

Notes to the Consolidated Financial Statements

For The Financial Year Ended 31 December, 2005

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 two years ended 31 December 2005 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 March 15, 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 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.

(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.

(iii) 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 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 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:

	2005	2004
In thousands of Egyptian Pound		
Retail Services:		
Access:		
Connections	350 834	365 458
Subscriptions	1 356 758	1 157 866
	1 707 592	1 523 324
Voice:		
Local *	1 588 530	1 527 148
Long distance	413 806	442 548
Fixed to international	406 889	405 860
Fixed to mobile interconnection	1 049 454	949 222
	3 458 679	3 324 778
Internet & Data	92 070	79 520
Others	1 031 070	878 672
Total Retail	6 289 411	5 806 294
Wholesale:		
Domestic:		
Mobile to fixed interconnection	208 369	190 807
Others	113 973	128 622
	322 342	319 429
International:		
Mobile to international	648 371	559 013
Incoming international call	1 289 885	1 117 487
	1 938 256	1 676 500
Total wholesale	2 260 598	1 995 929
Total revenues	8 550 009	7 802 223

* include dial up revenue

4- Operating expenses

	2005	2004
In thousands of Egyptian Pound		
Interconnection fees	1 300 320	1 210 255
Fuel	62 301	58 052
Spare parts	82 487	57 586
Maintenance	125 297	102 452
Satellite subscriptions	29 012	22 365
Depreciation	2 467 735	2 358 859
Amortization	28 133	24 967
Cost of telephone sets & directories	145 820	112 671
Salaries & wages	798 753	645 941
Compulsory social security contributions	104 210	92 154
Employees' share in dividends	55 690	114 370
Other operating costs	204 496	137 953
	5 404 254	4 937 625

5- Other income

	2005	2004
In thousands of Egyptian Pound		
Release of unused provisions	157	105 232
Grant	35 708	53 561
Gains and losses on disposal of property, plant and equipment	–	13
Reversal of decline in inventory	2 711	–
Rental income	2 191	1 619
Others	49 888	87 980
	90 655	248 405

During 2003, the Group obtained a grant from the USAID to finance certain assets; the grant amounted to US\$ 54 950 k. 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

	2005	2004
In thousands of Egyptian Pound		
Salaries & wages	112 314	84 251
Compulsory social security contributions	13 748	12 323
Fixed assets depreciation	1 117	1 394
Employees' share in dividends	7 513	–
Sales commissions & others	67 741	19 109
	202 433	117 077

7- Administrative expenses

	2005	2004
In thousands of Egyptian Pound		
Salaries & wages	495 010	346 058
Compulsory social security contributions	35 908	50 358
Early retirement compensations	8 607	10 243
Employees' share in dividends	32 623	76 247
Fixed assets depreciation	115 103	56 630
Board of directors' bonus	2 891	2 500
Taxes & customs fees	77 578	30 291
Training & development services	45 654	49 254
Advertising	35 432	33 333
Others	164 463	110 788
	1 013 269	765 702

8- Other expenses

	2005	2004
In thousands of Egyptian Pound		
Increase in provisions	50 235	182 474
Impairment loss on trade and other receivables	73 237	146 302
Impairment loss on long-term investments	1 637	5 871
Net loss on disposal of property, plant and equipment	24 138	–
Impairment loss on property, plant and equipment	–	1 733
Impairment loss on intangible assets	17 006	13 323
Others	7 268	10 043
	173 521	359 746

9- Personnel expenses

	2005	2004
In thousands of Egyptian Pound		
Salaries & wages:		
Operating expenses	798 753	645 941
Selling & distribution expenses	112 314	84 251
Administrative expenses	495 010	346 058
	1 406 077	1 076 250
Compulsory social security contributions	153 866	154 835
Early retirement compensations	8 607	10 243
Employees' share in dividends	95 826	193 117
	1 664 376	1 434 445

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 income (costs)

	2005	2004
In thousands of Egyptian Pound		
Interest income	31 345	13 775
Unwind of discount & accretion of interest relating to long-term receivable	217 000	225 000
Income from investments – dividend	44 005	39 515
Net gain of disposal of investments	56 286	13 077
Net foreign exchange gain	332 235	–
Financial income	680 871	291 367
Interest expense	(390 878	(416 954)
Net foreign exchange loss)	(149 648)
Financial expenses	–	(566 602)
Net financing income (costs)	(390 878	(275 235)

11- Income tax expense

Recognized in the income statement

	2005	2004
In thousands of Egyptian Pound		
Current tax expense		
Current year	371 552	410 496
Deferred tax expense *		
Origination and reversal of temporary differences	178 924	(117 652)
Total income tax expense in income statement	550 476	292 844

* Deferred tax expense for the year 2004 are shown net of an amount of LE 129 417 k relating to the reduction of the applicable tax rate.

