

Crop Yields



Financial Statements

For the Financial Year Ended Dec. 31, 2008



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AUDITOR'S REPORT TO THE SHAREHOLDERS OF TELECOM EGYPT COMPANY

Report on the Financial Statements

We have audited the consolidated accompanying financial statements of Telecom Egypt Company S.A.E, which comprise the consolidated balance sheet as at 31 December 2008 , and the consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

These financial statements are the responsibility of Company's management. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Egyptian Accounting Standards and in the light of the prevailing Egyptian laws, management responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; management responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Egyptian Standards on Auditing and in the light of the prevailing Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Telecom Egypt Company as of December 31 2008, and of its financial performance and its cash flows for the year then ended in accordance with the Egyptian Accounting Standards and the Egyptian laws and regulations relating to the preparation of these consolidated financial statements.

Cairo, March 15, 2009

KPMG Hazem Hassan
Public Accountants & Consultants

Crop Yields

Consolidated Balance Sheet EAS

For The Financial Year Ended December 31, 2008

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Long-Term Assets			
Fixed assets (net)	(4)	17 530 735	19 372 408
Projects in progress	(5)	1 109 575	843 565
Investments in affiliates	(3-6),(6-1)	6 922 814	6 921 428
Available for sale investments	(3-7),(6-2)	101 069	105 970
Other debit balances - long term	(7)	8 823	426 303
Other assets	(3-9),(8)	154 991	223 722
Total Long Term Assets		25 828 007	27 893 396
Current Assets			
Inventory	(9)	473 015	508 416
Trade and notes receivable	(10)	2 965 340	3 100 723
Debtors & other debit accounts	(11)	1 868 625	1 691 762
Investments held for trading	(12)	22 901	94 592
Cash at banks and on hand	(13)	2 711 761	1 302 241
Total Current Assets		8 041 642	6 697 734
Current Liabilities			
Loan installments and facilities due within one year	(14)	1 112 781	1 027 034
Bonds loan installments due within one year	(21)	400 000	800 000
Banks - credit accounts		6 602	6 683
Banks overdraft		323	769
Suppliers & notes payable	(15)	215 836	130 348
Dividends payable		1 130	829
Creditors and other credit accounts	(16-1)	3 388 649	3 195 913
Provisions	(17)	308 621	324 382
Total Current Liabilities		5 433 942	5 485 958
Working capital		2 607 700	1 211 776
Total investments		28 435 707	29 105 172

Financed as follows:

Equity and long-term liabilities

Equity

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Paid up capital	(19)	17 070 716	17 070 716
Reserves	(20)	5 127 748	5 019 013
Retained earnings		1 643 410	1 120 490
Translation difference adjustments		(353)	(591)
Net profit for the year		2 789 506	2 534 286
Total equity attributable to equity holders of the holding company		26 631 027	25 743 914
Minority Interest		38 058	39 846
Total Equity		26 669 085	25 783 760

Long-Term Liabilities

Loans and credit facilities	(14)	1 226 179	2 350 988
Bonds loan	(21)	400 000	800 000
Creditors and other credit accounts	(16-2)	62 718	62 045
Deferred tax liabilities	(3-22), (22)	77 725	108 379
Total Long-Term Liabilities		1 766 622	3 321 412
Total Equity and Long-Term Liabilities		28 435 707	29 105 172

The accompanying notes from No. (1) to No. (37) form an integral part of these financial statements.

Chairman & Chief
Executive Officer



Akil Beshir

Vice President & Chief
Financial Officer



Tarek Tantawy

Financial Controller



Hosam El-Saadawy

Auditor's Report "attached"

Crop Yields

Consolidated Income Statement EAS

For The Financial Year Ended December 31, 2008

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Operating Revenues	(23)	10 116 896	9 993 147
Operating Expenses			
Interconnection fees		1 253 690	1 368 457
Fuel		93 700	81 889
Spare parts		127 242	127 258
Maintenance		236 069	217 577
Satellite subscriptions		16 655	19 764
Depreciation and Amortization		2 550 225	2 736 692
Other operating costs	(24)	1 637 948	1 490 803
		5 915 529	6 042 440
Gross Operating Profit		4 201 367	3 950 707
Administrative Expenses			
General & administrative expenses	(25)	1 345 731	1 137 015
Selling & distribution expenses	(26)	436 348	347 594
Provisions	(17)	3 048	469
Impairment loss on assets	(18)	478 879	312 628
		2 264 006	1 797 706
Net Operating Profit		1 937 361	2 153 001

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Other Income / (Expenses)			
Interest income		157 798	81 302
Income from investments	(27)	1 312 079	1 070 672
Interest expenses		(360 695)	(599 774)
Other revenues	(28)	250 972	290 232
(Impairment) reversal of impairment of investment in affiliates & available for sale investments	(29)	(17 901)	31 910
Gain / (loss) on evaluation of held for trading investments		4 148	(350)
Gain on sale of held for trading investments		1 973	7 853
Gain on sale of available for sale investments		437	
Capital gain / (loss)		10 059	(2 354)
Release of unused provisions	(17)	7 624	115 689
Reversal of impairment loss on trade receivables		45	35
Foreign exchange gain / (loss)		3 631	(93 871)
		1 370 170	901 344
Net profit for the year before income tax		3 307 531	3 054 345
(Less) / Add:			
Current income tax expense for the year		(542 967)	(521 131)
Deferred tax		30 654	7 800
Net profit for the year		2 795 218	2 541 014
Attributable to :			
Equity holders of the holding company		2 789 506	2 534 286
Minority interest		5 712	6 728
Net profit for the year		2 795 218	2 541 014
Earnings per share (LE/Share)	(31)	1.49	1.37

The accompanying notes from No. (1) to No. (37) form an integral part of these financial statements.

