

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

**Financial Statements & Auditor's Limited Review Report**  
**For The Financial Period Ended September 30, 2005**

*Translation from Arabic*

**Auditor's Limited Review Report**

**Telecom Egypt Company To The Board of Directors Of**

We have performed a limited review on the accompanying balance sheet of Telecom Egypt Company - an Egyptian joint stock company – as of September 30, 2005 and the related statements of income, cash flows and changes in equity for the financial period then ended. These financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review.

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

Based on our limited review for the financial statements of Telecom Egypt Company for the period ended September 30, 2005 nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly in all material respects in accordance with Egyptian Accounting Standards.

(KPMG Hazem Hassan)

Cairo, October 24, 2005

**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**  
**Financial Position**  
**As of September 30, 2005**

<u>Assets</u>	<u>Note</u>	<u>30/9/2005</u>	<u>31/12/2004</u>
<u>Long Term Assets</u>	<u>No.</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Fixed assets	(4)	20 982 233	23 534 178
Projects in progress	(5)	1 824 836	1 314 014
Investments in subsidiaries & affiliates	(6-1)	1 428 494	708 237
Investments available for sale	(6-2)	93 617	147 519
Other debit balances - long term	(7)	1 080 000	1 600 000
Other assets	(8)	106 143	131 610
<b>Total Long Term Assets</b>		<u>25 515 323</u>	<u>27 435 558</u>
<b><u>Current Assets</u></b>			
Inventories	(9)	415 013	410 819
Trade receivables	(10)	2 496 787	2 600 848
Debtors and other debit accounts	(11)	2 347 091	1 865 171
Cash at banks and on hand	(12)	649 900	1 093 073
<b>Total Current Assets</b>		<u>5 908 791</u>	<u>5 969 911</u>
<b><u>Current Liabilities</u></b>			
Provisions	(13)	1 294 447	1 507 828
Loans installments and facilities due within one year	(14)	532 448	1 009 650
Banks - credit accounts		347 194	1 520 220
Suppliers	(15)	62 475	57 393
Creditors and other credit accounts	(16)	2 699 383	2 629 845
<b>Total Current Liabilities</b>		<u>4 935 947</u>	<u>6 724 936</u>
<b>Excess (Deficit) of current assets over current liabilities</b>		<u>972 844</u>	<u>( 755 025)</u>
<b>Total investments</b>		<u>26 488 167</u>	<u>26 680 533</u>
Financed as follows:-			
<b><u>Shareholders' Equity &amp; Liabilities</u></b>			
<b><u>Shareholders' Equity</u></b>			
Paid up capital	(17)	17 070 716	17 112 149
Reserves	(18)	3 456 344	4 646 755
Retained earnings		384 638	412 276
Net profit for the period / year		1 685 662	1 008 663
<b>Total Shareholders' Equity</b>		<u>22 597 360</u>	<u>23 179 843</u>
<b><u>Long Term Liabilities</u></b>			
Loans and credit facilities	(14)	1 836 103	3 445 986
Bonds loan	(31)	2 000 000	—
Creditors and other credit balances	(16)	54 704	54 704
<b>Total Long Term Liabilities</b>		<u>3 890 807</u>	<u>3 500 690</u>
<b>Total Shareholders' Equity and Long term Liabilities</b>		<u>26 488 167</u>	<u>26 680 533</u>

\* The accompanying notes form an integral part of these financial statements.

Chairman	Deputy chairman for Financial & Commercial	Head of the financial sector
Eng./Akil Beshir	Acc./Ali Salama	Acc./Ali Barakat

Auditor's Limited Review Report "Attached"

(KPMG Hazem Hassan)

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

**Income Statement**

**For The Financial Period From January 1, 2005 to September 30, 2005**

	Note	For the Financial Period From 1/1/2005 To 30/9/2005 L.E.(000)	For the Financial Period From 1/1/2004 To 30/9/2004 L.E.(000)
	No.		
<b><u>Operating Revenues</u></b>			
Sales of services	(19)	6 139 742	5 726 899
Sales of telephone sets & directories		141 336	109 842
Other operating revenues		24 447	42 503
		6 305 525	5 879 244
<b><u>Operating Expenses</u></b>			
Interconnection fees	(20)	951 552	891 236
Fuel		41 395	37 045
Spare parts		76 119	65 772
Maintenance		68 157	53 357
Satellite subscriptions		17 153	18 361
Depreciation & Amortization		1 886 661	1 808 862
Cost of telephone sets & directories sold		123 993	112 712
Other operating costs	(21)	699 651	613 578
		3 864 681	3 600 923
<b>Gross Operating Profit</b>		2 440 844	2 278 321
<b><u>Other Operating Expenses</u></b>			
General & administrative expenses	(22)	632 752	432 732
Selling & distribution expenses	(23)	97 296	77 361
Provisions	(13)	89 494	202 869
Impairment loss in clients & other debit accounts	(13)	36 510	45 103
		856 052	758 065
<b>Net Operating Profit</b>		1 584 792	1 520 256
<b><u>Other Income / (Expenses)</u></b>			
Interest income		17 316	5 118
Income from investments		141 575	33 143
Interest expenses		( 300 132)	( 307 466)
Other revenues (expenses)	(24)	82 982	( 3 897)
Impairment of available for sale investments		( 4 794)	—
Gain on sale of available for sale investments		37 626	—
Provisions no longer required		260 333	—
Gain (loss) on sale of fixed assets		1 237	( 2 363)
Foreign exchange gain		296 544	35 021
		532 687	( 240 444)
<b>Net profit for the period before tax</b>		2 117 479	1 279 812
<b>Income tax expense for the period</b>		431 817	510 329
<b>Net profit for the period after tax</b>		1 685 662	769 483
Earnings per share (L.E./Share)	(27)	0.98	0.45

\* The accompanying notes form an integral part of these financial statements.

