

## **Review report**

To The Board of Directors of Telecom Egypt

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

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

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

KPMG Hazem Hassan

Cairo, Egypt  
August 27, 2006

**Telecom Egypt**  
**Consolidated balance sheets**  
**As at 30 June 2006**

| In thousands of Egyptian Pound                                   | Note | <u>30/6/2006</u>  | <u>31/12/2005</u> |
|--|------|-------------------|-------------------|
| <b>Assets</b>  |      |                   |                   |
| Property, plant and equipment                                    | (13) | 21 755 877        | 22 344 238        |
| Intangible assets  | (14) | 155 749           | 126 769           |
| Investment in associates   | (15) | 1 441 946         | 1 540 721         |
| Available for sale investments                                   | (16) | 89 821            | 88 382            |
| Long-term receivable   | (17) | 1 206 995         | 1 525 773         |
| Deferred tax assets  | (18) | 114 380           | 109 130           |
| <b>Total non-current assets</b>                                  |      | <b>24 764 768</b> | <b>25 735 013</b> |
| Inventories  | (19) | 468 951           | 494 776           |
| Trade and other receivables                                      | (20) | 4 833 331         | 4 164 708         |
| Investments held for trading                                     | (21) | 192 327           | -                 |
| Cash and cash equivalents  | (22) | 1 139 308         | 768 016           |
| <b>Total current assets</b>                                      |      | <b>6 633 917</b>  | <b>5 427 500</b>  |
| <b>Total assets</b>  |      | <b>31 398 685</b> | <b>31 162 513</b> |
| <b>Equity</b>  |      |                   |                   |
| Issued capital   | (23) | 17 070 716        | 17 070 716        |
| Reserves   | (23) | 4 152 948         | 3 409 882         |
| Retained earnings  |      | 1 066 147         | 1 666 803         |
| <b>Total equity attributable to equity holders of the parent</b> |      | <b>22 289 811</b> | <b>22 147 401</b> |
| <b>Minority interest</b>   |      | <b>30 544</b>     | <b>22 031</b>     |
| <b>Total equity</b>  |      | <b>22 320 355</b> | <b>22 169 432</b> |
| <b>Liabilities</b>   |      |                   |                   |
| Interest-bearing loans and borrowings                            | (25) | 1 641 071         | 1 786 167         |
| Bonds payable  | (26) | 2 000 000         | 2 000 000         |
| Deferred income  |      | 248 401           | 266 254           |
| Other payables   |      | 94 882            | 56 459            |
| Deferred tax liabilities   | (18) | 181 899           | 170 402           |
| <b>Total non-current liabilities</b>                             |      | <b>4 166 253</b>  | <b>4 279 282</b>  |
| Bank overdraft   | (22) | 86 354            | 158 474           |
| Interest-bearing loans and borrowings                            | (25) | 747 796           | 919 473           |
| Trade and other payables   | (27) | 3 338 934         | 2 900 489         |
| Provisions   | (28) | 738 993           | 735 363           |
| <b>Total current liabilities</b>                                 |      | <b>4 912 077</b>  | <b>4 713 799</b>  |
| <b>Total liabilities</b>   |      | <b>9 078 330</b>  | <b>8 993 081</b>  |
| <b>Total equity and liabilities</b>                              |      | <b>31 398 685</b> | <b>31 162 513</b> |

Chairman &  
Chief Executive Officer

Eng. / Akil Beshir

Vice President &  
Chief Financial Officer

Acc./ Ali Salama

Head of the  
Financial Sector

Acc./ Ali Barakat

Auditor's limited review report "attached"

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

|  |             | For The Period                |                               | For The Period                |                               |
|--|-------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  |             | From 1/4/2006<br>To 30/6/2006 | From 1/1/2006<br>To 30/6/2006 | From 1/4/2005<br>To 30/6/2005 | From 1/1/2005<br>To 30/6/2005 |
| In thousands of Egyptian Pound                 | <b>Note</b> |                               |                               |                               |                               |
| Revenue  | (3)         | 2 298 366                     | 4 478 529                     | 2 094 765                     | 4 107 805                     |
| Operating expenses                             | (4)         | (1 447 991)                   | (2 763 587)                   | (1 239 241)                   | (2 572 945)                   |
| <b>Gross profit</b>                            |             | <u>850 375</u>                | <u>1 714 942</u>              | <u>855 524</u>                | <u>1 534 860</u>              |
| Other income                                   | (5)         | 101 679                       | 122 710                       | 9 220                         | 48 694                        |
| Selling and distribution expenses              | (6)         | (66 305)                      | (124 340)                     | (49 457)                      | (83 550)                      |
| Administrative expenses                        | (7)         | (282 452)                     | (502 011)                     | (230 736)                     | (415 506)                     |
| Other expenses                                 | (8)         | (12 190)                      | (50 712)                      | (38 873)                      | (53 125)                      |
| <b>Operating profit before financing costs</b> |             | <u>591 107</u>                | <u>1 160 589</u>              | <u>545 678</u>                | <u>1 031 373</u>              |
| Financial income                               | (10)        | 61 922                        | 129 630                       | 202 718                       | 491 617                       |
| Financial expenses                             | (10)        | (125 143)                     | (231 260)                     | (95 179)                      | (204 616)                     |
| <b>Net financing (costs) income</b>            | (10)        | <u>(63 221)</u>               | <u>(101 630)</u>              | <u>107 539</u>                | <u>287 001</u>                |
| Share of profit in associates                  |             | 90 654                        | 198 519                       | 85 206                        | 124 731                       |
| <b>Profit before tax</b>                       |             | <u>618 540</u>                | <u>1 257 478</u>              | <u>738 423</u>                | <u>1 443 105</u>              |
| Income tax expense                             | (11)        | (129 619)                     | (261 542)                     | (136 612)                     | (347 813)                     |
| <b>Profit for the period</b>                   |             | <u>488 921</u>                | <u>995 936</u>                | <u>601 811</u>                | <u>1 095 292</u>              |
| <b>Attributable to:</b>                        |             |                               |                               |                               |                               |
| Equity holders of the parent                   |             | 488 435                       | 994 842                       | 601 066                       | 1 093 769                     |
| Minority interest                              |             | 486                           | 1 094                         | 745                           | 1 523                         |
| <b>Profit for the period</b>                   |             | <u>488 921</u>                | <u>995 936</u>                | <u>601 811</u>                | <u>1 095 292</u>              |
| Earnings per share (LE)                        | (24)        | <u>0.28</u>                   | <u>0.58</u>                   | <u>0.35</u>                   | <u>0.64</u>                   |

