

Notes to the Consolidated Financial Statements

For The Financial Year Ended December 31, 2005

1- BACKGROUND

- Establishment of the company

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

- Purpose of the company

The main purpose of the company includes:

- Establishing telecommunications networks.
- Providing telecommunications services.
- Operating and maintaining the networks, equipment and machinery necessary to provide the services.
- Executing projects necessary to accomplish its purposes.
- Cooperating with international companies and organizations to connect the Arab Republic of Egypt with the world.

By virtue of the approval of the company's Extra-Ordinary General Assembly held on 6/12/2005, the following activities were added to its objectives: "real estate investment for serving its purposes, and executing its projects and in order for the company to achieve its purposes, it is entitled to establish or participate in establishing new companies or existing companies operating in the same, complementary or related activities." Annotation to this effect was made in the commercial registry on 16/1/2006.

2- SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the parent company and subsidiaries under its control as it holds more than 50% of their capitals.

The following listing of subsidiaries is included in the consolidated financial statements:

Subsidiaries name	Percentages share %
TE Data – S.A.E.	93.33 %
TE Information Technology – S.A.E.	97.66 %
Middle East Radio Communication (MERC) – S.A.E.	51.00 %
Centra Technologies – S.A.E.	55.02 %

The consolidated financial statements did not include the financial information related to the following companies:

- Wataneya for Telecommunication	The activity did not start yet
- Consortium Algerien de Telecommunications (CAT)	Established during May 2005
- International Telecommunication Consortium Limited (ITCL)	Established at 23/3/2005 and the activity did not start yet

3- SIGNIFICANT ACCOUNTING POLICIES APPLIED

3-1 Basis of preparing the consolidated financial statements

3-1-1 The financial statements are prepared in accordance with the Egyptian Accounting Standards and in the light of the provisions of applicable Egyptian laws and regulations.

3-1-2 Consolidation basis

- Consolidated financial statements were prepared by combining similar items of assets, liabilities, equity, revenues and expenses stated in the financial statements of parent company and its subsidiaries.
- The carrying amount of the parent company's investment in each subsidiary and the parent company's portion in the equity of each subsidiary are eliminated.
- All inter-group balances and transactions, and any material unrealized gains arising are eliminated.
- Minority interests in the net equity and net profits of subsidiaries controlled by the parent company was included in a separate item in the equity caption in the consolidated balance sheet, and it was calculated at the equivalent of the carrying amounts of their portion in the net assets of subsidiaries on the consolidated balance sheet date.

3-2 Foreign currency translation

The company and some of its subsidiaries maintain its books of accounts in Egyptian Pound. Transactions denominated in foreign currencies are recorded at the declared exchange rates at the date of transactions. At the consolidated balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates declared by the banks dealing with the company and its subsidiaries. The exchange differences are recorded in the consolidated income statement for the year.

3-3 Financial statements translation for foreign operations

TE Data Jordan, wholly owned by TE Data Egypt – a subsidiary company – keeps its accounting records in Jordanian Dinar. Assets and liabilities are translated to Egyptian Pound at the foreign exchange rate in effect at the date of the balance sheet date. Revenues and expenses are translated to Egyptian Pound at rates approximating to the foreign exchange rate ruling at the date of transactions. The share of the parent company in cumulative translation adjustments is recorded in a separate item under the caption of equity in the consolidated balance sheet.

3-4 Fixed assets and depreciation

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

Description	Estimated Useful life
Buildings & constructions	10 - 50 Years
Machinery & equipment	6 - 20 Years
Means of transportation	5 - 10 Years
Tools and supplies	1 - 8 Years
Office furniture, fixtures and Information systems devices	3 –16.67 Years
Decoration & fixtures	5 Years

3-5 Projects in Progress

This item represents the amounts incurred for projects in progress till being ready for the intended use in operations, then, they are transferred to fixed assets.

3-6 Investments in affiliates

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

3-7 Available-for-Sale Investments

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

- The listed investments in the stock exchange are re-measured at the end of each financial period at fair value (market value).
- Investments that are not listed in the stock exchange are re-measured at cost or computed value, calculated in the light of an objective study of the company's recently approved financial statements by the companies issuing such notes. Any losses resulting from the decline in the market value or computed value of the investments compared with the cost are charged to the income statement for the year.
- The inactive investments (do not have listed price in an active market, or their fair value can not be reliably measured) are recorded at their acquisition cost. In case of impairment in the carrying amounts of these investments, the related investment is reduced by the impairment loss and charged to the income statement for the year for each investment.