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

**Statement of Cash Flows**

**For The Financial Period From January 1, 2005 to September 30, 2005**

	Note No.	For the Financial Period From 1/1/2005 To 30/9/2005 L.E.(000)	For the Financial Period From 1/1/2004 To 30/9/2004 L.E.(000)
<b><u>Cash flows from operating activities</u></b>			
Cash receipts from trade receivables		5 275 418	4 551 774
Sales tax collected from receivables		329 811	245 948
Stamp tax and fees collected (from third party)		82 124	60 993
Deposits received from receivables		40 007	21 300
Cash paid to suppliers		( 326 604)	( 469 611)
Cash paid to employees		( 699 594)	( 662 118)
Cash paid on behalf of employees		( 214 159)	( 182 886)
Dividends paid to shareholders & employees		( 585 992)	( 558 878)
Cash generated from operations		<u>3 901 011</u>	<u>3 006 522</u>
Interest paid		( 333 199)	( 309 897)
Payments to Tax Authority		( 319 564)	( 135 408)
Payments to sales Tax Authority		( 518 345)	( 365 728)
Other proceeds /(payments) net		<u>214 047</u>	<u>421 609</u>
<b>Net cash provided by operating activities</b>		<u>2 943 950</u>	<u>2 617 098</u>
<b><u>Cash flows from investing activities</u></b>			
Payment for purchase of property, plant and equipment and projects in progress		(1 556 645)	(1 401 377)
Proceeds from sale of fixed assets and other assets		16 826	5 851
Payments for purchase of investments		( 722 033)	( 1 050)
Proceeds from sale of investments		88 294	—
Interest received		11 312	3 839
Dividends received		<u>141 406</u>	<u>31 169</u>
<b>Net cash used in investing activities</b>		<u>(2 020 840)</u>	<u>(1 361 568)</u>
<b><u>Cash flows from financing activities</u></b>			
Payments of long-term loans		(2 060 457)	( 898 661)
Payments of banks - credit accounts		(1 314 180)	—
Proceeds from long - term loans		29 531	37 109
Proceeds from long - term bond issues		2 000 000	—
Payments of capital lease liabilities		( 21 177)	( 14 598)
<b>Net cash used in financing activities</b>		<u>(1 366 283)</u>	<u>( 876 150)</u>
<b>Net (Decrease) Increase in cash and cash equivalent</b>		( 443 173)	379 380
Cash and cash equivalent at the beginning of the period		1 093 073	147 869
<b>Cash and cash equivalent at the end of the period</b>	(12)	<u>649 900</u>	<u>527 249</u>

\* The accompanying notes form an integral part of these financial statements.

Auditor's Limited Review Report "attached"

**Telecom Egypt Company**  
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**Statement Of Changes In Shareholders' Equity**  
**For The Financial Period from January 1, 2005 to September 30, 2005**

	<u>Share Capital</u> L.E.(000)	<u>Legal Reserve</u> L.E.(000)	<u>Other Reserves</u> L.E.(000)	<u>Revaluation Reserve</u> L.E.(000)	<u>Retained Earnings</u> L.E.(000)	<u>Net Profit</u> L.E.(000)	<u>Total</u> L.E.(000)
Balance as of 1/1/2004	17 112 149	267 485	4 134 359	19 081	218 571	1 087 305	22 838 950
Transferred to reserves	—	54 365	218 571	—	—	( 272 936)	—
Reducing other reserves according to the Extra-ordinary General Assembly Meeting on 29/3/2005	—	—	( 44 844)	—	—	—	( 44 844)
Adjustment of the revaluation surplus of sold investments	—	—	—	( 2 262)	2 262	—	—
Dividends for the year 2003	—	—	—	—	—	( 622 926)	( 622 926)
Transferred to retained earnings	—	—	—	—	191 443	( 191 443)	—
Net profit for the year 2004	—	—	—	—	—	1 008 663	1 008 663
Balance as of 31/12/2004	<u>17 112 149</u>	<u>321 850</u>	<u>4 308 086</u>	<u>16 819</u>	<u>412 276</u>	<u>1 008 663</u>	<u>23 179 843</u>
Transferred to reserves	—	50 433	410 014	—	—	( 460 447)	—
Dividends for the year 2004	—	—	—	—	( 25 901)	( 548 216)	( 574 117)
Adjustment of the revaluation surplus of sold investments	—	—	—	( 10 005)	10 005	—	—
Reducing capital & other reserves according to decision of extra-ordinary general assembly on 21/9/2005	( 41 433)	—	(1 640 853)	—	—	—	(1 682 286)
Adjustment on retained earnings	—	—	—	—	( 11 742)	—	( 11 742)
Net profit for the period	—	—	—	—	—	1 685 662	1 685 662
Balance as of 30/9/2005	<u><u>17 070 716</u></u>	<u><u>372 283</u></u>	<u><u>3 077 247</u></u>	<u><u>6 814</u></u>	<u><u>384 638</u></u>	<u><u>1 685 662</u></u>	<u><u>22 597 360</u></u>

\* The accompanying notes form an integral part of these financial statements.

**Telecom Egypt Company  
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**Notes to the Financial Statements  
For The Financial Period from January 1, 2005 to September 30, 2005**

***1.BACKGROUND***

***-Establishment of the company***

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

***-Purpose of the company***

The main purpose of the company includes:

Establishing telecommunications networks.

Providing telecommunications services.

Operating and maintaining the networks, equipment and machinery necessary to provide the services.

Executing projects necessary to accomplish its purposes.

Cooperating with international companies and organizations to connect the Arab Republic of Egypt with the world.

***2 .BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS***

The financial statements are prepared in accordance with the Egyptian Accounting Standards and in the light of the provisions of applicable Egyptian laws and regulations.

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

#### **3.1 Foreign currency translation**

The company maintains its books of accounts in Egyptian pounds. Transactions denominated in foreign currencies are recorded at the declared exchange rates at the date of transactions. At the financial position date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates declared by the banks dealing with the company at that date. The exchange differences are recorded in the income statement.