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

| In thousands of Egyptian Pound  | Note | For The Period                |                               |                               |                               |
|---|------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|   |      | From 1/4/2006<br>To 30/6/2006 | From 1/1/2006<br>To 30/6/2006 | From 1/4/2005<br>To 30/6/2005 | From 1/1/2005<br>To 30/6/2005 |
| <b>Cash flows from operating activities</b>   |      |                               |                               |                               |                               |
| Cash receipts from customers  |      | 2 262 357                     | 3 973 030                     | 2 171 986                     | 3 990 635                     |
| Cash paid to suppliers  |      | (135 800)                     | (348 173)                     | (33 851)                      | (281 616)                     |
| Cash paid to employees  |      | (414 181)                     | (719 530)                     | (402 291)                     | (734 160)                     |
| Cash (paid) proceeds in operations (net)  |      | (708 272)                     | (615 963)                     | 22 345                        | (326 422)                     |
| Interest paid   |      | (67 697)                      | (164 634)                     | (89 526)                      | (262 861)                     |
| Income taxes paid   |      | (355 809)                     | (355 809)                     | (149 339)                     | (152 129)                     |
| <b>Net cash from operating activities</b>   |      | <b>580 598</b>                | <b>1 768 921</b>              | <b>1 519 324</b>              | <b>2 233 447</b>              |
| <b>Cash flows from investing activities</b>   |      |                               |                               |                               |                               |
| Proceeds from sale of property, plant and equipment   |      | 1 611                         | 1 611                         | 1 986                         | 1 986                         |
| Proceeds from sale of investments   |      | 35 000                        | 35 000                        | -                             | 88 294                        |
| Interest received   |      | 10 109                        | 18 771                        | 4 793                         | 7 184                         |
| Dividends received  |      | 1 890                         | 156 097                       | -                             | 27 130                        |
| Acquisition of property, plant and equipment and intangible assets  |      | (391 557)                     | (737 788)                     | (664 446)                     | (1 065 498)                   |
| Acquisition of investments  |      | (220 949)                     | (221 949)                     | (41 546)                      | (669 094)                     |
| <b>Net cash (used in) investing activities</b>  |      | <b>(563 896)</b>              | <b>(748 258)</b>              | <b>(699 213)</b>              | <b>(1 609 998)</b>            |
| <b>Cash flows from financing activities</b>   |      |                               |                               |                               |                               |
| Repayment of borrowings & facilities relating to acquisition of property, plant and equipment and intangible assets |      | (40 730)                      | (214 970)                     | (189 712)                     | (454 607)                     |
| Repayment of borrowings & facilities relating to others   |      | (23 148)                      | (23 148)                      | (91 508)                      | (1 506 116)                   |
| Proceeds from (repayment of) borrowings & bank facilities   |      | 110 782                       | (91 050)                      | (224 812)                     | (998 341)                     |
| Proceeds from bonds   |      | -                             | -                             | -                             | 2 000 000                     |
| Proceeds from loans   |      | -                             | -                             | -                             | 29 531                        |
| Proceeds from issuance of capital-subscribed into by minority   |      | -                             | 9 615                         | 3 256                         | 3 256                         |
| Repayment of financial lease obligations  |      | (10 762)                      | (22 120)                      | (7 193)                       | (13 194)                      |
| Dividends paid  |      | (195 611)                     | (235 546)                     | (336 799)                     | (336 799)                     |
| <b>Net cash (used in) financing activities</b>  |      | <b>(159 469)</b>              | <b>(577 219)</b>              | <b>(846 768)</b>              | <b>(1 276 270)</b>            |
| Net movement in cash and cash equivalents   |      | (142 767)                     | 443 444                       | (26 657)                      | (652 821)                     |
| Cash and cash equivalents at 1 January  |      | -                             | 609 542                       | -                             | 1 104 560                     |
| Translation difference adjustments  |      | 54                            | (32)                          | 94                            | (86)                          |
| <b>Cash and cash equivalents at 30 June</b>   | (22) | <b>(142 713)</b>              | <b>1 052 954</b>              | <b>(26 563)</b>               | <b>451 653</b>                |

