

Crop Yields

IFRS

Financial Statements

For the Financial Year Ended Dec. 31, 2008



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## INDEPENDENT AUDITOR'S REPORT

### To The Board of Directors of Telecom Egypt Company

#### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Telecom Egypt Company and its subsidiaries (the Group) which comprise of the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in shareholders equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This 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; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditors' Responsibility

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

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

*KPMG Hazem Hassan*

KPMG Hazem Hassan

April 8, 2009  
Cairo, Egypt

# Crop Yields

## Consolidated Balance Sheet IFRS

For The Financial Year Ended December 31, 2008

In thousands of Egyptian Pound	Note	31/12/2008	31/12/2007
<b>Assets</b>			
Property, plant and equipment	(13)	18 212 656	19 737 481
Intangible assets	(14)	154 991	223 722
Investment in associates	(15)	6 793 220	6 918 675
Available for sale investments	(16)	94 255	99 156
Long-term receivable	(17)	-	500 500
Deferred tax assets	(18)	121 837	125 086
<b>Total non-current assets</b>		<b>25 376 959</b>	<b>27 604 620</b>
Inventory	(19)	473 015	508 416
Trade and other receivables	(20)	4 853 444	4 756 435
Investments held for trading	(21)	22 901	94 592
Cash and cash equivalents	(22)	2 711 761	1 302 241
<b>Total current assets</b>		<b>8 061 121</b>	<b>6 661 684</b>
<b>Total assets</b>		<b>33 438 080</b>	<b>34 266 304</b>
<b>Equity</b>			
Issued capital	(23)	17 070 716	17 070 716
Reserves	(23)	5 120 581	5 011 608
Retained earnings		3 574 834	2 942 795
<b>Total equity attributable to equity holders of the parent</b>		<b>25 766 131</b>	<b>25 025 119</b>
Minority interest		38 058	39 846
<b>Total equity</b>		<b>25 804 189</b>	<b>25 064 965</b>

	Note	31/12/2008	31/12/2007
<b>Liabilities</b>			
Interest-bearing loans and borrowings	(25)	1 262 722	2 408 271
Bonds payable	(26)	400 000	800 000
Deferred income		224 021	268 650
Other payables		62 718	62 045
Deferred tax liabilities	(18)	199 562	233 465
<b>Total non-current liabilities</b>		<b>2 149 023</b>	<b>3 772 431</b>
Bank overdraft	(22)	323	769
Bonds payable	(26)	400 000	800 000
Interest-bearing loans and borrowings	(25)	1 147 179	1 066 321
Trade and other payables	(27)	3 628 745	3 237 436
Provisions	(28)	308 621	324 382
<b>Total current liabilities</b>		<b>5 484 868</b>	<b>5 428 908</b>
<b>Total liabilities</b>		<b>7 633 891</b>	<b>9 201 339</b>
<b>Total equity and liabilities</b>		<b>33 438 080</b>	<b>34 266 304</b>

Chairman & Chief  
Executive Officer



Akil Beshir

Vice President & Chief  
Financial Officer



Tarek Tantawy

Financial Controller



Hosam El-Saadawy

Auditor report " attached"

# Crop Yields

## Consolidated Income Statements IFRS

For The Financial Year Ended December 31, 2008

In thousands of Egyptian Pound	Note	2008	2007
Revenue	(3)	10 116 896	9 993 147
Operating expenses	(4)	(6 012 159)	(6 105 396)
Gross profit		4 104 737	3 887 751
Other income	(5)	157 771	335 302
Selling and distribution expenses	(6)	(455 433)	(361 872)
Administrative expenses	(7)	(1 394 523)	(1 171 470)
Other expenses	(8)	(508 899)	(332 887)
Operating profit before financing costs		1 903 653	2 356 824
Financial income	(10)	253 230	226 936
Financial expenses	(10)	(370 773)	(705 658)
Net financing costs	(10)	(117 543)	(478 722)
Share of profit in associates		1 179 771	1 022 910
Profit before tax		2 965 881	2 901 012
Income tax expense	(11)	(512 313)	(513 331)
Profit for the year		2 453 568	2 387 681
<b>Attributable to:</b>			
Equity holders of the parent		2 447 856	2 380 953
Minority interest		5 712	6 728
Profit for the year		2 453 568	2 387 681
Earnings per share (LE)	(24)		113.93