12- Current tax assets and liabilities

The current tax asset of LE 109 130 k, (2004: 117 652k) represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments. The current tax liability of LE 170 402 k (2004: 99 662 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.

13- Property, plant and equipment

	Land & buildings	Machinery & equipment	Vehicles	Office furniture & fixtures	Tools & other equipment	Under construction	Total
In thousands of Egyptian Pound							
Cost							
Balance at 1 January 2005	18 060 027	14 793 260	102 067	492 410	50 862	1 069 741	34 568 367
Adjustment	–	(2 600)	–	–	–	–	(2 600)
Reclassification	–	945	–	(945)	–	–	–
Acquisitions	649 503	1 659 827	16 065	350 737	9 890	3 550 840	6 236 862
Disposals	(60 072)	(254 321)	(2 308)	(1)	–	(3 712 617)	(4 029 319)
Effect of movements in foreign exchange	–	(20)	–	(25)	–	–	(45)
Balance at 31 December 2005	18 649 458	16 197 091	115 824	842 176	60 752	907 964	36 773 265
Depreciation & impairment losses							
Balance at 1 January 2005	4 639 914	7 127 022	67 589	214 984	28 836	–	12 078 345
Adjustment	–	(2 600)	–	–	–	–	(2 600)
Reclassification	–	78	–	(78)	–	–	–
Depreciation charge for the year	878 051	1 579 831	33 931	87 455	4 687	–	2 583 955
Disposals	(34)	(228 819)	(1 816)	–	–	–	(230 669)
Effect of movements in foreign exchange	–	(2)	–	(2)	–	–	(4)
Balance at 31 December 2005	5 517 931	8 475 510	99 704	302 359	33 523	–	14 429 027
Carrying amounts							
At 31 December 2004	13 420 113	7 666 238	34 478	277 426	22 026	1 069 741	22 490 022
At 31 December 2005	13 131 527	7 721 581	16 120	539 817	27 229	907 964	22 344 238

Fully depreciated assets

Property, plant and equipment cost includes LE 977 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 31 December 2005, the net carrying amount of leased equipment and vehicles was LE 69 021k (2004: LE 57 847 k).

Depreciation

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

	2005	2004
In thousands of Egyptian Pound		
Operating expenses	2 467 735	2 358 859
Selling & distribution expenses	1 117	1 394
General & Administrative expenses	115 103	56 630
	2 583 955	2 416 883

14- Intangible assets

	Land usufruct	Right of way	Internet service license	Right of using ROU	Total
In thousands of Egyptian Pound					
Cost					
Balance at 1 January 2005	1	278 011	20 197	20 196	318 405
Acquisitions	–	–	–	28 710	28 710
Disposals	–	(60)	–	–	(60)
Effect of movements in foreign exchange	–	–	(8)	–	(8)
Balance at 31 December 2005	1	277 951	20 189	48 906	347 047

Amortization

Balance at 1 January 2005	–	152 811	19 995	2 356	175 162
Amortization for the year	–	25 365	21	2747	28 133
Impairment losses	–	–	–	17 006	17 006
Prior year adjustment	–	(8)	–	–	(8)
Disposals	–	(15)	–	–	(15)
Balance at 31 December 2005	–	178 153	20 016	22 109	220 278

Carrying amounts

At 31 December 2004	1	125 200	202	17 840	143 243
At 31 December 2005	1	99 798	173	26 797	126 769

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 and impairment charge is recognized in the following line items in the income statement:

	2005	2004
In thousands of Egyptian Pound		
Operating expenses	28 133	24 967
Other operating expenses*	17 006	13 323
	45 139	38 290

* During 2005, the Board of Directors of a subsidiary decided to write-down the carrying amount of the Rou by an amount of LE 17 006 k due to the severe decline in the value of these circuits and related effect on the future economic benefits. (2004: 13 323 k - write-down of an internet service license).