Consolidated Statement of Cash Flows EAS

For The Financial Year Ended December 31, 2008

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Cash flows from operating activities			
Cash receipts from trade receivables		8 161 481	7 856 530
Sales tax collected from receivables		539 966	668 947
Stamp tax and fees collected (from third party)		60 970	55 261
Deposits received from customers		17 852	75 916
Cash paid to suppliers		(726 904)	(766 493)
Cash paid to employees		(1 696 311)	(1 315 217)
Cash paid on behalf of employees		(335 580)	(300 102)
Dividends paid to shareholders & employees		(1 860 432)	(1 291 286)
Net cash from operating activities		4 161 042	4 983 556
Interest paid		(341 554)	(637 834)
Payments to Income Tax Authority		(660 424)	(560 994)
Payments to Sales Tax Authority		(659 374)	(533 918)
Other proceeds / (payments) - net		141 974	193 873
Net cash provided by operating activities		2 641 664	3 444 683

Cash flows from investing activities

Payments for purchase of property, plant and equipment (918 851) and projects in progress and other assets			(944 821)
Proceeds from sale of fixed assets and other assets		18 445	891
Payments for purchase of investments		(125 851)	(110 955)
Proceeds from sale of investments		221 238	77 150
Interest income		120 411	72 570
Dividends received		1 320 641	755 982
Net cash provided by / (used in) investing activities		636 033	(149 183)

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Cash flows from financing activities			
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment, project in progress and other assets		(210 700)	(270 840)
Repayment of other borrowings & facilities		(814 532)	(1 765 936)
Proceeds from long term loans		211	
Repayment of banks credit accounts		(82)	(8 713)
Repayment of financial lease obligations		(43 466)	(40 327)
Payments for long term obligations		(840)	(820)
Repayment of bonds loan		(800 000)	(400 000)
Net cash used in financing activities		(1 869 409)	(2 486 636)
Net increase in cash and cash equivalents during the year		1 408 288	808 864
Translation difference adjustments		(383)	31
Cash and cash equivalents at the beginning of the year	(13)	1 292 783	483 888
Cash and cash equivalents at the end of the year	(13)	2 700 688	1 292 783

The accompanying notes from No. (1) to No. (37) form an integral part of these financial statements.

Crop Yields

Consolidated Statement of Changes in Equity EAS

For The Financial Year Ended December 31, 2008

	Paid up capital	Legal reserve LE(000)	Other reserves LE(000)	Fair value reserve LE(000)	Retained earnings LE(000)	Translation difference adjustments LE(000)	Net profit LE(000)	Total equity attributable to equity holders of the holding co. LE(000)	Minority interest LE(000)	Total equity LE(000)
Balance as of 1/1/2007	17 070 716	466 875	3 790 823	6 814	801 222	(185)	2 426 877	24 563 142	34 839	24 597 981
Transferred to reserves		104 501	650 000				(754 501)			
Dividends for the year 2006					(33 560)		(1 299 553)	(1 333 113)	(1 712)	(1 334 825)
Adjustments to retained earnings					(20 275)			(20 275)		(20 275)
Transferred to retained earnings					372 823		(372 823)			
Translation difference adjustments					280	(406)		(126)	(9)	(135)
Net profit for the year 2007							2 534 286	2 534 286	6 728	2 541 014
Balance as of 1/1/2008	17 070 716	571 376	4 440 823	6 814	1 120 490	(591)	2 534 286	25 743 914	39 846	25 783 760
Reclassification to the opening balance		416			(416)					
Transferred to reserves		108 402					(108 402)			
Dividends for the year 2007							(1 902 621)	(1 902 621)	(2 414)	(1 905 035)
Decrease in other reserves by the adjustments made in land caption			(93)					(93)		(93)
Adjustments to retained earnings					189			189	(5 093)	(4 904)
Transferred to retained earnings					523 263		(523 263)			
Translation difference adjustments		10			(116)	238		132	7	139
Net profit for the year							2 789 506	2 789 506	5 712	2 795 218
Balance as of 31/12/2008	17 070 716	680 204	4 440 730	6 814	1 643 410	(353)	2 789 506	26 631 027	38 058	26 669 085

The accompanying notes from No. (1) to No. (37) form an integral part of these financial statements.

1.BACKGROUND

1-1 Establishment of the company

Arab Republic of Egypt National Telecommunication Organization (ARENTO) was established pursuant to Law No.153of 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 Companies Law No. 159 of 1981 and Capital Market law No. 95 of 1992.

1-2 Purpose of the company

The main purpose of the company includes:

- Establishing and operating 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:

Subsidiary name	share Percentage %
TE Data – S.A.E.	95.04 %
The Egyptian Telecommunication Company for Information Systems (Xceed) – S.A.E	97.66 %
Middle East Radio Communication (MERC) – S.A.E.	50.90 % (Direct & Indirect)
Centra Technologies – S.A.E.	58.76 %
Telecome Egypt France	100 %

3.SIGNIFICANT ACCOUNTING POLICIES APPLIED

3-1 Basis of preparing the consolidated financial statements

3-1-1 The consolidated financial statements are prepared in accordance with the historical cost basis, except for some investments valued with its fair value, and in the light of the provisions of applicable Egyptian laws and regulations, the same accounting policies and principles applied to the periodical financial statements were implemented.

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 the 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 recognized in the consolidated income statement.

3-3 Financial statements translation for foreign operations

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 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(Years)
Buildings & constructions	10 - 50 Years
Machinery & equipment	5 - 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
Fixtures on the Trunk Radio Network	8 Years

3-5 Projects in Progress

The amounts incurred for construction or purchases of fixed assets are recorded at cost as projects in progress till being ready for the intended use in operations. Then, they are transferred to fixed assets with its cost.

3-6 Investments in affiliates

The investments in affiliates in the consolidated financial statements shall be accounted for by applying the equity method. Under this method, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The income statement of the investor includes the investor's share of the profit or loss of the investee.

If the investment is acquired and held with a view to its subsequent disposal in the near future. In this case, investments in affiliates shall be accounted for by applying the cost method. Under this method, the investment fair value is adjusted by any impairment in this value, and the income statement of the investor includes income from investments up to the dividends received from the investee's after the acquisition date.

3-7 Available-for-Sale Investments

3-7-1 Available-for-sale investments that have a quoted market price in an active market are measured at fair value and remeasurement is recognized directly in equity, if there is objective evidence that an impairment loss has been incurred, impairment loss is recognized in income statement.

3-7-2 Available-for-sale investments that do not have a quoted market price in an active market and which fair value cannot be reliably measured shall be measured at cost. In case of the existence of impairment, the carrying amounts of these investments is reduced by this impairment loss and recognized in income statement .