## Consolidated Statement of Cash Flows IFRS

For The Financial Year Ended December 31, 2008

In thousands of Egyptian Pound	Note	2008	2007
<b>Cash flows from operating activities</b>			
Cash receipts from customers		8 780 269	8 656 654
Cash paid to suppliers		(767 176)	(776 939)
Cash paid to employees		(2 186 047)	(1 711 655)
Cash paid in operations (net)		(688 269)	(477 660)
Interest paid		(341 554)	(637 834)
Income taxes paid		(449 282)	(412 933)
Net cash from operating activities		4 347 941	4 639 633
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		18 445	891
Proceeds from sale of investments		221 238	77 150
Interest received		120 411	72 570
Dividends received		1 320 641	755 982
Acquisition of property, plant and equipment and intangible assets		(918 851)	(944 821)
Acquisition of investments		(125 851)	(110 955)
Net cash provided by (used in) investing activities		636 033	(149 183)
<b>Cash flows from financing activities</b>			
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment and intangible assets		(210 700)	(270 840)
Repayment of other borrowings & facilities		(814 532)	(1 765 936)
Repayment of borrowings & bank facilities		(82)	(8 713)
Repayments of bonds loan		(800 000)	(400 000)
Proceeds of long term loans		211	-
Repayment of financial lease obligations		(43 466)	(40 327)
Dividends paid		(1 706 277)	(1 194 950)
Repayment of long – term liabilities		(840)	(820)
Net cash used in financing activities		(3 575 686)	(3 681 586)
Net movement in cash and cash equivalents		1 408 288	808 864
Cash and cash equivalents at 1 January		1 292 783	483 888
Translation difference adjustments		(383)	31
Cash and cash equivalents at 31 December	(22)	2 700 688	1 292 783

# Crop Yields

## Consolidated Statement of Changes in Equity IFRS

For The Financial Year Ended December 31, 2008

	Share capital	Statutory reserve	Other reserve	Translation reserve	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
In thousands of Egyptian Pound								
Balance at 1 January 2007	17 070 716	466 875	3 790 823	(185)	2 510 888	23 839 117	34 839	23 873 956
Net profit for the year 2007	-	-	-	-	2 380 953	2 380 953	6 728	2 387 681
Transferred to reserves	-	104 501	650 000	-	(754 501)	-	-	-
Exchange differences arising on translation of foreign operation	-	-	-	(406)	280	(126)	(9)	(135)
Adjustments to retained earnings	-	-	-	-	125	125	-	125
Dividends to shareholders and minority	-	-	-	-	(1 194 950)	(1 194 950)	(1 712)	(1 196 662)
Balance at 31 December 2007	17 070 716	571 376	4 440 823	(591)	2 942 795	25 025 119	39 846	25 064 965
Reclassification to the opening balance	-	416	-	-	(416)	-	-	-
Net profit for the year	-	-	-	-	2 447 856	2 447 856	5 712	2 453 568
Transferred to reserves	-	108 402	-	-	(108 402)	-	-	-
Exchange differences arising on translation of foreign operation	-	10	-	238	(116)	132	7	139
Decrease in the other reserves by the adjustments made in the land caption	-	-	(93)	-	-	(93)	-	(93)
Adjustments to retained earnings	-	-	-	-	189	189	(5 093)	(4 904)
Dividends to shareholders and minority	-	-	-	-	(1 707 072)	(1 707 072)	(2 414)	(1 709 486)
Balance at 31 December 2008	17 070 716	680 204	4 440 730	(353)	3 574 834	25 766 131	38 058	25 804 189

## 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 twelve months ended 31 December 2008 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 Beshir is the Company's Chairman.

## 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	5 - 20 years
• Vehicles	5 - 10 years
• Tools and other equipment	1 - 8 years
• Office furniture and fixtures	3 - 16.67 years

## (f) Intangible assets

### (i) Measurement

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy k).

### (ii) Subsequent expenditure

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

### (iii) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date.

Intangible assets are amortized from the date they are available for use. The estimated useful lives range between 10 to 20 years.

## (g) Investments

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

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

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

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

### (ii) Held 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 should be included in the net profit or loss for the period in which it arises.

## (h) Receivables

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

### (i) Inventory

Inventory is 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 inventory is based on the weighted average principle and includes expenditure incurred in acquiring the inventory and bringing them to their existing location and condition.

## (j) Cash and cash equivalent

Cash and cash equivalent 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 inventory (see accounting policy i) and deferred tax assets (see accounting policy s), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated [see accounting policy k (i)].

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

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

#### (i) Calculation of recoverable amount

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

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

#### (ii) Reversals of impairment

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

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

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

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

### (l) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

### (m) Employee benefits

#### (i) Pension

The Group contributes to the government social insurance system for the benefits of its personnel in accordance with the social insurance law. Under this law the employees and the employers contribute into the system on a fixed percentage - of - salaries basis. The Group's liability is confined to the amount of its contribution. Contributions are charged to income statement using accrual basis of accounting.

### (n) Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### (o) Trade and other payables

Trade and other payables are stated at cost.

### (p) Revenue

Revenue represents the value of services provided and equipment sold. It includes revenue received and receivable from revenue sharing agreements entered into with national and international telecommunication operators in respect of traffic exchange. Revenue is recognized as set below:

- Voice services: revenues are measured in terms of traffic minutes processed or transmission capacity provided and are recognized in the period in which the connection is provided.
- Value added services: these services include call waiting and divert, callers ID and hotline are recognized in the period in which the service is provided.
- Data services: revenue from the provision of managed bandwidth to business customers is recognized over the period in which the bandwidth is provided.
- Other services: revenue from web hosting and internet access is recognized over the life of the contract and over the period that the service is provided respectively.
- Sale of goods: revenue from sale of telephone sets and directories is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

### (q) Grants

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

### (r) Expenses

#### (i) Operating lease payments

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

#### (ii) Finance lease payments

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



**(ii) Net financing costs**

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

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

**(s) Income tax**

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

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

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.