15- Investments in associates

The Group has the following investment in associate:

	Ownership		Carrying amount	
	2005	2004	2005	2004
In thousands of Egyptian Pound				
Vodafone Egypt. (SAE)	25.50 %	8.60 %	1 526 740	–
Nile on line. (SAE)	27.27 %	27.27 %	12 669	12 669
Wataneya for Telecommunication	50.00 %	–	125	–
Consortium Algerien de Tele – communications (CAT)	33.00 %	–	133	–
International Telecommunication Consortium Limited.(ITCL)	50.00 %	–	54	–
Egypt Trust	25.00 %	–	1 000	–
Total			1 540 721	12 669

During January 2005, Telecom Egypt has increased its shareholding stake in Vodafone Egypt by 16.9% to reach 25.5%. Effective of that date the investment was reclassified from available-for-sale investment, valued at fair value, to investment in associate accounted for in accordance with equity method of accounting.

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:

	Assets	Liabilities	Equity	Revenues	(loss) / profit
In thousands of Egyptian Pound					
31 - 12 - 2004:					
Nile on line	82 337	35 887	46 450	27 948	(5 779)
31 - 12 - 2005:					
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
** Wataneya for Telecommunication	–	–	–	–	–
** Consortium Algerien de Tele –communications (CAT)	–	–	–	–	–
** International Telecommunication Consortium Limited. (ITCL)	–	–	–	–	–
** Egypt Trust	–	–	–	–	–
	7 715 738	4 161 216	3 554 522	4 356 685	1 202 072

* Reported figures for Vodafone Egypt relating to revenues and profit for the nine months period ended 31 December, 2005.

** The financial information of these associates were not presented because it's financial statements are not prepared.

16- Available for sale investments

	2005	2004
In thousands of Egyptian Pound		
Equity securities available for sale – Foreign	18 430	70 553
Equity securities available for sale – Local	69 952	70 152
Investment in Vodafone	–	1 098 873
	88 382	1 239 578

17- Long-term receivable

	2005	2004
In thousands of Egyptian Pound		
National Telecommunication Regulatory Authority (NTRA)	1 600 000	1 975 000
Accretion of interest / (Discount)	76 000	(141 000)
Amortized cost	1 676 000	1 834 000
Current portion	(467 000)	(317 000)
	1 209 000	(1 517 000)
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:		
Current portion	(106 799)	–
	95 188	–
	1 525 773	1 517 000

During 2002, Telecom Egypt acquired a license for establishing and operating the third mobile network in Egypt for an amount of LE 1 975 million settled to the National Telecommunication Regulatory Authority (NTRA), subsequently and due to market condition management decided to waive its right to the license and refund the amount paid. On 20th December 2003 Telecom Egypt, Vodafone Egypt and The Egyptian Company for Mobile Services signed a memorandum of understanding, based on this memorandum Telecom Egypt waived its right to the frequency band 1800 MHTZ to Vodafone Egypt and The Egyptian Company for Mobile Services (mobile operators), and in return the mobile operators were obliged to settle cash installments to NTRA for using the frequency band 1800 MHTZ. Telecom Egypt required NTRA to transfer cash collected from the mobile operators to one of its lending banks.

On 27th January 2005 Telecom Egypt concluded an agreement with NTRA whereby Telecom Egypt undertook not to bid for a license to establish and operate a G.S.M mobile network within the frequency band 1800 MHTZ in the Arab Republic of Egypt until 30th November 2007, and in return Telecom Egypt shall receive LE 1 975 million, previously settled by Telecom Egypt, in addition to LE 480 million on installments throughout 2006 to 2009. The remaining installments payment schedule is as follow:

	2006	2007	2008	2009
In thousands of Egyptian Pound	520 000	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 & 28).

18- Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities □

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2005	2004	2005	2004
In thousands of Egyptian Pound				
Property, plant and equipment & intangible assets	–	–	170 402	–
Inventories	3 391	–	–	–
Trade & other receivables	25 793	–	–	–
Available for sale investments	–	–	–	99 662
Provisions	50 101	117 652	–	–
Accrued liabilities	29 845	–	–	–
Total deferred tax assets / liabilities	109 130	117 652	170 402	99 662

19- Inventories

	2005	2004
In thousands of Egyptian Pound		
Spare parts, supplies and cables	452 622	378 941
Telephone sets and directories	42 154	37 080
	494 776	416 021