3-8 Held for trading investments

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

3-9 Other assets and amortization

Other assets are non monetary assets that can be reliably estimated and from which future economic benefits are expected to flow to the company and are represented in:-

- Right of way, right of using of international circuits services and cables.
- Internet services license – TE Data. □

These intangible assets are stated at cost less accumulated amortization and impairment losses and are amortized over (10-20) years provided that their useful lives should be within the term of concession and usufruct rights.

The board of directors of T.E Data, a subsidiary company, in its meeting held at 21/2/2006 decided decreasing the value of the first and the second circuits due to the severe decline in the value of these circuits and related effect on the future economic benefits of these assets and the behavior of the current probable competitors, accordingly, impairment loss on the first and second circuits resulted LE 17 006 k and was charged to the income statement for the year.

3-10 Inventories

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

- Work in progress is valued at cost at the latest production process reached.
- Finished goods are valued at the manufacturing cost or net selling value.

3-11 Accounts, notes receivable, debtors & other debit accounts

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

3-12 Impairment of assets

The carrying amounts of the Company's assets, other than inventory, note No.(3-10) and deferred tax assets note No.(3-23) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the necessary studies are prepared to estimate the asset's prospective recoverable amount.

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.

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.

3-13 Provisions

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

3-14 Borrowing cost

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

3-15 Grants

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

3-16 Trade & Other Payables

Trade and other payables are stated at cost.

3-17 Revenue recognition

- Revenues from sales of services are recognized when services are rendered to the customers.
- Revenues from telephone sets & directories sales are recognized when goods are delivered to customers and invoices are issued.
- Income from investments is recognized when dividends of investees are declared by the General Assembly resolutions.

3-18 Expenses

All operating expenses recorded including general & administrative expenses are recognized in the income statement in the financial period when incurred.

3-19 End of service indemnity

The company contributes to Social Insurance Authority for the benefit of its personnel in pursuance to the Social Insurance Authority law No. 79 of 1975 and its amendments. These contributions are recorded in the "Wages and Salaries account" in addition to the early retirement scheme applied from 1/9/2001 (Note No. 26).

3-20 Capital lease agreements

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

3-21 Accounting estimates

The preparation of the financial statements according to the Egyptian Accounting Standards require that the management use estimates and assumptions that affect the values of the assets and liabilities and the revenues and expenses during the financial periods and years. The actual results may be different from those estimates.

3-22 Reserves

- Legal Reserve

According to the company's Article of Associations, 5% of the net profit is set aside to form a legal reserve . The transfer to legal reserve cease once the reserve reach 50% of the company's paid in capital, however, if the reserve falls below the defined level (50% of the company's paid in capital), then the company is required to resume setting aside 5% of the net profit.

- Other reserves

The General Assembly may, upon the suggestion of the Board of Directors, form other reserves.

3-23 Income tax

Income tax on the profit or loss for the year 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 year, using tax rates 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 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 measured 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.

3-24 Cash flow statement

Cash flow statement is prepared according to the direct method. Cash & cash equivalents comprise cash balances, time deposits which do not exceed three months and bank overdrafts that are repayable on demand and form an integral part of the company's cash management and they are included as a component of cash equivalents for the purpose of the statement of cash flows.

4- FIXED ASSETS

	Land LE(000)	Buildings & constructions LE(000)	Machinery & equipment LE(000)	Means of transportation LE(000)	Tools & supplies LE(000)	Office furniture & fixtures LE(000)	Decoration & fixtures LE(000)	Total LE(000)
Cost								
Balance as at 1/1/2005	4 038 768	15 944 807	15 234 009	101 631	50 862	403 885	250	35 774 212
Adjustments	–	–	(2 600)	–	–	–	–	(2 600)
Additions for the year	52 289	597 219	1 666 131	1 962	9 890	332 109	203	2 659 803
Disposals for the year	(1 754 766)	(141)	(254 321)	(2 308)	–	(1)	–	(2 011 537)
Translation differences	–	–	(20)	–	–	(21)	(4)	(45)
Balance as at 31/12/2005	2 336 291	16 541 885	16 643 199	101 285	60 752	735 972	449	36 419 833

Depreciation & Impairment

Accumulated depreciation as at 1/1/2005	–	4 663 577	7 243 531	67 411	28 836	185 098	67	12 188 520
Adjustments	–	–	(2 600)	–	–	–	–	(2 600)
Depreciation for the year	–	889 873	1 636 406	13 701	4 687	86 272	58	2 630 997
Accumulated depreciation disposals	–	(34)	(228 819)	(1 816)	–	–	–	(230 669)
Translation difference adjustments	–	–	(2)	–	–	(2)	–	(4)
Balance of accumulated depreciation as at 31/12/2005	–	5 553 416	8 648 516	79 296	33 523	271 368	125	14 586 244
Carrying amounts as at 31/12/2005	2 336 291	10 988 469	7 994 683	21 989	27 229	464 604	324	21 833 589
Carrying amounts as at 31/12/2004	4 038 768	11 281 230	7 990 478	34 220	22 026	218 787	183	23 585 692

- Cost of fixed assets includes an amount of LE 977 million relating to fully depreciated assets still in use.