Income from investment measured at cost is recognized only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition, according to the investee companies' general assembly decisions of profit distributions.

3-8 Held for trading investments

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

3-9 Other assets and related 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 on a straight line basis over (10-20) years provided that their useful lives should be within the term of concession and usufruct rights.

3-10 Inventory

- Inventory is valued at the lower of cost or net realizable value at the date of balance sheet. 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 balances

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.(3-22) are reviewed at each consolidated 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 consolidated balance sheet date and amended when necessary to reflect the best current estimate.

3-14 Borrowing cost

Borrowing costs are recognized in the income statement as an expense is incurred.

3-15 Grants

Grants are recorded in the balance sheet as deferred revenues and recognized in the income statement as income over the years necessary to match them with the related costs, on a consistent basis.

3-16 Trading Creditors & Other Payables

Trading creditors and other payables are stated at the nominal value, also liabilities (payables) are stated at the value which will be paid in the future and this is against received goods and services.

3-17 Revenue recognition

- Revenues from sales of communication services are recognized when services are rendered to the customers.

- Revenues from goods sales are recognized when goods are delivered to customers and invoices are issued.

3-18 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. 30).

3-19 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.

3-20 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.

There was no change in the accounting estimates of the amounts recorded in the previous financial year .

3-21 Reserveses

- 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.

- Fair Value Reserve

When re-measured investments are sold, the related Fair Value reserve is transferred to retained earnings.

3-22 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 period, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized 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 based on the method expected to remeasure the values of assets and liabilities using tax rates 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.

3-23 Transactions with related parties

Transactions with related parties that are undertaken by the company in the course of its ordinary transactions are recorded according to the conditions laid down by the company's management on the same basis of dealing with third party.

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 preparation purpose of the statement of cash flows.

3-25 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group objectives, policies and processes for measuring and managing risk, and the Group management of capital. Further quantitative disclosures are included throughout these unconsolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group risk management framework.

The Group risk management policies are established to identify and analysis the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

3-25-1 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, this risk is mainly caused by trade and other receivables and debtors.

Trade & other receivables and debtors

The Group exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group customer base, including the default risk has less of an influence on credit risk.

Approximately 100% of Group revenue is attributable to sales transaction with many customers hence there is no concentration of credit risk from the demographic stand point, and the management of the Group established credit policy which suspends services for delinquent customers and impose fines on late payments followed by cutting off lines then contract termination.

3-25-2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

The Group ensures that the sufficient cash on demand to meet expected operational expenses for a suitable period, including the service of financial obligations, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

3-25-3 Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

3-25-4 Currency risk

The company is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of the company, primarily the U.S. Dollars (USD) and EURO.

In respect of other monetary assets and liabilities denominated in foreign currencies, the company ensures that its net exposure is kept to an acceptable level through purchase or sale of the foreign currencies with current prices when that is necessary to face un-balanced short term.

3-25-5 Other market prices risk

Equity price risk arises from available-for-sale investments held for strategic rather than trading purposes. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Executive Management. The primary goal of the Group investment strategy is to maximise investment returns.

3-25-6 Capital management

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, the Board also monitors the level of dividends paid to shareholders. There were no changes in the Group approach to capital management during the Year. The Group is not subject to externally imposed capital requirements.

4- FIXED ASSETS (NET)

	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)	Fixtures on trunk radio network LE(000)	Total LE(000)
Cost									
Balance at 1/1/2008	2 450 671	17 306 594	18 526 493	98 487	55 452	1 135 695	20 651	273	39 594 316
Reclassification	-	-	1 220	-	-	(1 220)	-	-	-
Adjustment to the opening balance	-	(2 453)	(20 399)	-	-	(688)	-	-	(23 540)
Additions for the year	3 073	200 722	523 356	3 869	1 155	167 515	3 637	42	903 369
Disposals for the year	(93)	-	(180 399)	(1 635)	(295)	(2 058)	(199)	-	(184 679)
Translation differences	-	-	64	-	-	(10)	1	-	55
Balance at 31/12/2008	2 453 651	17 504 863	18 850 335	100 721	56 312	1 299 234	24 090	315	40 289 521

Depreciation

Accumulated depreciation at 1/1/2008	-	7 479 515	12 010 920	92 171	34 996	596 883	7 377	46	20 221 908
Reclassification	-	-	101	-	-	(101)	-	-	-
Depreciation for the year	-	950 087	1 560 693	3 284	5 027	183 966	4 346	50	2 707 453
Accumulated depreciation of disposal	-	-	(166 663)	(1 559)	(263)	(2 013)	(112)	-	(170 610)
Translation differences	-	-	24	-	-	10	1	-	35
Accumulated depreciation at 31/12/2008	-	8 429 602	13 405 075	93 896	39 760	778 745	11 612	96	22 758 786
Carrying amount at 31/12/2008	2 453 651	9 075 261	5 445 260	6 825	16 552	520 489	12 478	219	17 530 735
Carrying amount at 31/12/2007	2 450 671	9 827 079	6 515 573	6 316	20 456	538 812	13 274	227	19 372 408

Cost of fixed assets include an amount of L.E 5 949 million relating to fully depreciated assets still in use.

Depreciations for the year are charged as follows:

	LE(000)
Operating expenses	2 518 549
General & administrative expenses	183 965
Selling & distribution expenses	4 939
	2 707 453

5. PROJECTS IN PROGRESS

	31/12/2008 LE (000)	31/12/2007 LE (000)
Telecom Egypt – Parent		
Land	11 433	6 593
Buildings and constructions	543 112	258 963
Machinery and equipment	257 849	321 605
Means of transportation	649	290
Tools and supplies	283	47
Office furniture and fixtures	43 943	17 641
Advance payments	186 817	203 536
Letters of credit	13 833	19 074
	1 057 919	827 749
T.E Data – a subsidiary company		
Buildings and constructions	31 752	10 391
Advance payments	19 400	3 130
T.E Information Technology - a Subsidiary Company		
Advance payments	504	2 295
	51 656	15 816
	1 109 575	843 565

6. LONG TERM INVESTMENTS

6-1 Investments in affiliates

	31/12/2008		31/12/2007	
	Participation %	LE (000)	Participation %	LE (000)
Vodafone Egypt	44.95	6 921 191	44.79	6 888 385
Nile On Line (NOL)	-	-	27.27	30 418
Wataneya for Telecommunication	50.00	125	50.00	125
Consortium Algerien de Tele – communications (CAT) *	33.00	-	33.00	-
International Telecommunication Consortium Limited. (ITCL)	50.00	-	50.00	-
Egypt Trust	35.71	1 498	35.71	2 500
		6 922 814		6 921 428

* Investments in Consortium Algerien de Telecommunications (CAT) & International Telecommunication Consortium Limited (ITCL) amounts are not included since these companies have sustained a loss that exceeds the investments amounts.

