intangible assets	403	2 083
Others	13 104	2 552
	344 261	210 339

9. Personnel expenses

	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
In thousands of Egyptian Pound		
<u>Salaries & wages:</u>		
Operating expenses	631 534	558 873
Selling & distribution expenses	94 718	82 348
Administrative expenses	430 771	320 609
	1 157 023	961 830
Compulsory social security contributions	111 214	119 730
Early retirement compensations	3 246	3 043
Employees' vacations	29 639	-
Employees' share in dividends	90 000	75 000
	1 391 122	1 159 603

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.

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

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

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

10. Net financing costs

	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
In thousands of Egyptian Pound		
Interest income	52 709	41 465
Unwind of discount & accretion of interest relating to long-term receivable	102 000	138 000
Income from investments – dividend	3 484	3 402
Net gain of disposal of investments	6 807	4 493
Increase of market value of held for trading investments	-	5 907
Financial income	165 000	193 267
Interest expense	474 675	229 690
Net foreign exchange loss	76 400	96 659
Decrease of market value of held for trading investments	837	-
Financial expenses	551 912	326 349
Net financing costs	(386 912)	(133 082)

11. Income tax expense

Recognized in the income statement

	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
In thousands of Egyptian Pound		
Current tax expense		
Current period	414 712	401 762
Deferred tax expense		
Origination and reversal of temporary differences	(44 687)	22 528
Total income tax expense in income statement	370 025	424 290

12. Current tax assets and liabilities

The current tax asset of LE 143 778 K, (2006: 123 416 K) represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments. The current tax liability of LE 215 270 K (2006: 239 595 K) represents the amount of income taxes for items taxable in future periods in respect of accelerated depreciation for assets and other assets.

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

13. Property, plant and equipment

	Land & buildings	Machinery & equipment	Vehicles	Office furniture & fixtures	Tools & other equipment	Under construction	Total
In thousands of Egyptian Pound							
Cost							
Balance at 1 January 2007	19 247 638	17 426 298	121 196	1 080 282	56 295	817 324	38 749 033
Adjustments to the opening balance	(13 761)	(13 273)	—	(1)	—	—	(27 035)
Reclassification	—	10	—	(10)	—	—	—
Acquisitions	191 464	472 894	11 184	149 726	717	527 364	1 353 349
Disposals	(449)	(30 722)	(2 126)	—	(1 582)	(729 685)	(764 564)
Transferred to fixed asset	—	—	—	—	—	—	—
Effect of movements in foreign exchange	—	5	—	4	—	—	9
Balance at 30 September 2007	<u>19 424 892</u>	<u>17 855 212</u>	<u>130 254</u>	<u>1 230 001</u>	<u>55 430</u>	<u>615 003</u>	<u>39 310 792</u>
Depreciation							
Balance at 1 January 2007	6 439 656	10 146 077	111 875	485 043	31 263	—	17 213 914
Adjustments to the opening balance	(172)	(283)	—	—	—	—	(455)
Reclassification	—	1	—	(1)	—	—	—
Depreciation charge for the period	695 207	1 322 471	9 864	153 946	3 846	—	2 185 334
Disposals	(24)	(30 722)	(1 926)	—	(1 582)	—	(34 254)
Effect of movements in foreign exchange	—	1	—	—	—	—	1
Balance at 30 September 2007	<u>7 134 667</u>	<u>11 437 545</u>	<u>119 813</u>	<u>638 988</u>	<u>33 527</u>	<u>—</u>	<u>19 364 540</u>
Carrying amounts							
At 31 December 2006	12 807 982	7 280 221	9 321	595 239	25 032	817 324	21 535 119
At 30 September 2007	<u>12 290 225</u>	<u>6 417 667</u>	<u>10 441</u>	<u>591 013</u>	<u>21 903</u>	<u>615 003</u>	<u>19 946 252</u>

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

Fully depreciated assets

Property, plant and equipment cost includes LE 2 817 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 2007, the net carrying amount of leased equipment and vehicles was LE 73 046 k (2006: LE 82 640 k).