- Additions and disposals of the land for the year include an amount of LE 48 696 K , LE 1 754 766 K against the reduction of the General reserve by a net amount of LE 1 706 070 K Pursuant to the Extra- Ordinary General Assembly resolution on September 21,2005.

Depreciation for the year are charged as follows:-

	LE(000)
Operating expenses	2 514 777
General & administrative expenses	115 103
Selling & distribution expenses	1 117
	2 630 997

5- PROJECTS IN PROGRESS

	31/12/2005 LE (000)	31/12/2004 LE (000)
Telecom Egypt - Parent		
Land	6 528	3 993
Buildings and constructions	124 819	187 673
Machinery and equipment	442 967	635 572
Means of transportation	387	278
Tools and supplies	115	4 680
Office furniture and fixtures	39 441	153 422
Advance payments	495 523	305 550
Letters of credit	29 312	22 199
	1 139 092	1 313 367

T.E Data – a subsidiary company

Advance payments	7 705	1 516
	1 146 797	1 314 883

6- LONG TERM INVESTMENTS

	Share capital Participation %	31/12/2005 LE (000)	31/12/2004 LE (000)
6-1 Investments in affiliates			
Vodafone Egypt *	25.50	1 287 805	619 227
Nile On Line (NOL)	27.27	12 668	14 244
Wataneya for Telecommunication	50.00	125	–
Consortium Algerien de Telecommunications (CAT)	33.00	133	–
International Telecommunication Consortium Limited. (ITCL)	50.00	54	–
Egypt Trust	25.00	1 000	–
		1 301 785	633 471

* Market value of investments in Vodafone Egypt according to the Egyptian Stock Exchange prices on December 31, 2005 amounts to LE 6 179 976 K

	31/12/2005 LE (000)	31/12/2004 LE (000)
6-2 Investments available for sale		
Participations in foreign Satellite companies & organizations	25 245	77 366
Investments in other companies	69 952	70 153
	95 197	147 519

INVESTMENT IN VODAFONE – EGYPT

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

7- OTHER DEBIT BALANCES – LONG TERM

These balances are represented in the following:

	31/12/2005 LE (000)	31/12/2004 LE (000)
The amounts due from National-Telecommunication Regulatory Authority for the license fees paid to the said Authority for the third operator after waiver of this license by the third operator. (Note No. 27).	1 600 000	1 975 000
Less:		
The current portion to be collected during next year which was recorded under "debtors and other debit accounts" (Note No. 11).	520 000	375 000
	1 080 000	1 600 000
Payments made on behalf of Consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of Consortium Company in Algeria.	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.	201 987	–
Less:		
The current portion to be collected during next year as recorded under "debtors and other debit accounts" (Note No. 11).	106 799	–
	95 188	–
	1 396 773	1 600 000

8- OTHER ASSETS

	Note No.	Right of way (BRITAR) LE(000)	Right of way (ALITAR) LE(000)	Right of way (Flag cable) LE(000)	Usufruct for land occupied by TE LE(000)	Right of way (SMW2, SMW3) LE(000)	Right of using (ROU) LE(000)	Internet license LE(000)	Total LE(000)
Cost									
Cost as at 1/1/2005		1 720	48 815	95 910	18 838	131 566	20 196	20 197	337 242
Adjustments		–	–	–	(18 838)	–	–	–	(18 838)
Additions for the year		–	–	–	1	–	28 710	–	28 711
Disposals for the year		–	(60)	–	–	–	–	–	(60)
Translation differences		–	–	–	–	–	–	(8)	(8)
Balance as at 31/12/2005		1 720	48 755	95 910	1	131 566	48 906	20 189	347 047

Accumulated amortization & impairment losses

Balance as at 1/1/2005		559	18 937	50 764	12 427	82 552	2 356	19 995	187 590
Adjustments		–	(8)	–	(12 427)	–	–	–	(12 435)
Amortization during the year		172	2 438	9 599	–	13 156	2 747	21	28 133
Impairment losses	(3-9)	–	–	–	–	–	17 006	–	17 006
Accumulated amortization disposals		–	(16)	–	–	–	–	–	(16)
Balance as at 31/12/2005		731	21 351	60 363	–	95 708	22 109	20 016	220 278
Carrying amounts as at 31/12/2005		989	27 404	35 547	1	35 858	26 797	173	126 769
Carrying amounts as at 31/12/2004		1 161	29 878	45 146	6 411	49 014	17 840	202	149 652