**(T) 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 consolidated 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.

**(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.

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, and the management of the Group stated credit policy which suspends services for delinquent customers and impose fines on late payments followed by cutting off lines then contract termination.

**(ii) 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.

**(iii) Market risk**

Market risk is the risk that changes in market prices, such as foreign 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.

**(iiii) Currency risk**

The Group is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of the Group, primarily the U.S. Dollars (USD). In respect of other monetary assets and liabilities denominated in foreign currencies, the Group 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 non long term balance.

**(v) 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.

**(vi) Capital management**

The Board's 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, and control the stock holders level. There were no changes in the Group approach to capital management during the period, The Group is not subject to externally imposed capital requirements.

### 3. OPERATING REVENUE

The Group's operations are considered to fall into one broad class of business, telecommunication and information services and hence, segmental analysis of assets and liabilities is not considered meaningful. Revenue can be analyzed as follows:

In thousands of Egyptian Pound	2008	2007
<b>Retail Services:</b>		
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
<b>Total Retail Services</b>	<b>6 180 806</b>	<b>6 141 326</b>
<b>Wholesale Services</b>		
Domestic	1 058 265	924 589
International	2 877 825	2 927 232
<b>Total Wholesale Services</b>	<b>3 936 090</b>	<b>3 851 821</b>
<b>Total Operating Revenues</b>	<b>10 116 896</b>	<b>9 993 147</b>

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

### 4. OPERATING EXPENSES

In thousands of Egyptian Pound	2008	2007
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	2 475 353	2 657 853
Amortization	31 676	33 897
Salaries & wages	1 031 839	842 117
Employees' vacations	18 365	16 027
Compulsory social security contributions	102 091	98 024
Frequencies & license charge ( NTRA)	195 011	174 504
Employees' share in dividends	139 826	107 898
Other operating costs	290 642	360 131
	<b>6 012 159</b>	<b>6 105 396</b>

### 5. OTHER INCOME

In thousands of Egyptian Pound	2008	2007
* Deferred revenues amortization	44 629	44 629
Reversal of decline in investments	-	31 910
Reversal of impairment loss on trade receivables	45	35
Release of unused provisions	7 624	115 689
Net gain on disposal of property, plant and equipment	10 059	-
Rental income	3 722	4 034
Others	91 692	139 005
	<b>157 771</b>	<b>335 302</b>

\* Deferred revenues amortization for the year ended 31/12/2008 represents amortization of 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.

### 6. SELLING AND DISTRIBUTION EXPENSES

In thousands of Egyptian Pound	2008	2007
Salaries & wages	169 794	128 053
Employees' vacation	2 635	2 385
Compulsory social security contributions	16 367	13 643
Fixed assets depreciation	4 939	2 325
Employees' share in dividends	19 085	14 278
Sales commissions & others	242 613	201 188
	<b>455 433</b>	<b>361 872</b>

## 7. ADMINISTRATIVE EXPENSES

In thousands of Egyptian Pound	2008	2007
Salaries & wages	641 038	576 061
Employees' vacation	11 712	11 372
Compulsory social security contributions	37 756	34 772
Early retirement compensations	23 119	4 461
Employees' share in dividends	88 006	70 373
Fixed assets depreciation	183 965	176 550
Board of directors' bonus	4 000	3 000
Taxes & customs fees	111 741	77 741
Training & development services	1 065	989
Advertising	75 960	42 715
Others	216 161	173 436
	1 394 523	1 171 470

## 8. OTHER EXPENSES

In thousands of Egyptian Pound	2008	2007
Increase in provisions	3 048	469
Impairment loss on long term receivables	32 008	246 969
Impairment loss on trade and other receivables	412 146	54 565
Impairment loss on available for sale investments	17 901	-
Net loss on disposal of property , plant and equipment and intangible assets	-	2 354
Impairment loss on intangible assets	31 054	6 094
Others	12 742	22 436
	508 899	332 887

## 9. PERSONNEL EXPENSES

In thousands of Egyptian Pound	2008	2007
<b>Salaries &amp; wages:</b>		
Operating expenses	1 031 839	842 117
Selling & distribution expenses	169 794	128 053
Administrative expenses	641 038	576 061
	1 842 671	1 546 231
Compulsory social security contributions	156 214	146 439
Early retirement compensations	23 119	4 461
Employees' vacations	32 712	29 784
Employees' share in dividends	246 917	192 549
	2 301 633	1 919 464

On May 9, 2001 the Board of Directors of Telecom Egypt approved an early retirement scheme; under this scheme employees' loyalty program was established. Under the loyalty program the employee who early retired received compensations related to number of periods 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 EXPENSES