Depreciation

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

In thousands of Egyptian Pound	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
Operating expenses	2 045 439	1 965 939
Selling & distribution expenses	1 483	647
General & Administrative expenses	138 412	105 621
	2 185 334	2 072 207

14 Intangible assets

In thousands of Egyptian Pound	Land usufruct	Right of way	Internet service license	Right of using ROU	Total
Cost					
Balance at 1 January 2007	1	322 527	20 185	105 462	448 175
Acquisitions		17 250	—	—	17 250
Disposals	—	(2 032)	—	—	(2 032)
Effects of movements in foreign exchange	—	—	1	—	1
Balance at 30 September 2007	1	337 745	20 186	105 462	463 394

Amortization

Balance at 1 January 2007	—	177 633	20 035	31 317	228 985
Amortization for the period	—	25 646	15	4 055	29 716
Disposals	—	(1 675)	—	—	(1 675)
Balance at 30 September 2007	—	201 604	20 050	35 372	257 026

Carrying amounts

At 31 December 2006	1	144 894	150	74 145	219 190
At 30 September 2007	1	136 141	136	70 090	206 368

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

Land usufruct

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

Amortization charge

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

In thousands of Egyptian Pound	For the Period	
	From 1/1/2007 To 30/9/2007	From 1/1/2006 To 30/9/2006
Operating expenses	29 716	23 079
	29 716	23 079

15. Investments in associates

The Group has the following investment in associate:

In thousands of Egyptian Pound	Ownership		Carrying amount	
	<u>30 September 2007</u>	<u>31 December 2006</u>	<u>30 September 2007</u>	<u>31 December 2006</u>
Vodafone Egypt. (SAE)	44.79%	44.66%	6 553 291	6 528 587
Nile on line. (SAE)	27.27%	27.27%	30 391	12 830
Wataneya for Telecommunication	50.00%	50.00%	125	125
Consortium Algerien de Tele – communications (CAT)	33.00%	33.00%	—	—
International Telecommunication Consortium Limited. (ITCL)	50.00%	50.00%	—	54
Egypt Trust	35.71%	35.71%	2 500	2 500
Total			6 586 307	6 544 096

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

Investment In Vodafone – Egypt

- The investments in Vodafone Egypt as of 30/9/2007 represent the ownership of 107 499 569 shares representing 44.79% of Vodafone Egypt shares.

- During the 4th quarter of 2006 the company purchased 45 980 529 shares of Vodafone Egypt Shares. The purchase of these shares was financed by a syndicate loan granted from local banks with an amount of LE 4 525 000 K, the loan balance as of 30/9/2007 amounted to LE 2 952 000 K 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 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.

- During March 2007 the company purchased 319 040 shares of Vodafone Egypt Shares with aggregate cost amounting to LE 27 455 K. Purchasing transaction was financed from the company's own resources.

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

Investments in Middle East Radio Communication Company (Merc)

On 23/1/2007 the ownership of 2% from the shares of Middle East Radio Communication Company (Merc) was transferred to T.E. Data, (a subsidiary company) with its par value.

Investments in Nile On Line (NOL)

On October 2nd 2007 The Board of Directors of Telecom Egypt approved to sell Telecom Egypt's share in Nile on Line Company (NOL) (which represents 27.27% of the total paid-in capital), and a Memorandum of Understanding regarding the said sale was signed. The procedures necessary for implementing such memorandum are in progress.

Investments in EgyNet Company (Available for sale investments)

On October 2nd 2007 The Board of Directors of Telecom Egypt approved to sell Telecom Egypt's share in EgyNet Company (which represents 16.46% of the total paid-in capital), and a Memorandum of Understanding regarding the said sale was signed. The procedures necessary for implementing such memorandum are in progress.