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

|   | Note<br>No | Share<br>capital | Statutory<br>reserve | Other<br>reserve | Translation<br>reserve | Fair value<br>reserve | Retained<br>earnings | Total equity<br>attributable to<br>equity holders of<br>the parent | Minority<br>interest | Total<br>equity |
|---|------------|------------------|----------------------|------------------|------------------------|-----------------------|----------------------|--|----------------------|-----------------|
| In thousands of Egyptian Pound  |            |                  |                      |                  |                        |                       |                      |  |                      |                 |
| Balance at 1 January 2005   |            | 17 112 149       | 322 347              | 2 595 983        | (34)                   | 398 645               | 578 801              | 21 007 891   | 17 940               | 21 025 831      |
| Net profit for the year 2005  |            | -                | -                    | -                | -                      | -                     | 1 929 985            | 1 929 985  | 2 754                | 1 932 739       |
| Transfer to reserves  |            | -                | 51 390               | 410 014          | -                      | -                     | (461 404)            | -  | -                    | -               |
| Reversal of reserve   |            | -                | -                    | -                | -                      | (398 645)             | -                    | (398 645)  | -                    | (398 645)       |
| Effect of the resolution of the Extraordinary general assembly held on September 21, 2005 | (23)       | (41 433)         | -                    | 30 197           | -                      | -                     | -                    | (11 236)   | -                    | (11 236)        |
| Exchange differences arising on translation of foreign operation                          |            | -                | -                    | -                | (44)                   | -                     | 62                   | 18   | (6)                  | 12              |
| Transfer from minority interest   |            | -                | 29                   | -                | -                      | -                     | 455                  | 484  | (484)                | -               |
| Minority interest share in capital  |            | -                | -                    | -                | -                      | -                     | -                    | -  | 2 661                | 2 661           |
| Dividends to shareholders   |            | -                | -                    | -                | -                      | -                     | (381 000)            | (381 000)  | -                    | (381 000)       |
| Employees & members Board bonus in subsidiaries   |            | -                | -                    | -                | -                      | -                     | (96)                 | (96)   | (92)                 | (188)           |
| Minority interest   |            | -                | -                    | -                | -                      | -                     | -                    | -  | (742)                | (742)           |
| Balance at 31 December 2005   |            | 17 070 716       | 373 766              | 3 036 194        | (78)                   | -                     | 1 666 803            | 22 147 401   | 22 031               | 22 169 432      |
| Net profit for the period ended 30 June 2005  |            | -                | -                    | -                | -                      | -                     | 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 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      |

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

**1. Background and activities**

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

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

The financial statements were authorized for issue by the Board of Directors of the company on August 13, 2006.

**2. Significant accounting policies**

*(a) Statement of compliance*

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

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

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

*(b) Basis of preparation*

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

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

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

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

*(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.

**(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).

**(ii) Subsequent expenditure**

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

**(iii) Amortization**

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

**(g) Investments**

**(i) Investments in equity securities – available for sale**

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

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

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

**(ii) Held or trading investments**

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

**(h) Receivables**

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

**(i) Inventories**

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

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

**(j) Cash and cash equivalents**

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

**(k) Impairment**

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

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

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

**(i) Calculation of recoverable amount**

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

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

**(ii) Reversals of impairment**

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

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

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

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

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

**(q) Grants**

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

**(r) Expenses**

**(i) Operating lease payments**

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

**(ii) Finance lease payments**

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

**(ii) Net financing costs**

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

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

**(s) Income tax**

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

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

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

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

### 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  | 30 June 2006     | 30 June 2005     |
|---------------------------------|------------------|------------------|
| <b>Retail Services:</b>         |                  |                  |
| <b>Access:</b>                  |                  |                  |
| Connections                     | 95 382           | 173 606          |
| Subscriptions                   | 763 600          | 635 512          |
|                                 | <u>858 982</u>   | <u>809 118</u>   |
| <b>Voice:</b>                   |                  |                  |
| Local *                         | 878 925          | 780 925          |
| Long distance                   | 206 759          | 199 943          |
| Fixed to international          | 197 819          | 206 467          |
| Fixed to mobile interconnection | 506 332          | 511 884          |
|                                 | <u>1 789 835</u> | <u>1 699 219</u> |
| <b>Internet &amp; Data</b>      | 82 133           | 50 910           |
| <b>Others</b>                   | 505 583          | 465 119          |
| <b>Total Retail</b>             | <u>3 236 533</u> | <u>3 024 366</u> |
| <b>Wholesale:</b>               |                  |                  |
| <b>Domestic:</b>                |                  |                  |
| Mobile to fixed interconnection | 103 739          | 99 958           |
| Others                          | 94 127           | 78 262           |
|                                 | <u>197 866</u>   | <u>178 220</u>   |
| <b>International:</b>           |                  |                  |
| Mobile to international         | 354 585          | 304 480          |
| Incoming international call     | 689 545          | 600 739          |
|                                 | <u>1 044 130</u> | <u>905 219</u>   |
| <b>Total wholesale</b>          | <u>1 241 996</u> | <u>1 083 439</u> |
| <b>Total revenues</b>           | <u>4 478 529</u> | <u>4 107 805</u> |

\* include dial up revenue

#### 4. Operating expenses

|  | 30 June 2006     | 30 June 2005     |
|--|------------------|------------------|
| In thousands of Egyptian Pound           |                  |                  |
| Interconnection fees                     | 631 550          | 579 035          |
| Fuel                                     | 27 096           | 24 052           |
| Spare parts                              | 64 463           | 55 157           |
| Maintenance                              | 36 936           | 42 210           |
| Satellite subscriptions                  | 11 327           | 8 242            |
| Depreciation                             | 1 289 167        | 1 223 215        |
| Amortization                             | 15 306           | 13 805           |
| Cost of telephone sets & directories     | 54 226           | 81 343           |
| Salaries & wages                         | 373 453          | 339 951          |
| Compulsory social security contributions | 54 519           | 51 671           |
| Employees' share in dividends            | 29 563           | 59 223           |
| Other operating costs                    | 175 981          | 95 041           |
|  | <u>2 763 587</u> | <u>2 572 945</u> |

#### 5. Other income

|  | 30 June 2006   | 30 June 2005  |
|--|----------------|---------------|
| In thousands of Egyptian Pound                     |                |               |
| Release of unused provisions                       | -              | 157           |
| Grant  | 17 853         | 17 854        |
| Gains on disposal of property, plant and equipment | 41             | 758           |
| Reversal of decline in investments                 | 1 437          | -             |
| Rental income                                      | 2 371          | 946           |
| Others   | 101 008        | 28 979        |
|  | <u>122 710</u> | <u>48 694</u> |