#### **3.2 Fixed assets and depreciation**

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

Description	Estimated Useful life
Buildings & constructions	10 - 50 Years
Machinery & equipment	6 - 20 Years
Means of transportation	5 - 10 Years
Tools and supplies	1 - 8 Years
Office furniture and fixtures	3 - 10 Years

#### **3.3 Projects in Progress**

This item represents the amounts incurred for projects in progress till be ready for its intended use in operations. Then, it is transferred to fixed assets.

#### **3.4 Investments in Subsidiaries and affiliates**

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

### **3.5 Available-for-Sale Investments**

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

The listed investments in the stock exchange are re-measured at the end of each financial period at fair value (market value).

Investments that are not listed in the stock exchange are re-measured at cost or computed value, calculated in light of an objective study of the company's recently approved financial statements by the companies issuing such notes. Any losses resulting from the decline in the market value or computed value of the investments compared with the cost are charged to the income statement for the year.

-The inactive investments (do not have listed price in an active market, or their fair value can not be reliably measured) are recorded at their acquisition cost. In the case of impairment in the carrying amounts of these investments, the related investment is reduced by the impairment loss and charged to the income statement for the year for each investment.

### **3.6 Held for trading investments**

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

### **3.7 Other assets amortization**

This item represents the usufruct for lands occupied by the company and the usufruct for cables circuits. These other assets are amortized over an estimate from (10-20) years provided that their useful lives do not exceed the period of the usufructs.

### **3.8 Inventories**

Inventories of goods purchased for resale are valued at the lower of cost or net realizable value. Inventories of spare parts and materials are valued at cost. Obsolete or slow moving items are written down to their replacement value. Cost is determined using the weighted average method.

### **3.9 Accounts, notes receivable, debtors & other debit accounts**

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

### **3.10 Provisions**

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

### **3.11 Borrowing cost**

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

### **3.12 Grants**

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

### **3.13 Revenue recognition**

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

### **3.14 End of service indemnity**

The company contributes to Social Insurance Authority for the benefit of its personnel in pursuance to the Social Insurance Authority law No. 79 of 1975 and its amendments. These contributions are recorded in the "Wages and Salaries account" in addition to the early retirement scheme applied from 1/9/2001 (Note No. 25).

### ***3.15 Capital lease agreements***

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

### ***3.16 Cash flows statement***

Cash Flows statement is prepared using the direct method.

4- **FIXED ASSETS**

	<b>Land</b> <b>L.E.(000)</b>	<b>Buildings &amp; constructions</b> <b>L.E.(000)</b>	<b>Machinery &amp; equipment</b> <b>L.E.(000)</b>	<b>Means of transportation</b> <b>L.E.(000)</b>	<b>Tools &amp; other equipment</b> <b>L.E.(000)</b>	<b>Office furniture &amp; fixtures</b> <b>L.E.(000)</b>	<b>Total</b> <b>L.E.(000)</b>
Cost as of 1/1/2005	4 038 768	15 944 807	15 188 430	100 087	50 711	377 983	35 700 786
Additions for the period	32 138	408 725	568 972	369	6 536	58 612	1 075 352
Disposals for the period	(1 694 835)	—	—	( 1 806)	—	—	(1 696 641)
<b>Total cost as of 30/9/2005</b>	<u>2 376 071</u>	<u>16 353 532</u>	<u>15 757 402</u>	<u>98 650</u>	<u>57 247</u>	<u>436 595</u>	<u>35 079 497</u>
Accumulated depreciation as of 1/1/2005	—	4 663 577	7 226 950	66 900	28 785	180 396	12 166 608
Depreciation during the period	—	666 973	1 200 074	10 227	3 476	51 275	1 932 025
Accumulated depreciation of disposals	—	—	—	( 1 369)	—	—	( 1 369)
<b>Accumulated depreciation as of 30/9/2005</b>	<u>—</u>	<u>5 330 550</u>	<u>8 427 024</u>	<u>75 758</u>	<u>32 261</u>	<u>231 671</u>	<u>14 097 264</u>
Carrying value as of 30/9/2005	<u>2 376 071</u>	<u>11 022 982</u>	<u>7 330 378</u>	<u>22 892</u>	<u>24 986</u>	<u>204 924</u>	<u>20 982 233</u>
Carrying value as of 31/12/2004	<u>4 038 768</u>	<u>11 281 230</u>	<u>7 961 480</u>	<u>33 187</u>	<u>21 926</u>	<u>197 587</u>	<u>23 534 178</u>

- Cost of fixed assets includes an amount of LE 899 million that represent fully depreciated assets still in use.
- Additions and disposals on land include an amounts of L.E. 29 817 K , L.E 1 694 835 K against increase in the company's capital and reducing other reserves respectively according to the decision of the extra-ordinary general assembly meeting on 21/9/2005.
- Depreciation for the period is charged as follows:-

	<b>L.E.(000)</b>
Operating expenses - operating depreciation	1 867 640
General & administrative expenses - administrative depreciation	63 713
Selling & distribution expenses	672
	<u>1 932 025</u>

## 5. PROJECTS IN PROGRESS

	30/9/2005 L.E.(000)	31/12/2004 L.E.(000)
Land	6 627	3 993
Buildings and constructions	161 528	188 320
Machinery and equipment	951 297	635 572
Means of transportation	1 810	278
Tools and other equipment	2 270	4 680
Office furniture and fixtures	219 554	153 422
Advance payments	389 622	305 550
Letters of credit	92 128	22 199
	=====	=====
	1 824 836	1 314 014
	=====	=====

