

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Consolidated Financial Statements
Prepared under IFRS

For The Financial Period Ended June 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 June 30, 2007 and the related consolidated statements of income, changes in equity and cash flows for the six-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 June 30, 2007, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards.

KPMG Hazem Hassan

Cairo, Egypt
August 15, 2007

Telecom Egypt
Consolidated balance sheets
As at 30 June 2007

In thousands of Egyptian Pound	<u>Note</u>	<u>30/6/2007</u>	<u>31/12/2006</u>
Assets			
Property, plant and equipment	(13)	20 479 273	21 535 119
Intangible assets	(14)	201 293	219 190
Investment in associates	(15)	6 720 492	6 544 096
Available for sale investments	(16)	80 695	84 524
Long-term receivable	(17)	458 000	1 116 536
Deferred tax assets	(18)	137 150	123 416
Total non-current assets		28 076 903	29 622 881
Inventory	(19)	555 252	597 928
Trade and other receivables	(20)	4 617 772	4 615 488
Investments held for trading	(21)	103 420	123 090
Cash and cash equivalents	(22)	1 128 837	588 845
Total current assets		6 405 281	5 925 351
Total assets		34 482 184	35 548 232
Equity			
Issued capital	(23)	17 070 716	17 070 716
Reserves	(23)	5 011 984	4 257 513
Retained earnings		1 513 416	2 510 888
Total equity attributable to equity holders of the parent		23 596 116	23 839 117
Minority interest		35 340	34 839
Total equity		23 631 456	23 873 956
Liabilities			
Interest-bearing loans and borrowings	(25)	3 899 854	4 571 182
Bonds payable	(26)	1 200 000	1 600 000
Deferred income		290 964	313 279
Other payables		57 859	57 616
Deferred tax liabilities	(18)	223 196	239 595
Total non-current liabilities		5 671 873	6 781 672
Bank overdraft	(22)	167 857	77 762
Bonds payable	(26)	800 000	400 000
Interest-bearing loans and borrowings	(25)	1 109 438	931 508
Trade and other payables	(27)	2 686 126	3 002 105
Provisions	(28)	415 434	481 229
Total current liabilities		5 178 855	4 892 604
Total liabilities		10 850 728	11 674 276
Total equity and liabilities		34 482 184	35 548 232

Chairman
And the Executive President

Eng./ Akil Beshir

Deputy of the Executive President
For Financial Sector

Eng./ Tarek Tantawy

Head of the
Financial Sector

Acc./ Khaled Heshmat

Auditor's review report " attached "

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

	Note	For The Period		For The Period	
		From 1/4/2007 To 30/6/2007	From 1/1/2007 To 30/6/2007	From 1/4/2006 To 30/6/2006	From 1/1/2006 To 30/6/2006
In thousands of Egyptian Pound					
Revenue	(3)	2 498 700	4 876 458	2 298 366	4 478 529
Operating expenses	(4)	(1 512 389)	(2 904 237)	(1 447 991)	(2 763 587)
Gross profit		986 311	1 972 221	850 375	1 714 942
Other income	(5)	70 567	96 315	101 679	122 710
Selling and distribution expenses	(6)	(94 440)	(161 571)	(66 305)	(124 340)
Administrative expenses	(7)	(245 871)	(561 834)	(282 452)	(502 011)
Other expenses	(8)	(304 311)	(324 631)	(12 190)	(50 712)
Operating profit before financing costs		412 256	1 020 500	591 107	1 160 589
Financial income	(10)	47 746	104 370	61 922	129 630
Financial expenses	(10)	(162 481)	(339 107)	(125 143)	(231 260)
Net financing (costs) income	(10)	(114 735)	(234 737)	(63 221)	(101 630)
Share of profit in associates		234 611	428 791	90 654	198 519
Profit before tax		532 132	1 214 554	618 540	1 257 478
Income tax expense	(11)	(136 366)	(260 461)	(129 619)	(261 542)
Profit for the period		395 766	954 093	488 921	995 936
Attributable to:					
Equity holders of the parent		394 243	951 933	488 435	994 842
Minority interest		1 523	2 160	486	1 094
Profit for the period		395 766	954 093	488 921	995 936
Earnings per share (LE)	(24)	0.23	0.56	0.28	0.58