9- INVENTORIES

	31/12/2005 LE (000)	31/12/2004 LE (000)
Spare parts	158 774	142 835
Materials supplies	356	295
Computers & Pc's components	7 838	1 927
Others – project cables and supplies	277 737	225 883
Finished goods	149	339
Work in progress	–	504
Telephone sets and directories	42 154	36 760
Consignment goods	878	1 609
	<u>487 886</u>	<u>410 152</u>
Add:		
Letters of credit	6 890	5 869
	<u>494 776</u>	<u>416 021</u>

10- TRADE RECEIVABLES & NOTES RECEIVABLE

	31/12/2005 LE (000)	31/12/2004 LE (000)
Governmental sector	294 679	308 813
Private sector	2 529 850	2 649 426
Foreign telecommunication companies and organizations	902 257	800 335
	<u>3 726 786</u>	<u>3 758 574</u>
Less:		
Impairment loss on trade receivables	1 168 062	1 141 475
	<u>2 558 724</u>	<u>2 617 099</u>
Notes receivable	949	–
	<u>2 559 673</u>	<u>2 617 099</u>

11- DEBTORS & OTHER DEBIT ACCOUNTS

	31/12/2005 LE (000)	31/12/2004 LE (000)
Suppliers – debit balances	56 716	55 760
Deposits with others	6 957	4 858
Employees' loans	1 335	1 356
Customs Authority - deposits	3 047	2 999
Accrued revenues	8 665	9 901
Tax Authority	110 089	67 569
Employees loyalty grant (Note No. 26)	33 078	39 642
Other debit accounts*	2 211 529	1 782 240
	2 431 416	1 964 325
Less:		
Impairment loss on debtors & other debit accounts balances	154 553	112 233
	2 276 863	1 852 092

* Other debit accounts include the following amounts: -

- The current portion to be collected within one year from the National Telecommunication Regulatory Authority for the license fees of Wataneya for Telecommunication (Note No. 7).	520 000	375 000
- Payment of 10% for the capital participations in Wataneya for Telecommunication – under establishment – Telecom Egypt owns 98% of the share capital.	–	9 800
- Advances for the new building paid on behalf of the Wataneya for Telecommunication (Building, designs and engineering company services).	–	41 035
- The current portion to be collected during next year for the balances due from the employees for the company's shares distributed to them (Note No. 7).	106 799	–
- Amounts due from the main shareholders of the company (Ministry of Finance) for payment of public offering expenses on behalf of the seller (Ministry of Finance).	15 345	–
- Payments on the account of corporate tax.	1 002 089	1 002 089
	1 644 233	1 427 924

12- CASH ON HAND AND AT BANKS

Banks- time deposits	668 147	1 031 242
Banks -current accounts	66 858	113 484
Cash on hand	33 011	11 800
	768 016	1 156 526

Time deposits at 31/12/2005 include the following:-

- An amount of LE 9 565 K blocked in favor of some banks as a guarantee for the letters of credit granted to the company (against LE 8 586 K at 31/12/2004).
- An amount of LE 300 K deposits blocked against visa cards in favor of American Express Bank.