## 6. LONG TERM INVESTMENTS

	Participation %	30/9/2005 L.E.(000)	31/12/2004 L.E.(000)
<b>6-1</b>	<b><i>Investments in subsidiaries &amp; affiliates</i></b>		
-	Middle East Radio Communication (MERC )	51.00	3 825
-	T. E. Information Technology	97.66	31 250
-	T. E. Data	93.33	84 000
-	Centra Technologies	55.03	8 634
-	Vodafone Egypt	25.50	1 287 805
-	Nile On Line (NOL)	27.27	12 668
-	Wataneya for Telecommunication	50.00	125
-	Consortium Algerien de Tele – communications (CAT)	33.00	133
-	International Communication Consortium Limited.	50.00	54
		=====	=====
		1 428 494	708 237
		=====	=====
<b>6-2</b>	<b><i>Investments available for sale</i></b>		
-	Participations in foreign Satellite companies & organizations		23 665
-	Investments in other local companies		77 366
		=====	=====
		69 952	70 153
		=====	=====
		93 617	147 519
		=====	=====

## INVESTMENT IN VODAFONE – EGYPT

The investment in Vodafone Egypt represent the ownership of 61 200 000 shares which represent 25.5% of Vodafone Egypt shares. The company is currently in the process to transferring the ownership of its shares in Vodafone to Wataneya for Telecommunication Company, which was established on January 27, 2005 with participation percentage of 50% by telecom Egypt.

## 7. OTHER DEBIT BALANCES – LONG TERM

	30/9/2005 L.E.(000)	31/12/2004 L.E.(000)
The amount due from the National Telecommunication Regulatory Authority for the license of the third mobile Network after waiver of this license (Note No. 26)	1 600 000	1 975 000
<b>Less:</b>		
The current portion to be collected within one year which was included in debtors & other debit accounts (Note No. 11)	520 000	375 000
	1 080 000	1 600 000
	=====	=====

**8- OTHER ASSETS**

	<b>Right of way (BRITAR) L.E.(000)</b>	<b>Right of way (ALITAR) L.E.(000)</b>	<b>Right of way (Flag cable) L.E.(000)</b>	<b>Usufruct for land occupied by TE L.E.(000)</b>	<b>Right of way (SMW2, SMW3) L.E.(000)</b>	<b>Total L.E.(000)</b>
Cost as of 1/1/2005	1 720	48 815	95 910	18 838	131 566	296 849
Adjustments on the beginning balance	—	—	—	( 18 838)	—	( 18 838)
Additions for the period	—	—	—	1	—	1
Disposals for the period	—	( 60)	—	—	—	( 60)
<b>Total cost as of 30/9/2005</b>	<b>1 720</b>	<b>48 755</b>	<b>95 910</b>	<b>1</b>	<b>131 566</b>	<b>277 952</b>
Accumulated amortization as of 1/1/2005	559	18 937	50 764	12 427	82 552	165 239
Adjustments on the beginning balance	—	( 8)	—	( 12 427)	—	( 12 435)
Amortization during the period	129	1 828	7 197	—	9 867	19 021
Accumulated amortization of disposals	—	( 16)	—	—	—	( 16)
<b>Accumulated amortization as of 30/9/2005</b>	<b>688</b>	<b>20 741</b>	<b>57 961</b>	<b>—</b>	<b>92 419</b>	<b>171 809</b>
Carrying value as of 30/9/2005	1 032	28 014	37 949	1	39 147	106 143
Carrying value as of 31/12/2004	1 161	29 878	45 146	6 411	49 014	131 610

**9. INVENTORIES**

	<b>30/9/2005</b>	<b>31/12/2004</b>
	<b>L.E.(000)</b>	<b>L.E.(000)</b>
Spare parts	121 260	142 835
Materials supplies	19	295
Telephone sets and directories	15 624	35 526
Others – project cables and supplies	274 090	226 294
	=====	=====
	410 993	404 950
<b>Add:</b>		
Letters of credit	4 020	5 869
	=====	=====
	415 013	410 819
	=====	=====

**10. TRADE RECEIVABLES**

	<b>30/9/2005</b>	<b>31/12/2004</b>
	<b>L.E.(000)</b>	<b>L.E.(000)</b>
Governmental sector	296 575	308 813
Private sector	2 542 742	2 631 852
Foreign telecommunication companies and organizations	809 856	800 335
	=====	=====
	3 649 173	3 741 000
<b>Less:</b>		
Decline in client balances	1 152 386	1 140 152
	=====	=====
	2 496 787	2 600 848
	=====	=====

## 11. DEBTORS & OTHER DEBIT ACCOUNTS

	30/9/2005 L.E.(000)	31/12/2004 L.E.(000)
Suppliers – debit balances	57 429	55 675
Deposits with others	6 352	3 906
Employees' loans	1 835	1 348
Customs Authority - deposits	465	2 999
Accrued revenues	910	8 470
Tax Authority – withholding tax	84 318	66 806
Employees loyalty grant (Note No. 25)	34 690	39 527
Other debit accounts	2 293 271	1 798 673
	2 479 270	1 977 404
<b>Less:</b>		
Impairment loss in debtors & other debit accounts balances	132 179	112 233
	2 347 091	1 865 171
	=====	=====

\* Other debit accounts include the following amounts: -

	30/9/2005 L.E.(000)	31/12/2004 L.E.(000)
- The current portion to be collected within one year from the National Telecommunication Regulatory Authority for the license fees of Wataneya for Telecommunication (Note No. 7).	520 000	375 000
- Payment of 10% for the capital participations in Wataneya for Telecommunication – under establishment – Telecom Egypt owns 98% of the share capital.	-	9 800
- Advances for the new building paid on behalf of the Wataneya for Telecommunication (Building, designs and engineering company services).	19 946	41 035
- Payments on behalf of Consortium Algerien de Telecommunications (CAT) for the license privilege and operating expenses in Algeria.	205 208	-
- Payments on the account of corporate tax.	1 002 089	1 002 089
	1 747 243	1 427 924
	=====	=====

**12. CASH ON HAND AND AT BANKS**

	<b>30/9/2005</b>	<b>31/12/2004</b>
	<b>L.E.(000)</b>	<b>L.E.(000)</b>
Banks- time deposits	583 657	989 707
Banks -current accounts	47 552	91 626
Cash on hand	18 691	11 740
	649 900	1 093 073
	=====	=====

Time deposits as of 30/9/2005 include an amount of L.E. 6 602 K blocked in favor of some banks as a guarantee for the letters of credit granted to the company (against L.E. 8 586 K as of 31/12/2004).