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

In thousands of Egyptian Pound	Note	For The Period			
		From 1/4/2007 To 30/6/2007	From 1/1/2007 To 30/6/2007	From 1/4/2006 To 30/6/2006	From 1/1/2006 To 30/6/2006
Cash flows from operating activities					
Cash receipts from customers		2 551 704	4 515 405	2 262 357	3 973 030
Cash paid to suppliers		(149 461)	(368 657)	(135 800)	(348 173)
Cash paid to employees		(505 427)	(863 032)	(414 181)	(719 530)
Cash (paid) proceeds in operations (net)		(168 351)	(100 204)	(707 975)	(623 602)
Interest paid		(156 339)	(342 008)	(67 697)	(164 634)
Income taxes paid		(412 933)	(412 933)	(355 809)	(355 809)
Net cash from operating activities		1 159 193	2 428 571	580 895	1 761 282
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		138	245	1 611	1 611
Proceeds from sale of investments		-	24 150	35 000	35 000
Interest received		9 940	18 707	10 109	18 771
Dividends received		325 977	325 977	1 890	156 097
Acquisition of property, plant and equipment and intangible assets		(209 217)	(474 564)	(391 557)	(737 788)
Acquisition of investments		-	(27 605)	(220 949)	(221 949)
Net cash provided by (used in) investing activities		126 838	(133 090)	(563 896)	(748 258)
Cash flows from financing activities					
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment and intangible assets		(59 621)	(179 499)	(40 730)	(214 970)
Repayment of borrowings & facilities relating to others		(30 170)	(302 157)	(23 148)	(23 148)
(Repayment of) proceeds from borrowings & bank facilities		(60 852)	(128 111)	110 782	(91 050)
Proceeds from issuance of capital-subscribed into by minority		-	-	-	9 615
Repayment of financial lease obligations		(9 572)	(20 372)	(10 762)	(22 120)
Dividends paid		(1 194 950)	(1 194 950)	(195 611)	(235 546)
Repayment of long – term liabilities		(201)	(514)	-	(346)
Net cash (used in) financing activities		(1 355 366)	(1 825 603)	(159 469)	(577 565)
Net movement in cash and cash equivalents		(69 335)	469 878	(142 470)	435 459
Cash and cash equivalents at 1 January		-	486 473	-	609 542
Translation difference adjustments		28	19	54	(32)
Cash and cash equivalents at 30 June	(22)	(69 307)	956 370	(142 416)	1 044 969

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

In thousands of Egyptian Pound	Share Capital	Statutory reserve	Other reserve	Translation reserve	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total Equity
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 30/6/2006	—	—	—	—	994 842	994 842	1 094	995 936
Transfer to reserves	—	93 064	650 000	—	(743 064)	—	—	—
Exchange differences arising on translation of foreign operation	—	—	—	(30)	—	(30)	3	(27)
Minority interest's share in capital increase of subsidiary company	—	—	—	—	—	—	9 615	9 615
Dividends to shareholders	—	—	—	—	(853 536)	(853 536)	—	(853 536)
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	(1 606)	(1 235)
Balance at 30 June 2006	17 070 716	466 866	3 686 194	(112)	1 066 147	22 289 811	30 544	22 320 355
Net profit for the period from 1/7/2006 to 31/12/2006	—	—	—	—	1 447 526	1 447 526	1 803	1 449 329
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	—	—	104 629	—	—	104 629	—	104 629
Exchange differences arising on translation of foreign operation	—	—	—	(73)	68	(5)	1	(4)
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	—	—	—	—	—	—	(640)	(640)
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	—	—	—	—	951 933	951 933	2 160	954 093
Transfer to reserves	—	104 501	650 000	—	(754 501)	—	—	—
Exchange differences arising on translation of foreign operation	—	—	—	(30)	46	16	(1)	15
Dividends to shareholders	—	—	—	—	(1 194 950)	(1 194 950)	—	(1 194 950)
Minority interest	—	—	—	—	—	—	(1 658)	(1 658)
Balance at 30 June 2007	17 070 716	571 376	4 440 823	(215)	1 513 416	23 596 116	35 340	23 631 456

Telecom Egypt
Notes to the consolidated financial statements
For the financial period ended 30 June 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 six months ended 30 June 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 Beshir 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 (“IFRS”) 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 IFRS 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 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.