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>
31-12-2006:					
* Vodafone Egypt	8 607 000	4 074 000	4 533 000	5 937 000	1 963 000
Nile on line	83 455	36 052	47 403	38 043	1 280
Consortium Algerien de Tele –communications (CAT)	662 625	879 858	(217 233)	34 951	(193 175)
** Wataneya for Telecommunication	—	—	—	—	—
** International Telecommunication Consortium Limited. (ITCL)	—	—	—	—	—
** Egypt Trust	—	—	—	—	—
	9 353 080	4 989 910	4 363 170	6 009 994	1 771 105
30-9-2007:					
* Vodafone Egypt	12 546 000	8 076 000	4 470 000	5 034 000	1 274 000
Nile on line	87 699	40 216	47 483	31 475	81
Consortium Algerien de Tele –communications (CAT)	625 288	949 914	(324 626)	25 713	(95 755)
** Wataneya for Telecommunication	—	—	—	—	—
** International Telecommunication Consortium Limited. (ITCL)	—	—	—	—	—
** Egypt Trust	—	—	—	—	—
	13 238 987	9 066 130	4 192 857	5 091 188	1 178 326

* Reported figures for Vodafone Egypt for 31/12/2006 relating to revenues and profit for the nine months period ended 31 December, 2006, and for 30/9/2007 relating to revenues and profit for the six months period ended 30 September, 2007

** 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</u> <u>2007</u>	<u>31 December</u> <u>2006</u>
Equity securities available for sale – Foreign	19 869	19 869
Equity securities available for sale – Local	79 608	64 655
	99 477	84 524

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

17. Long-term receivable

In thousands of Egyptian Pound

	<u>30 September</u> <u>2007</u>	<u>31 December</u> <u>2006</u>
National Telecommunication Regulatory Authority (NTRA). (Note No 17-1)	560 000	1 080 000
Accretion of interest	358 000	256 000
Amortized cost	918 000	1 336 000
Current portion	(460 000)	(478 000)
	458 000	858 000
Payments made on behalf of consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria. (Note No 17-2)	404 734	366 892
Impairment loss on long-term receivable. (Note No 17-2)	(404 734)	(108 356)
	-	258 536
Payments under capital increase for Egypt Trust and Technology Development Fund companies till recording in the commercial registration of this increase.	42 500	-
	500 500	1 116 536

(17-1) Waiver of the license of the third mobile operator

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.

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	2008	2009
	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).

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

(17-2) Finance to Consortium Algerian Telecommunication (CAT) - Algeria

Telecom Egypt financed Consortium Algerian Telecommunication (CAT) by an amount of L.E. 404 734 K where Telecom Egypt participation is 50% (Direct & Indirect), this company suffers a material decrease in recoverable amount of the tangible & intangible company's assets, that is likely to result in a material impairment loss. Also, the company suffers financial difficulties as a result of achieving material losses, in addition to Algerian Telecommunication Regulatory -ARPT- rejection for the company request to some important changes in the licenses that it consider mandatory for CAT survival. In the light of these circumstances there is high probability that Telecom Egypt couldn't refund the finance given to CAT and the income statement was charged for the period by L.E. 296 378 K and for the last periods before 2007 by L.E. 108 356 K which represents Telecom Egypt share in the loss of investment for the periods before 2007.

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 2007</u>	<u>31 December 2006</u>	<u>30 September 2007</u>	<u>31 December 2006</u>
Property, plant and equipment	5 529	—	207 607	232 031
Intangible assets	—	—	7 663	7 564
Inventory	4 504	3 616	—	—
Trade & other receivables	45 281	33 701	—	—
Provisions	56 634	58 318	—	—
Accrued liabilities	31 830	27 781	—	—
Total deferred tax assets / liabilities	<u>143 778</u>	<u>123 416</u>	<u>215 270</u>	<u>239 595</u>

19. Inventory

In thousands of Egyptian Pound

	<u>30 September 2007</u>	<u>31 December 2006</u>
Spare parts, supplies and cables	512 260	558 712
Telephone sets and directories	23 301	39 216
	<u>535 561</u>	<u>597 928</u>