**13- PROVISIONS**

	<b>Balance as of 1/1/2005</b>	<b>Charged to income statement during the period</b>	<b>Used during the period</b>	<b>Adjustments</b>	<b>Provisions no longer required</b>	<b>Balance as of 30/9/2005</b>
	<b><u>L.E.(000)</u></b>	<b><u>L.E.(000)</u></b>	<b><u>L.E.(000)</u></b>	<b><u>L.E.(000)</u></b>	<b><u>L.E.(000)</u></b>	<b><u>L.E.(000)</u></b>
<b>Provision for contingent liabilities, claims and others</b>						
Tax provision	1 426 940	84 494	( 65 130)	—	( 260 333)	1 185 971
Claims provision	41 476	5 000	—	62 000	—	108 476
Other provision - Usufruct for land occupied by TE	39 412	—	( 12)	( 39 400)	—	—
	<u>1 507 828</u>	<u>89 494</u>	<u>( 65 142)</u>	<u>22 600</u>	<u>( 260 333)</u>	<u>1 294 447</u>
<b>Impairment loss in client balances</b>	1 140 152	16 564	( 4 330)	—	—	1 152 386
<b>Impairment loss in debtors and other debit account balances</b>	112 233	19 946	—	—	—	132 179
	<u>1 252 385</u>	<u>36 510</u>	<u>( 4 330)</u>	<u>—</u>	<u>—</u>	<u>1 284 565</u>
<b>Impairment loss in inventory (obsolete &amp; slow moving items)</b>	19 751	—	—	—	—	19 751
	<u>2 779 964</u>	<u>126 004</u>	<u>( 69 472)</u>	<u>22 600</u>	<u>( 260 333)</u>	<u>2 598 763</u>

\* Impairment loss in inventory balances are netted against their related type of inventory balances.

14- **LOANS AND FACILITIES**

Description	Loan Currency	Installments due	Installments due	Balance	Balance	Interest Rate	<b><u>Repayment schedule</u></b>
		within one year	within more than one year	as of 30/9/2005	as of 31/12/2004		
		<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>%</u>	
Local banks loans	L.E.	12 581	12 581	25 162	1 283 469	10.75- 11.5%	Semi-annual installments ending on 24/9/2007
Local banks loans - medium term	U.S.\$	—	—	—	125 197	2.5%+ Libor	Paid in full
<b>Total local loans</b>		<u>12 581</u>	<u>12 581</u>	<u>25 162</u>	<u>1 408 666</u>		
Governmental Loans	L.E.	22	—	22	202	8%	Annual installements ending on 9/4/2006
Governmental Loans	U.S.\$	126 796	680 877	807 673	756 274	4 - 16%	Semi annual / annual installements ending on 24/1/2014
Governmental Loans	SK	2 109	1 587	3 696	22 632	0.15%	Semi annual installements ending on 31/12/2007
Governmental Loans	EURO	6 484	28 746	35 230	53 878	agency commission 4 - 6.37%	Semi annual installements ending on 29/12/2012
<b>Total Governmental loans</b>		<u>135 411</u>	<u>711 210</u>	<u>846 621</u>	<u>832 986</u>		
Foreign loans	J.Y	25 568	91 523	117 091	153 548	3-3.5%	Semi annual installements ending on 20/3/2012
Foreign loans	EURO	146 252	915 674	1 061 926	1 375 646	0.75 -8.2%	Semi annual installements ending on 30/6/2036
Foreign loans	L.D	—	10 171	10 171	10 171	3.5%	
<b>Total foreign loans</b>		<u>171 820</u>	<u>1 017 368</u>	<u>1 189 188</u>	<u>1 539 365</u>		
Foreign suppliers' facilities - local	L.E.	2 481	—	2 481	13 317	3%	Semi annual installements ending on 5/3/2006
Foreign suppliers' facilities - foreign	EURO	143 138	41 064	184 202	421 358	5.50%	Semi annual / annual installements ending on 1/12/2008
Foreign suppliers' facilities - foreign	J.Y	59 756	53 880	113 636	195 680	2.5 - 3%	Semi annual installements ending on 14/12/2007
Foreign suppliers' facilities - foreign	U.S.\$	7 261	—	7 261	44 264	3%	Semi annual installements ending on 23/10/2005
<b>Total foreign suppliers' facilities</b>		<u>212 636</u>	<u>94 944</u>	<u>307 580</u>	<u>674 619</u>		
		<u>532 448</u>	<u>1 836 103</u>	<u>2 368 551</u>	<u>4 455 636</u>		

— Foreign suppliers' facilities in Euro include L.E. 10 952 K equivalent to Euro 1 558 K against letters of guarantee issued from National Bank of Egypt in favour of Siemens as a guarantee for the facility settlement.

## 15. SUPPLIERS

	30/9/2005 L.E.(000)	31/12/2004 L.E.(000)
Local - suppliers	62 062	56 139
Foreign - suppliers	413	1 254
	=====	=====
	62 475	57 393
	=====	=====

## 16. CREDITORS AND OTHER CREDIT ACCOUNTS

	30/9/2005 L.E.(000)	31/12/2004 L.E.(000)
Tax Authority – (withholding tax)	91 555	77 821
Deposits from others	589 469	547 777
Fixed assets creditors	233 760	479 976
Accrued interest	70 027	112 433
Accrued expenses	53 068	75 025
Social Insurance Authority	19 094	18 354
Clients – credit balances	218 930	255 979
Dividends payable	134 586	176 738
Credit balance for social, cultural and sportive activities	114 401	77 988
Other credit accounts	261 703	150 000
Deferred revenues*	275 181	301 962
Tax authority -Income tax	260 496	410 496
Income tax for the period (estimated)	431 817	-
	=====	=====
	2 754 087	2 684 549
<b>Less:</b>		
Tax payments due after one year	54 704	54 704
	=====	=====
	2 699 383	2 629 845
	=====	=====

\*Deferred revenues are represented in the value of the grant balance presented by the USAID to finance some of the company's projects after deducting the accumulated amortization at September 30, 2005.