In thousands of Egyptian Pound	2008	2007
Interest income	159 574	83 599
Unwind of discount & accretion of interest relating to long-term receivable	78 000	132 000
Income from investments – dividend	5 467	3 484
Net gain from sale of available for sale investments	437	-
Net gain from sale of held for trading investments	1 973	7 853
Increase of market value of held for trading investment	4 148	-
Net foreign exchange gain	3 631	-
Financial income	253 230	226 936
Interest expense	(370 773)	(611 437)
Net foreign exchange loss	-	(93 871)
Decrease of market value of held for trading investments	-	(350)
Financial expenses	(370 773)	(705 658)
Net financing costs	(117 543)	(478 722)

## 11. INCOME TAX EXPENSE

### Recognized in the income statement

In thousands of Egyptian Pound	2008	2007
Current tax expense		
Current year	542 967	521 131
Deferred tax assets		
Origination and reversal of temporary differences	(30 654)	(7 800)
Total income tax expense in income statement	512 313	513 331

## 12. CURRENT TAX ASSETS AND LIABILITIES

The current tax asset of LE 121 837 K, (2007: 125 086 K) represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments. The current tax liability of LE 199 562 K (2007: 233 465 K) represents the amount of income taxes for items taxable in future periods in respect of accelerated depreciation for assets and other assets.

### 13. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings	Machinery & equipment	Vehicles	Office furniture & fixtures	Tools & other equipment	Under construction	Total
In thousands of Egyptian Pound							
<b>Cost</b>							
Balance at 1 January 2008	19 499 211	18 064 734	134 447	1 313 158	55 452	649 992	39 716 994
Adjustments to the opening balance	(2 453)	(20 399)	-	(688)	-	-	(23 540)
Reclassification	-	1 220	-	(1 220)	-	-	-
Acquisitions	203 795	508 151	11 992	171 152	1 155	1 072 697	1 968 942
Disposals	(93)	(180 399)	(2 557)	(2 257)	(295)	(791 441)	(977 042)
Effect of movements in foreign exchange	-	64	-	(9)	-	-	55
Balance at 31 December 2008	19 700 460	18 373 371	143 882	1 480 136	56 312	931 248	40 685 409
<b>Depreciation</b>							
Balance at 1 January 2008	7 417 821	11 717 882	121 717	687 097	34 996	-	19 979 513
Reclassification	-	101	-	(101)	-	-	-
Depreciation charge for the year	936 799	1 499 344	11 008	212 079	5 027	-	2 664 257
Disposals	-	(166 663)	(2 001)	(2 125)	(263)	-	(171 052)
Effect of movements in foreign exchange	-	24	-	11	-	-	35
Balance at 31 December 2008	8 354 620	13 050 688	130 724	896 961	39 760	-	22 472 753
<b>Carrying amounts</b>							
At 31 December 2007	12 081 390	6 346 852	12 730	626 061	20 456	649 992	19 737 481
At 31 December 2008	11 345 840	5 322 683	13 158	583 175	16 552	931 248	18 212 656

#### Fully depreciated assets

Property, plant and equipment cost includes LE 5 949 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 2008, the net carrying amount of leased equipment and vehicles was LE 56 539 k (2007: LE 80 388 k).

**Depreciation**

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

In thousands of Egyptian Pound	2008	2007
Operating expenses	2 475 353	2 657 853
Selling & distribution expenses	4 939	2 325
General & Administrative expenses	183 965	176 550
	2 664 257	2 836 728

**14. INTANGIBLE ASSETS**

In thousands of Egyptian Pound	Land usufruct	Right of way	Internet service license	Right of using ROU	Total
<b>Cost</b>					
Balance at 1 January 2008	1	330 193	20 181	136 682	487 057
Adjustments	-	(1 095)	-	-	(1 095)
Acquisitions	-	-	-	8 735	8 735
Disposals	-	(22 252)	-	-	(22 252)
Effects of movements in foreign exchange	-	-	1	12	13
Balance at 31 December 2008	1	306 846	20 182	145 429	472 458

**Amortization**

Balance at 1 January 2008	-	198 552	20 054	44 729	263 335
Amortization for the year	-	24 234	20	7 422	31 676
Accumulated amortization for disposals	-	(8 598)	-	-	(8 598)
Impairment loss for other assets	-	-	-	31 054	31 054
Balance at 31 December 2008	-	214 188	20 074	83 205	317 467

**Carrying amounts**

At 31 December 2007	1	131 641	127	91 953	223 722
At 31 December 2008	1	92 658	108	62 224	154 991

## 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:

In thousands of Egyptian Pound	2008	2007
Operating expenses	31 676	33 897
Other operating expenses	31 054	6 094
	62 730	39 991

## 15. INVESTMENTS IN ASSOCIATES

the group has the following investment in associates:

In thousands of Egyptian Pound	Ownership		Carrying amount	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Vodafone Egypt. (SAE)	44.95%	44.79%	6 791 597	6 885 632
Nile on line. (SAE)	-	27.27%	-	30 418
Wataneya for Telecommunication	50.00%	50.00%	125	125
Consortium Algerien de Tele – communications (CAT)	33.00%	33.00%	-	-
International Telecommunication Consortium Limited. (ITCL)	50.00%	50.00%	-	-
Egypt Trust	35.71%	35.71%	1 498	2 500
Total			6 793 220	6 918 675

- Investment in Consortium Algerien de Telecommunications (CAT) amounting to LE 133 K is shown a Nil balance as the company realised a net loss exceeds the carrying amount of this investment.