Investment in Vodafone – Egypt

The investments in Vodafone Egypt as of 31/12/2008 represents the ownership of 107 869 799 shares representing 44.95 % of Vodafone Egypt shares, Market value of investments in Vodafone Egypt shares according to the last execution price on December 31, 2008 - off floor trading - amounted to LE 10 257 339 K as the Vodafone Egypt shares were voluntarily delisted from the Egyptian Stock Exchange during September 2007.

Investments in Nile On Line (NOL)

Telecom Egypt's share in Nile on Line Company (NOL) was sold during October 2008.

6-2 Available for sale investments

	31/12/2008 LE (000)	31/12/2007 LE (000)
- Participations in foreign Satellite companies & organizations	26 683	26 683
- Investments in other local companies	74 386	79 287
	101 069	105 970

Investments in other local companies - EgyNet Company

During September 2008, Telecom Egypt investment in EgyNet Company amounting to LE 30 million was sold.

7. OTHER DEBIT BALANCES – LONG TERM

These balances are represented in the following:

	Note No.	31/12/2008 LE (000)	31/12/2007 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.		140 000	560 000
Less: The current portion to be collected during one year recorded under "debtors and other debit accounts".	(11-1)	140 000	520 000
		-	40 000
- The balance represents accrued interest till the balance sheet date, that shall be settled by (NTRA) for the license's charges paid to (NTRA) for the third mobile phone network amounted L.E. 480 million which should be paid as a part of the last installment amounting to L.E. 520 million.		450 000	330 000
Less: The current portion from accrued interest that is expected to be collected within one year and classified as debtors and other debit accounts.	(11-1)	450 000	-
		-	330 000
Payments made on behalf of Consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria.	(7-1)	446 767	414 759
Due from Loyalty Fund Grant	(30)	13 803	19 404
Less: The current portion to be collected during one year from Loyalty Fund Grant.	(11)	4 980	5 601
		8 823	13 803
Payments under capital increase for Egypt Trust and Technology Development Fund companies till recording in the commercial registration of this increase.		-	42 500
		455 590	841 062
Less: Impairment loss on other debit balances-long term	(7-1)	446 767	414 759
		8 823	426 303

7-1 Finance to Consortium Algerian Telecommunication (CAT) - Algeria

Telecom Egypt financed Consortium Algerian Telecommunication (CAT) by an amount of LE 446 767 K where Telecom Egypt participation is 50% (Direct & Indirect), this company suffers a material decrease in recoverable amount of the tangible & intangible company's assets, this company also faces financial difficulties. In the light of these circumstances there is high probability that Telecom Egypt will not be able to recover the finance given to CAT. The income statement was charged for the year by L.E. 32 008 K and for the years before 2008 by L.E. 414 759 K which represents Telecom Egypt share in the loss of investment for the years before 2008.

8. OTHER ASSETS

	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 (SMW) LE(000)	Right of using (ROU) LE(000)	Internet license LE(000)	Total LE(000)
Cost								
Cost as at 1/1/2008	1 720	41 203	95 910	1	191 360	136 682	20 181	487 057
Additions for the year	-	-	-	-	-	8 735	-	8 735
Disposals for the year	-	(7 850)	-	-	(1 095)	-	-	(8 945)
Adjustments during the year	-	-	-	-	(14 402)	-	-	(14 402)
Translation differences	-	-	-	-	-	12	1	13
Balance as at 31/12/2008	-	33 353	95 910	1	175 863	145 429	20 182	472 458
Accumulated amortization & impairment losses								
Balance as at 1/1/2008	1 075	22 168	79 462	-	95 847	44 729	20 054	263 335
Amortization during the year	172	1 962	6 989	-	15 111	7 422	20	31 676
Accumulated amortization for disposals	-	(4 518)	-	-	(4 080)	-	-	(8 598)
Decrease in the value of other assets	-	-	-	-	-	31 054	-	31 054
accumulated amortization and impairment at 31/12/2008	1 247	19 612	86 451	-	106 878	83 205	20 074	317 467
Carrying amount at 31/12/2008	473	13 741	9 459	1	68 985	62 224	108	154 991
Carrying amount at 31/12/2007	645	19 035	16 448	1	95 513	91 953	127	223 722

9. INVENTORY

	31/12/2008 LE (000)	31/12/2007 LE (000)
Spare parts	256 304	239 627
Materials supplies	1 086	1 352
Computers & Pc's components	1 982	1 545
Others – project cables and supplies	142 133	186 921
Finished goods	6 842	13 040
Merchandise for sale	16 219	14 504
Consignment goods	297	531
	424 863	457 520

Add:

Letters of credit	48 152	50 896
	473 015	508 416

Inventory value was reduced by LE 26 752 K for obsolete and slow moving items.