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

20. Trade and other receivables

In thousands of Egyptian Pound

	<u>30 September</u> <u>2007</u>	<u>31 December</u> <u>2006</u>
Trade receivables due from associates	69 207	42 315
Other trade and notes receivable:		
Governmental sector	238 127	239 969
Private sector	2 031 005	2 020 933
Foreign telecommunication operators	913 762	693 592
Notes receivables	2 782	1 000
	3 254 883	2 997 809
Other receivables and pre-payments:		
Advance payments to suppliers	99 608	90 961
Deposits with others	11 648	7 667
Long-term receivable – current portion	460 000	478 000
Amount due from the employees for the company's shares distributed to them and paid by the company	21 915	94 490
Payments on the account of corporate tax	285 996	285 996
Sales Tax Authority – advances	195 863	196 031
Other receivables	408 210	464 534
	4 738 123	4 615 488

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 81 559 K represented in the following:

	<u>30 September</u> <u>2007</u>	<u>31 December</u> <u>2006</u>
TE Data a Subsidiary Company		
Value of 478 653 unit of commercial International Bank Investment Fund – Osoul Fund with price LE 123.89 for each unit at balance sheet date.(1 043 817 unit with price LE 116.91 for each unit for 2006).	59 300	122 033
Value of 194 139 unit of the National Societe Generale Bank Investment Fund with price L.E 108.871 for each unit at balance sheet date.	21 136	—
The Egyptian Telecommunication Company for Information Systems (Xceed)		
Value of 9 067 unit of commercial International Bank Investment Fund – Osoul Fund with price LE 123.89 for each unit at balance sheet date.(9 067 unit with price LE 116.61 for each unit for 2006).	1 123	1 057
	81 559	123 090

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

22. Cash and cash equivalents

In thousands of Egyptian Pound

	<u>30 September</u> <u>2007</u>	<u>31 December</u> <u>2006</u>	<u>30 September</u> <u>2006</u>
Bank balances	106 225	78 346	134 066
Time deposits	1 990 568	491 798	1 344 538
Cash on hand	12 947	18 701	28 280
	<u>2 109 740</u>	<u>588 845</u>	<u>1 506 884</u>
Bank overdrafts	(54 976)	(77 762)	(119 988)
Blocked time deposits	(5 548)	(24 610)	(7 422)
Cash and cash equivalents in the statement of cash flows	<u>2 049 216</u>	<u>486 473</u>	<u>1 379 474</u>

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.

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.

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

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 2007. 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

	<u>30 September 2007</u>	<u>31 December 2006</u>
LE 0.70 per qualifying ordinary share for 2006	-	1 194 950
	-	1 194 950

24. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 September 2007 was based on the profit attributable to ordinary shareholders of LE 1 633 751 k, (30 September 2006: LE 1 521 496 k) and a weighted average number of ordinary shares outstanding during the period ended 30 September 2007 of 1 707 071 600 (30 September 2006: 1 707 071 600), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of Egyptian Pound

	<u>30 September 2007</u>	<u>30 September 2006</u>
Profit for the period	1 637 672	1 523 350
Profit attributable to ordinary shareholders	1 633 751	1 521 496

Weighted average number of ordinary shares

In thousands of Egyptian Pound

	<u>30 September 2007</u>	<u>30 September 2006</u>
Issued ordinary shares at 1 January	1 707 072	1 707 072
Average number of ordinary shares at 30 September	1 707 072	1 707 072

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</u> <u>2007</u>	<u>31 December</u> <u>2006</u>
In thousands of Egyptian Pound		
Non-current liabilities		
Unsecured bank loans:		
Local banks	2 137 500	2 952 000
Governmental loans	563 528	673 926
Foreign loans	734 945	876 311
Finance lease liabilities	53 063	65 743
Foreign suppliers facilities	3 087	3 202
	3 492 123	4 571 182
Current liabilities		
Short-term loans	18 734	15 396
Current portion of unsecured bank loans:		
Local banks	814 500	551 919
Governmental loans	99 045	98 411
Foreign loans	267 706	174 153
Current portion of finance lease liabilities	29 264	25 461
Foreign suppliers facilities	9 802	66 168
	1 239 051	931 508

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

Security

Foreign suppliers facilities include an amount of LE 3 723 K secured by letters of guarantee issued in favor of the suppliers.