## 17. CAPITAL

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

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

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

Accordingly, the company's issued capital become L.E. 17 070 716 K represented in 1 707 071 600 shares of par value L.E. 10 each which are wholly owned by Egyptian Government.

Legal procedures to affect the resolution at the extra ordinary meeting of the shareholders in the commercial registry are currently in process.

## 18. Reserves

	<b>30/9/2005</b> <b><u>L.E. (000)</u></b>	<b>31/12/2004</b> <b><u>L.E. (000)</u></b>
Legal reserve	372 283	321 850
Fair value reserve	6 814	16 819
General reserve	3 065 087	4 295 926
Capital reserve	12 160	12 160
	_____	_____
	3 456 344	4 646 755
	=====	=====

Legal reserve amounted to L.E. 3 065 087 as of 30/9/2005 represent the dividends transferred to the general reserve for years 99/2000 till 2004 after the decreases decided by the Extra-ordinary General Assembly Meeting held on 29/3/2005 & 21/9/2005.

## 19. SALES OF SERVICES

	For the	For the
	Financial period	Financial period
	From 1/1/2005	From 1/1/2004
	To 30/9/2005	To 30/9/2004
	L.E. (000)	L.E. (000)
<b>Domestic call revenues</b>		
Local calls	1 191 573	1 173 055
Long distance calls (excluding Mobile revenue)	326 312	356 071
Local telegram and telex	9 762	11 400
<b>Total domestic call revenues</b>	<b>1 527 647</b>	<b>1 540 526</b>
Mobile domestic revenues		
Fixed to mobile revenue	800 578	713 085
Mobile to fixed interconnection revenue	156 461	142 962
<b>Total mobile revenues</b>	<b>957 039</b>	<b>856 047</b>
<b>Other local revenues</b>		
Connection fees	295 506	293 335
Subscription fees	1 081 203	858 950
Leased lines	48 490	33 897
Others	529 061	476 461
<b>Total other revenues</b>	<b>1 954 260</b>	<b>1 662 643</b>
<b>International revenues</b>		
International calls (excluding mobile to international)	308 407	334 373
Revenue from international operators	905 764	825 149
Mobile international revenues	483 525	505 290
International telegram and telex	3 100	2 871
<b>Total international revenues</b>	<b>1 700 796</b>	<b>1 667 683</b>
<b>Total revenues from sales of services</b>	<b>6 139 742</b>	<b>5 726 899</b>

## 20. INTERCONNECTION FEES

	For the	For the
	Financial period	Financial period
	From 1/1/2005	From 1/1/2004
	To 30/9/2005	To 30/9/2004
	L.E. (000)	L.E. (000)
Fixed to mobile interconnection fees	572 191	533 836
Fixed calls for internet & audio text companies fees	142 356	146 418
Dues against outgoing international calls	236 476	210 057
Dues against outgoing international telegram & telex	529	925
	_____	_____
	951 552	891 236
	=====	=====

## 21. OTHER OPERATING COSTS

	For the	For the
	Financial period	Financial period
	From 1/1/2005	From 1/1/2004
	To 30/9/2005	To 30/9/2004
	L.E. (000)	L.E. (000)
Salaries	538 854	458 674
Compulsory Social Security Contributions	76 372	71 528
Electricity & water	6 651	6 108
Stationary & printed materials	11 217	9 916
Transportation cost	50 614	55 277
Business telephone cost	15 943	12 075
	_____	_____
	699 651	613 578
	=====	=====

## 22. GENERAL & ADMINISTRATIVE EXPENSES

	For the	For the
	Financial period	Financial period
	From 1/1/2005	From 1/1/2004
	To 30/9/2005	To 30/9/2004
	L.E. (000)	L.E. (000)
Salaries	296 767	238 220
Compulsory Social Security Contributions	26 440	39 638
End of service compensation-Early retirement program	6 982	8 118
Depreciation	63 713	28 421
Bad debts	157	212
Tax and customs duty	28 912	8 674
Others	196 543	103 073
Bank charges & commissions	13 238	6 376
	_____	_____
	632 752	432 732
	=====	=====

## 23. SELLING AND DISTRIBUTION EXPENSES

	For the	For the
	Financial period	Financial period
	From 1/1/2005	From 1/1/2004
	To 30/9/2005	To 30/9/2004
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Salaries	69 525	62 963
Compulsory Social Security Contributions	9 784	10 157
Depreciation	672	968
Tax and customs duty	3 258	1 440
Others	14 057	1 833
	_____	_____
	97 296	77 361
	=====	=====

## 24. OTHER REVENUES / (EXPENSES)

	For the	For the
	Financial period	Financial period
	From 1/1/2005	From 1/1/2004
	To 30/9/2005	To 30/9/2004
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Donations and subsidies	(2 209)	(2 132)
Sundry revenues	123 635	73 344
Prior years' (expenses) / revenues (net)	(38 444)	(75 109)
	_____	_____
	82 982	(3 897)
	=====	=====

## 25. EARLY RETIREMENT SCHEME

- The company's board of directors approved in its meeting dated May 9, 2001 an early retirement scheme for its employees. The scheme was implemented during the twelve months ended 31/8/2002 (First phase). The cost of these compensations is financed by a Bank loan granted to the company. The principal loan will be repaid from employees' loyalty Fund however, the interest will be charged as expenses when incurred.
- The company's board of directors approved in its meetings dated March 20, 2002 and December 30, 2002 to finance an amount of L.E 65 millions and L.E 35 millions respectively for the employees' loyalty Fund to facilitate financing for the retired employees' compensations (the second and third phases), provided that these amounts would be refunded from employees loyalty Fund upon their legal early retirements. The amount of L.E. 65 310 K was refunded as of September 30, 2005.