10. TRADE & NOTES RECEIVABLE

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Governmental sector		372 545	434 642
Private sector		2 919 045	2 487 691
Foreign telecommunication companies and organizations		988 151	1 088 701
		4 279 741	4 011 034
Less:			
Impairment loss on trade receivables	(18)	1 314 769	911 463
		2 964 972	3 099 571
Add:			
Notes receivable		368	1 152
		2 965 340	3 100 723

11. DEBTORS AND OTHER DEBIT ACCOUNTS

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Suppliers – debit balances		63 521	78 912
Deposits with others		15 650	10 029
Employees' loans		794	1 059
Customs Authority - deposits		3 034	3 043
Accrued revenues		15 109	7 108
Tax Authority- withholding tax		48 176	73 431
Sales Tax Authority		494 950	561 233
Employees loyalty grant	(30)	4 980	5 601
Other debit accounts	(11-1)	1 390 866	1 265 363
		2 037 080	2 005 779
Less:			
Impairment loss on debtors and other debit accounts	(18)	168 455	314 017
		1 868 625	1 691 762

11-1 Other debit accounts

Other debit accounts include the following items :

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
The current portion to be collected during next year from the National Telecommunication Regulatory Authority for the license fees of Wataneya for Telecommunication.	(7)	140 000	520 000
The balance represents accrued interest till the balance sheet date, that shall be settled by (NTRA) for the license's charges paid to (NTRA) for the third mobile phone network amounting to L.E. 480 million which should be paid as a part of the last installment amounted to L.E. 520 million.	(7)	450 000	-
Amount due from the employees for the company's shares purchased by the company and distributed to them and paid by the company.		21	880
Payments on the account of corporate tax.		285 996	285 996
		876 017	806 876

12. INVESTMENTS HELD FOR TRADING

Held for trading investments amounted to LE 22 901 K represented in the following:

	31/12/2008 LE (000)	31/12/2007 LE (000)
TE Data a Subsidiary Company		
Value of 77 889 unit of Commercial International Bank Investment Fund – Osoul Fund with price LE 136.86 for each unit at balance sheet date.	10 660	51 784
Value of 91 771 unit of the National Societe General Bank Investment Fund with price LE 119.864 for each unit at balance sheet date.	11 000	41 664
TE Information Technology – a Subsidiary Company		
Value of 9 067 unit of Commercial International Bank Investment Fund – Osoul Fund with price LE 136.86 for each unit at balance sheet date.	1 241	1 144
	22 901	94 592

13. CASH AT BANKS AND ON HAND

	31/12/2008 LE (000)	31/12/2007 LE (000)
Banks- time deposits	2 233 896	1 077 783
Banks -current accounts	470 097	215 495
Cash on hand	7 768	8 963
	2 711 761	1 302 241
Less:		
Banks overdraft	323	769
Blocked time deposit	4 469	4 795
Cheques under collection	6 281	3 894
Cash & cash equivalents in the cash flows statement	2 700 688	1 292 783

14- LOANS AND FACILITIES

Description	Loan Currency	Long term loan installments due within one year LE(000)	Long term loan installments due after one year LE(000)	Balance as of 31/12/2008 LE(000)	Balance as of 31/12/2007 LE(000)	Annual Interest Rate %	Repayment schedule
Syndicate loan from Local banks (Vodafone loan)*	L.E.	905 000	197 500	1 102 500	1 917 000	Average rate of deposits & loans (Corridor) + 1%	Unequal semi-annual installments ending on 31/3/2010
Total local loans		905 000	197 500	1 102 500	1 917 000		
Governmental Loans	U.S.\$	93 707	443 038	536 745	626 564	4 %	Annual installments ending on 24/1/2018
Governmental Loans	EURO	6 398	10 406	16 804	24 403	4 - 6.37%	Semi annual installments ending on 29/12/2012
Total Governmental loans		100 105	453 444	553 549	650 967		
Foreign loans	J.Y	26 857	9 962	36 819	54 046	3 -3.5%	Semi annual installements ending on 20/3/2012
Foreign loans	EURO	77 481	565 136	642 617	752 598	0.75 - 6%	Semi annual installements ending on 30/6/2036
Total foreign loans		104 338	575 098	679 436	806 644		
Foreign suppliers' facilities	EURO	3 296		3 296	3 411	5.50%	
Local loan-subsidiary company	LE	42	137	179		7%	Monthly installments ending on 1/3/2013
		1 112 781	1 226 179	2 338 960	3 378 022		

* The original loan amounting to L.E 4 525 000 K for financing part of the purchase of 45 980 529 shares of Vodafone Egypt during year 2006.

- Foreign suppliers' facilities in Euro amounting to L.E 3 296 K equivalent to Euro 424 K against letters of guarantee issued by National Bank of Egypt in favour of Siemens as a guarantee for this facility settlement, there are no other guarantees .

- The available unused balance of foreign loans and facilities at 31/12/2008 equivalent to an amount of L.E 18 799 K.

15- SUPPLIERS & NOTES PAYABLE

	31/12/2008 LE (000)	31/12/2007 LE (000)
Suppliers - local	204 989	124 994
Notes payable	10 847	5 354
	215 836	130 348

16- CREDITORS AND OTHER CREDIT ACCOUNTS

16-1 Creditors and other credit accounts (current)

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Tax Authority		179 547	161 049
Deposits from others		754 254	722 778
Fixed assets creditors		271 904	330 635
Accrued interest		92 227	73 189
Accrued expenses		245 998	192 860
Social Insurance Authority		20 383	18 804
Customers – credit balances		297 095	201 728
Credit balance for social, cultural and sportive activities		110 701	206 982
Deferred revenues*		224 021	268 650
Other credit accounts		703 985	552 687
Tax Authority – income tax		271	124
Current income tax for the year		542 967	521 131
		3 443 353	3 250 617
Less:			
Tax liabilities due after one year	(16-2)	54 704	54 704
		3 388 649	3 195 913

* The deferred revenues amounting to 224 021 K at December 31, 2008 represents the grants presented by the USAID to finance some of the company's projects, as well as the grants presented by the projects management of Marine Cables for the construction of a building in Alexandria and the right of way for marine cables after deducting the accumulated amortization at December 31, 2008.

16-2 Creditors and other credit accounts (long-term)

Creditors and other long-term accounts represent:-

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Telecom Egypt – parent company			
Tax liabilities due after one year	(16-1)	54 704	54 704
T.E Information Technology – a subsidiary Company			
The additional retirement compensations due to the company's employees		5 609	4 436
Due to suppliers as a result of purchasing communications machinery and supplies.		2 405	2 905
		62 718	62 045

17- PROVISIONS

	Balance as of 1/1/2008 LE(000)	Charged to the income statement LE(000)	Used during the year LE(000)	Release of unused provisions LE(000)	Balance as of 31/12/2008 LE(000)
Provision for contingent liabilities, claims and others					
Tax provision	304 957	849	(11 185)	(7 624)	286 997
Claims provision	19 425	1 999			21 424
Guarantee provision	-	200	-	-	200
	324 382	3 048	(11 185)	(7 624)	308 621

Claims provision related to lawsuits in respect of claims for alleged losses and various claims for damages and expected social insurance claims in respect of contracts concluded with suppliers.