13- LOANS AND FACILITIES

Description	Loan Currency	Long term loan Installments due within one year LE(000)	Long term loan Installments due within more than one year LE(000)	Balance as of 31/12/2005 LE(000)	Balance as of 31/12/2004 LE(000)	Annual Interest Rate %	Repayment schedule
Local banks loans	L.E.	12 581	8 919	21 500	1 283 469	Caibor + 2.55 %	Semi-annual installments ending on 24/9/2007
Local banks loans - medium term	U.S.\$	–	–	–	125 197	2.5%+ Libor	Paid in full
Total local loans		12 581	8 919	21 500	1 408 666		
Governmental Loans	L.E.	22	–	22	202	8%	Annual installements ending on 9/4/2006
Governmental Loans	U.S.\$	116 206	680 751	796 957	756 274	4 -16%	Semi annual/annual installements ending on 24/1/2014
Governmental Loan	S.K.	2 055	1 286	3 341	22 632	0.15% + agency commission	Semi annual installements ending on 31/12/2007
Governmental Loans	EURO	6 330	27 177	33 507	53 878	4 - 6.37%	Semi annual installements ending on 29/12/2012
Total Governmental loans		124 613	709 214	833 827	832 986		
Foreign loans	J.Y.	24 397	78 380	102 777	153 548	3 - 3.5%	Semi annual installements ending on 20/3/2012
Foreign loans	EURO	135 517	866 093	1 001 610	1 375 646	0.75 - 8.2%	Semi annual installements ending on 30/6/2036
Foreign loans	L.D.	–	10 171	10 171	10 171	3.5%	
Total foreign loans		159 914	954 644	1 114 558	1 539 365		
Foreign suppliers' facilities - local	L.E.	427	–	427	13 317	3%	Semi annual installements ending on 5/3/2006
Foreign suppliers' facilities - foreign	EURO	122 916	21 188	144 104	421 358	3.18 - 5.50%	Semi annual/annual installements ending on 1/12/2008
Foreign suppliers' facilities - foreign	J.Y.	56 036	40 856	96 892	195 680	2.5 - 2.75%	Semi annual installements ending on 14/12/2007
Foreign suppliers' facilities - foreign	U.S.\$	–	–	–	44 264	3%	Paid in full
Total foreign suppliers' facilities		179 379	62 044	241 423	674 619		
		476 487	1 734 821	2 211 308	4 455 636		

- Foreign suppliers' facilities in Euro include LE 4 953 K equivalent to Euro 720 K against letters of guarantee issued by National Bank of Egypt in favour of Siemens as a guarantee for this

14- SUPPLIERS & NOTES PAYABLE

	31/12/2005 LE (000)	31/12/2004 LE (000)
Suppliers - local	93 127	67 032
Suppliers - foreign□	7 504	1 254
Notes payable	3 137	–
	103 768	68 286

15- CREDITORS AND OTHER CREDIT ACCOUNTS

	Note No.	31/12/2005 LE (000)	31/12/2004 LE (000)
15-1 Creditors and other credit accounts (current)			
Tax Authority □		80 566	82 169
Deposits from others□□		605 848	553 874
Fixed assets creditors□		389 652	481 082
Accrued interest□□		73 931	112 433
Accrued expenses□		216 128	79 746
Social Insurance Authority□		18 987	18 847
Clients – credit balances□		215 372	255 290
Dividends payable□		36 593	176 745
Credit balance for social, cultural and sportive activities□		119 214	77 988
Deferred revenues*		266 254	301 962
Other credit accounts		363 275	151 164
Tax Authority – income tax		260 720	410 496
Current income tax for the year		371 334	–
		3 017 874	2 701 796
Less: Tax payments due after one year	(15-2)	54 704	54 704
		2 963 170	2 647 092

* Deferred revenues are represented in the value of the grant presented by the USAID to finance some of the company's projects after deducting the accumulated amortization as at 31/12/2005.

15-2 Creditors and other credit accounts (long-term)

Creditors and other long-term accounts represent:-

	Note No.	31/12/2005 LE (000)	31/12/2004 LE (000)
Telecom Egypt – parent company			
Tax payment due after one year	(15-1)	54 704	54 704

T.E Information Technology – a subsidiary Company

The additional retirement compensations due to the company's employees		1 755	787
		56 459	55 491

16- PROVISIONS:

	Balance as of 1/1/2005 LE(000)	Charged to the income statement for the year LE(000)	Used during the year LE(000)	Reclassification LE(000)	Release of unused provisions LE(000)	Reversal of write-down in inventory LE(000)	Balance as of 31/12/2005 LE(000)
Provision for contingent liabilities, claims and others							
Tax provision	1 426 940	14 120	(65 129)	–	(260 333)	–	1 115 598
Claims provision	42 123	36 115	(26)	62 000	(157)	–	140 055
Other provision	39 412	–	(12)	(39 400)	–	–	–
	1 508 475	50 235	(65 167)	22 600	(260 490)	–	1 255 653
Impairment loss on							
Trade receivables	1 141 475	30 917	(4 330)	–	–	–	1 168 062
Debtors and other debit accounts balances	112 233	42 320	–	–	–	–	154 553
	1 253 708	73 237	(4 330)	–	–	–	1 322 615
Write-down in inventory*	19 751	–	–	–	–	(2 711)	17 040

* Write-down in inventory balances is netted against their related type of inventory balances.

17- CAPITAL

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

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

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

Accordingly, the company's issued and fully paid capital has become LE 17 070 716 K represented in 1 707 071 600 shares at a par value of LE 10 each and annotation was made to this effect in the Commercial Register on 24/11/2005.