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:

In thousands of Egyptian Pound	For the Period	
	From 1/1/2007 To 30/6/2007	From 1/1/2006 To 30/6/2006
Retail Services:		
Access:		
Connections	91 754	95 382
Subscriptions	851 189	763 600
	942 943	858 982
Voice:		
Local *	882 990	878 925
Long distance	243 630	302 891
Fixed to international	168 068	197 819
Fixed to mobile interconnection	393 888	410 200
	1 688 576	1 789 835
Internet & Data	130 921	82 133
Others	477 125	505 583
Total Retail	3 239 565	3 236 533
Wholesale:		
Domestic:		
Mobile to fixed interconnection	140 221	103 739
Others	215 838	94 127
	356 059	197 866
International:		
Mobile to international	470 814	354 585
Incoming international call	810 020	689 545
	1 280 834	1 044 130
Total wholesale	1 636 893	1 241 996
Total revenues	4 876 458	4 478 529

* includes dial up revenue

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

4. Operating expenses

	For the Period	
	From 1/1/2007 To 30/6/2007	From 1/1/2006 To 30/6/2006
In thousands of Egyptian Pound		
Interconnection fees	640 727	631 550
Fuel	32 379	27 096
Spare parts	49 477	64 463
Maintenance	52 033	36 936
Satellite subscriptions	10 527	11 327
Depreciation	1 347 628	1 289 167
Amortization	17 541	15 306
Cost of telephone sets & directories	32 270	54 226
Salaries & wages	427 822	373 453
Employees' vacations	11 883	-
Compulsory social security contributions	49 787	54 519
Frequencies & license charge (NTRA)	84 036	84 311
Employees' share in dividends	34 585	29 563
Other operating costs	113 542	91 670
	2 904 237	2 763 587

5. Other income

	For the Period	
	From 1/1/2007 To 30/6/2007	From 1/1/2006 To 30/6/2006
In thousands of Egyptian Pound		
* Deferred revenues amortization	22 315	17 853
Reversal of decline in investments	-	1 437
Release of unused provisions	38 853	-
Gains on disposal of property, plant and equipment	-	41
Rental income	1 880	2 371
Others	33 267	101 008
	96 315	122 710

* Deferred revenues amortization for the period ended 30/6/2007 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 30/6/2007	From 1/1/2006 To 30/6/2006
In thousands of Egyptian Pound		
Salaries & wages	64 470	54 577
Employees' vacations	1 688	-
Compulsory social security contributions	6 854	7 353
Fixed assets depreciation	830	468
Employees' share in dividends	4 555	3 678
Sales commissions & others	83 174	58 264
	161 571	124 340

Telecom Egypt

Notes to the consolidated financial statements – (Continued)

7. Administrative expenses

	For the Period	
	From 1/1/2007 To 30/6/2007	From 1/1/2006 To 30/6/2006
In thousands of Egyptian Pound		
Salaries & wages	271 857	214 213
Employees' vacations	8 683	-
Compulsory social security contributions	17 607	18 704
Early retirement compensations	1 805	2 108
Employees' share in dividends	20 860	16 759
Fixed assets depreciation	87 077	69 763
Taxes & customs fees	56 328	51 298
Training & development services	507	7 397
Advertising	18 887	16 802
Others	78 223	104 967
	561 834	502 011

8. Other expenses

	For the Period	
	From 1/1/2007 To 30/6/2007	From 1/1/2006 To 30/6/2006
In thousands of Egyptian Pound		
Increase in provisions	14 396	10 996
Impairment loss on long term receivable	257 719	-
Impairment loss on trade and other receivables	38 655	38 231
Impairment loss on available for sale investments	3 829	-
Net loss on disposal of property , plant and equipment and intangible assets	644	-
Others	9 388	1 485
	324 631	50 712