18- IMPAIRMENT LOSS OF ASSETS

	Note No.	Balance as of 1/1/2008 LE(000)	Charged to income statement LE(000)	Used during the year LE(000)	Translation difference adjustments LE(000)	Reversal of impairment loss LE(000)	Balance as of 31/12/2008 LE(000)
Impairment loss on trade receivables	(10)	911 463	403 350	-	1	(45)	1 314 769
Impairment loss on debtors and other debit balances	(11)	314 017	8 796	(154 400)	42	-	168 455
Impairment loss on other assets	(8)	46 933	31 054	-	-	-	77 987
Impairment loss on long-term debit balances	-	246 969	32 008	-	-	-	278 977
Write-down of inventories	-	23 081	3 671	-	-	-	26 752
	-	1 542 463	478 879	(154 400)	43	(45)	1 866 940

19. CAPITAL

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

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

- Decrease of issued 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 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 LE 29 817 K.
- Decrease of the par value per share from L.E. 100 to LE 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.

20. RESERVES

	31/12/2008 LE (000)	31/12/2007 LE (000)
Legal reserve	680 204	571 376
Revaluation reserve of available for sale investments	6 814	6 814
General reserve	4 422 620	4 422 713
Capital reserve	18 110	18 110
	5 127 748	5 019 013

General reserve amounting to L.E 4 422 620 K at 31/12/2008 representing the dividends transferred to the general reserve for years 99/2000 till 2006 after deducting LE 1 618 803 K which represents the adjustments on the land during years 2005, 2006 and 2008.

21. BONDS LOAN

- In February 2005, the Company issued 20 million nominal marketable bonds not convertible into shares with total value of L.E 2 billion at a par value of L.E.100 each for year of (5) years. These bonds were offered for public subscription and issued in two portions as follows:

1- The first portion represents 50% of the bonds at a fixed annual interest equal 10.95% to be paid quarterly.

2- The second portion represents 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.

These bonds were used for partial settlement of long-term loans and bank overdraft accounts in local currency.

The bonds will be repaid / amortized on five equal installments starting on December 1st, 2007 and provided that the last installment will be repaid / amortized in February 2010. Bonds loan balance as of December 31, 2008 amounted to L.E 800 million (Fourth & Fifth installments) including L.E 400 million that shall become due within a year, and it was classified in the current liabilities in the balance sheet.

22. DEFERRED TAX

Deferred Tax Assets and Liabilities

	31/12/2008 L.E.(000)		31/12/2007 L.E.(000)	
	Assets	Liabilities	Assets	Liabilities
Fixed assets	-	(196 887)	-	(231 513)
Other assets	-	(2 675)	-	(1 952)
Inventory	4 999	-	4 616	-
Trade and other receivables	36 055	-	39 932	-
Provisions	46 233	-	49 434	-
Accrued liabilities	34 550	-	31 104	-
Total deferred tax assets (liability)	121 837	(199 562)	125 086	(233 465)
Net deferred tax liability	-	(77 725)	-	(108 379)

23. OPERATING REVENUES

	2008 LE (000)	2007 LE (000)
Retail Services:		
Access revenue	1 999 398	1 888 055
Voice revenue	3 014 869	3 166 988
Internet service & data transmission	575 337	456 472
Others	591 202	629 811
Total Retail Services	6 180 806	6 141 326
Wholesale Services :		
Domestic	1 058 265	924 589
International	2 877 825	2 927 232
Total Wholesale Services	3 936 090	3 851 821
Total Operating Revenues	10 116 896	9 993 147

* Comparative figures of operating revenues were reclassified to comply with the current classification.

24. OTHER OPERATING COSTS

	2008 LE (000)	2007 LE (000)
Salaries & wages	1 031 839	842 117
Compulsory social security contributions	102 091	98 024
Employees' vacations	18 365	16 027
Electricity & water	13 096	13 740
Stationary & printed materials	38 069	60 165
Transportation cost	23 852	17 204
Business telephone cost	58 674	53 314
Rent	742	6 886
Frequencies & license charge (NTRA)	195 011	174 504
Others	156 209	208 822
	1 637 948	1 490 803

25. GENERAL & ADMINISTRATIVE EXPENSES

	2008 LE (000)	2007 LE (000)
Salaries & wages	641 038	576 061
Compulsory social security contributions	37 756	34 772
End of service compensation-Early retirement program	23 119	4 461
Employees' vacations	11 712	11 372
Depreciation of fixed assets	183 965	176 550
Training	1 065	989
Bad debts	19 338	1 264
Tax and customs duty	111 741	77 741
Bank charges & commissions	4 896	7 470
Advertisement	75 960	42 715
Others	235 141	203 620
	1 345 731	1 137 015

26. SELLING & DISTRIBUTION EXPENSES

	2008 LE (000)	2007 LE (000)
Salaries & wages	169 794	128 053
Compulsory social security contributions	16 367	13 643
Employees' vacations	2 635	2 385
Depreciation of fixed assets	4 939	2 325
Tax and customs duty	9 010	5 906
Rent	2 458	1 000
Advertisement	21 254	24 328
Others	209 891	169 954
	436 348	347 594

27. INCOME (LOSS) FROM INVESTMENTS

	2008 LE (000)	2007 LE (000)
Revenues (Losses) from investment in affiliates		
Vodafone Egypt	1 308 600	1 126 366
Nile on line (NOL)	(195)	256
Consortium Algerien De Tele-Communications (CAT)	-	(59 434)
Egypt Trust	(1 793)	-
	1 306 612	1 067 188
Revenue from available for sale investments		
The Egyptian Telephone Company (Quicktel)	-	2 211
Information Technology Company	339	129
Menatel	-	1 144
Egyptian German Telecommunication Industry (EGTI)	2 126	-
Arab sat	3 002	-
	1 312 079	1 070 672