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

18- RESERVES

	31/12/2005 LE (000)	31/12/2004 LE (000)
Legal reserve □	373 766	322 347
Revaluation reserve of available for sale investments □	6 814	16 819
General reserve □	3 024 034	4 295 926
Capital reserve	12 160	12 160
	3 416 774	4 647 252

Legal reserve amounting to LE 3 024 034 at 31/12/2005 represents the dividends transferred to the general reserve for years 99/2000 till 2004 after the decreases decided by the Extra-ordinary General Assembly Meetings held on 29/3/2005 & 21/9/2005.

19- DEFERRED TAX

19-1 Deferred Tax Assets and Liabilities

	Assets 31/12/2005 LE (000)	Liabilities 31/12/2004 LE (000)
Fixed assets □	–	170 402
Inventory	3 391	–
Trade and other receivables	25 793	–
Provisions □	50 101	–
Accrual (liabilities)	29 845	–
Total deferred tax assets (liability)	109 130	170 402
Net deferred tax liability	–	61 272

19-2 Unrecognized deferred tax assets

	31/12/2005 LE (000)	31/12/2004 LE (000)
Deductible temporary differences	–	18 030

Deferred tax assets for the year 2004 have not been recognized in respect of this item for lack of reasonable assurance that future benefits shall be realized from these deferred tax assets in the subsequent periods.

20- SALES OF SERVICES

	2005 LE (000)	2004 LE (000)
Domestic call revenues		
Local calls□	1 591 518	1 537 086
Long distance calls (excluding Mobile revenues)□	413 806	442 548
Local telegram and telex	12 897	14 628
Total domestic call revenues	2 018 221	1 994 262
Mobile domestic revenues		
Fixed to mobile revenue	1 049 454	949 222
Mobile to fixed interconnection revenue	208 368	190 807
Total mobile revenues	1 257 822	1 140 029
Other local revenues		
Connection fees□	350 834	365 458
Subscription fees□	1 479 163	1 194 210
Leased lines□	120 422	100 587
Others	784 750	790 479
Total other revenues	2 735 169	2 450 734
International revenues		
International calls (excluding mobile to international)□	405 685	355 752
Revenue from incoming international operators □	1 284 333	1 117 487
Mobile international revenues□	648 371	559 013
International telegram and telex	3 715	3 176
Total international calls revenues	2 342 104	2 035 428
Total revenues from sales of services	8 353 316	7 620 453

21- INTERCONNECTION FEES

	2005 LE (000)	2004 LE (000)
Fixed to mobile interconnection fees□	779 851	666 770
Fixed calls for internet & audio text companies fees □	232 995	248 822
Dues against outgoing international calls□	276 454	293 386
Dues against outgoing international telegram & telex	723	1 277
	1 290 023	1 210 255

22- OTHER OPERATING COSTS

	2005 LE (000)	2004 LE (000)
Salaries□	751 639	640 187
Compulsory social security contributions□	104 210	92 154
Employees' vacations□	88 239	–
Electricity & water	11 825	10 689
Stationary & printed materials □	67 462	77 576
Transportation cost□	17 960	11 391
Business telephone cost□	25 455	21 700
Rentals□	3 407	3 661
Others	78 287	16 720
	1 148 484	874 078

23- GENERAL & ADMINISTRATIVE EXPENSES

	2005 LE (000)	2004 LE (000)
Salaries□	466 508	342 797
Compulsory social security contributions□	35 908	50 358
End of service compensation-Early retirement program	8 607	10 243
Employees' vacations□	49 979	–
Depreciation □	115 103	56 630
Training□	34 496	49 254
Bad debts□	245	263
Tax and customs duty□	76 291	21 181
Bank charges & commissions□	11 553	8 242
Advertising□	35 432	33 333
Others	163 939	85 656
	998 061	657 957

24- SELLING & DISTRIBUTION EXPENSES

	2005 LE (000)	2004 LE (000)
Salaries□	105 952	83 676
Compulsory social security contributions	13 748	12 323
Employees' vacations□	11 662	–
Depreciation □	1 117	1 394
Others	67 741	19 109
	200 220	116 502

25- OTHER (EXPENSES) / INCOME

	2005 LE (000)	2004 LE (000)
Compensation and penalties (net)	(7 268)	(8 590)
Sundry revenues	180 625	110 904
Prior years' (expenses) / income	(62 195)	(79 267)
	111 162	23 047