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

#### 6. Selling and distribution expenses

|  | 30 June 2006   | 30 June 2005  |
|--|----------------|---------------|
| In thousands of Egyptian Pound           |                |               |
| Salaries & wages                         | 54 577         | 47 078        |
| Compulsory social security contributions | 7 353          | 6 749         |
| Fixed assets depreciation                | 468            | 668           |
| Employees' share in dividends            | 3 678          | -             |
| Sales commissions & others               | 58 264         | 29 055        |
|  | <u>124 340</u> | <u>83 550</u> |

#### 7. Administrative expenses

|  | 30 June 2006   | 30 June 2005   |
|--|----------------|----------------|
| In thousands of Egyptian Pound           |                |                |
| Salaries & wages                         | 214 213        | 184 235        |
| Compulsory social security contributions | 18 704         | 18 046         |
| Early retirement compensations           | 2 108          | 5 943          |
| Employees' share in dividends            | 16 759         | 40 777         |
| Fixed assets depreciation                | 69 763         | 46 261         |
| Taxes & customs fees                     | 51 298         | 22 234         |
| Training & development services          | 7 397          | 16 742         |
| Advertising                              | 16 802         | 13 519         |
| Others                                   | 104 967        | 67 749         |
|  | <u>502 011</u> | <u>415 506</u> |

## 8. Other expenses

|  | 30 June 2006  | 30 June 2005  |
|--|---------------|---------------|
| In thousands of Egyptian Pound                 |               |               |
| Increase in provisions                         | 10 996        | 40 316        |
| Impairment loss on trade and other receivables | 38 231        | 8 360         |
| Impairment loss on long-term investments       | -             | 3 006         |
| Others   | 1 485         | 1 443         |
|  | <u>50 712</u> | <u>53 125</u> |

## 9. Personnel expenses

|  | 30 June 2006   | 30 June 2005   |
|--|----------------|----------------|
| In thousands of Egyptian Pound           |                |                |
| <u>Salaries &amp; wages:</u>             |                |                |
| Operating expenses                       | 373 453        | 339 951        |
| Selling & distribution expenses          | 54 577         | 47 078         |
| Administrative expenses                  | 214 213        | 184 235        |
|  | <u>642 243</u> | <u>571 264</u> |
| Compulsory social security contributions | 80 576         | 76 466         |
| Early retirement compensations           | 2 108          | 5 943          |
| Employees' share in dividends            | 50 000         | 100 000        |
|  | <u>774 927</u> | <u>753 673</u> |

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

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

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

## 10. Net financing (costs) income

|   | 30 June 2006 | 30 June 2005 |
|---|--------------|--------------|
| In thousands of Egyptian Pound  |              |              |
| Interest income   | 24 351       | 12 305       |
| Unwind of discount & accretion of interest relating to long-term receivable | 95 000       | 111 000      |
| Income from investments – dividend  | 3 402        | 30 011       |
| Net gain of disposal of investments   | 979          | 56 271       |
| Increase of market value of held for trading investments                    | 5 898        | -            |
| Net foreign exchange gain   | -            | 282 030      |
| Financial income  | 129 630      | 491 617      |
| Interest expense  | 149 037      | 204 616      |
| Net foreign exchange loss   | 82 223       | -            |
| Financial expenses  | 231 260      | 204 616      |
| Net financing (costs) income  | (101 630)    | 287 001      |

## 11. Income tax expense

### Recognized in the income statement

|   | 30 June 2006 | 30 June 2005 |
|---|--------------|--------------|
| In thousands of Egyptian Pound                      |              |              |
| <b>Current tax expense</b>                          |              |              |
| Current year  | 255 450      | 295 304      |
| <b>Deferred tax expense</b>                         |              |              |
| Origination and reversal of temporary differences   | 6 092        | 52 509       |
| <b>Total income tax expense in income statement</b> | 261 542      | 347 813      |

## 12. Current tax assets and liabilities

The current tax asset of LE 114 380 k, (2005: 109 130 k) represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments. The current tax liability of LE 181 899 k (2005:170 402 k) represents the amount of income taxes for items taxable in future periods in respect of accelerated depreciation and fair value reserve of available for sale securities.

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

**13. Property, plant and equipment**

|   | Land &<br>buildings | Machinery &<br>equipment | Vehicles | Office furniture<br>& fixtures | Tools & other<br>equipment | Under<br>construction | Total      |
|---|---------------------|--------------------------|----------|--------------------------------|----------------------------|-----------------------|------------|
| In thousands of Egyptian Pound          |                     |                          |          |                                |                            |                       |            |
| <b>Cost</b>                             |                     |                          |          |                                |                            |                       |            |
| Balance at 1 January 2006               | 18 649 458          | 16 197 091               | 115 824  | 842 176                        | 60 752                     | 907 964               | 36 773 265 |
| Adjustments to the opening balance      | -                   | (18 094)                 | -        | -                              | -                          | 18 094                | -          |
| Reclassification                        | (9 146)             | -                        | -        | 9 146                          | -                          | -                     | -          |
| Acquisitions                            | 120 918             | 407 323                  | 2 199    | 101 741                        | 663                        | 717 718               | 1 350 562  |
| Disposals                               | -                   | -                        | (843)    | (488)                          | (111)                      | -                     | (1 442)    |
| Transferred to fixed asset              | -                   | -                        | -        | -                              | -                          | (580 044)             | (580 044)  |
| Effect of movements in foreign exchange | -                   | 7                        | -        | 6                              | -                          | -                     | 13         |
| Balance at 30 June 2006                 | 18 761 230          | 16 586 327               | 117 180  | 952 581                        | 61 304                     | 1 063 732             | 37 542 354 |
| <b>Depreciation</b>                     |                     |                          |          |                                |                            |                       |            |
| Balance at 1 January 2006               | 5 517 931           | 8 475 510                | 99 704   | 302 359                        | 33 523                     | -                     | 14 429 027 |
| Adjustments to the opening balance      | -                   | (499)                    | -        | (329)                          | -                          | -                     | (828)      |
| Reclassification                        | (229)               | -                        | -        | 229                            | -                          | -                     | -          |
| Depreciation charge for the period      | 449 848             | 815 180                  | 7 642    | 84 034                         | 2 694                      | -                     | 1 359 398  |
| Disposals                               | -                   | -                        | (556)    | (455)                          | (111)                      | -                     | (1 122)    |
| Effect of movements in foreign exchange | -                   | 1                        | -        | 1                              | -                          | -                     | 2          |
| Balance at 30 June 2006                 | 5 967 550           | 9 290 192                | 106 790  | 385 839                        | 36 106                     | -                     | 15 786 477 |
| <b>Carrying amounts</b>                 |                     |                          |          |                                |                            |                       |            |
| At 31 December 2005                     | 13 131 527          | 7 721 581                | 16 120   | 539 817                        | 27 229                     | 907 964               | 22 344 238 |
| At 30 June 2006                         | 12 793 680          | 7 296 135                | 10 390   | 566 742                        | 25 198                     | 1 063 732             | 21 755 877 |