9. Personnel expenses

	For the Period	
	From 1/1/2007 To 30/6/2007	From 1/1/2006 To 30/6/2006
In thousands of Egyptian Pound		
<u>Salaries & wages:</u>		
Operating expenses	427 822	373 453
Selling & distribution expenses	64 470	54 577
Administrative expenses	271 857	214 213
	764 149	642 243
Compulsory social security contributions	74 248	80 576
Early retirement compensations	1 805	2 108
Employees' vacations	22 254	-
Employees' share in dividends	60 000	50 000
	922 456	774 927

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 30/6/2007	From 1/1/2006 To 30/6/2006
In thousands of Egyptian Pound		
Interest income	24 556	24 351
Unwind of discount & accretion of interest relating to long-term receivable	72 000	95 000
Income from investments – dividend	3 484	3 402
Net gain of disposal of investments	1 953	979
Increase of market value of held for trading investments	2 377	5 898
Financial income	104 370	129 630
Interest expense	318 761	149 037
Net foreign exchange loss	20 346	82 223
Financial expenses	339 107	231 260
Net financing costs	(234 737)	(101 630)

11. Income tax expense

Recognized in the income statement

	For the Period	
	From 1/1/2007 To 30/6/2007	From 1/1/2006 To 30/6/2006
In thousands of Egyptian Pound		
Current tax expense		
Current period	290 596	255 450
Deferred tax expense		
Origination and reversal of temporary differences	(30 135)	6 092
Total income tax expense in income statement	260 461	261 542

12. Current tax assets and liabilities

The current tax asset of LE 137 150 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 223 196 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)	(24 235)	—	(1)	—	—	(37 997)
Reclassification	—	10	—	(10)	—	—	—
Acquisitions	147 675	319 894	5 242	84 153	388	350 115	907 467
Disposals	(449)	—	(1 099)	—	(1 582)	(489 710)	(492 840)
Transferred to fixed asset	—	—	—	—	—	—	—
Effect of movements in foreign exchange	—	4	—	4	—	—	8
Balance at 30 June 2007	19 381 103	17 721 971	125 339	1 164 428	55 101	677 729	39 125 671
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)	(284)	—	—	—	—	(456)
Reclassification	—	10	—	(10)	—	—	—
Depreciation charge for the period	462 711	864 019	6 573	99 725	2 507	—	1 435 535
Disposals	(24)	—	(991)	—	(1 582)	—	(2 597)
Effect of movements in foreign exchange	—	1	—	1	—	—	2
Balance at 30 June 2007	6 902 171	11 009 823	117 457	584 759	32 188	—	18 646 398
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 June 2007	12 478 932	6 712 148	7 882	579 669	22 913	677 729	20 479 273

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

Fully depreciated assets

Property, plant and equipment cost includes LE 1 634 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 June 2007, the net carrying amount of leased equipment and vehicles was LE 74 036 k (2006: LE 82 640 k).

Depreciation

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

	For the Period	
	From 1/1/2007 To 30/6/2007	From 1/1/2006 To 30/6/2006
In thousands of Egyptian Pound		
Operating expenses	1 347 628	1 289 167
Selling & distribution expenses	830	468
General & Administrative expenses	87 077	69 763
	1 435 535	1 359 398

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 2007	1	322 527	20 185	105 462	448 175
Disposals	—	(2 032)	—	—	(2 032)
Effects of movements in foreign exchange	—	—	1	—	1
Balance at 30 June 2007	1	320 495	20 186	105 462	446 144

Amortization

Balance at 1 January 2007	—	177 633	20 035	31 317	228 985
Amortization for the period	—	14 827	11	2 703	17 541
Disposals	—	(1 675)	—	—	(1 675)
Balance at 30 June 2007	—	190 785	20 046	34 020	244 851

Carrying amounts

At 31 December 2006	1	144 894	150	74 145	219 190
At 30 June 2007	1	129 710	140	71 442	201 293