26- EARLY RETIREMENT SCHEME

- The company's board of directors approved in its meeting dated May 9, 2001 an early retirement scheme for its employees. The scheme was implemented during the twelve months ended 31/8/2002 (First phase). The cost of these compensations is financed by a Bank loan granted to the company. The principal loan will be repaid from employees' Loyalty Fund and the interest will be charged to the company as expenses when incurred.
- The company's board of directors approved in its meetings dated March 20, 2002 and December 30, 2002 to finance an amount of L.E 65000 K and L.E 35000 K respectively for the employees' Loyalty Fund to facilitate financing the retired employees' compensations (the second and third phases), provided that these amounts should be refunded from employees Loyalty Fund upon their legal early retirements. The amount of LE 66 922 K was refunded as of December 31, 2005.
- On January 15, 2004 the employees' Loyalty Fund was registered in the Register of the Egyptian Private Social Insurance Funds and the grant accounts was transferred to the account of Loyalty Fund which will pay these balances to the company on the dates of the legal early retirement of the employees.
- The actual compensations charged to the income statement and paid to the early retired employees' for the year amounted to LE 8 607 K representing the amounts due on the remaining period till the legal age of retirement and the vacations balance with a maximum limit of 9 months.
- The amounts to be refunded during a year (current portion) amounted to LE 6 950 K and the amount to be refunded starting from January 2007 and up to the year 2011 (the long term portion) is LE 26 128 K. (Note No. 11).

27- WAIVER OF THE LICENSE OF THE THIRD MOBILE OPERATOR

- The company obtained a license to establish the third mobile phone operator against an amount of L.E. 1 975 million paid to the National Telecommunication Regulatory Authority (NTRA). However, due to the current recession in the market, the company decided to waive its right in this license and recover the license fees paid to (NTRA).
- Pursuant to the memorandum of understanding dated December 20, 2003 concluded between Telecom Egypt and both Vodafone Egypt Co. and Mobinil, the parties agreed that the two mobile operators would pay to (NTRA) cash installments in order to obtain the frequency band 1800 MHTZ previously granted to Telecom Egypt and waived to the two mobile operators.
- The company requested (NTRA) to transfer its right in the cash installments paid by the two mobile operators within the agreed payment conditions and time schedule to Misr Bank in its capacity as a lender and a representative of the lenders to the company to finance its acquisition of 25.5% of Vodafone Egypt Shares. The company obtained the approval from (NTRA) regarding this transfer of right on December 22, 2003.
- On January 27, 2005 an agreement was made between Telecom Egypt and the National Telecommunication Regulatory Authority (NTRA) whereby the company committed itself not to apply for obtaining a license to build and operate a mobile phone network in Egypt using the (G.S.M) system with the frequency band of 1 800 MHTZ till November 30, 2007 against the commitment of (NTRA) to pay L.E. 1 975 million – previously paid by Telecom Egypt to (NTRA) – to Misr Banque according to the terms of the transfer of right dated 22/12/2003, in addition to the payment of L.E. 480 million to the company after the completion of the payment of L.E. 1 975 million and L.E. 25 million due to (NTRA).

- The restriction mentioned above does not prohibit or prejudice the right of the company to apply to (NTRA) for obtaining a licenses to provide mobile telecommunication services of the third generation (G3) or any other higher or equal mobile telecommunication services or infra-structure whether during or after the restriction period.
- On April 2005, The first installment due from the National Telecommunication Regulatory Authority (NTRA) amounting to LE 375 million was collected and the balance due from the National Telecommunication Regulatory Authority (NTRA) amounted to LE 1 600 million plus the amount of LE 480 million and the remaining amounts will be collected on four equal annual installments amounting to LE 520 million each. The last installment shall fall due on March 31, 2009.

28- EARNING PER SHARE

	2005	2004
Net profit for the year after minority interest (LE 000)	1 858 019	1 025 167
Less:		
Employees' share in profit (LE 000)	94 837	190 617
Board of directors remunerations (LE 000)	2 500	2 500
	1 760 682	832 050
Less:		
The parent company's share in employees & Board of directors' share of subsidiaries dividends	2 062	97
Basic share in profits (LE 000)	1 758 620	831 953
Average number of outstanding shares during the year	1 710 075 492	1 711 214 900
Earning per share for the year (LE / share)	1.03	0.49

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

29- STATEMENT OF CASH FLOWS

	31/12/2005 LE (000)	31/12/2004 LE (000)
Cash and cash equivalents (as reported in the balance sheet)	768 016	1 156 526
Less:		
Banks overdraft	158 474	51 966
Cash and cash equivalents at the end of the year	609 542	1 104 560

30- CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts till December 31, 2005 amounted to LE 29.695 million (LE 21.090 million at 31/12/2004). It is expected that these commitments shall be settled next year except for payments of share capitals of investees, which shall be settled when required by the Boards of Directors of these investees.