- On January 15, 2004 the employees' loyalty Fund was registered in the register of the Egyptian Private Social Insurance Funds and the grant accounts was transferred to the loyalty Fund accounts which will pay these balances to the company upon the dates of the legal exit of the employees transferred to early retirement.
- The actual compensations charged to the income statement and paid to the early retired employees' for the period amounted to L.E. 6 982 K represent the amounts due on the remaining period to the legal age of retirement and the vacations balance with a maximum limit of 9 months.
- The amounts to be refunded during a year (current portion) amounted to L.E. 1 612 K and the amounts to be refunded starting from October 2006 and up to the year 2011 (the long term portion) is L.E. 33 078 K. (Note No. 11).

26. **WAIVER OF THE LISENCE OF THE THIRD MOBILE NETWORK**

- The company obtained a license to establish the third mobile phone network against an amount of L.E. 1 975 million paid to the National Telecommunication Regulatory Authority (NTRA). However, due to the current recession in the market, the company decided to waive its right in this license and recover the license fees paid to (NTRA).
- Pursuant to the memorandum of understanding dated December 20, 2003 concluded between Telecom Egypt and both Vodafone Egypt Co. and Mobinil, the parties agreed that the two mobiles operators would pay to (NTRA) cash installments in order to obtain the frequency band 1800 MHTZ previously granted to Telecom Egypt and waived to the two mobile operators.
- The company requested (NTRA) to transfer its right in the cash installments paid by the two mobiles operators within the agreed payment conditions and time schedule to Misr Bank in its capacity as a lender and a representative of the lenders to the company to finance its acquisition of 25.5% of Vodafone Egypt Shares. The company obtained the approval from (NTRA) regarding this transfer of right on December 22, 2003.

- On January 27, 2005 an agreement was made between Telecom Egypt and the National Telecommunication Regulatory Authority (NTRA) whereby the company committed itself not to apply for obtaining a license to build and operate a mobile phone network in Egypt using the (G.S.M) system with the frequency band of 1 800 MHTZ till November 30, 2007 against the commitment of (NTRA) to pay L.E. 1 975 million – previously paid by Telecom Egypt to (NTRA) – to Misr Banque according to the terms of the transfer of right dated 22/12/2003, in addition to the payment of L.E. 480 million to the company after the completion of the payment of L.E. 1 975 million and L.E. 25 million due to (NTRA).
- The restriction mentioned above does not prohibit or prejudice the right of the company to apply to (NTRA) for obtaining a licenses to provide mobile telecommunication services of the third generation (G3) or any other higher or equal mobile telecommunication services or infra-structure whether during or after the restriction period.
- On April 2005, The first installment due from the National Telecommunication Regulatory Authority (NTRA) amounted to L.E. 375 million was collected and the balance due from the National Telecommunication Regulatory Authority (NTRA) is amounted to L.E. 1 600 million as of September 30, 2005 plus the amount of L.E. 480 million and the remaining amounts will be collected on four equal annual installments amounting to L.E. 520 million each. The last installment due on March 31, 2009.

## 27. EARNING PER SHARE

	For the	For the
	Financial period	Financial period
	From 1/1/2005	From 1/1/2004
	To 30/9/2005	To 30/9/2004
Net profit for the period (L.E.000)	1 685 662	769 483
Number of outstanding shares	1 711 076 790	1 711 214 900
	_____	_____
Earning per share for the period (L.E / share)	0.98	0.45
	=====	=====
	For Nine months	For Nine months

Par value of share has been reduced from L.E. 100 to L.E. 10 according to resolution of the Extra-Ordinary General Assembly Meeting dated September 21, 2005 , thus the number of shares become 1 707 071 600 share and the previous period earning per share has been modified as a result of the number of shares modification.

## 28. CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts till September 30, 2005 amounted to L.E. 14 million (L.E. 10 million at 31/12/2004).

## 29. CONTINGENT LIABILITIES

In addition to the amounts included in the financial position, as of September 30, 2005 the company had the following contingent liabilities:-

	<b>30/9/2005</b> <b>L.E.(000)</b>	<b>31/12/2004</b> <b>L.E.(000)</b>
- Letters of guarantee issued by the company's banks on its behalf	11 715	27 000
- Letters of credit	222 113	197 222
- Uncalled installments in investees share capital.	16 925	38 925

## 30. TAXATION

### *30-1 Corporate tax*

#### Years till 26/3/1998

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

#### Financial years from 27/3/1998 till 31/12/2002

These financial years were inspected, and the dispute was transferred to the Internal Committee then to the Appeal Committee for the period from 27/3/1998 till 31/12/2000, and all disputed items were resolved except for the differences relating to the revaluation of the assets and liabilities of ARENTO at the time of transforming it into a joint stock company, however, this dispute was settled by virtue of an agreement between the company and the Income Tax Authority on 26/9/2004, and the taxes due for these financial years were resolved till 31/12/2002 according to the minutes of the committee executing the agreement between the Tax Authority and the company. The company has formed a provision for the whole tax amount by virtue as agreed upon.

**Financial year from 1/1/2003 till 31/12/2003**

Tax inspection was made and the company was notified by Forms Tax (18), and the company agreed on the taxable income and the provision was formed including all the tax differences.

**Financial year from 1/1/2004 till 31/12/2004**

Tax inspection has not been made by the competent tax inspectorate, and tax returns were submitted on due dates. The company formed a provision on an estimated basis to meet the liabilities that may result from the tax inspection.