### *Fully depreciated assets*

Property, plant and equipment cost includes LE 1 467 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 2006, the net carrying amount of leased equipment and vehicles was LE 95 182 k (2005: LE 69 021 k).

### *Depreciation*

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

|                                   | 30 June 2006     | 30 June 2005     |
|-----------------------------------|------------------|------------------|
| In thousands of Egyptian Pound    |                  |                  |
| Operating expenses                | 1 289 167        | 1 223 215        |
| Selling & distribution expenses   | 468              | 668              |
| General & Administrative expenses | 69 763           | 46 261           |
|                                   | <u>1 359 398</u> | <u>1 270 144</u> |

## 14. *Intangible assets*

|                                   | Land usufruct | Right of way   | Internet service license | Right of using ROU | Total          |
|-----------------------------------|---------------|----------------|--------------------------|--------------------|----------------|
| In thousands of Egyptian Pound    |               |                |                          |                    |                |
| <b>Cost</b>                       |               |                |                          |                    |                |
| Balance at 1 January 2006         | 1             | 277 951        | 20 189                   | 48 906             | 347 047        |
| Adjustment to the opening balance | -             | (100)          | -                        | -                  | (100)          |
| Acquisitions                      | -             | -              | 2                        | 44 349             | 44 351         |
| Balance at 30 June 2006           | <u>1</u>      | <u>277 851</u> | <u>20 191</u>            | <u>93 255</u>      | <u>391 298</u> |
| <b>Amortization</b>               |               |                |                          |                    |                |
| Balance at 1 January 2006         | -             | 178 153        | 20 016                   | 22 109             | 220 278        |
| Adjustment to the opening balance | -             | (35)           | -                        | -                  | (35)           |
| Amortization for the period       | -             | 12 681         | 10                       | 2 615              | 15 306         |
| Balance at 30 June 2006           | <u>-</u>      | <u>190 799</u> | <u>20 026</u>            | <u>24 724</u>      | <u>235 549</u> |
| <b>Carrying amounts</b>           |               |                |                          |                    |                |
| At 31 December 2005               | <u>1</u>      | <u>99 798</u>  | <u>173</u>               | <u>26 797</u>      | <u>126 769</u> |
| At 30 June 2006                   | <u>1</u>      | <u>87 052</u>  | <u>165</u>               | <u>68 531</u>      | <u>155 749</u> |

### *Land usufruct*

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

## Amortization charge

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

| In thousands of Egyptian Pound | 30 June 2006  | 30 June 2005  |
|--------------------------------|---------------|---------------|
| Operating expenses             | 15 306        | 13 805        |
|                                | <u>15 306</u> | <u>13 805</u> |

## 15. Investments in associates

The Group has the following investment in associate:

| In thousands of Egyptian Pound                             | Ownership    |                  | Carrying amount  |                  |
|--|--------------|------------------|------------------|------------------|
|  | 30 June 2006 | 31 December 2005 | 30 June 2006     | 31 December 2005 |
| Vodafone Egypt. (SAE)                                      | 25.50%       | 25.50%           | 1 426 780        | 1 526 740        |
| Nile on line. (SAE)  | 27.27 %      | 27.27 %          | 12 487           | 12 669           |
| Wataneya for Telecommunication                             | 50.00%       | 50.00%           | 125              | 125              |
| Consortium Algerien de Tele – communications (CAT)         | 33.00%       | 33.00%           | -                | 133              |
| International Telecommunication Consortium Limited. (ITCL) | 50.00%       | 50.00%           | 54               | 54               |
| Egypt Trust  | 35.71%       | 25.00%           | 2 500            | 1 000            |
| <b>Total</b>   |              |                  | <u>1 441 946</u> | <u>1 540 721</u> |

Telecom Egypt is committed, by virtue of a joint venture agreement, to swap its direct investment in Vodafone Egypt with 50% of the share capital of Wataneya for Telecommunication, the remaining 50% of Wataneya share capital shall be owned by Vodafone International Co. (PLC), Wataneya shall own 51% of Vodafone Egypt share capital.