Repayment

In thousands of Egyptian Pound	Loan Currency	Effective Interest Rate	Total	12 months or less	2-3 Years	4- 5 Years	More than 5 Years
Telecom Egypt – the parent:							
Local banks loans *	LE	9.25%	-	-	-	-	-
		Average rate of deposits & loans					
Local banks loans (Vodafone one loan Note no. 15)	LE	(corridor) +1%	2 952 000	814 500	2 036 250	101 250	-
Total local loans			2 952 000	814 500	2 036 250	101 250	-
Governmental Loans	U.S.\$	4%	636 799	91 533	194 197	154 703	196 366
Governmental Loans	SK	0.15% (Agency commition)	311	311	-	-	-
Governmental Loans	EURO	4 - 6.37%	25 463	7 201	12 190	6 012	60
Total Governmental loans			662 573	99 045	206 387	160 715	196 426
Foreign loans	J.Y	3 - 3.5%	62 854	24 366	34 274	4 214	-
Foreign loans	EURO	0.75 - 6%	939 797	243 340	155 602	136 313	404 542
Total foreign loans			1 002 651	267 706	189 876	140 527	404 542
Foreign suppliers' facilities - foreign	EURO	5.5%	3 723	636	3 087	-	-
Foreign suppliers' facilities – foreign	J.Y	2.75%	9 166	9 166	-	-	-
Total foreign suppliers' facilities			12 889	9 802	3 087	-	-
			4 630 113	1 191 053	2 435 600	492 402	600 968

- The available unused balance of Foreign Loans and Facilities at 30/9/2007 amounting to LE 26 907 K.

* The company & the lending bank (loans form local banks in LE) had agreed on change the interest rate from (caibor +2.55%) to 9.25 % annually.

Finance lease liabilities

Finance lease liabilities are payable as follows:

In thousands of Egyptian Pound	Minimum lease payments 30-9-2007	Interest 30-9-2007	Principal 30-9-2007	Minimum lease payments 31-12-2006	Interest 31-12-2006	Principal 31-12-2006
Less than one year	38 085	8 821	29 264	35 716	10 255	25 461
Between one and five years	60 193	7 214	52 979	76 220	10 604	65 616
More than five years	92	8	84	147	20	127
	98 370	16 043	82 327	112 083	20 879	91 204

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

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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.

The bonds instalments due during a year from 1/10/2007 to 30/9/2008 amounted LE 800 million has been classified in the balance sheet as current liabilities.

27. Trade and other payables

	<u>30 September</u> <u>2007</u>	<u>31 December</u> <u>2006</u>
In thousands of Egyptian Pound		
Trade payables:		
Local suppliers	31 884	145 837
Foreign suppliers	13 128	33 408
Notes payable	7 176	2 473
	52 188	181 718
Other payables:		
Income tax payable	414 838	436 538
Amounts due to associate	1 568	1 232
Deposits from others	718 014	661 859
Fixed assets creditors	221 644	409 288
Customers advances	197 198	226 692
Accrued expenses	371 737	439 182
Dividends payable	-	9 752
Other credit balances	891 470	635 844
	2 868 657	3 002 105

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Notes to the consolidated financial statements – (Continued)