20- Trade and other receivables

	2005	2004
In thousands of Egyptian Pound		
Trade receivables due from associate	6 200	23 733
Other trade and notes receivable:		
Governmental sector	229 127	212 072
Private sector	1 791 279	1 917 666
Foreign telecommunication operators	532 118	422 665
Others	–	17 469
Notes receivables	949	105
	2 559 673	2 593 710
Other receivables and pre-payments:		
Advance payments to suppliers	56 716	55 760
Deposits with others	6 957	4 858
Long-term receivable – current portion	573 799	317 000
Payments on the account of corporate tax	481 799	481 799
Other receivables	485 764	402 862
	4 164 708	3 855 989

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- Cash and cash equivalents

	2005	2004
In thousands of Egyptian Pound		
Bank balances	66 859	111 803
Time deposits	668 147	1 031 242
Cash on hand	33 010	13 481
	768 016	1 156 526
Bank overdrafts	(158 474)	(51 968)
Cash and cash equivalents in the statement of cash flows	609 542	1 104 558

Time deposits at 31 December 2005 included an amount of LE 9 565 k blocked in favor of banks as guarantee for letters of credits (2004: LE 8 586 k).

22- 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

After the balance sheet dates the following dividends were proposed by the directors. The dividends have not been provided for and there are no income taxes consequences.

	2005	2004
In thousands of Egyptian Pound		
LE 0.50 per qualifying ordinary share for 2005 (2004: LE 2.23 before the stock split)	853 536	381 000
	853 536	381 000

23- Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2005 was based on the profit attributable to ordinary shareholders of LE 1 929 985 k, (2004: LE 1 298 129 k) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 1 710 075 492 (2004:1 711 214 900), calculated as follows:

Profit attributable to ordinary shareholders

	2005	2004
In thousands of Egyptian Pound		
Profit for the year	1 932 739	1 300 823
Profit attributable to ordinary shareholders	1 929 985	1 298 129

Weighted average number of ordinary shares

Issued ordinary shares at 1 January *□	1 711 215	1 711 215
Effect of decrease of shares in September 2005	(1 140)	–
Average number of ordinary shares at 31 December 2005	1 710 075	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 22.

24- 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).

	2005	2004
In thousands of Egyptian Pound		
Non-current liabilities		
Secured bank loans	–	82 357
Unsecured bank loans:		
Local banks	8 919	1 046 228
Governmental loans	709 214	675 043
Foreign loans	954 644	1 340 753
Finance lease liabilities	51 346	45 950
Foreign suppliers facilities	62 044	301 605
	1 786 167	3 491 936
Current liabilities		
Short-term borrowings	419 061	1 468 252
Current portion of secured bank loans	–	42 840
Current portion of unsecured bank loans:		
Local banks	12 581	237 241
Governmental loans	124 613	157 943
Foreign loans	159 914	198 612
Current portion of finance lease liabilities	23 925	16 736
Foreign suppliers facilities	179 379	373 014
	919 473	2 494 638

Security

Foreign suppliers facilities include an amount of LE 10 952 k secured by letters of guarantee issued in favor of the suppliers.

Repaymentnt

	Loan Currency	Effective Interest Rate	Total	12 months or less	2 - 3 years	4 - 5 years	More than 5 years
In thousands of Egyptian Pound							
Local banks loans	L.E.	CAIBOR+2.55 %	21 500	12 581	8 919	–	–
Total local loans			21 500	12 581	8 919	–	–
Governmental Loans	L.E.	8%	22	22	–	–	–
Governmental Loans *	U.S.\$	4 - 16%	796 957	116 206	175 739	190 079	314 933
Governmental Loans	SK	Agency commition+0.15%	3 341	2 055	1 286	–	–
Governmental Loans	EURO	4 - 6.37%	33 507	6 330	12 323	9 900	4 954
Total Governmental loans			833 827	124 613	189 348	199 979	319 887
Foreign loans	J.Y	3 - 3.5%	102 777	24 397	48 794	28 289	1 297
Foreign loans	EURO	0.75 - 8.2%	1 001 610	135 517	251 506	174 391	440 196
Foreign loans	L.D	3.5%	10 171	–	–	–	10 171
Total foreign loans			1 114 558	159 914	300 300	202 680	451 664
Foreign suppliers' facilities - local	L.E.	3%	427	427	–	–	–
Foreign suppliers' facilities - foreign	EURO	3.18 - 5.5%	144 104	122 916	21 188	–	–
Foreign suppliers' facilities - foreign	J.Y	2.5 – 2.75%	96 892	56 036	40 856	–	–
Foreign suppliers' facilities - foreign	U.S.\$	3%	–	–	–	–	–
Total foreign suppliers' facilities			241 423	179 379	62 044	–	–
			2 211 308	476 487	560 611	402 659	771 551