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 30/6/2007	From 1/1/2006 To 30/6/2006
Operating expenses	17 541	15 306
	17 541	15 306

15. Investments in associates

The Group has the following investment in associate:

In thousands of Egyptian Pound	Ownership		Carrying amount	
	<u>30 June 2007</u>	<u>31 December 2006</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
Vodafone Egypt. (SAE)	44.79%	44.66%	6 704 695	6 528 587
Nile on line. (SAE)	27.27%	27.27%	13 118	12 830
Wataneya for Telecommunication	50.00%	50.00%	125	125
Consortium Algérien de Télé – communications (CAT)	33.00%	33.00%	—	—
International Telecommunication Consortium Limited. (ITCL)	50.00%	50.00%	54	54
Egypt Trust	35.71%	35.71%	2 500	2 500
Total			6 720 492	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 Vodafone – Egypt

- The investments in Vodafone Egypt as of 30/6/2007 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 30/6/2007 amounted to LE 3 223 500 K while the remaining part of financing the purchase operation of these shares was made from the company's own resources.

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

- 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.

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.

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 Algérien de Télé –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
30-6-2007:					
* Vodafone Egypt	12 308 000	8 426 000	3 882 000	2 428 000	679 000
Nile on line	84 925	37 225	47 700	20 411	297
Consortium Algérien de Télé –communications (CAT)	617 455	916 827	(299 372)	19 625	(85 297)
** Wataneya for Telecommunication	—	—	—	—	—
** International Telecommunication Consortium Limited. (ITCL)	—	—	—	—	—
** Egypt Trust	—	—	—	—	—
	13 010 380	9 380 052	3 630 328	2 468 036	594 000

* 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 30/6/2007 relating to revenues and profit for the three months period ended 30 June, 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 June 2007</u>	<u>31 December 2006</u>
Equity securities available for sale – Foreign	19 869	19 869
Equity securities available for sale – Local	60 826	64 655
	80 695	84 524

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

17. Long-term receivable

In thousands of Egyptian Pound

	<u>30 June 2007</u>	<u>31 December 2006</u>
National Telecommunication Regulatory Authority (NTRA). (Note No 17-1)	560 000	1 080 000
Accretion of interest	328 000	256 000
Amortized cost	888 000	1 336 000
Current portion	(430 000)	(478 000)
	<u>458 000</u>	<u>858 000</u>
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)	408 724	366 892
Impairment loss on long-term receivable. (Note No 17-2)	(408 724)	(108 356)
	<u>-</u>	<u>258 536</u>
	<u>458 000</u>	<u>1 116 536</u>

(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. 408 724 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. 300 368 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 June 2007</u>	<u>31 December 2006</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
Property, plant and equipment	5 529	—	214 972	232 031
Intangible assets	—	—	8 224	7 564
Inventory	4 727	3 616	—	—
Trade & other receivables	40 951	33 701	—	—
Provisions	54 997	58 318	—	—
Accrued liabilities	30 946	27 781	—	—
Total deferred tax assets / liabilities	137 150	123 416	223 196	239 595

19. Inventory

In thousands of Egyptian Pound

Spare parts, supplies and cables
 Telephone sets and directories

<u>30 June 2007</u>	<u>31 December 2006</u>
523 848	558 712
31 404	39 216
555 252	597 928

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

20. Trade and other receivables

In thousands of Egyptian Pound	<u>30 June 2007</u>	<u>31 December 2006</u>
Trade receivables due from associates	52 911	42 315
Other trade and notes receivable:		
Governmental sector	272 366	239 969
Private sector	1 951 979	2 020 933
Foreign telecommunication operators	880 345	693 592
Notes receivables	3 240	1 000
	3 160 841	2 997 809
Other receivables and pre-payments:		
Advance payments to suppliers	115 511	90 961
Deposits with others	9 473	7 667
Long-term receivable – current portion	473 888	572 490
Payments on the account of corporate tax	285 996	285 996
Sales Tax Authority – advances	196 411	196 031
Other receivables	375 652	464 534
	4 617 772	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 103 420 K represented in the following:

	<u>30 June 2007</u>	<u>31 December 2006</u>
TE Data a Subsidiary Company		
Value of 841 848 unit of commercial International Bank Investment Fund – Osoul Fund with price LE 121.54 for each unit at balance sheet date.(1 043 817 unit with price LE 116.91 for each unit for 2006).	102 318	122 033
TE Information Technology – a Subsidiary Company		
Value of 9 067 unit of commercial International Bank Investment Fund – Osoul Fund with price LE 121.54 for each unit at balance sheet date.(9 067 unit with price LE 116.61 for each unit for 2006).	1 102	1 057
	103 420	123 090

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

22. Cash and cash equivalents

In thousands of Egyptian Pound	<u>30 June 2007</u>	<u>31 December 2006</u>	<u>30 June 2006</u>
Bank balances	1 025 569	78 346	108 977
Time deposits	84 856	491 798	1 011 522
Cash on hand	18 412	18 701	18 809
	<u>1 128 837</u>	<u>588 845</u>	<u>1 139 308</u>
Bank overdrafts	(167 857)	(77 762)	(86 354)
Blocked time deposits	(4 610)	(24 610)	(7 985)
Cash and cash equivalents in the statement of cash flows	<u>956 370</u>	<u>486 473</u>	<u>1 044 969</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 six months ended 30 June 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

LE 0.70 per qualifying ordinary share for 2006

<u>30 June 2007</u>	<u>31 December 2006</u>
-	1 194 950
-	1 194 950

24. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2007 was based on the profit attributable to ordinary shareholders of LE 951 933 k, (30 June 2006: LE 994 842 k) and a weighted average number of ordinary shares outstanding during the period ended 30 June 2007 of 1 707 071 600 (30 June 2006: 1 707 071 600), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of Egyptian Pound

Profit for the period
Profit attributable to ordinary shareholders

<u>30 June 2007</u>	<u>30 June 2006</u>
954 093	995 936
951 933	994 842

Weighted average number of ordinary shares

In thousands of Egyptian Pound

Issued ordinary shares at 1 January
Average number of ordinary shares at 30 June

<u>30 June 2007</u>	<u>30 June 2006</u>
1 707 072	1 707 072
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 June 2007</u>	<u>31 December 2006</u>
In thousands of Egyptian Pound		
Non-current liabilities		
Unsecured bank loans:		
Local banks	2 544 750	2 952 000
Governmental loans	575 858	673 926
Foreign loans	720 509	876 311
Finance lease liabilities	55 766	65 743
Foreign suppliers facilities	2 971	3 202
	<u>3 899 854</u>	<u>4 571 182</u>
Current liabilities		
Short-term loans	11 693	15 396
Current portion of unsecured bank loans:		
Local banks	681 378	551 919
Governmental loans	100 747	98 411
Foreign loans	265 881	174 153
Current portion of finance lease liabilities	27 400	25 461
Foreign suppliers facilities	22 339	66 168
	<u>1 109 438</u>	<u>931 508</u>

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

Security

Foreign suppliers facilities include an amount of LE 3 582 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 than <u>5 years</u>
Telecom Egypt – the parent:							
Local banks loans *	LE	9.25%	2 628	2 628	-	-	-
Local banks loans (Vodafone one loan Note no. 15)	LE	Average rate of deposits & loans (corridor) +1%	3 223 500	678 750	2 443 500	101 250	-
Total local loans			3 226 128	681 378	2 443 500	101 250	-
Governmental Loans	U.S.\$	4%	649 307	93 331	198 012	157 742	200 222
Governmental Loans	SK	0.15% (Agency comition)	297	297	-	-	-
Governmental Loans	EURO	4 - 6..37%	27 001	7 119	12 719	5 981	1 182
Total Governmental loans			676 605	100 747	210 731	163 723	201 404
Foreign loans	J.Y	3 - 3.5%	62 908	23 190	35 297	4 421	-
Foreign loans	EURO	0.75 - 6%	923 482	242 691	152 668	122 747	405 376
Total foreign loans			986 390	265 881	187 965	127 168	405 376
Foreign suppliers' facilities - foreign	EURO	3.18 - 5.5%	12 448	9 477	2 971	-	-
Foreign suppliers' facilities – foreign	J.Y	2.75%	12 862	12 862	-	-	-
Total foreign suppliers' facilities			25 310	22 339	2 971	-	-
			4 914 433	1 070 345	2 845 167	392 141	606 780