- Investment in International Telecommunication Consortium Limited. (ITCL) amounting to LE 54 K is shown a Nil balance as it was totally impaired.

### 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.

### Investments in Nile On Line (NOL)

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

## Summary financial information on associates – 100 percent:

In thousands of Egyptian Pound	Assets	Liabilities	Equity	Revenues	Profit/(Loss)
<b>31-12-2007:</b>					
* Vodafone Egypt	12 212 000	7 000 000	5 212 000	7 736 000	1 936 000
Nile on line	68 775	14 986	53 789	41 853	178
Consortium Algerien de Tele -communications (CAT)	614 173	955 210	(341 037)	30 100	(118 868)
** Wataneya for Telecommunication	-	-	-	-	-
** International Telecommunication Consortium Limited. (ITCL)	-	-	-	-	-
Egypt Trust	11 927	6 212	5 715	-	(4 785)
	12 906 875	7 976 408	4 930 467	7 807 953	1 812 525

**31-12-2008:**

* Vodafone Egypt	13 266 000	8 308 000	4 958 000	8 885 000	2 083 000
Consortium Algerien de Tele -communications (CAT)	46 251	1 040 121	(993 870)	12 700	(512 886)
** Wataneya for Telecommunication	-	-	-	-	-
** International Telecommunication Consortium Limited. (ITCL)	-	-	-	-	-
Egypt Trust	9 917	6 652	3 265	126	(5 021)
	13 322 168	9 354 773	3 967 395	8 897 826	1 565 093

\* Reported figures for Vodafone Egypt for 31/12/2007 relating to revenues and profit for the nine months period ended 31 December, 2007, and for 31/12/2008 relating to revenues and profit for the nine months period ended 31 December, 2008

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

**16. AVAILABLE FOR SALE INVESTMENTS**

In thousands of Egyptian Pound	31 December 2008	31 December 2007
Equity securities available for sale – Foreign	19 869	19 869
Equity securities available for sale – Local	74 386	79 287
	94 255	99 156

**Investments in EgyNet Company (Available for sale investments)**

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



## 17. LONG-TERM RECEIVABLE

	31/12/ 2008	31/12/2007
In thousands of Egyptian Pound		
* 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
Accretion of interest	466 000	388 000
Amortized cost	606 000	948 000
Current portion	(606 000)	(490 000)
	-	458 000
** Payments made on behalf of consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria.	446 767	414 759
Impairment loss on long-term receivable.	(446 767)	(414 759)
	-	-
Payments under capital increase for Egypt Trust and Technology Development Fund companies till recording in the commercial registration of this increase.	-	42 500
	-	500 500

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

\*\* 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.

## 18. DEFERRED TAX ASSETS AND LIABILITIES

### recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	31/12/ 2008	31/12/ 2007	31/12/ 2008	31/12/ 2007
In thousands of Egyptian Pound				
Property, plant and equipment	-	-	(196 887)	(231 513)
Intangible assets	-	-	(2 675)	(1 952)
Inventory	4 999	4 616	-	-
Trade & other receivables	36 055	39 932	-	-
Provisions	46 233	49 434	-	-
Accrued liabilities	34 550	31 104	-	-
Total deferred tax assets (liabilities)	121 837	125 086	(199 562)	(233 465)

## 19. INVENTORY

	31/12/2008	31/12/2007
In thousands of Egyptian Pound		
Spare parts, supplies and cables	456 796	493 912
Telephone sets and directories	16 219	14 504
	473 015	508 416

## 20. TRADE AND OTHER RECEIVABLES

In thousands of Egyptian Pound	31/12/2008	31/12/2007
Trade receivables due from associates	175 713	55 008
<b>Other trade and notes receivable:</b>		
Governmental sector	252 864	295 576
Private sector	1 611 071	1 738 719
Foreign telecommunication operators	925 324	1 010 268
Notes receivables	368	1 152
	2 965 340	3 100 723
<b>Other receivables and pre-payments:</b>		
Advance payments to suppliers	63 521	78 912
Deposits with others	15 650	10 029
Long-term receivable – current portion	606 000	490 000
Amount due from the employees for the company's shares distributed to them and paid by the company	21	880
Payments on the account of corporate tax	285 996	285 996
Sales Tax Authority – advances	428 819	290 530
Other receivables	488 097	499 365
	4 853 444	4 756 435

Trade and other receivables (excluding long-term receivable – current portion) are non-interest bearing and are shown net of allowance for impairment. Management determines the adequacy of the allowance based upon reviews of individual customer, current economic conditions, past experience and other pertinent factors.