* Includes a loan of LE 46 056 bears interest ranged from 8% - 16% due in March

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 31-12-2005	Interest 31-12-2005	Principal 31-12-2005	Minimum lease payments 31-12-2004	Interest 31-12-2004	Principal 31-12-2004
In thousands of Egyptian Pound						
Less than one year	32 165	8 240	23 925	23 823	7 087	16 736
Between one and five years	60 851	9 505	51 346	54 395	8 445	45 950
	93 016	17 745	75 271	78 218	15 532	62 686

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

25- 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.

26- Trade and other payables

	2005	2004
In thousands of Egyptian Pound		
Trade payables:		
Local suppliers	93 127	67 032
Foreign suppliers	7 504	1 254
Notes payable	3 137	–
	103 768	68 286
Other payables:		
Income tax payable	632 054	410 496
Amounts due to associate	314	4 058
Deposits from others	605 848	553 874
Fixed assets creditors	389 652	481 082
Customers advances	215 058	251 232
Accrued expenses	389 864	455 534
Other credit balances	563 931	452 209
	2 900 489	2 676 771

27- Provisions

	2005			2004		
	Taxes	Claims	Total	Taxes	Claims	Total
In thousands of Egyptian Pound						
Balance at 1 January	646 316	104 125	750 441	519 709	271 081	790 790
Provision formed	14 120	36 115	50 235	166 732	15 742	182 474
Provision used	(65 128)	(28)	(65 156)	(40 125)	(77 466)	(117 591)
Provision reversed	–	(157)	(157)	–	(105 232)	(105 232)
Balance at 31 December 2005	595 308	140 055	735 363	646 316	104 125	750 441

As at December 31, 2005 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.

28- 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 31 December 2005 the Group's assets and liabilities denominated in foreign currencies amounted to the equivalent of LE 1 754 640 k and LE 2 299 758 k respectively. The Group's net foreign currencies exposure as of 31 December 2005 was as follow:

	(Deficit) / Surplus	
	2005	2004
In thousands of Egyptian Pound		
Foreign currency		
US Dollar	146 348	137 056
Euro	(170 998)	(229 627)
Sterling Pound	461	471
Japanese Yen	(4 092 891)	(5 903 234)
Swedish Krona	(15 525)	(25 249)
Jordan Dinar	(265)	—

(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:

	2005	2004
US Dollar	3.39%	2.40 %
Euro	2.24%	2.11 %
Sterling Pound	4.35%	4.14 %
Egyptian Pound	6.63%	7.75 %

29- 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%.

30- Capital commitments

The Group's capital commitments for unexecuted portions of contracts as of 31 December 2005 amounted to LE 29.695 million (31 December 2004 LE 21.09 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.

31- Contingencies

	2005	2004
In thousands of Egyptian Pound		
Letters of guarantee issued by banks on behalf of the Group	8 270	28 801
Letters of credit	452 998	197 222

32- 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 year ended 31 December 2005, the Group rented services of international circuits of STM 1 and DS-3 from an associate company, the rental value was LE 2 749 k, (2004 : LE 40 022 k).

During the year ended 31 December 2005, net mobile services between Vodafone Egypt and the company amounted to LE 91 253 k in favor of Vodafone Egypt.

During the year ended 31 December 2005, the company paid an amount of 221 585 k on behalf of Consortium Algerian Telecommunication to finance the license fee and operating expenses of consortium company in Algeria.

During the year ended 31 December 2005, the company paid an amount of LE 68 k on behalf of International Communication Consortium LTD representing the participation of International Communication Consortium LTD in the share capital of Consortium Algerian Telecommunication Company.

33- Group entities

Control of the Group

The Group's ultimate parent company is Telecom Egypt.

	Country of incorporation	Ownership interest	
		2005	2004
Subsidiaries			
Middle East Radio Communication (MERC)	Egypt	51.00	51.00
T. E. Information Technology	Egypt	97.66	92.50
T. E. Data	Egypt	93.33	92.50
Centra Technologies	Egypt	55.02	51.21
Centra Industries - Indirect ownership	Egypt	54.90	51.20
T.E Data Jordan - Indirect ownership	Jordan	93.33	92.50