- The available unused balance of Foreign Loans and Facilities at 30/6/2007 amounting to LE 26 986 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 30-6-2007	Interest 30-6-2007	Principal 30-6-2007	Minimum lease payments 31-12-2006	Interest 31-12-2006	Principal 31-12-2006
Less than one year	36 491	9 091	27 400	35 716	10 255	25 461
Between one and five years	63 315	7 648	55 667	76 220	10 604	65 616
More than five years	111	12	99	147	20	127
	99 917	16 751	83 166	112 083	20 879	91 204

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.

The bonds instalments due during a year from 1/7/2007 to 30/6/2008 amounted LE 800 million has been classified in the balance sheet as current liabilities.

27. Trade and other payables

	<u>30 June 2007</u>	<u>31 December 2006</u>
In thousands of Egyptian Pound		
Trade payables:		
Local suppliers	39 688	145 837
Foreign suppliers	12 719	33 408
Notes payable	6 334	2 473
	58 741	181 718
Other payables:		
Income tax payable	291 093	436 538
Amounts due to associate	1 549	1 232
Deposits from others	719 103	661 859
Fixed assets creditors	221 774	409 288
Customers advances	151 933	226 692
Accrued expenses	303 500	439 182
Dividends payable	-	9 752
Other credit balances	938 433	635 844
	2 686 126	3 002 105

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28. Provisions

In thousands of Egyptian Pound	<u>30 June 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	14 396	—	14 396	617	—	617
Provision used	—	(41 338)	(41 338)	(7 366)	(21 254)	(28 620)
Provision reversed	(380)	(38 473)	(38 853)	(215 471)	(10 660)	(226 131)
Balance at end of the period / year	387 104	28 330	415 434	373 088	108 141	481 229

As at June 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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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 June 2007 the Group's assets and liabilities denominated in foreign currencies amounted to the equivalent of LE 1 911 533 K and LE 2 243 289 K respectively. The Group's net foreign currencies exposure as of 30 June 2007. Was as follow:

Foreign currency	(Deficit) / Surplus	
	30 June 2007	31 December 2006
In thousands of Egyptian Pound		
US Dollar	99 360	107 711
Euro	(106 043)	(130 783)
Sterling Pound	295	355
Japanese Yen	(1 619 290)	(2 432 914)
Swedish Krona	(13 345)	(15 724)
Jordan Dinar	390	329
Saudi Riyal	769	—
U.A.E Dirham	—	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 June 2007	31 December 2006
US Dollar	5.03%	4.84%
Euro	3.43%	2.59%
Sterling Pound	5.08%	4.30%
Egyptian Pound	6.50%	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 Algérien de Télécommunications (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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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 Algérien de Télécommunications (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 June 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 June 2007 amounted to LE 116 million includes LE 12.5 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 June 2007</u>	<u>31 December 2006</u>
In thousands of Egyptian Pound		
Letters of guarantee issued by banks on behalf of the Group	56 899	52 207
Letters of credit	230 858	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 June 2007, local and international leased lines to Nile On Line LE 2 009 k in favor of the group and internet services in favor of Nile On Line LE 3 054 k.

During the period ended 30 June 2007 , fixed to mobile interconnection and audio text fees in favor of Vodafone Egypt LE 274 838 k and transmission , international calls , lease of company's premises in favor of the group LE 442 469 k.

During the period ended 30 June 2007, the company paid an amount of 41 832 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	
		30 June 2007	31 December 2006
Middle East Radio Communication (MERC)-(Direct & Indirect)	Egypt	50.90	51.00
T. E. Information Technology	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 TE Information Technology.

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Notes to the consolidated financial statements – (Continued)

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 events occurred subsequent to the date of the period ended 30/6/2007