## 21. INVESTMENTS HELD FOR TRADING

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

	31/12/2008	31/12/2007
<b>TE Data a Subsidiary Company</b>		
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. (410 368 unit with price LE 126.19 for each unit for 2007).	10 660	51 784
Value of 91 771 unit of the National Societe General Bank Investment Fund with price L.E 119.864 for each unit at balance sheet date. (375 612 unit with price LE 110.923 for each unit for 2007).	11 000	41 664
<b>The Egyptian Telecommunication Company for Information Systems (Xceed) a subsidiary company</b>		
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. (9 067 unit with price LE 126.19 for each unit for 2007).	1 241	1 144
	22 901	94 592

## 22. CASH AND CASH EQUIVALENTS

In thousands of Egyptian Pound	31/12/2008	31/12/2007
Bank balances	463 816	211 601
Time deposits	2 233 896	1 077 783
Cash on hand	7 768	8 963
Cheques under collection	6 281	3 894
	2 711 761	1 302 241
Bank overdrafts	(323)	(769)
Cheques under collection	(6 281)	(3 894)
Blocked time deposits	(4 469)	(4 795)
Cash and cash equivalents in the statement of cash flows	2 700 688	1 292 783

## 23. CAPITAL AND RESERVES

### Share capital

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

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

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

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

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

### Statutory Reserve

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

### Translation reserve

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

### Fair value reserve

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

### Other reserve

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

### Dividends

After the balance sheet date the following dividends were proposed by the directors for 2008 and approved by the General Shareholders Meeting on 31 March 2009. The dividends have been provided for and there are no income taxes consequences.

	31/12/2008	31/12/2007
In thousands of Egyptian Pound		
LE 1.30 per qualifying ordinary share for 2008 (2007: LE 1.00)	2 219 193	1 707 072
	2 219 193	1 707 072

## 24. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders of LE 2 447 856 k (31 December 2007: LE 2 380 953 k) and a number of ordinary shares outstanding during the year ended 31 December 2008 of 1 707 071 600 (31 December 2007: 1 707 071 600), calculated as follows:

### Profit attributable to ordinary shareholders

	31/12/2008	31/12/2007
In thousands of Egyptian Pound		
Profit for the year	2 453 568	2 387 681
Profit attributable to ordinary shareholders	2 447 856	2 380 953

### Number of ordinary shares

	31/12/2008	31/12/2007
In thousands		
Issued ordinary shares at 1 January	1 707 072	1 707 072
number of ordinary shares at 31 December	1 707 072	1 707 072

## 25. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 29 (iii), (v).

In thousands of Egyptian Pound

31/12/2008

31/12/2007

### Non-current liabilities

#### Unsecured bank loans:

Local banks	197 637	1 102 500
Governmental loans	453 444	553 890
Foreign loans	575 098	694 598
Finance lease liabilities	36 543	57 283
	1 262 722	2 408 271

### Current liabilities

Short-term loans	6 602	6 683
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#### Current portion of unsecured bank loans:

Local banks	905 042	814 500
Governmental loans	100 105	97 077
Foreign loans	104 338	112 046
Current portion of finance lease liabilities	27 796	32 604
Foreign suppliers facilities	3 296	3 411
	1 147 179	1 066 321

## Security

Foreign suppliers facilities include an amount of LE 3 296 K secured by letters of guarantee issued in favor of the suppliers.

## Repayment

In thousands of Egyptian Pound	Loan Currency	Effective Interest Rate	Total	12 months or less	1-2 years	3-5 years	More than 5 years
<b>Telecom Egypt – the parent:</b>							
Local banks loans (Vodafone loan)*	LE	Average rate of deposits & loans (corridor) +1%	1 102 500	905 000	197 500	-	-
Car loan - subsidiary	LE	7%	179	42	85	52	-
<b>Total local loans</b>			<b>1 102 679</b>	<b>905 042</b>	<b>197 585</b>	<b>52</b>	<b>-</b>
Governmental Loans	U.S.\$	4%	536 745	93 707	97 455	213 679	131 904
Governmental Loans	EURO	4 – 6.37%	16 804	6 398	4 802	5 604	-
<b>Total Governmental loans</b>			<b>553 549</b>	<b>100 105</b>	<b>102 257</b>	<b>219 283</b>	<b>131 904</b>
Foreign loans	J.Y	3 – 3.5%	36 819	26 857	8 348	1 614	-
Foreign loans	EURO	0.75 - 6%	642 617	77 481	67 162	170 752	327 222
<b>Total foreign loans</b>			<b>679 436</b>	<b>104 338</b>	<b>75 510</b>	<b>172 366</b>	<b>327 222</b>
Foreign suppliers' facilities - foreign	EURO	5.50%	3 296	3 296	-	-	-
<b>Total foreign suppliers' facilities</b>			<b>3 296</b>	<b>3 296</b>	<b>-</b>	<b>-</b>	<b>-</b>
			<b>2 338 960</b>	<b>1 112 781</b>	<b>375 352</b>	<b>391 701</b>	<b>459 126</b>

- The available unused balance of Foreign Loans and Facilities at 31/12/2008 amounting to LE 18 799 K.