28. Provisions

In thousands of Egyptian Pound	<u>30 September 2007</u>			<u>31 December 2006</u>		
	Taxes	Claims	Total	Taxes	Claims	Total
Balance at 1 January	373 088	108 141	481 229	595 308	140 055	735 363
Provision formed	22 207	—	22 207	617	—	617
Provision used	—	(41 998)	(41 998)	(7 366)	(21 254)	(28 620)
Provision reversed	(380)	(38 473)	(38 853)	(215 471)	(10 660)	(226 131)
Transfer from trade & other payables	371	—	371	—	—	—
Balance at end of the period / year	395 286	27 670	422 956	373 088	108 141	481 229

As at September 30, 2007 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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Notes to the consolidated financial statements – (Continued)

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 2007 the Group's assets and liabilities denominated in foreign currencies amounted to the equivalent of LE 2 169 456 K and LE 2 217 167 K respectively. The Group's net foreign currencies exposure as of 30 September 2007. Was as follow:

Foreign currency	(Deficit) / Surplus	
	30 September 2007	31 December 2006
In thousands of Egyptian Pound		
US Dollar	130 264	107 711
Euro	(86 984)	(130 783)
Sterling Pound	(82)	355
Japanese Yen	(1 464 391)	(2 432 914)
Swedish Krona	(13 345)	(15 724)
Jordan Dinar	562	329
Canadian dollars	134	—
U.A.E Dirham	773	134

(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:

	30 September 2007	31 December 2006
US Dollar	4.99%	4.84%
Euro	3.60%	2.59%
Sterling Pound	5.36%	4.30%
Egyptian Pound	6.81%	5.75%

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 30 September 2007 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 2007 amounted to LE 146 million includes LE 10.4 million payments of uncalled share capital investments (2006: LE 105 million includes LE 13 million payments of uncalled share capital investments). These commitments are expected to be settled in the following financial year except uncalled installments of investees' share capital which will be settled when requested by the directors of the investees.

32. Contingencies

	<u>30 September</u> <u>2007</u>	<u>31 December</u> <u>2006</u>
In thousands of Egyptian Pound		
Letters of guarantee issued by banks on behalf of the Group	59 075	52 207
Letters of credit	270 122	264 801

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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 and consortium Algerian Telecommunication** .

Transaction with Associates and unconsolidated subsidiaries

During the period ended 30 September 2007, local and international leased lines to Nile On Line LE 2 437 k in favor of the group and internet services in favor of Nile On Line LE 4 381 k.

During the period ended 30 September 2007 , fixed to mobile interconnection and audio text fees in favor of Vodafone Egypt LE 425 325 k and transmission , international calls , lease of company's premises in favor of the group LE 694 983 k.

During the period ended 30 September 2007, the company paid an amount of 42 804 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 2007</u>	<u>31 December 2006</u>
Middle East Radio Communication (MERC)-(Direct & Indirect)	Egypt	50.90	51.00
The Egyptian Telecommunication Company for Information Systems (Xceed)	Egypt	97.66	97.66
T. E. Data	Egypt	95.04	95.04
Centra Technologies	Egypt	58.76	58.76
* Centra Industries - Indirect ownership	Egypt	58.63	58.63
* Centra Distribution – Indirect ownership	Egypt	58.74	58.74
** T.E Data Jordan - Indirect ownership	Jordan	95.04	95.04
*** Xceed Middle East FZ – LLC – Indirect ownership	Dubai	97.66	97.66
* Centra Technologies participate in Centra Industries & Centra Distribution - subsidiaries - with 99.78% , 99.98% respectively of its share capital.			
** TE Data Jordan - a fully owned subsidiary by TE Data Company.			
*** Xceed Middle East - a fully owned subsidiary by The Egyptian Telecommunication Company for Information Systems (Xceed).			

35. Comparative Figures

Certain comparative figures of statement of cash flows and balance sheet were reclassified to confirm the current classification of these statements.

36. Subsequent Events

No material subsequent events occurred after the date of the financial period ended on 30/9/2007 that are to the contrary to the company's Board of Directors decision , dated 2/10/2007, regarding the approval to sell Telecom Egypt's shares in both Nile on Line Company (NOL) and EgyNet Company .