31- CONTINGENT LIABILITIES

In addition to the amounts included in the balance sheet, as of December 31, 2005 the company had the following contingent liabilities:-

	31/12/2005 LE (000)	31/12/2004 LE (000)
- Letters of guarantee issued by banks on behalf of the company	8 270	29 662
- Letters of credit	452 998	197 222

32- TAXATION

32-1 Corporate tax

Years till 26/3/1998

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

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

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

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

- Tax inspection was made and the company was notified by Tax Form No. (18), and the company agreed on the taxable income and the provision was formed including all the tax differences.

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

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

32-2 Sales Tax

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

32-3 Salary Tax

- Tax inspection and assessment were made till 31/12/2000 and all due tax were settled.
- Tax inspection for the period from 1/1/2001 till 31/12/2002 is currently being undertaken, and the company formed a provision on an estimated basis to meet the liabilities that may result from tax inspection.

33- BONDS LOAN

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

- 1- The first tranche shall be 50% of the bonds at a fixed annual interest equal to 10.95% to be paid quarterly.
- 2- The second tranche shall be the other 50% of the bonds at a variable annual interest equal to 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.

34- Related Party Transactions

There are transactions between the company and its affiliates. The most important transactions during the year and related balances on the balance sheet date are stated as follows:

	Nature of transaction	Transaction volume during the year		Balance as of 31/12/2005		Balance as of 31/12/2004	
		Debit LE 000	Credit LE 000	Debit LE 000	Credit LE 000	Debit LE 000	Credit LE 000
Debit balances included in accounts receivable							
Nile On Line (NOL) □	International leased lines	126	17 659	6 200	–	23 733	–
Nile On Line (NOL)	Local leased lines	2 623	2 623	–	–	–	–
		2 749	20 282	6 200	–	23 733	–
Debit balances included in other debit balances - long term							
Consortium Algerien de Telecommunications (CAT)	Amounts paid on behalf of the affiliated company to finance the license and operating expenses	221 585	–	221 585	–	–	–
Debit balances included in debtors and other debit accounts							
International Communication Consortium Limited	Amounts paid on behalf of the affiliated company on the account of company's share in Consortium Algerien de Telecommunications	68	–	68	–	–	–
		221 653	–	221 653	–	–	–
Credit balances included in creditors an other credit accounts							
Nile On Line (NOL)	Internet services	1 425	–	–	2 614	–	4 039
Vodafone Egypt	Mobile services	486 901	578 154	–	314	90 939	–
		488 326	578 154	–	2 928	90 939	4 039

35- FINANCIAL INSTRUMENTS FAIR VALUE

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

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

36- MANAGEMENT OF FINANCIAL RISK

36-1 Interest risk

Interest rate risk is represented in the changes in the interest rate computed on the company's debts such as loans, bonds, bank overdrafts and credit facilities which amounted to LE 4 788 843 K as at December 31, 2005. (compared to LE 5 975 856 K as at December 31, 2004). Financing interests and expenses related to these balances amounted to LE 381 388 K during the year (compared to LE 409 389 K during the previous year), while the balance of time deposits amounted to LE 668 147 K as at December 31, 2005 (compared to LE 1 031 242 K as at December 31, 2004), and the interest income on these deposits amounted to LE 27 980 K during the year (LE 9 954 K during the previous year). In order to minimize these risks, the company's management currently seeks to obtain the best possible terms and conditions from the banks as regards the balances of credit facilities, overdrafts and loans, also, it reviews the prevailing interest rates declared by the banks on a regular basis, a matter which help mitigate the interest rate risk.

36-2 Credit risk

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

36-3 Foreign currency risk

The foreign currency exchange risk represents the risk of fluctuation in exchange rates, which in turn affects the company's cash inflows and outflows as well as the value of its foreign currency assets and liabilities. As of the date of the balance sheet the company has foreign currency assets and liabilities equivalent to LE 1 745 640 K and LE 2 299 758 K respectively. The company's net exposure in foreign currencies at the balance sheet is as follows: -

Foreign currencies	(Deficit) /surplus (000)
U.S. dollars	146 348
Euro	(170 998)
Sterling Pound	461
Japanese Yen	(4 092 891)
Swedish krona	(15 525)
Jordan Dinar	(265)

As disclosed in note (3-2) "Foreign Currency Translation" the company has used the exchange rates declared by the banks that the company deals with to retranslate monetary assets and liabilities at the balance sheet date.

37- COMPARATIVE FIGURES

Comparative figures in the consolidated financial statements were reclassified to include the financial statements of TE Data Jordan Company and Centra Electronic Industries Company as at December 31, 2004 (these two companies are owned by two subsidiaries of the company).