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> |
|---|------------------|--------------------|------------------|------------------|----------------------|
| <b>31-12-2005:</b>  |                  |                    |                  |                  |                      |
| Nile on line  | 80 738           | 34 216             | 46 522           | 31 685           | 72                   |
| * Vodafone Egypt  | 7 635 000        | 4 127 000          | 3 508 000        | 4 325 000        | 1 202 000            |
|   | <u>7 715 738</u> | <u>4 161 216</u>   | <u>3 554 522</u> | <u>4 356 685</u> | <u>1 202 072</u>     |
| <b>30-6-2006:</b>   |                  |                    |                  |                  |                      |
| * Vodafone Egypt  | 7 627 000        | 4 577 000          | 3 050 000        | 1 738 000        | 505 000              |
| Nile on line  | 80 075           | 34 287             | 45 788           | 18 496           | (734)                |
| Consortium Algerien de Tele –communications (CAT)             | 562 727          | 676 630            | (113 903)        | 6 237            | (90 452)             |
| ** Wataneya for Telecommunication                             | -                | -                  | -                | -                | -                    |
| ** International Telecommunication Consortium Limited. (ITCL) | -                | -                  | -                | -                | -                    |
| ** Egypt Trust  | -                | -                  | -                | -                | -                    |
|   | <u>8 269 802</u> | <u>5 287 917</u>   | <u>2 981 885</u> | <u>1 762 733</u> | <u>413 814</u>       |

\* Reported figures for Vodafone Egypt for 31/12/2005 relating to revenues and profit for the nine months period ended 31 December, 2005, and for 30/6/2006 relating to revenues and profit for the three months period ended 30 June, 2006

\*\* The financial information of these associates were not presented because its financial statements are not prepared

## 16. Available for sale investments

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

## 17. Long-term receivable

| In thousands of Egyptian Pound   | <u>30 June 2006</u> | <u>31 December 2005</u> |
|--|---------------------|-------------------------|
| National Telecommunication Regulatory Authority (NTRA)   | 1 080 000           | 1 600 000               |
| Accretion of interest  | 171 000             | 76 000                  |
| Amortized cost   | 1 251 000           | 1 676 000               |
| Current portion  | (393 000)           | ( 467 000 )             |
|  | <u>858 000</u>      | <u>1 209 000</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.   | 303 998             | 221 585                 |
| Amounts due from the employees in consideration of the company's shares floated in public offering and purchased and distributed by the company to its employees. The value of these purchased shares shall be paid by employees over 24-months starting from 1/1/2006, and these shares are subject to a 6 month ban period starting from the date of closing subscription. | 147 629             | 201 987                 |
| <u>Less:</u>   |                     |                         |
| Current portion  | (102 632)           | (106 799)               |
|  | <u>348 995</u>      | <u>316 773</u>          |
|  | <u>1 206 995</u>    | <u>1 525 773</u>        |

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 20<sup>th</sup> 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 27<sup>th</sup> 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 30<sup>th</sup> 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 | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|--------------------------------|-------------|-------------|-------------|
|                                | 520 000     | 520 000     | 520 000     |

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

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

## 18. Deferred tax assets and liabilities

### *Recognized deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

| In thousands of Egyptian Pound                    | Assets              |                         | Liabilities         |                         |
|---|---------------------|-------------------------|---------------------|-------------------------|
|   | <u>30 June 2006</u> | <u>31 December 2005</u> | <u>30 June 2006</u> | <u>31 December 2005</u> |
| Property, plant and equipment & intangible assets | -                   | -                       | 181 899             | 170 402                 |
| Inventories                                       | 3 391               | 3 391                   | -                   | -                       |
| Trade & other receivables                         | 29 905              | 25 793                  | -                   | -                       |
| Provisions  | 52 276              | 50 101                  | -                   | -                       |
| Accrued liabilities                               | 28 808              | 29 845                  | -                   | -                       |
| <b>Total deferred tax assets / liabilities</b>    | <b>114 380</b>      | <b>109 130</b>          | <b>181 899</b>      | <b>170 402</b>          |

## 19. Inventories

| In thousands of Egyptian Pound   | <u>30 June 2006</u> | <u>31 December 2005</u> |
|----------------------------------|---------------------|-------------------------|
| Spare parts, supplies and cables | 431 986             | 452 622                 |
| Telephone sets and directories   | 36 965              | 42 154                  |
|                                  | <b>468 951</b>      | <b>494 776</b>          |

## 20. Trade and other receivables

| In thousands of Egyptian Pound             | <u>30 June 2006</u> | <u>31 December 2005</u> |
|--|---------------------|-------------------------|
| Trade receivables due from associates      | 8 994               | 6 200                   |
| <b>Other trade and notes receivable:</b>   |                     |                         |
| Governmental sector                        | 287 745             | 229 127                 |
| Private sector                             | 1 832 523           | 1 791 279               |
| Foreign telecommunication operators        | 639 054             | 532 118                 |
| Notes receivables                          | 437                 | 949                     |
|  | <b>2 768 753</b>    | <b>2 559 673</b>        |
| <b>Other receivables and pre-payments:</b> |                     |                         |
| Advance payments to suppliers              | 136 580             | 56 716                  |
| Deposits with others                       | 8 101               | 6 957                   |
| Long-term receivable – current portion     | 495 632             | 573 799                 |
| Payments on the account of corporate tax   | 481 799             | 481 799                 |
| Other receivables                          | 942 466             | 485 764                 |
|  | <b>4 833 331</b>    | <b>4 164 708</b>        |

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 L.E 192 327 K represented in the value of 1 707 756 unit of Commercial International Bank Investment Fund " Osoul Fund " with the price of L.E 112.62 for each unit at the financial position date.

## 22. Cash and cash equivalents

| In thousands of Egyptian Pound                           | <u>30 June 2006</u> | <u>31 December 2005</u> |
|--|---------------------|-------------------------|
| Bank balances  | 108 977             | 66 859                  |
| Time deposits  | 1 011 522           | 668 147                 |
| Cash on hand   | 18 809              | 33 010                  |
|  | <u>1 139 308</u>    | <u>768 016</u>          |
| Bank overdrafts  | (86 354)            | (158 474)               |
| Cash and cash equivalents in the statement of cash flows | <u>1 052 954</u>    | <u>609 542</u>          |

Time deposits at 30 June 2006 included an amount of LE 7 985 K blocked in favor of banks as guarantee for letters of credits (2005: LE 9 565 K).