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

## Finance lease liabilities

Finance lease liabilities are payable as follows:

In thousands of Egyptian Pound	Minimum lease payments 31-12-2008	Interest 31-12-2008	Principal 31-12-2008	Minimum lease payments 31-12-2007	Interest 31-12-2007	Principal 31-12-2007
Less than one year	34 134	6 338	27 796	42 173	9 569	32 604
Between one and two years	25 032	3 065	21 967	32 107	5 478	26 629
Between three and five years	16 231	1 655	14 576	33 921	3 337	30 584
More than five years	-	-	-	75	5	70
	<b>75 397</b>	<b>11 058</b>	<b>64 339</b>	<b>108 276</b>	<b>18 389</b>	<b>89 887</b>

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

## 26. BONDS PAYABLE

- In February 2005, the Company issued 20 million nominal marketable bonds not convertible into shares at a par value of LE 100 each for period 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 instalments starting on December 1st, 2007 and provided that the last instalment will be repaid / amortized in February 2010. Bonds loan balance as of December 31, 2008 amounted to L.E 800 million including L.E 400 million (Fourth & fifth instalments) that shall become due within a year, and it was classified in the current liabilities in the balance sheet.

## 27. TRADE AND OTHER PAYABLES

In thousands of Egyptian Pound	31/12/2008	31/12/2007
<b>Trade payables:</b>		
Local suppliers	204 989	124 994
Notes payable	10 847	5 354
	215 836	130 348
<b>Other payables:</b>		
Income tax payable	179 818	161 173
Current income tax for the year	542 967	521 131
Amounts due to associate	-	1 373
Deposits from others	754 254	722 778
Fixed assets creditors	271 904	330 635
Customers advances	297 095	200 355
Accrued expenses	589 477	462 427
Dividends payable	795	-
Other credit balances	776 599	707 216
	3 628 745	3 237 436

## 28. PROVISIONS

In thousands of Egyptian Pound	31 December 2008				31 December 2007			
	Taxes	Claims	Guarantee	Total	Taxes	Claims	Guarantee	Total
Balance at 1 January	304 957	19 425	-	324 382	373 088	108 141	-	481 229
Provision formed	849	1 999	200	3 048	291	178	-	469
Provision used	(11 185)	-	-	(11 185)	-	(41 998)	-	(41 998)
Provision reversed	(7 624)	-	-	(7 624)	(68 793)	(46 896)	-	(115 689)
Transferred from trade & other payables	-	-	-	-	371	-	-	371
Balance at end of the year	286 997	21 424	200	308 621	304 957	19 425	-	324 382

As at December 31, 2008 provisions are mainly related to taxes, lawsuits, and expected social insurance claim in respect of contracts concluded with suppliers.

## 29. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise bank loans, finance lease and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade receivables and trade creditors which arise directly from operations.

The Group does not enter into derivative transactions for the purpose of trading or hedging exposure to fluctuations in the foreign exchange rates or interest rates.

The main risks arising from the Group's operations are credit risk, liquidity risk, foreign currency risk, and interest rate risk.

### (i) Credit risk

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

In thousands of Egyptian Pound	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Trade and other receivables	(20)	4 853 444	4 756 435
Long-term receivables	(17)	-	500 500
Investments in associates	(15)	6 793 220	6 918 675
Available for sale investments	(16)	94 255	99 156
Cash at banks	(22)	2 703 993	1 293 278
		14 444 912	13 568 044

## (ii) 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)
<b>December 31, 2008</b>					
Trade and other payables	3 628 745	3 628 745	-	-	-
Other payables	62 718	-	-	1 870	60 848
Interest-bearing loans and borrowings	2 409 901	1 147 179	397 319	406 277	459 126
Bond loan	800 000	400 000	400 000	-	-
	6 901 364	5 175 924	797 319	408 147	519 974
<b>December 31, 2007</b>					
Trade and other payables	3 237 436	3 237 436	-	-	-
Other payables	62 045	-	2 905	1 479	57 661
Interest-bearing loans and borrowings	3 474 592	1 066 321	681 197	1 151 565	575 509
Bond loan	1 600 000	800 000	800 000	-	-
	8 374 073	5 103 757	1 484 102	1 153 044	633 170



## (iii) Foreign currency risk

Finance lease liabilities are payable as follows:

Details	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)
<b>31/12/08</b>										
Receivables	935 908	169 779	-	-	5 983	769	-	-	3 435	945 326
Accrued interest - deposits	1 812	329	-	-	6 213	799	-	-	-	8 025
Other debit balances	281	50 970	-	-	-	-	-	-	1 260	1 541
Cash on hand & at bank	879 088	159 471	2 389	300	463 643	59 608	-	-	21 523	1 366 643
<b>Total assets</b>	<b>1 817 089</b>	<b>380 549</b>	<b>2 389</b>	<b>300</b>	<b>475 839</b>	<b>61 176</b>	<b>-</b>	<b>-</b>	<b>26 218</b>	<b>2 321 535</b>
Suppliers and notes payable	37 170	6 743	-	-	224	29	-	-	578	37 972
Creditors & other credit balances	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
<b>Total liabilities</b>	<b>623 849</b>	<b>113 170</b>	<b>392</b>	<b>48</b>	<b>732 165</b>	<b>94 131</b>	<b>36 820</b>	<b>600 817</b>	<b>16 801</b>	<b>1 410 027</b>
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
Accrued interest - deposits	138	25	11	1	483	60	-	-	-	632
Other Debit balances	116	21	-	-	-	-	-	-	864	980
Cash on hand & at bank	333 564	60 538	3 342	305	321 171	39 903	-	-	11 940	670 017
<b>Total assets</b>	<b>1 385 225</b>	<b>251 402</b>	<b>3 353</b>	<b>306</b>	<b>334 774</b>	<b>41 593</b>	<b>-</b>	<b>-</b>	<b>14 362</b>	<b>1 737 714</b>
Suppliers and notes payable	2 606	473	-	-	72	9	-	-	-	2 678
Creditors & other credit balances	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
<b>Total liabilities</b>	<b>722 168</b>	<b>131 065</b>	<b>526</b>	<b>48</b>	<b>839 377</b>	<b>104 286</b>	<b>54 106</b>	<b>1 097 478</b>	<b>16 330</b>	<b>1 632 507</b>
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 2007	-	5.65	-	11.3	-	7.8	-	0.0486	-	-