**30-2 Sales Tax**

Tax inspection was made till 31/12/2004, and all due taxes were settled.

**30-3 Salary Tax**

Tax inspection and assessment were made till 31/12/2000 and all due tax were settled.

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

**31. BONDS LOAN**

On September 4, 2004 the Company's Extra-Ordinary General Assembly approved the issuance of 20 million nominal marketable bonds not convertible into shares at a par value of L.E. 100 each for a period of (5) years. These bonds shall be offered for public subscription and issued in two tranches as follows:

- The first tranche shall be 50% of the bonds at a fixed annual interest equal 10.95% and to be paid quarterly.
- 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 finance of future investments.
- In February 2005, the company declared that full subscription to the bonds and issuance were made and the proceeds from bonds used to pay part of long term loans & local banks overdraft.

### 32- RELATED PARTY TRANSACTION

There are transactions between the Company and its subsidiaries and affiliates companies, the most important transactions during the period and related balances on the financial position date are stated as follows:

#### 32-1 Related party transaction with subsidiaries companies

	Nature of transaction	Transaction volume during the period		Balance as of 30/9/2005		Balance as of 31/12/2004	
		Debit L.E. 000	Credit L.E. 000	Debit L.E. 000	Credit L.E. 000	Debit L.E. 000	Credit L.E. 000
<b><u>Debit balance included in account receivables</u></b>							
-	Egyptian Telecommunication Company for Information System	Lease of company Premises	3 591	1 776	1 815	—	—
-	T.E Data	Contribution in Flag Cable revenue	—	20 891	—	20 891	—
			<u>3 591</u>	<u>22 667</u>	<u>1 815</u>	<u>20 891</u>	<u>—</u>
<b><u>Debit balance included in debtors and other debit accounts</u></b>							
-	T.E information technology	Sale of fixed assets	1 405	—	19 335	—	17 930
-	Middle East Radio Communication (MERC)	Advance payments to supply & install control-units	129	129	—	—	—
-	Middle East Radio Communication (MERC)	Sale of fixed assets	<u>577</u>	<u>428</u>	<u>149</u>	<u>—</u>	<u>—</u>
			<u>2 111</u>	<u>557</u>	<u>19 484</u>	<u>—</u>	<u>17 930</u>
<b><u>Credit balance included in suppliers accounts</u></b>							
-	Egyptian Telecommunication Company for Information System	Services render from subsidiary company	<u>21 665</u>	<u>33 042</u>	<u>—</u>	<u>11 824</u>	<u>447</u>
			<u>21 665</u>	<u>33 042</u>	<u>—</u>	<u>11 824</u>	<u>447</u>
<b><u>Credit balance included in creditors and other credit accounts</u></b>							
-	T.E Data	Internet services	6 183	5 781	—	3 201	—
-	T.E Data	Advances from subsidiary to render services	1 889	1 889	—	—	—
-	Centra for technology	Purchase of computers from subsidiary company	3 548	3 558	—	170	—
			<u>11 620</u>	<u>11 228</u>	<u>—</u>	<u>3 371</u>	<u>3 763</u>

32-2 Related party transaction with affiliates companies

	Nature of transaction	Transaction volume during the period		Balance as of 30/9/2005		Balance as of 31/12/2004	
		Debit L.E. 000	Credit L.E. 000	Debit L.E. 000	Credit L.E. 000	Debit L.E. 000	Credit L.E. 000
<b><u>Debit balance included in account receivables</u></b>							
- Nile On Line (NOL)		—	16 840	6 893	—	23 733	—
- Vodafone Egypt	Mobile services	346 778	432 799	4 918	—	90 939	—
		<u>346 778</u>	<u>449 639</u>	<u>11 811</u>	<u>—</u>	<u>114 672</u>	<u>—</u>
<b><u>Debit balance included in debtors and other debit accounts</u></b>							
- Consortium Algerien de Telecommunications (CAT)	Paid on behalf of subsidiary on the account of the license and operating expenses	205 208	—	205 208	—	—	—
- International Communication Consortium Limited	Paid on behalf of subsidiary on the account of company's share in Consortium Algerien de Telecommunications	68	—	68	—	—	—
		<u>205 276</u>	<u>—</u>	<u>205 276</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b><u>Credit balance included in creditors and other credit accounts</u></b>							
- Nile On Line (NOL)	Internet services	6 254	3 862	—	1 647	—	4 039
		<u>6 254</u>	<u>3 862</u>	<u>—</u>	<u>1 647</u>	<u>—</u>	<u>4 039</u>

### **33. FINANCIAL INSTRUMENTS FAIR VALUE**

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

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

### **34. MANAGEMENT OF FINANCIAL RISK**

#### **34.1 Interest risk**

This risk is represented in the fluctuation in interest rates, which may impact the results of operation. This risk is expected to be low since all loans have been granted to the company at preferential fixed interest rates.

#### **34.2 Foreign currency risk**

The foreign currency exchange risk represents the risk of fluctuation in exchange rates, which in turn affects the company's cash inflows and outflows as well as the value of its foreign currency assets and liabilities. As of the date of the financial position the company has foreign currency monetary assets and liabilities equivalent to L.E 1 506 609 and L.E 2 440 092 respectively. The company's net exposure in foreign currencies is as follows: -

<b><u>Foreign currencies</u></b>	<b><u>Surplus / (Deficit) (000)</u></b>
U.S. dollars	105 855
Euro	(184 929)
Sterling Pound	460
Japanese Yen	(4 503 053)
Swedish krona	(10 082)

As disclosed in note (3-1) "Foreign Currency Translation" the company has used the declared exchange rates from the banks that the company deals with to retranslate monetary assets and liabilities at the financial position date.

### **34.3 Credit risk**

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

## **35. COMPARATIVE FIGURES**

Certain comparative figures of income statement were reclassified to conform with the current period classification.