## 23. Capital and reserves

### *Share capital*

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

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

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

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

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

### *Statutory Reserve*

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

### *Translation reserve*

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

### *Fair value reserve*

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

### ***Other reserve***

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

### ***Dividends***

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

In thousands of Egyptian Pound

LE 0.50 per qualifying ordinary share for 2005

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

## **24. Earnings per share**

### ***Basic earnings per share***

The calculation of basic earnings per share at 30 June 2006 was based on the profit attributable to ordinary shareholders of LE 994 842 k , (2005 : LE 1 093 769 k) and a weighted average number of ordinary shares outstanding during the period ended 30 June 2006 of 1 710 071 600 (30 June 2005 :1 711 214 900 ), 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 2006</u> | <u>30 June 2005</u> |
|---------------------|---------------------|
| 995 936             | 1 095 292           |
| 994 842             | 1 093 769           |

### ***Weighted average number of ordinary shares***

In thousands of Egyptian Pound

Issued ordinary shares at 1January \*

Average number of ordinary shares at 30 June 2006

| <u>30 June 2006</u> | <u>30 June 2005</u> |
|---------------------|---------------------|
| 1 707 072           | 1 711 215           |
| 1 707 072           | 1 711 215           |

\* The outstanding shares numbers in comparative figures have been adjusted to reflect the effect of the stock split, as per the resolution of the extraordinary meeting of the shareholders held on September 21, 2005 (See note 23).

## 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 28(iii).

| In thousands of Egyptian Pound                  | <u>30 June 2006</u> | <u>31 December 2005</u> |
|---|---------------------|-------------------------|
| <b>Non-current liabilities</b>                  |                     |                         |
| <b>Unsecured bank loans:</b>                    |                     |                         |
| Local banks                                     | 2 628               | 8 919                   |
| Governmental loans                              | 626 466             | 709 214                 |
| Foreign loans                                   | 916 477             | 954 644                 |
| Finance lease liabilities                       | 75 123              | 51 346                  |
| Foreign suppliers facilities                    | 20 377              | 62 044                  |
|   | <u>1 641 071</u>    | <u>1 786 167</u>        |
| <b>Current liabilities</b>                      |                     |                         |
| Short-term borrowings                           | 328 010             | 419 061                 |
| <b>Current portion of unsecured bank loans:</b> |                     |                         |
| Local banks                                     | 12 581              | 12 581                  |
| Governmental loans                              | 95 670              | 124 613                 |
| Foreign loans                                   | 152 852             | 159 914                 |
| Current portion of finance lease liabilities    | 28 116              | 23 925                  |
| Foreign suppliers facilities                    | 130 567             | 179 379                 |
|   | <u>747 796</u>      | <u>919 473</u>          |

### Security

Foreign suppliers facilities include an amount of LE 4 124 K secured by letters of guarantee issued in favor of the suppliers.

### Repayment

| In thousands of Egyptian Pound               | <b>Loan</b>            | <b>Effective Interest</b> |                     | <b>12 months</b>      | <b>2-3</b>          | <b>4-5</b>          | <b>More than</b>      |
|--|------------------------|---------------------------|---------------------|-----------------------|---------------------|---------------------|-----------------------|
|  | <b><u>Currency</u></b> | <b><u>Rate</u></b>        | <b><u>Total</u></b> | <b><u>or less</u></b> | <b><u>years</u></b> | <b><u>years</u></b> | <b><u>5 years</u></b> |
| <b><u>Telecom Egypt – the parent:</u></b>    |                        |                           |                     |                       |                     |                     |                       |
| Local banks loans                            | L.E.                   | CAIBOR+2.55 %             | 15 209              | 12 581                | 2 628               | -                   | -                     |
| <b>Total local loans</b>                     |                        |                           | <u>15 209</u>       | <u>12 581</u>         | <u>2 628</u>        | <u>-</u>            | <u>-</u>              |
| Governmental Loans                           | L.E.                   | 8%                        | -                   | -                     | -                   | -                   | -                     |
| Governmental Loans *                         | U.S.\$                 | 4%                        | 687 489             | 86 736                | 184 020             | 171 085             | 245 648               |
| Governmental Loans                           | SK                     | Agency commition+0.15%    | 2 510               | 2 229                 | 281                 | -                   | -                     |
| Governmental Loans                           | EURO                   | 4 - 6.37%                 | 32 137              | 6 705                 | 12 695              | 8 992               | 3 745                 |
| <b>Total Governmental loans</b>              |                        |                           | <u>722 136</u>      | <u>95 670</u>         | <u>196 996</u>      | <u>180 077</u>      | <u>249 393</u>        |
| Foreign loans                                | J.Y                    | 3 - 3.5%                  | 91 905              | 24 755                | 49 508              | 16 765              | 877                   |
| Foreign loans                                | EURO                   | 0.75 - 8.2%               | 977 424             | 128 097               | 262 912             | 151 053             | 435 362               |
| <b>Total foreign loans</b>                   |                        |                           | <u>1 069 329</u>    | <u>152 852</u>        | <u>312 420</u>      | <u>167 818</u>      | <u>436 239</u>        |
| Foreign suppliers' facilities - foreign      | EURO                   | 3.18 - 5.5%               | 81 765              | 75 117                | 6 648               | -                   | -                     |
| Foreign suppliers' facilities - foreign      | J.Y                    | 2.75%                     | 69 179              | 55 450                | 13 729              | -                   | -                     |
| <b>Total foreign suppliers' facilities</b>   |                        |                           | <u>150 944</u>      | <u>130 567</u>        | <u>20 377</u>       | <u>-</u>            | <u>-</u>              |
| <b><u>TE Data – a subsidiary company</u></b> |                        |                           |                     |                       |                     |                     |                       |
| Short-term Loans                             | Jordan Dinar           |                           | 448                 | 448                   | -                   | -                   | -                     |
|  |                        |                           | <u>1 958 066</u>    | <u>392 118</u>        | <u>532 421</u>      | <u>347 895</u>      | <u>685 632</u>        |