28. OTHER REVENUES

	2008 LE (000)	2007 LE (000)
Sundry revenues*	260 043	307 668
Donations	(9 071)	(17 436)
	250 972	290 232

* Sundry revenues include the following:

	LE (000)
- Accrued interest for the amounts paid to NTRA.	120 000
- Deferred revenues amortization	44 629

29. IMPAIRMENT ON AVAILABLE FOR SALE INVESTMENTS

	2008 LE (000)	2007 LE (000)
Investments in affiliates		
Nile On Line (NOL)	-	17 332
International Telecommunication Consortium Limited. (ITCL)	-	(54)
	-	17 278
Available for sale investments		
- Arab company for computers industry	(717)	(947)
- Egyptian Company for Networks –EgyNet	-	15 900
- The Egyptian Telephone Company (Quicktel)	(11 524)	-
- Egyptian Company for Ideavelopers	(55)	(321)
- Menatel Company	(5 605)	-
	(17 901)	14 632
	(17 901)	31 910

30. 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 company's board of directors approved in its meetings dated March 20, 2002 and December 30, 2002 to finance an amount of L.E 65 000 K and L.E 35 000 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 L.E. 86 197 K was refunded as of December 31, 2008.
- On January 15, 2004 the employees' Loyalty Fund was registered in the Register of the Egyptian Private Social Insurance Funds in Egypt 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 L.E. 23 119 K. (Note No. 25)
- The amounts to be refunded during a year (current portion) amounted to L.E 4 980 K and the amounts to be refunded starting from January 2010 and up to the year 2011 (the long term portion) is L.E. 13 803 K. (Note No. 7).

31. EARNINGS PER SHARE FOR THE YEAR

	2008 LE (000)	2007 LE (000)
Net profit for the year (LE 000)	2 789 506	2 534 286
Less:		
Employees share in profit (LE 000)	246 577	189 675
Board of directors remuneration (LE 000)	4 000	3 000
	2 538 929	2 341 611
Less:		
The parent company's share in employees & Board of directors' share of subsidiaries dividends (LE 000)	340	2 874
	2 538 589	2 338 737
Number of outstanding shares	1 707 071 600	1 707 071 600
Earnings per share for the year (L.E / share)	1.49	1.37

32. CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts until December 31, 2008 amounted to L.E 102 million (includes L.E 10.45 million the uncalled installments of investees' of share capital) against L.E 111 million at 31/12/2007 (includes L.E 10.45 million the uncalled installments of investees' of share capital). These commitments are expected to be settled in the following period except the uncalled installments of investees' share capital, which shall be settled when required by the Board of Directors for those investees companies.

33. CONTINGENT LIABILITIES

In addition to the amounts included in the balance sheet, as of December 31, 2008 the company had the following contingent liabilities:

	31/12/2008 LE (000)	31/12/2007 LE (000)
- Letters of guarantee issued by banks on behalf of the company	63 789	65 762
- Letters of credit	191 722	249 041

34. TAX POSITION

34-1 Corporate tax

Years till 26/3/1998

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

Financial years from 27/3/1998 till 31/12/2004

Tax inspection was made till the year ended 31/12/2004 and the company was notified by Tax Forms No. (18) & (19) corporate profit tax and it agreed on the taxable income and the differences were paid.

Financial years 2005, 2006&2007

- Tax inspection for the year 2005 was made, and the company was notified that there are no tax differences.

- Tax returns were submitted for years 2006 & 2007 on due dates according to tax law No. 91 for year 2005.

34-2 Sales Tax

- Tax inspection was made till 31/12/2007 and all due taxes were settled.

34-3 Salaries Tax

- Tax inspection and assessment were made till 31/12/2002 and all due tax were settled.

- Tax inspection for the year from 1/1/2003 till 31/12/2004 is currently being undertaken.

34-4 Stamp tax

- Tax inspection for the year from 27/3/1998 to 31/12/2000 was made and the company objected on the disputed items on the due dates and the related provisions were formed to meet the disputed tax liabilities.

- Tax inspection for the years from 1/1/2001 till 31/7/2006 was made and all tax due were settled.

35- RELATED PARTY TRANSACTIONS WITH AFFILIATES

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

	Amount of transactions recorded in the income statement L.E. 000	Nature of transaction during the year	Transaction volume during the year		Balance as of 31/12/2008		Balance as of 31/12/2007	
			Debit L.E. 000	Credit L.E. 000	Debit L.E. 000	Credit L.E. 000	Debit L.E. 000	Credit L.E. 000
Debit balance included in account receivables								
Nile On Line (N.O.L)	-	International leased lines	-	-	-	-	66	-
Nile On Line (N.O.L)	-	Local leased lines	-	-	-	-	742	-
Vodafone Egypt	523 011	Outgoing calls and voice services to the affiliate company						
	1 077 987	Incoming and international call transmission & lease of company premises and towers to the affiliate company	1 126 118	1 001 470	178 848	-	54 200	-
Vodafone Egypt	11 176	Sale of products & services of Vodafone	3 540	6 675	-	3 135	-	-
			1 129 658	1 008 145	178 848	3 135	55 008	-

Debit balance included in other debit balances - long term

Consortium Algerien de Telecommunications (CAT)		Paid on behalf of subsidiary to finance operating expenses	47 420	15 413	446 766	-	414 759	-
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Debit balance included in debtors and other debit accounts

International Telecommunication Consortium Limited (ITCL)			2	2	66	-	66	-
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36. FINANCIAL INSTRUMENTS

36 -1 credit risk : Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is:

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Trade & notes receivable	(10)	2 965 340	3 100 723
Other debit balances-long term	(7)	8 823	426 303
Debtors and other debit accounts – short terms	(11)	1 868 625	1 691 762
Investments in affiliates	(6-1)	6 922 814	6 921 428
Available for sale investments	(6-2)	101 069	105 970
Cash at banks	(13)	2 703 993	1 293 278
		14 570 664	13 539 464

36-2 Liquidity risk :

The following are the expected maturities of financial liabilities at the balance sheet date.