**(iv) Sensitivity analysis**

A 10% strengthening of the foreign currencies against the EGP as of December 31, 2008 would have increased profit by the amounts L.E 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 is performed on the same basis for 2007.

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, on the basis that all other variables remain constant .

**(v) Interest rate risk**

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in market interest rates.

At the reporting date the interest rate profile of the company's interest-bearing financial instruments was:

	31/12/2008	31/12/2007
In thousands of Egyptian Pound		
<b>Fixed rate instruments</b>		
Financial assets – deposits	2 233 896	1 077 783
Financial liabilities (Interest-bearing loans, borrowings and bonds)	1 636 460	2 273 157
	3 870 356	3 350 940
<b>Variable rate instruments</b>		
Financial liabilities (Vodafone loan)	1 102 500	1 917 000
Financial liabilities (bonds)	400 000	800 000
	1 502 500	2 717 000

**30. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

Except of the investments in Vodafone Egypt, Nile on Line and Consortium Algerien de Telecommunications (CAT) which are accounted for using the equity method of accounting, the carrying values of the Group's other financial instruments approximate their fair 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, Nile on Line, Consortium Algerien de Telecommunications (CAT), and Egypt Trust 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 December 31, 2008 plus an adequate constant credit spread to discount financial instruments. The discount rate for minimum lease liabilities and receivables is 14%.

**31. CAPITAL COMMITMENTS**

The Group's capital commitments for unexecuted portions of contracts as of 31 December 2008 amounted to LE 102 million includes LE 10.45 million payments of uncalled share capital investments (2007: LE 111 million includes LE 10.45 million payments of uncalled share capital investments). These commitments are expected to be settled in the following financial year except uncalled installments of investees' share capital which will be settled when requested by the directors of the investees.

**32. CONTINGENCIES**

In thousands of Egyptian Pound

	31/12/2008	31/12/2007
Letters of guarantee issued by banks on behalf of the Group	63 789	65 762
Letters of credit	191 722	249 041

**33. RELATED PARTIES****Identity of related parties**

The Group has a relationship with its associate Vodafone Egypt and Consortium Algerian de Telecommunications (CAT).

**Transaction with Associates and unconsolidated subsidiaries**

During the year ended 31 December 2008, fixed to mobile interconnection, audio text fees and sale of products and services in favor of Vodafone Egypt LE 534 187 k and transmission, international calls, lease of company's premises in favor of the group LE 1 077 987 k and the balance due from Vodafone Egypt at 31 December 2008 amounted to LE 175 713 k (note 20).

During the year ended 31 December 2008, the company paid an amount of 32 008 K on behalf of Consortium Algerian de Telecommunications (CAT) to finance the license fee and operating expenses of Consortium company in Algeria and the balance due from Consortium Algerian de Telecommunications (CAT) at 31 December 2008 amounted to LE 446 767 k (note17).

## 34. GROUP ENTITIES

### Control of the Group

The Group's ultimate parent company is Telecom Egypt.

### Subsidiaries

	Country of incorporation	Ownership interest	
		30 September 2008	31 December 2007
Middle East Radio Communication (MERC)-(Direct & Indirect)	Egypt	50.90	50.90
The Egyptian Telecommunication Company for Information Systems (Xceed)	Egypt	97.66	97.66
T. E. Data	Egypt	95.04	95.04
Centra Technologies	Egypt	58.76	58.76
* Centra Industries - Indirect ownership	Egypt	58.63	58.63
* Centra Distribution – Indirect ownership	Egypt	58.74	58.74
** T.E Data Jordan - Indirect ownership	Jordan	95.04	95.04
*** Xceed Middle East FZ – LLC – Indirect ownership	UAE	97.66	97.66
*** Xceed Customer Care Maroc	Morocco	97.66	-
Telecom Egypt France	France	100.00	-

\* Centra Technologies participate in Centra Industries & Centra Distribution - subsidiaries - with 99.78%, 99.98% respectively of its share capital.

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

\*\*\* Both Xceed Middle East and Xceed Customer Care Maroc - are fully owned subsidiaries by The Egyptian Telecommunication Company for Information Systems (Xceed).

## 35. 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.