## Finance lease liabilities

Finance lease liabilities are payable as follows:

| In thousands of Egyptian Pound | Minimum lease         |                       |                        | Minimum lease          |                        |                         |
|--------------------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|-------------------------|
|                                | payments<br>30-6-2006 | Interest<br>30-6-2006 | Principal<br>30-6-2006 | payments<br>31-12-2005 | Interest<br>31-12-2005 | Principal<br>31-12-2005 |
| Less than one year             | 39 659                | 11 543                | 28 116                 | 32 165                 | 8 240                  | 23 925                  |
| Between one and five years     | 89 481                | 14 358                | 75 123                 | 60 851                 | 9 505                  | 51 346                  |
|                                | 129 140               | 25 901                | 103 239                | 93 016                 | 17 745                 | 75 271                  |

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

## 26. Bonds payable

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

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

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

## 27. Trade and other payables

| In thousands of Egyptian Pound | <u>30 June 2006</u> | <u>31 December 2005</u> |
|--------------------------------|---------------------|-------------------------|
| <b>Trade payables:</b>         |                     |                         |
| Local suppliers                | 52 718              | 93 127                  |
| Foreign suppliers              | 34 994              | 7 504                   |
| Notes payable                  | 4 557               | 3 137                   |
|                                | 92 269              | 103 768                 |
| <b>Other payables:</b>         |                     |                         |
| Income tax payable             | 538 843             | 632 054                 |
| Amounts due to associate       | 1 793               | 314                     |
| Deposits from others           | 623 656             | 605 848                 |
| Fixed assets creditors         | 271 861             | 389 652                 |
| Customers advances             | 220 452             | 215 058                 |
| Accrued expenses               | 277 262             | 389 864                 |
| Dividends payable              | 655 724             | 36 593                  |
| Other credit balances          | 657 074             | 527 338                 |
|                                | 3 338 934           | 2 900 489               |

## 28. Provisions

| In thousands of Egyptian Pound     | <u>30 June 2006</u> |         |         | <u>31 December 2005</u> |         |          |
|------------------------------------|---------------------|---------|---------|-------------------------|---------|----------|
|                                    | Taxes               | Claims  | Total   | Taxes                   | Claims  | Total    |
| Balance at 1 January               | 595 308             | 140 055 | 735 363 | 646 316                 | 104 125 | 750 441  |
| Provision formed                   | 10 872              | 124     | 10 996  | 14 120                  | 36 115  | 50 235   |
| Provision used                     | (7 366)             | -       | (7 366) | (65 128)                | (28)    | (65 156) |
| Provision reversed                 | -                   | -       | -       | -                       | (157)   | (157)    |
| Balance at end of the period /year | 598 814             | 140 179 | 738 993 | 595 308                 | 140 055 | 735 363  |

As at June 30, 2006 provisions are mainly related to taxes, lawsuits in respect of claims by a contractor for alleged losses and various claims for damages for breach of contract, 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.

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 2006 the Group's assets and liabilities denominated in foreign currencies amounted to the equivalent of LE 2 109 226 K and LE 2 110 205 K respectively. The Group's net foreign currencies exposure as of 30 June 2006. was as follow:

| <b>Foreign currency</b>        | <b>(Deficit ) / Surplus</b> |                        |
|--------------------------------|-----------------------------|------------------------|
|                                | <b>30 June 2006</b>         | <b>31 December2005</b> |
| In thousands of Egyptian Pound |                             |                        |
| US Dollar                      | 215 437                     | 146 348                |
| Euro                           | (146 381)                   | (170 998)              |
| Sterling Pound                 | 369                         | 461                    |
| Japanese Yen                   | (3 292 121)                 | (4 092 891)            |
| Swedish Krona                  | (16 600)                    | (15 525)               |
| Jordan Dinar                   | (687)                       | (265)                  |
| Libyan Dinar                   | -                           | (3 876)                |
| U.A.E Dirham                   | 763                         | -                      |

### **(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:

|                | <b>30 June 2006</b> | <b>31 December 2005</b> |
|----------------|---------------------|-------------------------|
| US Dollar      | 4.61%               | 3.39%                   |
| Euro           | 2.29%               | 2.24%                   |
| Sterling Pound | 4.00%               | 4.35%                   |
| Egyptian Pound | 5.92%               | 6.63%                   |

### **30. Fair value of financial instruments**

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

Except of the investments in Vodafone Egypt and Nile on Line which are accounted for using the equity method of accounting, the carrying values of the Group's other financial instruments approximate their Pfair 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.

#### ***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 and Nile on Line which were accounted for using the equity method of accounting.

#### ***Interest-bearing loans and borrowings***

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

#### ***Finance lease liabilities***

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

#### ***Receivables / payables***

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

*Interest rates used for determining fair value.*

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

### 31. Capital commitments

The Group's capital commitments for unexecuted portions of contracts as of 30 June 2006 amounted to LE181million (2005: LE 96 million). 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 2006</u> | <u>31 December 2005</u> |
|---|---------------------|-------------------------|
| In thousands of Egyptian Pound                              |                     |                         |
| Letters of guarantee issued by banks on behalf of the Group | 160 991             | 8 270                   |
| Letters of credit   | 278 687             | 452 998                 |

### 33. Related parties

#### *Identity of related parties*

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

#### *Transaction with Associates and unconsolidated subsidiaries*

During the period ended 30 June 2006, net mobile services between Vodafone Egypt and the company amounted to LE 68 435 K in favor of the group.

During the period ended 30 June 2006, the company paid an amount of 82 413 K on behalf of Consortium Algerian Telecommunication to finance the license fee and operating expenses of consortium company in Algeria.

### 34. Group entities

#### *Control of the Group*

The Group's ultimate parent company is Telecom Egypt.

#### *Subsidiaries*

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

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

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

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