	Carrying Amount LE (000)	One year or less LE (000)	From 1-2 years LE (000)	From 3-5 years LE (000)	More than five years LE (000)
December 31, 2008					
Suppliers & notes payable	204 989	204 989	-	-	-
Creditors and other credit accounts	3 452 497	3 389 779	-	1 870	60 848
Loans installments and facilities	2 345 562	1 119 383	375 309	391 744	459 126
Bonds loan	800 000	400 000	400 000	-	-
	6 803 048	5 114 151	775 309	393 614	519 974
December 31, 2007					
Suppliers & notes payable	130 348	130 348	-	-	-
Creditors and other credit accounts	3 258 787	3 196 742	2 905	1 479	57 661
Loans installments and facilities	3 384 705	1 033 717	654 568	1 120 981	575 439
Bonds loan	1 600 000	800 000	800 000	-	-
	8 373 840	5 160 807	1 457 473	1 122 460	633 100

36-3 Currency risk

Description	LE (000)	U.S. Dollars (000)	LE (000)	Sterling Pound (000)	LE (000)	Euro (000)	LE (000)	Japanese Yen (000)	Other Currencies LE (000)	Total LE(000)
31/12/08										
Receivables	935 908	169 779	-	-	5 983	769	-	-	3 435	945 326
Due interest - deposits	1 812	329	-	-	6 213	799	-	-	-	8 025
Other debit accounts	281	50 970	-	-	-	-	-	-	1 260	1 541
Cash on hand & at banks	879 088	159 471	2 389	300	463 643	59 608	-	-	21 523	1 366 643
Total assets	1 817 089	380 549	2 389	300	475 839	61 176	-	-	26 218	2 321 535
Suppliers and notes payable	37 170	6 743	-	-	224	29	-	-	578	37 972
Creditors & other credit accounts	49 933	9 058	69	8	69 225	8 900	-	-	16 223	135 450
Banks overdraft	-	-	323	40	-	-	-	-	-	323
Foreign loans & facilities	536 746	97 369	-	-	662 716	85 202	36 820	600 817	-	1 236 282
Total liabilities	623 849	113 170	392	48	732 165	94 131	36 820	600 817	16 801	1 410 027
Risk surplus (deficit)	1 193 240	267 379	1 997	252	(256 326)	(32 955)	(36 820)	(600 817)	9 417	911 508
Closing exchange rate as of 31/12/2008	-	5.5125	-	7.9802	-	7.7782	-	0.0613	-	-
Average exchange rate during year 2008	-	5.4565	-	10.0561	-	8.1049	-	0.0531	-	-
31/12/07										
Receivables	1 051 407	190 818	-	-	13 120	1 630	-	-	1 558	1 066 085
Due interest - deposits	138	25	11	1	483	60	-	-	-	632
Other Debit accounts	116	21	-	-	-	-	-	-	864	980
Cash on hand & at banks	333 564	60 538	3 342	305	321 171	39 903	-	-	11 940	670 017
Total assets	1 385 225	251 402	3 353	306	334 774	41 593	-	-	14 362	1 737 714
Suppliers and notes payable	2 606	473	-	-	72	9	-	-	-	2 678
Creditors & other credit accounts	92 166	16 727	77	7	58 893	7 317	60	1 218	16 330	167 526
Banks overdraft	832	151	449	41	-	-	-	-	-	1 281
Foreign loans & facilities	626 564	113 714	-	-	780 412	96 960	54 046	1 096 260	-	1 461 022
Total liabilities	722 168	131 065	526	48	839 377	104 286	54 106	1 097 478	16 330	1 632 507
Risk surplus (deficit)	663 057	120 337	2 827	258	(504 603)	(62 693)	(54 106)	(1 097 478)	(1 968)	105 207
Closing exchange rate as of 31/12/2007	-	5.51	-	10.9575	-	8.0488	-	0.0493	-	-
Average exchange rate during year 2007	-	5.65	-	11.3	-	7.8	-	0.0486	-	-

36-4 Sensitivity analysis

A 10% strengthening of the foreign currencies against the EGP as of December 31, 2008 would have increased profit by an amount of LE 91 151 K (L.E 10 520 K as of December 31, 2007). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2007.

And a 10% weakening of the foreign currencies against the EGP at 31/12/2008 would have had the equal but opposite effect on the foreign currencies to the amounts shown above.

36-5 Interest rate risk

At the reporting date, the interest rate profile of the company's description financial instruments is:

	31/12/2008 LE (000)	31/12/2007 LE (000)
Fixed rate financial instruments		
Financial assets - deposits	2 233 896	1 077 783
Financial liabilities (loans – facilities-bonds)	1 636 460	2 273 157
	3 870 356	3 350 940
Variable rate financial instruments		
Financial liabilities (Vodafone loan)	1 102 500	1 917 000
Financial liabilities (bonds)	400 000	800 000
	1 502 500	2 717 000

36-6 Fair values for financial instruments

The financial instruments are represented in the balance of cash on hand and at banks, debtors, creditors, investments and loans & facilities. 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.

37- INTERCONNECT AGREEMENT WITH MOBILE COMPANIES

Telecom Egypt company filed a complaint with the Dispute Resolution Board of the National Telecommunication Regulatory Authority (NTRA) with the purpose of changing interconnect rates with the mobile operators. The NTRA issued a ruling on the dispute on September 3, 2008 by changing the interconnect prices between the fixed and mobile networks. However, Mobinil objected to the administrative decision issued by the NTRA and filed a lawsuit on November 1, 2008 against the NTRA before the Administrative Court at the State Council asking for cessation and nullifying the NTRA decision in addition to the cancellation of all the consequent effects of the said decision. On the other hand, Vodafone – Egypt also filed a lawsuit against NTRA and Telecom Egypt before the Administrative Court to claim the cessation of the administrative decision and the nullity of the said decision.

The amount in dispute between Telecom Egypt and the mobile operators in relation to the said dispute during the period from September 3, 2008 till the end of December 2008 amounted to L.E 128 230 515 in favor of Telecom Egypt. Meanwhile, Telecom Egypt recorded revenues and expenses of the interconnect services between the company and the mobile companies according to the administrative decision issued by NTRA. Telecom Egypt is currently considering the proper legal actions including its defense procedures against Vodafone – Egypt in the light of the agreement in effect and the provisions of the Telecommunications Law.